

Global Securitization On Pace For \$1 Trillion In 2018

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Global structured finance issuance increased by about 18% year over year to approximately \$500 billion during the first half of 2018. The U.S., China, and Europe all recorded considerable growth, while Canada was up slightly and Japan was relatively unchanged. On the flip side, Australia and Latin America experienced declines. Overall, moderate economic growth and low rates were a tailwind for issuance in the first half of the year. Although we may see some headwinds from geopolitical uncertainty in the second half of the year, we continue to forecast approximately \$1 trillion of global securitization by year-end 2018.

**GLOBAL STRUCTURED FINANCE
RESEARCH**

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Table 1

Global Securitization Issuance

As of June 30, 2018

	2015	2016	2017	H1 2017	H1 2018	2018 current forecast	2018 previous forecast
U.S. (bil. \$)							
ABS	183	191	229	123	132	225-250	225-250
CMBS	101	76	93	37	40	85	85
CLO	98	72	118	52	69	130	110
RMBS-related(i)	54	34	70	33	43	80-100	80-100
Total U.S. new issue	436	372	510	245	284	520-565	500-545
U.S. CLO reset/refi(ii)	10	39	167	99	82	150+	110+
Canada (bil. C\$)							
	15	18	20	13	14	20-22	20-22
Europe (bil. €)							
	77	81	82	43	56	80-90	80-90
Asia-Pacific (bil. \$)							
China	97	116	220	71	103	260	240
Japan	38	53	48	23	23	48-52	48-52
Australia	24	17	36	19	12	30-34	40
Latin America							
	11	12	17	8	6	12-15	19-25
Approximate global new issue total	701	667	931	425	500	980-1050	947-1014

(i)RMBS-related includes prime, reperforming/nonperforming, rental bond, servicer advances, and risk-sharing deals. (ii)Not included in new issue total. YTD--Year to date. ABS--Asset-backed securities. CMBS--Commercial mortgage-backed securities. CLO--Collateralized loan obligation. RMBS--Residential mortgage-backed securities. Sources: S&P Global Ratings, S&P Global Market Intelligence, Bloomberg, and Commercial Mortgage Alert.

U.S.

New issue volume during the first half of 2018 was \$284 billion, an approximate 16% increase from \$245 billion for the same period in 2017; all four major sectors reported year-over-year gains.

Collateralized loan obligation (CLO) issuance has continued to be active and is now up approximately 33% year over year to \$69 billion with refinances/resets totaling \$82 billion, broken out as \$65 billion in resets and \$17 billion in refinances. These figures are down from \$99 billion last year, when refinances were far more active. We increased our CLO forecasts to reflect the first half of the year, which was more active than we expected. Currently, the sector is showing no signs of slowing, though spreads have recently widened moderately. Asset-backed securities (ABS) issuance was \$132 billion, which is a 7% increase year over year. We're maintaining our \$225 billion-\$250 billion range for 2018; however, we think it is more likely that issuance will approach the higher end of the range. Student loan and nontraditional ABS are currently ahead of last year's pace, while credit cards are behind.

Commercial mortgage-backed securities (CMBS) year-to-date (YTD) volume was up 8% to \$40 billion. Meanwhile, single-borrower volume continues to gain market share at over \$18 billion this year, which accounts for just over 45% of this year's issuance, up from 38% last year. Residential mortgage-backed securities (RMBS) added \$11 billion in June, easily the most active month YTD. This brought the 2018 volume to \$43 billion, which is a 30% year-over-year increase. A wide variety of collateral continues to be the story for the RMBS sector. Our CMBS and RMBS forecasts also remain the same, at \$85 billion and \$80 billion, respectively.

Canada

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Canadian public term ABS (excluding covered bonds) issuance was up 5% to C\$13.9 billion from C\$12.7 billion for the same period a year ago.

There was a significant uptick in auto-related ABS--primarily auto loans--totaling C\$4.3 billion compared with C\$2.9 billion for first-quarter 2017. Credit card ABS volumes were also up (by 18%) to C\$8.8 billion from C\$7.5 billion in the second quarter of 2017. Cross-border issuance into the U.S. market for credit card ABS and auto loan ABS were 59% and 33%, respectively, and in line with the same period a year ago.

Overall, about 52% of the ABS issuance was in the domestic market, and 48% was cross-border compared with 59% and 41%, respectively, in the second quarter of 2017.

Europe

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Investor-placed European securitization issuance in first-half 2018 was up nearly 30% year over year.

Auto ABS volumes were more than 85% higher, likely due in part to originators bringing issuance plans forward before the European Central Bank's quantitative easing program winds down at the end of the year. The leveraged loan CLO sector was another bright spot, with volumes up 60% year over year.

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U.K. RMBS remains the largest European securitization sector, but issuance lagged in the second quarter after a strong start to the year. That said, major U.K. bank securitizers have shown some signs of returning to the market, after several years when the availability of cheap Bank of England funding schemes gave them less incentive to tap RMBS as a funding tool.

Generally, healthier issuance volumes have come against a backdrop of steadily increasing regulatory certainty. Draft technical standards that specify implementation details for Europe's new "simple, transparent, and standardized" (STS) framework are progressing through consultation phases before the new rules come into effect in January 2019. In a related development, the European Commission recently adopted proposals that will lower regulatory capital charges on insurers' exposures to STS securitizations.

Asia-Pacific

China

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China securitization issuance saw 42% year-over-year growth for the first six months of 2018. The quick pickup of RMBS offering compensated for slowing auto loan ABS issuance and decreasing unsecured consumer receivables activities. In fact, China banks issued RMB196.5 billion of RMBS in the first half of 2018, about five times the number for the same period in 2017. Issuance backed by leasing receivables and account receivables or factoring business continued to shine in the nonbank sector, more than offsetting the drop of online lending-related issuance.

We now expect the market to reach RMB1.6 trillion-RMB1.8 trillion of new securitization issuance for the whole year of 2018, about 20% above the 2017 issuance and 10% higher than our previous expectation. The strong RMBS pipeline remains and will be the primary contributor to this strong figure. Meanwhile, the apparently more stringent regulations on the financial sector in China--which are part of the general deleveraging and market discipline measures--may have implications to certain asset classes and could moderate securitization issuance. We also expect asset performance to remain largely stable despite the potential rippling effect of the trade disputes between China and the U.S. The low unemployment rate and increasing household income mark the primary support.

Japan

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The pace of structured finance issuance in Japan is almost on par with last year. Approximately ¥2.58 trillion was issued in the first half of 2018, up from ¥2.61 trillion for the same period in 2017. RMBS and ABS continue to be the dominant asset classes in Japan, with each accounting for about half of total issuance. In terms of RMBS transactions, Japan Housing Finance Agency remains by far the largest issuer. For ABS, various originators were behind transactions issued in sectors such as auto loans and consumer loans. We maintain our view that the overall issuance volume of Japanese structured finance transactions in 2018 will be in line with those of 2017.

Australia

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Issuance slowed in the first half of 2018 from the pace of 2017. Total issuance reached USD\$9.04 billion and was down 37% compared with first-half 2017; the total number of transactions was also down. We expect that the total issuance for the remainder of the year will be relatively subdued, and a number of issuers are not expected to return to market this year. RMBS remains the main asset class, making up 90% of issuance so far this year.

Latin America

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Although we still expect slightly higher real GDP growth in 2018 relative to 2017 for most major economies in Latin America, macroeconomic conditions have become more challenging for the region since our previous quarterly update. A combination of external and domestic factors has resulted in falling currencies and tighter financing conditions, which could begin pressuring inflation levels and result in monetary tightening over the next few months. Because of this and political uncertainty derived from elections in some of the main economies, we saw some delays in issuance during the second quarter of 2018. Issuance decreased by 13% from the previous quarter, and the first half total decreased by 25% from the first half of 2017. We believe, however, that local currency depreciation in all economies can explain around 8% of this first semester fall. It is still unclear what the revised range of issuance will be, but possibly between \$12 billion and \$15 billion, compared to our previous expectation of \$19 billion and \$25 billion. Nonetheless, we continue to believe asset diversification will continue to be a theme in 2018.

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