

Trading Desk Commentary

While congressional leaders continued to pass the buck back and forth across the aisle, US debt markets hunkered down this week, waiting for someone – anyone – in Washington to make the first move. The 10-year US Treasury bond moved within a five basis point range this week and yields finished almost on top of where they started on Monday morning (1.62%). Though Friday's jobs reports generated a little optimism and a boost in equities, the positive reaction felt dampened by the looming debt struggles. Municipals traded within an even narrower range than their taxable counterpart. Yields did not budge in either direction for four straight sessions, leaving most of the Muni curve within a basis point or two from their all-time yield lows (price highs). In retrospect, given the fast pace in the Muni new issue market and the continuation of powerful demand, it's somewhat surprising that tax-exempts resulted in such a muted reaction. The primary market enjoyed another very successful week despite bringing more than \$8bn in new supply. The week's lineup offered a little bit of everything from highly rated revenue and GO names like (Aaa/AA+) Texas Transportation Commission revenue and (Aa1/AA+) State of Massachusetts general obligation to a plethora of lesser rated revenue loans offering investors some incremental yield. Looking back across most of the new deals, their offered prices paint the picture of a firm, balanced Municipal market.

Next week may be a bit more interesting. It will be the second-to-last full week of trading before the Christmas holiday, which will surely disrupt investor activity. The closer we get to the end of the month the more participants will feel the "cliff" pressure mount. Though this week's response to no progress on Capitol Hill was to enter into a holding pattern, we believe the reaction will become increasingly negative in risk assets the longer this is permitted to continue. Geithner's comments that President Obama was willing and ready to allow the US to go over the fiscal cliff is concerning. Is this a tactical bluff or a real threat? Either way, public proclamations like this are inflammatory and do not help set the table for compromise. Specific to Munis, almost \$11bn in new supply is expected for next week, making it one of the largest weeks of the year. The sizes, types and profiles of the loans run the gamut yet again, which should help much of the supply's distribution given the persistent appetite for yield. Still, the fact that Munis are at the base of a mountain of supply amid such a precarious economic landscape is worth noting. Most likely, Washington continues to drag its feet, which should support the bid in quality assets (i.e. Munis and US Treasuries) as well as our current long duration bias. On the other hand, should Washington show signs of progress and kick-start a risk-on trade while Munis are trying to crank through \$11bn in new debt, tax-exempt yields would likely adjust upward in quick order. Though we believe the second scenario is very unlikely, the threat that it poses to haven asset classes will force us to monitor fiscal cliff developments very closely as we head into year-end.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	125%
5 Year	0.64	0.00	0.64	103%
10 Year	1.48	0.01	1.47	91%
30 Year	2.48	0.01	2.47	88%
UST Rates				
2 Year	0.24	-0.01	0.25	
5 Year	0.62	0.01	0.61	
10 Year	1.63	0.02	1.61	
30 Year	2.82	0.01	2.81	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$8.25	\$6.77
Competitive	\$2.16	\$1.59
TOTAL	\$10.41	\$8.36

Municipal 30 Day Visible Supply (\$ Bln)	\$12.85	\$10.95
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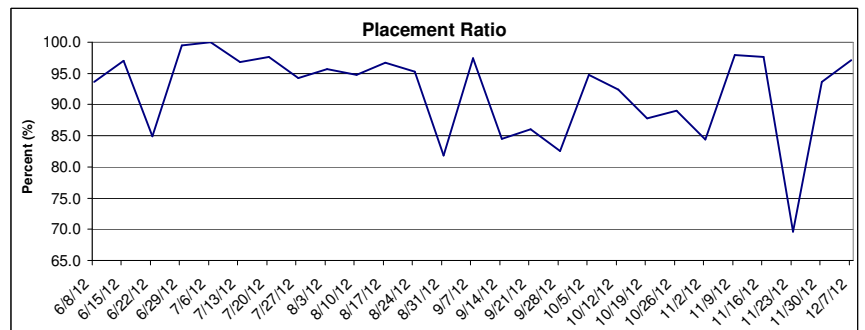
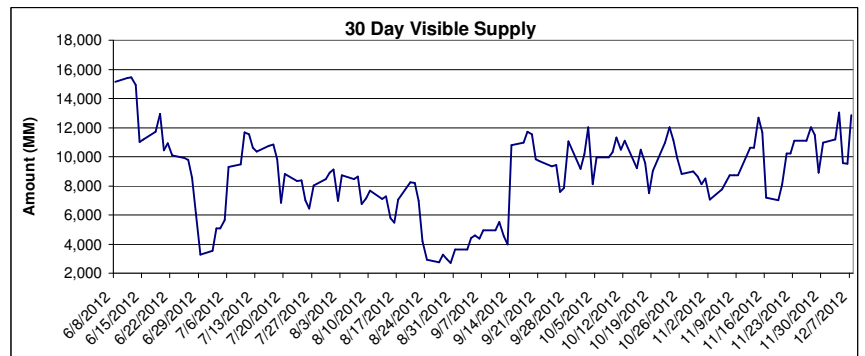
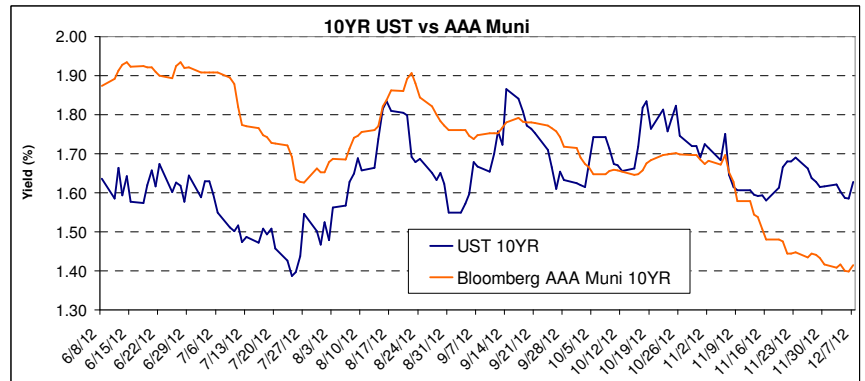
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.14	\$12.40
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Muni Placement Ratio (New Issues)	97.1%	93.6%
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Bond Buyer 20 Municipal G.O. Index	3.27%	3.29%
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Select Economic Releases

Date	Event	Period	Survey	Prior
12/12	MBA Mortgage Applications	7-Dec	--	4.5%
12/12	Import Price Index (MoM)	Nov	-0.5%	0.5%
12/12	FOMC Rate Decision	12-Dec	0.25%	0.25%
12/13	Advance Retail Sales	Nov	0.40%	-0.30%
12/13	Retail Sales Less Autos	Nov	0.0%	0.0%
12/13	Producer Price Index (MoM)	Nov	-0.5%	-0.2%
12/13	Initial Jobless Claims	8-Dec	370K	370K
12/13	Continuing Claims	1-Dec	3210K	3205K
12/14	Consumer Price Index (MoM)	Nov	-0.2%	0.1%
12/14	Industrial Production	Nov	0.2%	-0.4%



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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