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Real-time Analysis & News Limited (R.A.N.) is a voice delivered market analysis, news, commentary and alert service for professional traders, brokers and fund managers.

Week in Focus

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23rd – 27th November 2009**We must learn to walk before we can run**

Never before equity markets gained so much so fast and despite occasional bumps along the way, stocks continue to edge higher. Still, some sort of rational thinking returned to the markets last week after disappointing economic data releases prompted investors to re-think their rosy outlook. As such equity markets finished the week lower but the downward momentum is unlikely to continue this week. This week is likely to be characterised by thin volumes with traders taking a break in light of upcoming holidays. Also, buying on dips seems to be a popular theme lately and investors are likely to use the pullback last week as another reason to jump into the markets.

Another one bites the dust...

Highly revered Wall Street analyst, Meredith Whitney, joined the list of uber bears that call for a sizeable pullback in stock markets. Whitney said that she doesn't believe the US equity rally is based on fundamentals and that she is as bearish as she has been this year in the stock market. She also added that there is "no way" the banking sector is well capitalised.

Meanwhile, the FDIC shut yet another bank, this time a small Fort Myers based bank, Commerce Bank of Southwest Florida. This marked 124th failure of the year. Bankruptcies from large financial institutions are highly unlikely but still should not be discounted. However, a more probable scenario is continued defaults of smaller and medium sized regional banks which are highly exposed to commercial real estate. Analysts do not believe that defaults on the US commercial real estate will derail the recovery but instead lean towards a scenario whereby the recovery is delayed in a short term. Though it is worth remembering that not many foresaw the collapse of the housing market and the disastrous consequences that followed...

House of cards...

There is no denying that economic fundamentals are improving, albeit at very slow pace. The actions by the Fed and the US government to steer the economy away from meltdown have worked and officials are now in phase-2 stage, safeguarding the recovery which will eventually lead to withdrawal from loose monetary policy. The government sponsored stimulus programs and Fed's MBS purchases have stabilised the housing market and there are even signs that joblessness may be levelling off, with weekly initial jobless claims are now at 10-month low. But the real question, is whether the economy can stand up on its own feet once the assistance from the Fed and the Government ends. The economy is addicted to the stimulus and at present is simply unable to work independently without relapsing into another recession. The pick up in housing relied heavily on homebuyer tax credit subsidy, which was extended as soon as the data started to show cracks when the program neared its expiry. According to a September study by Amherst Securities Group, about 7 million properties are destined to go into foreclosure, compared with 1.27 million properties in early 2005. There is a growing fear that, once the Fed winds down its purchase of MBS in March, the housing market will see a second wave of foreclosures which could potentially undermine economic recovery. This week there is a lot of housing data to monitor and it may prove to be the driver of market sentiment. Investors will be looking for confirmation of economic recovery and will be keen to end year on a positive note. But do not discount a round of profit taking should the data disappoint.

Events this week

There is a lot of data to contend with this week. In Europe, the week will be kicked off with PMI Manufacturing and Services data, with investors hoping for a higher print across the board. Market participants will also get a chance to scrutinise the infamous German IFO survey, which is forecasted to edge higher. The week will end with Euro zone confidence data, where analyst forecast a slight improvement. In the UK, investors are hoping for an upward revision to the Q3 GDP data, with current consensus for -0.3% vs. initial print of -0.4%. In the US, apart from examining housing data, investors will watch Chicago Fed Nat. activity index as well as Richmond Fed manufacturing index. Also, the Fed will release the minutes from the latest rate setting meeting. Elsewhere, the bond market will face the latest issuance out of the Treasury this week, with sale of 2y, 5y and 7y notes. Investors will be keen to see whether demand for the US debt is waning as the USD continues to depreciate.