

Trading Desk Commentary

It is hard to remember such Muni volatility packed into a single week. As it got underway, US Treasuries still had not found stability and Municipals were playing catch-up to the previous week's rate sell-off. Many parts of MMD's AAA Muni curve were hit with 12-20 basis point cuts (increases of 0.12-0.20%) on Monday, a significant single-day weakening by any measure. But as the week progressed, US Treasuries began to firm and provided the confidence boost needed to rejuvenate interest in Munis. Of course, it also helped that Muni yields had reached their highest points in over two years and the recent volatility had created Muni-to-Treasury ratios attractive enough to force crossover buyers to take notice. By mid-week, the most highly anticipated deals like the \$1.3bln (A3/A-) State of Illinois and \$520mln (Aaa/AAA) State of Georgia general obligation loans were generating exceptional order flows. Muniland's better tone allowed deals that were previously postponed during last week's debt market turmoil to come to market and find distribution. The fact that this issuance logjam was successfully worked through bodes well for tax-exempts in the near-term. Carrying a growing 30-day visible supply into the Independence holiday could have been a cause for concern for Municipals' outlook given the seasonal limited participant activity. Week-over-week, Munis appear to be in a better overall fundamental position with more manageable supply and firming yields. One notable exception is the newest Muni fund flow number reported by Lipper, which showed the largest one-week loss of assets (-\$4.6bln) since Lipper began tracking the data. The eyebrow-raising Lipper number would have captured the outflows occurring through Wednesday and don't reflect the market improvement witnessed to close the week. Next week's data may paint a less negative picture, not only because of observable rate stabilization, but based on the activity we observed in the Muni ETF markets. Many of the record-setting discounts in Muni ETFs have dramatically improved over the past few days. This too suggests that the worst of the bond volatility may be over for now.

Next week promises to be a quirky one. The July 4th holiday appears to have scared off issuers for the week. Less than \$1bln of new supply is expected and activity is likely to be extremely light. More issuance is on the horizon, with Bond Buyer's 30-day visible number still above \$8bln despite the minimal issuance over the next few days. Participants would likely welcome a calm week. The recent fluctuations in bond markets brought the second quarter to a memorable conclusion. For those traders at their terminals next week, there should be some opportunities to find value hiding in a sleepy secondary market. Despite the rally late this week, Muni yields remain very attractive relative to the past couple years. Furthermore, we are seeing wider spreads (incremental yield over AAA) on A and AA paper versus just a few weeks ago and continue to pursue bonds offering value on a risk-adjusted basis. We view the current market environment as a notable buying opportunity at these prices, though within a more defensive duration and maturity context.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.50	0.07	0.43	143%
5 Year	1.40	0.02	1.38	100%
10 Year	2.56	-0.07	2.63	102%
30 Year	3.83	-0.13	3.96	109%
UST Rates				
2 Year	0.35	-0.01	0.36	
5 Year	1.40	-0.01	1.41	
10 Year	2.50	-0.02	2.52	
30 Year	3.51	-0.06	3.57	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$0.87	\$9.84
Competitive	\$0.04	\$1.12
TOTAL	\$0.92	\$10.96

Municipal 30 Day Visible Supply (\$ Bln)	\$8.85	\$13.94
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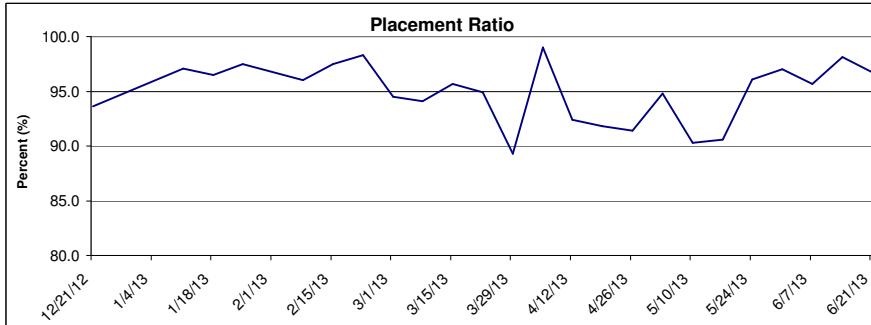
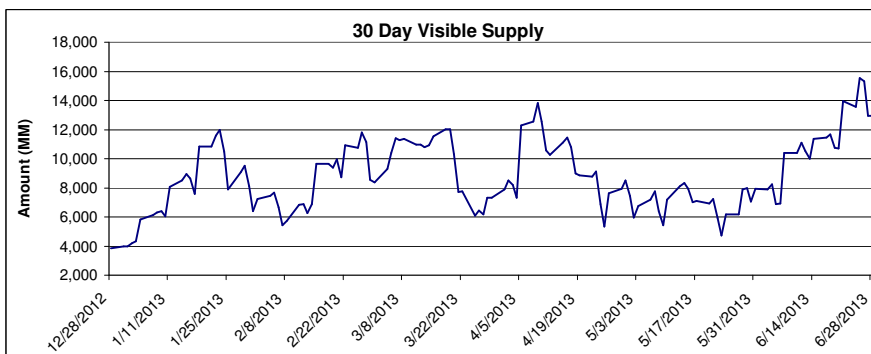
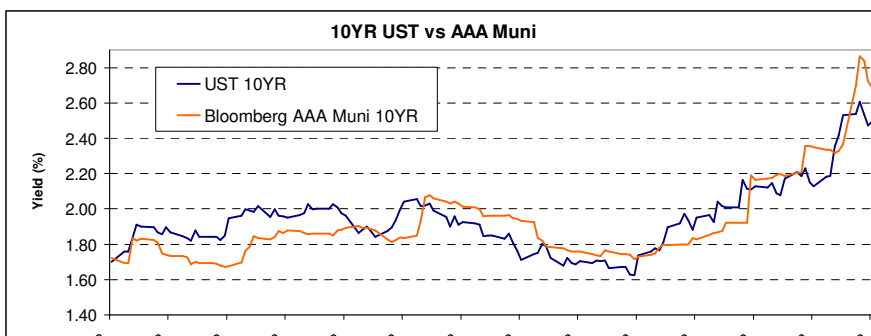
Bloomberg Muni PICK Offerings (\$ Bln)	\$12.29	\$13.07
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Muni Placement Ratio (New Issues)	n/a	96.7%
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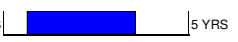









Bond Buyer 20 Municipal G.O. Index	4.63%	4.37%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/1	Construction Spending MoM	May	0.6%	0.4%
7/1	ISM Manufacturing	Jun	50.5	49.0
7/2	Factory Orders	May	2.0%	1.0%
7/3	MBA Mortgage Applications	28-Jun	--	-3.0%
7/3	ADP Employment Change	Jun	158K	135K
7/3	Trade Balance	May	-\$40.1B	-\$40.3B
7/3	Initial Jobless Claims	29-Jun	345K	346K
7/3	ISM Non-Manf. Composite	Jun	54.1	53.7
7/5	Change in Nonfarm Payrolls	Jun	165K	175K
7/5	Unemployment Rate	Jun	7.5%	7.6%



Caprin Strategy Summary

Name	Target Duration Position	Target Maturity Range	Highlights
Short Maturity Muni	Min  Max	0 YRS  5 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Low Duration Taxable	Min  Max	0 YRS  5 YRS	Prefer Corporates and Taxable Munis
Intermediate Muni	Min  Max	0 YRS  17 YRS	Prefer Hlth, Hsg, Pwr to G.O.'s for Yield
Intermediate Taxable	Min  Max	0 YRS  12 YRS	Prefer Corporates and Taxable Munis
Tactical Muni ETF	Min  Max		Slight Overweight to CA and NY
Core Plus ETF	Min  Max		Slight Overweight to Corporates and BABs
Tactical Opportunity ETF	Min  Max		Slight Overweight Munis, Underweight Taxables

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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