THE BOND BUYER

Muni yields skyrocket, new issues pulled amid COVID-19 fears

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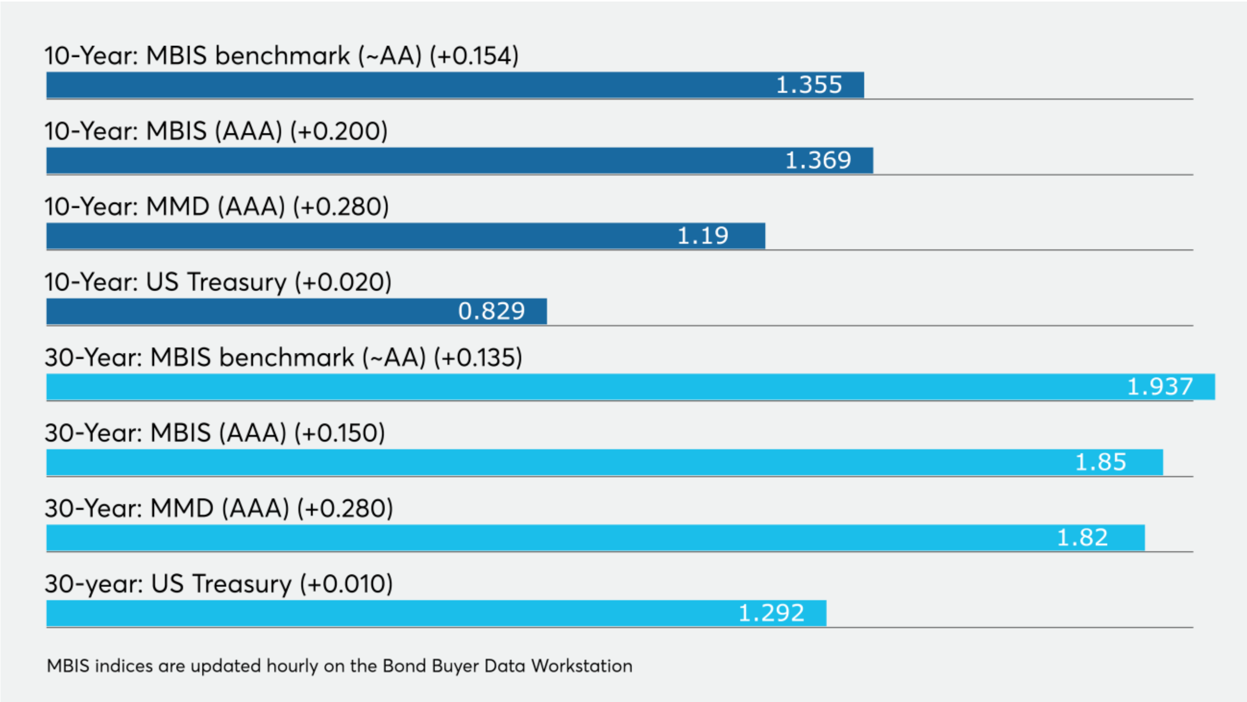


The municipal market was hammered Wednesday by the rapidly spreading COVID-19 global pandemic with a more than quarter point correction in AAA benchmarks, issuers pulling deals off the shelves and more reports of pricing and evaluation confusion in an already complicated market.

High-yield was being hit hard in the secondary market while several issuers put their new-issues on the day-to-day calendar amid what some are calling an “irrational” market. Three large negotiated deals that were scheduled to price Wednesday were pulled as muni yields skyrocketed up 28 basis points on the MMD AAA and other benchmarks were not far from those figures.

A New York trader at a large Wall Street firm said the market was “imploding" as retail and institutional investors tried to sell paper into a challenging climate.

“There are forced sellers, MMD is playing catch-up, the volatility in the market, and the virus uncertainty — there are so many overlaps against the market right now and there is an awful lot of pressure and lost money,” he said Wednesday morning.

“Probably after a day like today and after evaluations come in they have to sell even more,” he said of the large institutional funds that continue to shred bonds.

He said the market dynamic is the same as it has been in other crisis moments, such as the 2009 financial crisis.

“There is limited liquidity, people trying to get out of the same door, and bids cheapening up,” he said, adding that even cross-over buying might be limited in the current market due to the overall low absolute rates.

“It’s a very disorderly, illiquid market where people are trying to sell bonds and they can’t,” he said, noting that the $2 billion California GO sale on Tuesday ended up finding a home for the balances after the pricing, but “at decidedly cheaper prices,” which he said are indicative of the current market climate.

“If we get some direction and information on the virus, things might turn around,” he said. “Right now, the market doesn’t like uncertainty and the uncertainty has morphed into irrationality to some degree.”

Others agreed that the extreme circumstances occurring was affecting liquidity and evaluations.

“Vendors can’t keep up, they’re essentially getting crushed and not responding to price challenges, aren’t correcting fast enough,” a New York strategist said. “The models that may have worked in low-volatility times are not working in this market and this is something that the entire market will need to consider going forward.”

Saumen Chattopadhyay, chief investment officer at Carson Partners, said that a rebound in the market, if it comes, does not necessarily mean the worst is behind us, we may continue to see the continued gyrations of up and down days, which is associated with the higher levels of volatility.

"Volatility tends to cluster, which means large positive and negative changes in prices tend to be followed by large changes,” Chattopadhyay said.

“The high volatility cluster would break when there is certainty of resolution with novel Coronavirus.”

One Pennsylvania trader added the words "crazy" and "chaotic" to describe the market would be an understatement. “These are crazy, COVID-19 times that we will always remember,” he said. “That’s the best way I can describe it. This will be remembered just as much as the financial crisis.”

Secondary market

Munis were weaker on Wednesday on the MBIS benchmark scale, with yields rising 15 basis points in the 10-year and by 13 basis points in the 30-year maturity. High-grades were also weaker, with yields on MBIS' AAA scale increasing by 20 basis points in the 10-year maturity and by 15 basis points in the 30-year maturity.

Munis weakened on Refinitiv Municipal Market Data’s AAA benchmark scale, as the yield on the 10-year muni GO was 28 basis points higher to 1.19% from 0.91% and the 30-year rose 28 basis points to 1.82% from 1.54%.

“Today’s cuts by MMD shows me that they have no clue what they are doing,” said a New York City trader.

BVAL and ICE also cut their curves, with BVAL seeing up to 27 in the 10-year and 28 in its 30-year. ICE cut its 10-year by 27 basis points and its 30-year by 26.

“Munis have thrown in the towel today,” ICE Data Services said in a market comment. “The ICE muni yield curve is 20 to 27 basis points higher across the curve as the market undergoes a massive repricing. With Treasury rallying again today, muni percent of Treasury yields have blown out. Volumes are lighter than normal for Wednesday.”

ICE said lower quality munis were being affected as well.

“High-yield is impacted similarly, continuing its multi-session streak of down days. Trade volumes and bids in the sector are reported as weak, negatively affecting liquidity,” ICE said.

The 10-year muni-to-Treasury ratio was calculated at 145.3% while the 30-year muni-to-Treasury ratio stood at 139.1%, according to MMD.

Stocks tanked again as all three major indexes were at least 5% lower on Wednesday, giving back most of the gains from Tuesday as the World Health Organization declared COVID-outbreak as a pandemic and any potential U.S. stimulus package is being stalled.

The Dow Jones Industrial Average was down about 6.37%, the S&P 500 index was lower by 5.68% and the Nasdaq lost roughly 5.37% late in the session Wednesday.

The three-month Treasury was yielding 0.395%, the Treasury two-year was yielding 0.522%, the five-year was yielding 0.681%, the 10-year was yielding 0.829% and the 30-year was yielding 1.292%.

Municipal bond yields

Index	10-year	20-year	30-year
Bloomberg	0.946%	1.369%	1.591%
IHS Markit	0.860%	1.270%	1.470%
MMD	0.910%	N.A.	1.540%
BondWave	1.199%	1.673%	1.732%
MBIS	1.201%	1.662%	1.802%

Source: 3/10 close MSRB, Refinitiv; MMD AAA, BVAL AAA callable, IHS AAA, BondWave AA, MBIS benchmark

Primary market

The lone large negotiated deal that priced Wednesday was the Dormitory Authority of the State of New York's (Aa1/AA/ /) $233 million of revenue refunding bonds for Cornell University. Goldman ran the books on the transaction.

Negotiated deals that were scheduled to price Wednesday but moved to the day-to-day calendar due to market conditions were: Ohio Water Development Authority's $450 million; Illinois Finance Authority's $162.32 million; And Fairfax County, Virginia's $129.59 million.

Brookline, Massachusetts (Aaa/AAA/) sold $166.60 million of general obligation municipal purpose loan bonds, which were won by Baird with a true interest cost of 2.4442.

Baird also won Las Vegas Valley Water District's (Aa1/AA+/NR) $97.53 million of GO water refunding bonds with a TIC of 2.014%.

Bank of America Securities priced University of Oregon’s (Aa2/AA-/NR/NR) $120 million of general revenue bonds.

The deal was priced as bullet maturities. There was $100 million of tax-exempts priced as 5s to yield 2.25% in 2050. $20 million of taxable bonds were priced at par to yield 3.148% in 2050.

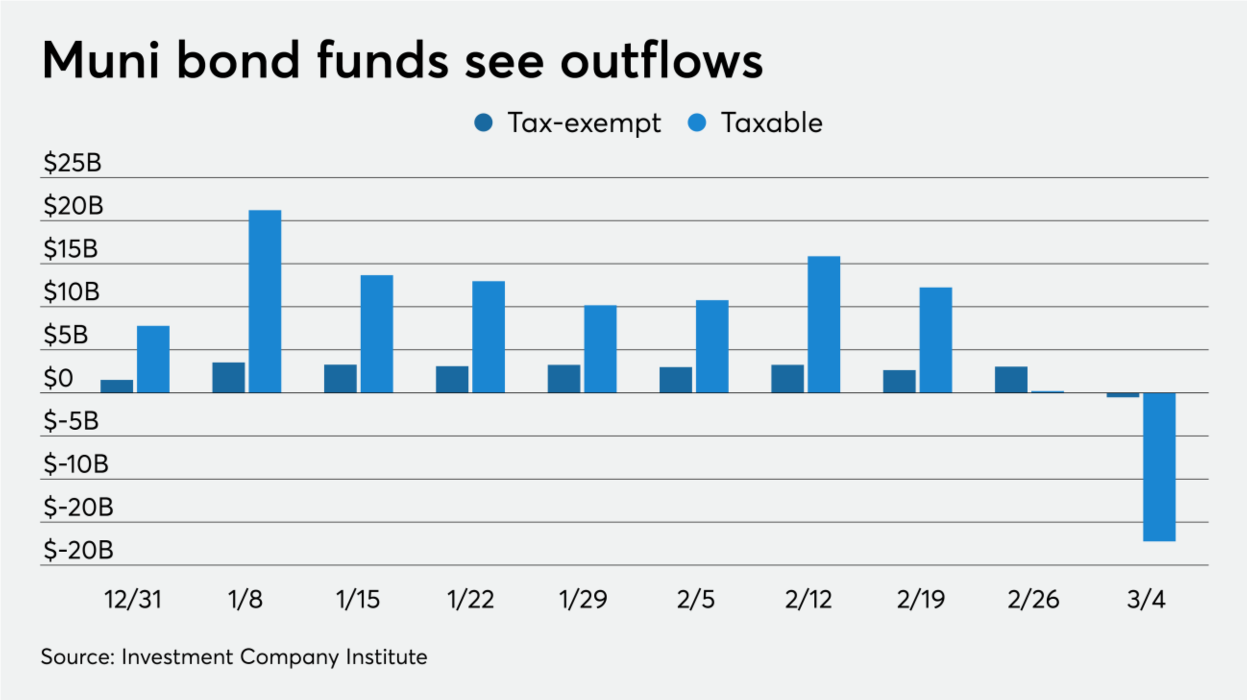
California’s big sale on Tuesday may have just made the cut
California’s $2.09 billion sale of general obligation bonds on Tuesday refinanced outstanding debt and provided funding for new capital projects.

“It’s a very disorderly, illiquid market where people are trying to sell bonds and they can’t,” said a New York trader, noting that the $2 billion California GO sale on Tuesday ended up finding a home for the balances after the pricing, but “at decidedly cheaper prices,” which he said are indicative of the current market climate.

State officials were still optimistic about the deal, with Treasurer Fiona Ma saying: "despite the volatile financial markets of the past several weeks, I am very pleased with the results of this sale. We were able to sell the bonds at historically low interest rates to provide financing for a variety of vital infrastructure projects throughout the state and to save taxpayers $695 million over the next 20 years (or $562 million on a present value basis).”

“This level of savings is remarkable, thanks to the recent precipitous drop in interest rates,” said Tim Schaefer, deputy treasurer for public finance.

ICI joins Lipper in reporting first outflows in 60 weeks
Long-term municipal bond funds and exchange-traded funds saw a combined outflow of $518 million in the week ended March 4, the Investment Company Institute reported on Wednesday.



It was the first outflow after 60 straight week of inflows into the tax-exempt mutual funds reported by ICI. The previous week, ended Feb. 26, saw $2.993 billion of inflows into the funds.

Long-term muni funds alone had an outflow of $430 million after an inflow of $2.381 billion in the previous week; ETF muni funds alone saw an outflow of $87 million after an inflow of $613 million in the prior week.

Taxable bond funds saw combined outflows of $17.244 billion in the latest reporting week after revised inflows of $204 million in the previous week.

ICI said the total combined estimated outflows from all long-term mutual funds and ETFs were $44.122 billion after outflows of $11.912 billion in the prior week.

The biggest laggard of the week was equities, which saw an outflow of $20.214 billion this past week, after an outflow of $13.916 billion the week before.

10-year Treasury auction
According to CNBC's Rick Santelli, said there was "tepid" demand in the auction.

The Treasury Department auctioned $24 billion of 9-year 10-month notes with a 1 1/2% coupon at a 0.849% high yield, a price of 106.179092.

The bid-to-cover ratio was 2.36.

Tenders at the high yield were allotted 79.94%. All competitive tenders at lower yields were accepted in full.

The Federal Reserve Bank of New York said on Wednesday that it would offer at least $175 billion in daily overnight repurchase agreements and at least $45 billion in two-week term repos twice a week starting Thursday through April 13. The Fed said it would also offer three one-month term repos, with first on Thursday.

The amount offered for these will be at least $50 billion.

The actions will "ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation," the N.Y. Fed said.

Previous session's activity
The MSRB reported 33,670 trades Tuesday on volume of $13.579 billion. The 30-day average trade summary showed on a par amount basis of $13.30 million that customers bought $6.87 million, customers sold $4.38 million and interdealer trades totaled $2.05 million.

California, New York and Texas were most traded, with the Golden State taking 15.094% of the market, the Empire State taking 12.027% and the Lone Star State taking 11.821%.

The most actively traded security was the Buckeye Tobacco Settlement Financing Authority's senior refunding bonds 2020 B-2 CL 2, 5s of 2055, which traded 65 times on volume of $127.865 million.

Christine Albano, Chip Barnett and Lynne Funk contributed to this report.

Data appearing in this article from **Municipal Bond Information Services,** including the **MBIS municipal bond index,** is available on **The Bond Buyer Data Workstation.**