

# Situation Room

## We have more issues

Bank of America  
Merrill Lynch

04 September 2019

- **We have more issues.** US IG new issuance accelerated to \$28.8bn across 15 deals today (54.3bn week-to-date). Refinancing trades continue to dominate with \$21.1bn of today's issuance partially towards commercial paper, credit revolver, term loan, short and long-term debt. New issue concessions were little changed at 7.8bps compared with 7.6bps yesterday, while break performance remains solid at 2.2bps tighter today versus 2.8bps tighter yesterday. This week's new issues are trading 3.2bps tighter on average from pricing. On the back of overnight developments in HK providing for a positive macro backdrop, CDX IG tightened 1.40bps, CDX HY rose \$0.22pt, equities were up 1.08% and Treasuries steepened (2s yields down 2bps, 30s up 2bps). Liquid secondaries performed in line with US banks 1-3bps tighter, TMT 1-5bps tighter, consumer retail 1-4bps tighter, energy 2-10bps tighter (oil up 3.8%), health care and industrials 2bps wider to 3bps tighter on the day. – *Hans Mikkelsen, Yunyi Zhang*
- **Cash burn.** Remember the corporate cash repatriation story? For our list of 24 cash-rich companies we calculate they reduced cash, cash equivalents & investments by \$232.4bn over the first six post-tax reform quarters (through 2Q19) to \$864.2bn. So there is a long way to go despite Apple, with more than \$200bn in cash, for some reason deciding to issue \$7bn today (first time since 2017). In terms of asset classes the biggest corporate holdings are corporate bonds at \$250bn (down \$127.9bn from 4Q17) and Treasuries \$188.5bn (down \$29.0bn) but they also hold for example money market funds, agencies and securitized products. – *Hans Mikkelsen, Yunyi Zhang*
- **Formosa.** Another consequence of the collapse in interest rates this summer is that Formosa bonds should now get called just like what began to happen on a smaller scale last time yields declined materially in 2016/17. Recently we have seen a number of such cases including by Verizon. Recall that the typical Formosa bond was issued with long maturities of around 30 years, but was callable after a couple of years. Basically issuers paid very little for that option as a way for investors to incentivize supply into the relatively small Formosa market. Now with the collapse in yields it should be favorable for issuers in many cases to call and replace existing Formosa bonds with new debt at lower yields. For Taiwanese lifers that means the need to replace attractive book yields with lower yields on new bonds. While technically some of the new issuance could come as Formosa the Taiwanese regulator no longer provides favorable treatment of that over foreign bonds so there is no need to. Moreover since Formosa ETFs receive favorable treatment we suspect that will be the favorite vehicle for replacement. – *Hans Mikkelsen, Yunyi Zhang*
- **Daily foreign demand tracker.** – *Yuri Seliger, Yunyi Zhang*

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# Research Overview — The Situation

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## We have more issues

US IG new issuance accelerated to \$28.8bn across 15 deals today (54.3bn week-to-date). Refinancing trades continue to dominate with \$21.1bn of today's issuance partially towards commercial paper, credit revolver, term loan, short and long-term debt repayments. Apple surprised the market by issuing \$7bn, despite being the most cash rich company in the country (see piece below). MPLX in contrast came as expected, but the \$2bn 2-3 year floater deal was both smaller in size and shorter in maturity than investors were looking for, which helped reprice secondaries 10-15bps tighter for the name and 2-9bps tighter across the MLP sector. Meanwhile Seagate Technologies announced a tender offer to be funded with cash-on-hand and a term loan, and Marathon Oil announced early redemption of the 2020 note likely to be funded with cash-on-hand.

The average new issue concession was little changed at 7.8bps today compared with 7.6bps yesterday, while break performance remains solid at 2.2bps tighter today versus 2.8bps tighter yesterday (Figure 1). This week's new issues are trading 3.2bps tighter on average from pricing. In addition, Air Liquide Finance, Enel, Fortune Brands Home & Security, Hospitality Properties Trust, PerkinElmer and Wintershall Dea announced fixed income investor calls with possible USD issuance to follow. On the other hand, AT&T priced EUR3bn of Reverse Yankee bonds to pay down two USD term loan facilities related to the Time Warner acquisition, implying less USD issuance down the road. AT&T's 6-year and 10-year tranches priced flat while the 20-year came about 24bps back of USD secondary comps (Figure 2).

Not surprisingly, following two very busy days in the new issue market, dealer inventories rose by about \$1.5bn today. However, on the back of overnight developments in Hong Kong (extradition legislation formally withdrawn) and some positive European data providing for a positive macro backdrop, CDX IG tightened 1.40bps, CDX HY rose \$0.22pt, equities were up 1.08% and Treasuries steepened (2s yields down 2bps, 30s up 2bps). Liquid secondaries performed in line with US banks 1-3bps tighter, TMT 1-5bps tighter, consumer retail 1-4bps tighter, energy 2-10bps tighter (oil up 3.8%), health care and industrials 2bps wider to 3bps tighter on the day.

**Figure 1: Recent new issue pricing and new issue concessions**

| Date       | Ticker | Name                                 | Tenor | Size (\$mm) | Moody's/S&P Rating | Coupon (%) | Px Spread (bps) | New Issue Conc. (bps) | * Break performance | Current spread (bps) |
|------------|--------|--------------------------------------|-------|-------------|--------------------|------------|-----------------|-----------------------|---------------------|----------------------|
| 2019-09-03 | AGR    | New York State Electric & Gas Corp   | 30    | \$300       | A3/A-              | 3.3        | 138             | n.a.                  | -8                  | 131                  |
| 2019-09-03 | ARE    | Alexandria Real Estate Equities Inc  | 10    | \$400       | Baa1/BBB+          | 2.75       | 130             | 18                    | -1                  | 129                  |
| 2019-09-03 | ARE    | Alexandria Real Estate Equities Inc  | 30    | \$200       | Baa1/BBB+          | 4          | 150             | 7                     | -3                  | 147                  |
| 2019-09-03 | BATSLN | BAT Capital Corp                     | 5     | \$1,000     | Baa2/BBB+          | 2.789      | 145             | n.a.                  | -2                  | 143                  |
| 2019-09-03 | BATSLN | BAT Capital Corp                     | 7     | \$1,000     | Baa2/BBB+          | 3.215      | 180             | 28                    | -2                  | 174                  |
| 2019-09-03 | BATSLN | BAT Capital Corp                     | 10    | \$500       | Baa2/BBB+          | 3.462      | 200             | 21                    | -2                  | 198                  |
| 2019-09-03 | BATSLN | BAT Capital Corp                     | 30    | \$1,000     | Baa2/BBB+          | 4.758      | 280             | 22                    | -2                  | 275                  |
| 2019-09-03 | BIMBOA | Grupo Bimbo SAB de CV                | 30    | \$600       | Baa2/BBB           | 4          | 215             | 8                     | -7                  | 208                  |
| 2019-09-03 | BOCAVI | BOC Aviation Ltd                     | 10    | \$500       | NA/A-              | 3          | 165             | n.a.                  | n.a.                | n.a.                 |
| 2019-09-03 | BX     | Blackstone Holdings Finance Co LLC   | 10    | \$500       | NA/A+              | 2.5        | 117             | 1                     | -2                  | 116                  |
| 2019-09-03 | BX     | Blackstone Holdings Finance Co LLC   | 30    | \$400       | NA/A+              | 3.5        | 160             | 3                     | -4                  | 157                  |
| 2019-09-03 | CAT    | Caterpillar Financial Services Corp  | 18m   | \$500       | A3/A               | FRN        | 3mL+30          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-03 | CAT    | Caterpillar Financial Services Corp  | 3     | \$750       | A3/A               | 1.9        | 57              | -2                    | -4                  | 54                   |
| 2019-09-03 | CKHH   | CK Hutchison International 19 II Ltd | 10    | \$500       | A2/A               | 2.75       | 135             | 20                    | -3                  | 134                  |

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| Date       | Ticker | Name                                 | Tenor | Size (\$mm) | Moody's/S&P Rating | Coupon (%) | Px Spread (bps) | New Issue Conc. (bps) | * Break performance | Current spread (bps) |
|------------|--------|--------------------------------------|-------|-------------|--------------------|------------|-----------------|-----------------------|---------------------|----------------------|
| 2019-09-03 | CKHH   | CK Hutchison International 19 II Ltd | 30    | \$750       | A2/A               | 3.375      | 150             | n.a.                  | -8                  | 143                  |
| 2019-09-03 | COF    | Capital One NA                       | 3     | \$1,500     | Baa1/BBB+          | 2.15       | 78              | 10                    | -1                  | 77                   |
| 2019-09-03 | CSX    | CSX Corp                             | 10    | \$400       | Baa1/BBB+          | 2.4        | 97              | 3                     | -4                  | 93                   |
| 2019-09-03 | CSX    | CSX Corp                             | 30    | \$600       | Baa1/BBB+          | 3.35       | 145             | 12                    | -5                  | 140                  |
| 2019-09-03 | DE     | Deere & Co                           | 30    | \$500       | A2/A               | 2.875      | 95              | 0                     | -4                  | 89                   |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 2     | \$500       | A2/A               | FRN        | 3mL+25          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 3     | \$500       | A2/A               | FRN        | 3mL+39          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 3     | \$500       | A2/A               | 1.65       | 35              | -3                    | -3                  | 32                   |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 5     | \$1,500     | A2/A               | 1.75       | 50              | -2                    | -3                  | 47                   |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 10    | \$2,000     | A2/A               | 2          | 70              | -1                    | -3                  | 67                   |
| 2019-09-03 | DIS    | Walt Disney Co/The                   | 30    | \$2,000     | A2/A               | 2.75       | 95              | -7                    | -2                  | 93                   |
| 2019-09-03 | EXC    | PECO Energy Co                       | 30    | \$325       | Aa3/A              | 3          | 110             | 10                    | -2                  | 106                  |
| 2019-09-03 | INTNED | ING Groep NV                         | PERP  | \$1,500     | Ba1/NA             | 5.75       | n.a.            | n.a.                  | n.a.                | n.a.                 |
| 2019-09-03 | KRC    | Kilroy Realty LP                     | 10    | \$500       | Baa2/BBB           | 3.05       | 160             | 7                     | 1                   | 160                  |
| 2019-09-03 | PPL    | PPL Electric Utilities Corp          | 30    | \$400       | A1/A               | 3          | 115             | 9                     | -1                  | 112                  |
| 2019-09-03 | PSXP   | Phillips 66 Partners LP              | 5     | \$300       | Baa3/BBB           | 2.45       | 115             | -3                    | -3                  | 111                  |
| 2019-09-03 | PSXP   | Phillips 66 Partners LP              | 10    | \$600       | Baa3/BBB           | 3.15       | 170             | 2                     | -2                  | 164                  |
| 2019-09-03 | UNANA  | Unilever Capital Corp                | 5     | \$500       | A1/A+              | 2.6        | 55              | -2                    | -2                  | 50                   |
| 2019-09-03 | UNANA  | Unilever Capital Corp                | 10    | \$850       | A1/A+              | 2.125      | 75              | 10                    | -2                  | 72                   |
| 2019-09-03 | WLTW   | Willis North America Inc             | 10    | \$450       | Baa3/BBB           | 2.95       | 150             | 16                    | -3                  | 150                  |
| 2019-09-03 | WLTW   | Willis North America Inc             | 30    | \$550       | Baa3/BBB           | 3.875      | 195             | 22                    | -5                  | 191                  |
| 2019-09-03 | XEL    | Northern States Power Co/MN          | 30    | \$600       | Aa3/A              | 2.9        | 105             | 4                     | -2                  | 102                  |
| 2019-09-04 | AAPL   | Apple Inc                            | 3     | \$1,000     | Aa1/AA+            | 1.7        | 35              | -2                    | n.a.                | n.a.                 |
| 2019-09-04 | AAPL   | Apple Inc                            | 5     | \$750       | Aa1/AA+            | 1.8        | 53              | 6                     | n.a.                | n.a.                 |
| 2019-09-04 | AAPL   | Apple Inc                            | 7     | \$2,000     | Aa1/AA+            | 2.05       | 68              | 6                     | n.a.                | n.a.                 |
| 2019-09-04 | AAPL   | Apple Inc                            | 10    | \$1,750     | Aa1/AA+            | 2.2        | 78              | 3                     | n.a.                | n.a.                 |
| 2019-09-04 | AAPL   | Apple Inc                            | 30    | \$1,500     | Aa1/AA+            | 2.95       | 103             | 8                     | n.a.                | n.a.                 |
| 2019-09-04 | ANTM   | Anthem Inc                           | 5     | \$850       | Baa2/A             | 2.375      | 108             | 15                    | -4                  | 104                  |
| 2019-09-04 | ANTM   | Anthem Inc                           | 10    | \$825       | Baa2/A             | 2.875      | 143             | 8                     | -1                  | 142                  |
| 2019-09-04 | ANTM   | Anthem Inc                           | 30    | \$825       | Baa2/A             | 3.7        | 178             | 5                     | 0                   | 178                  |
| 2019-09-04 | APH    | Amphenol Corp                        | 10    | \$900       | Baa1/BBB+          | 2.8        | 135             | 19                    | n.a.                | n.a.                 |
| 2019-09-04 | COF    | Capital One Financial Corp           | PERP  | \$1,500     | Baa3/BB            | 5          | n.a.            | n.a.                  | n.a.                | n.a.                 |
| 2019-09-04 | CS     | Credit Suisse Group AG               | 6NC5  | \$2,000     | Baa2/BBB+          | 2.593      | 128             | 2                     | -2                  | 126                  |
| 2019-09-04 | ENBL   | Enable Midstream Partners LP         | 10    | \$550       | Baa3/BBB-          | 4.15       | 270             | 15                    | n.a.                | n.a.                 |
| 2019-09-04 | HIW    | Highwoods Realty LP                  | 10    | \$400       | Baa2/BBB           | 3.05       | 163             | -3                    | -3                  | 160                  |
| 2019-09-04 | HPE    | Hewlett Packard Enterprise Co        | 18m   | \$500       | Baa2/BBB           | FRN        | 3mL+68          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-04 | HPE    | Hewlett Packard Enterprise Co        | 4     | \$1,000     | Baa2/BBB           | 2.25       | 90              | 4                     | n.a.                | n.a.                 |
| 2019-09-04 | KEY    | KeyCorp                              | 10    | \$750       | Baa1/BBB+          | 2.55       | 110             | 4                     | n.a.                | n.a.                 |
| 2019-09-04 | KO     | Coca-Cola Co/The                     | 5     | \$1,000     | A1/A+              | 1.75       | 47              | 5                     | n.a.                | n.a.                 |
| 2019-09-04 | KO     | Coca-Cola Co/The                     | 10    | \$1,000     | A1/A+              | 2.125      | 67              | 5                     | n.a.                | n.a.                 |
| 2019-09-04 | MPLX   | MPLX LP                              | 2     | \$1,000     | Baa2/BBB           | FRN        | 3mL+90          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-04 | MPLX   | MPLX LP                              | 3     | \$1,000     | Baa2/BBB           | FRN        | 3mL+110         | n.a.                  | n.a.                | n.a.                 |
| 2019-09-04 | SO     | Georgia Power Co                     | 5     | \$400       | Baa1/A-            | 2.2        | 90              | n.a.                  | -2                  | 88                   |
| 2019-09-04 | SO     | Georgia Power Co                     | 10    | \$350       | Baa1/A-            | 2.65       | 120             | 6                     | -1                  | 119                  |
| 2019-09-04 | SPG    | Simon Property Group LP              | 5     | \$1,000     | A2/A               | 2          | 70              | 17                    | -4                  | 66                   |
| 2019-09-04 | SPG    | Simon Property Group LP              | 10    | \$1,250     | A2/A               | 2.45       | 110             | 19                    | -2                  | 108                  |
| 2019-09-04 | SPG    | Simon Property Group LP              | 30    | \$1,250     | A2/A               | 3.25       | 130             | 14                    | -3                  | 127                  |
| 2019-09-04 | UNM    | Unum Group                           | 30    | \$450       | Baa2/BBB           | 4.5        | 255             | n.a.                  | -5                  | 250                  |
| 2019-09-04 | WFC    | Wells Fargo Bank NA                  | 3NC2  | \$1,000     | Aa2/A+             | FRN        | 3mL+66          | n.a.                  | n.a.                | n.a.                 |
| 2019-09-04 | WFC    | Wells Fargo Bank NA                  | 3NC2  | \$2,000     | Aa2/A+             | 2.082      | 65              | 9                     | 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 Merrill Lynch Global Research

Figure 2: New issue concession on recent EUR Reverse Yankee deal based on USD secondary comps

| Ticker | Currency | Announce date | Maturity | Tenor | EUR pricing MS spread | USD comp current T spread | USD comp current I spread | Cross currency swap | Spread income FX hedge | 3M 6M swap | USD comp currency hedged MS spread | New issue concession vs USD comps |
|--------|----------|---------------|----------|-------|-----------------------|---------------------------|---------------------------|---------------------|------------------------|------------|------------------------------------|-----------------------------------|
| T      | EUR      | 09/04/19      | 03/04/26 | 6     | 75                    | 106                       | 120                       | -25                 | -12                    | -8         | 76                                 | -1                                |
| T      | EUR      | 09/04/19      | 03/04/30 | 10    | 105                   | 152                       | 160                       | -27                 | -22                    | -7         | 104                                | 1                                 |
| T      | EUR      | 09/04/19      | 09/14/39 | 20    | 175                   | 182                       | 227                       | -27                 | -44                    | -5         | 151                                | 24                                |
| DHR    | EUR      | 09/03/19      | 03/18/28 | 9     | 85                    | 75                        | 87                        | -24                 | -11                    | -7         | 45                                 | 35                                |
| DHR    | EUR      | 09/03/19      | 09/18/31 | 12    | 95                    | 84                        | 103                       | -24                 | -16                    | -7         | 56                                 | 34                                |
| PM     | EUR      | 07/29/19      | 08/03/26 | 7     | 48                    | 58                        | 78                        | -24                 | -8                     | -3         | 43                                 | 5                                 |
| PM     | EUR      | 07/29/19      | 08/01/31 | 12    | 73                    | 116                       | 117                       | -24                 | -17                    | -7         | 68                                 | 5                                 |

Figure 2: New issue concession on recent EUR Reverse Yankee deal based on USD secondary comps

| Ticker | Currency | Announce date | Maturity | Tenor | EUR pricing MS spread | USD comp current T spread | USD comp current I spread | Cross currency swap | Spread income FX hedge | 3M 6M swap | USD comp currency hedged MS spread | New issue concession vs USD comps |
|--------|----------|---------------|----------|-------|-----------------------|---------------------------|---------------------------|---------------------|------------------------|------------|------------------------------------|-----------------------------------|
| FDX    | EUR      | 07/22/19      | 08/05/25 | 6     | 70                    | 74                        | 83                        | -21                 | -8                     | -8         | 46                                 | 24                                |
| FDX    | EUR      | 07/22/19      | 08/05/31 | 12    | 110                   | 120                       | 121                       | -23                 | -18                    | -7         | 73                                 | 37                                |
| JPM    | EUR      | 07/18/19      | 07/25/31 | 12    | 80                    | 107                       | 124                       | -23                 | -18                    | -7         | 77                                 | 3                                 |
| MDT    | EUR      | 06/25/19      | 07/02/25 | 6     | 50                    | 56                        | 59                        | -20                 | -6                     | -7         | 26                                 | 24                                |
| MDT    | EUR      | 06/25/19      | 07/02/31 | 12    | 68                    | 56                        | 88                        | -21                 | -13                    | -6         | 48                                 | 20                                |
| FISV   | EUR      | 06/17/19      | 07/01/27 | 8     | 115                   | 123                       | 138                       | -21                 | -16                    | -7         | 94                                 | 21                                |
| FISV   | EUR      | 06/17/19      | 07/01/30 | 11    | 135                   | 138                       | 148                       | -20                 | -21                    | -7         | 101                                | 34                                |
| FIS    | EUR      | 05/14/19      | 05/21/27 | 8     | 125                   | 116                       | 126                       | -21                 | -14                    | -8         | 83                                 | 42                                |
| FIS    | EUR      | 05/14/19      | 05/21/30 | 11    | 150                   | 132                       | 140                       | -19                 | -19                    | -8         | 94                                 | 56                                |
| BX     | EUR      | 04/02/19      | 04/10/29 | 10    | 105                   | 119                       | 127                       | -14                 | -17                    | -7         | 89                                 | 16                                |
| VZ     | EUR      | 04/02/19      | 04/08/27 | 8     | 63                    | 96                        | 104                       | -15                 | -12                    | -8         | 70                                 | -7                                |
| VZ     | EUR      | 04/02/19      | 04/08/30 | 11    | 75                    | 119                       | 119                       | -14                 | -17                    | -7         | 81                                 | -6                                |
| MMC    | EUR      | 03/14/19      | 09/21/26 | 8     | 100                   | 90                        | 97                        | -16                 | -11                    | -8         | 63                                 | 37                                |
| PEP    | EUR      | 03/11/19      | 03/18/27 | 8     | 40                    | 61                        | 65                        | -16                 | -7                     | -7         | 34                                 | 6                                 |
| MCD    | EUR      | 03/11/19      | 06/15/26 | 7     | 65                    | 87                        | 94                        | -16                 | -10                    | -7         | 60                                 | 5                                 |
| MDT    | EUR      | 03/04/19      | 03/07/27 | 8     | 70                    | 70                        | 76                        | -16                 | -9                     | -8         | 43                                 | 27                                |
| F      | EUR      | 02/28/19      | 03/06/24 | 5     | 333                   | 298                       | 293                       | -15                 | -24                    | -8         | 246                                | 87                                |
| CL     | EUR      | 02/26/19      | 03/06/26 | 7     | 25                    | 68                        | 63                        | -15                 | -6                     | -8         | 35                                 | -10                               |
| KO     | EUR      | 02/25/19      | 09/22/26 | 8     | 40                    | 65                        | 72                        | -15                 | -8                     | -8         | 42                                 | -2                                |
| MO     | EUR      | 02/11/19      | 06/15/27 | 8     | 175                   | 178                       | 183                       | -17                 | -21                    | -7         | 137                                | 38                                |
| IBM    | EUR      | 01/24/19      | 01/29/27 | 8     | 80                    | 103                       | 104                       | -18                 | -12                    | -7         | 68                                 | 12                                |
| SYK    | EUR      | 11/27/18      | 11/30/27 | 9     | 135                   | 112                       | 108                       | -13                 | -13                    | -6         | 76                                 | 59                                |
| AGN    | EUR      | 11/08/18      | 11/15/28 | 10    | 165                   | 141                       | 144                       | -18                 | -19                    | -6         | 101                                | 64                                |
| ABT    | EUR      | 09/14/18      | 09/27/26 | 8     | 75                    | 92                        | 90                        | -16                 | -10                    | -6         | 59                                 | 16                                |

Source: Bloomberg, BofA Merrill Lynch Global Research

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## Cash burn

Remember the corporate cash repatriation story? As part of Tax Reform, which went into effect in 2018, US companies gained access to untaxed foreign earnings previously “trapped” abroad due to unfavorable tax treatment. Prior to 2018, given the negative tax consequences of repatriation many cash-rich companies issued bonds for general corporate purposes – including share buybacks – in lieu of bringing home overseas earnings. Then starting last year following tax reform many companies – primarily in the Technology and Health Care sectors – stopped issuing and began spending the cash. For our list of 24 cash-rich companies we calculate they reduced cash, cash equivalents & investments by \$232.4bn over the first six post-tax reform quarters (through 2Q19) to \$864.2bn (Figure 3). So there is a long way to go despite Apple, with more than \$200bn in cash, for some reason deciding to issue \$7bn today (first time since 2017). In terms of asset classes the biggest corporate holdings are corporate bonds at \$250bn (down \$127.9bn from 4Q17) and Treasuries \$188.5bn (down \$29.0bn) but they also hold for example money market funds, agencies and securitized products.

Figure 3: Total Cash, Cash Equivalent & Investments for 24 cash rich companies as of 2Q19 (and change from pre-Tax Reform 4Q17)

| Company      | CDs         | Commercial Paper | Treasuries   | Agencies    | Foreign Gov't Bonds | Corp Bonds   | Debt Funds | Money Market Funds | Securitized Products | Other        | Total Cash, Cash Equivalent, & Investments | Total 4Q17     | Change        |
|--------------|-------------|------------------|--------------|-------------|---------------------|--------------|------------|--------------------|----------------------|--------------|--|----------------|---------------|
| AAPL         | 4.8         | 5.2              | 37.2         | 9.5         | 20.8                | 94.3         |            | 10.6               | 15.2                 | 13.0         | 210.6                                      | 285.1          | -74.5         |
| MSFT         | 2.0         | 2.2              | 106.7        | 1.0         | 6.3                 | 7.6          |            |                    | 3.6                  | 0.3          | 129.7                                      | 146.7          | -17.1         |
| GOOGL        | 3.5         |                  | 54.6         | 3.5         | 3.5                 | 26.3         |            |                    | 17.2                 | 12.6         | 121.1                                      | 101.9          | 19.2          |
| GE           |             |                  | 1.8          |             |                     | 28.9         |            |                    | 3.2                  | 37.5         | 71.4                                       | 82.0           | -10.6         |
| AMZN         |             |                  | 8.6          |             | 1.6                 | 9.9          |            | 10.8               | 1.8                  | 9.1          | 41.8                                       | 32.3           | 9.5           |
| ORCL***      |             |                  |              |             |                     | 22.2         |            | 5.7                |                      | 9.9          | 37.8                                       | 71.6           | -33.8         |
| CSCO         |             |                  | 1.5          | 0.3         |                     | 21.2         |            | 8.3                | 1.4                  | 0.0          | 32.7                                       | 71.7           | -39.0         |
| BMJ          | 0.2         | 0.0              |              |             |                     | 1.8          |            | 27.8               |                      | 0.6          | 30.4                                       | 9.3            | 21.1          |
| GILD         | 5.4         |                  | 3.9          | 1.5         | 0.4                 | 13.3         |            | 3.0                | 0.5                  | 2.2          | 30.2                                       | 36.7           | -6.5          |
| AMGN         |             |                  | 6.2          | 0.1         | 1.0                 | 5.7          |            | 3.9                | 1.8                  | 2.4          | 21.1                                       | 41.3           | -20.2         |
| JNJ          | 0.7         |                  | 0.7          | 0.4         |                     | 1.6          |            | 1.4                |                      | 10.6         | 15.3                                       | 18.3           | -3.0          |
| KO           |             |                  | 4.0          |             |                     |              |            |                    |                      | 9.4          | 13.4                                       | 20.7           | -7.3          |
| QCOM         |             |                  |              |             |                     | 0.0          |            |                    |                      | 13.1         | 13.1                                       | 39.3           | -26.2         |
| V            |             |                  | 0.6          | 5.5         |                     |              |            | 6.3                |                      | 0.3          | 12.7                                       | 12.6           | 0.1           |
| INTC         | 3.1         |                  |              | 2.7         |                     | 4.0          |            | 0.5                |                      | 1.7          | 11.9                                       | 14.0           | -2.1          |
| MRK          |             |                  | 0.6          |             | 0.0                 | 2.7          |            |                    | 0.8                  | 6.8          | 10.9                                       | 20.6           | -9.7          |
| MDT          |             |                  | 1.3          |             | 0.0                 | 3.1          |            |                    | 1.1                  | 5.1          | 10.7                                       | 14.4           | -3.8          |
| PG           |             |                  | 3.6          |             |                     | 2.4          |            |                    |                      | 4.2          | 10.3                                       | 18.8           | -8.5          |
| CELG         | 0.0         |                  |              |             |                     |              |            | 0.6                |                      | 8.7          | 9.3  | 12.0           | -2.7          |
| NVDA         | 0.0         |                  | 2.2          | 1.1         | 0.0                 | 2.1          |            | 2.9                | 0.1                  | 0.1          | 8.5  | 7.1            | 1.4           |
| CAT          |             |                  | 0.0          | 0.0         |                     | 0.8          |            |                    | 0.4                  | 6.1          | 7.4  | 8.3            | -0.8          |
| LRCX         | 1.6         |                  | 0.5          |             | 0.0                 | 1.5          |            | 1.6                | 0.0                  | 0.5          | 5.8  | 6.0            | -0.3          |
| NKE          | 1.8         | 0.0              | 0.3          | 0.0         |                     |              |            | 1.6                |                      | 0.9          | 4.7  | 6.4            | -1.7          |
| PEP          |             |                  | 0.1          |             |                     |              |            |                    |                      | 3.5          | 3.6  | 19.5           | -15.9         |
| <b>Total</b> | <b>21.1</b> | <b>9.2</b>       | <b>188.5</b> | <b>51.9</b> | <b>53.8</b>         | <b>250.0</b> | <b>0.0</b> | <b>84.8</b>        | <b>47.1</b>          | <b>158.6</b> | <b>864.2</b>                               | <b>1,096.6</b> | <b>-232.4</b> |
| Total 4Q17   | 19.6        | 14.1             | 217.6        | 81.3        | 30.2                | 377.9        | 2.6        | 80.2               | 64.0                 | 208.8        |  |                |               |
| Change       | 1.5         | -5.0             | -29.0        | -29.3       | 23.6                | -127.9       | -2.6       | 4.7                | -16.9                | -50.2        |  |                |               |

Note: \*\*\* Data for ORCL is as of 1Q19 as they have not yet filed a 10-Q for 2Q19. Disclosures and asset class definitions are limited, inconsistent, and may not be directly comparable across companies. Allocations may be based on cash, cash equivalent, marketable securities, and investment portfolios.

Source: Company reports, BofA Merrill Lynch Global Research

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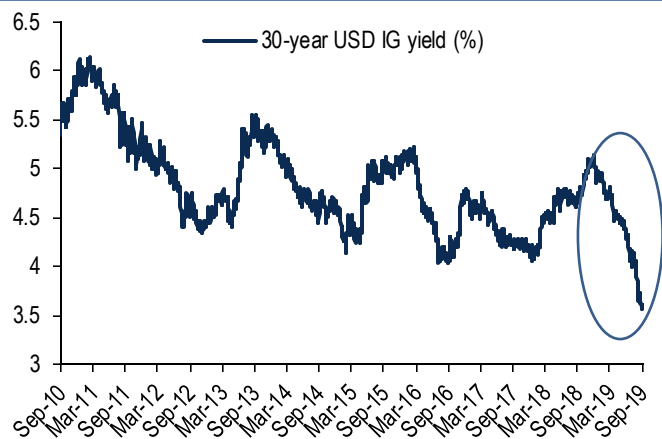
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## Calling Formosa bonds

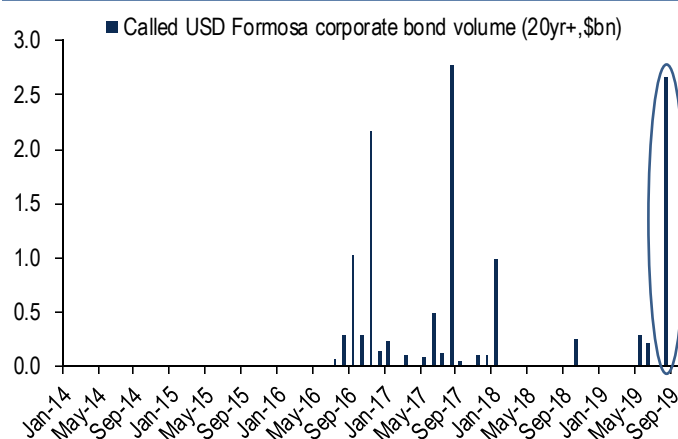
Another consequence of the collapse in interest rates this summer (Figure 4) is that Formosa bonds should now get called just like what began to happen on a smaller scale last time yields declined materially in 2016/17 (Figure 5). Recently we have seen a number of such cases including by Verizon. Recall that the typical Formosa bond was issued with long maturities of around 30 years (Figure 6), but was callable after a couple of years (Figure 7). Basically issuers paid very little for that option as a way for investors to incentivize supply into the relatively small Formosa market. Now with the collapse in yields it should be favorable for issuers in many cases to call and replace existing Formosa bonds with new debt at lower yields. For Taiwanese lifers that means the need to replace attractive book yields with lower yields on new bonds. While technically some of the new issuance could come as Formosa the Taiwanese regulator no longer provides favorable treatment of that over foreign bonds so there is no need to. Moreover since Formosa ETFs receive favorable treatment we suspect that will be the favorite vehicle for replacement.

**Figure 4: Collapse in long-term corporate yields**



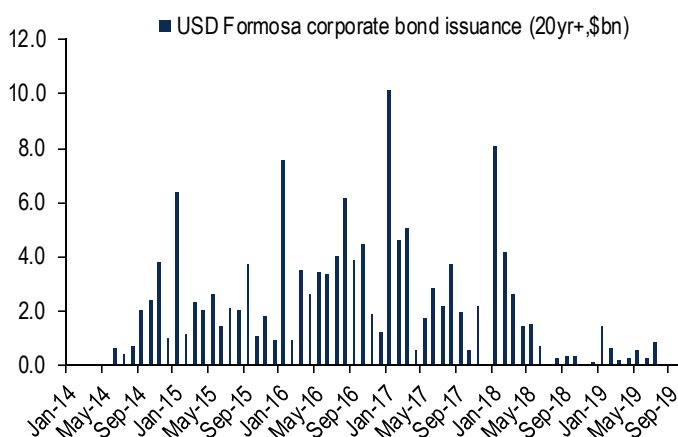
Source: ICE Data Indices, LLC

**Figure 5: Jump in Formosa bond call volumes**



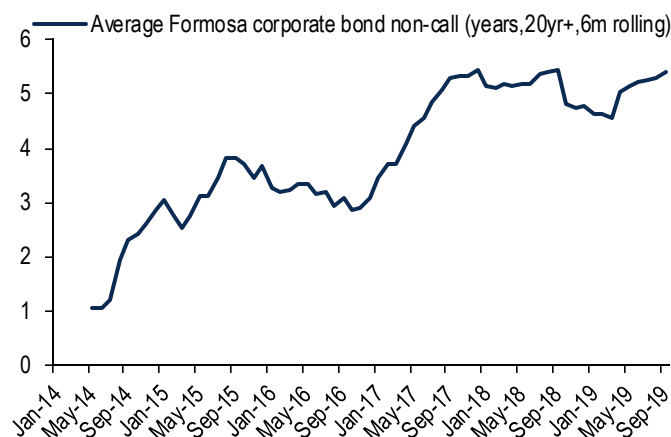
Source: Bloomberg, BofA Merrill Lynch Global Research

**Figure 6: USD corporate Formosa bond supply volumes**



Source: Bloomberg, BofA Merrill Lynch Global Research

**Figure 7: Average length of Non-call period by month of issuance**



Source: Bloomberg, BofA Merrill Lynch Global Research

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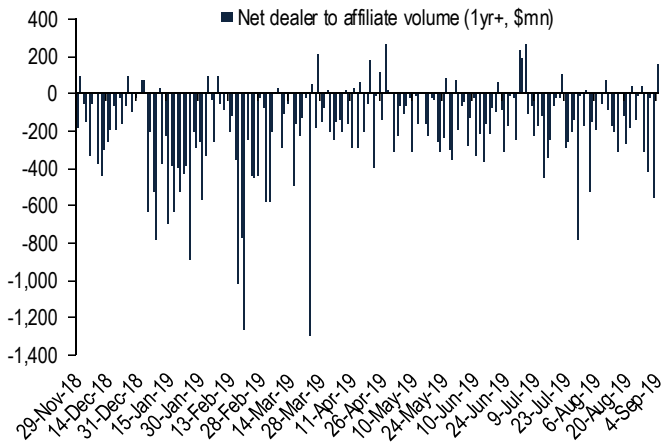
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## Daily foreign demand tracker

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

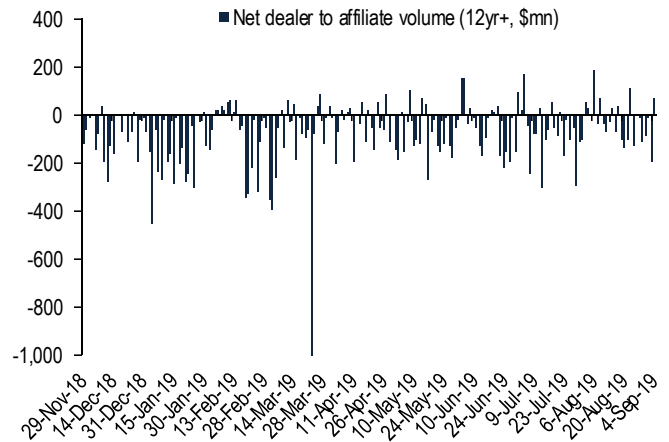
toward European buying). Figure 8 and Figure 9 include data from today, whereas Figure 10 and Figure 11 run through the previous business day.

**Figure 8: Net dealer buying from affiliate (1yr+)**



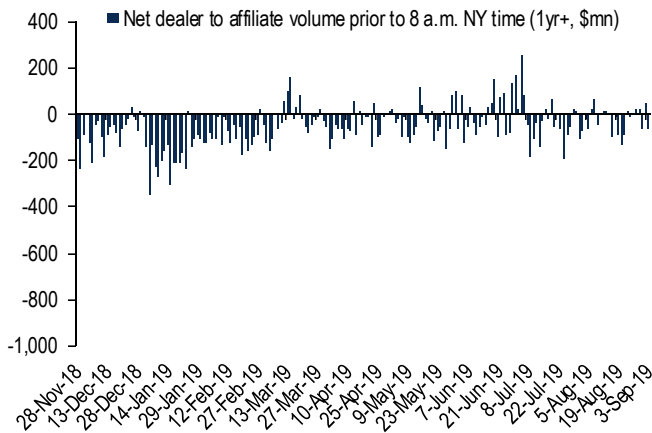
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.  
Source: Bloomberg, TRACE

**Figure 9: Net dealer buying from affiliate (12yr+)**



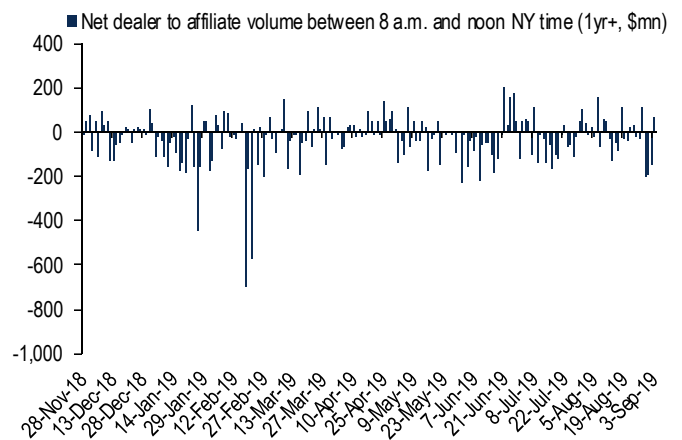
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.  
Source: Bloomberg, TRACE

**Figure 10: Net dealer-to-affiliate trading volumes before 8 a.m. NY time**



Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.  
Source: BofA Merrill Lynch Global Research, TRACE

**Figure 11: Net dealer-to-affiliate trading volumes 8 a.m. - noon NY time**



Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.  
Source: BofA Merrill Lynch Global Research, TRACE

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