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U.S. Municipal Bond Trading Torpid in Second Quarter.

Aug 14 (Reuters) – Traders slammed on the brakes in the U.S. municipal bond market during the second quarter of 2014, with the amount of debt changing hands down more than 10 percent from a year earlier, Municipal Securities Rulemaking Board data released on Thursday showed.

Volume fell 11.8 percent to \$739 billion in the quarter from \$838 billion in the second quarter of 2013. The number of trades dropped 17.6 percent to 2.24 million from 2.72 million in the same period a year earlier, according to the MSRB, which collects all trading data through its Electronic Municipal Market Access platform.

The secondary market moved in step with the primary in the quarter that ended in June, with supply of new debt falling 15.7 percent, Thomson Reuters data shows.

So far in 2014, Puerto Rico has dominated both supply and demand, as its junk rating, economic troubles and fiscal worries help push up yields on its debt and attract hedge funds and other atypical municipal investors.

The \$3.5 billion of bonds it sold in March were the biggest issuance in the first half of 2014, and the bonds have whipped through the secondary market.

In the second quarter, they were the most active security when measured by the number of trades, at 1,531. By par amount, they were the fifth-most-traded, with volume of \$2.89 billion.

In the first quarter, the bonds led the secondary market, with \$7.65 billion changing hands in 2,363 trades.

Bonds sold by the island's sales tax financing corporation, often considered the safest among Puerto Rico credits, were the fourth-most active security in the second quarter when measured by par amount, with volume of \$3.5 billion.

East Baton Rouge Parish industrial development bonds, from Louisiana, were the most-active security by dollar amount, with \$4.54 billion worth traded.

With interests rates rising and prices falling, as well as uncertainty caused by Puerto Rico and bankrupt Detroit, the municipal bond market has been shrinking for nearly a year. The total amount of outstanding municipal debt is now the lowest since 2009.

It is also shifting to a buyer's market, the MSRB data showed.

The majority of trades, 959,920, were purchases, followed by inter-dealer trades – when a dealer moves a bond from one side of the ledger to the other – at 764,764. Meanwhile, sales numbered 512,224 and their share of trades, 22.9 percent, was lower than a year earlier, when they represented 23.5 percent of activity.

Nonetheless, the average daily volume of customer purchases, \$5.8 billion, was 11 percent lower

than the average in the second quarter of 2013.

Buying could continue into the third quarter. Many bonds' principal and interest payments are made during the summer, and in the past investors have put that money back to work in the municipal market.

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Thu Aug 14, 2014 10:47am EDT

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