

Trading Desk Commentary

Munis wrapped up a rather ho-hum week on Friday, with most parts of the curve seeing only slightly lower yields – 1bp in the 10yr range. Muni supply was manageable (and appears it will stay that way for the foreseeable future) while Treasuries continued to provide support by maintaining their own stability. However, a simple look back at the quiet debt markets is a bit misleading. Their steady tenor was the result of a tug-of-war between positive and negative news that ended in a draw.

Spain provided the week's most concerning headlines for global markets. S&P downgraded the country's sovereign debt rating from A to BBB+, and left the country on "Negative" outlook, leaving the threat of further downgrades hanging over investors' heads. Spain's fiscal situation is deteriorating, with unemployment and debt mounting at unsustainable rates. The situation feels eerily similar to what we saw in Greece only a few months ago. The headlines calling for increased austerity measures and blaming the country's impotent government feel like a broken record. However, the sense of urgency is only heightened by the relative size and importance of the Spanish economy to the Eurozone. A disorderly Spanish default would dwarf the impact being felt from Greece's ongoing budget crisis. On the other hand, US corporate earnings have been stronger than expected these past two weeks, Friday's University of Michigan Consumer Confidence data improved, and last week's housing data was encouraging as well. These helped counterbalance the GDP print that showed the US economy's growth rate slowed in 1Q, and helped the DOW improve roughly 200pts over the past 5 trading days.

Next week, Munis have \$6bln of new supply to focus on, covering the spectrum of sectors and credit quality. Almost 1/3 of the calendar is occupied by the \$1.8bln (A2/A+) St of Illinois GO refunding deal. Given the state's own budget struggles and lack of leadership, reaction to this deal should be interesting. With few bellwether deals to provide direction, we suspect the market will take much of its tone from US Treasuries yet again. The "risk on/off" outlook remains murky given the prevailing uncertainty in the Eurozone and the mish-mash of recent US economic releases. However, as we have seen before, a rapid change in Europe's situation would render Muni fundamentals irrelevant and likely take Muni participants along for the ride. The situation warrants close surveillance.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.00	0.31	119%
5 Year	0.82	-0.01	0.83	100%
10 Year	1.87	-0.01	1.88	97%
30 Year	3.25	-0.03	3.28	105%

UST Rates			
2 Year	0.26	-0.01	0.27
5 Year	0.82	-0.02	0.84
10 Year	1.93	-0.03	1.96
30 Year	3.11	-0.01	3.12

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.13	\$3.36
Competitive	\$0.72	\$1.55
TOTAL	\$5.85	\$4.91

Municipal 30 Day Visible Supply (\$ Bln)	\$7.96	\$7.85
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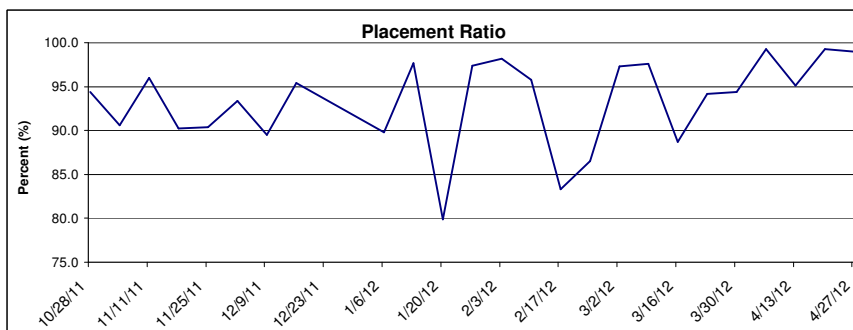
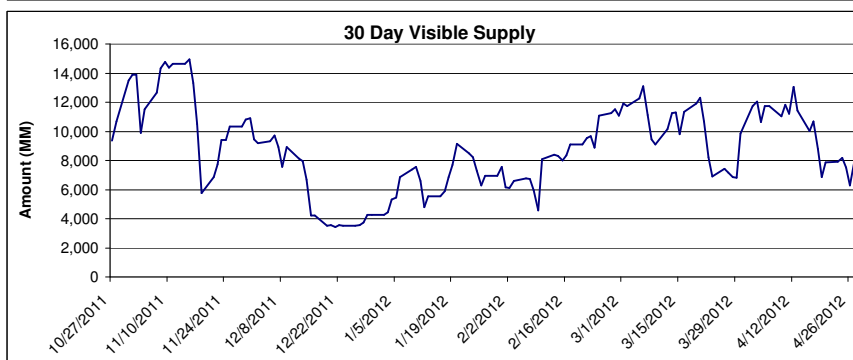
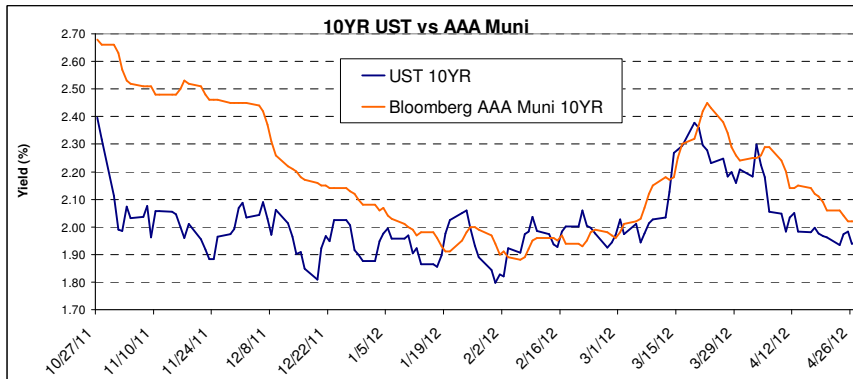
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.38	\$12.65
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Muni Placement Ratio (New Issues)	97.30%	99.30%
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Bond Buyer 20 Municipal G.O. Index	3.86%	3.90%
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Select Economic Releases

Date	Event	Period	Survey	Prior
4/30	Personal Income	MAR	0.30%	0.20%
4/30	Personal Spending	MAR	0.40%	0.80%
4/30	Chicago Purchasing Manager	APR	60.5	62.2
5/1	ISM Manufacturing	APR	53.0	53.4
5/2	MBA Mortgage Applications	27-Apr	--	-3.80%
5/2	ADP Employment Change	APR	175K	209K
5/3	Initial Jobless Claims	28-Apr	380K	388K
5/3	Continuing Claims	21-Apr	3312K	3315K
5/4	Change in Nonfarm Payrolls	APR	168K	120K
5/4	Unemployment Rate	APR	8.20%	8.20%



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 MuniCenter, 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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