

## Situation Room

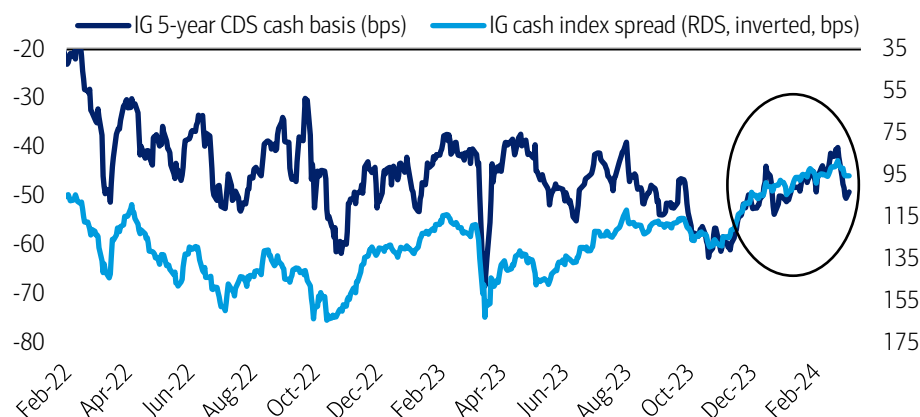
## CDS basis vs. IG cash technicals

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In a bit over a week IG CDS cash basis widened 10bps to -50bps from the recent tightens on February 22. That widening fully reversed the prior move tighter earlier in 2024. Clearly the tightening of the basis prior to mid-February reflected very strong IG market technicals (see [Situation Room: From buying the dip to just buying](#)). Hence the swift retracement is a good illustration of how much the technicals weakened during the last week of February. We can also see that in the big net selling by IG investors over the same period (Exhibit 2). Hence, given that IG spreads are still tighter YtD, the relative underperformance of the basis highlights downside risks to IG spreads in the near term (Exhibit 1).

**Exhibit 1: CDS cash basis has completely retraced the YtD tightening in the last week of Feb**

IG CDS cash basis tightened 10bps to -40bps in Jan and the first three weeks of February, before widening back to -50bps in the last week of the month.



Note: the CDS cash basis is based on 30 liquid IG issuers, including all the big six US banks / brokers.

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

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05 March 2024

Credit Strategy  
United States  
Cross Product

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**In this report**

Daily credit snapshot  
Daily dealer inventories update  
Daily HG fund flows  
Daily foreign demand tracker

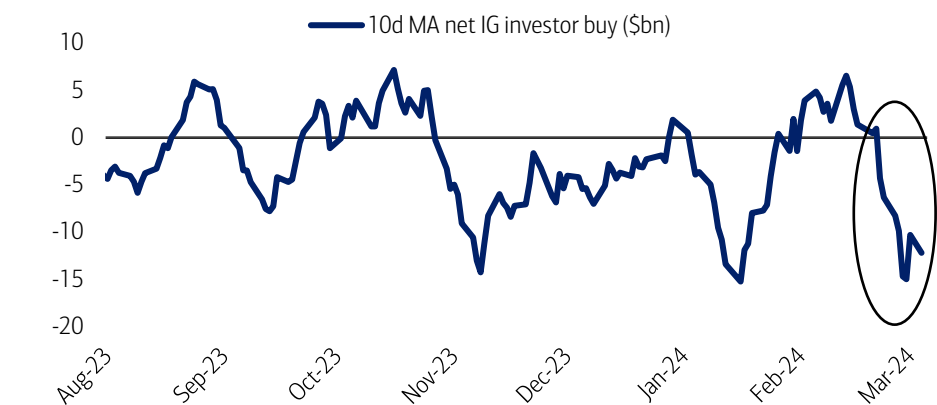
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Timestamp: 05 March 2024 06:31PM EST

**Exhibit 2: Investors net sold \$15bn of IG bonds to dealers over the past 10 days**

Net by IG investors selling accelerated in late February.



Source: BofA Global Research, FINRA TRACE.

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## Daily credit snapshot

US IG issuance totaled \$20.4bn across 10 deals today, \$41.9bn WTD and \$41.9bn MTD. The average new issue concession was 12.4bps today, while the average break performance was 2 bps tighter today. This week's new issues are trading 2bps tighter on average from pricing.

S&P 500 closed -1.02%, 10-year Treasury yields -6bps, CDX IG +0.6bps, CDX HY - \$0.18pts, and cash bond spreads quoted -4/+1bp today, LQD closed 1.21bps wider today.

**Exhibit 3: 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)
2024-03-04	ACAFP	Credit Agricole SA	3	600	Aa3/A+	FRN	n.a.	n.a.	n.a.	n.a.
2024-03-04	ACAFP	Credit Agricole SA	3	1,000	Aa3/A+	5.134	n.a.	n.a.	n.a.	73
2024-03-04	ACAFP	Credit Agricole SA	10	750	Aa3/A+	5.365	n.a.	n.a.	n.a.	113
2024-03-04	AMT	American Tower Corp	5	650	Baa3/BBB-	5.2	107	n.a.	n.a.	n.a.
2024-03-04	AMT	American Tower Corp	10	650	Baa3/BBB-	5.45	132	n.a.	n.a.	131
2024-03-04	BCOCPE	Banco BBVA Peru SA	10	300	Baa1/BBB	6.2	n.a.	n.a.	n.a.	619
2024-03-04	CB	Chubb INA Holdings Inc	10	1,000	A3/A	5	82	n.a.	n.a.	81
2024-03-04	CBAAU	Commonwealth Bank of Australia	10	1,250	Baa1/BBB+	5.837	162	n.a.	n.a.	161
2024-03-04	DE	John Deere Capital Corp	2	750	A1/A	FRN	SOFR+44	n.a.	n.a.	42
2024-03-04	DE	John Deere Capital Corp	2	450	A1/A	4.95	37	12	n.a.	36
2024-03-04	DE	John Deere Capital Corp	3	550	A1/A	4.85	50	11	n.a.	100
2024-03-04	DE	John Deere Capital Corp	7	850	A1/A	4.9	70	10	n.a.	69
2024-03-04	DELL	Dell International LLC / EMC Corp	10	1,000	Baa2/BBB	5.4	120	13	n.a.	120
2024-03-04	EFNCN	Element Fleet Management Corp	3	750	NA/BBB+	5.643	125	n.a.	n.a.	119
2024-03-04	ETR	Entergy Louisiana LLC	10	500	A2/A	5.35	115	n.a.	n.a.	115
2024-03-04	ETR	Entergy Louisiana LLC	30	700	A2/A	5.7	135	n.a.	n.a.	135
2024-03-04	KDP	Keurig Dr Pepper Inc	3	350	Baa1/BBB	FRN	SOFR+88	n.a.	n.a.	87
2024-03-04	KDP	Keurig Dr Pepper Inc	3	750	Baa1/BBB	5.1	75	n.a.	n.a.	74
2024-03-04	KDP	Keurig Dr Pepper Inc	5	750	Baa1/BBB	5.05	90	3	n.a.	89
2024-03-04	KDP	Keurig Dr Pepper Inc	7	500	Baa1/BBB	5.2	100	n.a.	n.a.	99

**Exhibit 3: 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)
2024-03-04	KDP	Keurig Dr Pepper Inc	10	650	Baa1/BBB	5.3	110	12	n.a.	109
2024-03-04	LNT	Wisconsin Power and Light Co	10	300	Baa1/A	5.375	118	n.a.	n.a.	117
2024-03-04	NEM	Newmont Corp / Newcrest Finance Pty Ltd	2	1,000	Baa1/BBB+	5.3	95	n.a.	n.a.	n.a.
2024-03-04	NEM	Newmont Corp / Newcrest Finance Pty Ltd	10	1,000	Baa1/BBB+	5.35	117	n.a.	n.a.	115
2024-03-04	ROSW	Roche Holdings Inc	5	875	Aa2/AA	4.79	58	0	n.a.	57
2024-03-04	ROSW	Roche Holdings Inc	7	750	Aa2/AA	4.909	68	5	-3	68
2024-03-04	ROSW	Roche Holdings Inc	10	1,250	Aa2/AA	4.985	77	7	-3	76
2024-03-04	ROSW	Roche Holdings Inc	30	1,000	Aa2/AA	5.218	87	4	-3	86
2024-03-04	SIXSLP	Sixth Street Lending Partners	5	600	Baa3/NA	6.5	255	n.a.	n.a.	253
2024-03-05	BACR	Barclays PLC	4NC3	1,250	Baa1/BBB+	22.365	135	3	-1	134
2024-03-05	BACR	Barclays PLC	4NC3	500	Baa1/BBB+	23.365	n.a.	n.a.	n.a.	n.a.
2024-03-05	BACR	Barclays PLC	6NC5	2,000	Baa1/BBB+	24.365	155	n.a.	-1	154
2024-03-05	BACR	Barclays PLC	31NC30	750	Baa1/BBB+	25.365	175	n.a.	-6	169
2024-03-05	BBVASM	Banco Bilbao Vizcaya Argentaria SA	5	1,000	A3/A	20.365	125	n.a.	n.a.	n.a.
2024-03-05	BBVASM	Banco Bilbao Vizcaya Argentaria SA	11NC10	1,000	A3/A	21.365	190	n.a.	n.a.	n.a.
2024-03-05	BLK	BlackRock Funding Inc	5	500	Aa3/AA-	7.365	60	17	n.a.	n.a.
2024-03-05	BLK	BlackRock Funding Inc	10	1,000	Aa3/AA-	8.365	88	14	n.a.	n.a.
2024-03-05	BLK	BlackRock Funding Inc	30	1,500	Aa3/AA-	9.365	105	n.a.	n.a.	n.a.
2024-03-05	F	Ford Motor Credit Co LLC	5	1,600	Ba1/BBB-	10.365	168	3	n.a.	n.a.
2024-03-05	F	Ford Motor Credit Co LLC	10	900	Ba1/BBB-	11.365	200	16	n.a.	n.a.
2024-03-05	HRL	Hormel Foods Corp	3	500	A1/A-	18.365	50	n.a.	0	50
2024-03-05	JPM	JPMorgan Chase & Co	PERP NC5	2,500	Baa2/BBB+	6.365	n.a.	n.a.	n.a.	n.a.
2024-03-05	LNG	Cheniere Energy Inc	10	1,500	Baa3/BBB-	19.365	153	n.a.	n.a.	n.a.
2024-03-05	MCHP	Microchip Technology Inc	5	1,000	Baa1/BBB	16.365	95	n.a.	n.a.	n.a.
2024-03-05	MGCN	Magna International Inc	5	400	A3/A-	17.365	95	n.a.	n.a.	n.a.
2024-03-05	NESNVX	Nestle Capital Corp	5	600	Aa3/AA-	12.365	55	n.a.	n.a.	n.a.
2024-03-05	NESNVX	Nestle Capital Corp	7	450	Aa3/AA-	13.365	65	16	n.a.	n.a.
2024-03-05	NESNVX	Nestle Capital Corp	10	800	Aa3/AA-	14.365	75	14	n.a.	n.a.
2024-03-05	NESNVX	Nestle Capital Corp	30	650	Aa3/AA-	15.365	85	16	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

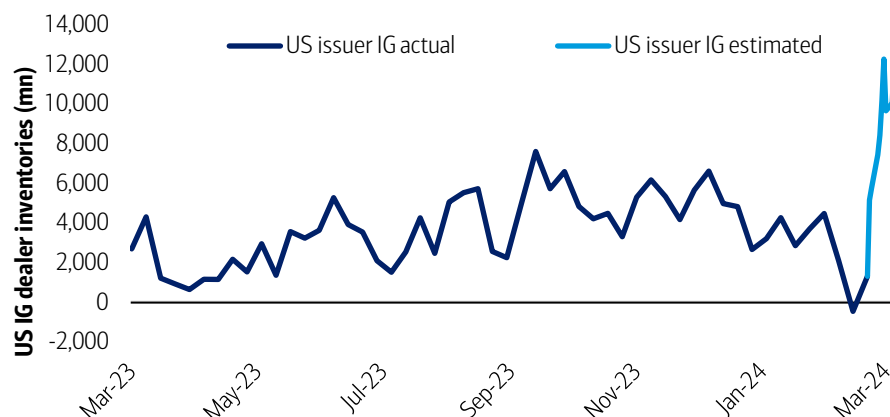
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

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 4. We estimate the corresponding DV01 equivalent in Exhibit 5. More details by sector and maturity are available in Exhibit 6 and Exhibit 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



**Exhibit 4: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$12.3bn currently from \$1.3bn on Feb-21.



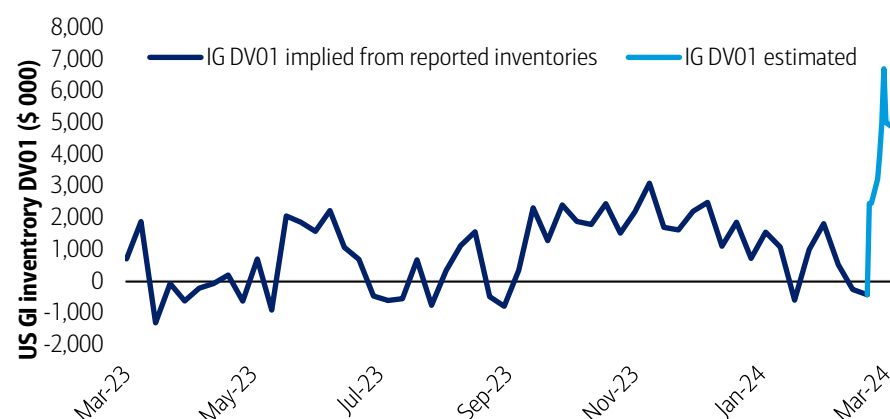
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Exhibit 5: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$6.7mn currently from -\$0.4bn on Feb-21.



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

We estimate IG dealer inventories increased \$2,758mn today and increased \$4,827mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 5-Mar-24 (\$mn)			
	5-Mar	4-Mar	1 W	2 W	4 W	5-Mar	4-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>2,758</b>	<b>328</b>	<b>4,827</b>	<b>14,763</b>	<b>13,197</b>	<b>2,044</b>	<b>-140</b>	<b>3,120</b>	<b>8,546</b>	<b>8,803</b>	<b>15,489</b>	<b>12,731</b>	<b>8,319</b>	<b>36,538</b>
<3yr	527	55	510	3,056	2,043	102	-3	3	453	225	2,568	2,041	1,557	6,166
3-5yr	363	175	992	3,708	2,324	127	46	370	1,350	744	3,031	2,667	1,526	7,223
5-11yr	984	207	1,243	2,904	1,854	634	105	654	1,507	726	5,321	4,337	2,903	12,561
11+yr	884	-109	2,082	5,095	6,976	1,181	-288	2,092	5,237	7,107	4,569	3,686	2,333	10,588
Fin	472	140	1,477	5,658	2,190	404	18	911	2,852	1,420	5,674	5,202	2,731	13,607
Non-Fin	2,286	188	3,350	9,106	11,007	1,640	-158	2,209	5,693	7,383	9,814	7,529	5,588	22,931
Fixed	2,747	297	4,941	14,683	13,154	1,998	-144	3,095	8,583	8,838	15,287	12,540	8,230	36,057
Floating	11	31	-114	80	44	46	4	25	-38	-36	202	191	88	481
US issuers	2,279	373	3,878	11,660	10,383	1,827	-141	2,680	6,909	6,958	12,352	10,073	6,847	29,273
DM Yankees	448	-130	771	2,442	1,765	204	-90	290	1,134	1,078	2,778	2,331	1,275	6,384
EM Yankees	31	85	178	662	1,050	13	92	151	503	767	358	327	196	881

**Exhibit 6: Estimated changes in IG dealer inventories by maturity and broad sector.**

We estimate IG dealer inventories increased \$2,758mn today and increased \$4,827mn over the prior week.

**Net dealer buy (\$mn)****Net dealer DV01 change (\$thousand)****Trading volumes on 5-Mar-24 (\$mn)**

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

We estimate today IG dealer inventories increased \$373mn for Banks/Brokers and increased \$414mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 5-Mar-24 (\$mn)			
	5-Mar	4-Mar	1 W	2 W	4 W	5-Mar	4-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	65	-72	-230	-81	361	84	-78	-137	11	212	318	253	183	754
Automobiles	132	51	182	741	773	1	26	35	254	298	510	378	306	1,195
Banks/Brokers	373	-287	678	3,748	1,673	265	-187	327	1,533	395	4,128	3,755	1,890	9,773
Basic Materials	2	158	206	731	824	-8	133	71	375	405	425	423	313	1,161
Commercial Services	82	-2	-29	3	-161	37	6	33	68	24	206	124	84	415
Energy	414	49	1,013	1,926	1,416	248	-15	681	1,198	981	1,099	685	587	2,371
Finance	34	176	101	581	27	16	83	67	301	163	661	626	416	1,703
Food, Bev, & Bottling	275	93	468	800	1,006	160	65	350	621	800	813	537	519	1,870
Health Care	492	-91	133	344	634	509	-155	26	-285	-30	1,973	1,481	1,110	4,564
Industrial Products	-26	34	-109	320	588	-28	-6	-94	223	495	308	334	202	843
Insurance	63	64	272	644	511	133	22	267	653	838	445	382	202	1,030
Media & Entertainment	212	106	361	984	820	145	100	264	664	470	646	434	291	1,370
REITs	2	186	426	685	-21	-9	100	251	365	24	441	439	223	1,102
Retail	110	13	76	334	314	95	29	81	385	439	491	380	310	1,182
Technology	201	-136	129	1,014	973	183	-170	25	586	580	1,120	919	560	2,600
Telecom	179	-91	337	140	336	149	-82	338	95	310	559	380	324	1,264
Tobacco	-18	-27	-55	-56	338	-7	-10	-6	-32	143	102	120	118	340
Transportation	96	27	77	286	523	92	26	41	290	509	238	142	133	513
Utilities	50	80	754	1,528	2,262	-54	8	534	1,256	1,783	815	765	422	2,003
Other	19	-5	38	92	0	34	-33	-35	-18	-34	190	171	127	488

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

Source: BofA Global Research, FINRA, TRACE.

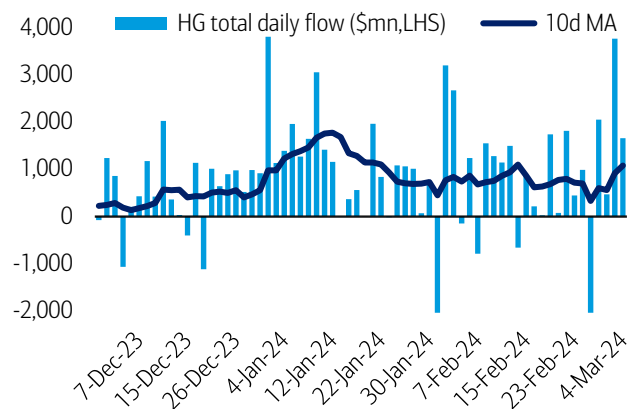
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## Daily HG fund flows

We define our high grade flows as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" category refers to the broad high grade market, which includes Treasuries, mortgages and agencies in addition to corporate bonds. This category accounts for the majority of AUM and flows.

**Exhibit 8: Daily HG fund flows**

The chart plots daily HG fund flows as well as a 10-day average trend.

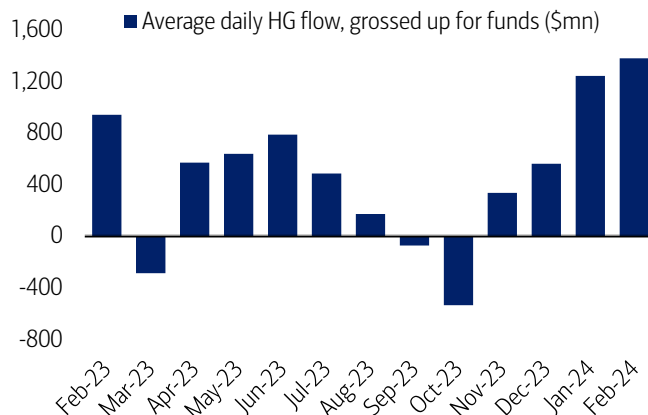


Source: EPFR Global, BofA Global Research

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**Exhibit 9: Average daily HG flows by month**

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

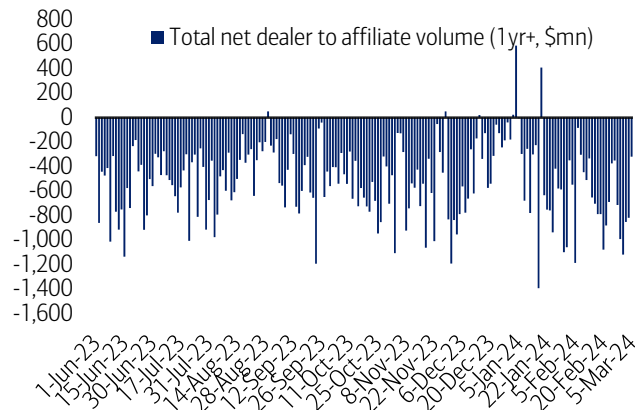
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## Daily foreign demand tracker

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.



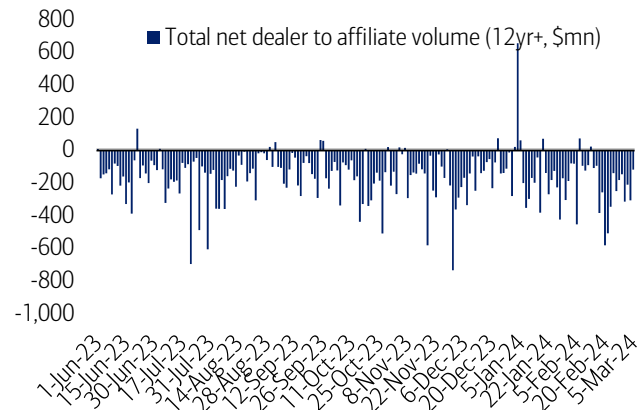
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



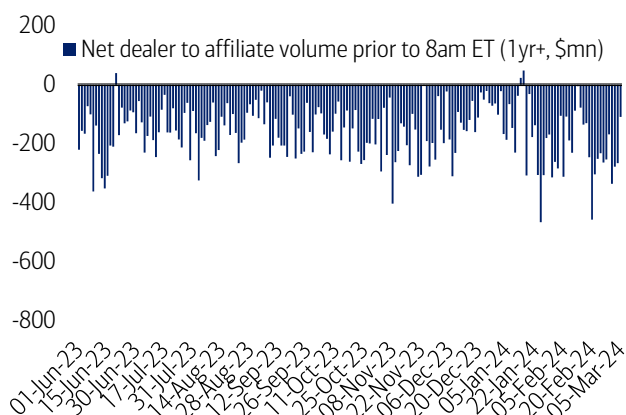
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



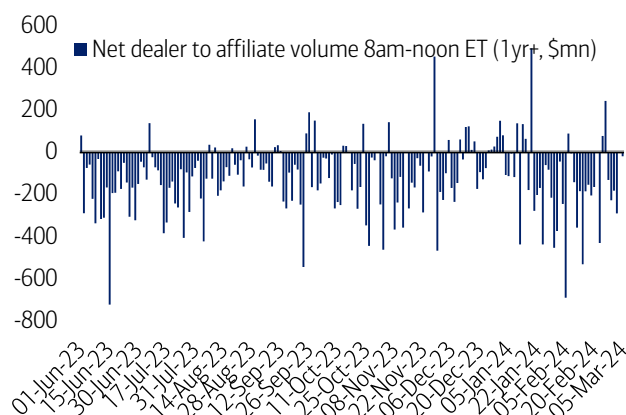
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

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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