

Weekly Trading Desk Update

WEEK OF AUGUST 14TH - 18TH

Trading Desk Commentary

Macro:

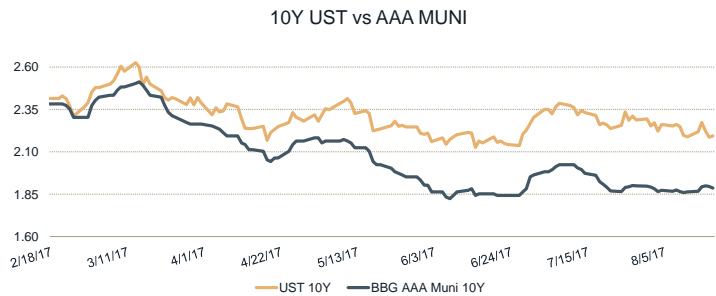
- Although the 2.19% week over week yield on, the 10YR UST looks fairly uninspiring there was plenty for fixed income participants to digest. Tuesday's retail sales release (July) proved more resilient than expected, coming in at 0.6% (the best print of '17) and certainly helps support estimates of a more expansive Q3 GDP. Yields rose to 2.28% post-release but were quickly contained by building tensions surrounding the administration's handling of the tragic events in Charlottesville.
- By mid-week, two high profile business advisory panels formed by President Trump had disbanded and questions emerged whether Gary Cohn would remain on as the Director of the National Economic Council. This was more than enough to unnerve equity markets and send a safe-haven bid right back to the UST market.
- In addition to economic data and the seemingly constant uncertainty that is Washington, the FOMC released minutes from its July meeting. Contained in the minutes was less about the upcoming reduction of the central bank's \$4TR balance sheet and more about concerns creeping into the committee's assessment of inflation risks, or lack thereof. Heightened asset price risks were noted by staffers, but on whole the conversations did appear to be driven by the doves.

Muni:

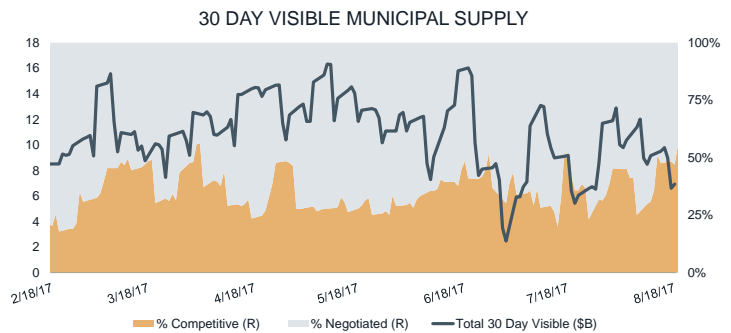
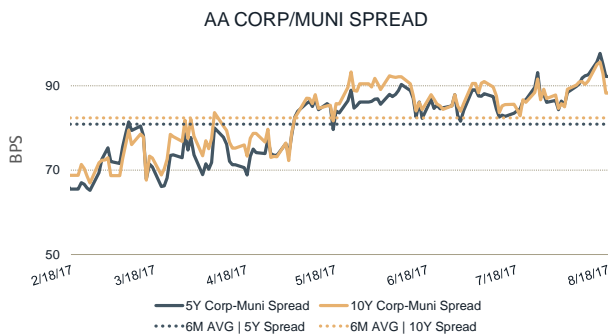
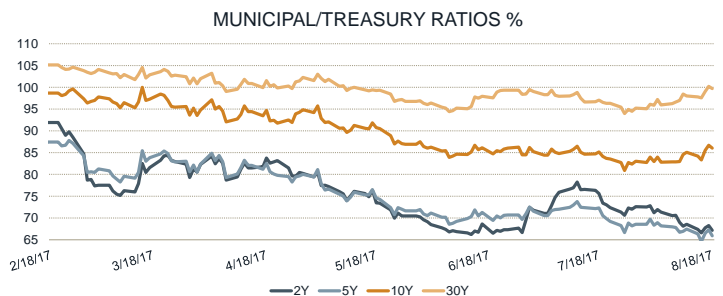
- Muni yields were higher by a few basis points across the curve last week and failing to keep pace with the rally in the Treasury market. The underperformance did not come at a complete surprise though as ratios, especially on the front end, are near historical low levels leaving little room for additional muni outperformance.
- For the week net inflows into the muni market were \$586 million, marking the fifth consecutive week of inflows. New flows entering the market continue to meet limited primary offerings leading to hefty oversubscription and large bumps to final pricing scales.
- On the credit front, last week Fitch downgraded the U.S. Virgin Islands further into junk territory as the islands are trying to figure out how to shore up a \$3.1 billion net pension liability. That amount is \$1 billion more than total USVI bonded debt.

MARKET OVERVIEW

		8/11/17	8/18/17	Δ bps	1M Trend
Muni	2Y	0.89	0.88	-1	
	5Y	1.18	1.16	-2	
	10Y	1.86	1.89	2	
	30Y	2.73	2.77	4	
UST	2Y	1.29	1.31	1	
	5Y	1.74	1.76	2	
	10Y	2.19	2.19	1	
	30Y	2.79	2.78	-1	



		7/20/17	8/18/17	1M Trend
MUNI/UST Ratios	2Y	73%	67%	
	5Y	70%	66%	
	10Y	84%	86%	
	30Y	96%	100%	



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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