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August Muni Volume Rises 7%.

Municipal bond volume increased in August from the same month in 2013, raising expectations that issuance may inch closer to normal in the fourth quarter.

Monthly Data

Long term bond sales for August totaled $24.4 billion, a 7% increase from August last year, according to Thomson Reuters. This is the second time in three months that volume has come in higher than the same month of 2013, after June issuance rose 16%.

Municipal bond supply has been scarce all year, totaling $177.2 billion as of July 31, 15.3% below 2013's level for the same period, according to data provided by The Bond Buyer and Ipreo. Some analysts said that August's strength is an indication the drought will finally end and issuance will pick up during the fourth quarter.

"The amount of issuance this year has been startlingly low," Jim Colby, chief municipal strategist at Van Eck Global, said in an interview. "Given where rates are I can't imagine we won't see issuance pickup in Q4, with issuers taking advantage of rates."

Colby pointed to declines in municipal yields as an indication of a the seller's market that will exist for the rest of the year. The benchmark 10-year triple-A general obligation bond has fallen by 71 basis points to 2.08% as of Aug. 28, from Jan. 2, according to Municipal Market Data.

From Aug. 1 alone the benchmark 10-year bond's yield dropped by 21 basis points.

John Dillon, managing director at Morgan Stanley Wealth Management, said in an interview that he doesn't predict a substantial turnaround in volume for the rest of the year. Volume looks good only in comparison to a weak period for issuance last year, he said.

Volume plunged in the middle of 2013 as the Federal Reserve signaled it would end its economic stimulus program and Detroit's bankruptcy fanned credit concerns.

"I think given the major downshift we saw in volume in May and June of last year, gives us better optics now," he said. "So the market looks like there's better volume now. Its not August volume being good, just last year's comparison's being easier to beat."

He said, though, that the lower interest rates create an opportunity for refundings to pick up during the fourth quarter. Refundings totaled $9 billion in August, more than double the volume in the same month in 2013.

"We will continue to see refundings pick up a little bit more, especially during the end of the year, when we will have more refundings on the table," he said.

Refunding volume in August was boosted by the $1.8 billion Detroit Water and Sewage Department deal Citigroup priced on Aug. 26.

Many of the Detroit Water and Sewer bonds came wrapped in bond insurance from Assured Guaranteed and National Financial, helping boost bond insurance volume by 174.4% to $2.5 billion. Last year insured bond volume totaled $896.6 million for August.

“It could just be because of Detroit, that would obviously be a factor, but it’s still positive momentum” for bond insurers, Dillon said.

New money issuance stayed low and was 15.3% below the August 2013 amount, totaling $10.1 billion.

Both negotiated and competitive issuance increased from the same period last year, by 18.3% to $18.2 billion and 2.8% to $5.8 billion, respectively.

Colby said issuance is likely to pick up after the midterm elections, as politicians, who had shied away from borrowings that could be portrayed during reelection campaigns as increasing the debt burden, return to the market.

He said during elections voters are often asked to approve additional funding for road repairs, schools, and other such projects.

“What does happen when you go into fourth quarter for the calendar year is that local and state officials start looking at what want to accomplish before end of calendar year and say ‘we have all this authorized but unused capacity, maybe should raise our issuance level because interest rates are favorable and demand is there’,” Colby said. “I’ve seen it occur in past years.”

THE BOND BUYER
BY HILLARY FLYNN
AUG 29, 2014 1:42pm ET