

	Current Wk	Prior Wk
Weekly Municipal Supply (\$ Bln)		
Negotiated	\$3.02	\$2.57
Competitive	\$0.85	\$1.36
TOTAL	\$3.87	\$3.93

Municipal 30 Day Visible Supply (\$ Bln)	\$6.57	\$7.12
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Bloomberg Municipal PICK Offerings Par (\$ Bln)	\$8.99	\$9.86
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Municipal Placement Ratio (New Issues)	98.20%	97.40%
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Bond Buyer 20 Municipal G.O. Index	3.60%	3.68%
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Treasury Supply		Current Auction	Prior Auction
Day	Maturity	Amount (\$ Bln)	Amount (\$Bln)
Tues	3 Year	32	32
Wed	10 Year	24	21
Thurs	30 Year	16	13
TOTAL		72	66

Select Economic Releases				
Date	Event	Period	Survey	Prior
2/7	Consumer Credit	DEC	\$7.00B	\$20.374B
2/8	MBA Mortgage Applications	3-Feb	--	-2.90%
2/9	Initial Jobless Claims	4-Feb	370K	--
2/9	Continuing Claims	28-Jan	3505K	--
2/9	Wholesale Inventories	DEC	0.50%	0.10%
2/10	Trade Balance	DEC	-\$48.5B	-\$47.8B
2/10	U. of Michigan Confidence	FEB P	74.0	75.0
2/10	Monthly Budget Statement	JAN	-\$45.0B	-\$49.8B

Trading Desk Commentary

Friday's surprising +243k change in Nonfarm payroll (vs. 140k expected) forced UST yields and the Dow sharply higher after a choppy four trading days prior to the release. The Unemployment Rate fell from 8.5% to 8.3%, its lowest point since early 2009. The improvement in the jobs data increased optimism that the U.S. recovery continues to gain traction. If the U.S. can keep stringing together more upbeat economic releases like those seen last week, investors could begin a shift to riskier assets more consistently. Up to this point, the reliability of the "risk-on" trade has been spotty, constantly restrained by the turmoil in Europe. A future mix of an improving domestic outlook and measurable progress made in Europe's debt crisis would seemingly boost equities and release the pressure valve in the debt markets that has been tightening since last summer. Time will tell if the U.S. and Europe can each maintain their positive momentums. Munis had a sleepy start to last week, in line with the UST and equity markets, but saw their largest daily weakening in 2012 on Friday in concert with the cuts in USTs. Over the short-term, it seems a sell-off in USTs is perhaps the sole driver that could push Munis to higher yields.

This week, underwriters plan to bring less than \$4bln in new deals, a startlingly low amount of new supply – barely enough to register amongst the paper-starved Muni participants. Alternatives to the cash markets are still benefiting from the supply-demand imbalance as Muni mutual funds continue to offer one of the only options for easy access to the market. Lipper reported just under \$1bln of new inflows this week in to Muni bond funds, a ninth consecutive week of positive activity. Also, the 30-day supply outlook is still looking equally weak. However, at these astonishingly low yields, it seems fathomable that issuers (given the typical lag time between legislators' approving a project and its debt issuance) may soon take notice of the all-time low borrowing costs and ramp up issuance. Even if these discussions are happening now, that still puts the corresponding debt issuance at least a month away. Some municipalities and authorities may also be considering refunding deals in order to refinance their current debt expenses at meaningfully lower rates. Speculation that the number of refunding deals could quickly grow were sparked two weeks ago by news that New York City's Metropolitan Transit Authority plans to refund roughly \$6bln in old debt over the next year. That number alone is more than we expect to see in new supply through March. Bottom line: we continue to remain constructive on Munis over the next few weeks based on the supply dearth, but we also remain sensitive to any sharp jump in supply and/or major developments in Europe.

Rates	Current	Yld	Prior	Muni to Treasury Ratio
	Wk	Change	Wk	
Muni's				
2 Year	0.30	-0.05	0.35	130%
5 Year	0.68	-0.06	0.74	88%
10 Year	1.77	0.00	1.77	90%
30 Year	3.22	-0.01	3.23	103%
UST				
2 Year	0.23	0.02	0.21	
5 Year	0.77	0.02	0.75	
10 Year	1.96	0.07	1.89	
30 Year	3.13	0.08	3.05	

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.

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