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Don’t look away from Europe just yet

Joe Terranova, Chief Market Strategist, Virtus Investment Partners, offers insights into some of the key economic indicators and meaningful market events to keep a close eye on throughout February.

February 2012

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		January 31 **Florida Presidential Primary** 9:00 PM: **China PMI**	1 3:00-4:00 AM: **European PMIs** 5:15 AM: **German Bond Auction** 5:30 AM: **Portuguese Bond Auction** 10:00 AM: **ISM Mfg. Index** **German State Visit to China**	2 4:30 AM: **Spanish Bond Auction** 5:00 AM: **French Bond Auction** 10:00 AM: **Bernanke Before House Budget Committee**	3 8:30 AM: **U.S. Unemployment & Private Sector Jobs**	4 7
5	6 9:30 AM: **ECB Bond Purchase Announcement**	7	8 5:15 AM: **German Bond Auction**	9 7:45 AM: **ECB Rate Announcement**	10	11
12	13 9:30 AM: **ECB Bond Purchase Announcement**	14 5:00 AM: **Italian and Greek Bond Auctions**	15 5:30 AM: **Portuguese Bond Auction** 2:00 PM: **FOMC Meeting Minutes**	16	17 8:30 AM: **Consumer Price Index** **Retail Earnings Season Begins with Nordstrom Earnings***	18
19	20 **U.S. Markets Closed** 9:30 AM: **ECB Bond Purchase Announcement** **Eurogroup Meeting of Eurozone Finance Ministers**	21 5:00 AM: **Greek Bond Auction** **Wal-Mart Earnings***	22 **Macy’s and Home Depot Earnings***	23 4:00 AM: **Germany Ifo Business Climate Index** **Target, Sears, and Limited Brands Earnings***	24 **Gap, JC Penney, and Kohl’s Earnings***	25
26 **G20 Finance Ministers/ Central Bankers Meeting**	27 9:30 AM: **ECB Bond Purchase Announcement**	28 5:00 AM: **Italian Bond Auction** **Arizona and Michigan Presidential Primaries**	29 5:15 AM: **German Bond Auction** 8:30 AM: **U.S. GDP** 2:00 PM: **Beige Book** 9:00 PM: **China PMI**			

*Times shown are Eastern Time. *Expected earnings release date; may be subject to change.*

If you're like me, you'll set your alarm clocks an hour earlier this month so you can find out what's going on in the European bond markets. Throughout January, successful bond auctions set a favorable tone for global capital markets, with performance of government bonds improving and yields falling significantly. The ECB's Long Term Refinancing Operation (LTRO) is working favorably. Mario Draghi is a very different ECB president than Jean-Claude Trichet – and exactly what the market needs. We need the ECB to aggressively purchase sovereign bonds and to continue to expand its balance sheet. But, we cannot assume that one month's favorable activity is enough to lift the guilty verdict on risk assets. The burden of the LTRO will be far greater in February. In addition to watching Europe, I will also be focused on retail earnings reports, which should give us real insight into the state of the U.S. economy.

February indicators / events of note:	You should be watching:
China PMI China PMI (purchasing managers' index) is released on the last day of the month. This monthly gauge of China's manufacturing sector, combined with the monthly U.S. ISM Manufacturing Index value released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.	Regarding China, I'm in a wait-and-see mode and am limiting my indicators to the PMI this month. Last month, China PMI was 50.3. Evidence of a slowdown continues, and Street expectations are for a reading of 49.6 in February. Just as we saw a sub-50 print of 49 back on November 30, we may see another, which would be further evidence that Chinese central bankers need to ease further. Keep in mind that the Chinese are very aggressive in anticipating their monetary policy. If they know there will be a weak PMI, they may cut rates ahead of the announcement. I'll be on the watch for a rate cut coming out of China in February.
European PMI Reports (Spain, Italy, France, Germany) Each country's PMI – and that of the eurozone – is a key measure of the state of its manufacturing sector. An index value above 50 indicates growth, below 50 contraction. Each country's PMI will be reported early in the morning of February 1, starting with Spain (3:15), then Italy (3:45), followed by France (3:50) and Germany (3:55).	All of Europe's PMIs, except for Germany, France, and the EU as a whole, are still below the 50 expansion/contraction line. Germany is slightly above it at 50.9. Last month we saw an improvement from each of those nations and the EU itself.
European Bond Auctions Major bond auctions to watch in February: > 2/1 – Germany's sale of €5 billion in 10-year notes > 2/1 – Portugal's sale of 3- and 6-month T-bills > 2/2 – Spain's sale of 3-, 4-, and 5-year paper > 2/2 – France's sale of 6-, 8-, and 10-year bonds > 2/8 – Germany's sale of €4 billion in 5-year notes > 2/14 – Italy's sale of bonds and floating rate notes; and Greece's sale of bills. > 2/15 – Portugal's sale of 3- and 6-month bills > 2/21 – Greece's sale of bills > 2/28 – Italy's sale of bonds and floating rate notes > 2/29 – Germany's sale of €4 billion in 10-year notes	The ECB must continue to buy sovereign debt as a necessary component of navigating Europe's debt crisis, and we need to continue to closely monitor the bond auctions.

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ISM Manufacturing Index Issued by the Institute of Supply Management, this report provides an influential monthly measure of the health of U.S. manufacturing based on an in-depth survey of 300 manufacturing firms. An index value of 50 is the dividing line between an expanding or slowing economy. Data released is for the previous month.	I expect ISM will continue to strengthen. Last month's ISM was 53.9 (up from 52.7 in December). As the U.S. economy continues to show further signs of recovery, expectations are that it will increase to 54.5 in February.
German State Visit to China German Chancellor Angela Merkel will be in China for an official four-day state visit starting February 1.	The relationship between these two nations continues to be fostered, and Chancellor Merkel's visit to China in February is an important meeting on several levels. China and Germany are credible trading partners; China is Germany's fifth largest export market and the second largest importer of German goods. Also, China is an important investor for Germany, and Germany continues to look to China for help in purchasing its sovereign debt. Chancellor Merkel will also lobby China for trust in the eurozone.
Bernanke Before House Budget Committee Chairman Bernanke testifies before the House Budget Committee on the U.S. economic outlook.	Mr. Bernanke is likely to be asked to assess the state of the U.S. recovery, the main challenges facing U.S. fiscal policy, the economic impact of Europe's situation, and the Fed's recent monetary policy decisions.
U.S. Unemployment & Private Sector Jobs Private payroll data is part of the Labor Department's monthly U.S. Employment Situation report. This data gives the true employment story, is the best gauge of the economy's direction, and has the power to move markets.	This month's report will not have last month's benefit of a boost in temporary holiday hiring, in particular from couriers and deliverymen within the transportation sector. Last month, 200,000 new jobs were added to the headline number; this month, expect a gain of 140,000. Last month, private payrolls added 212,000 jobs; this month, I would expect an increase of 160,000.
ECB Bond Purchase Announcement The European Central Bank makes a weekly announcement of its bond purchases.	The ECB will announce to the market how much sovereign government debt it bought that week. In January, the ECB made steady bond purchases throughout the month – €1.1 billion in the week ended January 6; €3.77 billion in the week ended January 13; €2.24 billion in the week ended January 20; and €63 million in the week ended January 27.
ECB Rate Announcement The European Central Bank controls monetary policy, including interest rates, for eurozone countries, and strives to keep inflation at about 2%.	The last interest rate action by the ECB was in December when it lowered key interest rates to 1% from 1.25%.

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February indicators / events of note:	You should be watching:
FOMC Meeting Minutes The Federal Open Market Committee (FOMC) releases minutes from its late January meeting.	As I recently wrote in my blog "Mixed Data and the 'All-In' Fed," I have fully agreed with Chairman Bernanke's monetary policies dating back to January 2009. That changed with the FOMC's January 25, 2012 announcement to extend low interest rates from mid-2013 to late 2014. What happens if, as I expect, the need to raise rates arises before then? If that were to happen, the Fed would lose credibility with investors – a cardinal investing sin for any central bank.
Consumer Price Index (CPI) The Consumer Price Index measures the price of goods and services paid by consumers, and it is therefore considered to be a key indicator of inflation.	I included CPI this month because I think the Fed is playing a dangerous game with global inflation, and we need to watch this indicator. Last month CPI was up 3% year over year. Think back to last year when the advent of QE2 drove oil prices higher, from $75 to close to $100, and the incredible impact that had on emerging economies whose central banks were forced to tighten monetary policy. That was the biggest single contributor to global growth and asset prices moderating last year.
Retail Earnings Season Begins* Key retailers begin releasing their earnings on February 17: > 2/17 – Nordstrom > 2/21 – Wal-Mart > 2/22 – Macy's and Home Depot > 2/23 – Target, Sears, and Limited Brands > 2/24 – Gap, JC Penney, and Kohl's	If there's one economic metric to focus on in the U.S., it is consumer retail spending. There is no recession, but growth is modest. We'll get a better understanding of how the economy is doing from how retail outlets did during the solid consumer-spending holidays of Halloween, Thanksgiving, and Christmas. It will be important to find out if these retailers were profitable and how they achieved profitability – were they forced into deep discounting or were consumers breaking down the doors? Guidance will also be incredibly important this quarter. We expected the earnings tailwind of the last two years to let up. EPS growth rates are coming down, and the guidance has been squishy. There's a lot there that makes me uncomfortable.
Eurogroup Meeting of Eurozone Finance Ministers (Brussels) The eurozone finance ministers have political control over the euro currency and related aspects of the EU's monetary union.	In keeping with this month's focus on all things Europe, this will be another important meeting to monitor.
Germany Ifo Business Climate Index This index, prepared by the Ifo Institute for Economic Research in Munich, is a leading indicator for Germany's economic activity. The index is based on a monthly survey of 7,000 manufacturing, construction, wholesaling, and retailing firms on their current business situation and their business outlook for the next six months. Results reported are for that month.	Germany, Europe's largest economy, has been showing consistent signs of improvement. This index, which gives an indication of German business confidence, has risen three months in a row. The index increased to 108.3 in January, up from 107.3 in December.

**Expected earnings release date; may be subject to change.*

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February indicators / events of note:	You should be watching:
G20 Finance Ministers/Central Bankers Meeting (Mexico City) The G20 is a group of 19 countries and the European Union. G20 Finance Ministers and Central Bank Governors meet regularly to address global economic and financial challenges.	The G20 meeting is important because world central banks are currently focused on monetizing their debts and competitive currency devaluation.
U.S. Gross Domestic Product (GDP) The quarterly GDP report, released by the U.S. Commerce Department, tracks the purchases of all U.S. goods and services in all sectors and is the broadest measure of the economy.	Q4 GDP surprised to the upside at 2.8% as the U.S. labor market continues to improve, consumers are spending, and businesses are restocking their shelves.
Beige Book FOMC commentary on current conditions in each of the Federal Reserve's 12 districts is released two weeks prior to the next FOMC meeting. This month's beige book is for the March 13 meeting.	All things Fed-related bear watching, and this month's beige book is no different.

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JOSEPH M. TERRANOVA, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is Chief Market Strategist for Virtus Investment Partners. He was elevated to that position in June 2009, having started with the company in the role of Chief Alternatives Strategist.

In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of Director of Trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of *Futures* magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embracement of pessimism" and overweight equities. Before joining MBF, Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova is a CNBC contributor and is currently a full time panelist on the highly rated program *Fast Money*. He is also a frequent panelist on the CNBC daytime program *Fast Money Halftime Report*. He is the author of the book, *"Buy High, Sell Higher,"* published by Business Plus, which was released in January 2012.

In 2007, along with Hockey Hall of Fame player Mike Bossy, Mr. Terranova established "Bossy's Bunch," a program that rewards excellence in the classroom for elementary school students.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

For more information, visit Virtus.com