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MSRB: Muni Trading Up 14%, Puerto Rico Bonds Among Most Traded.

WASHINGTON — Trading activity in the municipal market for the second quarter of this year was 14% higher than the previous quarter as well as the second quarter last year, with several Puerto Rico bonds among the most traded, according to the Municipal Securities Rulemaking Board.

These were among the MSRB's findings in its muni market statistics report for the second quarter of 2015, which was released Wednesday.

The MSRB said there were 2.56 million trades from April through June of this year, up 14% from 2.24 million the year before. The last time trading was that high was in the fourth quarter of 2013, when there were about 2.58 million trades.

The total par amount traded in the muni market also rose in the second quarter to \$742 billion compared to \$739 billion in the second quarter last year. Fixed-rate securities made up 58% of the \$742 billion traded and general obligation bonds issued by the Commonwealth of Puerto Rico in 2014 topped the fixed rate list as the highest traded by par amount. These bonds were the third most traded by par amount overall.

Matt Fabian, managing director at Municipal Market Analytics, said those Puerto Rico bonds "were built to be well traded" by having characteristics like one large term and limited call abilities.

"I would have been surprised if they weren't at the top of the list," Fabian said. He added Puerto Rico bonds shifted from long-term to short-term investors as the bonds got riskier and that the consistent "heavy trading" in the bonds drew hedge funds interested in making money with the liquid holdings.

Michael Decker, managing director and co-head of municipal securities at the Securities Industry and Financial Markets Association, said the GO bonds may have been trading more actively because they are seen as less risky than bonds from Puerto Rico's public corporations.

In total, seven bonds from the troubled commonwealth and its authorities made the MSRB's lists of the Top 50 traded bonds based on par amount and number of trades. The bonds included three issues of COFINA revenue bonds reliant on sales tax collections for repayment, as well as general obligation bonds and taxable Government Development Bank bonds.

The MSRB quarterly data also showed that on the consumer level, buying increased to an average daily par amount of \$5.97 billion in the second quarter, compared to \$5.81 billion a year before, and total consumer purchases were up to an average of 17,009 per day compared to 15,327 the previous year.

The number of variable-rate demand obligation rate resets grew to 135,556 from the first quarter's 133,989, but 2015 data still shows a continuing decline in VRDO rate resets from previous years, the MSRB said.

The self-regulator also received fewer continuing disclosure documents in the second quarter than the year before, with 42,543 in 2015 compared to 43,667 in 2014's second quarter. Twenty-five percent of all the disclosures were bond call notices, the MSRB said.

THE BOND BUYER

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AUG 5, 2015 4:05pm ET

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