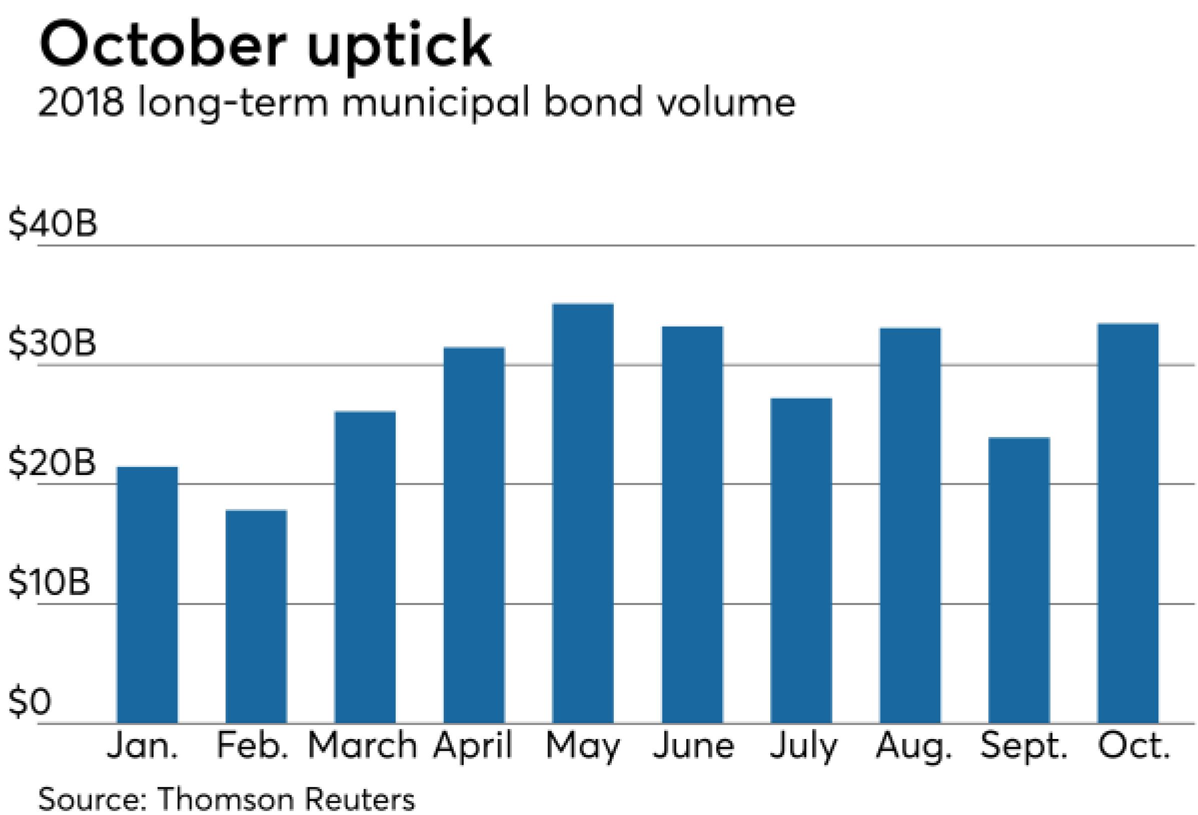
October volume disappoints as new-money growth slows

By **Aaron Weitzman**
Published **October 31 2018, 2:13pm EDT**

More in **Bond volume, Sell side, Primary bond market**

Municipal bond volume fell 16% in October from a year earlier as growth in new-money issuance slowed from recent months.

The $33.4 billion of municipal bonds sales is the second highest monthly total this year, just shy of May's $35.08 billion, according to Thomson Reuters data. Expectations for a surge in volume in the final quarter should be tempered, however, said Peter Block, managing director, credit strategy at Ramirez and Co.



Total gross supply year-to-date is about $269 billion, or down by 12% from the first 10 months of 2017, as the ban on advance refundings continues to weigh on year-over-year comparisons. Ramirez is keeping its full year 2018 supply projection at $317 billion, or down 27% year over year.

“We think new-money will likely decelerate in the fourth quarter this year,” Block said. “Given our year-end forecast for gross supply of $317 million, we think gross issuance should average about $6.8 billion a week, for an additional $48 billion of additional gross supply in 2018.”

Only about six of the nine weeks left in the year will see any real new issue volume, he said. “If you count the other three weeks that have Thanksgiving, Christmas and New Year’s weeks as half weeks, I think the forecast is solid and our yearly issuance prediction hasn’t revised all year.”

Peter Block

There were 758 transactions during the month, compared with 948 transactions totaling $40.09 billion from October of 2017. Going forward for the remainder of the year, it will be tough to compare any month to its previous years counterpart, considering now is about the time when the rush to complete deals before tax reform started.

“There is typically a lot of noise in quarterly issuance numbers and therefore very difficult in isolation to discern a trend one way or the other, which is why I like to look at year to date trend.” Block said. Year-to-date trends show the average par size of a deal is larger at $36.5 million per deal, versus $35.2 million per deal in 2017, he said

Block attributed the larger par amounts primarily to a combination of issuers trying to get projects funded before rates increase further and towards this end, also squeeze out as much current refunding as economically viable.

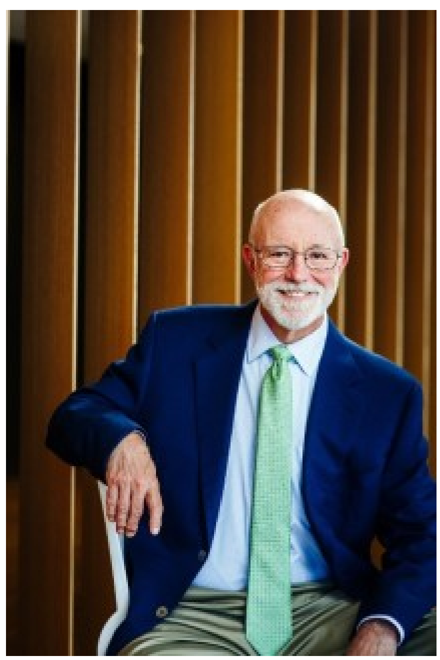
Alan Schankel, managing director at Janney, said he doesn't believe midterm election outcomes will have significant impact on volume in the last two months of 2018.

"Should GOP retain control of both Senate and House, it is possible that additional tax reductions could be enacted, potentially reducing the value of the tax exemption," he said. "If Republicans retain control, some issuers might accelerate planned offerings so as to beat any tax law change."

Refunding volume dropped 35.6% to $5.66 billion in 128 deals, from $8.79 billion in 304 deals a year earlier. New-money was up 7.3% to $24.14 billion, after increasing 16.4% in August.

"I am disappointed to see a slowdown in the growth of new money deals which increased this month but still well below the 25.6% improvement of the first 3 quarters," said Schankel. "New money issues generally finance new and continuing infrastructure projects, so a slowdown may indicate that rising fixed expenses (pensions, debt, OPEB) are crowding out needed infrastructure investment in state and local government budgets."

Alan Schankel



Combined new-money and refunding issuance dropped 58.5% from October 2017 to $3.65 billion, while issuance of revenue bonds declined 7.7% to $20.75 billion and general obligation bond sales fell 27.9% to $12.69 billion.

Negotiated deal volume dipped 0.4% to $22.74 billion, while competitive sales fell 27.3% to $10.33 billion.

Taxable bond volume decreased to $1.49 billion from $2.77 billion, while tax-exempt issuance fell by 16.4% to $30.29 billion. Minimum tax bond issuance rose to $1.66 billion from $1.11 billion.

“AMT issuance is up primarily due to several airport deals that priced this month,” said Schankel. “Steady post-recession enplanement growth has contributed to improved financial metrics for larger airports, supporting issuance of bonds to fund capital investment programs.”

Deals wrapped by bond insurance rose 5.3% to $1.53 billion in 105 deals from $1.45 billion spanning 116 transactions the same time the prior year.

Four of the 10 sectors showed year-over-year increases, as housing issuance rose to $2.44 billion from $1.49 billion, public facilities increased to $1.12 billion from $755 million, health care went up to $4.19 billion from $3.16 billion and education jumped to $6.58 billion from $6.31 billion.

Just two types of issuers were in the green this month, as deals from cities and towns increased to $5.12 billion from $3.38 billion and state agencies was higher to $11.91 from $9.55 billion. All others saw year-over-year declines of at least 10%.

California continues to have the most issuance among states so far in 2018. The Golden State has issued $40.41 billion; New York is second with $36.17 billion; Texas is third with $29.68 billion; Pennsylvania is next with $12.11 billion; and Florida finds itself inside the top five with $9.73 billion.

Another thing to keep an eye on is the Fed and the path or interest rate increases.

“The Fed does appear to be on pace for a few more hikes through 2019, which will undoubtedly affect issuance patterns and supply, as well as investor sentiment and preference for certain types of credits and structures,” Block said. “This year short and short-intermediate munis have served investors well as a strong defense against rates increasing and, due to the high demand for bonds, outperformed almost all fixed income asset classes.”

Block also said that Investor demand in the front-end of the curve should continue be strong so long as the market believes the Fed isn't yet done hiking towards the neutral rate.

"The one big question mark for me in terms of supply in 2019 is a potential federal infrastructure bill," Block said. "If a plan does get implemented, what is the timing and how it will be funded, in terms of federal versus state versus local dollars and ultimately supply of tax-exempt bonds? Maybe [Build America Bonds] return in a different shape of form. Maybe not, we will see."

Aaron Weitzman