

Trading Desk Commentary

Despite the shortened holiday week the municipal market worked through the roughly \$8Bln in new supply without much hesitation. Negative headlines were seen again out of California as Moody's placed the lease backed and/or general obligation debt of 32 cities on review for downgrade late Tuesday. As the bulk of the new deals began to price on Wednesday it was apparent that investors were still willing to get cash to work, especially in those credits offering any type of incremental yield. Several large loans fit the bill for those willing buyers, and included the \$835MM (A1/A+) Denver Airport Revenues and \$525MM (Aa2/AA+) San Antonio Convention Center Revenues. On the week, Muni yields remained fairly stable with the 30 Yr AAA moving lower by 2 basis points (.02%), while US Treasuries saw significantly higher volatility.

Municipal fund flows remained supportive of the asset class as we reached a 2 month high for the week. Investors added \$914MM to municipal bond mutual funds according to Lipper, continuing a streak of 26 straight weeks of gains for the funds. We continue to view positive fund flows as a strong driver of the markets ability to digest the elevated supply levels that we have seen this fall. However, we recognize how quickly sentiment can change in this pre-election season, as tax implications and fiscal cliff concerns are regularly raised.

Looking to next week, Muni's will have two things working in their favor. One, a full week to digest the supply slated to come, and two, a supply figure only slightly above \$7Bln. Looking at the week's upcoming deals investors should once again have a wide variety of opportunities to choose from. Several of the largest loans should provide buyers with the incremental yield so many of them covet, and once again show the continued demand within the tax-exempt market.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	115%
5 Year	0.63	0.01	0.62	95%
10 Year	1.69	0.00	1.69	102%
30 Year	2.84	-0.02	2.86	100%
UST Rates				
2 Year	0.26	0.00	0.26	
5 Year	0.66	0.00	0.66	
10 Year	1.66	-0.07	1.73	
30 Year	2.83	-0.13	2.96	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$5.75	\$6.80
Competitive	\$1.63	\$1.46
TOTAL	\$7.38	\$8.26

Municipal 30 Day Visible Supply (\$ Bln)	\$11.09	\$9.96
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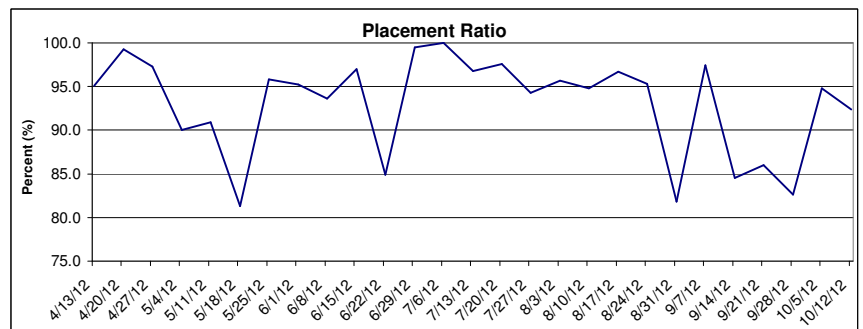
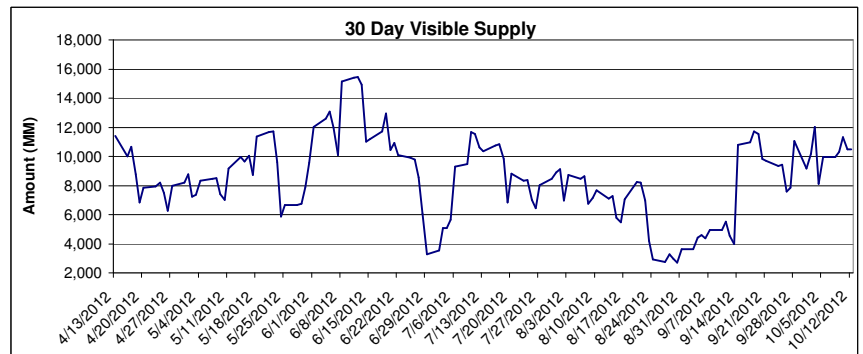
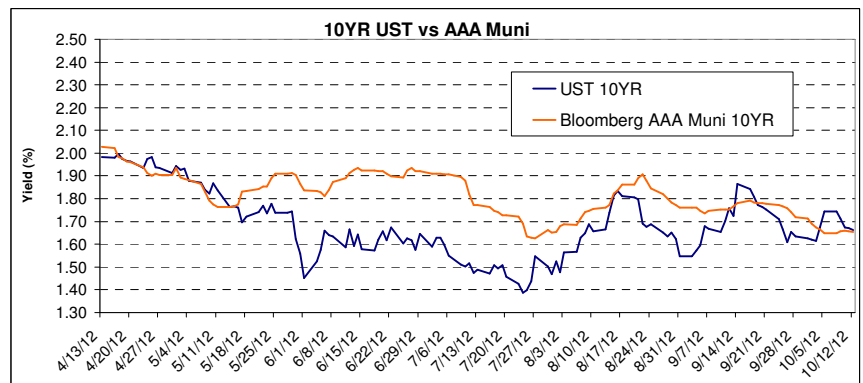
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.01	\$12.12
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Muni Placement Ratio (New Issues)	92.4%	94.8%
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Bond Buyer 20 Municipal G.O. Index	3.64%	3.61%
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Select Economic Releases

Date	Event	Period	Survey	Prior
10/15	Empire Manufacturing	Oct	-4.0	-10.4
10/15	Advance Retail Sales	Sep	0.8%	0.9%
10/16	Consumer Price Index (MoM)	Sep	0.5%	0.6%
10/16	Industrial Production	Sep	0.2%	-1.2%
10/17	MBA Mortgage Applications	12-Oct	--	-1.2%
10/17	Housing Starts	Sep	770K	750K
10/18	Initial Jobless Claims	13-Oct	365K	339K
10/18	Continuing Claims	6-Oct	3278K	3273K
10/18	Leading Indicators	Sep	0.2%	-0.1%
10/19	Existing Home Sales	Sep	4.75M	4.82M



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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