

Trading Desk Commentary

Munis felt very heavy this week in comparison to what we experienced in March and April. The Bond Buyer 30-day visible supply spent most of the week in the \$10-12bln range which is only slightly above average since year end; however, almost \$9bln of that total has been issued since Monday. Furthermore, last week's low 81% placement ratio was a concern, raising doubts that participants would remain engaged at current yield levels, especially with supply showing a little life. (Aa2/AA) New York City was the main issuer in the market this week, upsizing its GO deal to almost \$900mln by final pricing. The deal required 5-10bps price cuts before buyer interest kicked into gear. Higher-grade issuers (like NYC) have struggled somewhat over the past two weeks amid ultra-low AAA yields, contributing to last week's disappointing placement ratio. Deals offering a bit more incremental yield have fared much better, and the healthcare, power, and lower-rated revenue sector yields (relative to the AAA scale) have compressed substantially as a result.

US Treasury volatility remains a primary driver in general Muni tone. This week's EU summit sparked a little optimism and sense of coordination among the region's finance leaders. Treasuries sold off and dragged Munis along for the ride, but better news like this was quickly offset by a disappointing US Durable Goods Orders and heightened Spanish concerns on Friday. The capitulation left Munis feeling a little rudderless. Given the robust week of supply and mixed distribution results, a sell-off in US Treasuries would likely have weakened Munis substantially. As it were, Munis widened by only 5bps in the 10-year spot, according to MMD. Looking back over the week, the sell-off could potentially have been a lot worse.

Next week will be a little quirky, given the holiday-shortened trading session. Supply is limited to roughly \$4.5bln as issuers tend to be hesitant in bringing new debt during short weeks (rightfully so). When weekly supply has dipped this year, we have seen Munis firmly latch onto US Treasury rate direction, without new deals/trading activity to generate their own tone. We expect this type of dynamic in the coming week which means Greek and Spanish developments will provide the lion's share of tax-exempts' tone, which is always a fun time for market participants.

Hope everyone has an enjoyable Memorial Day. Our thoughts and sincere thanks go out to all of our troops and those who fell protecting this great country.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.33	0.02	0.31	114%
5 Year	0.76	0.00	0.76	100%
10 Year	1.83	0.05	1.78	105%
30 Year	3.14	0.05	3.09	111%

UST Rates

2 Year	0.29	-0.01	0.30
5 Year	0.76	0.01	0.75
10 Year	1.75	0.04	1.71
30 Year	2.84	0.04	2.80

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$2.91	\$6.40
Competitive	\$1.71	\$2.71
TOTAL	\$4.62	\$9.11

Municipal 30 Day Visible Supply (\$ Bln)	\$6.68	\$11.38
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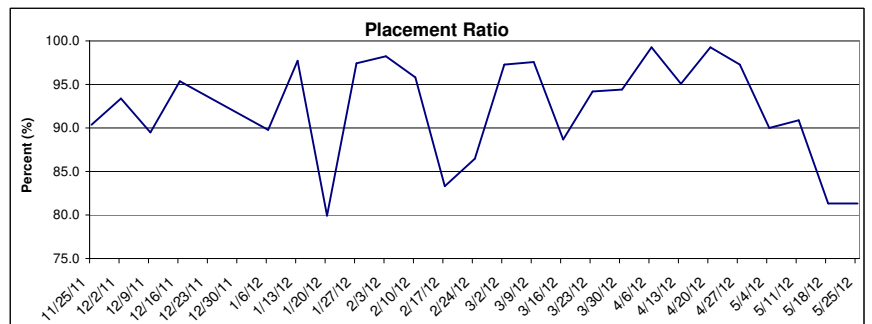
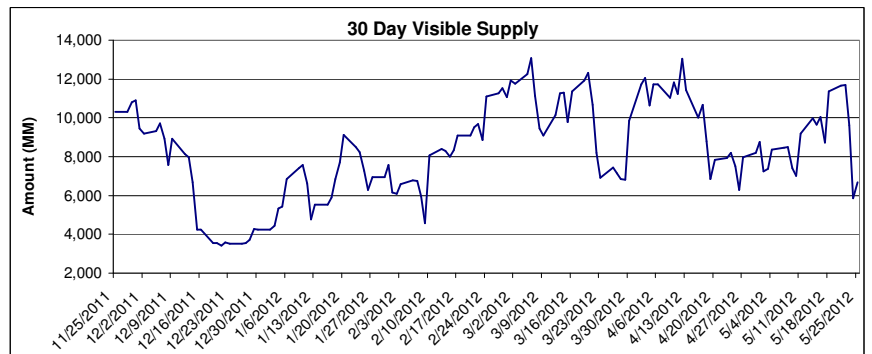
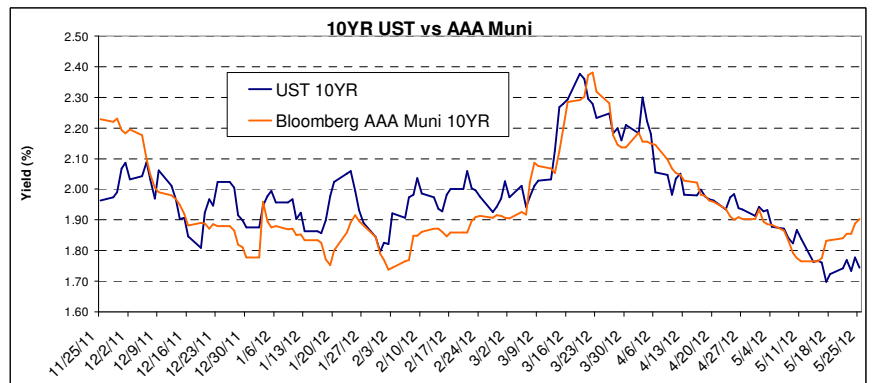
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.12	\$13.83
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Muni Placement Ratio (New Issues)	n/a	81.30%
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Bond Buyer 20 Municipal G.O. Index	3.80%	3.75%
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Select Economic Releases

Date	Event	Period	Survey	Prior
5/30	MBA Mortgage Applications	25-May	--	3.8%
5/30	Pending Home Sales MoM	APR	-0.1%	4.1%
5/31	ADP Employment Change	MAY	140K	119K
5/31	GDP QoQ (Annualized)	1Q S	1.9%	2.2%
5/31	Initial Jobless Claims	26-May	370K	370K
5/31	Continuing Claims	19-May	3263K	3260K
6/1	Change in Nonfarm Payrolls	MAY	150K	115K
6/1	Unemployment Rate	MAY	8.1%	8.1%
6/1	PCE Deflator (MoM)	APR	0.10%	--
6/1	ISM Manufacturing	MAY	53.8	54.8



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 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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