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Long-Term U.S. Muni Bond Yields Hit Another Low.

Long-term U.S. municipal bond prices rose again on Thursday, driving the 30-year yield down 1 basis point to a record low of 2.44 percent, with even some lower-quality deals selling at tighter spreads.

“There appears to be copious amounts of cash around” and “spreads are compressing as investors reach for yield,” said Greg Saulnier, a Municipal Market Data (MMD) analyst. Bond prices move inversely to yields.

Previous record lows, set in November 2012, were 2.47 percent for the 30-year and 1.47 percent for the 10-year. Top-rated long-term munis broke that record on Wednesday and again on Thursday, according to MMD, a Thomson Reuters company.

Though the 10-year yield for triple-A munis rose 1 basis point on Thursday, it still closed just 7 basis points off the record at 1.54 percent.

Investors have poured money into muni bond funds for 32 weeks straight, with $22.1 billion of inflows this year, according to data from Lipper, a Thomson Reuters unit.

The week ended May 11 was the biggest in inflows so far this year, with $1.2 billion.

“This streak is quite amazing given the low levels of municipal rates and ratios, but the risk-adjusted yields on munis are still reasonable given the alternatives,” said Chris Mauro, head of U.S. municipals strategy at RBC Capital Markets.

He will be watching whether bondholders put their money back into the market after their June 1 coupon payments.

“If recent weekly flows are any indicator, the reinvestment could be quite strong,” he said.

Flows into long-term funds have also been near record levels as investors extend duration in an effort to pick up yield, Mauro said.

The last week in April, long-term muni funds had $1.1 billion of inflows, their strongest showing since February 1997.

Investor demand for any yield at all in a global low-yield environment even squeezed spreads on lower credit deals.

On Thursday, the Central Texas Regional Mobility Authority received $2 billion of orders for its $368.7 million offering, making it more than five times oversubscribed, according to MMD.

But a spokesman for Central Texas told Reuters on Friday that the deal got $4.2 billion of orders, meaning it was more than 11 times oversubscribed.

The authority's senior lien revenue refunding bonds were rated Baa2 by Moody's Investors Service, a low investment grade rating.

The demand allowed Central Texas to bump prices on its entire deal. The yield of bonds maturing in 2046 with a 5 percent coupon fell 13 basis points to 3 percent.

Reuters

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