

## Rohr Report

# ***CAPITAL MARKETS OBSERVER***

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## **Overview including Markets, Reports & Events,... ...FOMC Minutes, Geopolitics, Miscellany**

### Overview

Even though the early part of this week is the typical front half of the mid-month US reporting vacuum, the later portion of it does bring some very telling influences from all fronts: central bank activity, reports and pronouncements and discussion from financial luminaries. However, at least for the balance of the day today we expect not much more critical activity in spite of the failure of the energy markets through major support. Even that will require confirmation from those markets remaining depressed below support for their weekly Closes.

What we do have is fixed income markets still parked against critical supports, the US dollar up near or against (depending on the other currency) important resistances, equities which remain buoyant after a test of lower support yet still less than strong enough to be fully convincing, and the depressed energy scene noted previous. The strength of equities and weakness of the fixed income remains somewhat inconsistent with the release of the December 12<sup>th</sup> FOMC meeting minutes release confirming the degree to which the Fed is now concerned with the potential for sustained (and we do believe it will indeed be sustained if not indeed become deeper) housing weakness.

Yet, as noted yesterday, the real acid test for the fixed income will more likely be the market reaction to Thursday's BoE and ECB decisions, along with comments from ECB President Trichet at the post-decision press conference, and whatever Federal Reserve Bank of New York President Geithner has to say on the global economy just prior to that. In essence, with the typical early year influx of investment into the equity markets, questions over whether there will be continued strength in retail demand (especially in the US and Germany), and mounting geopolitical influences that include trade issues, we still maintain our view that it will take a few weeks for the early year influences to develop into any sort of significant further extension of current trends, or enter a meaningful reaction.

While some of the components of the various cross-currents are discussed further below, we still suggest review of our assessment of the major risk contingencies from late last year in *Capital Markets Observers* II-48 and II-49, as well as last week's *CMO* III-1, now available on our website **Sample Reports** page. The full review of why US housing will remain weak, the risks from that to retail turnover in the US and from the VAT hike in Germany, a misguided view from the Fed on strength in Euro-zone retail, how that also tends to contradict OECD's basis for smooth global rebalancing, exacerbated by volatile geopolitical tendencies, and the added influence of too much enthusiasm for the international equity markets all adds up to more risk than many participants allow, or even understand is lurking out there.

As a final note to all of that, we stated back in *CMO* II-48 that these are risk "contingencies" that likely require more than one of them to go wrong before there is any significant impact on the equity market and economic outlook, or ancillary effects elsewhere.

That said, there were several portions of the FOMC minutes which were very interesting, and not the least of these was that reference to "...expansion in real activity in the euro area, ...was supported by strong domestic demand." Indications from participants in Germany are that they are hoping their weak retail sector does not implode in the wake of the VAT hike. This concern was only exacerbated by yesterday's abysmal German Retail Sales (NOV) numbers that were supposed to be surging in front of the imposition of that major VAT increase from the beginning of this year.

There was also last Thursday's warning from the OECD on the potential for continued weak Euro-zone growth. While that was a longer term view, it seemed to run counter to its previous semi-annual projections that a strong economy in Europe would significantly offset weakness in the US. As we noted back in *CMO* II-48, the fly in that particular ointment was underlying weak projections for Germany in the first half of this year; that is why German retail which is normally a backwater of international economics must be watched closely at this time.

Of course, the intermarket influence of any equities weakness on fixed income and foreign exchange will be a matter (as is so often the case) not so much of whether it occurs, yet moreso how and why. The key is whether the equities weaken in their own right due to a lack of final demand fomenting concerns about the still relatively upbeat earnings outlook after the extensive strength last year. If so, it will likely bring some relief to the beleaguered fixed income and weigh on the US dollar once again, as it refutes some of the more aggressively bullish central bank and equity fund manager expectations for this year.

However, if strong economic data combines with still hawkish BoE and ECB sentiment to knock the fixed income through support first, then any equity market weakness which is led by a higher interest rate scenario likely carries much less potential to assist the fixed income, and that higher rate scenario will likely also be at least a buoyant influence for the US dollar. As such, it is much more the sequence than any rote trend movement which must be closely assessed early this year.

As a final clarification prior to the extended analysis, we are not in any way prophets of "gloom and doom" on the economy or equities, and while we may regret not specifically calling for it if the worst case scenario does occur, we are not predicting the "Crash of '07" (even though we did use it in the title of *CMO* II-48 to make sure we got everyone's attention.) Yet, the fact is that there is an inordinate amount of equity market bullishness and fixed income bearishness that both appear to beg for a more than modest correction.

Much as the overall DJIA selloff to the mid-low 7,000 area in 2002-2003 was only a correction to major trend channel support from the 570 December 1974 major cycle low, a selloff into early-mid 2007 to the 11,500 area is only back to near term trendline and congestion support. Even if that were to fail, the correction to the trend channel support (from the 7,197 October 2002 major long term cycle low) projects to the 10,200 area. Should any selloff of that magnitude occur, it will likely buoy the fixed income and possibly depress the US dollar. That's our basic scenario: early year equity market and US dollar weakness, with a squeeze in the fixed income, and that will set up the major trends in the opposite direction for the balance of the year. In other words, business as usual, as markets do what's necessary to kill as many folks as possible, and have the real trends unfold from there. As such, we are much moreso "rational gloomers" than old fashioned apocalyptic "doomers."

Much as when imparting the information to those who remained long equities (especially the doggie Dot.com dregs) during the earlier major selloff, we will studiously avoid standing near any upper floor open windows when reminding people that the DJIA print at 10,200 or a bit lower is just a nominal, and overdue, correction of a strong four year bull move. There may be a few 'jumpers' around by then, and they'll be more than happy to take us along.

## **MARKETS**

### **FIXED INCOME**

The early year technical bottom line for the markets is whether fixed income can hang on to foment some sort of recovery after abysmal activity late last year into the first of this year. Whether this is a return to a bull market, or just a bounce in a bear trend is moot. To recover at all is to stem a very weak trend from last year that is on the verge of turning the previous firmer long end trend signals back DOWN in a major way with European short money (and the Gilt for that matter) already at new lows that has weekly MACDs tipping DOWN, and that has now infected the more resilient US markets as well.

However, as we are always quick to note, indicators are indicators, and the price movement (with some allowance for the importance of moving average trend supports and resistances) is primary to confirmation of trend signals. As such, is still some basis for feeling the fixed income could stage a rally from its key levels even though the European markets have either made new lows or violated major trend signal support. This possible recovery potential still needs to be predicated on the March **T-note** holding weekly Closes no worse than the major UP Break and other support in the 107-16/-10 range.

While some may take some comfort from the next interim support coming in as early as the 107-00/106-19 range, the failure below the mid 107-00s would mean that it was joining the Bund failure below the 117.00 area by violating the only remaining major long term chart UP Break from the summer rally. That would be reinforced by long end weekly failures of the **Bund** and **Gilt** equivalent supports in the 116.00-115.80 and 107.50 areas, respectively.

Each of those failures would bring with it the likelihood of another full point lower price activity or more, as below next interim support at 115.50 in the Bund, the next level is the 114.80 area, extending down to the major support held at the 114.55 early May low. The equivalent in the Gilt takes the market down to the 106.40 August 2004 trading low, with some further support into the 106.00-105.70 historic congestion and major weekly oscillator support. Needless to say, any significant destabilization of the long ends in this manner would foment a major failure of the short money forwards as well (more on that tomorrow.)

### **FOREIGN EXCHANGE**

The US dollar recovery is now nearing some very critical resistances at old major congestion or previous DOWN Breaks. With **EUR/USD** back below the 1.3120-00 support (i.e. reinstated resistance) and minor congestion at 1.3050-30, the major support at the 1.2950-00 previous weekly triangle UP Break, congestion, Tolerance of slippage below weekly MA 13 (actually in the upper 1.2900 area), weekly oscillator support, and the likely arbiter of whether the weekly MACD tips over into a DOWN signal. If it fails, next interim support is the mid 1.2700 area, with major support back in the 1.2500 area. If it holds, there will still be interim resistance in the 1.3100 area, yet the major trend will remain more convincingly UP.

On balance this means the US dollar has still stalled at resistance for now, with equivalent resistances elsewhere at **GBP/USD** 1.9200-1.9150, which has not even been lightly tested so far as Sterling returns to strong sister status. **USD/CHF** is modestly through its resistance in the 1.2325-1.2400 range, yet with more telling congestion waiting in the 1.2500-50 range. Only above that does it become liberated for a move fully back to mid-upper 1.2700 area early October highs. Yet, **AUD/USD** is still stubbornly holding the .7800-.7765 support, below which a drop back to its heftier congestion and major UP Break in the .7680 area is likely. Meanwhile, the buck is still at its best against the weak sisters, as **USD/JPY** held its support in the 118.00 area and is right back up near the recent 119.70 high. However, there is more formidable resistance missed on the last rally up into the 120.00 and low 121.00 areas. **USD/CAD** has pushed into the top end of its upper 1.1700-low 1.1800 area resistance, above which there is not much until the upper 1.1900-low 1.2000 area (also major Fibonacci resistance.)

All of the averages out in the **US Dollar Index** where the buck is just edging back up to the .8515 major weekly Symmetrical Triangle DOWN Break, with a Tolerance to the congestion and weekly MA 41 in the .8550-70 range. That is also the likely arbiter of whether weekly MACD turns up as well. In essence, some very big divergences in the trends, yet with the buck still a nominal bear against Europe and the Aussie until proven different. The most important lower supports are .8400 and .8330 congestion, below which the market would break its recent up channel support, and turn daily MACD back DOWN (which would obviously also maintain the DOWN signal in the weekly MACD.)

## EQUITIES

While the equities were still struggling against oscillator resistances around recent highs, über-market **DAX** has now pushed through its next interim oscillator resistance in the low 6,600 area, with next resistance not until the upper 6,700-6,800 area. However, the churn up into these levels also means that the 6,600 area has also become important general near term congestion, gap and daily MA support, with daily MACD already modestly DOWN.

Seemingly this means there is some burden of performance pressure on bulls to implement the push to higher ground as a means to avoid any further erosion of the upward momentum, especially as the strength of the DAX is in contrast to weaker sister **FTSE** failing to remain above its lower oscillator resistance in the 6,250 area, much less extend to the more major resistance in the 6,450-6,500 area.

US markets have stalled into their own higher oscillator resistances at **S&P 500** future (lead contract) 1,450 and **DJIA** 12,500-600 areas in spite of the propitious opening of the year in Europe. We suspect unless those areas are challenged again soon it will lead to further erosion in the US equities as well. This is all in spite of the extensive weakness of the energy markets that would normally be expected to buoy the equities across the board. The key supports in the US are DJIA 12,350 and 12,250-00, and S&P 1,411 and 1,400, below which key weekly MAs and aggressive up channel support from the summer lows would be broken, and weekly MACDs would turn DOWN. The other market exhibiting extended strength was the **NIKKEI**, which has been burdened with its extensive year end holiday schedule, causing it to react strongly to both the other markets selloff late last week, and subsequent recovery. Yet, it held its previous 16,800-17,000 resistance (now support), with the next not until the congestion area into the previous 17,600 area April high.

## ENERGY

The February Crude Oil (lead contract) has now tested the low end of important longer term trend channel support in the 55.00-54.50 range. While in a somewhat oversold near term condition, weekly MACD has now tipped over into a mild DOWN signal (from UP), and the lower end of this support band is also the major Fibonacci 0.382 retracement of the entire move from the 16.70 November 2001 low to the highs. While there is interim support in the 52.00-51.50 area, along with important psychological and congestion support in the 50.00 area, the next major support below is not until the 47.00-46.20 range.

## Reports & Events

The economic news cycle this week basically builds to a crescendo on Thursday, with a couple of important extensions into Friday. While we usually like to know the specific release date for any report, there are always the usual culprits each month that crop up ad hoc during a particular time frame. This week it is only the Bank of France Business Sentiment (DEC.)

Monday brought only German Factory Orders (NOV) and their abysmal Retail Sales (NOV) numbers, which still did not have a significantly constructive effect on fixed income. That was likely in deference to the Fed's Kohn speaking at lunchtime in Atlanta, even though his well anticipated hawkish views on the economy were tempered by further comments on potential weakness from spillover out of a housing sector into the rest of the economy. As such, it was not a very major trend decision day.

Today began with the overnight release of the UK BRC Retail Sales (All & Same Store for NOV), followed by Australian Retail Sales (NOV), the German Trade Balance (also NOV) and the UK BRC Retail Sales Monitor (DEC.) Then the only major influence of the day arrived in the form of stronger than expected German Industrial Production (NOV Preliminary), which likely explains the relative weakness of the Euro-zone fixed income (albeit still problematic as to whether it posts a weekly Close below the critical support.)

Wednesday begins the more important influences of the week, as the Australian Westpac Consumer Confidence (JAN) and Trade Balance (NOV) is accompanied by UK Nationwide Consumer Confidence (DEC), followed by the German Wholesale Price Index (DEC) and French Industrial and Manufacturing Production (NOV), as well as their Trade Balance and Central Government Balance (both NOV.) Then it's the Italian Deficit to GDP (YTD for Q3), and the UK Trade Balance (NOV) and BRC Shop Price Index (DEC.) Considering the major focus on its housing sector, the US also gets a bit more interesting with the MBA Mortgage Applications (for the week ending January 5<sup>th</sup>), Wholesale Inventories (NOV), and EIA Crude Oil Stocks (also for the week ending January 5<sup>th</sup>) that may be crucial for the tenuously holding energy markets.

Thursday begins with the Australian Employment numbers (DEC) and Japanese Leading and Coincident Economic Indices (NOV Preliminary), as well as their Machine Tool Orders (DEC Preliminary.) These are followed by the German GDP Annual Growth Rate (2006) and Budget (% of GDP) as well as the UK Industrial and Manufacturing Production (NOV) and Euro-Zone GDP (3Q Final) as the precursors to the Bank of England and ECB rate decisions. In an interesting twist that is likely the real acid test for the fixed income market support this

week, New York Fed President Geithner speaks on the global economy between those announcements and President Trichet's regular post-ECB rate decision press conference. Also of interest is that being followed by the regular US Weekly Jobless claims, yet also the typical late release UK Leading and Coincident Indicator Indices (NOV), and as a final critical note for the fixed income if it comes in worse than expected is the US Monthly Budget Statement (DEC.) While the Fed's Bies also speaks mid-morning Thursday, the topics at the Risk Mitigation Summit are not likely to be very trend decisive.

Friday begins with the Japanese Liquidity and Lending figures (all DEC), as well as their Economy Watchers Survey (Current and Outlook for DEC.) French Costs of Construction (Q3) and Consumer Price Index (DEC) follow, with the more global influence of the OECD Composite Leading Indicators (NOV) preceding the important numbers in the US that include the Import Price Index, Advance Retail Sales (both DEC), and Business Inventories (NOV.) Yet, just as Mr. Bernanke had the final (if rather inconsequential) word last week, so do the ECB's Mersch, Garganas and Quaden from fairly early in the morning (US time.)

### **FOMC Minutes**

In our view the minutes fully reinforced all of the most dovish aspects of the statement accompanying the December 12<sup>th</sup> 'no action' on the Federal Funds rate. Looking through the various factors in order of appearance, the reference to anomalies in the Bureau of Economic Analysis (BEA) gross output of new motor vehicles figures mean... "...these measurement issues likely caused an overstatement of the rate of increase in real GDP in the third quarter, and the gradual unwinding of those effects would probably lead to an understatement of real GDP growth over the next several quarters."

Similarly in the very next paragraph the discussion seemed to accept that, "Despite the further deceleration in house prices, the ratio of household wealth to disposable income remained well above its historical average, buoyed by robust gains in the stock market." That's fine and good, except for the fact that it's been established for some time that people are more comfortable leveraging value out of their homes than spending equity market gains. The analysis of those tendencies rightfully assumes that folks feel real estate gains are much more solid, whereas equity market profits can diminish in a very brief time.

Given investors' experience in the wake of the 2000 equity market top, the equity market driven consumer confidence would seem a very problematic bit of self-fulfilling prophesy. This is why projections for even a stagnant housing market in the US (i.e. no further price declines) is not propitious for consumer spending, and as the FOMC noted, "...some price measures showed outright declines." There is also the degree to which 'final demand' (which is Fed-speak for the retail and commercial end-user purchases which we have focused upon since late last year) might be slowing, and that could finally affect corporate spending plans.

This now turns up in the construction area as well, as the FOMC noted, "Growth of nonresidential construction spending appeared to have slowed from a rapid rate earlier in the year, responding in part to still-high vacancy rates in the office and industrial categories." While the recent strong employment and wage data would seem to counter this, it is important to recall that these can be late phase indications. More important early this year will be any of the real-time reports on the degree to which retail turnover is recovering from a fairly weak (albeit weather driven) holiday season, or is continuing to lag into this year.

This important indication of real consumer sentiment is a critical component of how the general economy does in spite of the extended near term weakness in the housing sector likely spilling over at least modestly into the balance of the economy. As the FOMC minutes explicitly noted, "...even if home purchases had begun to level off, residential investment was likely to fall further in coming quarters as homebuilders sought to reduce their backlogs of unsold homes." And part of that backlog liquidation will be to offer price incentives (or the equivalent in below-market financing) which will restrain any potential for further price increases for quite some time to come.

The message for the American consumer in the near term future is clear (and as we noted previous): Your home ownership being an ever-expanding piggy bank from which to fund your near term desires has stopped inflating for now, so you need to consider how to adjust your purchasing patterns accordingly. And this has begun to affect the previous ebullient optimism of the corporate sector as well, as also noted in the minutes: "Business investment appeared to have decelerated recently,... .. Incoming data on construction activity and employment also suggested that, following very rapid growth earlier in the year, increases in nonresidential construction spending could be moderating considerably. However, the weaker cast of some of these data contrasted with the sense of optimism among business contacts."

Something we noted previous may be more telling again: While the consumer remained very buoyant shortly after 9/11/01, and even into the depths of 2002 and early 2003, the business community remained very skeptical of the economy until the stock market had shown enough resilience to sustain the rally into early 2004. The old investment strategy axiom is don't trust the public, as they tend to only come into the market at or near the end of the trend.

However, as it applies to economic 'sentiment' which drives the economy, at least on the most recent cycles the retail user who dictates the levels of 'final demand' are likely better attuned to whether they're likely to spend or averse to stretching pocket books any further than they have already through consumer credit and borrowing against their home equity. We note that most of the business surveys of late are very upbeat, while retail sales have been a bit more spotty amidst bouts of strength. Which is why we are so interested in how retail turnover proceeds (in Germany as well as the US) early this year, as it may have the ability to influence the important corporate sentiment as well. Our twist on the old cliché is, "Don't confuse the extended equity bull market with a prediction of further appreciation."

## Geopolitics

What can we say here other than to direct everyone to pick up a newspaper or check your online world news sources? When we wrote up our major study back in March 2005 and titled it "1970's Redux: Son of Stagflation" we could not possibly have known the geopolitical situation could also be so much like the 1970's. While the energy price escalation might have created some expectation that forces would once again foster an ultra-populist developing world stance, we were likely hoping cooler heads would allow them to avoid squandering oil wealth on unsustainable spending while demotivating future investment in those resources.

No such luck. Venezuela's Chavez is now in full 'kleptocracy' mode while offering extensive support to Nicaragua's Ortega, Russia is allowing its worst nationalistic instincts to impugn its reliability as energy supplier (Europe was warned on this), and problems in the Middle East and other energy producing areas continue to risk interruptions to those supplies.

Other than the unseasonably warm weather, it makes one wonder how the energy prices continue to slide. Yet, that weather and some economic slowing are indeed the real answer, and demand is now so low as to bring further weakness unless one of those geopolitical risk factors is actualized. In fact, that may be just what it ultimately takes to remind the radicals that having a store of raw product value in and of itself never leaves a country more powerful in the long run. Diminishing revenues may be the only way to effect a change in the geopolitical balance back in favor of the developed world.

If progenitors of unsustainable social and political initiatives like Mr. Chavez are shown to be wanting to their own people once they do not have their energy resource piggy bank to fund their largesse, possibly a return to rationality is at least possible; which is not the case while the most populist of the energy producing demagogues is in power. Unfortunately, this takes some time, and the demagogues will do their best to blame plots on the part of the developed world's governments and security agencies. Of course, the most effective and immediate resolution would stem from a more than modest slowdown in the developed countries, and that is one more good reason to not be too upset by any significant equity market correction, as long as it does not turn into a rout.

The basis for fears of something more than a modest equity market correction, or at least the potential for a more serious economic slowdown, is out there in the geopolitical arena as well in the form of the now very contentious failure for the first time in decades of major trade liberalization negotiations. That Mr. Bush and the European Commission President Barossa have agreed to a final push to resurrect some form of agreement on the so far failed Doha round of trade talks at the same time that ECB president Trichet has issued his first really aggressive warning on the risks of international protectionism is encouraging.

Yet, on the other side, the French farm lobby and government ministers laid out their usual vociferous protest, and on past form they can and will back it up with social action. It has been the case that the ability of the various highly organized partisan interest groups in France to actually implement a threat to the governments of either right or left has carried the issue in their favor. Therefore, unless the Doha round finds something other than cuts in farm subsidies upon which to base any significant progress, the current friendly reinvigoration talk is just so much posturing to avoid blame when it ends, possibly in tears.

On another front that is scary moreso because of its role in the Asian Contagion of 1997 than any actual overt infection of the balance of the Far East for now, the military-installed Thai government is seriously considering revising its foreign ownership laws. Their concern is that majority stock ownership of joint ventures does not insure Thai control in key industries such as telecommunications, etc. That the current law was set up to allow foreign control while enriching Thai partners, and has assisted in a major influx of foreign capital which furthered the rapid growth of their economy is not seemingly of much concern to them at this point.

The military backers of the current regime may have done the right thing to eliminate the previous prime minister and a coterie who had allegedly become very corrupt, or at least bent the law to their own ends. Everyone allowed at the time that was alright as long as they left the systems intact. However, their current action is meddling with one of the pillars of recent Thai prosperity, and may lead to significant capital flight if there is a sense on the part of foreign investors that things are now capricious; that could be more ominous for everyone.

Speaking of ominous, what is possibly the most chilling part of the whole episode is not even the actual less-than-constructive measures being considered. It goes a long way beyond that. Yesterday Thai commerce minister Krirk-Krai Jirapaet not only dismissed the plea from the foreign business community to leave the current legislation in place; he also derided them for publicly questioning the changes. That's nice. The previous accommodative Thai investment environment has now evolved into something akin to dealing with the Chinese on the mutual benefits from revaluing the yuan: They may do something to respect your request, but if you pester them you will likely increase the chances they will follow their own instincts.

This reminds us of the 1987 TEFRA tax reform in the US, when in spite of warnings Congress went ahead with retroactively changing tax benefit bases for real estate investments, around which an entire industry had evolved. They explained that only by changing the basis for all previous tax deferral and credit legislation (which had never been done before) could they possibly collect enough money to balance out their still extravagant spending.

Great idea. Except for the fact that lower appraised values needed to be immediately applied to all property purchased at prices inflated by availability of those benefits. This meant that the equity portions of those investments were immediately wiped out. The significant holders of those equity slices were banks and savings & loan companies, and the evaporation of their equity investment in those properties, or the fact that the value of the property had sunk below the value of the loans they had extended on it, meant that they were no longer viable investments on their books. Accordingly, their by-laws forced them to dispose of those now stale investments timely.

And that, boys and girls, is how the US government extended the length of the 1990-1991 recession, and contributed to the weak nature of the subsequent recovery. Of course, all of the Bill Clinton fans out there should be thankful; that got him elected with the use of the phrase, "It's the economy, stupid." It also created the real estate market implosion requiring the US taxpayer-funded Resolution Trust Corporation to absorb the excessive distressed real estate, and ensure it did not spill over into depression. It is also why when they subsequently went hunting for the thieves and whores who defrauded the public out of their investments in the banks and other savings institutions that failed due to the real estate implosion Congress only found Chuck Keating and Miami-based Centrust Bank chairman David Paul.

Just two bona fide crooks; they wrote off the rest of the multi-billion dollar debacle to 'market conditions', with no indication at any point that their action might have affected conditions. They lacked the guts to admit (presuming they even had the brains to understand) that they might have pulled the wrong lever in a misguided attempt to solve a budgetary problem with a populist approach that punished the 'rich.' Of course, nobody else wanted to tweak the lion's nose either; so even those who were aware of Congress's extreme failure were not inclined to say anything. This is why the Thai government's preference for silence while it decides what's 'best' is chilling on both financial and free speech considerations.

It is terrifyingly typical that the government knows very little about the macro-economics and specific sector contingencies that can affect whole domestic economies and the wider world. Of course, those least able to understand how it all works are also the least likely to know what they did wrong if very negative results should ensue, and are more likely to pursue phantom conspirators engaged in fraud or political destabilization. Pretty scary activity that begs a return to the previous cliché: "It's the economy, stupid; hands off if you're smart."

## Miscellany

### The Charge into the Democratic Party “Effective Government” Program. Sort Of.

Yet, in its way the Thai situation remains somewhat of a backwater of the world political and economic scene (at least unless and until it spooks the rest of Asia.) Far more important is the activity in the developed world, and none moreso than the developments in the US as the newly elected Democratic Party Congress is sworn in and gets to work on solving the problems of the country and the world.

Indeed, in what can only be described the most compelling example of one-upmanship or (in deference to Ms. Pelosi becoming the first female Speaker of the House of Representatives with all of the PC tendencies her party embodies) one-uppersonship, the typical push to stamp its mark on the business of the nation has been highly accelerated. Most measures of early success after a major political change have been measured in terms of the honeymoon period known as the first “hundred days.”

Well, the new Democratic majority in Congress was going to have none of that slacker shilly-shallying burden their push to become the “Party of Effective Government.” No sirree Bob. They shortened the timeline to the first “hundred hours.” That’s right; 1-0-0 h-o-u-r-s, and they are going to make a major change and have the Congress convene five days a week.

However, as some members of the public might get the misimpression that 100 hours meant the first 4.167 calendar days, Speaker Nancy Pelosi and Democratic Senate Majority Leader Harry Reid wanted to clarify that it meant the first hundred hours of actual specific legislative debate and activity. Which is to say excluding the members one-minute speeches at the start of each day, and during the “special orders” at night when members wax eloquent on favorite issues for the benefit of C-Span (free political TV) and future campaign ad sound bites.

Might there be an issue regarding whether they’ve accomplished anything within their insane self-imposed time-line? Who is going to track this now extremely specific qualified activity? Will the loyal opposition agree to work within this program, and do they have any inclination to cooperate with something clearly designed to make them look bad?! What if the Democrats are not accomplishing much by the time the deadline is looming? Will they then attempt to put some of negotiations that have passed a significant legislative threshold into ‘overtime’ (say an additional two or three hours per bill to allow reasonable further debate)?

And so it goes, as this becomes a blatant case of “It Seemed like a Good Idea at the Time” bit of self promotion that’ll backfire as sure you are reading this page. Carried out to its full extension, the Republicans will be calling for committees to investigate whether Democrats did indeed stick with their deadline. Then the world will be treated to the spectacle of news broadcasts of the lawyers explaining who said what, when, and to whom for the edification (an insomnia treatment) of the most apolitical electorate in the world once again, instead of pursuing the business of the nation and fulfilling its role in the broader world.

We recently alluded to the current politically astute population in the USA (and the developed world at large for that matter), having rightfully adopted the same attitude as informed citizens of Rome during the decline of the Empire. They don’t really much care if the world is going to Hell in a hand basket, as long as they’re one of the folks holding the handle. We take it back. If you were a citizen of Rome, at least things were more exciting on a power struggle basis; these folks are just tedious, and as wholly ineffective as the most dissolute emperor.

While their pressurized schedule is an impressive attempt to follow up the last “do-nothing” Congress with several pieces of legislation prior to President Bush’s the State of the Union address late this month (thereby demonstrating the total ineffectiveness of the opposition), this does create some trepidation among the more thoughtful observers. Anything done in a rush is likely to be deficient in consideration of the fine points, and one of the first casualties of this attempt to look good at the expense of the folks across the aisle is any vestige of the bi-partisanship which the American people were promised during the election.

The other thing that the Democrats forget in the euphoria of their victory is that it still leaves them with a very slim majority. Their current claim to be empowered to push their agenda reminds us of President Bush’s bogus ‘mandate’ claim after his 2004 victory. It seems that anyone who squeaks in with a 0.5 percent popular vote advantage wants to claim a mandate. We seem to recall a time when that took at least 65% of the popular vote, also known as a ‘supermajority.’ The fact is that the Dems really do not have the power to accomplish much of anything without allowing for some fairly extensive compromise with the Republicans.

Possibly they are as misguided as their predecessors in believing the American people will care whose fault it is that nothing is getting done; they won’t, and this will soon be known as the “failed’ Democratic Congress unless they are willing to compromise a bit more than their rhetoric suggests. And as far as the public relations electricity generated with that 100 hours commitment, they may have already thrown the switch against themselves. While the Senate did duly convene yesterday, the House decided that the 100 hours only started from when they all decided to get back, and...

...after all, this Monday was the BCS (Bowl Championship Series) National College Football Championship Game between undefeated Ohio State and the very hot University of Florida. You really didn’t expect their Congressional delegations to hang around in Washington when they could participate in such high profile schmoozing while they were attending the game (in sunny Glendale Arizona we hasten to add.) No, as big fans they had to go out and support their guys. After all what’s a one day delay in starting the clock on that 100 hours when they are going to accomplish so much in the way of eliminating Congressional perks, and finally be at it five days a week! Uhh, except for next Monday’s observance of Martin Luther King Day, of course. Hmmm; maybe the following week; they’ll check their diaries...

Only in America.

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

-Rohr  
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