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"couda, wouda, shouda" Part II

A cat has nine lives---how many does Greenspan have? Perhaps more? Nothing like waiting for a fat employment report on top of a rise in unit labor costs (declining productivity will take its toll) to do a number of things for bond junkies, including:

1) Question the market's wisdom in thinking that the FED gets the Labor Report early…at least in sufficient time for the FOMC meeting this week! If they couda seen it, wouda they changed their tune on Tuesday? We think they shouda!

2) Suggest that higher unit labor costs and higher total hours worked could dovetail into higher labor income earnings, "substantiating" some of the already, suggestive 'better than expected' retail and auto sales data. Reaffirms an old nostrum: never sell the American consumer short---they will always find that money burns a whole in their pockets. And, from the Hill, come the sounds of the Congressional Cavalry telling the consumer, Don't Worry, Your Social Security is Always Going to Be Protected, no matter how many Pension Funds this country has to bail out! The secret word is out. President Bush has replaced Don Quixote as the foremost 'tilter at windmills' in history for trying to bring some rationality to our social security system. VP Cheney as Sancho Panza? It's a thought!

3) Soft Patch or Dog patch? It doesn't matter. The Fed will have to keep moving upward and onward…Maybe this time at a not so "measured" pace? We now know who is in the Dog Patch—it's GM and Ford…and the question is, who else is next? That will keep the bond market on edge for a while.

4) The report should raise the market consensus as to how high Fed Funds will get this trip around the Club House Turn. It might even cause some of the Market Clocks to be revised downward as to how long it will take this race to finish. What is that famous (but unknown) level for a "neutral Fed Funds rate?" A noted Wall Street Chief Economist had it at 5.25 not too long ago….hmnnn?

5) Look out for Oil Prices, once again, because most of those better paid shoppers are driving to the store, sometimes in newer, shinier, SUV's. GM might default, but so far, not the American consumer. Keep those Hummers hummin'. And if the consumer is Patriotic and turns in an old GM product and buys a Hummer, maybe they can bail out the PBG Corp who could emerge as the first Financial Shock of this tightening cycle! Well, at least it will be a related cousin to a GSE, Mr. Greenspan.

6) Quality spreads in a rising yield market might widen out a bit further as macro clamping gets tighter. Someone is going to be exposed when the Tide goes out just like Uncle Warren once said.

Yesterday, Greenspan was in Chicago giving a Fedspeak on the Upside and Downside risks of derivatives. That was not his real target. The real target were the bouncing books at the Fannie and Freddy show. An intriguing Letter to the Editor this week in the WSJ pointed out that despite the largesse of the U.S. GSE's, we're still either 9th or 10th in the world in percentage of homeowners---even compared to countries were there is no 'housing subsidy' for lenders. But, any student of Japanese finance can tell you that "amakudari" is the practice of rewarding former high Treasury officials with cushy jobs in the private sector when they are finished their public service tours. The roosts at the Fanny and Freddy chicken coop have had and still do have many such descendents from heaven…and the lobbyists that are needed to protect the coop from raids by Congressional foxes. We thus conclude that wherever and whenever the cat with nine lives who runs the money game finally retires to practice his clarinet, it won't be to a government subsidized lender. Being a lender of last resort already, it would be a 'descent from Heaven' not likely to be taken.

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Bottom line: if the Fed coulda known, they wouda changed something…and they shouda have done last Tuesday.