

Rohr Report

TRENDVIEW

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, March 6, 2008 (07:00 CST; 08:00 EST; 13:00 GMT)

OVERVIEW

- As noted yesterday morning, the Fed's Beige Book loomed large. This was due to the degree to which the market reaction would signal whether weak indications were already priced into the DJIA slide back to 12,100-12,000 support. That seemed to be the case, as the equities only weakened modestly in the wake of another set of soft economic indications in preparation for the March 18th (one-day) FOMC meeting.
- Now we have the 'no action' rate decisions from the Bank of England and ECB. While the Bank typically offered no insight into their decision when they do not move, we will be treated to Monsieur Trichet's comments and Q&A at the post-decision press conference in a little while. As noted in Monday's *Weekly Overview*, we suspect it will be as hawkish as usual, and that's likely already priced in as well. While President Trichet noted last month that changes to the ECB's upbeat economic outlook would wait until March, that more likely means next Thursday's (March 13th) Monthly Bulletin release than *ad hoc* announcement of anything so weighty at a press conference.
- That sustained hawkish view (and the potential it might also remain the case in the Monthly Bulletin next week) is likely why the DAX has become the weak sister among the equity markets; even a bit weaker of late than perennial weak sister NIKKEI. It is still likely that the DJIA holds the key to the others, especially whether it still holds support after tomorrow's OECD Composite Leading Indicators (JAN) (which have been contrary to the ECB indications for Europe) and US Employment report (FEB.)
- If the DJIA survives that test, it likely looks for an excuse to continue its rally back up to last week's failed 12,450 UP Break (or even possibly 12,600.) If it fails the 11,940 Tolerance of the 12,000 area, then all of the equity markets will be under pressure.
- The resilience of the long dated fixed income took an expected bit of a hit in the face of the equity market recovery, and that is important in light of the discounts in the June T-note and Bund. March T-note was able to lead the way up from lower support in the 115-10/-00 area back above mid 117-00 resistance and 117-27-118-06 daily Exhaustion Gap (both now support) prior to stalling into 119-00. Yet the full point-and-a-half discount in the June contract means that any March contract retest of the mid-low 117-00 area will leave the June into upper-mid 115.00 area support. Similar (albeit weaker) holding lower supports have left the Gilt near higher resistances in the 111.00 and 111.50 areas, and the Bund into 117.00-.50 resistance. With the expiration of the March Bund today, the 40 point discount in the June contract will keep that resistance relevant on any further recovery if the equities weaken after the reports tomorrow. The short money shows similar tendencies, with the European and UK short money forwards having trouble maintaining strength in the face of the ECB hawkish views.

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▪ While the US dollar bear has been the more directional trend of late (as expected), we were pulling back from our aggressive bearish view there as well during the major cross currents this week. In spite of extreme seasonal strength of the Japanese yen pushing USD/JPY down to major historic congestion in the 102.50-100.00 range, the US Dollar Index has hit our near term .7350-00 target. Yet the anticipated hawkishness of the ECB and 'no action' by the Bank of England have left our more neutral view appearing a bit out of touch with the ability of the euro and sterling to extend their up trend against the buck. It likely has quite a bit to do with the downbeat Beige Book portending further easing from the Fed. While that 'bad news is good news' mentality may be heartening for the equities, it doesn't do much for the US dollar's comparative yield or foreign direct investment prospects.

The euro remains strong sister (even strengthening against the Australian dollar of late), and EUR/USD looks on track to Close the week above the low 1.5200 resistance; any sustained activity above the 1.5250 oscillator level projected into next week points to extended oscillator and weekly topping line resistance in the 1.5500 area. While the GBP/USD is also pushing back up into the 2.0000 resistance next resistance there is as nearby as the 2.0300 area. That allows for the EUR/GBP to continue churning in the mid-low .7600 area, with very good support into .7585-50 violated resistance. Even the previous strong sister Australian dollar has seen AUD/USD recover to key short term resistance in the low .7400 area. Quite a bit of the near term momentum would seem to rest with how strong Monsieur Trichet's hawkish comments remain today.

▪ April Crude Oil (lead contract) churned its way above 100.00 after holding lower supports in the 90.00 and 86.00 areas. As it is already pushing above the initial extended weekly oscillator level in the 104.00 area, it is very likely to see 106.00-107.00 and even possibly 110.00-111.00 as extended targets prior to topping out.

We hope you find this helpful.

-Rohr

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