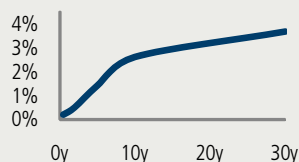


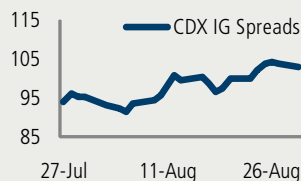
Market Close

Treas.	Yld	Prev.	Chg.
2yr	0.48	0.51	-(0.03)
5yr	1.40	1.48	-(0.09)
10yr	2.60	2.70	-(0.10)
30yr	3.66	3.78	-(0.12)



MBS	Price	Chg
FN 4.5%	104-30	+10
GN 4.5%	106-4	+10

Credit	Close	Chg
CDX IG	107.2bp	3.4bp
CDX HY	\$97.2	-\$0.7



Muni	Yld	% Tsy	Chg.
2yr	0.49	102%	6%
10yr	2.62	101%	4%
30yr	4.17	114%	3%

Source: MMA

Day Ahead:

- **Rates:** While Eurozone fears are re-emerging, recent decoupling implies less impact on US rates / risk markets
- **Credit:** Corporate supply is unusually heavy, setting up for initial improvement then widening in spreads
- **Munis:** Issuance calendar is light, but BABs supply volumes are set to spike next week

Market Review:

The interest rate markets were predictably choppy in low volume trading on Tuesday, the first day back from the Labor Day holiday. Despite looming supply of \$67 billion this week, a falling Euro relatively to the US dollar triggered a wave of buying in the Treasury markets primarily from overseas investors. A 1PM three year Treasury auction performed surprisingly well considering the holiday proximity, as investors bought \$33 billion in new notes at a 0.79% yield, right on top of secondary market trading levels. Tuesday's activity left the ten year Treasury trading lower in yield by 11 basis points to 2.60% and the two year Treasury lower in yield by 3 basis points to 0.48%. Early Wednesday trading is indicating a modest reversal of Tuesday's rally, as talk of supply in the Treasury, agencies, and corporate markets dominates over re-emerging European growth and sovereign credit fears.

Economic data scheduled for release this week are virtually non-existent, and begin this afternoon with the Federal Reserve's consumer credit series for July. We're expecting that consumer credit, which measures the amount of non-mortgage loans outstanding to individuals, will decline by \$5.5 billion for the month, which would mark the sixth decline of the year. Every dollar that a consumer uses to pay down credit card debt (the most volatile portion of the credit series) represents one dollar that's not being used for consumption and boosting economic output. We see consumer credit and consumers' lack of demand for borrowing as the single biggest factor holding back a return to pre-2007 spending growth.

For a post-holiday week, the primary corporate markets are remarkably active. Tuesday featured \$19.1 billion of new issue volumes, making it the third busiest day of 2010, with no signs that the flood will let up. Some of the largest deals included \$1.3 billion in three, five, and ten year issuance from Dell (A2/A-), which noted that the funding may be used for acquisition, despite the failed bid for 3Par. Home Depot (Baa1/BBB+) sold \$1 billion ten and thirty year bonds in its first sale for since 2006—the last issuance was used for a share buyback. Insurance broker AON (Baa2/BBB+) meanwhile brought \$1.5 billion of debt to consummate its purchase of Hewitt Associates, an HR company somewhat outside of AON's traditional competency. These investment grade sales fared relatively well, and even the one high yield issue, \$1 billion from mobile phone provider MetroPCS (B2/B) saw enough demand to double its initial \$500 million issuance plans. —Guy LeBas

The municipal market began the short week quietly, with yields little changed on Tuesday. Minnesota (Aa1/AAA/AAA) kicked off the week with pricing on \$900 million GOs, the only large issue scheduled this week, but the pace should pick up next week with University of Ohio and University of Texas (Aaa/AAA/AAA) both scheduling large BABs issues. New York City Muni Water (Aa2/AA+/AA+) is also expected to price BABs. We expect to see strong BAB volume during the remainder of the year as borrowers lock in the 35% federal subsidy of interest expense, as proposed legislation to extend BABs beyond December 31, if enacted, will lower the subsidy level in future years.

This morning's Wall Street Journal and Bond Buyer have articles on Harrisburg which offer little new information, but focus on the city's politics and apparent inability of the Mayor and Council to work together. The city will miss a \$3.3 million debt service payment on general obligation bonds due September 15. The bonds are Ambac insured, and Ambac has announced that they will make the payment.

Following last week's upgrade of SEPTA (Southeastern Pennsylvania Transportation Authority) by Fitch from A+ to AA, Moody's weighed in with a bump from A2 to A1. Moody's noted the vital transportation link in a large service area and the security provided by a dedicated percentage of a broad statewide revenue stream with strong debt service coverage. —Alan Schankel

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