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Muni Rally Pushes Yields to Lowest Since May 2013 on Supply.

Municipal bond yields fell to the lowest in 14 months as demand for state and local securities climbed ahead of a drop in issuance next week.

Interest rates on benchmark 10-year munis dropped to 2.22 percent yesterday, the lowest since May 2013. Yields have fallen about 0.22 percentage point since July 11, heading for the biggest two-week decline since January, data compiled by Bloomberg show.

States and local governments have scheduled about $3.6 billion of bond sales during the next 30 days, the least since February, Bloomberg data show. Municipalities are set to sell about $2.1 billion of long-term debt next week, down from $7.2 billion this week.

“Less supply and more demand are just driving yields down,” said Dan Toboja, senior vice president of muni trading at Ziegler Capital Markets in Chicago. “It doesn’t look like there’s a ton of supply coming down the pike either.”

The expected slowdown comes as demand in the $3.7 trillion muni market is picking up. Individual investors added about $686 million to muni mutual funds in the week ended July 23, the most since May 7, Lipper US Fund Flows data show. That compares with $158 million in inflows the prior week.

By Elizabeth Campbell Jul 25, 2014 8:08 AM PT

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