THE BOND BUYER

Munis ready for quiet two weeks; Primary a mere $57M

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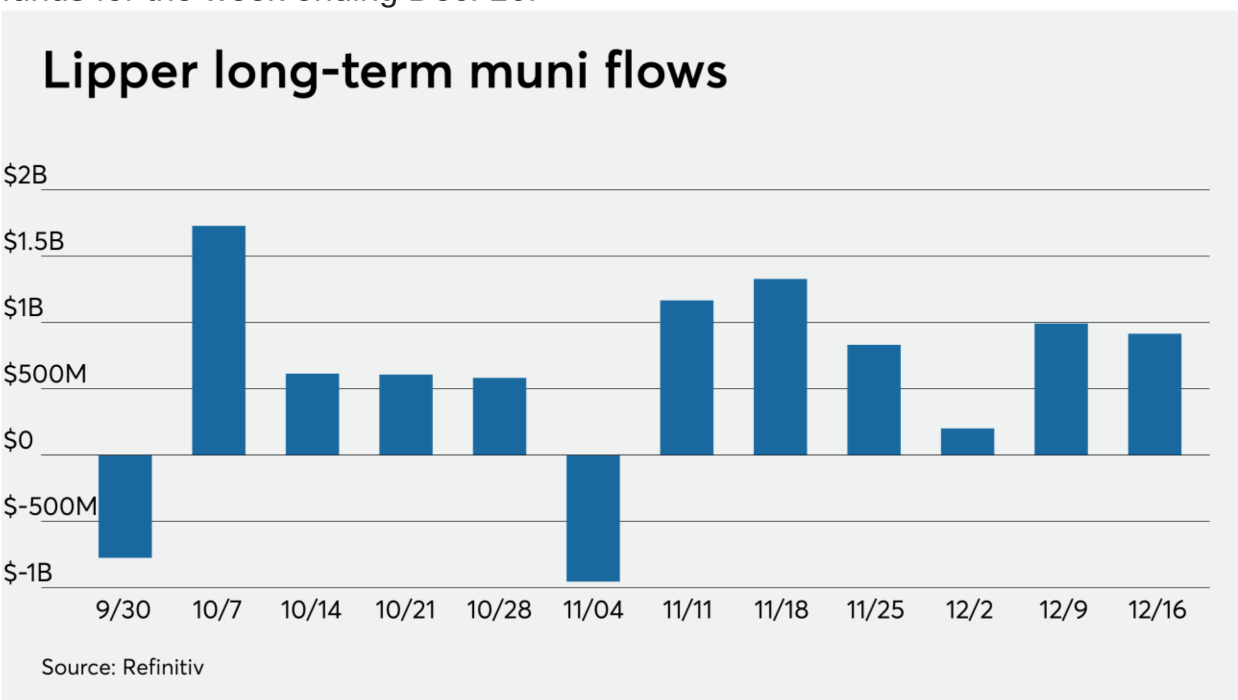
Municipal bonds ended the last full week of trading of 2020 flat ahead of a mere $57 million new-issue calendar, leaving the secondary market to handle the market's tone for the remainder of the year.

Lipper late Thursday reported $915 million of inflows into municipal bond mutual funds for the week ending Dec. 16.



Trading was sparse and sideways, but new issues traded up all week.

New York City taxable general obligation bonds broke free to trade, with bonds in 2028 originally priced at 1.623% traded at a low of 1.45%. Bonds in 2030 yielded 1.686% versus 1.823% original yield. Bonds in 2031 traded at 1.78% versus 1.923% original. Out longer the taxable GOs saw less movement.

New York City Health and Hospital bonds traded up this week by five to six basis points. Frisco, Texas, Independent School District 4s of 2033 traded at 0.97% versus 1.06% original yield.

Other notable trades: Hawaii GO 5s of 2022 at 0.16%. New York EFC 5s of 2022 at 0.12% versus 0.17% Thursday. New York Urban Development Corp. personal income tax 5s of 2025 at 0.28%, the same as original yield. New York UDC PITs from an October issue 5s of 2031 traded at 0.99%. They started the month at 1.09%-1.07%.

Prince George's County, Maryland, GO 5s of 2027 traded at 0.42%. Gwinnett County, Georgia, 5s of 2028 traded at 0.54% versus 0.51% original. California GO 5s of 2029 traded at 0.72%-0.71% versus 0.95% Thursday. Triborough Bridge and Tunnel Authority 5s of 2036 traded at 1.36%. Austin, Texas electric utility bond 5s of 2050 traded at 1.50%-1.31% versus 1.53% Thursday.

Flat Friday

A flat municipal market, with no deals priced, and virtually no supply in the coming week made for very quiet and lackluster activity on the Friday ahead of the Christmas holiday, according to one New York trader.

“The market is pretty much flat with no change, and I don’t think anything will happen until the beginning of the year,” the trader said.

He said even though nominal yields are historically low and the Treasury market was also flat on the day, municipals continue to outperform Treasuries, especially on the short and long ends.

Municipals are yielding 110.2% of the Treasury yield in two years; 58.2% in five years; 76.3% in 10 years; and 82.9% in 30 years, he noted.

“Until there is some supply pressure, we’re probably going to do OK,” as the market remains flat through year end, according to the trader.

He said the largest deals this week, including New York, Connecticut and Texas paper, did well and were highly sought after by supply-starved investors looking to spend reinvestment proceeds at year end.

The Empire State Development Corp. sold $2.1 billion of personal income tax bonds on behalf of the New York state in six competitive sales, with $1.6 billion of tax-exempt bonds; while Jefferies priced $800 million of general obligation bonds for the State of Connecticut, and Goldman, Sachs & Co. priced $437 million of toll road first lien revenue and refunding bonds for Harris County, Texas.

“It’s going to be a grind right now. The customers need and want new issues, but investors have to be patient,” he added. “Municipals have done well and will continue to do well.”

Overall, he said there are credit concerns in the municipal market, with some recent downgrades to large cities and states, but for the most part rating agencies are going to give municipalities a pass until 2021.

In the New Year, the stimulus aid to municipalities will play a large role in credit quality, the trader noted.

“There are a lot of questions about state and local governments and the stimulus they might receive, but that is delayed because of all the arguing in Congress,” he said.

Meanwhile, on the economic front, the availability of the COVID-19 vaccine, coupled with Wall Street having a positive year and boosting tax production for New York City, should both help boost the financial markets’ and the country’s morale as 2020 comes to a close, he noted.

Primary market

The total potential volume for next week is estimated at $57.0 million, down from total sales of $9,533.6 million this week.

There are $43.3 million of municipal bond sales scheduled for negotiated sale next week versus a revised $6,142.3 million that were sold this week.

Bonds scheduled for competitive sale next week total $13.7 million compared with $3,391.4 million this week.

Bond Buyer indexes dip

The weekly average yield to maturity of the Bond Buyer Municipal Bond Index, which is based on 40 long-term bond prices, fell one basis point to 3.47% from 3.48% in the previous week.

The Bond Buyer's 20-bond GO Index of 20-year general obligation yields dipped one basis point to 2.12% from 2.13% from the prior week.

The 11-bond GO Index of higher-grade 11-year GOs slipped one basis points to 1.65% from1.66% the week before.

The Bond Buyer's Revenue Bond Index was one basis point lower to 2.57% from 2.58% last week.

Secondary market

High-grade municipals were little changed, according to final readings on

Refinitiv MMD's AAA benchmark scale. Short yields were at 0.13% in 2021 and 0.14% in 2022. The yield on the 10-year remained at 0.70% while the yield on the 30-year was at 1.40%.

The 10-year muni-to-Treasury ratio was calculated at 76% while the 30-year muni-to-Treasury ratio stood at 82%, according to MMD.

The ICE AAA municipal yield curve showed short maturities at 0.13% in 2021 and 0.14% in 2022. The 10-year maturity was at 0.70% while the 30-year yield was little changed at 1.41%.

The 10-year muni-to-Treasury ratio was calculated at 73% while the 30-year muni-to-Treasury ratio stood at 83%, according to ICE.

The IHS Markit municipal analytics AAA curve showed short yields at 0.11% and 0.12% in 2021 and 2022, respectively, and the 10-year steady at 0.69% as the 30-year yield was at 1.37%.

Treasury yields rose and equities fell on a potential government shutdown. The 10-year Treasury was yielding 0.95% and the 30-year Treasury was yielding 1.70%. The Dow lost 214 points, the S&P 500 fell 0.79%, while the Nasdaq lost 0.51%.

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