

Situation Room

Bouncing off the 5%

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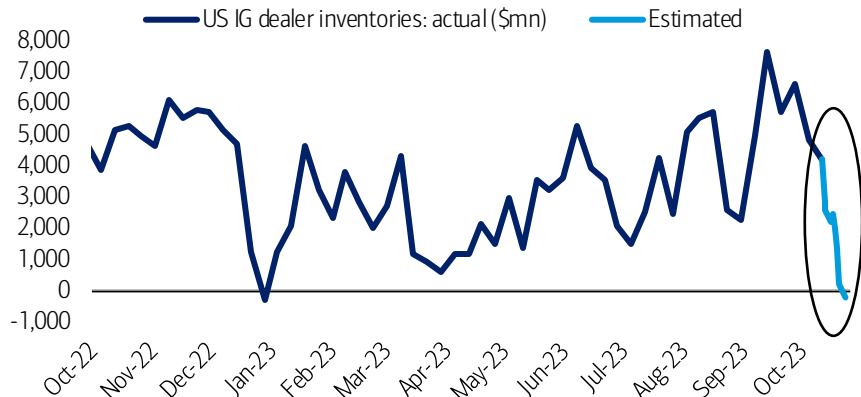
The question on the peak 10yr Treasury yield is key for IG spreads right now. Hence the 10yr Treasuries rallying 17bps today after reaching the 5.02% intraday highs is bullish, as it supports the idea that the peak in rates could be around the current levels, although of course uncertainties remain high.

Demand over supply

The rates shock has been particularly impactful for IG bonds, as it weakened the previously very strong IG market technicals, particularly in the back-end (see report: [Credit Market Strategist: The flattening 10s](#)). However, once rates stabilize technicals should improve rapidly. That's because issuance has been very benign, with just one \$800mn IG new issued deal pricing in the market today. These relatively modest supply volumes have allowed dealer inventories of IG corporate bonds to shrink to the lowest levels since December of last year (Figure 1). That implies limited availability of bonds going forward away from the still lackluster new issue market.

Figure 1: Dealer inventories of IG bonds have reached the lowest levels since December

Based on TRACE we estimate dealer inventories of IG corporate bonds have declined to -\$204mn today, down from \$4.2bn on October 11 and \$7.6bn peak on September 13.



Source: BofA Global Research, NY Fed, TRACE.

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Cross Product

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See page 4 for abbreviations

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Timestamp: 23 October 2023 06:30PM EDT

Daily credit snapshot

US IG issuance totaled \$0.8bn across 1 deal today, \$0.8bn WTD and \$49.0bn MTD.

S&P 500 closed -0.17%, 10-year Treasury yields -6bps, CDX IG -2.2bps, CDX HY +\$0.33pts, and cash bond spreads quoted unched to -3bps today, LQD closed 3.0bps tighter today.

Figure 2: 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)
2023-10-23	GPC	Genuine Parts Co	5	425	Baa1/BBB	6.5	180	n.a.	n.a.	n.a.
2023-10-23	GPC	Genuine Parts Co	10	375	Baa1/BBB	6.875	210	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

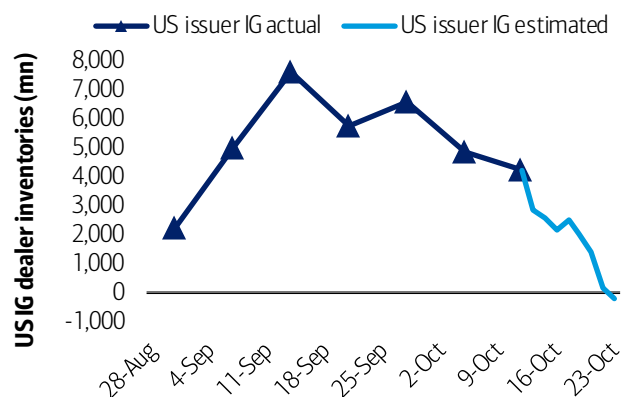
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Daily dealer inventories update

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

Figure 3: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to -\$0.2bn currently from \$4.2bn on Oct-11.



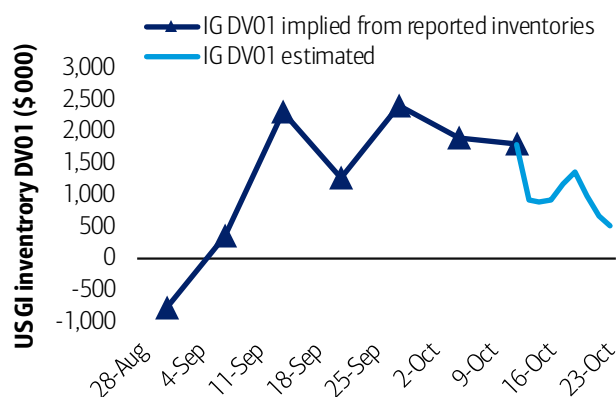
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 4: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to \$0.5mn currently from \$1.8bn on Oct-11.



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

We estimate IG dealer inventories declined -\$528mn today and declined -\$2,283mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 23-Oct-23 (\$mn)			
	23-Oct	20-Oct	1 W	2 W	4 W	23-Oct	20-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-528	-1,802	-2,283	-2,190	-5,830	-234	-399	-137	989	-141	7,737	8,265	6,419	22,421
<3yr	-160	-1,186	-1,469	-1,341	-1,939	-28	-204	-259	-247	-435	1,215	1,375	1,170	3,761
3-5yr	-74	-660	-1,623	-2,857	-4,557	-21	-202	-526	-979	-1,541	1,225	1,299	1,326	3,850
5-11yr	-509	99	-239	-759	-3,106	-335	53	-288	-605	-1,812	2,479	2,989	2,216	7,684
11+yr	215	-55	1,049	2,768	3,773	151	-46	936	2,820	3,647	2,818	2,602	1,707	7,127
Fin	-215	-956	-563	-683	-1,486	-4	-232	184	48	-473	3,178	3,393	2,639	9,210
Non-Fin	-313	-846	-1,719	-1,506	-4,344	-230	-167	-322	941	332	4,559	4,872	3,780	13,211
Fixed	-569	-1,768	-2,223	-2,123	-5,892	-244	-390	-132	950	-192	7,644	8,213	6,372	22,229
Floating	42	-34	-59	-66	62	10	-9	-5	39	51	94	52	47	193
US issuers	-399	-1,193	-2,388	-2,593	-7,356	-168	-314	-417	495	-1,225	6,177	6,576	5,220	17,972
DM Yankees	-103	-382	211	544	1,389	-18	-18	326	585	1,051	1,357	1,460	1,111	3,927
EM Yankees	-26	-227	-106	-140	137	-49	-67	-46	-91	34	204	230	89	522

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 6: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$351mn for Banks/Brokers and increased \$9mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 23-Oct-23 (\$mn)			
	23-Oct	20-Oct	1 W	2 W	4 W	23-Oct	20-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	34	-156	-281	-354	-451	25	-113	-207	-297	-248	230	196	118	545
Automobiles	-10	-96	-117	-283	-344	1	-24	-18	-87	-95	146	156	121	423
Banks/Brokers	-351	-861	-660	-554	-803	-121	-283	-98	-32	-331	2,281	2,632	1,917	6,830
Basic Materials	106	25	-31	-29	-337	71	36	25	66	-132	349	243	257	849
Commercial Services	-27	-16	-93	-71	198	-19	7	-21	21	248	26	54	70	150
Energy	9	-43	-203	2	-501	11	43	48	219	20	624	615	424	1,663
Finance	40	-102	-201	-377	-694	17	-2	-27	-125	-131	417	377	334	1,128
Food, Bev, & Bottling	-64	-106	-115	421	275	-57	-64	-86	496	466	261	325	219	806
Health Care	6	-65	96	520	-235	-1	20	225	660	370	665	659	633	1,957
Industrial Products	-60	0	-171	-219	-355	-29	23	-68	-44	-74	141	201	136	479
Insurance	8	62	13	-60	-312	57	86	143	43	-156	223	215	173	611
Media & Entertainment	-182	-33	-343	-500	-686	-125	12	-167	-189	-230	269	451	269	989
REITs	88	-55	284	308	324	43	-32	167	162	145	258	169	215	642
Retail	-35	-133	-109	-265	-619	-10	-99	-81	-77	-201	288	322	264	874
Technology	-15	-124	-164	-94	-661	-32	-30	-34	97	-171	581	595	436	1,612
Telecom	-79	-137	-230	-495	-465	-58	-92	-190	-310	-189	263	342	194	800
Tobacco	-1	-2	-34	-81	-144	-2	7	4	8	53	59	60	85	203
Transportation	-22	-43	-35	-68	-172	-29	14	67	43	-65	128	150	61	338
Utilities	-1	145	113	59	370	9	112	185	312	592	444	445	393	1,282
Other	29	-63	-4	-50	-217	14	-19	-4	24	-13	85	56	100	241

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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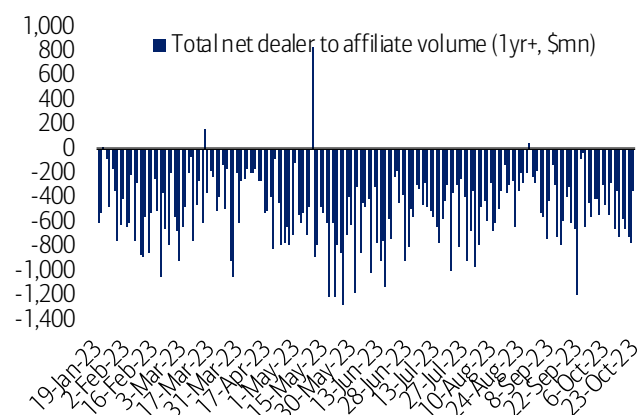
Daily foreign demand tracker

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 report: [Credit Market Strategist: One year round-trip in spreads 15 July 2016](#)). Figure 7 shows the overall daily dealer-to-affiliate volumes while Figure 8, Figure 9 and Figure 10 show subsets of this data. In particular Figure 8 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 9 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 10 shows the subset of net trades reported between 8am and noon (biased toward European buying).



Figure 7: Net dealer buying from affiliate (1yr+)

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



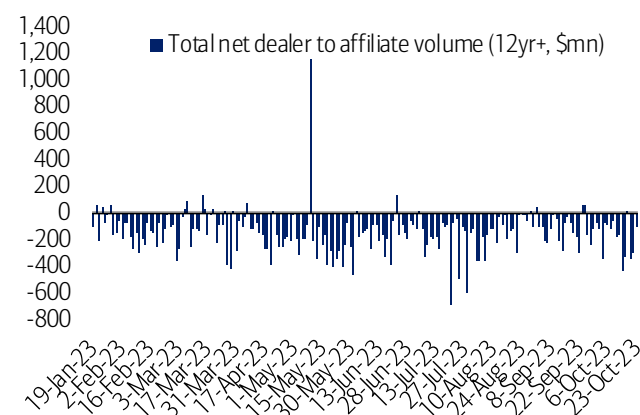
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 8: Net dealer buying from affiliate (12yr+)

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



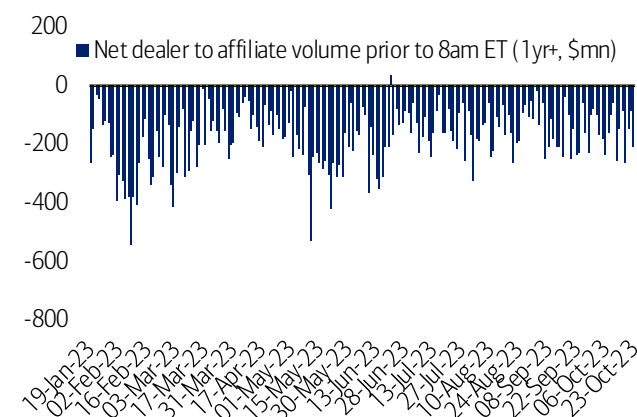
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 9: 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



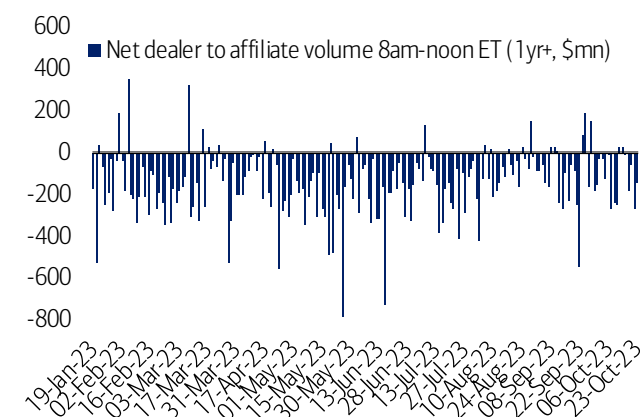
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 10: 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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