Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Tuesday, November 25, 2008 (07:00 CST; 08:00 EST; 13:00 GMT)

Key Views

- **While we noted yesterday that equity markets remain in intermediate-term downtrends overall, there was also the potential constructive influence of any plans to be announced and implemented by Messrs. Geithner and Summers. In fact, in spite of the questions surrounding Mr. Geithner's involvement in the less than effective Paulson-Bernanke approach to the credit and equity market crisis, there is ample room to believe that he can effectively turn things around. More on that in the next *Capital Markets Observer*.**

- **In fact, round one of the battle for the equity market psychology goes to Team Obama. As noted in yesterday's *Weekly Overview*, there is now a showdown between continued negative economic news and hopeful prospects for a new administration's plan to turn around economic and market implosions. As important news yesterday on US housing and German economic sentiment was as dire as any seen across the cycle, the sustained equity market rebound should be regarded as a watershed. While it does not mean we are back in a bull market, it does mean expectations will now buffer weak economic data.**

- **That view of the markets is wholly consistent with the DJIA weakness below key 8,200 support and the 7,900 area recent Loose Double Bottom not violating next incremental congestion from 2002-2003 at 7,500. The improved sentiment is reflected in its ability to claw its way back above 8,200 in the near-term, possibly forming the beginning of an Inverse Head & Shoulders Bottom. That would actually be quite constructive insofar as it would call for a rally back to the 9,600 area to complete the pattern, whether or not it ends up being a *bona fide* bottom for a return to a bull market. That has obvious implications for both the other equities and asset classes that are already evident.**

- **The previous strong activity in long dated fixed income has been reversed at the same time that somewhat less bullish activity in the US dollar and Japanese yen is reflecting the more stabilized tone of the equities. In the "govvies" it is of note that US T-note slipped back below important previous resistance at 120-00, even though it is likely to remain buoyant until equities demonstrate more sustained basing. The next lower support is at the overrun 118-00 resistance, with commensurate activity elsewhere likely.**

- **It is a similar lack of upside confirmation that the US Dollar Index has slipped sharply back below its .8750 resistance, yet not quite reach next support in the .8500-.8450 area. That also informs our view of general foreign exchange tendencies after EUR/USD serial test of support in the 1.2500 area. It is also quite telling on the potential for renewed overall confidence that new lead contract January Crude Oil has found a way to recover back above the 49.90 low-end of the major congestion range that is also old major UP acceleration after violating major support at 55.00 congestion previous, now resistance.**

▪ Similar Inverse Head & Shoulders bottom tendencies are also apparent (if still as incipient as they are in the DJIA) for the weaker US indices and the NIKKEI, with loose Double Bottoms more so the case for the DAX in FTSE. As far away as they may have felt in the depths of the selloff late last week, those patterns create the potential for a return to the early month highs in the equities can indeed stabilize in the face of what is likely to remain near-term negative economic data. It is all about the psychological tug-of-war between weak current data and the potential for a better outlook. That trade-off might very likely leave the equities range bound, or even modestly exceeding the early November highs for a period of time, as long as recent lows are respected.

▪ As all of these trading will revisit levels that have been seen previous, some of the indications might seem a bit repetitive; it is just the nature of the beast during sideways consolidations whether they be bottoms or merely rest stops along the bearish way. Whatever may transpire from here, DJIA resistance remains in the 9,700-10,000 area, and only sustained activity back above 10,500 or possibly turn the market back into a bull. As along the way it dropped back below 9,350-00 interim congestion and even the more prominent 9,000-8,850 congestion, those remain resistances as well. The lower of them is actually more critical for a couple of reasons. It is both the midpoint of the effective recent range (ignoring the temporary blips), and also the Negated the UP Break (at 9,000, out of a down channel from the 11,867 mid-August high.) That said, broadly ranging markets will tend to overrun the interim levels between the extremes.

▪ December S&P 500 future DOWN Acceleration was on Monday's opening of pit trading back in early October on a gap lower below the 1,100 area has never been re-approached, and we doubt it is capable of anything quite like that at present. Heftier congestion at 1,050-68 (including the August 2004 1,060 pre-election low) is likely about the best it can do even if it squeezes above the early November 1,008 high; stalling into her just below that level would be consistent with the range bound evolution of the Inverse Head & Shoulders Bottom, with lower support back around the 820 area it has just recovered back above. Interim levels are the somewhat heavy congestion into 959 area (the mid-2002 through mid-2003 congestion which is the top of basing pattern from that period), the 940 UP Break from late May 2003, and the internal lower congestion areas in the basing range at 900 and 870.

▪ While we had noted previous European stock indices were leading the way, that has reversed into relative strength of late. In fact both Europe and Japan held recent interim supports and lows better than the US weak sisters. The banking crisis spilling over into Europe and the UK had seen the DAX drop below 6,000 and 5,875 previous, but only drop below 5,735 as the early October crisis gained momentum. That is when it dropped sharply below the bottom of its own intermediate-term downward channel (not the broader channel from the highs late last year) in the 5,500 area that it only neared on the early month rally; 5300 area it actually hit is now the interim high against which it would stall as part of forming the previously mentioned Double Bottom. Along the way it has drop back below the 4,880 major channel DOWN Acceleration, congestion in the 4,725, 4,640, 4,450 and 4,175 on the way to holding the late 2002 and early 2003 support in the 4,000 area where it also bottomed back in late October. Similar tendencies are even more so apparent in the FTSE after DOWN Acceleration from the 4,900 left it dropping near 3,600 area support that it did not quite reach on last Friday's selloff. Now that it is recovering the interim levels are the early November high at 4,640 (also a target for its Double Bottom pattern completion), and 4,270, with the 4,100 area and 4,000-3,950 below.

▪ As we had noted for some time, the obvious problems in Japan left NIKKEI obliterating its basing action in the 12,000 area, with lower support at the 11,620 mid-March low as well as major lower support back at the 10,500 low end of the 2004 extended trading range both also violated previous. The more aggressive bear trend in the NIKKEI (much as in the DAX) means that it also only traded below the bottom of its major downward channel in the 9,000 back in early October. As it failed on a temporary squeeze back above in the first part of this month, it remains the prominent resistance (allowing a bit of Tolerance) above the market. Violated supports like 8,800 also remain resistances, with the previous weekly gap back at 8,385 (from back in May 2003) now in interim level that has been overrun in both directions. The market has now reinstated recent congestion in the 8,000 area, with the April 2003 major low at 7,600 below that having seen both weekly and daily UP Closing Price Reversals reinforce its importance. Eddie holding action into that area remains critical as a bottom this side of the long-term basing line that is down in the 4,000 area; we stress once again that is not a typo: it is 4,000.

▪ Of course, the long dated fixed income had responded well to this equities weakness, and had more definitive countervailing swings in the past couple of weeks once again. However, somewhat of a differential reaction may be setting in once again, as the 'govvies' maintain the "haven" bid despite of potential basing action in the equities. While on past form bond markets have been right to ignore short-term equities strength, we may be at the beginning of another phase like mid-March through mid-May when the equities are capable of enough sustained stabilization that it ultimately weighed on the bond markets. December T-note pushing above 118-00 area resistance after managing to push through the 116-08/-16 resistance (both now support) left 120-00 area as the next reasonable target. After squeezing modestly above the weekly DOWN Closing Price Reversal from the 120-29 early March weekly Close, the T-note temporary drop back below 120-00 shows some vulnerability. However, further weakness will only infect the fixed income on that possible more sustained stabilization of the equity markets.

▪ Yet as noted previous, mid-upper 117.00 area resistance in strong sister December Bund had already been violated, and the next resistances into the mid-upper 118.00 area and 120.00, with 121.00 area holding overall after only brief violation. 122.50-.65 area (from all the way back in January 2006) is the next higher resistance should be 121.00 area be overrun. Similarly for stronger sister Gilt that was already out above the similar initial level at multiple trading highs in the 113.05-.32 range, next resistance at 114.00-.30, and the next levels above that at the 115.00 level, 115.50 area, the major 116.08 January 2006 trading high, and ultimately the 116.58 June 2003 all-time high. Smashing… resistances that is. It left us relying upon historic weekly oscillator resistance (MA 41 plus 08.00-08.50) into the 117.00-.50 area that finally stem the tide. Not correlated to the same scope of trend is the top of the major daily up channel from the significant June low in the low 117.00 area as well, reinforcing the critical nature of that area overall.

▪ Technical levels for short money forwards remain geared to March 2009 contracts, and are much the same as noted last week in the wake of the recent ranging price activity. March Eurodollar previous higher resistances in the 97.85 area and 97.95-98.00 gap and congestion area were violated prior to the market tipping back to the lower of them two weeks ago due to the return of credit market tightness right into the temporary late week equity market improvement. With the previous March contract high at 98.135 overrun, extended oscillator resistances are not until 98.40 and 98.60.

▪ **Short Sterling had similarly pushed above all key resistances at 95.17 and below in the wake of the coordinated central bank easing, as nothing more than a 25 basis point easing was expected at the Bank of England meeting early last month. Reflecting both that surprise move and the prospect of further rate cuts in the wake of accelerating economic weakness and inflation reversal, the March Short Sterling pushed dramatically above the previous contract high congestion early this year in the 95.65-.71 area, and held against it on initial setbacks, as we suspected it would. With the bias toward the further easing Bank of England can readily provide from elevated base rate levels, the current push to new highs has already significantly overrun daily oscillator resistance (MA 60 plus 1.30) into 96.50, above which the projected swing to 97.00 was also shortsighted in light of the further major rate cut. The market had been out near an incredible (1970's style) full two point extension above daily MA 60, which makes 98.00 the next oscillator objective from which it has now backed off. Not quite so incredible is that it has good support anywhere back near the 97.00 area.**

▪ **Due to the previous recalcitrance of the ECB, the March Euribor absolutely exploded through near-term resistance levels at 95.25 and again at 95.45-.50 on the coordinated central bank surprise rate cut last month. That the DAX is the western economies' weak sister had already fomented some strength in the Euribor in spite of ECB recalcitrance, yet nothing that foreshadowed the capitulation by Monsieur Trichet & Co. Already above heavy congestion at 95.55-.60, resistance at 96.75 stalled the market back on October 8th, and in spite of the near-term drop to the 96.00 area (which indeed held on the initial pullback) the market has exceeded the 96.775 area February peak. Next incremental resistance above that was into 25 basis points higher at 97.00, with the 97.16 contract high from back in September 2005 the last chart resistance above that, which is also already been exceeded. Once again that only leaves us with historic oscillator thresholds as a guide to where the market might go next: 97.60 and 98.20.**

▪ **As we noted previous, there are quite a few country specific implications of the current panicky environment that have to do with the unwinding of speculative positions across all asset classes on a global basis. While we had highlighted it fairly early, that has included the significant strength of the yen from extreme 'Carry Trade' liquidation of either interest rate or out right alongside asset speculation. Yet, another aspect of the current markets which at least temporarily indicates some suspicion the equities may be able to hold onto recent bases is the lack of sharp improvements in the Japanese yen against the previous weak sisters, as well as the lack of ability of the US Dollar Index to push through the first of two very important resistance areas at .8700-50. That is very interesting insofar as the next resistance above that is .8870-.8900, above which it is into an entire higher range with the higher resistances not until .9125 and the mid-.9200 area. Of course, the US Dollar Index pushing up through resistances at .8250-.8330 and in the .8500-30 area previous leave those as important lower supports.**

▪ **US dollar swings against other currencies obviously included strength against the weak sisters of Europe and especially Australia, and slippage against the strong sister Japanese yen that had remained the case in spite of being partially reversed in the wake of equity market stabilization and finance minister saber rattling. Other than influence from manic carry trade repatriation, the strength of the Japanese yen is somewhat of a joke when one considers the relative state of their economy to even the now obviously weakening US, as extended US and global recession can only be bad for Japan as well. It is only on a relative savings basis relevant in a crisis that the yen can strengthen.**

▪ The early September EUR/USD drop to the 1.4000-1.3850 was not a big surprise, and the failure on the big bounce it up to 1.5000-1.4850 was also thoroughly predictable. Now that the market has violated 1.4000-1.3850 as well as interim supports in the 1.3600 area, 1.3350-00 area and 1.3000-1.2850. That puts the market down into an entire lower range (from May 2005 through November 2006) with interim support in the 1.2500 area held so far, but with major lower supports at 1.2200, 1.1800, and 1.1663 (November 2005 low.)

▪ Of course, the real shocker was the AUD/USD drop below the .7900 area fomenting a spill not just to interim supports at .7650 or the .7300 area, but an outright rout straight through the March 2006 .7000 area low it has recovered to once again on the equities recovery; yet not convincingly exceeded. Now back below the .6775 June 2004 low, lower supports are at .6150, .5950, and the heftier .5750 area are reinstated; below that this market is also into an entire lower range (from August 2000 through December 2002) the lower congestion of which comes in at .5550, .5400, .5225, .5000, and .4850-.4775.

▪ The other major shocker from instability of the British pound remains a keynote, with its sharp erosion against the euro on the .8225 EUR/GBP UP Break out of its six-month Widening pattern. However, at least for now it has fallen back below some key historic congestion in the .8500 area after testing higher congestion in the .8650 area. Yet even though GBP/USD has dropped below the "big penny" 1.5000 support, it also still has some secondary congestion in the 1.4750-00 area that is holding so far. That is likely a key to the entire situation revolving around whether the equities can stabilize, even for a temporary and ultimately false basing action such as the one that occurred between January and March and began failing again from the April-May highs of the rally.

▪ Equivalent trends for the other major US dollar indications have key levels at:

USD/JPY: RES: 99.00-98.50; 100.50-00; 103.00-.50; 105-106; 108 SUPP: 95.75; 90.00

USD/CHF: RES: 1.2250; 1.2500-70; 1.2750 SUPP: 1.1850-1.1900; 1.16; 1.14; 1.13

USD/CAD: RES: 1.26; 1.2750; 1.29-1.30 SUPP: 1.23; 1.20; 1.1850-80; 1.15-1.14; 1.1150

▪ The cross rate foreign exchange indications are all over the map, for the very reasons of the huge carry trade financing unwind that we noted above. As the specific rationale behind the movement of the other currencies is influenced in part by both relative perceptions of economic weakness against the already weak US and structural financial market problems along with 'Carry Trade' liquidation, it is impossible to assess their shifts in classical economic terms. Therefore, it seems productive to fall back on our primary insights, and provide technical levels for the cross-rate relationships. As such:

EUR/JPY: RES: 126-125; 128; 130.50-.00; 133.50 SUPP: 117.50; 112; 110; 105-104; 100

GBP/JPY: RES: 150; 154; 158; 163-165; 169; 172; 174-175 SUPP: 141; 135; 129.20

EUR/GBP: RES: .8650; .8900 SUPP: .8500; .8225-00; .8100; .8025-50; .7820; .7775-50

EUR/AUD: RES: 2.0591 (OCT 98 high); 2.1130 SUPP: 1.9750; 1.92-1.91; 1.86; 1.80; 1.75

AUD/JPY: RES: 62.30; 65.00; 70.00; 74.00-75.00; 80.00 SUPP: 60.00-59.50; 55.50

EUR/CHF: RES: 1.55; 1.56; 1.58; 1.60 SUPP: 1.5250-1.5350; 1.5080-40; 1.49; 1.4750-00

▪ **As noted above, it is telling on the potential for renewed confidence that January Crude Oil has found a way to recover back above the 49.90 low-end of the major congestion range that is also old major UP acceleration after violating major support at 55.00 congestion previous, now resistance. Higher resistance is 60.00, 61.00, 65.00 and 69.00.**

We hope you find this helpful.

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