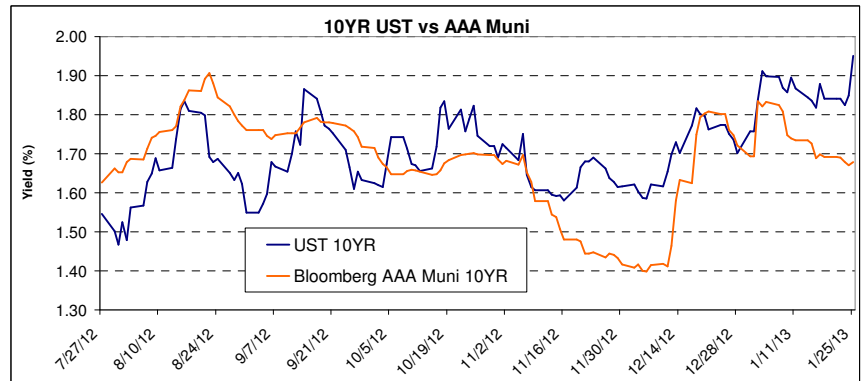


## Trading Desk Commentary

Heading into the week, the chief question on Muni participants' minds centered on how well the tax-exempt market would handle the largest amount of new issuance in over a month. Since the early December supply high, issuance has been virtually non-existent, a typical byproduct of the holiday season. This week's planned \$9bln in new deals marked a sharp uptick in Muni supply relative to the \$0-5bln weekly pace thus far in 2013. We had seen Lipper Muni bond fund flows return to positive territory over the past few weeks, an encouraging signal for current Muni appetite. Investors apparently looked to ETFs and mutual funds for a lot of their reinvestment needs in the absence of more meaningful supply volume. If fund flows and Muni ETF performance were to be believed, ample demand appeared ready to get its hands on a healthy round of new debt. But was this the case? Overall, the week's new deals received a solid reception. The \$1.3bln (Aa1/AA+) State of Washington general obligation loan was chopped up among several dealers given its size and sold at spreads consistent with historical norms. The success of this deal went a long way in establishing a firm tone in high-grade Muniland. Furthermore, the week's largest deal, more than \$2bln (A1/A+) New Jersey Economic Development Authority school facilities construction bonds actually saw its prices increased by the end of its order period in spite of its massive size. Then, a legal ruling in the State of Ohio's Supreme Court resulted in the postponement of \$1.5bln (A2/AA) JobsOhio Beverage System revenue bonds until next week, significantly reducing this week's supply in one fell swoop. The Ohio Supreme Court was reviewing the constitutionality of the bonds' issuance, which now looks poised to come to market early next week. In the end, strong investor demand and a reduction in the primary market's size resulted in a successful new issue week and a renewed affirmation that Munis can hold investors' attention in the current yield environment. So why did Munis weaken over the week?

The move to slightly higher yields in Munis was the result of a weaker US Treasury market, particularly on Friday after the ECB displayed its commitment to support the region's struggling banking system. It feels like it has been eons since news out of Europe fueled a risk on move – lately it has been just the opposite. Tighter Muni-to-Treasury ratios gave Munis very little insulation from a weaker US Treasury tone, forcing Munis to concede some ground. However, a more subdued supply picture starting next week (which now includes the JobsOhio loan) and indications of still-robust demand continue to paint an optimistic fundamental picture. Our recent activity placed a greater emphasis on the secondary market, which languished a bit given the large primary market totals. We have been able to unearth some value via secondary market trades in the healthcare, power, and general obligation sectors. The process involves a great deal of digging, but the rewards are tax-exempts offering some relative value in a highly coveted asset class.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	0.00	0.33	118%
5 Year	0.75	0.03	0.72	86%
10 Year	1.75	0.08	1.67	90%
30 Year	2.79	0.07	2.72	89%
UST Rates				
2 Year	0.28	0.03	0.25	
5 Year	0.87	0.11	0.76	
10 Year	1.95	0.11	1.84	
30 Year	3.13	0.10	3.03	



	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$4.59	\$6.66
Competitive	\$1.78	\$2.50
<b>TOTAL</b>	<b>\$6.37</b>	<b>\$9.16</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.91</b>	<b>\$10.84</b>
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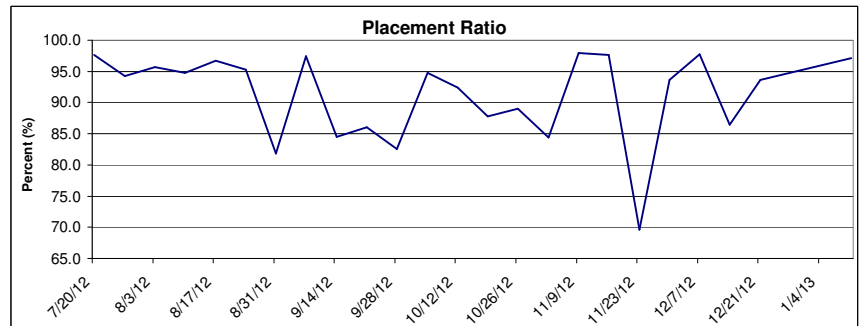
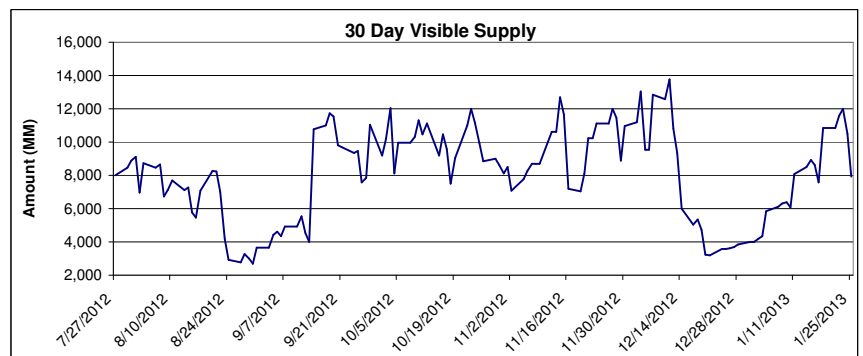
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$11.65</b>	<b>\$14.59</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>n/a</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.54%</b>	<b>3.53%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
1/28	Durable Goods Orders	Dec	2.0%	0.7%
1/29	Consumer Confidence	Jan	64.0	65.1
1/30	MBA Mortgage Applications	25-Jan	--	7.0%
1/30	ADP Employment Change	Jan	165K	215K
1/30	GDP QoQ (Annualized)	4Q A	1.2%	3.1%
1/30	FOMC Rate Decision	30-Jan	0.25%	0.25%
1/31	Initial Jobless Claims	26-Jan	350K	330K
2/1	Change in Nonfarm Payrolls	Jan	160K	155K
2/1	Unemployment Rate	Jan	7.8%	7.8%
2/1	U. of Michigan Confidence	Jan F	71.5	71.3
2/1	ISM Manufacturing	Jan	50.5	50.7



#### **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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