Bond Case Briefs

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Headwinds Seen on Horizon for Municipal Bonds.

Municipal bonds turned in a mostly solid performance on Monday as traders prepared for the start of the week's supply.

In a midyear report, Charles Schwab & Co. said that while munis outperformed both Treasuries and corporate bonds in the first half of 2018, it's a trend that may be reversed in the second half.

"We see some headwinds on the horizon for the muni market," Cooper Howard, Schwab's senior research analyst, wrote. "However, we think focusing on higher-rated munis, and keeping average duration within five and eight years, can help investors mitigate the effect of those headwinds on their portfolios."

The firm said munis are less likely to outperform Treasuries in the second half of the year due to technical factors related to tax reform.

"When the 2017 tax reform was being debated, Congress proposed eliminating issuance of certain types of tax-exempt munis," Schwab said. "Due to the potential restrictions, bankers rushed to get deals done that would have otherwise likely been done in the first half of this year. As a result, issuance of munis spiked in the latter part of 2017 and largely dried up at the beginning of 2018. The limited supply of new munis this year helped the municipal bond market outperform both the corporate and Treasury markets. However, due to the rise in yields for long-term Treasuries, investment-grade muni returns are still negative year to date.

"Total returns for munis are down 0.3% this year, largely due to rising long-term Treasury rates," Schwab said in a municipal bond market update released on Monday. "Rising rates likely won't pose a headwind to muni returns going forward because longer-term Treasury rates are closer to their peak in our view."

Schwab argued that low valuations could limit future relative performance. Historically, munis are less likely to outperform Treasuries when relative valuations are low. The 10-year municipals-ove--bonds spread has improved since early May, but is still below its longer-term average, the firm said.

Secondary market

Municipal bonds were stronger on Monday, according to a late read of the MBIS benchmark scale. Benchmark muni yields fell as much as one basis point in the one- to eight-year and 13- to 30-year maturities, rose less than a basis point in the 10- and 11-year maturities and were unchanged in the nine- and 12-year maturities.

High-grade munis were mostly stronger as well, with yields calculated on MBIS' AAA scale falling as much as one basis point in the one- to seven-year and 13- to 30-year maturities, rising less than a basis point in the nine- to 12-year maturities and remaining unchanged in the eight-year maturity.

Municipals were unchanged on Municipal Market Data's AAA benchmark scale, which showed both the 10-year muni general obligation yield and the 30-year muni maturity yield steady.

Treasury bonds were stronger as stocks traded higher.

On Monday, the 10-year muni-to-Treasury ratio was calculated at 85.1% while the 30-year muni-t--Treasury ratio stood at 97.9%, according to MMD. The muni-to-Treasury ratio compares the yield of tax-exempt municipal bonds with the yield of taxable U.S. Treasury with comparable maturities. If the muni/Treasury ratio is above 100%, munis are yielding more than Treasury; if it is below 100%, munis are yielding less.

"The secondary market is not retail friendly," a New Jersey trader said on Monday. "Because of the lack of supply, to part with bonds the buyside accounts are putting out high offerings and people tend to hold onto what they own because it's so hard to replace."

Due to the July redemptions, demand continues to be significantly higher than the volume of bonds coming into the market, he observed. "The Street activity is very quiet and it continues to be all about the new issues," he said. "It's a great time to bring a deal right now."

He predicted that the upcoming weeks and months will be similarly scarce, unless volume dramatically increases.

"I don't see any end in sight to this. It would take an awful lot of negative news to have any effect on the municipal market right now," he said, pointing to the possibility of a substantial calendar or some kind of forced selling. "I've been doing this for 30 years and right now I don't see anything out there right now indicates any forced selling."

Previous session's activity

The Municipal Securities Rulemaking Board reported 27,112 trades on Friday on volume of $4.997 billion.

California, New York and Texas were the states with the most trades, with the Golden State taking 14.031% of the market, the Empire State taking 13.038% and the Lone Star State taking 11.446%.

Prior week's actively traded issues

Revenue bonds comprised 54.42% of new issuance in the week ended July 6, down from 54.68% in the previous week, according to Markit. General obligation bonds made up 39.98% of total issuance, down from 40.01%, while taxable bonds accounted for 5.60%, up from 5.31% a week earlier.

Some of the most actively traded munis by type were from Puerto Rico and West Virginia issuers.

In the GO bond sector, the Puerto Rico Commonwealth 8s of 2035 traded 17 times. In the revenue bond sector, the West Virginia Hospital Finance Authority 4s of 2051 traded 115 times. And in the taxable bond sector, the Puerto Rico Sales Tax Financing Corp. 6.05s of 2036 traded 21 times.

Primary market

Weekly supply is estimated at $6.6 billion, consisting of $5.5 billion of negotiated deals and $1.2 billion of competitive sales.

In the competitive arena, the Massachusetts School Building Authority is selling $200 million of Series 2018B subordinated dedicated sales tax revenue bonds on Tuesday. The financial advisor is Acacia Financial Group; the bound counsel is Mintz Levin.

In the short-term competitive sector, Colorado is selling over $900 million of notes in two separate offerings. The state will also sell $310 million of Series 2018A education loan program TRANS on Tuesday; the financial advisor is Kutak Rock and the bond counsel is RBC Capital Markets. The state will sell $600 million of Series 2018 general fund tax and revenue anticipation notes on Thursday; the financial advisor is North Slope Capital Advisors and bond counsel is Greenberg Traurig.

On Wednesday, the Dormitory Authority of New York is selling $1.81 billion of state sales tax bonds in five deals.

The offerings consist of $497.04 million of Series 2018C Bidding Group 4 bonds; $450.44 million of Series 2018C Bidding Group 3 bonds; $408.63 million of Series 2018C Bidding Group 2 bonds; $377.02 million of Series 2018C Bidding Group 1 bonds; and $73.195 million of Series 2018D taxable bonds. The financial advisor is Public Resources.

Also on Wednesday, the Metropolitan Atlanta Rapid Transit Authority is selling $168.25 million of Series 2018A sales tax revenue bonds. Financial advisors are Hilltop Securities, First Tryon Advisors and TKG & Associates; the bond counsel is Holland & Knight.

In the negotiated sector, Citigroup (C) is set to price Atlanta's $279 million of Series 2018B water and wastewater revenue and refunding bonds on Tuesday.

Citi is also set to price the Mesquite Independent School District, Texas' $125 million of Series 2018 unlimited tax school building bonds, backed by the Permanent School Fund guarantee program.

On Wednesday, Morgan Stanley (MS) is set to price the Maine Health and Higher Educational Facilities Authority's $183.87 million of revenue bonds. The issue consists of Series 2018A tax-exempts and Series 2018B taxables.

N.Y. set for sales

New York City and state issuers will bring a full calendar of offerings in July, it was announced on Monday.

The New York City Comptroller's Office said the NYC Transitional Finance Authority will sell about $1.03 billion of tax-exempt and taxable Building Aid Revenue Bonds. Proceeds from the bond sale will be used to fund education capital projects and refund outstanding bonds. The pricing of around $919 million of tax-exempt fixed rate bonds will take place on Tuesday, July 17, via negotiated sale through TFA's underwriting syndicate for building aid revenue bonds, led by book-running senior manager Ramirez & Co. with Bank of America Merrill Lynch and Jefferies serving as co-senior managers. There will be a retail order period on Friday, July 13 and Monday, July 16. Concurrent with the sale of tax-exempt bonds, the TFA intends to sell $111 million of taxable fixed rate bonds on Tuesday, July 17 via competitive bid.

The NYC Municipal Water Finance Authority also expects to offer $355 million of fixed rate tax-exempt bonds through the Environmental Facilities Corp. via negotiated sale the week of July 16.

And in the week of July 23, the NYC Transitional Finance Authority plans to offer $1.1 billion of fixed rate tax-exempt and taxable future tax secured bonds via negotiated and competitive sales.

The New York State Comptroller's Office released the schedule for planned bond sales for the state, city and their major public authorities in the third quarter.

The sales of $9.05 billion include $5.45 billion of new money and $3.6 billion of refundings as follows: $5.76 billion scheduled for July, of which $3.45 billion is new money and $2.31 billion are refundings; $1.99 billion scheduled for August, of which $700 million is new money and $1.29 billion are refundings; and $1.30 billion scheduled for September, all of which is new money.

The anticipated sales in the third quarter compare to past expected sales of $4.29 billion in the second quarter of 2018, and $8.58 billion during the third quarter of 2017.

The prospective calendar includes anticipated bond sales by the following issuers: the City of New York, the Dormitory Authority of the State of New York, New York City Housing Development Corp., New York City Transitional Finance Authority, the New York State Environmental Facilities Corporation, the Port Authority of New York & New Jersey, the State of New York Mortgage Agency and the Triborough Bridge & Tunnel Authority.

Bond Buyer 30-day visible supply at $11.08B

The Bond Buyer's 30-day visible supply calendar increased $325.9 million to $11.08 billion on Tuesday. The total is comprised of $5.01 billion of competitive sales and $6.07 billion of negotiated deals.

Treasury to sell $35B 4-week bills

The Treasury department said on Monday that it will sell $35 billion of four-week bills on Tuesday.

The bills are due Aug. 2 and are a reopening of an auction in February.

Treasury auctions discount bills

The Treasury on Monday sold $48 billion of 91-day bills at a 1.945% high rate and $42 billion of 182-day bills at a 2.10% high rate.

For the 91s, the coupon equivalent was 1.982% while the bid-to-cover ratio was 2.85%. The media rate was 1.92% and the low rate was 1.90%. The bills are due on Oct. 11.

For the 181s, the coupon equivalent was 2.152% while the bid-to-cover ratio was 2.78%. The media rate was 2.07% and the low rate was 2.03%. The bills are due on Jan. 10, 2019.

Data appearing in this article from Municipal Bond Information Services, including the MBIS municipal bond index, is available on The Bond Buyer Data Workstation. Click here for a brief tour of the Workstation, or contact Vanessa Kim at 212-803-8474 for more information.

The Bond Buyer

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