

ROHR REPORT

TRENDVIEW

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Friday, December 19, 2008 (07:30 CST; 08:30 EST; 13:30 GMT)

OVERVIEW

- There have obviously been quite a few price shifts since we distributed Wednesday's a *TRENDVIEW* GENERAL UPDATE. Yet those are consistent with the overall trend views expressed there. We cannot really know why the equities chose to sell off yesterday afternoon; was it the US automaker rescue remaining in limbo, equity derivative market 'triple witching' or the prospect of some of the limited communication from financial luminaries this week including a speech by Secretary Paulson yesterday evening? It is likely on recent form that the latter is the case. His consistent discussions of the steps taken to date (which are not really addressed the key issues) along with his party lines on no TARP funds for automakers and consistent belief that lower interest rates will actually solve the US housing foreclosure problem (that so many others pointedly refute) are not anything the equity markets take any comfort from at all.
- That said, the economic data remains abysmally weak on balance as well. When some of the only bright spots in the past couple of days are the UK GfK Consumer Confidence Survey (DEC) coming in less bad than expected at -33 and the Canadian Consumer Price Index (NOV) falling less than expected, it is not really very comforting. While the prospect of a new administration Washington in not much more than one month will continue to psychologically underpin the equity markets, it is very interesting that they remain so vulnerable in the wake of the FOMC move to an effective zero interest rate.
- While all of the trend views and technical projections remain very much the same as Wednesday's *TRENDVIEW* GENERAL UPDATE (with the exception of additions to the short term foreign exchange technical signals noted below), the impact on the equities and fixed income is now fairly obvious. As DJIA failed to push through resistance in the 8,850-9,000 area (Tolerance to 9,100), it came back under pressure. Considering the overall bottom and is trying to form, that leaves it vulnerable to a swing back down to either 8,200 area, or even 8,000-7,900 area while still basically bottoming. Whatever may transpire in economic news (including the US automaker situation), the DJIA ability (or lack thereof) to hold 7,900 in the near-term will determine whether overall equities basing action is still viable, or if they might be returning to a more aggressive bear right away.
- Divergences in the classical relationship between the equities and fixed income remain the case, substantially based upon the long dated government debt markets continuing to react to real-world economic weakness in spite of whatever the equities may be doing. That is only significantly reinforced by the degree to which the Federal Reserve is now overtly committed to the aggressive purchase of long dated debt securities through agency paper that is assisting the spectacular surge in the price of the "govvies."

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- As noted on Wednesday, the impact across the major asset classes was both fairly predictable and immediate. Needless to say, there was a sharp further rally in long-dated “govvies” that has seen the March T-note contract exceed 126-00/-16, which indicates another full two-point move on the upside that is the historic norm now that the market is challenging major historic oscillator extensions, even going back to extensive accelerated rally into early 1986 when the weekly close pushed out to 11-12/32nd over the 41-week moving average; currently into the upper 127-00 area, the March contract is right up against that threshold, with the implication that pushing through 128-00 for its weekly Close this today (as the lead contract due to December expiration) signals a move to a least be 130-00 area. While we questioned it on the initial Break UP through 119-16, it is now not so far-fetched that even the mid-November major Pennant Objective at 136-24 might be a reasonable near-term target with the Fed squeezing the market. All of the lower violated resistances every two points lower into the 120-00/119-16 area are now support, with presumed resistances at every two points up from 130-00. While not necessarily dictating the exact trend of less heavily squeezed long dated fixed income in the UK and Europe, we suspect the US long end will continue to have quite an influence.
- As to the foreign exchange impact, as noted above the center of economic weakness shifting back US was already preying on the dollar prior to the radical FOMC move. This is the inverse of the psychology that set in during July, when the assumption that other major developed economies were ‘delinked’ from the US was invalidated as things went from bad to worse. It was not so much that the US had already run the course of its weakness as that damage elsewhere was becoming more apparent. Especially as it concerned the Third World and rapidly developing economies, that temporarily restored the dollar's traditional role as a haven currency compared to far less stable currencies elsewhere, exacerbated by the degree to which those resilient expectations for other developed economies were also crumbling. However, recent communication from ECB President Trichet is reinstated a goodly degree (if not the full measure expressed previous) of a sense that Europe is in better shape than the US. Of course, along with that comes rationale for ECB rate recalcitrance from their current 2.50 percent base rate. Ergo, there is both an economic and short-term yield differential rationale for the euro to outperform most other currencies just as the Japanese authorities are beginning to rattle their saber on what they consider excessive yen strength into thin year-end markets.
- However, the net result of Monsieur Trichet also noting that the US has an interest in maintaining a strong dollar was to precipitate some sizable reversals in what had previously been one way short-term trends in foreign exchange. That saw the creation of temporary reversals that included the following near-term daily Closing Price Reversals (even if they do not necessarily represent major trend decision levels): US Dollar Index UP from .7890-.7848; EUR/USD DOWN from 1.4420-1.4435; USD/CHF UP from 1.0720; USD/CAD UP from 1.1914-12; AUD/USD DOWN from .7040-.7050. Additionally, the euro backed off from its recent strength against the yen as EUR/JPY stalled out from no better than its 131.00 area resistance, along with the far more hyperbolic rally in EUR/GBP finally seeing its first real loss of ground today after a meteoric rise from the retest of the .8225 weekly Widening pattern UP Break a mere three weeks ago. During the entire 13 point rise it only had one modest downward Close back on December 5th.
- Crude Oil continues to be a mess on January contract failure below the important 40.00 area already hitting the 37.00-36.00 area top end of another major congestion range, with next supports into 25.00, with 20.00 and 16.70 (from November 2001) below that.

- As noted above, all other analysis of the various markets remains consistent with Wednesday's very extensive **TRENDVIEW GENERAL UPDATE**, and we refer you back to that for extended trend views and technical levels while we are out over the holidays.

We hope you find this helpful.

-Rohr
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