



CABRERA CAPITAL MARKETS LLC

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MUNICIPAL MARKET WEEKLY UPDATE

Thursday, October 15, 2020

Primary and Secondary Market Recap

By John Kozak, Managing Director and Head of Municipal Sales and Trading

PRIMARY MARKET LED BY AIRPORTS

Airport issues comprised nearly \$1.6 billion of the negotiate deal calendar this week. Primary market deals were successful this week, with Denver having as much as a 10-basis point bump on its final taxable maturity. Wisconsin came to market with a forward delivery issue, pricing \$236 million with a settlement of February 2, 2021. Spreads for the deal were in line with other forwards at 4-basis points per month. The Chicago Board of Education entered the competitive market with \$250 million in notes. The highest bid was reported at 0.70. The deal was upsized to \$400 million and all notes were priced at a rate of 0.85.

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<Back> to Return		Negotiated Calendar: Deal Details							
97) Options	104) Settings	St	WI	Tax	FED TAX-EXEMPT/ST TAX...	Type	NEG	93) Financials	95) Attachments
WISCONSIN -REF -2									
Summary				Maturity	Amt(M)	Cpn		P/Y CUSIP	FIGI
Sale Date	10/12/20	1)		05/01/2022	1510.0	5.000		0.31097705MSQ9	BBG00XVBV502
Amount	236,540,000.00	2)		05/01/2023	6675.0	5.000		0.32097705MSR7	BBG00XVBV511
Manager	RBC CAPITAL MARKETS LLC	3)		05/01/2024	34985.0	5.000		0.36097705MSS5	BBG00XVBV520
Bond Type	GO ULT	4)		05/01/2025	32235.0	5.000		0.44097705MST3	BBG00XVBV539
Dated Date	02/02/21	5)		05/01/2026	17540.0	5.000		0.60097705MSU0	BBG00XVBV548
1st Coupon	11/01/21	6)		05/01/2027	18795.0	5.000		0.73097705MSV8	BBG00XVBV557
Deal number	455461	7)		05/01/2028	20080.0	5.000		0.87097705MSW6	BBG00XVBV575
Rating/Enhancement		8)		05/01/2029	21440.0	5.000		1.02097705MSX4	BBG00XVBV584
Moody's	Aa1	9)		05/01/2030	22890.0	5.000		1.13097705MSY2	BBG00XVBV593
S&P	AA	10)		05/01/2031	24435.0	5.000		1.24097705MSZ9	BBG00XVBV580
Fitch		11)		05/01/2032	2630.0	5.000		1.35097705MTA3	BBG00XVBV5C9
KBRA	AA+	12)		05/01/2033	2810.0	5.000		1.44097705MTB1	BBG00XVBV5H4
Enhancement		13)		05/01/2034	3000.0	5.000		1.50097705MTC9	BBG00XVBV5J2
Schedules		14)		05/01/2035	3205.0	5.000		1.55097705MTD7	BBG00XVBV5K0
Prem Call		15)		05/01/2036	3420.0	5.000		1.61097705MTE5	BBG00XVBV5L9
Par Call	05/01/30	16)		05/01/2037	3655.0	5.000		1.65097705MTF2	BBG00XVBV5M8
		17)		05/01/2038	3900.0	5.000		1.69097705MTG0	BBG00XVBV5N7
Other Info		18)		05/01/2039	4160.0	5.000		1.73097705MTH8	BBG00XVBV5P5
1st Settle	02/02/21	19)		05/01/2040	4440.0	5.000		1.77097705MTJ4	BBG00XVBV5Q4
Form/Dep	BOOK-ENTRY,DTC	20)		05/01/2041	4735.0	5.000		1.82097705MTK1	BBG00XVBV5R3
Price Status	FINAL								
Notes	DENOMS: \$5,000/\$5,000 FORWARD DELIVERY								

Australia 61 2 9777 8600 Brazil 5511 2395 2000 Europe 44 20 7330 7500 Germany 49 69 3204 1210 Hong Kong 852 2977 6000
Japan 81 3 4585 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2020 Bloomberg Finance L.P.
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UP, UP AND AWAY!

A picture says 1,000 words. In this case, a picture says that more than \$28.5 billion is on the 30-day visible supply. This amount of expected supply is the highest level seen since November of 2017. Also important to note is that, historically, the number of bond deals that actually price can sometimes be twice as much as what was projected. Many deals come quickly and do not give lead time to be listed on the 30-day calendar. This looming supply is creating several interesting observations in the market.

30 Day Supply (courtesy of Eric Kazatsky, Bloomberg)

Balances are Piling Up

Despite inflows (Lipper reported inflows of \$1.7 billion on October 8), the amount of paper coming to market is more that can be readily absorbed by market players. Many of the deals being priced are not being fully placed. This presents an uncomfortable conondurm.



Coming into an election, many/most dealers have commented on the desire to have a light or manageable position. Why? First, the previous presidential election caused losses in the market when Trump surprisingly defeated Hillary Clinton and interest rates spiked. Second, many firms incurred substantial losses in March of 2020 when the muni market essentially shut down. Having clawed back much of those losses over the past six months, no one is interested in giving it all back at the end of the year. Supply is growing and the market is starting to exhibit an inability to clean up balances. At some point, this will create some NEGATIVE pressure that will likely affect the muni curve. If dealers are not interested in stocking bonds, higher rates will be needed to draw in more buyers.

Returning to the Lipper inflows report, there is a bit of a drag on that. A recent Bloomberg study analyzed Net Supply. That is, the amount of bonds coming to market versus the amount of bonds maturing or being called. Since most of the bond proceeds that are the result of called or maturing bonds are typically reinvested in municipal bonds, it's an important consideration. Over the summer, there is historically net NEGATIVE supply in the municipal bond space. That is, more cash is in the market than bonds available. An example of that would be the 10yr MMD hitting 0.52 in early August, whereas now it is at 0.95 and is under pressure to move toward 1%.

Currently, the projected net supply is running heavily in the POSITIVE area with supply outpacing bond calls and redemptions by a meaningful amount. While nothing is certain, this will likely lead to higher rates and underperformance versus TRSY's



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SECONDARY MARKET RECAP - NOTABALE AWAY PRINTS

Size (\$m)	Issuer	Coupon	Maturity	Yield	Spread	Insurance
2150	DU PAGE COOK CNTYS	4.00	01/15/2034	1.34	9	
5000	COOK KANE LAKE MC	4.00	12/15/2030	1.41	45	
4500	COOK KANE LAKE MC	4.00	12/15/2030	1.41	45	
4300	CHICAGO IL BOE UNLTD	5.00	12/01/2034	2.25	100	Insured
1100	MACON CNTY IL S/D NO	4.00	12/01/2039	1.75	28	Insured
1065	DU PAGE COOK CNTYS	4.00	01/15/2029	1.00	21	
1890	UNIV IL UNIV AUXILIA	5.00	04/01/2024	0.84	65	
500	CHICAGO IL BOE UNLTD	5.00	12/01/2029	3.45	259	
1700	SAN FRANCISCO CA CIT	5.00	10/01/2028	0.81	10	
1855	SACRAMENTO CA MUN	5.00	07/01/2024	0.18	-2	
5000	CA VAR PURP GO REF	5.00	03/01/2035	1.53	23	
2000	CA VAR PURP GO REF	5.00	03/01/2035	1.53	23	
3135	SAN FRANCISCO CA CIT	5.00	11/01/2024	0.21	1	
1000	CA PUB WKS BRD LEASE	5.00	05/01/2025	0.39	12	
1465	WEST BASIN CA MUN WT	5.00	08/01/2026	0.40	-4	
2105	LOS ANGELES CNTY CA	5.00	07/01/2026	0.44	0	
1000	EAST SIDE UNHIGH S/D	5.00	08/01/2027	0.60	3	
2000	RANCHO CA WTR DIST	5.00	08/01/2034	1.13	-12	
3715	CA PUB WKS BRD LEASE	5.00	11/01/2030	1.23	27	
1455	LOS ANGELES CA DEPT	5.00	07/01/2026	0.40	-4	
1740	LOS ANGELES CA DEPT	5.25	07/01/2049	1.67	-5	Insured
2500	SANDIEGO CA ASSN GOV	5.00	11/15/2023	0.56	40	Insured
3830	CT ST GO BDS 2016	5.00	03/15/2023	0.31	16	
3000	CHICAGO IL OHARE IN	4.00	01/01/2036	2.40	105	
5000	DALLAS FORT WORTH TX	5.00	11/01/2032	1.66	53	