

Situation Room

Feb CPI: cooler where it matters

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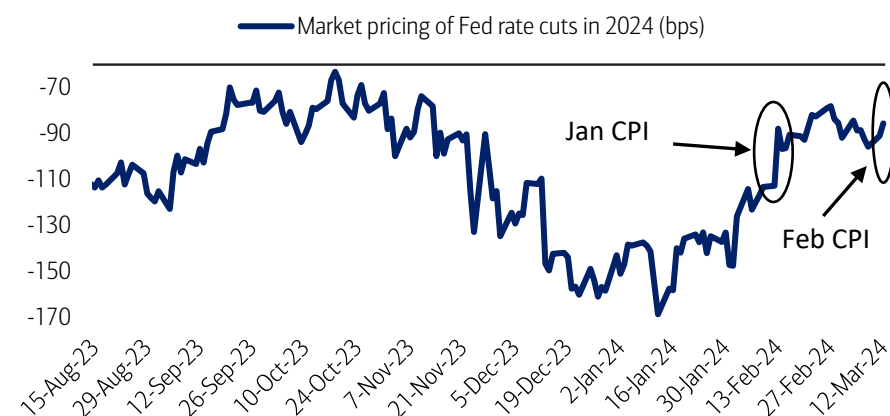
The key question for the February CPI data was whether the spike higher in January CPI inflation persisted for the second month. The answer was that it did not. Both Shelter (to +0.4% in Feb from +0.6% in Jan) and Core Services ex. Shelter (to +0.5% in Feb from +0.9% in Jan) CPI normalized in February. Those declines were offset by higher core goods prices, but our economists expect goods deflation to resume going forward (see [US Watch: February CPI Inflation](#) report). Still, the relatively firm core services ex. shelter and higher goods inflation pushed rates higher (+5bps on 10yr Treasury) and subtracted 5bps from the market pricing of Fed rate cuts in 2024. That's much more benign compared to the January CPI report, which took off a full cut (25bps) from Fed's 2024 market pricing (Exhibit 1).

Goldilocks report for IG spreads

Higher rates which is good for yield sensitive demand, higher stocks, lower implied rates vol (Exhibit 3), little impact on inflation expectations (Exhibit 2), and lower inflation risks on a more benign CPI report for core services was a goldilocks combination for IG spreads. As a result, IG cash bond spreads tightened 1 to 4bps today on Tuesday. Should Treasury yields remain relatively elevated when supply slows down as we expect in the second half of March (see [Credit Market Strategist: Supply off trend](#) report) IG spreads could tighten further materially. We remain constructive on IG spreads in the near term.

Exhibit 1: February CPI only reduced Fed rate cuts market pricing by 5bps

Market pricing subtracted a full rate cut (25bps) from the 2024 Fed cut expectations following the January CPI report, but only 5bps following the February CPI report.



Source: BofA Global Research, Bloomberg

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12 March 2024

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United States
Cross Product

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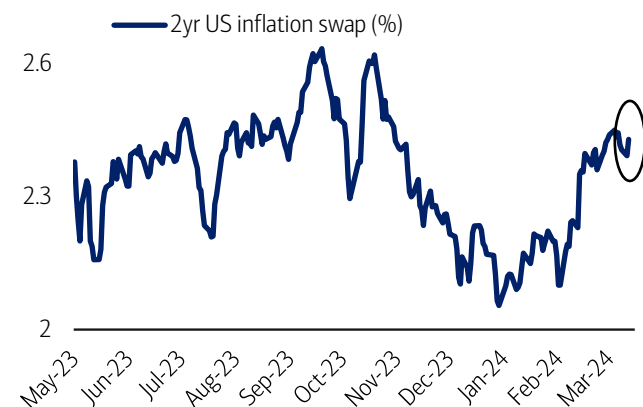
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Timestamp: 12 March 2024 07:35PM EDT

Exhibit 2: 2yr US inflation swaps up by just 4bps on Tuesday

2yr US inflation swap increased to 2.43% on Mar 12 from 2.39% on Mar 11.

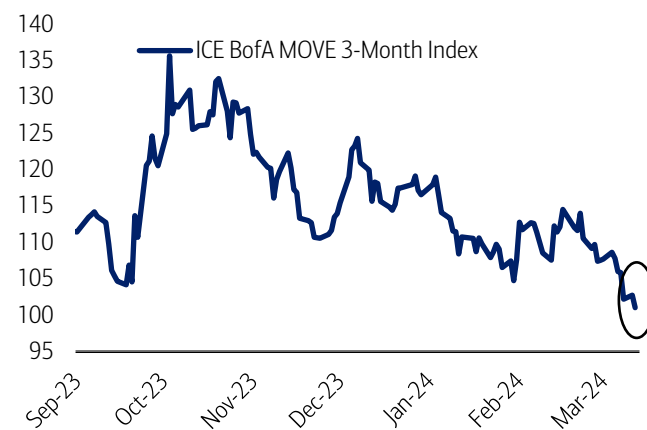


Source: Bloomberg.

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Exhibit 3: Rates implied volatility declined post Feb CPI

3M MOVE index declined to 101.1 on Feb 12 from 102.8 on Feb 11.

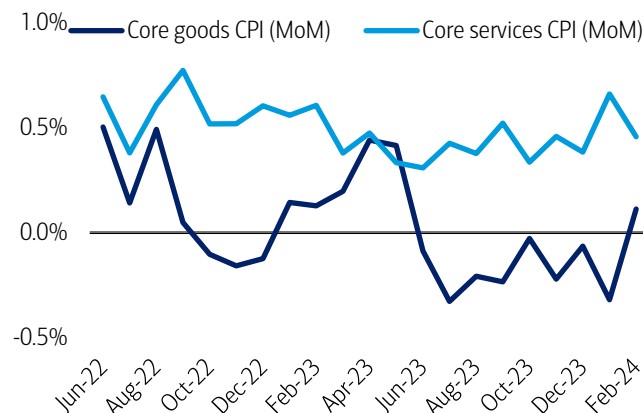


Source: Bloomberg

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Exhibit 4: Lower services, higher goods inflation in February

Core goods CPI inflation accelerated to +0.11% in February while core, while core services inflation declined to +0.46 MoM.

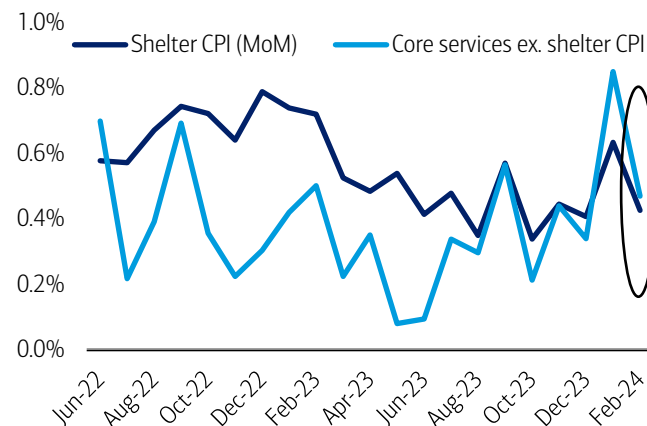


Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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Exhibit 5: Services inflation off the January highs

Core services ex. shelter CPI moderated to +0.50% MoM in Feb from +0.9% MoM in January. Shelter inflation was also lower at +0.4% MoM.



Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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Daily credit snapshot

US IG issuance totaled \$5.2bn across 4 deals today, \$27.0bn WTD and \$79.0bn MTD. The average new issue concession was 7.0bps today, while the average break performance was 1.0bps tighter today. This week's new issues are trading 5.0bps tighter on average from pricing.

S&P 500 closed +1.12%, 10-year Treasury yields +5bps, CDX IG -1.1bps, CDX HY +\$0.23pts, and cash bond spreads quoted -1/-4 bp today, LQD closed 2.27bps tighter today.

Exhibit 6: 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)
2024-03-11	AEP	AEP Transmission Co LLC	10	450	A2/BBB+	5.15	105	n.a.	-4	102
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	2	1,250	Aa2/AA-	FRN	SOFR+56	n.a.	n.a.	n.a.
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd/New York	2	1,250	Aa2/AA-	5	47	n.a.	n.a.	n.a.
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	11NC6	1,000	A3/BBB+	5.731	165	n.a.	n.a.	n.a.
2024-03-11	DUK	Duke Energy Progress LLC	10	500	Aa3/A	5.1	103	4	-3	101
2024-03-11	DUK	Duke Energy Ohio Inc	30	425	A2/A	5.55	130	12	-3	128
2024-03-11	HNDA	American Honda Finance Corp	3	300	A3/A-	FRN	SOFR+77	n.a.	n.a.	75
2024-03-11	HNDA	American Honda Finance Corp	3	700	A3/A-	4.9	63	14	n.a.	60
2024-03-11	HNDA	American Honda Finance Corp	5	750	A3/A-	4.9	83	n.a.	n.a.	79
2024-03-11	HUM	Humana Inc	7	1,250	Baa2/BBB	5.375	127	n.a.	-7	121
2024-03-11	HUM	Humana Inc	30	1,000	Baa2/BBB	5.75	147	14	-4	100
2024-03-11	INTNED	ING Groep NV	6NC5	1,500	Baa1/A-	5.335	125	24	-3	122
2024-03-11	INTNED	ING Groep NV	11NC10	1,500	Baa1/A-	5.55	145	11	-1	144
2024-03-11	LHX	L3Harris Technologies Inc	5	750	Baa2/BBB	5.05	100	14	n.a.	97
2024-03-11	LHX	L3Harris Technologies Inc	7	750	Baa2/BBB	5.25	115	16	-3	112
2024-03-11	LHX	L3Harris Technologies Inc	10	750	Baa2/BBB	5.35	125	14	-5	120
2024-03-11	LNC	Lincoln National Corp	10	350	Baa2/BBB+	5.852	175	n.a.	n.a.	174
2024-03-11	MSI	Motorola Solutions Inc	5	400	Baa2/BBB	5	95	n.a.	-2	94
2024-03-11	MSI	Motorola Solutions Inc	10	900	Baa2/BBB	5.4	130	4	n.a.	130
2024-03-11	MTB	M&T Bank Corp	8NC7	850	Baa1/BBB+	6.082	198	-9	-6	197
2024-03-11	NI	NiSource Inc	10	650	Baa2/BBB+	5.35	128	7	n.a.	127
2024-03-11	SANTAN	Banco Santander SA	4NC3	400	Baa1/A-	FRN	SOFR+138	n.a.	n.a.	134
2024-03-11	SANTAN	Banco Santander SA	4NC3	1,100	Baa1/A-	5.552	125	16	-1	124
2024-03-11	SANTAN	Banco Santander SA	6NC5	1,250	Baa1/A-	5.538	145	23	0	144
2024-03-11	SANTAN	Banco Santander SA	10	1,250	Baa1/A-	6.35	225	n.a.	0	225
2024-03-11	SRE	Sempra	31NC5	600	Baa3/BBB-	6.875	156	n.a.	n.a.	n.a.
2024-03-12	CEG	Constellation Energy Generation LLC	30	900	Baa2/BBB+	5.75	145	n.a.	n.a.	n.a.
2024-03-12	GBLATL	Global Atlantic Fin Co	30	750	Baa2/BBB-	6.75	250	n.a.	n.a.	n.a.
2024-03-12	GS	Goldman Sachs Bank USA/New York NY	3NC2	750	A1/A+	FRN	SOFR+77	n.a.	n.a.	n.a.
2024-03-12	GS	Goldman Sachs Bank USA/New York NY	3NC2	2,250	A1/A+	5.283	68	n.a.	-1	67
2024-03-12	SRE	Southern California Gas Co	30	500	Aa3/A+	5.6	133	7	n.a.	n.a.

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

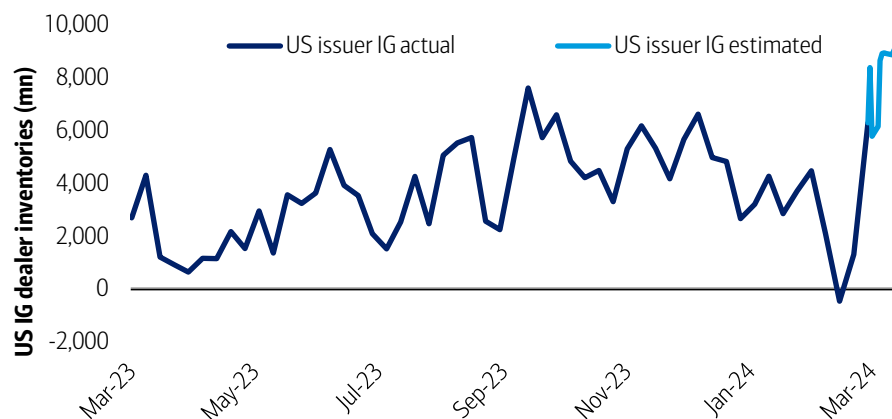
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

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 Exhibit 7. We estimate the corresponding DV01 equivalent in Exhibit 8. More details by sector and maturity are available in Exhibit 9 and Exhibit 10. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



Exhibit 7: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$9.1bn currently from \$6.3bn on Feb-28.



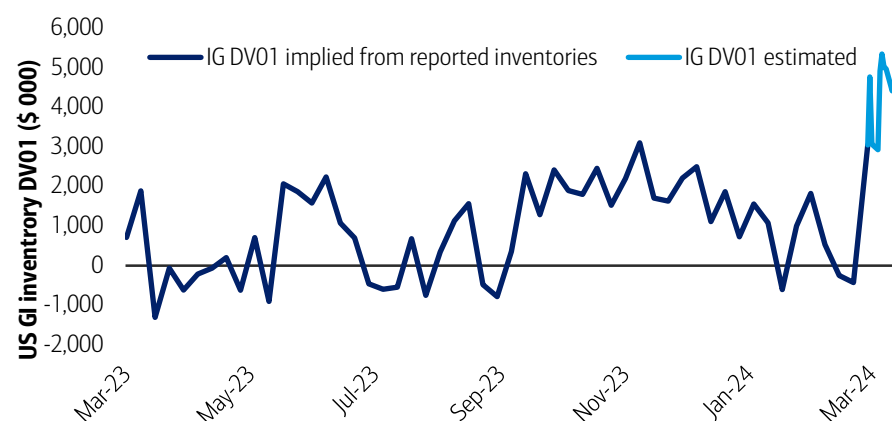
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 8: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$4.6mn currently from \$3.0bn on Feb-28.



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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Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$178mn today and increased \$251mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 12-Mar-24 (\$mn)			
	12-Mar	11-Mar	1 W	2 W	4 W	12-Mar	11-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	178	40	251	5,416	17,393	313	-626	-827	2,474	9,541	13,401	13,224	9,758	36,383
<3yr	-168	333	680	1,235	4,184	-64	71	59	72	568	2,324	2,492	1,548	6,364
3-5yr	-148	-3	272	1,306	3,169	-48	-20	98	485	1,083	2,227	2,374	1,908	6,509
5-11yr	454	677	-103	1,362	4,211	253	403	-243	561	2,045	4,888	4,434	3,693	13,015
11+yr	39	-968	-598	1,514	5,830	172	-1,080	-741	1,357	5,845	3,962	3,923	2,609	10,494
Fin	-85	527	720	2,442	5,916	1	261	129	1,173	2,801	4,848	4,933	3,234	13,014
Non-Fin	263	-488	-469	2,974	11,476	312	-887	-956	1,301	6,739	8,553	8,291	6,524	23,368
Fixed	116	-73	152	5,443	17,174	303	-661	-933	2,339	9,454	13,165	13,049	9,707	35,921
Floating	62	112	99	-27	219	10	35	105	135	86	236	174	51	461
US issuers	194	-46	400	4,489	13,918	211	-557	-302	2,537	8,172	10,741	10,548	7,991	29,281
DM Yankees	-107	106	-275	632	2,586	31	-13	-542	-216	788	2,314	2,421	1,645	6,381
EM Yankees	91	-21	127	295	888	70	-57	17	154	580	345	254	121	721

Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$178mn today and increased \$251mn over the prior week.

Net dealer buy (\$mn)**Net dealer DV01 change (\$thousand)****Trading volumes on 12-Mar-24 (\$mn)**

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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Exhibit 10: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$72mn for Banks/Brokers and declined -\$23mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 12-Mar-24 (\$mn)			
	12-Mar	11-Mar	1 W	2 W	4 W	12-Mar	11-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-2	117	105	-86	460	-78	52	-61	-172	135	443	445	290	1,179
Automobiles	-21	105	-33	166	852	-26	32	-86	-31	302	327	349	203	879
Banks/Brokers	-72	446	189	1,080	3,870	-57	268	-116	323	1,247	3,326	3,399	2,141	8,866
Basic Materials	66	-120	55	262	860	54	-122	16	85	466	366	299	244	909
Commercial Services	-65	59	-46	-78	-109	-57	92	15	53	90	176	241	129	545
Energy	-23	83	-322	633	1,605	-48	1	-467	185	896	692	715	637	2,044
Finance	-44	129	166	280	685	-21	12	27	113	391	774	818	561	2,153
Food, Bev, & Bottling	18	-130	-144	327	994	6	-148	-194	139	614	413	395	316	1,124
Health Care	264	-353	-124	72	821	430	-435	-19	58	186	1,844	1,580	1,530	4,953
Industrial Products	-32	-35	-128	-230	765	14	-35	-146	-235	566	293	325	220	838
Insurance	101	-29	208	481	917	87	0	176	438	956	472	371	331	1,175
Media & Entertainment	-10	-222	-134	215	572	-63	-197	-100	159	332	474	484	395	1,353
REITs	-70	-19	158	601	444	-8	-19	42	299	208	275	345	201	820
Retail	62	-3	-143	-38	154	27	-14	-233	-119	90	321	260	287	868
Technology	-77	40	193	330	1,347	24	19	338	352	978	931	1,008	821	2,760
Telecom	111	-7	230	537	283	90	2	150	447	155	667	557	432	1,656
Tobacco	10	-58	-57	-110	-1	6	-52	-34	-40	-20	199	189	185	573
Transportation	-16	-37	21	101	517	-6	-26	14	51	467	200	216	91	507
Utilities	-17	61	75	869	2,275	-46	-48	-150	413	1,500	1,046	1,063	633	2,743
Other	-4	13	-16	4	80	-16	-9	0	-45	-17	160	164	111	436

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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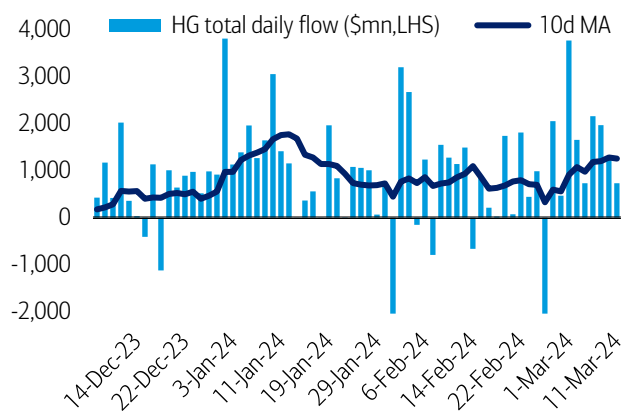
Daily HG fund flows

We define our high grade flows as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" category refers to the broad high grade market, which includes Treasuries, mortgages and agencies in addition to corporate bonds. This category accounts for the majority of AUM and flows.



Exhibit 11: Daily HG fund flows

The chart plots daily HG fund flows as well as a 10-day average trend.

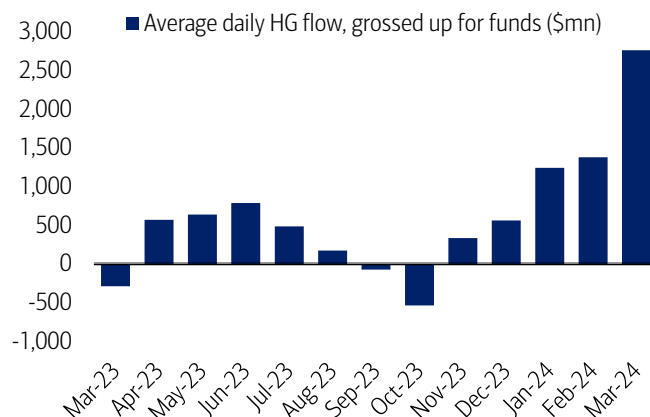


Source: EPFR Global, BofA Global Research

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Exhibit 12: Average daily HG flows by month

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

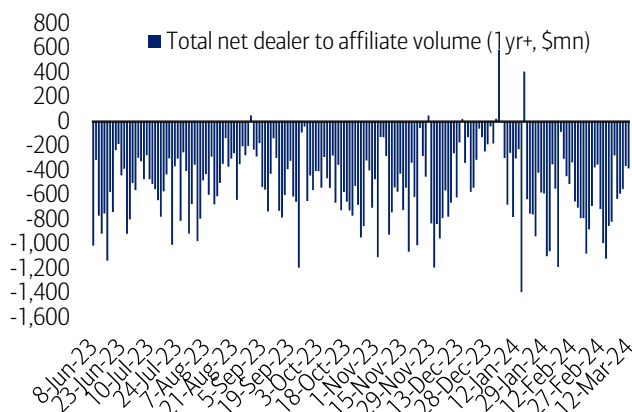
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Daily foreign demand tracker

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. Exhibit 13 shows the overall daily dealer-to-affiliate volumes while Exhibit 14, Exhibit 15 and Exhibit 16 show subsets of this data. In particular Exhibit 14 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 15 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 16 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 13: Net dealer buying from affiliate (1yr+)

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



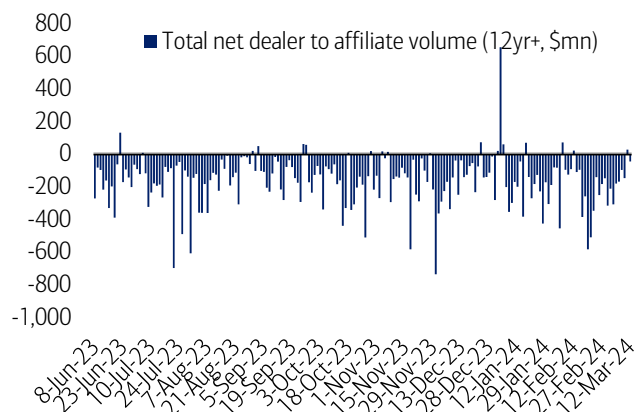
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 14: Net dealer buying from affiliate (12yr+)

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



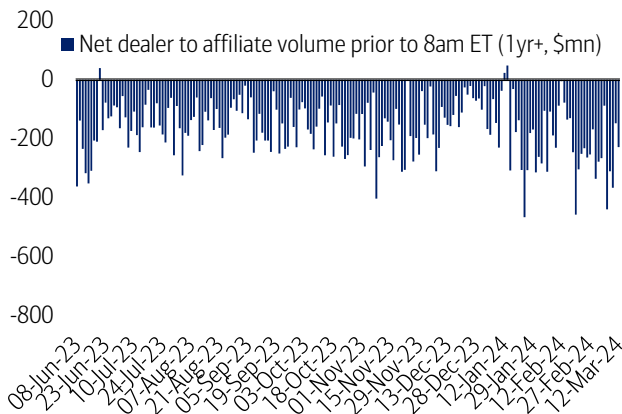
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 15: 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



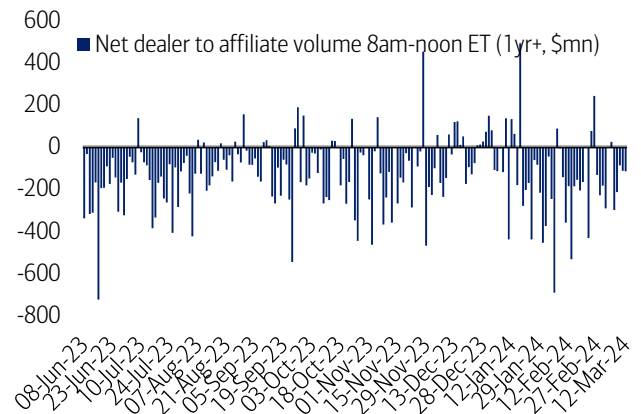
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 16: 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

Unchd: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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