

Trading Desk Commentary

Municipals this week never mustered the energy to break away from US Treasuries' grip. Trading activity felt light for most of the week and new supply was below average, even for mid-August. When better-than-expected economic data started funneling in on Tuesday, US Treasury bonds weakened (16bps over the week in the 10-year to a 1.81%) and dragged the sluggish Muni market along for the ride. We have seen it time and again this year: when Munis have less to focus on in their own market, they tend to look to US Treasuries for guidance. However, the Muni weakness was less pronounced, which was independently supported by the paltry expected supply and relative attractiveness versus their Taxable alternatives. Muni-to-Treasury ratios near the 10-year range and longer are still over 100%, well-above the historical average. Plenty of participants still seem willing to put money to work in the tax-exempt market, especially now that yields are 10-15 basis points higher than they were at month end. The lesser-rated, higher yielding new issues are still the MVP's in distribution, which is also evident by Lipper's report last night showing that High Yield Muni funds are still seeing the strongest inflows in any type of Muni fund.

As late as this morning, next week's supply was looking almost identical to this week's volume, but some late day additions to the calendar have pushed the expected supply over the \$7bln mark. Though this is by no means an eye-popping number, it is still the most supply we will have seen in over a month. We could end up seeing a tone that is a bit more hesitant than we have seen in some time creep in to Munis. Tax-exempts are coming off of one of their weakest 5-day sessions since March, not great timing for a last minute jump in new supply – especially in August when some participants are absent from their desks during the prime vacation season. If Europe continues to lay low for the time being and US economic releases continue their streak of pleasant surprises, Munis could find themselves at the highest yields since April. Of course, Europe is a wild card on a week-to-week basis. We believe that the Europe debt crisis will eventually rear its ugly head again, but the market is content to let sleeping dogs lie as long as it can. Once September rolls around and the election season reaches a fever pitch, we suspect volatility across all markets to ramp up as well.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	100%
5 Year	0.69	0.01	0.68	86%
10 Year	1.87	0.11	1.76	103%
30 Year	3.01	0.09	2.92	103%

UST Rates

2 Year	0.29	0.03	0.26
5 Year	0.80	0.10	0.70
10 Year	1.81	0.16	1.65
30 Year	2.93	0.18	2.75

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.64	\$4.16
Competitive	\$1.09	\$1.24
TOTAL	\$7.73	\$5.40

Municipal 30 Day Visible Supply (\$ Bln)	\$8.89	\$7.68
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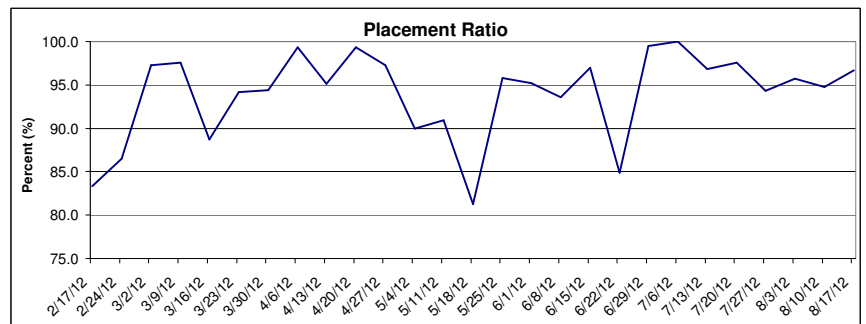
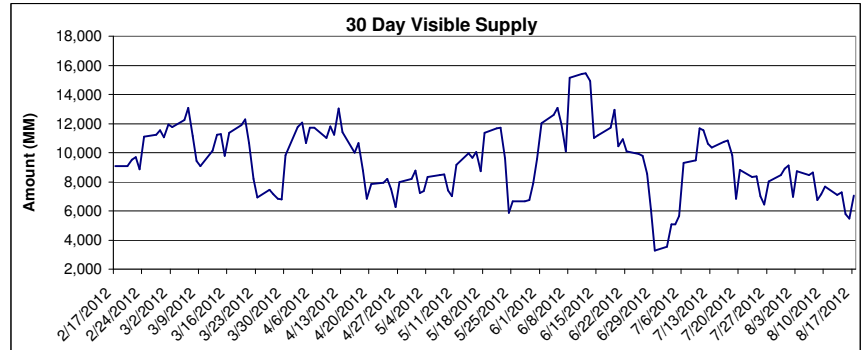
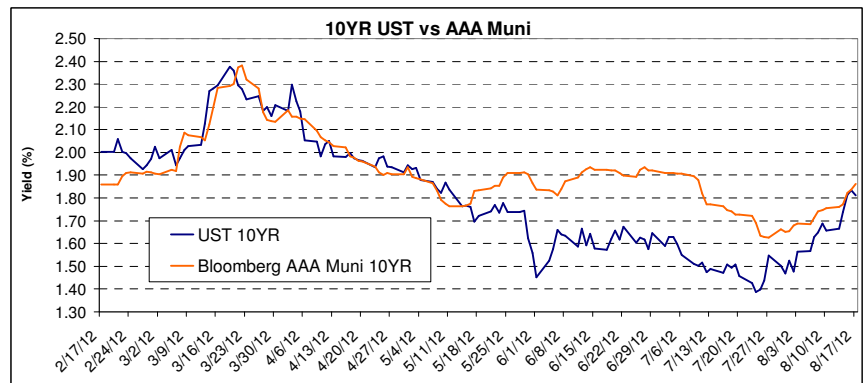
Bloomberg Muni PICK Offerings (\$ Bln)	\$13.84	\$11.91
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Muni Placement Ratio (New Issues)	96.70%	94.8%
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Bond Buyer 20 Municipal G.O. Index	3.80%	3.75%
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Select Economic Releases

Date	Event	Period	Survey	Prior
8/22	MBA Mortgage Applications	17-Aug	--	-4.5%
8/22	Existing Home Sales	Jul	4.52M	4.37M
8/22	Minutes of FOMC Meeting			
8/23	Initial Jobless Claims	18-Aug	365K	366K
8/23	Continuing Claims	11-Aug	3300K	3305K
8/23	New Home Sales	Jul	365K	350K
8/24	Durable Goods Orders	Jul	2.5%	1.6%



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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