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Weekly Trading Desk Update

November 11, 2011

Weekly Municipal Supply ($ Bln)	Current Wk	Prior Wk
Negotiated	$7.83	$5.79
Competitive	$1.99	$1.99
TOTAL	**$9.82**	**$7.78**

Municipal 30 Day Visible Supply ($ Bln)	**$14.77**	**$11.51**
Bloomberg Municipal PICK Offerings Par Value ($ Bln)	**$10.83**	**$9.84**
Municipal Placement Ratio (New Issues)	**N/A**	**90.60%**
Bond Buyer 20 Municipal G.O. Index	**4.02%**	**4.02%**

UST Treasury Supply		Current Auction	Prior Auction
Day	**Maturity**	**Amount ($ Bln)**	**Amount ($Bln)**
No UST Supply for the Week of 11/14			
	TOTAL	**0**	**0**

Trading Desk Commentary

A development three years in the making, Jefferson County, Alabama filed for bankruptcy this week after creditors and elected officials failed to agree on a refinancing plan for the county's sewer system debt. In 1996, the county financed a new sewer system after officials found its existing system was depositing pollutants into Jefferson County's local rivers. The project utilized a heavy dose of derivative-based financing to fund the new system, a decision that would turn sour in 2008 when the credit crisis devastated the derivates market. Making matters worse, state and federal investigations uncovered several instances of bribery and corruption among the county's leadership during the bidding process for the $3 billion sewer system project. Needless to say, the situation in Jefferson County has been ugly and has worsened over the course of the past few years. However, we believe that the county's decision to file for bankruptcy should be viewed as an isolated event without broader implications for the Municipal marketplace. Based on participants' muted response to these headlines, it seems a) most Muni investors would agree; and b) the bankruptcy was well telegraphed and widely expected. However, Jefferson County filing Chapter 9 marks the largest bankruptcy case in U.S. Municipal history and is a stark reminder of the pressures still challenging state and local governments nationwide.

Municipal supply was healthy for an eighth consecutive week; however, another mini-rally in UST's kept ratios wide and Munis looking very attractive on a relative basis. Both distribution of new deals and bids in the secondary were strong for the majority of the week – and tax-exempts richened on the week as a result (10-year AAA yields fell 4bps, according to MMD). Muni yields have retraced roughly half of their losses seen in late September as visible supply began to mount. We continue to actively seek incremental yield in strong healthcare and power names to supplement our portfolios' yield profile. This week's new Muni supply offered opportunities to add to our exposures in these sectors, using debt of issuers that we view favorably. For instance, Va Commonwealth Univ Health System brought a $120mln deal to market that offered roughly 100-125bps more yield than a generic AAA G.O. bond with the same maturity structure. The VCU health system was upgraded in October by S&P from A+ to AA- due to growing patient demand and improving operating results (in spite of the economic downturn). The system benefits from support from the Commonwealth of Virginia (Aaa/AAA) and has limited plans for more debt issuance over the next several years, having already completed a great deal of their expansion plans. This is the type of credit we seek: recognizable and liquid, with strong operating performance and solid debt metrics. We believe analysis such as this provides the best opportunities for finding attractive yield profiles and positive price performance.

The 30-day visible calendar remains robust, currently hovering around $14-15bln, $10bln of which is slated for next week. Munis' relationship to taxables will continue to be a deciding factor in how Munis move, but the longer supply volume remains elevated, the higher the probability of an adjustment to higher tax-exempt yields. Issuance typically tails off as we approach the winter holidays (last year's BAB-driven supply boom in December was anomalous). If investors can navigate the high supply in the next few weeks, tax-exempts could then enter a firmer period as supply pressures should begin to ease.

Select Economic Releases

Date	Event	Period	Survey	Prior
11/15	Producer Price Index (MoM)	OCT	-0.10%	0.80%
11/15	PPI Ex Food & Energy (MoM)	OCT	0.10%	0.20%
11/15	Advance Retail Sales	OCT	0.30%	1.10%
11/15	Empire Manufacturing	NOV	-2	-8.48
11/16	Consumer Price Index (MoM)	OCT	0.00%	0.30%
11/16	CPI Ex Food & Energy (MoM)	OCT	0.10%	0.10%
11/16	Capacity Utilization	OCT	77.70%	77.40%
11/17	Housing Starts	OCT	610K	658K
11/17	Building Permits	OCT	600K	594K
11/17	Initial Jobless Claims	12-Nov	395K	390K
11/17	Continuing Claims	5-Nov	3608K	3615K
11/17	Philadelphia Fed.	NOV	10	8.70
11/18	Leading Indicators	OCT	0.60%	0.20%

Rates	Current Wk	Yld Change	Prior Wk	Muni to Treasury Ratio
Muni's				
2 Year	0.42	0.00	0.42	183%
5 Year	1.16	-0.03	1.19	129%
10 Year	2.25	-0.05	2.30	110%
30 Year	3.73	0.02	3.71	119%
UST				
2 Year	0.23	0.01	0.22	
5 Year	0.90	0.02	0.88	
10 Year	2.05	0.01	2.04	
30 Year	3.13	0.04	3.09	

Explanation of Key Measures :

Weekly Municipal Supply - The total dollar volume of municipal securities expected to be offered during the upcoming week, broken down by deal type. This helps gauge near term supply and momentum along with the 30 day visible figure.

30 Day Visible Supply - The total dollar volume of municipal securities expected to be offered over the next 30 days. The visible supply, which is compiled and published by The Bond Buyer, indicates the near-term activity in the municipal market.

Bloomberg PICK Offerings - The total dollar amount of offerings listed on Bloomberg's dealer offerings system. The figure helps gauge secondary supply in the market.

Placement Ratio - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling $1,000,000 par value or more of securities. The ratio published by The Bond Buyer , helps gauge the demand for municipal bonds in the marketplace.

Bond Buyer 20 G.O. Index - Index published weekly representing the average yield of 20 G.O. bonds with 20 year maturities, rated AA2 by Moody's

Sources: Weekly municipal supply figures, and municipal rates are produced by Thompson Reuter (Municipal Market Data). 30 day visible figures, and the placement ratio are obtained through The Muni Center, and produced by The Bond Buyer. The 20 G.O. index yield is obtained through Bloomberg, and produced by The Bond Buyer. Pick offerings par value, UST supply, economic releases, and UST rates are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed.

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