

Weekly Trading Desk Update

WEEK OF MAY 8TH - 12TH

Trading Desk Commentary

MACRO:

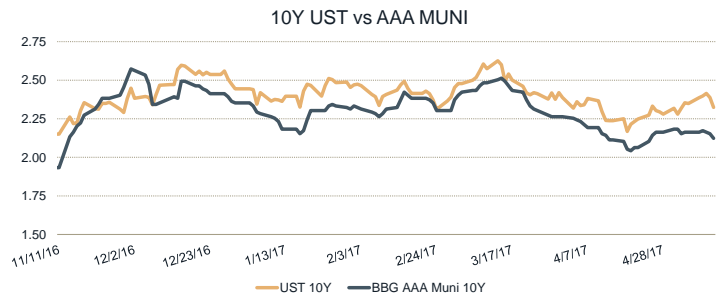
- 10Y UST rates, which had reached 2.41% earlier in the week, fell following weaker data and continued political uncertainty on Friday. This marked the first weekly decline in 10Y yields since the near-term low seen in mid-April (2.16% 10Y UST).
- Friday's weaker than expect 1.9% Core CPI print was the lowest reading since '15, and it reminded market participants that inflation and the Federal Reserve are likely to remain on the same gradual path.
- Fed funds futures, although modestly lower, continue to price in a greater than 90% chance of a June hike. The wild card remains a second move in September, with probabilities now only around 30%.
- The next significant reading for the Fed will be later this month with the second look at Q1 GDP; current street estimates are 0.9%. Much attention continues to be paid to the presumed bounce in growth for Q2. Atlanta Fed GDPNow model currently forecasts Q2 growth at 3.6%, but on a declining trend.

MUNI MARKET:

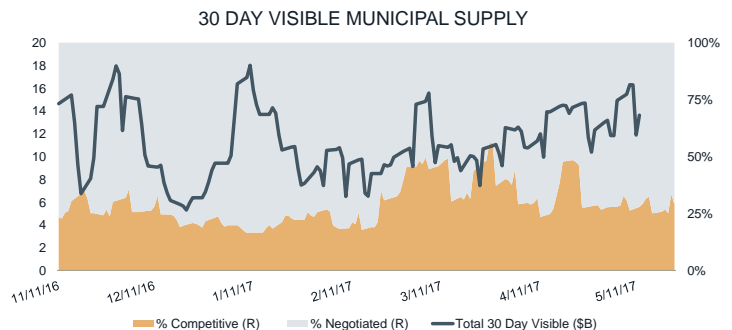
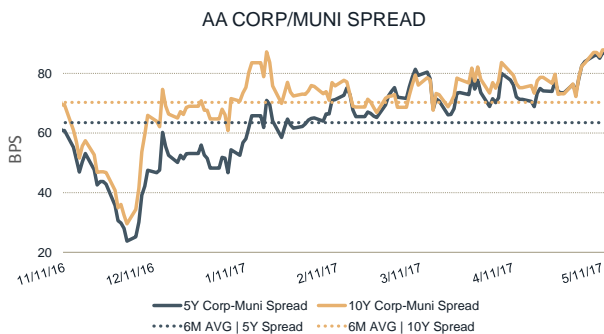
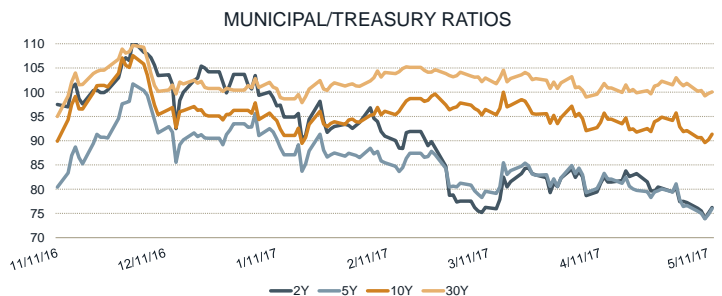
- Another \$600 million came into the municipal space last week and providing further proof investors are confident the massive Puerto Rico bankruptcy will not impact the broader market.
- Ratios continue to grind tighter in the face of elevated demand. The 2-yr, 5yr, 10-yr and 30-yr ratios are all well below their year-to-date averages with the front end approaching levels not seen since the summer of 2016, another indicator that demand for munis remains strong.
- The primary calendar remains elevated this week and is the second consecutive week with above average supply. Last week's supply was well received by the market with many deals getting bumped after heavy oversubscription. We expect similar demand to carry over into this week.

MARKET OVERVIEW

		5/5/17	5/12/17	Δ bps	1M Trend
Muni	2Y	1.01	0.98	-3	
	5Y	1.44	1.40	-4	
	10Y	2.16	2.12	-4	
	30Y	3.04	2.99	-5	
UST	2Y	1.31	1.29	-2	
	5Y	1.88	1.85	-4	
	10Y	2.35	2.32	-2	
	30Y	2.98	2.99	0	



		4/13/17	5/12/17	1M Trend
MUNI/UST Ratios	2Y	81%	76%	
	5Y	82%	76%	
	10Y	94%	91%	
	30Y	101%	100%	



EXPLANATION

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. Competitive and Negotiated are broken out as a percentage of total supply.

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.

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: 30 day visible figures are obtained through Bloomberg, 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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