

Weekly Trading Desk Update

WEEK OF JUNE 19TH - 23RD

Trading Desk Commentary

MACRO:

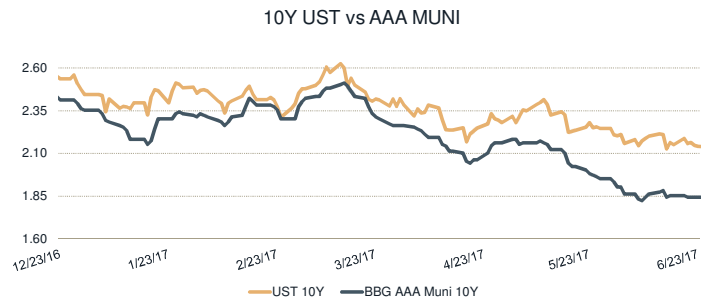
- It was quiet on the economic release front last week, so Fed speak dominated headlines. While the core decision makers within the Fed seem to believe that recent declines in inflation are transitory, there are some who are becoming less sure.
- The Fed believes it has at least one more interest rate hike left in calendar year 2017, however the futures markets paint a different picture. Based on Fed Fund Futures probabilities model, the highest and second highest probability is that there will be no additional rate hikes through June 2018.
- The yield curve flattened this week as long-dated Treasury yields fell in tandem with the price of oil. Although it stabilized towards the end of the week, the price of crude fell 4% last week and is down 20% since hitting a high of \$54/barrel in late February.

MUNI MARKET:

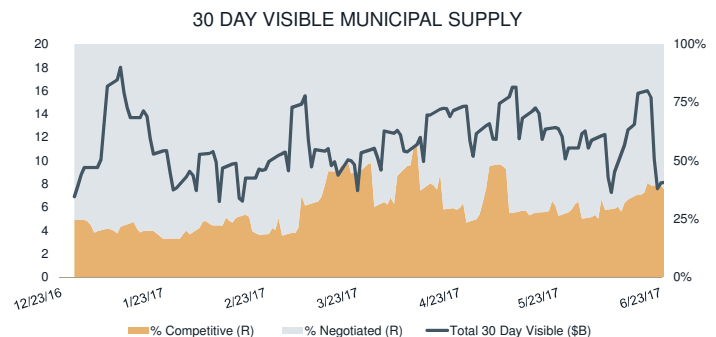
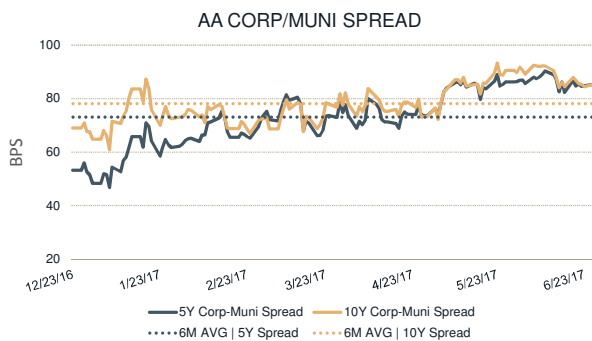
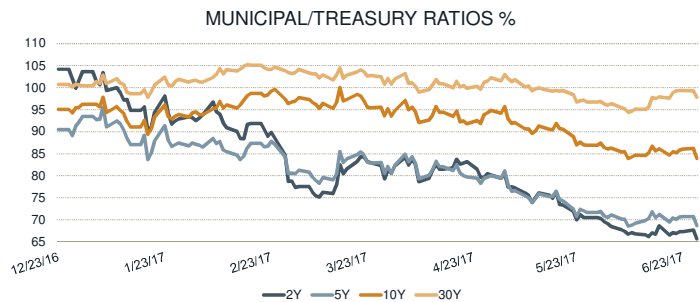
- The muni market experienced outflows of \$891 million last week, however the larger-than-average weekly supply was placed with relative ease. The demand for high yield continued as certain maturities from the non-rated American Dream transaction in New Jersey traded up approximately 40 basis points once free to trade.
- Although slightly lagging the Treasury rally, muni yields ended the week 1 to 4 basis points lower in flattening fashion. The muni 2s/30s spread is now 189 basis points, the lowest level since last October. Ratios, especially on the front end, remain extremely rich. The last time the 2 year ratio was at this level was September 2014.
- On the credit front, there are 15 states that have yet to pass a balanced FY18 budget. Among the habitual offenders (IL, PA) there are several historically well-managed states (DE and NC) that have yet to conclude the budgetary process.

MARKET OVERVIEW

	6/20/17	6/27/17	Δ bps	1M Trend
Muni	2Y	0.90	0.90	0
	5Y	1.24	1.24	0
	10Y	1.84	1.84	0
	30Y	2.71	2.69	-2
UST	2Y	1.34	1.37	3
	5Y	1.76	1.81	5
	10Y	2.16	2.19	4
	30Y	2.74	2.75	1



	5/29/17	6/27/17	1M Trend
MUNI/UST Ratios	2Y	70%	66%
	5Y	72%	69%
	10Y	87%	84%
	30Y	97%	98%



EXPLANATION

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. Competitive and Negotiated are broken out as a percentage of total supply.

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.

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: 30 day visible figures are obtained through Bloomberg, 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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