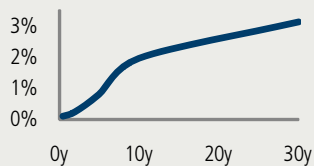


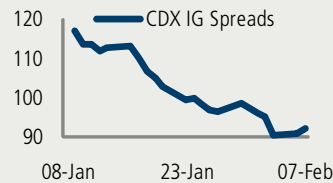
### Market Close

	Yld	Prev.	Chg.
2yr	0.25	0.23	+0.02
5yr	0.81	0.76	+0.06
10yr	1.97	1.91	+0.07
30yr	3.15	3.10	+0.05



MBS	Yld	Price	Chg
FN 3.5%	2.58%	103-24	-04
GN 3.5%	2.56%	105-7	-02

Credit	Close	Chg
CDX IG	95.1bp	0.1bp
CDX HY	\$98.3	-\$0.2



Muni	Yld	% Tsy	Chg.
2yr	0.46	185%	-8%
10yr	2.23	113%	-3%
30yr	4.12	131%	-2%

Source: MMA

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### Day Ahead:

- **Rates:** This afternoon's \$24 billion ten year auction may cause strong demand, with yields set to price right around 2%.
- **Credit:** New issuance may be robust today, with \$5 billion in high yield debt slated to price.
- **Munis:** New issue supply continues to slack, but next week's deals will include \$1 billion PR Aqueduct and Sewer Revs.

### Market Review:

The US rates markets felt the selling pressure pretty acutely on Tuesday, despite the relative lack of market catalysts. A Greek debt deal is purportedly closer to fruition, with a few sources indicating the country's financial ministry is drafting a final agreement with creditors on haircuts to outstanding bonds. Against that backdrop, the Treasury Department sold \$32 billion of new three year notes at a 0.35% yield, which was largely in line with 1PM trading levels. Despite the decent yield, demand was on the soft side, with the bid/cover ratio of 3.30x falling short of the last several months' experience. As of the New York close, the ten year Treasury was trading at a 1.97% yield after a 7 basis point increase on the day, while the two year Treasury was weaker by 2 basis points to 0.25%. Given the day's concession, we'd expect fairly strong demand to emerge at this afternoon's \$24 billion ten year auction, with yields set to price right around the 2% mark.

Non-mortgage consumer borrowings expanded by \$19.3 billion for December, which represents a 0.7% monthly increase in consumer credit for the month. The strong month caps off a year in which consumer debt loads stabilized, despite the trend of household balance sheet deleveraging we continue to build into our long-term expectations. For December's results, the bulk of the increases stemmed from great non-revolving borrowings, a category that includes mostly new vehicle loans, while \$2.8bln came in the form of revolving borrowings (mostly credit cards). In that sense, a fair amount of holiday spending seems to have come on credit, as the increase of \$0.4bln in retail sales suggests that non-credit retail spending in December actually declined by \$2.4bln, setting up an uncertain start to the 2012 consumer outlook. *-Guy LeBas*

New issue volume picked up yesterday with more than \$10 billion pricing from a variety of issuers. Hospital operator HCA (B1/B+/B+) was among them, offering \$1.35 billion in 10-year debt, upsized to double the original amount. The company is no stranger to upsizing deals, as back in July HCA offered \$4 billion more than originally planned due to positive investor response. While the July deal refinanced some of HCA's \$27 billion debt load carried over from its former LBO self, management showed a shift in focus away from bondholders with its September new issue, from which proceeds went towards buying out its partner's stake in a joint venture. Proceeds from yesterday's new issue may go towards funding the recently announced special dividend to shareholders, along with short-term debt repayment. Despite credit quality improvements since the March 2011 IPO, HCA's recent acquisition bolstered 4Q results released on Monday. HCA continues to be active in both the debt and equity markets, but still has \$4.4 billion maturing through 2013, despite refinancing in the past year. Leverage remains weak, and we see management's aggressive strategy as a negative for bondholders. *-Jody Lurie*

Munis were off on Tuesday and followed Treasuries lower, but based on lower municipal to Treasury ratios, tax frees outperformed. The long end was unchanged with the 30-year benchmark finishing at 3.22%, while the 10-year yield jumped 5 basis points to finish at 1.84%. New issue supply continues to slack, but next week's deals will include \$1 billion Puerto Rico Aqueduct and Sewer Revs (Baa2/BBB-/BBB-). Although the bonds are revenue backed, liquidity provided by the PR Government Development Bank, and annual Commonwealth subsidies are the underpinnings of credit for this issuer. Moody's notes that the authority, which covers 98% of the island's population, loses 63% of water produced through leaks or nonpayment.

In rating news, Moody's revised its outlook on Arizona to stable from negative, following similar action by S&P in December. Since the state issues no GO debt, its Aa3/AA- rating translates to A1/A+ for the appropriation-backed debt it does issue. Moody's noted improved liquidity levels and a stabilized budget position as reasons for the improved outlook. S&P has a positive outlook on the A rating of Chenango, NY. After 2 years of deficits, the town finished FY10 and likely FY11 with surpluses, which is notable in NY State where a 2% cap on annual tax increases limits flexibility when finances are stressed.

Declining casino and related revenues in Atlantic City are behind Moody's downgrade of Casino Reinvestment Dev Auth bonds. \$250 million taxable bonds secured by parking fees were downgraded to Baa2 from A3, while tax-free bonds backed by a tax on hotel rooms fell to Baa1 from A3. Strong competition from casinos in Pennsylvania and New York has taken a toll on the 12-casino tax base underlying these bonds. *-Alan Schankel*