THE BOND BUYER

Munis steady ahead of scheduled $1B Cal GO deal

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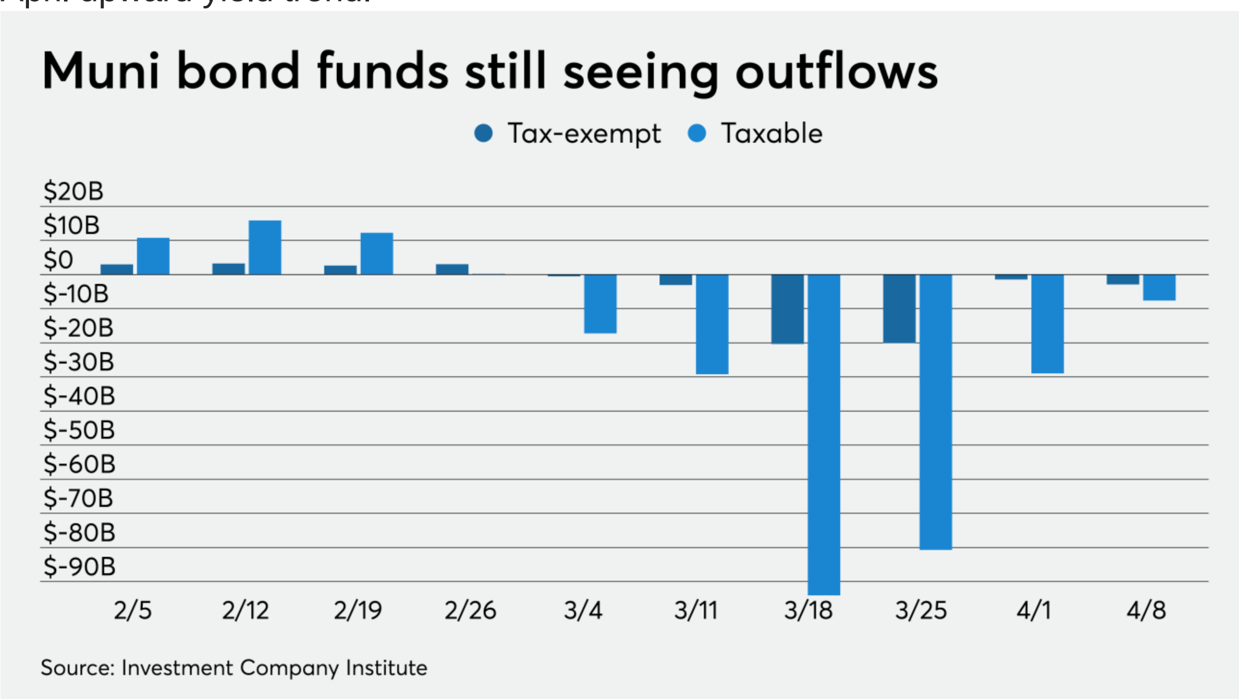
The municipal market was steady and mostly unchanged Wednesday amid light new issue activity. Participants said the market was taking a breather after a week-long rally, which some still argue was overdone.

California is scheduled to test the primary market Thursday with $1 billion of GOs.

ICI Wednesday reported nearly $3 billion of outflows out of municipal bond mutual funds, which is foretelling that coronavirus-driven volatility still lingers even if the municipal market has rallied by at least 60 basis points from its early April upward yield trend.



There has been a noticeable slowing in inventory turnover in the interim.

“The catalyst appears to be the return of primary market activity and the possibility that supply will become more balanced between new-issue and secondary functions,” said Kim Olsan, senior vice president at FHN Financial.

Ongoing stability in the municipal market is being marked by less outflows, government intervention amid the COVID-19 crisis, and slightly improving primary market volume, buy-side sources said, but the market is not out of the woods yet.

“These markets are so fickle at the moment; I would not attribute a momentary change in data to be indicative of a greater calm,” said Chris Brigati, managing director and head of municipal trading for Advisors Asset Management, who said that future negative data or news could spook investors and the market going forward.

While Brigati said higher yields and the $2 trillion economic stimulus plan from the Federal Reserve Board have been aiding the market sentiment in recent weeks, he warned of the impact of potential volatility ahead.

“The market is acclimating to a higher-rate environment and investors are enjoying the benefits of purchasing bonds at spreads they have not enjoyed in years,” he said.

In the primary, California is scheduled to test the primary market with a $1 billion of tax-exempt GO offering on Thursday led by BofA Securities.

Among the finalized pricings this week, sector spreads appeared consistent with historical levels for better-rated issuers, Olsan said, noting Harvard University and Arizona State deals. She said for the Harvard deal it showed tight spreads, a 150%/10-year UST ratio and was on parity with U.S. agency debt on a taxable equivalent basis. The Arizona deal showed how much the mid-AA category has moderated.

Olsan noted where there is a wider disparity is in the single-A project revenue space—A3/A Hamilton Ohio UC Health came at about 150 basis points above AAA benchmarks in the 10-year and as wide as 184 in the long end.

“The good news is that a hospital credit was able to access the market, but the outsized spreads speak to the ongoing uncertainty in the sector,” Olsan noted.

In secondary trading, ultra-short levels continue to contract as daily and weekly floaters decline to nominal yields.

“The knock-on effect is that one to two-year AAAs and pre-refunded bonds are rallying through implied benchmarks, with several prints turning up below 80 basis points," Olsan said. "Trading inside 12 years has gained more volume as the curve slope has steepened 10 to 15 basis points. Commitments past 12 years have slowed to less than 50% of all volume, presumably driven by the rally in yields that now has implied benchmarks for AAA and AA names under 2%."

Secondary trading was constructive and yields hovered around benchmarks on high-grades as the market remained steady.

New York Dorm Authority Columbia revs, 5s of 2021, traded at 0.90%-0.89%. Washington GOs, 5s of 2021, traded at 0.85%-0.83%. Montgomery County, Maryland GOs, 5s of 2023, traded at 0.91%-0.88%. Monday they traded at 0.93%. NJ's Princeton, 5s of 2024, traded at 0.79%-0.74%. Thursday they traded at 0.93%-0.91%.

Georgia GOs, 5s of 2027, traded at 0.93%.

NY TFAs, 5 of 2034, traded at 1.81% while last Wednesday it traded at 2.31%.

Texas waters, 4s of 2049, traded at 2.14%.

A look at a recent deal from a AAA Texas higher ed issuer that priced last week shows how quickly yields can rise or fall in the secondary and how timing new deals is precarious in current conditions for issuers and dealers.

A look at trading Wednesday of Collin County, Texas community college district 5s of 2030 traded at 1.15%. They priced last week at 1.73%. 5s of 2028 were trading at 0.98% while were priced at 1.55% originally. All yields across the curve on this deal dropped precipitously in secondary trading.

Primary market

RBC Capital Markets priced Northwest Independent School District, Texas' (Aaa/ /AAA/) $181.545 million of unlimited tax school building and refunding bonds. The 10-year with a 5% coupon yielded 1.23% while the long bond, 4s in 2045, yielded 2.22% One trader said the deal saw some maturities six to 10 times oversubscribed and bumped as much as 10 basis points in spots.

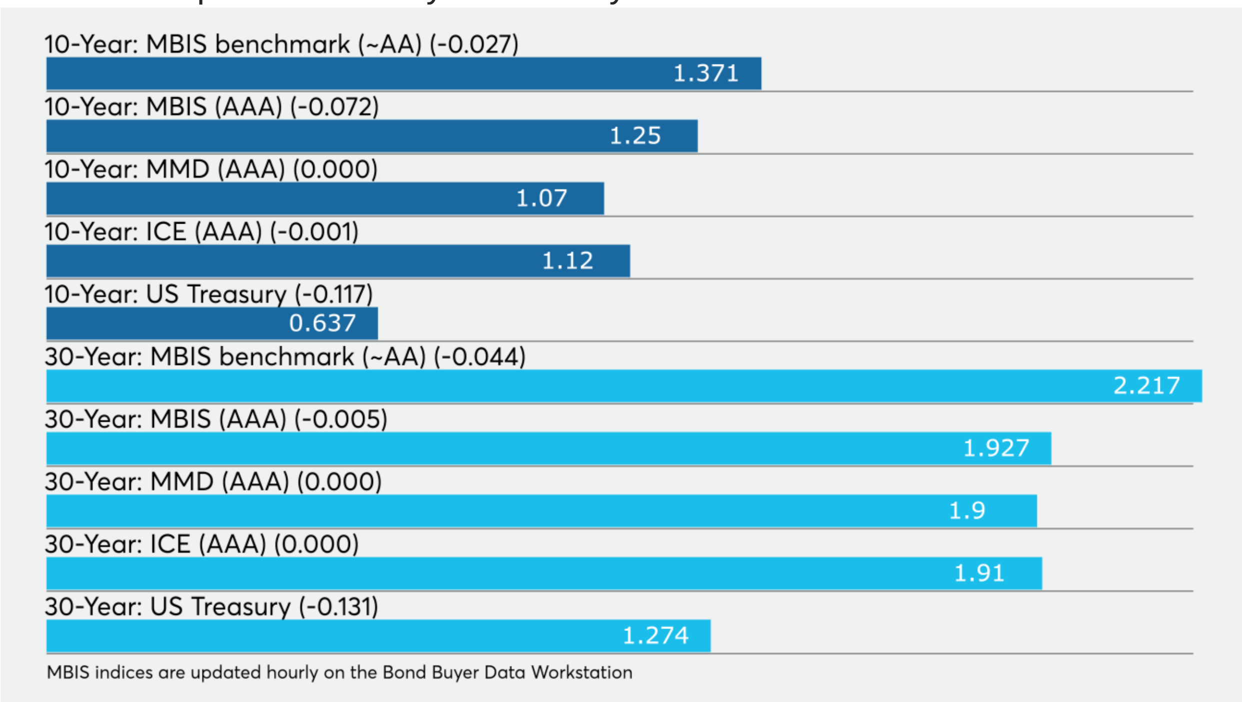
In the competitive space, the Milwaukee Metropolitan Sewerage District sold $80 million of general obligation certified climate bonds to JPMorgan Securities. The bonds were third-party verified by Kestrel. The short end, 2s of 2021, yielded 0.88%, the 10-year with a 4% coupon yielded 1.34% and the 20-year, 2.625% yielded 2.63%.

Wells Fargo received the written award on Arizona Board of Regents of Arizona State University (Aa2/AA/ /) $154.455 million of state system revenue bonds.

Wells was also awarded the written award on the Virginia Housing Development Authority's (Aaa/AAA/NR/NR) $150.659 million of taxable noncall residential mortgage backed securities. The issue priced in one tranche in 2046 and yielded 2.75%

Secondary market data

Munis were stronger on the MBIS benchmark scale Wednesday, with yields falling by two basis points in the 10-year maturity and by four basis points in the 30-year maturities. High-grades were also stronger, with yields on MBIS' AAA scale decreasing by seven basis points in the 10-year and decreasing by less than a basis point in the 30-year maturity.



On Refinitiv Municipal Market Data's AAA benchmark scale, the yield on both the 10-year muni and 30-year were unchanged at 1.07% and 1.90%, respectively.

The MMD muni to taxable ratio was 167.2% on the 10-year and 149.0% on the 30-year.

On the ICE muni yield curve late in the day, the 10-year yield was down less than one basis point to 1.12% while the 30-year was unchanged at 1.91%.

The ICE muni to taxable ratio on the 10-year was 182% and the 30-year was 145%.

BVAL saw the 10-year was unchanged at 1.12% and the 30-year steady at 1.97%.

The IHS muni curve saw the 10-year steady at 1.13% and the 30-year as well, staying at 1.88%.

ICI reports outflows sees sixth week of outflows

Long-term municipal bond funds and exchange-traded funds saw a combined outflow of $2.903 billion in the week ended April 8, the Investment Company Institute reported on Wednesday.

It was the sixth week in a row of outflows, as the previous week, ended April 1, saw $1.448 billion of outflows.

Long-term muni funds alone had an outflow of $2.490 billion after an outflow of $1.422 billion in the previous week; ETF muni funds alone saw an outflow of $414 million after an outflow of $25 million in the prior week.

Taxable bond funds saw combined outflows of $7.624 billion in the latest reporting week after revised outflows of $28.982 billion in the previous week.

ICI said the total combined estimated outflows from all long-term mutual funds and ETFs were $4.527 billion after outflows of $10.958 billion in the prior week.

The biggest loser for the fifth week in a row were bond funds, which saw an outflow of $10.528 billion this past week, after an outflow of $30.430 billion the week before.

Christine Albano contributed to this report.

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