

Trading Desk Commentary

Global markets looked almost solely to the Federal Reserve and the European Central Bank for guidance this week. Both central banks had either hinted or made overt promises that they would do everything within their powers to right their faltering economies. The US economic story has been dominated by the labor market's failure to gain traction. Meanwhile, Europe's flirtation with the brink of debt disaster has spooked global investors and major economies that are directly affected by the region's struggles (the US and China, in particular). Many thought the central banks had no choice but to announce new stimulus measures given the lack of recent improvements. Instead, each central bank's meeting and statement passed by without changes to current policy. Drastic action would have to wait. Investors, on the other hand, felt that the underwhelming data in the US and dire consequences of not wrangling in Europe's debt crisis warranted definitive plans from the Fed and ECB. Policymaker inaction led to buyers seeking safety assets and a 200-point decline in the Dow from Monday morning through Thursday's close. However, a better-than-expected US payroll number on Friday swept the week's losses under the rug, resulting in the best equity levels since early May. US Treasury yields are now at their highest point since Independence Day, though the 10-year is still offering a measly 1.57%.

So what did all of this mean for Muni performance? Not very much until Friday, when Munis were incapable of ignoring the US Treasury volatility any longer. On the week, Munis had two new issues to use as a measuring stick for current demand – the \$1.2bln (Aa3/AA-) New York Triborough Bridge & Tunnel and \$725mln (Aaa/AAA) State of Maryland GO loans. The Triborough deal was a huge success, seeing its yields drop 3-9basis points by deal's end. Maryland had some bonds looking for a home after the order period, but we are hearing that the majority of the leftovers were cleaned up in subsequent trading days. The difference between the two deals' reception? Yield. High-grade credits are not going to turn as many heads at current yield levels when investors are so desperate for incremental income. Still, essentially all of the new deals found a home by week's end without much fuss, showing the Muni bid still has plenty of life. Next week, participants only face about \$6bln in new supply which should be easily managed. However, after detecting a hint of hesitancy in the Maryland deal, it will be interesting to see how the large (Aa1/AA+) State of Washington and (Aa1/AA+) State of Minnesota GO deals fare. Those two deals make up almost 25% of next week's supply – their success will be important to Muni's tenor. We remain constructive on the Muni sector relative to Taxable alternatives, but will have a watchful eye on macro developments that could foster a more pro-risk mindset among participants.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	126%
5 Year	0.67	0.02	0.65	100%
10 Year	1.71	0.07	1.64	109%
30 Year	2.87	0.03	2.84	108%

UST Rates

2 Year	0.23	-0.01	0.24
5 Year	0.67	0.02	0.65
10 Year	1.57	0.03	1.54
30 Year	2.65	0.04	2.61

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.03	\$5.39
Competitive	\$2.28	\$1.40
TOTAL	\$6.31	\$6.79

Municipal 30 Day Visible Supply (\$ Bln)	\$8.73	\$8.01
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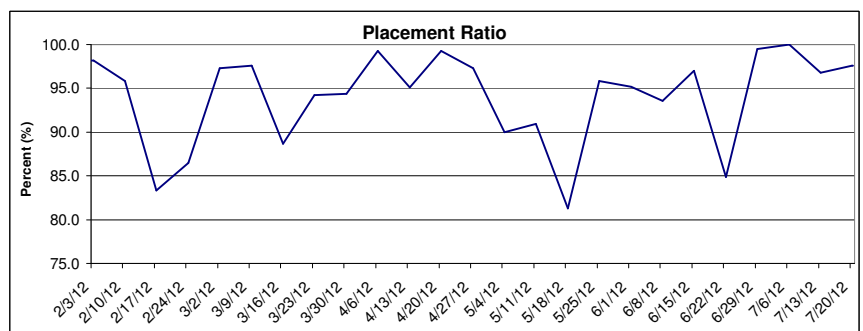
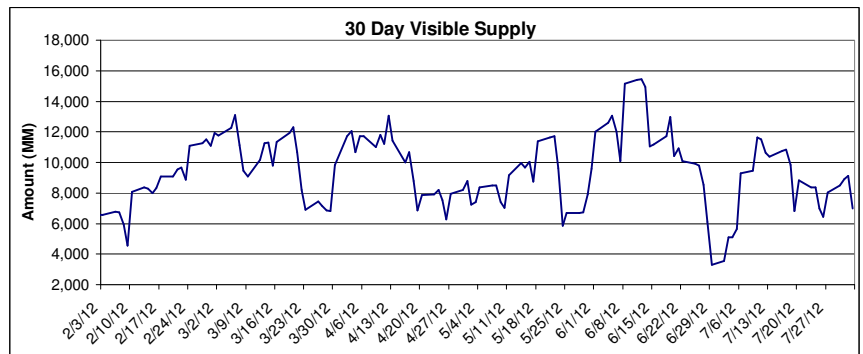
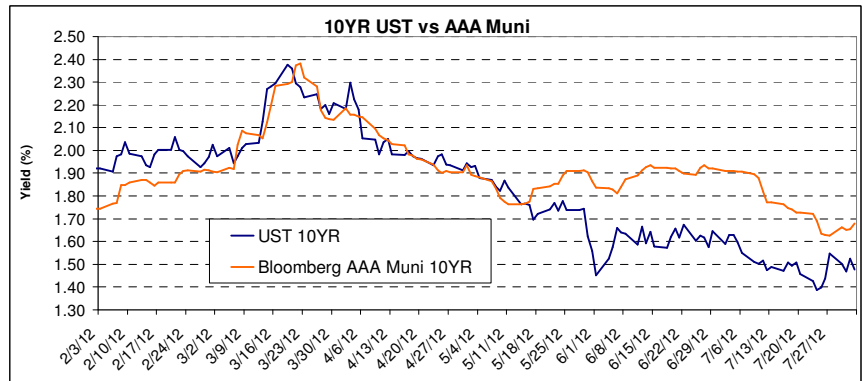
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.75	\$10.65
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Muni Placement Ratio (New Issues)	n/a	94.3%
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Bond Buyer 20 Municipal G.O. Index	3.66%	3.61%
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Select Economic Releases

Date	Event	Period	Survey	Prior
8/8	MBA Mortgage Applications	3-Aug	--	0.2%
8/9	Trade Balance	Jun	-\$47.7B	-\$48.7B
8/9	Initial Jobless Claims	4-Aug	370K	365K
8/9	Continuing Claims	28-Jul	3272K	3272K
8/9	Bloomberg Consumer Comfort	5-Aug	--	-39.7
8/9	Wholesale Inventories	Jun	0.3%	0.3%
8/10	Import Price Index (MoM)	Jul	0.1%	-2.7%



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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