

Situation Room

Jan CPI: resilient IG spreads, not Fed cuts

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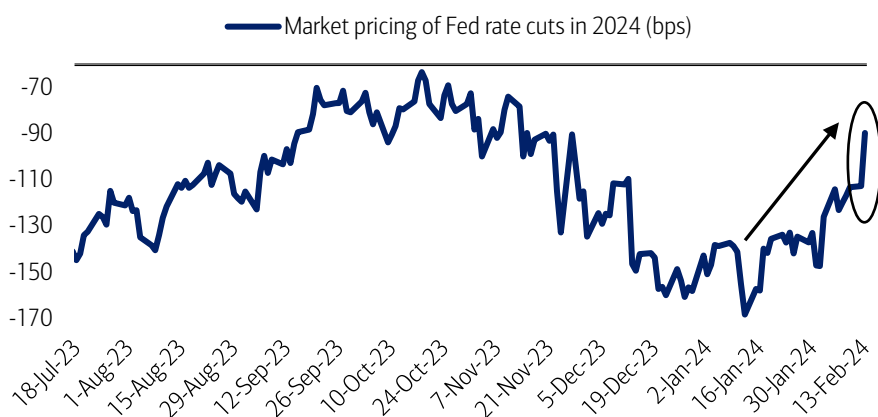
Following the stronger than expected US data so far in 2024, January CPI also surprised to the upside. Notably, much of the surprise was in the core services category (+0.66% MoM vs. +0.46% BofA forecast, see [US Watch: January CPI Inflation: detour from disinflation](#)). This matters because chair Powell effectively ruled out a March cut during the January FOMC suggesting the Fed needed more evidence that services inflation was consistent with the 2% target (see [US Economic Weekly](#)). An elevated services inflation print, therefore, subtracted almost a full cut (23bps) from the market pricing of the Fed in 2024 (Exhibit 1). On top of that 2yr inflation swaps increased by 12bps, bringing the expected inflation back to Nov 2023 levels (Exhibit 2) and suggesting potentially more Fed hawkishness ahead.

Less IG spread reaction

In contrast to the Fed expectations, IG spreads remained resilient, similar to January. We expect that to continue (see [Credit Market Strategist: No cut, no problem](#)). While S&P declined -1.4% on the day and 10yr Treasury yield jumped +14bps, IG bond spreads were generally unchanged. Moreover, IG investors on net bought \$2.8bn of bonds from dealers across maturities (Exhibit 3). That suggests higher risks to growth from a more hawkish Fed are offset by more attractive yields. Spreads are also supported by the fact that interest rate volatility has remained relatively subdued (Exhibit 4).

Exhibit 1: Market pricing subtracted 23pbs from the expected Fed rate cuts in 2024

Markets are currently pricing in 90bps of rate cuts in 2024, down from 113bps on Monday February 12.



Source: BofA Global Research, Bloomberg.

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13 February 2024

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United States
Cross Product

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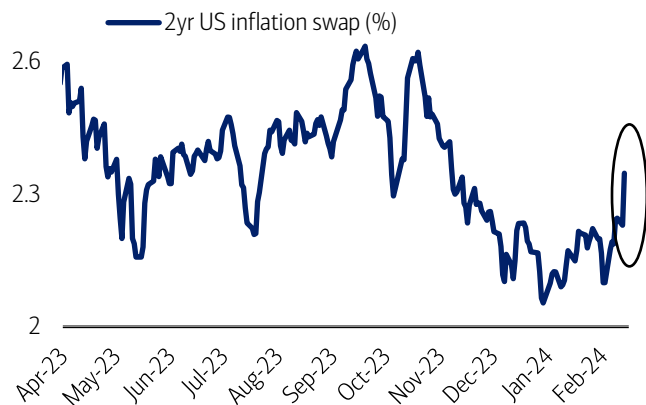
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Timestamp: 13 February 2024 05:58PM EST

Exhibit 2: 2yr US inflation swaps increased by 12bps on Feb 13

2yr US inflation swap increased to 2.34% on Feb 13 from 2.23% on Feb 12.

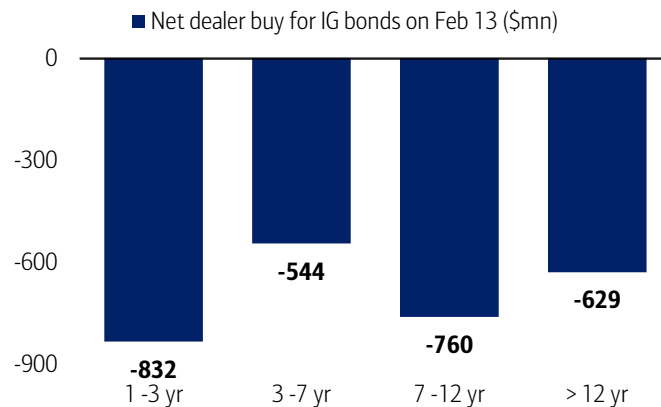


Source: Bloomberg.

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Exhibit 3: IG investors net bought bonds from dealers

On February 13 TRACE data suggests IG investors bought a net \$2.8bn of bonds from dealers across maturities.

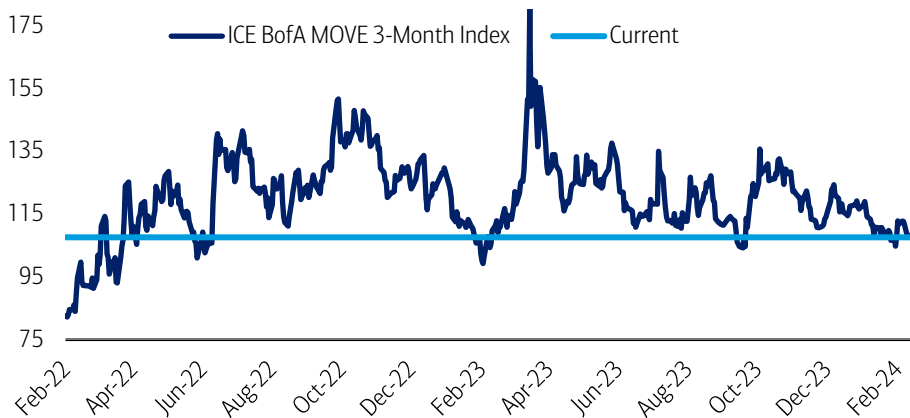


Source: Bloomberg.

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Exhibit 4: Implied interest rate volatility remains relatively subdued

Despite the recent rise in Treasury yields, the implied interest rate volatility remains in the low end of the range over the past two years.

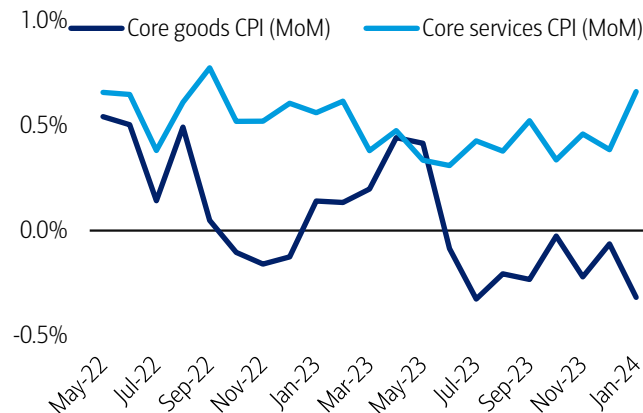


Source: Bloomberg.

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Exhibit 5: Core goods flat, services inflation in December

Core goods inflation was close to flat in December (-0.04% m/m), while core services inflation remained high at +0.44%.

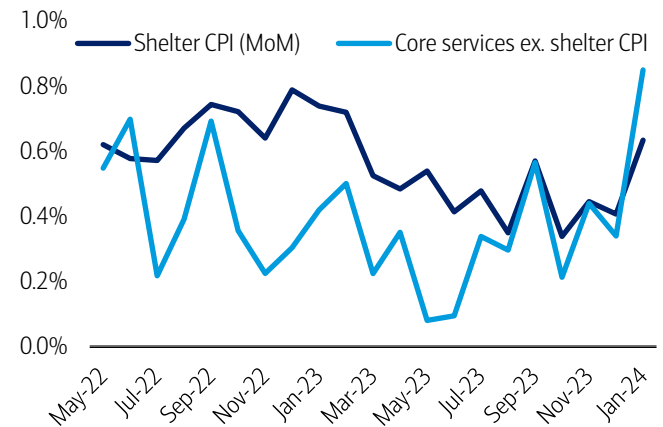


Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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Exhibit 6: Elevated core services inflation

Core services ex. shelter CPI remained elevated at +0.40% in Dec, similar to +0.44% m/m in Nov. Shelter inflation was little changed at +0.46% m/m.



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

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Daily credit snapshot

US IG issuance totaled \$0bn across no deals today, \$11.3bn WTD and \$59.3bn MTD.

S&P 500 closed -1.37%, 10-year Treasury yields +14bps, CDX IG +1.4bps, CDX HY - \$0.38pts, and cash bond spreads quoted +/- 2bps today, LQD closed 0.43bps tighter today.

Exhibit 7: 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)
2024-02-12	AJG	Arthur J Gallagher & Co	10	500	Baa2/BBB	5.45	132	6	-2	131
2024-02-12	AJG	Arthur J Gallagher & Co	30	500	Baa2/BBB	5.75	147	8	-1	146
2024-02-12	AXP	American Express Co	4NC3	300	A2/BBB+	FRN	SOFR+100	n.a.	n.a.	n.a.
2024-02-12	AXP	American Express Co	4NC3	1,700	A2/BBB+	5.098	85	2	n.a.	84
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	10	700	Baa1/BBB+	5.2	105	10	5	110
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	30	750	Baa1/BBB+	5.55	120	2	7	127
2024-02-12	BNP	BNP Paribas SA	6NC5	1,750	Baa1/A-	5.497	138	-12	-1	137
2024-02-12	BNP	BNP Paribas SA	11NC10	1,500	Baa1/A-	5.738	158	n.a.	-1	157
2024-02-12	DTE	DTE Energy Co	5	1,200	Baa2/BBB	5.1	103	7	n.a.	102
2024-02-12	EL	Estee Lauder Cos Inc/The	10	650	A1/A	5	87	13	3	90
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	3	300	A1/A+	FRN	SOFR+56	n.a.	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	3	550	A1/A+	4.65	40	5	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	5	450	A1/A+	4.55	45	4	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	10	450	A1/A+	4.7	55	-1	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.

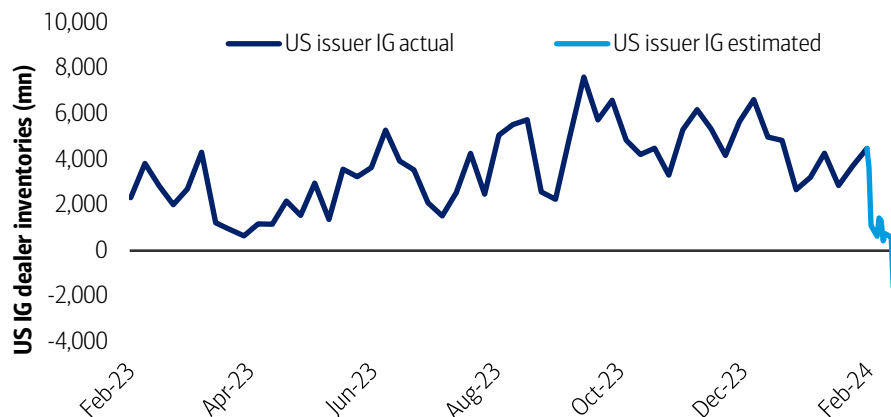
The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 8. We estimate the corresponding DV01 equivalent in Exhibit 9. More details by sector and maturity are



available in Exhibit 10 and Exhibit 11. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 8: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to -\$1.6bn currently from \$4.5bn on Jan-31.



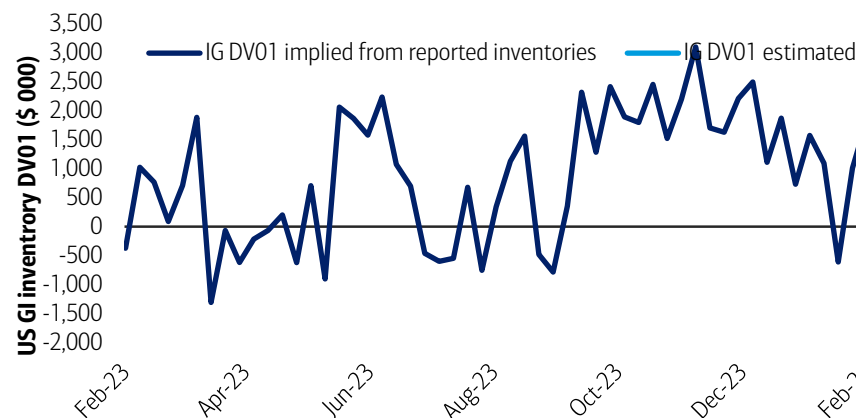
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 9: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to -\$1.1mn currently from \$1.8bn on Jan-31.



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

We estimate IG dealer inventories declined -\$2,393mn today and declined -\$3,786mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 13-Feb-24 (\$mn)			
	13-Feb	12-Feb	1 W	2 W	4 W	13-Feb	12-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-2,393	-393	-3,786	-6,800	-8,808	-1,706	-333	-1,472	-2,354	-1,928	10,913	13,306	9,126	33,345
<3yr	-638	52	-1,444	-2,698	-3,376	-122	4	-279	-575	-720	1,770	2,408	1,628	5,807
3-5yr	-75	-237	-612	-625	-2,464	-20	-81	-252	-260	-870	2,242	2,317	2,123	6,681
5-11yr	-961	-107	-2,232	-4,687	-6,629	-580	-31	-1,412	-2,794	-4,293	4,207	5,169	3,256	12,632
11+yr	-719	-101	502	1,211	3,661	-984	-225	471	1,276	3,956	2,694	3,413	2,118	8,224
Fin	-846	-241	-2,911	-4,228	-7,641	-429	-26	-1,201	-1,814	-2,320	4,379	5,226	3,342	12,947
Non-Fin	-1,547	-152	-875	-2,572	-1,167	-1,277	-307	-271	-540	392	6,534	8,080	5,783	20,398

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	13-Feb	12-Feb	1 W	2 W	4 W	13-Feb	12-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Fixed	-2,409	-365	-3,695	-6,507	-8,219	-1,714	-321	-1,457	-2,304	-1,894	10,801	13,210	9,093	33,104
Floating	16	-28	-91	-292	-589	8	-12	-15	-50	-34	112	96	33	241
US issuers	-2,186	-147	-3,026	-5,198	-6,347	-1,629	-211	-1,404	-2,096	-1,640	8,670	10,856	7,721	27,247
DM Yankees	-223	-301	-1,040	-2,113	-3,158	-104	-138	-261	-585	-727	1,920	2,143	1,306	5,369
EM Yankees	16	56	280	511	697	27	16	193	327	439	323	307	99	729

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 11: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$529mn for Banks/Brokers and declined -\$156mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 13-Feb-24 (\$mn)			
	13-Feb	12-Feb	1 W	2 W	4 W	13-Feb	12-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-31	-28	63	-93	304	-60	2	51	-61	319	227	257	197	681
Automobiles	-2	-12	-92	-517	-466	-2	-14	-66	-320	-285	319	321	291	932
Banks/Brokers	-529	-343	-1,954	-2,782	-6,828	-285	-141	-934	-1,275	-2,242	2,997	3,526	2,220	8,743
Basic Materials	-119	31	11	-325	395	-62	-5	-50	-264	318	375	494	313	1,181
Commercial Services	-12	3	-100	-122	-75	-8	27	-45	-18	32	125	137	86	348
Energy	-156	-151	-586	-881	-1,187	-174	-102	-425	-553	-617	712	868	713	2,293
Finance	-30	-18	-472	-621	-481	-7	-5	-189	-330	-216	700	729	565	1,993
Food, Bev, & Bottling	-70	2	-87	-407	-747	18	-30	11	-227	-451	359	429	269	1,057
Health Care	-500	-74	-319	-316	508	-496	-206	-242	175	547	1,404	1,904	910	4,218
Industrial Products	-213	19	-284	-617	-478	-159	-4	-207	-432	-227	189	401	222	812
Insurance	-41	108	-219	-364	-221	1	130	41	-19	194	360	401	255	1,016
Media & Entertainment	-111	-62	130	80	214	-137	-93	55	76	220	481	592	415	1,487
REITs	-247	11	-266	-461	-111	-138	-10	-119	-191	-56	323	569	303	1,195
Retail	-69	20	63	164	469	-45	33	157	272	520	327	395	325	1,047
Technology	-125	-63	-178	-15	441	-141	-20	-65	162	519	461	586	531	1,578
Telecom	-5	-10	245	19	-686	16	-12	252	156	-434	381	386	316	1,083
Tobacco	-9	136	262	207	70	-24	91	110	40	22	279	288	203	770
Transportation	-26	24	37	158	192	15	22	57	222	166	199	226	169	594
Utilities	-4	-42	69	178	-271	-3	-18	158	229	-390	537	541	634	1,712
Other	-96	56	-108	-86	149	-15	24	-22	3	132	160	256	189	605

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

Source: BofA Global Research, FINRA, TRACE.

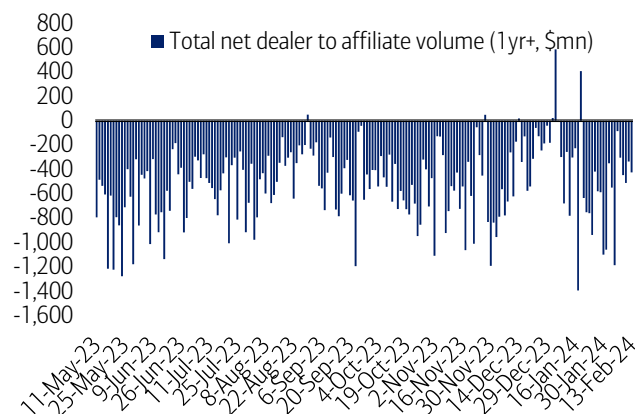
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Daily foreign demand tracker

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

Exhibit 12: Net dealer buying from affiliate (1yr+)

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



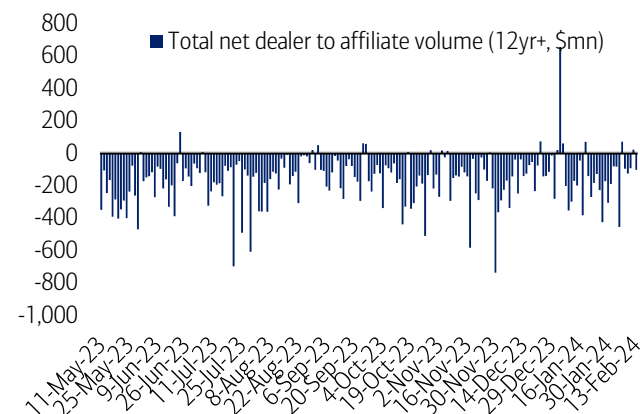
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 13: Net dealer buying from affiliate (12yr+)

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



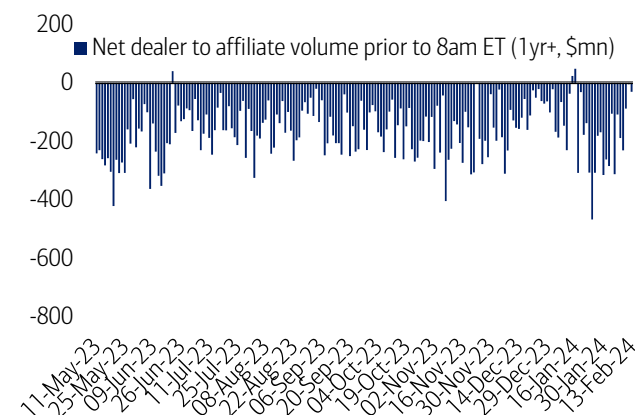
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 14: 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



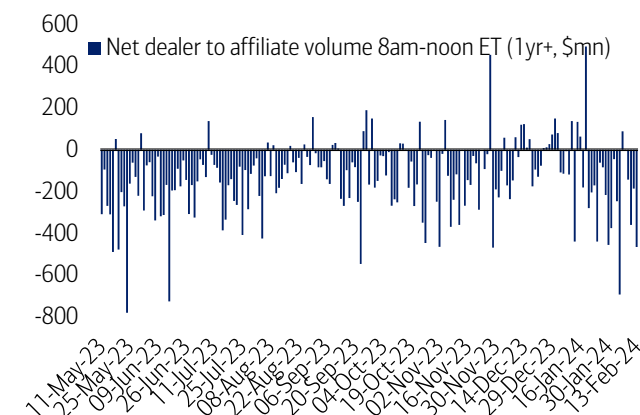
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 15: 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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