Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Friday, February 13, 2009 (09:30 CST; 10:30 EST; 15:30 GMT)

Key Views

▪ **Resilience, resilience, resilience. It is the real estate equivalent of location, and the market *terra firma* in question here is DJIA 7,882. In spite of this atypical weak sister sliding almost 200 points below that level intra-day yesterday, other US equity indices seem not to care very much, and ultimately attracted enough buying to ratchet DJIA back above it for the daily Close. As noted yesterday, only if the DJIA can remain decisively below that level (extending its selloff back toward the 7,500-7,450 support tested back at the November lows) are the more resilient indices likely to head back either to or near their November lows as well. In another sign that equities are focused on expectations right now rather than being data-driven, the much weaker than expected fourth-quarter European Advance GDP numbers this morning have not really had much of an effect. Especially with the only US data being the not very trend-critical University of Michigan Consumer Confidence and an early pre-holiday Close for debt and foreign exchange markets, it will hopefully be a quiet exit into the weekend in spite of the uncertainty.**

▪ **The other factor that is striking on several levels is the activity in long-dated 'govvies'. The first is the sheer volatility after the sustained break from mid-January, especially in the previously weaker sisters in Europe. Yet the background to that is our continued perspective that we are back to the future *à la* the 1970's. As noted previous, market participants must adjust their expectations for markets that hold or fail at technical levels to be very volatile on the ensuing move. Especially in this case, the previous downside volatility of the European and UK 'govvies' into and just after last month's UK banking crisis left them prone to the same sort of volatility on the way back up. It is also of no small interest that the less volatile US T-note and even recently very weak T-bond should be able to extend their rallies while absorbing sizable auctions. However, it is a foregone conclusion that most auctions go well because dealers pre-hedge their bids, and the real test of whether that tranche of US debt has really been well-received at retail will only be apparent after settlement next Tuesday. On current form the March T-bond only rallied back near resistance in the 130-00 area, with March T-note also only back up to resistance in the low-mid 124-00 area. And if that is the end of it for now, expect that all of the long-dated fixed income will head back down to lower supports once again.**

▪ **As was the case previous, foreign exchange remains a churning and convoluted congestion process pending the next major decision. Which means the US Dollar Index continues to fail as expected on multiple tests of the mid-upper .8600 area, yet has held critical support at its .8500-.8450 short-term trend decision area. As noted previous, due respect must also be given to the need to fail below the interim .8350 congestion prior to full confirmation of a trend reversal. That said, yesterday's equities weakness did not bring a typical commensurate 'haven' bid back into the Japanese yen; very interesting.**

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SELECT MARKET OBSERVATIONS

- All of that said, a grudging further upside correction in equities might still be likely if further programs are approved by the Democrats, and especially if any seemingly credible approach to foreclosure mitigation is also forthcoming; that last consideration is likely the one thing assisting the equity markets in keeping the bears at bay. The fact that the **DJIA** had pushed above 8,350 only to fall back below it was the sign of a market rallying like a bear. Yet, that does not in and of itself preclude a recovery to the 8,800-9,000 resistance, with obvious implications for other asset classes. Lower short term support around 8,200 is resistance once again, with the more major level remaining 7,882. The primary influence elsewhere would seem to be restored classical counterpoint influence of equities on the long dated fixed income. Yet, we must remain sensitive to the potential for a presumption of further fiscal pressure if stock markets fail badly, as in the perverse mutual drop seen during last month's UK banking crisis. All in all, a very good reason to mind our technical P's & Q's instead of looking for any reliable psychological interplay between these two asset classes. As we suspected, **T-notes** could easily drop to at least to 122-00/121-16 as has already taken place (with the 120-119 range as major lower support), yet also rally back sharply (even more so the case for previous weaker sisters) under the influence of both deflationary expectations and potential Fed action. Foreign exchange markets have seen the **US Dollar Index** weaken after failure at major .8680 resistance late last month and stalling into the .8640 evolution of that resistance into this month. That said, it still takes slippage below the .8500-.8450 support to break the near-term uptrend, with key lower supports into .8400-.8350 this side of .8150, and the more major supports at .8000 and .7800. Even as **March Crude Oil** drops back below 40.00 to test the more critical supports in the 34.00 and 32.00 areas, the **Gold** market only backed off modestly from its push above 900 and held critical support into 890. Now significantly outperforming on its UP Break above 926 (after a previously close correlation with the buck), next resistances are 950 (already tested) and 1,000.

EXTENDED MARKET ANALYTICS

Equities

- In spite of weakness of DJIA below 7,882, general bottoming tendencies are still apparent (even if still incipient) for the weaker US indices, with **March S&P 500 future** holding well above the 790 area by doing no worse than hefty 807 area support on selloffs. That works hand in glove with the **NIKKEI** holding the 7,650 area, and recoveries that have not gotten back near the loose Double Bottoms from the later part of last year in Europe. While that has been more so the case for the **FTSE** that has held progressively better at interim 4,000-3,900 support and now the 4.150 area (i.e. nowhere near last year's 3,750-3,650), weaker sister **DAX** (likely burdened by the recalcitrance of the parsimonious paranoiacs at the ECB) needed to hold a loose Triple Bottom test down near the 4,000 area several weeks ago. Yet it has held interim support at 4,250 cents recovering at the end of the month. This will likely not be a matter of whether any of the markets can sustain activity back above near-term resistances. While there are much higher levels associated with the early January recoveries, and even more so pre-US election highs, first things first are the key resistances which much be surmounted to encourage that further sustained bear market upside correction: DJIA 8,200 and 8,350; March S&P 500 future 852 and 875; FTSE 4,350 and 4,430; DAX 4,550 and 4,700; NIKKEI 8,150 and 8,400.

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Long Dated Fixed Income

▪ Of course, the long dated fixed income had responded well to the US government purchase programs that seemed to leave it less impressed than ever with equities rallies in December. However, since that time the **March T-note** has returned to earth after it failed to sustain a weekly Close above the 126-00/-16 resistance in mid-January in spite of weak equity markets. In fact, that seemed to be the anticipation of the perverse shift into fiscal concerns during the UK banking crisis which followed, and saw all of the fixed income markets come under pressure even as the equities weakened markedly.

While it had managed to hold on against its 124-00/123-16 support (with a Tolerance to the 123-09 trading low), after the nebulous FOMC statement it lost the bid once again as it slipped below that support as expected for a test of the 122-00/121-16 area. Being more orderly than Europe, it is also only recovered to know better than the half-point Tolerance (i.e. 124-16) above the round number even money levels we are using as the psychological levels for the long dated govvies. That said, there seem to be some exceptions to that right now in Europe, which is also consistent with the return to 1980's style hyper-volatile markets. If the T-note continues to weaken from no better than the mid 124-00 area, that retest of the more major 120-119 range support will also still be in the cards in spite of potential Fed intervention; and likely do so as a bull market retesting reasonable reaction support at the bottom of a 10-point break.

▪ While the UK seemed to also be taking its cue from the very strong US long ends, that all went by the wayside three weeks ago when the fiscal dilemma of the Exchequer facing the potential for massive further UK bank recapitalization highlighted the already massive issuance of long dated UK government bonds. That was until the comments from the Bank of England on the vicious nature of the economic slowdown exacerbated the bid that would have come back in to both long and short ends in the UK. As you may recall, Our previous views in December required that we assess the meaning of the **Gilt** overrunning major 116.08 January 2006 trading high, and ultimately the 116.58 June 2003 all-time high to smash all previous resistances on a push to new historic weekly oscillator levels. Yet, the March contract at a full point discount failed to sustain activity above 122.50 area that became key resistance from which the market failed into the first part of the year. It is interesting that the mid-116.00 area became tenacious support after the market slipped below the 118.00-117.50 area; and back above that level it has gained significant strength. However, it is of note that even the hyper-volatile recovery only reached its higher gap and daily channel DOWN Break resistance in the 121.25-121.57 area.

▪ As with the other markets back in December, the **Bund** overran a whole series of resistances that included the mid-upper 118.00 area, 120.00, 121.00 area and even the 122.50-.65 area (from all the way back in January 2006.) All of which is very interesting on its failure to push back out the newly established weekly oscillator resistance in the 126 area in mid-January. That left it vulnerable to get back in step with the weaker sisters in the UK and US, which it did in style on the straightaway failure three weeks ago below its 124.00-123.50 support. While it has recovered at the love that of late, there is further congestion at 125.00 and the even as high as the upper 125.00-126.00 range. Lower reinstated support at 124.00-123.50 extends to recent congestion in the 123.25 area as well, with 122.00-121.50 that held so well on recent test below that. However, much as with the T-note, the more major support might still be as low as the 120.00-119.00 area.

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Short Money

▪ Anyone who has been trading it does not need us to tell them how perverse the short money trends have been. Seemingly without rhyme or reason at times, this has actually been a reasonable reflection of the fact that these markets have been decoupled from central-bank control for quite some time. They have been gyrating more so to alternating sentiments from a prismatic view of what the equity market trends have seemed to mean; which is to say either a return to confidence, somewhat diminished enthusiasm, and ultimately terrifyingly weak activity that spoke of the possibility of a general economic failure. That said, the aforementioned influence from very dovish Bank of England comments this week was enough to put a bid that was both sizable and technically significant back into **Short Sterling**. That is due to the degree that some reasonably well formed Head & Shoulders Top DOWN Breaks were Negated on Wednesday's sharp rally out of the previous short-term range that included the September Short Sterling push decisively back above 98.40 and 98.57. That leaves an overall bid in the market, and the lower of those levels as reinforced support on any near-term downside reaction.

All along the way the short money forwards have perversely come under significant pressure at times when equities were in deep trouble because of the implications for withdrawal of liquidity from credit markets in a crisis environment, or gotten the bid back when very weak equities engendered specific central-bank announcements. Of course, the former runs contrary to classic counterpoint between weak equity markets and expectations of central bank easing. However, at those times when equities are selling off mildly from any previous rally we can see the old influence of additional central-bank accommodation expectations encouraging the short money forwards to move higher. Ergo, significantly prismatic as such, depending on exactly what phase in the equity trend and general economic psychology attendant to it are prevalent in the short term, or what the central banks have to say. That the late-January sharp selloff in the **Euribor** forwards and sustained recovery over the past two weeks seem to have been driven by the sharp weakness and recovery in the **DAX** is a good case in point.

That includes those times when the equity markets are seemingly trending higher over the short-term when the short money forwards are more than happy to keep the bid right along with them, contrary to classical counterpoint psychology. As such, the discussion of what might be driving the trend is so fluid and changeable that we feel it is better to provide the sort of simple support and resistance levels that we have done for the radical shifts of sentiment in the foreign exchange cross rates than to try and discuss the rationale behind moves to specific levels in each of the instruments. Given the March contracts are now tied to the cash market, we are evolving out to the September contracts to maintain a forward view.

▪ **Short money forwards (September 2009) key technical support and resistance levels:**

Eurodollar: RES: 98.75-.78; 98.84-.87; 98.92; 99.00; 99.07 SUPP: 98.65; 98.55; 98.40-.35

Short Sterling: RES: 98.60; 98.66; 98.79 (contract high) SUPP: 98.45; 98.40-.37; 98.26

Euribor: RES: 98.39 (contract high); 98.50 (OSC) SUPP: 98.32; 98.28; 98.20; 98.10; 98.00

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Foreign Exchange

- While we had noted extensively previous there are quite a few country specific implications of an environment that remains nervous enough at times to still reflect unwinding of speculative positions across all asset classes on a global basis, that seems to be abating. Our evidence for that is still tentative, as it is the only very recent degree to which the Japanese yen did not develop its typical haven bid along with the US dollar during recent pressure on equity markets. There is much more proof to be seen in that particular putting prior to drawing any conclusions. Of course, the most telling influence would be if the equity markets actually manage to maintain their current basing action in spite of the residual weakness in the DJIA, and all headed up to higher levels. However, much as the prismatic intermarket influences out of equities back into the full fixed income yield curve, the further evolution of the Japanese Yen cross rates should also be monitored very closely regardless of whether equities are recovering, and possibly even more critically if the equities fall back into a more aggressive downward spiral.

- That is a key aspect which at least temporarily hints at a prospect for equities holding onto recent bases. Which makes it even more of a joke that the massive spending in the US still allowed **US Dollar Index** to become the primary 'haven' currency over the past several days' of equity weakness, in spite of failing last month and again this month into its major monthly downward channel resistance (previous and the .8760 in November, down to .8680 last month and down to the .8640 level this month.) That is another very good reason why any further improvement in the equities, even if only a grudging rally back to DJIA 8,800-9,000 area as a bear market reaction, will likely see further pressure on the buck; with even more reinforcement now that some weakness is very likely to return to the previously powerful yen.

- All the rest still has substantially to do with the **euro** becoming the weakest sister due to the fraught fiscal position of some of its key countries, including (likely unrealistic) concerns over the potential for some of them to depart; easier said than done with fraught credit markets. In that regard, even given the UK major economic weakness and banking system problems the **British pound** is firming overall. **EUR/GBP** not only stalled into .9500 area on the stabilization of the pound, it has now also dropped back below its previously Negated .9120 DOWN Break, which left it weak once again after its rallies failed near that level in the past two weeks. While on near-term form it slipped below congestion in the .8800 area, it also held the top of the more telling supports from .8650 that only intensify into the .8550-00 area. Also note its volatility on the Tuesday into Wednesday rally right back near .9120; welcome back to the 1970's.

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

EUR/USD: RES: 1.3000-75; 1.3400; 1.3800; 1.40-1.41 SUPP: 1.2850; 1.26; 1.2450; 1.2300

USD/JPY: RES: 92.00; 93.80; 95.00-75 SUPP: 90.00; 88.50; 87.00; 85.00-84.20; 79.92

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

USD/CAD: RES: 1.2500-50; 1.2750; 1.30 SUPP: 1.21; 1.20; 1.1850-80; 1.15-1.14; 1.1150

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- 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 that may now be coming to an end, as well as the alternating weakness of the British pound and euro. As the specific rationale behind the movement of other currencies is influenced in part by both relative perceptions of economic weakness elsewhere as well as US dollar "haven" inflows, it is impossible to assess their shifts in classical economic terms. Therefore, it seems productive to fall back on our primary insights to assess near-term news impacts, and provide technical levels for the cross-rate relationships.

- **Technical trend and support/resistance key cross rate levels are:**

EUR/JPY: RES: 120; 122; 125-126; 128; 130.50-.00 SUPP: 116.50; 115; 112; 110

GBP/JPY: RES: 133; 135.00-.50; 140; 142 SUPP: 130; 129.20 (old APR '05 low); 119

EUR/GBP: RES: see extended analysis above.

EUR/AUD: RES: 2.03; 2.0591 ('98 high); 2.07; 2.10-2.1130 SUPP: 1.95; 1.93; 1.91-1.900

AUD/JPY: RES: 62.30; 65.00; 67.70-68.30; 70.00 SUPP: 60.00-59.50; 57.50; 55.50-.00

EUR/CHF: RES: 1.5080-40; 1.5150-1.5250; 1.55; 1.56 SUPP: 1.49; 1.4750-00; 1.4650; 1.44

Energy

- As noted previous, **Crude Oil** failing both major supports at the 55.00 congestion and 49.90 (low-end of that major congestion range and old major UP acceleration) was not a good sign. Also violating the 46.20 low from back in May (which it failed around on the recent rally), the next significant congestion support below is the recently tested 40.00 area. Below that lies the 37.00-36.00 area top end of another major congestion range, and the critical December and January respective lows at 32.00 and 34.00. Any failure to hold those now would put the market back into that major lower range (from as far back as mid-1999 until the push above 40.00 in summer 2004), with next supports below the historic congestion at 32.00 down into the far more depressed 25.00, 20.00 and 16.70 (from November 2001) areas.

We hope you find this helpful.

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