

Weekly Trading Desk Update

WEEK OF SEPTEMBER 4TH - 8TH

Trading Desk Commentary

Macro:

- The shortened holiday week saw a strong flight to quality bid emerge across US treasury trading as North Korea, hurricanes, and Central Banks weighed on traders. The 10YR UST, which ended August at approximately 2.15%, was sent lower at Tuesday's open as participants returned to assess the significance of the first reported hydrogen bomb test out of North Korea. Later in the week, the ECB and President Draghi remained non-committal in regards to tapering, while the largest recorded Atlantic hurricane moved closer to the mainland.
- The move lower in yields following the North Korean testing was not a surprise to participants, but the move following President Draghi's subtly dovish tone was. Thursday morning's move from 2.08% to nearly 2.00% was propelled by significant short covering as traders were hopeful that the bank head would begin to lay the groundwork for an upcoming tapering. Instead, they were met with continued asset purchases of €60 bln per month and a note that ongoing purchase levels past '17 would be decided in the "autumn."
- Looking to the week ahead, Fed Governors have gone into their blackout period before the Sept 20th meeting. Data at home will focus on inflation measures with PPI on Wednesday and CPI (1.8% Headline, 1.6% Core surveys) on Thursday. Given the significant airtime that inflation (or lack thereof) has gotten within the FOMC, markets will be watching closely, and we would expect volatility if prints come in noticeably away from consensus.

Muni:

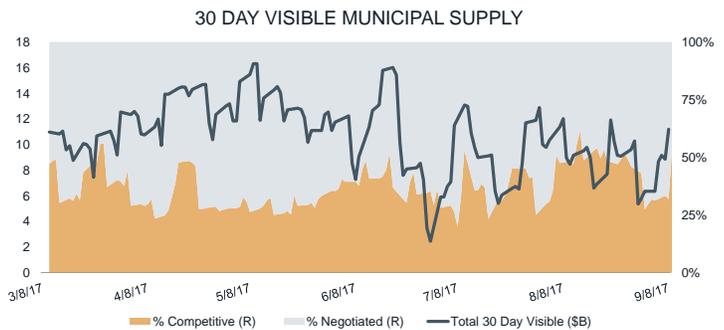
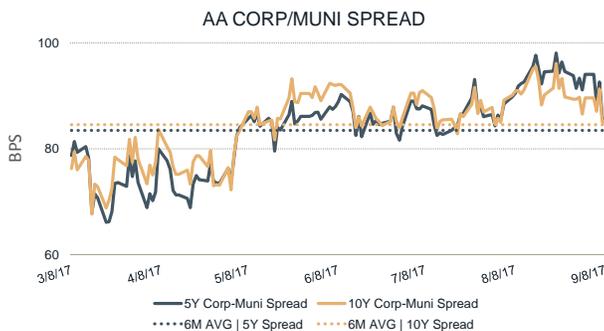
- Muni yields moved lower but failed to keep pace with the Treasury rally. For the week, munis ended lower in yield by 1bp, 7bps, and 6bps in the 5yr, 10yr and 30yr parts of the curve, respectively. As we enter the first full week of issuance post-summer, primary supply will open significantly higher than the YTD average (\$10.5bln vs. \$7.5bln). Should the pop in supply be placed with ease, it could give us an early indication of how munis will perform in September.
- On the credit front, Hartford, Connecticut threatened to file for chapter 9 bankruptcy in roughly 2 months should the state fail to pass a budget, which would provide financial relief to the struggling state capitol. The highly leveraged city is being challenged by rising health care costs and unfunded pension liabilities. The City is scheduling a call with bondholders on September 25th, and it is anticipated that debt restructuring discussions will be held.

MARKET OVERVIEW

		9/1/17	9/8/17	Δ bps	1M Trend
Muni	2Y	0.85	0.84	-1	
	5Y	1.13	1.10	-3	
	10Y	1.85	1.79	-5	
	30Y	2.75	2.71	-4	
UST	2Y	1.34	1.26	-8	
	5Y	1.74	1.64	-10	
	10Y	2.17	2.05	-11	
	30Y	2.78	2.67	-11	



		8/10/17	9/8/17	1M Trend
MUNI/UST Ratios	2Y	68%	67%	
	5Y	67%	67%	
	10Y	85%	87%	
	30Y	98%	101%	



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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