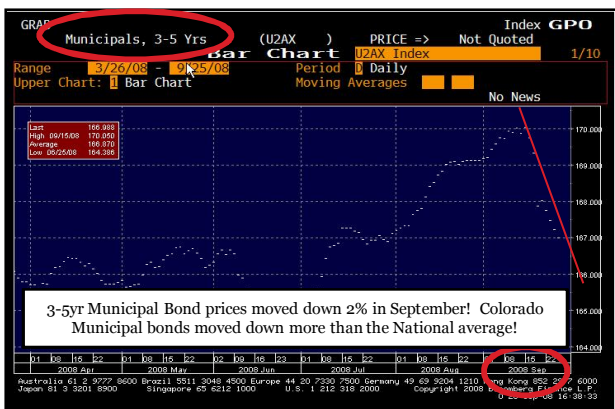
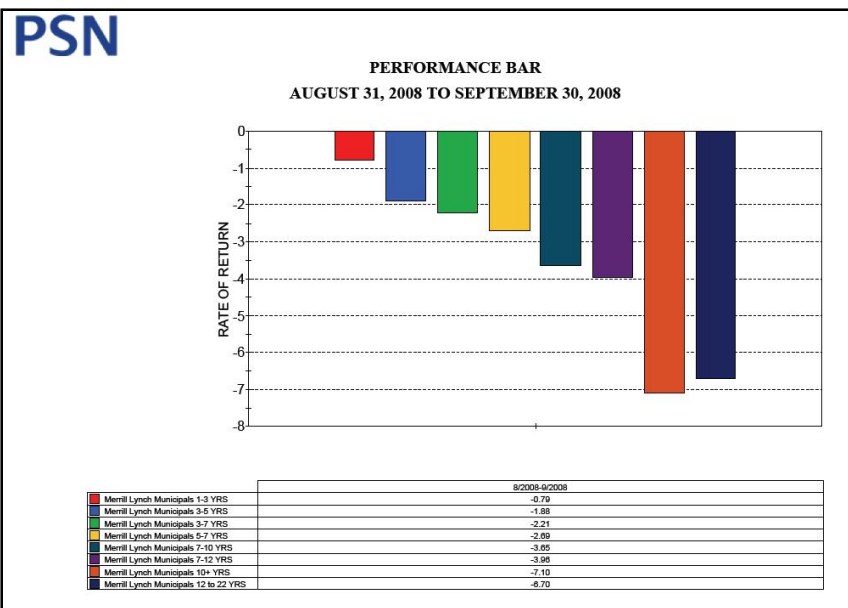


Did you notice



The negative price movement for Municipal bonds has been unprecedented! The downward movement this month has been overshadowed by the market/political noise of the day!!!



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What Happened?

- ~The worst year on record for US state and local government borrowers is getting worse.
- ~Yields on long-term, municipal bonds reached their highest levels compared with Treasuries this month as support dwindled among securities firms attempting to avert collapse.
- ~Interest costs on debt sold by issuers such as NY City, with rates set daily or weekly, climbed as much as fivefold in the past two weeks to 9% or more.
- ~Issuers from Chicago and Hawaii postponed more than \$9bil worth of bond sales recently.
- ~**All but two of the seven top-rated firms that insured half the tax-exempt market lost their AAA grades.**
- ~Municipalities were the biggest borrowers in the \$330 billion market for auction-rate securities, which collapsed in Feb. and produced penalty rates as high as 20%.
- ~**Interest costs on auction-rate bonds sold by Denver for its airport climbed to 12% this week when there were too few bidders for the debt, from 2%.**
- ~Yields on 30yr AAA bonds jumped 46bp's in two weeks to 5.28%, the highest in more than 6 years.
- ~That's 120% of the yield on Treasuries of similar maturity
- ~The ratio reached an all-time high of 124% Sept. 17, 2008.
- ~Avg. rates on weekly reset debt rose more than fourfold in two weeks to 7.96%, the highest since they began compiling the data in 1989.

Why?

- ~Dealers who underwrite most municipal securities are undermining demand by committing less capital to trade the obligations.
- ~As the curve became inverted (short-term rates surpassing long-term rates), profit seeking investors unwound their trades and sold bonds and bought on the short-end.
- ~Variable rates sky-rocketed as investors pulled \$38 bil. from tax-exempt money-market mutual funds in two weeks, or 7% of the assets as of 9/16/08.
- ~Investor redemptions drove the money funds to sell the bonds back to banks.
- ~**64% of cities are less able to meet their fiscal needs now than in 2007 because of rising operating costs, job losses and declining home values, according to a survey of 319 local finance officials released this month.**
- ~That is the reverse from last year, when 70% said their finances were better than the year before.
- ~NY City projected this week a \$2.3bil gap in fiscal 2010 as it announced plans to cut spending by \$1.5bil over the next two years.
- ~**Institutions are hoarding cash, Bond dealers are setting higher rates on variable bonds, the pool of banks is shrinking!**
- ~UBS AG, the second biggest originator in the market for a decade, said in May it was quitting the business.
- ~Lehman Brothers Holdings Inc., the 7th largest underwriter in 2007 went bankrupt last week.
- ~Bear Stearns Cos. one of the top 8 underwriters collapsed and Merrill Lynch is being folded into Bank of America.
- ~**If we end up w/fewer banks and fewer institutions, we have less capacity --**

"It's hard to get people to focus on how cheap munis are,"... said a money manager overseeing \$8.6bil. "People are going to look back on this and realize they missed a great buying opportunity."

Quantamental trigger

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