Munis price into firmer market; SoCal Water accelerates deal

By **Aaron Weitzman, Christine Albano**
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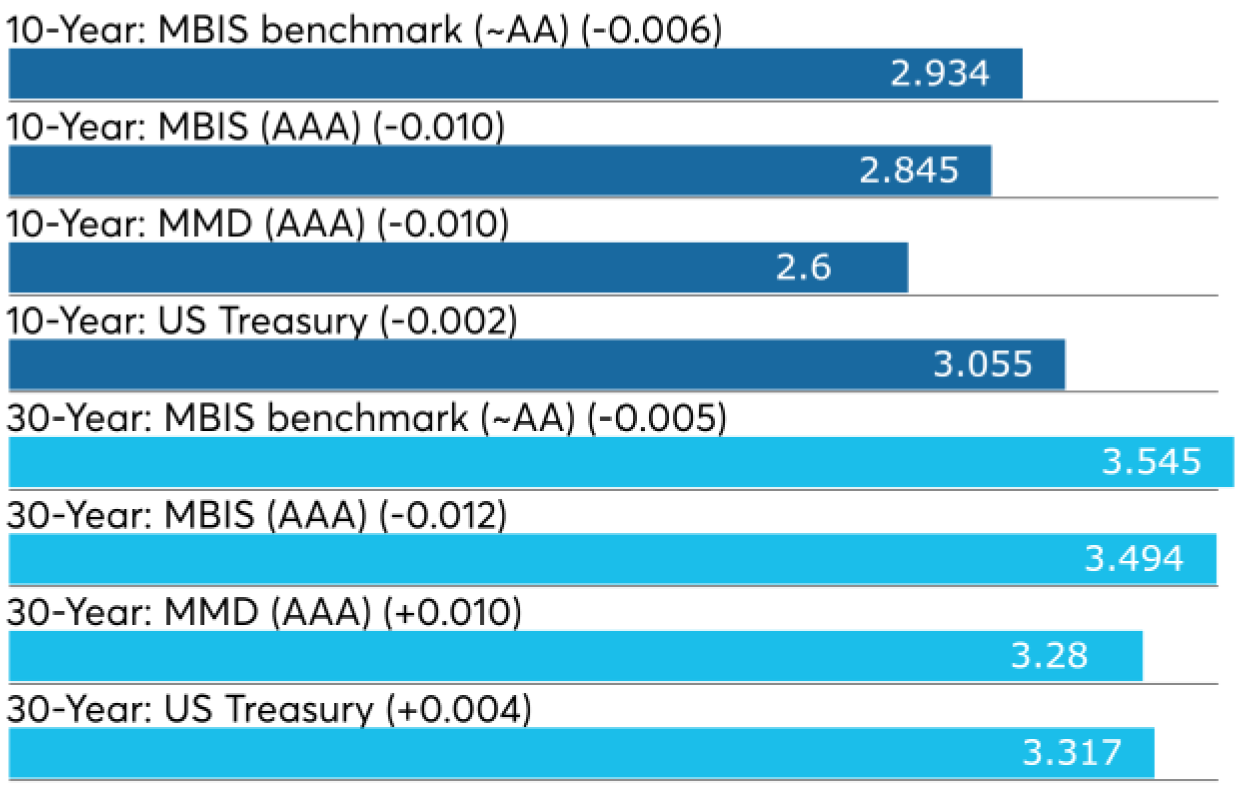

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Municipal deals for both for retail and institutions were priced in a stronger market Tuesday, paving the way for bigger issuance as the week progresses.

“It has been quiet for a while with the holiday, so it’s nice to get some action,” said one New York trader. “Seems as though the market is finding its footing here before those bigger deals come later in the week.”

Bank of America Merrill Lynch priced New York City’s $855.405 million of tax-exempt fixed-rate bonds, consisting of Fiscal 2019 Series D Subseries D-1 and Fiscal 2008 Series J Subseries J-1 and J-11 as a reoffering, for retail investors on Tuesday. A second day of retail orders will follow on Wednesday, with institutional pricing on Thursday.

BAML also priced the Metro Water District of Southern California's $137 million for retail investors on early on Tuesday. The institutional pricing, which was scheduled for Wednesday, was done Tuesday afternoon.

Piper Jaffray priced Unified School District No. 383, Riley County, Kansas' $130 million of taxable general obligation bonds on Tuesday.

Tuesday's bond sales

New York City

Metro Water District of Southern California (retail pricing)

Metro Water (institutional pricing)

Unified School District No. 383, Riley County, Kansas (Manhattan- Ogden)

Year end climate

Favorable market technicals ahead should maintain a firm tone in the municipal market over the next several months, according to Peter Block, managing director of credit strategy at Ramirez & Co.

Those conditions include higher absolute yields, slightly negative net supply, fairly-valued ratios, and strong November-to-January reinvestments, Block wrote in a Nov. 26 weekly municipal report.

Some risks could be present, however, Block said. Those could include "rich-to-fair credit spreads, and still-bloated dealer balance sheets at $22 billion or 18% above-average and biased in long duration," he wrote.

The macro backdrop risks, according to Block, include continued market volatility, mild U.S. inflation, Fed balance sheet tapering and higher Treasury supply to fund the Federal deficit.

With $7.9 billion of gross supply this week, there will be sizable deals in the negotiated market, which is led by $856 million New York City general obligation offering, $849 million of Chicago

Board of Education deal, $318 million of Detroit Downtown Development bonds, and $245 million Washington Metropolitan Area Transit deal.

Competitively, NYC will also offer $350 million of GOs; while the Florida Department of Transportation will sell $311 million of revenue bonds.

Overall the volume heading into year-end will be down from 2917, Block said.

Year-to-date gross supply is $289 billion, down 15%. Ramirez estimates just $36 billion of new issue supply through year-end, which would put gross supply at $325 million, a decrease of 25% year, and close to the firm's "unaltered" 2018 forecast of $317 billion.

"Assuming this new issue supply forecast holds, redemptions and calls of about $40 to $50 billion will likely result in slight negative net supply," he said in his report.

He estimated that over the next 30 days, there could be negative net municipal market supply of $12.18 billion. That total would be comprised of the addition of $12.49 billion of new issues against a decrease of a total of $24.67, including $16.95 billion of maturing bonds and $7.72 billion of announced calls.

According to Block, the states that stand to experience the largest change in outstanding debt include New Jersey with a decline of $2.46 billion, Ohio with a decrease of $1.77 billion, and Washington at a decline of $1.16 billion.

Secondary market

Municipal bonds were mostly stronger on Tuesday, according to a late read of the MBIS benchmark scale. Benchmark muni yields fell no more than one basis point in the one- to 19-year and 26-to 30-year maturities.

High-grade munis were also stronger, with yields calculated on MBIS' AAA scale decreasing as much as one basis point across the board.

Municipals were mixed on Municipal Market Data's AAA benchmark scale, which showed the yield on the 10-year muni general obligation lower by one basis point, while the yield on 30-year muni maturity was higher by one basis point.

On Tuesday, the 10-year muni-to-Treasury ratio was calculated at 85.0% while the 30-year muni-to-Treasury ratio stood at 98.9%, 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.

Previous session's activity

The Municipal Securities Rulemaking Board reported 44,464 trades on Monday on volume of $9.054 billion.

California, New York and Texas were the municipalities with the most trades, with the Golden State taking 20.493% of the market, the Empire State taking 13.123% and the Lone Star State taking 9.083%.

Treasury auctions bills

The Treasury Department Tuesday auctioned $50 billion of four-week bills at a 2.270% high yield, a price of 99.829750.

The coupon equivalent was 2.305%. The bid-to-cover ratio was 2.75.

Tenders at the high rate were allotted 7.39%. The median rate was 2.240%. The low rate was 2.180%.

Treasury also auctioned $30 billion of eight-week bills at a 2.315% high yield, a price of 99.652750.

The coupon equivalent was 2.355%. The bid-to-cover ratio was 3.23.

Tenders at the high rate were allotted 28.73%. The median rate was 2.290%. The low rate was 2.270%.

Treasury also auctioned $40 billion of five-year notes, with a 2 7/8% coupon, a 2.880% high yield, a price of 99.976871.

The bid-to-cover ratio was 2.49.

Tenders at the high yield were allotted 71.92%. All competitive tenders at lower yields were accepted in full.

The median yield was 2.849%. The low yield was 2.780%.

Gary E. Siegel contributed to this report.

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Aaron Weitzman

Christine Albano