THE BOND BUYER

Municipals strengthen as month ends; ICI reports $2B of bond fund inflows

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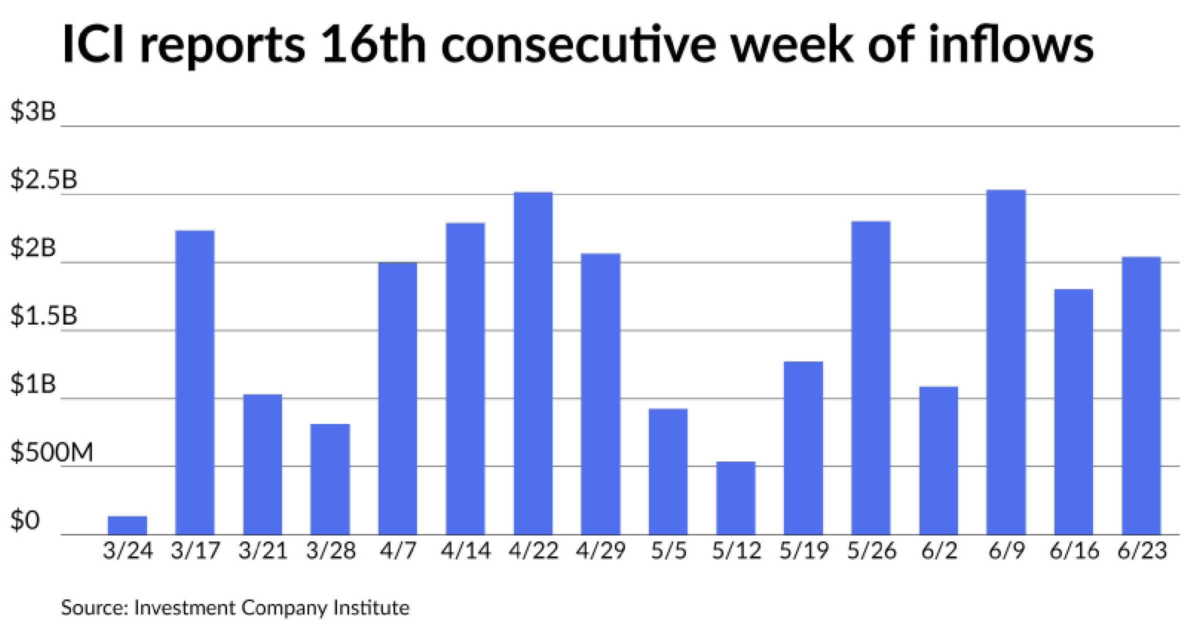
Municipals were stronger Wednesday as the New York City Municipal Water Finance Authority deal was offered to institutions who gave it a warm reception.

Yields on high-grade munis fell by as much as two basis points while demand for paper was stronger than ever at the end of the first half and at the beginning of one of the largest reinvestment periods of the year.

Municipal-to-UST ratios held near recent levels, at 68% in 10-years and 73% in 30-years, according to Refinitiv Municipal Market Data. ICE Data Services had the 10-year muni-to-Treasury ratio at 68% and the 30-year at 72%.



Municipal bond funds saw $2.039 billion of inflows in the latest week, according to the Investment Company Institute, the 16th week in a row the mutual funds saw cash flowing into them.

Municipal volume fell 18.6% to $42.6 billion in June from $52.4 billion in June 2020. Though the first half of the year, issuance has hit $222.2 billion, up from the $210.4 billion seen in the first half of 2020.

The buyside was busy on Wednesday, bustling for paper before Thursday's arrival of the July 1 reinvestment date — typically one of the largest times for coupon, maturity and redemption payments besides Dec. 1.

Municipals held a firm tone as supply constraints continued to sustain strong demand for new issues as the market prepared for heavy redemptions and the June employment report later in the week, according to John Farawell, executive vice president and manager at Roosevelt & Cross.

He said the New York City water deal was an example of the strength of current demand as it was oversubscribed in the backdrop of a firm market and a dearth of supply.

“Even during COVID, it was one of the best credits in New York," he said. "It’s an essential service bond and a top credit in New York City.”

Overall, he said activity was firm and positive — yet some cautiousness prevailed — ahead of the start of the second quarter, July 1 redemptions, and June’s non-farm payroll report due out on Friday.

“It’s keeping the market firm and the demand for bonds high,” Farewell said Wednesday, noting that the municipal market is bullish even though inflation and tapering may be in the economic forecast ahead.

“But it’s a wait and see and people are sitting tight because they don’t know what to expect” from Friday’s employment numbers, he said.

“July 1 is a big redemption between bonds coming due and interest being made,” he said. “There is an overabundance of money to be put to use.”

Supply will remain light next week, according to Farawell, especially with the arrival of the July 4th holiday, which will be observed on Monday.

Others agreed that the tone and climate of the market is supportive for the start of the second half.

“The approximately $50 billion in inflows so far this year and the large amount of reinvestment demand has been a strong support for the municipal market for the first half," said Roberto Roffo, managing director and portfolio manager at SWBC Investment Co.

He agreed that the NYC water deal was received well by institutional investors, with a few bumps in yield along the maturity curve.

"The market is going to finish up the first half on a strong note with prices rising a couple of basis points and demand seeming somewhat insatiable — even with the rich valuations of munis versus Treasuries," Roffo said.

The second half of the year is expected to be more of the same as investors seek tax havens due to the constant talk of rising taxes and the continued demand-supply imbalance of the market, according to Roffo.

Primary market
UBS Financial Services priced and repriced the NYC MWFA's (Aa1/AA+/AA+/NR) $450 million of Fiscal 2022 Series AA water and sewer system second general resolution revenue bonds for institutions after a one-day retail order period.

The $400 million of Subseries AA-1 bonds were repriced as a split 2048 maturity to yield 2.04% with a 3.5% coupon and to yield 1.73% with a 5% coupon. A triple-split 2051 maturity was repriced to yield 2.42% with a 2.375% coupon, 2.16% with a 3% coupon and 1.92% with a 4% coupon.

Goldman Sachs priced and repriced the Harris County Cultural Education Facilities Finance Corp.'s (Aa2/AA/AA/NR) $338.555 million of hospital revenue bonds for the Texas Children's Hospital.

The $263.655 million of Series 2021A bonds were repriced to yield from 1.15% with a 5% coupon in 2030 to 1.49% with a 5% coupon in 2034, to yield from 2.07% with a 3% coupon in 2040 to 1.80% with a 4% coupon in 2042, at par to yield 2.375% in 2046, to yield 1.88% with a 4% coupon in 2047 and to yield 2.32% with a 3% coupon in 2051. The $74.9 million of Series 2021B bonds were repriced to yield 1.29% with a 5% coupon in 2051 with a mandatory tender date in 2031.

In the competitive arena, the Portland Public School District #1J, Ore., (Aa2/AA/NR/NR) sold $406.505 million of taxable full faith and credit bonds in two offerings.

Morgan Stanley won the $247.035 million of the Bidding Group 2 GOs with a true interest cost of 2.3671%.

JPMorgan Securities won the $154.9 million of Bidding Group 1 GOs with a TIC of 1.461%. The deal was priced to yield from 0.30% at par in 2022 to 1.80% at par in 2031.

The bonds are insured under the Oregon School Bond Guaranty Act.

Piper Sandler was the financial advisor; Hawkins Delafield was the bond counsel.

In the short-term sector, BofA Securities priced the San Diego Unified School District, Calif.'s (NR/SP1+/NR/NR) $240 million of Series A 2021-22 tax and revenue anticipation notes to yield 0.10% with a 4% coupon in 2022.

ICI: Muni bond funds see $2.04B inflow

Long-term municipal bond funds saw inflows of $2.039 billion in the week ended June 23, ICI reported Wednesday.

It marked the 16th straight week that the funds saw inflows. In the previous week, muni funds saw an inflow of $1.804 billion.

Exchange traded funds saw an inflow of $598 million in the latest week, down from $841 million in the previous week.

On Thursday, Refinitiv Lipper will release data from the weekly reporting muni funds for the week ended June 30.

Informa: Money market muni funds rose $444M

Tax-exempt municipal money market fund assets rose $444.2 million, bringing total net assets to $93.09 billion in the week ended June 28, according to the Money Fund Report, a publication of Informa Financial Intelligence.

The average seven-day simple yield for the 162 tax-free and municipal money-market funds remained at 0.01% from the previous week.

Taxable money-fund assets increased $3.24 billion in the week ended June 29, bringing total net assets to $4.395 trillion. The average, seven-day simple yield for the 764 taxable reporting funds remained at 0.01% from the prior week.

Overall, the combined total net assets of the 926 reporting money funds rose $3.68 billion in the week ended June 29.

Secondary trading

ICE Data Services reported the following muni trades:

Georgia 5s of Aug. 1, 2031 [373385GS6] traded in a block of $5 million at a price of 134.638, a yield of 1.00%. The 5s were originally priced in August 2020 at 139.659, a yield of 0.83%.

Georgia 5s of Aug. 1, 2032 [373385GT4] traded in a block of $5 million+ at a price of 133.818, a yield of 1.08%. The 5s were originally priced in August 2020 at 138.739, a yield of 0.91%.

The triple-A benchmark scales were stronger trading on Wednesday.

According to Refinitiv MMD, short yields were steady at 0.12% and at 0.16% in 2022 and 2023. The yield on the 10-year fell two basis points to 0.99% while the yield on the 30-year dropped two basis points to 1.50%.

The ICE municipal yield curve showed bonds steady in 2022 at 0.12% and 0.15% in 2023. The 10-year maturity declined one basis point to 0.99% and the 30-year yield fell one basis point to 1.50%.

The IHS Markit municipal analytics curve showed short yields at 0.12% and 0.15% in 2022 and 2023, respectively, with the 10-year dropping to 0.99%, and the 30-year yield declining to 1.50%.

In late trading, Treasuries were stronger while equities were mixed.

The 10-year Treasury was yielding 1.45% and the 30-year Treasury was yielding 2.07%. The Dow Jones Industrial Average rose 0.5%, the S&P 500 increased 0.08% while the Nasdaq slipped 0.13%.

All eyes on employment

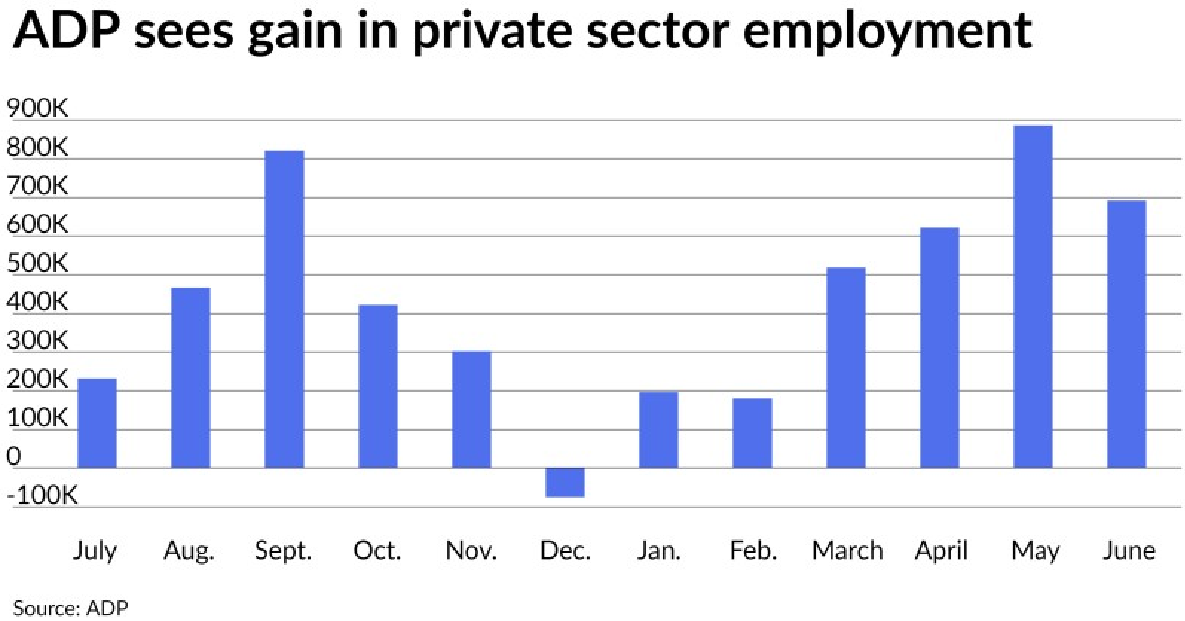
With the Federal Reserve more concerned about employment than inflation at this point, Friday’s June jobs report may provide answers to the market’s questions.

On Wednesday, the ADP employment report surprised to the upside, and while the two reports can’t be compared, it may suggest “a sound private non-farm payrolls print on Friday,” said Christian Scherrmann, U.S. economist at DWS Group.

“After a period of greater-than-expected data distortion, it does seem like the difference between the two reports is now converging back toward normal error ranges — potentially increasing the value of this report as a signpost significantly.”

ADP reported 692,000 private-sector jobs added in June, after a downwardly revised 886,000 jump in May, first reported as a 978,000 increase.

Economists polled by IFR Markets expected 600,000 jobs to be added.



“Below the good headline number, some of the detail in the ADP report does look encouraging,” Scherrmann said. “In particular it shows that small- and medium-sized companies have accelerated their hiring in recent months,” and the leisure and hospitality sector added 332,000 jobs.

“This looks like a sign that the normalization process and recovery in the labor market is progressing,” he said. The growth should hold its momentum, “as extended unemployment benefits fade out in the course of the year,” Scherrmann noted, and more vaccinations allow “a safe return to work.”

Most of the jobs added in June “were in the hard-hit service sector, with leisure & hospitality (+332,000), education & health services (+123,000) and trade, transportation & utilities (+62,000) leading the way,” noted Scott Anderson, chief economist at Bank of the West.

And the jobs were spread almost evenly across all sized companies, he said. “Despite the addition of over 3 million jobs so far this year, private sector employment is still 6.8 million below the February 2020 peak, suggesting the labor market recovery will lag the broader economic recovery.”

Anderson said given the ADP report, Bank of the West’s expectation of 580,000 new jobs in the nonfarm payrolls report “might end up being on the low side.”

Additionally, as a result of COVID, seasonal adjustment factors may be skewed and could cause headline nonfarm payroll numbers to be misstated, according to a report by Wells Fargo economists, led by Azhar Iqbal.

Using their own calculations, the researchers determined, the numbers for June, July and August could be boosted by seasonal adjustment.

They found the January to April numbers were lowered by seasonal factors and May's were lifted by 125,000.

Also released Wednesday, pending home sales climbed 8.0% to 114.7 in May after falling 4.4% in April. The reading was the highest posted in May since 2005, according to the National Association of Realtors.

Economists expected a 1.0% decline.

"May's strong increase in transactions — following April's decline, as well as a sudden erosion in home affordability — was indeed a surprise," said NAR Chief Economist Lawrence Yun. "The housing market is attracting buyers due to the decline in mortgage rates, which fell below 3%, and from an uptick in listings."

Separately, the Chicago Business Barometer dropped to 66.1 in June from 75.2 in May.

Economists expected a 70.0 read.

For the second quarter, the index was 71.1, its highest since the final quarter of 1973.

Of the five main categories only supplier deliveries gained in the month, and order backlogs posted the biggest drop. Employment fell to its lowest point since January, with companies having trouble hiring.

Prices paid jumped to its highest read since December 1979, with firms reporting price hikes as a result of material shortages.

Also reported Wednesday, the Midwest economy was little changed in the month, with the Federal Reserve Bank of Chicago's Midwest Economy Index rising to 0.69 in May from 0.63 in April. Relative MEI rose to 0.79 from 0.47.

Positive MEI readings suggest the Midwest economy is growing above its trend, while a positive relative MEI suggests the Midwest economy is growing at a rate faster than the nation's historical trend.

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