

Rohr Report

TRENDVIEW

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, March 18, 2009 (10:00 CDT; 11:00 EDT; 15:00 GMT)

Key Views

- **Welcome to the Big Bank Blast.** While others may have some significant psychological as well as financial influence at times, it has been clearly established once again in the past couple of weeks that the prime movers remain the Old Lady of Threadneedle Street and the Federal Reserve. And a lot of what the markets will react to short-term is tied into what the FOMC has to say today about the aggressiveness of the Fed's commitment to quantitative easing. There will be more on that below, but first a couple of key points.
- While we do not go out of our way to be controversial, there are some things we are about to say that some readers will appreciate and others will find distinctly benighted. Hey, that's what makes a market. Why are we so confident the Bank of England and Fed are still the only true leaders? That seems obvious from last weekend's G-20 meeting tone and results (or non-results, as the case surely was.) While there is ample room to criticize the programs or pronouncements from the new US administration, on the issue of coordinated global stimulus Mr. Geithner is dead right. The fact that this is to some degree cast as a battle between the failed Anglo-Saxon model and some sort of more enlightened, prudent Euro-socialist 'third way' is misguided.

Even before any stimulus to offset the massive credit crunch became an issue, the ECB's reputation as parsimonious paranoiacs preceded it. With due respect for the German experience of their total worth exploding in hyperinflationary bubbles that led to collapse twice in a generation in the first half of the 20th century, that remains the ECB's rationale for its "single needle compass" (concerned solely with inflation.) Yet, in a world where Europe as well as the developing economies were happy to share in the proceeds from American profligacy, to refuse to participate in reflation efforts during a crunch is silly. Sanctimonious finger wagging at 'potentially' inflationary policies has once again left the ECB the Blanche Dubois of capital markets, happy to rely upon the 'kindness of others.'

While there was much to criticize in the later phase of Greenspan's Fed, those who blast him for leaving things too loose when the US economy was already recovering in 2004 conveniently forget there was risk of relapse into global deflation based on the extremely weak economy in Europe. Back at that time in spite of infinitesimally small GDP growth, the ECB refused to ease what were effectively positive real interest rates in order to stimulate their economy. The equivalent in the current environment is its refusal to participate in the quantitative easing which the Bank of England and Fed are leading. While not without risks, it is the right way forward at present. Mr. Geithner is right about lack of stimulus elsewhere meaning the US is underwriting foreign recoveries yet again. If ECB wants to step up to the top ranks, it is past time for it to get past rigid inflation concerns while the European economy takes advantage of aggressive actions elsewhere.

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▪ And if you found that at all *outré*, you're going to love this: The AIG employees should get some part of their bonuses. The fact this imbroglia has become an "all or none" confrontation between Congress and the firm is highly destructive. While we must agree that some goodly number of them are the very folks who helped get us into the current mess, they are very good practical and perceptual reasons for paying them. The first is a perverse logic everybody hates, yet is good business: it sometimes takes collaboration with the culprit to truly understand a misdeed. In that sense this is no different than the banks that have major sums siphoned off by computer hackers, only to later hire them as security consultants. And that much more telling in this case due to the degree to which the firm needs to retain the folks who understand these instruments in order to properly unwind them. While nothing less than a deal with the Devil, that may be a major aspect of whether any portion of the \$173 billion (and counting) bailout is ever recovered.

However, the second aspect is even more critical to the overall toxic asset relief effort: the sanctity of contracts. Whatever the US government did or did not know when it provided TARP funds to AIG, that is water under the bridge. In addition to reservations now being expressed by well-run banks that had funds forced upon them by Mr. Paulson, the US Congress running in after the fact in response to extensive *vox populi* perceived injustice is counterproductive. The radical Congressional effort on passing retroactive legislation targeting these specific bonus payments for 100% taxation, and even expressions from a senior senator these folks should consider *hari kari* is not useful.

Substituting screed for scrutiny just won't do, and raises some serious questions about who in the world will be daft enough to be a private funding source for the otherwise reasonably enlightened public/private partnership approach to mopping up the sea of toxic debt securities? How about it? Want to be partners with a Committee of 535, which has the power to recast the deal if you make more money than the public thinks suitable? While the new US administration and Congress pay lip service to the importance of the private sector, this is a very good example of how their instinctive populist response leads to rigid confrontational lines instead of enlightened solutions. For these reasons (and possibly others) the right solution is a compromise that provides enough of a bonus to the AIG folks to motivate them to stick around and help sort out the mess. To what degree that is still possible in the current environment is dubious at best.

▪ On to the final opening topic that gets back to the Big Bank Blast. So much of what is now wrong has been allowed to go awry due to fancy terminology that obscured real world implications. 'Quantitative easing' is nothing more than a device for greater fiscal stimulation on the part of a government's Treasury; the ability to increase the deficit. However much one may fear its net effect on future inflation, what the Great Depression proved was that lack of it at the wrong time has dire consequences. The question is more so whether authorities will have the will as well as the mandate to decrease excess liquidity when the time comes, even if that is into a still struggling economy. It is notable that the Bank of England jumped out ahead of the Fed on this. Yet its explicit inflation target gives it an advantage in maintaining confidence it will do the right thing later. It is also of note that there is some concern for whether foreign buyers will continue to find US treasuries attractive if the US continues to reflate. The good and bad news there is that the higher US savings rate (among a population no longer enamored of the equity markets) means that foreign buyers are somewhat less critical moving forward.

SELECT MARKET OBSERVATIONS

- The specifics of the FOMC statement today will be a direct influence on the already soggy US 'govvies' that were disappointed by ambivalence regarding the Feds quantitative easing approach in the last statement. That saw immediate weakness come into the long ends, and has seen the weak sister **June T-bond** consistently swing down to retest 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 with only temporary bounces of late.

That is important on several levels, not the least of which is the degree to which sustained weakness in the US long end is classically led by the instruments with the longest maturities, for all the obvious reasons. In deference to the major projection at that level, we are allowing a Tolerance all the way down to its 123-04 February reaction low. That would seem to work hand in glove with whether the **June T-note** 120-16 and 119-16 area supports, the lower of which is also a significant level at last November's major weekly Bull Flag UP Break. Much below those sorts of lower supports both of these markets are entitled to sell off at least another several points right away, with extended broader trend channel and Fibonacci support in the T-note not until the 116-00 and 114-00 areas.

- 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 after previous lows set last March, July and November. That points toward a likely upside correction to anywhere between the 7,800 and mid-8,000 areas. Even something near 9,000 might be possible on a full reaction within in a broader bear trend. Much as after the Bear-Stearns capitulation bottom last March, it is not just the extent of any equities recovery that might trouble the long-dated fixed income, yet also any duration of more than several weeks.

- Of course, the implication for the foreign exchange markets is whether the US dollar gets to maintain its 'haven' status, or attracts some selling as the fears 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?) It is another sort of contentious psychological change such as the US dollar experienced after tax advantaged repatriation of corporate profits lapsed at the end of 2005. While the buck headed down overall through 2006, there was enough technical support at lower levels to buffer initial weakness for quite some time before the more pronounced break occurred in April. Similarly in the current situation there is a significant amount of technical support back below the generally important **US Dollar Index** .8640 major monthly channel UP Break from last month. There will need to be serial failures back below mid-.8500 and mid-.8400 supports before all the residual congestion, Fibonacci, moving average and weekly Oscillator support is violated. That in turn reinforces the importance of the DJIA interim resistance at the violated 7,500-7,450 support; much above it might be more of an equity market recovery than the buck can bear. Of course, it is also possible equities might weaken first, and US Dollar Index resistance remains at the reinstated .8850 double top after minor squeezes above it on recent equities weakness. And it also seems fairly clear that the **Japanese yen** will remain the weakest of the weak sisters.

- Implications for energy markets and precious metals are quite a bit more convoluted, considering **May Crude Oil** continues to receive positive influence from equities as it reaches resistances in the 50.00 and 55.00 areas, yet one must wonder with the overhangs in that market whether anything greater than a test of the higher of those two levels as possible even if DJIA pushes up into the mid-8,000 area. That said, as opposed to the threat of a major energy price implosion which hung over the market from late last year into mid-February, technical supports have been reinstated down into the 43.50, 42.00, 40.00 and 37.00 areas. And all along the **June Gold** continues hold important intermediate-term contract and continuation support in the 900-890 area the reaction back down from the failure at the major 1,000-1,008 DOWN Closing Price Reversal from March 2008. However, given Gold's schizophrenic nature (i.e. loves the chaos, yet must ultimately respond to economic weakness prior to any imminent inflation threat), its path from here is highly problematic. In fact, the weekly MACD UP signal became so extended during the sharp November-February rally, it is conceivable it might retest mid-800 area UP Breaks, major congestion, weekly MA 41 and Fibonacci support while still maintaining an overall UP signal. Of course, that would eliminate a lot of overly optimistic bulls, and fulfill the classic contrarian trend evolution: "The market will screw as many people as possible, after which the real trend will again become apparent." If it should rally first, resistance remains in the 950, 965 and 1,000 areas.

EXTENDED MARKET ANALYTICS

Equities

- Please refer back to the [SELECT MARKET OBSERVATIONS](#) above for the **DJIA** analysis.
- **June S&P 500 future** also attempting a DOWN Runaway Gap below the low 730 area two weeks ago similarly evolved into an Exhaustion Gap bottom on last week's recovery back above the 731-734 range (the higher of which is the continuation chart level as we head toward the expiration of the March contract at the end of this week.) This has created the same sort of technical support from that area all the way down to 710 area, as is roughly the case for DJIA in the 7,000 area. And on the recovery the S&P 500 is in fact already back above its November continuation low at the 739 level. Similar resistances to be DJIA 7,500 area are back up at violated supports in the 792-800 area, with extended resistances into 840 and 875 with below 900 area as a likely delimiter of any overall near-term recovery.
- **June NASDAQ 100 future** was in certain ways wildest of all. After remaining more resilient on rallies into early February (when it actually got back to early January highs while all others were far less buoyant), it finally seemed actually late last month into early March. Yet, in the event the contracts left almost perfect double bottoms into the lowball November low Closes, which was 1,043.25 in the June contract. While there is some slight distortion on the weekly continuation chart due to the rollovers of the various lead contracts, for now this all appears to be a bona fide Double Bottom that projects back to the January-February highs even if only to complete the pattern (i.e. regardless of whether or not it establishes an UP Break.) That further informs our sentiment on the likely extent and possible duration of the near-term equities rally. Interim support here is now into 1,150, and the Exhaustion Gap area back into 1,120-1,105, with higher resistances into 1,230, 1,250 and the 1,275-1,287 January-February highs.

- While it has been more so the case for **FTSE** that had held progressively higher levels earlier this month after holding interim 4,000-3,900 support, its failure left it below supports into last year's 3,750-3,650 October-November lows. Lower support at low 3,600 congestion was also temporarily overrun on the way to holding the more major mid-3,400 area congestion support from mid-1995, as might have been expected when the DJIA failed to knock out its 6,500-6,450 Channel 'B' support. Now back above 3,750-3,650, that should act as near-term reinstated support, with higher resistance not surprisingly backed up in the 4,000 area.
- Weaker sister **DAX** (likely burdened by the recalcitrance of the parsimonious paranoiacs at the ECB as well as obvious problems in Eastern Europe) finally broke below its previous loose Triple Bottom down in the 4,067-4,014 area well ahead of FTSE's violation of last October's lows two weeks ago. That also violated very interesting historic interim congestion area throughout 2004 on its way to lower levels. As we noted previous, it was unlikely the DAX would actually hold the 4,000 area, because successful Quadruple Bottom patterns are rarer than hen's teeth; and that represented another good reason why markets would likely violate the significant support levels before recovering from lower levels. While important lower DAX supports only begin in the low-3,600 area pullback low from August 2004, as the US equities and FTSE held their critical intermediate-term supports last week the DAX was also able to hang on at lower interim congestion around 3,500-3,450. Much as with the FTSE, important resistance is now the violated 4,067-4,014 loose Triple Bottom area that has been recently retested, with the 4,250-4,300 area above that.
- All of which works hand in glove with **NIKKEI** progressively failing 7,650 area major weekly UP Closing Price Reversal from back in late October, which had held so well on a series of tests until mid-February. Yet, after failing below the 7,310 November low, the March future managed a whole only minor slippage below its late October 7,030 low prior to rebounding under the leadership of the US market last week. Which is no small thing, as below the 6,830 October lead contract continuation low next support is not until the long-term basing line that is down in the 3,700 area; that is not a typo: it is 3,700. However, now that it is back above 7,650, lower interim supports are reinstated as well, yet with fairly significant resistances into 8,000, the 8,400 area, and into the 9,000 area.

Long Dated Fixed Income

- Please refer back to the [SELECT MARKET OBSERVATIONS](#) above for the **June T-note** and **June T-bond** analysis.
- While **Gilt** activity remains far more buoyant than the US, that is reasonable in light of the Bank of England's more explicit commitment to quantitative easing. However, even at that any extended weakness in the US long ends my drag the Gilt back down below the 123.50 support it has been probing in the last couple of days. Of course, that would only likely burying a selloff to next support levels in the 122.00-121.30 range before the Bank of England would step in and stem the tide. Yet, that points out the degree to which the US long ends response to whatever the FOMC has to say today might be telling elsewhere, especially if it remains as circumspect as its last statement. Recall that after the disappointment the T-note that was trading into the mid 124-00 area sold off fairly quickly to the mid 121-00 area. Even in the unlikely circumstance that the Gilt violates the 121.30 area, there will still be significant contract and continuation support down into roughly 120.00. Higher resistance remains in the mid-125.00 area, and at last weeks March contract 126.74 continuation high.

▪ And then there is the June **Bund** that does not have any aggressive central bank threatening to force long rates lower through quantitative easing. In fact, at the press conference after the last rate decision Monsieur Trichet made it clear that he felt he combined actions taken by the ECB to date amounted to the same sort of aggressive stimulus. However, as the ECB is also engaged in continued encouragement of fiscal rectitude on the part of member countries, no one necessarily believes that is actually the case. And for right now that sense of intractable fiscal problems in the Euro-zone and weakness in Eastern Europe are weighing on the Bund. Therefore, it is not really much of a surprise while the Gilt remained strong and even lackluster US is tending to hold interim supports, the Bund broke its 124.00-123.50 support a couple of days ago, and he has dropped fairly quickly down near next lower levels into 122.00-121.50. Yet, here as well, if that should be violated there are rather substantial lower supports (due in part to the significant discount the June contract had against the now expired March contract) in the 120.50-120.00 area; the lower of which is also the Fibonacci 0.382 retracement of the entire swaying from the June 2008 low to the recent mid-126.00 continuation Double Top.)

Short Money

▪ As we have noted more than a few times of late, anyone who has been trading it does not need us to tell them how perverse the short money trends have been. The generally prismatic tendencies here are as bad or worse than in the long dated govies. Seemingly without rhyme or reason at times, this has actually been a reasonable reflection of the fact that these markets have decoupled from central-bank control for quite some time. They have been gyrating more based on sentiments of what the equity market trends have seemed to mean; which is to say about either a return to confidence that reduces rates on the back of improved credit market conditions when equities are firm, a somewhat diminished enthusiasm when they weakened modestly, and ultimately weak short money activity that reflects extensive credit market stresses from the possibility of a general economic failure when equities are under extreme pressure.

Yet there are also times when equities weakness still motivates some further sense of short money downward yield pressure, as in the present situation when any expectation of Federal Reserve quantitative easing ripples back down the curve to the short ends. In those cases any equities weakness tends to encourage the short money. All of which leaves us rely on our technical projections more so than ever, instead of trying to figure out which side of the prism we should be using to view the near-term market action.

As such, the discussion of what might be driving the trend is so fluid and changeable that we feel it is better to provide simple support and resistance levels than try to discuss the rationale behind moves to specific levels in each of the instruments. We continue to focus on September contracts for our forward view.

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

Eurodollar: RES: 98.65; 98.75-.78; 98.84-.87; 98.92; 99.00 SUPP: 98.55; 98.40-.35; 98.25

Short Sterling: RES: 98.35-.38; 98.42-.45; 98.60 SUPP: 98.31; 98.16: 98.06-.00; 97.90

Euribor: RES: 98.58; 98.65-.67 (OSC); 98.85-.90 (OSC) SUPP: 98.45; 98.39; 98.32; 98.28

Foreign Exchange

For those of you who did not see it in our previous **TrendView** **GENERAL UPDATE**, we strongly recommended a read of the Financial Times analysis from Mr. Peter Garnham. While ostensibly on the degree to which the 'haven' status of the US dollar will become more suspect across time, that is provided in the context of many other markets: <http://bit.ly/12LZ9S>

- 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 seemed to be abating. While evidence for that was tentative at first, the fact that **Japanese yen** has come under significant pressure instead of getting its bid back in the wake of the recent equity market weakness is in very telling. The implication would seem to be that all of the carry trade leveraged asset positions have been completely wrung out of the markets in the wake of the serial major failures of the equities over the past year. That being the case, there is a *bona fide* consideration this previous ultra-strong sister is reverting to significant secular weakness; especially in the wake of the **USD/JPY** Double Bottom UP Break above 94.60 that carries a 102.00 Objective.
- Problems elsewhere leave only **US dollar** looking particularly strong against the yen for now. Yet, there are two ways in which further sustained weakness of the world economy weighs on the yen and will likely strengthen the other currencies against yet as well once the US dollar's 'haven' status has lapsed. The first is the degree to which its significantly weak economy will foster desire on the part of Japanese fund managers to look elsewhere for returns; with the caveat that cyclical repatriation into corporate year-end may be a positive influence until the end of this month. The second is the degree to which a relatively wealthy Japan will perceive it is in its interest to significantly fund World Bank operations as part of reflating the global economy, which will assist its competitive position as the yen weakens as a result.
- In our view that still makes it more than a bit of a joke that the massive spending in the US allows **US Dollar Index** to become the primary 'haven' currency over the recent phase of equity market weakness. Yet, as always, we respect the technical indications. And in this case (as noted above) the buck sustaining its UP Break out of its major monthly downward channel resistance at .8640 was still compelling until now. The further telling indication is the squeezes above last November's .8846 high to avoid leaving some form of distorted Double Top pattern turned out to be as strained as we expected. That was due to the fact they were less than global, which smacked of similar US dollar topping action from late 2005 into early 2006.
- However, its current strength appears to substantially against recent weak sister Japanese yen softening against the whole world. That **EUR/USD** has tested and held 1.2500-1.2450 and is now back above 1.2850 and even the 1.3100 area works hand in glove with the US Dollar Index slippage below .8640. Similarly, **AUD/USD** has recovered from a month of washouts back below its Negated early February .6376 DOWN Break even though it remains more subdued at present. That said, all speaks of the degree to which US Dollar Index strength is less than global, literally. All the rest still has substantially to do with the **British pound** becoming the weakest sister outside of the Japanese yen due to the continued onslaught of weak economic news (as in this morning's employment data) and the firm commitment of the Bank of England to keeping rates down through any and all measures.

▪ In that regard, even given major UK economic weakness and banking system problems the **British pound** being back to weak sister is not much of a surprise. **EUR/GBP** strength propelling it above the low .9100 area again created the potential for a retest of .9350 that is currently being challenged, with higher resistances into the .9500 and .9650 areas this side of the .9800 area late December highs. Of course, that also informs our view of the activity of the euro against weak sister Japanese yen. **EUR/JPY** was another example of a false down Break out of in a bearish Triangle pattern below 118.40 back in late January. While it struggled initially to get back above 120.00 area it has recently surmounted the previous several week stall out into the prominent 126.00 congestion. However, even that sort of impressive performance (and weekly MACD is now indeed solidly up after the past two month's rally) leaves the serial highs (from last October into mid-December) in the 131.00 area as critical resistance at an effective loose Double Bottom UP Break threshold. Much above that the market might be ready to overrun interim congestion resistance in the 135.00 area on its way back to bigger retracement levels toward 142.00, with an overall objective for the pattern bottom at 148.50.

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

EUR/USD: RES: 1.2850; 1.3000-75; 1.3400 SUPP: 1.2500-1.2450; 1.2300; 1.2000-1.1850

USD/JPY: RES: 99.50-100.00; 102 (OBJ); 103.50; 105 SUPP: 97.50; 94.50-95.00; 93.80

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: 1.30; 1.3350; 1.36; 1.3850 SUPP: 1.2750; 1.2550-00; 1.2300-1.2250; 1.21

▪ The cross rate foreign exchange indications are all over the map, for the very reasons noted in the analysis above. 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.

▪ **Key cross rate trend technical support and resistance levels are:**

EUR/JPY: see extended analysis above.

GBP/JPY: RES: 140; 142; 146.50-148.00 SUPP: 135.50-.00; 133; 130; 129.20 ('05 low)

EUR/GBP: see extended analysis above.

EUR/AUD: RES: 2.00; 2.03; 2.0591 ('98 high); 2.07 SUPP: 1.95; 1.93; 1.91-1.900; 1.86-1.85

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

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

Energy and Gold

▪ Please refer back to the [SELECT MARKET OBSERVATIONS](#) above.

We hope you find this helpful.

-Rohr

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