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Weekly Trading Desk Update

November 21, 2011

		Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)			
	Negotiated	$1.77	$7.83
	Competitive	$0.15	$1.99
	TOTAL	**$1.92**	**$9.82**

Municipal 30 Day Visible Supply ($ Bln)	**$5.75**	**$14.77**
Bloomberg Municipal PICK Offerings Par Value ($ Bln)	**$11.03**	**$10.83**
Municipal Placement Ratio (New Issues)	**92.20%**	**96.00%**
Bond Buyer 20 Municipal G.O. Index	**4.09%**	**4.02%**

UST Treasury Supply		**Current Auction**	**Prior Auction**
Day	**Maturity**	**Amount ($ Bln)**	**Amount ($Bln)**
Mon	2 Year	35	35
Tues	5 Year	35	35
Wed	7 Year	29	29
	TOTAL	**99**	**99**

Trading Desk Commentary

Heading into this past week, Muni participants were curious as to how the market would react after a week of robust new Muni supply coupled with a relatively quiet UST market. Recently, Munis have become accustomed to relying on their taxable counterparts for direction, typically resulting in muted versions of the movements seen in UST's (responding to European news, U.S. economic releases, etc.) Last week was different in that no significant shocks emerged out of the EU and no major economic releases were unveiled, leaving tax-exempts to determine their sentiment on their own. Participants largely felt that Munis were headed for higher yields as the pressures began to mount: large Muni supply both last week and in those leading up to it, less attractive Muni-to-UST ratios than we have seen lately, continued low absolute yields, and Jefferson County, AL bankruptcy headlines. As the week got underway, some large, high-quality deals ($1.2bln Aa2/AA St of Hawaii GO, $250mln AAA Baltimore Co Maryland GO) saw their prices cut and began to confirm most traders' predictions. However, as the week progressed, Muni interest gained momentum. The early-week deals were revised to more expensive levels (and were successfully distributed) to keep pace with rarer issuers that were coming to market at very aggressive levels (ex. $205mln Aaa/AAA Westchester Co NY GO). The sluggish start to the week turned in to a distant memory as Munis finished with a firm tone and supply was easily digested.

So what can we take away from tax-exempts strong response last week? First, tax-exempt demand remains strong despite the elevated supply since October. New issuance is widely expected to decrease following the Thanksgiving holiday and into year-end creating a strong bid ahead of a potential decline in supply. The positive tone in Munis is further supported by ten consecutive weeks of inflows into long Muni bond funds – Investment Company Institute last reported over $1bln inflows for the week ending Nov. 9th. Now that the large issuance week is behind us (and we enter a very light issuance week ahead of the Thanksgiving Day holiday), Munis seem poised for a steady-to-firmer bias in the short-term. Secondly, though Muni-to-UST ratios are down from their largest levels, Munis still remain very attractive on a historical basis and investors still recognize their value. Lastly, Muni investors appear to have come to a broader understanding of Muni credit risk. Following some highly publicized forecasts in late-2010 for widespread Muni defaults, Munis spiraled down based on a fear of systemic credit risk. Now a year removed from this reaction, the market was presented with an Alabama county's bankruptcy that sparked little, if any, reaction. It seems Muni participants are more comfortable with the idiosyncratic nature of individual Muni credits and are capable of treating such an event as isolated and largely uncorrelated with the rest of the $3.7 trillion Muni market. Successful management of Muni bond portfolios requires careful consideration of not only macro and systemic drivers, but also the inherent risks associated with each issuer's underlying credit strength.

Select Economic Releases

Date	Event	Period	Survey	Prior
11/22	GDP QoQ (Annualized)	3Q S	2.50%	2.50%
11/22	Personal Consumption	3Q S	2.40%	2.40%
11/22	Core PCE QoQ	3Q S	2.10%	2.10%
11/22	Richmond Fed Manufact. Index	NOV	-1	-6
11/22	Minutes of FOMC Meeting			
11/23	MBA Mortgage Applications	18-Nov	- -	-10.00%
11/23	Durable Goods Orders	OCT	-1.20%	-0.80%
11/23	Personal Income	OCT	0.30%	0.10%
11/23	Personal Spending	OCT	0.30%	0.60%
11/23	PCE Deflator (YoY)	OCT	2.70%	2.90%
11/23	Initial Jobless Claims	19-Nov	390K	388K
11/23	Continuing Claims	12-Nov	3610K	3608K
11/23	U. of Michigan Confidence	NOV F	64.5	64.2

Rates	**Current Wk**	**Yld Change**	**Prior Wk**	**Muni to Treasury Ratio**
Muni's				
2 Year	0.42	0.00	0.42	150%
5 Year	1.14	-0.02	1.16	124%
10 Year	2.26	0.01	2.25	112%
30 Year	3.77	0.04	3.73	126%
UST				
2 Year	0.28	0.05	0.23	
5 Year	0.92	0.02	0.90	
10 Year	2.01	-0.04	2.05	
30 Year	2.99	-0.14	3.13	

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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