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Sent: Wednesday, August 15, 2007 7:35 AM

Subject: ROHR: TrendView: BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY: Wednesday, August 15, 2007 .

Importance: High

Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, August 15, 2007 (07:00 CDT; 08:00 EDT; 12:00 GMT)

Overview

While continued email problems with the larger files still prevent us from distributing this week's *Capital Markets Observer* III-26, the review below should address the key issues which are still linked into the decision by the main equity market activity, especially the DJIA.

The extended interest rate market and equity market technical levels and their implications are still remarkably the same as prior to the 'cavalry to the rescue' intervention of the central banks on Friday, even though those markets are now overrunning the previous supports. While we suggested previous that DJIA 13,000 was one of the supports on the way down (along with 12,800, 12,500-400 and ultimately the 12,000 area), we were not all that clear that it is actually fairly crucial. On the way up back in late April, 13,000 was merely psychological, as evidenced by the DJIA ability to waltz right through it on the rally.

However, on the way down at present the oracle's caution to Caesar noted yesterday remains good advice for equity bears (even though we remain in that near term camp overall), "Beware the Ides of 13,000." This is due to it being trend channel support from the 10,683 July 2006 lows (advancing to 13,050 next week), with the Fibonacci 0.50 retracement (of the upswing from the March low to the highs) and the 0.25 retracement (of the entire bull trend up from the October 2002 lows) are in the 12,975-12,940 range, which is the low end Tolerance of the 13,000 area trend support. This gains additional psychological importance due to the test of that range in overnight electronic trading.

That is modest expansion of the Tolerance below 13,000 noted yesterday, and it will take a weekly Close below 12,940 to definitively violate 13,000 area up channel support. However, if that should occur, it raises a real question over whether the 12,800 support will hold the market. The dilemma arises if the up channel support at 13,000 is broken due to the fact that the DJIA will no longer be in an up trend from the July 2006 low it is fairly problematic whether it will hold the 12,800 area February highs a mere 140 points below 12,940.

As such, it is more likely the DJIA then heads for the next significant support in the 12,500-400 area if 13,00 area support fails. Which also might just be the next significant support below 13,000, and is a much more formidable congestion area, Negated DOWN Break (from the February-March selloff), with various Fibonacci retracements (which actually extend down to the 12,300 area.) However, the DOWN Break from the 13,000 area will likely restrain any near term bounce if the market sinks as low as 12,500-400 before stabilizing. And that is why the 13,000 area is so critical if the DJIA is to avoid a likely need to get all the way down to more significant intermediate term supports in the 12,000 and 11,750 area; more on those if and when the market nears those levels, including the central bank psychology which will become critical

on that much more of a slide.

We have also noted previous that other equity markets would need to wait for the other shoe to fall in the form of bearish confirmation from the now more resilient sister DJIA. It is most interesting that previously weaker sisters across the board from the S&P 500 to the DAX and FTSE have either not yet traded to new lows for the move, or have done so to a much milder degree than the DJIA. They seem to understand the importance of proof in the bearish pudding from the DJIA.

Speaking of the tendencies in the other markets brings us to the secondary adjustment to Friday's views noted yesterday. While Monday's recovery in the DAX did not Negate last week's 7,390 DOWN Break from its recent daily Triangle pattern (which would require a Close above 7,614), last Friday's ostensible downside Runaway Gap below 7,390 was closed. That removes the tendency for accelerated move down to the 6,612 Objective. If that's all the central banks accomplished with their liquidity infusion, it is still quite a major shift in the technical complexion of the markets, as it seems to mitigate what might have been a major external negative factor as the DJIA swings down toward its test of the 13,000 area.

The long dated fixed income doesn't really care for all of this short term liquidity injection, and has only demonstrated subdued strength in the **T-note** above 107-16/108-00 resistance, with the **Bund** not even fully back up to the violated 113.20-.35 long term Fibonacci levels and congestion tested previous, and the **Gilt** having only recovered to into extended resistances back above 106.00, however not really challenging 106.50 as yet.

Foreign exchange remains convoluted, with a degree of previous carry trade liquidation causing selling of premium currencies that contributed to the bid in the **US dollar** as well. However, it is clear once again that **Japanese yen** strength being so prominent of late is not any sort of carry trade 'crisis', and the technical thresholds at which a sign of extreme secular strength in the yen would be possible remain quite a way above the current yen pricing.

As we noted previous, **GBP/JPY** may have failed from the low 250's target that were already being tested, and near term near term supports at 244.00 (now resistance which the market is back up challenging), and now even the June pullback lows in the 238.00 area (actual trading low 237.69.) Yet, the major trend support has migrated up from the 220.00 tested in March to the 230.00 area, with a Tolerance to Negated DOWN Break (from the February-March selloff) and major Fibonacci 0.382 (from the 179.43 January 2005 low) into the 239.50-237.50 range.

This was the same for **EUR/JPY** that experienced a bit more slippage below its mid-June pullback low at 161.51, and heavier Fibonacci and congestion support in the 160.00-159.50 area, with the current test of the 157.50 trend, congestion and Fibonacci support critical along with the DJIA test of 13,000 area. Yet, here as well the more major trend support remains well below the market in the 151-150 area, including major trend channel and Fibonacci support .

It all still fits with the major **USD/JPY** supports remaining down at 115.00 and 113.50 areas, even though some folks have put a lot of emphasis on 118.00-117.50 near term supports which have just been violated.

While there is a long term basing pattern which points to much higher objectives in the **US dollar Index** that has recovered back above the recently violated major December 2004 .8039 low, activation will require the sustained rally above near term resistance in the .8100 area to extend up through heavier resistance in the .8200-50 range to activate. We shall see.

That is in consistent with **EUR/USD** dropping below the 1.3666 December 2004 high, and violating the 1.3550-00 support, with the major trend and weekly MA 41 in the 1.3350 area. That is very similar to **GBP/USD** sustaining its extended rally above the 1991-1992 twenty-six year highs at 2.0050-2.0100, yet now failing back below the support in the 2.02-2.00. That means the market must hold the next

support into the 1.9750-1.9625 area or risk falling all the way back to major trend support in the 1.9400 area.

Quite a few of obvious factors have contributed to the strength of September **Crude Oil** that had done the obvious and extended its rally above the important mid 72.00 area resistance, which (as noted previous) still has the 70.00-69.00 area as the next important lower support. There was not much above that resistance until the 74.70-75.00 area that was whipsawed around prior to pushing up to next higher resistances in the 77.50-.95 range all-time highs seen in July-August of last year. As we have now seen, those violated resistances are now support, with extended support back into the 66.00-65.00 areas, and extended psychological and weekly oscillator resistance up at 80.00-81.00.

We hope you find this helpful.

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