

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.58	\$2.43
Competitive	\$0.74	\$1.03
TOTAL	\$4.32	\$3.46

Municipal 30 Day Visible Supply (\$ Bln)	\$9.12	\$5.52
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Bloomberg Municipal PICK Offerings Par (\$ Bln)	\$9.85	\$9.05
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Municipal Placement Ratio (New Issues)	79.90%	97.70%
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Bond Buyer 20 Municipal G.O. Index	3.60%	3.62%
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Treasury Supply		Current Auction	Prior Auction
Day	Maturity	Amount (\$ Bln)	Amount (\$Bln)
Tues	2 Year	35	35
Wed	5 Year	35	35
Thurs	7 Year	29	29
TOTAL		99	99

Select Economic Releases				
Date	Event	Period	Survey	Prior
1/24	2012 State of the Union Address			
1/25	MBA Mortgage Applications	20-Jan	--	23.10%
1/25	Pending Home Sales MoM	DEC	-1.00%	7.30%
1/25	FOMC Rate Decision	25-Jan	0.25%	0.25%
1/26	Durable Goods Orders	DEC	2.00%	3.80%
1/26	Durables Ex Transportation	DEC	0.90%	0.30%
1/26	Continuing Claims	14-Jan	3525K	--
1/26	Leading Indicators	DEC	0.70%	0.01
1/26	New Home Sales MoM	DEC	1.60%	1.60%
1/26	New Home Sales	DEC	320K	315K
1/27	GDP QoQ (Annualized)	4Q A	3.00%	1.80%
1/27	Core PCE QoQ	4Q A	0.01	0.02
1/27	U. of Michigan Confidence	JAN F	74	74

Trading Desk Commentary

While Muni bond funds enjoyed their seventh consecutive week of inflows (\$1bn for the week ending January 14th, according to Lipper), the Muni market began to show its first signs of exhaustion. Since the beginning of December (minus a couple of isolated trading days), Muni performance has benefitted from a severe supply-demand imbalance creating a strong surge in prices (i.e. lower Muni yields). However, the magnitude of the tax-exempt rally raised concerns over the past couple of weeks that such steep prices were unsustainable – especially if there was any indication that supply might return to more normal levels, or if UST's entered sell-off mode (in a "risk-on" scenario). Last week, Muni participants actually witnessed both scenarios potentially beginning to evolve. The 30-day forward calendar grew to over \$9bn for the first time since the first week of December 2011 after dwindling down to the \$3bn range. Secondly, UST's weakened in response to better U.S. economic data and a calmer tone in European debt-related headlines, giving investors more confidence to exit safer assets in favor of riskier alternatives. With last week's move to higher UST yields, taxables are off to their worst start since 2003.

The dual threat of higher supply volume and a taxable sell-off created concern that Muni yields had reached their short-term bottom. The number of Muni bid-wanted and offerings (i.e. selling) grew rapidly throughout the week (Muni bid wanteds jumped from \$34mil to \$91mil in daily volume from Wednesday to Thursday alone). Suddenly, secondary supply was abundant relative to the previous several weeks, but now buyers were hesitant to step in front of a potential Muni sell-off. The \$200mln Aaa/AAA Fairfax Co Va GO deal was cheapened by 15bps in spots on the curve, desperate to garner interest after a very slow start to the deal. By the end of the week, Muni yields were higher for two consecutive days for the first time since mid-November.

This week's supply remains very manageable (approx. \$4bn) but it may be difficult to get prospective buyers to step up if there is still concern that Muni yields are buckling. Some major economic events will be taking place and could play an important role in determining UST's tone (and Munis by association) – the Fed rate decision, quarterly GDP data and Obama's State of the Union address, to name a few. Though it is assumed that the target rate will remain essentially zero the language used in the FOMC's statement describing the recent upturn in domestic economic activity could be telling. In summary, we are approaching the week with caution, closely monitoring macroeconomic factors as well as the Muni supply outlook to see if it will continue to tip-toe higher.

Rates	Current	Yld	Prior	Muni to Treasury Ratio
	Wk	Change	Wk	
Muni's				
2 Year	0.35	0.00	0.35	140%
5 Year	0.82	0.01	0.81	92%
10 Year	1.83	0.12	1.71	90%
30 Year	3.34	0.14	3.20	108%
UST				
2 Year	0.25	0.03	0.22	
5 Year	0.89	0.10	0.79	
10 Year	2.03	0.16	1.87	
30 Year	3.10	0.18	2.92	

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 Muni Center, 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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