

Trading Desk Commentary

This week's market activity makes one thing very clear: the Fed has exited its auto-pilot mode and is in the process of re-establishing its active role in guiding shorter-term market activity. Bernanke's comments this week provided the glimmer of assurance for which many investors yearned, openly acknowledging that current economic activity in the US still warrants accommodative Fed policy and continued Fed support via asset purchases. Participants reacted harshly to the Fed failing to address the intensifying "tapering" rumors at the conclusion of their most recent meeting, interpreting it as a clear signal that the Fed was dead set on reducing accommodation later this year. But traders agreed that Bernanke softened his language in his Q&A after the bell on Wednesday evening and seemed more committed to further stimulus than in previous statements. This spawned a rally in US Treasuries (and Munis, by association) now that Bernanke seemed to be stretching the Fed's supportive role in markets a bit further onto the horizon. In re-examining his comments, they seem fairly unremarkable, but compared to the potentially game-changing taper talk, they felt downright dovish. Then Friday, Philly Fed President Charles Plosser held a brief interview in Jackson Hole, where he stood firm that Fed stimulus should halt by year-end. Essentially on this headline alone, US Treasuries pivoted and finished the week with a weaker tone (though Munis maintained most of their early-day gains). Bernanke said in his Wednesday night speech that he hoped his legacy would show a commitment to transparency in Federal Reserve operations and rationale. We believe that it will – the Fed is inarguably more public and forthright with its Fed policy and its motivating factors. Investors have no choice but to hang onto their every word simply because everyone else is doing so already. However, this also creates another tool by which the Fed can further manipulate markets, via interviews, speeches, and various media outlets. And this week illustrates what a powerful tool their words have become.

Municipal trading benefited from the strong mid-week rally in US Treasuries with the week's new issuance receiving a warm reception. Though the Bond Buyer 30-day visible supply remains elevated (\$14.46bln), some of that number is composed of "day-to-day" deals that have no firm release date. As such, the weekly totals have been fairly manageable in the \$5-6bln range. Next week, Muniland will go to work on over \$9bln in new loans, the largest weekly total since the last week in June. A roughly \$3bln Grand Parkway Transportation Corporation loan, based in Texas dominates next week's calendar, while 15+ deals over \$200mln will compete for an audience. If Munis maintain their firmer bias, these deals could be easily digestible. We are still not far removed from the 2-year high in yields and should still hold some attractiveness for traditional Muni and crossover buyers. Muni-to-Treasury ratios still look decent, too. But, as we have said before, the Fed and the prospect of tapering have rendered Muni fundamentals all but obsolete. If the Fed tips its hand and it looks like they are willing to stay in the game for longer than just the next few months, bonds have plenty of room to run to lower yields. But how participants are feeling about the future of Fed stimulus is constantly in flux. With no clear-cut path for the near-term,

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.45	-0.07	0.52	129%
5 Year	1.41	-0.06	1.47	99%
10 Year	2.66	0.00	2.66	103%
30 Year	4.00	0.05	3.95	110%
UST Rates				
2 Year	0.35	-0.04	0.39	
5 Year	1.42	-0.17	1.59	
10 Year	2.59	-0.12	2.71	
30 Year	3.65	-0.04	3.68	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$7.38	\$5.54
Competitive	\$1.94	\$0.80
TOTAL	\$9.32	\$6.34

Municipal 30 Day Visible Supply (\$ Bln)	\$14.46	\$14.74
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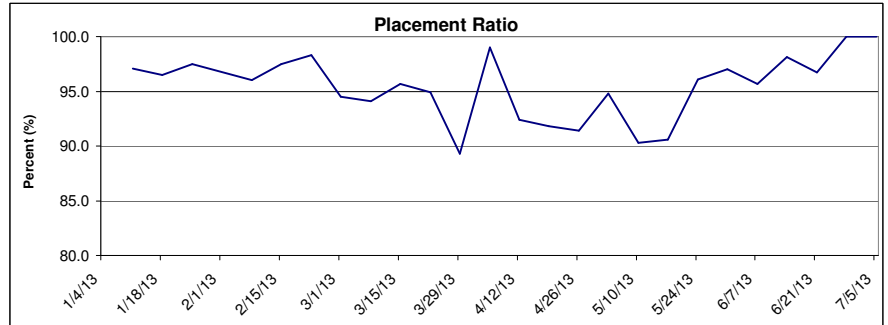
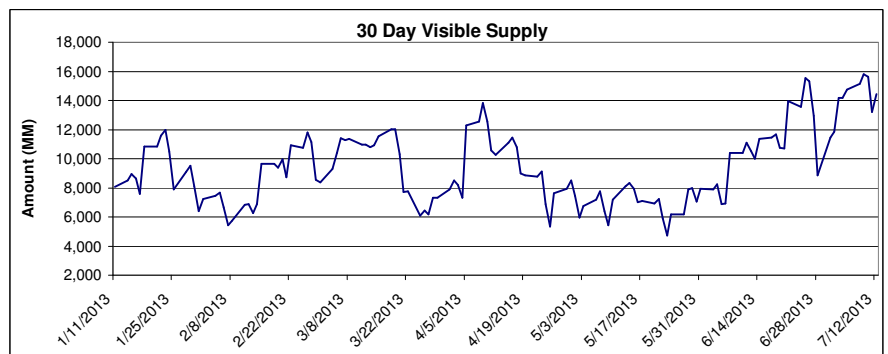
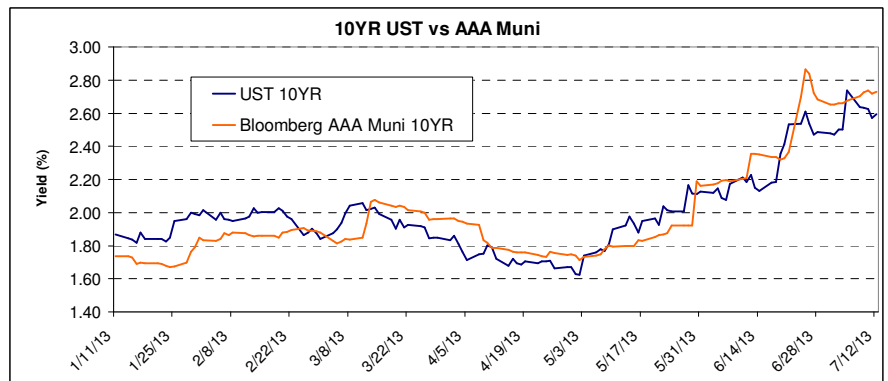
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.76	\$9.57
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Muni Placement Ratio (New Issues)	n/a	100.0%
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Bond Buyer 20 Municipal G.O. Index	4.55%	4.39%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/15	Empire Manufacturing	Jul	5.00	7.84
7/15	Advance Retail Sales	Jun	0.8%	0.6%
7/16	CPI MoM	Jun	0.3%	0.1%
7/16	Industrial Production	Jun	0.3%	0.0%
7/17	MBA Mortgage Applications	12-Jul	--	-4.0%
7/17	Housing Starts	Jun	960K	914K
7/17	Building Permits	Jun	1000K	974K
7/17	Federal Reserve Beige Book			
7/18	Initial Jobless Claims	13-Jul	340K	360K
7/18	Continuing Claims	6-Jul	2959K	2977K
7/18	Leading Indicators	Jun	0.3%	0.1%



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min  Max	0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min  Max	0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min  Max	0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min  Max	0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min  Max		Slight Overweight to CA and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis, Underweight Taxables

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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