Weekly Trading Desk Update

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Trading Desk Commentary

US Treasuries moved sideways this week before and after the Veterans Day holiday during which the bond market was closed. The month-long stock rally lost some of its steam, but that doesn't change the fact that the Dow is still sitting at an all-time high. The 10 Year US Treasury is still parked on 2.35%, which remains an important technical level for that part of the yield curve. This week's US data came in fairly close to expectations across the board though its overall tone was one of measured improvement. Traders were particularly curious about today's retail sales numbers for the month of October - October tends to mark the start of the holiday shopping season and can give an early indication of how Christmas spending might go. Sales looked a little better than expected, and it is notable that consumers did show some willingness to spend. The Fed and economists are relying heavily upon holiday shopping to boost Q4 GDP and maintain the positive growth momentum set in motion back in Q2. The underlying reasons for the impressive Q3 GDP print suggest that the pop in growth was likely due to temporary factors as opposed to more long-term spending and capital investment trends. A strong holiday season would go a long way in continuing GDP's winning streak. Several factors support the notion that we are heading into a stronger period from the consumer. First, the fall in gas prices has freed up roughly $100 to $150 per month for families just in time to work on their shopping lists. Second, today's University of Michigan Consumer Confidence report jumped to its highest level since July 2007. This is a fortuitous time for individuals and families to be feeling better about the US' prospects and future income expectations. However, confidence numbers can be fragile – this year's stock rally is at least partially responsible for all these good vibrations. A major stock correction or a move to meaningfully higher interest rates could promptly spoil the party, and the Fed certainly knows this. Their role over the next year or two will be a high-stakes tightrope act. If they hike too early or aggressively, we could lose a large portion of 2013 and 2014's progress. Also, higher rates right now likely means an even stronger US dollar in the short-term, and an overly strong dollar damages the US's ability to export goods and serves as a drag on the US recovery. We expect the greenback's recent rally to flow through to US-based multinationals and trim profits in upcoming quarters. Additional strength in the dollar would only exacerbate that trend. Waiting too long to hike also has its problems, though. We have been in a period of historically easy monetary policy for roughly five years. While the "easy" Fed policy helped avert catastrophic consequences, it can lead to bubble conditions, and we are already seeing inflated asset and security prices as a result. The longer the Fed waits to tighten, the harsher the reversion will likely be. Even as the Fed hikes rates from their current near-zero spot, we believe that the hiking process will be an extremely slow one.

This week's robust Muni calendar gave buyers plenty to explore. We were very active in the primary market, which priced around $6bln in new loans. As we mentioned in Wednesday's musings, credit spreads seem to have tightened in a bit from where they were during the mid-October rate sell-off. Demand for the week's issues varied from deal to deal, but those offering some incremental yield over the AAA scale continued to succeed. Most higher-rated deals still did fine but were not met with the same exuberance. The largest deal of the week, the $936mln (Aa3/A+) State of California general obligation loan, came +23 versus the MMD AAA scale in the 10-year range. That is a bit tighter relative to recent trading in the California debt. Demand in the state remains as strong as ever and helped set a solid tone in tax-exempts. The Bond Buyer 30-day Visible supply has grown to just under $12bln, a bit surprising given that the figure includes the Thanksgiving holiday. We still believe that the current buyer base can support this kind of supply, but a spike in rate volatility headed into year-end could make it more difficult. Given a stable rate environment, Muni participants should continue to digest easily whatever supply hits the market.

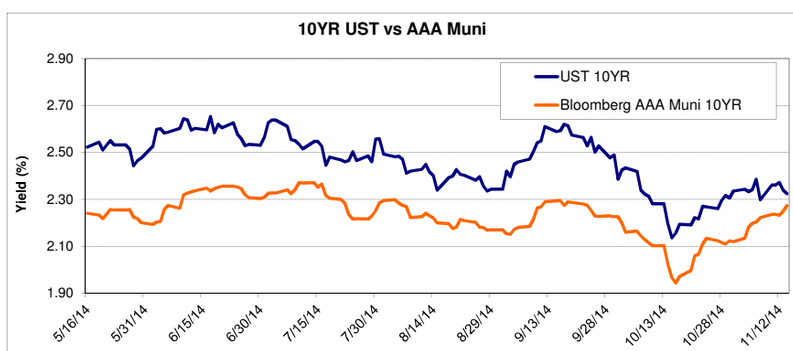
Caprin Strategy Summary

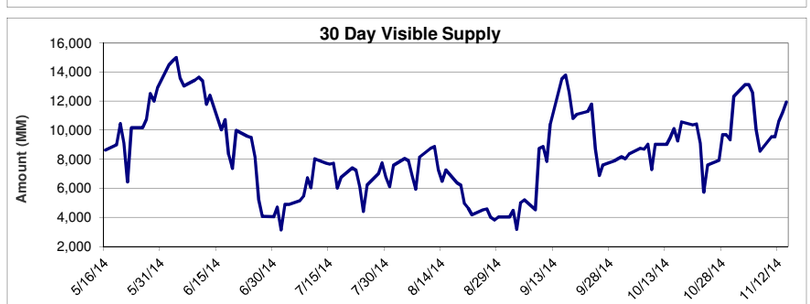
Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min – Max	0 YRS – 5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min – Max	0 YRS – 5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min – Max	0 YRS – 17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s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

Market Overview

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.38	0.00	0.38	75%
5 Year	1.15	0.00	1.15	72%
10 Year	2.17	0.00	2.17	94%
30 Year	3.08	0.01	3.07	101%
UST Rates				
2 Year	0.51	0.02	0.49	
5 Year	1.60	0.02	1.58	
10 Year	2.32	0.02	2.30	
30 Year	3.04	0.01	3.03	

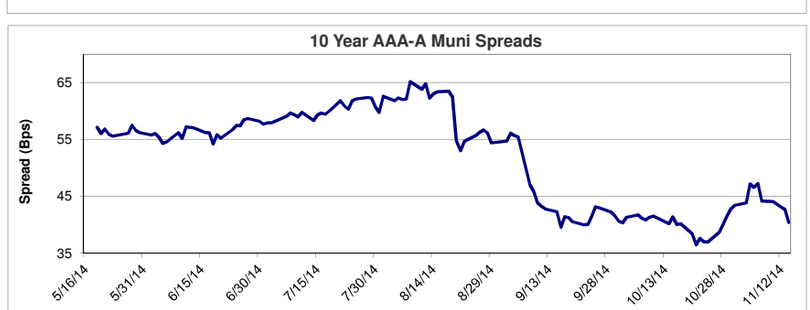
	Current Wk	Prior Wk
Weekly Municipal Supply ($ Bln)		
Negotiated	$5.26	$4.08
Competitive	$2.46	$1.57
TOTAL	**$7.72**	**$5.65**
Municipal 30 Day Visible Supply ($ Bln)	**$11.95**	**$8.56**
Bloomberg Muni PICK Offerings ($ Bln)	**$13.17**	**$13.96**
Bond Buyer 20 Municipal G.O. Index	**3.98%**	**3.98%**





Select Economic Releases

Date	Event	Period	Survey	Prior
11/17	Empire Manufacturing	Nov	12.00	6.17
11/17	Industrial Production MoM	Oct	0.20%	1.00%
11/18	PPI Final Demand MoM	Oct	-0.10%	-0.10%
11/19	MBA Mortgage Applications	14-Nov	--	-0.90%
11/19	Housing Starts	Oct	1026K	1017K
11/20	Initial Jobless Claims	15-Nov	282K	290K
11/20	CPI MoM	Oct	-0.10%	0.10%
11/20	Markit US Manufacturing PMI	Nov P	56.30	55.90
11/20	Existing Home Sales	Oct	5.15M	5.17M
11/20	Leading Index	Oct	0.60%	0.80%



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.

AAA-A Muni Spreads - The difference in yield, as expressed in basis points (.01%), between the Bloomberg BVAL AAA 10 Year Benchmark Muni Index and the BVAL A Revenue 10 Year Muni Index.

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 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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