
The Richer Report

A weekly market commentary brought to you by David Richer

February 3-9, 2007 Edition

The week in review

Some may argue, however, in my opinion the most significant report of last week was the ISM Manufacturing Index. This somewhat underappreciated report shows either expansion (when the number is over 50) or contraction (when the number is below 50) in the manufacturing sector. Not since 2003 have we seen a number this low... 49.3 – way below the expected 51.6. The market expected a rise from the previous 51.4 not a fall!

Possibly an anomaly, I will await next Month's number, due March 1st, before stating any strong opinions, however, take heed... this report can be a great leading indicator of growth, stagnation, or recession to come.

Generally I don't like to look at one report/fundamentals nor technical indicator alone. This ISM report coupled with personal saving in the US at record lows/debt at record highs needs to be looked at very seriously. In the US and most of the world we have been in a booming market. An ISM report such as this when stocks are making new highs can be the first signal of recession and/or slow down on the horizon. Another report added to my anxiety Friday as the unemployment rate came in at 4.6% - a four month high. Although, this should be taken with a grain-of-salt as 4.6% is still quite low and again, I'd like to see one or two more reports to verify an upwards trend in unemployment. A slowdown might be on the way and this week the Fed somewhat agreed by NOT raising interest rates at this last week's FOMC meeting. This meeting was much like the others as of late – no change. After increasing rates from a historic low of 1.25% to today's 5.25% the Fed has stopped. I will take it for granted that they know more than I and as a trader sometimes I see things in black-and-white/up-or-down. If something is not going up anymore on positive news it's got 2 places to

ISM Manufacturing Index - Statistics

Also known as PMI Purchasing Manager's Index

Release Date: First business day each month

Release Time: 10:00am EST

Coverage: Previous Month

Released by: Institute of Supply Management

Website: www.ism.ws

What does www.investopedia.com say?

An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, [inventory](#) levels, production, supplier deliveries, and the employment environment.

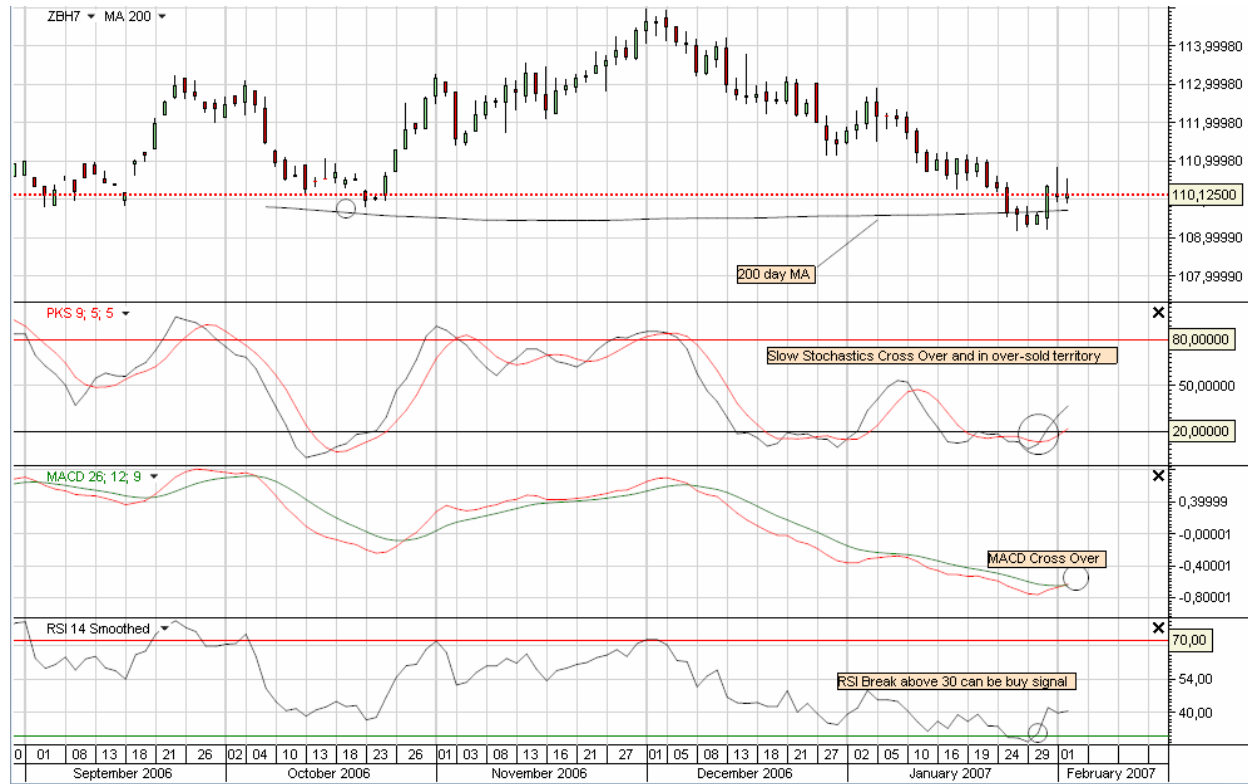
A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change. Prior to September 1, 2001, the acronym (PMI) stood for Purchasing Managers' Index. The Institute of [Supply Management](#) (ISM) now uses only the acronym, PMI.

Although the ISM publishes numerous indexes, the PMI is the most widely followed and so is sometimes referred to as the ISM index.

go – nowhere and down. Well, we’ve seen nowhere for some time, therefore, I must presume that interest rates shall fall. The bonds agreed and rallied on the FOMC’s announcement. This brings me to my first “trade of the week”.

Trades of the week

US 30-year T-BOND CHART - daily



We see several key things on this chart. One of my favorites is the 200 day Moving Average (200 MA) in the second pane. It is a fantastic indicator that has proven to be a strong support/resistance where markets tend to bounce from or break signaling buys and sells. We can see that when the 30yr Bond hit a previous low, that was made late January, it found some support at the 200 MA. The FOMC meetings decision on interest rates gave it a bounce which might be signaling more upwards movement to come (bonds tend to move inverse to interest rates i.e. when interest rates go down bonds go up). February 1sts failed new high and February 2nds flatness is a concern so, my position sizing is limited until we see a sustained break of that downwards trend. A new low would signal to either close and/or reverse long positions, or go short. Both the slow stochastics (pane 2) and the MACD (pane 3) show an interesting cross-over which can be construed as bullish. Meanwhile, the RSI (pane 4) has just retraced above the 30 and is headed higher which as well can be construed as

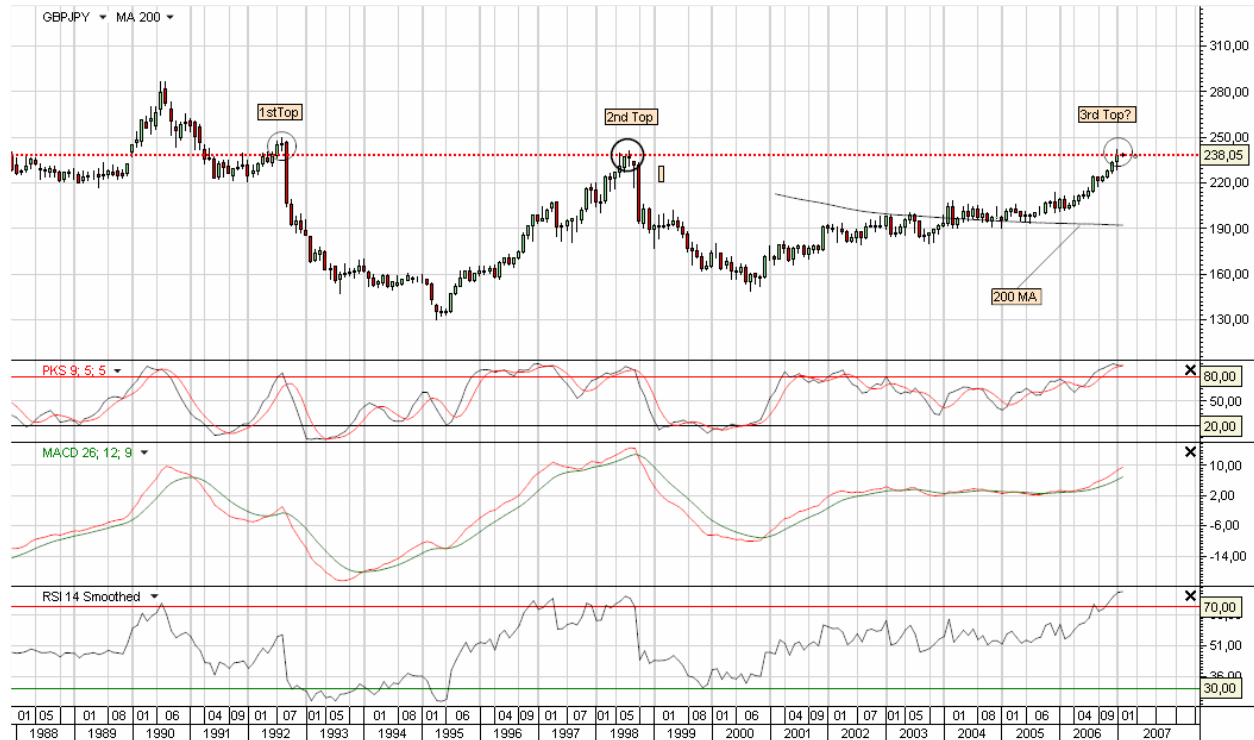
US 30 yr T-Bond Statistics
 Instrument: Futures Contract
 Symbol: US or ZB (electronic)
 Exchange: CBOT www.cbote.com
 Hours: 8:20-15:00, 19:00-17:00 EST
 Size: \$100,000

Therefore, a move from 110.125 to 111.125 = \$1000 per contract

For more info call me at 1-888-587-3326 or visit www.cbote.com

bullish. Not very often do we see such agreement, however, again I would like to see the market take out February 1st's high before adding to any positions.

GBP/JPY – The British Pound/Japanese Yen Cross



This pair is one of my favorites right now. It has been in an uptrend since 2000 as the Bank of England has been raising rates and the Japanese have had their interest rate hovering near 0. As a currency trader it is extremely important to note the interest rate differential between the two countries making up a pair and this pair is definitely British Pound favorite. NOTE – rollover interest in this pair is high and should be taken into consideration when trading!

What I find most interesting is that technically we are at the key level of 240 – a historically strong resistance. Notice that we have a potential triple top, the Slow Stochastics are crossing over and in over-bought territory and the RSI is also in over-bought territory. The MACD seems to disagree, however, and seems slightly bullish. What is also fascinating is if we look at the GBP/USD we find that it is at historic highs and it too is forming a potential triple top. I suspect the market will want to test 200 where enormous resistance abounds! See next page...

| GBP/JPY Statistics | |
|-----------------------------|--|
| Instrument: | Spot Currency Pair |
| Symbol: | GBP/JPY |
| Exchange: | FOREX |
| Hours: | 24 hours – closes Friday afternoon re-opens Sunday afternoon |
| Interest rate differential: | GBP 5.25% vs. JPY 0.25% |

GBP/USD – The British Pound/US Dollar Cross



A sustained break of 2.00 would be significant technically and could pose some great trading possibilities. If we don't get that 2.00 break then look for a retracement. Another point of interest is how fare that 200 MA is. The deviation from it is quite extensive – chances are if we don't push through that 2.00 mark we may want to revisit the 1.80 or even 1.72 support that was made back in late 2005. We may have another look at this interesting chart after next week's developments!

GBP/JPY Statistics
 Instrument: Spot Currency Pair
 Symbol: GBP/JPY
 Exchange: FOREX
 Hours: 24 hours – closes Friday afternoon re-opens Sunday afternoon
 Interest rate differential: GBP 5.25% vs. USD 5.25%

The Week Ahead

What I'll be watching most is the energy complex – in particular the Oil, distillates, and Natural Gas inventory numbers (due Wednesday and Thursday respectively).

Coming off the \$50 a barrel lows, Crude Oil's recent run-up to \$59 a barrel puts pressure on both the American and Japanese economies (the latter imports 100% of its oil needs). Technically, at around \$61 we are also at the 61.8% Fibonacci retracement level, the bearish trendline, and just below the \$62 resistance level (See chart on next page).

Light Sweet Crude - March contract



This could be in my “Trades of the Week” section and I am considering the trade opportunities that may arise, however, Wednesday’s API/DOE report will help determine and should be watched closely.

Otherwise, this week ahead is not a heavy report week for the US. On Friday we have one reports of note – Crop Production. In Currencies, look for the Bank of England’s decision on interest rates this Thursday (expected to be unchanged). In Canada, the housing sector has a busy week with “Building Permits” on Tuesday and “Housing Starts” and “New Housing Price Index” on Thursday. I’ll be watching the “Unemployment Rate” on Friday. Canada GDP is floundering near stagnation, a rise in unemployment might be another warning signal that “all is not well”. The Canadian dollar might suffer as a consequence.

Should you have any questions or comments I look forward to hearing from you! Feel free to give me a call at 1-888-587-3326 or visit the listed websites for more information.

Good luck in your trading and have a great week,

David Richer
February 3-9, 2007 Edition


























Light Sweet Crude Statistics
 Instrument: Futures Contract
 Symbol: CL or QM (e-mini)
 Exchange: NYMEX www.nymex.com
 Hours: CL: 9:00 - 14:30, 18:00 – 17:15 EST. QM: 18:00 – 17:15 EST
 Size: CL = 1000 barrels, QM = 500 barrels

Therefore, a one dollar move from \$59 to \$60 = \$1000 per contract (CL) or \$500 for the e-mini (QM)

There is also a contract that trades on the ICE visit www.theice.com

For more info call me at 1-888-587-3326 or visit www.nymex.com

US, Canadian, and Euro-Zone Economic Calendar for the week ahead








| February 5, 2007 | | | | | |
|-------------------------|---|--------------------------------|---------------|------------------|--------------|
| Time | Country | Event | Period | Consensus | Prior |
| 3:00 PM |  | ISM Non-Manufacturing | JAN | 57.1 | 56.7 |
| 3:00 PM |  | Ivey Purchasing Managers Index | JAN | 51.8 | 49.4 |
| February 6, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| 10:00 AM |  | Euro-Zone Retail Sales (MoM) | DEC | 1.0% | 0.50% |
| 10:00 AM |  | Euro-Zone Retail Sales (YoY) | DEC | 2.2% | 1.30% |
| 1:30 PM |  | Building Permits MoM | DEC | -1.8% | 3.00% |
| 10:00 PM |  | ABC Consumer Confidence | 4-Feb | -- | -3 |
| February 7, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| 12:00 PM |  | MBA Mortgage Applications | 2-Feb | -- | 3.2% |
| 1:30 PM |  | Nonfarm Productivity | 4Q P | 2.1% | 0.2% |
| 1:30 PM |  | Unit Labor Costs | 4Q P | 2.1% | 2.3% |
| 3:30 PM |  | DOE U.S. Crude Oil Inventories | 2-Feb | 2000K | 2684K |
| 3:30 PM |  | DOE U.S. Gasoline Inventories | 2-Feb | 1750K | 3819K |
| 3:30 PM |  | DOE U.S. Distillate Inventory | 2-Feb | -3000K | -2648K |
| 3:30 PM |  | DOE U.S. Refinery Utilization | 2-Feb | 0.00% | 0.32% |
| 3:30 PM |  | API U.S. Crude Oil Inventories | 2-Feb | -- | -- |
| 3:30 PM |  | API U.S. Gasoline Inventories | 2-Feb | -- | -- |
| 3:30 PM |  | API U.S. Distillate Inventory | 2-Feb | -- | -- |
| February 8, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| 12:45 PM |  | ECB Announces Interest Rates | FEB | -- | 3.50% |
| 1:15 PM |  | Housing Starts | JAN | -- | 211.5K |
| 1:30 PM |  | Initial Jobless Claims | 3-Feb | -- | -- |
| 1:30 PM |  | New Housing Price Index MoM | DEC | -- | 0.50% |
| 1:30 PM |  | Continuing Claims | 27-Jan | -- | -- |
| 3:30 PM |  | EIA Natural Gas Storage Change | 2-Feb | -- | -- |
| February 9, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| 12:00 PM |  | Unemployment Rate | JAN | -- | 6.10% |
| 12:00 PM |  | Net Change in Employment | JAN | -- | 61.6K |
| 6:00 PM |  | Baker Hughes U.S. Rig Count | 9-Feb | -- | -- |

Futures and Commodity Calendar for the week ahead

FN: First Notice Day

LT: Last Trading Day

LTO: Last Trading Day Options

| February 5, 2007 | | | | | |
|-------------------------|---|--|---------------|------------------|--------------|
| Time | Country | Event | Period | Consensus | Prior |
| |  | Export Inspections | | | |
| |  | FN: FEB Cattle/Pork Bellies | | | |
| | | LT: FEB CBT Ethanol | | | |
| | | LTO: FEB ICE Oil | | | |
| February 6, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| February 7, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| February 8, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| |  | Export Sales | | | |
| | | LT: FEB SGX Nikkei | | | |
| | | MAR Sugar 14 | | | |
| | | LTO: FEB OSE, SGX Nikkei/TOPIX | | | |
| | | MAR ICE Brent | | | |
| February 9, 2007 | | | | | |
| Time | Country | Event | Period | Consensus | Prior |
| |  | Crop Production | | | |
| |  | Dairy Products Prices | | | |
| |  | Supply/Demand | | | |
| |  | USDA Baseline Projections | | | |
| | | FN: MAR Sugar 14 | | | |
| | | LT: FEB CCI | | | |
| | | LTO: FEB Can\$/CCI/Currencies/Dollar Index/ Mexican Peso/NY Ethanol | | | |
| | | MAR Cotton/NY Coffee/Sugar 11 | | | |

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