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## **Tobacco Bond Prices Weaker after U.S. Proposes Cigarette Nicotine Cut.**

NEW YORK, July 28 (Reuters) – Tobacco settlement bond prices, part of the high-yield U.S. municipal bond sector, fell on Friday along with a drop in share prices for U.S. and UK tobacco companies after Washington D.C. proposed cutting nicotine levels in cigarettes.

The proposal announced by the head of the U.S. Food and Drug Administration (FDA) is a major regulatory shift to move smokers toward potentially less harmful e-cigarettes.

In response the S&P Municipal Bond Tobacco Total Return Index, a broad measure of tobacco settlement bond sector performance which also includes some investment-grade paper, fell 0.71 percent on Friday.

Municipalities have sold bonds backed by money from U.S. tobacco companies under a 1998 master settlement agreement to compensate 46 states, Washington and Puerto Rico for the cost of caring for sick smokers.

While the average yield of the bonds in the index only rose about 2 basis points to 5.00 percent, “directionally this could be the start of the sector letting some air out of the balloon,” said James “J.R.” Rieger, Head of Fixed Income Indices at S&P Dow Jones Indices.

Year-to-date, the index has returned 15.24 percent, he said. Tobacco bonds also make up nearly 16 percent of S&P’s broader high yield muni bond index, which lost 1 basis point on Friday because of the cheapened tobacco sector.

Sales of conventional cigarettes in the United States has seen a steady decline in recent years, while the increasing popularity of e-cigarettes has intensified the financial pressure on these bonds which analysts have said for years are susceptible to default.

“Following the FDA’s announcement to cut nicotine in cigarettes to non-addictive levels, tobacco bonds were traded/quoted at cheaper levels this afternoon,” analysts at IHS Markit told Reuters on Friday.

“Based on discussions with market participants combined with observed trade and quote data, tobacco bond levels were cut between 10-15 basis points versus their evaluated levels yesterday. We saw bids primarily in the Ohio Buckeye space being quoted cheaper by 10 to 15 bps,” they said.

Among the more actively traded municipal tobacco settlement bonds, with deal sizes above \$1 million which typically indicate institutional investors where commissions are smaller, prices on the 5.125 percent 2024 Buckeye Ohio bonds fell in the wake of the FDA news.

According to Municipal Securities Rulemaking Board data, a \$2 million trade in the 2024 Buckeye bonds crossed at a price of 95, showing a yield of 6.027 percent. That is down from a similarly sized trade on July 21st that priced at 96.75, with a yield of 5.703 percent.

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