

# **Bond Case Briefs**

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## **U.S. Muni Bond Sales Fall Next Week After Issuance Spike.**

New sales of U.S. municipal bonds are expected to slow next week to \$5.7 billion from the year high of \$12 billion in the week just ended, according to preliminary Thomson Reuters data.

That surge in municipal bond issuance was met by strong demand from investors, many drawn to the market in an attempt to escape low or negative interest rate policies globally.

The demand pushed yields down on AAA-rated 30-year U.S. municipal bonds to record lows three consecutive days in row.

"Sometimes supply feeds demand in a way that we see good performance, and we continue to see yields drop," said Jim Colby, chief municipal strategist at VanEck.

Despite the expected drop in issuance, municipal analysts predict record-low yields may continue into next week.

"There is sound reasoning that rates could move lower," said Colby. "The marketplace is saying, maybe rates are going to rise. The Fed is seeing evidence of strength in the marketplace, so short-term rates will rise. Let's employ a strategy that will let us earn positive returns."

Investors have poured money into municipal bond funds for 36 straight weeks, the longest stretch of consecutive inflows since 2010, according to data from Lipper, a Thomson Reuters company. Positive flows began in January 2009 and continued every week through March 2010.

Next week's \$5.7 billion in new sales will be lower than the 2016 year-to-date weekly average of \$7.5 billion, according to Thomson Reuters' Municipal Market Data (MMD). That is in part because many issuers rushed to sell bonds this week, before a possible rate hike, said Greg Saulnier, MMD municipal analyst.

Among the largest deals to hit the market next week is \$550 million of Illinois general obligation bonds offered in competitive bidding on Thursday. Ahead of the sale, both Moody's Investors Service and Standard & Poor's downgraded the state's credit ratings, which are inching closer to "junk" level.

A political impasse between the state's Republican governor and Democrats who control the legislature has left Illinois without budgets for the current and next fiscal year and no plan for addressing its \$111 billion unfunded pension liability and big structural budget deficit.

REUTERS

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