

# Tax-Exempt Bond Market Commentary

George K. Baum & Company | Treasury & Municipal Bond Market | Week Ending October 6, 2017



**EDMUND J. STEINAUER**  
steinauer@gkbaum.com  
Executive Vice President & Co-Manager, Municipal Finance Division



**MARC R. DISPENSE**  
dispense@gkbaum.com  
Executive Vice President & Manager, Syndicate, Underwriting & Sales



**JOSEPH M. CROWE, JR.**  
crowe@gkbaum.com  
Senior Vice President, Syndicate & Underwriting



**LISA N. MAY**  
mayl@gkbaum.com  
Senior Vice President, Syndicate & Underwriting



**JACK LOGAN**  
logan@gkbaum.com  
Senior Vice President, Sales & Trading

## MUNICIPAL BOND MARKET:

- **Following the deadliest mass shooting in US history, the markets opened to a somber and sluggish start.** With a new issue calendar of only \$5 billion, municipal bonds were slightly weaker throughout most of the yield curve.
- **President Trump** said in a Fox News interview, **“You know they owe a lot of money to your friends on Wall Street. We’re gonna have to wipe that out”** in response to developing a plan to rebuild Puerto Rico following Hurricane Maria. His statements caused trading prices of Puerto Rico’s bonds to drop to record lows.

## GENERAL MARKET:

- **The providence of Catalonia will vote next week in a referendum to declare independence from Spain.** Catalonia makes up 21% of the country’s taxes and produces 25% of the country’s export. Supporters on both sides clashed over the weekend causing a flight-to-safety bid in Euro sovereign debt.
- **September economic releases** gave additional insight on the impact Hurricanes Harvey and Irma have had on the economy.
  - **ISM Manufacturing increased to 60.8** vs. 58.1 expected, as new orders, production and exports all rose.
  - **ADP Employment report indicated an increase of 135k private jobs**, in line with expectations
  - **ISM Non-Manufacturing increased to 59.8** vs. 55.5 expected, highest posting since August 2005.
  - **Initial Jobless Claims were slightly lower** than anticipated at 260k vs 265k.
  - **Factory orders and durable goods orders increased more than expected** as post-hurricane demand picks up.
  - **Non-farm payrolls report for September was -33k** vs +80 expected, the first negative report since September 2010.
  - **The unemployment rate dropped to 4.2%**, average hourly earnings increase 0.5% MoM and the labor participation increased to 63.1%.

## THE WEEK AHEAD:

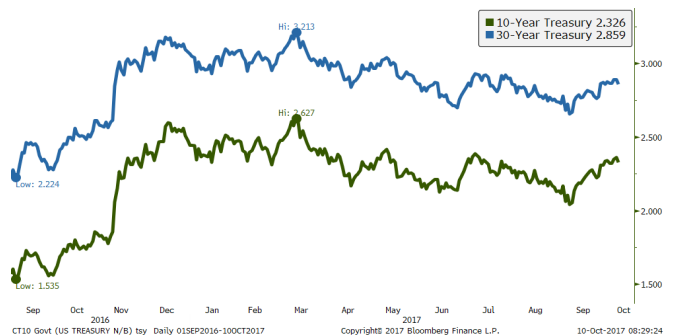
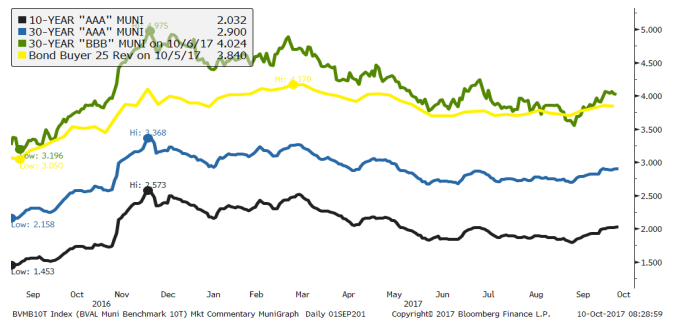
- The holiday-shortened week will see new issue municipal **supply increase to slightly above average with \$6.6 billion** scheduled to price.

## TREASURY & MUNICIPAL MARKET DATA INDEX RATES:

Week Ending	October 6, 2017	1-Week Change
<b>Ten-Year “AAA” BVAL</b>	2.032%	+ 3.0 bps
<b>Thirty-Year “AAA” BVAL</b>	2.900%	+ 0.1 bps
<b>Thirty-Year “BBB” BVAL</b>	4.024%	- 4.2 bps
<b>Thirty-Year “A1” Bond Buyer Rev</b>	3.84%	- 1.0 bp

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP

Week Ending	October 6, 2017	1-Week Change
<b>Treasury 10-Year</b>	2.360%	+ 2.6 bps
<b>Treasury 30-Year</b>	2.860%	+ 3.4 bps



SOURCES: Bloomberg Markets Magazine, Municipal Market, The Bond Buyer & The Wall Street Journal

# Tax-Exempt Bond Market Commentary

George K. Baum & Company | Municipal Bond Short Term Market | Week Ending October 6, 2017



**ELIZABETH A. BARBER**  
barber@gkbaum.com  
Executive Vice President,  
Specialty Financial Products Desk

**ALEC LEHRER**  
lehrer@gkbaum.com  
Senior Vice President,  
Specialty Financial Products Desk

**JEREMIAH L. MILLER**  
millerj@gkbaum.com  
Senior Vice President,  
Specialty Financial Products Desk

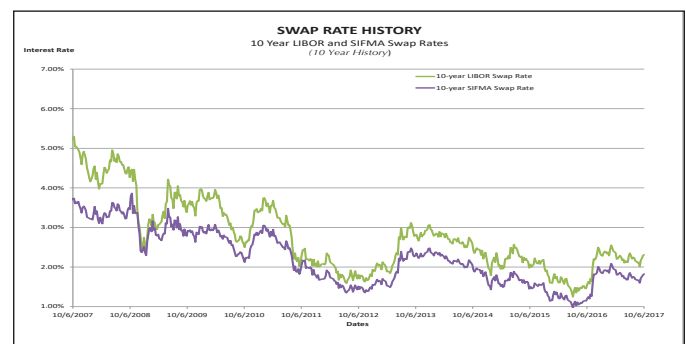
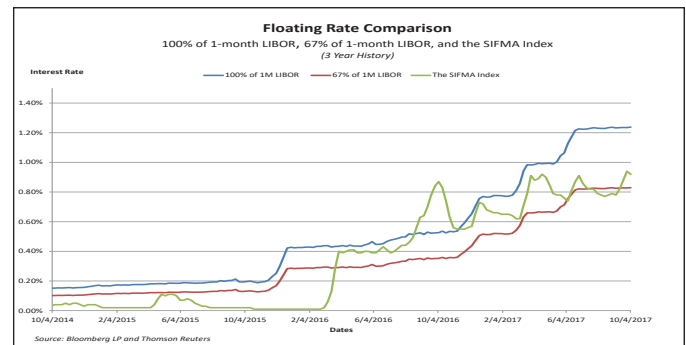
**JAIME DE SENA**  
desena@gkbaum.com  
Assistant Vice President,  
Specialty Financial Products Desk

## MUNICIPAL BOND SHORT TERM MARKET:

- **The SIFMA Index reset at 0.92%**, down two basis points week over week but still up 14 basis points over the past four weeks.
  - **Assets at tax-exempt money market funds** were up \$660 million.
  - **The SIFMA Index is now 75% of one-month LIBOR.**
- Hawkish sentiment continues to prevail. Despite the hurricane skewed job losses in September, the rise in average hourly earnings may finally create the inflation pressure the Fed has been searching for.
  - **Fed funds futures now point to a 79% chance of an additional rate hike by the end of the year (up from 70% the previous week and up from only 34% at the end of August).**
- The LIBOR swap curve continued to follow the Treasury sell-off last week.
  - **The 10-year LIBOR swap rate increased by 2 basis points last week and is up 30 basis points over the past three weeks.**
- Institutions providing new or replacement letters of credit or liquidity facilities last week included **Barclays Bank Plc, JP Morgan Chase, Royal Bank of Canada and State Street B&T.**
- **Legal entity identifier – borrowers with existing interest rate swaps should have obtained a GMEI from gmeiutility.org.**
  - Entering into new swaps, terminating or modifying swaps will also require that borrowers and issuers obtain a GMEI through gmeiutility.org.
- Clients should expect that, prior to entering into new swaps, terminating or modifying existing swaps, swap dealers will require that they either adhere to ISDA Protocols 1.0 and 2.0 or enter letter agreements that cover the same topics: **CFTC Business Conduct Standards, eligible contract participant category, End-user Exception from clearing requirements, and documentation, valuation and reconciliation matters.**

## MUNICIPAL BOND SHORT TERM MARKET DATA:

Week Ending	October 6, 2017	1-Week Change
<b>SIFMA</b>	0.92%	- 2 bps
<b>1M LIBOR</b>	1.23%	Flat
<b>3M LIBOR</b>	1.35%	+ 2 bps
<b>2-Year LIBOR Swap</b>	1.77%	+ 3 bps
<b>10-Year LIBOR Swap</b>	2.31%	+ 2 bps
<b>30-Year LIBOR Swap</b>	2.57%	+ 4 bps



SOURCES: Bloomberg Markets Magazine, Municipal Market, The Bond Buyer & The Wall Street Journal

This report was prepared from publicly available information believed to be reliable but not guaranteed by us, without further verification or investigation and does not purport to be complete. It is not to be considered as an offer to sell or a solicitation of an offer to buy the securities of the entities covered by this report. Opinions expressed are subject to change without notice. George K. Baum & Company may act as a principal for its own account or as agent for another person, in connection with the sale or purchase of any security which is subject in this report.



**George K. Baum & Company**  
INVESTMENT BANKERS SINCE 1928

Member FINRA SIPC