



POTOMAC
STRATEGIC INVESTMENT SYSTEMS

CAPITOL MARKET REVIEW

In This Issue: Light Volume Quiet Trading, The Fed Gives Bloomberg a Gift, Economic Data Continues to Flash Slow Growth

At Mid-Day SPX 1261 US10Y 2.01% Gold \$1608 Oil \$99.94

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As was discussed in yesterday's CMR, markets are trading in light volume and are mostly trendless.

The US Treasury benchmark 10 Year is above 2.0% which is surprising in that the Italian 10 Year Sovereign is also moving higher in yield. As has been noted several times, a 7% Italian Sovereign is unsustainable. Italy is scheduled to float some 10 Year paper soon and CMR is puzzled that given the LTRO funding this past week the Italian bond would be moving higher so soon. This is not a bullish sign.

US durable goods orders posted a solid headline number. However, like food and energy costs in inflation data, durable goods orders data is discounted for airplane purchases as airplane orders skew the data and are not considered core purchases. Stripping away the Boeing news, durable goods orders would have been flat.

Coming on the heels of NAR data which has been understating the carnage of residential real estate sales, the news on new home sales indicates that only inexpensive homes are being built. The upper-end remains depressed.

The Federal Reserve provided a gift in its battle with Bloomberg and Ron Paul over secretive lending programs. In a detailed "data-dump" The Fed today provided extensive data, (in spreadsheet format,) on transactions made to over 400 banks through its emergency lending programs/facilities. The release includes data from the Asset Backed Commercial Paper Program, the Money Market Liquidity Facility, The Commercial Paper Funding Facility, The Primary Dealer Credit Facility, TALF, the Term Securities Lending Facility, the old-fashioned discount window and single-tranche open market operations, (ST-OMO.) Bloomberg and Congressional critics had been pressing the Fed for years to release this data. It will now take months for academics and forensic accountants to pour through the data. No doubt, a number of troubling transactions will finally come to light.

These data points and data dumps are reminders that in spite of the "hopium" serious problems remain embedded in the global capital markets. And unlike equity bubbles, credit losses of this magnitude are not easy to dismiss; even with all the tricks employed by central bankers, sovereigns and Wall Street alchemists.

CMR maintains that the next six-months will force Eurozone and US policymakers into action. The just concluded payroll tax debate has only been postponed a few months, same with pressing budget issues, same with the sovereign and banking crisis in Europe. The can has been kicked for a year now. Even though Speaker Boehner has taken a political hit this week, his core point remains.