

Situation Room

Getting shorter in 2024

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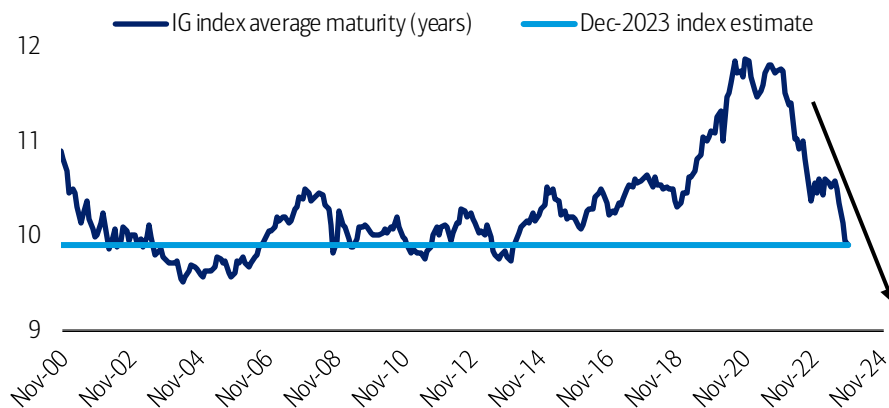
So far this week through Tuesday 30yr supply consisted of just one \$400mn OGLETH bond, accounting for 3% of the total \$12.9bn in IG corporate issuance. Such lack of back-end supply is rapidly shortening the average index maturity. We estimate the December IG index maturity will decline to 9.9 years – the shortest since Jan 2014. The average maturity has dropped 0.6 years so far in 2023 and 2.0 years from the peak reached in Dec 2020 (Exhibit 1).

Supply maturity trends

While back-end supply has been particularly scarce this week, it's a continuation of a trend. The share of issuance longer than 10yr dropped to a low 9.7% over the past three months, down from 14% YtD and 15% for the year 2022 (Exhibit 2). The lack of long supply is driven by elevated yields (Exhibit 3). Our interest rates strategists are calling for the Treasury yield curve to bull steepen by YE-2024, leaving long-term yields still relatively high at 4.25% and 4.75% for 10 and 30yr Treasuries, respectively (see [Global Rates Year Ahead: 2024](#) report). Such a forecast implies back-end supply stays muted, leading to the average IG index maturity reaching new lows in 2024.

Exhibit 1: The average IG index maturity should drop to 9.9 years for the Dec-2023 index

The expected Dec-2023 average index maturity should be the lowest since Jan 2014.



Source: BofA Global Research, ICE Data Indices, LLC

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28 November 2023

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United States
Cross Product

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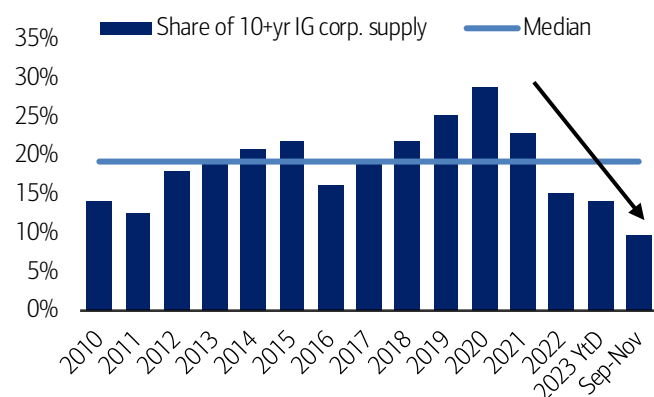
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Timestamp: 28 November 2023 06:38PM EST

Exhibit 2: Share of 10+yr supply has reached new lows

The share of 10+yr IG supply has dropped to 9.7% over the past three months, down from 14% YtD and 15% for the year 2022.

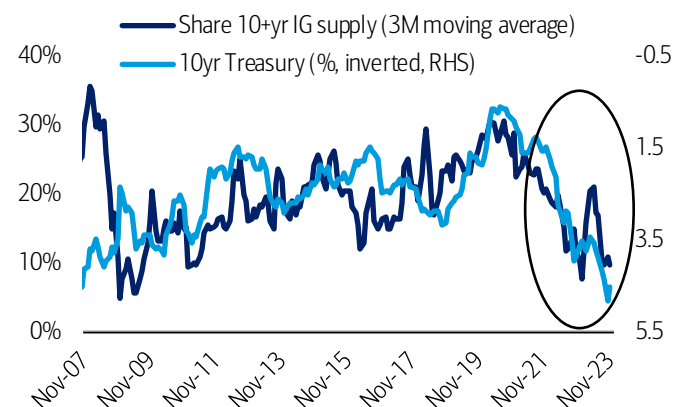


Source: BofA Global Research

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Exhibit 3: Higher yields -> shorter supply

The lower share of 10+yr (20 and 30yr) supply has declined in line with the increase in interest rates in 2022 and 2023.



Source: BofA Global Research, Bloomberg

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Daily credit snapshot

US IG issuance totaled \$5.4bn across 4 deals today, \$12.9bn WTD and \$102.8bn MTD. The average new issue concession was 5.3bps today, while the average break performance was 2.0bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed +0.10%, 10-year Treasury yields -7bps, CDX IG -0.7bps, CDX HY +\$0.14pts, and cash bond spreads quoted Unched to -2bps today, LQD closed 1.39bps tighter today.

Exhibit 4: 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)
2023-11-27	BNCN	Brookfield Finance Inc	10	700	A3/A-	6.35	195	n.a.	-2	194
2023-11-27	C	Citibank NA	3	500	Aa3/A+	FRN	SOFR+106	n.a.	n.a.	n.a.
2023-11-27	C	Citibank NA	3	2,000	Aa3/A+	5.488	88	18	n.a.	86
2023-11-27	EFNCN	Element Fleet Management Corp	5	750	NA/BBB+	6.319	190	n.a.	-5	185
2023-11-27	EXR	Extra Space Storage LP	7	600	Baa2/BBB+	5.9	150	n.a.	n.a.	n.a.
2023-11-27	HD	Home Depot Inc/The	1	500	A2/A	5.125	28	n.a.	-4	26
2023-11-27	HD	Home Depot Inc/The	3	750	A2/A	4.95	43	n.a.	-4	41
2023-11-27	HD	Home Depot Inc/The	5	750	A2/A	4.9	58	-2	-4	55
2023-11-27	OCINCC	Blue Owl Credit Income Corp	5	550	Baa3/BBB-	7.75	363	n.a.	n.a.	361
2023-11-27	PKG	Packaging Corp of America	10	400	Baa2/BBB	5.7	130	n.a.	n.a.	n.a.
2023-11-28	BNP	BNP Paribas SA	11NC10	2,000	Aa3/A+	5.894	155	n.a.	-2	153
2023-11-28	OGLETH	Oglethorpe Power Corp	30	400	Baa1/BBB+	6.2	175	n.a.	n.a.	n.a.
2023-11-28	TMO	Thermo Fisher Scientific Inc	3	1,000	A3/A-	5	52	12	n.a.	n.a.
2023-11-28	TMO	Thermo Fisher Scientific Inc	5	1,000	A3/A-	5	72	1	n.a.	n.a.
2023-11-28	TMO	Thermo Fisher Scientific Inc	10	500	A3/A-	5.2	87	3	n.a.	n.a.
2023-11-28	ZBH	Zimmer Biomet Holdings Inc	5	500	Baa2/BBB	5.35	103	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

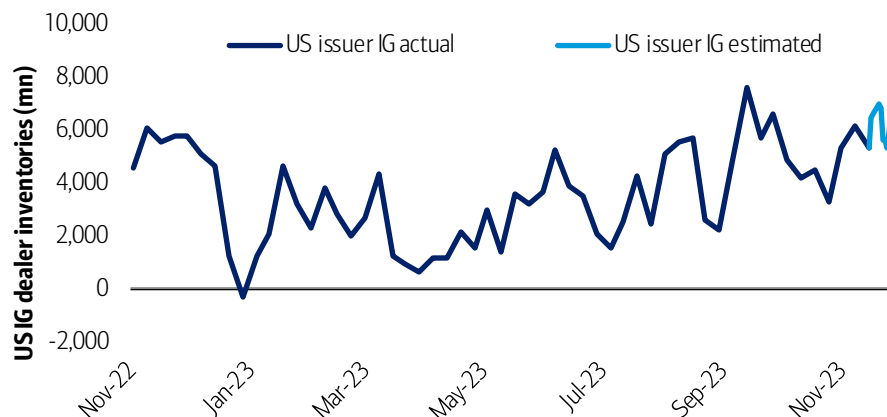
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Daily dealer inventories update

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

Exhibit 5: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$7.2bn currently from \$5.3bn on Nov-15.



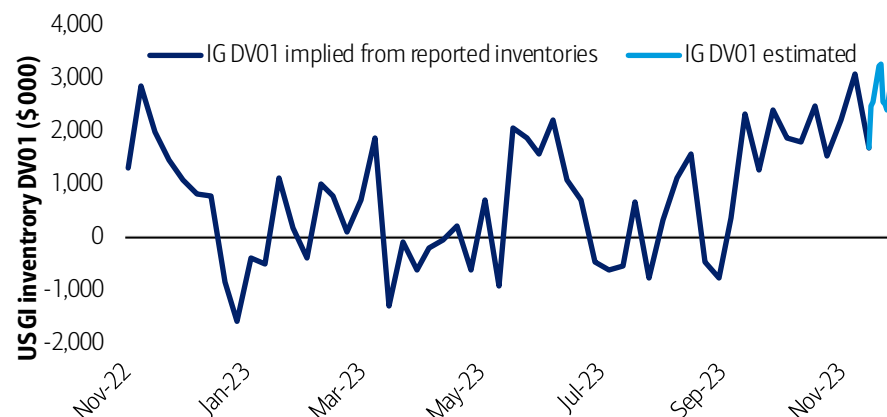
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 6: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$3.2mn currently from \$1.7bn on Nov-15.



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

We estimate IG dealer inventories increased \$22mn today and increased \$86mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 28-Nov-23 (\$mn)			
	28-Nov	27-Nov	1 W	2 W	4 W	28-Nov	27-Nov	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	22	2,135	86	2,053	8,988	77	990	-114	1,854	4,731	13,497	13,476	9,528	36,501
<3yr	-335	5	-823	-1,862	890	-60	-7	-161	-351	105	1,985	2,320	1,781	6,085
3-5yr	81	944	488	764	2,426	42	334	172	283	857	2,671	2,590	2,221	7,482
5-11yr	267	1,069	718	2,432	3,922	128	561	274	1,207	2,216	4,995	4,728	3,240	12,963
11+yr	9	117	-297	719	1,750	-33	102	-399	714	1,553	3,847	3,838	2,286	9,970
Fin	-106	1,028	-7	1,182	1,388	15	472	7	1,351	1,389	5,316	5,422	3,605	14,342
Non-Fin	128	1,108	93	871	7,600	62	518	-121	503	3,342	8,182	8,054	5,923	22,158
Fixed	37	2,132	61	2,217	8,885	86	987	-109	1,827	4,532	13,396	13,360	9,459	36,215
Floating	-15	4	26	-164	103	-9	3	-4	27	199	101	116	69	286
US issuers	34	1,760	307	1,609	7,296	55	762	-34	1,125	3,622	10,296	10,261	7,605	28,162
DM Yankees	-31	338	-274	273	1,350	17	208	-102	641	965	2,808	2,840	1,754	7,402
EM Yankees	18	38	53	172	342	5	20	23	87	143	393	375	169	937

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 8: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$25mn for Banks/Brokers and declined -\$127mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 28-Nov-23 (\$mn)			
	28-Nov	27-Nov	1 W	2 W	4 W	28-Nov	27-Nov	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	23	-89	-115	-253	-118	29	-35	-39	-100	-15	192	169	174	535
Automobiles	-107	1	-190	-229	976	-33	10	-51	-97	313	564	671	402	1,637
Banks/Brokers	-25	820	187	1,619	1,302	-3	345	5	1,231	1,257	3,679	3,704	2,347	9,731
Basic Materials	74	243	323	184	432	52	111	176	61	201	515	442	395	1,352
Commercial Services	-22	-36	-56	-176	-104	-10	-28	-35	-89	-116	161	183	126	470
Energy	-127	170	-142	-83	1,416	-72	130	-52	38	834	780	907	734	2,422
Finance	-45	138	-101	-332	-358	-12	55	-41	-62	-199	786	831	659	2,276
Food, Bev, & Bottling	37	-1	-65	186	210	32	-18	-64	97	41	482	445	270	1,197
Health Care	-45	53	-362	-224	180	-74	-109	-420	-255	-225	1,182	1,226	864	3,272
Industrial Products	47	-3	-40	50	417	4	31	-27	105	290	426	380	285	1,091
Insurance	41	-28	-18	49	295	52	5	57	245	293	462	420	281	1,163
Media & Entertainment	100	254	384	89	882	71	135	202	-3	459	593	493	464	1,549
REITs	-77	97	-76	-154	150	-22	67	-13	-63	38	389	467	317	1,173
Retail	103	56	44	485	991	75	9	16	204	484	592	489	414	1,495
Technology	161	-66	48	451	811	148	-44	71	263	470	866	705	525	2,096
Telecom	-37	170	186	639	914	-36	134	106	394	558	521	558	294	1,374
Tobacco	4	106	112	248	242	8	59	65	161	97	96	92	115	303
Transportation	-60	62	-11	-139	-57	-42	20	41	-24	-50	208	268	172	648
Utilities	-1	164	0	-347	208	-75	92	-117	-266	-142	881	882	563	2,326
Other	-24	25	-24	-9	200	-15	21	7	14	143	121	144	127	392

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

Source: BofA Global Research, FINRA, TRACE.

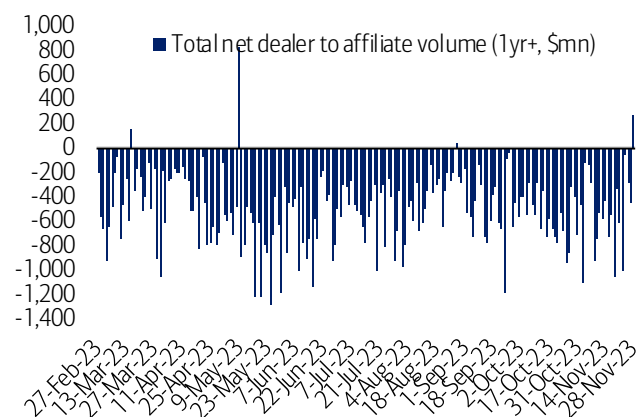
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Daily foreign demand tracker

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

Exhibit 9: Net dealer buying from affiliate (1yr+)

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



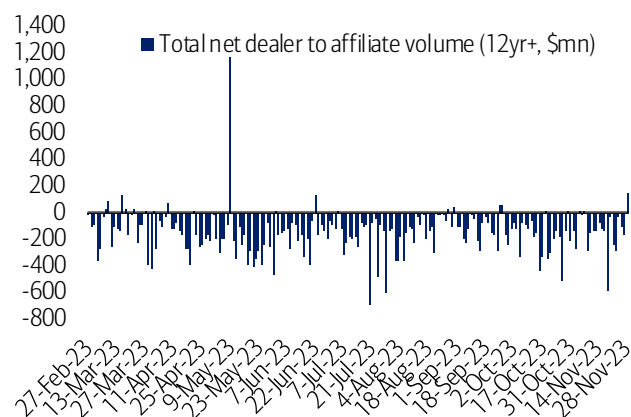
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 10: Net dealer buying from affiliate (12yr+)

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



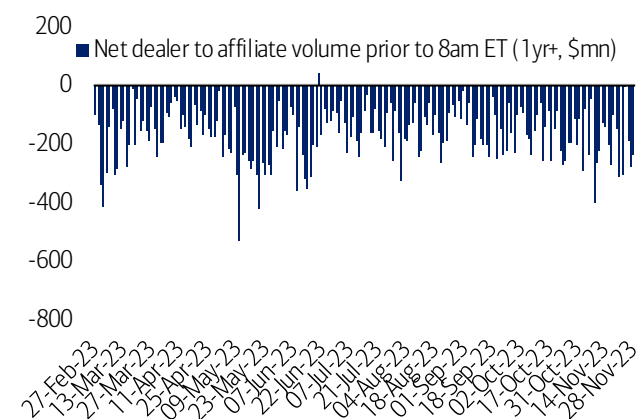
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 11: 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



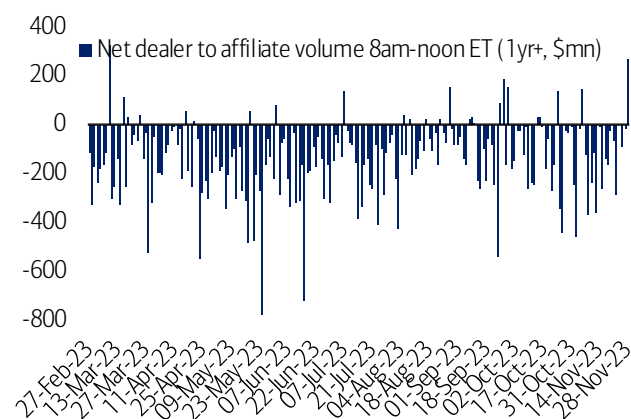
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 12: 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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