Weekly Trading Desk Update

WEEK OF SEPTEMBER 18TH - 22ND

Trading Desk Commentary

Macro:

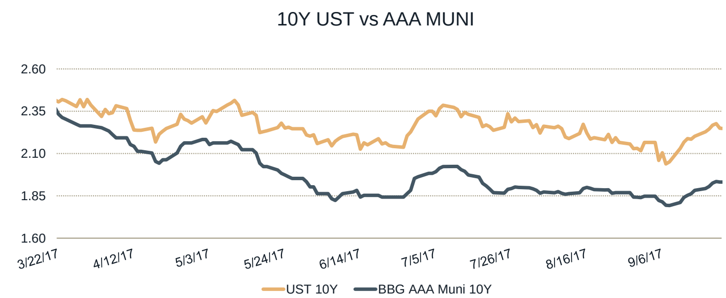
- The focus last week was squarely on Wednesday's FOMC statement to see whether turmoil in Washington and modest inflation data would soften the stance of the committee. Not surprising, the meeting resulted in no change to the Federal Funds rate but did lay the groundwork for Fed assets to begin rolling-off in October. Perhaps of more immediate interest was the still "hawkish" tilt of the dot plot. Yes, the longer term neutral rate did move down a ¼ of a point to 2.75%, but in the near-term governors are still forecasting a December hike and then three more in '18.
- In regards to the balance sheet, the roll-off of investments in late '17 will likely not be of concern as it will take more than a year for the full reduction to be phased in. By the end of 2018 they will be allowing $50bln worth of assets to mature without reinvestment each month or about $600bln per year. Giving that the current size of the balance sheet is north of $4trl, this will certainly be a gradual process.
- Looking to the week ahead there will be a number of Fed speakers likely trying to gradually push market expectations of a December hike a little higher. Right now futures are still only showing a 59% probability. The economic calendar will also be full with home sales data and durable goods earlier in the week, and the third look at 2Q GDP (3.0% survey) and Fed preferred PCE to round it out.

Muni:

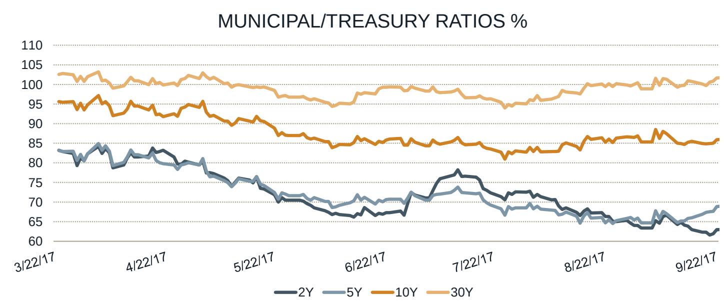
- Muni yields followed Treasury yields higher last week; the curve flattened modestly overall as the 15-yr section of the curve had the best performance. This coming week the market will get a pop in supply with over $10 billion being priced. We believe the increase in supply will be met with steady demand (last week marked the 10th consecutive week of inflows), and investors should be relieved to see a more diverse set of names on the calendar.
- The muni market will be focused on developments out of Washington this week. We wrote about tax reform is our last piece and expect an outline to be released Wednesday or Thursday. Also on the table is the Graham-Cassidy healthcare bill, which is the Senate GOP's latest effort to repeal and replace Obamacare. Although support for the bill appears to be lacking, an amended version, if passed, could have negative credit implications to the healthcare sector. We will update readers next week.

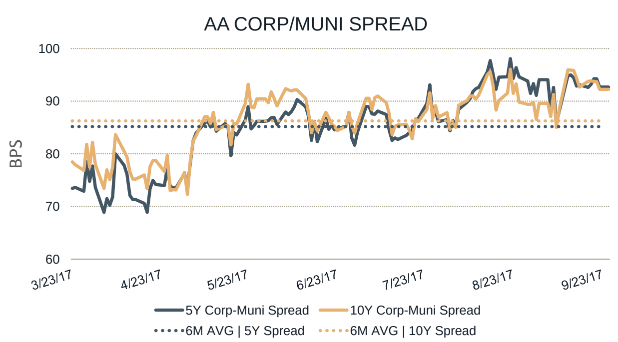
MARKET OVERVIEW

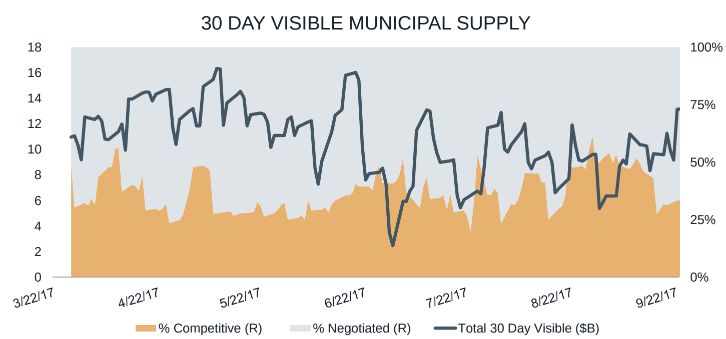
		9/18/17	9/22/17	Δ bps	1M Trend
Muni	2Y	0.87	0.90	3	
	5Y	1.22	1.28	6	
	10Y	1.89	1.93	4	
	30Y	2.80	2.83	2	
UST	2Y	1.39	1.43	4	
	5Y	1.83	1.86	3	
	10Y	2.23	2.24	2	
	30Y	2.80	2.78	-2	



		8/22/17	9/22/17	1M Trend
MUNI/UST Ratios	2Y	65%	63%	
	5Y	65%	69%	
	10Y	86%	86%	
	30Y	100%	102%	







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.