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Chicago To Go To Market Next Week With Smaller Bond Sale.

* Chicago plans \$661 mln bond sale, down from \$898 mln

* Muni market should see little impact from any govt shutdown

Jan 19 (Reuters) - Chicago will hit the U.S. municipal market next week with a downsized version of a bond issue that originally had been slated to sell this week.

Chicago's Sales Tax Securitization Corp plans to sell \$661 million of tax-exempt and taxable bonds, according to a market source familiar with the deal. The bonds will refinance some of the city's outstanding general obligation debt.

The city had initially planned to lead this week's sales with an \$898 million tax-exempt bond issue. But it postponed the sale, citing weaker market conditions and the possibility of restructuring to include taxable debt.

The biggest market story going into next week is whether the U.S. Senate will avert a government shutdown on Friday ahead of a midnight deadline.

The effect of a shutdown, if it occurs, should be marginal on the U.S. municipal market, Barclays reported on Friday. During previous government shutdowns, municipal yields have tended to underperform U.S. Treasuries, but the underperformance was relatively small.

The municipal market will see an increase in new sales next week as \$7.15 billion of bonds and notes are expected to come to market, according to preliminary Thomson Reuters data.

The surge is nearly triple the amount of issuance from this week and an uptick from the slow start to the new year after record-breaking municipal sales in December.

Other large deals on the calendar for next week are \$832 million of Port Authority of New York and New Jersey bonds pricing through Bank of America Merrill Lynch on Tuesday and \$800 million of Connecticut special tax obligation bonds pricing through Goldman Sachs & Co on Wednesday.

Municipal funds had a second consecutive week of over \$1 billion of net inflows in the week that ended Jan. 17.

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