

Trading Desk Commentary

Munis completed a strong week today, characterized by exuberant demand for available new supply and a marked increase in secondary market trading activity. Last week, tax-exempts took a week-long siesta, moving in sympathy with US Treasuries to some degree but were muted by the limited activity/participants in the market around July 4th. US Treasuries spent last week advancing in response to ongoing Euro fears and signs that the US economy is failing to maintain the momentum it generated earlier in the year. Municipals used this week to regain some of the ground they had given up to their Taxable counterparts, digesting a very healthy \$8bln in new issuance without hesitation. As the week's new deals started to disappear, secondary trading picked up substantially. Looking forward to next week, dealers are expected to bring roughly \$7.5bln in new issuance, slightly less than this week. Though Muni yields are beginning to flirt with all-time lows again, the persistence of the "risk-off" trade and demand /supply imbalance continue to point towards a positive short-term outlook in the asset class. Moreover, next week's new deals appear spread out among a wide variety of lower credit ratings and sectors, reminiscent of early June's supply. In our opinion very little has changed since then: buyers continue to seek yield. A calendar dominated by AA and A-type deals should continue to excel. Some of next week's deals to watch for high-grade color include: \$982mln (Aaa/AA) NY State Dormitory Authority bonds secured by personal state income tax revenues, \$274mln (Aa1/AA+) State of Washington GOs, and \$125mln (Aa1/AA) Virginia Transportation authority grant anticipation revenue bonds.

The city of San Bernardino, California filed for Chapter 9 bankruptcy protection this week, and the announcement was subsequently met with indifference among Muni participants. In fact, the iShares California AMT-Free Muni Bond Fund (CMF) outperformed the iShares' broad Muni bond ETF (MUB) by 0.30% after the announcement. Though this filing was not as well telegraphed as Stockton, the shock-factor did very little to raise eyebrows. As we mentioned last week, there is some concern that the weakest issuers may view Chapter 9 bankruptcy as a viable option if they see several of their peers choosing that route. Already some may be wondering, "Who's next?" However, near term activity would likely be limited to municipalities that started hoisting their own red flags some time ago. The idea that recent events are the beginning of widespread defaults is an extreme stretch, in our view. However, we continue to beat the drum for those investing in the Munispace: "Know what you own."

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	0.00	0.32	133%
5 Year	0.72	-0.06	0.78	116%
10 Year	1.74	-0.08	1.82	117%
30 Year	2.96	-0.16	3.12	115%

UST Rates

2 Year	0.24	-0.03	0.27
5 Year	0.62	-0.02	0.64
10 Year	1.49	-0.06	1.55
30 Year	2.57	-0.09	2.66

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.28	\$5.24
Competitive	\$2.36	\$1.49
TOTAL	\$7.64	\$6.73

Municipal 30 Day Visible Supply (\$ Bln)	\$10.36	\$9.29
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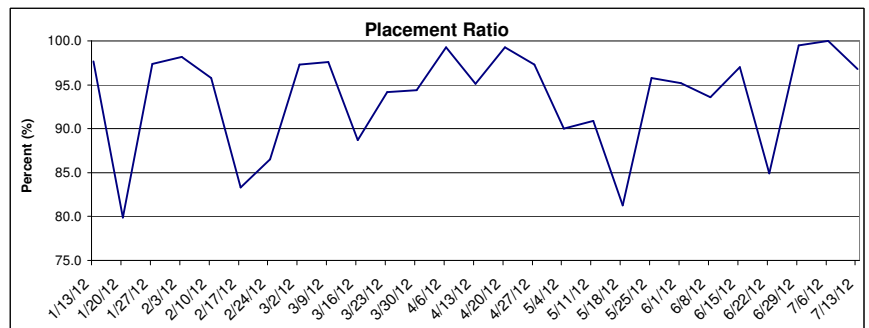
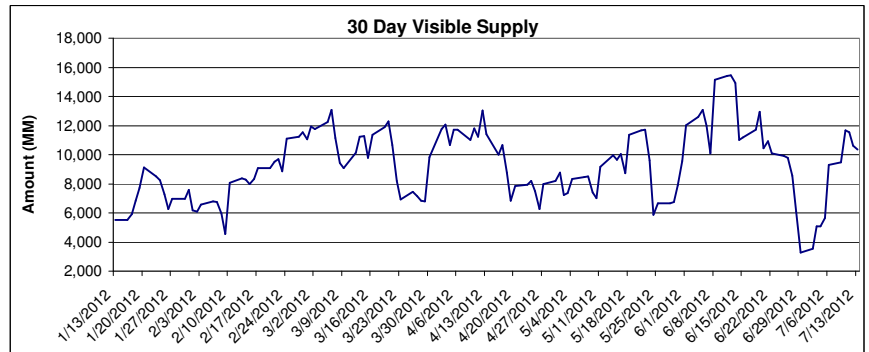
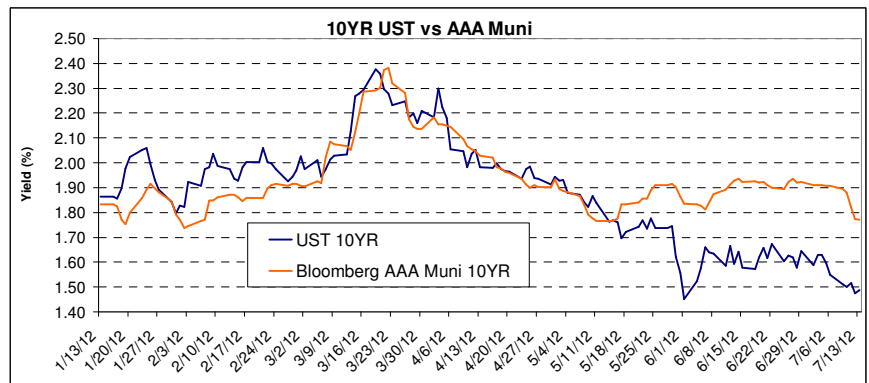
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.04	\$9.52
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Muni Placement Ratio (New Issues)	96.80%	100.0%
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Bond Buyer 20 Municipal G.O. Index	3.83%	3.94%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/16	Empire Manufacturing	Jul	4	2.29
7/16	Advance Retail Sales	Jun	0.2%	-0.2%
7/17	Consumer Price Index (MoM)	Jun	0.0%	-0.3%
7/18	MBA Mortgage Applications	13-Jul	--	-2.10%
7/18	Housing Starts	Jun	745K	708K
7/18	Building Permits	Jun	765K	780K
7/18	Fed's Beige Book			
7/19	Initial Jobless Claims	14-Jul	365K	350K
7/19	Continuing Claims	7-Jul	3300K	3304K
7/19	Existing Home Sales	Jun	4.62M	4.55M
7/19	Leading Indicators	Jun	-0.1%	0.3%



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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