

Situation Room

Bank spreads vs rates

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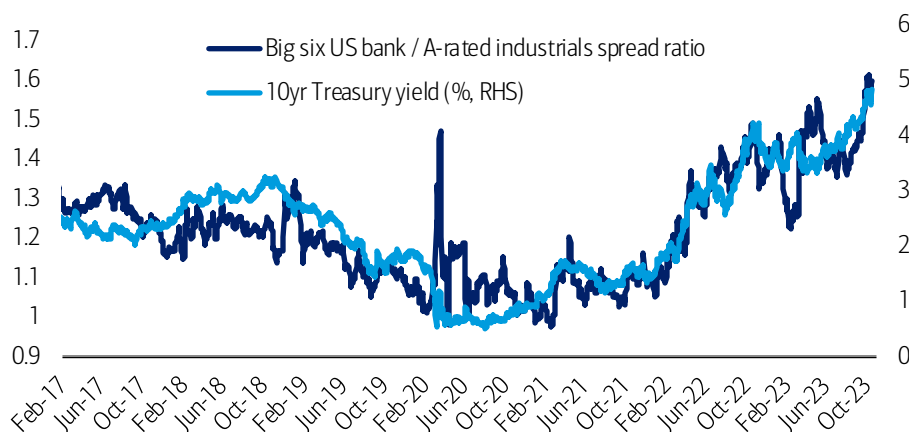
Bank spreads have underperformed significantly in September and October as interest rates continue to increase (see report: [Situation Room: Very cheap banking](#)). In fact, the big six US bank spread ratio to A-rated industrials (the relative bank spread) has been tracking 10yr Treasury yields closely since last year (Figure 1). That suggests that, although banks are already historically cheap, it would likely take some stabilization in rates before bank spreads can finally outperform industrials.

Reaching new highs on rates

10yr Treasury yield reached new highs of 4.9% today. That's approaching the 5% expected peak rate, as argued by our rates strategists (see report: [Liquid Insight: US rate shock FAQ](#)). Hence, while interest rate uncertainties remain high, potentially approaching the peak on rates should be positive for spreads in general, but especially so for bank spreads.

Figure 1: Bank spread underperformance has been tracking 10yr Treasury yields since 2022

Currently bank spreads relative to industrials appear in line with the increase in interest rates.



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

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United States
Cross Product

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See page 6 for abbreviations

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Timestamp: 18 October 2023 06:38PM EDT

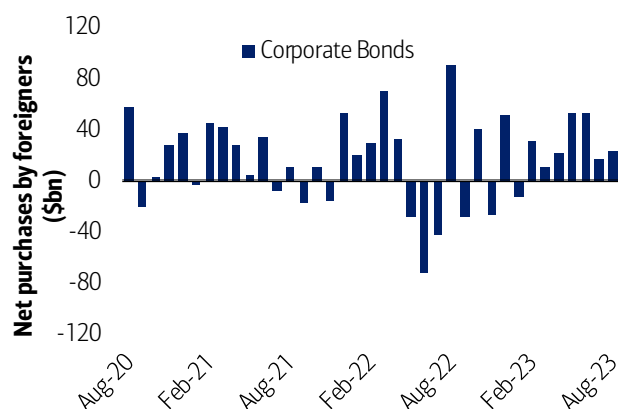
TIC update for October

According to TIC (Treasury International Capital) data released today foreign investors net bought +\$23.8bn of US corporate bonds (excluding ABS) in August, after net buying +\$16.4bn in July (Figure 2). Note that the net purchase amount is based on monthly market value of securities holdings, adjusted for the price change. In August foreign investors net bought +\$42.6bn of Treasuries, after net buying +\$19.1bn in July. In August, foreign investors net sold -\$154.9bn of stocks, after net buying +\$369.4 in July. Foreign investors also net sold -\$0.0bn of Agencies and net bought +\$79.7bn of Agency MBS (Figure 3).

By region, where data includes ABS, European investors net bought +\$30.9bn, Asia net sold -\$12.9bn and the Caribbean net bought +\$11.2bn (Figure 4). Within Asia, Japan net sold -\$15.9bn, China net sold -\$0.3bn, while the rest of Asia net bought +\$3.7bn (Figure 5). Notice that this data on the geographical breakdown of foreign purchases is fairly useless as it tracks the money manager or the custodian – i.e. often not the root source of demand.

Figure 2: Foreign net purchases of corporate bonds (excl. ABS)

Foreign investor flows have been mixed over the past months.



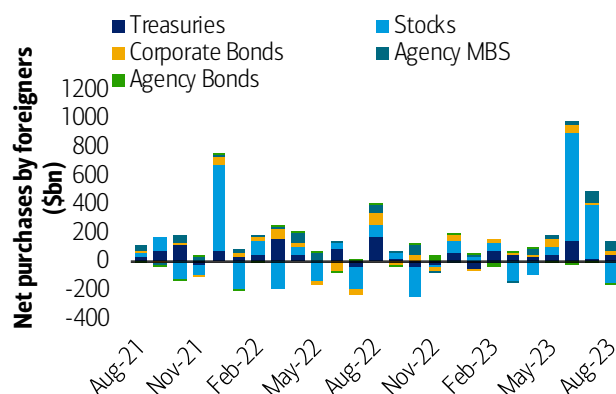
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Figure 3: Monthly foreign net purchases of long-term US securities

Foreign investors were net buyers of US treasuries, corporate bonds, agency MBS bonds and agency bonds in August, and they were net sellers of stocks.



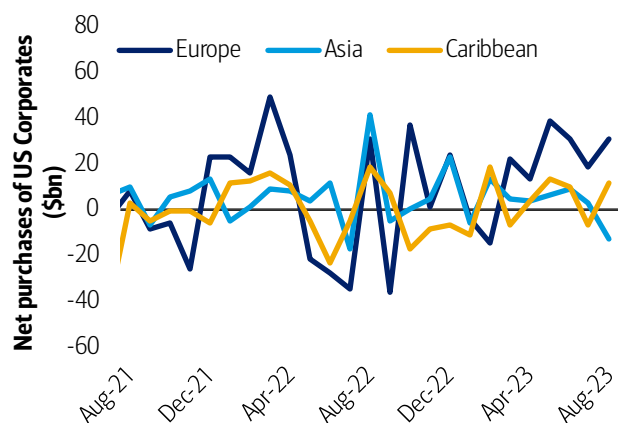
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change. Agency MBS excludes prepayments.

Source: TIC system, BofA Global Research

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Figure 4: Net purchases of US corporate bonds by region (incl. ABS)

Asia and the Caribbean were net buyers of US corporate bonds in August, while Asia was a net seller.



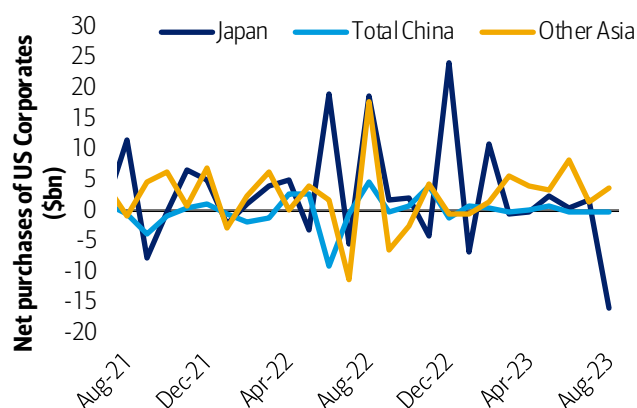
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Figure 5: Net purchases of US corporate bonds by Asia (incl. ABS)

Within Asia, Japan and China were net sellers of US corporate bonds in August, while the rest of Asia were net buyers.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$6.8bn across 3 deals today, \$24.0bn WTD and \$46.2bn MTD. The average new issue concession was 2.0bps today, while the average break performance was 0.3bps wider today. This week's new issues are trading 5.0bps tighter on average from pricing.

S&P 500 closed -1.34%, 10-year Treasury yields +8bps, CDX IG +2.8bps, CDX HY - \$0.63pts, and cash bond spreads quoted +1/-4bps today, LQD closed 4.46bps 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)
2023-10-16	JPM	JPMorgan Chase & Co	4	2,000	A1/A-	6.07	120	0	0	120
2023-10-16	JPM	JPMorgan Chase & Co	6	2,250	A1/A-	6.087	138	3	-1	136
2023-10-16	JPM	JPMorgan Chase & Co	11	3,000	A1/A-	6.254	155	-1	-2	153
2023-10-16	WFC	Wells Fargo & Co	6	2,750	A1/BBB+	6.303	160	6	-1	159
2023-10-16	WFC	Wells Fargo & Co	11	3,250	A1/BBB+	6.491	180	0	-4	177
2023-10-17	KEBHN	Hana Bank	5	500	Aa3/A+	5.75	100	n.a.	n.a.	n.a.
2023-10-17	PNC	PNC Financial Services Group Inc/The	4	1,250	A3/A-	6.615	160	8	-2	159
2023-10-17	PNC	PNC Financial Services Group Inc/The	11	2,250	A3/A-	6.875	203	8	-4	198
2023-10-18	BK	Bank of New York Mellon Corp/The	6	900	A1/A	6.317	140	2	n.a.	n.a.
2023-10-18	BK	Bank of New York Mellon Corp/The	11	1,100	A1/A	6.474	158	n.a.	-1	157
2023-10-18	GS	Goldman Sachs Group Inc/The	6	2,750	A2/BBB+	6.484	157	n.a.	2	159
2023-10-18	GS	Goldman Sachs Group Inc/The	11	1,250	A2/BBB+	6.561	167	n.a.	0	167
2023-10-18	MUFG	Mitsubishi UFJ Financial Group Inc	PERP	750	Baa3/BB+	8.2	n.a.	n.a.	n.a.	n.a.

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.

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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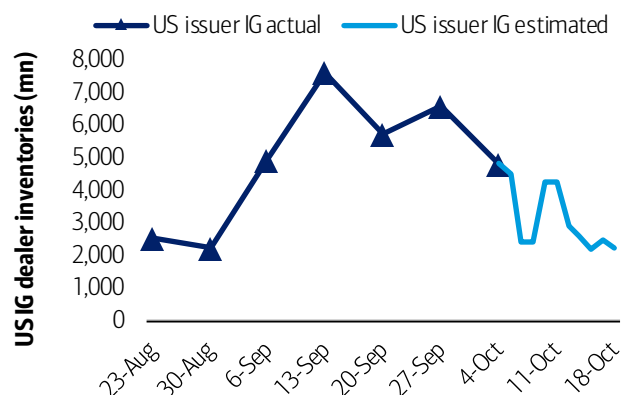
Daily dealer inventories update

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 DVO1 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 \$2.3bn currently from \$4.8bn on Oct-04.



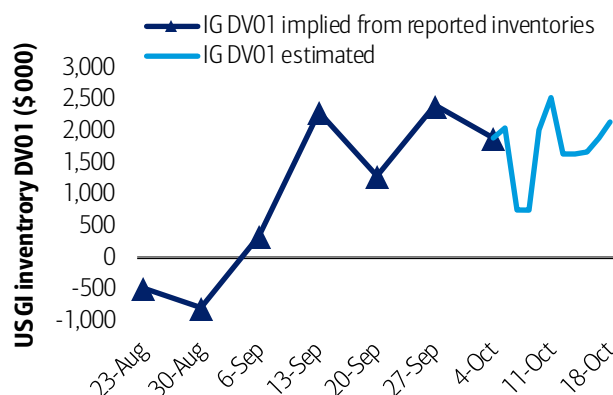
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 8: Estimated dealer inventory DVO1 for IG corporate bonds.

We estimate IG dealer inventory DVO1 of US issuer bonds increased to \$2.2mn currently from \$1.9bn on Oct-04.



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 declined -\$133mn today and declined -\$2,114mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DVO1 change (\$thousand)					Trading volumes on 18-Oct-23 (\$mn)			
	18-Oct	17-Oct	1 W	2 W	4 W	18-Oct	17-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-133	846	-2,114	-2,020	-5,407	372	504	-345	647	-852	9,005	9,138	7,088	25,232
<3yr	-319	106	-286	-707	-1,875	-61	17	-73	-164	-441	1,341	1,660	1,150	4,150
3-5yr	-317	-67	-2,256	-2,470	-3,421	-102	-30	-822	-906	-1,208	1,543	1,860	1,667	5,070
5-11yr	-135	499	-581	-1,281	-2,829	-88	235	-417	-718	-1,615	2,704	2,838	2,164	7,706
11+yr	639	308	1,009	2,438	2,718	624	282	966	2,436	2,411	3,418	2,780	2,107	8,306
Fin	-23	782	-195	-305	-755	141	354	-60	-62	-449	3,561	3,584	2,730	9,875
Non-Fin	-109	65	-1,919	-1,715	-4,651	232	150	-286	710	-403	5,444	5,554	4,359	15,357
Fixed	-100	841	-2,014	-1,885	-5,530	375	488	-333	613	-914	8,963	9,064	7,035	25,062
Floating	-32	5	-100	-135	123	-2	16	-12	34	61	42	74	53	169
US issuers	-247	304	-1,974	-2,573	-6,797	254	239	-370	268	-1,636	7,052	7,299	5,806	20,158
DM Yankees	79	584	-30	697	1,158	98	293	120	463	699	1,629	1,549	1,197	4,375
EM Yankees	35	-42	-110	-143	231	20	-28	-95	-84	85	324	290	85	699

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 \$56mn for Banks/Brokers and declined -\$127mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 18-Oct-23 (\$mn)			
	18-Oct	17-Oct	1 W	2 W	4 W	18-Oct	17-Oct	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	22	-46	-47	-103	-112	34	-39	-48	-70	48	194	172	97	463
Automobiles	1	-12	-270	-168	-476	-13	-11	-132	-97	-194	148	148	159	455
Banks/Brokers	56	618	213	182	-40	176	233	154	193	-96	2,770	2,713	2,029	7,511
Basic Materials	-60	-69	-197	-189	-304	-35	-7	-46	-45	-148	262	322	181	765
Commercial Services	-3	-17	7	34	262	19	-1	51	103	273	96	99	86	282
Energy	-127	3	-398	-180	-595	-56	39	-148	62	-278	537	664	507	1,707
Finance	-90	22	-291	-469	-634	-41	8	-165	-218	-204	408	498	346	1,252
Food, Bev. & Bottling	36	35	112	531	341	37	14	150	606	556	515	480	278	1,273
Health Care	5	142	337	158	-790	57	88	269	425	-168	918	913	824	2,655
Industrial Products	-30	-53	-243	-156	-403	-12	-34	-90	-11	-73	166	195	159	520
Insurance	-33	32	-198	-56	-243	-9	33	-116	-47	-211	191	224	199	615
Media & Entertainment	21	-122	-318	-324	-459	22	-48	-102	-49	-73	373	352	302	1,028
REITs	44	109	82	37	162	14	80	67	9	62	192	149	157	497
Retail	-14	46	-173	-356	-424	1	23	-46	-194	-29	365	379	371	1,116
Technology	-21	69	18	-221	-923	24	37	72	-23	-469	502	523	440	1,464
Telecom	35	27	-174	-331	-305	42	-4	-82	-153	-82	344	309	251	904
Tobacco	-13	1	-116	-84	-215	-8	7	-65	-7	-13	76	89	69	234
Transportation	53	5	-30	-85	13	83	9	13	-18	25	250	197	140	587
Utilities	-14	21	-359	-152	3	43	66	-61	164	268	568	581	396	1,545
Other	-1	34	-68	-90	-264	-4	10	-23	15	-46	130	131	98	359

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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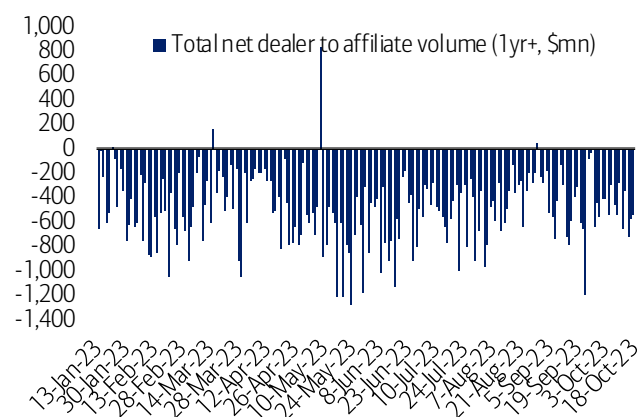
Daily foreign demand tracker

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.



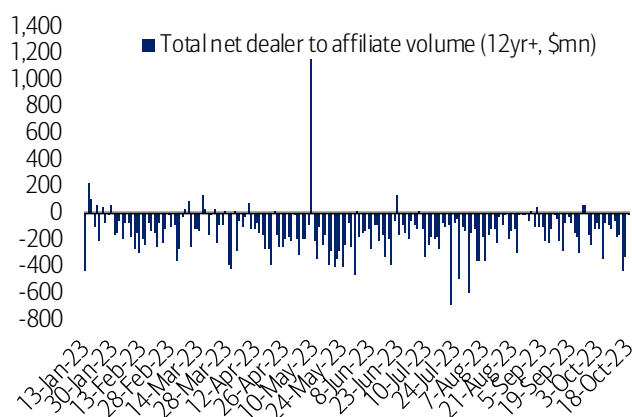
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



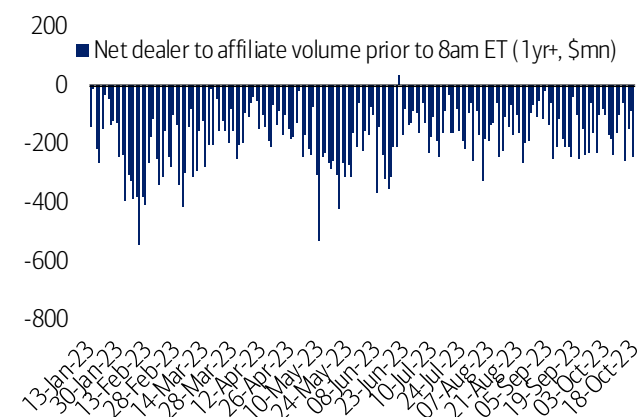
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

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



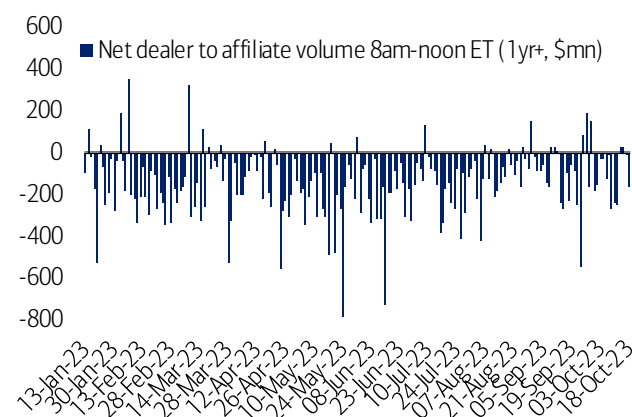
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

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

Unchd: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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