

## Trading Desk Commentary

Tax-exempts hit the ground running to start the week, aided by Bernanke's non-committal tone on Capitol Hill when asked about the Fed's plans for QE3. Bernanke acknowledged the recent softening in the US's economic outlook, but failed to go as far as saying that further stimulus measures were indeed around the corner. His assurances that the Fed was willing to enact a new spate of stimulus measures if they felt it was necessary did little to ease investors' anxieties. Participants had wanted something more concrete from the testimonies. The resulting rally in US Treasuries provided Munis with some stability, allowing them to extend their recent winning streak in maturities longer than 10 years. Simultaneously, the various new deals that were pricing were receiving strong responses from investors, especially in some of the yieldier deals like the \$1.3bln (AA/AA+) Illinois Unemployment Insurance Fund bonds. On Thursday, with the majority of supply put away and a quiet macro front, Muni activity slowed to a crawl. It seemed Munis would be content with locking up their gains from the previous three sessions and calling it a week, but that would not be the case. Participants viewed Friday's Spanish rescue plan from the EU as insufficient, reigniting the demand for quality assets. The Bond Buyer also released next week's expected Muni calendar at less than \$6bln of tax-exempt supply. By day's end, Munis had strengthened yet again, especially in the long end where yields fell by as much as 10 basis points. Yields around the 15-year maturity mark and longer are now at all-time lows.

Compton, California emerged this week as the newest California-based municipality to threaten filing for bankruptcy. Compton would become the fourth California city to file for bankruptcy since late June. It appears Stockton may have removed some of the stigma of utilizing Chapter 9 and other struggling cities seem more willing to follow their lead. Despite many investors seeking debt that provides incremental yield, some may be starting to shy away from the Golden State. California spreads (yields) have only shown moderate widening (cheapening) versus a AAA benchmark, but the iShares S&P California AMT Muni Bond ETF (CMF) significantly underperformed iShares's' broader intermediate Muni bond ETF (MUB) by roughly 0.75% this week. This is notable given CMF's outperformance of MUB in five of the last six weeks heading into this one. It will be worth watching how investors view of California-based debt does or does not change based on these recent developments. We still view these credit events as isolated and rare, but our opinion is not the only one that will matter.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	-0.01	0.32	148%
5 Year	0.69	-0.03	0.72	119%
10 Year	1.70	-0.04	1.74	116%
30 Year	2.86	-0.10	2.96	112%

### UST Rates

2 Year	0.21	-0.03	0.24
5 Year	0.58	-0.04	0.62
10 Year	1.46	-0.03	1.49
30 Year	2.55	-0.02	2.57

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$4.49	\$5.28
Competitive	\$1.51	\$2.36
<b>TOTAL</b>	<b>\$6.00</b>	<b>\$7.64</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$8.82</b>	<b>\$10.36</b>
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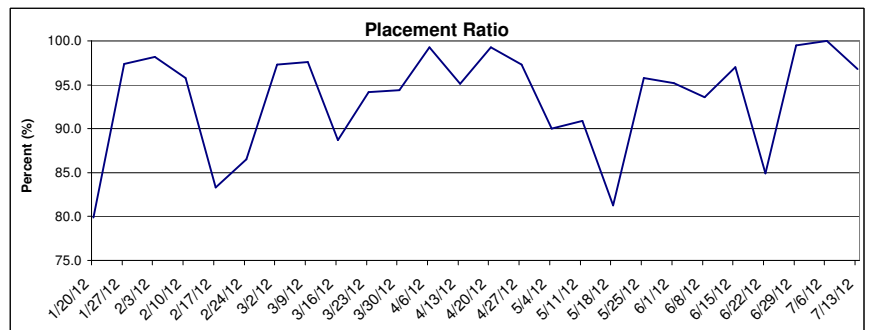
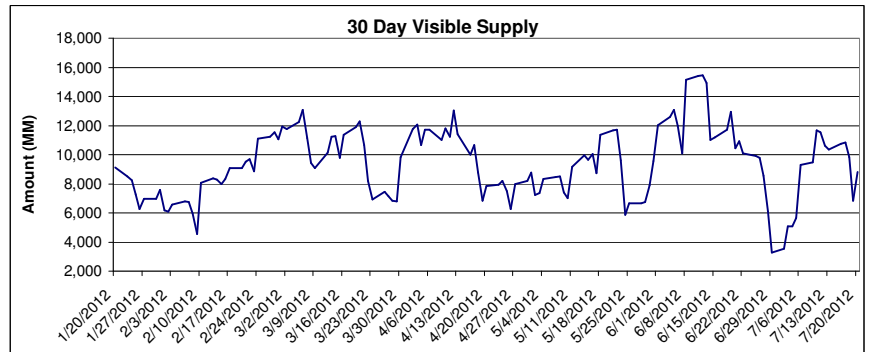
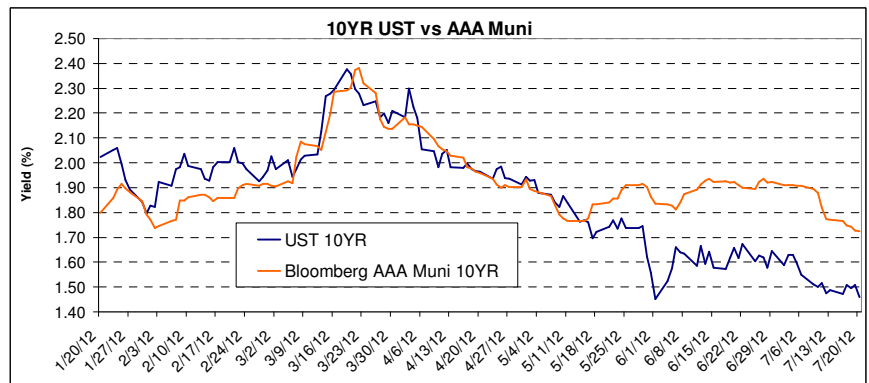
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.47</b>	<b>\$11.04</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>96.8%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.75%</b>	<b>3.83%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
7/24	House Price Index MoM	May	0.5%	0.8%
7/25	MBA Mortgage Applications	20-Jul	--	16.9%
7/25	New Home Sales	Jun	371K	369K
7/26	Durable Goods Orders	Jun	0.30%	1.10%
7/26	Initial Jobless Claims	21-Jul	380K	386K
7/26	Continuing Claims	14-Jul	3300K	3314K
7/26	Pending Home Sales MoM	Jun	0.6%	5.9%
7/27	GDP QoQ (Annualized)	2Q A	1.4%	1.9%
7/27	Core PCE QoQ	2Q A	1.8%	2.3%
7/27	U. of Michigan Confidence	Jul F	72.0	72.0



#### **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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