

**Daily Market Notes****Market Update:****DJIA: 10304****S&P 500: 1099****Nasdaq: 2221****10YR T-Note: 3.70%****EUR/USD: 1.361****Gold 1119****Crude Oil: 77.28**Prices Current as of  
1:01 PM

Source: Bloomberg

Yesterday's very strong performance was reminiscent of the tendency of the market to start out the first trading day of the week with good gains, as we saw in 19 of the past 21 first trading days until last Monday's sell off temporarily ruined the upside fun. We had mentioned in yesterday's notes that despite the lackluster day last Friday, the various stock index futures rallied after the 4pm stock close and were indicating a bullish attitude for yesterday, which we certainly got. In other words, if the futures were well above fair value on Friday's close, all the bullish forces needed to see was a higher opening by these stock futures yesterday to really get things going to the upside.

And going to the upside is what we certainly got, as the Dow put in its best percentage gain in three months, and the other major averages followed along to the upside. Forgotten at least for a day were all of the overseas worries, in addition to the domestic problems as well, as things opened higher and never looked back.

Of course the question then becomes – what motivated the upside to such a strong extent, with many investment experts having turned bearish after the -9.2% S&P correction from January 19th to February 5th? It would seem that stocks looked to the Euro for guidance, as a very weak showing by the Euro lately was taken as a sign that the deficit issues in Greece and other weak European economies was somehow going to spread like wildfire to other parts of the world. This negativity toward the E.U. was evidenced by the record short position in this currency by various hedge funds and other large market participants. So for their bearish proclivities, the Euro “rewarded” these bears with its largest one-day gain since last July. And stocks followed dutifully along to the upside, as at 10am, with the Euro up to 1.365 the Dow was higher by +70 points. At this time, the Euro literally exploded to the upside, ending at 1.375 from its close late last week under 1.360. When the Dow saw this, it decided to join the upside party as well, and ended with a strong gain of +170 points. And breadth numbers certainly justified the strong performance by the major averages, ending with a positive ratio of +5 to 1 to the upside. In addition, because of the strong performance of the Euro, most commodity markets like crude oil, copper and gold rallied as well, and these markets had also been showing recent signs of

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being sold out as well recently, as they had started to move last week, even as the Euro was still declining.

There were explanations that the gains were a function of good earnings from the large Dow pharmaceutical component, but the large Dow food and beverage component declined on its numbers, and how many better earnings did we see in this cycle that resulted those stocks declining and the overall market declining at the same time. So this explanation certainly does not hold water. The other explanation for the market advance was that the economic reports were favorable, and we did get better readings on both the February NYState Empire Manufacturing Index along with the NAHB Housing Market Index, but these are not what one would call major economic numbers.

I still maintain that yesterday's strong upside move was purely a function of the Euro blasting off after the recent beating it has taken, similar to many stocks as well. Remember that the performance of the Euro has been a surrogate for the perceptions of the success or failure of the Greek budgetary deficit situation, which has been used as an "explanation" for our market woes recently. So if the Euro rose as dramatically as it did yesterday, then at least for a day everything was right with the world.

After yesterday's upside moon shot, things today have been higher, but not to the extent of what happened on Tuesday. Better economic reports like the January housing starts and the January Industrial Production and Capacity Utilization numbers provided a positive backdrop. In addition there were good earnings from companies in the manufacturing, food distribution and office supply areas. What was most impressive about the early rally was the ability of the market to rise despite renewed weakness in the Euro after yesterday's strong upside performance.

From a high of +52 on the Dow, things have drifted off of these best levels as the Euro once again is getting sold off as much as it gained yesterday, to a level just above 1.36. This sharp decline in the Euro is also affecting the various commodities which had done so well yesterday as well, with crude oil, gold and copper all coming

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down off their highs to be nominally lower. But this has to be considered a victory for these items in the sense that if the Euro is down as much today as it was up yesterday, then if these items only decline by a small amount, that has to be considered friendly. And let us also remember that these commodities, along with stocks, actually had the “nerve” to separate themselves from the performance of the Euro last week, as that currency was lower while these commodities and stocks as well were higher.

The next hurdle for the market today is the 2pm release of the minutes of the last Fed meeting, although this should not contain too much shock value as Chairman Bernanke released his latest thoughts on the economic and interest rate situation last week, and this did cause the market to decline at that time.

This week sees three Dow components reporting, and two of them already have, and here is the lineup: tonight: CECO, CHK, HPQ, NTAP, ORLY, PCLN; Thursday: ABX, CBS, HRL, JCOM, NBL, POOL, WMT; Friday: BUCY, JCP.

Economic reports include: later today: minutes of the last F.O.M.C. meeting; Thursday: January P.P.I. February Philadelphia Fed Index, January L.E.I.; Friday: January C.P.I., February options expiration.

For the fourth quarter, the S&P companies are expected to show a profit gain of +76%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, according to the analyst’s estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of +22% in 2011, as reported by Bloomberg Financial.

After four consecutive quarters of negative G.D.P. growth which started in the third-

quarter of 2008 and extended through the first two quarters of 2009, we now have gotten two consecutive quarters of positive growth, with the third-quarter at +2.2% and the first estimate of G.D.P. growth for the fourth-quarter at +5.7%, according to

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### Disclosures

*Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, Associated Press}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.*