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March Surge Caps Highest Q1 Issuance Since 2010.

Municipal bond volume continued its surge, as the market was flooded in March with issuers hoping to take advantage of low interest costs while they still can. First quarter issuance was the highest since in 2010 – and third highest since 2006.

Monthly Data

"Refundings are the primary reason why issuance is so high," said Jim Grabovac, managing director and senior portfolio manager at McDonnell Investment Management LLC. "There is sharp contrast with the first quarter of this year and the first quarter of last year; the start we have had so far is much more robust than most analysts anticipated."

Long-term municipal bond issuance increased 43.7% to $40.99 billion in 1,187 issues from $28.52 billion in 741 issues a year earlier, the eighth monthly gain in a row. Overall for the first quarter, muni issuance is up 58.8% to $102.551 billion in 3,071 issues from $64.568 billion in 2,132 issues for the first quarter in 2014, Thomson Reuters data show.

"Overall, I would expect to see issuance higher in almost every category because of the interest rate environment in the beginning of 2015 versus that in the beginning of 2014," said Tom Kozlik, municipal credit analyst, Janney Capital Markets. "Issuers are doing an excellent job of taking advantage of the low interest rate environment and refunding outstanding bonds for debt service savings. This makes complete sense to us."

Refundings doubled in volume to $18.65 billion in 590 issues in March from $9.26 billion in 307 issues a year earlier.

"Mostly, it is refundings that will make the primary municipal bond market world go 'round," Kozlik said. "That is as long as interest rates remain low and state and local governments revenues do not keep up with expenditures."

Combined refunding and new money deals increased 33.1% to $12.01 billion from $9.02 billion, while new-money issues were up 0.9% to $10.33 billion. Taxable and tax-exempt deals increased almost the same amount percentage wise, with taxables increasing 45.1% to $3.39 billion and tax-exempts increasing 45.9% to $37 billion.

Negotiated deals advanced 44.8% to $33.14 billion, while competitive deals increased 71.9% to $7.61 billion.

Private placement bonds plunged 80.3% to $239 million from $1.21 billion during the same period the previous year.

Revenue bonds jumped 54.5% to $21.20 billion and general obligation bonds increased 33.8% to $19.79 billion.

Fixed rate deals increased 46% to $39.44 billion.

“This is a case where people wanted to lock in the low rates while they are at historic lows and not be exposed to the shorter end of the curve,” Grabovac said.

Bond insurance more than tripled from first quarter of 2014 to $2.70 billion to $865 million.

Sectors were mixed, as six posted increases in year over year volume and four had decreases. Issuance surged for education and healthcare, two sectors with negative outlooks from ratings agencies and high yields. Education more than tripled to $17.47 billion from $5.28 billion. Health care almost quadrupled to $2.72 billion from $720 million.

Municipal bond market participants and observers are trying to figure out if this rise in bond issuance means there is less of an appetite by municipal issuers for direct bank loans.

“There is some evidence that tells me issuers are increasingly interested in potential bond sales,” Kozlik said. “I have also found evidence that higher education, health-care and 501C3 issuers are still interested in using direct bank loans. There is a special level of interest in direct loans from those on the edge and over the edge of investment grade.”

Dawn Mangerson, managing director and senior portfolio manager at McDonnell Investment Management, said she is interested in the changing demographics in the healthcare and high education sectors.

“We are extremely picky with what we are buying: there is more yield than your plain vanilla GOs, but we are being careful, buying the better names in higher education, like a flagship university for example,” she said.

State governments decreased issuance by 41.2% to $4.47 billion, while cities and towns decreased sales by 10.2% to $6.48 billion.

“State and local government issuers are also keeping new money issuance relatively low, despite interest rates near historical lows, which I expected would be the case,” said Kozlik. “It is because the credit status of state and local government issuers is not as healthy as some believe and issuers are doing what they can do in order to not add more to the liability side.”

The top five state issuers this past month were California, Texas, New York, Pennsylvania and Florida.

California claimed the top spot with $15.36 billion, up from ranking third in the same period of last year with $7.88 billion. Texas dropped from first to second despite having $12.69 billion, an increase from $9.37 billion the year before. New York dropped from second to third with $7.65 billion in March this year, down from $8.12 billion in March of 2014. The Keystone state made the biggest jump – from ninth to fourth, issuing $5.50 billion from $1.50 billion the year before. Florida moved up one spot from sixth to fifth to $4.54 billion from $3.30 billion.

On the other end of the spectrum, the District of Columbia, Vermont, Montana, North Dakota and Wyoming round out the bottom five.

“It was nice to have the supply come into the market from an investor’s standpoint,” said Mangerson. “There is still relatively strong demand, although it did lessen with seasonal tax payments due,” she added. “The demand varied depending on the type of issues but it was spotty. Longer and higher yielding bonds got the attention of the muni market. We also saw strong demand on the long end of the curve.”

THE BOND BUYER

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