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BNP tier 2 @ 200 amidst French political uncertainty

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As an outlier to the recent outperformance we've come to expect from primary issuance on the break, the recent BNP Paribas tier 2 deal is bucking this trend. The BNP tier 2, which was priced at +200 bps on Wednesday, is offered around +203 bps in secondary due to the political uncertainty in France, with the recent budget failing to clear through parliament. This has weighed on sentiment around BNP's tier 2 lines. The weakness has been isolated to BNP's lines, with the recent Barclays and Banco Santander lines steady. We see this as a good opportunity to purchase the BNP floating or fixed, which is lagging the Barclays by circa 20bps, and we would expect it to tighten from here.

In terms of market dynamics, we note it is a bit of a perfect storm for the current underperformance on this one for the reasons below, and we don't expect this to last long -

1. Launched off the back of the busiest month in primary IG this year including the largest volume placed in Tier 2. Following on from a month of heavy market issuance we expect this to slow down into Dec/Jan which tend to be quieter periods of primary.
2. The book was 50/50 AU/Asia with Asian accounts known for being quick "flippers".
3. Political unrest in France and budget negotiations dragging on have weighed on French bonds and the banking sector stocks.
4. The Australian major bank Tier 2s are trading at ~140 tighter to historical ranges, so we see considerable value in BNP at +200.

Fundamentally BNP are very well capitalised, have access to global markets to fund their capital needs and the credit is as it was earlier in the week. I would expect once this technical over supply evaporates following Asia selling down overallocations these will normalise back down on the broader AU T2 curve.

Current pricing on BNP for the fixed and floating lines is as follows:

- BNP 6.198 12/03/36 [AU3CB0316099] - 6.039%
- BNP Float 12/03/36 [AU3FN0094280] - 6.102%

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