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MSRB: Muni Trading Plummets in Third Quarter.

WASHINGTON - Municipal market trading plummeted to \$551 billion in the third quarter, the lowest level since at least 2005 when the Municipal Securities Rulemaking Board began recording the statistics, according to the board.

The 18% drop in the total par amount traded from \$672 billion in the third quarter of 2014 is one of a series of findings from the MSRB's quarterly muni market statistics report released on Thursday. The report covers the period from July through September 2015.

The total par amount traded has steadily fallen from a peak of more than \$1.8 trillion in 2007, according to the data. The largest drop occurred between the first quarter of 2008, when the amount was \$1.8 trillion, and the first quarter of 2009, when the level fell to roughly \$900 billion.

Matt Fabian, managing director at Municipal Market Analytics, said the decrease is mostly due to low yields and tight spreads in the market.

"The spreads are so tight that participants haven't seen much upside in trading," Fabian said. "In the sort of low-yield, low-supply environment that we have had, bonds have been going away in the primary market and not trading very much after."

He added that with market participants expecting the Federal Reserve to raise interest rates in the near future, it does not make sense for investors to buy bonds now when they could wait six months.

The MSRB report also shows that customer purchases of munis increased slightly in the third quarter of 2015 when compared to the same period last year. The average of 15,189 customer purchases per day is 9% higher than the roughly 13,953 customer purchases per day in last year's third quarter. Fabian said the third quarter of 2014 was a low-point for customer purchases and that it made sense that the quarter "would be an easy target to beat."

Retail-sized trades, roughly considered those of \$100,000 or less, also increased slightly last quarter when compared to the same quarter the year before. The trades accounted for a daily average of \$405 million, or 9% of all customer purchases in the past quarter. During the third quarter of 2014, the trades averaged \$364 million, or 7% of all customer purchases, on a daily basis.

Puerto Rico bonds also remained some of the most actively traded bonds in the third quarter. Seven of the top 50 most actively traded bonds by par amount and six of the top 50 rated by number of trades were Puerto Rico bonds. A 2014 general obligation bond issue from the commonwealth ranked second among the par amount of trades and a 2012 GO issue ranked fourth among the number of trades.

The volume of interest rate resets also followed their multiyear trend by declining to 134,817 in the third quarter of 2015 compared to 155,182 in the third quarter of 2014. Fabian attributed the continued decline to the fact that some variable rate demand obligations were replaced by direct placements with banks.

THE BOND BUYER

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