THE BOND BUYER

Taxable bonds helped issuance soar in September

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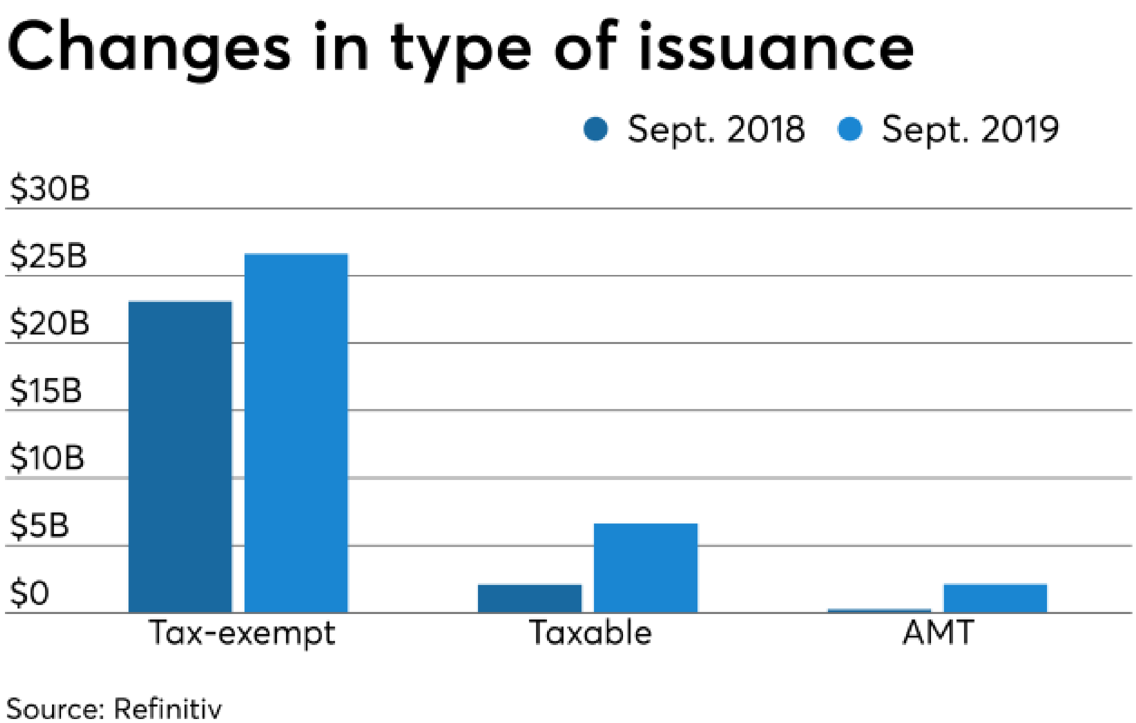
Municipal bond volume continues to accelerate, closing out the month of September 39.1% higher and the quarter 17.8% higher than a year earlier, as issuers flocked to market with taxable deals.

September volume rose to $35.38 billion of municipal bonds sold in 894 transactions, from $25.43 billion in 768 issues in September 2018, according to data from Refinitiv.

The quarter got off to a slow start in July with $29.19 billion of sales, but more than made up for it in the past two months, bringing the third-quarter total to $103.17 billion, up from $87.54 billion in the third quarter of 2018.



For the year so far, volume has $275.29 billion, beating last year's pace of $253.22 billion in the nine months. Volume has picked up as the year went on, with $78.66 billion in the first quarter and $93.45 billion in the second quarter.

Mikhail Foux, managing director of municipal research at Barclays Capital listed taxable issuance atop a list of factors in the surge.

"Taxable issuance is up substantially, as issuers are taking advantage of low rates; but we also saw a number of taxable refundings of tax-exempts, which did not make sense when rates were higher," he said. "New money tax-exempt issuance is also up due to low rates. Refunding supply has increased, partially attributed to refundings of callable [Build America Bonds], as well as higher current refundings."

Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, agreed that taxable issuance was a big driver in September.

Taxable bond volume more than tripled to $6.64 billion, while tax-exempt issuance increased 15.3% to $26.63 billion.

"I, and most in the market would attribute much of what drove September to be taxable issuance," said Kozlik. "It was the straw that stirred the drink for the month and that is likely to be the case for the rest of the year."

Kozlik added that Hilltop is continuing to see a heavy amount of interest in taxable financing options in day-to-day requests and conversations.

"It looks like about one third of the taxable issuance has been refunding related. We can expect that to continue if not accelerate into the end of the year boosting issuance overall."

Foux said some of the taxable deals were refundings, but noted taxable new money deals, including century bonds, mainly in Education and Healthcare sectors.

"In our view, taxable supply this year will likely get close to its highest level in the post-BAB era," he said.

Refunding volume for the month more than doubled to $8.43 billion in 276 deals from $3.68 billion in 105 deals a year earlier. New-money volume increased 17% to $22.87 billion. Combined new-money and refunding issuance was 85.3% higher from September 2018 to $4.08 billion.

Issuance of bonds with interest subject to the Alternative Minimum rose to $2.11 billion from $249.7 million.

“AMT supply is up mainly due to an increase in airport issuance, and we will likely see more down the line, as most airports are undergoing rebuilding,” Foux said.

Issuance of revenue bonds gained 6.2% to $18.69 billion, while general obligation bond sales more than doubled to $16.68 billion.

Negotiated deal volume was up 60.6% to $27.51 billion. Competitive sales increased 6.3% to $7.65 billion.

Deals wrapped by bond insurance for the month increased 42% to $1.98 billion in 137 deals from $1.39 billion in 102 transactions the same month last year.

Five sectors gained from year-earlier levels, while issuance by the rest of the sectors declined at least 36.7%. Electric power gained to $1.73 billion from $334 million. Education muni deals were way up to $9.39 billion from $5.22 billion. Transportation deals grew to $6.70 billion from $2.75 billion.

Five types of issuers increased volume in September, while the rest suffered decreases of at least 1.6%. Issuance from colleges and universities surged to $1.75 billion from $340 million, state governments issuance increased to $5.34 billion from $1.95 billion and district volume rose to $7.55 billion from $4.48 billion.

California continued to lead all states in terms of muni bond issuance. Issuers in the Golden State have sold $43.06 billion of municipal bonds so far this year; Texas stayed in second with $30.41 billion; New York remained in third $26.99 billion; Florida was next with $14.37 billion; and Pennsylvania rounded out the top five with $12.16 billion.

Massachusetts was next with $9.97 billion, followed by Georgia with $8.25 billion, Ohio with $7.39 billion, then Colorado with $7.35 billion and finishing the top 10 is Michigan with $6.56 billion.

Historically, October is a solid issuance month and Kozlik believes October volume could surpass September’s.

“It is very likely, especially if the taxable issuance moment keeps up,” he said.

Foux noted that October is always heavy, but it is hard to say if it will surpass September.

“It will likely get close, as we are anticipating $35 to 40 billion as our base case,” Foux said. “Then it will become a third nearly $40 billion month is a row; while it is a bit worrisome to us, new issue supply has been absorbed relatively well at least for now.”