Weekly Trading Desk Update

WEEK OF JULY 24TH - 28TH

Trading Desk Commentary

Macro:

- US Treasury yields opened the week rising moderately on positive economic news out of Europe, stronger oil prices, and a motion to proceed on healthcare clearing the Senate. That momentum stalled by the time the Fed met on Wednesday, and it reversed course after Senate GOP leaders failed to corral the 50 votes needed for passage. Friday's Q2 GDP release (2.6%) did little to encourage yields higher either, as it showed a significantly lower boost to the economy than originally anticipated.
- Only a handful of word changes were made to Wednesday's FOMC statement, but that did not stop market pundits from drawing conclusions from these nuances. Of particular note was the removal of "somewhat" as it had previously described the distance from which inflation was running below target, and the addition of "For the time being" as it relates to balance sheet reinvestments. The immediate takeaway was that of a more dovish tone from the central bank as they seem to be growing more concerned about the persistence of low prices. This was somewhat offset by the perception that September is now a viable meeting for a date to be set on balance sheet reduction.
- Looking to the week ahead, we will again have a busy economic calendar to work through as Tuesday's PCE release will give FOMC members another look at current price pressures, followed by jobs Friday and the seemingly stuck Avg. Hourly Earnings.

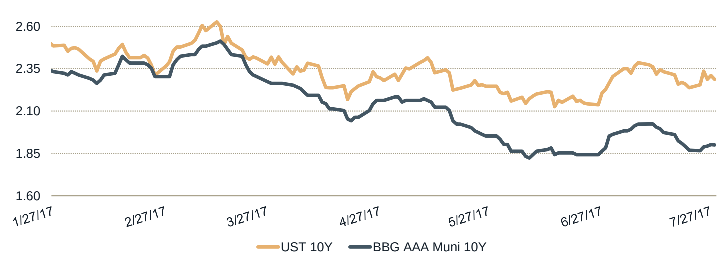
Muni:

- Although rates increased across the curve, municipals outperformed Treasuries on the week. The muni market continues to benefit from a decrease in primary activity and steady demand, especially from retail investors. Primary supply next week will be slightly elevated with $7 billion set to price, while 30-day visible supply saw a notable increase to $11 billion, up from $7.5 billion the past couple of weeks.
- Republican-led efforts to repeal and replace Obamacare failed to move past the Senate last week. Although the issue could be revisited in the fall, this is a near-term credit positive for the healthcare sector and, in particular, those hospital credits in states that expanded Medicaid. The administration may also wish to move on and focus on tax reform, another hot topic for the muni market.
- Kentucky became the latest victim of a credit rating downgrade. The Bluegrass State does not issue general obligation bonds but instead relies on issuing lease-revenue bonds that are secured by state appropriations. The downgrade from Aa2 to Aa3 by Moody's reflects recent revenue underperformance and very low pension funding levels.

MARKET OVERVIEW

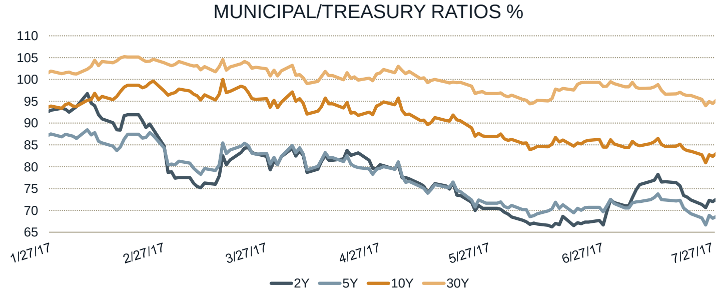
		7/21/17	7/28/17	Δ bps	1M Trend
Muni	2Y	0.97	0.98	1	
	5Y	1.25	1.26	1	
	10Y	1.87	1.90	3	
	30Y	2.71	2.76	5	
UST	2Y	1.34	1.35	1	
	5Y	1.80	1.83	3	
	10Y	2.24	2.29	5	
	30Y	2.81	2.89	9	

10Y UST vs AAA MUNI

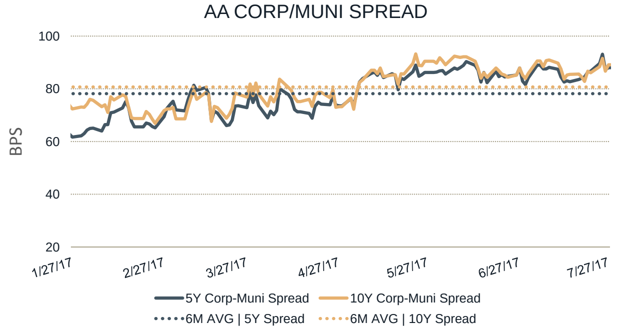


		6/29/17	7/28/17	1M Trend
MUNI/UST Ratios	2Y	72%	73%	
	5Y	73%	69%	
	10Y	86%	83%	
	30Y	99%	95%	

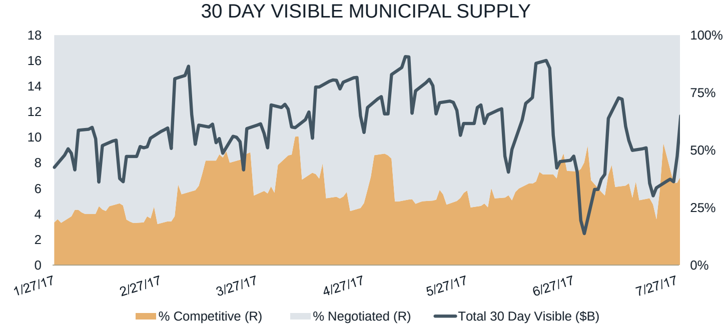
MUNICIPAL/TREASURY RATIOS %



AA CORP/MUNI SPREAD



30 DAY VISIBLE MUNICIPAL SUPPLY



Please refer to the second page for sources, definitions and disclosure information.

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.