

Rohr Report

TRENDVIEW

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, April 2, 2009 (10:00 CDT; 11:00 EDT; 15:00 GMT)

Key Views

- While it looks like equities are back to good old days of “climbing the wall of worry”, looks can be deceiving. There seems to be one factor which overwhelms all of the near term bad news: FASB. We will revisit that below. Yet first it is interesting just how much bad news the stock market now seems capable of overcoming. At the top of the week the market learned that Chrysler Corporation was essentially toast as an independent automaker (and hoping to be co-opted by Fiat), and the US government was the *de facto* management of General Motors if there is to be any further bailout largesse extended to keep them in business. However, in spite of that and the need to anticipate what was indeed continued abysmal housing data on Tuesday’s Case/Shiller US Home Price Index, Monday’s initial sharp markdown never turned into a broader debacle.

- In addition to all of that, the prelude to today’s G-20 meeting was highly contentious, and the market will need to deal with US Employment data on Friday along with general economic indications (especially retail sales data) that remain weak on balance. In light of the latter, the stance by European leaders at G-20 is also disconcerting. Their lack of ability to see that imbalances they decry cannot be solved except by greater domestic demand in surplus economies is astounding. There was always a question of whether the global imbalances could be smoothly adjusted. Rather than exploring that at length, we refer you to an outstanding overview of the conflict inherent in unwinding imbalances by the Financial Times’ very adept Martin Wolf (also head of its Economists’ Forum): <http://bit.ly/IFlwU>. Most telling is his citation: “...FT interview with Angela Merkel, the German chancellor said that: ‘The German economy is very reliant on exports, and this is not something you can change in two years.’ Moreover, ‘It is not something we even want to change.’ ” Interesting, isn’t it, that the Europeans and Chinese decry the excesses of the deficit countries, question the long-term attraction of their government bonds, and yet are more than happy to encourage them to re-stimulate to a higher degree than necessary if Europe and China encourage their internal demand. The parsimonious paranoiacs at the ECB often note they are not doing anything more than fulfilling their mandate; now we see that this is true in a way which leaves no hope for deficit countries to earn their way out of their indebtedness hole through the largesse of the mercantilist surplus countries. All of which is grounds to remain bearish overall toward equities.

- And then there is the FASB (US Financial Accounting Standards Board) announcement today that allows some softening of mark-to-market rules. While it may be controversial overall for investors, it is a short-term panacea of sorts for the financial services industry that will assist the markets. Indeed, it is just this sort of treatment for Mortgage-Backed Securities that likely still have at least some reasonably significant number of performing loans behind them that actually makes sense for averting further crises. We shall see.

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SELECT MARKET OBSERVATIONS

- All of which also works fairly well with the equity markets generally bottoming trend tendencies that are being led by the US. As already extensively reviewed in previous analysis, the **DJIA** recovery to Close back above the 7,000 area (specifically the 7,063 Weekly Close from the end of February) turned the attempted downside Runaway Gap of early March into an 'Exhaustion Gap' bottom. Even if the DJIA should drop back below the 7,500-7,450 support that it held early this week, that 'Exhaustion Gap' should provide solid near term support from anywhere in the 7,063 area all the way down to even temporary slippage as low as 6,880. The same picture from a couple weeks ago illustrating that the DJIA was also unable to remain on DOWN Acceleration below the 7,000 area is worth a thousand words: <http://bit.ly/QdS6n>; and a further improvement back above previously violated 7,500-7,450 support only reinforces the UP-turn. As we noted back then, this pointed toward a likely upside correction to anywhere between the 7,800 and mid-8,000 areas that has now been achieved. Even something near 9,000 might be possible on a full reaction within in a broader bear trend. And that is where they FASB decision looms large once again as an influence on the leading financial services sector.
- As could only be expected, the FOMC influence had most direct influence on the soggy US 'govvies' that had been disappointed by previous Fed ambivalence regarding the quantitative easing approach in the last statement. And yet, as we suspected back at the time, this is not an endlessly bullish influence for the long dated govvies, as the markets are sophisticated enough to understand inflation implications of encouraging fiscal stimulation. The ultimate refutation of the sustained value of central bank quantitative easing actually occurred in the Gilt-edged market auction failure last week. Surprising? Possibly. A real shock? Not so much.

Weak sister **June T-bond** held in front of the FOMC decision after swinging down toward 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 in spite of the equity market recovery. Having pushed straight through contract congestion in the 129-00 area, it has now also held temporary slippage back below the more substantial 128-00 congestion, and pushed back above 129-00. Higher resistances are now at 131-00/-16 and every two points up from there.

That would seem to work hand in glove with the **June T-note** holding previous tests of support at 120-16 without ever needing to swing down to more major support in the 119-16 area (last November's major weekly Bull Flag UP Break.) Having also pushed sharply out through its own contract resistance in the upper 122-00 area, unlike the T-bond it pushed straight through the next higher resistance in the 124-00 area as well. Even though it drifted back below the 123-16 Tolerance of that support area, by trading down last week to levels no worse than the 123-00 area it still held the top of its late-January through mid-March congestion range. That is very important in the wake of the expiration of the March contract, as the June contract was still trading at roughly a 1-16 discount, as the move back above the mid-123-00 area reestablishes it back above weekly MA 13 and keeps it relatively near the 124-00 area major Fibonacci 0.25 retracement (of the entire swing from June 2007 lows to last December's major 130-19.5 high.) As such, expect that the near-term contract support at 124-00/123-16 (with that buffer to the 123-00 area) or will remain important from here. Also generally similar to the T-bond, higher resistance is at 126-00 and every two points up.

- As we noted previous, any strong **US Dollar Index** signal of a reversal of the overall uptrend since last July's lows would require serial failures back below mid-.8500 and mid-.8400 supports before all the residual congestion, Fibonacci, moving average and weekly Oscillator supports are violated. Well, that is basically what occurred as the post-FOMC decision trading dropped down into .8300 area, and that means any rallies back to higher levels are now highly suspect. In essence, without even so much as the DJIA pushing back above interim resistance at the violated 7,500-7,450 support in the immediate wake of the FOMC announcement, the buck was signaling that the rally is over and it is back into being a *bear market*. That might seem like somewhat of a strong statement to some. Yet the sharp US dollar rally from last July's low only carried up to modestly above the broader major downward channel resistance (from the last major high in the 1.2000 area back in February 2002 before the major long-term downtrend ensued; i.e. the broadest retracement resistance that still leaves the market in a bear trend.)

That Negation of the .8640 UP Break out of the broad trend resistance is the psychology that restores the full bearish major trend momentum. As such, while it is still quite a long ways off in sheer price terms, there is now a serious question whether the extreme trading low at .7070 last March was actually the end of the dollar bear market. It is not really something we can worry about right now, as there are plenty of interim technical levels which need to be assessed along the way, including the recently held support back in the .8250 area, and roughly every full point down from there to last December's mid-.7770 trading low. Yet major trend flow suggests that all the concerns over the sea of US dollar liquidity already unleashed and yet to come might culminate in the sort of poor scenario for the buck many informed observers suggest is possible.

- While it was somewhat of a wild ride initially in the wake of that FOMC decision, the markets seem to have drawn the proper conclusions as to what the Fed's move really means for inflation sensitive asset classes on the implementation of greater US (and previous substantial UK) fiscal deficit expansion support from central banks. Considering **June Crude Oil** has maintained a rather interesting premium to previously contracts, it was no surprise that it was able to achieve a push above the 50.00 area, and ultimately extend its rally modestly above next significant resistance in the 55.00 area. And now the strength of the equities is capable of encouraging a recovery after only modest slippage below 50.00 (and immediate Negation of yesterday's very modest 51.00 DOWN Break below aggressive daily UP channel support.) While some of it may depend upon the equity market reaction to the FASB announcement today, any extension of the equities rally to a new high might encourage a retest of 55.00-56.00, with 60.00 above that.

- And all along **June Gold** continued hold intermediate-term contract and continuation support in the 900-890 area on the reaction back down from the failure at the major 1,000-1,008 DOWN Closing Price Reversal from March 2008; even on surprisingly weak activity in the immediate wake of the FOMC announcement. It seems that Gold's schizophrenic nature (i.e. loves the chaos, yet must ultimately respond to economic weakness prior to any imminent inflation threat) that we had warned of previous is in full bloom in the last two weeks. After holding that lower support once again, it decided to immediately and vigorously challenge the resistance in the 950 area by extending its rally to the next higher resistance in the 965-970 area. Yet, in spite of the inflationary implications of any real recovery in the US and global economy based upon major stimulation efforts, be very orderly constructive psychology which has taken over in the equities has left the yellow metal back under pressure toward that 900-890 area support.

EXTENDED MARKET ANALYTICS

Equities

- Please refer back to the [SELECT MARKET OBSERVATIONS](#) above for the **DJIA** analysis.
- **June S&P 500 future** also managed to exceed its previous DOWN Runaway Gap below the low 730 area, and similarly evolved into an Exhaustion Gap bottom on the subsequent recovery back above the 731-734 range (the higher of which is the continuation chart level in the wake of the expiration of the March contract two weeks ago.) This created the same sort of technical support from that area all the way down to 710 area if the market should stall out on its current rally prior to pushing above the 850 area (i.e. the same lower support as is roughly the case for DJIA in the 7,000 area.) And on the recovery the S&P 500 covered smartly back above its own relatively closer November continuation low at the 739 level, which will also reinforce support on any retest of that general area. Similar resistances to the DJIA 7,500 area are back up at violated supports in the 792-800 area that has also been exceeded, with extended resistances into 850 and 875 with the low 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 capitulated from late February into early March. Yet, in the event the contracts left almost perfect double bottoms into 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 projected back to the 1,275 area January-February highs, and that now being accomplished leaves a potential for an UP Break. The caveat is that on the continuation chart those highs are up in the 1,288 area. Above that the next resistances are 1,340 and the early November (pre-US election high) 1,380. Yet, whether this market can really extend to those sorts of elevated resistances will likely have much to do with whether DJIA can push out convincingly above the 8,000 area. Lower interim congestion levels that represent interim support on any setbacks are 1,250, 1,230, 1,150, and the Exhaustion Gap area back into 1,120-1,105.
- While it has been more so the case for **FTSE** that had held progressively higher levels earlier last 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. While stalling temporarily after recovering back above 3,750-3,650, that acted as near-term reinstated support, as expected. The encouraging activity in the US equities late yesterday is now assisted it in recovering back above the higher resistance not surprisingly in the 4,000 area, with 4,250, 4,350 and the 4,500 area above that.
- Weaker sister **DAX** led the way down in Europe, yet managed to hold lower support below its previous loose Triple Bottom in the 4,067-4,014 area. That also violated very interesting historic interim congestion area throughout 2004 on its way to lower levels. Yet, important lower DAX supports held in the low-3,600 area pullback low from August 2004, as US equities and FTSE held their critical intermediate-term supports. Much as with the FTSE, DAX recovered back above its violated 4,067-4,014 loose Triple Bottom area (and held on this week's retest), and is now into 4,250-4,360 area, with 4,500 and 4,700 above that.

- All of which works hand in glove with **June NIKKEI futures** 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 to hold 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, after the June future recovered back above 7,650, lower interim supports are reinstated as well. It is now also back above fairly significant resistances into 8,000 (which should also help near on the early week pullback), and pushed back out above the 8,400 area as well. That leaves the next continuation resistance into the 9,000 area, and extended continuation resistance (early-November and early-January highs) into the 9,340-9,575 area.

Long Dated Fixed Income

- Please refer back to the [SELECT MARKET OBSERVATIONS](#) above for the **June T-note** and **June T-bond** analysis.

- What we possibly say about the activity and the **Gilt**? This is like a serial permutation of Irving Stone's biography of Michelangelo, *The Agony and the Ecstasy*. Not that this sort of extreme volatility is any real surprise once governments and central banks take a leading role in bond markets as well as aggressive short-term rate adjustments; we have been expecting something like this since our March 2005 report **1970's Redux: Son of Stagflation** (with the byline that noted we were all headed "...back to the future." That is sad, it does not diminish the challenge of managing trends which are subject to extreme influence from governments actions and/or critical agency announcements that supersede any of the near term fundamental influences. Two days FASB easing of mark-to-market rules is merely the latest example of a change that was heavily influenced by governments and industry need to cool down the crisis atmosphere.

In the wake of the Bank of England's explicit commitment to quantitative easing it was no surprise that the **March Gilt** was able to push up through its late December 124.67 high, and reach a new all-time high at 126.74. However, in spite of the overt commitment of the central bank, **June contract** was already slipping back below 124.00-123.50 support prior to the FOMC meeting in the US; possibly anticipating a less than aggressive commitment by the Fed to a similarly expansive quantitative easing. And in spite of the major surprise for the bears that drove US govovies sharply higher in the wake of the FOMC's aggressive announcement, the June Gilt could not even managed to post a daily Close above the 124.00 area. While it might not have been readily apparent at the time, this was the market's indication that still hot UK inflation was not a very good environment spite of the threat of central bank purchases. In the event, the pre-auction Close below 123.50 led to immediate violation of the 122.00-121.50 support on the way to then holding the lower 120.00 support that had prevailed on the week long retest by March contract prior to the aggressive Bank of England announcement. That was also likely influenced by the sustained strength of the equity markets into the later part of last week, prior to another quick turn of psychology as equities backed off temporarily into early this week, thus buoying the Gilt back above 122.00 all the way to the low-124.00 area once again. Continued fun and games on the equity's recovery leaves June Gilt back down toward 122.00 today, with a natural Tolerance to 121.50 area gap to last Friday's Close.

- And then there is the June **Bund** that does not have any aggressive central bank threatening to force long rates lower through quantitative easing, or even drop short rates as much as expected on the 25 basis point easing to 1.25 percent today. And then we all got to hear once again how Monsieur Trichet & Co. saw this all coming, and was a guiding light on stimulative rate moves and central bank accommodation immediately after August 2007; like a broken record playing the same faulty tune over and over. It would be funny if it weren't pathetic.

That said, the lack of any expectation or reality that the Bund would be subject to such government fiscal access or central bank quantitative easing has left it far more subdued than its UK and US brethren. In fact, Monsieur Trichet has made it clear once again today that he feels the combined actions taken by the ECB to date amount to the same sort of aggressive stimulus in the European context as has been provided elsewhere. 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 Ms. Merkel's comments only reinforce the degree to which the ECB mandate emanates from lack of desire on the part of constituent governments to engage in the sort of stimulation that might kindle stronger domestic demand. Therefore, it is not really much of a surprise the Bund has remained in a far narrower band and the other elongated govvnies, stalling on rallies at no better than the 124.50 Tolerance of its meatier 124.00 congestion. Much above that the contract resistance is into the mid-January and early-March gaps and trading highs in the mid-125.00 area, with continuation resistance into the mid-126.00 area. On the other hand, it is also done no worse (and on recent form not even revisited) it has 122.00-121.50 lower contract and continuation support.

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 govvnies, albeit in a different fashion. Seemingly without rhyme or reason at times, this has actually been a reasonable reflection of the fact these markets have decoupled from central-bank control for some time. Especially in the Eurodollar and Short Sterling they have been gyrating more so based on sentiments of what the equity market trends have seemed to mean; which is to say 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 rippled back down the curve to the short ends. In those cases any equities weakness tends to encourage the short money, and with the ECB is the only central bank with much latitude to still ease its base rate, equities weakness has also tended to strengthen the Euribor contracts. 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: 98.92; 99.00-.02; 99.06 (CTR HI) SUPP: 98.84-.87; 98.75-.78; 98.65; 98.55

Short Sterling: RES: 98.60; 98.68; 98.78 SUPP: 98.52; 98.42-.45; 98.35-.38; 98.30; 98.18

Euribor: RES: 98.77; 98.94-.97 (OSC); 99.07-.10 (OSC) SUPP: 98.62; 98.54; 98.45; 98.39

Foreign Exchange

For the extensive **US Dollar Index** trend analysis see [SELECT MARKET OBSERVATIONS](#) above on the significant intermediate term trend reversal back into a bear market. Also still timely consideration in spite of being published significantly prior to the sharp reaction to the FOMC quantitative easing announcement, 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 asset classes: <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** came under 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 failures of the equities over the past year. That being the case, there is a *bona fide* consideration that 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 in spite of the weakness of the buck.

▪ Now that the US dollar has established what we feel is a *bona fide* trend reversal, rather than revisit a discussion of the background and tendencies against individual currencies (especially as the cross rate reaction was rather orderly in light of the major secular swing in the buck) below are the technical levels for the US dollar trends:

USD INDEX RES: .8450; .8550; .8640 SUPP: .8250; .8150; .8000-.7960; .7890-50; .7770

EUR/USD: RES: 1.3850; 1.40; 1.41; 1.4350-1.4420 SUPP: 1.3350-00; 1.31-1.30; 1.2850

GBP/USD: RES: 1.4750; 1.50; 1.5350; 1.5650-1.5750 SUPP: 1.4350; 1.40; 1.3650; 1.35

USD/JPY: RES: 99.50-100.00; 102 (OBJ); 103.50; 105 SUPP: 97.00-.50; 95.00; 93.80

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

USD/CAD: RES: 1.2500-50; 1.2750 SUPP: 1.24; 1.2250-1.2132; 1.20; 1.1800-1.1750

AUD/USD: RES: .7150; .7250-68; .7460 SUPP: .7000-50; .6850; .6750-25; .6650-30; .6500

Cross Rate Analysis

▪ Given major UK economic weakness and banking system problems, the **British pound** being back to weak sister temporarily was not much of a surprise. Yet now the seeming commitment to greater economic stimulation is actually playing quite a bit better for the pound than some might have imagined. While sterling did not weaken very much in the wake of the Bank of England, it did recover nicely in the wake of the FOMC quantitative easing announcement that created expectations of US dollar weakness. Along the way the activity in its cross rate was very interesting as **EUR/GBP** strength propelled it above low .9100 area again. That created the potential for a retest of .9350 that ultimately extended to higher resistance into the .9500 area criers stalling. However, now the relatively more jaundiced view toward weak European economies has left it back down testing that same critical lower .9100 area, which has a Tolerance to the .9000 area.

Of course, that also informs our view of the euro trend 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, two weeks ago it surmounted the previous several week stall out into 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) meant it had to sustain activity above the serial highs (from last October into mid-December) in the 131.00 area to implement and effective loose Double Bottom UP Break. That now seems to be the case in spite of the euro's somewhat less impressive rally compared to the British pound. Above 131.00 it might be able 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.

▪ 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: 146.50-148.00; 150; 154; 156 (OBJ) SUPP: 142; 140; 135.50-.00; 133

EUR/GBP: see extended analysis above.

EUR/AUD: RES: 1.90-1.91; 1.93; 1.95 SUPP: 1.86-1.85; 1.8250; 1.81-1.80; 1.7850-00

AUD/JPY: RES: 72.50; 74.50-75.00; 77.00-50; 80 SUPP: 70.00; -68.30-67.70; 65.00; 62.30

EUR/CHF: RES: 1.5150-1.5250; 1.5350; 1.55; 1.56 SUPP: 1.5080-40; 1.49; 1.4750-00

Energy and Gold

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

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