TUESDAY MARCH 26, 2013

	PRICE	CHANGE	VOLUME	UP/DN %	UP/DN VOL %
Dow*:	14,559.65	+111.90	3.1, 2.87	222	250
Nasdaq:	3,252.48	+17.18	1.4, 1.45	140	171
S&P 500:	1,563.77	+12.08			
10 yr note:	1.90%	-1bp			
VIX:	$12.77	-0.97			
Euro /$:	1.286	+0.0006			
Crude:	$96.34	+1.53			

An unprecedented rally inches higher on light volume, as if yesterday's viscous sellers immediately vanished. The ease at which market moved higher suggests the buying will continue into tomorrow, given the S&P's 2 point proximity to its all time high and the Dow's continued push into record territory.

European stocks rallied as well, with the FTSE Eurofirst 300 up 0.2% even though peripheral countries declined, such as Spain (Ibex 35 -1.8%) and Italy (FTSE MIB -1.0%). Despite their equity losses Italian and Spanish bonds yields remained unchanged while core government bonds were flat: German Bund unchanged at 1.34% and US Treasuries down 1bp to 1.90%. Concern surrounded the Euro, unchanged but uncomfortably close to a 4-month low just under $1.28 hit Monday. Analysts fear Cyprus's repercussions across Europe, highlighting the *net* downside potential for the currency.

The risk-on trade pushed oil higher for a second day. Three-month copper inched up to $7,625 while gold fell back to $1,600, trending lower after hitting a 3-month high at $1,616 last week. As European fear abate over the following weeks gold will decline further.

Tomorrow brings a light calendar of events, marked with pending home sales and the usual weekly crude inventories and mortgage applications. Expect a slightly pullback in pending home sales, beyond street expectations, taking a cue from recent housing starts, new and existing home sales. Japan also reports retail sales while the Eurozone reports consumer sentiment. Markets should rally tomorrow on higher volume, extending gains through the end of this holiday-shortened week.

REPORTS:

Weekly ICSC Store Sales: -1.7%. Sales took a dive during the second to last week of March, pulling the annual gain down to 1% -the lowest of the recovery- from last week's 2.3%. Historically cold weather was blamed, impacting sales of spring goods.

Weekly Redbook Retail Sales: +0.6%. Sales rose 0.6% for the first 3 weeks of March, down slightly from last week's 0.7% reading. Sales are also edged down on an annual basis, up 2.6% this week versus last weeks 2.9% gain. Nevertheless sales held up much better then in the ICSC report, and Redbook continues to expect Easter and spring break to encourage further consumption in March.

February Durable Goods Orders: +5.7%. Durable good orders beat expectations for a 3.8% rise, mirroring manufacturing strength already seen in February's ISM report (see March 1). The headline figure was distorted by a 21.7% increase in transportation equipment, heightened by the 95.3% gain in non-defense and parts (Boeing orders). Excluding transportation, durable goods orders dropped 0.5%, short of the 0.7% gain expected. The key measure, non-defense capital goods orders excluding aircraft, fell 2.7% while its shipment counterpart gained 1.9%. Within the report, primary metals, computers and electrical equipment saw gains while communication equipment and fabricated metals declined.

January Case-Shiller Home Prices: +0.1%. The 20-city index matched expectations for a 0.1% gain, as all 20 cities – for the second consecutive month- gained. This broad based increase reflects the fundamental demand propelling the housing market higher. Showing how much seasonal-adjustments influence housing over the winter: adjusted prices gained 1% while unadjusted they only gained 0.1%. Nevertheless on an annual basis, both unadjusted and adjusted measures are 8.1% higher. Every city except for Detroit now shows an annual price increase, as New York finally pulled into positive ground (after 28 months of annual declines). Both 10-city (+7.3%) and 20-city (+8.1%) prices show their largest annual gains since 2006. Similarly both yearly reading fit well between the difference in the government's existing (+4.1%) and new (+11.6%) home sales reports.

"Economic data continues to support the housing recovery. Single-family home buildings permits and housing starts posted double-digit year-over-year increases in February 2013. Despite a slight uptick in foreclosure filings, numbers are still down 25% year-over-year. Steady employment and low borrowing rates pushed inventories down to their lowest post-recession levels."
–David M. Blitzer, Chairman, S&P Dow Jones, Case-Shiller.

February New Home Sales: -4.6%. Just as existing home sales retreat from a strong January (see 3/21/13) so do new home sales, pulling back 4.6% after January's 15.6% gain (which was revised slightly lower to a +13.1%). This pullback shrinks the annual rate to 411,000 sales, slightly lower than the 426,000 expected. Nevertheless housing remains in a stable uptrend ever since bottoming in early 2011 and are up 12.3% over the past year. Sales declined in the Northeast (-13.3%), South (-9.7%) and West (-2.1%) while gaining in the Midwest (+13.7%). On an annualized basis most regions are relatively unchanged, save for the West's astronomical 54.9% rise.

Inventory gained 2,000 to 152,000, lifting the inventory-to-sales ratio from 4.2 to 4.4 in February. Low inventories have hindered sales growth, shifting sales to new homes. Despite slower sales in February, median prices gained 3% to $246,800, up 4.1% annually.

Mortgage rates have increased since the beginning of the year, mirroring Treasury yields and dampening the long-term sales potential. Nevertheless prices are still low enough for investors to bear the uptick in rates, however as Treasuries yields continue to gain throughout the year –on economic growth & expectations the Fed will end its QE3 program –which buys $40 billion worth of mortgage backed securities a month – new and existing home sales strength will be put to the test.

March Consumer Confidence: -9.9. Consumer confidence vanished; falling through expectations (66.9) to 59.7 while February's reading was also revised 1.6 points lower. A shot across the strengthening economy's bow, this report suggests that consumers are not as resilient to higher gas prices, pay-roll tax increases, and sequestration uncertainty as initially expected. Consumer spending has accelerated this year as consumers became more confortable with the economy, increasing household wealth and surging stocks prices. This drop erases January's gain and brings the report just points away from a 2-year low. Within the report, a steep decline in consumer expectations accounted for most of the headline drop, as consumer's income, employment and business outlook worsened.

Nevertheless current conditions also weakened, as the net amount saying business conditions are good dropped while the net amount saying jobs are hard to get increased.

This drop was not without warning, as the past 2 weekly Bloomberg Consumer Sentiment reports (see March 14 & 21) declined while the University of Michigan Sentiment gauge (See March 15) took its largest dive since 2011. A fundamental shift in confidence is at root, threatening this year's strengthening economic growth.

Confidence:			
Present Situation:	57.9	-3.5	
Expectations:	60.9	-11.5	
1 Year inflation Expectations:	5.5%*	-.2%	*lowest since July

March Richmond Fed Manufacturing: -3. Contradicting the recent Dallas and Philadelphia region's March strength, the Richmond area activity slowed to a reading of 3 after last month's 19-point jump. Shipments, workweek and employment all showed strength while capacity utilization, new orders and order backlogs dropped. Weak order growth points to continued weakness in the Richmond region, highlighting overall uncertainty around the sustainability of the burgeoning manufacturing sector this year.