



IS THE DOUBLE DIPPER ABOUT TO RAIN ON THE PARADE?

The national ISM spoke with total ambiguity today, as we might expect if we are rolling through a change in economic direction. Our title is only slightly hyperbolic, because whether or not a DD is about to commence, the road to growth has become very slippery through the current mist of policy ambiguity.

The ISM headline index rose a point to 51.6 while the production index rose 2.6 points to 51.2. The new orders index was flat at 49.6, not having moved over the past three months. 18 industries increased production while five were decreasing. Decreases were recorded in Primary Metals; Textile Mills; Machinery; Miscellaneous Manufacturing; and Computer & Electronic Products. Declines in primary metals and computer and electronic product declines shouldn't surprise. Look what Mr. Market has done to these sectors.

Last week was currently RISK OFF...but that doesn't quite describe the debacle...More like, "nowhere to hide." Commodities were routed, financials were trashed, most tech companies foundered and even the Nifties in the Dow paying big dividends ran into stormy seas. What was left? MCD? Junk food for a junk market!

Today, the US domestic macro data were overwhelmed by policy foundering in Europe. No one can be sure what the EU is going to do about its wayward sisters. The Germans want limitations to the largesse that the French wish to extend to anyone with a balance sheet problem. Of course, the French wish to do it on the backs of the German taxpayer. That reminds me of General Patton's classic advice to the troops embarking to Normandy about making the "other guy die for his country." Greece admitted it wouldn't make its projected deficit targets. What a surprise?

The casualty list today included the oils, although crude fell more than products, possibly suggesting that refiners may actually show some healthy profits in the future if their 'crack' spreads stay attractive. Of course they have to rid themselves of current inventory based on higher cost crude run earlier. Gold and silver were higher while agricultural commodities declined pretty much across the board. The China fear is palpable. If there is any solace to be found it is that China can actually dictate a policy change, contra the U.S. and Europe where democratic nostrums overwhelm practical policy-making.

The rush to US Treasuries is awesome, doubly so because if in fact the DD is upon us, the US Deficit has to get worse. As Joe Louis once said about his upcoming fight with light heavyweight champ Billy Conn. "He can run but he can't hide." If the deluge is finally upon us, there will be few dry places. The feedback loop we fear is a massive deterioration in business investment spending. We haven't seen it yet, but Tech seems to be feeling the prospects of much lower orders. Maybe the stopper will be Buffett buying up America. Then he will have even fewer taxes to pay in spite of his recent advocacy of the "rich" paying more!

In mid summer, when the impending threat to major banks from plaintiff lawyers was less formidable, it was thought that the major money center banks had balance sheets strong enough to withstand some significant deterioration resulting from legal settlements. The escalating and adverse legal environment may force leading financials to give up even more of their retained earnings than was thought a few months ago to settle with unhappy mortgage holders and portfolio companies. The list of those who think they can gain economic relief in a court easier than in the market grows daily. It is the 'dragons teeth' of this market.

The market wants to run away from these financials because it is unable to calibrate currently just how much of a "put back" there will be? As a result financials in the US are getting beaten to death in spite of their earnings and relatively strong balance sheets. The financials in Europe are hemorrhaging not on the fear that there



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will be a sovereign default (Greece), but on what follows that obvious outcome.

It would appear that the steps to the puke pit for Greece are few in number. The implications for Italy and Spain of the last step when Greek debt is finally marked down officially for are made even more hazy by the lack of a clear cut policy response by the remaining Eurostate pygmies. Will Europe split up into two camps (the Mark Franc bloc and the "others")? As Mr. Market waits for an answer, uncertainty is ruining many portfolios.

If the umbrella for this Money Monsoon is cash, it appears that equity holders want much bigger protection. The little umbrella one usually carries in one's brief case won't do the trick if the Deluge is large. There must now be substantial cash in the Losers' portfolios. Will that bring a snapback rally that will singe the Shorts? Maybe Longs will just see a further opportunity to buy a bigger umbrella? Pessimists who are growing in number may just short the rallies. A true rally depends upon a forceful policy change, perhaps in all three major macro areas, that is credible and effective.

Bernanke will testify to Congress tomorrow. Based on market responses to his recent speeches, it would appear that the Sellers will step into the ring long before Truth in Lending shows up on the hill. He will undoubtedly give some articulate answers, but he doesn't have the gravitas to hector the Congress into doing the "right thing." It might even be that he doesn't know the "right thing" to do! If the answer is to allow deleveraging to run its course, we have a long way to go. That might be just what is called for. Let the markets do their work without interference and get on to circumstances when there are so many sellers that a true Great Liquidation can finally take place. That however assumes that Politicians will be patient, a rather large assumption indeed!

Politicians have no patience in an economic crisis. The market wants legislators on both sides of the Atlantic to banish uncertainty, but leadership in economic affairs in Europe is a "sometime thing." Europe now looks more like America contra President Obama's early term wish to make the US look more like Europe. This "thing" is likely to drag on for many months...Economic policy has been emasculated on both sides of the Atlantic.

Cheers!



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