THE BOND BUYER

Weaker USTs, large new issues put pressure on triple-A curves

By

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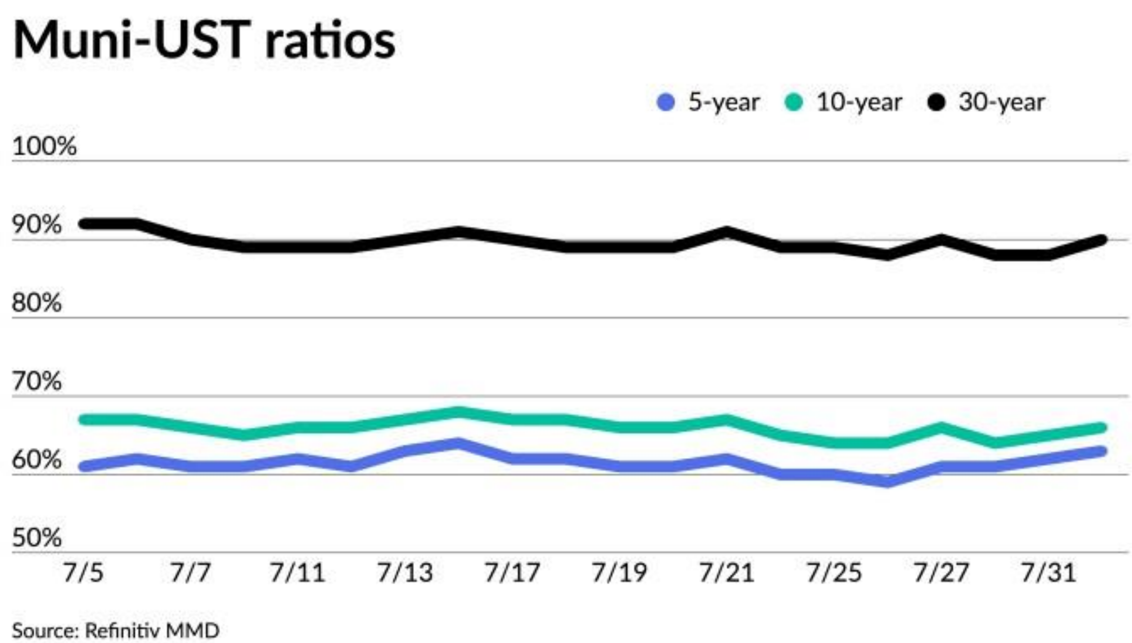
Municipals were weaker in secondary trading to start August as several large deals took focus in the primary market. Munis slightly outperformed Treasury losses as the first round of August redemptions buoyed the market. Equities ended mixed.

Triple-A yield curves were cut three to six basis points, depending on the scale, while UST yields rose up to eight basis point at 20 and 30 years.

In the negotiated market Tuesday, J.P. Morgan held a one-day retail order for $1.65 billion of revenue bonds from the Dormitory Authority of the State of New York, while Minnesota sold $1.02 billion of GOs in the competitive market in five deals.



This week's new-issue calendar will "need to be priced to sell to pique investor interest," said Nuveen strategists Anders S. Persson and Daniel J. Close.

They expect attractive muni market performance going forward.

Tuesday sees "another $46 billion of reinvestment money coming back into the market," they noted.

Munis are "currently rich relative to Treasuries, but demand for tax-exempt income remains strong," they noted.

The two-year muni-to-Treasury ratio Tuesday was at 62%, the three-year at 63%, the five-year at 64%, the 10-year at 64% and the 30-year at 86%, according to Refinitiv MMD's 3 p.m. read. ICE Data Services had the two-year at 62%, the three-year at 64%, the five-year at 63%, the 10-year at 66% and the 30-year at 90% at 4 p.m.

While traditional muni mutual fund flows have been "stagnant," action has been picking up among exchange-traded funds, said Matt Fabian, a partner at Municipal Market Analytics.

While MUB and VTEB have seen strong net creations, totaling $4.6 billion year-to-date, there has been $2.2 billion of redemptions year-to-date for short-term ETFs, "perhaps in accounts looking to lock in longer yield as it has become available."

For sure, he said, "that was a driver over the last month.

Tax-exempt outperformance has been "steady while tax-exempt issuance retrenched from year-over-year improvements" in April through June, he said.

July's approximately $28 billion of tax-exempt issuance is roughly equivalent to the around $29 billion of tax-exempt paper "maturing or hitting an activated call date next month," he said.

"To the extent issuance underwhelms again, this sets up a constructive backdrop even without fund flows, although with equity markets gaping return versus municipals [year-to-date], at least some of that returning investor cash will be lost to other asset classes," Fabian said.

Relative yields for short-term munis are "unlikely to increase much in the near term," said Cooper Howard, a fixed-income strategist at Charles Schwab.

Due to the shape of the yield curve, he said "muni investors have a strong preference to stay short-term since they can get a higher yield versus extending duration."

This strong demand has led to low yields relative to USTs, Howard said.

The Treasury curve is "deeply inverted and will likely remain inverted as long as the Fed continues keep the Fed funds rate elevated," he said.

Compared to tax-exempts, Howard said taxable munis can be an attractive option.

"Yields for taxable munis relative to tax-exempts munis are near the highest in over a decade," he said.

The taxable index is "generally highly rated but has a longer-duration than the tax-exempt index," he noted.

Fabian agreed with Howard, saying taxable munis "continue to look attractive both from an incremental yield perspective."

However, he said "the ongoing tender story … supports the purchase of potentially tenderable securities eligible for tax-exempt status," he said.

In the primary market Tuesday, J.P. Morgan held a one-day retail order of $1.646 billion of tax-exempt state sales tax revenue bonds, Series 2023A, from the Dormitory Authority of the State of New York (Aa1/AA+//). The first tranche, $1.236 million of Series 2023A-1, saw 5s of 3/2027 at 2.85%, 5s of 2028 at 2.84%, 5s of 2033 at 2.90%, 5s of 2038 at 3.44%, 4s of 2043 at 4.05%, 4s of 2049 at 4.20% and 5s of 2053 at 3.99%, callable 3/15/2033.

The second tranche, $410.190 million of Series 2023A-2, saw 5s of 23/2030 at 2.81% and 5s of 2033 at 2.90%, callable 9/15/2029.

BofA Securities priced for the Colorado Housing and Finance Authority $112.500 million of social single-family mortgage bonds. The first tranche, $50 million of non-AMT bonds, Series L (Aa3/AA//), saw 5.75s of 11/2053 at 4.17%, callable 11/1/2031.

The second tranche, $62.500 million of taxables, Series M-1 (Aaa/AAA//), saw all bonds price at par: 5.221s of 5/2026, 5.134s of 5/2028, 5.364s of 11/2028, 5.549s of 5/2033, 5.559s of 11/2033, 5.619s of 11/2038, 5.717s of 11/2043 and 5.747s of 5/2048, callable 11/1/2031.

In the competitive market, Minnesota (Aaa/AAA/AAA/) sold $327.020 million of GO state various purpose refunding bonds, Series 2023D, to BofA Securities, with 5s of 8/2024 at 3.23%, 5s of 2028 at 2.75% and 5s of 2033 at 2.71%, noncall.

The state also sold $264 million of GO state trunk highway bonds, Series 2023B, to J.P. Morgan, with 5s of 8/2024 at 3.25%, 5s of 2028 at 2.75%, 5s of 2033 at 2.70%, 5s of 2038 at 3.29% and 4s of 2043 at 3.95%, callable 8/1/2033.

Additionally, the state sold $255.290 million of GO state trunk highway refunding bonds, Series 2023E, to BofA Securities, with 5s of 8/2024 at 3.23%, 5s of 2028 at 2.75% and 5s of 2033 at 2.71%, noncall.

Minnesota sold $158.885 million of GO state various purpose bonds, Series 2023A, to Citigroup Global Markets, with 5s of 8/2024 at 3.25%, 5s of 2028 at 2.75%, 5s of 2033 at 2.70%, 5s of 2038 at 3.25% and 5s of 2043 at 3.50%, callable 8/1/2033.

Lastly, the state sold $14.865 million of taxable GO state various purpose bonds, Series 2023C, to RBC Capital Markets, with 4.75s of 8/2033 at 4.60%, noncall.

The last time the state was in the market on Aug. 9, 2022, when it sold $587.635 million of GOs in five deals. For that deal, spreads were tighter throughout the curve.

Last year, the state saw 5s 8/2024 at 1.69% (+5 to Bloomberg BVAL), 5s of 2028 at 1.99% (+5) and 5s of 2033 at 2.39% (+5).

On Tuesday, spreads were wider to BVAL AAA with 5s of 8/2024 at 3.25% (+24), 5s of 2028 at 2.75% (+18) and 5s of 2033 at 2.70% (+19).

Secondary trading
Washington 5s of 2024 at 3.23% versus 3.20% original on Friday. California 5s of 2024 at 3.01% versus 3.00% Monday and 2.98% Thursday. West Virginia 5s of 2025 at 3.01% versus 3.05% Monday and 2.92% on 7/24.

Massachusetts 5s of 2028 at 2.72%. DASNY 5s of 2028 at 2.59%-2.56%. LA DWP 5s of 2029 at 2.54%-2.51%.

Indiana Finance Authority 5s of 2032 at 2.84% versus 2.68% on 7/21 and 2.80% original on 7/19. DC 5s of 2032 at 2.62%-2.61%. NYC 5s of 2033 at 2.38%-2.81% versus 2.81%-2.82% on 7/18.

Washington 5s of 2047 at 3.62%-3.73% versus 3.73% original on Wednesday. Metropolitan Water District of Southern California 5s of 2048 at 3.51%-3.40% versus 3.49% Thursday and 3.44% on 7/20.

AAA scales
Refinitiv MMD's scale saw cuts: The one-year was at 3.21% (+4, no Aug. roll) and 3.03% (+4, -1bp Aug. roll) in two years. The five-year was at 2.70% (+4, no

Aug. roll) , the 10-year at 2.61% (+4, no Aug. roll) and the 30-year at 3.54% (+3) at 3 p.m.

The ICE AAA yield curve was cut three to five basis points: 3.19% (+4) in 2024 and 3.06% (+4) in 2025. The five-year was at 2.67% (+4), the 10-year was at 2.60% (+3) and the 30-year was at 3.58% (+3) at 4 p.m.

The S&P Global Market Intelligence (formerly IHS Markit) municipal curve was cut three to four basis points: 3.20% (+4) in 2024 and 3.03% (+4) in 2025. The five-year was at 2.70% (+4), the 10-year was at 2.61% (+4) and the 30-year yield was at 3.53% (+4), according to a 3 p.m. read.

Bloomberg BVAL was cut up four to seven basis points: 3.08% (+6) in 2024 and 2.97% (+6) in 2025. The five-year at 2.63% (+6), the 10-year at 2.56% (+5) and the 30-year at 3.55% (+4) at 4 p.m.

Treasuries were little changed.

The two-year UST was yielding 4.899% (+2), the three-year was at 4.561% (+4), the five-year at 4.224% (+4), the 10-year at 4.035% (+7), the 20-year at 4.305% (+8) and the 30-year Treasury was yielding 4.100% (+8) near the close.

SLOOS survey

The Fed quarterly Senior Loan Officer Opinion Survey "showed a continued tightening of lending conditions, supporting the recent assessment of Fed officials including … that there is still plenty of policy restriction working its way through the system," according to BNP Paribas economists.

At the latest Federal Open Market Committee press conference, they noted that Fed Chair Jerome Powell "saw more tightening still in store from prior hikes."

However, they noted this "clashes with the vision of more hawkish policymakers … who argue that past tightening has already largely passed through to the real economy and more restriction is needed to cool the labor market and tame inflation."

Banks reported that on balance, "levels of standards are currently on the tighter end of the range for all loan categories," BNP Paribas economists said.

Compared with the July 2022 survey, levels of standards "were tighter in every loan category," they said.

Joe Kalish, chief global macro strategist at Ned Davis Research, argued the latest survey, showed little change in the second quarter from the prior report, said

"Across all major categories, standards and terms continued to tighten, while demand for credit continued to decline," he said.

With respect to the second-half outlook, Kalish said "banks expect to further tighten standards on all loan categories."

Top reasons included" a more uncertain economic outlook and expected deterioration in collateral values, along with the credit quality of loans," according to BNP Paribas economists.

Deposit outflows, BNP Paribas economists said. "funding costs and future legislative changes were not among the key concerns."

Thus, they noted "it was not follow-on effects of banking sector turmoil from Q1, but instead a more organic, broader view of risks that was front and center in respondents' thinking.

But while bank lending standards may be "tight and tightening," they noted "that is not the message from market-based measures of financial conditions."

They said "those have largely eased to near their lowest levels since the start of the tightening cycle."

"That is not out of line with what typically happens around the end of Fed tightening cycles, but could reflect optimism about the U.S. economy achieving a softer landing than initially feared," they said.

NYC to sell $1B GOs next week

New York City expects to issue $1.02 billion of tax-exempt fixed-rate general obligation bonds next week.

Proceeds will be used to fund capital projects and to convert certain outstanding floating-rate bonds to fixed-rates.

Book-running lead manager Loop Capital Markets is expected to price the bonds on Wednesday, Aug. 9, after a one-day retail order period.

BofA Securities, Citigroup, J.P. Morgan, Jefferies, Ramirez & Co., RBC Capital Markets, Siebert Williams Shank and Wells Fargo Securities will serve as co-senior managers.

Primary to come

The Crowley Independent School District, Texas, (Aaa//AAA/) is set to price Thursday $425.775 million of PSF-insured unlimited tax school building bonds, Series 2023, serials 2024-2043, terms 2048, 2053. Siebert Williams Shank & Co.

The Port of Houston Authority, Texas, (Aa3/AA+//) is set to price Wednesday $414.375 million of non-AMT first lien revenue bonds, Series 2023. Morgan Stanley.

The Texas Private Activity Bond Surface Transportation Corp. is set to price Thursday on behalf of the North Tarrant Express Mobility Partners' North Tarrant Express project $406.540 million of senior lien revenue bonds, Series 2023. J.P. Morgan Securities.

San Antonio, Texas, (Aa2/AA+/AA/) is set to price Wednesday $287.780 million of water system junior lien revenue and refunding bonds, Series 2023A, serials 2024-2033, 2035-2043, terms 2048, 2053. Barclays.

The Austin Community College District, Texas, (Aa1/AA+//) is set to price Wednesday $187.730 million of limited tax bonds, Series 2023, serial 2024-2053. RBC Capital Markets.

The Oklahoma Water Resources Board (/AAA//) is set to price Tuesday $176.805 million of state loan program revenue bonds, Series 2023B, serials 2024-2038, terms 2043, 2048, 2053. BOK Financial Securities.

The Spring Branch Independent School District, Texas, (Aaa/AAA//) is set to price Wednesday $165.970 million of PSF-insured unlimited tax schoolhouse bonds, Series 2023, serials 2025-2048. Wells Fargo.

The Birdville Independent School District, Texas, (/AAA/AAA/) is set to price Thursday $145.985 million of PSF-insured unlimited tax school building bonds, Series 2023-A. FHN Financial Capital Markets.

The Pennsylvania Economic Development Financing Authority (//BBB+/) is set to price Thursday $128.850 million of Presbyterian senior living refunding revenue bonds, consisting of $35.180 million of Series 2023B-1 and $93.670 million of Series 2023B-2. Piper Sandler & Co.

The Nebraska Investment Finance Authority (/AAA//) is set to price $109.630 million of single-family housing revenue bonds, consisting of non-AMT social bonds, Series 2023E, and taxables, Series 2023F. J.P. Morgan Securities.