Weekly Trading Desk Update

WEEK OF DECEMBER 11TH - 15TH

CAPRIN

Trading Desk Commentary

Macro:

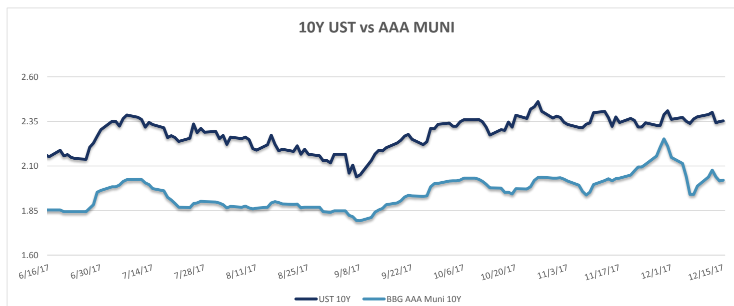
- The curve flattening trade, although modest on the week, continued as the Federal Reserve concluded their final meeting of the year. While intermediate yields were little changed, shorter maturity rates climbed in concert with the Fed. The 2YR UST closed the week at 1.84%, last reaching that level in September of 2009. Longer-term rates fell modestly as inflation data on the week remained benign (30YR UST closed at 2.68%).
- To no great surprise, the Federal Reserve raised rates for the third and final time in 2017. The federal funds rate is now targeted at 1.25% to 1.50%. The committee reaffirmed their outlook for an additional three hikes in 2018, which would leave the overnight rate comfortably above 2% (2.125% effective) twelve months from now. While the governors continued to see strength in the job market and overall growth modestly accelerating, its enthusiasm was certainly buffered by persistently low inflation (further supported by Wednesday's Core CPI reading of 1.7% for November).
- Looking to the week ahead, the economic calendar will be busy in front of the holidays with the focus being late in the week as the third look at Q3 GDP is reported along with the Fed preferred PCE inflation data and durable goods orders. Also grabbing attention will be tax reform, as congressional leaders released a revised version of the bill late Friday evening. It will likely be voted on by both chambers this week to go the President's desk before the end of the year.

Muni:

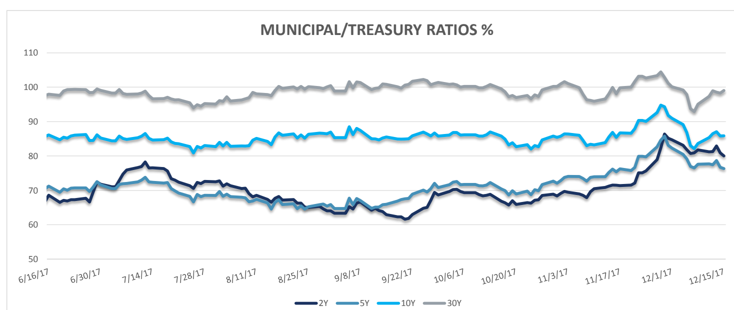
- The House and Senate reached an agreement on tax reform late Friday. While advance refunding bonds are still being eliminated at year-end, the muni market was spared somewhat since reform does not eliminate the ability to issue private activity bonds (PABs) on a tax-exempt basis. As we have detailed in this space over the last couple of weeks, the House version of reform would have eliminated both advance refunding bonds and PABs, potentially shrinking primary market supply by as much as 30% in any given year according to some street estimates.
- Although this week's calendar is more manageable at ~$11 billion, it is still elevated for this late in the year and appears to be largely dominated by a final slate of advance refundings. We are hearing several PAB deals have been pulled and most likely will come next year when supply is expected to be much lower. Demand for munis continues to be robust; we saw mutual fund flows reverse and come back into the market after an odd week of outflows the previous week. We expect demand to remain strong and are again actively buying into any market weakness into year end.

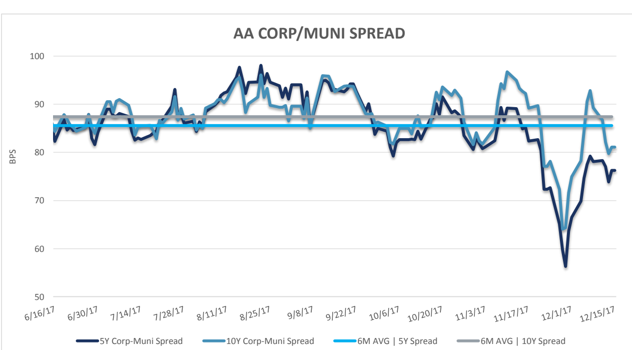
MARKET OVERVIEW

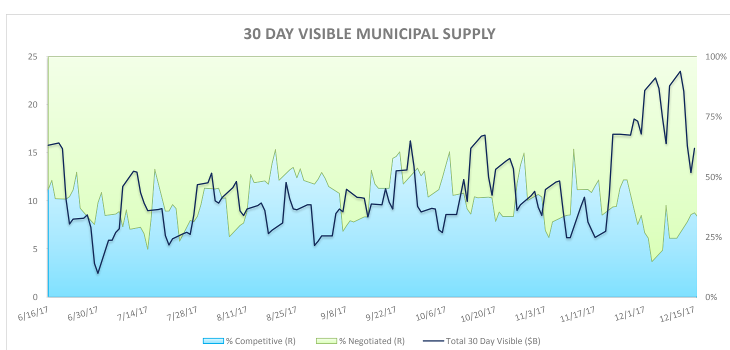
		12/8/17	12/15/17	Δ bps	1M Trend
Muni	2Y	1.47	1.47	0	
	5Y	1.66	1.64	-2	
	10Y	1.99	2.02	3	
	30Y	2.63	2.66	3	
UST	2Y	1.79	1.84	4	
	5Y	2.14	2.15	1	
	10Y	2.38	2.35	-2	
	30Y	2.77	2.69	-8	



		11/16/17	12/15/17	1M Trend
MUNI/UST Ratios	2Y	71%	80%	
	5Y	75%	76%	
	10Y	85%	86%	
	30Y	98%	99%	







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.