THE BOND BUYER

Municipals steady as market searches for direction

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Published

September 08, 2020, 3:42 p.m. EDT

Municipals were little changed on Tuesday and off to a slow start post the Labor Day holiday. Triple-A benchmarks showed steady levels from last week while trade volume remained light ahead of the week’s $7 billion new-issue slate.

With the "fall fling" about to occur with municipal issuance, yields have reset back to levels of early July, except that U.S. Treasuries were about 10 basis points tighter than current yields, when the 10-year AAA/10-year UST ratio was above 130%, said Kim Olsan, senior vice president at FHN Financial. "The skew to lower relative value ratios puts muni yields at some risk for adjustment. Intermediate AAAs are now at about 110% to the UST counterpart."

Muni yields have been rising for the past four weeks with the market looking for direction, according to Eric Kazatsky, senior municipal strategist at Bloomberg Intelligence.

"In some spots in the curve, municipal bond prices were cut for the fourth straight week in the period ended Sept. 4. Municipals have struggled to find direction this month, with the Bloomberg Barclays Municipal Bond Index down 0.07%," he wrote in a Tuesday market report. "September has traditionally been a month of difficult performance for municipals as the market moves away from the summer season of reinvestment. Municipals haven't posted a positive September performance since 2015. Since Aug. 10, municipal AAA (AAA) rates have increased as much as 26 basis points in the 10-year spot of the curve and 30 bps in 30 years. The front end has been largely unchanged — a change of pace from curve direction over the past year."

He said that while some changes over the past year have been credit-driven in relation to COVID-19, yields are having the biggest impact.

"We noted previously that absolute rates are at their lows, which is having an adverse impact on retail appetite for bonds," he said. "However, the steepness of the yield curve also affects investors' perception of value. Since September 2019, AAA muni rates at the long end of the curve fell only 29 basis points, while yields in the front end slid almost three times as much."

"The move in the front end and belly of the curve has been so sharp that the amount of yield an investor gains by going out longer on the yield curve is now well below historical averages, forcing investors into longer-duration selections," Kazatsky said.

Olsan noted that now that the de facto summer period has ended, topics that were pushed to the side may find a more important role in coming weeks.

"These include somewhat unexpected credit actions on more active names, including Pennsylvania GOs being put on negative outlook by S&P (currently A+) and a downgrade to Aa1 on Austin Texas GOs by Moody's and negative outlook by Fitch (at AAA). Austin's rating change comes ahead of a planned bond sale and was based on growing concerns about the city's pension obligations.

"Both are examples of the fluid nature of municipal credit during the pandemic that counters what are fairly solid technical factors," Olsan noted.

Primary market

This week's supply slate is broken down into $5.3 billion of negotiated deals and $1.8 billion of competitive sales.

On Wednesday, the Washington Suburban Sanitation District, Md., (Aaa/AAA/AAA/NR) is selling $324.795 million of consolidated public improvement bonds of 2020 and Second Series consolidated public improvement green bonds of 2020.

The Wye River Group is the financial advisor; McKennon Shelton is the bond counsel.

Hennepin County, Minn., is competitively selling $141.935 million of general obligation and refunding bonds in two offerings.

The deals are comprised of $100 million of Series 2020A GOs and $41.935 million of GO refunding bonds.

PFM is the financial advisor; Dorsey & Whitney is the bond counsel.

Nevada is competitively selling $140.805 million of highway improvement revenue bonds in two sales.

The offerings are made up of $87.53 million of of Series 2020A (Aa2/AAA/AA+/NR) motor vehicles fue tax bonds and $53.275 million of Series

2020B (Aa2/AA+/AA+/NR) indexed tax and subordinate motor vehicle fuel tax bonds.

JNA Consulting is the financial advisor; Sherman & Howard is the bond counsel.

Also on Wednesday, BofA Securities will price the City and County of San Francisco's Public Utilities Commission's (Aa2/AA-//) $324.56 million of Series A, B, C & D water revenue bonds.

The biggest negotiated deals of the week will all be coming on Thursday. Oregon's Department of Transportation issues $807 million of bonds while the Texas Private Activity Bond Surface Transportation Corp. is set to offer $578.095 million of senior lien revenue refunding bonds and the Michigan State Building Authority is coming to market with $768 million of revenue and revenue refunding bonds.

NYC TFA to sell $1.3B next week

The New York City Transitional Finance Authority said Tuesday that it will sell $1.3 billion future tax-secured subordinate bonds next week.

The deal is made up of $1.1 billion of tax-exempt fixed rate bonds and $173 million of taxable fixed rate bonds. Proceeds from the sale will be used to fund capital projects and convert certain floating rate debt to fixed rate debt.

Jefferies is set to price the tax-exempts on Tuesday, Sept. 15, after a one-day retail order period. BofA Securities, Citigroup, J.P. Morgan, Loop Capital Markets, Ramirez & Co., RBC Capital Markets, Siebert Williams Shank & Co. and Wells Fargo Securities are co-senior managers.

Also on Sept. 15, the TFA will competitively sell $173 million of taxables.

Secondary market

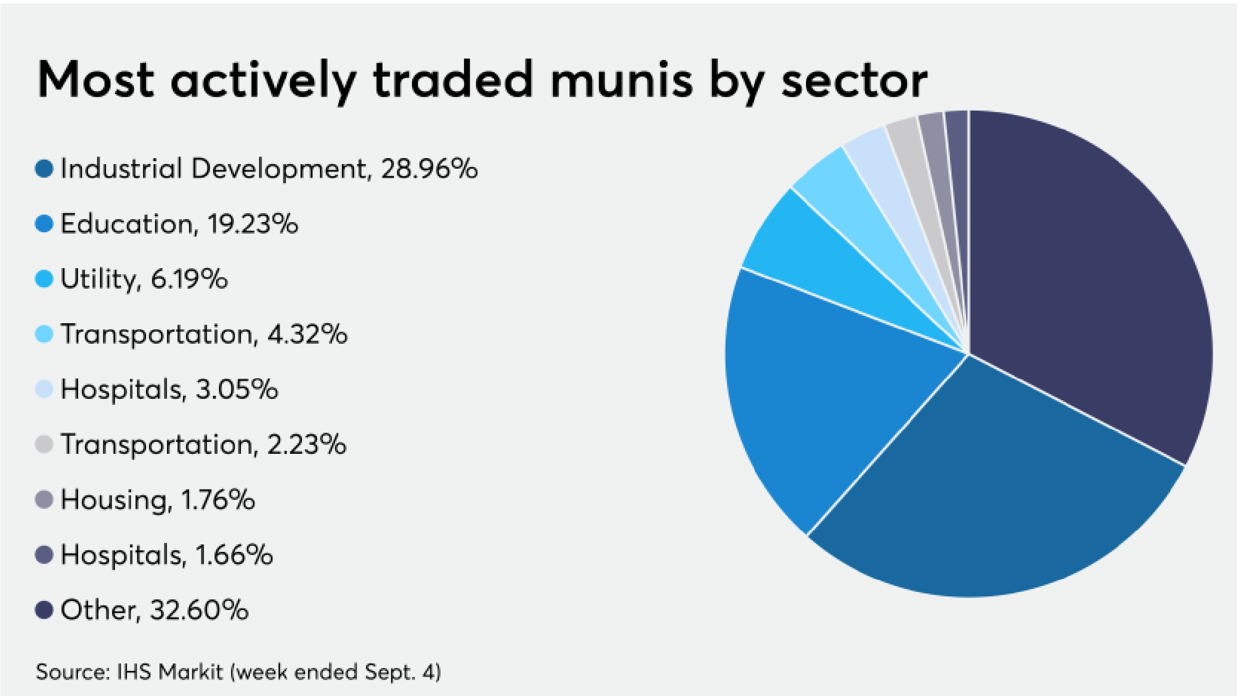
Some noteable trades Tuesday:

Louisille and Jefferson County, Kentucky waters, 5s of 2021, traded at 0.16%. Chester County, Pennsylvania GOs, 5s of 2022 at 0.14%. Fairfax County, Virginia GOs, 5s of 2024, at 0.24%-0.23%. Harvard 5s in 2026 traded at 0.34%. NYC TFA 5s of 2032 at 1.42%. On September 2, at 1.40%. Fairfax County, VA 5s of 2035 traded at 1.23%-1.20%. Virginia Resources Authority state revolving fund 2.25s of 2045, traded at 2.22%-2.19%.

Tax-exempt municipals again underperformed week over week, Wells Fargo said in a research note Turesday, as the MMD curve continued to steepen faster than Treasuries due to no stimulus deal.

Wells Fargo note that over the past four weeks, the the 10-year and 30-year MMD readings are up 25 basis points and up 30 basis points, respectively.

"Taxable munis outperformed all other asset classes week over week. Returns for the first four days of September were positive, a reversing of net negative performance for August," Wells Fargo said. "With rates under pressure, duration and lower investment-grade underperformed; the long-end underperformed the front-end by nine basis points and BBBs underperformed AAAs by 15 basis points week over week."



Last week, the most traded muni sector was industrial development followed by education and utilities, IHS Markit said.

On Tuesday, high-grade municipals were little changed, according to readings on Refinitiv MMD’s AAA benchmark scale.

Yields were unchanged in 2021 and 2022. The yield on the 10-year muni was flat at 0.83% while the 30-year yield remained at 1.57%.

The 10-year muni-to-Treasury ratio was calculated at 122.6% while the 30-year muni-to-Treasury ratio stood at 110.9%, according to MMD.

The ICE AAA municipal yield curve showed the 2021 maturity unchanged at 0.13% and the 2022 maturity steady at 0.15%; the 10-year maturity was flat at 0.80% and the 30-year was steady at 1.59%.

The 10-year muni-to-Treasury ratio was calculated at 121.0% while the 30-year muni-to-Treasury ratio stood at 110.0%, according to ICE.

The IHS Markit municipal analytics AAA curve showed the 2021 maturity yielding 0.14%, the 2022 maturity at 0.15%, the 10-year muni at 0.81% and the 30-year at 1.55%, a basis point higher.

The BVAL AAA curve showed the yield on the 2021 maturity at 0.12%, the 2022 maturity at 0.15%, the 10-year at 0.80% all unchanged and the 30-year at 1.57%, a basis point lower than Friday.

The three-month Treasury note was yielding 0.117%, the 10-year Treasury was yielding 0.682% and the 30-year Treasury was yielding 1.426%.

The Dow fell 2.10%, the S&P 500 down 2.60% and the Nasdaq lost 3.70%.

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