

Trading Desk Commentary

AAA 10-year Muni yields are now back within 10 basis points (0.10%) of their all-time low set in July, according to Municipal Market Data. That is meaningful considering just a couple weeks ago it felt like some confidence had been permanently restored in global markets given the major central bank action. But that sentiment would be short-lived. This week we are dealing with Europe all over again, namely Spain, whose banking system is currently undergoing rigorous stress tests to quantify what kind of bailout funds will be required to prevent catastrophic effects in the Euro region. It is now fair to say that Spain, not Greece, is the primary threat to the European Union's survival. Spain spent most of the week getting their ducks in a row for quicker access to the European Stability Mechanism's \$500bn bailout fund by implementing a new round of austerity measures and taxes. News of Spain's belt-tightening resulted in a brief pause in the flight-to-quality trade Thursday, which was the only day in the past two weeks of trading where US Treasury yields did not fall. The benchmark 10-year US Treasury yield is now 26 basis points (0.26%) lower than the September 14 close and only 5 basis points (0.05%) away from having completely erased the yield back up we saw following the European Central Bank and Federal Reserve announcements.

Last week we focused on the importance of Muni fund flows and the information one can divulge from their patterns. Flows this week benefited from the ongoing Euro concerns and less-than-stellar US economic data, seeing close to \$600mln new money move into Muni funds. High-Yield Muni fund flows rebounded as well after positing a rare net outflow the week before. We saw the same type of appetite in the week's new deals as well. Highly successful orders periods and aggressive prices were the norm, aided by a manageable supply outlook over the next 30 days. Today, expected supply jumped over \$3bln, close to an \$11bln total (\$7bln of which is next week). However, if this week serves as any indication, plenty of demand is still lurking, especially if fear continues to plague the US and European recoveries.

It's hard to pinpoint a good bellwether, high-grade deal next week that will serve as a reliable indicator of Muni interest. Supply is pretty well spread out among a wide variety of sectors and credits, though \$2.5bln will come in the form of (Aaa/AA+/AA+) Pennsylvania EDA unemployment compensation revenue bonds. It appears there will be a few opportunities to find some yield in next week's busy calendar, but it will require evaluating deals on a very name-by-name basis. We remain constructive in the Muni space and continue to point toward the familiar reasons: strong demand, digestible supply, attractive Muni-to-Treasury ratios, sluggish US growth and the unresolved Euro crisis. Until one or some of these change, we will likely maintain our stance.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.01	0.29	130%
5 Year	0.62	-0.07	0.69	100%
10 Year	1.70	-0.09	1.79	104%
30 Year	2.85	-0.10	2.95	101%
UST Rates				
2 Year	0.23	-0.03	0.26	
5 Year	0.62	-0.05	0.67	
10 Year	1.63	-0.13	1.76	
30 Year	2.82	-0.13	2.95	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.35	\$6.37
Competitive	\$1.10	\$1.31
TOTAL	\$7.45	\$7.68

Municipal 30 Day Visible Supply (\$ Bln)	\$11.04	\$9.69
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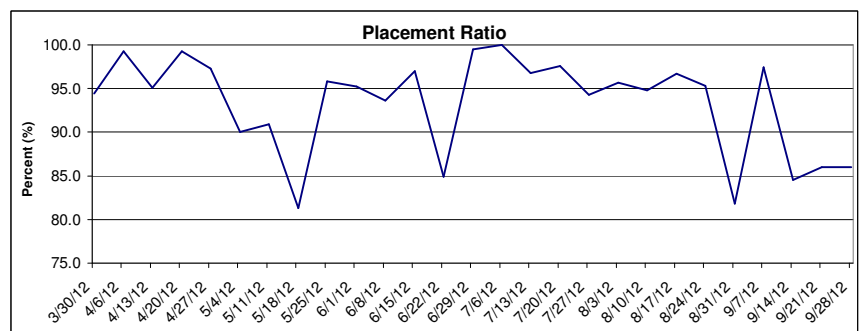
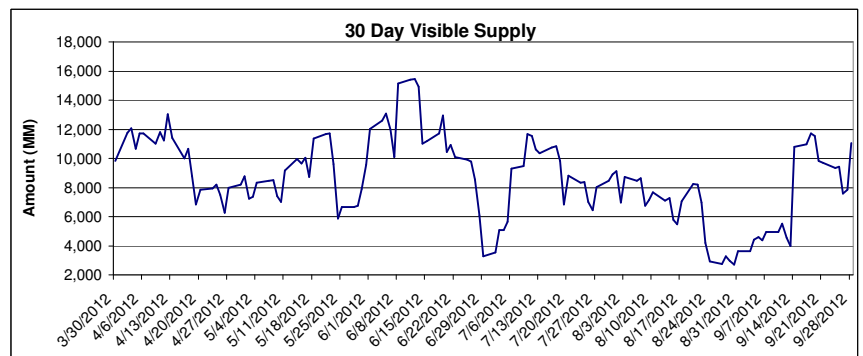
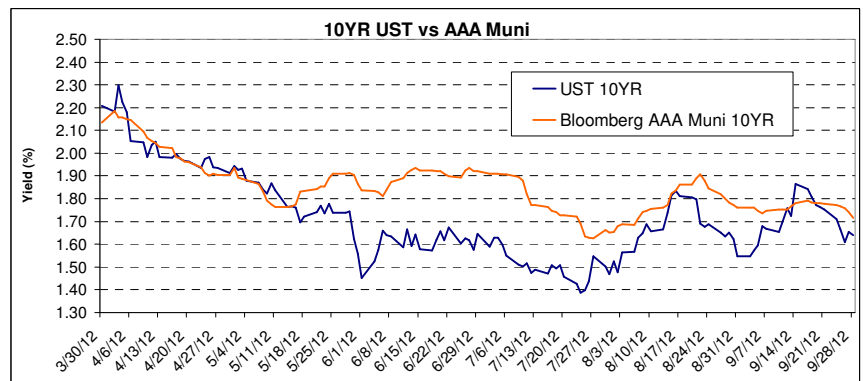
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.29	\$9.80
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Muni Placement Ratio (New Issues)	82.6%	86.0%
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Bond Buyer 20 Municipal G.O. Index	3.67%	3.72%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/1	ISM Manufacturing	Sep	49.8	49.6
10/3	MBA Mortgage Applications	28-Sep	--	2.8%
10/3	ADP Employment Change	Sep	150K	201K
10/4	Initial Jobless Claims	29-Sep	370K	359K
10/4	Factory Orders	Aug	-5.4%	2.8%
10/4	Minutes of FOMC Meeting			
10/5	Change in Nonfarm Payrolls	Sep	115K	96K
10/5	Unemployment Rate	Sep	8.2%	8.1%



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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