Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

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Key Views

▪ **Ready for the short term Bond Boom? ...for a most perverse reason this time around. As we reviewed at length in yesterday's *TrendView* BRIEF UPDATE (http://bit.ly/bHe05F), there are some fresh challenges in the wind for equities. Can the companies that have generated strong profits weather the breakdown in the previously stable iron ore pricing and other commodities strength? That is far more important than temporary shocks.** [That also contains the links back to the full technical projections from two previous extensive *TrendView* **GENERAL UPDATE** editions.] As noted, the only exceptions are the **May Crude Oil** moving above 83.50 and next key technical level at 86.00, albeit it is now back below the latter. Not surprisingly, **April Gold** was also out above 1,125 once again in the context of surrounding commodity and equities strength, yet is having trouble with the important next resistance into the 1,143-1,150 range in the wake of equities' weakness. And that weakness is very telling today, coming as it does directly into the face of much better than expected US retailers' same store sales figures for March and future guidance. Possibly part of that is the degree to which the market is discounting the early Easter sales rush. Yet it is still unusual to see the equities post a second day down with the much desired topline sales growth seemingly so improved.

▪ **Is it possible that even the improvement in topline retail sales is not enough to drive the bullish equities psychology because broader factors are overriding rearview mirror data?** As noted yesterday, this is because the broad strength of commodity prices that includes very basic items such as copper, steel and energy is different than all of the previous problems from Dubai and Greece or other perceived crises. This is not something the developed economies' central banks can just throw money at to deliver a temporary fix. Yet, it is also important to keep the recent weakness in perspective; it is still only the initial selloff from the top of a massive rally. After **June S&P 500 future** escaped from 1,125-30 there was little doubt it was going to extend the rally to the Objective and oscillator resistance in the 1,166-1,170 range. And it's sustained push above that area in the wake of last week's US Employment report leaves it as the near term critical support. Of course, any meaningful technical failure would also require weakness back below the old lead contract and June future 1,147-1,142 area January highs, with Closes below 1,134 congestion to really be convincingly weak. That said, the current weakness is that much more telling insofar as strong sister **June NASDAQ 100 future** failed to push convincingly above the important 1,977 August 2008 reaction rally high, and weak sister **DJIA** is back testing in its near-term trend support in the low 10,800 area. Which is why the whole exercise appears a bit perverse in providing a bid to normally inflation sensitive bond markets, as the balanced sister **June T-note** held 115-00 area support once again, and even sovereign debt challenged **June Gilt** has held on no worse than the 113.80 Tolerance of 114.00 area support. All of which points to the potential for the bond markets to get back a 'haven' bid if the equities do indeed fall further due to questions over future profitability based on higher input prices. All of which would seem fairly perverse if it were not for the fact that bond markets have already broken in the face of equities strength, and central banks remain skeptical that 'final demand' will remain strong.

▪ **While we will be back tomorrow with the key technical projections on just how far the govvies rally might extend in the near term if equities fail (and extensively revisit the key levels for foreign exchange and other markets), suffice to say for now that if June T-note can manage to Close above 116-16, the near-term rally might extend to 118-00 or higher.** That is due to any Close above that level Negating a very awkward (i.e. likely not reliable) Head & Shoulders topping pattern that has been evolving since January. In fact, the DOWN Break from that pattern ostensibly occurred on Monday's Close below 115-08; a failure the market could not sustain for more than one session before turning up again. Aside from its distorted form, there were two other problems with this pattern. The first is that due to the significant discount in the June contract compared to the now expired March contract, it does not show up at all on the weekly continuation chart. The second is that the volume tendencies are totally opposite to what might have been expected for a true top, where the best volumes would've occurred on the recent selloff. However, in the event the best volumes occurred on the sharp late February rally from the previous test of the mid 115-00 area. 116-16 looms large as the congestion area just above the high of the pattern's "right shoulder" (actually the 116-12 high of last Wednesday's minor bounce.) In addition to the violation of the topping pattern, any Close above that area would also post an UP Break from the current downward channel as well as push above the 'contract' moving average resistance. That would open the door to getting back up to 'continuation' moving average and congestion resistance in the 117-16/118-00 area.

▪ **And what is the first full week of the month without some significant influence from the central bankers? And in this case that included the important release of FOMC meeting minutes on Tuesday along with the typical BoE and ECB rate announcements today.** Of course, there was no change in the rate from either one of those, and the relative dovishness of the FOMC minutes more than offset the rampant rants from increasingly strident Hawks at Federal Reserve; the most recent of which is Mr. Hoenig. While the higher commodity prices do tend to reinforce the Hawks' case, recently weaker economic data out of Europe also reinforces consistent expectations on the part of most central bankers weak 'final demand' linked back to depressed employment outlooks will have a different effect than consumer inflation. And equity markets are starting to signal what strong commodity prices will mean in fact: lower profitability when cost increases cannot be passed along to still struggling/skeptical consumers.

▪ **While the Bank of England remains blessedly inscrutable on the deliberations at its rate decision meetings, we were treated to another round of insights from Monsieur Trichet at the typical European Central Bank post-rate decision press conference this morning.** There were of course no small number of questions regarding the still fraught Greek sovereign debt situation. Yet before we get to that there was a most interesting question on the degree to which European commercial banks were not lending to the degree that the business community would like; much as has been the case in the US. And all Monsieur Trichet could say was that it had been made clear to the banks that the rescue had not been for their benefit alone, and they had been instructed to use balance sheets to make loans. So if you believe in the Jawbone Theory of bank lending, expect more liquidity soon; otherwise continue to expect parsimony.

Specifically regarding the Greek sovereign debt dilemma, he clarified the fact that the ECB is not adamantly against IMF technical advice, even though it would still be a failure of the EMU if Greece actually went to them. However, even though he continued to stress the only solution was rectitude through rigorous implementation of Greek fiscal reforms, the assembled kept pointing out that without more specific guarantees, the sheer rates Greece was paying for its debt would bring the entire exercise into question, and probably not end well.

The word from the Street to the European Union on its (and that means Germany in particular) lack of support seems to be: "Show us the money." As we have already covered the issue of whether it is a self-inflicted wound for ECB to insist on rolling fiscal adjustments which only mean the Greek economy will sink into a deflationary spiral that will not support rescue package assumptions, we will not revisit that here. Yet, as Monsieur Trichet noted, that was an issue for individual governments and not something the ECB could decide on its own in any event; and as he is right on that, it puts the ball back in Germany's court.

Mindless harking back to The Stability and Growth Pact requirements after so many members of the EMU have been out of compliance for so long will not assist Greece in raising the extensive funds necessary to roll over their long-term debt as their cost of funds spirals upward. The fact that the original debt purchasers from late last month are already significantly underwater on the value of those bonds is going to create an even more cautionary approach by any future buyers of Greek debt. Whatever one may think of Athens' previous profligacy, they were dead right about one thing: without explicit non-default guarantees from their European partners for the debt they are now issuing, the rates they would be forced to pay are going to bring into question the potential for success of the entire exercise.

While we all appreciate German concerns that extend from the extreme problems they suffered in the first half of the 20th century, it seems to us they are playing a very dangerous game in not offering more support and then simply demanding credible performance standards from Greece. While Greece only represents 2.5% of the Euro-zone economy, any extreme weakness there that creates even more of a drag on an already softening economic outlook might not be the best thing for Germany either. Especially if it evolves into pointing out sovereign debt problems and continued weakness in some of the other European economies. We are not the only analysts to pose the question of whether Germany is interested in a 'growth' answer to the sovereign debt question and global imbalances, or will be happy to settle for a far more socially challenging and economically stressful 'debt deflation' approach to addressing those dilemmas.

So, while commodity price rises always represent a potential for inflation, if Germany along with fellow mercantilist maestro China choose the latter, equity markets may finally have reached the limitation of their risk asset reflation rallies in spite of recent improvements in topline growth. Which is the ultimate indication that the bond bears may be very disappointed in the near term, as they are forced to deal with the perverse situation that elevated commodity prices trigger a flight to safety in the major economies' government bond markets; and just when bears thought they were about to collapse. This is not to suggest the government bond markets are returning to major bull trends. It is more so a case of the 'Last Hurrah' death rattle prior to the major bear trend finally occurring once the equities are done with the next major downside correction.

We hope you find this helpful.
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