Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, March 19, 2009 (09:00 CDT; 10:00 EDT; 14:00 GMT)

Key Views

- **Thank you Mr. Transparency. Not a clue. While we did not expect Mr. Bernanke to tell the nation on 60 Minutes at the weekend that the FOMC was going to act forcefully on their previous commitment to quantitative easing this week, some hint from their market operations or communications might have been useful. Even something as subtle as more aggressive purchase of securities than the paltry amount they had purchased from funds available previous might have been a bit of a hint as to what was coming. In the event they have managed to ambush market participants in a way which will leave many with a bad taste, and foster a reduction of liquidity in the debt markets. So the guy who came into office with high-minded notions about transparency (which we noted in yesterday's *TrendView* MARKET ALERT then-New York Fed President Geithner disputed all the way back in 2006) turns to a completely opaque operation to make his point.**

- **This is just the next misstep in a whole series of failures at the Bernanke Fed. We are not going to return at length here to our criticisms of the lack of forceful regulation of banks (albeit inherited from the Greenspan Fed) that could have stemmed the creation of toxic debt assets, his lack of understanding of how seriously the credit bubble was over inflating when he did not cool the economy from late 2006 onward, his almost bizarre reliance on Crude Oil futures forward contracts as some sort of 'prediction' that energy prices would be benign into early 2008, or his blindered obsession with banks' liquidity that does not address the real issue of the Great Depression, of which he is allegedly such a masterful student. Back then, as now, one of the major issues affecting confidence was the sharp slide in home prices. And that is one of the lessons to be taken from yesterday's aggressive FOMC decision: all of the additional funds thrown at housing finance will not enable even one additional potential buyer who is unemployed, has a low credit score or cannot muster the now *de rigueur* 20 percent down payment to actually buy a home. As such, it is not necessarily a big surprise that such an explosive rally in bonds did not manage to push DJIA above this 7,500-7,620 near-term resistance. Combine that lack of direct assistance to at-risk borrowers to prevent the looming wave of foreclosures with the additional misguided populist pounding of AIG bonus recipients diminishing appetite for participation in Mr. Geithner's crucial public-private partnership. Right there you have a pretty fair rationale for why the equities remain a bear market in spite of the recent improvement in psychology and near-term recovery in prices.**

- **While we do not dispute the fact that his technical expertise as it relates to some of these very important liquidity operations is impressive, folks who have been lionizing him on that basis alone are misguided. Unless more important house price problems are addressed as well, that is just so much rearranging the deck chairs on the Titanic.**

▪ **For anyone who missed our extensive (and somewhat controversial) views on the pernicious nature of Congress's approach to AIG bonuses, that is still available in the *Key Views* on the first couple of the pages in yesterday's *TrendView* GENERAL UPDATE. An excerpts of those key early pages can be found at http://bit.ly/19reSo. Our review of the miserable failure of the G-20 meeting in the face of European recalcitrance as well as the real nature of quantitative easing are also discussed. We hope you find that useful.**

SELECT MARKET OBSERVATIONS

▪ As could only be expected, **t**he specifics of the FOMC statement had most direct influence on the soggy US 'govvies' that had been disappointed by previous Fed ambivalence regarding the quantitative easing approach in the last statement. While it could not have been anticipated from anything prior to yesterday afternoon, the weak sister **June T-bond** consistent swinging down toward the contract and major continuation support (Fibonacci 0.50 retracement of the entire swing from the June 2007 cycle low to the major December 2008 high) in the 124-00 area had held very well in spite of the equity market recovery. Having pushed straight through contract congestion in the 129-00 area, it has now held there with only temporary slippage back to the more substantial 128-00 congestion on the intraday pullback yesterday, and held 129-00 so far this morning. Higher resistances are now at 131-16 and every two points up from there.

That would seem to work hand in glove with the **June T-note** holding recent tests of its support at 120-16 without ever needing to swing down to more major support in the 119-16 area (last November's major weekly Bull Flag UP Break.) Having also pushed sharply out through its own contract resistance in the upper 122-00 area, unlike the T-bond it pushed straight through the next higher resistance in the 124-00 area as well. That is important into tomorrow's expiration of the March contract with the June contract still trading at roughly a 1-16 discount, as the move back above 124-00 reestablishes it back above the major Fibonacci 0.25 retracement (of the entire swing from the June 2007 lows to last December's major high.) As such, expect that the near-term contract support at 124-00/123-16 will also be important from here. Also generally similar to the T-bond, higher resistance is at 126-00 and every two points up. Please see yesterday's ***TrendView*** **GENERAL UPDATE** for any further analysis of the other long-dated fixed income and the short money forwards.

▪ All of which also works fairly well with the trend tendencies elsewhere. As already extensively reviewed in previous analysis, last week's **DJIA** recovery to Close back above the 7,000 area (specifically the 7,063 Weekly Close from two weeks previous) turned the attempted downside Runaway Gap of two weeks ago into an 'Exhaustion Gap' bottom. That should provide near term support from anywhere in the 7,063 area all the way down to even temporary slippage as low as 6,880. (A picture from last Friday's Close is worth a thousand words: http://bit.ly/QdS6n.) And while there is important interim resistance at the violated 7,500-7,450 support (with Closing price Tolerance to the mid-February 7,620 congestion), the implication of this intermediate term bottom is similar to the phase after previous lows set in March, July and November last year. That points toward a likely upside correction to anywhere between 7,800 and mid-8,000 areas. Even something near the more major 9,000 area might be possible on a full reaction within in a broader bear trend. Please see yesterday's ***TrendView*** **GENERAL UPDATE** for any further analysis of the other equity markets.

▪ Of course, the implication for the foreign exchange markets was whether the US dollar got to maintain its 'haven' status if equities recovered, or attracted some selling as the fears abated that things being bad in the US have even more dire implications elsewhere (i.e. what if they are not so bad in the US?) Obviously the 'haven' status has been put to rest by the tsunami of US dollar liquidity unleashed by the Fed enabling far greater fiscal deficits and could have possibly been passed through Congress in this environment. As noted above, we are not necessarily against the general nature of the Fed's action; more so how it was implemented. As they say, it's not what you do, it's how you do it. That the Fed move caught the dollar bulls by surprise has been amply demonstrated by the major pounding the **US Dollar Index** has taken back below the generally important .8640 major monthly channel UP Break from last month.

▪ As we noted previous, any strong signal of a reversal of the overall uptrend since last July's lows would also require serial failures back below mid-.8500 and mid-.8400 supports before all the residual congestion, Fibonacci, moving average and weekly Oscillator supports are violated. Well, here we are this morning trading down into the .8300 area, and that means any rallies back to those higher levels are now very suspect. <u>In essence, without even so much as DJIA pushing back above interim resistance at the violated 7,500-7,450 support, the buck is signaling that the rally is over and it is back into being a *bear market*</u>. That might seem like somewhat of a strong statement to some. Yet the sharp US dollar rally from last July's low only carried up to modestly above the broader major downward channel resistance (from the last major high in the 1.2000 area back in February 2002 before the major long-term downtrend ensued; i.e. the broadest retracement resistance that still leaves the market in a bear trend.) That Negation of the .8640 UP Break out of the broad trend resistance is the psychology that restores the full bearish major trend momentum. As such, while it is still quite a long ways off in sheer price terms, there is now a serious question whether the extreme trading low at .7070 last March was actually the end of the dollar bear market. It is not really something we can worry about right now, as there are plenty of interim technical levels which need to be assessed along the way. Yet the major trend flow suggests that all the concerns over the sea of US dollar liquidity already unleashed and yet to come might culminate in the sort of poor scenario for the buck that many informed observers suggest is possible.

▪ Now that the US dollar has established what we feel is a *bona fide* trend reversal, rather than revisit a discussion of the background and tendencies against individual currencies (especially as the cross rate reaction was rather orderly in light of the major secular swing in the buck) below are the technical levels for the US dollar trends:

USD INDEX RES: .8450; .8550; .8640 SUPP: .8250; .8150; .8000-.7960; .7890-50; .7770

EUR/USD: RES: 1.3850; 1.40; 1.41; 1.4350-1.4420 SUPP: 1.3350-00; 1.31-1.30; 1.2850

USD/JPY: RES: 97.00-.50; 99.50-100.00; 102 (OBJ) SUPP: 95.00-94.50; 93.80; 92.50

USD/CHF: RES: 1.1450-1.1500; 1.1750; 1.19; 1.2250 SUPP: 1.13-1.12; 1.10; 1.0750-00

USD/CAD: RES: 1.24; 1.2500-50; 1.2750 SUPP: 1.2250-1.2132; 1.20; 1.1800-1.1750

AUD/USD: RES: .7000-50; .7150; .7250-68; .7460 SUPP: .6850; .6750-25; .6650-30; .6500

▪ While it was somewhat of a wild ride yesterday into this morning, overnight the markets seem to have drawn the proper conclusions as to what the Fed's move really means for inflation sensitive asset classes on the implementation of greater US (and previous substantial UK) fiscal deficit expansion support from central banks. As noted yesterday, considering **May Crude Oil** continues to receive positive influence from equities in spite of this morning's nominal US stock market weakness, it has now exceeded resistance in the 50.00 area, with the next significant not until the 55.00 areas. We wonder with overhangs in that market whether anything greater than a test of that higher level is possible even if the DJIA pushes up through 7,500-7,620 area for a move into the mid-8,000 area. That said, as opposed to the threat of a major energy price implosion which hung over the market previous, the technical supports have been reinstated down into the 43.50, 42.00, 40.00 and 37.00 areas. Extended resistance is 58.00 and 61.00.

▪ And all along the **June Gold** continues hold important intermediate-term contract and continuation support in the 900-890 area on the reaction back down from the failure at the major 1,000-1,008 DOWN Closing Price Reversal from March 2008; even on the surprisingly weak activity late yesterday. It seems that Gold's schizophrenic nature (i.e. loves the chaos, yet must ultimately respond to economic weakness prior to any imminent inflation threat) that we had warned of yesterday was in full bloom in the last 24 hours. Much as with the energy markets, a bit of reflection overnight left the yellow metal feeling that in spite of the renewed confidence in equities it needed to anticipate some unsettled, inflationary times down the road based on what the Fed decided at the meeting. After holding that lower support once again, it has decided to immediately and vigorously challenge the resistance in the 950 area, almost reaching the higher resistance in the 965-970 area. Of course, the most important higher resistance remains the major 1,000-1,008 weekly continuation chart DOWN CPR resistance from back in March of last year at which the market failed in mid-February.

We hope you find this helpful.

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