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***C$ VS. THE US$: A Reversal of Fortune!!** The news out of Canada Friday could not possibly have been worse, for non-farm payrolls fell what would be the population-adjusted equivalent of nearly 1.3 million jobs in the US! And yet, the C$ closed higher on the day, forging an "outsider reversal" in its favour. We are long of the C$ and we need to be longer still.*

OVERNIGHT NEWS

THERE IS A BEARISH UNANIMITY OF OPINION ON THE US$ THIS MORNING, as the markets await the Obama Administration's position on what it intends to do for.. or to… the banking system here. The problem is that the Administration had said last week that its plan would be made public today… Monday… and yesterday it announced that Treasury Sec'y' Geithner would not have the plan finalized until tomorrow. On the news of that delay the dollar has sold off; the stock index futures have given back much… if not all… of the gains enjoyed Friday and confusion rather than clarity is the order of the day. Since confusion breeds contempt, as we like to say, the dollar is selling off.

That having been said, we begin our comments this morning noting that the Canadian dollar broke hard and sharply on the opening Friday morning following the truly shockingly large non-farm payroll figure released in Ottawa in the hours before the much more broadly followed US employment situation report. Canada lost a truly memorable 129 thousand jobs in January. The market had been expecting something closer to a loss of 25-35 thousand jobs, following last month's loss of 70.6 thousand. A rebound was expected; instead a huge, shocking increase was the result. The 129,000 jobs lost were effectively all full-time positions and were a record total for a single month. Canada's unemployment rate is now 7.2%, rising a truly sharp 0.6% from December's already worrisome level. Ontario too the brunt of the increase with its heavy reliance on manufacturing and with Windsor's even greater reliance upon the auto industry, as 71,000 jobs disappeared there. Friday's data bring the cumulative job-loss total for the last three months to 213,000.

What is important to understand that with Canada's population being essentially 1/10th that of the US, this was the rough equivalent of 1.29 million jobs lost in the US! The immediate effect was to send the C$ plunging on the forex market. It fell from 1.2375 C$/US$ to nearly $1.2600. To keep that in perspective, we consider anything more than 50 pips to be highly unusual and worthy of note. A movement of 225 "pips" was shocking.

However, then something truly unusual happened. The C$ began to strengthen… and strengthen… and strengthen, finishing the day on its highs relative to the US$. Further, despite the EUR's strength relative to the US dollar, by the close of trading in N. America, the C$ actually closed strong relative to the EUR too. The news was horrid, but the response was bullish, and as we try often to remind our clients around the world, a market that does not fall on bearish news is no longer bearish. For the C$ on Friday, this is particularly so. It was a WATERSHED.

Having said this about the Canadian non-farm payrolls report, we note the serious nature of the rise in the US data. As everyone knows, non-farm payrolls in the US rose 598 thousand in January. This was far above what Wall Street had been expecting and it was the worst month on record since the depths of the horrible recession of '73-'74. The unemployment rate rose to 7.6%, up from 7.2%, so we can now talk about N. American unemployment at 7.6% given that the US and Canada now suffer the same figure. Further, the revisions to past data were, as expected, for the worse, and the birth/death adjustment actually made the data look better than it really was.

We needn't go into the horrid exigencies of the data, nor into the problematic nature of the revisions. Others with a more specific or finite focus this morning or over the weekend have gone into these details, and suffice it to say that 598 thousand lost jobs and a 7.6% unemployment rate understate the seriousness of the issue. Unemployment is going to rise materially over the course of the next several months. We have said for many, many months that before this recession has run its course the unemployment rate in the US shall be "north" of 9%. Over the weekend, President Obama's chief economist, Dr. Christina Romer, said when appearing on one of the Sunday morning political "talk" shows that she expects unemployment to reach 10%.

We know only this: It will stop when it stops, and there is little else one can or should say. Remember also that employment is a lagging indicator. We have spoken of that for years, but only now is the general public media noting that aspect of employment. Great focus upon this shall develop over the coming weeks and months.

Employment conditions are bad. They shall get worse. Let us move on; however, before we do, we are including this morning the comments made by our friend and fellow guest on CNBC's *Fast Money*, Mr., Zach Karabell, whose comments are not only insightful, they are common sensical… an attribute often lost in the world of economics. Zach noted that

> *The report from the Bureau of Labor Statistics was just as dismal anticipated. Unemployment in January jumped to a 16-year high of 7.6%, as 598,000 jobs were slashed from U.S. payrolls in the worst single-month decline since December, 1974. With 1.8 million jobs lost in the last three months, there is urgent desire in Washington to boost the economy as quickly as possible: hence the nearly trillion-dollar stimulus package wending its way through Congress. But Washington would do well to take a deep breath before reacting to the grim numbers.*
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> *Collectively, we rely on the unemployment figures and other statistics to frame our sense of reality. They are a vital part of a matrix of data that we use to assess if we're doing well or doing badly, and that in turn shapes government policies and corporate budgets and personal spending decisions. The problem is that the statistics aren't an objective measure of reality; they are simply a best approximation created by smart people working for government agencies. Directionally, they capture the trends, but the idea that we know precisely how many are unemployed is a myth. That makes finding a solution all the more difficult.*
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> *First, there is the way the data is assembled. The official unemployment rate is the product as a telephone survey of about 60,000 homes. There is another survey, sometimes referred to as the "payroll survey," that assesses 400,000 businesses based on their reported payrolls. Both surveys have problems. The payroll survey can easily double-count someone: if you are one person with two jobs, you show up as two workers. While that can overstate the number of people employed, it could also overstate the consequences of payrolls contracting (if you have two jobs and lose one, that's bad, but not nearly as bad as losing the only job you have). The payroll survey also doesn't capture the number of self-employed (estimated at 9.5 million people), and so says little about how many people are generating an independent income.*
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> *The household survey has a larger problem. When asked point-blank, people tend to lie or shade the truth when the subject is sex, money or employment. If you get a call and are asked if you're employed, and you say yes, you're employed. If you say no, however, it may surprise you to learn that you are only unemployed if you've been actively looking for work in the past four weeks; otherwise, you are "marginally attached to the labor force" and not actually unemployed.*
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> *Critics have been saying for years that current statistics underplay how dire the employment situation is because the number of workers no longer looking for work has gone up; because many of those officially employed are "involuntarily" working fewer hours; and because saying you're "self-employed" is a face-saving way of saying you're unemployed. On the flip side, you can say you're self-employed in the household survey but also be on the payroll of a company.*
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> *Not only are the headline numbers based on a statistical fiction called the "U.S. workforce," they are also an average that masks huge variations. If you are 25 years old and have no high-school diploma, your chance of being unemployed isn't 7.6%; it's 12%. If you are African-American, it's 12.6%. If you have a bachelor's degree, it's 3.8%. The sharpest increase in the past year has been young men without a college degree losing their jobs, not the white-collar workers that have been the subject of such attention in the media and in Congress. In short, race, class and education are more serious issues for overall*

employment than the headline numbers convey.

The urge to quantify is embedded in our society. But the idea that statisticians can then capture an objective reality isn't just a will-o-the-wisp. It also leads to serious misjudgments. If the present is seeing an upsurge of entrepreneurial activity (as often happens in economic downturns) in the context of payrolls being trimmed, then massive stimulus to restore those lost jobs isn't necessary (stimulus to arrest further job loss is another story, as is insurance for those needing unemployment benefits). If the ranks of the unemployed are being swelled by the poor and those with less formal education, then that should augur for programs targeted to help those earn degrees. Democrats and Republicans can and will take sides on those issues, but a more crucial concern is that both are basing major policy decisions on guesstimates rather than looking at the vast wealth of raw data with a critical eye and an open mind.

Thanks, Zach, for a wonderful job of 'splainin' the problems attendant to this number. Now we truly can move on:

	2/09	2/06		
Mkt	**Current**	**Prev**	**US$**	**Change**
¥	91.25	91.35	- .10	Yen
€	1.2904	1.2830	- .74	Cents
CHf	1.1655	1.1680	- .25	Centimes
£	1.4785	1.4675	- 1.10	Pence
C $	1.2285	1.2365	- .85	Cents
A $	.6690	.6595	- .95	Cents
NZ$	.5295	.5210	- .85	Cents
Peso	14.21	14.30	- .09	Centavos
Braz Rl	2.2570	2.2850	- 2.80	Centavos
Ruble	36.09	36.41	- .32	Rubles
Yuan	6.8290	6.8300	- .10	Renminbi

Prices "marked" at 09:45

COMMODITY PRICES ARE STRONGER, as energy, corn, soybeans, the base and the precious metals all moved rather briskly higher Friday as hopes for the US stimulus and banking package swept through the markets. This morning, as the news that the package would be delayed until at least tomorrow, prices are trading lower but are still strongly above the levels seen Friday morning, with the exception of gold. Gold has sold off on the news that the bullish consensus numbers have reached rather uncomfortably high levels. We'll have more on that below.

Firstly regarding the grain markets, the market is awaiting tomorrow USDA's report on grain supply/demand data for the US '08-'09 end-of-season grain and soybean inventories. The USDA will also report on global grain production and to that end we note that the Buenos Aires Grain Exchange said that that country's soybean production will fall to 40 million tonnes in the '08/'09 season. This estimate is at the upper end of its previous forecast of 36-40 million tonnes made only two weeks ago. Further, regarding wheat, a private company has "guess-timated" Australia's '08-'09 wheat crop at 21 million tonnes, up from previous projections of 20 million made in several months ago. That "guess-timate" has weighed upon wheat prices as a result.

Weather is a "growing" concern in Australia and China these days, for over the weekend in Melbourne temperatures hit 116°F, a new all time record for that city, with drought conditions continuing as evidenced by the horrific brush fires there. Too, drought continues in China's northern regions, where a goodly portion of that country's important winter wheat crop is grown. It is early yet, and China's wheat crop may still prove to be large, but we must needs pay more and more attention to what has been and is presently going on there. Continued drought will of course be supportive of wheat prices going forward… but not quite yet:

	02/09	02/06	
Gold	902.40	912.25	- 9.85
Silver	12.94	12.81	+ .13
Pallad	209.00	201.00	+ 8.00
Plat	987.00	983.00	+ 4.00
GSR	69.73	71.21	- 1.48
DJ-AIG	113.14	111.75	+ 1.2%
Rts CRB	224.36	221.33	+ 1.4%

Gold is trading weaker this morning, even as the US dollar has weakened and even as silver, platinum and especially palladium are trading rather materially higher. We shall "blame" that weakness upon the fact that the bullish consensus for gold has risen to uncomfortably high levels, approaching 90%. We are bullish of gold, but we mitigated that bullish posture Friday two weeks ago by selling calls against that position. Those calls have served us well and we shall do nothing at this point except to sit tight with our long position and our short calls. We neither wish to add nor substract from that which we hold.

ENERGY PRICES ARE SOMEWHAT FIRMER, except if we consider the main price to be the nearest WTI crude future, for it that is our benchmark, then prices are down quite sharply. Note, as we begin, how materially has the contango gone "out" in the WTI term structure, with the 1st-5th contango now out to $11.44, the widest it has been in history. The average of both Brent's term structure and that of WTI for the 1st-5th futures is now out to $8.97 from $7.73 on Friday as there is apparently a stunning over-supply of WTI crude available to the market, with that over-supply now bidding more and more aggressively for what storage facilities it can find.

As we have argued… and we bow to the greater wisdom of Dr. Phil Verleger in this regard, for it is he who has championed this view… WTI is swiftly becoming a less and less and less important “marker” crude oil. WTI is swiftly becoming simply an “arb” game to be played intra-and-inter market; that is, “arbs” with the capability to find storage facilities and that have the financing required to buy nearby crude, store it, and sell the deferred futures into which they intend to redeliver, are doing the intra-market trade, while those who can trade the differences in quality and transportation costs between WTI and Brent shall involve themselves in inter-market trade. Otherwise, trading in WTI is rapidly becoming nonsensical:

Mar WTI	down	53	39.91-96
Apr WTI	up	86	45.89-94
May WTI	up	94	48.59-64
Jun WTI	up	90	50.13-18
Jly WTI	up	88	51.35-40
Aug WTI	n.a.		52.37-42
OPEC Basket		$42.05	02/05
Henry Hub Nat-gas			$4.84

Moving abroad, as we feared, now that MEND has chosen to stand down from its cease fire things are hotting up in the Niger River Delta. Over the weekend, militants attacked a Royal Dutch Shell facility in the Niger Delta on Saturday, killing three people. Further, MEND said that more attacks are coming. MEND said its fighters attacked Shell’s Utorogu nat-gas plant. Shell confirmed the attack and said one of its employees and two contractors had been hurt but were in a stable condition. MEND said that the three had been killed.

MEND issued a statement after the attack saying that it had

decided on this location to dispel the false sense of peace and security in Delta state which the governor has been boasting about…It is also to send a message to the oil companies that all the pipelines they have repaired in the western Delta will soon be in need of repairs again.

During early 2006 and 2007, militant attacks on industry installations focused on the Niger Delta's western states of Delta and Bayelsa. A significant amount of oil production in the western delta remains shut down because of the sabotage. More recently, the violence has centred on Port Harcourt, the capital of Rivers state to the east, although much of the unrest has been criminal rather than political in nature, including frequent kidnappings for ransom and piracy.

SHARE PRICES ARE STRONG, or more properly, were so through the close of trading Friday and into the early trading in Asia this morning. That was before it was understood that the long-awaited Obama plan for the US banking system would not be reported out late today as had been anticipated, but would be delayed one day… or perhaps even longer. Stock index futures, which rose skyward on Friday, carrying all areas of the market higher, are instead this morning breaking sharply, with the Obama Administration running the risk of appearing either foolish, or ill-prepared, or confused… or worse, all three. Until we had heard of the decision to delay the report we were prepared to accept that Friday was a “watershed” day for the global capital markets, writ large. Now we have our doubts.

Until the announcement of the delay, we were prepared to skew our equity positions to the long side, and likely we were going to add to our present positons long of the “young, commodity exporting” countries/short of the US and Europe. Now, we shall simply add to the latter positions, but we’ll stand down from any urge to be net long of equities until such time as the Obama Administration has clarified its position on the nation’s banks. Discretion is always the far better part of trading valor, as we like to say:

Dow Indus	up	213	8,281
CanSP/TSX	up	147	9,008
FTSE	up	63	4,292
CAC	up	57	3,123
DAX	up	134	4,644
NIKKEI	down	108	7,969
HangSeng	up	238	13,665
AusSP/AX	up	39	3,509
Shanghai	up	45	2,225

Brazil	up 1627!!!	42,756
TGL INDEX	**up 2.1%**	**5,604**

ON THE POLITICAL FRONT, we are in Canada this week (and have been since Friday) and so our political discussions take on a distinctive "Canadian" slant noting that French President Sarkozy was in Quebec City late last week for a meeting of French speaking nations. His comments regarding Quebec separatism are of particular note this morning, for it appears that France under Mr. Sarkozy is standing down… finally… from rather substantive support for the Quebec separatists and is instead supporting a unified Canada. Forty years ago, French President de Gualle issued his now rather infamous "Vive la Quebec libre," giving not so tacit support to the separatists. Sarkozy, instead, is turning his back upon them, saying several months ago that "*Quebecers are our brothers, but Canadians are our friends."* That was the first step. Friday he said that France is

> *very close to Quebec, but I'll tell you we also love Canada very much…Do you really believe that the world, with the unprecedented crisis that it is going through, needs division, needs hatred?... Those who do not understand that, I don't think they have understood the message of the Francophonie ,the universal values we hold in Quebec as [we do] in France — the rejection of bigotry, the rejection of division, the rejection of self- confinement, the refusal to define one's identity through fierce opposition to another*.

In other words, Sarkozy looked one last time at the Bloc and the Parti and said that France… at least during his regime… has a turned its back upon them. This, we think, is a good thing. This, we think, is a great thing for the Canadian capital markets.

Finally, we have been asked several times, "Will there be A State of the Union" address this year. The answer is, "Probably not." The Constitution mandates that the President address the nation only "*from "time to time*." It needn't be held annually, although that is the tendency. The President will hold a very public press conference this evening on national television, and this may stand as his "State of the Union" address for this year. During the first year of a Presidency it is normal to forgo the State of the Union Address, allowing the President the time to have his policies put into effect and to be on the job for year or so.

GENERAL COMMENTS ON THE CAPITAL MARKETS

BRINGING THE TOTAL TO NINE THIS YEAR!!! One of our favourite left-of-centre blogs here in the US had as its headline this weekend that there are no nine US banks closed by the FDIC since January 1st, as if this were shocking news, stunning news… news of eather shaking proportions and news worth of being called news. This is non-news; this is stunningly banal news; this is new not worthy of being called much more than economic gossip. Let us try to keep things in perspective. Nine bank closures thus far this year, coupled with 26 closures last year [Ed. Note: We have gone to the FDIC's own website to make this count, and we've no reason to doubt the FDIC's data.] and 3 in '07 are in historical terms indeed inordinately few.

Let's look at the FDIC's own figures on bank failures over the past several decades:

Bank Failure Facts

- According to the FDIC, from 1934 through 2007, there were only two years with no bank failures, 2005 and 2006.
- The year during that period with the most bank failures was 1989, when 534 banks closed their doors.
- During the savings-and-loan crisis (1986-95), 2,377 banks failed, representing 67 percent of the 3,559 bank failures from 1934 through May 2008. At the peak of the crisis (1988-1989), 1,004 banks failed, a rate of one failure every 1.38 days.

Bank Failures by Decade

2000-2007: 32
1990-1999: 925
1980-1989: 2,036
1970-1979: 79
1960-1969: 44
1950-1959: 28
1940-1949: 99
1934-1939: 312

Source: [FDIC Historical Statistics on Banking, 1934-2008]

There is a lesson to be learned here and that lesson is that history is worth reviewing. Yes there have been a few bank failures in the past three years, and yes we have seen more bank failures in January-February of this year than we saw in Januar-February of last year, and yes we have seen more bank failures in the first month and one half of this year than we saw during all of '07. But when we compare what has happened in the past 26 months they pale… absolutely pale... when compared to the huge number of bank failures in the 80's and 90's. The Left is breathless about bank failures; their blogs make that clear. We say that everyone should take a deep breath and calm down. Things are simply not what the Left would have us believe they are… indeed rarely are they.

RECOMMENDATIONS

1. Long of "infrastructure stocks" and of bank stocks whilst being short of the "broad" market in general: We are long two units each of banks and of infrastructure, while we are short of four units of the broad markets in N. American and Europe to hedge our position. As far as banks are concerned, the only banks we wish to be long of are smaller, regional banks, whose exposure to "toxic assets' is probably rather minimal.

.**2. Long of Two units of gold/short of Two Units of calls against GLD:** We are long of gold, but as noted Friday two weeks ago we thought it wise to sell some slightly-out-of-the-money calls against GLD, reducing our position modestly as a result. We still have our long positions, and we still have our calls and we are content to sit tight.

3. Long One unit of "grain" via the soy meal bull spreads: We quietly bullish of grains and so we bought the bean meal spreads now that that market's gone into "backwardation." We own the July/August and/or July/October soy meal spreads, with the July/August meal spread at or near Jul +$4 over August and the July/October spread at July +$32.80 over. Yesterday, the July/August spread closed at $3.70 and the July/October closed at $29.10, so we are behind… marginally… on the positions.

4. Long of "One Unit" of the equities of the "Young, commodity exporting nations/short of the equity markets of the "Old, commodity Importing" countries: We've begun a "campaign" trade wherein we are long of the equities markets of the "young, commodity exporting countries" while we are short of the "old, commodity importers" instead. To that end we own Canada, Brazil and/or Australia while we are "short" of Germany, France and the US, and the trade's begun well.

Indeed, the trades done so well that we see no reason to do anything other than add to the position, and so we shall, buying another "unit" of Canadian, Brazilian and/or Australian shares, while we sell German, French or American shares against them this morning when the markets are all open!

5. Long of One Unit of Canadian stocks/short of One Unit of US stocks: Even though we are already long of a small bit of Canadian shares whilst short of US shares, we've become even longer of Canadian shares and shorter of the US. We left the implementation of this position to our clients' individual preferences, but it is readily done by buying the EWC (the Canadian equity ETF) and by selling the US market via any number of the available ETFs.

6. Long of One Unit of the Canadian dollar vs. the US dollar: Wednesday last week, we bought the C$ relative to the US dollar, and we did so at the spot rate of 1.2380. **Given the outside reversal in the C$'s favour noted at length above, we wish to add to the trade this morning upon receipt of this commentary**. Those who cannot trade in the spot forex market can avail themselves of the CME's C$ futures, or for those unable to effect trades there, one can use the FXC, the Canadian dollar's ETF.

Please note that the following positions are "indications" only of what we hold in our personal accounts at the day's end. <u>We reserve the absolute right to change our opinions at any time and at a moment's notice</u>. Presently, we hold the following positions:

Long: FSLR, FAX, GLD, TOWN, FDO, FXC and EWC. Friday, we "swapped" a bit of our FDO for a bit more FSLR, and this morning we intend to add to our positions in the C$ ETF, FXC.

Short: We are short of SPG relative to most of our long positions and we are also long a small sum of SDS, which is a double "reverse" ETF to complete our hedges.

Our "note" in Canada, which came to the market last year at "par" closed Friday at 103.84, down about ½% last week.

Regarding our trading accounts here, we are down -0.6% for the year-to-date which, comparing favorably to the performance of the S&P, which is down nearly 7.9% y-t-d.

Good Luck and Good Trading, Dennis Gartman