SIFMA Survey Forecasts Issuance, Interest Rates, Trends for 2016.

Municipal participants who responded to a recent survey conducted by the Securities Industry & Financial Markets Association predict a total of $431.5 billion of new issuance arriving in the market in 2016.

The survey was conducted from Nov. 11 to Dec. 18. The forecasts represent the median values of all submissions of individual member firms that participated, including Citigroup, First Southwest Company, FTN Financial, JPMorgan, Loop Capital Markets LLC, Piper Jaffrey, Raymond James & Associates Inc., RBC Capital Markets, Wells Fargo Advisors, William Blair & Co.

The prediction on volume includes both short and long-term issuance — and is up slightly from the $428.8 billion of issuance that was estimated in 2015, according to the New York and Washington, D.C.-based U.S. securities industries group. Actual issuance for the year to date has totaled $377.29 billion of long term bonds and $32.30 billion of short term notes.

According to the survey, respondents predict $388.5 billion of long term issuance and $43 billion of short term next year.

Long-term tax-exempt issuance will reach $347.5 billion in 2016, according to respondents' predictions, while issuance of alternative minimum tax securities is forecasted at $10.5 billion in 2016.

Participants expect to see issuance of $30.5 billion of taxable municipal debt.

Refundings are predicted to comprise less of the total issuance, falling to 55%, according to the participants, from the 62.2% they had predicted for 2015.

Variable-rate demand obligation issuance will trend away from the record lows predicted for this year as $8.0 billion of VRDO paper is forecasted to come to market in 2016.

Floating rate note issuance debt to the tune of $12.5 billion is expected to surface in the coming year – after the 2015 volume of about $5.3 billion missed respondents' expectations on last year's survey for $12.5 billion in FRN debt in 2015.

In terms of use of proceeds, 62.5% of respondents believe that the largest issuing sector will be general purpose, followed by transportation, education and housing. The general purpose sector has been the largest issuing sector by gross amount in prior years, according to SIFMA.

Meanwhile, the curtailment of the tax-exemption on municipal bond interest once again ranked as a top concern among respondents going into the New Year. Participants said its elimination would have the greatest impact on the municipal market, while fiscal pressures resulting from underfunded pensions and the possibility of a default by one single, large and prominent issuer are also among their chief concerns.

For the purpose of the survey, a default was defined as the occurrence of a missed interest or principal payment or a bankruptcy filing, according to SIFMA.

Overall, respondents said they expect 30 issuers to default on a total par value of $69 billion in 2016 – with a bulk of the par amount in defaults consisting of defaults in Puerto Rico-related debt.

At least one respondent named Basel III capital and liquidity requirements among the factors with the highest importance in 2016, while two others cited “oil bust” and “authority to access Chapter 9” as their primary concerns in the New Year.

Interest rates were another hot topic for the participants, who predicted that the federal funds rate will rise to 0.50% by the end of March 2016, up from 0.38% at the end of December.

They expect it to gradually increase to 1% by the end of 2016, according to the survey.

The ratio of municipals to Treasuries, participants said, is expected to decline before again rising at the end the coming year.

Predictions call for the ratio of the yield on 10-year triple-A general obligation municipal securities to the 10-year Treasury benchmark to fall to 88.5% by the end of December 2015, after peaking to 103.21% at the end of September. However, respondents said that ratio will rise to 90.5% by December 2016.

Respondents expect the two-year Treasury note to increase to 1.65% by the end of 2016 from 1% at the end of December 2015. Additionally, they predict that the 10-year Treasury note yield will increase to 2.75% from 2.33% at the end of December 2015.

THE BOND BUYER

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