Weekly Trading Desk Update

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September 14, 2012

Trading Desk Commentary

At the risk of hyperbole, we may look back on the second full week of September as the single most critical 5 days of 2012. The macroeconomic events that unfolded could mark the beginning of a seismic shift in market behavior and sentiment. That is not to say that there are not massive roadblocks that could cause the global market's recent positivity to run into the ditch. But for now, policymakers here and abroad have stepped up to the plate and, for better or worse, have unleashed major stimulus measures for their respective economies. And, markets are responding with some of the strongest optimism in recent memory. Germany's ratification of the European Central Bank's bailout program (the European Stability Mechanism) and the Fed's uncapped asset purchasing and extension of Operation Twist have thus far accomplished a couple of important objectives. First, investors have been provided the confidence boost they longed for, to flee haven assets in favor of risk - the Dow has rallied more than 300 points since Tuesday's opening bell. Second, the ECB's plan alone (and Germany's endorsement) has already gone a long way in quelling debt fears in the Eurozone - both Italy and Spain's government bond yields are now at their lowest point since the spring.

But, we have a long way to travel yet. Access to the ECB's rescue fund will require strict austerity, the equivalent to a four-letter word in some corners of the region. The ECB's willingness to support the region is a positive, but they are not the one's who will foot the bill. If the likes of Greece, Italy, and Spain fail to get their fiscal houses in order, how long will Euro members tolerate the incompetence? Also, the US presidential campaigns are turning increasingly to economic topics and will impose large influences on global markets, especially given each party's polar differences.

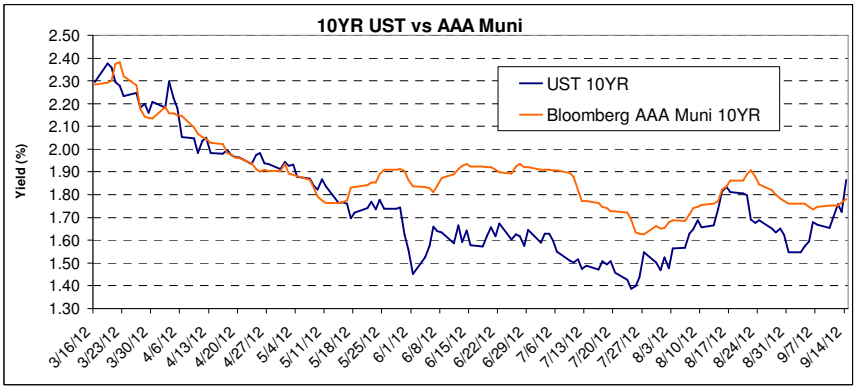
However, for right now these concerns are not at the forefront of everyone's minds. The European debt crisis has been thrown an important safety net and has taken a small but crucial step in addressing its issues. The 30-year US Treasury bond is 40 basis points higher in yield since month end. Municipals have been dragged along by Treasuries, but have strongly outperformed in recent days. Muni activity has been extremely slow with an absent new supply calendar. That looks like it is about to change. Today, the 30-day visible supply jumped from $4bln to almost $11bln, the type of supply uptick we have been leery of witnessing. Supply has been easily digestible and demand has felt stable, but this was set against a firm rate environment. The broader "risk on" move coupled with issuers rushing new debt to the market before rates spike too far, means a very bumpy ride may be in store for Munis.

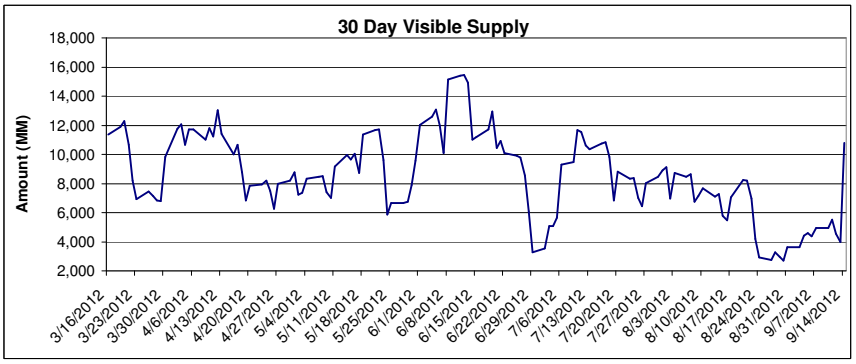
Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	116%
5 Year	0.75	0.05	0.70	105%
10 Year	1.93	0.15	1.78	103%
30 Year	3.06	0.14	2.92	99%
UST Rates				
2 Year	0.25	0.00	0.25	
5 Year	0.72	0.08	0.64	
10 Year	1.87	0.21	1.66	
30 Year	3.09	0.27	2.82	

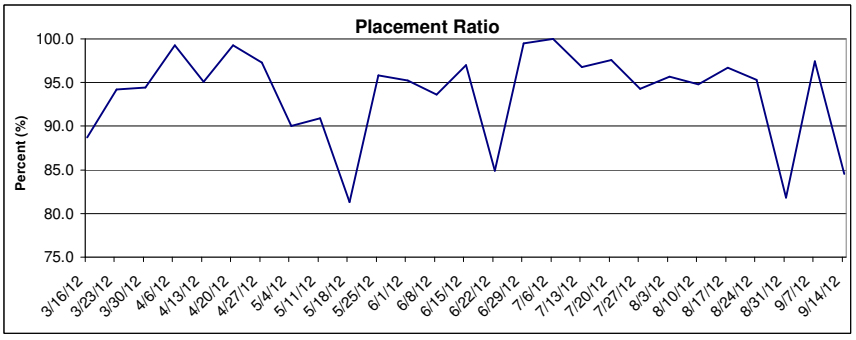
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$7.64	$2.33
Competitive	$1.00	$1.40
TOTAL	**$8.64**	**$3.73**
Municipal 30 Day Visible Supply ($ Bln)	**$10.78**	**$4.96**
Bloomberg Muni PICK Offerings ($ Bln)	**$19.07**	**$12.62**
Muni Placement Ratio (New Issues)	**84.5%**	**97.4%**
Bond Buyer 20 Municipal G.O. Index	**3.79%**	**3.73%**

Select Economic Releases

Date	Event	Period	Survey	Prior
9/17	Empire Manufacturing	Sep	-2.0	-5.9
9/19	MBA Mortgage Applications	14-Sep	--	11.1%
9/19	Housing Starts	Aug	765K	746K
9/19	Building Permits	Aug	795K	812K
9/19	Existing Home Sales	Aug	4.55M	4.47M
9/20	Initial Jobless Claims	15-Sep	373K	382K
9/20	Continuing Claims	8-Sep	3275K	3283K
9/20	Philadelphia Fed.	Sep	-3.8	-7.1
9/20	Leading Indicators	Aug	-0.1%	0.4%







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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