# Rohr Report

## *TrendView*

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

Thursday, April 23, 2009 (08:30 CDT; 09:30 EDT; 13:30 GMT)

### *Key Views*

**▪ To the degree equities are paying attention to economic data these days (mostly not), confidence factors and industrial indications out of Europe this morning were improved, even if still negative on balance. In that regard, the current market seems eerily akin to this situation almost exactly one year ago. While the price levels are shocking compared to where we are now, the DJIA mid-April selloff from resistance in the 12,750 area made it seem it might not squeeze back above it again. However, after not sinking back below important 12,200 area support it managed to rally the following week in spite of (of all things) a weak Fed Beige Book. Sound vaguely familiar? At that time as well it was ignoring quite a bit of weakening economic data, just like the current situation.**

**▪ Of course, much like the present, that had much to do with official psychology pushing the idea that the economy and markets were 'past the trough.' And that remains a major cautionary indication for the bulls, as well as the prime rationale for the bears that can see the background influences going from bad to worse even as equities rally. There are many factors that have arisen of late which deserve at least passing comment, and we will attempt to touch on the ones we feel are most salient. The first of these was the little noticed Bank of Canada 25 basis point rate cut (to 0.25 percent) Tuesday. In addition to expectations for it to only hold steady, the bank reversed its previously upbeat projection of a mild recession with a forecast of a 3% decline in growth this year. While it was not explicit in their statement, there is a growing sense that they will be the next bank to commit to credit market support and quantitative easing. Quite a shift.**

**▪ On something more market specific, there are quite a few people wondering why the quantitative easing by the Bank of England did not see the kind of buying yesterday that would have prevented the June Gilt from sliding back below its 122.00-121.50 support. That was the same technical area which it ratcheted back above in the wake of the Bank reaffirming its quantitative easing commitment two weeks ago. A bit of psychology deserves to be considered. While they most certainly do want to keep a ceiling on the ultimate level of long-term yields, when the equities are rising there is a tendency to be a bit more sanguine about moving immediately. Much like last year, this is self-defeating insofar as higher yields may also limit the further progress of any equities rally, it is reasonable that they did not want to fight the natural counterpoint at too high a price for the government bonds and notes. Watch the Gilt (and the Bank) into 120.00-119.50 now. Given the Gilt's return to weak sister status, that works very well with consideration of whether the June T-note and June Bund will hold their own 122 to mid-121 area supports.**

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▪ **Speaking of the UK, was there any less envied guy than Chancellor of the Exchequer Alistair Darling yesterday? After downbeat Bank of England MPC meeting minutes, a new record PSNB (Public Sector Net Borrowing) and 12 year high in unemployment, he had to present a Budget Statement. Of course, the vexing news prior to what he had to say is just typical for a cyclical downturn, even if extreme in this case due to the major nature of the current *Super-Cycle Correction*(SM). And he did the only reasonable thing, which is much the same as any of his predecessors had done in similar circumstances: spoke of recovery coming reasonably soon, whether or not he has any idea or strong conviction that is the case. Just another example of official psychology pushing the idea that the economy and markets are 'past the trough' or will be there soon; much like the good response to Mr. Geithner's discussion of multiple moving parts solving problems.**

▪ **Yet, as noted previous, even if bank earnings have seen meaningful improvement during the first quarter, the question remains whether those recent upside leaders are really out of the woods. The dilemma is still much less about current operations than the important legacy bad assets. In that regard, the seemed to be good news on US housing that may that not actually be quite the boon some would like to think. The FHFA (Federal Housing Finance Agency) released its House Price Index (FEB) yesterday, and was upbeat about the monthly uptick of 0.7%, as were many analysts. Yet, it is very important to note that this only includes 'conforming' loans (i.e. those that meet standards set by FNMA & FHLMC), so it does not reflect the worse situation in mega-homes or the worst low-end areas. What the headline failed to note was that there was still an annualized drop of 6.5 percent. In addition to that, there was a sizable downward revision to the January figure, the seasonally adjusted monthly price still fell, prices are still back down to no better than the April 2005 levels on a cumulative price fall of close to 10%, and in spite of any recent improvement, there are still heavy annualized price drops in Pacific, Mountain and South Atlantic regions. You can see the report at http://bit.ly/BmguL.**

**All of which would not be quite as bad if the whole situation were not evolving into the nexus of employment and housing. Yesterday morning CNBC real estate specialist Diana Olick added to extended analysis above with further information from the analysts at RealtyTrac as well as other sources on the return to weakness. She pointed out that not only are foreclosures surging, but they are now affecting extensive areas that had not been part of the housing bubble. Of course, this is not just about housing, but also consumer sentiment as reflected in weak commercial real estate implications. And that will continue to be exacerbated by the fallout from the weakening economy producing extensive layoffs. Her sources say that there will be one additional foreclosure for each 6-10 job layoffs. See her report at http://bit.ly/1afQpH. And now, even though they have been ignoring the economic data of late, the equities get to deal with the also very telling (i.e. more reliable than New Home Sales) indication for Existing Home Sales (MAR.)**

▪ **This gets back to whether the US government has ever done enough. Any significant increase in foreclosures among prime borrowers (subprimes are gone) is the sort of thing that makes the US housing relief plan look less than adequate. It also reinforces the depth of the problem, which we still believe will only be resolved by direct offset of negative equity by the US government. We know quite a few of our conservative readers find this abhorrent; yet every other attempted solution failing is demonstrating the degree to which it is the only way out of the crisis, by restoring consumer confidence.**

## SELECT MARKET OBSERVATIONS

▪ All of which also still works fairly well with the equities generally psychological bottoming trend tendencies being led by the US based on what has transpired in the first quarter. Those other problems are not going to come home to roost until a bit further down the road. 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) into mid-March turned an attempted downside Runaway Gap from the first of the month into an 'Exhaustion Gap' bottom. Even if DJIA should drop back below near-term support at 7,800-7,750 and the 7,500-7,400 area, that 'Exhaustion Gap' should provide solid support from anywhere in the 7,063 area all the way down to even temporary slippage as low as 6,880. However, even if it holds DJIA has resistances all the way up into 8,200, 8,350-8,400, 8,500 and 9,000, one of which is likely to see at stall out for a correction back to the 7,000 area for all the reasons noted above.

▪ **June T-note** holding previous tests of support at the top of the 122-00/121-16 support area in spite of the extent and duration of the equity market recovery was impressive even before the Fed's treasury note purchases early last week. While the classic counterpoint between the equities and long dated govvies seemed to be restored a couple of weeks ago when DJIA first pushed up toward 8,000, until Tuesday the govvies seem to be taking a forward view that the stock market rally is not sustainable in the intermediate term. However, the sustained nature of the equities rally is now also much more akin to the middle of last April in these markets as well. The more sustained DJIA push holding on in the 8,000 area might is bringing further pressure onto the govvies, just like the T-note failure below 118-00/117-00 area last year. While some are now relying upon the likelihood of Fed intervention at the 122-00/121-16 support, we are less confident that (see above.) Yet, even if it should slip below there at some point, the Fed intervention factor makes any weakness below more major 120-00/119-00 support almost inconceivable near term. Resistances remain at 124-00/-16 and every two points up, with a presumption that the Bund and Gilt might be somewhat weaker.

▪ As we noted previous, **US Dollar Index** reversal of the overall uptrend since last July's lows required serial failures back below mid-.8500 and mid-.8400 supports before all the residual congestion, Fibonacci, moving average and weekly Oscillator supports are violated. <u>And that is just what occurred in the immediate wake of the FOMC quantitative easing announcement, as the buck was signaling that the rally is over and it is back into being a *bear market*</u>. That might seem like somewhat of a strong statement to some. Yet the sharp US dollar rally from July's low only carried up to modestly above 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. However, that does allow for the retest of that area (as we have just seen), or even a further squeeze above it if weaker European currencies cannot get through their resistances (as discussed below.) Yet on balance, while it is still quite a long ways off in sheer price terms, there is now a serious question whether the major 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 .8550 and .8450. Lower supports include recently held .8250 area, and roughly every full point down from there to last December's mid-.7770 trading low.

▪ Considering **June Crude Oil** had maintained an interesting premium to previous contracts, it was no surprise that it was able to achieve a push above the 50.00 area as equities continue to improve into mid-March. That ultimately led to its test of the next significant resistance in the 55.00-56.00 area. Yet continued strength of the equities has not been capable of encouraging a further extension of the rally, and the market may have seen the inventory overhang finally indicate a restraint on further price advances unless the underlying economies strengthen in the near term (which is not likely.) While extended resistances remain at 60.00 and 65.00, it is far more important for now that the market has slipped below initial lower support in the 50.00 area yet held the next of its serial supports at 47.00, with 45.00 and 43.00 whoa that.

▪ **June Gold i**s also very interesting in rebounding in the face of equities weakness of late. That would speak of a market that is still in a hedge against heavy uncertainty, and reinforce the degree to which any equities weakness would reinstate a very unsettled environment. Very light volume on its Head & Shoulders Top DOWN Break below 900-890 area points to the possibility it will reinvigorate its up trend back above there sometime soon; and it will be very interesting to see how that relates to the future activity in the equities. Lower supports are 865 and 850, with more major supports into 805-792. The important higher resistances are the working tolerance of that DOWN Break at 920 area congestion, the previous resistances at 940, 950-955 and 970, and ultimately back in the low 1,000 area.

## EXTENDED MARKET ANALYTICS

### Equities

▪ Please refer back to the **SELECT MARKET OBSERVATIONS** above for **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 was the continuation chart level in the wake of the previous expiration of the March contract.) This created the same technical support from that area all the way down to 710 area if the market should stall out on its current rally to 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 S&P 500 also recovered back above its 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 at violated supports in the 792-800 area that has also been exceeded, with extended resistances above 850 into the 875 area, with the low 900 area as a likely delimiter of any overall near-term recovery (i.e. similar to DJIA 9,000 area.)

▪ **June NASDAQ 100 future** is in certain ways wildest of all asset returns to being the most bullish, just as it was into early February (when it actually got back to early January highs while all others were far less buoyant.) While it was weak sister for a bit, in the event the contracts left almost perfect double bottoms into lowball November low Closes, which was 1,043.25 in the June contract. This formed a bona fide Double Bottom that projected back to the 1,275 area January-February highs, with an UP Break above there several weeks ago. Higher resistances are in the 1,365, 1,385, 1,400, and 1,450 areas. Lower interim congestion support levels on any setbacks are 1,275, 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 this year after holding interim 4,000-3,900 support in January, its failure left it temporarily below supports into last year's 3,750-3,650 October-November lows. Lower support in the low 3,600 congestion area 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 interim channel bottom (return line) support back in early March. 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 has now assisted it in recovering back above the higher resistance not surprisingly in the 4,000 area, with 4,150, 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 is now back above 4,250-4,360 area and 4,500. Higher resistances are 4,700, 4,850, and the 5,000-5,100 area.

▪ 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. After the June future recovered above 7,650, lower interim supports were reinstated as well. It is now also back above fairly significant resistances into 8,000, and pushed back above 8,400 area as well. That left next continuation resistances into the 9,000 area (i.e. DJIA 8,000 equivalent) that was recently tested, and the extended resistance (early-November and early-January highs) into the 9,340-9,575 area.

**Long Dated Fixed Income**

▪ Please refer back to **SELECT MARKET OBSERVATIONS** above for **June T-note** analysis.

▪ **June Gilt** not even nearing its 124.50 resistance look pretty weak, and the conundrum of the weak employment and attendant higher borrowing needs you now even knocked it below the lower 122.00-121.50 support, reinstating its weak sisters status. This finds the swinging back near the top of the 120.00-119.50 support it tested during the late March failed auction debacle. Much below that it would have been easy to imagine it retesting its own significant continuation and contract support in the 117.50-.00 area, with extended support down in the 115.50-.00 area. As noted in previous, the Bank of England commitment quantitative easing is not necessarily a blanket buy order as opposed to what may be a more incremental approach.

▪ 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. We suspect it remains similar to the T-note, with 122.00-121.50 support being somewhat critical even though there is heavier extended support into the 120.00 area. Also similar, yet possibly less likely to be achieved by this weaker sister, resistance remains in the 124.00-.59 area with extended resistance up into a half point either side of 126.00.

## 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 govvies, 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 were previous gyrating more so based on sentiments of what 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. That is reinforced by the recent improvement in all the short money forwards, which flies in the face of the notion that sustained equities' rallies are any harbinger of real economic improvement anytime soon.

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: 98.87-.84; 98.79; 98.73; 98.60**

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

**Euribor: RES: 98.66; 98.74-.77; 98.88 & 98.-99.00 (OSC) SUPP: 98.62; 98.54; 98.45**

## 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.

▪ Yet, as we noted in Tuesday's ***TrendView* BRIEF UPDATE**, the general price movement of the index is not really reflective of a secular trend in the US dollar right now. In fact, much like our belief the rally in equities and selloff in 'govvies' are also into removes pending a bigger cyclical return to major trends, there is reason to look for divergence in the foreign exchange markets right now based on a reasonable expectation of how any actual economic recovery will proceed.

▪ Of course, there has been weakness in Europe of late in the wake of the parsimonious stance of continental European leaders who refuse to consider further direct economic stimulation. It is therefore surmised that the US will lead the way out of the economic trough, even if burdened with a significant debt load due to active financial system rescue an economic stimulus efforts. While the UK is engaged in similar activities, there is a sense that it will be weighed down by Europe, and that would seem to be the rationale behind the weakness of both the euro and sterling against the US dollar. And that is fine, insofar as it goes.

▪ However, while the US economy may indeed lead the way back up compared to Europe, the broader sense of things is that Asia will recover sooner than that. Its recovery is also likely to be more robust in light of its own continuing internal development needs. Recent *de facto* easing of China's heavy US dollar position through purchases of industrial commodities and companies is no secret; and indeed pretty enlightened under the circumstances (see the major bearish US Dollar Index view in the see **SELECT MARKET OBSERVATIONS** above.) So it is not much of a surprise that even as European currencies have weakened against the buck, there has been a strong uptrend in the Australian dollar until the reaction early this week. There has also been a somewhat more subdued sign of strength from the Canadian dollar, in spite being tied to a goodly degree to the fortunes of the US economy in general and especially the automakers.

Anyone who wants to understand what has been happening in foreign exchange of late needs to take a quick look at the chart of the Australian dollar versus the euro; it speaks volumes. That is why there is no major secular trend right now in foreign exchange: we expect that even the strength of the commodity currencies might reverse once again if the equities get back into trouble at some point later this year. That would both diminish the degree to which the expected recovery would spur the commodity economies, and also likely reinvigorate some sort of 'haven' bid in the US dollar due to continued concerns about Central and Eastern Europe.

▪ All of that said, it leaves the US dollar relationships as well as the cross rates only able to be assessed according to how each currency pair performs within its technical trend projections. Which is why for each of those areas we are going to provide the technical levels, and will be happy to discuss any specifics of the cross currents for these trends when we speak.

**USD INDEX RES: .8640; .8750; .8850 SUPP: .8550; .8450; .8250; .8150; .8000-.7960**

**EUR/USD: RES: 1.31-1.30; 1.3350; 1.35; 1.3750; 1.3850SUPP: 1.2850; 1.27; 1.2550-00**

**GBP/USD: RES: 1.4750; 1.5000-50; 1.5350-1.54 SUPP: 1.44001.4350; 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: 1.1750; 1.19; 1.2250 SUPP: 1.1500-1.1450; 1.13-1.12; 1.10; 1.0750-00**

**USD/CAD: RES: 1.24; 1.2500-50; 1.2750 SUPP: 1.2250-1.2132; 1.20; 1.1800-1.1750; 1.15**

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

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

**EUR/JPY: RES: 130-131; 134; 137.50; 141.00-.72 SUPP: 125.50; 122; 120-119; 116**

**GBP/JPY: RES: 146.50; 148.75; 150; 154; 156 (OBJ) SUPP: 142; 140; 135.50-.00; 133**

**EUR/GBP: RES: .90; .9120; .9350; .9500 SUPP: .8850; .8750; .8650-38; .8550-00**

- **Key cross rate trend technical support and resistance levels (continued):**

**EUR/AUD: RES: 1.85-1.86; 1.90-1.91; 1.93; 1.95 SUPP: 1.81-1.80; 1.7850-00; 1.7650**

**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.

We hope you find this helpful.
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