

Rohr Report

TRENDVIEW

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Tuesday, January 22, 2008 (07:00 CST; 08:00 EST; 13:00 GMT)

OVERVIEW

- To borrow an old introductory phrase from Vaudeville comedians of the last century, “A funny thing happened on the way to...” Europe being insulated from US economic weakness: It isn’t. As we have stressed for some time, the parsimonious paranoiacs at the ECB continuing to hold forth that Europe is in great shape (in spite of months of lower OECD Composite Leading Indicators for all developed economies) was never very credible insofar as it relied upon developing world demand to offset the waning appetite of the previously voracious American consumer.
- As those developing countries also rely on US demand for their economic strength, the European equities had finally had enough of Monsieur Trichet’s one-sided view. However, now it is up to another player who has seemed less than solid at times, as Mr. Bernanke must soon fulfill commitments to “do what is necessary” to prevent any financial market turmoil from spilling over into the general economy. As distasteful as it may be for any Fed to cut rates on an inter-meeting basis, any near term Fed moves which do indeed stabilize the equity markets will be a very Pyrrhic victory this close to regular FOMC meeting; a clear sign they have been badly behind the curve.
- Yet, as we noted last Wednesday, the old cliché that “a week is a long time in politics” holds doubly true in current markets as financial turmoil is already affecting the general public’s mood; and that extends beyond the US to Europe and the UK. However one slices it, the Fed does not have the luxury of waiting until next Wednesday to move, and must press forward regardless of any agreed collaboration with the ECB (or Bank of England); just as Mr. Greenspan was forced to do in 2003.
- Rather than enter into any extended technical discussion that we are also going to provide in tomorrow’s *CAPITAL MARKETS OBSERVER* IV-3 (along with some extensive further background observations), we are going to simply list the most significant trend levels in the markets. The DJIA failure below 12,000 major support and Tolerance at the 11,940 March 2007 sharp reaction low was another DOWN Break after the same occurred back below the 12,517 August ‘spike’ low. Those are now major resistances, with supports as expected into the 11,500-400 area where it has now stabilized after an overnight plunge to the next major support in the 11,000 area. As Europe led the way down yesterday, it is worth noting that DAX also left a fresh 7,120 DOWN Break below its 7,190 August low, and (not surprisingly) dropped quickly to its 6,437 March low that is slightly below major 6,700-6,650 Fibonacci and trend channel support.
- Of course, all of this has been very bullish for fixed income, even though we suspect the long end may struggle after any sharp emergency easing. March T-note’s push above the 116-16/117-00 resistance has seen an extension to 118-00 with 119-00 also still possible. Bund above 116.30 exceeded the 117.50 resistance, yet has set back.

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▪ The foreign exchange situation had seen the British pound revert to weak sister status in spite of a mid-week attempt at bounce, while the Japanese yen has maintained its bid due to repatriation of cheap yen borrowings. That does not amount to a carry trade 'crisis' with the asset depreciation leading the way, and little prospect of a Japanese economy about to see further downgrades to the outlook fomenting a real panic reversion to yen holdings. As noted at the end of last week, it is also very interesting that the euro was impugned by Mr. Mersch's dissent last week from the ECB party line on the lack of European economic risks. While Big Dog Trichet growled back with predictably hawkish zeal and the ECB Monthly Bulletin backed him up, it seems the euro has already experienced some consolidation, and any further signs of secular weakness in the European economy will reinforce that.

The most interesting bit is the degree to which the US dollar Index has recovered, as the US becomes a bit of a haven in light of the now more pronounced weakness elsewhere that many were attempting previous to deny. Yet, even there the rally has only carried to the congestion and trend resistance in the low-mid .7700 area. That is very consistent with EUR/USD only reaching the mid 1.4300 congestion (somewhat above the 1.4311 mid December low), and even weak sister GBP/USD not quite reaching its major 1.9200-1.9100 support before bouncing. Of note, even where the US dollar has been very strong for awhile, USD/CAD is nearing more major resistance in the mid 1.0400 area. USD/JPY is also very orderly so far on its failure below the major 106.80 UP Break from May 2005. Next support is 105.00-104.26.

▪ Energy markets have also had to acknowledge the potential negative impact of the pending economic weakness signaled by the equity market weakness. While the overall up trend remains intact, the slippage back from historic Crude Oil resistance at 100.00 below the 95-94 range has now violated lower support in the 90-89 range, with extended support in the 87-86 area.

We hope you find this helpful.

-Rohr
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