

Situation Room

A patient Fed = lower rates vol

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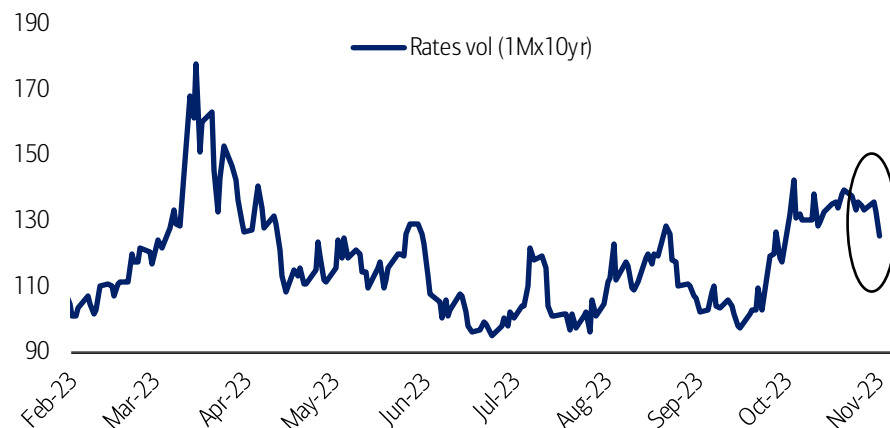
The combination of a benign Treasury Quarterly Refunding, weaker than expected October ISM manufacturing and a more dovish FOMC led to a big 20bps drop in 10yr Treasury yields on Wednesday, as well as a sizable decline in implied rates vol (Exhibit 1). Given that the widening in IG spreads in October was largely related to the jump in rates risks (see [Monthly HG Market Review: Oct '23: rates shock + geopolitics](#)), today's development should be supportive for credit. However, in the near term the decline in yields make technicals more challenging, as lower rates encourage more supply and weaken demand, just as IG dealer inventories are elevated (Exhibit 4).

Strong economy vs financial conditions

Following the very strong recent US data markets likely expected the Fed to lean in the more hawkish direction at the November FOMC. Instead, the statement and the press conference were more balanced. The Fed acknowledged that the economy was "strong," but that financial conditions were also tighter on the back of the spike in long-term interest rates (see [US Watch: November FOMC quick reaction](#)). A more patient, and a potentially more dovish Fed should be particularly supportive to Bank spreads, as the bank spread underperformance relative to industrials has tracked the increase in Treasury yields closely since last year (Exhibit 2).

Exhibit 1: Interest rate volatility declined today

Following a number of supportive developments, including the Treasury Refunding, ISM manufacturing and a more dovish Fed, implied rates vol dropped to the lowest levels since September 29.



Source: Bloomberg.

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01 November 2023

Credit Strategy
United States
Cross Product

Yuri Seliger
Credit Strategist
BofAS
+1 646 855 7209
yuri.seliger@bofa.com

Jean-Tiago Hamm
Credit Strategist
BofAS
jean-tiago.hamm@bofa.com

Srini Talagadevi
Credit Strategist
BofAS
sreenivasa.rao@bofa.com

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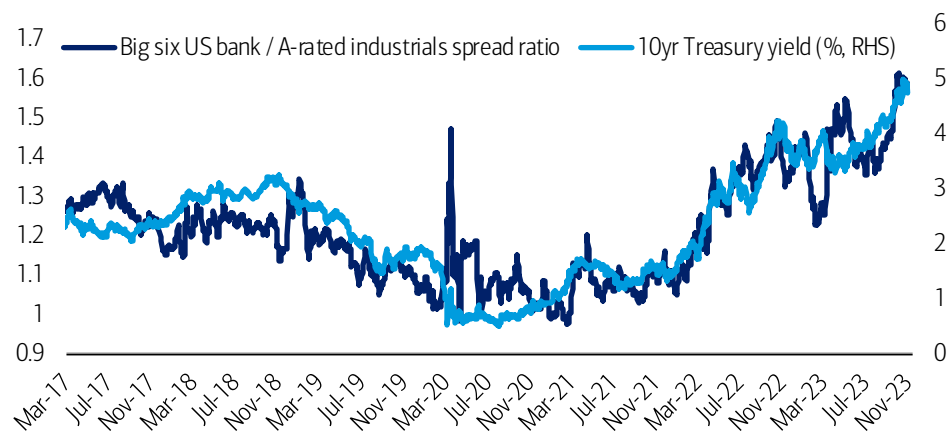
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Timestamp: 01 November 2023 06:48PM EDT

Exhibit 2: Bank spread underperformance has been tracking 10yr Treasury yields since 2022

Currently bank spreads relative to industrials appear in line with the increase in interest rates.



Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC

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Daily credit snapshot

US IG issuance totaled \$0bn across no deals today, \$25.3bn WTD and \$81.8bn MTD. This week's new issues are trading Obps tighter on average from pricing.

S&P 500 closed +1.05%, 10-year Treasury yields -20bps, CDX IG -3.6bps, CDX HY +\$0.60pts, and cash bond spreads quoted unched to-2bps today, LQD closed 3.32bps tighter today.

Exhibit 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)
2023-10-30	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.	89
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	121
2023-10-30	BMV	Bristol-Myers Squibb Co	40	1,250	A3/A+	6.4	135	10	-13	134
2023-10-30	CNRCN	Canadian National Railway Co	10	300	A2/A-	5.85	100	-4	n.a.	100
2023-10-30	CNRCN	Canadian National Railway Co	30	300	A2/A-	6.125	110	1	n.a.	108
2023-10-30	DFS	Discover Financial Services	11	1,000	Baa2/BBB-	7.964	310	11	n.a.	311
2023-10-30	DGX	Quest Diagnostics Inc	10	750	Baa2/BBB+	6.4	153	n.a.	n.a.	152
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.	124
2023-10-30	HYNMTR	Hyundai Capital America	5	700	Baa1/BBB+	6.5	178	5	n.a.	174
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	207
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	99
2023-10-30	MS	Morgan Stanley	6	2,000	A1/A-	6.407	160	3	-5	158
2023-10-30	MS	Morgan Stanley	11	2,000	A1/A-	6.627	175	-4	n.a.	174
2023-10-30	NRUC	National Rural Utilities Cooperative Finance Corp	3	400	A2/A-	5.6	73	10	n.a.	73
2023-10-30	R	Ryder System Inc	5	400	Baa2/BBB+	6.3	150	-5	1	152
2023-10-30	R	Ryder System Inc	10	600	Baa2/BBB+	6.6	175	n.a.	-1	176
2023-10-30	SANTAN	Banco Santander SA	4	1,000	A2/A+	6.527	165	n.a.	0	164
2023-10-30	SANTAN	Banco Santander SA	5	1,250	A2/A+	6.607	180	n.a.	-4	179

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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	SANTAN	Banco Santander SA	10	1,500	A2/A+	6.938	205	n.a.	0	204
2023-10-31	CPT	Camden Property Trust	3	500	A3/A-	5.85	95	n.a.	n.a.	n.a.
2023-10-31	GMT	GATX Corp	10	400	Baa2/BBB	6.9	205	18	-5	200
2023-10-31	STANLN	Standard Chartered PLC	4	400	A3/BBB+	FRN	SOFR+203	n.a.	n.a.	n.a.
2023-10-31	STANLN	Standard Chartered PLC	4	750	A3/BBB+	6.75	185	3	3	188
2023-10-31	STANLN	Standard Chartered PLC	6	750	A3/BBB+	7.018	220	2	6	226

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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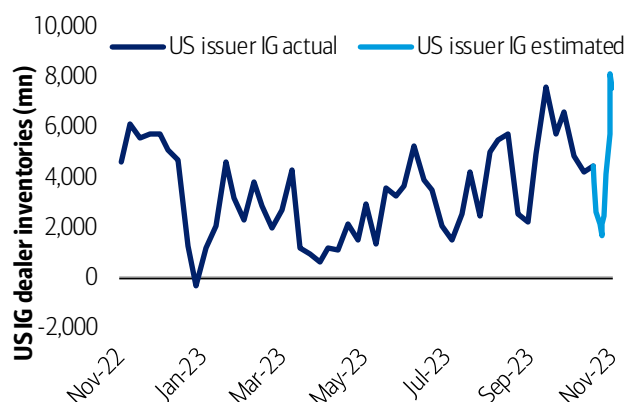
Daily dealer inventories update

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 4 and Exhibit 5. We estimate the corresponding DV01 equivalent in Exhibit 5. More details by sector and maturity are available in Exhibit 6 and Exhibit 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 4: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$7.6bn currently from \$4.5bn on Oct-18.



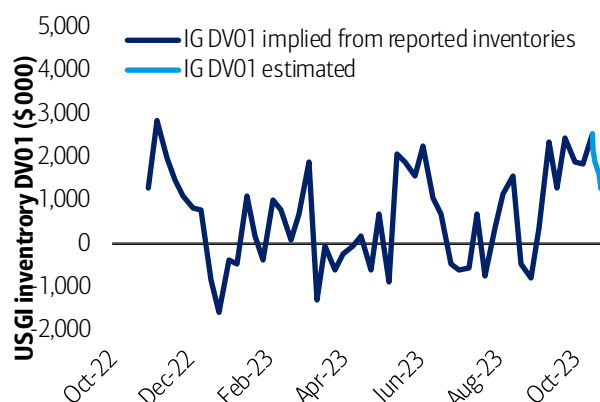
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 5: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$3.5mn currently from \$2.5mn 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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Exhibit 6: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories declined -\$596mn today and increased \$7,862mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 1-Nov-23 (\$mn)			
	1-Nov	31-Oct	1 W	2 W	4 W	1-Nov	31-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-596	2,979	7,862	5,144	2,925	-386	1,049	2,688	1,740	2,323	10,145	10,741	7,429	28,315
<3yr	367	1,090	2,975	2,027	1,222	54	144	421	278	96	1,926	1,559	1,267	4,752
3-5yr	-408	682	2,353	1,387	-1,150	-145	246	825	528	-401	1,912	2,320	1,760	5,991
5-11yr	-630	1,207	1,870	991	-328	-312	700	994	452	-292	3,566	4,195	2,525	10,286
11+yr	76	0	664	739	3,181	18	-40	449	482	2,919	2,742	2,666	1,878	7,286
Fin	-409	1,140	3,656	3,120	2,748	-183	288	1,103	1,141	1,081	3,966	4,374	2,566	10,906



Exhibit 6: Estimated changes in IG dealer inventories by maturity and broad sector.

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	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 1-Nov-23 (\$mn)			
	1-Nov	31-Oct	1 W	2 W	4 W	1-Nov	31-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Non-Fin	-187	1,839	4,206	2,025	177	-202	761	1,586	598	1,242	6,180	6,367	4,863	17,409
Fixed	-661	3,074	7,823	5,099	3,015	-383	1,187	2,744	1,784	2,330	10,015	10,676	7,367	28,059
Floating	65	-95	39	45	-90	-3	-138	-56	-44	-7	130	65	62	257
US issuers	-577	2,367	5,388	3,064	280	-320	809	1,875	944	1,137	8,137	8,713	6,281	23,131
DM Yankees	-1	461	2,216	2,007	2,679	-59	183	739	842	1,299	1,566	1,567	960	4,093
EM Yankees	-18	151	257	74	-34	-6	57	74	-46	-114	442	461	188	1,091

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 7: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$301mn for Banks/Brokers and declined -\$16mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 1-Nov-23 (\$mn)			
	1-Nov	31-Oct	1 W	2 W	4 W	1-Nov	31-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-51	-19	90	-74	-185	-29	-69	-36	-177	-252	117	168	154	439
Automobiles	225	345	736	658	478	88	47	194	221	118	1,396	1,171	765	3,333
Banks/Brokers	-301	898	2,946	2,134	2,298	-146	210	840	579	796	2,721	3,022	1,760	7,503
Basic Materials	-39	-48	41	416	218	6	-116	-31	219	170	321	360	198	879
Commercial Services	50	9	130	-4	31	8	-12	25	-56	45	125	75	81	281
Energy	-16	215	529	567	395	16	97	265	417	487	755	771	461	1,987
Finance	-17	206	478	726	235	16	102	241	371	148	667	685	446	1,798
Food, Bev, & Bottling	-82	315	152	-140	379	-50	243	78	-96	507	240	322	341	903
Health Care	-119	400	660	131	272	-130	265	207	-77	349	690	809	772	2,271
Industrial Products	-41	-52	43	35	-122	-26	-33	40	105	95	90	131	104	324
Insurance	-75	-8	187	30	-43	-49	-59	14	104	45	289	364	175	828
Media & Entertainment	34	108	222	70	-270	39	27	116	34	-26	461	427	353	1,242
REITs	-15	44	45	230	259	-4	35	8	87	91	288	304	184	776
Retail	-8	21	70	-135	-491	8	-2	24	-132	-321	246	254	318	818
Technology	9	94	379	241	-28	-3	90	190	154	94	492	484	430	1,407
Telecom	-64	139	54	-509	-819	-29	64	-43	-420	-562	417	481	200	1,097
Tobacco	-25	60	201	163	80	-26	23	87	80	73	111	137	111	360
Transportation	31	82	243	180	83	29	34	140	170	141	147	116	95	358
Utilities	-94	116	567	449	275	-115	77	282	155	309	453	546	380	1,379
Other	5	54	88	-23	-119	10	25	46	0	13	118	113	99	331

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

Source: BofA Global Research, FINRA, TRACE.

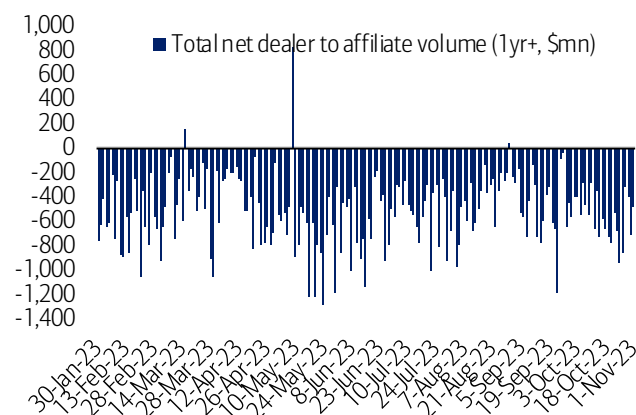
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Daily foreign demand tracker

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](#)). Exhibit 8 shows the overall daily dealer-to-affiliate volumes while Exhibit 9, Exhibit 10 and Exhibit 11 show subsets of this data. In particular Exhibit 9 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 10 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 11 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 8: Net dealer buying from affiliate (1yr+)

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



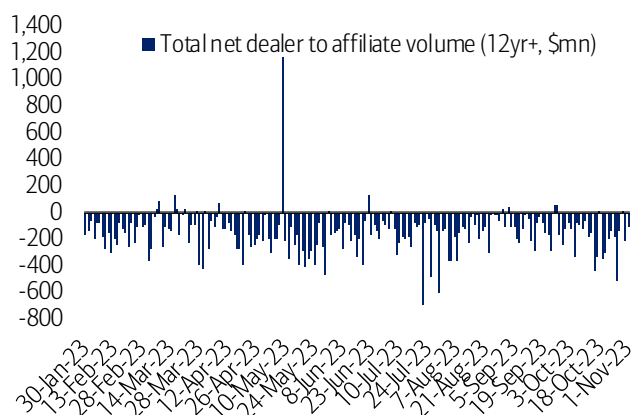
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 9: Net dealer buying from affiliate (12yr+)

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



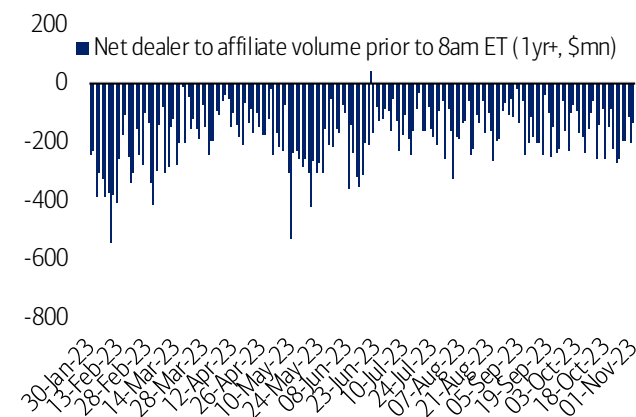
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 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



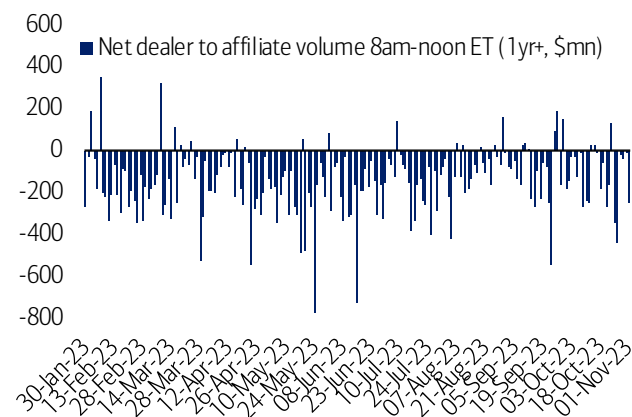
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 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
 Unchd: Unchanged
 CPI: Consumer Price Index
 FOMC: The Federal Open Market Committee



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