

Situation Room

IG November supply: recovering from the rate shock

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We look for November IG corporate supply in \$80 - \$90bn range. That would be similar to \$79bn priced so far in October, but about \$20bn below the \$108bn average volume for the month of November (Figure 1).

October vs November

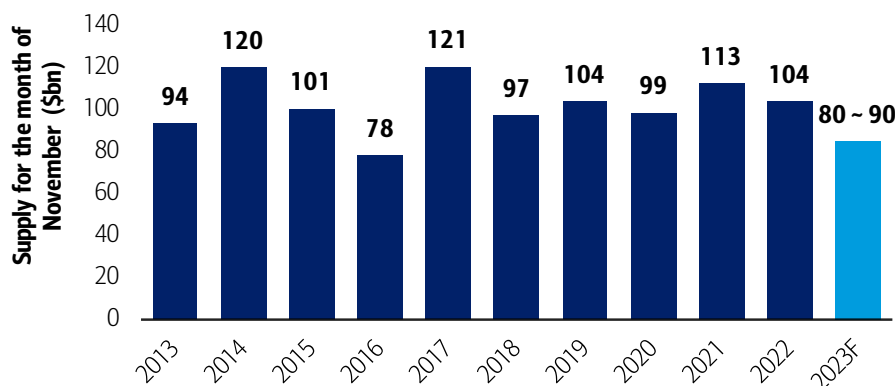
On net we see reasons for issuance to remain below typical levels in November, but not as much as it did in October. We estimate that issuance over the past four weeks came in \$40bn below the typical pace – the same lag as in March during the peak of US regional banks stress (Figure 4, Figure 5). Market conditions are improving, and we look for the lag to shrink to \$20bn in November.

Drivers of supply in November

We look for a smaller lag between 2023 and typical supply volumes in November due to easing rates shock and a potential deal backlog. First, 10yr Treasury yield jumped 76bps since August, clearing weighing on borrowing costs. However, after peaking at 4.99% on October 19 the yield has stabilized a bit and is currently down 12bps from the cyclical highs (Figure 6). Second, rates vol has also increased materially since early September, but similarly to rates it has stabilized at the higher level in October (Figure 7). Third, the unusually low levels of issuance in October potentially created a backlog of supply for November.

Figure 1: We look US IG supply to remain subdued in November

We look for November IG supply in \$80-\$90bn range, below \$108bn average for the prior five years ex. 2020.



Source: BofA Global Research

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30 October 2023

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Please see page 6 for abbreviations

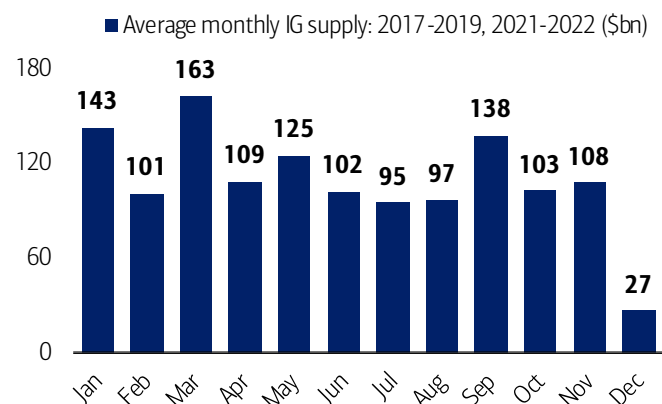
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Timestamp: 30 October 2023 05:54PM EDT

Figure 2: IG supply averaged \$103bn for the month of October

Supply for the calendar month of October tends to be relatively light.

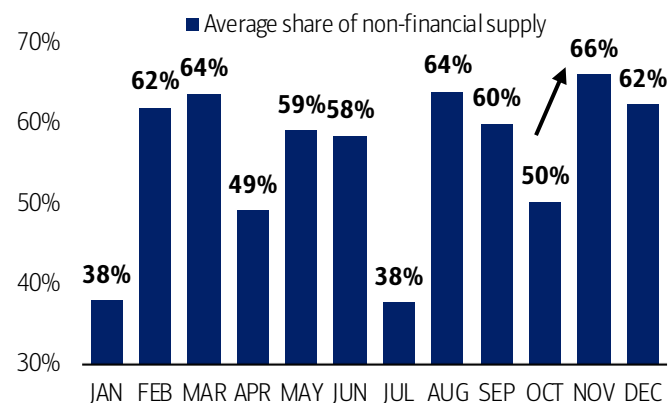


Source: BofA Global Research

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Figure 3: Supply in Nov tends to be concentrated in non-financials

On average 66% of supply for the month of November is from non-financial issuers.



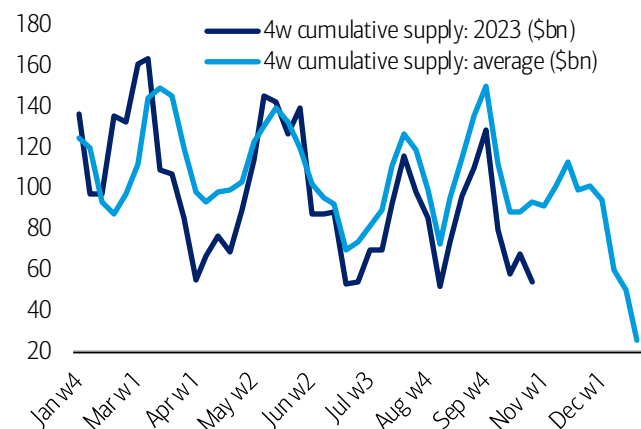
Note: the average is for the period 2017-2019, 2021-2022.

Source: BofA Global Research

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Figure 4: October supply has lagged the typical levels

The four-week pace of issuance diverged from the typical levels by \$40bn by the end of October.

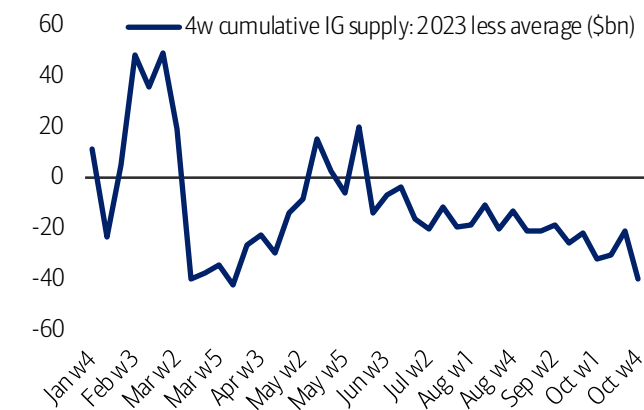


Source: BofA Global Research

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Figure 5: Supply lagging in October as much as it did post SVB

The 4-week cumulative supply lag between year 2023 and the average levels was as high in October as it was post SVB in March.

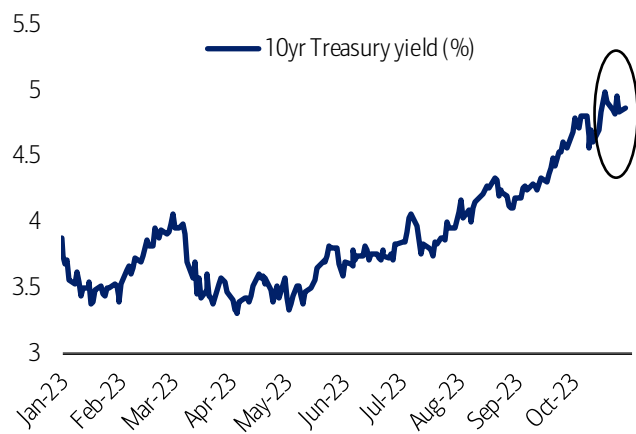


Source: BofA Global Research

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Figure 6: 10yr Treasury yields stabilized a bit in late October

10yr Treasury yields are currently down 12bps from the 4.99% cyclical high.

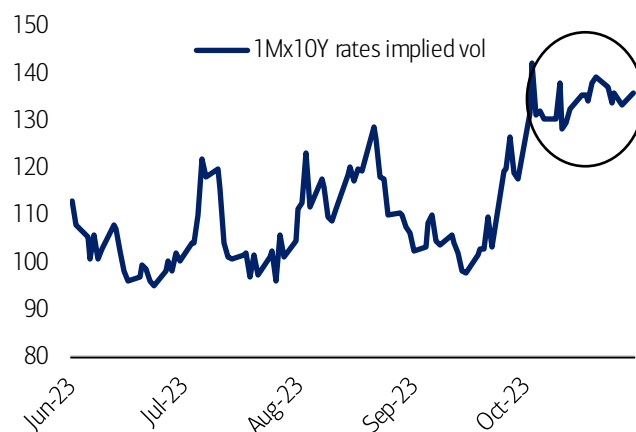


Source: Bloomberg

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Figure 7: Rates vol stabilized at a higher level in October

1Mx10Y rates vol has remained little changed since early October after rising rapidly in the second half of September.



Source: Bloomberg

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Daily credit snapshot

US IG issuance totaled \$22.5bn across 12 deals today, \$22.5bn WTD and \$79.0bn MTD. The average new issue concession was +1.5bps today, while the average break performance was 5.6bps tighter today. This week's new issues are trading 6.0bps tighter on average from pricing.

S&P 500 closed -1.18%, 10-year Treasury yields -11bps, CDX IG +0.0bps, CDX HY - \$0.01pts, and cash bond spreads quoted Unched to + 2bps today, LQD closed 1.23bps wider today.

Figure 8: 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)
2023-10-30	AJG	Arthur J Gallagher & Co	10	400	Baa2/BBB	6.5	163	n.a.	2	165
2023-10-30	AJG	Arthur J Gallagher & Co	30	600	Baa2/BBB	6.75	178	n.a.	2	180
2023-10-30	BIMBOA	Bimbo Bakeries USA Inc	5	450	Baa1/BBB+	6.05	125	n.a.	n.a.	n.a.
2023-10-30	BIMBOA	Bimbo Bakeries USA Inc	10	550	Baa1/BBB+	6.4	155	n.a.	n.a.	n.a.
2023-10-30	BMV	Bristol-Myers Squibb Co	7	1,000	A2/A+	5.75	90	-2	n.a.	n.a.
2023-10-30	BMV	Bristol-Myers Squibb Co	10	1,000	A2/A+	5.9	105	7	n.a.	n.a.
2023-10-30	BMV	Bristol-Myers Squibb Co	30	1,250	A2/A+	6.25	122	-3	-13	109
2023-10-30	BMV	Bristol-Myers Squibb Co	40	1,250	A3/A+	6.4	135	10	-13	122
2023-10-30	CNRCN	Canadian National Railway Co	10	300	A2/A-	5.85	100	-4	n.a.	n.a.
2023-10-30	CNRCN	Canadian National Railway Co	30	300	A2/A-	6.125	110	1	n.a.	n.a.
2023-10-30	DFS	Discover Financial Services	11	1,000	Baa2/BBB-	7.964	310	11	n.a.	n.a.
2023-10-30	DGX	Quest Diagnostics Inc	10	750	Baa2/BBB+	6.4	153	n.a.	n.a.	n.a.
2023-10-30	HYNMTR	Hyundai Capital America	2	300	Baa1/BBB+	FRN	SOFR+132	n.a.	n.a.	n.a.
2023-10-30	HYNMTR	Hyundai Capital America	2	500	Baa1/BBB+	6.25	125	n.a.	n.a.	n.a.
2023-10-30	HYNMTR	Hyundai Capital America	5	700	Baa1/BBB+	6.5	178	5	n.a.	n.a.
2023-10-30	MO	Altria Group Inc	5	500	A3/BBB	6.2	145	1	n.a.	n.a.
2023-10-30	MO	Altria Group Inc	10	500	A3/BBB	6.875	205	-9	-21	184
2023-10-30	MS	Morgan Stanley Bank NA	3	350	Aa3/A+	FRN	SOFR+116.5	n.a.	n.a.	n.a.
2023-10-30	MS	Morgan Stanley Bank NA	3	1,650	Aa3/A+	5.882	100	n.a.	-2	98
2023-10-30	MS	Morgan Stanley	6	2,000	A1/A-	6.407	160	3	-5	155
2023-10-30	MS	Morgan Stanley	11	2,000	A1/A-	6.627	175	-4	n.a.	n.a.
		National Rural Utilities								
2023-10-30	NRUC	Cooperative Finance Corp	3	400	A2/A-	5.6	73	10	n.a.	n.a.
2023-10-30	R	Ryder System Inc	5	400	Baa2/BBB+	6.3	150	-5	1	151

Figure 8: Recent new issue pricing and new issue concessions

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

2023-10-30	IS	Issuer	Tranche	Size (\$mm)	Rating	Price (\$mm)	Yield (%)	Spread (bps)	Break (bps)	Concessions (bps)
2023-10-30	SANTAN	Banco Santander SA	4	1,000	A2/A+	6,527	165	n.a.	n.a.	n.a.
2023-10-30	SANTAN	Banco Santander SA	5	1,250	A2/A+	6,607	180	n.a.	n.a.	n.a.
2023-10-30	SANTAN	Banco Santander SA	10	1,500	A2/A+	6,938	205	n.a.	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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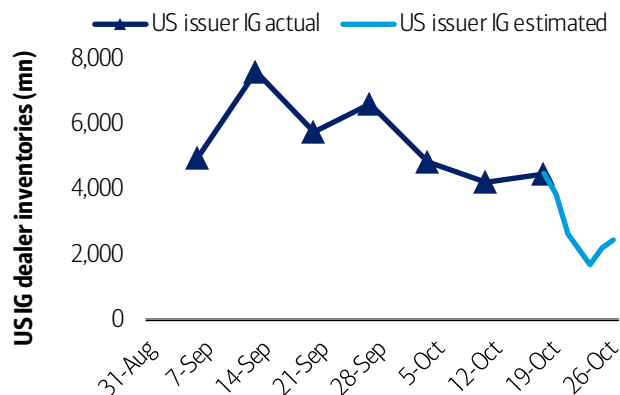
Daily dealer inventories update

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 9 and Figure 10. We estimate the corresponding DV01 equivalent in Figure 10. More details by sector and maturity are available in Figure 11 and Figure 12. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Figure 9: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to \$2.4bn currently from \$4.5bn on Oct-18.



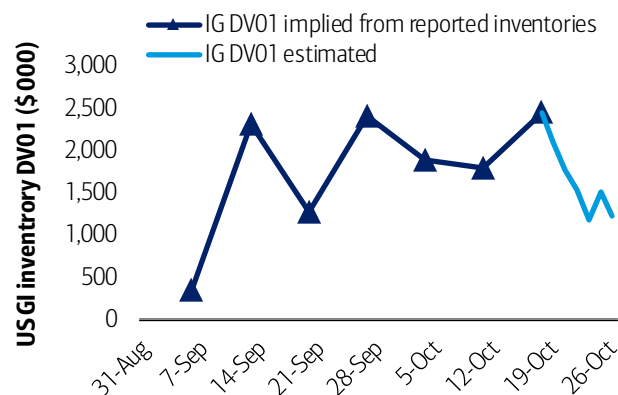
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 10: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to \$1.2mn currently from \$2.4bn on Oct-18.



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

We estimate IG dealer inventories increased \$1,890mn today and increased \$5,099mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 30-Oct-23 (\$mn)			
	30-Oct	27-Oct	1 W	2 W	4 W	30-Oct	27-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	1,890	2,111	5,099	2,719	-3,400	911	1,138	1,955	1,715	-541	9,820	7,930	6,501	24,251
<3yr	482	319	1,543	99	-728	68	48	249	-7	-190	1,655	1,173	1,246	4,074
3-5yr	442	505	2,167	516	-2,471	169	161	752	216	-851	1,891	1,449	1,260	4,599
5-11yr	520	794	665	450	-2,597	290	434	300	37	-1,609	3,535	3,014	2,212	8,761
11+yr	446	493	725	1,655	2,397	383	496	654	1,468	2,109	2,739	2,293	1,784	6,816
Fin	974	665	3,112	2,530	141	454	315	1,131	1,295	103	4,210	3,236	2,393	9,840
Non-Fin	916	1,446	1,988	189	-3,540	457	823	824	420	-644	5,609	4,693	4,108	14,410
Fixed	1,928	2,076	5,005	2,689	-3,351	918	1,120	1,837	1,603	-700	9,755	7,827	6,421	24,003
Floating	-37	35	95	30	-49	-7	18	117	111	160	65	102	81	247
US issuers	1,233	1,698	3,187	720	-5,144	562	977	1,233	730	-1,533	7,423	6,190	5,313	18,925
DM Yankees	642	362	1,840	2,024	1,822	338	145	748	1,056	1,082	2,084	1,442	1,089	4,614
EM Yankees	15	51	71	-26	-78	11	17	-27	-71	-89	313	298	100	711

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	30-Oct	27-Oct	1 W	2 W	4 W	30-Oct	27-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total

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 12: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$587mn for Banks/Brokers and increased \$230mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 30-Oct-23 (\$mn)			
	30-Oct	27-Oct	1 W	2 W	4 W	30-Oct	27-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	22	61	227	-57	-269	27	40	91	-117	-289	167	145	229	542
Automobiles	133	92	154	40	-154	70	54	57	39	-39	328	195	186	709
Banks/Brokers	587	523	2,376	1,695	166	208	266	858	741	82	3,053	2,466	1,708	7,227
Basic Materials	-3	82	420	378	120	26	18	268	286	176	325	328	175	828
Commercial Services	25	50	26	-68	57	4	42	-4	-28	102	126	101	50	277
Energy	230	174	429	227	-217	133	102	237	283	136	651	421	542	1,614
Finance	236	65	651	428	-242	142	-9	249	205	-122	597	361	372	1,330
Food, Bev, & Bottling	-1	47	-142	-268	183	-2	30	-111	-200	366	312	313	268	894
Health Care	83	213	-80	-15	-353	2	103	-219	-26	14	873	790	606	2,269
Industrial Products	32	15	210	43	-138	22	20	180	116	115	177	146	185	508
Insurance	63	83	67	86	-32	68	58	70	213	95	287	224	161	673
Media & Entertainment	7	140	196	-138	-589	-12	111	134	-29	-254	314	307	272	893
REITs	88	-6	18	321	249	36	1	-46	136	48	273	185	153	611
Retail	20	118	-19	-125	-658	23	76	-31	-114	-408	292	272	261	825
Technology	91	56	340	149	-412	29	10	172	110	-256	651	560	464	1,676
Telecom	-40	151	-280	-494	-907	-68	98	-217	-397	-567	357	398	181	936
Tobacco	69	34	131	98	-28	39	20	67	72	32	127	58	84	268
Transportation	8	112	135	101	-68	12	59	105	173	19	153	146	123	422
Utilities	194	91	304	388	180	131	33	131	292	271	638	444	389	1,471
Other	48	9	-62	-70	-289	20	6	-34	-40	-63	116	68	94	279

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

Source: BofA Global Research, FINRA, TRACE.

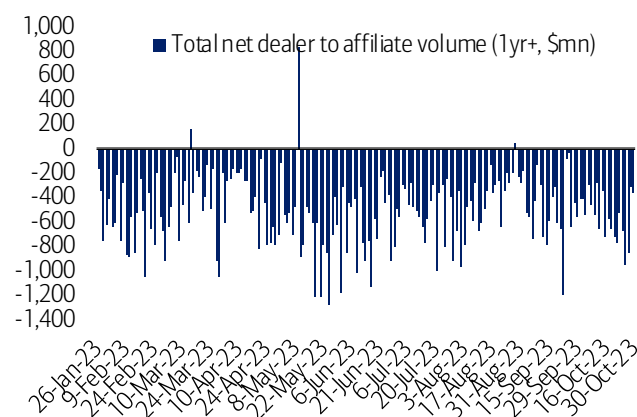
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Daily foreign demand tracker

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

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

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



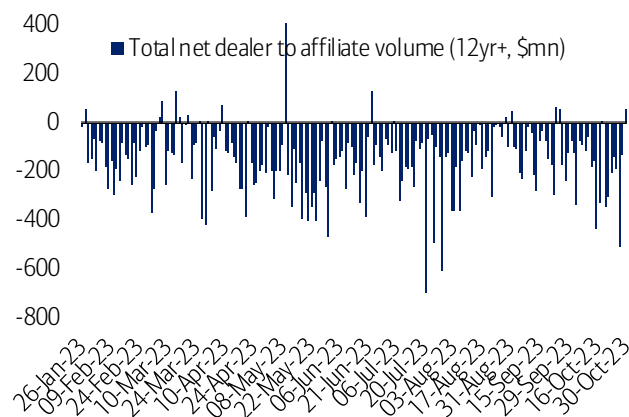
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



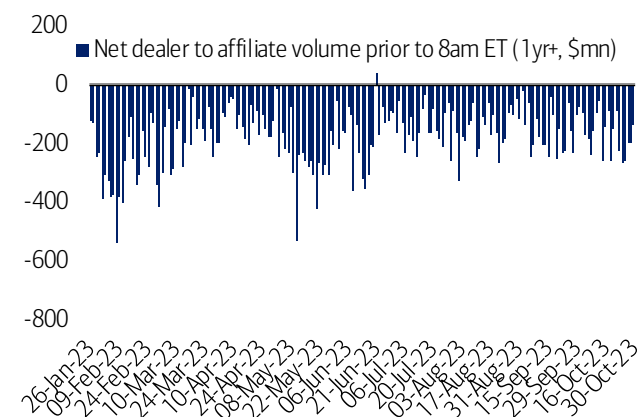
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 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



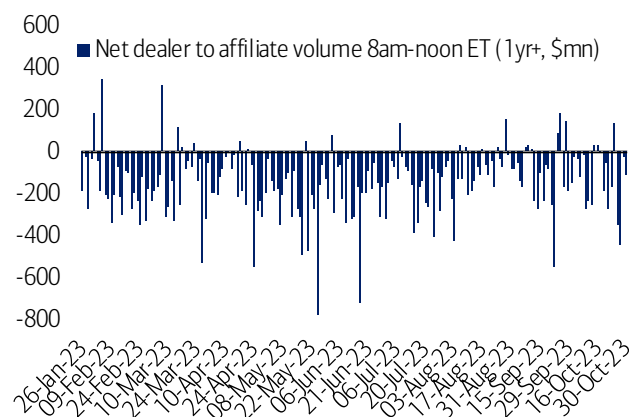
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 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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