

## Situation Room

## Seasonal 30yr IG bond shortage

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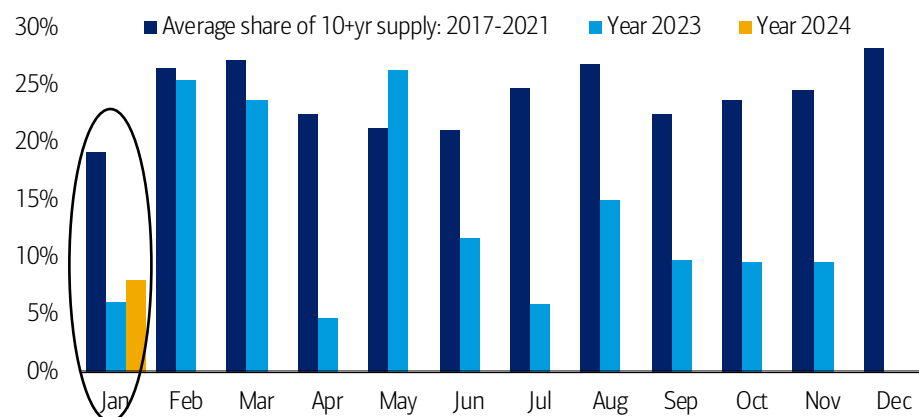
Due to more financial issuance, the share of 10+yr (20yr, 30yr) IG supply tends to be smaller in January. Not surprisingly, the share of back-end supply was especially low in 2023 (6%) and also so far in 2024 (8%, Exhibit 1). As a result, 10s30s IG spread curve is flattening again in January after steepening a bit on the back of the rally in rates during November and December (Exhibit 2). Dealer inventory data clearly illustrates the mismatch between supply and demand in the back end of the IG curve. As expected, TRACE data shows dealers net bought 1-10yr IG bonds in January due to heavy supply. In contrast, dealers net sold 10+yr IG bonds (Exhibit 3, Exhibit 4).

## No near-term relief

Companies are preferring shorter maturities in anticipation of lower borrowing costs in the future. Getting to those lower yields could take a while. Our rates strategists call for 10yr Treasury yields to remain relatively stable in 2024, with year-end target of 4.25% (see Global Rates Year Ahead: 2024: Cloudy with a chance of landing). That means back-end supply should increase only gradually, as some issuers eventually capitulate. In this base-case scenario 10s30s IG spread curve should remain flat at least through 1H-2024.

## Exhibit 1: Little 30yr IG supply to start the year

The share of 10+yr IG supply is typically low in January (19% 2017 – 2021 average), but it was especially low in 2013 (6%) and so far in 2024 (8%).



Source: BofA Global Research

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10 January 2024

Credit Strategy  
United States  
Cross Product

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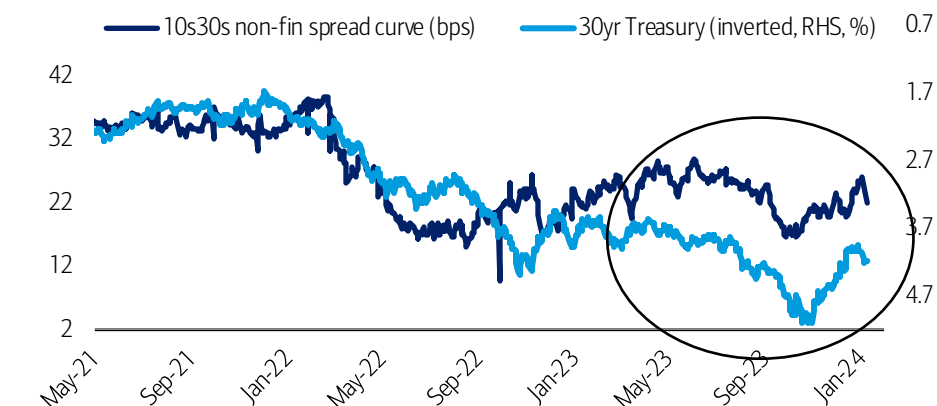
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Timestamp: 10 January 2024 06:02PM EST

**Exhibit 2: Flattening 10s30s**

IG 10s30s spread curve reached the flattest level in October 2023 (17bps), then steepened to 26bps in December before re-flattening to 22bps currently.



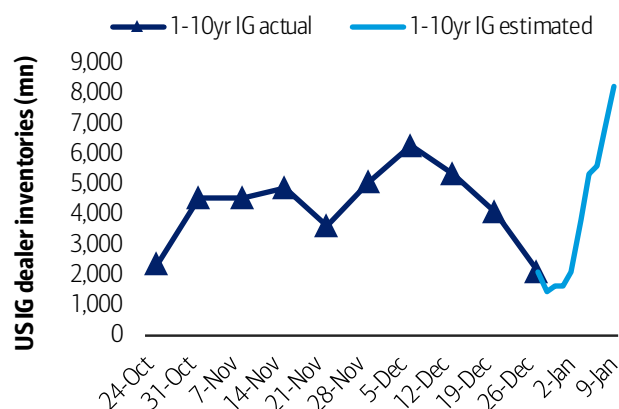
Note: based on issuer-matched on-the-run 10 and 30yr IG bonds.

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

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**Exhibit 3: Higher dealer inventories of 1-10yr IG bonds.**

As expected, dealer inventories of US IG 1-10yr bonds increased in January on the back of heavy supply.

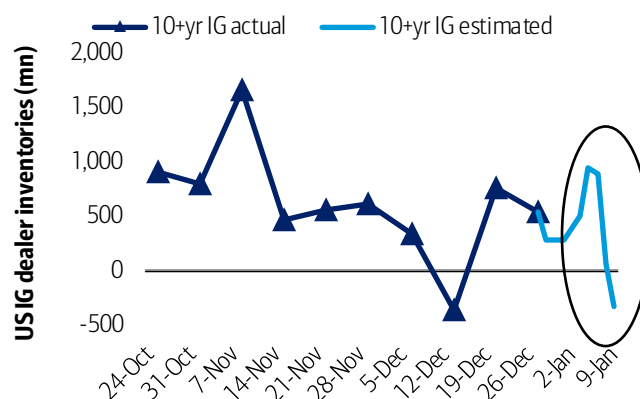


Source: BofA Global Research, FINRA TRACE, NY Fed.

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**Exhibit 4: Lower dealer inventories of 10+yr IG bonds.**

Despite heavy IG supply, dealer inventories of 10+yr IG bonds declined so far in January.



Source: BofA Global Research, FINRA TRACE, NY Fed.

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## Daily credit snapshot

US IG issuance totaled \$11.9bn across 8 deals today, \$36.7bn WTD and \$93.6bn MTD. The average break performance was 2.3bps tighter today. This week's new issues are trading 4.0bps tighter on average from pricing.

S&P 500 closed +0.57%, 10-year Treasury yields +2bps, CDX IG -1.3bps, CDX HY +\$0.26pts, and cash bond spreads quoted unched to -4bps today, LQD closed 0.86bps tighter today.

**Exhibit 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)
2024-01-08	ANZ	Australia & New Zealand Banking Group Ltd	3	800	Aa3/AA-	FRN	SOFR+81	n.a.	n.a.	n.a.
2024-01-08	ANZ	Australia & New Zealand Banking Group Ltd/New York	3	1,200	Aa3/AA-	4.75	63	n.a.	n.a.	61
2024-01-08	BPCEGP	BPCE SA	3	650	A1/A	5.203	108	n.a.	n.a.	99
2024-01-08	BPCEGP	BPCE SA	6NC5	1,000	A1/A	5.716	175	n.a.	n.a.	167
2024-01-08	BPCEGP	BPCE SA	11NC10	900	A1/A	6.508	250	n.a.	n.a.	242
2024-01-08	EIX	Southern California Edison Co	3	500	A2/A-	4.875	75	5	n.a.	70
2024-01-08	EIX	Southern California Edison Co	10	900	A2/A-	5.2	120	9	-3	117
2024-01-08	HNDA	American Honda Finance Corp	2	400	A3/A-	FRN	SOFR+71	n.a.	n.a.	n.a.
2024-01-08	HNDA	American Honda Finance Corp	2	850	A3/A-	4.95	60	n.a.	n.a.	55
2024-01-08	HNDA	American Honda Finance Corp	10	750	A3/A-	4.9	93	n.a.	n.a.	89
2024-01-08	HYUELE	SK Hynix Inc	3	500	Baa2/BBB-	5.5	145	n.a.	n.a.	n.a.
2024-01-08	HYUELE	SK Hynix Inc	5	1,000	Baa2/BBB-	5.5	167	n.a.	n.a.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	2	650	A2/A	FRN	SOFR+67	n.a.	n.a.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	2	700	A2/A	4.9	55	n.a.	n.a.	54
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	3	800	A2/A	4.8	70	n.a.	n.a.	67
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	5	850	A2/A	4.85	90	n.a.	n.a.	88
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	10	750	A2/A	5	100	16	n.a.	99
2024-01-08	NGGLN	National Grid PLC	10	750	Baa2/BBB	5.418	142	n.a.	n.a.	138
2024-01-08	O	Realty Income Corp	5	450	A3/A-	4.75	95	n.a.	n.a.	92
2024-01-08	O	Realty Income Corp	10	800	A3/A-	5.125	125	8	n.a.	122
2024-01-08	PFG	Principal Life Global Funding II	3	500	A1/A+	5	90	n.a.	n.a.	84
2024-01-08	REG	Regency Centers LP	10	400	Baa1/BBB+	5.25	130	n.a.	n.a.	123
2024-01-08	RGA	RGA Global Funding	7	700	A1/AA-	5.5	160	n.a.	n.a.	154
2024-01-08	TSLX	Sixth Street Specialty Lending Inc	5	350	Baa3/BBB-	6.125	240	n.a.	n.a.	226
2024-01-09	AQNCN	Liberty Utilities Co	5	500	Baa2/BBB	5.577	160	n.a.	n.a.	n.a.
2024-01-09	AQNCN	Liberty Utilities Co	10	350	Baa2/BBB	5.869	185	n.a.	n.a.	n.a.
2024-01-09	BRX	Brixmor Operating Partnership LP	10	400	Baa3/BBB	5.5	150	n.a.	n.a.	145
2024-01-09	CRBG	Corebridge Global Funding	5	600	A2/A+	5.2	123	5	-3	120
2024-01-09	KRC	Kilroy Realty LP	12	400	Baa2/BBB	6.25	238	n.a.	n.a.	229
2024-01-09	MASSMU	MassMutual Global Funding II	5	650	Aa3/AA+	4.85	88	-2	n.a.	87
2024-01-09	MUTOMA	Mutual of Omaha Insurance Co	40	300	A3/A-	6.144	195	n.a.	n.a.	192
2024-01-09	PENSKE	Penske Truck Leasing Co Lp / PTL Finance Corp	3	500	Baa2/BBB	5.35	125	2	-7	119
2024-01-09	PL	Protective Life Global Funding	3	500	A1/AA-	4.992	85	7	n.a.	83
2024-01-09	STZ	Constellation Brands Inc	5	400	Baa3/BBB	4.8	85	-5	-6	80
2024-01-09	TMUS	T-Mobile USA Inc	5	1,000	Baa2/BBB	4.85	90	1	-1	89
2024-01-09	TMUS	T-Mobile USA Inc	10	1,250	Baa2/BBB	5.15	117	4	-2	115
2024-01-09	TMUS	T-Mobile USA Inc	31	750	Baa2/BBB	5.5	130	5	-5	125
2024-01-10	BERY	Berry Global Inc	10	800	NA/BBB	5.65	165	n.a.	n.a.	n.a.
2024-01-10	DTRGR	Daimler Truck Finance North America LLC	176	750	A3/BBB+	5	93	n.a.	-3	90
2024-01-10	DTRGR	Daimler Truck Finance North America LLC	176	500	A3/BBB+	5.375	137	n.a.	-3	134
2024-01-10	ET	Energy Transfer LP	10	1,250	Baa3/BBB	5.55	155	n.a.	-5	150
2024-01-10	ET	Energy Transfer LP	30	1,750	Baa3/BBB	5.95	175	n.a.	n.a.	n.a.
2024-01-10	MAIN	Main Street Capital Corp	5	350	NA/BBB-	6.95	300	n.a.	n.a.	n.a.
2024-01-10	MET	Met Tower Global Funding	3	500	Aa3/AA-	4.85	75	n.a.	-5	70
2024-01-10	MU	Micron Technology Inc	7	1,000	Baa3/BBB-	5.3	130	n.a.	n.a.	n.a.
2024-01-10	RY	Royal Bank of Canada	3	500	A1/A	FRN	SOFR+95	n.a.	n.a.	n.a.
2024-01-10	RY	Royal Bank of Canada	3	1,250	A1/A	4.875	77	n.a.	0	77
2024-01-10	RY	Royal Bank of Canada	5	1,000	A1/A	4.95	100	n.a.	0	100
2024-01-10	RY	Royal Bank of Canada	10	1,250	A1/A	5.15	115	n.a.	0	115
2024-01-10	SUMILF	Sumitomo Life Insurance Co	PERP	1,040	A3/A-	5.875	n.a.	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.

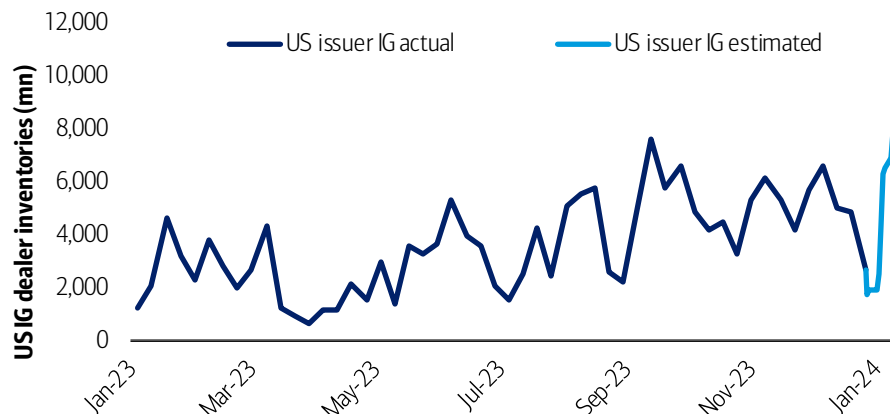
The actual inventories of US issuer bonds based on NY Fed survey, as well as the



estimated change since the latest Fed report are plotted in Exhibit 6. We estimate the corresponding DV01 equivalent in Exhibit 7. More details by sector and maturity are available in Exhibit 8 and Exhibit 9. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

#### Exhibit 6: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$9.7bn currently from \$2.7bn on Dec-27.



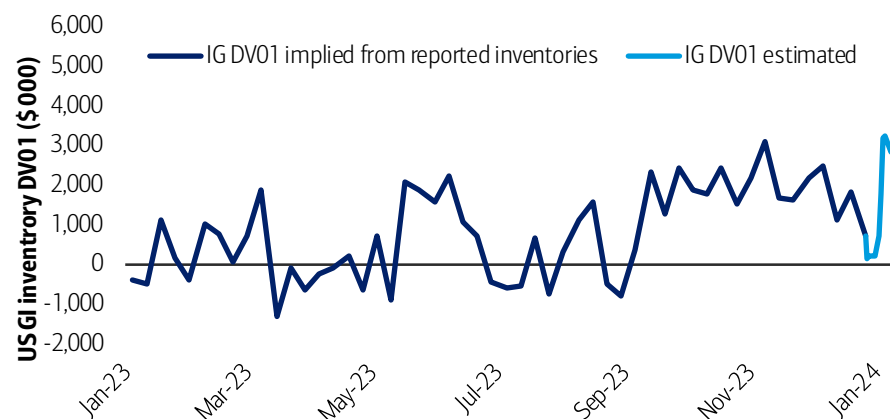
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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#### Exhibit 7: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$4.8mn currently from \$0.7bn on Dec-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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#### Exhibit 8: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$2,571mn today and increased \$7,268mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 10-Jan-24 (\$mn)			
	10-Jan	9-Jan	1 W	2 W	4 W	10-Jan	9-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>2,571</b>	<b>1,178</b>	<b>7,268</b>	<b>10,459</b>	<b>11,432</b>	<b>2,115</b>	<b>419</b>	<b>4,046</b>	<b>5,927</b>	<b>9,121</b>	<b>14,837</b>	<b>12,266</b>	<b>9,694</b>	<b>36,798</b>
<3yr	137	94	-6	224	-534	38	8	-1	8	-151	1,992	1,855	1,387	5,234
3-5yr	399	587	2,204	2,326	1,686	157	208	819	883	636	2,430	2,032	1,520	5,982
5-11yr	1,269	806	4,865	7,591	6,345	822	591	3,006	4,788	3,851	5,727	4,458	3,656	13,841
11+yr	766	-310	205	318	3,936	1,098	-387	223	248	4,784	4,688	3,921	3,131	11,741

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

We estimate IG dealer inventories increased \$2,571mn today and increased \$7,268mn over the prior week.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 10-Jan-24 (\$mn)			
	10-Jan	9-Jan	1 W	2 W	4 W	10-Jan	9-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Fin	905	218	2,443	3,982	3,838	458	50	903	1,648	2,500	5,693	4,788	3,471	13,952
Non-Fin	1,666	960	4,825	6,477	7,594	1,656	369	3,144	4,278	6,621	9,144	7,478	6,223	22,846
Fixed	2,565	1,240	7,524	10,903	12,094	2,110	415	4,076	6,010	9,309	14,697	12,132	9,630	36,459
Floating	6	-63	-255	-444	-662	5	4	-30	-83	-189	140	134	65	339
US issuers	1,805	983	5,354	7,042	8,342	1,763	231	3,025	4,108	7,192	11,340	9,535	7,831	28,707
DM Yankees	754	67	1,694	3,306	2,894	346	125	913	1,763	1,837	3,136	2,382	1,769	7,287
EM Yankees	12	127	220	110	196	6	63	108	55	91	361	349	95	804

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

We estimate today IG dealer inventories increased \$688mn for Banks/Brokers and declined -\$72mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 10-Jan-24 (\$mn)			
	10-Jan	9-Jan	1 W	2 W	4 W	10-Jan	9-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	38	-100	-288	-247	-148	32	-118	-291	-287	-165	319	281	151	751
Automobiles	-4	18	204	723	587	-24	9	65	318	255	487	490	402	1,379
Banks/Brokers	688	-61	1,067	2,253	2,345	238	22	268	791	1,395	3,891	3,203	2,221	9,315
Basic Materials	84	-25	327	397	164	95	-33	187	256	186	420	335	171	926
Commercial Services	-13	-24	-28	33	167	-3	-64	-48	18	118	176	189	150	515
Energy	-72	77	138	288	-148	-57	50	79	127	81	1,022	1,094	683	2,800
Finance	102	122	580	857	493	115	3	285	388	346	838	736	653	2,228
Food, Bev, & Bottling	104	63	472	523	767	61	39	333	359	610	571	467	512	1,550
Health Care	354	216	902	830	1,500	446	192	707	763	1,511	1,542	1,188	1,178	3,908
Industrial Products	-9	12	156	420	500	49	-28	108	246	346	225	234	216	675
Insurance	-13	-34	77	170	377	27	-48	5	77	346	417	430	273	1,119
Media & Entertainment	215	-64	81	24	70	222	-58	59	0	243	584	369	439	1,391
REITs	128	190	718	702	624	79	73	345	392	413	547	419	324	1,290
Retail	94	64	230	269	435	90	32	214	254	487	488	394	383	1,265
Technology	224	28	431	408	634	222	-28	120	112	440	926	701	671	2,298
Telecom	197	227	681	890	917	133	79	390	584	662	637	440	373	1,450
Tobacco	76	14	253	218	89	66	11	184	152	83	213	137	113	463
Transportation	1	28	-34	-6	133	0	15	1	63	172	153	151	126	431
Utilities	326	350	1,057	1,489	1,770	285	215	906	1,234	1,545	1,209	883	569	2,660
Other	50	77	243	217	157	40	54	132	82	47	173	123	86	382

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

Source: BofA Global Research, FINRA, TRACE.

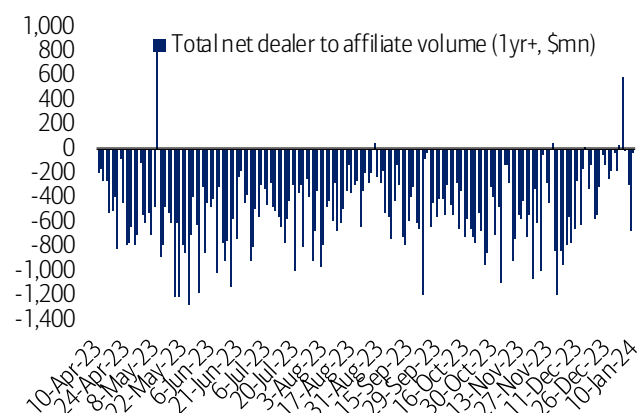
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## Daily foreign demand tracker

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

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

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



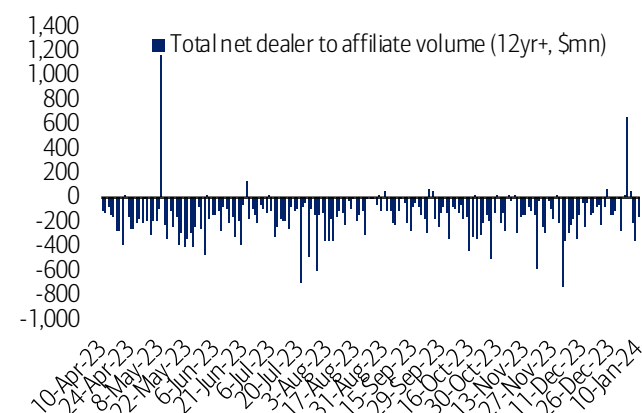
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



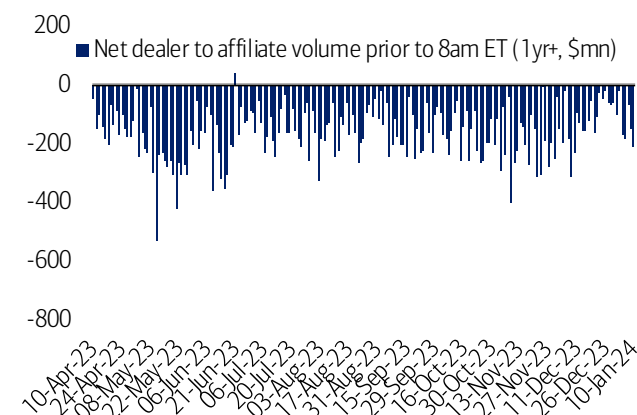
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 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



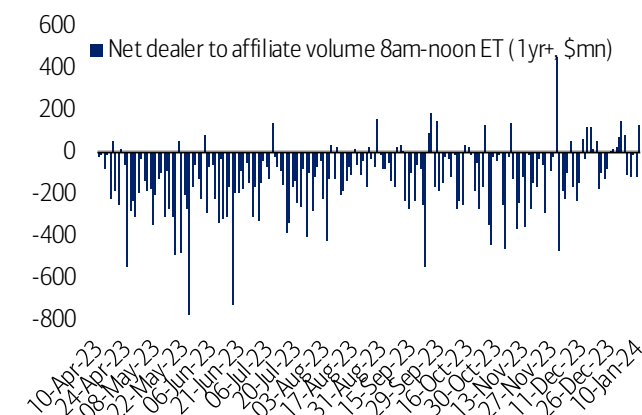
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 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

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