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Munis' August Rally Drives Yields to 15-Month Low on Supply Drop.

Municipal bond yields are set to end the month at the lowest levels since May 2013 as investors face the slowest issuance calendar since December.

States and cities have scheduled about $2.9 billion of bond sales during the next 30 days, 56 percent below this year's average, according to data compiled by Bloomberg.

At 2.17 percent, benchmark 10-year muni yields are falling amid a broader fixed-income rally.

Tax-exempt debt is following Treasuries (USGG10YR) in a rally because of a "flight to safety" amid the conflict in Ukraine, said Dan Toboja, senior vice president of muni trading at Ziegler, a broker-dealer in Chicago. "We haven't seen the deals this year to match up with the demand that we have."

The $3.7 trillion municipal market has gained about 1.2 percent this month through Aug. 28, matching the advance in federal securities, Bank of America Merrill Lynch data show.

The ratio of yields on 10-year munis to the interest rate on Treasuries, a measure of relative value, is about 93 percent. That's up from 89 percent at the end of July. A rising figure shows that munis are trailing Treasuries.

Individual investors added about $446 million to muni mutual funds in the past week, the seventh straight week of inflows, Lipper US Fund Flows data show.

By Elizabeth Campbell Aug 29, 2014 8:35 AM PT

To contact the reporter on this story: Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Alan Goldstein at agoldstein5@bloomberg.net Mark Tannenbaum