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Muni Market Set for Slow January After Tax-Fueled Rush to Market.

- **Citigroup says muni-bond sales unlikely to exceed $15 billion**
- **Muni market tends to outperform during January slowdown**

Municipal bond issuance could be poised for a multi-year low this month, setting up state and local debt to deliver hefty returns.

The drop in sales is expected to come after issuers rushed to sell a monthly record of bonds in December to avoid changes to the municipal market as part of federal tax reform. Municipal bond analysts say they expect very light issuance during what is typically a slow month for sales.

“I think you could see a record-low issuance,” said James Dearborn, who oversees $29.5 billion as head of municipal bonds at Columbia Threadneedle Investments in Boston. “The forward calendar indicates it’s going to be a very quiet month, if not quarter.”

The 10-year low for January bond sales came after a similar rush to market when the Build America Bonds program was set to expire in 2010. Issuance totaled just $13.6 billion in January 2011, well below the $24.8 billion average for the month seen over the last decade, according to data compiled by Bloomberg.

Bond sales last month broke the previous monthly issuance record set in December 1985, which was driven by Congress’ overhaul of the tax code. The next month, municipal bond issuance was a paltry $1.69 billion, according to Bond Buyer data. Bond sales are unlikely to fall below that figure, though, as $722 million in bonds have already been sold this month as of Jan. 5 and $3.6 billion in sales are scheduled for the week of Jan. 8 alone, according to data compiled by Bloomberg.

RBC Capital Markets is forecasting muni-bond sales of $10 billion in January, while Citigroup analysts say they would be “extremely surprised” if issuance exceeds $15 billion. Other analysts say they are hesitant to give a forecast for January given the mad dash to sell late last year.

“There are definitely deals that are going to be coming over the next couple of weeks, but it’s difficult to figure out which issues are left to get done in January because of the deals that got accelerated,” Tom Kozlik, managing director and municipal strategist at PNC.

The municipal bond market typically outperforms in January due to a drop-off in supply combined with investors looking to reinvest cash received from matured bonds and coupon payments.

While it’s “nearly impossible” to predict supply this month, the drop-off in sales will cause this trend to continue, said Peter Block, managing director at Ramirez & Co. Net supply stood at negative $9.5 billion on Jan. 5, with $9 billion in bonds set to mature and $8.7 billion in bonds being called, according to data compiled by Bloomberg.

“Demand is going to be extremely high and you’re going to see municipals outperform Treasuries because of the principal and interest that’s been received,” he said. “That’s how the dynamic is going to be received.”

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