

Trading Desk Commentary

With the bond market closed for Veterans Day on Monday, the remaining activity felt like it was taking place in a pressure cooker as participants were forced to digest a quickly evolving landscape in a compressed trading week. At the end of last week, it seemed as though participants would be in wait-and-see mode ahead of Friday's scheduled meeting between President Obama and congressional leaders. However, developments out of Europe and the Middle East robbed traders of that luxury, pushing US Treasury and Muni yields progressively lower due to the reinvigorated quality demand. Specifically, Europe revealed yesterday that it had, in fact, slid back into a recession as it struggles with Spain and Greece's debt problems. Greece and Spain will almost certainly need access to the European Central Bank's bailout funds, but both countries have still failed to officially enact austerity measures that satisfy the ECB's higher-ups. Until investors see a wire transfer of funds to Spain's banking system and/or Greece's debt-riddled government, volatility should remain elevated. The Middle East made a definitive return to the fore with Israel's strategic strike on a key Hamas militant leader in response to an escalating number of rocket attacks from Gaza. The implications of war in the Middle East are far-reaching, both politically and economically. Its addition to the list of threats facing the macroeconomic landscape intensified an already skittish investor pool.

Then came today's meeting between Obama and the key players in Congress, which resulted in more of a photo op than a strategy meeting. They all seemed to play nice and offered a few words hinting at compromise, but in the end, today resulted in very little substance. The muted reaction in the markets following the post-meeting statements from Boehner, Reid, & Co. suggests that participants have become more immune to the talk and will wait for measurable action out of Washington. Munis enjoyed their second straight week of gains, just when it looked like yields could not go any lower. Muni investors gobbled up nearly \$8bln in new supply in a 3-day span, benefiting from attractive Muni-to-Treasury ratios and the assumption that taxes are likely to increase in the not-too-distant future (making their tax-exempt status that much more appealing). Of course, there has been chatter of decreasing Muni tax benefits, which has probably contributed to the prolonged period of higher Muni-to-Treasury ratios. Still, the amount of cash chasing municipal bonds feels formidable – and Lipper's latest report that more than \$800mln flowed into Municipal bond funds demonstrates the ongoing appetite in Muniland. Next week, dealers are expected to bring roughly \$2bln in new issuance in the three days before the Thanksgiving holiday. Even with half-empty trading floors, there should be enough interest hanging around to easily take down the very limited supply. From there, we enter the limbo period between Thanksgiving and Christmas where the street tends to start winding things down for the year. The unknown fiscal cliff outcome and the volatility it could inspire may push some issuance off to 2013, until the issue is resolved (or postponed) and the ramifications of the spending cuts and altered tax codes can be fully grasped. A worried investor based around the fiscal cliff deadline would probably result in more demand for haven assets. The mix of potentially suppressed supply amid powerful demand leaves us feeling optimistic about the health of the tax-exempt market through year-end.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.30	0.00	0.30	130%
5 Year	0.64	-0.01	0.65	105%
10 Year	1.50	-0.07	1.57	95%
30 Year	2.54	-0.12	2.66	93%
UST Rates				
2 Year	0.23	-0.03	0.26	
5 Year	0.61	-0.03	0.64	
10 Year	1.58	-0.03	1.61	
30 Year	2.73	-0.02	2.75	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$1.97	\$7.05
Competitive	\$0.27	\$0.98
TOTAL	\$2.24	\$8.03

Municipal 30 Day Visible Supply (\$ Bln)	\$7.19	\$10.79
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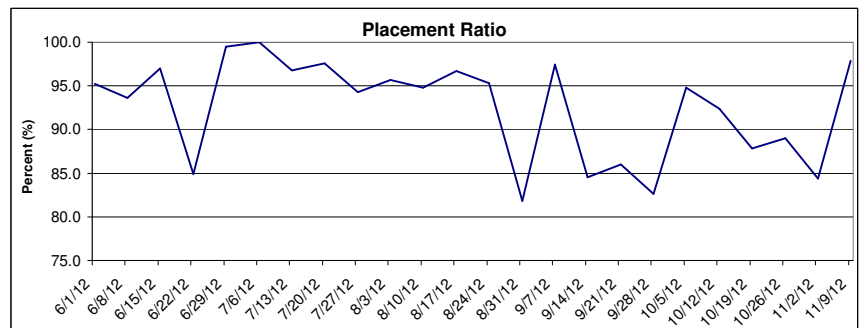
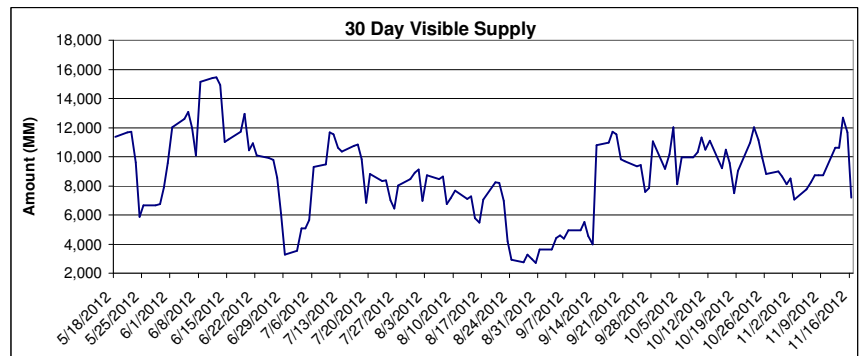
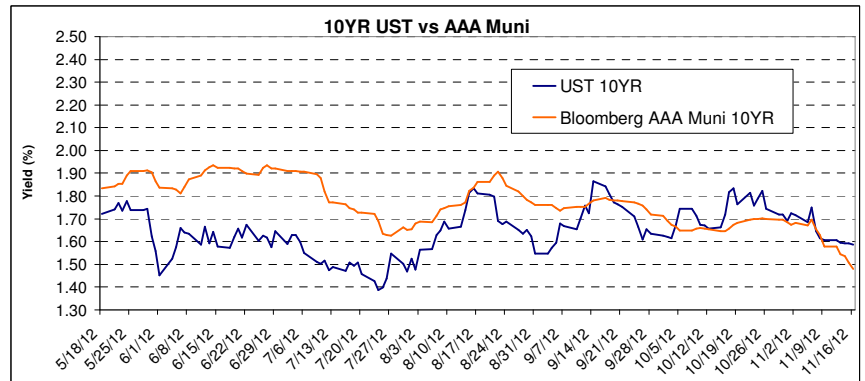
Bloomberg Muni PICK Offerings (\$ Bln)	\$10.88	\$10.14
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Muni Placement Ratio (New Issues)	n/a	97.9%
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Bond Buyer 20 Municipal G.O. Index	3.41%	3.55%
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Select Economic Releases

Date	Event	Period	Survey	Prior
11/19	Existing Home Sales	Oct	4.75M	4.75M
11/20	Housing Starts	Oct	840K	872K
11/20	Building Permits	Oct	865K	894K
11/21	MBA Mortgage Applications	16-Nov	--	12.6%
11/21	Initial Jobless Claims	17-Nov	400K	439K
11/21	Continuing Claims	10-Nov	3345K	3334K
11/21	U. of Michigan Confidence	Nov F	84.5	84.9
11/21	Leading Indicators	Oct	0.1%	0.6%



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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