

The King Report

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“Independent View of the News”

Because Ben is back in funny money mode, stocks & commodities are rallying. But the dollar and the Chinese are not happy; and they are clearly expressing their anger.

The FT: *China will use its foreign exchange reserves, the largest in the world, to support and accelerate overseas expansion and acquisitions by Chinese companies, Wen Jiabao, the country's premier, said in comments published on Tuesday.* [China keeps warning; but Ben keeps reverting to pump mode.]

"We should hasten the implementation of our 'going out' strategy and combine the utilization of foreign exchange reserves with the 'going out' of our enterprises," he told Chinese diplomats late on Monday... [It's going to be an eventful autumn, boys & girls!]...

Qu Hongbin, chief China economist at HSBC, said: "This is the first time we have heard an official articulation of this policy ...to directly support corporations to buy offshore assets."

<http://www.ft.com/cms/s/0/b576ec86-761e-11de-9e59-00144feabdc0.html>

Several major corporations (including CAT, UTX, LMT, YHOO) reported top-line misses on Tuesday; however most beat earnings estimates. The trend of top-line misses is so clear that CNBC commentators uncharacteristically lamented the negativity of the occurrence.

CAT shares rallied sharply on better than expected earnings; but it missed revenue consensus by 8.4%!!! The following table from Bloomberg shows the incongruity of earnings and revenues.

Bloomberg Data: *Caterpillar Inc reported quarterly results for the period ended June 30, 2009. The following table displays earnings figures along with Bloomberg consensus mean estimates. Actual values may differ from those included in company reports to make them comparable. All numbers are in millions of dollars except for per-share earnings, quoted in dollars.*

	Actual	Estimates	# Estimates	% Surprise
	6/30/09	6/30/09	6/30/09	6/30/09
Sales	7975.000	8703.400	15	-8.4%
Net Income Adjusted	445.376	147.909	11	201.1%
EPS Adjusted	.720	.215	20	234.9%

CAT beat earnings by curtailing capex and vicious cost cutting in jobs and salaries. Call this the **Paradox of Corporate Cost Cutting** – it's good for the individual company but not for the aggregate economy.

The buzz word on Tuesday was ‘stabilization’. Bernanke told the House Finance Services Committee that the economy is showing “tentative signs of stabilization.”

This was spun by fin media types and pundits as good news. What happened to ‘green shoots’? Isn't ‘green shoots’ a more bullish condition than ‘stabilization’? One Bubblevision commentator kept averring that ‘stabilization’ of the economy is the reason for the stock market rally. But the stock market is not priced for ‘stabilization’; it is priced for a roaring recovery...UTX CFO Hayes said 2010 profit growth will be “*cost-action led*” and UTX sees no significant economic recovery in 2010.

Caterpillar said it could lose money in Q3 and close a significant number of factories on a rolling basis. But CEO Jim Owens believes the economy will recover in Q4, so he upped full-year guidance. Owens also uttered ‘stabilization’. A Q3 loss, rolling factory closings, capex curtailment and suspension of stock buybacks are not stabilization let alone green shoots.

By the way, someone knew about CAT’s earnings on Monday because the stock gapped higher and traded sideways without retreat for the remainder of the session...CAT gapped again on Tuesday’s open.

Reuters’ Nick Casey: **Corporate cost-cuts: early gains soon turn to pain?** *A slew of companies reported better-than-expected first-quarter results because aggressive budget slashing more than made up for falling sales. According to Rosenberg, 40 percent of companies missed their top line expectations in the first quarter...* <http://www.reuters.com/article/smallBusinessNews/idUSTRE5611Y820090721>

CNBC’s Bob Pisanti notes that **IBM is back to the same price as it was in September**, which is prior to the collapse in global financial systems and economies.

For perspective on what is occurring in stocks, **IBM is 12% from making a nine-year high and is only 18% from its all-time high in July 1999.**

The stock market is acting like the greatest financial crisis and economic contraction since at least the Great Depression was an illusion and things are back to normal. God help us in the autumn!

The Nasdaq has rallied for ten sessions. **The last time something like this occurred was July 1998** when the Nasdaq rallied for nine straight days. It then lost 33% from the 7/21/98 peak (2028.06) to the October 8, 1998 intraday low of 1357.09...Then the Great US Stock Bubble blossomed.



Nasdaq – 1/21/98 to 9/18/98 - Nasdaq’s yearly moving avg. sloped positively in ‘98; now it is negative.

Tuesday's late rally was partly the usual late SPU gaming, but mostly rumors or inside info about Apple's better than expected earnings that were reported after the NYSE close...The SEC continues to sleep.

The Fed bought \$7B of 7s through 10s yesterday as Bernanke was giving his semiannual monetary policy testimony to the House. The biggest impetus for the sharp bond rally was the news that the House canceled the scheduled debate on ObamaCare because it doesn't have the votes to pass the plan.

<http://thehill.com/leading-the-news/obama-to-lobby-energy-and-commerce-dems-2009-07-21.html>

<http://www.newyorkfed.org/markets/pomo/display/index.cfm>

AP: Democrats divided on health care overhaul

<http://www.ajc.com/health/democrats-divided-on-health-96628.html>

The Heritage Foundation: **Obama Admits He's "Not Familiar" With House Bill** ...Obama hosted a conference call with leftist bloggers urging them to pressure Congress to pass his health plan...

During the call, a blogger from Maine said he kept running into an Investors Business Daily article that claimed Section 102 of the House health legislation would outlaw private insurance. He asked: "Is this true? Will people be able to keep their insurance and will insurers be able to write new policies even though H.R. 3200 is passed?" President Obama replied: "You know, I have to say that I am not familiar with the provision you are talking about."

<http://www.heritage.org/2009/07/21/morning-bell-obama-admits-hes-not-familiar-with-house-bill/>

AP: A senior administration official says billions of dollars to raise fees for doctors treating Medicare patients are not covered by President Barack Obama's pledge to pay for health care legislation.

http://www.breitbart.com/article.php?id=D99J23A02&show_article=1

Karl Denninger: ... 'US President Barack Obama defended his administration's response to the economic crisis over the last six months, declaring: "The fire is now out."

"I think that we have stepped back from the abyss. I think we've put out the fire," he said in an interview with PBS, according to a transcript released by the TV station.'

Mr. President, may I direct you to the following statements?

"I am convinced that through these measures we have reestablished confidence."

- Herbert Hoover, December 1929

And, of course, most closely-related to your comment:

"While the crash only took place six months ago, I am convinced we have now passed through the worst — and with continued unity of effort we shall rapidly recover. There has been no significant bank or industrial failure. That danger, too, is safely behind us."

- Herbert Hoover, President of the United States, May 1, 1930

<http://market-ticker.denninger.net/authors/2-Karl-Denninger>

Zero Hedge: There is a curious article in the latest edition of Traders Magazine. It is curious mostly because it was allowed to be published, as it definitively peels off the cover of what truly happens at the pantheon of stock exchanges, that dominated by a private club of select high frequency traders, who obtain better and faster pricing than everyone else, and where **the group of "select few" is seemingly legally allowed and even encouraged to front-run the "every-one else"** (you, dear reader, are most likely in the latter camp). If you ever wondered why HFT generates profits of over \$20 billion a year, please read this article.

Amusingly, it is none other than the NYSE's own Larry Leibowitz who raised the most ruckus about the potential abuse of the ELP program.

*"At an industry conference on market structure in May, a panel on market centers broached the subject of "flash" orders and almost ended in fisticuffs...**The head of U.S. execution and global technology at NYSE Euronext assailed Direct Edge's Enhanced Liquidity Provider or ELP program as the "enhanced look" program, comparing it to the advance look at orders that NYSE specialists used to get. That practice was seen as giving specialists unfair advantages over other market participants, and potentially disadvantaging order senders.**"...*

NYSE and GETCO charged that markets with flash orders were essentially running private markets of quotes for select participants that competed with the public quote stream...

<http://zerohedge.blogspot.com/>

http://www.tradersmagazine.com/issues/20_296/-103978-1.html

The FT: **BlackRock chief attacks Wall St earnings** *Larry Fink, BlackRock's founder and chief executive, on Tuesday took aim at the "luxurious" trading profits enjoyed by Wall Street banks, saying that they have taken advantage of reduced competition to charge their customers more for even basic trades...* <http://www.ft.com/cms/s/0/11977bd6-764a-11de-9e59-00144feabdc0.html>

Did anyone notice that the Chicago Fed National Activity Index declined 1.80? -1.30 was expected.

Today - Stocks are due for a meaningful retrenchment. Bernanke concludes his semi-annual monetary policy testimony at the Senate. A stock reversal during or after Ben's quizzing is a strong possibility.

After whatever retrenchment occurs, stocks are likely to rally smartly and challenge 1000 on the S&P 500. However, after the usual month-end performance gaming and start-of-August seasonal upward bias, the July Employment on August 7 could be an event that greatly disturbs the stock market.

The recent rally is mostly Bernanke's renewed pumping. This is evinced in the dollar, which according to quants is correlating -.98 with stocks. At some point, the linear relationship terminates. This creates a violent market readjustment due to the massive number of quants and traders that try to do the same strategy at the same time. So, enjoy the rally and profit while the fun lasts.

Reuters: **Unemployment could undercut U.S. recovery: Bernanke** [Circle Aug. 7 on your calendar!]

<http://www.reuters.com/article/newsOne/idUSTRE56K0AI20090721>

USA/Today citing the latest Gallup Poll: *Barack Obama, who completed six months in office Monday, has a 55% approval rating in the USA TODAY/Gallup Poll, putting him 10th among the dozen presidents who have served since World War II at this point in their tenures.*

<http://www.usatoday.com/news/washington/presidential-approval-tracker.htm>

AP: *President Barack Obama has irked close allies in Congress by declaring he has the right to ignore legislation on constitutional grounds after having criticized George W. Bush for doing the same...*

During the previous administration, all of us were critical of (Bush's) assertion that he could pick and choose which aspects of congressional statutes he was required to enforce," the Democrats wrote in their letter to Obama. "We were therefore chagrined to see you appear to express a similar attitude." The letter was signed by Reps. David Obey of Wisconsin, chairman of the House Appropriations Committee, and Barney Frank of Massachusetts, chairman of the House Financial Services Committee, as well as Reps. Nita Lowey and Gregory Meeks, both of New York, who chair subcommittees on those panels... http://www.breitbart.com/article.php?id=D99JIPO0&show_article=1

The Telegraph: **Barclays and RBS 'will need billions more in capital'** *Barclays and Royal Bank of Scotland will have to find billions of pounds more capital if they are to continue growing their investment banks under new rules designed to protect against the higher risks of "casino" banking.*

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/5880615/Barclays-and-RBS-will-need-billions-more-in-capital.html>

The LA Times: *The state budget deal negotiated by Gov. Arnold Schwarzenegger and legislative leaders would reduce the population of California prisons by nearly 27,000 inmates in the current fiscal year.*

That would be done with a combination of new measures, including allowing some inmates to finish their sentences on home detention, creating new incentives for completion of rehabilitation programs and scaling back parole supervision for the least serious offenders.

<http://www.latimes.com/news/local/la-me-california-budget22-2009jul22.0,1856950.story>

We will be on Bloomberg TV Thursday morning to discuss Jobless Claims. This should be interesting due to the unfathomable 642k decline in Continuing Claims last week. The unbelievable decline is most likely the result of seasonal adjustment gone wild (due to autoworkers) and the exhaustion of unemployment benefits.