

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.92	\$5.34
Competitive	\$2.23	\$1.87
TOTAL	\$9.15	\$7.21

Municipal 30 Day Visible Supply (\$ Bln)	\$11.75	\$11.09
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Bloomberg Municipal PICK Offerings Par (\$ Bln)	\$4.61	\$9.82
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Municipal Placement Ratio (New Issues)	n/a	86.50%
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Bond Buyer 20 Municipal G.O. Index	3.72%	3.69%
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Treasury Supply		Current Auction	Prior Auction
Day	Maturity	Amount (\$ Bln)	Amount (\$Bln)
No UST Supply for the Week of March 5th			
TOTAL		0	0

Select Economic Releases				
Date	Event	Period	Survey	Prior
3/5	Factory Orders	JAN	-1.50%	1.10%
3/7	MBA Mortgage Applications	2-Mar	--	-0.30%
3/7	ADP Employment Change	FEB	210K	170K
3/8	Initial Jobless Claims	3-Mar	351K	--
3/8	Continuing Claims	25-Feb	3375K	--
3/9	Change in Nonfarm Payrolls	FEB	210K	243K
3/9	Unemployment Rate	FEB	8.30%	8.30%
3/9	Wholesale Inventories	JAN	0.60%	1.00%

Trading Desk Commentary

In our previous update, we speculated that current Muni-to-UST ratios, low absolute yields and a building supply calendar had primed Munis for an adjustment to higher yields. Over the course of the last week, these factors along with a weakened UST market indeed led Munis to slightly higher yields (4bps in the 10-year range). Fed Chairman Bernanke went before Congress on Thursday, providing a mixed summary of the U.S. recovery progress. Though surprised by the improving activity in the U.S. labor markets, Bernanke reiterated the economy's need for further monetary accommodation despite the signs of improvement. The housing sector, which typically helps lead recoveries, continues to disappoint. However, Bernanke was non-committal towards Congress when asked about the prospects of a third round of quantitative easing. Treasuries sold off on the implication that the Fed's support of the UST curve could be coming to an end.

On top of the reactions from Bernanke's speech, the Muni market was asked to digest the largest weekly supply in 2012. Last week's \$8bln in new issuance was concentrated in the roughly \$2bln California GO deal, but the \$6bln balance of deals came in a wide assortment ranging from state GO's (Aa2/AA \$400mln St of Louisiana GO) to transportation bonds (Aa3/AA- /AA- \$153mln Maine Turnpike) to healthcare names (Aa3/AA \$94mln CA Health Lucille Packard Children's Hospital) to power names (Baa1/A- \$38mln Piedmont SC Muni Power Agency). Any deal coming out of the Golden State continues to garner huge interest from its issuance-starved residents – both the state GO deal and the Lucille Packard Children Hospital (implicitly backed by Stanford University) went very well. Overall, underwriters seemed to distribute their deals fairly successfully with the California GO deal's high-profile success helping set a positive tone. This coming week's \$9bln+ expected supply and the 30-day visible calendar now in excess of \$12bln probably weighed on tax-exempts more than the supply offered up last week. Though demand was strong enough to digest last week's supply with only modest concessions, how many consecutive weeks of \$8-9bln supply will Muni participants be willing (or able) to take down, especially at these low yields? We may be approaching the point where supply overtakes demand for the first time since October.

Our participation in the (Baa1/A-) \$38mln Piedmont SC Muni Power Agency deal this week is likely worth noting. The widely recognized power name has shown improved debt coverage and liquidity metrics over the past several years and implemented a rate increase to its customer base which has helped the authority's revenue outlook (resulting in a Fitch rating upgrade in February). The new deal offered bonds in the 10-year range with 110bps more than a AAA bond (according to MMD). This was the latest example of locating a strengthening credit with relative value in the current low yield environment.

Rates	Current	Yld	Prior	Muni to Treasury Ratio
	Wk	Change	Wk	
Muni's				
2 Year	0.26	0.00	0.26	96%
5 Year	0.70	0.02	0.68	83%
10 Year	1.91	0.04	1.87	96%
30 Year	3.27	0.02	3.25	105%
UST				
2 Year	0.27	-0.03	0.30	
5 Year	0.84	-0.05	0.89	
10 Year	1.98	0.00	1.98	
30 Year	3.11	0.01	3.10	

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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