

Trading Desk Commentary

On Wednesday, The Bond Buyer 30-day visible Muni supply calendar fell below \$7bln, one of the smallest expected volumes we have seen in the past couple months (not including the time around Independence Day). Recent demand has easily outstripped available supply since May, but seeing visible supply decrease amid the food fight helped pushed Muni bond yields to all-time lows. June and July maturities created a large amount of cash looking for a new home. With the uncertainty surrounding the Euro debt crisis over the past several months, investors have sought the safer waters of US debt markets as opposed to the more turbulent equity markets. We have often pointed to this Muni reinvestment activity as a reason we remain constructive on the Municipal sector, and we still feel the same way. Reinvestment demand still feels deep enough to digest expected new supply.

Today, on the other hand, marked the first time in over a month that Munis weakened across the curve. European Central Bank President Mario Draghi, followed by French and German leaders, pledged to do everything in their power to preserve the euro. These remarks were the most solid reassurances that European leadership has provided the market up to this point. US Treasuries could not sustain their yield levels in the wake of the leaders' commitments, backing up roughly 12bps (0.12%) in the long bond. Munis weakened in sympathy with US Treasuries, but to a much lesser degree. Muni-specific fundamentals simply do not justify a sharp yield correction at this point. On top of the supply/demand imbalance, Muni fund flows continue to impress, adding an additional \$817mln in new money this past week, according to Lipper. Today should restore more attractive Muni-to-Treasury ratios that had dwindled in recent trading sessions due to Munis' outperformance. We still like Munis to outperform US Treasuries, though we will be closely monitoring the potential longevity of a new "risk-on" transition.

Next week's supply calendar offers a few interesting deals to watch. The \$1.2bln (Aa3/AA-) New York Triborough Bridge & Tunnel Authority revenue deal will dominate the limited supply calendar - but demand for New York-based paper has been robust in recent weeks. Also, a \$430mln (Aaa/AAA) State of Maryland GO deal should be very telling about buyers' appetite for the highest-caliber issuers. Of course, today's sell-off introduces a twist for Munis that we have not dealt with in some time - the threat of a broader move to higher interest rates. Given the low yields we are seeing today, liquidity could dry up quickly if participants become fearful that yields are about to buckle, which can become a self-fulfilling prophecy. We will be closely monitoring Euro developments and participants' mindsets as news emerges from overseas.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	-0.02	0.31	121%
5 Year	0.65	-0.04	0.69	100%
10 Year	1.64	-0.06	1.70	106%
30 Year	2.84	-0.02	2.86	109%

UST Rates

2 Year	0.24	0.03	0.21
5 Year	0.65	0.07	0.58
10 Year	1.54	0.08	1.46
30 Year	2.61	0.06	2.55

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.39	\$4.49
Competitive	\$1.40	\$1.51
TOTAL	\$6.79	\$6.00

Municipal 30 Day Visible Supply (\$ Bln)	\$8.01	\$8.82
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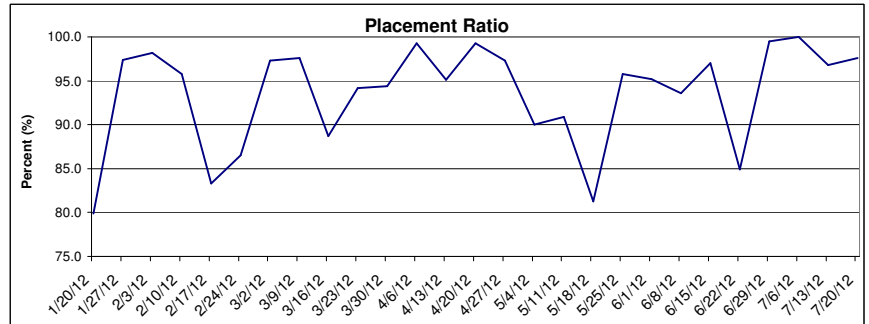
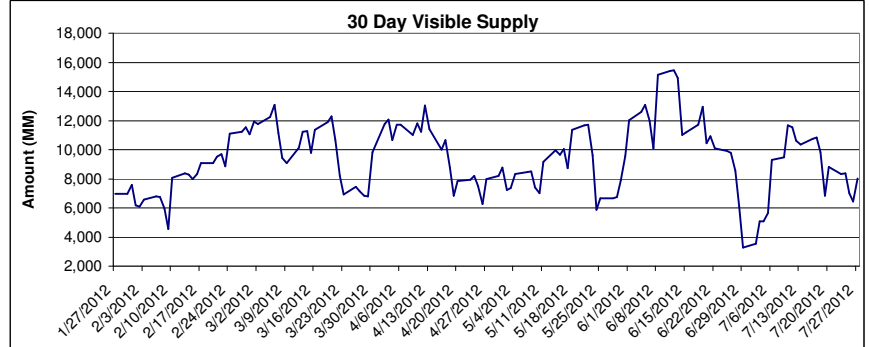
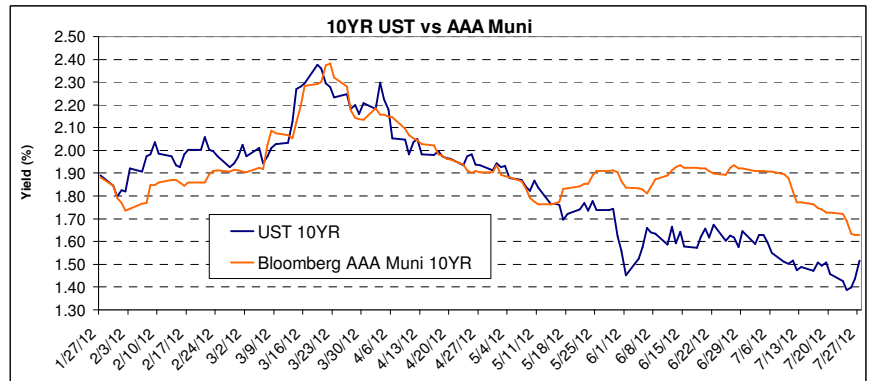
Bloomberg Muni PICK Offerings (\$ Bln)	\$10.65	\$12.47
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Muni Placement Ratio (New Issues)	n/a	97.6%
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Bond Buyer 20 Municipal G.O. Index	3.61%	3.75%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/31	PCE Core (MoM)	Jun	0.2%	0.1%
7/31	Consumer Confidence	Jul	61.4	62.0
8/1	MBA Mortgage Applications	27-Jul	--	0.9%
8/1	ADP Employment Change	Jul	120K	176K
8/1	ISM Manufacturing	Jul	50.2	49.7
8/1	FOMC Rate Decision	1-Aug	0.25%	0.25%
8/2	Initial Jobless Claims	28-Jul	370K	353K
8/2	Factory Orders	Jun	0.5%	0.7%
8/3	Change in Nonfarm Payrolls	Jul	100K	80K
8/3	Unemployment Rate	Jul	8.2%	8.2%
8/3	ISM Non-Manf. Composite	Jul	52.3	52.1



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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