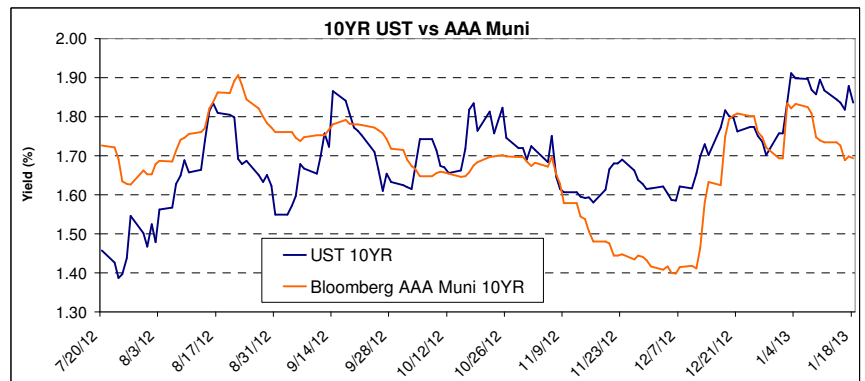


## Trading Desk Commentary

Light supply and a stronger US Treasury backdrop boosted Muniland to modestly higher prices (lower yields) for the second consecutive week. Debt ceiling concerns are already returning to the forefront of investors' minds, encouraging participants to turn to less-risky investment alternatives. The US Treasury Department is scheduled to run out of the funds it uses to meet its obligations sometime in late February, meaning that an agreement will need to be reached prior to then to avoid a US default. The House is reportedly working on a bill to raise the debt ceiling for a three-month window so that the debt ceiling can become part of the broader spending debate in late-March and April. Between the August 2011 debt ceiling talks and the fiscal cliff "negotiations" this past December, investors have seen little to instill confidence in Washington. The last time we approached the debt ceiling deadline, political posturing and brinksmanship finally gave way to an 11th hour agreement and a kick of the can down the road. The lack of meaningful resolution and subsequent downgrade of US debt helped derail US equities and threw cold water on an improving jobs and consumer spending environment. This time around, investors seem to be gearing up for the worst a little bit earlier, with the fiscal cliff debacle still fresh in their minds. As we approach the deadline, our outlook for the US debt markets remains positive. We feel participants are likely to seek the shelter of haven assets as the finger-pointing and rhetoric kick in to high gear. Meanwhile, ratings agencies are already threatening to downgrade US debt securities if congressional leaders decide to flirt with disaster again.

Next week will be an interesting one for Munis given the expected sharp uptick in supply. Issuers will bring just over \$9bn in new supply, easily the most we have seen since the week of December 10th. However, this number is a bit misleading in that \$5bn of the total is concentrated in three \$1bn+ deals. Of those three, the \$1.2bn (Aa1/AA+) State of Washington general obligation loan should provide a notable update to current high-grade demand in the Municipal space. We will be watching closely how well the deal performs when it enters the market next Wednesday. Beyond the three largest deals, the average size of next week's new issues drops off dramatically as issuance is spread out among dozens of smaller deals. Given the uncertain macro outlook, the ongoing January reinvestment period, and the continued inflows (\$1.5bn for week ending 1/16/13, according to Lipper) that long Muni bond funds are enjoying, next week's supply should not pose too large a threat to Muni stability. Still, with the observance of Martin Luther King, Jr. Day on Monday shutting US markets, activity will feel frenzied and compressed in the four-day trading week. Traders are advised to come ready for a quick start on Tuesday. Enjoy the long weekend.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	-0.01	0.34	132%
5 Year	0.72	-0.04	0.76	95%
10 Year	1.67	-0.03	1.70	91%
30 Year	2.72	-0.05	2.77	90%
UST Rates				
2 Year	0.25	0.01	0.25	
5 Year	0.76	-0.01	0.77	
10 Year	1.84	-0.02	1.86	
30 Year	3.03	-0.01	3.04	



	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$6.66	\$4.77
Competitive	\$2.50	\$0.83
<b>TOTAL</b>	<b>\$9.16</b>	<b>\$5.60</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$10.84</b>	<b>\$8.07</b>
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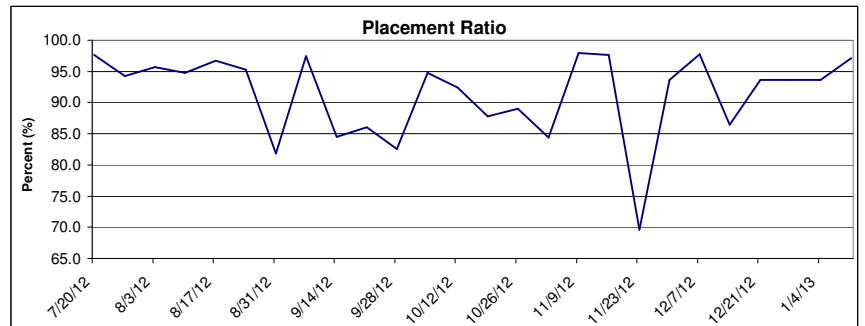
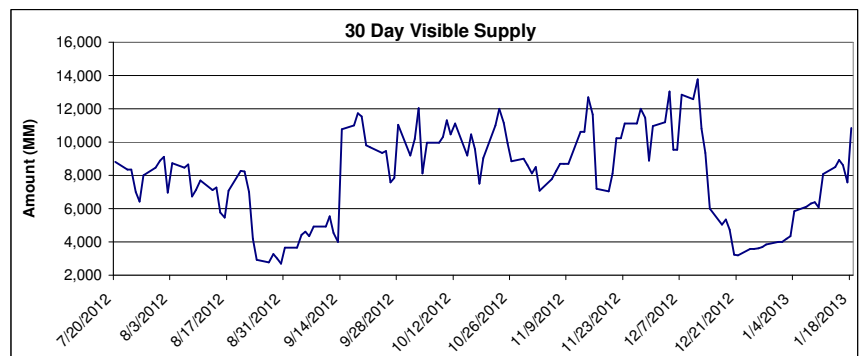
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$14.59</b>	<b>\$10.73</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>97.1%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.53%</b>	<b>3.60%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
1/22	Existing Home Sales	Dec	5.10M	5.04M
1/23	MBA Mortgage Applications	18-Jan	--	15.2%
1/24	Initial Jobless Claims	19-Jan	360K	335K
1/24	Continuing Claims	12-Jan	3200K	3214K
1/24	Leading Indicators	Dec	0.3%	-0.2%
1/25	New Home Sales	Dec	385K	377K



#### **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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