

Situation Room

Taking stock of bank supply

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IG spreads underperformed HY last week for two reasons: 1) the big drop in interest rates and 2) expectations of bank supply (see Situation Room: Two weeks of bank underperformance). Over the past two years the big six US banks issued a relatively high \$21-\$28bn in US corporate bonds in the first week after reporting 2Q earnings, which corresponds to this week in 2023. Before that the amount varied significantly over the years, with just \$4.5bn issued in 2019 and none in 2020.

Room to catch up

In the first half of this year, however, the big six US banks borrowed the least in the US debt markets since at least 2015, leading to a big drop in financial supply YoY. This could simply mean banks have the TLAC capital they need. But it could also imply a potential need to catch up in 2H-2023 to the baseline issuance pace to manage maturities and maintain market access.

Daily credit snapshot

US IG issuance totaled \$7.1bn across 4 deals today and \$31.5bn MTD. The average new issue concession was 0.0bps today, while the average break performance was 5.0bps tighter today. S&P 500 closed +0.39%, 10-year Treasury yields -3bps, CDX IG -0.9bps, CDX HY +\$0.20pts, and cash bond spreads quoted +/- 2bps today, LQD closed 0.75bps tighter today.

Daily dealer inventories update

-\$149mn (notional), \$101,000 (DV01) today. Maturities and sectors inside.

Daily foreign demand tracker

We track dealer-to-affiliate volumes on Trace that are correlated with foreign buying.

17 July 2023

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[See page 7 for abbreviations](#)

Research Overview — The Situation

Taking stock of bank supply

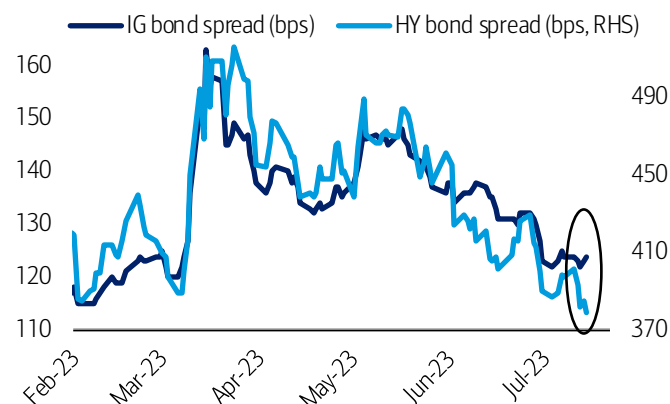
IG spreads underperformed HY last week for two reasons: 1) the big drop in interest rates and 2) expectations of bank supply (see [Situation Room: Two weeks of bank underperformance](#)). Over the past two years the big six US banks issued a relatively high \$21 - \$28bn in US corporate bonds in the first week after reporting 2Q earnings, which corresponds to this week in 2023. Before that the amount varied significantly over the years, with just \$4.5bn issued in 2019 and none in 2020 (Figure 2).

Room to catch up

In the first half of this year, however, the big six US banks borrowed the least in the US debt markets since at least 2015 (Figure 3), leading to a big drop in financial supply YoY (Figure 4). This could simply mean banks have the TLAC capital they need. But it could also imply a potential need to catch up in 2H-2023 to the baseline issuance pace to manage maturities and maintain market access.

Figure 1: IG spreads underperformed last week

IG spreads remained little changed despite the benign June CPI report due to the big interest rate decline and expectations of bank supply.

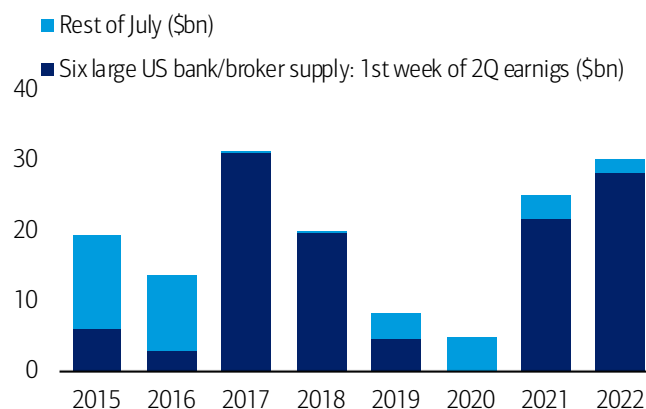


Source: Bloomberg.

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Figure 2: Big six bank supply post 2Q earnings

During the first week post 2Q earnings big six US bank supply ranged from \$21 to \$28bn over the past two years but was much slower in 2019/2020.

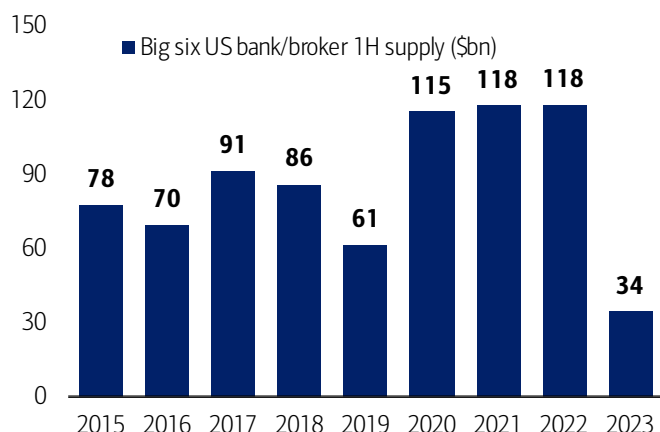


Source: BofA Global Research

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Figure 3: Little big six US bank supply in 1H-2023

At \$34bn the big six US bank supply in 1H was the lowest since at least 2015.

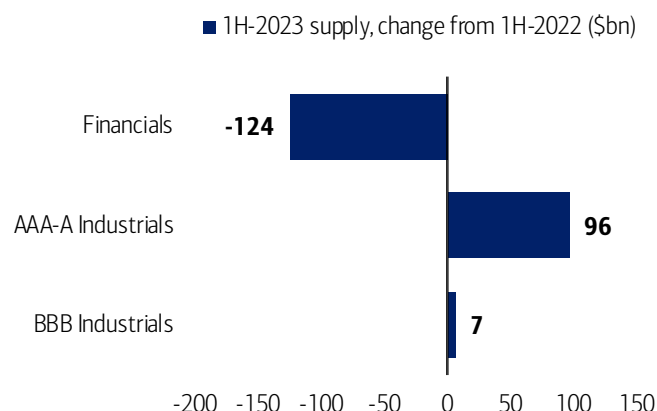


Source: BofA Global Research

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Figure 4: A big drop in financial supply vs. 2022

Overall IG supply was down 3% in 1H-2023 vs. the same period last year, as a big drop in financial (-\$124bn) was offset by higher non-financial issuance.



Source: BofA Global Research

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Credit Strategy

Daily credit snapshot

US IG issuance totaled \$7.1bn across 4 deals today and \$31.5bn MTD. The average new issue concession was 0.0bps today, while the average break performance 5.0bps tighter today.

S&P 500 closed +0.39%, 10-year Treasury yields -3bps, CDX IG -0.9bps, CDX HY +\$0.20pts, and cash bond spreads quoted +/- 2bps today, LQD closed 0.75bps tighter today.

Figure 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)
2023-07-17	CAG	Conagra Brands Inc	3	500	Baa3/BBB-	5.3	100	n.a.	-7	93
2023-07-17	JPM	JPMorgan Chase & Co	6NC5	2,500	A1/A-	5.299	128	-7	-3	125
2023-07-17	JPM	JPMorgan Chase & Co	11NC10	2,000	A1/A-	5.35	150	7	-5	144
2023-07-17	NGGLN	Boston Gas Co	30	400	Baa1/BBB+	6.119	218	n.a.	n.a.	n.a.
2023-07-17	WFC	Wells Fargo & Co	PERP NC5	1,725	Baa2/BB+	7.625	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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Previously published here

[Credit Market Strategist: Jul '23 Credit Investor Survey: Bear retreating
14 July 2023](#)

Credit Market Strategist:

Jul '23 Credit Investor Survey: Bear retreating

Our fresh US credit investor survey shows that recession concerns are finally moderating and the outlook for spreads over the next three months is turning less bearish. Credit quality expectations are improving among high yield investors, and a big consensus calls for only a mild US recession and at most two more hikes from the Fed. Still, default rate expectations remained unchanged at 4%.

Picking up yield in BBBs

Spreads very much reflect this less pessimistic outlook. As a result, the share finding spreads overvalued is near record highs for IG, while credit positioning is at record lows for HY. This combination of tight spreads and lower recession concerns drives investor preference for BBBs. A growing share of both IG and HY investors expect BBBs to outperform, at the expense of both higher quality (single-As, where spreads are tight) and lower quality (HY, which is more impacted by recession risks)

Biggest concerns

Recession remained the #1 concern, but the share worried about recession dropped to the lowest level since May 2022. Investors were also much less concerned about #5 Bank stress, but more concerned about #3 Rising interest rates. The other top concerns that were little changed in July were #2 Inflation and #4 Geopolitical risk.

June CPI: reaching zero

The soft CPI reduces Fed risks and increases the chances that July will be the last hike, which is positive for spreads. That should lead to compression and outperformance of the more cyclical sectors, but also potentially more supply in August.

2Q-23 earnings preview: turning the corner

Ex. Energy and Finance earnings growth is expected to improve to -3.2% YoY in 2Q-23 from -7.8% YoY in 1Q-23.

Two weeks of bank underperformance

Bank spreads underperform in July, Industrial spreads underperform in August.

IG market technicals

Supply: \$11.5bn of issuance this week, expect \$30-40bn next week. **Flows:** +\$1.11bn inflow this past week ending on July 12. **Weekly technicals:** expect \$4.6bn of coupon payments, \$0.8bn of calls to become effective next week. **Bond maturities:** \$12.3bn this week, \$6.9bn next week. **Dealer inventories:** +\$6,557mn past week ended Thu. Details inside.

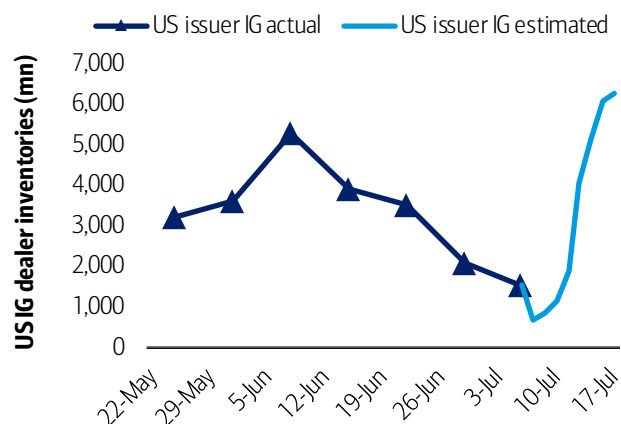
We published the weekly CMS data and charts in [Situation Room](#).

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

Figure 6: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$6.3bn currently from \$1.5bn on Jul-05.



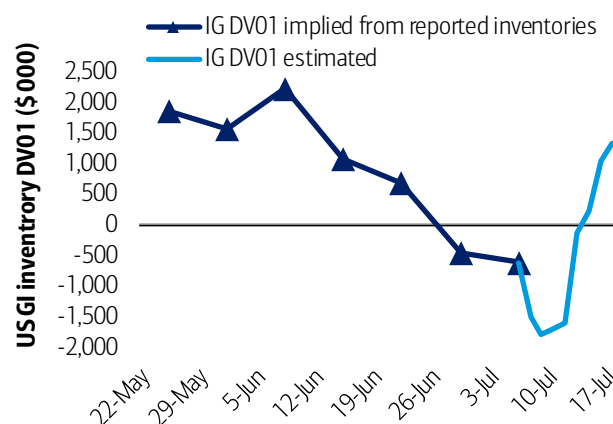
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 7: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$1.3mn currently from -\$0.6bn on Jul-05.



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

We estimate IG dealer inventories declined -\$149mn today and increased \$6,091mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Jul-23 (\$mn)			
	17-Jul	14-Jul	1 W	2 W	4 W	17-Jul	14-Jul	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-149	1,057	6,091	6,997	7,329	101	938	3,425	3,324	4,004	8,634	8,784	5,659	23,077
<3yr	-409	159	1,698	1,771	2,009	-76	28	315	347	420	1,409	1,818	1,107	4,334
3-5yr	-6	36	1,111	1,685	1,115	-20	14	367	574	309	1,495	1,500	1,161	4,156
5-11yr	185	417	1,911	2,924	1,711	114	309	1,231	1,748	700	3,260	3,075	1,885	8,220
11+yr	80	444	1,370	616	2,495	82	588	1,512	655	2,575	2,471	2,390	1,507	6,368
Fin	179	-60	1,101	2,207	3,205	191	34	587	996	1,594	3,273	3,095	2,191	8,558
Non-Fin	-328	1,117	4,990	4,790	4,125	-90	904	2,838	2,328	2,410	5,361	5,689	3,469	14,519
Fixed	-118	1,050	6,093	6,950	7,136	90	934	3,400	3,254	3,932	8,585	8,703	5,615	22,904
Floating	-32	7	-2	46	194	10	4	25	70	72	49	81	44	174
US issuers	188	934	5,136	5,001	3,906	298	812	3,020	2,426	2,306	7,071	6,882	4,622	18,575
DM Yankees	-292	114	855	1,851	2,722	-182	107	331	808	1,290	1,334	1,626	974	3,934
EM Yankees	-46	8	99	145	702	-16	20	74	90	408	230	275	63	568

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 9: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$193mn for Banks/Brokers and declined -\$18mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Jul-23 (\$mn)			
	17-Jul	14-Jul	1 W	2 W	4 W	17-Jul	14-Jul	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	54	33	76	116	68	36	17	90	135	132	127	73	65	264
Automobiles	-51	42	147	187	592	4	17	30	39	216	167	217	117	501
Banks/Brokers	193	-228	328	2,172	2,720	119	-137	32	856	1,162	2,346	2,153	1,520	6,019
Basic Materials	-26	-12	263	264	405	-45	-17	73	104	190	387	412	214	1,013
Commercial Services	-22	22	23	120	28	-25	30	-6	16	-34	108	130	63	301
Energy	-18	130	335	236	417	4	84	71	103	302	482	500	383	1,365
Finance	-82	91	278	-110	662	-1	122	297	20	496	467	549	387	1,404
Food, Bev, & Bottling	-38	27	305	290	195	-66	-11	54	-17	-35	283	321	190	793
Health Care	-67	23	545	849	359	-60	36	454	603	292	695	761	552	2,008
Industrial Products	-101	-18	279	228	88	-27	12	147	127	66	132	234	129	495
Insurance	-13	70	301	148	22	15	57	161	129	49	160	174	151	485
Media & Entertainment	83	209	603	485	650	78	192	454	312	507	398	315	233	947
REITs	81	7	194	-4	-200	57	-8	97	-9	-114	300	219	132	650
Retail	16	48	287	59	-261	18	19	231	110	-80	218	202	188	608
Technology	-78	95	585	701	1,496	-7	150	275	203	980	532	610	327	1,469
Telecom	-118	366	728	860	567	-98	246	445	519	435	935	1,052	348	2,335
Tobacco	12	-6	52	69	176	18	4	59	54	179	42	30	51	122
Transportation	25	5	196	72	-140	28	27	188	81	-143	129	104	116	348
Utilities	24	150	506	263	-339	58	106	236	-70	-481	633	609	413	1,654
Other	-23	3	60	-8	-176	-7	-8	37	9	-114	95	119	81	295

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

Source: BofA Global Research, FINRA, TRACE.

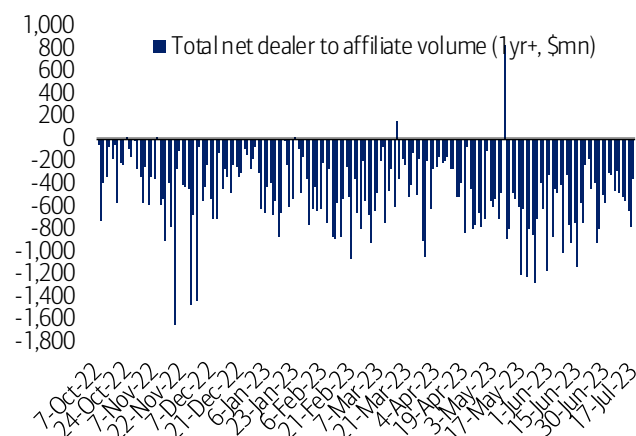
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Daily foreign demand tracker

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

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

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



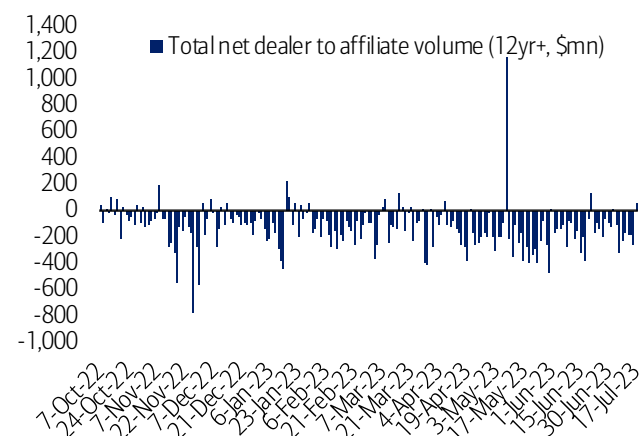
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



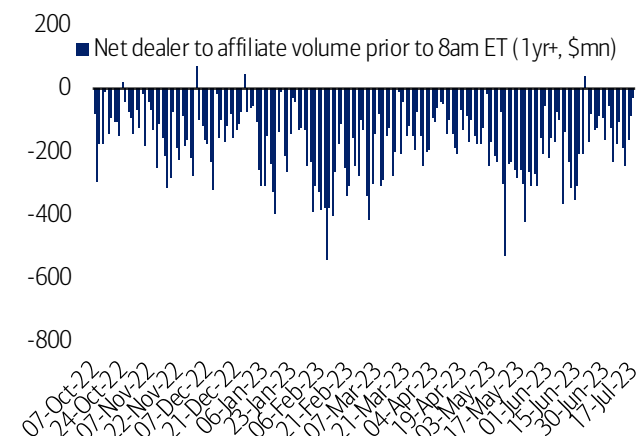
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 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



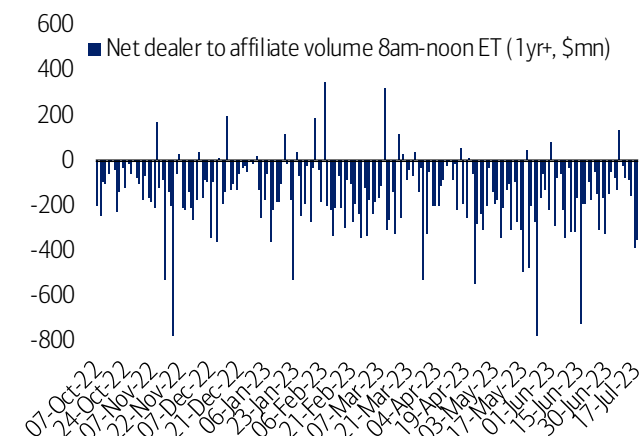
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 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

Unched: Unchanged

CPI: Consumer Price Index



FOMC: The Federal Open Market Committee
Total Loss Absorbing Capital

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