

## Trading Desk Commentary

In the early part of the week, some Muni participants may have worried that the Mayans were correct in their apocalyptic predictions. The seemingly bottomless Muni liquidity we all enjoyed for essentially the entire year came to a screeching halt late last week and only worsened as this week got underway. MMD's 10-year AAA Muni scale weakened 20 basis points in the span of a few days, unable to withstand the strong confluence of headwinds that swelled against the tax-exempt space. First of all, last week's huge \$1 bln in new supply left Muniland with a hangover. Dealers struggled to find homes for some of the week's largest deals (especially the highest-rated ones), only adding to the buildup in many firms' inventory line items. Many shops already had plenty of secondary offerings still sitting on their shelves since Thanksgiving. As disinterested Muni bidders headed for the exits, dealers started to feel pressure from their risk management departments to start punting their inventory – now. Suddenly, the Muni market was flooded with sellers. Furthermore, Muni bond funds and ETFs were turned into forced sellers as well this week in order to meet cash demands from investors taking gains before year-end (and before their tax rates potentially change). Muni bond funds watched \$2.3bln leave over the past week (Lipper), their worst outflows since early 2011. Add to all this a softer US Treasury backdrop in the first half of the week (due to speculation that fiscal cliff talks were progressing) and Munis were being attacked from all sides.

Then came the second half of the week. US Treasuries firmed up as debt talks soured and then, last night, House Speaker Boehner's "Plan B" bill failed to reach a vote when support for the proposal evaporated. The market viewed this not only as a major setback (with over 100 point skid in the Dow today) but also as another missed opportunity. Congress will adjourn until the middle of next week in observance of the Christmas holiday, leaving only a few days to potentially find some resolution. The chances of a dive over the cliff (or at least a compromise not coming until January or February 2013) probably just grew meaningfully last night. An 11th hour Grand Bargain is essentially off the table, at this point. These realizations flipped the risk switch back "off" and investors spent the past two days seeking out safer investment alternatives. Munis and US Treasuries retraced some of the losses they incurred earlier in the week and bidding firmed up in short order (granted it was somewhat mitigated by the fact that some traders were already home for the holidays). Once participants return to their desks Wednesday, they will find little to work on in the primary. New supply is virtually non-existent and only \$3bln is currently slated for the next 30 days (Bond Buyer). Should we hear of any fiscal cliff developments over the holidays, activity will likely react accordingly come Wednesday. More likely, nothing new will emerge over the next five days and anxieties will support debt prices as the cliff deadline approaches. We were buyers during this week's sell-off and bought Munis at some of the cheapest levels we have seen in since September. Next week, we will hit the ground running in the secondary and try to capitalize on the sluggish activity that typically characterizes the half-week after Christmas. Until then, we hope everyone enjoys a happy and safe holiday.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.31	0.01	0.30	119%
5 Year	0.81	0.08	0.73	108%
10 Year	1.77	0.11	1.66	101%
30 Year	2.83	0.12	2.71	97%
UST Rates				
2 Year	0.26	0.02	0.24	
5 Year	0.75	0.04	0.71	
10 Year	1.75	0.05	1.70	
30 Year	2.92	0.05	2.87	

	Current Wk	Prior Wk
<b>Weekly Municipal Supply (\$ Bln)</b>		
Negotiated	n/a	\$2.88
Competitive	n/a	\$0.31
<b>TOTAL</b>	<b>\$0.00</b>	<b>\$3.19</b>

<b>Municipal 30 Day Visible Supply (\$ Bln)</b>	<b>\$3.19</b>	<b>\$5.99</b>
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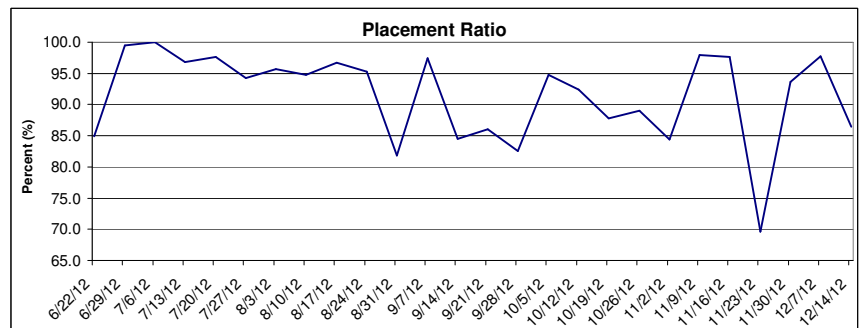
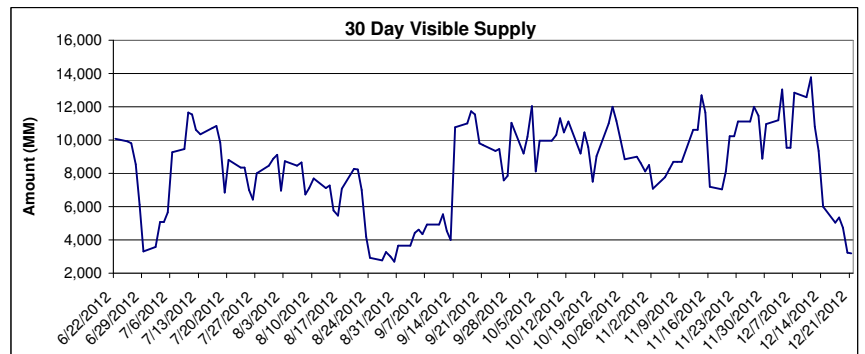
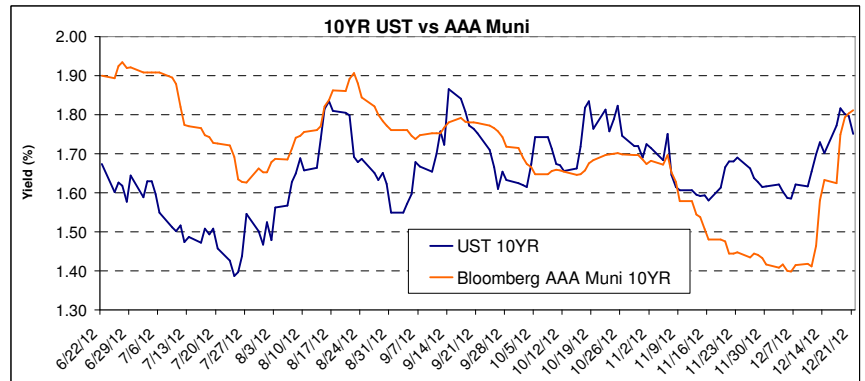
<b>Bloomberg Muni PICK Offerings (\$ Bln)</b>	<b>\$10.86</b>	<b>\$12.65</b>
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<b>Muni Placement Ratio (New Issues)</b>	<b>n/a</b>	<b>86.5%</b>
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<b>Bond Buyer 20 Municipal G.O. Index</b>	<b>3.64%</b>	<b>3.44%</b>
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## Select Economic Releases

Date	Event	Period	Survey	Prior
12/26	S&P/CS Composite-20 YoY	Oct	4.00%	3.00%
12/26	S&P/CaseShiller Home Price Ind	Oct	145.92	146.22
12/26	Richmond Fed Manufact. Index	Dec	7	9
12/27	Initial Jobless Claims	22-Dec	360K	361K
12/27	Continuing Claims	15-Dec	3220K	3125K
12/27	Bloomberg Consumer Comfort	23-Dec	--	-31.9
12/27	Consumer Confidence	Dec	70	73.7
12/27	New Home Sales	Nov	380K	368K
12/28	Chicago Purchasing Manager	Dec	51	50.4
12/28	Pending Home Sales MoM	Nov	1.00%	5.20%



#### **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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