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# Supply Wave Dismissed as $104 Billion of Cash Waits: Muni Credit

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By Michelle Kaske

June 3 (Bloomberg) -- Municipal investors receiving $104 billion of principal and interest payments in the next three months may help absorb the biggest wave of local-government borrowing since March.

Issuers from California to New York have scheduled $11.7 billion of long-term sales in the next 30 days, the busiest calendar in three months, according to data compiled by Bloomberg. The pickup is a welcome sight for investors who are about to get the most cash since 2012 for June through August from the debt payments, said Peter DeGroot, a strategist at JPMorgan Chase & Co.

The funds will exceed issuance for those months by about $23 billion combined, helping extend a rally in the $3.7 trillion municipal market that has outpaced gains in Treasuries, DeGroot said. Munis earned 6.6 percent in the first five months of 2014, the best annual start since 2009 and beating the 3.4 percent gain for Treasuries, Bank of America Merrill Lynch data show.

“Over the next three months or so, the market is on relatively solid footing given the significant amount of reinvestment capital relative to projected issuance,” said DeGroot, who’s based in New York.

## Dearth’s Effect

The June calendar runs counter to the decline in issuance in 2014. Local-government officials have hesitated to take on new projects following the recession that ended five years ago. The municipal market shrank the past three years, and states and cities sold 25 percent less debt this year through May 30 than in the same period of 2013.

The dearth has pushed benchmark 10-year yields to a one-year low of 2.24 percent.

In March, the last time the Bloomberg index of scheduled issuance was this high, yields on benchmark 10-year munis posted their only monthly increase this year. Selling to pay tax bills before the April 15 filing deadline contributed to the increase in interest rates.

This time around, investors anticipating the cash wave after months of limited supply will buy munis for their tax exemption, said Matt Dalton, who helps manage $2.1 billion of local debt as chief executive officer at Belle Haven Investments Inc. in White Plains, New York.

“If it’s $100 billion, it could feel like $150 billion because there’s not much around,” Dalton said. “As frustration continues to build for investors, they lower their expectations on yields.”

Paper Chase

Money managers have been chasing yields lower as they have had money to put to work. Investors added $2.9 billion to muni mutual funds in the past four weeks, the most in 16 months, Lipper US Fund Flows data show.

Los Angeles Unified School District will lead borrowing with a planned $1.7 billion tax-exempt refinancing deal set for next week. It's the first long-term debt for the district since 2012, Bloomberg data show. New York State Dormitory Authority plans to offer $1.2 billion as soon as June 24 through competitive bid. The bonds will be repaid with personal-income taxes.

"Looks like demand and supply are moving in lockstep," said Neil Klein, a managing director who helps oversee $1.3 billion in fixed income at Carret Asset Management LLC in New York. "With yields lower in here, it's a very good time for issuers to bring new bonds to market or to refinance."

To combat the "shock" of falling yields, investors may reinvest cash into longer maturities and lower-rated bonds, Klein said. Speculative-grade munis have outperformed the rest of the market this year, earning almost 10 percent.

Munis' 2014 performance may lure individual investors, known as retail buyers, to put their share of the $104 billion cash wave back into the market, Dalton said.

"You've had a good year so far in munis and retail sees that," Dalton said. "They'll want to then come into the market and that will add more pressure to it."

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