# Weekly Trading Desk Update
WEEK OF SEPTEMBER 11TH - 15TH

CAPRIN

## Trading Desk Commentary

Macro:

- A risk-on tone coupled with a modest reflation trade were the major themes of last week's trading. Early in the week, participants' nerves were calmed as initial damage indications from Hurricane Irma were not as catastrophic as feared, and concerns over another missile test marking the Anniversary of North Korea's formation did not materialize.
- Economic releases at home and abroad showed a modest uptick in inflation as Chinese PPI came in decisively ahead of survey (6.3% vs 5.7%) with a large rally in core metals helping push prices higher. At home, Thursday's much anticipated inflation report, while not as robust, still showed signs of stabilization. August core CPI actually met consensus (0.2%), and improved to a level not seen since February. While one report is unlikely to make or break another Fed hike this year it could help those governors on the fence feel slightly more comforted. Market odds of a December hike have moved back to nearly a coin flip (~45%) after dropping to 20% earlier in the month.
- The week ahead will be light in the way of data, and focus will be paid to Wednesday's FOMC announcement. While there is little chance of a change to monetary policy, the market is anticipating more progress in the form of balance sheet reduction announcements and an updated assessment on how the committee views the recent bout of stubbornly low inflation.

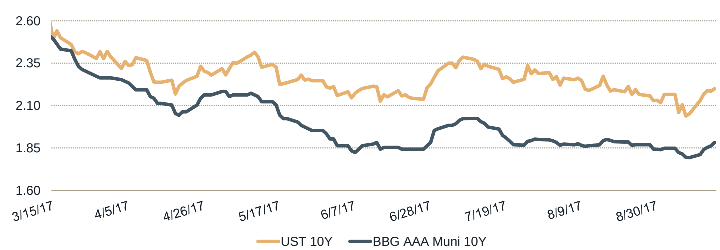
Muni:

- For the week munis registered their 9th consecutive week of inflows as a little over $240mm trickled into the space. Tax-exempts outperformed taxables as Treasury bond yields steadily rose last week following slightly stronger than expected CPI data. Although munis outperformed, we did see some balances on primary deals and several weaker prints on some of the most commonly traded names. Next week supply seems manageable, and we expect munis to take their cues from Treasuries, which could react strongly should the Fed surprise markets on Wednesday.
- The most important development for munis over the near-term will be tax reform. An outline is anticipated to be released next week, but details are scarce. We think the possibility of eliminating the municipal tax exemption to be remote as both President Trump and Treasury Secretary Mnuchin have both voiced support in favor of keeping it. Further, we believe that any reduction to individual and/or corporate income tax rates (assuming reductions are part of the ultimate reform package) would be too minimal to greatly impact demand for municipals.

## MARKET OVERVIEW

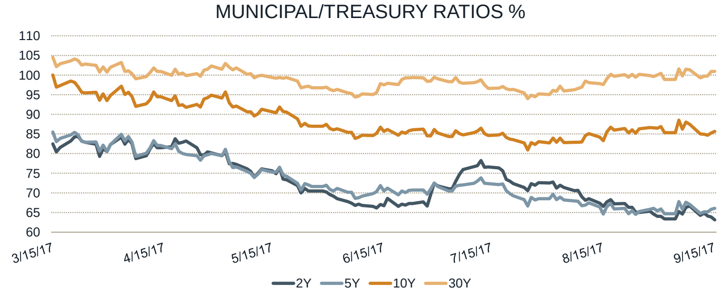
| | | 9/8/17 | 9/15/17 | Δ bps | 1M Trend |
|---|---|---|---|---|---|
| Muni | 2Y | 0.84 | 0.87 | 3 | |
| | 5Y | 1.10 | 1.19 | 10 | |
| | 10Y | 1.79 | 1.88 | 9 | |
| | 30Y | 2.71 | 2.79 | 9 | |
| UST | 2Y | 1.26 | 1.38 | 11 | |
| | 5Y | 1.63 | 1.80 | 17 | |
| | 10Y | 2.05 | 2.20 | 15 | |
| | 30Y | 2.67 | 2.77 | 10 | |

10Y UST vs AAA MUNI

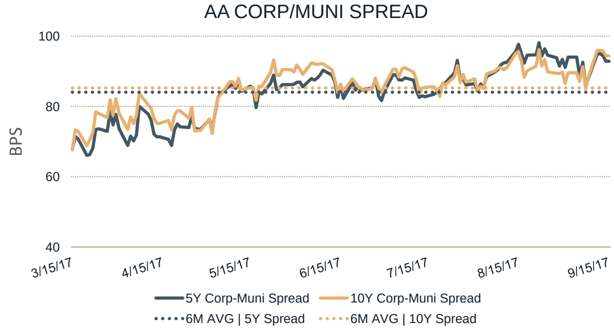



| | | 8/17/17 | 9/15/17 | 1M Trend |
|---|---|---|---|---|
| MUNI/UST Ratios | 2Y | 68% | 63% | |
| | 5Y | 67% | 66% | |
| | 10Y | 87% | 86% | |
| | 30Y | 100% | 101% | |

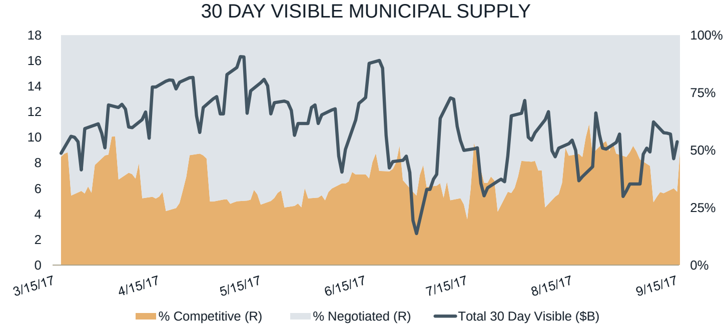
MUNICIPAL/TREASURY RATIOS %




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.