

# November 09, 2003

## DOW JONES

Close	9,809.79
Change	8.67
% Change	0.1%

## NASDAQ

Close	1,970.74
Change	38.53
% Change	2.0%

## S&P500

Close	1,053.21
Change	2.50
% Change	0.2%

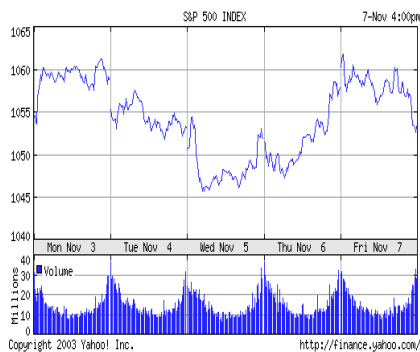
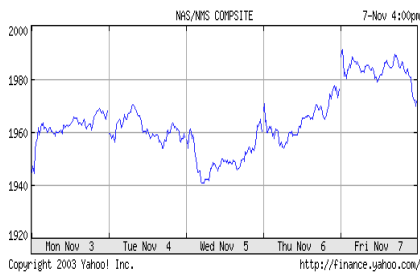
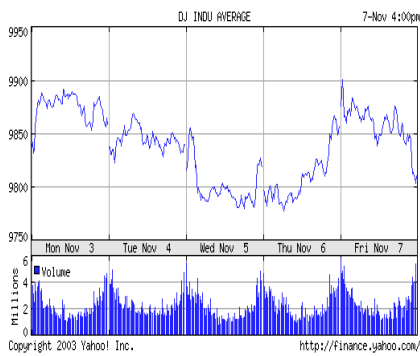
## LAST WEEK

In spite of some encouraging news on the employment front and good earning report from **Cisco Systems**, the broader market struggled to make much headway as blue chip stocks took a breather while small- and mid-cap shares toed the line along with the seemingly indefatigable technology sector. The Dow Jones Industrial Average moved up by 0.1% for the week. The S&P 500 followed suit and had a gain of 0.2% for the week. The Nasdaq Composite was the best performer and it finished with a gain of 2.0%. Year till date, all the indices are comfortably in black. The Nasdaq Composite has been the best performer of this year by finishing up with an increase of 47.6%. The S&P and the Dow have shown an increase of 19.8% and 17.6% respectively.

The jobs market scored Friday, with the unemployment rate falling to a six-month low. It was welcome news on Wall Street, though investors kept a poker face and stocks closed lower. The Dow Jones Industrial Average closed with a loss of 47.18 points, or 0.48%, to fall to 9809.79. The S&P 500 behaved in a similar manner and fell by 4.84 points, or 0.46%, to 1053.21. The Nasdaq Composite was the best performer and it went down by 5.63 points, or 0.28%, to 1970.74.

The Labor Department announced early Friday that nonagricultural payrolls leapt in October, as employers added 126,000 jobs, after rising by a revised 125,000 in September. The nation's unemployment rate, meanwhile, was 6% - a six-month low - compared with 6.1% a month earlier. Total nonfarm payroll employment rose by 126,000 in October to 130.1 million, seasonally adjusted. This followed increases totaling 160,000 in August and September. During the February-July period, payroll employment had decreased by an average of 85,000 per month.

Professional and business services added 43,000 jobs in October, following an increase of 70,000 in September. Professional and technical services contributed over half of the job gain (24,000) in October, with its management and technical consulting services component adding 7,000 jobs. Within administrative and support services, employment in temporary help services continued to trend up in October. Since April, temporary help has added 150,000 jobs. Employment in health care and social assistance rose by 34,000 over the month and by 255,000 over the year. In October, ambulatory health care services added 18,000 jobs, with about half the gain in offices of physicians. Within retail trade, employment in food stores rose by 13,000 in October, reflecting the hiring of additional workers in anticipation of strikes. Since April 2000, however, employment in food stores has trended down.



Within the leisure and hospitality sector, food services and drinking places added 23,000 jobs in October, following a gain of 20,000 in September. Employment in construction was little changed in October. Since February, the industry has added 147,000 jobs. In the financial sector, employment in credit intermediation, which includes mortgage banking, fell by 10,000, reflecting the decline in mortgage refinancing activity. Manufacturing employment decreased by 24,000 in October, with small losses distributed throughout most of the sector. Factory job losses in September and October averaged 26,000, well below the 53,000 average for the prior 12 months. After a small increase in September, employment in air transportation was down over the month. Since reaching its most recent peak in March 2001, the industry has lost 138,000 jobs.

Treasury prices settled lower Friday, although they trimmed losses prompted by evidence that the jobless recovery is receding, potentially paving the way for Federal Reserve rate hikes early next year. Early in the session the Labor Department reported that nonfarm payrolls grew at their fastest pace in nine months, posting a 126,000 gain in October, much higher than estimates for a rise of 55,000. The ensuing sharp selloff in Treasuries also drew strength from upward revisions to payroll data from the previous two months. In late afternoon trade, the 10-year Treasury note stood at 98 14/32, down 9/32 to yield 4.45%. The 30-year bond was off 6/32 to 101 21/32, yielding 5.26%. The five-year note fell 7/32 to 98 18/32, yielding 3.44%, while the three-year note fell 5/32 to 99 23/32, yielding 2.47%. The two-year note was off 3/32 to 99 7/32 to yield 2.02%. In Chicago, the 30-year bond for December delivery settled down 7/32 at 107 4/32, while the 10-year December contract was lower by 8/32 at 111 4/32. The data pushed federal-funds futures prices to reflect a 90% chance that Fed policy makers will raise the current 1% fed-funds rate by 25 basis points at their March meeting. This is higher than the 70% probability that was priced into the contract Thursday.

The dollar finished sharply lower Friday despite early gains prompted by surprisingly strong U.S. employment data, as rumor-driven trade forced dealers to unwind hefty long-dollar positions. This position-squaring tripped several layers of stop-loss sell orders, which slammed the dollar down from session highs -- six-week peaks against the euro and Swiss franc -- to near intraday lows at the close of New York trade. The pretext given by traders for suddenly dumping dollars was a rumor -- later denied by a government official -- that the U.S. would raise the nation's terror alert status. The rumor caught the market extremely long on dollars and once the U.S. currency started to slide, players were forced to cover their positions, which triggered stop-loss sell orders. Late Friday in New York, the euro was at \$1.1540, up more than a cent from the intraday and new six-week low of \$1.1378 and well above \$1.1410 late Thursday in New York. The dollar was at ¥109.30, down from ¥110.27 late Thursday and a high of ¥110.44 after the jobs report was released. The dollar was at 1.3616 Swiss francs, down from 1.3771 francs late Thursday and 1.3803 francs earlier Friday, a new six-week high. Sterling was at \$1.6742, up from \$1.6663 late Thursday and up nearly two cents up from its Friday low of \$1.6569.

Splits Calendar		
Company	Date	Ratio
LSTR	Nov 13	2-1

Economic Calendar	
<b>Event</b>	Trade Balance
<b>Date</b>	Nov 13
<b>Event</b>	PPI
<b>Date</b>	Nov 14
<b>Event</b>	Retail Sales
<b>Date</b>	Nov 14
<b>Event</b>	Industrial Production
<b>Date</b>	Nov 14

Earnings Calendar	
<b>Company</b>	Infineon Tech.
<b>Date</b>	Nov 10
<b>Est. EPS</b>	US\$ -0.05
<b>Company</b>	Tyson Foods
<b>Date</b>	Nov 10
<b>Est. EPS</b>	US\$ 0.37
<b>Company</b>	JC Penny
<b>Date</b>	Nov 11
<b>Est. EPS</b>	US\$ 0.26
<b>Company</b>	Sycamore Networks
<b>Date</b>	Nov 11
<b>Est. EPS</b>	US\$ -0.04

## THE COMING WEEK

In spite of getting some very good encouraging news on the employment front, the broad markets failed to make headway in the previous week. The October employment report showed that nonfarm payrolls increased 126,000 in the month of October, and after revisions to August and September data, showed a 286,000 increase in nonfarm payrolls over the last three months. The markets also got the news on Thursday that weekly initial jobless claims fell to their lowest since January 2001. Instead of the 6,000 drop forecast by economists, claims slid by 43,000 to 348,000. Despite the solid gains in the Nasdaq, and small- and mid-cap indices, it was the underperformance of the blue chip averages that seemed to resonate more with market participants when the week came to a close. The reason being is that they failed to rally in a meaningful way to both Cisco's encouraging report and the better than expected October employment report.

The limiting factor was rooted in concern that the improving job picture might invite a Fed tightening sooner rather than later. The financial markets have started pricing in a tightening move by the end of Q1 2004. This is evident from the fact that federal-funds futures prices now reflect a 90% chance that Fed policy makers will raise the current 1% fed-funds rate by 25 basis points at their March meeting. This is higher than the 70% probability that was priced into the contract Thursday. The anticipation of higher rates was enough to stymie blue chip stocks, especially after the Reserve Bank of Australia and the Bank of England both raised their key lending rates earlier in the week.

This fear of higher interest rates promises to be an impediment for the market going forward and should serve to slow the speed at which the market has been climbing since March, and in the case of the Nasdaq, since last October. At this juncture, though, concern about higher interest rates won't undercut the market altogether given the outlook for strong profit growth in Q4, the persistence of low inflation, and the realization that higher market rates would be more of an offshoot of strong economic growth than rising inflation. As we indicated last week, there may be some corrective activity in the offing for the market; and as we have preached for some time, it is prudent to take profits in highflying stocks, as 20%-plus gains in a 7-month period are the exception to investing not the rule.

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