Puerto Rico GO Bond Price Dips, Rescue Bill Moves to Senate.

Puerto Rico's benchmark General Obligation bond fell in price on Friday in choppy trading after the U.S. House of Representatives passed legislation aimed at helping the U.S. territory fix its fiscal mess.

The GO bond, carrying an 8 percent coupon and maturing in 2035, last traded at 64.74 points in price, pushing the yield to 13.05 percent from 12.73 percent on Thursday, according to data provided by the Municipal Securities Rulemaking Board.

According to the MSRB's Electronic Municipal Market Access database, about $21 million worth of bonds traded versus $14 million the day before.

Late on Thursday the House passed the "Puerto Rico Oversight, Management and Economic Stability Act" (PROMESA), by a vote of 297-127, with the U.S. Senate expected to take up the bill quickly ahead of a $1.9 billion debt payment due July 1.

Puerto Rico has a $70 billion debt load it says it cannot pay and a staggering 45 percent poverty rate. It faces steady migration of its residents to the mainland and a potential humanitarian crisis because it cannot sustain social services.

PROMESA, if passed by the Senate and signed into law, would establish a powerful seven-member federal Oversight Board to navigate through the restructurings. Among other things, the board would have the authority to enforce balanced budgets.

"It is definitely a step forward, a very good step forward. We think it was necessary. It doesn't answer all your questions but at least it sets up a framework and does provide fiscal management and oversight which we think was necessary because the credibility of the government is pretty much shot," said Joe Rosenblum, director of municipal credit research at AllianceBernstein in New York.

"We don't think at these prices we are ready to dip our toes back in and we haven't seen a lot of trading activity out there, so I think we are in company," Rosenblum said.

PROMESA does not set out specific rules for restructuring, leaving such decisions to the control board to work through with creditors. This is a critical point for municipal bond market investors where long-standing rules set out a hierarchy among creditors, typically with GO bondholders considered senior to all others.

"Regardless of how things get restructured today, the fact that the economy continues to shrink and the population continues to shrink is a problem for the credit going forward," said Craig Brandon, co-director of municipal investments at Eaton Vance in Boston.

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