



**WEDNESDAY APRIL 3, 2013**

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	PRICE	CHANGE	VOLUME	UP/DN %	UP/DN VOL %
Dow:	14,550.35	-111.66	<b>4.4, 4.07</b>	25	14
Nasdaq:	3,218.60	-36.26	<b>1.8, 1.83</b>	27	21
S&P 500:	1,553.69	-16.56			
10 yr note:	<b>1.81%</b>	-4bp			
VIX:	\$14.21	+1.43			
Euro /\$:	1.2846	+0.003			
Crude:	\$94.45	-2.73			

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Markets seesaw for a 10<sup>th</sup> consecutive day, this time dropping violently and on much higher volume. Volatility jumped as investors fled risk assets for treasuries and the dollar, as weak economic news and a bellicose North Korean president stoked fears. While North Korea's war mongering ultimately has little economic impact, today's ADP payrolls casts strong doubts on Friday employment report. As the first quarter's rally loses momentum and technical indicators point to declines, Friday's report has the ability to dictate trading beyond this week. Treasuries already show the strain, down 20bp in the past 2 weeks.



Yesterday's weak Euro-region data possibly caught up with sentiment, sending every country lower: France -1.3%, Spain -1.7%, Portugal -3.5%, Italy -2.3%, Greece -2.2%. Nevertheless fears did not seep into peripheral yields, as Spanish yields actually continued yesterday's decline, down 3bp to 4.91%. Traders suggest that selling has shifted from fears over a current account crisis to a fundamental economic slowdown.

## REPORTS:

**March ADP Payrolls:** 158,000. Hiring in March falls through expectations for a 205,000 gain. The correlation of this report to Friday's actual non-farm private payrolls is moderate at best (see below). Last month, the 198,000 ADP payroll gain ultimately turned into a 236,000 non-farm payroll increase (initial, unrevised data).

	ADP Payroll Initial Estimate	Actual Private Non-farm
March:	158,000	?
February:	198,000	246,000
January:	192,000	166,000
December:	215,000	168,000
November:	118,000	147,000

March's significant drop doesn't add up. The March ISM manufacturing report showed acceleration in employment (+1.6 to 54.2) while its broader service counterpart showed declines (-3.9 to 53.3, *see below*). Nevertheless both readings remain above 50, signalling general employment growth. Similarly jobless claims in March remain even with February's levels (while March's 4-week average is at the best level of the recovery), signaling that there has been no fundamental decline in employment to the scale that the ADP suggests. Chances are this ADP report will be revised significantly higher, just like last month's +39,000 revision.

Expectations are for Friday's report to show a 200,000 private non-farm payroll gain in March, following February's 246,000 increase. These figures nevertheless focus on private sector job growth, unaffected by the leviathan of sequestration.

**Weekly Mortgage Applications:** -4%. Refinancing activity fell 5.6% while purchase applications gained 1.4%, adding up to the overall index's 4% pullback. A scheduled hike in FHA premiums on April 1 encouraged purchase applications, now up 4% from last year and in line with upward trending home sales. Purchases also move up to 26% of all applications. Rates decreased on the week:

Rates:		
15 Year Fixed:	2.99%	-3bp
30 Year Fixed:	3.76%	-3bp
5/1 Year ARM:	2.60%	+2bp

**Weekly Crude Inventories:** +2.7 million. Crude inventories continue higher, beyond last week's 8-month high. Refineries continue to ramp up production, running at 86.3% capacity, from last week's 85.7% and the previous week's 83.5%. Despite the higher production and increased imports, gasoline inventories dropped 600,000 barrels. Distillate stockpiles dropped by 2.3 million barrels, as imports dropped significantly. While distillates and gasoline inventories remain at or below their historical averages, oil remains well above its upper limit of its average range for this time of the year: bearish for oil prices.

	Fuel Production/ day:	Imports/ day:	Inventories:
Oil to Refiners:	15.0mm (+)	7.9mm (-)	388.6mm (+)
Gasoline:	8.9mm (unch)	595k (+)	220.7mm (-)
Distillates:	4.3mm (+)	83k (-)	113.0mm (-)

**March ISM Services:** -1.6 to 54.4. New orders dropped by 3.6 points to 54.6 while employment dropped 3.9 points to 53.3, indicating growth in employment for the 8<sup>th</sup> consecutive month (albeit at a slower pace). Similar to ISM's manufacturing report, prices pulled back, dropping 5.8 points to 55.9. 15 non-manufacturing industries reported growth while 3 (mining, healthcare and agriculture) reported contraction. From the report: "The majority of respondents' comments continue to be positive about business conditions; however there is an underlying concern regarding the uncertainty of the future economy."