

Situation Room

Drinking from supply firehose

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IG supply over the first two days after Labor Day has totaled \$52.6bn – including \$38.2bn on Tuesday and \$14.4bn on Wednesday. That's third largest issuance over the same period since 2010, and above \$48bn average over the prior five years. The start of September also delivered the second busiest two-day supply volume YtD, behind only \$62.2bn priced in the first two business days of January.

Dude, where is my duration?

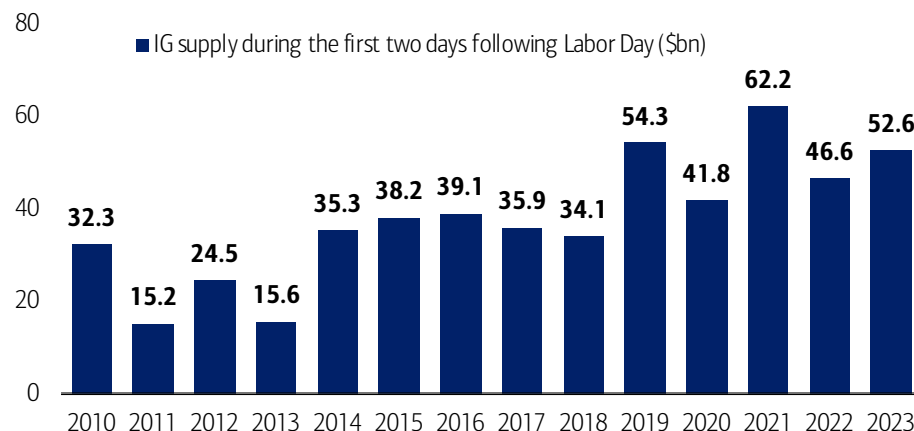
The share of 10+yr supply over the first two days post Labor Day was 10% this year. That's the lowest share of back-end supply for the same period since at least 2010, behind 15% in 2022 and 23% in 2021 (Figure 2).

Paying the Treasury concession

10yr Treasury yield is up 11bps since Friday September 1st and up 18bps over the past five business days. While there are other drivers of rates (like the strong ISM services print today), it's not unusual for Treasury yields to increase on the back of heavy IG supply. Treasury yields also jumped following heavy IG supply in May and June of this year (Figure 3).

Figure 1: \$52.6bn priced in the two days after Labor Day

That's behind \$62.2bn priced over the same period in 2021 and \$54.3bn priced in 2019.



Source: BofA Global Research

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06 September 2023

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United States
Cross Product

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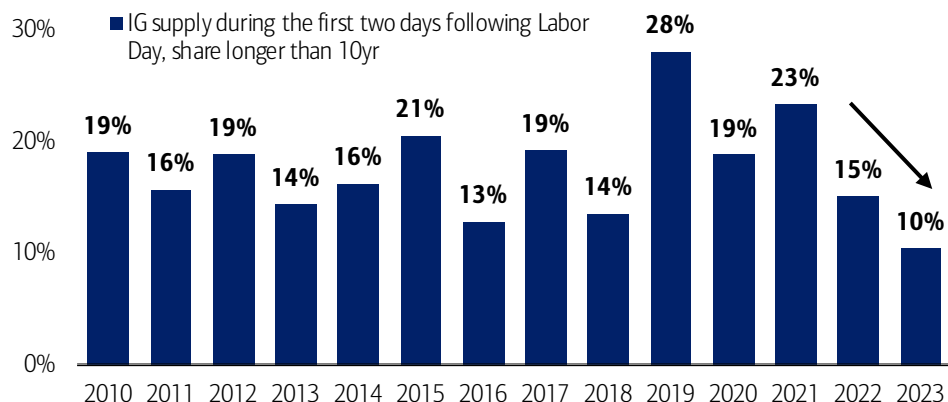
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Timestamp: 06 September 2023 06:34PM EDT

Figure 2: The shortest start to September

The share of 10+yr supply was 10% over the first two days post Labor Day – the lowest since at least 2010.

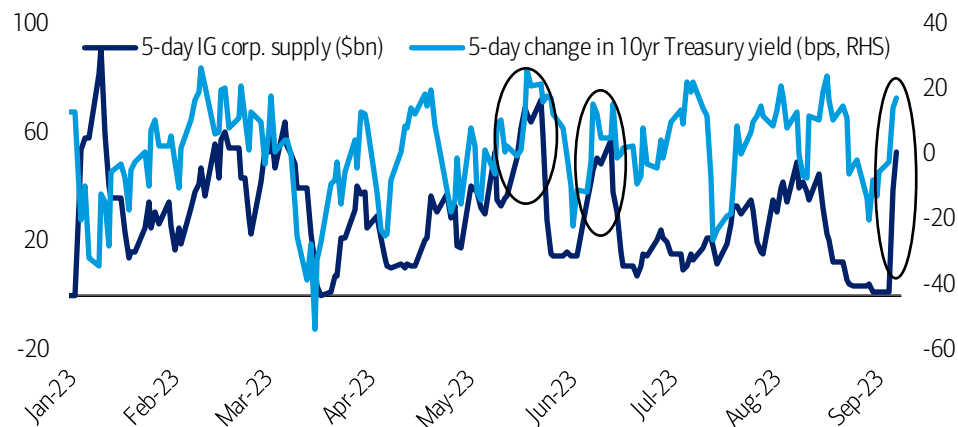


Source: BofA Global Research

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Figure 3: Higher IG supply -> higher rates

10yr Treasury yield is up 11bps since September 1st. Treasury yields tend to increase on heavy IG supply, such as in May and June of this year.



Source: BofA Global Research, Bloomberg.

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Daily credit snapshot

US IG issuance totaled \$14.4bn across 10 deals today, \$52.6bn WTD and \$52.6bn MTD. The average new issue concession was 5.3bps today from 7.1bps yesterday, while the average break performance was 3.3bps tighter today from 0.9bps tighter yesterday. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed -0.70%, 10-year Treasury yields +2bps, CDX IG +0.3bps, CDX HY - \$0.13pts, and cash bond spreads quoted +/- 1bp today, LQD closed 0.54bps tighter today.

Figure 4: 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)
2023-09-05	BHP	BHP Billiton Finance USA Ltd	3	850	A1/A-	5.25	65
2023-09-05	BHP	BHP Billiton Finance USA Ltd	5	700	A1/A-	5.1	85
2023-09-05	BHP	BHP Billiton Finance USA Ltd	7	900	A1/A-	5.25	100
2023-09-05	BHP	BHP Billiton Finance USA Ltd	10	1,500	A1/A-	5.25	110
2023-09-05	BHP	BHP Billiton Finance USA Ltd	30	800	A1/A-	5.5	125
2023-09-05	BRKHEC	MidAmerican Energy Co	10	350	Aa2/A+	5.35	110
2023-09-05	BRKHEC	MidAmerican Energy Co	31	1,000	Aa2/A+	5.85	147
2023-09-05	CBAAU	Commonwealth Bank of Australia	2	600	Aa3/AA-	FRN	SOFR+63
2023-09-05	CBAAU	Commonwealth Bank of Australia/New York NY	2	900	Aa3/AA-	5.499	55
2023-09-05	CDEL	Corp Nacional del Cobre de Chile	10	1,300	A3/NA	5.95	170
2023-09-05	CDEL	Corp Nacional del Cobre de Chile	30	700	A3/NA	6.3	195
2023-09-05	CSX	CSX Corp	10	600	A3/BBB+	5.2	95
2023-09-05	DBSSP	DBS Group Holdings Ltd	2	750	Aa2/NA	FRN	SOFR+63
2023-09-05	DBSSP	DBS Group Holdings Ltd	2	750	Aa2/NA	5.479	53
2023-09-05	DE	John Deere Capital Corp	2	350	A2/A	5.3	38
2023-09-05	DE	John Deere Capital Corp	3	550	A2/A	5.15	52
2023-09-05	DE	John Deere Capital Corp	10	1,000	A2/A	5.15	90
2023-09-05	DUK	Duke Energy Corp	10	600	Baa2/BBB	5.75	150
2023-09-05	DUK	Duke Energy Corp	30	750	Baa2/BBB	6.1	173
2023-09-05	INTNED	ING Groep NV	4	500	Baa1/A-	FRN	SOFR+156
2023-09-05	INTNED	ING Groep NV	4NC3	1,250	Baa1/A-	6.083	142
2023-09-05	INTNED	ING Groep NV	11NC10	1,250	Baa1/A-	6.114	185
2023-09-05	PM	Philip Morris International Inc	5	650	A2/A-	5.25	105
2023-09-05	PM	Philip Morris International Inc	7	700	A2/A-	5.5	135
2023-09-05	PM	Philip Morris International Inc	10	1,000	A2/A-	5.625	160
2023-09-05	SO	Southern Co/The	6	600	Baa2/BBB	5.5	113
2023-09-05	SO	Southern Co/The	11	700	Baa2/BBB	5.7	148
2023-09-05	SWEDA	Swedbank AB	3	1,000	Baa1/A-	6.136	148
2023-09-05	UBS	UBS AG/London	2	500	Aa3/A+	FRN	SOFR+93
2023-09-05	UBS	UBS AG/London	2	1,000	Aa3/A+	5.8	85
2023-09-05	UBS	UBS AG/London	5	1,500	Aa3/A+	5.65	128
2023-09-05	UNANA	Unilever Capital Corp	5	700	A1/A+	4.875	55
2023-09-05	UNANA	Unilever Capital Corp	10	800	A1/A+	5	85
2023-09-05	VW	Volkswagen Group of America Finance LLC	2	500	A3/BBB+	FRN	SOFR+93
2023-09-05	VW	Volkswagen Group of America Finance LLC	2	800	A3/BBB+	5.8	85
2023-09-05	VW	Volkswagen Group of America Finance LLC	3	900	A3/BBB+	5.7	105
2023-09-05	VW	Volkswagen Group of America Finance LLC	5	700	A3/BBB+	5.65	130
2023-09-05	VW	Volkswagen Group of America Finance LLC	10	500	A3/BBB+	5.9	165
2023-09-05	WEC	WEC Energy Group Inc	3	600	Baa1/BBB+	5.6	93
2023-09-06	AIB	AIB Group PLC	6NC5	1,000	A3/BBB	6.608	217
2023-09-06	BKH	Black Hills Corp	11	450	Baa2/BBB+	6.15	195
2023-09-06	CABKSM	CaixaBank SA	4NC3	1,000	Baa3/BBB	6.684	195
2023-09-06	CABKSM	CaixaBank SA	11NC10	1,000	Baa3/BBB	6.84	255
2023-09-06	GMT	GATX Corp	11	300	Baa2/BBB	6.05	180
2023-09-06	IDA	Idaho Power Co	31	350	A2/A-	5.8	150
2023-09-06	MMC	Marsh & McLennan Cos Inc	10	600	A3/A-	5.4	115
2023-09-06	MMC	Marsh & McLennan Cos Inc	30	1,000	A3/A-	5.7	135
2023-09-06	NESNVX	Nestle Holdings Inc	5	500	Aa3/AA-	5	57
2023-09-06	NESNVX	Nestle Holdings Inc	7	500	Aa3/AA-	5	67
2023-09-06	NESNVX	Nestle Holdings Inc	10	500	Aa3/AA-	5	77

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 difference between new issue pricing and secondary closing spread on the first day of trading.

Source: BofA Global Research, Bloomberg

Daily dealer inventories update

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

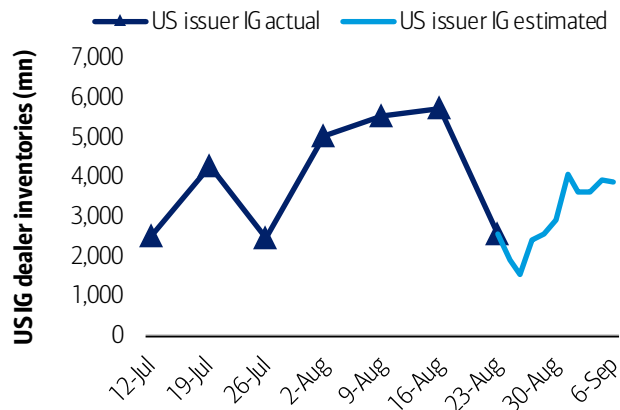
The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Figure 5 and Figure 6. We estimate the corresponding DVO1 equivalent in Figure 6. More details by sector and



maturity are available in Figure 7 and Figure 8. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Figure 5: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$3.9bn currently from \$2.6bn on Aug-23.



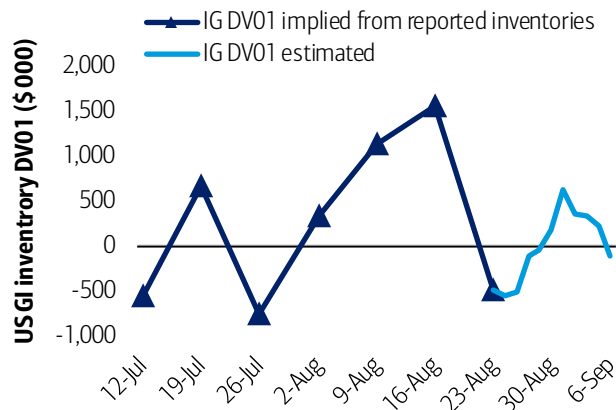
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 6: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to -\$0.1mn currently from -\$0.5bn on Aug-23.



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 changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$317mn today and increased \$1,605mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 6-Sep-23 (\$mn)			
	6-Sep	5-Sep	1 W	2 W	4 W	6-Sep	5-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	317	648	1,605	1,850	-2,505	-249	64	-222	432	-1,477	8,806	8,489	5,577	22,872
<3yr	265	356	1,197	556	-2,471	35	70	205	77	-523	1,766	1,501	1,056	4,323
3-5yr	-5	313	228	361	-59	5	104	60	84	-94	1,635	1,640	1,073	4,347
5-11yr	671	128	1,231	1,420	1,536	421	86	745	847	1,041	2,988	2,317	1,909	7,213
11+yr	-614	-150	-1,051	-487	-1,511	-710	-197	-1,232	-575	-1,901	2,418	3,032	1,539	6,989
Fin	71	274	587	149	-415	42	86	89	-211	172	3,400	3,329	1,799	8,527
Non-Fin	247	373	1,018	1,701	-2,089	-291	-22	-311	643	-1,649	5,407	5,160	3,778	14,345
Fixed	336	669	1,755	2,015	-2,182	-252	68	-178	522	-1,343	8,745	8,409	5,529	22,682
Floating	-18	-22	-150	-165	-322	3	-4	-44	-90	-135	62	80	48	189
US issuers	-31	322	961	1,321	-3,404	-334	-109	-293	368	-1,892	6,625	6,656	4,501	17,783
DM Yankees	271	226	623	579	742	49	114	82	128	346	1,883	1,612	956	4,450
EM Yankees	77	99	21	-50	157	36	59	-11	-64	69	298	221	119	638

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 8: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$62mn for Banks/Brokers and declined -\$46mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 6-Sep-23 (\$mn)			
	6-Sep	5-Sep	1 W	2 W	4 W	6-Sep	5-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-7	-22	22	-110	-294	-37	-25	-54	-102	-156	167	174	97	437
Automobiles	77	62	147	93	77	8	30	53	54	109	253	177	166	596
Banks/Brokers	-62	201	446	239	278	-83	50	49	-174	440	2,324	2,386	1,164	5,873
Basic Materials	119	4	-17	16	252	98	6	-2	-1	131	369	250	230	849
Commercial Services	23	-45	-16	-54	-44	11	-38	-36	-94	-119	111	87	73	270
Energy	-46	-41	-196	-451	-486	-106	-74	-322	-455	-408	610	656	591	1,857
Finance	93	-50	50	-82	-602	73	-27	13	-62	-327	529	437	300	1,266
Food, Bev, & Bottling	17	45	59	292	-161	-60	37	-28	158	-118	284	267	189	741
Health Care	-28	142	277	553	-845	-51	1	31	434	-438	915	943	699	2,557

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Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 6-Sep-23 (\$mn)			
	6-Sep	5-Sep	1 W	2 W	4 W	6-Sep	5-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Industrial Products	96	134	342	462	234	60	77	178	303	267	276	180	130	585
Insurance	0	135	100	83	294	20	86	67	87	231	260	260	170	690
Media & Entertainment	-18	33	142	311	-212	-61	-39	-10	219	-125	371	389	268	1,028
REITs	41	-12	-9	-90	-386	32	-23	-39	-63	-172	287	246	166	698
Retail	-76	1	38	200	-12	-69	13	59	256	131	221	296	237	754
Technology	-40	-72	-125	25	-171	-38	-63	-151	36	29	490	530	365	1,385
Telecom	-74	7	-54	-40	-611	-116	-18	-156	-143	-554	206	279	181	667
Tobacco	54	-1	67	41	24	23	-7	37	25	36	126	72	105	302
Transportation	37	-53	5	-42	-121	35	-51	0	-52	-223	171	134	79	385
Utilities	78	193	355	405	344	-1	145	111	39	-123	716	638	315	1,669
Other	33	-14	-28	1	-63	12	-17	-19	-33	-89	121	88	53	261

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

Source: BofA Global Research, FINRA, TRACE.

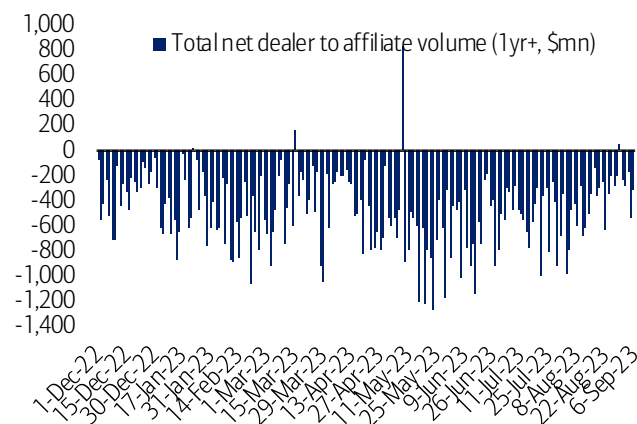
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Daily foreign demand tracker

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

Figure 9: Net dealer buying from affiliate (1yr+)

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



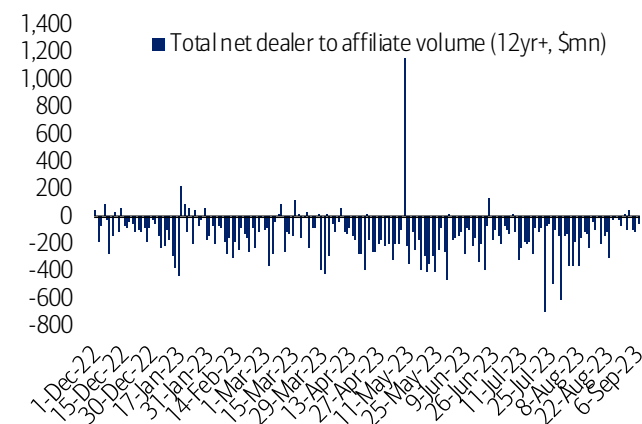
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 10: Net dealer buying from affiliate (12yr+)

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



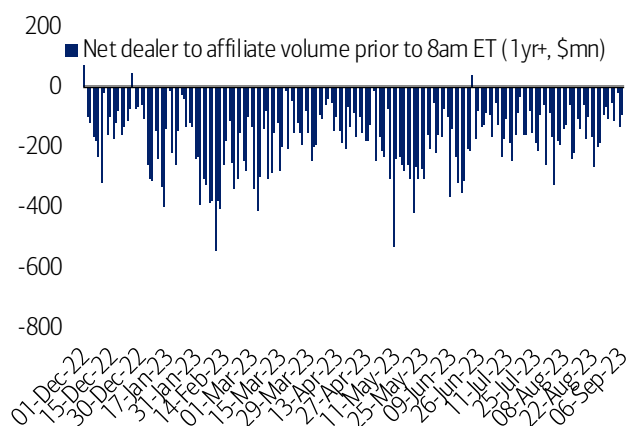
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 11: 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



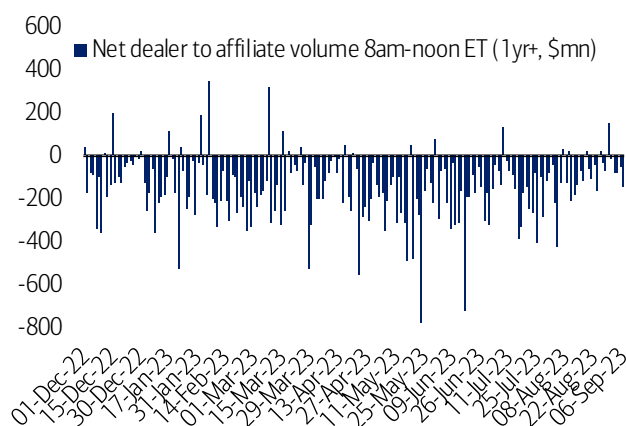
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 12: 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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