

Trading Desk Commentary

US Treasury yields and the major US stock indices all finished higher on the week, mainly due to the developments on Thursday and Friday. Thursday's slightly better-than-expected jobs and manufacturing numbers forced US Treasury yields higher while equities advanced ahead of Jobs Friday. Furthermore, European Central Bank President Mario Draghi revealed that the central bank was standing ready to start purchasing debt issued by the Eurozone's struggling economies. Then on Friday, an unexpected drop in the Unemployment Rate from 8.1% to 7.8% generated new optimism, though the reaction was a bit more tepid than it could have been. On the one (and larger) side, participants were encouraged by the signal showing a firming labor market picture. On the other, some were left scratching their heads, questioning the number's validity and how such a marked drop could be generated given the limited job growth we have seen in recent months. Still, markets reacted net positively to the news and US Treasury yields jumped higher to levels we have not seen for a couple of weeks.

Munis enjoyed a stable week overall despite the Thursday/Friday sell-off in their taxable counterparts. The reasons for tax-exempts' ongoing firmness are familiar. For one, Muni demand remains very strong with a great deal of cash still waiting to be deployed. Lipper reported \$2bln worth of inflows to long Municipal bond funds, an extremely powerful backstop for the asset class. Aggregate Muni demand continues to overwhelm available supply. This week's \$7-8bln of new debt found homes without hesitation. In particular, the \$2.5bln (Aaa/AA+) Pennsylvania EDA unemployment compensation revenue bonds received a very warm reception. We once again find ourselves in close proximity with all-time lows in Muni yields. The fact that many of this week's larger deals offered a little extra yield helped them locate plenty of eager buyers. Next week's supply total will feel very similar with roughly \$8bln expected. A mish-mash of issuers and purposes spread across a large number of \$100-500mln loans probably bodes well for Munis' continued success. The two largest deals for the week are: \$890mln (AAA/AAA) New York State Dorm Authority personal income tax revenue bonds and \$725mln (Aa1/AA+) Massachusetts School Building Authority revenue bonds. Beyond these, there is a steep drop-off in average deal size so participants should have their hands full as they sift through the dozens of new deals. The long Columbus Day weekend will condense next week's Muni activity into just four trading sessions, so we will be prepared to hit the ground running come Tuesday morning.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	115%
5 Year	0.62	0.00	0.62	94%
10 Year	1.69	-0.01	1.70	98%
30 Year	2.86	0.01	2.85	97%
UST Rates				
2 Year	0.26	0.03	0.23	
5 Year	0.66	0.04	0.62	
10 Year	1.73	0.10	1.63	
30 Year	2.96	0.14	2.82	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$6.80	\$6.35
Competitive	\$1.46	\$1.10
TOTAL	\$8.26	\$7.45

Municipal 30 Day Visible Supply (\$ Bln)	\$9.96	\$11.04
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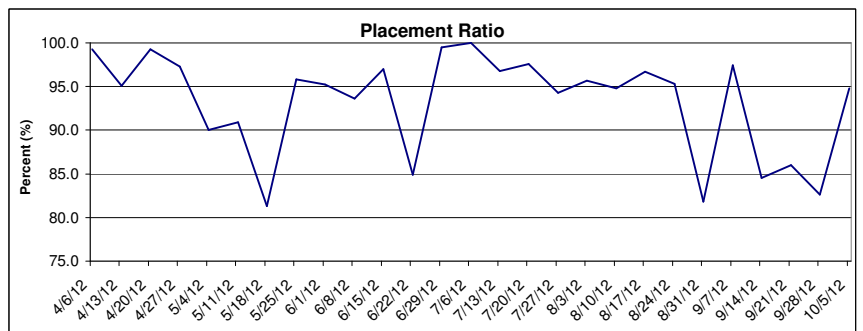
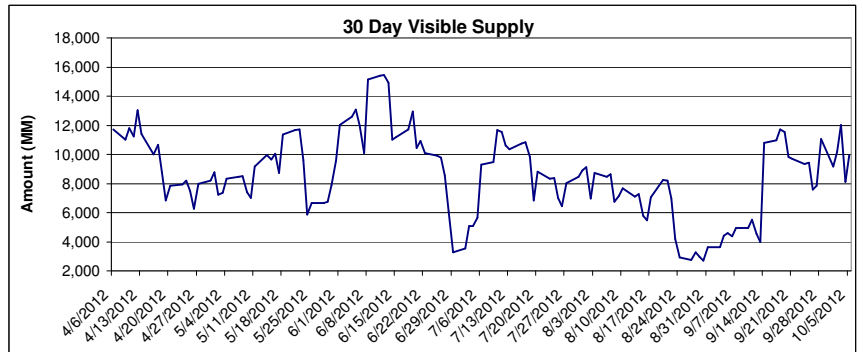
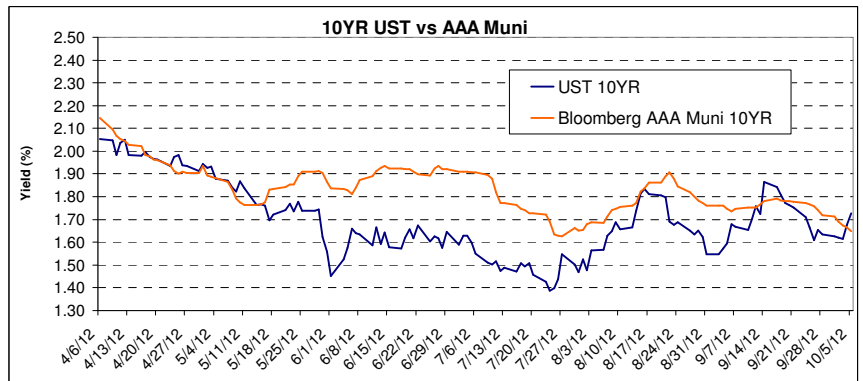
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.12	\$12.29
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Muni Placement Ratio (New Issues)	94.8%	82.6%
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Bond Buyer 20 Municipal G.O. Index	3.61%	3.67%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/10	MBA Mortgage Applications	5-Oct	--	16.6%
10/10	Fed's Beige Book			
10/11	Import Price Index (MoM)	Sep	0.8%	0.7%
10/11	Trade Balance	Aug	-\$44.0B	-\$42.0B
10/11	Initial Jobless Claims	6-Oct	368K	367K
10/11	Continuing Claims	29-Sep	3275K	3281K
10/12	Producer Price Index (MoM)	Sep	0.70%	1.70%
10/12	PPI Ex Food & Energy (MoM)	Sep	0.2%	0.2%
10/12	U. of Michigan Confidence	Oct P	78.0	78.3



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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