

## Trading Desk Commentary

One of the heftiest weekly supply totals since April came and went this week without making much noise. While Lipper reported another week of large outflows from the Muni fund sector (\$974mm for week ending Aug. 7th), the Muni primary market chugged through a multitude of deals. One of the most talked about deals was the approximately \$650mln (Baa3/BBB) Puerto Rico Electric Power Authority revenue loan, which was concentrated in the longer end of the curve. Yields attached to the longest offering topped 7%, a rarely seen level in the Municipal space in recent years. Puerto Rico's financial challenges have been well-publicized over the past year, struggling with poor management decisions and a ballooning unfunded pension liability. With Detroit's pain still fresh in everyone's mind, higher Puerto Rico Power yields were required for the deal to find traction. Buyers indeed took notice, gathering plenty of attention in the primary and trading at improved levels by the end of the week. Despite the onslaught of negative credit headlines rooted in the Motor City, it appears participants are still willing to take on credit risk, but the penalty to the issuer appears to have grown. On the other end of the credit spectrum, the State of Washington brought an \$800mln Aa1/AA+ rated general obligation deal that reportedly received strong reception, particularly in the longer maturities where the highly-regarded issuer offered 30-35 basis points more yield than Municipal Market Data's generic AAA Muni scale.

The primary market continues to paint a different picture than one might draw from the Muni fund flow reports, though the funds' forced selling has undoubtedly applied pressure to Municipal levels. This has been especially pronounced in longer maturities where selling has been heavier. The proof is in the pudding: since April 30, the 30-year MMD AAA Muni yield has risen by 1.44%, traveling from 2.84% to 4.28%, versus a 1.03% change in the 10-year. This week ushered in a respite for the Muni market from the rate volatility it has endured for two solid months. A significantly lighter supply calendar next week (\$4.55bln) could help support the stability in Muniland, coupled with the slow decline in the Bond Buyer's 30-day visible number that now sits below \$8bln. Citigroup's Muni guru George Friedlander predicted that the recent back-up in yields would likely dampen expected Muni issuance through year-end, due to the increased borrowing costs that municipalities now face in the higher rate environment. As a result, Friedlander revised Citi's expected issuance down to \$320bln this year, a 20% reduction in their outlook since the beginning of the year. Muni-to-Treasury ratios are still enticing for crossover buyers, hovering north of 100% in the 10-year range. Several Muni fundamentals support firming in the tax-exempt sector. However, in reality, these statistics are easily overridden by new Fed developments and the broader rate behavior they generate. We are seeing with an increasing frequency that history does not provide Muni participants with a solid playbook in this environment. US economic data releases and Fed outlook continue to steer all US markets. This is the Fed's world right now, and we continue to be alert to its signals. We remain defensive in our duration profile relative to our benchmarks and our buying continues to be selective and within a shorter overall duration framework.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	0.00	0.43	145%
5 Year	1.31	0.00	1.31	97%
10 Year	2.72	0.01	2.71	106%
30 Year	4.28	0.06	4.22	118%
UST Rates				
2 Year	0.30	0.00	0.30	
5 Year	1.35	-0.01	1.36	
10 Year	2.56	-0.05	2.61	
30 Year	3.63	-0.06	3.69	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$3.87	\$4.18
Competitive	\$0.48	\$2.42
<b>TOTAL</b>	<b>\$4.34</b>	<b>\$6.60</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$7.70</b>	<b>\$11.14</b>
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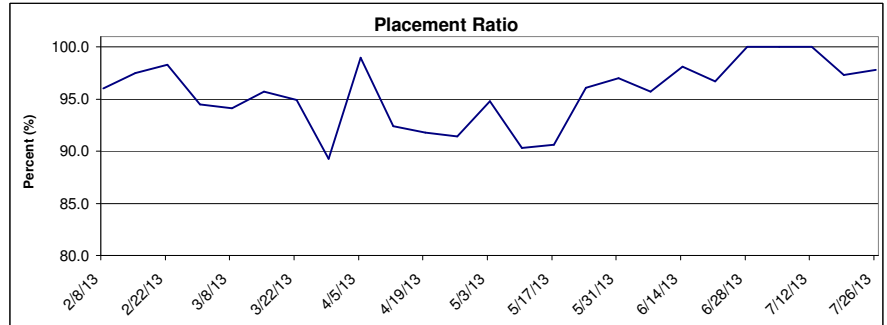
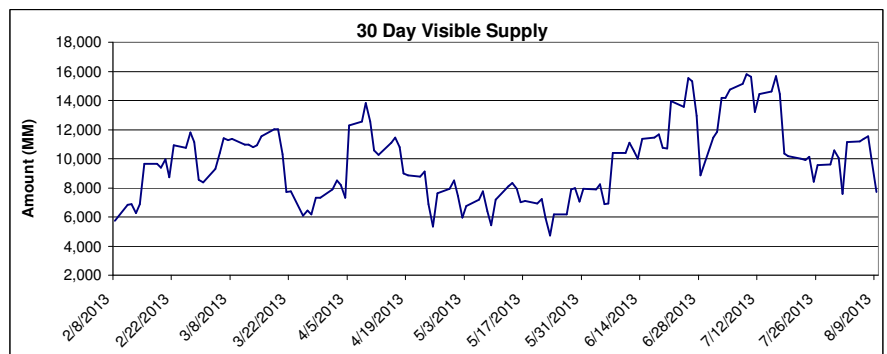
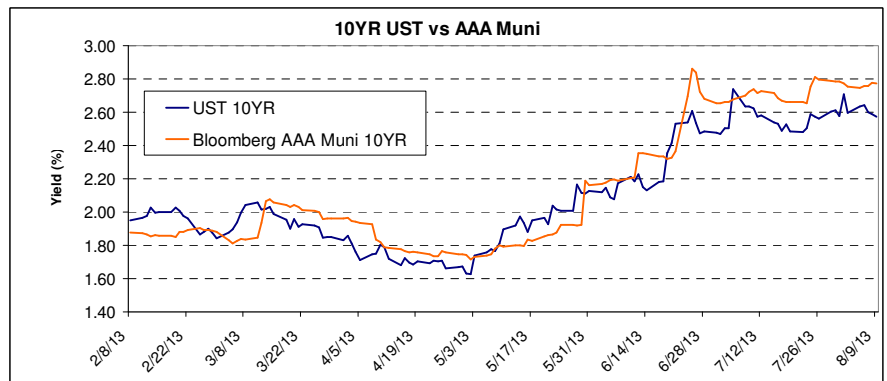
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$13.39</b>	<b>\$15.32</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>97.8%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>4.73%</b>	<b>4.70%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
8/13	Import Price Index MoM	Jul	0.8%	-0.2%
8/13	Retail Sales Advance MoM	Jul	0.3%	0.4%
8/14	MBA Mortgage Applications	9-Aug	--	0.2%
8/14	PPI MoM	Jul	0.3%	0.8%
8/15	Initial Jobless Claims	10-Aug	335K	333K
8/15	CPI MoM	Jul	0.2%	0.5%
8/15	Industrial Production MoM	Jul	0.3%	0.3%
8/16	Housing Starts	Jul	905K	836K
8/16	Univ. of Michigan Confidence	Aug P	85.3	85.1



## 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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