

Weekly Trading Desk Update

WEEK OF JULY 17TH - 21ST

Trading Desk Commentary

Macro:

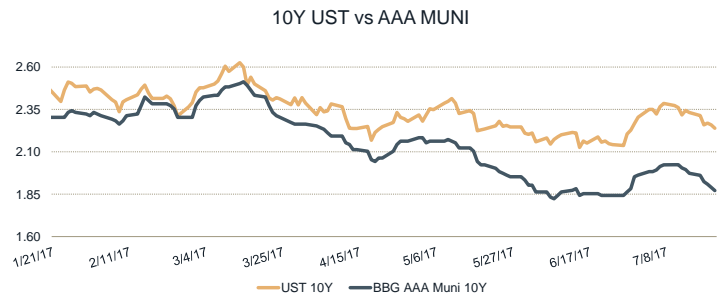
- Thursday's much anticipated ECB announcement helped reassure market participants, at least for now, that Mr. Draghi will continue to be patient and measured about any possible tightening. Citing continued softness in inflationary pressures, the central bank head still did not rule out that bond purchases could begin to taper this year and noted that the committee would reconsider in the "autumn."
- The domestic economic calendar was light on the week, but US Treasury yields drifted lower as political gridlock continued to plague healthcare reform on the Hill. Senate Republicans will still likely attempt a motion to proceed with a vote sometime this week, but the 50 votes needed appear unlikely.
- Looking to the week ahead, Wednesday will bring a non-press conference Fed decision that is not anticipated to be of great significance. The outlier here would be a formal date set to begin balance sheet reduction. Later in the week we get our first look at 2Q GDP, now surveyed at 2.5% and, interestingly enough, exactly where the Atlanta Fed's GDPNow is tracking.

Muni:

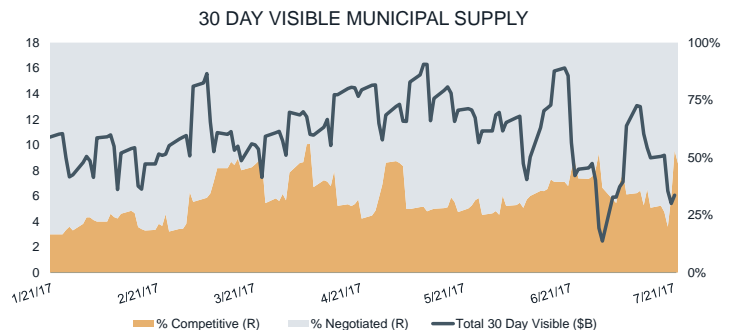
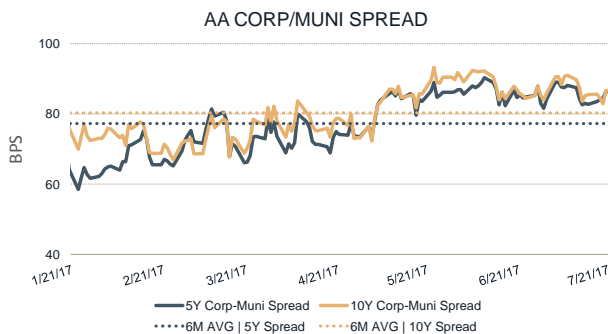
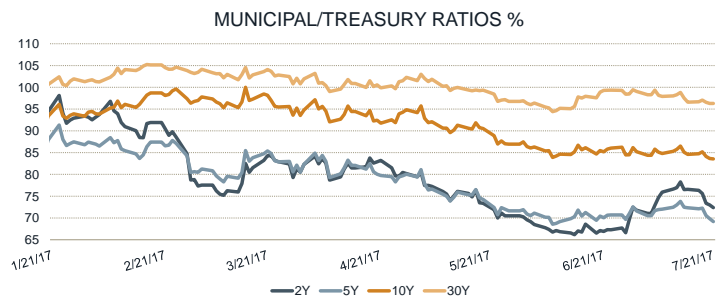
- Munis remain rich on a near-term and historical basis as the 3-yr, 10-yr, and 30-yr Muni/Treasury ratios are well below their three-month and three-year averages. The slope of the curve continued its flattening trend; the 2yr/30yr spread ended the week at 175 basis points - the lowest this spread has been since last September.
- However, munis remain favorable heading into August. Primary supply remains subdued, and demand remains stable, especially from the retail space. Performance should also be aided by political gridlock in DC, which again failed to repeal and replace Obamacare last week.
- On the credit front, both Moody's and S&P downgraded Alaska's General Obligation bond rating one notch to Aa3 and AA, respectively. The state's dependence on oil is robust, and, to offset oil price declines, the state has been drawing on reserves leading to a deteriorating financial position. Approximately 80% of the state's revenues are derived from oil production, and although projections lower that number to 70%, the State must continue to address spending in the face of declining revenues.

MARKET OVERVIEW

		7/14/17	7/21/17	Δ bps	1M Trend
Muni	2Y	1.04	0.97	-7	
	5Y	1.35	1.25	-10	
	10Y	1.97	1.87	-10	
	30Y	2.82	2.71	-12	
UST	2Y	1.36	1.34	-2	
	5Y	1.87	1.80	-6	
	10Y	2.33	2.24	-9	
	30Y	2.92	2.81	-11	



		6/22/17	7/21/17	1M Trend
MUNI/UST Ratios	2Y	67%	72%	
	5Y	71%	69%	
	10Y	86%	84%	
	30Y	99%	96%	



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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