

Trading Desk Commentary

Markets this week seemed to think that the damage done over the previous ten days had been overly punitive to equities while the rally in US Treasuries had run too far. Commitments from Euro leaders to contain the region's fiscal issues and a US Federal Reserve that signaled its willingness to deploy QE3 as needed, re-instilled some semblance of stability into the marketplace. The 10Yr US Treasury retraced two-thirds of last week's rally, moving roughly 20bps higher in yield. Concurrently, the Dow improved over 500 points erasing the majority of last week's losses as well. However, this week's brief bounce in the Dow comes at the end of a month long slump that started almost 1,000 points higher than where we now sit. This weekend, European finance ministers will meet to discuss possible solutions for Spain's debt woes. The market will take stock on Monday and determine what (if any) degree of success the talks were able to achieve, and investors' perception of the discussions will likely decide the tone for next week's early trading.

Last week, Munis were unable to keep pace with the positive US Treasury performance while this week, Munis fared better despite the exit from safer to riskier assets. Munis did weaken roughly 15 basis points in the 10Yr range according to MMD, contending with a fairly strong \$9-10bln of supply that was met with a decidedly mixed reception. Buyers seemed hesitant to step in at the ultra low yields that were reached by the end of last week, so the back-up was unsurprising. The secondary market was DOA, with new issuance providing plenty for the limited demand to focus on without looking to dealer inventory.

On Friday, Bond Buyer released that they are expecting more than \$15bln in Muni supply over the next few weeks, the largest volume since December 2010. This number would have been enough alone to give buyers pause. But, the large issuance calendar coupled with a softer US Treasury market and a reduced demand for safe haven assets is making for a wary tax-exempt community. If this week's mini "risk on" trade extends into next week, Munis will not be able to stay at current levels. On the other hand, if buyers feel that this weekend's talks in Europe go poorly and concerns creep back in to investors' minds, all bets are off as usual.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.32	0.00	0.32	119%
5 Year	0.78	0.05	0.73	110%
10 Year	1.90	0.15	1.75	117%
30 Year	3.18	0.14	3.04	116%

UST Rates

2 Year	0.27	0.02	0.25
5 Year	0.71	0.09	0.62
10 Year	1.63	0.18	1.45
30 Year	2.75	0.23	2.52

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$10.95	\$7.53
Competitive	\$1.08	\$2.08
TOTAL	\$12.03	\$9.61

Municipal 30 Day Visible Supply (\$ Bln)	\$15.15	\$12.01
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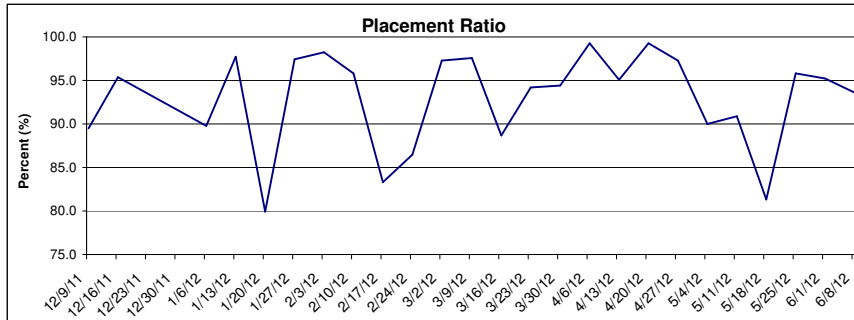
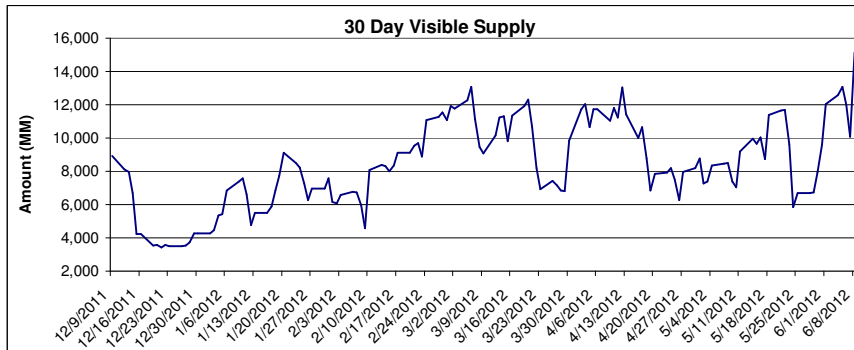
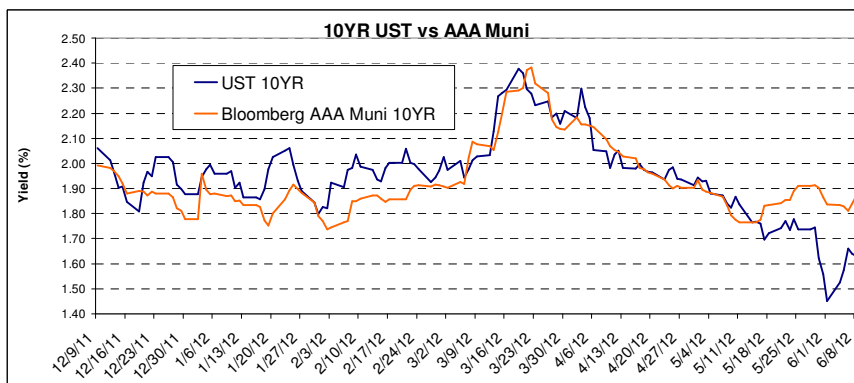
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.26	\$11.54
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Muni Placement Ratio (New Issues)	93.60%	95.20%
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Bond Buyer 20 Municipal G.O. Index	3.92%	3.77%
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Select Economic Releases

Date	Event	Period	Survey	Prior
6/13	MBA Mortgage Applications	8-Jun	--	1.3%
6/13	Producer Price Index (MoM)	May	-0.6%	-0.2%
6/13	Advance Retail Sales	May	-0.2%	0.1%
6/14	Consumer Price Index (MoM)	May	-0.2%	0.0%
6/14	Initial Jobless Claims	9-Jun	375K	377K
6/14	Continuing Claims	2-Jun	3270K	3293K
6/15	Empire Manufacturing	Jun	13.50	17.09
6/15	Industrial Production	May	0.1%	1.1%
6/15	U. of Michigan Confidence	Jun P	77.5	79.3



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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