

ROHR REPORT

CAPITAL MARKETS OBSERVER

Volume III Number 34

Wednesday, October 17, 2007

Overview, Markets Summary, Reports & Events,...

...Sleight of Hand, Might Less Have Been More or Is More on the Way?

Overview

After last week's lengthy review of 'Frame of Reference' on everything from general learning theory as it applies to acquiring trend analysis expertise to market bubbles and how the Federal Reserve's recent extensive accommodation has created a disjointed frame of reference at present, this week it is short and sweet. Now everybody is finally acknowledging that the housing market is not only a mess at present; the powers that be are even allowing it will get worse across time prior to improving once again. That is linked to subprime borrowing and lending, with the residue in of the latter residing in complex derivative portion of portfolios that will experience problems along with the defaulting subprime borrowers.

The two key points noted since early in this problem still hold true. The first is that the foreclosures are not likely to occur until sometime in the first quarter of next year, due to rightful administrative processes protecting even the most obviously less than qualified borrower from summary eviction from their home. Yet, those homes coming back to the lenders are still also linked to the portfolios that will suffer due to the loan failures. It is as we observed previous: like termites armed with hand grenades.

The second point is that the problems of portfolio burdened with vulnerable subprime debt components will continue to flare up in the securities markets from time-to-time. That will in turn keep the interbank lending market unsettled, with a tendency to maintain or accelerate higher yields in that short term money market. As noted in last week's 'Rates vs. Reality' topical discussion, even major Fed Funds easing will not 'prevent' the housing pressure: the subprime HARM interest rate resets are not based upon the classic US 'prime' rate set at a premium to Fed Funds. Most of the subprime borrowings that represent the bulk of the problem have the London Interbank Offered Rate (LIBOR) as the underlying index against which their premium rate is set.

As such, even if the Fed does ease further with the equities at all-time highs after their last major rate cut (a further sign of the massive dislocation caused by the credit bubble popping), it will not necessarily bring any relief to the most vulnerable subprime borrowers. That leaves the markets in quite a quandary, as they attempt to decide what to do in a situation where neither we, nor the financial authorities nor anybody else knows just how much impact the looming problems will have on the overall US economy.

What we know for now is that the equity markets appear to want to believe that the Fed can ease enough to maintain the moderate growth they have promised in spite of the combined housing and subprime debt securities problem. The stock markets are also doing a fine job of ignoring the extended strength in the energy markets; possibly they know something the rest of us have missed on resolving the current US/Turkey imbroglio. While the strength of the equities has left the fixed income under pressure, which is more pronounced generally in the central bank sensitive short term interest rate future forwards. In the long dated fixed income, the weakness is 'country' influenced, with the US the most resilient due to the greater potential economic weakness being centered here. The US dollar continues its late phase bear erosion, yet with not much excitement likely until after the G7 meeting this weekend.

Markets Summary

EQUITIES

While there have been some bouts of weakness in the wake of the budding realization that authorities can only 'mitigate' and not 'prevent' the linked housing and subprime problems, the FOMC action and especially the 'Bernanke put' implied in their statement (as explored previous) changed the frame of reference for equity markets in a positive manner. For now, 'bad news is good news' remains the *modus operandi* of equities. They have even been given a boost by recent upbeat corporate earnings (albeit against significantly diminished estimates) and the continued beat of the official bad news drum. How could news as bad as acknowledging the extent of the housing problems actually still be good for equities? More on that in the 'Might Less Have Been More...?' topical discussion below.

In that context, the **DJIA** secondary push back above the previous 14,022 all-time high has (not surprisingly) turned into a churn to new highs under complex and disjointed influences. That opened the door for a move into the 14,100-200 area, consistent with weekly oscillator indications (MA 41 plus 1,000.) Yet the major topping lines allow for an extension up into the 14,350-400 range as the next critical resistance. While any downside failure still requires a weekly Close back below the 13,700 overrun resistance (with a Tolerance to 13,650), there is near term support in the 13,900-850 area (congestion and daily MA 18 Tolerance.) That has held so far during the past couple of days' downbeat housing review inspired selloff.

As noted previous, it is one of the paradoxes of the 'Bernanke put' that to the degree it will only 'forestall' (as the FOMC and all manner of other sources have noted) the economic weakness from subprime and housing, its constructive influence on the equity markets of the more robust international economies will also leave pressure on the other international fixed income markets. That was in evidence recently in the UK, where the previously buoyant Gilt dropped quickly from its 107.50 area resistance to major 106.00-105.90 support.

Yet, the lower likelihood that other central banks will ease while the equities are strong means that while DJIA and S&P 500 have rallied back above both mid-August to early-September trading highs and previous all-time highs, the DAX and FTSE have yet to get above their 8,152 and 6,754 (respective) early summer highs (although the FTSE tested it last week prior to reacting back down.) Lower supports in those two remains at DAX 7.930-7,880 and back in the more major 7,800-7,750 area, while FTSE has near term support at 6,600-mid 6,500's and again at the more major 6,400 area.

Of course, the one equity market that only a significant move to higher levels in the others has assisted is the **NIKKEI**, due to Japan slipping back into negative economic growth and political malaise. It is important to remain focused on the fact that the NIKKEI never even pushed out above its 18,300 area February high when the rest of the equities recovered into April, only challenging it the more extensive rally elsewhere into July. That weakness in the Japanese economy is also likely to continue to eliminate the potential for a 'carry trade crisis.'

In the wake of the selloff elsewhere, it is no surprise whatsoever that NIKKEI has also backed off from no better than roughly its 17,500 area resistance. Lower support is back in roughly the 16,700 area, with more major supports in the 16,500 and 16,100-15,900 areas.

LONG DATED FIXED INCOME

December **T-note** back below the 109-06/-00 congestion leaves that area as resistance once again, now reinforced due to the multiple recent attempts to hold it as support while not even fully testing 110-00/-06 resistance. If it can not recover back above the 109-06 area soon, it is likely to test more major congestion and UP Break support at the 108-00 and 107-16 area (with a final Tolerance in the 107-00 area) even though its resilience (based on anticipation of economic problems to come) has allowed it to hold up slightly above the 108-00 level so far.

Much below that major 107-00 congestion the December contract gaps in the mid-low 106-00 area become reasonable next support. That is also about as low as we suspect the T-note will drop in the near term, even if the equities push to new highs. The US long ends are likely to remain the most resilient due to the US being the potential center of economic weakness which will only later spillover into the balance of the world. The OECD Composite Leading Indicators brings European strength into question; yet that is not yet apparent in the markets.

The **Bund** has not done any better than barely test its violated 113.00 Tolerance of the 113.35-.20 support. Below that it was into far more treacherous ground, even though interim support on the contract in the 112.50-.35 range seemed to hold after modest previous slippage. However, last week's firm equities and last Friday's strong Euro-zone Industrial Production (AUG) numbers finally put the December Bund down to more significant combined continuation and contract support in the 112.00-111.65 range, at which it held. Yet, if further strong indications should weigh further on this market, the next significant support is not until the 111.00-mid 110.00 area.

Similar conditions apply to the **Gilt**, although the seemingly more sanguine inflation view from Bank of England had assisted with its recovery outpacing the Bund. The December contract had previously slipped quickly back below the 108.20-.35 resistance in the wake of the central bank retail bank deposit guarantees, all the way below the 107.50-.35 support Tolerance at 107.20. Unlike the Bund's inability to strengthen back above its 113.00 violated support Tolerance, the Gilt pushed back above 107.35-.50 temporarily on last Tuesday, yet gapped back down Wednesday morning to reinforce it as resistance. Lower interim support in the 106.50 area is now resistance, with the more major support at 106.00-105.90 having held the recent test. Much below that extended support is not until the 150.00-mid 104.00 area.

SHORT MONEY

Even though the March **Eurodollar** was quite strong for some time after the FOMC easing, it failed from higher resistances in the 95.65, 95.72 (high of the rally) areas as well as back below the 95.50-.45 congestion. The strength of the previous US Employment report left it back below the 95.365 pre-FOMC trading low (now near term resistance) which it had been testing previous. In the wake of continued buoyant equity markets it was sagging (albeit did not Close) below lower support at the previously held 95.25-.20 congestion prior to the recovery on this week's downbeat housing news and equity market selloff.

As interesting as that support may appear, the market needs to see sustained signs of economic weakness to stage any strong rally from that level which implies no further easing into the first quarter of next year. Of course, as the Fed is now a volatile influence, any projections here into October 31st are iffy. Next lower support is 95.07-.00, which is also the lowest we suspect the market will fall even if the equities rally, as anything below that would begin to imply a Fed Funds rate hike which we do not expect is a possibility in the near term.

Also similarly in the short end, while the March Eurodollar and even UK Short Sterling were able to squeeze up in previous trading, March **Euribor** had already dropped from its 95.80 resistance back down to 95.60-.55 support., and continues to challenge it at present. In fact, there is a serious question of whether the short term Euro-zone interest rates will be easing overall in the intermediate term. While that leaves Euribor looking depressed relative to the official ECB rate, it is generally consistent with other short-money forward interbank rate expectation premiums, and would require a cut from the ECB to support any rally in the March contract.

March **Short Sterling** actually capitulated below its 94.20-.17 support (now resistance) last Wednesday, and quickly dropped into lower 94.05-.00 area support. It all points out the degree to which short term interbank rates are still unsettled, and the Bank of England is signaling a lack of confidence that UK inflation's slide back to the 2.00 percent area may not be sustainable in the intermediate term. While the 94.00-93.95 area is indeed some very good support (hefty congestion and daily MA 60), if it fails then a move back down to the 93.80-.75 area tested in early August and early September is a strong possibility.

FOREIGN EXCHANGE

All of which brings us around to the foreign exchange picture, where the key question is whether there will indeed still be a US dollar debacle? In a word, "yes." However, in a phrase, "Yes, yet only in slow motion."

The bottom line is there are many reasons the buck will not attract the requisite foreign flows at present to offset the ingrained US twin trade and current account deficits. A slowing global economy where the US is leading the way down is not an environment conducive to any interest rate differential rationale to convert to US dollars for a sustained period, and will not foster overall investment in the US, and that's what actually determines the overall trends.

While there might be occasional shocks for US dollar bears if and when some major foreign buyers move in a major way to scoop up some cheap assets, that will be temporary. In fact, as we have noted previous, the weekly oscillator supports may well cause temporary bounces from not too far below the .7820 **US dollar Index** 1992 all-time lows (and possibly as early as the .7700 area), as already seen. That tendency may be reinforced by the anticipation of the G7 meeting this weekend, which will surely issue a *de rigueur* "joint action to stabilize disorderly markets" decree. However, the extended supports are not until the .7500 and .7200 areas, and even those may be optimistic. In the meantime, resistances above the market are in the .7875 (currently being exceeded), .7900-50, and the .8000 area, with support back at .7820-00.

ENERGY

Quite a few factors from weather to geopolitics contributed to the strength of **Crude Oil** that will now be reinforced by the start of the northern tier heating season. The weekly oscillator pointed to the 80.00 area that the market has now shot back above, with next resistances in the 83.00-.50 area that has also been exceeded (now support.) Much above that there were some weekly topping lines into the 85.50 area (up from the mid-83.00s a month ago), yet our next major resistance is not until the August 2005-July 2006 topping line that projects to the mid-upper 88.00s. While that may have seemed a bit aggressive, above the mid 83.00 area the lead contract was escaping the intermediate term weekly oscillator resistance.

Reports & Events

While there are quite a few important reports during the balance of this week, they are somewhat overshadowed by two factors. The first is the speeches and the *ad hoc* Q&A comments already provided by US financial figures on the reality of the housing and subprime dilemma looming into next year. Even the Housing Starts and Building Permits (both SEP) reports most closely associated with that this week are less influential than next week's release of New Home and Existing Home Sales (also both SEP.) While not always the case, they are scheduled for simultaneous release next Thursday. Especially the Existing Home Sale's price component will be telling as usual. Many believe it is the most accurate measure of the true state of the market; as opposed to new home sale numbers and prices that at times seem subject to regional manipulation by builders.

Yet, all of that is next week, and in the meantime the early week indicators have brought benign inflation readings yet again, as well as somewhat weaker than expected economic indications in both the US and Europe. Those included somewhat weaker than expected German ZEW (OCT) economic readings and US Industrial Production and Capacity Utilization ((SEP), albeit slightly stronger than expected UK Employment (SEP) and Earnings (AUG) that reinforce the weaker tone of the UK fixed income of late. Today's US Consumer Price Index (SEP) was benign insofar as core readings were still subdued in spite of energy prices contributing to a significant bump in the headline number, yet in line with estimates.

In any event, strength in the headline inflation numbers was immediately offset by the much weaker than expected housing data adding to the admonitions from US financial figures in the past couple of days. Both Housing Starts and Building Permits (both SEP) came in much lower than already weak expectations, with the starts figure off by a whopping 10.2 percent. It was the lowest figure since July 1993, reflecting shattered home builder confidence.

Even in light of that surprise, the most important information today by far, and possibly for the balance of the week, will be the Federal Reserve's Beige Book in preparation for their next meeting on October 31st. That said, it is likely to still show the sort of corporate strength which should mitigate the potential for further FOMC easing. However, with the Fed attempting to maintain moderate growth in the face of the combined housing and subprime debt weakness into early next year, they may still feel the need for further anticipatory accommodation in spite of that.

The market response is therefore likely to be muted in the context of nobody really knowing how far the Fed is likely to respond to the Beige Book's specific indications, or look at other influences as primary into the next FOMC meeting. Of note, later on this afternoon the Fed's Dudley speaks on central banking at Philadelphia Fed.

Tomorrow begins with the Japanese Ministry of Finance Foreign report on Net Stock and Bond Investments (for the week ending OCT 12), which is however still in the late afternoon Wednesday US time, and is followed by the Fed's Hoenig speaking on the US economy at a business forum in Oklahoma. Then it's on to Australia for their Preliminary Balance of Payments Imports (SEP), the RBA Foreign Exchange Transaction report (SEP), and their more important Monthly Bulletin. After which the Japanese Nationwide Department Store Sales and Tokyo Department Store Sales (SEP) are released.

Europe sees the release of UK Retail Sales (SEP), and the usual raft of Public Finance figures (also SEP), including Mortgage Approvals and M4 Sterling Lending, after which we see the Euro-zone Trade Balance, and Construction Output (both AUG.) In the US it's the typical Weekly Jobless Claims (for the week ending OCT 13), Leading Indicators (SEP) along with associated readings, the Fed's Pinalto speaking at a Columbus, Ohio Conference and Dr. Plosser speaking at a St. Louis Fed Economic Conference, followed by the Philadelphia Fed Index (OCT) and the ECB's Trichet speaking in Washington. The Über-Hawk invades the lair of the doves; it ought to be interesting.

Friday begins with the Japanese All Industry Activity Index (AUG), and Australian New Motor Vehicle Sales (SEP) and their Import and Export Price Indices (Q3.) After that it's on to Europe for German Producer Prices (SEP), Italian Industrial Orders and Sales (AUG), and UK Gross Domestic Product (Q3 Advance) and their Index of Services (rolling three-month comparison for AUG), the Italian Trade Balance (AUG) and the ECB's Gonzalez-Paramo speaking in Seville.

The wild part is that the only US influence on Friday is Messrs. Bernanke and Poole speaking at the St. Louis Fed Economic Conference. It is essentially the start of what used to be the back half of the mid-month US economic reporting vacuum that was only punctuated by the inflation numbers. Of course, now the market also has the housing data that has become so important, as with the release of New Home and Existing Home Sales (also both SEP) scheduled for simultaneous release next Thursday.

Sleight of Hand

While the major securities firms' and banks' Master Liquidity Enhanced Conduit (M-LEC) is certainly a progressive step, it remains to be seen if it will be truly effective on quite a few meaningful fronts. These range from the lesser issues of whether it is funded at a level which will accomplish its goal, to whether it will adequately address the function of 'clearing' the bad debt overhang or merely suspend it. The former is a modest encumbrance, as the idea of the vehicle is ultimately enlightened, and having it in place will facilitate more rapid funding if necessary. Kudos to the banks for that. Yet, that clearing function is a bit of a stickier issue.

There are many ways in which various capital markets participants are attempting to calm the naturally unsettled markets and economic expectations. Some of that is clear (if possibly somewhat constructive) propagandizing. That would be the case for the initial Fed and US Treasury department responses to the mid-August credit market-driven turmoil (as even Fed head Bernanke now characterizes it) in the equity markets.

Citing the underlying strength of the US economy, as well as world economic tendencies appears at least a bit specious in light of their reversal of opinion regarding the extent and likely influence of the weakness in US housing due to the related problems of the subprime debt market (on both sides of the lender/borrower relationship.) However, it is reasonable that the powers that be are entitled to a bit of legerdemain in their characterization of domestic and international economic tendencies if it serves the purpose of calming markets during a particularly unsettled period.

The duty of financial authorities to calm 'disorderly' markets is a well-established mandate. That was also constructively the case in the Bank of England's rapid reversal of position when it became apparent that only the deposit guarantee they had resisted previous would save the UK banking system from a serious mass deposit withdrawal meltdown.

There are many reasons for this more rapid need to assuage the public psychology, and we refer you back to last week's 'Media & Markets' subsection of our extensive review of the overall background and reality of the markets' current 'Frame of Reference' for more discussion of that.

However, there is a bit of what could be interpreted as a bit of sleight of hand involved in the banks' attempted revival of credit market liquidity. First let us say that nobody expects financial services companies to be run as charities, and a certain amount of enlightened self interest must inform whatever they do, if for no other reason than that being on behalf of their stockholders and stake holders. And in this case those stake holders extend to the entire populations of the developed economies, as short of support from the securities firms the ultimate responsibility to guarantee the functioning of the capital markets falls back on the governments; translate that to mean tax payers.

On the whole it is an enlightened effort to anticipate and solve problems, rather than wait for them to surface and burden the whole financial system (and public confidence) with the need to address of *ad hoc* crises. One of the best observations on that is a comment in today's Financial Times by their head of global financial markets, Gillian Tett (also cited extensively in that 'Media & Markets' discussion.)

She notes publicly what quite a few folks had likely considered privately was necessary to address the credit market mess, to wit, "It is even conceivable that future historians will come to regard the M-LEC as the 2007 equivalent of America's Resolution Trust Corporation - the state-owned body that helped resolve the S&L mess by buying up bad assets."

However, she goes on to immediately note what may be the sleight of hand aspect, noting that, "...there is a crucial catch. The RTC helped to solve the S&L mess because it auctioned off the assets it acquired - initially at ultra-low prices - believing that the US needed to create a true "clearing price" of S&L assets in order to rebuild market confidence. It is far from clear that those running the M-LEC will have the courage to repeat this trick. On the contrary, one *raison d'etre* of the fund - if not *the* crucial imperative - is that some banks apparently want to avoid asset sales because they fear they would depress prices and hurt balance sheets." (The full column is attached for your direct review.)

While we mostly agree with that possible drawback, there are two key questions this does not address; one is inherent in the direct review of this 'rescue' attempt, the other is external. While it might be better to wipe the slate clean with a truly bargain basement blowout style auction of the Structured Investment Vehicle (SIV) assets, the banks may not be so wrong to temper that process with a bit of their own legerdemain. If the ostensible rescue is a trigger for more aggressive balance sheet problems, it will only create more problems.

Possibly it is not such a bad idea to allow the securities firms to set 'reasonable' as opposed to rock bottom values for such complex instruments. After all, even multi-day meetings with top bankers had left the very astute Mr. Paulson admitting that no single systematic approach which would solve the problem. In fact, the issue of not decimating banks balance sheets becomes more important late this year in preparation for the implementation of Basel-II banking regulations next year, with their risk-adjusted capital requirements.

However, beyond that is another theme we have revisited quite a few times in the wake of recent official suggestions of how to solve the housing and credit problems. It is rightful that the authorities from all wings of every government and the executives of all of the firms involved in the subprime problem are seeking constructive solutions. Their extensive efforts are surely appreciated by everyone. Yet, even they all need to admit that (as we have noted extensively) all of these efforts are only applicable to those borrowers with the wherewithal to qualify for some sort of more enlightened credit structure than their current 'bad' loan.

We have described this previous as the 'bad loan and not bad borrower' syndrome. It is likely that some reasonable portion of the folks burdened by unsustainable 'reset' mortgage interest monthly payments are qualified borrowers who simply made a bad bet. Given the degree to which there were some obvious excessive sale practices in more than a few cases, there is some sympathy for them, and likely no harm (i.e. moral hazard) in assistance which puts them into a more sustainable position that will allow them to keep their homes. IN that it also avoids at least a portion of the securities problem, it is a true win-win result.

However, there are also a major number of folks who were talked into home ownership that will not qualify for relief, especially under current somewhat tighter lending standards. That is not the main theme of either the authorities' or banking executives' communication as they attempt to restore as much confidence as possible.

Yet, while we do not want to revisit all the statistics from Mr. Paulson's downbeat assessment yesterday (already included in the [TRENDVIEW MARKET ALERT](#) provided then), the subprime mortgage component of US housing has exploded over the past decade. One observation excerpted from his speech is subprime mortgages represent 20% of the total fifty million US mortgages, having seen fully 25% of all subprime mortgages being created between 2005 and 2006. Also telling (although not mentioned in his speech) is the rapid failure of subprime mortgages initiated as early as May-June 2007.

The sleight of hand here is that all of the market and public psyche calming measures which have been implemented (and rightfully so) by the government and financial services industry does not really do anything to prevent the bigger problem. That includes everything from the more accommodative than classically expected Fed Funds rate cut to all of the measures encouraged by the administration and the Fed. That is even being tacitly admitted in what is a possible prelude to more candor to follow either late this year or early next on the inability to solve the problems of the major number of unqualified mortgage borrowers.

That was apparent from a response Mr. Paulson provided during his post-speech Q&A. Having been asked what the government was prepared to do for those who can not qualify for even accommodative revised home loan terms, he responded by saying something to the effect of, "We are not going to be able to save all borrowers."

The commensurate admission from the securities firms would undoubtedly be that also applies to all securities tainted with the toxic detritus of those subprime loans. Of course, we also know there is no point to them raising those concerns in the midst of rescuing the credit markets through enhancing the liquidity of whatever portions of the debt derivatives are indeed salvageable.

In that regard the M-LEC is an enlightened effort, and the greater sleight of hand may lie elsewhere in a far more macro-economically important realm. The Fed's commitment to maintain moderate growth at all costs, and what that means for the next FOMC meeting.

Might Less Have Been More or Is More on the Way?

How about an FOMC easing with the DJIA at a new all-time high (i.e. well above 14,022)? While unthinkable in previous contexts, that seems less radical than we might have imagined prior to the last FOMC meeting. And it is not just a matter of the Fed setting a new model last time by easing so markedly with the DJIA less than four percent below its then recent all-time high of 14,022.

One of our interesting aspects of the authorities recent *volte face* on the outlook for housing is the degree to which all of the downbeat talk is so out of context with their previous attempt to stress the underlying strength of the US economy. Indeed that very faith in a modest bit of accommodation relieving a major portion of the looming housing/subprime debt problem is responsible for various market responses.

US equities have remained more buoyant than anyone might have expected in the face of the looming housing problem juggernaut coming at it, with the associated securities market problems that might surface in conjunction with any significant number of foreclosures. Accordingly, the debt markets have remained more depressed than significant US economic weakness into 2008 might suggest, especially (as noted previous) the fixed income markets of Europe that is no longer expecting any sharp weakness in the US to spill rapidly into the global economy anytime soon.

That is as opposed to expectations during the August market troubles, and expectation that the US might weaken sooner than not. The various reasons for the US dollar remaining weak under either scenario still hold as well (see the 'Markets Summary' for that perspective.)

As we noted in last week's analysis "...it all boils down to one question, can the Fed actually ease further if the DJIA is up near the (ostensible technical and psychological resistance in the) 14,300 area?" "Given that it does indeed take approximately six to nine months for any Federal Funds target rate changes to filter through to the general economy, did the FOMC really do everyone a favor (themselves included) by restoring such a high degree of confidence at this juncture? Or did they only strengthen the bars on a prison of their own devise?"

"Regarding the last FOMC rate cut, it seems to us that 'less' would have been 'more.'" Having missed the opportunity (with a less aggressive easing) to allow the equity markets to weaken enough to fully justify a further easing only as a support to a market they had allowed to be a cautionary sign, the Fed is now stuck needing to likely provide further anticipatory accommodation with the stock markets near all-time highs.

As such, and consistent with our view into the last FOMC meeting that nobody could afford to have much short term potential risk in their portfolio immediately prior to that event, we ask the following question: As bizarre as it would see in an historic context for the FOMC to lower the Fed Funds rate at two consecutive meetings with the DJIA near an all-time high, might all of the downbeat official communication (with support from Mr. Greenspan) be a necessary prelude to giving the FOMC cover for another round of irrational exuberance facilitation?

In our own classic view that would be a huge mistake. It might leave the Fed already having cut rates to a point that will limit further timely accommodation later in a crisis, and will not really do much to offset the housing/subprime problems early next year. On the moral hazard side, what are the punters (British slang for short term bettors) to make of the chaperon who was supposed to pull the punch bowl when the party got to raucous after the new DJIA high last Fall spiking it instead (as the FOMC seemed to do at the last meeting)?

So far they have been happy to keep on partying, as evidenced by the robust equity market response to the last FOMC action and statement (reinforced by the subsequent release of the meeting minutes.) While we are as attuned as anyone to the problems looming into next year, call us old fashioned if we consider a further FOMC cut at the end of this month tantamount to the chaperon picking up the band leader's baton because they felt the pace of the dance needed to accelerate. Too many Halloween treats can leave the kiddies with a tummy ache. Hopefully the Fed keeps that in mind as well at the end of the month.

We will have more to say on that next week.

We look forward to providing further comments as the situation warrants, and hope you have found these perspectives helpful.

-Rohr
(www.rohrintl.com)

This analysis is confidential. It may also be legally privileged. If you are not the intended recipient you may not copy, forward, disclose or use any part of it. If you have received this analysis in error, please delete it and all copies from your system and notify sender immediately by e-mail to info@rohrintl.com. Internet access cannot be guaranteed to be timely, secure, or error and virus-free.

While based upon price data and market information from sources believed reliable, the analyst(s) do(es) not accept liability for any errors or omissions, and (do)es not guarantee any profitability or avoidance of loss based upon the content of the foregoing analysis.