Weekly Trading Desk Update

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Peyton Studebaker, Director of Trading Chip Hughey, Fixed Income Trader

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Trading Desk Commentary

Munis felt like they never got out of the blocks this week which led to a modestly weaker market. The largest deals all required at least some concession, whether it was due to a weakening US Treasury market or lackluster interest from investors. Of particular note, the $850mln (Aa1/AAA) New York City Transitional Finance Authority revenue deal required fairly meaningful adjustments before interest started to pick up. New York debt has led the way for the primary market over the past several months and currently sits atop the list of states in order of 2012 new issue supply. These deals have offered investors attractive yields this summer, which has been many fixed income buyers' number one priority. The latest deal painted a slightly different picture and marked one of the first signs of buyer pushback in recent memory. The biggest reason was likely the softer US Treasury backdrop that Munis had to deal with for most of the past week. A calmer scene in Europe and some decent housing and jobs numbers in the US created a little momentum in risk markets and pushed Treasury yields higher (which also contended with its own auctions of 3-year, 10-year and 30-year debt). The optimism in Europe seems to be keeping Muni bidders patient, waiting to see if the tide may be shifting or if Europe and US data is just offering up another head fake. Additionally, we are probably seeing this week's lighter Muni interest/activity in part because we have reached the end of the June/July reinvestment period.

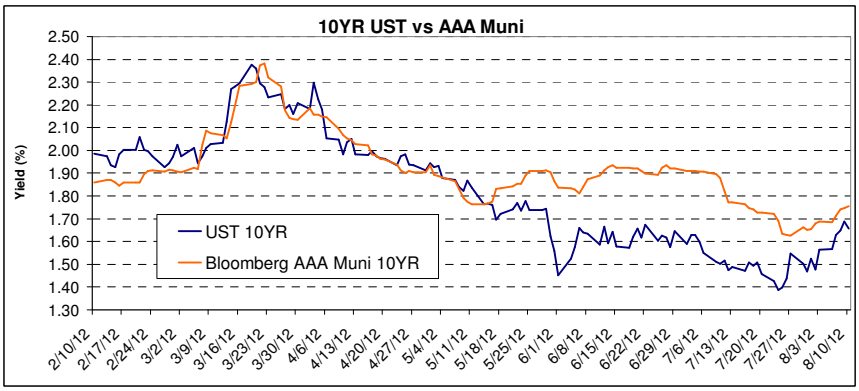
Next week's planned issuance is shaping up to be extremely light. Estimates are currently in the $3-4bln range, far below this year's weekly average. Those deals that are on the docket cover a wide variety of quality and sectors, and many have not been in the market for some time. We expect these new deals to fare well (especially the yieldier ones), barring any seismic shift in US Treasuries' tone. It should be noted that the supply calendar does not take in to account the $10bln (MIG1/SP-1+) State of California Revenue Anticipation Notes (RANs), a tool the state uses for cash management purposes. This is due to the short nature of the deal which is completely concentrated in maturities due in mid-2013. These deals have been very successful in the past. Buyers love using this deal as a short-term placeholder that offers attractive yield given such a short maturity date. We suspect that this deal will be a success despite being one of the largest debt issuances in history.

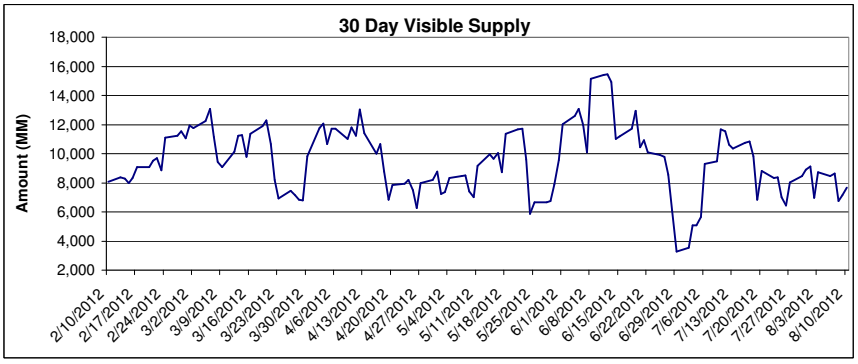
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	112%
5 Year	0.68	0.01	0.67	97%
10 Year	1.76	0.05	1.71	107%
30 Year	2.92	0.05	2.87	106%
UST Rates				
2 Year	0.26	0.03	0.23	
5 Year	0.70	0.03	0.67	
10 Year	1.65	0.08	1.57	
30 Year	2.75	0.10	2.65	

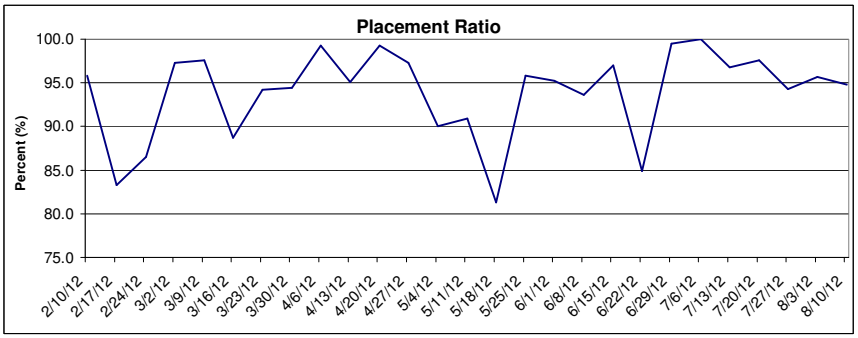
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$4.16	$4.03
Competitive	$1.24	$2.28
TOTAL	**$5.40**	**$6.31**
Municipal 30 Day Visible Supply ($ Bln)	**$7.68**	**$8.73**
Bloomberg Muni PICK Offerings ($ Bln)	**$11.91**	**$12.75**
Muni Placement Ratio (New Issues)	**94.80%**	**95.7%**
Bond Buyer 20 Municipal G.O. Index	**3.75%**	**3.66%**

Select Economic Releases

Date	Event	Period	Survey	Prior
8/14	Producer Price Index (MoM)	Jul	0.2%	0.1%
8/14	Advance Retail Sales	Jul	0.3%	-0.5%
8/15	MBA Mortgage Applications	10-Aug	--	-1.8%
8/15	Consumer Price Index (MoM)	Jul	0.20%	0.00%
8/15	Empire Manufacturing	Aug	7.0	7.4
8/16	Initial Jobless Claims	11-Aug	365K	361K
8/16	Continuing Claims	4-Aug	3305K	3332K
8/16	Housing Starts	Jul	758K	760K
8/17	U. of Michigan Confidence	Aug P	72.0	72.3
8/17	Leading Indicators	Jul	0.2%	-0.3%







Please refer to the second page for explanations of key measures, sources, and disclosure information.

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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