# Weekly Trading Desk Update

@ Caprin_Asset

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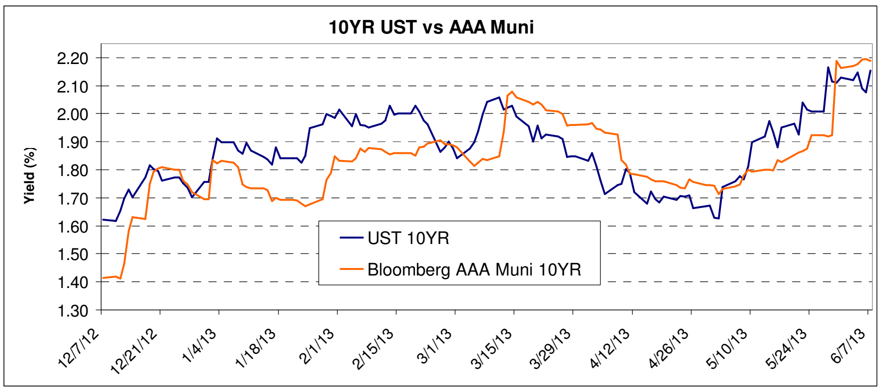
## Trading Desk Commentary

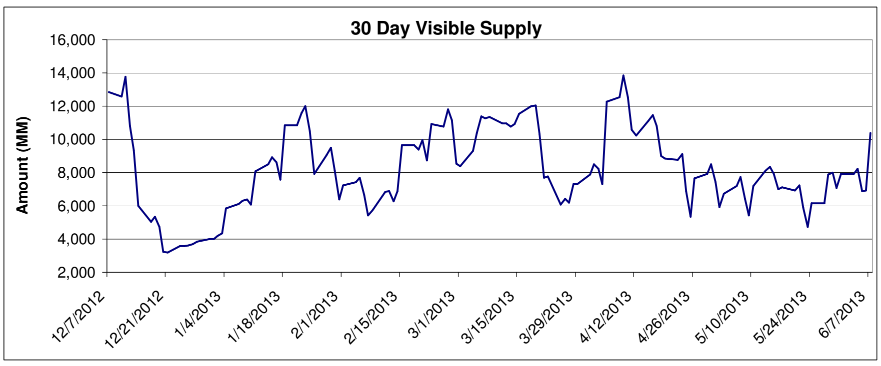
Municipal trading activity took a back seat to the ongoing US Treasury and equity market volatility ahead of today's hotly anticipated jobs releases. The increased scrutiny applied to recent Fedspeak and the introduction of "tapering" into investors' everyday lexicons contributed to mounting tensions as Jobs Friday approached. The public has gained the impression that the Fed is currently monitoring economic data and trends under a microscope, looking for an excuse to tighten their current policies. This is largely of the Fed's own doing after they memorably tied their Fed funds rate target directly to numerical unemployment (6.5%) and inflation (2.5%) thresholds. Entering Friday, the general consensus seemed to suggest that the Fed had reached a probable pivot point where all it needed was just one more signal that the US recovery remained on solid ground in order to begin reducing its unprecedented support of the US economy. A disappointing ADP employment number earlier in the week seemingly set the stage for an underwhelming Nonfarm Payroll number today, and US Treasuries rallied in response while stocks slumped – the thought here being that a labor market stumble would prolong the Fed's participation in debt markets. However, the ADP number provided a head fake as the new NFP number came in very close to expectations. With the survey expecting a 163k increase in NFP, today's actual 175k coupled with slight downward revision to the month prior's number was positive enough to rejuvenate a rally in risk and a sell-off in fixed income, at least for the day. Meanwhile, the updated Unemployment Rate actually ticked slightly higher from 7.5% to 7.6%. So after a week of anticipation, where do today's releases leave us? Today's sell-off suggests that the speculation that the Fed will "taper" by year's end is alive and well. Our current outlook is a bit more tempered. We believe that recent data, including today's new numbers, seem to support the notion that a slow recovery is well underway. However, today's jobs numbers likely did little by way of swaying the Fed one way or the other from a tapering perspective. A day will come when the Fed will significantly reduce its role in US markets, but this week probably did little to move that date up from previous expectations.

The uncertainty surrounding the timing of the Fed making a substantial change to its current policy leaves markets in a volatile state. CPI has fallen from 2.2% to 1.1% over the past seven months creating a counterweight to the improving jobs numbers, in the Fed's eyes. Economic releases will warrant very close surveillance this summer as they will likely serve as the primary force driving asset prices, barring an international crisis (economic, geopolitical, or otherwise) rearing its head. As for next week, Muni supply appears to be creeping higher with almost $8bln expected, the largest total since mid-April. Typically, the June reinvestment period could easily handle this type of supply volume; however, current conditions are making the situation a bit more tenuous. Muni bond funds lost $1.5bln in assets this past week according to Lipper and, as we have mentioned, US Treasury volatility has spiked. If US Treasuries can provide a firmer backdrop than what we experienced this week, Munis could see a respectable week. On the other hand, if Fed speculation continues to churn and US Treasury volatility stays this elevated, Munis will likely be dragged along for the ride – in which case, sourcing new Muni supply buyers will be an unenviable task for dealers.

| Muni Rates | Current Wk | Yld Change | Prior Wk | Muni to UST |
|---|---|---|---|---|
| 2 Year | 0.30 | 0.01 | 0.29 | 100% |
| 5 Year | 1.00 | 0.16 | 0.84 | 92% |
| 10 Year | 2.13 | 0.23 | 1.90 | 99% |
| 30 Year | 3.34 | 0.26 | 3.08 | 100% |
| **UST Rates** | | | | |
| 2 Year | 0.30 | 0.05 | 0.25 | |
| 5 Year | 1.09 | 0.20 | 0.89 | |
| 10 Year | 2.16 | 0.16 | 2.00 | |
| 30 Year | 3.33 | 0.16 | 3.17 | |

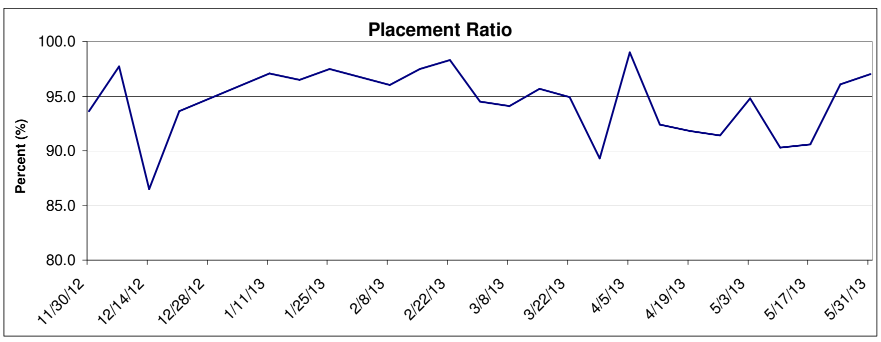
| | Current Wk | Prior Wk |
|---|---|---|
| **Weekly Municipal Supply** ($ Bln) | | |
| Negotiated | $6.09 | $3.68 |
| Competitive | $1.79 | $1.12 |
| **TOTAL** | **$7.88** | **$4.80** |
| **Municipal 30 Day Visible Supply** ($ Bln) | **$10.39** | **$7.93** |
| **Bloomberg Muni PICK Offerings** ($ Bln) | **$13.01** | **$18.30** |
| **Muni Placement Ratio** (New Issues) | **n/a** | **97.0%** |
| **Bond Buyer 20 Municipal G.O. Index** | **3.93.%** | **3.84%** |




**Select Economic Releases**

| Date | Event | Period | Survey | Prior |
|---|---|---|---|---|
| 6/12 | MBA Mortgage Applications | 7-Jun | -- | -11.5% |
| 6/13 | Advance Retail Sales | May | 0.4% | 0.1% |
| 6/13 | Initial Jobless Claims | 8-Jun | 345K | 346K |
| 6/13 | Continuing Claims | 1-Jun | 2975K | 2952K |
| 6/13 | Import Price Index (MoM) | May | 0.0% | -0.5% |
| 6/14 | Producer Price Index (MoM) | May | 0.10% | -0.70% |
| 6/14 | Industrial Production | May | 0.2% | -0.5% |
| 6/14 | Capacity Utilization | May | 77.9% | 77.8% |
| 6/14 | U. of Michigan Confidence | Jun P | 84.5 | 84.5 |




## Caprin Strategy Summary

| Name | Target Duration Position | Target Maturity Range | Highlights |
|---|---|---|---|
| Short Maturity Muni | .85 YRS – 1.85 YRS | 0 YRS – 5 YRS | **Prefer Hlth, Hsg, Pwr to G.O.'s for Yield** |
| Low Duration Taxable | 1.30 YRS – 2.30 YRS | 0 YRS – 5 YRS | **Prefer Corporates and Taxable Munis** |
| Intermediate Muni | 4.00 YRS – 5.00 YRS | 0 YRS – 17 YRS | **Prefer Hlth, Hsg, Pwr to G.O.'s for Yield** |
| Intermediate Taxable | 3.50 YRS – 4.50 YRS | 0 YRS – 12 YRS | **Prefer Corporates and Taxable Munis** |
| Tactical Muni ETF | 2.50 YRS – 7.50 YRS | | **Slight Overweight to Cal. and HY Sector** |
| Core Plus ETF | 2.35 YRS – 7.10 YRS | | **Slight Overweight to Corporates and BABs** |
| Tactical Opportunity ETF | 2.45 YRS – 7.30 YRS | | **Overweight Munis to Taxables, Yield Bias** |

*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.