13:14 06 Sep U.S. municipals gain spectators but not direction

MIAMI, Sept 6 (Reuters) - U.S. municipal bond prices rose about 1 basis point midday Thursday, feeding off a stock market dive that boosted Treasury prices, a trader said.

The 30-year Treasury bond was trading up 27/32 and yielding 5.42 percent, as the Dow Jones industrial average plunged 155 points and fell below 9,900.

But even with the small boost in muni prices, the market on Thursday is filled with spectators rather than participants, said Peter Barbera, manager of municipal trading, sales and underwriting at Apex Pryor Securities in New York.

"Everyone's walking on eggshells after Tuesday's debacle," Barbera said. "There's not a lot of trigger pulling."

Just after the Labor Day holiday, municipal bond prices took their first major blow in months, dropping as much as five basis points, after a key manufacturing report showed the economy to be in better shape than many expected.

Dealer inventories of municipal bonds are heavier these days, Barbera said, and supply is expected to build.

Most traders are taking a step back and reassessing the market, said Ken Salinger, a vice president and portfolio manager at American Century Investments in Mountain View, California.

"At some point, munis will wake up and reassess where they should be trading," he said. "But today, no one knows what to make of it."

Analysts are estimating $40 billion in corporate supply for September alone, tempting institutions away from the expensive municipal market and into the corporate arena.

Institutions have been selling larger size blocks of bonds all week to strong bids, traders said, but bids appear to be fading slightly in the onslaught of secondary market supply.

The largest negotiated deal to be priced on Thursday was a $185 million University of Texas loan from Morgan Stanley. The bonds were priced with a top yield of 5.07 percent in 2022.

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