

Situation Room

No escape from flatland

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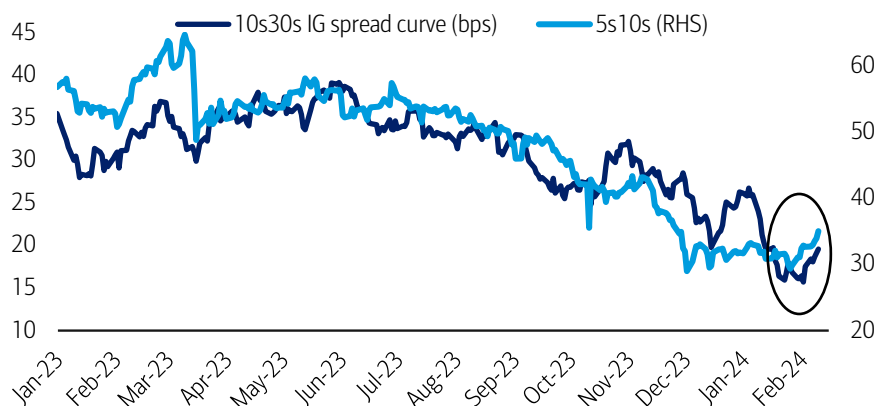
Both 5s10s and 10s30s IG spread curves bounced off the recent flats so far in February. That was due to both investors rotating out of the back end in the secondary market and more 30yr supply in the primary market. Taking a step back, however, shows that IG spread curves (especially 10s30s) remain near historically flat levels (Exhibit 5). In the near term the curves should remain flat unless long-term interest rates decline materially, which would both bring out more 30yr supply and curb investor demand for longer duration bonds. That is unlikely in the current environment of resurgent US economic growth (see [US Economic Weekly: Is the US economy re-accelerating?](#) report). Hence despite the recent bounce we look for IG spread curves to stay near historically flat levels.

Recent drivers IG spread curves: rel-val

First, in terms of secondary markets, we estimate based on TRACE that IG investors net bought from \$4.7bn of 1-10yr bonds from dealers since January 31st. At the same time they net sold \$1.0bn of 10+yr bonds to dealers. That was likely in response to record rich spread valuations in the back end of the curve (see [Situation Room: New frontier in flatness](#) report). With valuations improving (curves steepening) the relatively value should look less dislocated.

Exhibit 1: IG spread curves steepened so far in February

Both 5s10s and 10s30s IG spread curves steepened about 3bps so far in February. Note: the spread curves are adjusted for \$ prices.



Source: BofA Global Research, ICE Data Indices, LLC

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In this report

Daily credit snapshot

Daily dealer inventories update

Daily foreign demand tracker

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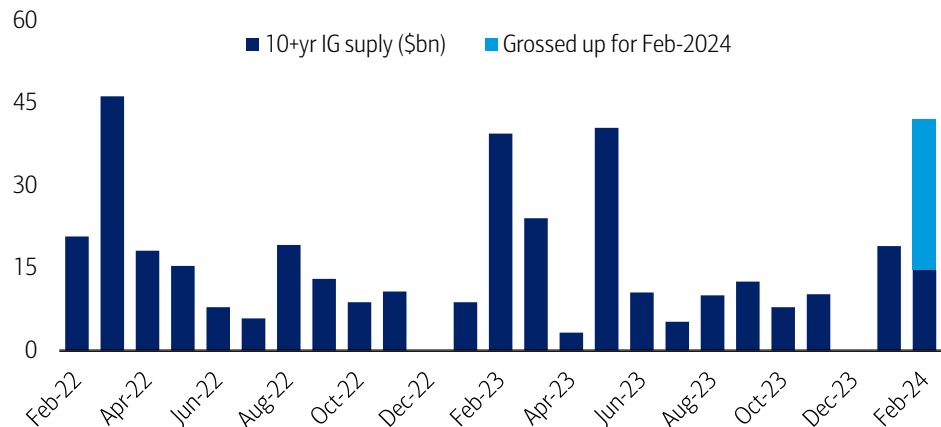
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Recent drivers IG spread curves: supply

Supply has been another driver of steeper IG spread curves. Supply longer than 10yr has totaled \$14.7bn through February 9. Simply grossing that up based on the remaining business days in the month results in the full-month issuance amount of \$42bn, which will be in the upper end of the range over the prior two years (Exhibit 2). We can easily get there given the expectations for a number of larger M&A-related bond deals supply in February that will have issue across the entire maturity curve.

Exhibit 2: Back-end supply in February is tracking about \$42bn for the full month

Extrapolating the pace of back-end supply for the remainder of the month suggests a pace at the high end of the range since 2022.

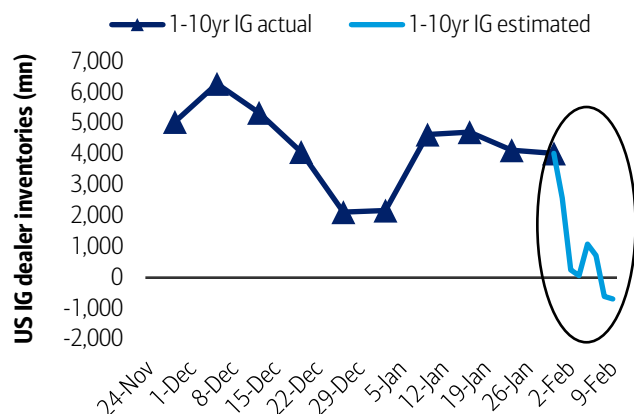


Source: BofA Global Research

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Exhibit 3: Dealers were net sellers of IG 1-10yr bonds in February

Based on TRACE we estimate IG investors net bought \$4.7bn of 1-10yr bonds to dealers so far in February.

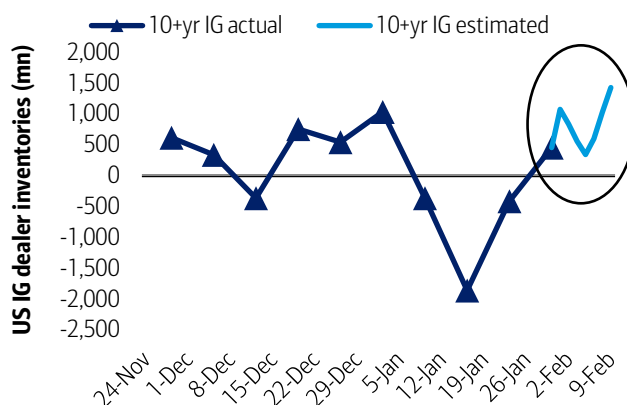


Source: BofA Global Research, NY Fed, TRACE, Bloomberg.

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Exhibit 4: Dealers were net buyers of IG 10+yr bonds in February

Based on TRACE we estimate IG investors net sold \$1.0bn of 10+yr bonds to dealers so far in February.

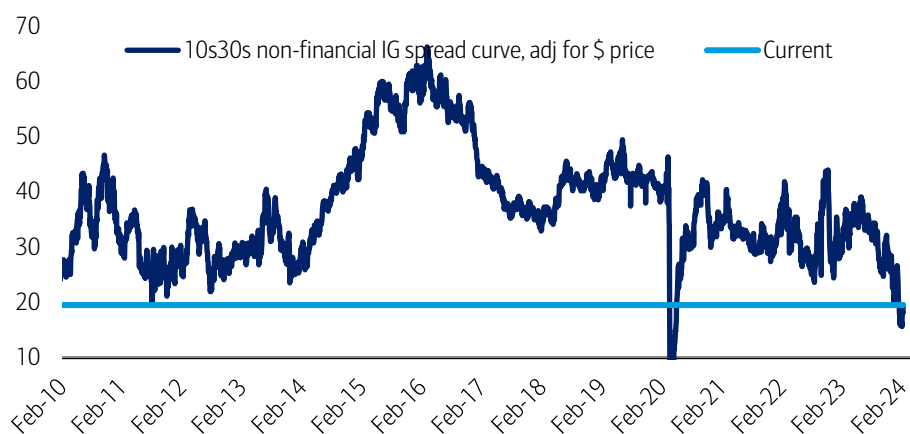


Source: BofA Global Research, NY Fed, TRACE, Bloomberg.

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Exhibit 5: IG 10s30s spread curve is still historically flat

On a \$ price adjusted basis the 10s30s IG spread curve is currently 20bps, about 4bps off the tight in January, but still near the flattest levels since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

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Daily credit snapshot

US IG issuance totaled \$11.3bn across 7 deals today, \$11.3bn WTD and \$59.3bn MTD. The average new issue concession was 3.9bps today, while the average break performance was 1.4bps tighter today. This week's new issues are trading 1bps wider on average from pricing.

S&P 500 closed -0.09%, 10-year Treasury yields +0bps, CDX IG -0.5bps, CDX HY +\$0.09pts, and cash bond spreads quoted +1-3bp today, LQD closed 1.04bps wider today.

Exhibit 6: 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)
2024-02-12	AJG	Arthur J Gallagher & Co	176	500	Baa2/BBB	5.45	132	6	-2	130
2024-02-12	AJG	Arthur J Gallagher & Co	176	500	Baa2/BBB	5.75	147	8	-1	146
2024-02-12	AXP	American Express Co	176NC3	300	A2/BBB+	FRN	SOFR+100	n.a.	n.a.	n.a.
2024-02-12	AXP	American Express Co	176NC3	1,700	A2/BBB+	5.098	85	2	n.a.	n.a.
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	176	700	Baa1/BBB+	5.2	105	10	5	110
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	176	750	Baa1/BBB+	5.55	120	2	7	127
2024-02-12	BNP	BNP Paribas SA	176NC5	1,750	Baa1/A-	5.497	138	-13	-1	137
2024-02-12	BNP	BNP Paribas SA	176NC10	1,500	Baa1/A-	5.738	158	n.a.	-1	157
2024-02-12	DTE	DTE Energy Co	176	1,200	Baa2/BBB	5.1	103	7	n.a.	n.a.
2024-02-12	EL	Estee Lauder Cos Inc/The	176	650	A1/A	5	87	13	3	90
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	176	300	A1/A+	FRN	SOFR+56	n.a.	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	176	450	A1/A+	4.55	45	4	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	176	450	A1/A+	4.7	55	-1	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	176	550	A1/A+	4.65	40	5	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

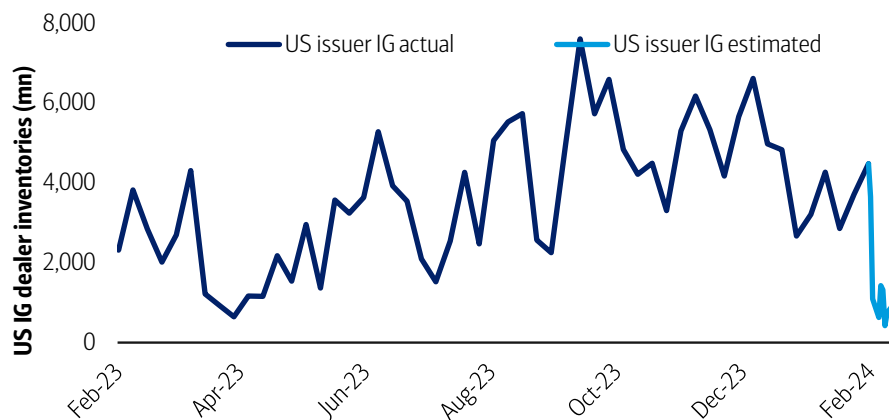
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Daily dealer inventories update

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 7. We estimate the corresponding DV01 equivalent in Exhibit 8. More details by sector and maturity are available in Exhibit 9 and Exhibit 10. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 7: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to \$0.9bn currently from \$4.5bn on Jan-31.



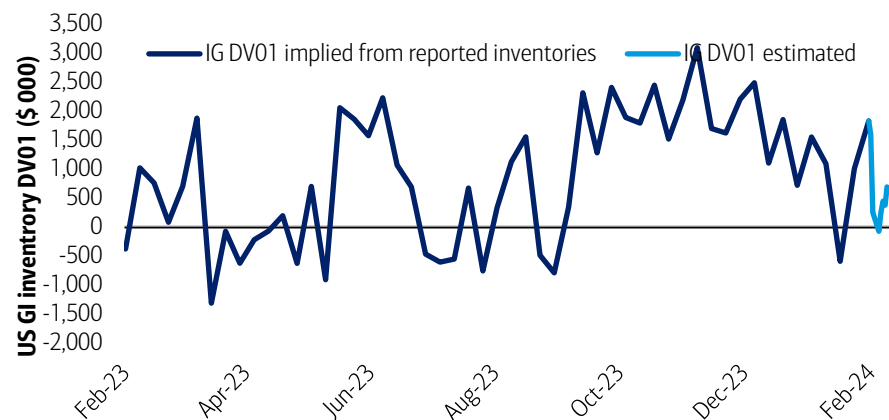
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 8: Estimated 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 Jan-31.



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

We estimate IG dealer inventories increased \$134mn today and increased \$126mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 12-Feb-24 (\$mn)			
	12-Feb	9-Feb	1 W	2 W	4 W	12-Feb	9-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	134	295	126	-5,126	-3,750	-223	354	789	-1,339	1,052	8,879	8,744	7,051	24,673

Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$134mn today and increased \$126mn over the prior week.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 12-Feb-24 (\$mn)			
	12-Feb	9-Feb	1 W	2 W	4 W	12-Feb	9-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<3yr	254	57	-623	-1,975	-2,243	42	3	-135	-437	-494	1,649	1,395	1,422	4,466
3-5yr	101	61	424	-408	-1,781	45	1	120	-143	-626	1,483	1,382	1,400	4,265
5-11yr	-65	-288	-721	-4,593	-4,181	-26	-189	-439	-2,889	-2,780	3,110	3,175	2,300	8,586
11+yr	-156	465	1,046	1,849	4,454	-284	539	1,243	2,130	4,951	2,636	2,792	1,928	7,356
Fin	-38	-365	-782	-4,291	-5,962	39	-252	-260	-1,827	-1,504	3,184	3,221	2,546	8,951
Non-Fin	172	659	908	-835	2,212	-263	606	1,049	489	2,556	5,695	5,523	4,505	15,723
Fixed	151	307	266	-4,808	-3,202	-215	353	824	-1,279	1,084	8,812	8,660	6,970	24,442
Floating	-17	-12	-140	-318	-549	-9	1	-35	-59	-33	67	84	81	232
US issuers	209	316	320	-3,605	-1,813	-145	314	619	-1,048	1,070	7,288	7,080	5,913	20,281
DM Yankees	-121	-116	-490	-1,970	-2,618	-91	-33	-17	-565	-451	1,348	1,469	1,038	3,855
EM Yankees	46	94	295	449	681	13	73	187	274	432	242	195	100	537

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 10: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$194mn for Banks/Brokers and declined -\$65mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 12-Feb-24 (\$mn)			
	12-Feb	9-Feb	1 W	2 W	4 W	12-Feb	9-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-36	17	99	-21	391	-29	-3	130	12	340	117	153	147	417
Automobiles	38	-27	-139	-500	-468	3	-10	-110	-337	-254	295	257	252	804
Banks/Brokers	-194	-191	-257	-3,381	-5,639	-108	-169	-136	-1,631	-1,617	2,068	2,262	1,700	6,031
Basic Materials	48	-4	156	-140	761	5	21	30	-151	546	403	355	260	1,018
Commercial Services	8	-17	-79	-72	-69	30	-11	-27	36	49	123	116	55	294
Energy	-65	16	-322	-511	-906	-71	34	-152	-174	-445	634	699	337	1,670
Finance	8	-133	-277	-594	-398	5	-66	-163	-359	-172	562	554	430	1,545
Food, Bev, & Bottling	-6	-6	-110	-493	-558	-42	8	-88	-397	-377	230	236	211	677
Health Care	27	191	660	181	1,174	-152	204	613	543	1,055	1,210	1,183	1,030	3,423
Industrial Products	15	-60	-63	-435	-213	-13	-48	-64	-266	-28	205	190	168	563
Insurance	129	3	-208	-143	-226	145	11	18	156	125	327	198	161	686
Media & Entertainment	-30	93	196	28	481	-86	58	127	20	458	405	435	335	1,176
REITs	19	-43	-41	-173	301	-2	-29	22	7	160	226	207	255	689
Retail	27	38	25	310	620	31	61	99	352	612	248	220	324	793
Technology	-33	2	-130	150	695	0	-25	51	382	681	519	553	490	1,563
Telecom	3	144	219	-82	-415	-16	115	217	-2	-283	394	390	204	987
Tobacco	63	96	232	151	35	44	42	100	35	25	119	56	94	268
Transportation	24	21	53	187	300	20	8	62	184	231	146	122	118	386
Utilities	34	78	90	355	111	-8	115	36	221	-215	480	446	381	1,307
Other	55	79	20	58	273	22	35	23	30	160	167	112	97	376

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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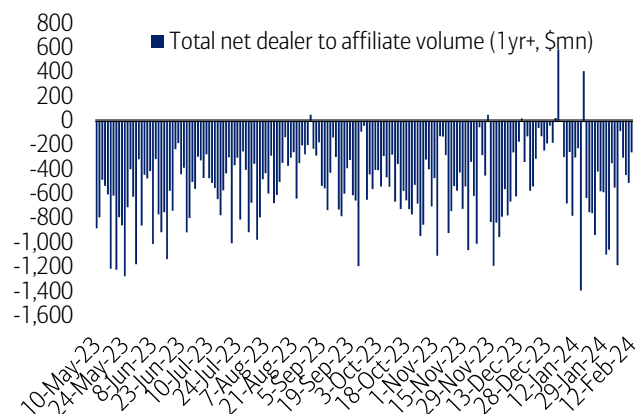
Daily foreign demand tracker

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 11 shows the overall daily dealer-to-affiliate volumes while Exhibit 12, Exhibit 13 and Exhibit 14 show subsets of this data. In particular Exhibit 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).



Exhibit 11: Net dealer buying from affiliate (1yr+)

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



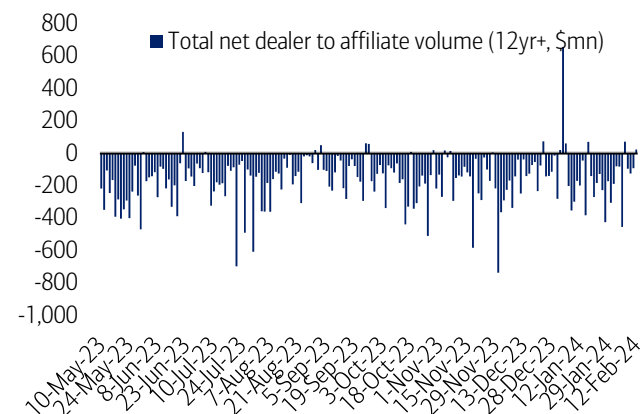
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



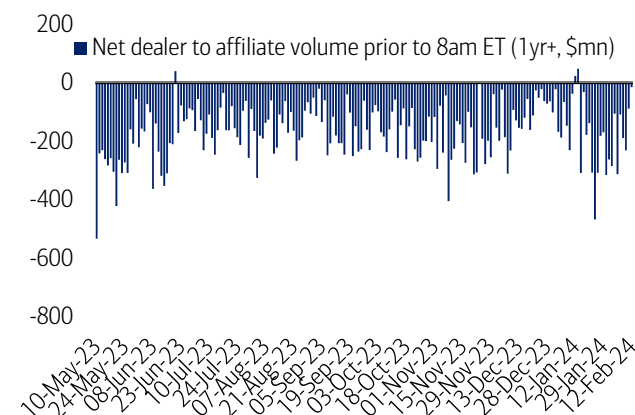
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 13: 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



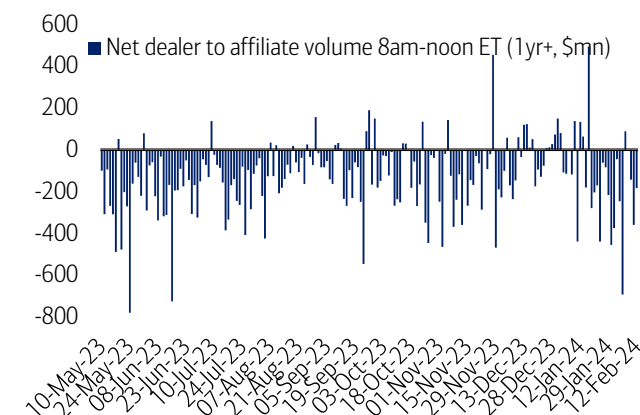
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 14: 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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