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Muni Volume Hit by 'Whip-Sawing' Yields.

After two months of increased year-over-year volume, long-term municipal bond issuance plunged 27% in July.

Total monthly volume shrank to $26.07 billion in 880 transactions from $35.62 billion in 1,091 transactions in July of last year, according to data from Thomson Reuters. It was the lowest total for the month of July since 2011, when it was $24.91 billion.

Refundings, which have been strong for the majority of the year due to persistent low interest rates, declined 27.7% to $9.39 billion in 324 deals from $12.99 billion in 395 deals.

“Issuance was down almost across the board, and I think it would be incorrect to extrapolate a trend using just one month’s data,” said Vikram Rai, CFA and head of municipal strategy at Citi. “It is true that typically issuance in July can be down anywhere from 5% to 15% versus the monthly average for the year, though this is not always true.

“This time around I think issuers, like most of us, were distracted by the extreme market volatility following the Brexit event and were leery of coming to market when yields were whip-sawing,” Rai said, referring to the financial market’s reaction to Great Britain’s June 23 vote to leave the European Union.

New-money deals fell 17.4% in July to $12.38 billion in 504 deals from $14.98 billion in 586 deals during the same period last year.

“There was the timing of the fourth of July that had some impact but the main issue is that issuers continue to be not aggressive with the market despite low yields, as they did not want to take on additional debt,” said Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management. “The reality is that we are still reminiscent of the finical crisis, and for tax payers and municipalities, it still continues to be difficult environment. There is also lack of infrastructure spending, and it continues to be difficult in general for new issues to gain a lot of traction.”

Heckman also cited summer doldrums and a slowdown ahead of a presidential election as reasons for the reduced muni volume.

“I think going forward we will see more and more refundings and I am hopefully that by the end of 2016, beginning of 2017, you will see issuers getting more aggressive in terms of taking on new debt,” he said. “We thought this month would be light, but it took us by surprise just how light it was.”

Combined new-money and refunding issuance dropped by 43.8% in to $4.29 billion from $7.64 billion.

Issuance of revenue bonds decreased 23.1% to $16.87 billion, while general obligation bond sales dropped 32.7% to $9.20 billion.

Negotiated deals were lower by 30.1% to $19.04 billion, while competitive sales increased by 6.2% to $6.81 billion.

Taxable bond volume was 52.3% lower at $1.51 billion, while tax-exempt issuance declined by 23.8% to $24.02 billion.

Minimum tax bonds issuance slipped to $544 million from $948 million.

Private placements sank to $227 million from $1.96 billion.

Zero coupon bonds increased to $118 million from $26 million.

“The spike in zero coupon issuance is surprising and it seems like issuers are tapping into the demand for longer duration bonds,” said Rai.

Bond insurance declined 22.4% for the month, as the volume of deals wrapped with insurance dipped to $1.33 billion in 100 deals from $1.71 billion in 118 deals.

Variable-rate short put bonds dropped 54.7% to $455 million from $1.00 billion. Variable-rate long or no put bonds rose to $417 million from $298 million.

Bank qualified bonds decreased 5.6% to $1.63 billion from $1.72 billion.

Among sectors, only health care and public facilities posted year-over-year gains, despite fewer deals this month. Public facilities gained 32.7% to $933 million in 38 transactions from $700 million in 39 transactions and health care improved 54.8% to $3.69 billion in 33 deals from $2.38 billion in 52 deals.

All of the other sectors had a decrease of at least 18.6%, except for housing which slipped 2.5%.

As for the different types of entities that issue bonds, only three saw positive year over year changes. State governments improved 63.6% to $1.48 billion from $908 million, counties and parishes gained 93.6% to $2.54 billion from $1.31 and direct issuers inched up to $130 million from $105 million.

All other entities saw a decline by at least 10%, with the largest decline coming from cities and towns, which dropped 57.6% to $3.88 billion from $9.15 billion.

California is the top issuer among states for the year to date, followed by Texas, New York, Florida and Pennsylvania.

The Golden State so far this year has issued $34.61 billion, with the Lone Star State right at its heels with $32.41 billion. The Empire State follows with $26.44 billion. The Sunshine State is in third with $11.29 billion and the Keystone State rounds out the top five with $10.35 billion.

“We do not expect issuance to pick-up materially; this is true for new money issuance and refunding issuance. But, we do expect at least refundings to remain robust for the remainder of the year,” Rai said. “Our estimate for gross issuance for 2016 remains unchanged at $413 billion, split almost evenly between new money and refundings. Net issuance is likely to be $45 billion.”

The Bond Buyer

By Aaron Weitzman

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