

Weekly Trading Desk Update

WEEK OF AUGUST 28TH - SEPTEMBER 1

Trading Desk Commentary

Macro:

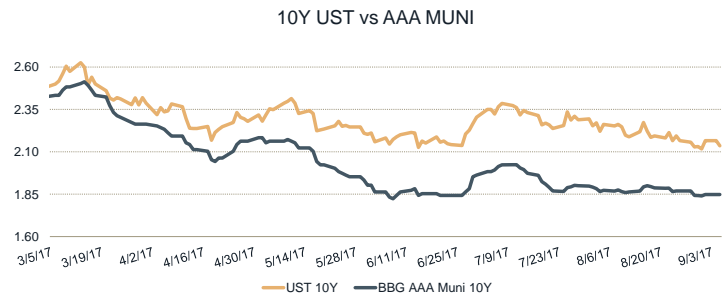
- A full docket of economic releases kept market participants busy through month end and reinforced recent trends of improving growth coupled with complacent inflation. Yields across the US Treasury curve seesawed on the week but ultimately finished little changed through the holiday weekend as North Korean tensions escalated on reports of a successful hydrogen bomb test.
- This past Wednesday's second look at Q2 GDP showed promising fundamentals as annualized growth was revised to 3.0% from 2.6%. Consumption (~ 70% of US GDP) accounted for most of the upward revision, increasing to 3.3% as retail sales improved. Most other sectors also enjoyed an upward revision with government spending being the exception.
- Later in the week the Fed's preferred price gauge (Core PCE) showed just a 0.1% increase for July (1.4% YoY). The jobs report also disappointed following a robust ADP print as Nonfarm payrolls rose just 156k vs. 180K survey. More importantly, average hourly earnings improved just 0.1% (2.5% YoY) as a tighter labor market has still not equated to higher wages.
- This week much of the focus will remain on North Korea; in the past the market has recovered fairly quickly from these disruptions, but the actions over the weekend may represent something more concerning. Thursday will bring a significant ECB meeting and announcement where many believe President Draghi will begin to lay the groundwork for QE tapering. If nothing comes of the meeting, the next and seemingly certain announcement would be mid-October.

Muni:

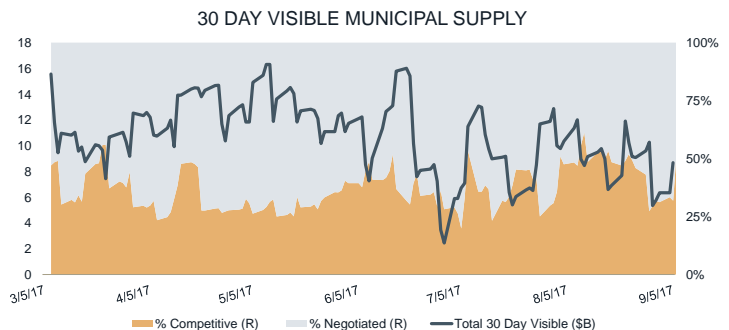
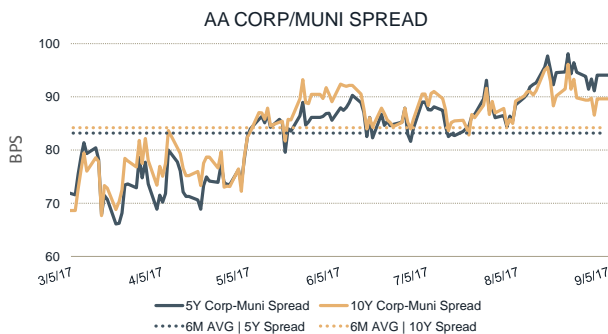
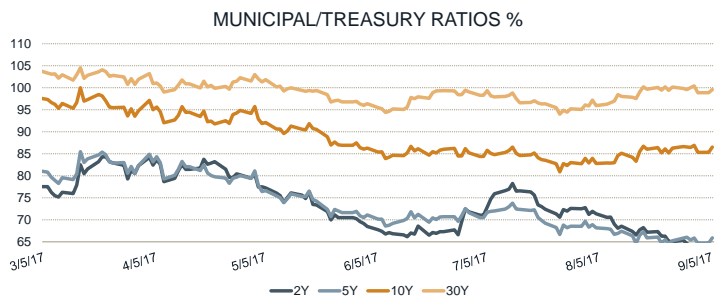
- Last week municipal yields followed Treasuries lower through Thursday and held onto gains Friday while Treasuries softened. Front-end MMD/UST ratios remain anchored in the mid 60% range, and with muni outperformance Friday, ratios will open the holiday shortened week even lower.
- The calendar for this Labor Day-shortened week calls for ~\$3.8 billion to price, well below the year-to-date average of ~\$8 billion. We expect demand to remain strong this week, and the light calendar should be placed with ease. Looking forward, 30-day visible supply stands at ~\$8 billion, well below the year-to-date average (~\$12 billion), and we expect this lower supply to be met with steady demand heading into September.

MARKET OVERVIEW

		8/29/17	9/5/17	Δ bps	1M Trend
Muni	2Y	0.85	0.85	0	
	5Y	1.13	1.13	0	
	10Y	1.84	1.85	0	
	30Y	2.73	2.75	2	
UST	2Y	1.32	1.32	1	
	5Y	1.70	1.71	0	
	10Y	2.13	2.14	1	
	30Y	2.74	2.76	2	



		8/7/17	9/5/17	1M Trend
MUNI/UST Ratios	2Y	71%	64%	
	5Y	68%	66%	
	10Y	83%	87%	
	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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