# Bond Case Briefs

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## Muni Volume Sets September Record.

Municipal bond issuance for September swelled 45% to $35.7 billion, the highest volume for the month in records going back to 1986, driven by an unexpected surge in new money deals.

The total par amount of the month's 980 sales surpassed the previous September volume record set in 2010, when $35.6 billion of bonds were sold. Through three quarters, the market has produced $334 billion of issuance in 10,046 deals, according to data from Thomson Reuters, on pace to surpass the $400 billion mark. At this time last year volume totaled $319.4 billion in 10,359 deals.

The largest recorded issuance year was 2010, when the volume hit $433.27 billion.

"It certainly seems likely given that October should also be heavy, with more than $14 billion next week. We had [estimated] $400 billion with a possible upside surprise and it seems the surprise might actually be happening," Mikhail Foux, director of research at Barclays Capital, said Friday.

Foux said new money deals have been the biggest surprise.

"Who would have thought that after such a slow first quarter, we are likely going to surpass last year's number, which one of the largest ever years in terms of issuance," he said. "A pickup in new money is the biggest story of 2016 and likely going forward. It seems that we are finally starting to address our infrastructure needs. There was a lot more issuance from the transportation sector and there is more than $200 billion of bond deals on ballots."

For the third quarter alone, there were $109.7 billion of deals in 3,131 transactions, up from the $92.6 billion in 2,951 transactions during the third quarter of 2015.

"The sheer amount of issuance has been pretty impressive. I think the hope is that the amount of supply puts some pressure on the yields and creates a backup, which would be welcomed," said Dawn Mangerson, managing director and senior portfolio manager at McDonnell Investment Management. "We said issuance wouldn't wane, and we were right. We are looking good right now; we should see a decent calendar throughout the rest of the year."

Though volume was up the past two months and third-quarter issuance increased year-over-year, volume for the three months was down from the second quarter.

"The volume hasn't reached a point where it was too much for the market to absorb," Mangerson said. "It has been surprising how much consistent high demand for munis we have seen all year long and also that we didn't see any volatility this month."

Mangerson said volume could slip toward the end of the year, when and if the Federal Open Market Committee decides to raise rates.

"The second quarter is typically the heaviest; we had a substantial slowdown in July – partially due to Brexit- but supply picked up in August and September," Foux said, referring to the British vote to leave the European Union.

For the month, new money deals catapulted nearly 68% to $16.99 billion in 470 issues, from $22.21 billion in 799 issues during the same period last year.

Refundings, which have been strong for most of the year due to persistent low interest rates, were up 19% to $12.19 billion in 423 transactions from $10.23 billion in 353 transactions during September of last year.

Combined new-money and refunding issuance rose by 54.6% to $6.51 billion from $4.21 billion.

Negotiated deals were higher by 57.7 % to $27 billion, while competitive sales increased by 58.6% to $7.61 billion from $4.79 billion.

Issuance of revenue bonds increased 82.2% to $26.65 billion, while general obligation bond sales were down 9.1% to $9.05 billion.

Taxable bond volume increased 32.8% to $2.13 billion, while tax-exempt issuance increased by 45.2% to $32.25 billion.

Minimum tax bonds issuance gained to $1.32 million from $760 million.

Private placements sank to $1.09 billion from $2.66 billion.

Zero coupon bonds more than doubled to $360 million from $132 million.

Bond insurance increased 26% for the month, as the volume of deals wrapped with insurance rose to $1.84 billion in 140 deals from $1.46 billion in 117 deals.

Variable-rate short put bonds gained 7.7% to $1.06 billion from $986 million. Variable-rate long or no put bonds jumped to $734 million from $31 million.

"This is probably due to all the SIFMA related concerns, much higher SIFMA and libor rates are making issuing floating rate notes more costly," said Foux.

Bank qualified bonds improved 6.4% to $1.59 billion from $1.49 billion.

Seven out of the 10 sectors saw year-over-year gains. Health care more than doubled to $5.69 billion from $1.67 billion, utilities also more than doubled to $3.32 billion from $1.36 billion, general purpose increased 34.6% to $8.44 billion from $6.27 billion, housing rose to $2.16 billion from $943 million, health care increased to $5.69 billion to $1.66 billion, environmental facilities climbed to $379 million from $76 million and electric power went up to $1.83 billion from $516 million.

On the other end of the spectrum, the education sector was barely down to $7.17 billion from $7.20 billion, development dropped 15.9% to $729 million and public facilities were down to $932 million from $1.04 billion.

As for the different types of entities that issue bonds, five were in the green: state governments, state agencies, counties and parishes, cities and towns and districts.

One other thing that Foux noted was that in general, issuers tried to bring deals before FOMC announcements, not just this month but in general.

"It seems that we see more pension obligation bonds, as issuers are trying to plug the pension funding gap."

California is still the top state for issuance for the year to date, followed by Texas, New York, Pennsylvania and Florida. These numbers encompass all of the individual issuers within the state.

Golden State issuers this year have sold $47.53 billion, with the Lone Star State in second with $41.55 billion. The Empire State follows with $35.36 billion. The Keystone State is in fourth with $15.24 billion and The Sunshine State rounds out the top five with $15.08 billion.

“October could be solid as issuers could try to bring deals before the elections,” Foux said. “November and December should be lighter, though we have some uncertainty related to the December FOMC and issuers might try to pull deals from January to get in front of it.”

**The Bond Buyer**

By Aaron Weitzman

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