

Trading Desk Commentary

A fairly quiet start to the week in Muniland picked up steam as we headed into the weekend. To begin, Muni activity felt very sluggish ahead of the close to \$3bn Grand Parkway Transportation revenue loan coming to market in The Lone Star State, comprising roughly one-third of the week's available supply. On Wednesday, Bernanke's further softened previous implications that the Fed was gearing up for a late 2013 taper that would wrap up its asset purchasing program by the middle of next year. Bernanke stated that the Fed has "no set course" laid out as of yet and that economic activity over the next 6 months will warrant close attention – by both the Fed as well as investors eager to capitalize on speculation over the Fed's intentions and timetable. This news sparked a rally in US Treasuries mid-week and provided a solid backdrop for Munis to lean against. This helped move the huge Grand Parkway Transportation deal and establish a little better tone in tax-exempts. However, the improvement would be short-lived. Thursday proved a busy day for the Municipal market's credit landscape. Moody's slapped the City of Chicago's general obligation rating with a multi-notch downgrade (from Aa3 to A3) due to the city's failure to address its unfunded pension liabilities and resulting budget problems. Soon thereafter, Detroit filed for Chapter 9 bankruptcy protection, making Detroit the largest US municipal bankruptcy in history. Both events were highly predictable though that is not to say they didn't have their effect on Munis. Friday, Munis traded off despite an improving US Treasury market. This was at least in part due to the renewed discussion about broader Muni credit concerns on a national level, coupled with a healthy supply calendar to digest and Lipper's most recent report showing another large week of outflows in Muni bond funds (almost \$1.6bn, bringing the total outflows north of \$14bn this year). The pressures specific to Munis pushed yields higher anywhere from 2 to 11 basis points, with more weakness felt in the longer portion of the yield curve.

Next week, Muni supply appears less robust with approximately \$5.5bn expected in new issuance. The largest deal comes in the form of a \$750m (A1) Bay Area Toll Authority revenue deal from California, concentrated in the longer end of the yield curve. Beyond that, the deal size falls off precipitously. How well these fare will depend on several factors: 1) How bad the hangover from Detroit is next week and how bothered Muni investors are by the headlines and news coverage. Those who have been paying attention would have seen this coming quite some time ago. We hold no Detroit debt and believe the Detroit events should be viewed as isolated from other GO debt. Still, credit surveillance remains a crucial aspect of Muni investing; 2) If any, what kind of language emerges from Fed officials. Sensitivity to comments from the central bank's leaders remains elevated; 3) How do next week's US economic releases look. Major data will be published from the housing and labor sector, two critical aspects to Fed policy. The Fed has tied its policy tightly to jobs data so the relationship is an important one. Housing is more indirect, though if New and Existing Home Sales come in well-below expectations, many will blame the recently higher mortgage rates and pressure will mount for the Fed to stay engaged in a low rate regime. In this currently volatile and uncertain period, we remain defensively postured.

Muni Rates	Current Wk	Yld Change	Prior Wk	Muni to UST
2 Year	0.43	-0.02	0.45	143%
5 Year	1.32	-0.09	1.41	102%
10 Year	2.67	0.01	2.66	108%
30 Year	4.14	0.14	4.00	116%
UST Rates				
2 Year	0.30	-0.05	0.35	
5 Year	1.30	-0.12	1.42	
10 Year	2.48	-0.11	2.59	
30 Year	3.56	-0.09	3.65	

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$4.15	\$7.38
Competitive	\$1.08	\$1.94
TOTAL	\$5.23	\$9.32

Municipal 30 Day Visible Supply (\$ Bln)	\$10.17	\$14.46
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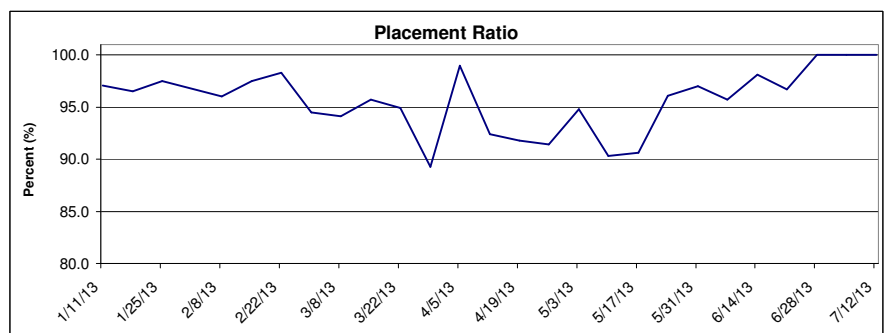
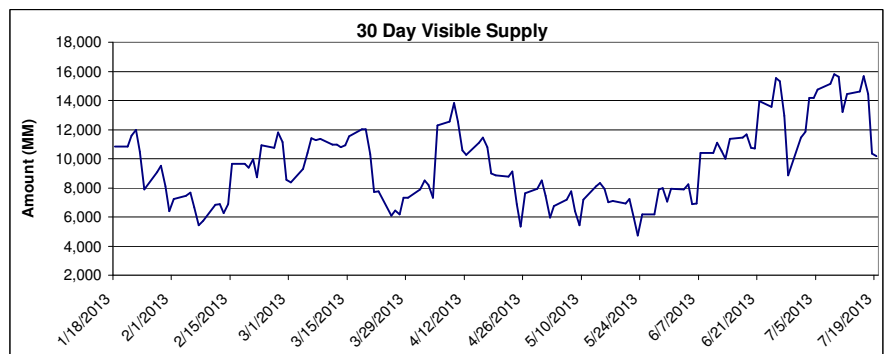
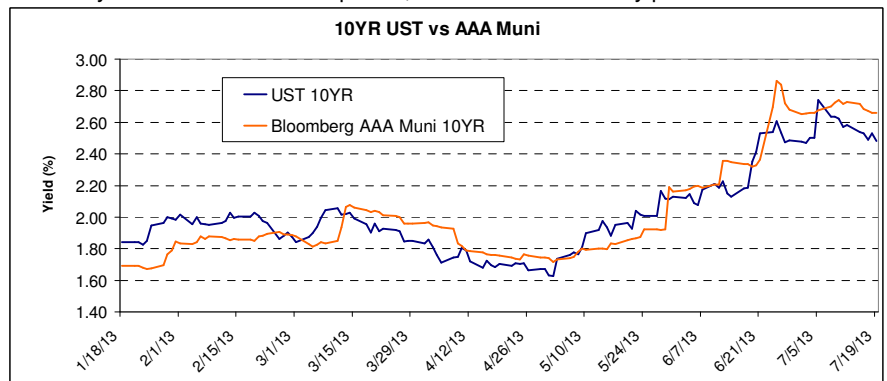
Bloomberg Muni PICK Offerings (\$ Bln)	\$11.72	\$11.76
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Muni Placement Ratio (New Issues)	n/a	100.0%
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Bond Buyer 20 Municipal G.O. Index	4.52%	4.55%
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Select Economic Releases

Date	Event	Period	Survey	Prior
7/22	Existing Home Sales	Jun	5.25M	5.18M
7/24	MBA Mortgage Applications	19-Jul	--	-2.6%
7/24	New Home Sales	Jun	484K	476K
7/25	Initial Jobless Claims	20-Jul	340K	334K
7/25	Continuing Claims	13-Jul	3022K	3114K
7/25	Durable Goods Orders	Jun	1.0%	3.6%
7/26	U. of Michigan Confidence	Jul F	84.0	83.9



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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