For the second consecutive month, municipal new issue volume was the highest since 2008. Additionally, June 2016 was the second month in a row to produce both higher y/y total volume and higher y/y refunding volume. According to figures released by The Bond Buyer, municipal primary supply totaled $43.9 billion, but our refresh of the numbers today puts this figure at $46.8 billion. After posting lower y/y volume from January through April, a heavy May and June has significantly closed the gap between 2015 and 2016 issuance. Through April 2016, YTD volume was tracking about 90% of 2015’s comparable total but by the end of June, 2016 issuance was above 97%. On average, the second half of the year accounts for 49% of total annual issuance. Using this metric, 2016 is currently on a pace to finish the year with over $430 billion in issuance. Last year, the pace of issuance cooled in the second half of the year as refundings dropped off, and full-year issuance came in just shy of $400 billion. We predicated our $350 billion 2016 volume call on rising rates and reduced refunding activity. Now, however, the environment is entirely different. Indeed, our US Economics and Rates Strategy team last week significantly revised its interest rate projection downward through 2017 (Weekly Dashboard, June 30, 2016). As a result, we now believe that both municipal bond refunding activity and overall issuance will be robust in 2H2016, and anticipate full-year volume of $400 billion to-$425 billion.

Weekly reporting municipal bond funds posted their 39th consecutive week of inflows last week, according to Lipper US Fund Flows. While the inflows were lower than those posted a week earlier were, we continue to be impressed by the overall breadth of these inflows and expect that the heavy coupon payments in July and August will continue to feed substantial inflows throughout the summer months.

Exhibit 1: The Bond Buyer reported June volume of $43.9 billion but our refresh of the numbers puts issuance for the month closer to $46.8 billion. This makes June 2016 the highest volume June since 2008. June was also the second consecutive month of higher y/y volume. It was also the second month of higher y/y refunding volume as record low rates are significantly improving refunding economics. Based on historical issuance patterns, 2016 is now running at a $430 billion pace. While it’s unclear whether or not we will actually hit that mark, it now appears that 2016 volume will total at least $400 billion.

Source: The Bond Buyer; RBCCM
Exhibit 2: Last week marked the 39th consecutive week of municipal bond fund inflows. While the top line weekly number of $716 million in net inflows was down significantly from the week prior, it was still exceedingly strong. With the heavy July 1 coupon payment, we expect this week’s fund flow report to reflect another week of strong municipal inflows.

Exhibit 3: The pace of state revenue growth continues to moderate. According to figures released by the US Census Bureau, state tax revenues in 1Q2016 were only 1.8% higher than comparable year earlier figures. Personal income taxes and retail sales taxes were both up 2.5%, corporate income taxes were down 5.1% and the second tier state taxes were generally flat y/y. While state fiscal conditions have fully recovered from the 2008-2009 recession, state budgets remain strained by the underwhelming rate of tax revenue growth.
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Fixed Income & Currency Strategy Research Team

Europe

RBC Europe Limited:

Adam Cole  Head of G10 FX Strategy  +44-20-7029-7078  adam.cole@rbccm.com
Vatsala Datta  UK Rates Strategist  +44 20-7029-0184  vatsala.datta@rbccm.com
Sam Hill, CFA  Senior UK Economist  +44-20-7029-0092  sam.hill@rbccm.com
Cathal Kennedy  European Economist  +44(0)20 7029 0133  cathal.kennedy@rbccm.com
Peter Schaffrik  Chief European Macro Strategist  +44-20-7029-7076  peter.schaffrik@rbccm.com

Asia-Pacific

Royal Bank of Canada – Sydney Branch:

Su-Lin Ong  Head of Australian and New Zealand FIC Strategy  +612-9033-3088  su-lin.ong@rbccm.com
Michael Turner  Fixed Income & Currency Strategist  +612-9033-3088  michael.turner@rbccm.com

Royal Bank of Canada – Hong Kong Branch:

Sue Trinh  Senior Currency Strategist  +852-2848-5135  sue.trinh@rbccm.com

North America

RBC Dominion Securities Inc.:

Mark Chandler  Head of Canadian FIC Strategy  (416) 842-6388  mark.chandler@rbccm.com
George Davis  Chief FIC Technical Analyst  (416) 842-6633  george.davis@rbccm.com
Simon Deeley  Fixed Income Strategist  (416) 842-6362  simon.deeley@rbccm.com

RBC Capital Markets, LLC:

Michael Cloherty  Head of US Rates Strategy  (212) 437-2480  michael.cloherty@rbccm.com
Elsa Lignos  Senior Currency Strategist  (212) 428-6492  elsa.lignos@rbccm.com
Chris Mauro  Head of US Municipals Strategy  (212) 618-7729  chris.mauro@rbccm.com
Jacob Oubina  Senior US Economist  (212) 618-7795  jacob.oubina@rbccm.com
Tom Porcelli  Chief US Economist  (212) 618-7788  tom.porcelli@rbccm.com
Daria Parkhomenko  Associate  (212) 618-7857  daria.parkhomenko@rbccm.com

Commodities Strategy Research Team

North America

RBC Capital Markets, LLC:

Helima Croft  Global Head of Commodity Strategy  (212) 618-7798  helima.croft@rbccm.com
Christopher Louney  Commodity Strategist  (212) 437-1925  christopher.louney@rbccm.com
Michael Tran  Commodity Strategist  (212) 266-4020  michael.tran@rbccm.com