# Rohr Report

## TrendView

## BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Monday, September 27, 2010 (08:30 CDT; 09:30 EDT; 13:30 GMT)

### *Key Views*

▪ **Bulls Triumph, as it's a Disaster for the Bears at the "Head and Shoulders Corral".** However the overall equities trend should turn out into next year, for now the bulls are back in the driver's seat. As we noted the critical nature of the **December S&P 500 future** 1,121-26 area last week, it was a most unusually intertwined decision point for both a particular form of existing pattern top and a mirror image more recent pattern bottom on the charts. And now what we see is last week's combined fresh UP Break from the bottom pattern above that 1,121-26 area has an Objective (minimum target) of 1,246. Hmmm, that means a new high for the rally above the late April 1,216.30 lead contract high. In the scheme of things that is not really all that much of a new high; and if that's the best the market can provide, it may still be the basis for a much worse condition next year if all of the negative aspects of the tax and regulation regime hit the economy and the markets. But for now, that is also quite a significant near term rally. And it is the case that the UP Break fuelling it comes right in the same area as the signal that the top which had been forming since last November (including that late April high) has been Negated. Along with the UP Break, that Negation of the previous DOWN Break points to the late April high not being the end of the bull trend. To clarify this we revisit below the chart indications reviewed in last Friday's *TrendView* **BRIEF UPDATE** (**http://bit.ly/a6cG3y**.) The major near-term decision in limbo on last Thursday's 1,120.40 Close has now come down in favor of the bulls.

▪ **Of course, this has implications far beyond equities. Under classical perception further significant equities strength will encourage belief it is anticipating what is coming in the economy; rightfully or not. And if the push to a new rally high turns out to be the case, look for major reactions from the govvies, foreign exchange, energy and commodities.** What is most ironic is that the encouragement the equities have taken from the potential for the Fed to implement another round of quantitative easing has lessened the chance it will seem right to do so with equities showing confidence. And even if it should, the strength of the equities can still weigh on bond markets to a degree that more than offsets any Fed purchases; as occurred under the original QE program launched in March 2009. We suspect the govvies will experience a far bigger reaction than previously expected. Lead contract **T-note future** reacting to 120-00/119-00 major support is now likely. Similarly the US dollar can likely fall much further under threat of the Fed balance sheet expansion and a lack of any 'haven' bid from potential panic in equities. The **US Dollar Index** drop below important .8050-.7950 support signals a likely extension to .7750-00 area, but very possibly also to the major .7500-.7400 area as well. Energy markets which had been struggling to make headway also seemed to relish the equities strength, and a **Crude Oil** return to at least the 80.00 area is likely. The commodity markets also seemed to like the prospect of strength, as reflected in **Copper** pushing to a new high.

**In fact, the change coming in US tax and regulation regimes from the top of next year may still derail positive expectations.** Yet, for now the prospect of a nominal political change at US midterm elections and uncertainty over the real implications of the tax and regulatory changes will allow equities to strengthen. [There was another recent year when sanguine expectations into the Fall were counterproductive, and we will be revisiting that analogy soon.]

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## *Concise Trend Perspective*

▪ ***General Comment*: As equities have strengthened to the degree they have, with everything that likely means for future extension of their rally, a failure of the December S&P 500 future back below 1,126-21 and 1,110-05 would seem unlikely. That is especially so in light of the gaps that were left in those areas on the way up. And in spite of the fact there also gaps above the market at the obvious 1,150 and 1,165 areas, those are resistances mean to be broken after only temporary stalling now that the bull is back.** While we believe that the extension above the previous 1,216.30 lead contract high may be as limited as the 1,246 Head & Shoulders Bottom Objective may suggest, any downturn from that new high will need to be assessed after the move above the old high.

At least for now the assumption must be that any setbacks will be met with buying. And there are plenty of technical and short term cyclical reasons to believe that will be the case. Not the least is the looming end of the quarter, which will trigger forced buying by any equities portfolio managers who are not fully invested. Even if we sense that many more managers are treating long positions as trading views at present instead of core 'conviction' holdings, they need to be invested this week. And with earnings announcement season looming, there is further reason for them to hold those positions into the early part of next month. Preceding the most important earnings announcements are the extensive central bank communications this week that find the ECB inundating the calendar with various testimony and speeches. Insofar as the ECB (along with the IMF) has a penchant (some might even say agenda) for talking up the economies these days, that will be an added constructive factor. And then on Friday the equities get to dodge the next potential negative bullet on another front: the US Employment report is delayed until a week from this Friday to next week Friday (October 8th.) That said, the most important news is after today's minor releases into the key late-month and early-month economic data that will hit into October 1st on Friday. While we will have more on all that in the ***Weekly Overview*** tomorrow, note that the fly in the ointment on that late week news might be relatively weak Euro-zone Final Manufacturing PMI's (SEP), as was signaled by the 'Advance' numbers just last Thursday.

▪ ***Equities*: While it had been the case the market was killing all players on both sides, the next real trend now seems decided to the upside. The current punishment of the bears is likely to continue indefinitely now that the December S&P 500 future has posted a weekly Close above 1,121-27.** For all of the technical and fundamental reasons discussed above and explored further in the chart projections below, the upside seems to be the path of least resistance. Which is not to say there aren't anomalies that deserve review, and along with the extended general scenario and technical background we will be covering those in our next ***TrendView*** **GENERAL UPDATE**. Suffice for now to look at the S&P 500 future as a guide to the general trend, and ask one key question: If Europe is leading the weaker US, why is the DAX that has indeed been stronger than the US equity indices for months still stalled at no better than its previously failed UP Break in the 6,335 area?

▪ ***Govvies*: The general holding action into support of the heavily discounted December contracts has been impressive. Yet it is now problematic whether the recent lows will hold if the equities do indeed push up as well as expected. That said, it is important to remember how far the bond markets have rallied (as some characterize it as a 'bubble'), and allow for a major correction that still leaves the overall up trend intact.** Which is to say that while **December T-note** held and recovered from the relatively elevated mid-123 area and is back up in the mid-125 area, full lower supports are 122 and the 120-119 range. The **Gilt** held similar support in 122 area, and also has more major support not until 120-119 area. And as the **Bund** has been the weaker sister, it already tested 129.50 major UP Break, and held no worse than the 129.00-128.80 Tolerance. Yet, its more significant support is in the 127.50-.00 range.

## *Concise Trend Perspective:* (continued)

▪ ***Foreign Exchange*: The Japanese government shocker was not so shocking after all in light of their continued weak economic numbers. Deliciously perverse, isn't it, that the weaker the numbers out of Japan, the stronger the yen should get on an overall global "risk-off" mentality?** This only reinforces the degree to which we believe that there is no incentive for inward investment into Japan. As such, the strength of the currency is therefore nothing more than massive risk aversion on the part of Mrs. Watanabe, who wants her savings back at home as she sensed the hoped-for global recovery is less than likely.

And that may now be changing if our instincts on the equities are correct, and the 'risk-on' trade is likely to encourage money to be splashed out around the globe; even if that is still going to be as part of the 'trade' position view noted above, and not core 'conviction' investment. Yet, it is of some note that the strength which additional equities confidence brings to everything from the commodity currencies (Canada and especially Asia-based Australian dollar) to more likelihood that the Euro-zone sovereign debt relief programs will work under the inferred better economic environment leave less need for the Japanese to intervene further in the near term.

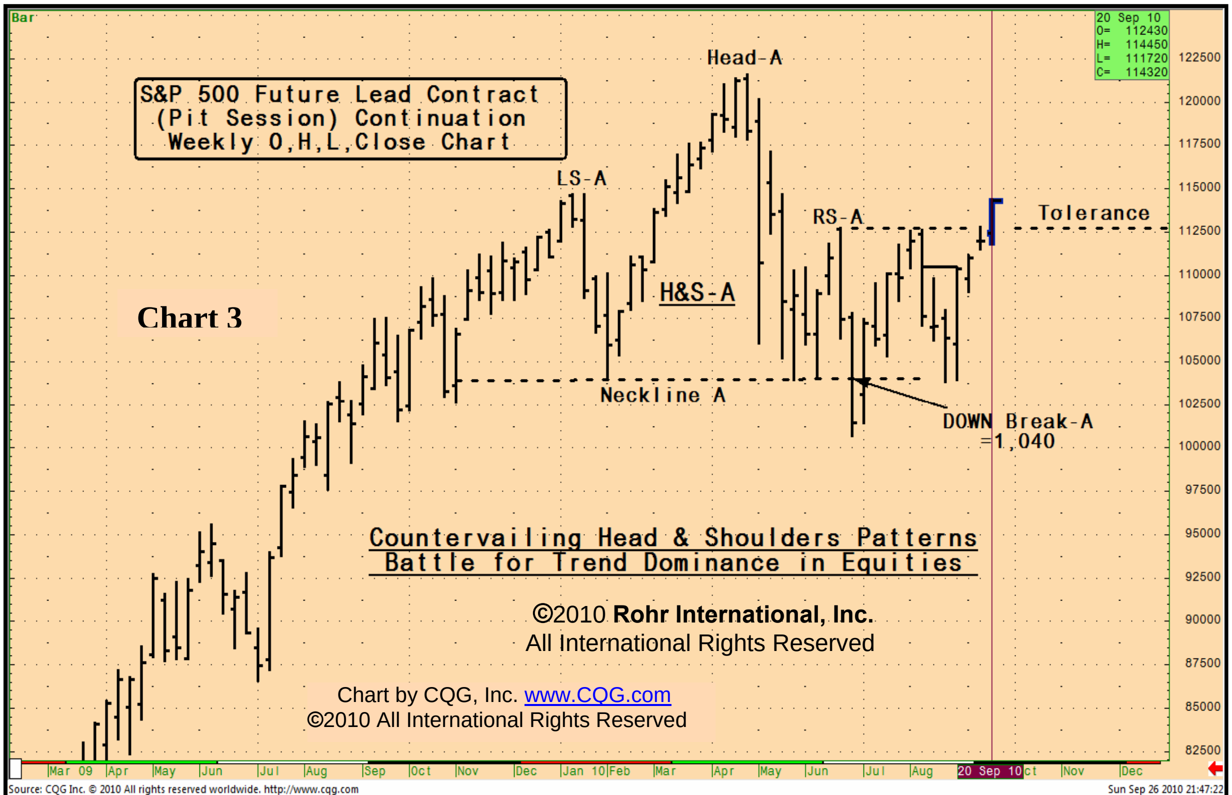
With commodity currencies thriving and the euro maintaining its bid, **US Dollar Index** Breaking DOWN below both its near term (mid-August through Mid-September) Head & Shoulders Top Neckline (isn't that interesting) at .8190-50 and providing further confirmation with its failure below .7950 area, things are looking pretty bad for the buck; and that may continue for awhile under the dual influence of no need for a 'haven' from global financial risks, and the threat of the Fed expanding its balance sheet (albeit the potential for the latter is mitigated due to that very equities strength, as noted above.) Especially note that the Australian dollar maintaining its push above previous multiple AUD**/USD** .9350-.9407 tops is now nearing heavier resistance in the .9650-.9717 (major July 2008 high) area. Any further strength above there is likely to lead to an extension to historic congestion in the .9900 or 1.0100 areas. Closer to home, it will be important for the general foreign-exchange psychology whether **EUR/USD** can sustain a push through its 1.3450-1.3550 congestion resistance, which may signal an ability to extend to the more major 1.3900-1.4000 area; next resistance above that is not until the 1,45-1.46 area. All of which sounds pretty radical in light of continued stresses at the periphery of Europe, yet fits in with a more sanguine and upbeat view sustained equities strength will now possibly provide.

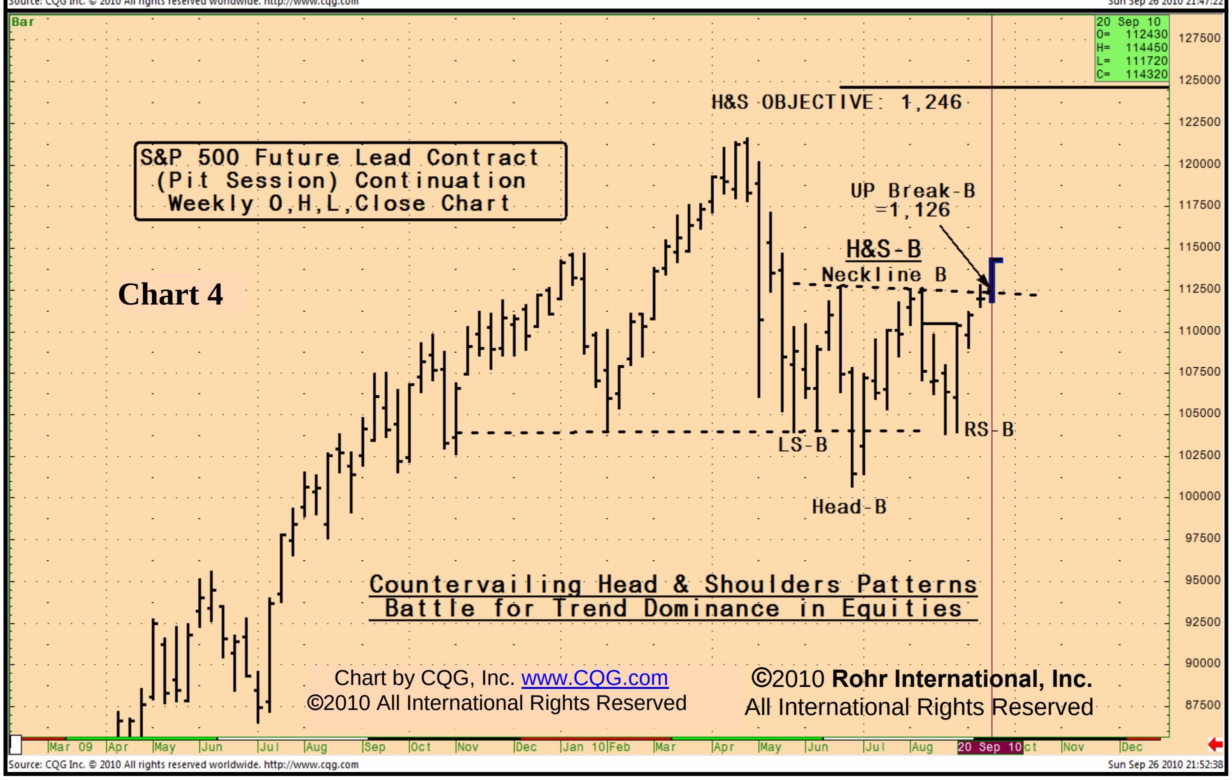
▪ ***Crude Oil and Gold*: These remain much the same as previous, and we refer you back to last Friday's *TrendView* BRIEF UPDATE (http://bit.ly/a6cG3y) mentioned above.** The key element in an environment that has evolved away from potential for a panic failure in economies and equities to one of more confident strength will be whether Gold takes that as a sign latent inflation pressures on which it has built a good part of its extended strength will now surface, or will the lack of an immediate crisis bring a downside reaction to the yellow metal? In that regard we will continue to focus on whether it can escape the next major topping line and oscillator resistance in the 1,320 area. If not, then a reaction back down to previous important resistance (now support of course) in the 1,265-50 range might set in sooner than not.

## *TECHVIEW:* The S&P 500 Siamese Twins (separated for ease of review)

▪ **They say a picture is worth a thousand words, and we provided the 'combined' view of these opposing patterns to illustrate the inherent psychological conflict in the market expectations in last Friday's *TrendView* BRIEF UPDATE. On page 4 we break these two patterns out from each other to isolate the more specific indications from each of them.** While we still refer you back to last week's discussion of the in-depth evolution of the patterns, the bottom line is pretty clear: a top (H&S-A) which the **S&P 500 future** spent 7 months forming and failing from was Negated on the recent push back above 1,121-26. That violation occurred just as a more recent mirror-image pattern (H&S-B) happened to Break UP. (See below.)

**While technical analysis is a well-accepted analysis method, it is not infallible, and ROHR INTERNATIONAL makes no specific or general guarantee of market behavior or profitable performance based upon the general technical background, market history, or the price trend potentials and analysis techniques reviewed here.**



## *TECHVIEW:* The S&P 500 Siamese Twins (continued)

The charts are labeled Chart 3 and Chart 4 because we want those examples to follow naturally from the 'interwoven' form of the illustration in Chart 2 of last Friday's analysis. As discussed there, a Head & Shoulders Top (H&S-A) formed in the S&P 500 between last November and June of this year, and exhibited a DOWN Break in approximately the 1,040-32 range at the end of June into July. While it was still forming and ultimately Breaking DOWN from mid-May onward, another distinct countervailing pattern of the same genre formed (even if indeed 'interwoven' with the pattern in progress.)

That was Head & Shoulders Bottom (H&S-B) formed from mid-May right into the present, which exhibited an UP Break just last week above the 1,121-26 area. If that Head & Shoulders Bottom (H&S-B) UP Break is maintained across time, it will be a major indication we have seen the lows prior to a return to a sustained bullish momentum; or if Negated, it will be that much more telling a sign that extensive further weakness below 1,000 is likely.

For now it appears more likely the UP Break from H&S-B Bottom will perform (i.e. encourage a further rally.) That is why the gaps and other significant support below the market in 1,126-21 range and 1,110-05 area are such critical interim support levels. Any violation of that UP Break and nearest key support would speak of potential failure of the pattern's bullish implications. While the more major support back at 1.090-84 and ultimately 1,040-32 would also need to fail to confirm, the near term areas are the levels to watch for now.

The key is that the two patterns are intertwined in a way that left one and the same level intrinsic to the success or failure of each of the pattern. As noted previous, even though there was a example of a countervailing DJIA minor Double Top that created a very symmetrical sort of opposing psychological influence to the far more significant (albeit very suspect) early 2008 DJIA Double Bottom, those were separate from each other even though they both were critical back then into the mid-12,000 area. In this case, the success or failure of the overall trend in either direction is ingrained in the **December S&P 500 future** 1,126-21 area (and a reasonable Tolerance either side of it), and for now it seems the bulls have gained the advantage.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)

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