Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, May 7, 2009 (06:00 CDT; 07:00 EDT; 11:00 GMT)

Key Views

- **As we noted in Tuesday's *Weekly Overview*, everything up until today into tomorrow's US Employment report was a setup for what transpires late week. That includes potentially important communication from the Bank of England and ECB (especially the latter), the longest bit of the US Treasury auctions and the US financial authorities release of the 'stress test' results (formerly the SCAP: Supervisory Capital Assessment Program.) While we have more to say on all that below, the specific equity market contingencies and their implications for other asset classes will take priority in today's key views. However, for any of you who missed it the US authorities' combined statement on the 'stress test' details released yesterday afternoon can be accessed at http://bit.ly/TajYk. We also highly recommend an excellent article by the Financial Times' Ralph Atkins on renewed pressures on the ECB to move beyond their current reserved approach to the worsening economy in Europe (as confirmed by the EC on Monday) at http://bit.ly/1IFWk. As usual, we encourage readers who have not done so already to sign up for a Financial Times subscription; especially the online FT.com version with its very useful alerts.**

- **The DJIA finally being able to Close above 8,200 area was a multifaceted UP Break, and has turned that level into the immediate lower support. The other lower supports at 8,000 and especially the 7,800-7,750 area have thereby been transformed into the working and explicit Tolerances (respectively) of that UP Break. While that left the important Fibonacci 0.25 retracement (of the entire selloff from the October 2007 all-time high) at 8,400 next resistance, the market has remained so buoyant due to better sentiment that the burden of proof is on the bears to push it back below that area. Unless they can do so, next interim resistance into 8,600 area or even more significant 9,000 area congestion might be seen sooner than not; dependent upon the market reaction to extensive news.**

- **Of course, all of that has had a less than constructive effect on the long dated govvies, yet with quite a bit of resilience in the US and Continental Europe. While we will expand on the background behind that divergence below, suffice to say for now that this is another reason today's BoE statement and ECB press conference are among the most critical in recent memory. As already noted on Tuesday, the June T-note slippage below 121-16/-08 support has been very muted in light of the major support not being until the 120-00/119-16 area. That said, there is additional interim support at the major Fibonacci 0.382 retracement (of the entire swing from the June 2007 low to December's all-time high) as well as the weekly MA 41 into the 120-16 area that has held so far. Similar projections regarding the June Gilt major Fibonacci 0.25 retracement attended its retest of 119.50-35, with next support into 117.50-00, while relative strong sister June Bund has held well in the 122.00-121.50 range; but watch the ECB closely today on that one.**

- **The equities strength has had a less than constructive effect on the US dollar as well, yet with the Japanese yen returning to its weak sister role along the way. A lot of the US dollar pressure is due to further erosion of its 'haven' bid in the face of confidence that the market and economic crisis may be over for now. Yet, US Dollar Index slippage below its .8450-00 support has taken a very muted form. That fits in with our theme that the other asset classes still seem to act like they suspect the equity market rally is not sustainable across time; at least not at its recent euphoric pace. That said, much like DJIA is out on an 8,200 area UP Break, the US Dollar Index has left an .8420 DOWN Break (out of its gradual up channel from the .8263 post-Fed meeting mid-March low.) It will now take a Close back above the .8500 area to turn its trend back up. However, if it continues resilient on the way down, it is also not likely to violate mid-.8200 support.**

- **The Crude Oil and Gold have both also responded well to the rising 'animal spirits' infecting equities; not really a huge surprise on either front in light of renewed inflation implications of any early return to economic buoyancy. Yet, it is still a fraught situation which has had psychological encouragement from both formal sentiment indications as well as a limited amount of economic data moving from abysmal to merely recessionary. That said, as long as the equities head higher in the near term, the June Crude Oil out above the 55.00-56.00 area has turned that into near term support, with next resistances into the 61.00-62.00 area (major congestion and multiple Fibonacci retracements.)**

- **June Gold is in even more of a contentious and critical situation, with the success or failure of its topping tendencies since the mid-February retest of the 1,000 area hanging in the balance. While attempting to fail back below its 894 Head & Shoulders Top DOWN Break late last week, that selloff was not very convincing. Back above it once again for the second time in three weeks makes this another market where the burden of proof is on the bears, albeit with the bulls not as yet having provided the triggers for the further upside extension either. The key levels for each of them are the bears' need to indeed push prices down back below the 900-890 range in a more forceful manner. As the market is already on its second recovery back above 894, unless they can do so soon the suspect (due to a lack of conformation) topping pattern will look even more specious. However, while it will need to ultimately Close above its 970 right shoulder high to fully Negate the official Tolerance of the topping pattern, having already failed from 920-925 working Tolerance (congestion, weekly MA 13, and now the overall downward channel resistance from the mid-February 1,010 high) means the Bulls need a close above that area to reinstate the more aggressive uptrend in the near term.**

SELECT MARKET OBSERVATIONS

- All of which also works with the idea that the more buoyant equities might be a sign of a much earlier return to more extensive sustained economic growth than anyone might have hoped in the depths of the crisis back in early March. While we are not at all convinced that will indeed be the case, it must be allowed that it is consistent with the activity in the equities that influences the psychology of the other asset classes. And as we have already covered a good deal of the technical overview above, we will only be adding a modest bit of further technical insight here, along with somewhat more extensive background on the current market psychology as it relates to some of the key fundamental factors noted above.

▪ In fact, it is more important this morning to discuss those psychological factors prior to the limited additional technical insights necessary to supplement the tendencies noted above. Whatever one may think of all of the US government has handled banking crisis mitigation to this point, the serial leaks over the last week plus yesterday's release of the SCAP ‘stress test’ program outline and capital deficiency address requirements was enlightened. It is in stark contrast to their release of initial details late afternoon back on Friday, April 24th. Had there been any untoward reaction, it would have left them no chance to recover prior to the weekend. In the current circumstances they have managed to leak enough of the concerns over specific bank’s potential capital base issues to effectively make today's official release not much more than a confirmation of what we already know. It is obviously also enlightened they’ve rightfully used the “more adverse” scenario for the banks capital adequacy; that only make sense.

However, it still does not eliminate our concerns over what we feel is obvious bit of optimistic assumption within that allegedly more dire scenario. That is the degree to which under the ‘Alternative More Adverse’ scenario any extension of the rising US Unemployment Rate to 10.3 percent in 2010 would only engender a house price fall of 7.0 percent. Given we are not the only ones who now understand that the negative US home price psychology is now reaching its nexus with weak employment, that is quite an optimistic assumption. For more on that, we refer you back to our previous (Thursday, April 23rd) ***TrendView*** **GENERAL UPDATE** (http://bit.ly/lNr8), as those aspects are extensively explored on page 2 of the ***Key Views***.

▪ Another key aspect of market influences today is what we hear from ECB President Trichet at the post-rate decision press conference. While there has been some concern that the ECB had fallen behind the curve in its support for a weakening European economy, that was not quite so glaringly apparent until Monday. The sharp downward revisions to European Commission Growth Forecasts were a surprise. An overall shrinkage of 4.0 percent this year was only half the tale. The fact that it is now projecting modest additional shrinkage for all of 2010, with only the slightest bit of growth returning in the second half of next year is likely the political nexus of economic policy that may force the ECB into a more accommodating stance.

Given its focus on structural fiscal improvement in the Euro-zone, that the extended sharp weakness of the economies is going to foment much higher deficits throughout Europe than expected previous might just be a wake-up call for the EC be on the limitations of restrictive monetary policy. Especially the projections for economic shrinkage of 9 percent in Ireland and especially 5.4 percent in Germany this year is going to hit home at the political level. One of the key aspects that any further aggressive accommodation (either in the form of further rate cuts or especially anything that smacks of qualitative easing) my influence is the resilience of the Bund. It has indeed been credibly farm in spite of no equivalent over quantitative easing that has been of some benefit to the US and UK long dated govvies. Much as we have seen in the failure of the Gilt below its 119.50 area support this morning, the natural tendency toward weakness of the long ends in the face of recent sustained equity market strength can even affect those markets where QE programs are in place. That is likely due to be central banks feeling much less need to keep long rates down now that the crisis atmosphere has passed. In our view that is actually quite a misguided perception on their part; much like Mr. Bernanke's endorsement of a strong dollar late last May brought about the end of the equity market rally. However, for now that also means any more extensive dovish perspective from the ECB might bring about a real disconnect in the Bund below 122.00-121.50 support, with next support not until 120.00 area. Especially so with heavy debt market offerings to continue for the foreseeable future.

EXTENDED MARKET ANALYTICS

Equities

- Please see the ***Key Views*** and **SELECT MARKET OBSERVATIONS** above for **DJIA**.

- **June S&P 500 future** demonstrates the very close relationship between its UP Break above its own lead contract 885 resistance. The lower tolerances for that signal are the 875 area and not again until 823. Along DJIA above important Fibonacci retracement resistance at 8,400, the S&P 500 future is above its equivalent resistance at 895. It will be interesting to see how that plays out, especially as any holding of lower supports still leaves equities on track to recover to much higher resistances. DJIA has resistance into 8,600 area, yet could easily extend to (or near) more significant 9,000 area congestion. Similarly in the S&P 500 future interim resistance at 920 is already being overrun, with next major resistance not until the 942 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 in early April. Higher resistances at 1,365 and 1,385 have already been exceeded. Much like DJIA 8,200, the higher of those is the confluence of multiple resistance projections. Above it major resistances are not until the 1,450 and 1,490-1,500 areas.

- While it had been more so the case for **FTSE** to hold progressively higher levels earlier this year after holding interim 4,000-3,900 support in January, its failure into early March left it temporarily below supports at 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 in late March, 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, as well as 4,150, 4,250 and 4,350, with 4,500 and 4,675 areas 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, 4,500, 4,700 and 4,850. Higher resistances are 5,000-5,100 and the 5,300 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 minor slippage below its late October 7,030 low prior to rebounding. After the June future recovered above 7,650, fairly significant resistances into 8,000, and 8,400 area as well. That left next continuation resistances into the 9,000 area that it has finally managed to breach, with extended resistance into 9,340-9,575 area and again at 9,700.

Long Dated Fixed Income

- Please see the ***Key Views*** and **SELECT MARKET OBSERVATIONS** above for **June T-note**.

- **June Gilt** not even nearing 124.50 resistance look pretty weak last week, and the conundrum of the weak employment and attendant higher borrowing needs even knocked it below the lower 122.00-121.50 support in the wake of the fraught UK Budget Statement, reinstating its weak sisters status. This finds it swinging below the 120.00-119.50 support it tested during the late March failed auction debacle. As noted extensively previous, much below that it was easy to imagine it retesting its own significant continuation and contract support in the 117.50-.00 area, and that seems on track in the wake of this morning's failure. Extended support is to be early February 116.5 to lead contract continuation low, below which there is not much into the more major Fibonacci retracement and June contract support in the mid-low 115.00 area.

- 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-.50 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: 99.06 (CTR HI); 99.22 & 99.37 (OSC) SUPP: 99.00-.02; 98.92; 98.87-.84

Short Sterling: RES: 98.68-.71; 98.79 SUPP: 98.60; 98.52; 98.42-.45; 98.35-.38; 98.30

Euribor: RES: 98.74-.77; 98.94 & 99.06 (OSC) SUPP: 98.66; 98.62; 98.54; 98.45

Foreign Exchange
For anyone who has not reviewed it previous and is interested, please see the very extensive analysis of the intermediate term significant trend reversal for the **US Dollar Index** back into a bear market in the **SELECT MARKET OBSERVATIONS** of our previous (Thursday, April 23rd) ***TrendView*** **GENERAL UPDATE** (http://bit.ly/lNr8 page 3.)

▪ Yet, as we have noted in previous, the general price movement of the **US Dollar 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 interim moves 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, as well as the extensive weakness of the British pound on all of the concerns raised by both recent reports and the Chancellor's Budget Statement, albeit with a modest stabilization and recovery. It is therefore surmised that the US will lead the way out of the major economic trough, even if burdened with a significant debt load due to its highly proactive 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.

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 and housing (via timber exports.)

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: .8420-50; .8550; .8640; .8750; .8850 SUPP: .8250; .8150; .8000-.7960

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

GBP/USD: RES: 1.5350-1.54; 1.57 SUPP: 1.5050-00; 1.4750; 1.44001.4350; 1.40; 1.3650

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: 1.1800-1.1750; 1.20; 1.2132 SUPP: 1.1500-1.1450; 1.13; 1,1050-00

AUD/USD: RES: .7670; .7800; .7920-.8000 SUPP: .7460; .7250-68; .7150;.7000-50; .6850

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

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

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

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

EUR/AUD: RES: 1.7650; 1.7850-00; 1.81-1.80; 1.85-1.86 SUPP: 1.7450-00; 1.72; 1.70

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

EUR/CHF: RES: 1.5150-1.5250; 1.5350; 1.55; 1.56 SUPP: 1.5060-00; 1.49; 1.4750-00

Energy and Gold

- Please refer back to the ***Key Views*** above.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)
