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More Muni Issuers Are Making Banks Compete to Win Bond Deals.

- **So-called competitive deals are up 32% to highest since 2016**
- **Competitive sales were down a year ago following market crash**

In a stark contrast to a year ago when states and local governments hit by the pandemic had to woo skittish investors, more issuers are selling municipal bonds through competitive auctions that put the risk on underwriters.

The amount of long-term bonds sold through competitive deals has risen to $64.6 billion so far this year, a 32% increase from the same period of 2020 and the highest for the year-to-date period since 2016, according to data compiled by Bloomberg. Meanwhile, the volume of long-term bonds sold through a negotiated offering — still the bulk of the market — has gained 2.7% to about $211.8 billion, the data show.

In a competitively priced deal, underwriters bid for and buy the bonds and then have to sell them no matter the market conditions. In negotiated offerings, banks are hired in advance to set the interest rates and line up buyers for the securities.

Right now, investor demand for tax-exempt debt is so great that the extra legwork by underwriters and marketing time needed with negotiated deals to attract buyers isn't as necessary, according to Vikram Rai, a municipal analyst for Citigroup Inc. Munis have proven to be an oasis in the fixed-income universe in 2021, outperforming Treasuries.

"Negotiated deals are more popular when the market has a slightly weaker tone," Rao said. "When demand is strong we see competitive deals increase."

The rise in competitive deals is a big shift from a year ago, when negotiated sales spiked as the market coped with the impact of business shutdowns at the start of the pandemic and spooked investors pulled record amounts of cash from mutual funds. Last year through mid-August, competitive deals were down about 18% from the same stretch of 2019, while negotiated deals jumped 35%.

The supply of muni bonds expected to be issued in the next 30 days is short of the amount available for reinvestment by $14.9 billion, up 10% from a year ago, according to data compiled by Bloomberg. Mutual funds for tax-exempt bonds have seen inflows of almost $60 billion this year as investors look for income amid historically low interest rates, and there have been no meaningful outflows for almost 66 weeks.

Right now, the market is leaning more toward competitive deals than last year because "issuers, and their financial advisors, see the uneven landscape between supply and demand," said Bloomberg Intelligence analyst Eric Kazatsky. "To help drive the best deal for their clients, advisors help navigate them towards the competitive market, where they can save on costs of issuance and have many firms bid on their debt."

Also boosting the rise in competitive sales, recent rate volatility has eroded some of the benefits of refunding offerings, which are largely priced through negotiated sales, according to Kimberly Olsan, senior vice president of municipal bond trading for FHN Financial. Refunding deals are down while new money sales, which are usually sold via a competitive auction are up, she said.

Still, the surge in competitive deals may be a “temporary phenomenon,” according to Citi’s Rai. “If there is any letup in demand, the needle will turn toward negotiated deals,” he said.

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