Bond Case Briefs

Municipal Finance Law Since 1971

U.S. Municipal Market Begins to Wind Down With Light Issuance Week.

Debt sales in the U.S. municipal market will cool off next week as issuers bring fewer offers in advance of the Christmas and New Year's holidays, with new issuance totaling about $500 million next week.

The biggest competitive offer will come from Massachusetts, which is offering two general obligation refunding deals totaling $188 million.

Market participants overall remain neutral on whether the lack of supply and participation will keep municipal trading subdued and in a tight range, according to a survey by MMD, a Thomson Reuters company.

Loop Capital Markets on Tuesday said municipal debt volume will come in at $395 billion next year, down an estimated 13 percent from forecasts for 2016 as the incoming Trump administration's impact on economic growth will fall short of expectations.

The Federal Reserve's announcement on Wednesday that it would raise interest rates a quarter percentage point with three additional increases next year made yields jump on Thursday.

But bulls in the muni market believe the meager supply next week combined with more appealing rates and Jan. 1 reinvestment money will push yields lower into the new year, according to the MMD survey.

Muni yields have risen dramatically since the Nov. 8 presidential election. In the first month after the election, muni yields rose more than 80 basis points, John Mousseau, executive vice president at Cumberland Advisors, said in a note on Friday.

"The move up in taxable as well as tax-free yields has been swift and sharp," Mousseau said. "Essentially, what could be characterized as a year's worth of movement in bond yields was compressed into a month."

As of market close on Friday, the yield on top-rated 10-year paper was 77 basis points higher than it was the day of the election. The 30-year yield has also risen 67 basis points since then, MMD data showed.

Fear of a Trump administration led the market to immediately discount a higher growth rate, increased government borrowing, and expanded infrastructure spending, as well as accompanying wage growth and higher inflation, Mousseau said.

An expected cut in the marginal tax rate and a potential increase in the supply of municipal bonds as a result of increased infrastructure spending also worked against munis, he said.

REUTERS

By Rory Carroll | SAN FRANCISCO

Fri Dec 16, 2016 | 5:18pm EST

(Reporting by Rory Carroll; Editing by James Dalgleish)