

## Trading Desk Commentary

Since July 26th, participants have waited on the European Central Bank and Mario Draghi to make good on their “whatever it takes” promises to preserve the euro. The words sounded good, but most investors had grown impatient with the region’s failure to address their debt problems, namely Italy and Spain’s unsustainable borrowing costs. On Thursday, Draghi revealed the ECB’s plans to purchase Euro government bonds in an effort to suppress interest rates. In return, those countries signing up for the purchasing program must agree to a certain level of austerity – and stick to their promises of belt-tightening – to remain eligible for plan participation. Based on the plummeting European bond yields (especially in Spain and Italy), it seems investors are buying into the ECB’s plan, at least for the time being. In the hours following Draghi’s comments, one of the strongest “risk on” trading days in months picked up steam, with the Dow finishing up over 220 points and the 10-year US Treasury bond almost 10 basis points (0.10%) higher in yield. However, a disappointing Nonfarm Payrolls number this morning stopped the flight-to-risk in its tracks. The critical labor number showed that job creation actually slowed in August. The data comes when everyone knows the Fed is closely watching each economic data point, trying to discern if and when QE3 may need to be employed. Concerns over the US economy and the perception that the Fed may be forced to implement QE3 sooner rather than later sparked a flight-to-quality to close out the week.

Meanwhile, Munis were dragged along by US Treasury momentum; however, a severe lack of new supply and a sluggish secondary meant that Munis had very little to focus on, and their moves were dampened. In other words, Munis tended to outperform on days that US Treasuries weakened and underperform in rallies like we saw today. Last week and this week were disrupted by the Labor Day holiday. Issuers strongly prefer to bring new deals when they know as many people as possible are at work to focus on their offering. Therefore, they tend to avoid the weeks on each side of a holiday like the plague. We have seen the expected supply over the next 30 days grow very slowly this week, but we expect this number to rise more substantially in the coming weeks. Still, Muni-to-Treasury ratios look attractive after the disjointed week, exceeding 100% in most parts of the curve. Next week, a (NR/AA-) Dormitory Authority for the State of New York and a (Aa2/AA-) University of California deal (each totaling roughly \$250mln) lead the way among only \$3.5bln in new issuance. We expect US Treasuries will keep setting the pace for Munis until issuers start bringing debt at a faster pace.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.29	0.00	0.29	116%
5 Year	0.70	0.01	0.69	109%
10 Year	1.78	0.04	1.74	107%
30 Year	2.92	0.03	2.89	104%

### UST Rates

2 Year	0.25	0.03	0.22
5 Year	0.64	0.04	0.60
10 Year	1.66	0.10	1.56
30 Year	2.82	0.14	2.68

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	\$2.33	\$1.38
Competitive	\$1.40	\$0.51
<b>TOTAL</b>	<b>\$3.73</b>	<b>\$1.89</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$4.93</b>	<b>\$3.64</b>
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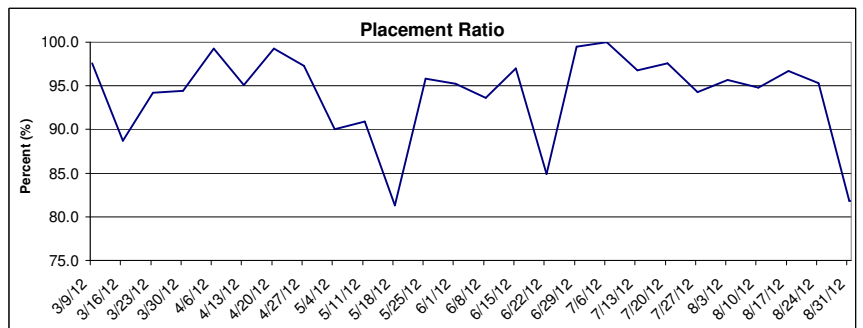
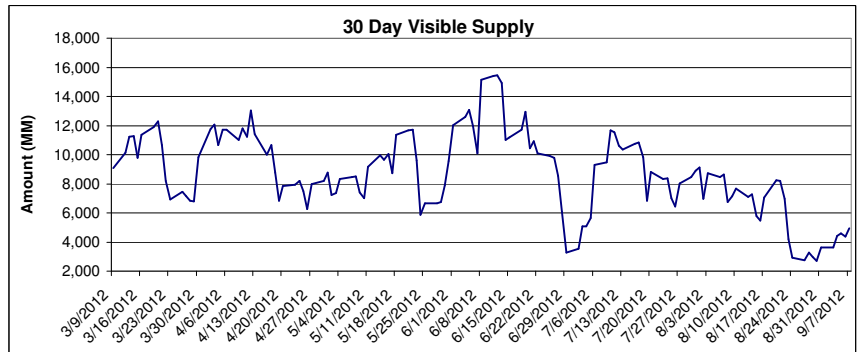
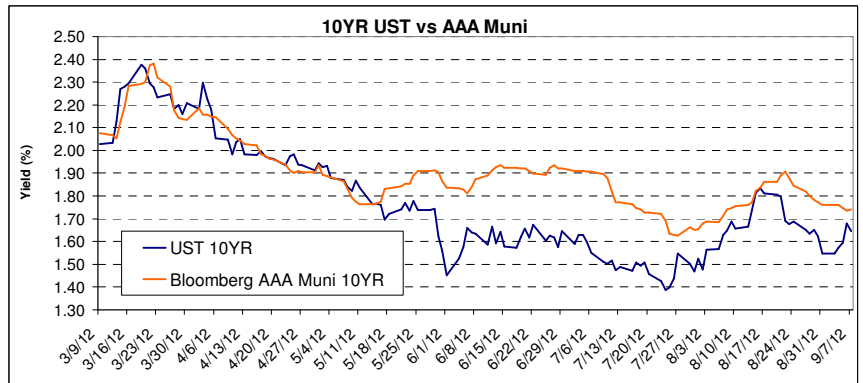
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$12.62</b>	<b>\$11.00</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>81.8%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.73%</b>	<b>3.72%</b>
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### Select Economic Releases

Date	Event	Period	Survey	Prior
9/12	MBA Mortgage Applications	7-Sep	--	0.0
9/12	Import Price Index (MoM)	Aug	1.5%	-0.6%
9/12	Wholesale Inventories	Jul	0.3%	-0.2%
9/13	Producer Price Index (MoM)	Aug	1.2%	0.3%
9/13	Initial Jobless Claims	8-Sep	370K	365K
9/13	Continuing Claims	1-Sep	3311K	3322K
9/13	FOMC Rate Decision	13-Sep	0.25%	0.25%
9/14	Consumer Price Index (MoM)	Aug	0.6%	0.0%
9/14	Advance Retail Sales	Aug	0.7%	0.8%
9/14	Industrial Production	Aug	0.0%	0.6%
9/14	U. of Michigan Confidence	Sep P	74.0	74.3



#### **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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