

Situation Room

The economy vs. rates vol

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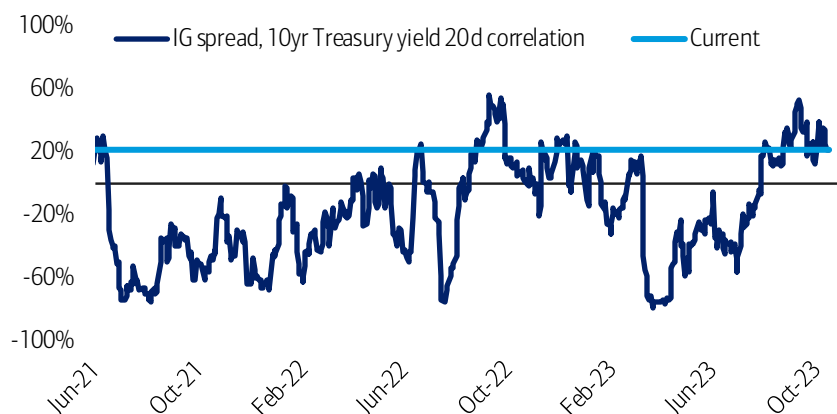
Following another bout of strong US data (see report: [US Watch: Another month, another beat in retail sales](#)) 10yr Treasury yields reached new cyclical highs of 4.83%. While the elevated interest rate volatility continues to pressure demand for 30yr bonds, both IG spreads and equities remained resilient today. Hence despite the 13bps jump in 10yr Treasury yields IG spreads closed mixed, about in line with the S&P 500 that was little changed on the day.

More balanced

That means the positives (a strong US economy, more attractive yields) are getting more in balance with the negatives (higher rates volatility, bigger risks to US growth from the higher for longer rates). Hence the correlation between rates and IG spreads, while still positive, has now approached the lower end of the range since August (Figure 1). That's similar to equities, where the negative correlation with rates (higher Treasury yields, lower equity prices) is also off the lows in August and September (Figure 2).

Figure 1: The positive correlation between IG spreads and rates has declined recently

The 20-day correlation is currently 21%, down from 53% in early September.



Note: the correlation of daily IG index spread changes and 10yr Treasury yield changes.

Source: BofA Global Research, Bloomberg.

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17 October 2023

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United States
Cross Product

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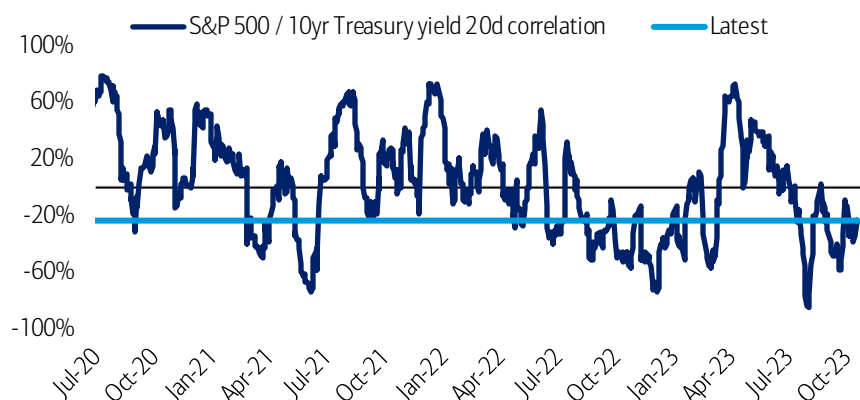
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Timestamp: 17 October 2023 06:09PM EDT

Figure 2: The negative correlation between stocks and rates has moderated

The current 20-day correlation is -24%, up from -85% in early August.



Note: the correlation of daily S&P 500 index price returns and 10yr Treasury yield changes.

Source: BofA Global Research, Bloomberg.

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Daily credit snapshot

US IG issuance totaled \$4.0bn across 2 deals today, \$17.3bn WTD and \$39.4bn MTD. The average new issue concession was 8.0bps today, while the average break performance was 3.0bps tighter today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed -0.01%, 10-year Treasury yields +13bps, CDX IG +0.7bps, CDX HY - \$0.18pts, and cash bond spreads quoted Unched to+ 2bps today, LQD closed 0.44bps tighter today.

Figure 3: Recent new issue pricing and new issue concessions

List of new issues in the IG corporate bond market today along with performance metrics.

Date	Ticker	Name	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2023-10-16	JPM	JPMorgan Chase & Co	4	2,000	A1/A-	6.07	120	0	0	120
2023-10-16	JPM	JPMorgan Chase & Co	6	2,250	A1/A-	6.087	138	3	-1	137
2023-10-16	JPM	JPMorgan Chase & Co	11	3,000	A1/A-	6.254	155	-1	-2	153
2023-10-16	WFC	Wells Fargo & Co	6	2,750	A1/BBB+	6.303	160	6	-1	159
2023-10-16	WFC	Wells Fargo & Co	11	3,250	A1/BBB+	6.491	180	0	-4	177
2023-10-17	KEBHN	Hana Bank	5	500	Aa3/A+	5.75	100	n.a.	n.a.	n.a.
2023-10-17	PNC	PNC Financial Services Group Inc/The	4	1,250	A3/A-	6.615	160	8	-2	158
2023-10-17	PNC	PNC Financial Services Group Inc/The	11	2,250	A3/A-	6.875	203	8	-4	199

Note: We calculate new issue concessions by estimating the difference between new issue bond spread and interpolated G spread from comparable liquid secondary bonds of the same issuer prior to the new issue deal announcement, adjusted for the spread impact of dollar prices deviating from par. Break performance is computed as the difference between new issue pricing and secondary closing spread on the first day of trading.

Source: BofA Global Research, Bloomberg

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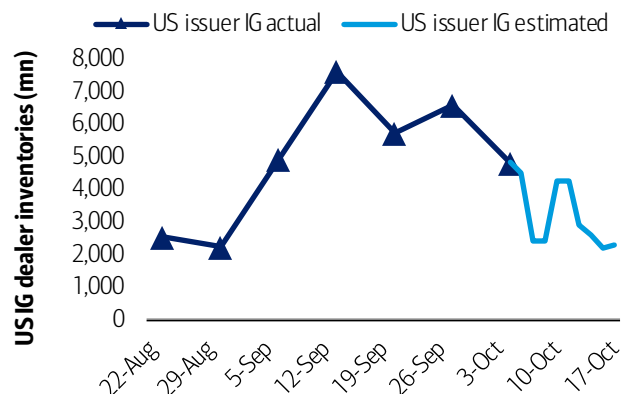
Daily dealer inventories update

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Figure 4 and Figure 5. We estimate the corresponding DV01 equivalent in Figure 5. More details by sector and

maturity are available in Figure 6 and Figure 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Figure 4: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to \$2.3bn currently from \$4.8bn on Oct-04.



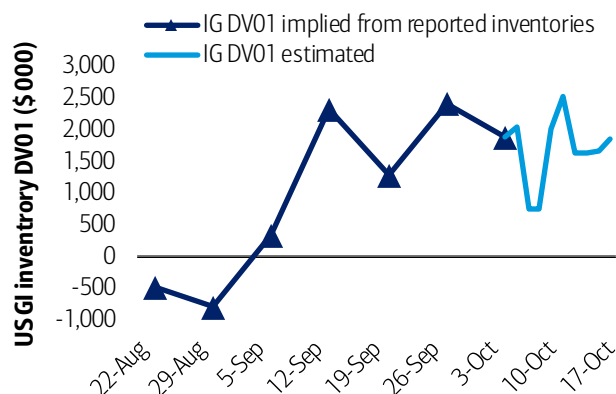
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE, Federal Reserve

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Figure 5: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to \$1.9mn currently from \$1.9bn on Oct-04.



Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE, Federal Reserve

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Figure 6: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$524mn today and declined -\$1,783mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Oct-23 (\$mn)			
	17-Oct	16-Oct	1 W	2 W	4 W	17-Oct	16-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	524	-546	-1,783	-3,658	-5,948	442	35	11	-542	-1,340	10,998	10,474	7,311	28,782
<3yr	-22	205	-489	-758	-2,285	-2	25	-95	-165	-510	2,127	2,149	1,437	5,714
3-5yr	-183	-1,209	-1,760	-2,823	-2,959	-74	-448	-647	-1,030	-1,063	2,095	2,278	1,667	6,040
5-11yr	301	104	-635	-1,850	-2,887	125	88	-416	-1,022	-1,620	3,465	3,163	2,282	8,909
11+yr	427	354	1,101	1,773	2,182	394	370	1,169	1,674	1,853	3,311	2,883	1,925	8,119
Fin	632	41	-136	-1,297	-1,010	368	19	-60	-642	-509	4,346	3,714	2,641	10,701
Non-Fin	-108	-587	-1,647	-2,361	-4,939	74	16	72	100	-831	6,652	6,760	4,670	18,081
Fixed	553	-543	-1,648	-3,554	-5,995	451	28	39	-568	-1,349	10,936	10,383	7,254	28,573
Floating	-30	-3	-135	-104	46	-9	8	-28	26	9	62	91	56	209
US issuers	79	-419	-1,953	-3,854	-6,951	203	39	-157	-788	-1,991	8,298	8,219	5,883	22,400
DM Yankees	462	-179	311	284	722	260	-30	273	304	522	2,421	1,959	1,259	5,639
EM Yankees	-18	53	-141	-88	280	-21	26	-105	-58	128	278	296	169	743

Note: data for maturities 13M or longer. Changes in inventories are estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE.

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Figure 7: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$556mn for Banks/Brokers and declined -\$9mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Oct-23 (\$mn)			
	17-Oct	16-Oct	1 W	2 W	4 W	17-Oct	16-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-33	1	-76	-171	-130	-34	22	-73	-146	28	207	239	164	610
Automobiles	-1	-79	-242	-169	-488	-7	-40	-110	-66	-182	155	156	150	461
Banks/Brokers	556	147	335	-602	-436	279	39	179	-272	-232	3,160	2,603	1,778	7,541
Basic Materials	-85	-65	-156	-250	-260	-13	-22	-19	-78	-143	439	524	303	1,266
Commercial Services	-40	41	-22	49	236	-15	36	24	94	233	123	163	95	381
Energy	-9	-200	-230	-286	-575	26	-59	-47	-57	-332	833	842	553	2,229
Finance	11	-63	-215	-608	-505	13	-19	-94	-280	-96	494	483	401	1,378
Food, Bev, & Bottling	7	13	471	554	344	-11	14	533	633	562	591	584	310	1,486
Health Care	69	147	235	63	-909	50	141	212	372	-302	1,172	1,103	738	3,013

Figure 7: Estimated changes in IG dealer inventories by sector.

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	17-Oct	16-Oct	1 W	2 W	4 W	17-Oct	16-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Industrial Products	-54	-21	-208	-167	-405	-35	0	-78	-14	-83	206	260	237	703
Insurance	0	-25	-192	-59	-242	21	1	-131	-51	-247	337	337	233	907
Media & Entertainment	-115	-24	-399	-383	-421	-38	31	-165	-93	-4	336	450	288	1,074
REITs	64	-19	-64	-28	173	55	-1	-14	-40	66	355	291	228	875
Retail	29	-36	-147	-404	-486	20	12	20	-236	-48	350	322	364	1,037
Technology	59	-108	60	-343	-879	35	-45	113	-185	-426	629	570	532	1,731
Telecom	34	-25	-279	-362	-393	9	17	-164	-158	-185	404	370	191	965
Tobacco	14	-7	-106	-84	-192	19	1	-30	-6	10	115	101	103	320
Transportation	-7	-8	-121	-131	-36	2	-4	-71	-108	-41	182	189	162	533
Utilities	2	-193	-357	-123	-64	59	-79	-65	148	133	781	779	381	1,940
Other	23	-23	-72	-154	-280	7	-8	-7	1	-52	130	107	98	335

Note: data for maturities 13M or longer. Changes in inventories are estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE.

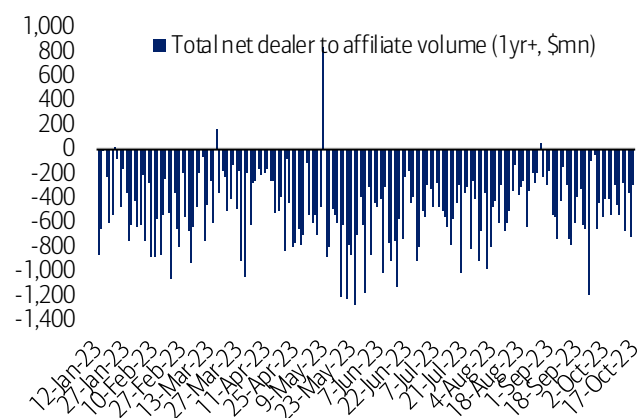
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Daily foreign demand tracker

We believe net dealer-to-affiliate volumes from Trace are correlated with foreign buying of US HG corporate bonds - i.e., negative numbers mean foreign investor buying (US dealers taking down inventory in favor of foreign affiliates). For supporting material see our “primer” on tracking foreign inflows (See report: [Credit Market Strategist: One year round-trip in spreads 15 July 2016](#)). Figure 8 shows the overall daily dealer-to-affiliate volumes while Figure 9, Figure 10 and Figure 11 show subsets of this data. In particular Figure 9 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 10 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 11 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Figure 8: Net dealer buying from affiliate (1yr+)

Figure shows inconsistent overall foreign buying of US IG corporate bonds for some time.



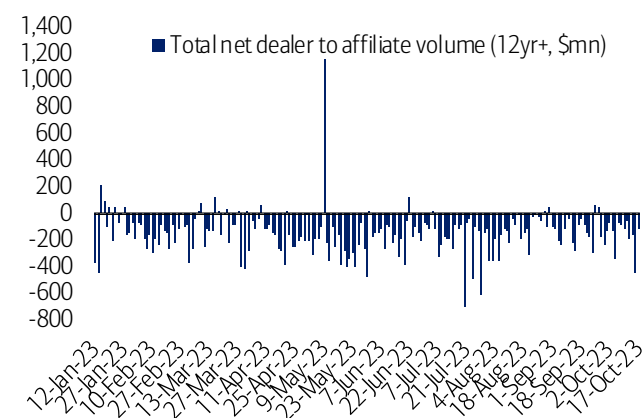
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 9: Net dealer buying from affiliate (12yr+)

Foreign buying of longer maturity US IG corporate bonds has been consistent this year



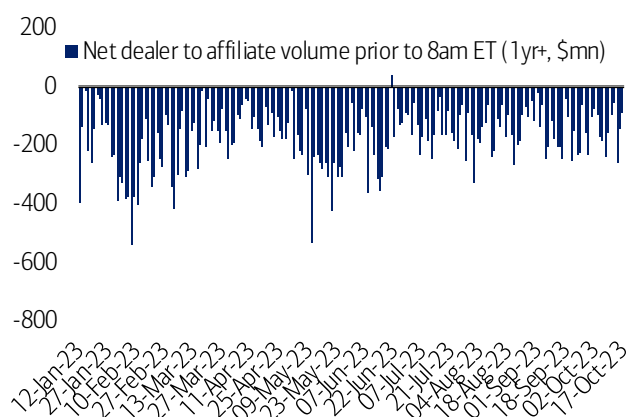
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 10: Net dealer-to-affiliate trading volumes before 8am ET

Foreign buying before 8am NY time is dominated by Asia and has been consistent this year



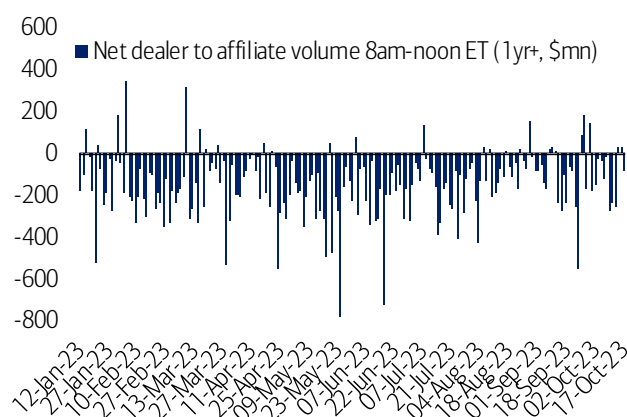
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 11: Net dealer-to-affiliate trading volumes 8am - noon ET

Foreign buying 8am-noon NY time is dominated by Europe and has been inconsistent this year



Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Common abbreviations:

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unched: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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