

Bond Case Briefs

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A quarterly report containing brief commentary and statistics on the U.S. capital markets, including but not limited to: municipal debt, U.S. Treasury and agency debt, short-term funding and money market debt, mortgage-related, asset-backed and CDO debt; corporate bonds, equity and other, derivatives, and the primary loan market.

Summary

Total Issuance Rises in Second Quarter 2013

Long-term securities issuance totaled \$1.76 trillion in the second quarter of 2013, a 2.8 percent increase quarter-over-quarter (q-o-q) and a 4.0 percent increase year-over-year (y-o-y). Increases in U.S. Treasuries, federal agency debt, municipal debt, asset-backed securities, and equities were only partly offset by declines in mortgage-related and corporate bond issuance.

During the June FOMC meeting, the Fed indicated that the economy was increasing at a moderate pace, as supported by second quarter economic data. Labor market conditions have improved, however were not reflected in the unemployment rate, which remained elevated. Household spending and business fixed investment advanced, and the housing sector surged, yet fiscal policy has restricted further economic growth. Inflation has been running below the Fed's target rate, however longer-term expectations continue to be well anchored at the Fed's 2 percent target.

The Fed was encouraged by the direction and outlook of the economy but elected to continue the pace of its \$85 billion asset purchasing program. Tapering monetary policy could begin as early as the end of the year; however, the committee reiterated that any decision to adjust the pace of QE3 would be supported by economic data. The FOMC remains committed to highly accommodative monetary policy for the foreseeable future and continues holding the target Federal Funds Rate between 0-.25 percent.

Total gross issuance of Treasury bills and coupons, including cash management bills (CMBs), was \$1.95 trillion in 2Q'13, a 1.2 percent decrease from \$1.97 trillion issued in 1Q'13 but a 6.2 percent increase from 2Q'12's issuance of \$1.83 trillion. On net basis, in 2Q'13 the U.S. Treasury redeemed \$10.7 billion in securities, including CMBs, a much different outcome than the previous quarter's net issuance of \$349.9 billion and \$160.9 billion issued in 2Q'12.

Federal agency long-term debt (LTD) issuance was \$110.7 billion in the second quarter compared to \$102.7 billion in the 1Q'13, but fell 37.0 percent y-o-y.

Long-term municipal issuance volume, including taxable and tax-exempt issuance, totaled \$88.6 billion in the second quarter of 2013, an increase of 8.9 percent from the prior quarter (\$81.4 billion) but a decline of 21.8 percent y-o-y. Year to date, issuance has totaled \$170.0 billion, 12.4 percent below the 10-year average of \$194.1 billion of issuance in the first six months of the year.

Issuance of mortgage-related securities, including agency and non-agency passthroughs and

collateralized mortgage obligations (CMOs), totaled \$541.5 billion in the second quarter, a 7.0 percent decline from 1Q'13 (\$582.4 billion) but a 14.9 percent increase y-o-y (\$471.1 billion).

Asset-backed securities (ABS) issuance totaled \$48.0 billion in the second quarter, a decline of 2.8 percent q-o-q (\$49.4 billion) and 12.2 percent y-o-y (\$54.7 billion).

Corporate bond issuance totaled \$333.7 billion in 2Q'13, 9.0 percent down from the \$366.7 billion issued last quarter but 40.2 percent above the \$238.0 billion issued in 2Q'12.

Equity underwriting reached \$80.7 billion in the second quarter, 4.7 percent above the \$77.1 billion in 1Q'13 and 24.6 percent above the \$67.8 billion in 2Q'12. Secondary market issuance decreased to \$47.5 billion on 216 deals from \$53.5 billion on 227 deals in 1Q'13 (a decrease of 11.2 percent and 4.9 percent, respectively). "True" initial public offerings (IPOs), which exclude closed-end mutual funds, increased in 2Q'13 to \$13.9 billion on 61 deals, a 64.1 percent increase from \$8.5 billion and a 48.8 percent increase from 41 deals in the previous quarter.

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