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In This Issue

Editor: Sabrina Carle
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Introducing Fundamentals to CSI's MARSTAT Database

As a follow-up to last month's discussion of how fundamentals support technical analysis, we would like to announce the introduction of several new fundamental data series to the CSI data base. These new series will make a significant contribution to our already massive data base. The additions are important statistics every economist or analyst needs to predict and understand the future course of our economy.

Some of this new fundamental data comes from associations in banking, management, petroleum, automobile manufacturing, retailing, business, credit, etc. Still other series are made available by the U.S. Federal Reserve and Federal Reserve Banks, the U.S. Bureau of Labor Statistics, and the U.S. Commerce Department.

Above is a sampling of periodic government and business reports which have been added to the CSI data products inventory. We expect to increase the quantity of available reports in the near future. We'll start with just the most recent data point for each series, but we hope to fill in historical data as we move forward with the project.

A Sampling of Periodic Government & Business Reports

Money Supply Statistics
Producer Price Index
Consumer Price Index
U.S. Employment
U.S. Unemployment Claims
Gross Domestic Product
Gross National Product
Existing Home Sales
Housing Starts
Consumer Confidence Index
Construction Spending
Index of Leading Economic Indicators
U.S. Balance of Trade Statistics
Corporate Profits
Consumer Installment Credit
Factory Orders
Durable Goods Orders

A fundamental data base can help you as a trader by making you more knowledgeable about the economy. The new series give information on factors that are critical to a change in financial market direction. Many of the above series help detect changes in other areas. For example, a modest jump or a slight drop in the Producer Price Index coupled with solid gains in stock market share prices might suggest a healthy economy and stable interest rates. In our two-part series on how the Fed operates (June and July 1995 CTJ), we explained how the Fed controls interest rates and the money supply to keep the economy in check.

The Importance of the Dollar in the World Economy

As you can see, the prevalent denominator for our list of new series is the U.S. dollar. There is good reason for this. The U.S. economy's low inflation rate, current interest in controlling government spending, and world acceptance of our currency make it a formidably stable indicator of economic strength. All world crude

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> ***"The currency risk factor for the dollar is such that the dollar should generally be favored over any other currency."***

oil transactions are dealt in dollars and the strength of the U.S. currency makes it the premier storehouse of value in the world. The International Monetary Fund holds that 60% of total currency reserves are in U. S. dollars. The bulk of the balance is in Japanese Yen and German Deutchemarks.

On balance, if any commodity transaction can be made in dollar denominated products or in any other currency, the overwhelming choice should be the commodity priced in dollars. The currency risk factor for the dollar is such that the dollar should generally be favored over any other currency.

Tracking the Costs of Goods

The National Association of Purchasing Management has a Prices Paid Component Index that helps to track the relative cost of goods. This index may be a helpful indicator of the future price of commodities. Commodity prices, of course, ultimately affect share prices because of their heavy contribution to the cost of producing manufactured goods, including food products. Not withstanding the above, I often marvel at the success of McDonald's in selling one-eighth of a pound of potatoes in the form of french fries for $1.39, given the 2 cent cost of the raw uncooked potato. Not all businesses are so gently affected by the cost of raw materials.

Petroleum Price Reports and the U.S. Balance of Payments

Few commodities have as profound an effect upon the price of running our economy as does crude oil. Energy costs have a strong bearing upon all aspects of the cost of doing business. If you ever wondered why the U.S. entered into the Persian Gulf war, consider the impact the successful outcome had on the price of crude when the war ended. We saw gasoline futures prices in the U.S. drop 50%. Crude oil on the futures market also fell by over 50% a few weeks later. Fortunately, oil prices are readily available from the exchanges and data vendors such as CSI; However, crude oil prices do not suggest inventory levels or U.S. consumption patterns. The American Petroleum Institute provides supply and consumption information. Knowing the supply situation and factors affecting consumption can be very helpful in assessing future price potential in nearly any market.

The U.S. balance of payments deficit is primarily based on this country's overwhelming need for imported crude oil. Many economic experts suggest that our balance of payments deficit (comprised mostly of oil) is much less of a problem than the government would like you to believe. Compare the benefit derived from one gallon of gasoline versus what you can accomplish without it. Because oil makes our machines run, any marginal efficiencies in the demand and consumption of crude oil has a significant and positive effect upon the U.S. economy. The payments deficit is real, but there is great doubt whether the portion represented by oil imports should be interpreted negatively. At best, in my opinion, it should hold a neutral classification.

U.S. Employment/Unemployment Claims and the Bond Market

Job growth and unemployment rates provided weekly by the U.S. Labor Department are often key to bond market movement. If the increase or decrease in job growth falls short of expectations, this could cause the bond market to rally or decline. All other things being equal, including no growth in unemployment claims, monthly job growth of around 150,000 new jobs per month represents the norm for today's economy. Significantly lesser levels could spur a jump in bond prices, and significantly larger levels could produce a drop in bond prices.

Investor's Business Daily, in an early October '95 story, reported that analysts had expected payrolls to rise 155,000 and the unemployment rate to stay at 5.6%. When the unemployment rate held steady at 5.6% and expected payrolls increased by 121,000, the bond market rallied on the less-than-expected growth in employment. Traders obviously initially perceived that the lower-than-expected report suggested the Fed might ease interest rates. The logic being that the tempo of economic expansion might be in jeopardy. The question we all should have asked is, "Who are these 'analysts' and how did they determine that 155,000 jobs was a norm for job growth?"

The answer is simple and it lies in what we all should have learned in our elementary statistics courses. U.S. employment statistics are released monthly by the U.S. Labor department, and like the money supply, employment must regularly rise as more workers are introduced into the economy. Money supply also grows with the demographics of an increasing population. Unless we become successful in controlling the explosive birth rate of a free society, money and employment will grow together.

The "analyst" simply looks at the trend of deseasonalized employment figures month-by-month. By fitting a straight line through recent data, he can compute or estimate a range of values for the data at the next collected data point. From this he can measure a range of values which will give him 95% confidence that the next reading is on target. By doing this yourself, you can make a judgment as to whether the actual survey result reported by the Labor Department is on track and trade accordingly.

The pitfalls of government reporting lie in the sometimes flawed effort put forth by the reporting agency. Errors made by pollsters in surveys can mislead us, but errors in interpretive judgment can be worse. In the above real example citing the Investor's Business Daily article, the report information caused the bond market to rally, but market sentiment and a closer look at the rising employment trend caused the bond market to give back its gains. The 121,000 job increase was obviously not significantly different from the 155,000 job estimate. Had the long-side traders done their homework, they may not have lost money in what proved to be an unsupported bond rally.

Retail Sales Reports

The U.S. Department of Commerce tracks retail sales on a monthly basis. While this information may not be important to the future direction of the bond market, it is helpful in assessing inflationary tendencies and the overall health of the economy. The Fed examines these statistics which may or may not be mirrored by the overall stock market such as might be measured with the S&P 500 Index. The major value of this report is in comparing overall retail sales to a given company's sales to determine whether a given security component is behaving better or worse than the market as a whole. It may also be helpful to measure the elements of the overall retail sales movement with the sales of auto dealerships, durable goods and non-durable goods.

We hope this sampling of background information on our new fundamental series will get readers positioned to make more informed use of the data. If we can help by addressing other areas next month, please let us know which fundamental categories are important to you. ✦

Bob Pelletier

As this journal goes to press in mid November, we are finalizing details on delivery of our new fundamental series. For complete information and instructions on ordering, please request the CSI Fundamental Fact Sheet via Quick-Trieve's® Order Subsystem or fax your request to (407) 392-7761.

Ask Customer Service

Each month on this page our customer service representatives address a topic of interest to many CSI customers. This month they present some common questions about options.

Q. *Does CSI offer data on options?*

A. Yes. We provide daily updates and historical data on all futures and index options traded in the U.S. as well as all futures options from LIFFE in London. These are available to user of Quick-Trieve and commercial customers. Sorry, options are not available as history on-demand through Quick-Trieve.

Q. *Can I get option data with my Macintosh?*

A. Sorry no, options are not available through Trade Data Manager™ at this time.

Q. *I want to track the "at the money" strike price for a number of options. How can I arrange this?*

A. An "at the money" series is not currently available from CSI on an automatic basis. The best way to keep this information is to update all strike prices within the probable trading range for your markets. As the trading range changes, you can manually adjust your list of strike prices (through QuickTrieve's Order Sub-system) so the "at the money" options will always be part of your data feed.

Q. *I used QuickTrieve's Order Subsystem to add several commodity options to my portfolio, but they weren't included in my daily update. What could have gone wrong?*

A. Most likely, the strike prices were not entered in a way our computer could process. Our system requires that you enter option strike prices such that they conform to the examples shown on the Commodity Options Fact Sheet. For example, our fact sheet shows sugar strike prices which include 80, 90, etc. The same strike prices are represented in the Wall Street Journal as 800, 900 etc. If you entered a strike price of 900 for sugar, our computer would be unable to deliver the data. This strike price should be entered as 80. This is not a problem for index options, which are presented with the same strike prices both in print and in our data base.

Before you enter a long list of strike prices for any option, we strongly recommend that you make a trial run. Please order and collect just a few strike prices to make sure the CSI system can recognize and fill your request before transmitting your complete order.

Q. *I have been manually maintaining the list of options I update through QuickTrieve's Order Subsystem, and I find it to be a time-consuming job. I think I would prefer to receive everything than to add and delete strike prices on a regular basis. Can this be arranged?*

A. The transition from downloading specific options on a particular delivery month to receiving all options for that month is surprisingly easy through the order subsystem. Use the Change User Portfolio menu selection and enter the first six fields normally, being sure to specify a valid delivery month and year. At the P/C entry, select P for put, then leave 00000 as the strike price. You'll get all the puts for the selected delivery month. Repeat the process with a C in the P/C entry to get all the calls.

Use a separate line for each delivery month of interest to you at this time. When you are ready to change months, simply re-enter the lines with a D for delete as the first entry. You can then select new delivery months for daily updates. ✦