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Tax-Exempt Weekly Rates Beat 10-Year Muni Bond Rates. Time To Dump Long Bonds?

Given the announcement that the U.S. Federal Reserve cut rates to nearly 0%, first thing this morning I started looking for the market reaction, particularly in short rates in high grade municipal paper. My terminal blinked that available tax-exempt variable rate debt obligations (called VRDO among the professional muni crowd) was at $17 billion.

That caught my attention. That market was an estimated $135 billion, so when more than 10% of outstanding paper is sitting on the desks of banks like JPMorgan Chase, Bank of America, Morgan Stanley and Barclays, that says something. VRDOs generally come in $100,000 denominations. Resets can be as short as daily and as long as monthly. They are listed by broker/dealers, but they are on e-trading platforms as well, such as ClarityBidRate. The fact that just the prior week the available supply number was under $11 million made it more poignant.

Continue reading.

Forbes

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