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Puerto Rico Was the Muni Bond Bloodbath That Wasn't.

- **Island's debt saw more customer buying than selling Wednesday**
- **Benchmark 8% G.O. hit low in morning, rose thereafter**

The \$3.8 trillion municipal-bond market suffered an existential threat Wednesday after President Donald Trump's comments on wiping out Puerto Rico's debt. On the face of it, the island's benchmark bond plunged to a new low as investors panicked, but what really happened was that people lined up to buy Puerto Rico.

There were, quantitatively speaking, twice the number of buyers than sellers, of Puerto Rico's benchmark security, the 8 percent general obligation bonds.

At 8:13, prices had already declined to the 30s. That is, dealers had marked down Puerto Rico GOs, and sold a \$1 million lot to a customer at 34 cents on the dollar. At 8:25, someone bought a \$2 million lot at 35.

At 8:39, fourth trade of the day, a dealer bought \$5 million of Puerto Rico GOs at 32 cents on the dollar. Trading proceeded in an orderly fashion from then on, with prices in the 30s. At 9:16, a dealer purchased \$475,000 worth of the Puerto Rico GOs at a price of 30.25. This was the low price of the day. At, again, 9:16.

What happened after that? Of the 105 trades listed for the day, 49 were sales to customers; 30 were interdealer. This means, the entire grand narrative of the market selloff turns on 25 trades where dealers purchased bonds from customers.

You can only tell so much from the Municipal Securities Rulemaking Board's trade reports. Blocks larger than \$5 million are listed only as "5MM+." These were presumably the "smart" investors, including hedge funds, distressed debt buyers and mutual funds who had finally, we were told, decided to throw in the towel.

Even there, however, the narrative isn't so clear. Yes, there were five transactions of 5MM+, where an investor sold bonds. But there were seven transactions where investors bought blocks of more than \$5 million.

In total, as municipal credit strategist Eric Kazatsky of Bloomberg Intelligence pointed out in his note today, of the \$773 million of Puerto Rico bonds that changed hands yesterday — not just GOs — customers bought \$391 million and sold \$298 million. That doesn't strike me as a "bloodbath."

Bloomberg Markets

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October 5, 2017, 7:00 AM PDT

