

# Weekly Trading Desk Update

WEEK OF OCTOBER 9TH - 13TH

## Trading Desk Commentary

### Macro:

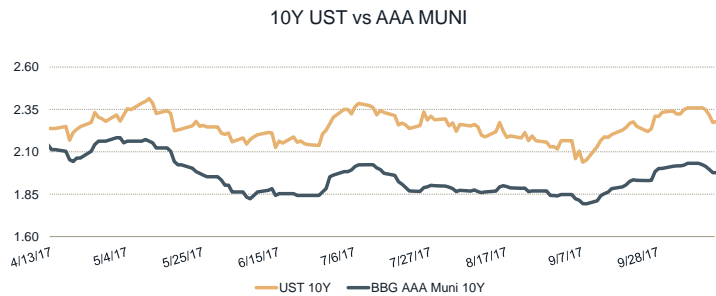
- Despite a shortened holiday week, bond market participants had plenty to digest as a stable of FOMC members gave talks around the country, minutes from their September meeting were released, and a fresh set of inflation readings hit the tape. Selling in US Treasuries that led the 10YR to briefly touch 2.40% the week prior eased as investors repositioned into what are likely more fair value yield levels.
- Fed speak has continued to beat the drum for another rate hike in December as many members continue to see inflation pushing back to target in the medium term. Fed funds futures now imply nearly a 77% chance of a third hike in December, but the bigger questions surround further increases into '18. The September minutes, while viewed to be a bit dovish at the margin, added little to what we have heard from Chair Yellen and company over the last several months.
- September's CPI print was muddled by storm related effects and did little to help perpetuate the recent reflation themed trading. Core CPI rose just 0.1% (0.2% expected) as non-storm correlated sectors like OER and medical costs came in weaker than expected. This week the economic calendar will be reasonably quiet, and most attention will begin to turn to the ECB meeting on the 26th. Several street analysts are questioning whether the market is underpricing the chance of a more "hawkish" tilt from President Draghi's plan to reduce bond purchases as growth numbers out of region continue to improve and risk assets prices climb.

### Muni:

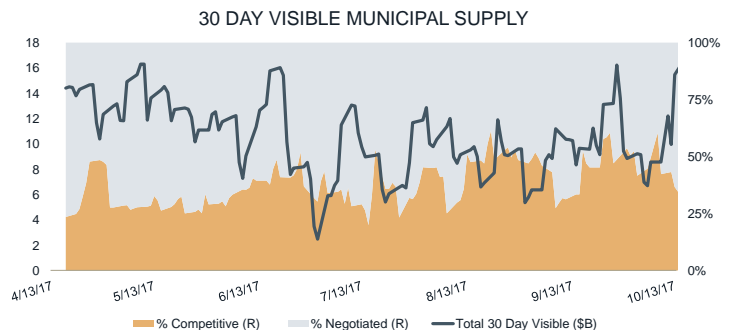
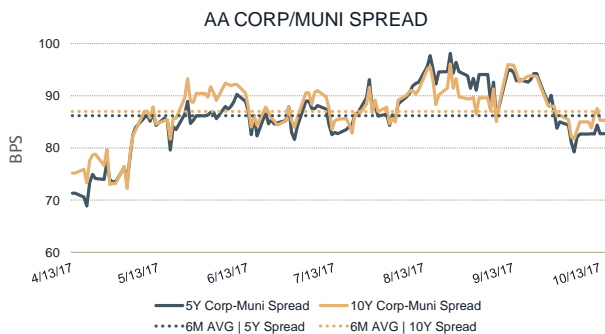
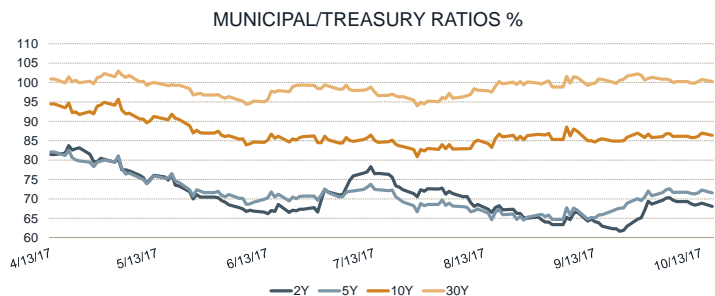
- Last week the municipal market placed approximately \$8 billion. This week we expect issuance to increase to ~\$10 billion. This would bring year-to-date issuance to ~\$300 billion, which is trending lower than most market participants estimated for the year. The decline in issuance has been one of the primary drivers attributing to strong muni performance so far this year; however, should supply spike heading into year-end, it would not be irrational to assume performance could soften a bit on increased supply.
- Last week President Trump signed an executive order that alters ACA coverage for many small business and groups, allowing them to band together to buy health insurance through alternate means called Association Health Plans (AHP's). Because these plans are not required to follow Obamacare rules, it could allow many younger and healthier individuals (which were vital to Obamacare) to switch to cheaper AHP's, leaving older and sicker people in Obamacare plans. The orders have the potential to negatively impact hospital credits in the municipal market, specifically those that are smaller in nature and reside within states that expanded Medicaid. We will continue to monitor developments resulting from these orders.

## MARKET OVERVIEW

		10/9/17	10/13/17	Δ bps	1M Trend
Muni	2Y	1.04	1.03	-1	
	5Y	1.40	1.37	-3	
	10Y	2.03	1.98	-6	
	30Y	2.90	2.83	-7	
UST	2Y	1.50	1.51	1	
	5Y	1.96	1.92	-4	
	10Y	2.36	2.29	-7	
	30Y	2.89	2.82	-7	



		9/15/17	10/13/17	1M Trend
MUNI/UST Ratios	2Y	63%	68%	
	5Y	66%	72%	
	10Y	86%	86%	
	30Y	101%	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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