

# Market Commentary

By Art Cashin

Prepared by UBS Financial Services Inc.

## Statistics

Fair Value	=	-450
Buy Program	=	-550
Sell Program	=	-350

## Cashin's Comments

### AN ENCORE PRESENTATION

On this day in 1867, a man brought to stage one, the evolution of an invention and instrument which would change human life in more ways than anyone at the time could guess.

The man's name was Christopher Latham Sholes and the device he was perfecting was the typewriter. It would provide women a steppingstone into "business." It would be the magic stone of hard-boiled police reporters and foreign correspondents (both real and imagined). It would be the antecedent of the word processor and the PC computer. As such it would be studied and blamed as a source of carpal tunnel syndrome, or RSI as it's now called.

But the typewriter could be none of these until it was functioning, and Sholes was having trouble. Once you started to type more than one letter at a time, the hammers began to jam together as they approached the ribbon and paper. Try as he might Sholes couldn't prevent that jamming.

So he tried what we might call ergo-mechanics. He decided to adjust the keyboard. Some of his early keyboards were in alphabetical order. Sholes wondered if that put too many frequently used letters too close together. (Holy Vanna White! Could that be the answer?) He began shuffling the letters around. He even got a court reporter friend, Charles Weller, to design a phrase to test the typewriter and the hammers. Weller came up with - "Now is the time for all good men to come to the aid of the Party." (And you thought it was a famous quote.)

Anyway - as fast as Sholes moved the letters on the keyboard, his proto-typists (I just couldn't resist) adapted - typed faster - and jammed the hammers. Reportedly, Sholes studied the hand movements and set the letters in a very difficult format to slow down the typists and, thus, prevent jamming. Unfortunately, Sholes ran short of money and had to sell all his rights to the typewriter to the Remington Arms Company (who we hear had some success with the device). The "difficult" keyboard however is unchanged after 143 years.

Traders had a little difficulty with their keyboards early on but a late day levitation brought smiles to the faces of the bulls.

**Up, Up And Away!** – The key indices punched up to new highs in a last hour low volume breakout. The move was partly inspired by currency moves once again. But another aspect was the self-fulfilling nature of a breakout to new highs. The key flaw was that, once again, the up-move came on light volume. To the bulls' credit the "rally" continued right to the bell despite the "market on close" orders being heavily weighted to the sell side.

The morning saw somewhat confused trading. After churning sideways for thirty minutes, stocks jumped up after the 10:00 release of existing home re-sales. Though the sales were down, the initial reaction seemed to be – "That's not so bad".

That feeling lasted about an hour. Then it morphed into its opposite – "That's not so good either". It was kind of like the two guys in the balcony on the Muppets.

For the next several hours, the Dow and S&P flirted with punching through last week's highs. The Dow managed a higher high rather early on but there was no follow-through. No one joined the parade.

There was another try to break out right after the 1:00 release of details on the two year auction. That was somewhat odd since the results looked rather mediocre, at least the way we read them.

At any rate, the big move came only in the final hour, as previously noted. Part currency. Part technical. No volume.

**Don't Discount The Discount Rate** – Last week, we wrote about a flurry of rumors that a Discount Rate hike was imminent. That rumor apparently sprang from two things. First, the month before the Fed had hiked the Discount Rate the day after the FOMC meeting. Would they repeat that kind of linkage again?

Secondly, there was that "expedited meeting" to discuss "Discount Window topics" which was called for March 16<sup>th</sup> but was closed to the public. As I wrote on Friday – a hastily called "secret" meeting – what a rumormonger's delight.

Rumormongers aside, however, the Discount Rate is important and may be the perfect tool for the Fed in current conditions.

Raising the Discount Rate does not raise other rates – at least not exactly. If they raise the Fed Funds target, that could bump rates through the whole system – credit cards, commercial loans, etc., etc. But the Discount Rate only affects those banks who are short reserves but cannot borrow from other banks. The last part is the key.

For months and months and months, our friend Kevin Ferry, of Cronus Futures in Chicago has been bemoaning the fact that interbank lending rates (be they Fed Funds, Libor, etc.) have been trading like the EKG on a Maine Potato. Kevin correctly points out that it is difficult to know if the banking system has really become unfrozen if there is zero movement in interbank rates. Is there any interbank lending going on? If so, why don't rates move a little?

One possibility is that if a bank found itself suddenly "down a quart", they could go to the Discount Window and borrow. The rate was not much higher than Fed Funds. Recall that during the panic, the Fed took pains to declare and declare that there would be no stigma in Discount Window borrowing.

So, the Fed can use the Discount Rate for political cover. We're not raising rates on "people" with unemployment so high – we're raising rates on banks to sop up idle cash. (Recall Chairman Bernanke's patient explanation to Rep. Maxine Waters at recent hearings.)

The recent Discount Rate hike actually allowed Libor and other interbank rates to tick up a basis point or two. We're not quite back to normal but I suspect my pal, Kevin, has the champagne on ice, in case the logjam starts to really break.

**Marinating With The Mavens** – Last night, we had drinks and dinner and drinks with several Wall Street legends and luminaries. Among those present were David Rosenberg, Walter Murphy, Ray DeVoe and Richard Yamarone along with a few more friends and co-workers who shall remain nameless to protect the innocent.

Given the list above, you might guess that the majority of players leaned to the skeptical on the recovery and, in some cases, the rally. While that was so, opinions varied widely on a variety of topics like a possible bond bubble, the fate of the Euro, taxation burdens and government activism in the marketplace. Over the next few days, I'll try to decipher my notes (wet napkins don't you know). If successful, we'll run through some of the topics. It was a great deal of fun.

**Cocktail Napkin Charting** – That arcane cycle, which had suggested a test window for an interim top seems to have fallen on its face. The indices have clearly made new highs with Nasdaq having almost doubled since the lows of March, 2009.

In the short-term, the napkins suggest nearby resistance in the S&P probably is around 1181/1184. If there's a further breakout, the fallback looks like 1195/1197. Support appears to be around 1160/1163 with fallback near 1148/1152.

**Today** – Fitch downgraded Portugal's credit rating and described the outlook as negative. That, as you might expect put more pressure on the Euro. New Home Sales (10:00) and the Five Year Auction (1:00) will draw trader's attention. So, too will the speech by Fed hawk Thomas Hoenig around 10:45.

**Consensus** – The bulls have the ball, the momentum, and new interim highs. The key threat could come from currencies. Stay very nimble.

#### Trivia Corner

Answer - rinse; theme; flaxy; aging; and lacrosse.



Today's Question - Could you say that again - in English? Gordy woke up very confused. He called the front desk to ask - "What day is today?" The desk responded - "When the day after tomorrow is yesterday, today will be as far from Sunday as today was from Sunday when the day before yesterday was tomorrow." What day was it?

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