

ROHR REPORT

TRENDVIEW

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, February 28, 2008 (07:00 CST; 08:00 EST; 13:00 GMT)

OVERVIEW

- Yesterday was a bit of ‘the agony and the ecstasy’, and back to the agony for the equities, with a commensurate response from fixed income while the US dollar is off in its own world. The serial influences which created those swings were fairly clear: the testimony from Mr. Bernanke was more down beat than expected, yet right in its midst OFHEO (Office of Federal Housing Enterprise Oversight) announced approval for a return to expanded mortgage purchase activity after previous accounting irregularities at FNMA (Fannie Mae) and FHLMC (Freddie Mac.) Yet, the equity market’s friendly response was later dimmed by the degree to which that is of limited impact.
- While we have been skeptical of Mr. Bernanke’s ability to grow into his role for some time due to his lack of ability to lead either his fellow members or the economy, after his performance yesterday we are even more convinced that it might be best if he is a one term Fed Chairman. As we suspected might be the case, he is meeting his fate on the very paths of consensus and accommodation that he chose to avoid it. It was the often halting nature of his answers (“um”), and reliance on benign expectations that are most disconcerting. Assuming that a slowdown will address higher food and energy prices is a bit daft at this point in the cycle. US government subsidized ethanol production is forcing meat and milk producers to lower output to raise prices, and the international implications of turning feed into fuel are daunting (more on that soon.)
- Further influences this week include more from Mr. Bernanke in front of the US Senate this morning, and many of the important late month economic indications into tomorrow along with more FedSpeak. The most important reports tomorrow are a full range of UK and European confidence indicators, German (FEB Preliminary) as well as Euro-zone CPI (JAN), and German Retail Sales (JAN) that will give some indication of whether a stagflationary environment is also developing in Europe. If so, it may be fairly negative for equities. Of course, the US influences will also be fairly telling, with Personal Income and Consumption (JAN) is followed by the Chicago Purchasing Manager’s Index and University of Michigan Consumer Confidence (both FEB) and lunchtime pronouncements from the Fed’s Mishkin, Evans and Lockhart.
- In the meantime on the technical front, in spite of the equity indices all pushing up on Tuesday, the fixed income has remained fairly resilient; led in each case by the US. Yet, in the past when the T-note managed to ignore the near term strength of the equities, it was not a good sign for the stock markets. The DJIA is not just above 12,600; this time up it left a 12,450 UP Break out of its down channel from the major 14,200 area all-time high. That puts some extra pressure on the bears to get it to fall back below 12,400, yet will make any failure that much worse (Negating the UP Break) if it occurs. Lower supports remain in the 12,100-000, 11,500-400 and 11,000.

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- Even though the resilience of fixed income took a hit when the March T-note slipped below 116-00/115-24, it once again never seriously challenged more critical up trend support (aggressive weekly up channel and weekly MA 13) that had evolved from last week's 115-00/114-24 area up into 115-10/-00 this week. As long as it held there, the door was open for the sort of recovery seen out of yesterday into this morning. However, among the more interesting indications was the degree to which the further strength in the equities has not brought anything more than mild further weakness in previously weaker European long ends. The Gilt has basically held 108.80-.50 and Bund 115.60-.40 so far. The problem for the bears is what happens if the equities slip quite a bit further at some point, as we still feel is likely.
- As noted last Friday, there was no surprise that a second serial weak Philadelphia Fed Index (FEB) was enough to put the US dollar back into a very weak mode, on both the anticipation of pressures on the short term US interest rates and weak FDI. Continued weak indications since then may have assisted the equities on a 'bad news is good news' that will foment further Fed easing, but the US dollar is far more clear on the direct implications of all that. As noted at the end of last week as well, the eroding (as opposed to imploding) bear US dollar Index dropping back below the mid-range .7600 area left it open to test the lower Triangulation support in the .7500 area, or even failing below it. In the event the latter has occurred. One of the dilemmas of the eroding bear is how much time it spends seeming to base out prior to failing again. Yet, considering that it has indeed failed to a new low below the .7448 mid-November low, it is rather orderly well above next extended support levels into the .7350-00 area.

That is consistent with EUR/USD pushing above 1.4750-1.4800 for a test of 1.5150, and GBP/USD stabilizing in the low 1.9400 area for a rally back through 1.9800 to 2.0000. That left the ability of EUR/GBP to escape .7550-quite problematic until just yesterday, and it will be interesting to see if it can Close the week above that previous resistance. If so, it may signal the beginning of the move to the extended targets in the .7750 and .7850 areas noted after the original escape from low-mid .7000 area back in November.

- What is there to say about the energy markets with the April Crude Oil (new lead contract) churning its way above 100.00? In spite of some extensive recent pullbacks, it could not fail on serial tests of the key trend support in the 86.00 area, and repeatedly ramped back up above 90-89, 95-94 and the 98.00 area. As we noted late last week, the weekly oscillator points to 104, 106-107 and 110 as extended targets.

We hope you find this helpful.

-Rohr

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