MMA The Power of Independence

MUNICIPAL STRATEGIST℠

Friday, October 29, 2010

Municipals displayed stability into month-end as the high-grade market experienced little movement. Indeed, ahead of the dual fundamental forces of the FOMC QE decision and mid-term elections, both on November 2 there is considerable reason to abstain from unnecessary risk-taking. Individual investors remained distracted as well by the direction of the economy. The fundamental

FUNDAMENTALLY

- OCT Chi PM 60.6 v. est. 58.0; OCT (F) U of MI Sentiment 67.7 v. est. 68.
- 3Q (A) GDP 2.0% v. est. 2.0; Price Index 2.3% v. est. 1.8.
- 3Q ECI 0.4% v. est. 0.5%.
- OCT BAB issuance, a monthly record of $13.2B; OCT Corp issuance $91.6B; OCT T-E issuance est. $27B.
- NOV Muni reinvestment $24B.

releases on Friday reflected constructive sentiment but not euphoric. Therefore investors were not taking much action as well, and equities were muted. The **MMA** municipal price index maintained its negative bias and the greatest value on the curve is in the well-battered 10-year maturity of the curve. This maturity did show some signs of strength on Friday as it also did on Thursday. Offering levels of 5% AAA issues had risen dramatically in October and reflected a spread aberration of nearly 3 standard deviation to **MMA**'s benchmark—such a relationship is an indication of value, and opportunity once the price trend stabilizes and turns. October bond issuance was relatively robust in the municipal market led by the BAB component. BAB issuance was greater than $13B, and as generally expected the maturity range of the greatest par was between 11 and 30 years, **Figure 1**.

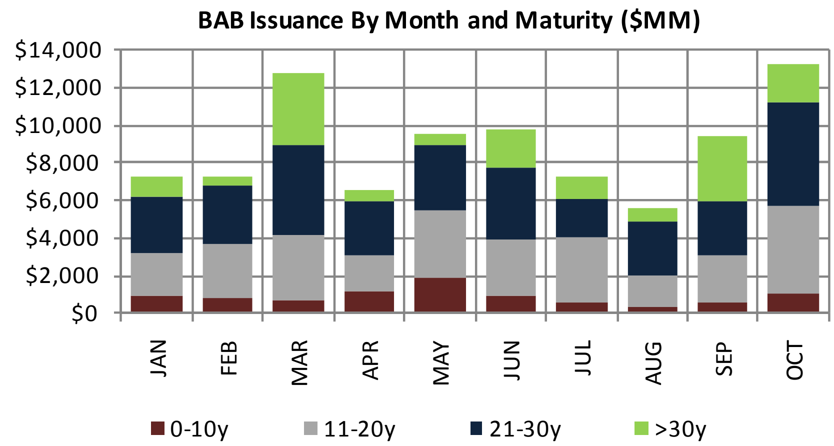

Figure 1: BAB municipal issuance attained a monthly record of $13.2B.

TECHNICALLY

- Dec10 Treasury 10-yr recovered above 126. Support remained between 125-20 and 123-29.
- **MMA** Muni Price Index negative, as it has been since predominantly

Maturity	Consensus	BMA	LIBOR	Treasury	% to Trsry	# of SD	Prev Day	BP Chng	10/25/10	10/05/10	11/03/09
1yr	0.42	0.33	0.36	0.20	206.8%	1.7	0.42	0	0.40	0.42	0.65
2yr	0.62	0.44	0.50	0.34	182.4%	2.0	0.62	0	0.60	0.60	0.94
5yr	1.40	1.20	1.43	1.18	118.5%	1.3	1.40	0	1.37	1.41	1.88
10yr	2.69	2.26	2.70	2.61	102.9%	0.1	2.70	-1	2.64	2.69	3.17
15yr	3.33	2.77	3.24	n/a	n/a	n/a	3.33	0	3.28	3.32	3.83
20yr	3.75	3.01	3.47	n/a	n/a	n/a	3.75	0	3.70	3.72	4.23
30yr	4.30	3.25	3.65	4.00	107.6%	-1.2	4.30	0	4.25	4.24	4.73

Past 60 Trading Days					Past 60 Trading Days				Past 60 Trading Days			
Maturity	% to Libor	# of SD	Max	Min	BMA vs. (bp)	# of SD	Max	Min	BMA/Libor %	# of SD	Max	Min
1yr	115.5%	1.7	115.5%	63.0%	-9	-1.5	15	-9	91.4%	0.3	94.7%	73.0%
2yr	123.5%	2.1	123.5%	64.9%	-18	-1.8	17	-18	87.5%	0.4	89.8%	78.4%
5yr	97.6%	1.4	102.5%	75.8%	-20	-1.5	19	-24	83.6%	-1.1	87.1%	82.0%
10yr	99.6%	-0.6	105.4%	96.5%	-43	-0.3	-27	-50	83.8%	-2.0	87.4%	83.8%
15yr	102.9%	-1.3	111.6%	100.9%	-56	0.5	-48	-71	85.6%	-2.3	88.9%	85.6%
20yr	108.1%	-1.3	119.8%	106.4%	-74	0.6	-65	-90	86.8%	-2.4	90.3%	86.8%
30yr	117.8%	-1.3	131.3%	116.1%	-105	0.5	-97	-123	89.1%	-2.8	92.5%	89.1%

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