Bond Case Briefs

Municipal Finance Law Since 1971

Muni Volume Jumped in January.

Municipal bond volume in January jumped ahead of last year's pace, as a spike in new money deals made up for a drop in refinancing transactions.

Monthly Volume

Total volume for the month rose 22.8% to $31.59 billion in 661 transactions from $25.73 billion in 831 transactions in January 2016, according to data from Thomson Reuters. The gain, which followed a record year for issuance in 2016, was due in part to some large transactions, said Natalie Cohen, managing director of municipal securities research at Wells Fargo Securities.

"New issue volume is starting off 2017 strong, with numerous large deals in the market," she said. "We note that the number of transactions is down in January 2017 compared with January 2016, a reflection of these larger deal sizes. This is despite the significant drop in refunding activity following the second Federal Reserve rate hike in December 2016."

Among the month's biggest new money transactions were: Washington State's sale of $473.42 million of various purpose general obligation bonds; the Metropolitan Government of Nashville and Davidson County's $457.25 million of GO improvement bonds; and Los Angeles County Metropolitan Transportation Authority's sale of $455.71 million of Proposition C Sales Tax Revenue Bonds Senior Bonds. Some other of the larger monthly transactions were combined refunding and new money deals, like Chicago's $1.16 billion deal for example.

Refundings, which market participants expected slow primarily due to rising interest rates, slid to $7.44 billion in 223 deals from $10.10 billion in 362 deals in January 2016.

"I was not surprised to see year-over-year volume in January increase, but I do not place much stock in first-month volume," said Alan Schankel, managing director at Janney Capital Markets. "We expect refunding volume to drop by about 10% in 2017, so the large falloff in January is ahead of our expectations," he said. "The sharp rise in rates in the month following the election led to several refinancing deals being placed on day-to-day status. If rates were to fall in coming weeks, opening a refinancing window, I would expect strong refunding volume in February."

New money issuance easily picked up the slack from the lack of refundings, increasing 37% to $14.43 billion in 371 deals to account for almost 50% of the months' issuance. This is up from $10.53 billion of new money volume in 407 deals in January 2016.

Combined new-money and refunding issuance almost doubled to $9.72 billion from $5.09 billion. Issuance of revenue bonds gained 25.7% to $17.71 billion, while general obligation bond sales rose 19.3% to $13.88 billion.

Negotiated deals were up 38.9% to $24.73 billion and competitive sales increased by 2.9% to $6.83 billion.

Taxable bond volume more than doubled to $3.29 billion from $1.42 billion, while tax-exempt issuance increased by 13.5% to $27.49 billion. Minimum tax bonds increased to $816 million from $84 million.

"Taxables have been popular in the higher education and healthcare sectors for a while, but healthcare volume is likely to remain light given the volatility of changes to the Affordable Care Act," said Cohen. "Higher education institutions sold a number of large deals in January, a reflection of relatively tight spreads between taxable and tax exempt, greater flexibility with the use of proceeds in the taxable markets. Also, long-dated high quality higher education issues have appeal to a broad buyer base."

The volume of deals wrapped with bond insurance fell 16% to $1.29 billion in 104 deals from $1.53 billion in 120 deals. The industry expects to see improvement as interest rates continue to climb.

Six of the 10 sectors saw year-over-year increases, as transportation jumped up 161% to $4.83 billion from $1.85, development improved 80.1% to $1.33 billion, public facilities grew 45.9% to $608 million, general purpose increased 43.8% to $6.62 billion, education gained 24.5% to $12.65 billion and housing saw a 7.5% increase to $951 million.

The other four sectors declined at least 5.1% with the biggest drops posted by health care, which was at $1.88 billion compared with $3.66 billion, and utilities which slid to $1.71 billion from $2.29 billion.

As for the different types of entities that issue bonds, five of the seven were in the green. Colleges and Universities improved the most, with volume rising to $3.72 billion from $1.55 billion. Local authorities produced a 127.9% increase, to $5.61 billion.

On the other end of the spectrum, volume for the other six types of entities slid at least 13.8%, led by countries and parishes, with a declined 33.3% to $1.02 billion from $1.53 billion.

Just as it did after the first month of the year in 2016, Texas has the most issuance among states so far in 2017.

The Lone Star State has issued $6.07 billion, getting a decent sized lead ahead of the state which finished 2016 with the most issuance, California.

The Golden State is second with $3.58 billion, while New York State is third with $2.67 billion. Illinois captured the fourth spot with $2.16 billion and Pennsylvania is very close behind with $2.11 billion.

"I expect volume in 2017 to about equal last year's pace," Schankel said. "February volume should be strong, perhaps exceeding last year's $31 billion total. The fly in the ointment is the uncertainty surrounding the administration's plans for infrastructure investment and tax reform. Until more clarity is achieved, many issuers will be cautious about new issuance."

Cohen agreed, saying that going into February, she thinks that volume will continue to be healthy when compared with 2016, given the slow start in 2016. Volume may slow down later in the year, she said. "given the expectation that refunding activity will make up a smaller proportion of total volume in 2017."

The Bond Buyer

By Aaron Weitzman

January 31, 2017