

Weekly Trading Desk Update

WEEK OF AUGUST 7TH - 11TH

Trading Desk Commentary

Macro:

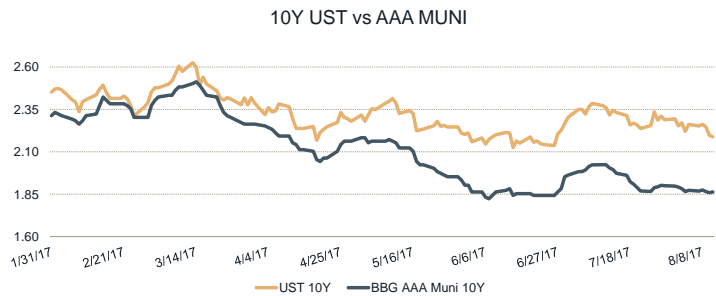
- US bond markets had an event-filled week heavily dominated by the intensifying rhetoric between North Korea and the United States. President Trump noted that the U.S. was ready for any conflict that might emerge with “fire and fury like the world has never seen”. This and similar statements sent a flight to quality bid through the UST market that saw yields across the curve move lower by 6-7 basis points, and we saw equity volatility (as measured by the VIX) increase by more the 50% for a short period.
- Despite a low bar being set by most economists for July’s CPI release (Core survey 0.02%), price appreciation continued to miss the mark coming in at only 0.1% (1.7% yoy). Anomalies again emerged in the data that seem to prevent the move to 2% that many economists and the Federal Reserve continue to call for. In this month’s data a large, unexpected decline in hotel prices plagued price just as cell contract changes did earlier in the year. It will now be up to Chair Yellen and company to determine whether these one off events are still transitory or indicative of more persistent challenges.
- This week the economic calendar is a bit quieter with Tuesday’s Retail Sales and Thursday’s FOMC minutes likely garnering the most attention. August 24-26th central bank heads gather in Jackson Hole, and all eyes will be on ECB President Draghi and Chair Yellen to see what details might be offered on the future of two large balance sheets.

Muni:

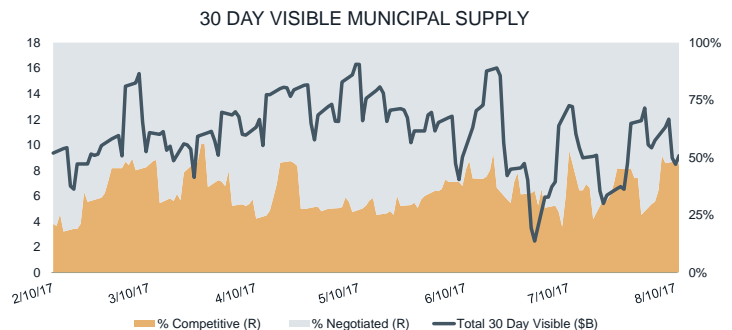
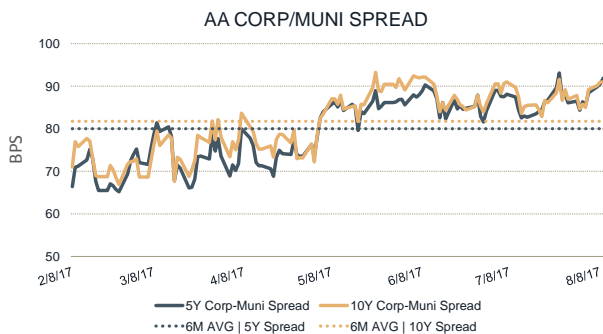
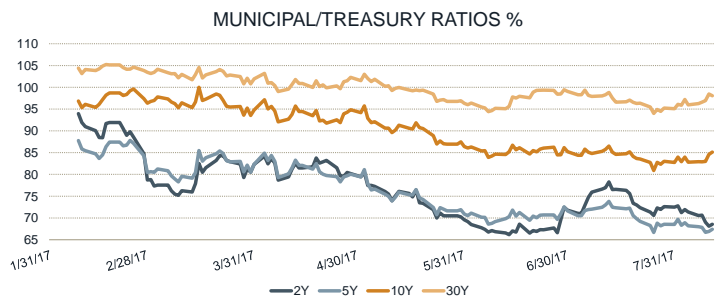
- Muni yields declined across the curve but lagged the Treasury rally, which was fueled by increased geopolitical strains with North Korea. Although experts believe an imminent threat is remote, any escalation of rhetoric should trigger more flows into the fixed space, including munis.
- Another week of light issuance was placed with ease as demand (another \$1.6 billion entered the space last week) continues to outpace supply. Month-to-date issuance is down roughly 30% compared to this time last August, and total issuance year-to-date is off approximately 14% from last year. We expect primary supply to remain light heading into the second half of August.

MARKET OVERVIEW

		8/4/17	8/11/17	Δ bps	1M Trend
Muni	2Y	0.96	0.89	-8	
	5Y	1.24	1.18	-6	
	10Y	1.87	1.86	-1	
	30Y	2.73	2.73	0	
UST	2Y	1.35	1.29	-6	
	5Y	1.82	1.74	-7	
	10Y	2.26	2.19	-7	
	30Y	2.84	2.79	-6	



		7/13/17	8/11/17	1M Trend
MUNI/UST Ratios	2Y	77%	69%	
	5Y	72%	67%	
	10Y	85%	85%	
	30Y	98%	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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