Rohr Report

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Key Views, Overview,…

…FOMC, US Housing Math, Stagflation 'Different'?, The Fiddler's Notion

Key Views

- **The FOMC announcement today may be one of the most critical for the various markets in quite some time. While the likelihood of a 'no action' on rates is a proper perspective, the content of the statement and subsequent tea leaf reading exercise will probably provide quite a bit of influence for price trends in critical stages. This is due to the two way stretch that the Fed must now accomplish due to it lack of willingness to tighten soon enough across the cycle (fomenting additional inflation) and letting the various bubbles balloon to points where they burst (engendering economic failure.)**

- **That is responsible for the need for the Fed to move back to a more hawkish stance prior to the equities being ready to tolerate it, as evidenced by their renewed weakness over the past month or so. While there was that incentive for Mr. Bernanke to take the unusual (and ultimately pernicious) step into signaling US dollar support, his assistance for Treasury Secretary Paulson in that sphere would not have been possible if the Fed Chairman had not begun to believe his own press once again that it was likely there would be an economic rebound in the second quarter. If it was not apparent already, yesterday's US economic releases have belied that notion.**

- **As such, if the FOMC remains as hawkish as at the last meeting in their statement today, it will represent a real risk for the equity markets. Along with the Chairman it seems the committee was expecting "inflation to moderate" in their last statement. That was likely part of the mistaken reliance on forward futures contract pricing that the Chairman now admits might not be efficacious. That was also with crude oil below $120 per barrel, and prior to major mineral resource and chemicals price increases of just the past several days. As such, it seems that they are also as stuck as previous remaining hawkish to defend the US dollar, and remove any sense further bond yield increases are needed; but what if equities take it badly? (More below.)**

- **Further signs of 'stagflation' have continued to appear, as stronger than expected inflation indications pervaded international reports from last week at the same time that many of even the European economic indications are flagging. In that regard, it is very important to keep in mind that these are all 'backward' looking indications. As it relates to just one aspect of the inflation outlook, those already elevated indications could not possibly reflect the continued cull of livestock breeding herds that have a perverse influence. Those extra near term supplies are restraining the price of all types of meat at present, yet are laying the foundation for the attendant healthy demand that can trigger explosive food price increases into next year and beyond.**

- **September T-note below 113-00/112-24 area contract and continuation support for the past two weeks has nonetheless managed to recover temporarily back above the next support in the mid 111-00 area; previous slippage below that area saw lead contract June fail its own 113-00 area support from which the September contract failed on the test yesterday. However, the near term swing especially in the T-note may have quite a bit to do with whether the equity markets hold on into the key lower supports or fail.**

- **Yet, in general the indications are that the long ends can remain stale in spite of any near term equity market weakness. It seems that whenever the equities are not either actually dropping sharply or at least on the cusp of doing so that the fixed income is rightfully reflecting the renewed heavy inflation expectations. While some may assert it is not the 1970's again, the combined weakness of stocks and bonds in the face of the global asset base being drawn out of the developed economies to commodity (especially energy) producers seems similar. In this environment it is very reasonable for debt and equity markets to maintain otherwise unusual mutual down trends.**

- **While it has reinstated interim support at 111-16 for now, lower major T-note supports are the 110-00 and 108-00 areas, which still leaves it well above the mid-low 104-00 cyclical trading lows from the past two years' spring lows (both 2006 and 2007.) However, reflecting their stronger economies and inflation, both Bund and Gilt have neared last summer's major cyclical lows. Of note, that also happens to be major weekly oscillator support that would normally signal a likely intermediate term trend reversal, at least for a significant upside correction. That was the case in spring of 2006 prior to resumption of the bear trend into December 2006 for the drop into last year's lows.**

- **Having dropped further than T-notes previous, weakness in European fixed income is still bad below extended supports. The Bund below 113.00-112.50 has also failed the mid-low 111.00 support into last summer's 110.00-109.65. While the weekly oscillator threshold (MA-41 minus 05.50) extends to 109.00, failure would indicate a swing down to 107.00 area that is also consistent (not surprisingly) with the Return (basing) Line of the major down channel from the August 2005 all-time high. Similar tendencies apply to the September Gilt below previous supports at 106.70-.50, 105.00 area and 104.00. Last summer's cyclical low trading support low at 103.35-122.90 is oscillator support, below which next support at 101.00 area is also the major trend channel bottom.**

- **As also noted in our June 5th *Special Market Highlight*: EQUITIES Tech, the DJIA daily Closes below 12,500-450 three weeks ago (and overall 12,768 failure) Negated loose Double Bottom (January and March lows) tendencies. In the event, last week's subsequent failure below 12,230-12,175 interim support and the next major lower support into 12,070-000 was significant. On a near term view, the (bearish) Rising Wedge downside Objective is the 11,756 Bear-Stearns capitulation low; that's a minimum, and as such not a reliable support. It was not much of a surprise that the DJIA has stabilized around that level yesterday for a minor bounce after such a sharp drop. More critical psychological support is the January 11,635 low. That said, next lower support is as nearby as 11,500 (where DJIA was trading prior to Fed action early on January 22nd), with extended levels into 11,350, 11,000, and various others as low as the 10,000 area.**

- **The real beneficiary of the higher interest rate scenario and indications of weak economies beginning to take hold in Europe has been the US dollar. While the cross currents on the interest rate influences likely means there will be some fits and starts like the moderate weakness experienced when US equities led the way down last week, it does appear the buck is indeed 'bottoming' overall.**

- **It is important to recall that the euro did not so much bottom in October 2000 as the US Dollar topped in the face of the secondary failures of the US equity markets as the NASDAQ 100 slid below 3,300 (!!). Considering whether the US Dollar has bottomed is now therefore as much an exercise in whether European economies are weakening enough to be over-valued against in spite of the likelihood the ECB will raise rates at the July meeting. That will really confuse the 'interest rate differential' camp. It is one of those misplaced notions that interest rate influence is a primary driver of foreign exchange trends. It certainly did not assist the buck very much during 2004 and 2006, and even 2005 strength was more so due to a temporary US tax policy influence.**
- **With the US Dollar Index finally posting a weekly Close above .7350-70, next resistance is not until the .7500-50 area, with extended resistance as high as the major weekly down channel in the .7620 area, or the last major congestion at the top of the range above .7500-50, which is the low-mid .7700 area. Support remains back at the .7300 area weekly down channel UP Break (Tolerance .7213.) Somewhat commensurate consideration would be any EUR/USD violation of 1.5350 leading to a test of the 1.5000 area on the initial swing, with its 'strong sister' resistance still back up into the 1.5750 and 1.5900 areas and interim an level at 1.5500-50. GBP/USD must fail back below 1.9500 to resume its recent weak sister taint with lower 1.9350-00 support critical this side of 1.9080-00 major support. Resistance remains into the 1.9850 and 2.0000 areas. EUR/GBP failure from .8025 weekly DOWN CPR (Tolerance: .8050) still saw it hold .7750 and .7850 supports, yet with .8025-50 still critical resistance overall.**
- **However, the real weak sister remains the Japanese yen in the face of high oil prices. USD/JPY above 105.00-106.00 resistance is now challenging higher resistance in the 108.00-.60 range, with 110.00-110.50 above that. Even though the US dollar has strengthened overall, with the EUR/JPY above 165.50 and GBP/JPY through 209.00 to the upside, each of those has gained on the yen as expected. They are now approaching further resistances at EUR/JPY 168.00 and 168.95 (which was the major July 2007 high), and GBP/JPY in the 214.00 area (a series of early 2008 highs.)**
- **As noted extensively previous, Crude Oil rebounding from 112-110 back above 120 also pushed above resistance in the 125-127 area, the low end of which was near term support with a buffer down to the 123.00 area (daily aggressive channel and Area Gap.) Even though important weekly oscillator resistance was into the 135 area previous, the 130-128 area becomes the interim support on any pullback. Which means important higher resistance is now not until the 144 area (weekly MA 41 plus 40) in spite of recent highs just shy of 140, and extended resistance is not until the 153-156 area.**

Overview

Once again this is really quite an interesting week on many levels, with the key midweek impetus from the FOMC. Yet after the very negative US housing indications from the S&P/Case-Schiller Indices yesterday there are also still quite a few interesting insights on US housing to follow. As noted in Monday's *Weekly Overview*, today's New Home Sales are less than reliable.

However, tomorrow's Existing Home Sales indications are always a very important and telling indication. In addition to all that, the major key to all of these economic numbers are that they are from no earlier than April (yesterday) and mostly from May. As such, they are the indications for the second quarter which the equity bulls were so hopeful was going to bring a recovery.

On current form that appears a very classic triumph of hope over experience. It is also an indication of why so many in economic and equity market 'basing' camps still feel that the Fed's next major interest rate shift will be raising rates. As we did in the more extreme situation back in 2001 and 2002 as well as early last year, we significantly question that sort of notion. We explore that fully in the **FOMC** analysis below.

That is not to diminish in any way the degree to which the Fed is in a tough spot due to its previous lack of intestinal fortitude in removing overly exuberant conditions on the global economic scene. There are quite a few folks who have taken issue with our tendency to put the global inflation onus on the Fed. Yet, the strong US penchant for conspicuous consumption was much the culprit in global economic expectations remaining as strong as they did after the late 2006 DJIA new high, encouraging an idea that endless asset price appreciation was possible with excessively easy credit.

That the Fed did not pull the punchbowl as soon as it should have is now water well under the bridge. However, the strength of the developing economies that continues to put up prices of commodities from energy to base metals to chemicals are the chickens that are coming home to roost from previous Fed lassitude. While there are many (Fed Chairman Bernanke among them) who point out the conditions are not as bad as they were in the worst of the 'stagflation' problem of the 1970's, what about the way forward? In spite of current labor acquiescence, will skilled labor in the developed economies remain endlessly accommodative, or might we be headed back at some point to a two tier labor market?

All of which will be exacerbated by the weak US housing market. Unless and until there is a bailout of at risk borrowers, the situation will continue to erode. It is not just our view at this point. Quite a few other economically astute analysts have cited the negative impact that has become self-reinforcing and will need a systematic fix. This is also the key to the problem facing the banks and the other international financial institutions that remain plagued with illiquid debt derivative portfolios, and recent return of deteriorating credit spreads.

Restoring the confidence in US housing is the key to general economic sentiment, and as importantly (or even more so at this juncture) the valuations of underlying assets of debt portfolios. That is essential to the restoring liquidity to interbank lending that remains very challenged in spite of major central bank capital infusions.

While a bailout of the at-risk borrowers is a less than appealing alternative, it may end up being the only way to slash through the current self-reinforcing negativity that is related to **US Housing Math**. While we have stated this as a given previous, and felt the implications were loosely clear enough to be discerned by our readers, we have taken the trouble below to actually go through the specific implications.

The bottom line is as both Mr. Bernanke and Mr. Paulson (among many others) have noted at times. However, while it was buried deep inside other topics in lengthy speeches, it is becoming very much more apparent in the wake of the last couple of months US housing indications that it is a primary point: Lower house prices should be an incentive to buy, increasing demand. However, *sharply* lower home prices that do not seem to be stabilizing are a disincentive to buy. Which is why we revisit that in our latest update and expansion of background for the reasons Congress will likely pursue 'RTC-2008' that we initially referred to in our analysis last December.

FOMC

The Fed is in a tough spot. That much is well known, and it is possible to have some sympathy for Bernanke & Co. in spite of this being a prison that is in large measure of their own devise. As noted above (and many times previous), it is substantially due to its previous lack of the foresight to counter the over exuberant conditions on the global economic scene back in 2006.

However, the more pronounced external part of the dilemma now is the same as the one that encouraged Mr. Greenspan to possibly leave rates too low, or not raise them again quickly enough after the sharp easing into the 2003 deflation scare: no help from the other major central banks when things are going into a much weaker phase. While its hawkish stance certainly appears far more justified at present than back in 2004, the ECB will certainly not provide any assistance if the Fed needs to move to stem another 'disorderly' drop in equity markets.

Possibly it is also just another quirk of fate, but tomorrow is also the Bank of England testimony at the UK Treasury hearing on the May 2008 Inflation Report. The BoE has been sympathetic at times to the need to keep the system liquid (they have a *de facto* responsibility for the extensive UK financial services sector that is similar to the Fed's.) However, in the wake of needing to explain why inflation is so far above official targets at the present time will diminish their latitude to assist the Fed with any rescue if the equity markets get back in trouble.

All of which presumes that our previous fundamental analysis of the problems with the economic outlook will foment a failure of the equities that is indicated by the Negation of the DJIA Loose Double Bottom 12,768 UP Break (i.e. above the February highs) that so many felt was the dawn of the next bull trend. As noted in ***Key Views*** above, any drop below as major a bottom as the lower of the January and March lows at 11,635 will not likely be a modest affair.

What if the equities are not only *not* done going down; what if they are not done dropping sharply at some point?! We have previous reviewed at length the reasons that the technical structure did not reinforce the initial early year basing tendencies, and will not revisit that here. However, if the DJIA should overshoot the Rising Wedge down Objective at the 11,756 Bear-Stearns capitulation low, the major 11,635 trading low from the Fed's January 22nd intervention should also fall by the wayside.

As noted above, next support is as nearby as the 11,500 area. Yet, if the reasonably major several month Loose Double Bottom should fail, in most cases it is likely that will be for a more extensive move than just the next 135 DJIA points. That would put the interim support at 11,350 in jeopardy, and possibly leave the market vulnerable to a quick drop to the next support in the 11,000 area; that could not reasonably be part of just 'slippage' into a broader bottom that was still reasonably consistent with the January lows as a market base.

The question is what the Fed does then? Considering the previous points in this cycle where it was wholly misguided to try and put a constructive face on the economic and credit market outlook, it is quite possible that a Fed which is too hawkish today will end up eating its words through the need to stem yet another equity market debacle in the near future. And that means the current consensus on the Fed's next move being toward higher rates will also prove yet again to be too early in the cycle of a weakening economy that may actually be getting worse unless there is some resolution of the US housing market situation sometime soon.

US Housing Math

Along with any other previous discussions of the relationship between the markets and US housing situation, we have consistently maintained our view there will be a second major wave down in the DJIA (and other equities) prior to a real bottom. That is both very typical for a bear 'phase' (after all, it is still only a large correction of the previous major up move), and might carry to as low as the 10,000 area into late this year or early next. Both the extent and timing of any actual basing activity might now rest as much with the US Congress as the Fed or any other central bank. That is for all of the reasons noted previous.

It is due to the most overt contingency being weakness into a new DJIA low (below the January 22nd Fed rescue 11,635) as the force motivating Congress to push through the bailout of at-risk home borrowers, even over the protestations of the administration. It will become very apparent just how much of a 'lame duck' Mr. Bush becomes by September when the public and the markets are far more interested in whether Messrs. McCain and Obama will sign off on the bailout into early next year (as they have both said they'll do.)

As noted previous, Messrs. Bernanke and Paulson both explicitly acknowledged in speeches that the US housing situation is a bit 'upside down' to normal supply/demand. That's important for the psychological impact on consumers already burdened by inflation and a weakening labor market. Keep in mind that the current agricultural problems in the US mean that even the current elevated inflation readings are just hindsight that has not yet incorporated the worst aspects of things to come.

Add to that yesterday's unexpected sharp drop in Consumer Confidence ((JUN) and S&P/Case-Schiller US House Price index (APR) that showed an 'average' annualized drop of 15.3% in US home prices and a picture of the future that is no more savory than that from the worst case in Charles Dickens' ***A Christmas Carol*** are key factors in rapidly eroding US consumer psychology; and any further housing weakness has implications for debt securities portfolios of the major banks and securities firms as well.

That is why Congress will need to act prior to heading out onto the hustings this Fall. They'll want to show they could actually 'do something' (as opposed to the stubborn 'free market' ideologues from the Bush regime) prior to asking for peoples' votes. I agree in principle with all the reasons many observers feel this is a bad idea: excessively expensive, messy, unfair (to both taxpayers and those who've lost their homes), encourages future financial moral hazard, etc., etc., etc., *ad nauseum*.

However, if the situation continues to erode, this will be much akin to Churchill's observation on democracy: "…the worst form of government (*or housing fix*) except for all the others that have been tried from time to time." In the eyes of both politicians and constituents, an at-risk home borrower bailout will be the very least desirable alternative, except for the prospect the politicians will be voted out, and tagged with the legacy of being the folks who let the next major prolonged recession (or worse) take place while they squabbled over the technical details of the rescue plan. Besides, Average Joe figures if they did it for banks in the original RTC, why not now?

The math implicit in the warnings from Bernanke and Paulson is truly daunting when one considers the position *not* of the folks who have owned their homes for many years and have developed huge net equity. It is rather more instructive to consider the position of the first time middle or (even better) lower-middle class buyer.

As those are the bulk of the homes which have been put out for sale due to subprime problems, it is a more relevant example to develop a solid idea of why this is such a pernicious problem. Let's avoid the worst case markets in previous boom areas and consider a home in a solid market that has come down 20% in value.

If a modest home that cost $300,000 two years ago is now down to what would normally be a bargain $240,000, that should represent a real steal in classical terms. However now that the lending standards have been (rightfully) tightened, the buyer will need to put up a $24,000 down payment (presuming they qualify on other fronts; also often problematic in this economy.) But why would a home buyer in that socio-economic bracket who saved $24,000 (also likely a major portion of their free net worth) want to put it into a home when values are diminishing by 10% or more each year?

On current form that means in a single year the hard-earned equity that they deposited would be wiped out, and they would be left with pure bank debt (as standard mortgages do not develop equity for the borrowers until the later years), and only hope the home will go back up in price sometime reasonably soon. As noted previous and above, lower prices are an incentive to buy; sharply lower prices are the disincentive that many astute observers (including Messrs. Bernanke and Paulson) have noted.

We are pretty conservative, and appreciate under normal circumstances (unlike at present) it should be both necessary and beneficial to let 'free market' forces rectify the situation. Here's a newsflash: 'free market' is not necessarily in good standing these days after the happy horse crap that led us into this fine mess. Average Joe and Jane are quite a bit more concerned about the situation stabilizing before they buy that new house, and not whether it occurs according to 'best practice'; that's doubly so for the owners that are already in homes and struggling with higher interest rates, inflation and watching their house price slide all at the same time.

And that is another big key to why a bailout is necessary: the alternative to continued major handouts (likely as large the bailout cost) from central banks to the investment banks and securities firms is to restore confidence to the debt derivatives markets. That can not happen through any sheer amount of capital infusions while the underlying assets of the derivative debt securities portfolios are still questionable; note the recent return of very extensive interbank interest rate premium yields in spite of extensive Fed actions.

As to the new buyers necessary to clean up the overhang of unsold US homes (with similar tendencies now beginning to show up in the UK that has had even a more dramatic house price boom), this might be considered a very unique bit of 'upside down' financial market psychology as well: "The Revenge of Average Joe & Jane."

For years the extremely astute Masters of the Universe (and that is meant in the best sense for truly talented dealers of equities, debt and foreign exchange) were lauded for their savvy and discipline, including one of their industry's key axioms: "Don't try to catch the falling knife." Now their firms' debt derivatives portfolios would benefit from nothing quite so much as a floor below their underlying US home values. Yet, Average Joe & Jane now have their own newfound axiom: "Don't try to catch the falling house." The wisdom of it has already been proven. And until they see things are really basing, they likely remain reticent; with continued negative impact on US house prices.

Which is why a new low in the stock market may be a necessary evil, as the most likely trigger for a near term US government 'fix'. We shall see.

Stagflation 'Different'?

Quite a few folks have weighed in on why this time the combined pernicious influence of slower economies and inflation will not be as vexing as in the 1970's. Our basic view on that is to stop fixating on the current conditions, and keep an eye on the trends.

Most of the recent comparisons have been specious at best because they focus on the differences between the worst phase of the 1970's and early 1980's conditions and compare them to the present. Yet we know from experience that the worst conditions of that previous period did not develop out of nowhere like the proverbial Jack-in-the-Box; they evolved across time.

After a lengthy and tedious attempt to beat back inflation from the late 1960's into the early 1970's there was a capitulation after a major US harvest failure (noted previous) in the Fall of 1972 that triggered agricultural inflation into 1973. That was in the wake of that spring's Chilean anchovy crop failure. While anchovies might seem a bit of a far fetched influence, it is all about protein feeds for livestock, and current Australian drought might be considered the current equivalent to the US agricultural problems that represent a real loss at this point (as opposed to many years when there are more so unfounded fears.)

The 1972 agricultural inflation was then exacerbated by the 1973 Arab Oil Embargo, which was their very reasonable response to years of (guess what??!) a significant depreciation in the purchasing power of the US dollar (even though there was a political trigger for the timing of the actions by the fledgling OPEC.)

Therefore, in the eyes of many we are already experiencing the worst implications of the current bout of stagflation, because both of these important aspects have been foisted on the world all at once. And they hold forth that the benign labor markets will eventually bring prices back down, if by no other means than the average consumer's inability to afford to pay now very elevated prices. In a classic economic analysis that is a reasonable conclusion. It has not only been put out by Mr. Bernanke, there have been quite a few expressions of that sort.

One of the better comprehensive views on that comes from one of the Financial Times' primary economic analysts, Chris Giles. His very well-balanced, insightful perspective is attached for your direct review. It does make a good case why the previous 'house of cards' economies are not going through the growth at present that will support the higher wage demands that drove the sort of demand-pull inflation we saw in the 1970's. He is also very right the entire institutional framework has changed regarding how collective wage bargaining occurs in a much weaker labor union environment.

As he notes, "The evidence on wages is also remarkably benign. Pay growth is running well below broader measures of inflation and, between 2004 and 2006, households and companies successfully adjusted real pay levels down to accommodate the rise in other business costs." "That shows Britain is far from the country of the 1970s with its collective pay settlements and widespread indexation of wages to inflation."

All fine and good. We substantially agree with that assessment; at least as it relates to the present. However, what about the way forward? What if our observations on the equity markets potentially nasty further failure and the Fed's need to counter that elicits a sharp further easing first, before they can get back to the inflation mitigation they would prefer at present?

The dilemma is that the prices for so many basic goods are moving up in price that sooner or later there might well be a labor backlash to just maintain living standards. While we expect that everyone learned their lessons well enough in the 1970's to not reinstitute anything quite so daft as insidious 'cost of living adjustment' (COLA) wage deals, some form of more aggressive wage and benefits packages may be the case sooner than not. The alternative is unions collect dues from members for the privilege of being told, "Grin and bear it."

While there is something to be said for the rationale of keeping their companies on somewhat of a competitive footing in the now more competitive global economy, there is also at least some degree of a desire to be well-compensated by the most skilled among the labor market. And that is where the devolution into a two tier labor market might be encouraged by a return to the lower production to force up prices that is now the case at so many companies across the spectrum. It will be especially acute in the economies that are still reasonably robust; the concerns over skilled labor pay deals in the last ECB Monthly report are a telling indication on this.

And it is not just the meat producers who are responding to higher feed costs that are cutting production to force prices higher. The front page of the Financial Times in the past two days have successively seen lead stories on the near doubling of iron ore prices (in annualized deals) to the mills, and the sharp increases in processed items such as chemicals.

The latter is the extended fallout from high energy prices that all of the central banks fear ('second round effects'.) That is due to the degree to which the things that are burned to run autos and heat and cool homes are the industrial feedstock for many of the things we use in everyday life.

As cited in the FT article today (attached for your ease of review), "Andrew Liveris, Dow's chief executive, said the decision to raise prices on the company's products by up to 25 per cent – the biggest hike in company history – were aimed at offsetting a "staggering" increase in costs." "Dow is expected to spend $32bn on energy and oil-based raw materials this year, more than four times the amount it spent in 2002, the company said."

What the article did not articulate was that yesterday's increase was on top of the twenty percent increase that was just announced in May. That's right; just one month ago, and they are already back with another major bump. That is also linked to a series of factory slowdowns or closings. Mr. Liveris expressed much the same sentiment as the livestock producers noted previous. While they are making a loss, they would rather do so on a lower unit quantity until profit margins are restored.

Yet, we still ask, at what point do key skilled staff members feel they are in a position to make the case that they need some relief from those high prices that management knows all to well are out there?

Our guess is it will occur as soon as profits are restored on lower unit outputs, and it will be a normal part of the cycle. And our very pointed admonition to those complacent on the situation not being as bad as the worst of the late 1970's as yet is to consider that these things do not ever happen all at once.

What if it is now merely the equivalent of just 1970 into 1971? If so, into 2009 watch for the two tier labor market to encourage both inflation and more social unrest.

The Fiddler's Notion$_{SM}$

The Fiddler on the Roof is part of eastern European folklore. His essence was beautifully captured in the late nineteenth century book by Sholem Aleichem, *Tevye the Dairyman*. Yet, the popular name taken by the musical production is based on the quasi-cubist painting by Marc Chagall. 'The Fiddler' is a metaphor for survival in an uncertain world that is very apt for capital markets participants at all times; especially during the more volatile, erratic phases. As luck would have it, about ten years ago I came across a unique, purple palette print of him. My wife was extremely hesitant to even allow the green-faced man in the house. He ended up on my office wall. I now realize this is just as it was meant to be, as he looks over my shoulder in the rear view mirror on my computer monitor. The Fiddler's Notion$_{SM}$ is devoted to observations on risk that may not correlate with some of the typically market trend oriented factors in our other analysis. It is fitting that one involved in such a risky pursuit is looking over my shoulder. Whether or not you like to think about it, he is likely looking over yours as well. So welcome up to the rooftops, where you can share the Fiddler's perspective.

Let 'em Drive Hybrids

Just a very brief observation this week on the US electoral scene, which will likely be quite a bit more prominent as the year progresses. The odd evolution of this year's presidential election leaves us with what many would have said a year ago is a very unlikely situation: a centrist Republican running against a fairly Left wing Democrat, with both espousing the mantra of 'change' as an incentive to voters who are economically and politically pretty fed up with Washington DC 'business as usual.'

In fact, the way that Senator Obama gets around quite a bit of what some folks consider a bit of a 'Bolshie' approach to classical tax-and-spend' and (even worse) a penchant for elitist tendencies is to say it is necessary for 'change.' And we have no doubt in the current world geopolitical and economic situation, change for change's sake may have some merit. After all, part of our rationale for being such big fans of the US government bailout of at-risk home mortgage borrowers is that nothing else has worked in spite of alternatives being given a reasonable amount of time.

However, the political rationale game is a bit different, and Senator Obama may be doing himself a very big disservice with his New Age views on energy in the current very contentious environment. His problem is that he is likely right about the need to wean ourselves off of petrochemicals as fuel. Heck, even OPEC sees that one coming down the road (so to speak.)

Yet, he is so keen to satisfy environmental and anti-oil supporters that he's also against new drilling to relieve the current problem for the average individual. He has actually said that he is disturbed by the 'rapidity' of the energy price rise rather than the degree. He sees high oil prices as a necessary catalyst to less usage, and maintaining the funding for development of alternatives.

His problem is this runs counter to near term needs of core Democratic blue collar constituencies, and is lousy electioneering. We can hear the McCain campaign now, "Barack Obama. The Marie Antoinette of energy, who believes a road to redemption is paved with pain at the pump."

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

-Rohr
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