

Situation Room

October supply: downside risks

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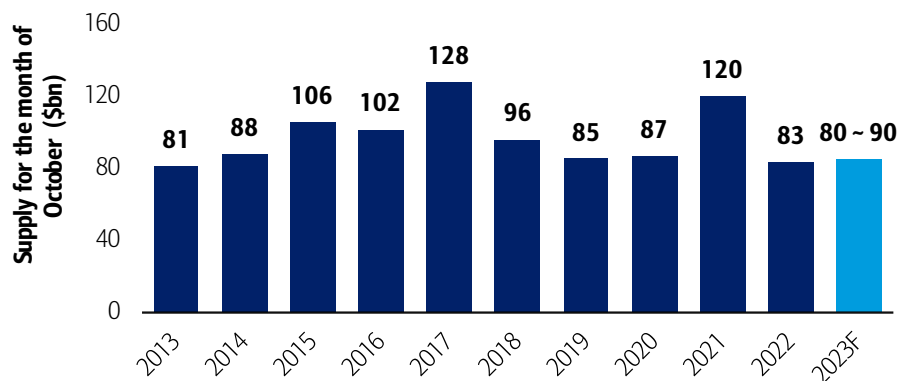
Over the past five years ex. 2020 the median October IG corporate supply was \$96bn, ranging from \$83 to \$128bn. We look for October supply in the low end of that range, or \$80 to \$90bn (Figure 1).

Drivers of supply in October

October IG issuance volumes should be more modest for two reasons. First, the big jump in interest rates generally discourages opportunistic issuance. We saw an example of that in September, when supply underwhelmed during the week of September 18 following the September FOMC meeting (Figure 3). Second, issuance in October is more skewed towards financials (Figure 4), as US industrials tend to be issuance blackouts related to the 3Q earnings reporting season. The big-six US banks, on the other hand, come of the blackouts in mid-October. So far in 2023, however, financial supply in general, and the big six US bank supply in particular (Figure 5), has been the lowest in three years. This should be negative for October issuance volumes should the trend continue.

Figure 1: We look for October issuance near the low end of historical range

We look for October IG supply in \$80-\$90bn range, similar to 2022 and down from \$120bn in 2021.



Source: BofA Global Research

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27 September 2023

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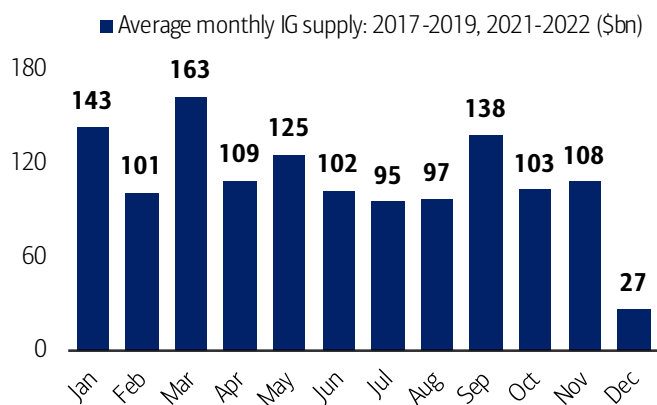
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Timestamp: 27 September 2023 06:14PM EDT

Figure 2: IG supply averaged \$103bn for the month of October

Supply for the calendar month of October tends to be relatively light.

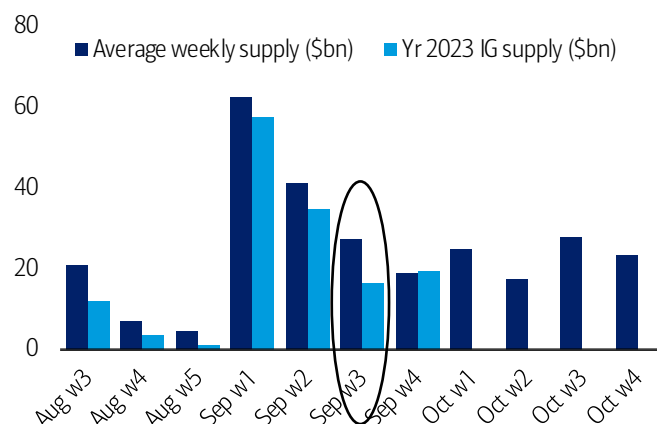


Source: BofA Global Research

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Figure 3: The jump in rates should discourage supply

IG new issue supply volumes underwhelmed in the third week of September following the more hawkish than expected FOMC.

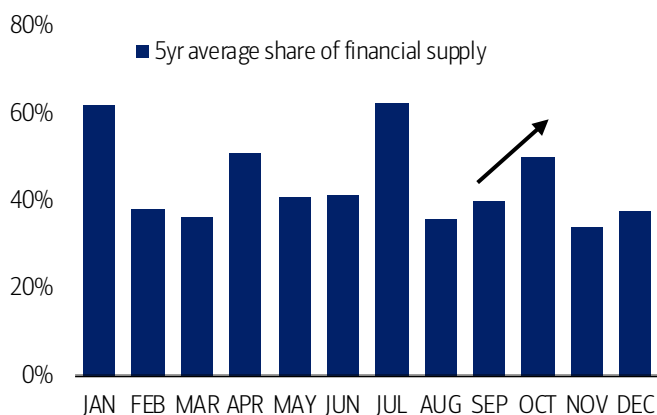


Source: BofA Global Research

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Figure 4: The share of financial supply is typically higher in October

The 5yr average share of financial supply goes up to 50% in October from 40% in September.



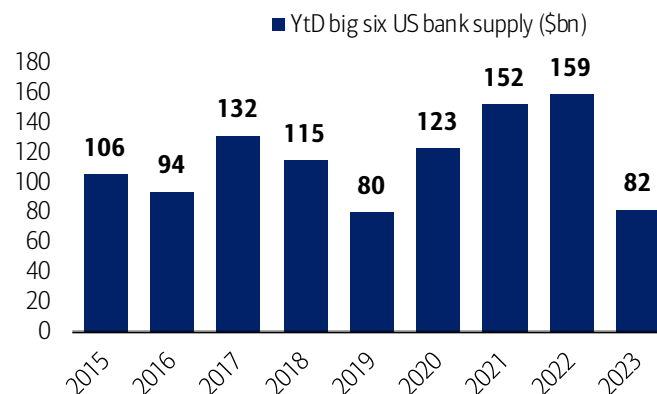
Note: the average is for years 2017 – 2019, 2021 – 2022.

Source: BofA Global Research

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Figure 5: Big six US bank supply YtD has been the lowest in three years

YtD big six US bank supply has been \$82bn – the lowest since 2019 and down from \$159bn in 2022.



Source: BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$5.3bn across 5 deals today, \$19.6bn WTD and \$128.4bn MTD. The average new issue concession was 2.0bps today, while the average break performance was 8.0bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed +0.02%, 10-year Treasury yields +7bps, CDX IG -0.5bps, CDX HY +\$0.07pts, and cash bond spreads quoted unchd to +3bp today, LQD closed 1.00bps wider today.

Figure 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)
2023-09-25	ACAFP	Credit Agricole SA	6NC5	1,750	A3/A-	6.316	170	n.a.	n.a.	167
2023-09-26	C	Citibank NA	2	750	Aa3/A+	FRN	SOFR+80.5	n.a.	n.a.	n.a.
2023-09-26	C	Citibank NA	2	1,750	Aa3/A+	5.864	73	n.a.	n.a.	72
2023-09-26	C	Citibank NA	5	2,500	Aa3/A+	5.803	118	n.a.	-0	119
2023-09-26	CEG	Constellation Energy Generation LLC	10	500	Baa2/BBB	6.125	158	6	-1	158
2023-09-26	CEG	Constellation Energy Generation LLC	30	900	Baa2/BBB	6.5	180	n.a.	-7	174
2023-09-26	CM	Canadian Imperial Bank of Commerce	3	350	A2/A-	FRN	122	n.a.	n.a.	n.a.
2023-09-26	CM	Canadian Imperial Bank of Commerce	3	850	A2/A-	5.926	110	15	n.a.	n.a.
2023-09-26	CM	Canadian Imperial Bank of Commerce	5	700	A2/A-	5.986	138	15	n.a.	n.a.
2023-09-26	CM	Canadian Imperial Bank of Commerce	10	1,100	A2/A-	6.092	155	n.a.	n.a.	n.a.
2023-09-26	EIX	Southern California Edison Co	5	550	Baa1/BBB	5.65	105	n.a.	-1	105
2023-09-26	RABOBK	Cooperatieve Rabobank UA/NY	3	300	Aa2/A+	FRN	SOFR+90	n.a.	n.a.	n.a.
2023-09-26	RABOBK	Cooperatieve Rabobank UA/NY	3	700	Aa2/A+	5.5	77	n.a.	-2	75
2023-09-27	GLENLN	Glencore Funding LLC	5	750	Baa1/BBB+	6.125	155	11	-13	142
2023-09-27	GLENLN	Glencore Funding LLC	7	750	Baa1/BBB+	6.375	180	1	n.a.	n.a.
2023-09-27	GLENLN	Glencore Funding LLC	10	1,000	Baa1/BBB+	6.5	195	n.a.	n.a.	n.a.
2023-09-27	PPC	Pilgrims Pride Corp	11	500	Ba3/BBB-	6.875	250	n.a.	n.a.	n.a.
2023-09-27	WES	Western Midstream Operating LP	5	600	Baa3/BBB-	6.35	170	-6	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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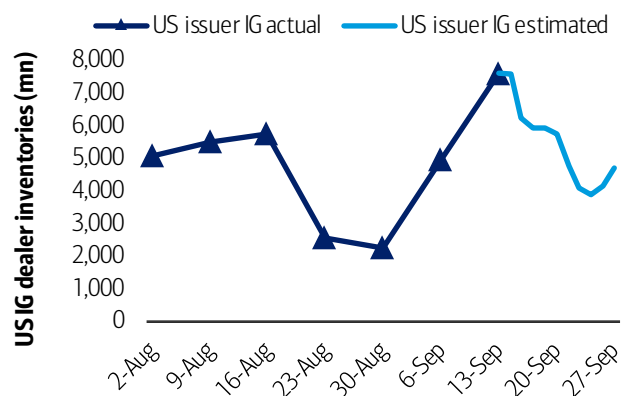
Daily dealer inventories update

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

Figure 7: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to \$4.7bn currently from \$7.6bn on Sep-13.



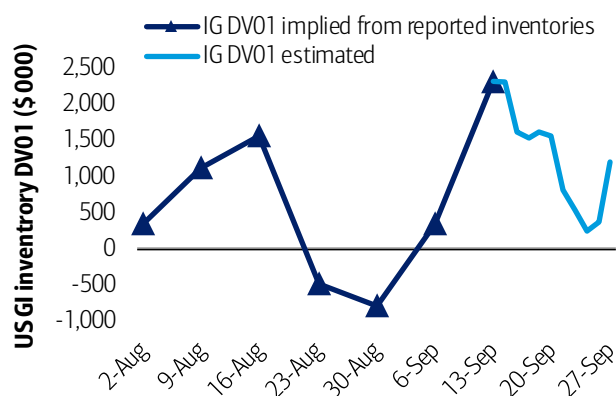
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 8: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to \$1.2mn currently from \$2.3bn on Sep-13.



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

We estimate IG dealer inventories increased \$697mn today and declined -\$1,368mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Sep-23 (\$mn)			
	27-Sep	26-Sep	1 W	2 W	4 W	27-Sep	26-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	697	521	-1,368	-3,465	3,981	943	161	-622	-1,178	2,279	11,357	10,660	7,370	29,387
<3yr	-296	147	-1,354	-3,168	-1,081	-70	16	-276	-581	-213	2,018	2,314	1,210	5,542
3-5yr	313	169	379	306	1,865	116	62	117	99	663	2,148	1,835	1,471	5,455
5-11yr	-291	238	-380	202	3,470	-179	122	-296	18	1,989	3,593	3,884	2,671	10,149
11+yr	971	-33	-14	-805	-274	1,076	-39	-167	-714	-159	3,598	2,627	2,017	8,242
Fin	254	787	437	-203	2,069	152	178	41	-123	996	4,438	4,184	2,691	11,313
Non-Fin	443	-266	-1,805	-3,262	1,912	792	-17	-663	-1,056	1,283	6,919	6,476	4,679	18,074
Fixed	542	457	-1,617	-3,628	3,784	879	188	-651	-1,175	2,213	11,071	10,530	7,308	28,908
Floating	155	65	249	163	197	64	-27	29	-3	65	286	130	62	478
US issuers	567	276	-1,043	-2,881	2,645	811	137	-373	-1,131	1,518	8,635	8,068	5,993	22,696
DM Yankees	93	187	-417	-785	886	119	-5	-305	-196	522	2,446	2,353	1,264	6,064
EM Yankees	37	59	91	201	449	13	29	56	148	238	276	239	112	627

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 10: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$0mn for Banks/Brokers and increased \$0mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Sep-23 (\$mn)			
	27-Sep	26-Sep	1 W	2 W	4 W	27-Sep	26-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	55	-45	92	-56	65	73	-15	154	55	136	228	173	137	538
Automobiles	68	-67	-237	-161	298	46	-21	-67	-38	113	214	146	180	540
Banks/Brokers	166	980	560	-224	1,502	85	368	178	58	766	3,266	3,099	1,937	8,302
Basic Materials	-88	-9	33	-206	34	-39	-45	-34	-162	18	337	425	253	1,015
Commercial Services	-20	35	6	-115	145	-11	32	8	-68	69	135	156	105	396
Energy	-5	-37	-214	-353	-494	43	-90	-281	-125	-597	805	810	455	2,069
Finance	7	-22	-87	-76	90	37	-48	-79	-20	154	576	569	365	1,511
Food, Bev, & Bottling	-30	-62	-212	-391	-100	41	-89	-94	-179	-15	356	386	268	1,010
Health Care	153	-80	-534	-602	207	229	-69	-299	-184	262	1,107	954	762	2,823
Industrial Products	39	-98	-196	-267	317	2	-65	-83	-114	267	318	279	176	773
Insurance	-10	-136	-62	-61	226	-19	-131	-87	-185	55	339	349	196	884
Media & Entertainment	24	70	79	-111	428	47	92	156	56	294	456	432	304	1,192
REITs	91	-35	26	158	250	49	-10	29	24	21	257	166	193	616

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	27-Sep	26-Sep	1 W	2 W	4 W	27-Sep	26-Sep	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Retail	11	74	139	78	396	41	60	168	74	285	321	310	349	981
Technology	49	-199	-624	-671	-449	91	-91	-393	-375	-339	804	754	546	2,104
Telecom	158	-25	2	-220	84	105	10	-7	-171	-165	468	310	277	1,055
Tobacco	27	16	-50	-66	28	36	47	21	5	34	145	119	125	389
Transportation	22	-36	78	-45	38	16	-24	57	60	150	150	128	81	359
Utilities	64	218	21	-46	727	106	251	110	113	647	993	929	576	2,498
Other	-84	-21	-190	-30	187	-35	-1	-78	-2	125	82	166	83	331

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

Source: BofA Global Research, FINRA, TRACE.

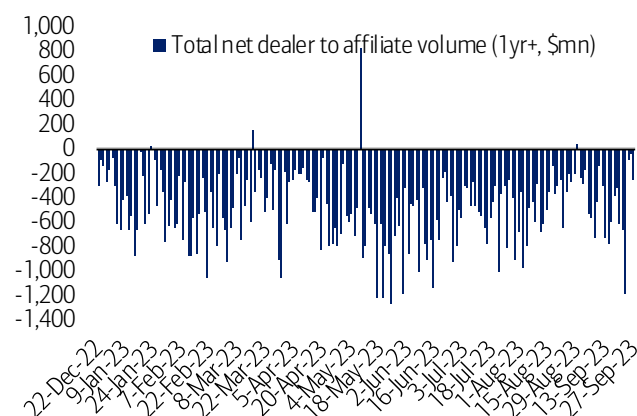
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Daily foreign demand tracker

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

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

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



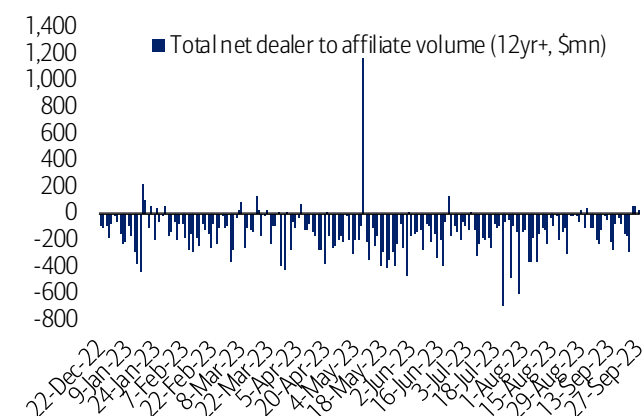
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



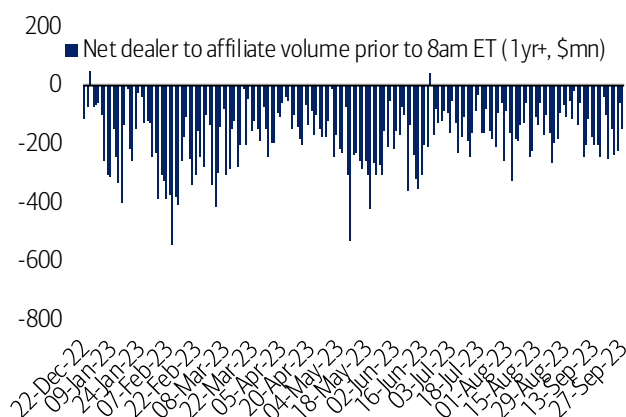
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 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



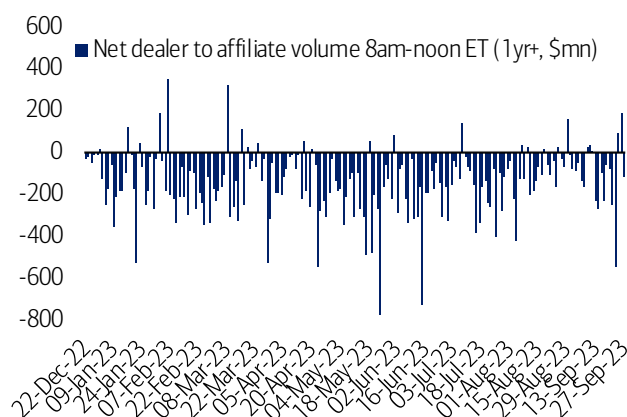
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 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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