

Tax-Exempt Bond Market Commentary

George K. Baum & Company | Treasury & Municipal Bond Market | Week Ending August 4, 2017



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MUNICIPAL BOND MARKET:

- Despite the low municipal-to-treasury ratios, **several of the transactions priced this week were repriced to lower yields** based on the subscription.
- **Municipal new issue supply fell 20%** in July year-over-year. Refunding transactions have dropped 52.8% from a year earlier.
- **Long-term municipal funds had net inflows totaling \$490.7 million** over the last three weeks.

GENERAL MARKET:

- **Bank of England kept rates unchanged** and revised their **economic and inflation forecasts lower**. The BOE remains uncertain of how business will react to Brexit.
- Following a three-month decline, **pending home sales grew 1.5% in June**. The lack of supply may prevent further growth. The housing supply is 7.1% lower than a year ago.
- **Personal income was flat** in June; the markets were expected growth of 0.4%. **Personal spending increased 0.1%**.
- ADP private payrolls reported a strong revision in June to 191k from 158k. **July's report was less than expected with just 178k additional jobs**.
- **Initial jobless claims declined to 240k** and continuing claims increased slightly to 1968k from 1965k for the week ended July 22.
- **Durable goods orders unexpectedly jumped 6.4% in June**, far surpassing estimates of 0.0% growth.
- **The Jobs report for July showed an increase of 209k versus an expected increase of 180k**. The unemployment rate dropped to 4.3% from 4.4%.

THE WEEK AHEAD:

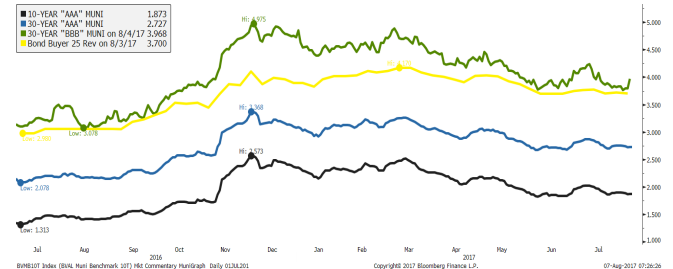
- **Municipal new issue supply totals approximately \$7.3 billion** in new deals next week.

TREASURY & MUNICIPAL MARKET DATA INDEX RATES:

Week Ending	August 4, 2017	1-Week Change
Ten-Year "AAA" BVAL	1.873%	-2.7 bps
Thirty-Year "AAA" BVAL	2.727%	-3.0 bps
Thirty-Year "BBB" BVAL	3.968%	+13.5 bps
Thirty-Year "A1" Bond Buyer Rev	3.70%	-2.0 bps

BVAL is a municipal benchmark yield curve maintained by Bloomberg LP

Week Ending	August 4, 2017	1-Week Change
Treasury 10-Year	2.263%	-3.7 bps
Treasury 30-Year	2.843%	-5.3 bps



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

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George K. Baum & Company | Municipal Bond Short Term Market | Week Ending August 4, 2017



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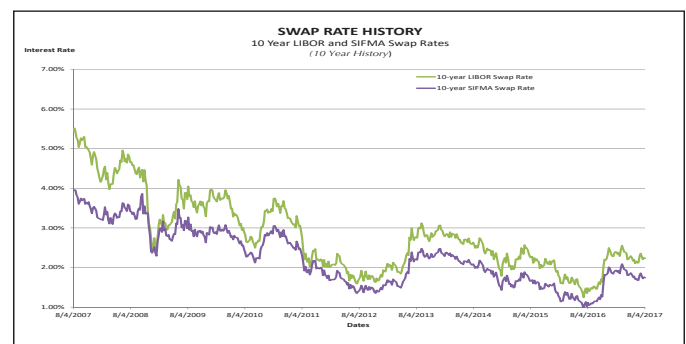
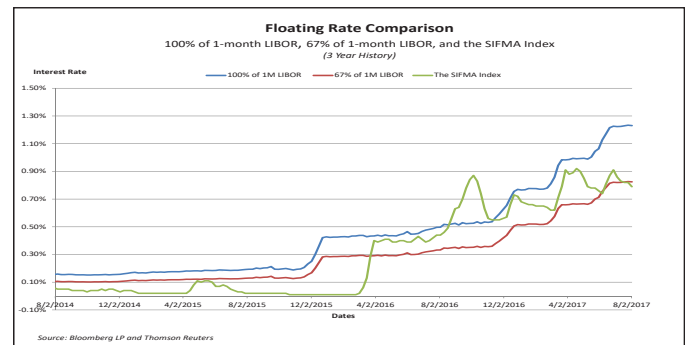
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MUNICIPAL BOND SHORT TERM MARKET:

- **The SIFMA Index reset at 0.79%**, down three basis points week over week.
 - **Assets at tax-exempt money market funds** were up \$1.44 billion last week.
 - **The SIFMA Index is now 64% of one-month LIBOR.**
- **Commonwealth of MA saw good demand for its short-term \$1.5 billion TRAN sale**, with yields ranging from 0.75% to 0.88% for 8 –10 months.
- **The State of Texas will sell its benchmark \$5.4 billion TRAN on August 22.**
 - GKB is the financial advisor.
- Short-term rates were flat last week showing little effect from the July employment report.
 - **Fed funds futures now point to a 6% chance of a third 2017 rate increase in September and a 40% chance by the end of the year.**
- **Regulators continue to weigh in on the potential replacement of LIBOR by a transaction-based index.**
 - The US Federal Reserve already has a committee that is working to publish a replacement index by 2018 and the FCA is planning a UK replacement by 2021.
 - **Key questions for the markets will be transition plans for existing contracts and liquidity and acceptance of new indices.**
- The LIBOR swap curve flattened as long-term rates fell.
 - **The 2-year LIBOR swap rate was up one basis point while the 10-year LIBOR swap rate decreased by two basis points last week.**
- Institutions providing new or replacement letters of credit or liquidity facilities last week included **Bank of Tokyo-Mitsubishi, Barclays Bank PLC, Royal Bank of Canada and US Bank.**
- **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	August 4, 2017	1-Week Change
SIFMA	0.79%	- 3 bps
1M LIBOR	1.23%	Flat
3M LIBOR	1.31%	Flat
2-Year LIBOR Swap	1.61%	+ 1 bp
10-Year LIBOR Swap	2.23%	- 2 bps
30-Year LIBOR Swap	2.53%	- 3 bps



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

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