Weekly Trading Desk Update

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January 13, 2012

		Current Wk	Prior Wk
Weekly Municipal ($ Bln)			
	Negotiated	$2.43	$2.15
	Competitive	$1.03	$1.82
	TOTAL	**$3.46**	**$3.97**
Municipal 30 Day Visible Supply ($ Bln)		**$5.52**	**$7.38**
Bloomberg Municipal PICK Offerings Par ($ Bln)		**$9.05**	**$10.44**
Municipal Placement Ratio (New Issues)		**97.70%**	**89.80%**
Bond Buyer 20 Municipal G.O. Index		**3.62%**	**3.83%**

Treasury Supply

Day	Maturity	Current Auction Amount ($ Bln)	Prior Auction Amount ($Bln)
	No UST Supply for the Week of Jan. 16th		
	TOTAL	0	0

Select Economic Releases

Date	Event	Period	Survey	Prior
1/17	Empire Manufacturing	JAN	11	9.53
1/18	MBA Mortgage Applications	13-Jan	- -	4.50%
1/18	Producer Price Index (MoM)	DEC	0.10%	0.30%
1/18	PPI Ex Food & Energy (MoM)	DEC	0.10%	0.10%
1/18	Industrial Production	DEC	0.50%	-0.20%
1/18	Capacity Utilization	DEC	78.10%	77.80%
1/19	Consumer Price Index (MoM)	DEC	0.10%	0.00%
1/19	CPI Ex Food & Energy (MoM)	DEC	0.10%	0.00
1/19	Housing Starts	DEC	680K	685K
1/19	Initial Jobless Claims	14-Jan	385K	399K
1/19	Continuing Claims	7-Jan	3595K	3628K
1/19	Philadelphia Fed.	JAN	10.90	10.30
1/20	Existing Home Sales	DEC	4.65M	4.42M

Trading Desk Commentary

According to Lipper's most recent Muni fund flows report, investors poured an additional $1.1 billion in to long Muni funds this past week, keeping the six-week streak of inflows alive and well. The recent Lipper inflow data came as no surprise for participants that are still active in the traditional tax-exempt market and have seen the supply dearth firsthand. Supply remained well below the volume target needed to satisfy the current demand for Municipal paper – $4 billion of supply this week vs. an estimated $20 billion searching for a home in the asset class. Therefore, the market is likely being bombarded from two sides: 1) Retail investors trying to reinvest Muni positions with cash that has come available from recent maturities, as well as 2) Mutual fund and ETF managers aggressively buying any available supply in the secondary to meet their ballooning creation demands. The fact that secondary offerings have dwindled as investors recognize the lack of reinvestment options has only exacerbated the supply-demand imbalance.

This imbalance pushed yields to new record lows – the 10-Year MMD AAA scale is 13 bps lower than it was a week ago (now at 1.71%). The rally in the last week was noticeably stronger in the long end, presumably driven by the aggressive mutual fund/ETF-type purchasing activity. The rally seemed to be easing toward the end of the week, but Friday's announcement of S&P's downgrade of France's credit rating reignited Euro fears and a flight-to-quality trade. Though we have seen moderately encouraging economic news in the U.S. over the past several weeks, Europe continues to overshadow any optimism at home.

The coming week does not look promising in terms of providing any respite in tax-exempt's supply problems. Even less (~$3.5bln) is scheduled for underwriting versus the week prior – and the MLK, Jr. holiday will squeeze this limited issuance in to a shortened week. After the close Friday, S&P unveiled a spate of downgrades for the Eurozone – including Spain by two notches (A to AA-), Italy by two notches (A to BBB+), and Portugal was cut to junk. A lot can happen over a long weekend, but these developments seem to set up global markets for more "risk-off" trading come Tuesday.

Rates

	Current Wk	Yld Change	Prior Wk	Muni to Treasury Ratio
Muni's				
2 Year	0.35	-0.07	0.42	159%
5 Year	0.81	-0.06	0.87	103%
10 Year	1.71	-0.14	1.85	91%
30 Year	3.20	-0.30	3.50	110%
UST				
2 Year	0.22	-0.04	0.26	
5 Year	0.79	-0.06	0.85	
10 Year	1.87	-0.09	1.96	
30 Year	2.92	-0.09	3.01	

Explanation of Key Measures :

Weekly Municipal Supply - The total dollar volume of municipal securities expected to be offered during the upcoming week, broken down by deal type. This helps gauge near term supply and momentum along with the 30 day visible figure.

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.

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.

Placement Ratio - The amount of bonds sold by underwriting syndicates each week as a percentage of the amount issued that week by issuers selling $1,000,000 par value or more of securities. The ratio published by The Bond Buyer , helps gauge the demand for municipal bonds in the marketplace.

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: Weekly municipal supply figures, and municipal rates are produced by Thompson Reuter (Municipal Market Data). 30 day visible figures, and the placement ratio are obtained through The Muni Center, 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.