

# Situation Room

## Very cheap banking

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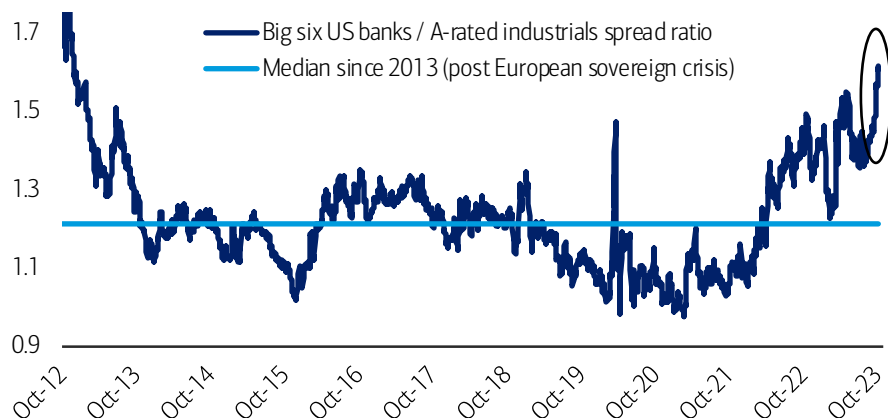
Spreads for the big six US banks are outperforming today on October 10 due to the big drop in Treasury yields. We believe there is much more room to go for two reasons. First, bank spreads are tightening from the cheapest levels relative to Industrials in over 10 years. The ratio of big six and A-rated industrial spread was 1.61 on Friday October 6, up from 1.21 median. At current spreads that's 34bps cheap (Figure 1). Another indicator of relative value is that bank spreads are currently at 61<sup>st</sup> percentile since 2010, compared to 23<sup>rd</sup> for Industrials (Figure 3). Finally, bank cash bond spreads continue to trade significantly cheaper vs. CDS compared to industrials (Figure 4).

### Lower rates, tighter bank spreads

The big jump in interest rates was one of the key drivers of bank spread underperformance in September. That's because higher interest rates exacerbate risks related to market-to-market on securities portfolios, commercial real estate, and "something breaking" along the lines of the US bank stress in March. While our interest rate strategists are neutral on rates in the near term, longer term they look for 10yr Treasury yield to decline to 4.0% by YE-2023 and 3.8% by Q1-2024 as the US economic growth slows (see Global Rates Weekly: Yield or fight on). That should be supportive of bank spreads into the next year.

**Figure 1: The ratio of big six US bank spreads to A-rated industrials in the highest since 2012**

The ratio of big six and A-rated industrial spread was 1.61 on Friday October 6, up from 1.21 median.



Source: BofA Global Research, ICE Data Indices, LLC

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10 October 2023

Credit Strategy  
United States  
Cross Product

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### In this report

Daily credit snapshot

Daily dealer inventories update

Daily foreign demand tracker

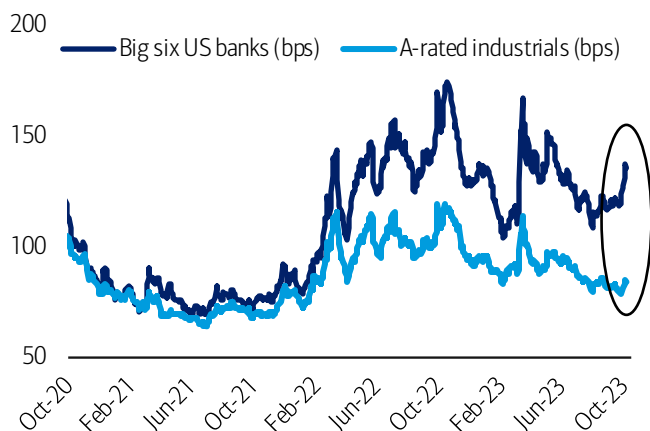
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Timestamp: 10 October 2023 06:38PM EDT

**Figure 2: Bank spreads underperformed in September**

Big six US bank spread is 19bps wider since August 31<sup>st</sup>, compared to 3bps wider for A-rated Industrials.

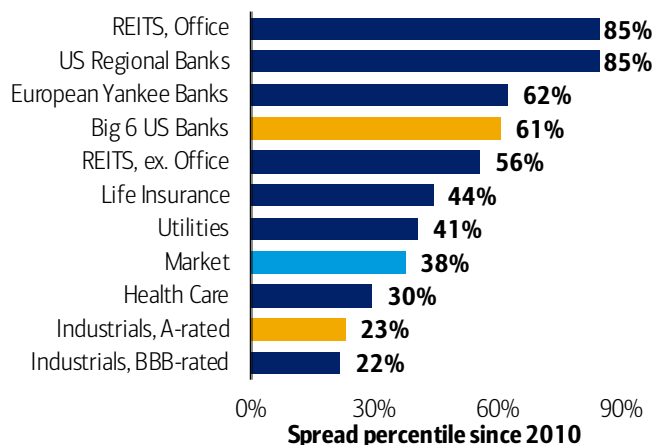


Source: BofA Global Research, ICE Data Indices, LLC

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**Figure 3: Bank spreads are cheap relative to history**

Big six US bank spread is currently at 61<sup>st</sup> percentile since 2010, up from 23<sup>rd</sup> percentile for A-rated industrials.

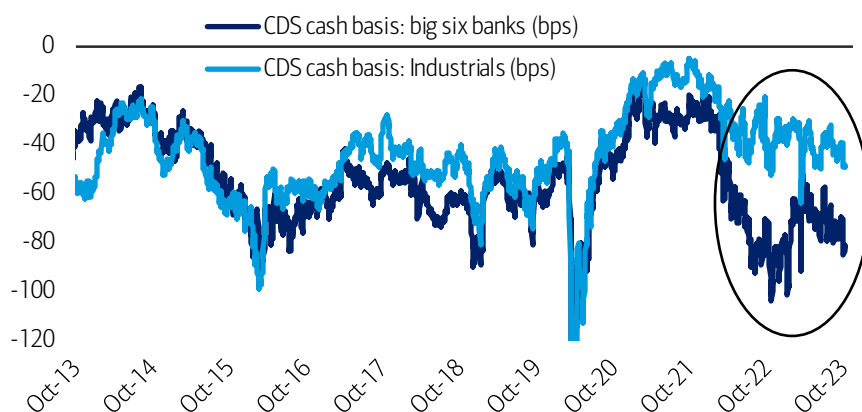


Source: BofA Global Research, ICE Data Indices, LLC

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**Figure 4: Banks trade cheap vs. CDS compared to Industrials**

CDS cash basis for the big six banks is -82bps, down from 49bps for Industrials.



Note: CDS cash basis is based on 19 liquid industrial issuers, and the six bank issuers.

Source: BofA Global Research, ICE Data Indices, LLC

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## Daily credit snapshot

US IG issuance totaled \$8.5bn across 3 deals today, \$8.5bn WTD and \$17.4bn MTD. The average new issue concession was 6.5bps today, while the average break performance was 4.6bps tighter today. This week's new issues are trading 5.0bps tighter on average from pricing.

S&P 500 closed +1.15%, 10-year Treasury yields -15bps, CDX IG -0.9bps, CDX HY +\$0.31pts, and cash bond spreads quoted Unched to -3bps today, LQD closed 2.50bps tighter today.

**Figure 5: 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)
2023-10-10	BPCEGP	BPCE SA	4	300	Baa1/BBB+	FRN	SOFR+198	n.a.	n.a.	n.a.
2023-10-10	BPCEGP	BPCE SA	4	1,100	Baa1/BBB+	6.612	185	n.a.	n.a.	n.a.
2023-10-10	BPCEGP	BPCE SA	6	1,250	Baa1/BBB+	6.714	210	n.a.	n.a.	n.a.
2023-10-10	BPCEGP	BPCE SA	11	1,350	Baa1/BBB+	7.003	235	n.a.	n.a.	n.a.
2023-10-10	ET	Energy Transfer LP	3	1,000	Baa3/BBB	6.05	130	n.a.	-3	127
2023-10-10	ET	Energy Transfer LP	5	500	Baa3/BBB	6.1	150	n.a.	-2	148
2023-10-10	ET	Energy Transfer LP	7	1,000	Baa3/BBB	6.4	175	n.a.	-7	168
2023-10-10	ET	Energy Transfer LP	10	1,500	Baa3/BBB	6.55	190	n.a.	-6	184
2023-10-10	GIS	General Mills Inc	5	500	Baa2/BBB	5.5	103	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

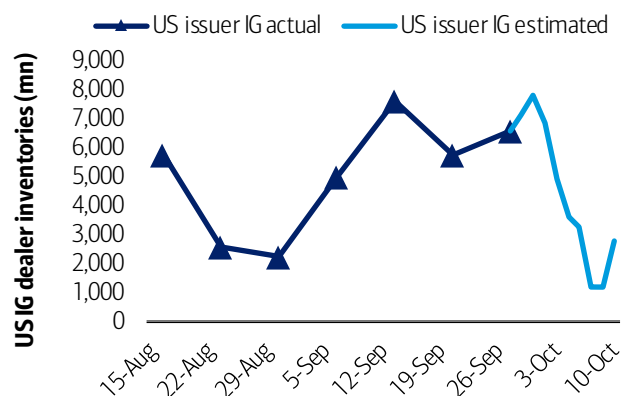
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## Daily dealer inventories update

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 6 and Figure 7. We estimate the corresponding DVO1 equivalent in Figure 7. More details by sector and maturity are available in Figure 8 and Figure 9. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

**Figure 6: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds dedined to \$2.8bn currently from \$6.6bn on Sep-27.



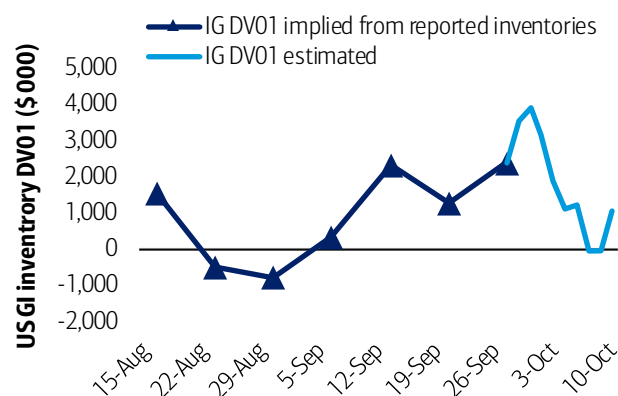
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Figure 7: Estimated dealer inventory DVO1 for IG corporate bonds.**

We estimate IG dealer inventory DVO1 of US issuer bonds dedined to \$1.0mn currently from \$2.4bn on Sep-27.



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

We estimate IG dealer inventories increased \$2,042mn today and dedined -\$2,233mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DVO1 change (\$thousand)					Trading volumes on 10-Oct-23 (\$mn)			
	10-Oct	6-Oct	1 W	2 W	4 W	10-Oct	6-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	2,042	-2,442	-2,233	-2,117	-5,945	1,341	-1,458	-770	52	-2,318	11,344	9,302	7,178	27,824
<3yr	494	-490	-370	-253	-3,065	82	-105	-92	-122	-621	1,804	1,310	1,324	4,438
3-5yr	322	-456	-1,085	-1,547	-1,215	115	-167	-387	-509	-389	1,999	1,677	1,417	5,094
5-11yr	288	-905	-1,343	-2,293	-1,576	152	-511	-678	-1,175	-887	4,010	3,721	2,448	10,179



**Figure 8: Estimated changes in IG dealer inventories by maturity and broad sector.**

We estimate IG dealer inventories increased \$2,042mn today and dedined -\$2,233mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 10-Oct-23 (\$mn)			
	10-Oct	6-Oct	1 W	2 W	4 W	10-Oct	6-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
11+yr	938	-591	565	1,976	-89	992	-675	388	1,857	-421	3,531	2,594	1,988	8,114
Fin	530	-707	-1,279	-1,061	-1,301	240	-341	-634	-459	-607	4,325	3,795	2,618	10,738
Non-Fin	1,512	-1,735	-954	-1,056	-4,644	1,101	-1,117	-136	510	-1,710	7,019	5,507	4,560	17,086
Fixed	1,972	-2,353	-2,236	-2,251	-6,116	1,296	-1,429	-805	-32	-2,366	11,191	9,219	7,102	27,512
Floating	70	-89	3	133	171	45	-29	36	84	48	153	83	76	312
US issuers	1,563	-2,068	-2,165	-3,472	-6,394	1,084	-1,268	-819	-771	-2,789	8,968	7,405	6,104	22,477
DM Yankees	384	-283	-128	1,041	-20	212	-148	-3	682	210	1,997	1,613	961	4,571
EM Yankees	95	-91	59	313	469	45	-43	52	141	262	379	284	113	775

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 9: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories increased \$241mn for Banks/Brokers and increased \$381 mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 10-Oct-23 (\$mn)			
	10-Oct	6-Oct	1 W	2 W	4 W	10-Oct	6-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-39	-38	-104	-91	-189	-59	-49	-82	4	13	225	263	218	706
Automobiles	44	-52	42	51	-110	17	-17	27	30	-37	219	175	128	522
Banks/Brokers	241	-423	-1,024	-990	-1,223	128	-240	-489	-539	-452	2,860	2,619	1,664	7,142
Basic Materials	55	-50	-112	-243	-339	40	-25	-66	-113	-236	338	283	208	828
Commercial Services	4	18	72	238	126	5	32	71	200	115	116	112	58	286
Energy	381	-146	-101	-85	-450	203	-74	-51	94	-130	899	518	486	1,903
Finance	38	-149	-405	-258	-334	9	-47	-187	50	-11	583	546	405	1,533
Food, Bev, & Bottling	69	-58	79	-15	-434	38	12	100	97	-213	405	336	236	978
Health Care	229	-232	-200	-442	-1,188	257	-135	144	38	-539	1,214	985	931	3,129
Industrial Products	97	-68	31	59	-260	61	-10	58	96	-21	252	155	151	557
Insurance	108	-40	122	-8	-96	44	-9	73	-23	-221	425	317	308	1,050
Media & Entertainment	114	-149	2	-143	-304	95	-101	62	-38	-105	521	407	322	1,250
REITs	143	-95	28	194	351	60	-46	-31	53	77	457	313	242	1,012
Retail	-6	-216	-282	-434	-274	-6	-202	-266	-189	-134	372	378	283	1,033
Technology	63	-265	-410	-306	-981	52	-168	-300	-126	-591	703	640	506	1,849
Telecom	29	-94	-101	84	-315	43	-53	-4	154	-169	313	284	255	852
Tobacco	62	-72	10	-17	-136	46	-56	18	44	4	147	85	86	318
Transportation	49	-67	-42	-20	-100	28	-70	-58	-55	-10	220	171	130	520
Utilities	299	-215	227	391	371	234	-195	197	263	329	891	593	466	1,949
Other	62	-31	-68	-84	-61	47	-6	14	11	12	185	123	97	405

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

Source: BofA Global Research, FINRA, TRACE.

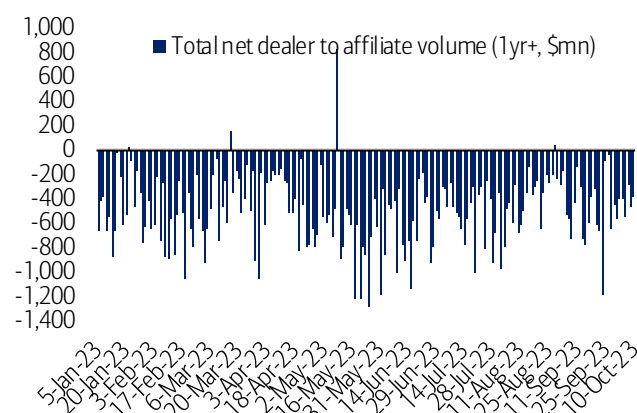
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## Daily foreign demand tracker

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 10 shows the overall daily dealer-to-affiliate volumes while Figure 11, Figure 12 and Figure 13 show subsets of this data. In particular Figure 11 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 12 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 13 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Figure 10: Net dealer buying from affiliate (1yr+)**

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



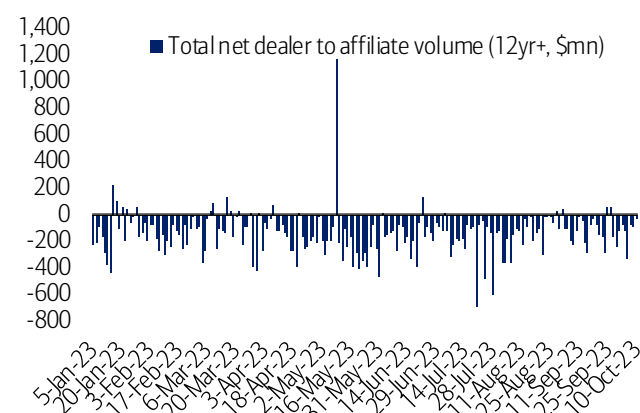
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Figure 11: Net dealer buying from affiliate (12yr+)**

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



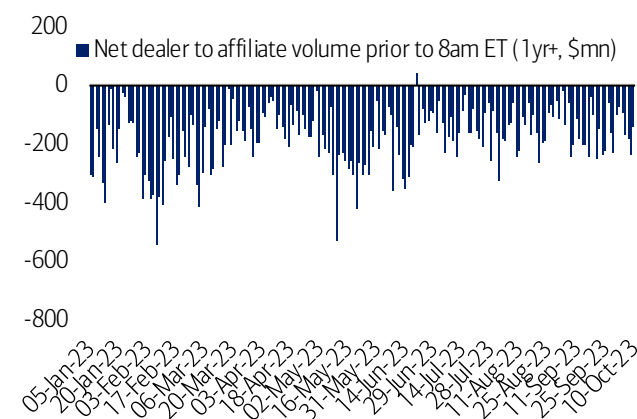
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Figure 12: 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



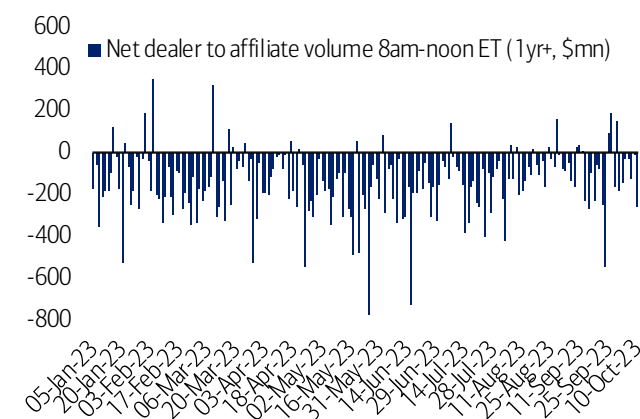
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Figure 13: 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

# Disclosures

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