

Trading Desk Commentary

Macro:

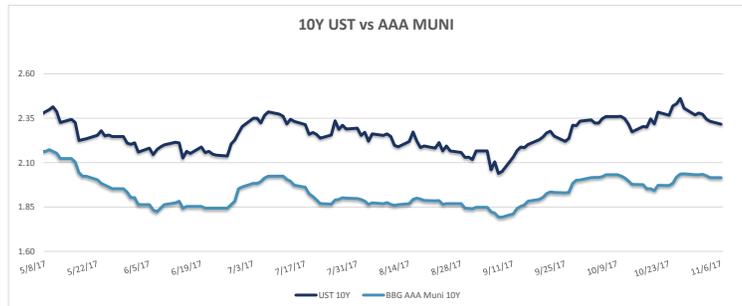
- Intermediate and longer-term US Treasury yields moved modestly lower on the week as the nomination of Jerome Powell to be the next Federal Reserve Chair was interpreted as a continuation of dovish leaning leadership at the central bank. In addition, the US Treasury announced its quarterly funding plans that showed less interest to pursue intermediate and longer dated bond issuance than had been anticipated.
- Wednesday's Fed decision not to raise interest rates was of no surprise to the market, and without the accompanying forecast updates and press conference, participants were left to parse through the statement for any hints of what 2018 might look like. The FOMC did upgrade their assessment of overall economic growth saying "economic activity has been rising at a solid rate" but continued to note their concern of below target inflation readings. Market probabilities for a December hike currently run near 90%.
- On the economic front jobs data continued to show diminishing slack in labor market. Despite a miss on October's NFP (252k vs 320k survey) the near term averages remained intact, as September's reading was revised up by ~50k. U-3 unemployment declined another 0.1% and now sits at 4.1%, a level not seen since '01. Several street analysts now predict the precipitous drop in unemployment will allow/force the Fed's hand into hiking at least 3 times next year.

Muni:

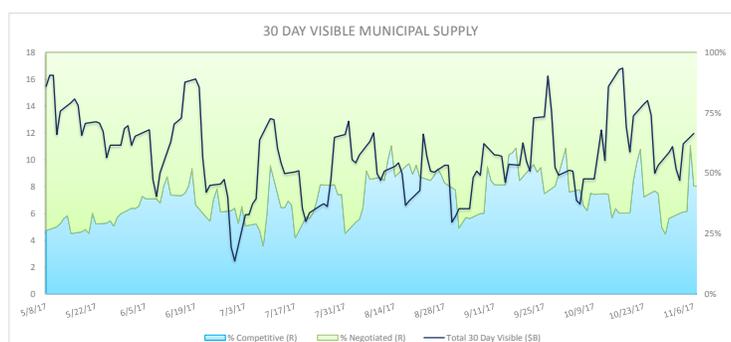
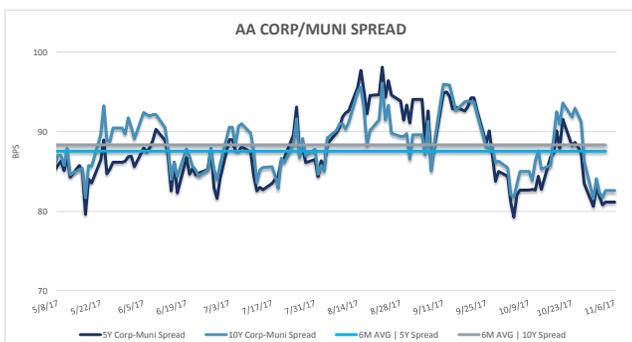
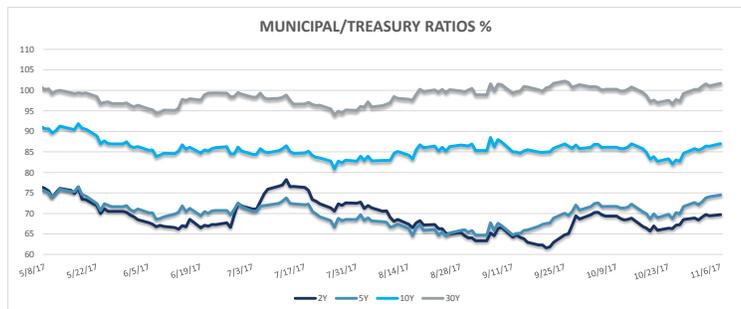
- Munis underperformed Treasuries week-over-week, lagging by as much as 7 bps on the front end of the curve while only 2 basis points on the longer end of the curve. The flattening trend continues as the BVAL 2yr-30yr slope has reached 172 bps the lowest the spread has been since August 2015. This week the market will price ~\$9 billion which is slightly above the YTD average of ~\$7.6 billion, we'll be watching to see if recent outflows will put any stress on primary distribution.
- The market was certainly caught off guard on last week after controversial details on the House tax reform plan became public. Several provisions within the bill, if passed in its current form, have the ability to significantly alter the muni market. Specifically, under the current proposal, issuers would lose the ability to advance refund bonds and would also lose the ability to issue Private Activity Bonds (PABs). Initial estimates reveal that the elimination of advance refunding bonds and PABs could decrease muni supply anywhere from 15% to 30% in any particular year. Elimination of the AMT was also included which if passed should decrease the AMT premium, bringing AMT spreads on top of their non-AMT counterparts. Markups to the bill get underway this week, we will update our readers next week on any significant changes

MARKET OVERVIEW

		10/30/17	11/6/17	Δ bps	1M Trend
Muni	2Y	1.08	1.12	4	
	5Y	1.45	1.47	2	
	10Y	2.03	2.02	-2	
	30Y	2.89	2.84	-4	
UST	2Y	1.57	1.61	3	
	5Y	2.00	1.98	-2	
	10Y	2.37	2.32	-5	
	30Y	2.88	2.79	-9	



		10/6/17	11/6/17	1M Trend
MUNI/UST Ratios	2Y	69%	70%	
	5Y	72%	75%	
	10Y	86%	87%	
	30Y	100%	102%	



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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