

Situation Room

Basis for bonds

Basis for bonds

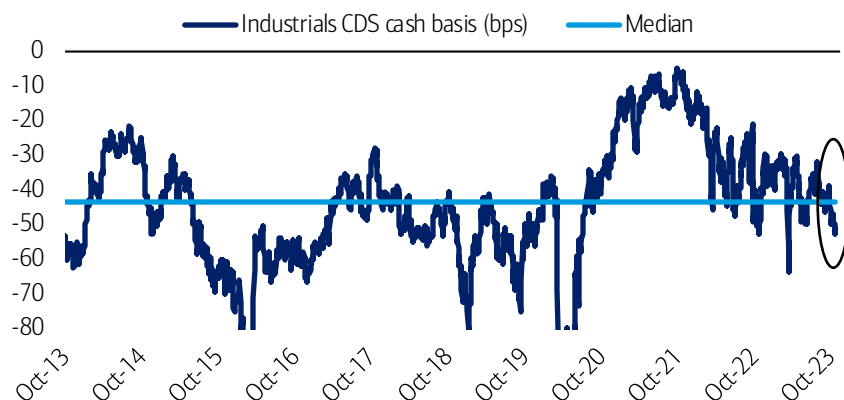
Modest supply, today's continued stability in Treasury yields and low dealer inventories (see [Situation Room: Bouncing off the 5%](#)) should all be supportive of IG corporate bond spreads relative to CDS. As a result, we look for CDS cash basis to tighten from some of the widest levels since Covid in 2020.

CDS cash basis is near historical wides

We estimate the CDS cash basis widened 13bps since August 31st for the big six US Banks / Brokers and 8bps for a sample of liquid US Industrials. That brings the basis to some of the widest levels historically. In fact the basis was at the current levels or wider only during the periods of unusual stress, including following the US regional banks failures in March, the prior peak in rates in October 2022 and the Covid period in 2020 (Figure 1, Figure 2).

Figure 1: CDS cash basis is currently at some of the widest levels since 2020

CDS cash basis for a sample of 19 liquid issuers widened 8bps since August.



Source: BofA Global Research, ICE Data Indices, LLC, Markit.

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24 October 2023

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United States
Cross Product

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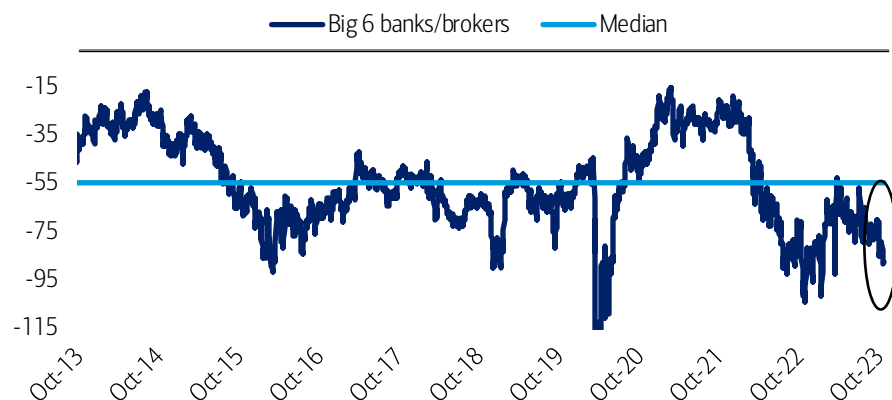
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Timestamp: 24 October 2023 06:16PM EDT

Figure 2: CDS cash basis for the big six US banks and brokers is also near the wides since 2020

CDS cash basis for the big six US banks / brokers widened 13bps since August.



Source: BofA Global Research, ICE Data Indices, LLC, Markit.

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Daily credit snapshot

US IG issuance totaled \$2.50bn across 1 deal today, \$3.3bn WTD and \$51.5bn MTD. The average new issue concession was 3.5bps today. This week's new issues are trading 6.0bps tighter on average from pricing.

S&P 500 closed +0.73%, 10-year Treasury yields -3bps, CDX IG -1.8bps, CDX HY +\$0.35pts, and cash bond spreads quoted -1/-3bp today, LQD closed 2.45bps 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)
2023-10-23	GPC	Genuine Parts Co	5	425	Baa1/BBB	6.5	180	n.a.	n.a.	173
2023-10-23	GPC	Genuine Parts Co	10	375	Baa1/BBB	6.875	210	n.a.	n.a.	206
2023-10-24	AXP	American Express Co	3	300	A2/BBB+	FRN	SOFR + 135	n.a.	n.a.	n.a.
2023-10-24	AXP	American Express Co	3	1,200	A2/BBB+	6.338	125	2	n.a.	n.a.
2023-10-24	AXP	American Express Co	8	1,000	A2/BBB+	6.489	165	5	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

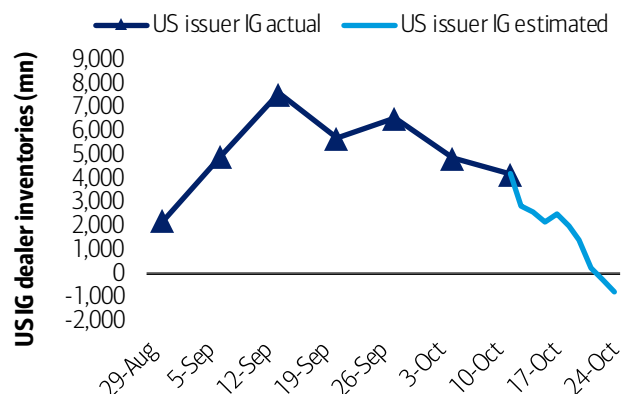
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Daily dealer inventories update

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 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 -\$0.8bn currently from \$4.2bn on Oct-11.



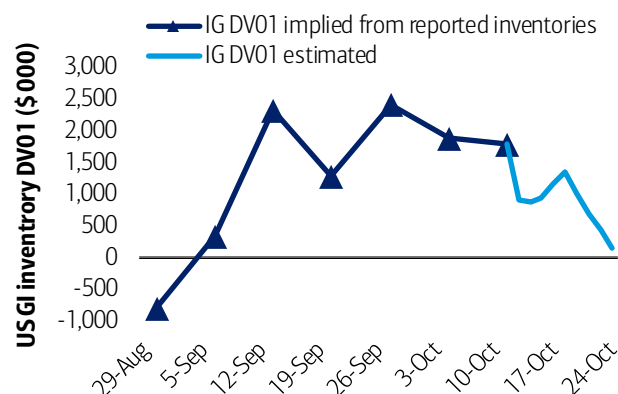
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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 \$0.2mn currently from \$1.8bn on Oct-11.



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 declined -\$291mn today and declined -\$3,518mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Oct-23 (\$mn)			
	24-Oct	23-Oct	1 W	2 W	4 W	24-Oct	23-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-291	-635	-3,518	-4,978	-6,738	-101	-344	-844	-772	-504	10,610	10,901	7,585	29,096
<3yr	-93	-129	-1,644	-2,004	-2,156	1	-24	-272	-347	-448	1,960	2,053	1,388	5,401
3-5yr	-13	-101	-1,598	-3,242	-4,767	1	-30	-505	-1,107	-1,612	1,995	2,008	1,610	5,613
5-11yr	-164	-497	-877	-1,315	-3,480	-72	-321	-571	-877	-1,979	3,802	3,965	2,712	10,478
11+yr	-22	92	601	1,582	3,665	-30	31	503	1,559	3,534	2,853	2,875	1,875	7,603
Fin	207	-232	-1,156	-1,142	-2,086	72	-25	-119	-193	-600	4,719	4,512	2,839	12,071
Non-Fin	-498	-403	-2,362	-3,836	-4,652	-172	-319	-726	-579	96	5,891	6,389	4,746	17,025
Fixed	-285	-671	-3,442	-4,803	-6,723	-121	-353	-843	-767	-601	10,513	10,799	7,542	28,854
Floating	-6	37	-76	-176	-14	20	9	-1	-5	97	96	102	43	241
US issuers	-494	-471	-3,265	-4,993	-8,201	-278	-252	-1,020	-1,142	-1,725	8,068	8,562	6,048	22,677
DM Yankees	197	-147	-202	230	1,372	183	-45	197	503	1,219	2,186	1,988	1,430	5,603
EM Yankees	5	-16	-51	-215	92	-5	-46	-21	-133	1	356	351	108	815

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 \$19mn for Banks/Brokers and increased \$51mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Oct-23 (\$mn)			
	24-Oct	23-Oct	1 W	2 W	4 W	24-Oct	23-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	31	31	-207	-297	-379	16	24	-153	-232	-219	246	215	177	639
Automobiles	8	-8	-95	-348	-267	16	0	9	-106	-59	305	298	249	852
Banks/Brokers	19	-363	-1,280	-883	-1,785	71	-139	-279	-146	-647	3,274	3,255	1,851	8,381
Basic Materials	224	95	252	111	-114	150	65	176	163	57	524	300	225	1,049
Commercial Services	-20	-29	-97	-95	141	-10	-22	-32	6	204	82	102	53	237
Energy	51	10	-153	-371	-412	34	9	41	7	142	714	662	483	1,859
Finance	226	17	-20	-223	-469	35	0	-17	-116	-64	839	614	540	1,993
Food, Bev, & Bottling	-35	-74	-195	304	292	20	-61	-84	474	572	381	415	298	1,094
Health Care	-343	-25	-421	-112	-526	-242	-32	-137	113	168	961	1,304	913	3,178
Industrial Products	17	-56	-97	-303	-235	48	-26	18	-60	42	235	218	147	600
Insurance	-83	6	-95	-256	-253	-35	56	75	-44	-60	217	300	176	693
Media & Entertainment	-8	-173	-220	-626	-755	18	-120	-96	-271	-299	378	386	258	1,022
REITs	45	107	239	220	422	0	58	102	113	171	388	344	272	1,004
Retail	-50	-32	-202	-332	-741	10	-11	-95	-72	-251	481	531	446	1,458

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

We estimate today IG dealer inventories increased \$19mn for Banks/Brokers and increased \$51mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Oct-23 (\$mn)			
	24-Oct	23-Oct	1 W	2 W	4 W	24-Oct	23-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Technology	-45	-41	-305	-236	-534	-27	-60	-127	-12	-136	536	581	481	1,598
Telecom	-145	-75	-386	-671	-569	-78	-54	-253	-430	-266	291	436	302	1,029
Tobacco	5	1	-28	-147	-153	-4	-1	-7	-48	2	64	59	122	245
Transportation	-21	-21	-60	-168	-157	-8	-28	51	-12	-47	136	157	70	363
Utilities	-147	-30	-84	-422	-24	-122	-14	-27	-85	195	438	585	413	1,435
Other	-20	26	-62	-123	-220	6	11	-10	-15	-9	120	140	106	366

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

Source: BofA Global Research, FINRA, TRACE.

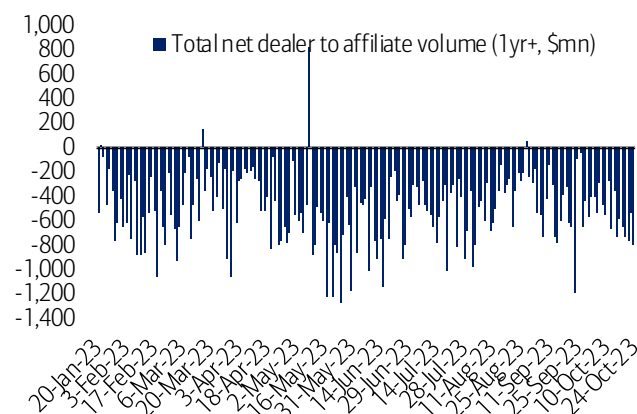
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Daily foreign demand tracker

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: [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.



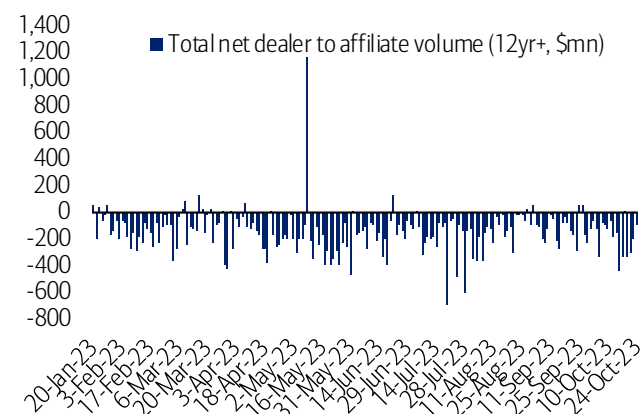
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



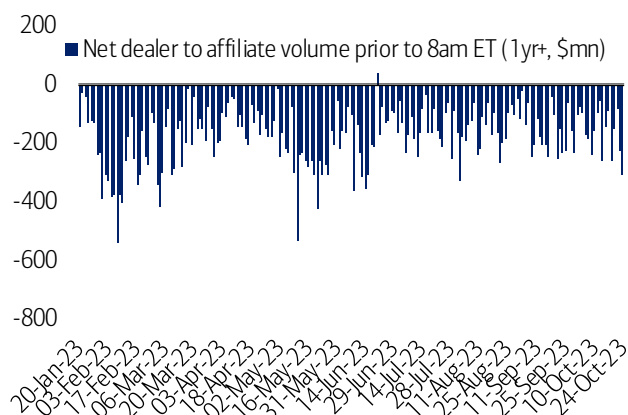
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



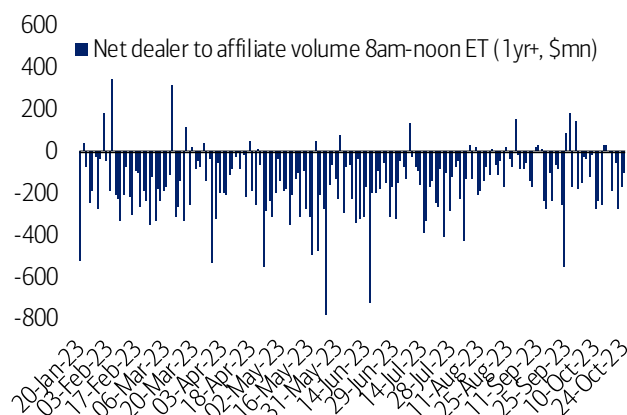
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

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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