Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, April 28, 2010 (11:00 CDT; 12:00 EDT; 16:00 GMT)

Key Views

▪ Slo-Mo Greek train wreck, as expected; hits equities & energy, boosts fixed, Gold, USD. And why wouldn't it? Which refers to both the ongoing nature of the Euro-zone debacle, and the way in which it points up more of the weakness below the surface of seemingly robust global recovery. The sovereign debt driven Euro-zone slowdown augments other risk factors that have been accumulating in the background of the strong economic data. As we noted almost two weeks ago, there might not just be a 'Double Dip' in store; it might be more of a Double Debacle. No, not because of Goldman Sachs' current travails, or subsequent action which is likely to follow at a select number of other firms. Another bout of extensive US economic weakness is likely due to factors reviewed in our longer term analytic sea-change in the Thursday, April 15th *TrendView* **GENERAL UPDATE (http://bit.ly/ceyfBS.)** That perverse dynamic creates overt near term strength from the pernicious general weakening factor of folks who are allowing mortgages to be foreclosed (for various reasons) declaring a 'rent holiday', and spending the money on consumer disposables and durables. Therefore, the 'blow-out' numbers in so much of the current US economic data may actually represent the perverse final twist of the structured housing finance mania. That is a Joe Average 'core-out' of the remaining value of properties that will end up back on banks' books; ultimately impacting their balance sheets again; no wonder they're still tightening lending standards. Anyone who has not read it should do so in PDF form to access the links to the supplemental analysis video and other information.

▪ What does that have to do with Greece and the Euro-zone? Quite simply that the current economic strength may mask the potential to return to far more economic and equity market weakness than currently expected by the hoard of bullish consensus adherents. Whatever one may think about current actions to contain the crisis which began in a country that represents a miniscule fraction of Euro-zone GDP, it is glaringly apparent the powers-that-be have been consistently behind the curve on providing confidence to the markets. Even as additional measures are currently being announced, it still seems to not be enough to stem the spreading rot. The front page lead article of this morning's Financial Times notes the informed view expects it will take a three-year package amounting to €70 billion to provide real assurance against a Greek restructuring (that's code language for orderly default.) And the IMF has indeed allowed it may be ready to provide an extra €10 billion, which extends its commitment to the maximum allowable €25 billion. That is on top of the €30 billion EU commitment. Wait a second; that's a total of €55 billion, which remains short of what it seems is necessary. The three points to be made about that are quite simple. First, as many (including this observer) had warned, it was significantly self-defeating for the Germans to be so coy in their earlier support as to allow the situation to now spread beyond Greece. Second, the Standard & Poors downgrade of Greek debt to junk status is reinforced by the market: Greece has achieved the dubious distinction of becoming the country with the highest cost insurance (CDS) against sovereign debt default. This means it has even exceeded Venezuela. Third, as the requirement for austerity as part of correcting fiscal imbalances spreads, Europe will weaken in spite of German economic strength.

▪ **And now we get to deal with an FOMC decision and tea leaf reading from the statement. While the primary fixation will still be on whether the term 'extended' is still applied to the timeframe for keeping rates low, there is also considerable market focus on any mention of the Fed's intention regarding disposal of significant amounts of mortgage securities.** While there are many who would have us believe that this will be a separate operation from the management of monetary policy, that is wholly misguided on several fronts. In the first instance, by soaking up cash several billion dollars at a time, it ***is*** monetary policy. And secondarily it will have the obvious consequence of pushing up mortgage rates by some modest degree at a time when frailty of the housing market remains a drag on the overall US economy. If anyone is wondering about housing frailty in the wake of last week's strength in both Existing US Home Sales and New US Home Sales, please note this morning's Mortgage Bankers Association Weekly Mortgage Application figures. In spite of the government tax credit for both forms of home purchases expiring at the end of this month, recent figures have been trending lower.

That is indicative of two key factors: how hard it is to find suitable refinancing candidates among those having a problem (ergo the continued acceleration of foreclosures and psychology of the folks who are happy to 'walk away' later while enjoying a rent holiday for now); and the degree to which previous purchaser incentive programs have already eliminated some degree of future demand for homes. While it could only be surmised previous, it is now clear that government home purchase tax incentives do not create additional homebuyers; they only accelerate the action of those who are already interested. This is reinforced by the degree to which long-term government bond yields that are the basis for mortgage rates dipped in the two weeks prior to last week; yet there was no attendant increase in home purchases in spite of additional benefit from tax credits. And as far as stemming the current acceleration of foreclosures into this year, forget it. While the purchases have indeed benefited to some degree, the MBA refinancing Index continues to bump along at very low levels. For the specifics please refer to the summary (**http://bit.ly/9Ur5Vb**) from Dow Jones sourced from our CQG market data service, and the longer-term history back to the beginning of last year (**http://bit.ly/dhLGUA**) sourced directly from the Mortgage Bankers Association. The historic view raises real questions about what is going to happen once the government incentives of the past couple of months lapse at the end of this week. And foreclosed homeowners will be eliminated from the future buyers pool.

▪ **That said, the current factors we have reviewed of late still point to a two-way trend in equities even if the markets have topped against major technical levels. That is due to the degree to which the rearview mirror data into next month on everything from housing to retail sales will still reflect current buoyancy. And there is a good question about why we feel the current top in equities may be a more significant turning point than previous.** Quite simply, the equities have reached one of those more major and critical junctures that may lead to a far more significant correction; or in a worse case scenario of sovereign debt crises and US housing weakness coming home to roost, even a return to much delayed major second wave of the bear market. Which is exactly why we suspect the doves at the FOMC will either prevail in maintaining accommodative language, or the central bank may indeed choose to sound more hawkish at exactly the wrong time. Mr. Bernanke did that previous in May 2008!! History has taught us bull markets do not top out under direct pressure from negative news; far more often the top is established due to non-performance on good news. And the news of late has been outstanding. That includes corporate earnings outperformance and positive guidance to mostly better-than-expected economic data on everything from US Retail Sales to Durable Goods to home sales. However, the equity markets stalling at the levels which they have over the past several days could easily speak of markets that are pricing in the best news at the top prior to a major correction or reversion to a bear.

▪ **While we will provide the extended technical levels once again below, it is important to note that the significant correction in the equities will likely be the two-way trend that we mentioned above. Indeed, that is due in part to the extended uptrend having left so many technical supports in spite of June S&P 500 future top into 1,214.50 and DJIA at 11,250.** However, as those levels represent the filling of a major gap in the lead contract S&P 500 future and the DJIA major Fibonacci 61.8% retracement of the entire bear move, these are the more prominent resistances after her the significant over-extension of the corrective rally that may well mean the equities can revert to far more weakness than bulls expect at present. That is part and parcel of why we remain so friendly to a fixed income market that has such a significantly bearish consensus, bullish the US dollar because of its 'haven' status, and negative toward the energy markets that are priced for sustained global economic strength just as unexpected weakening factors are beginning to appear. And that includes the degree to which the strong rapidly developing economies are already experiencing the inflation that the depressed US economy is not seeing at present, and those others are tightening monetary policy in a way that will only exacerbate any return to the US (and now very possibly European) weakness.

▪ **As noted previous, June S&P 500 future weekly Close back into 1,193-90 key support did bring into question its potential extension above 1,200 area 'Big Penny' resistance to the 1,214.50 next target. However, in the event it was able to stabilize and hit that level, as we had suspected it likely will it once did manage to cross above 'Big Penny' resistance.** In fact, even as bad as it looked yesterday the market has extended so far on the rally that the sharp selloff has not so far violated more major lower supports back in the 1,166-70 area. Only Closes back below that area, and ultimately serial failures back below key lower supports (like the area of the 1,147-42 January highs and the major Fibonacci and congestion area back down around the 1,125 area) will indicate a more significant trend reversal. And during a friendly earnings season (even if for the temporary reasons noted previous), it must be presumed for now that the generally friendly psychology will only allow for a two-way trade that rallies from support levels even if that is all part of establishing a broader top. Similarly in the weaker sister **DJIA** previous inability to drop below low 10,800 area support allowed the push above 11,000. Yet, there as well, the violation of 'Big Penny' resistance was more psychological than technical; actual major resistances above it are more so in the 11,250 (which was also just barely tested at Monday's high) and 11,400 areas. Lower supports are back just below the 11,000 area (which has generally held for now), and still at that recently tenacious low 10,800 area. Whether the market can hold the lower of those is a major issue, as over the next couple of weeks it will determine whether the short- and even intermediate-term trend may be turning down on a failure of weekly MACD and slippage back below key historic oscillator levels. Which is why the jury is still out on just how much further government bond markets can rally in spite of their recent impressive resilience and resurgence.

It is also of note that upside leader **June NASDAQ 100 future** pushing above the resistance at a 1,975 August 2008 reaction high does not reach the next incremental resistance until all the way up into the 2,060-75 area. As that was just missed at the highs on Monday, it leaves additional influence as to whether **June NASDAQ 100 future** can continue to hold minor slippage not too far below a previously tested pre-gap Close: 2,001.25, which it only traded down to close off the gap previous while not Closing below it. That means that at least so far but markets have held support in spite of the Goldman/Greece impact. If it should slip below it, support reverts to its previous stall-out congestion around that 1,975 August 2008 high.

▪ **As we are just back from holiday, we feel it is more important at this time to briefly summarize the implications of our major fundamental view for the other asset classes than dwell on too many technical and psychological specifics for each of them. After a brief general review of how each of them is impacted by our significantly reassessed broad fundamental dynamics, we are going to provide the key supports and resistances.** In addition to the negative dynamics of the Euro-zone situation, we noted a week ago Thursday the most important aspect of understanding the perverse dynamic which is likely distorting the overall trend evolution. That impacts both equities and the other asset classes in the degree to which it shifts the temporal focus of some of the key markets. Prior to reassessment (in light of indications on delinquent homeowners 'rent holiday' approach to being foreclosed) we had assumed the govvies were holding up so well because they were reflecting the short term weakness about to hit the economies when depressed consumers snapped purse strings shut. It also seemed that the equities might be trending higher on somewhat poorly founded positive intermediate-term expectations.

As of now it appears we had it backward, as equities are sustaining their current rally on what seems to be real world economic strength in the near term, evidenced by improved earnings and the extensively upbeat macroeconomic numbers noted above. Classically that would raise a question over how the normally anticipatory long-dated government bonds could be holding up so well in the face of continued economic strength? Well, it seems that the bond markets are the ones taking longer term economic perspective to heart, and operating under assumptions things will revert to more than a bit of significant weakness at some point prior to inflation rearing its ugly head. Of course, the degree to which that is apparent in the FOMC statement today will be very interesting. Especially as that is also true for the short money forwards, which refuse to stay down on minor setbacks for more than a short period of time. And the latter is significantly consistent with repeated indications from the Fed, BoE and ECB they are not very interested in raising base rates anytime soon. That is in spite of warnings from some of the hawks and predictions by a broad range of analysts who are incessantly raising inflation fears were retail 'pricing power' reality does not seem to exist.

▪ **Three weeks ago we inquired whether you were ready for a short-term Bond Boom? Consistent with our revised fundamental view, there's now a good reason why serial new highs in the equity markets have only brought tests of underlying major supports in the long-dated government bonds: the bonds anticipate the end of the near-term buoyancy in economic data and equities to end badly, even if that might take awhile to come about.** As such, it is not much of a surprise that the classical counterpoint out of equities into the fixed income markets has been quite a bit more subdued than previous cycles. In fact, the recent trend evolution in the short money forwards is significantly similar to what occurred back in early 2002 through early 2003. While those were in a different kind of market and broad cycle, it is still the case that near-term strength in equities back then fomented quite a bit of negative sentiment toward discounted short money forward contracts. In the event, the subsequent heavy selloff in equities led to significant short money forwards rallies. We continue to recommend review of our March 2005 ***1970's Redux: Son of Stagflation*** **(**[**http://bit.ly/VRJby**](http://bit.ly/VRJby)**)** with the somewhat coy subtitle **..."*We could send you back to the future*" (**pages 9-11 re: short money forwards.) Awhile back Mr. Bernanke was pointedly asked whether conditions had not reverted back to the discomforting 1970s. He responded, "Well, it's not that bad." Those of us with real perspective knew the one word he had failed to include in that answer was "yet." With a surge in commodity prices, major sovereign debt concerns that may eventually bite major developed economies (even the US) and buoyant Gold prices even when equities and energy drop, is there anyone who still doubts we have returned to the 1970s markets that we predicted five years ago?

▪ **On other fronts, the foreign exchange market still seems to allow US dollar is probably generally trending higher after US Dollar Index managed to hold the top of its .8000-.7950 support two weeks ago and is now challenging significant resistance in the .8250 area. That is substantially driven by EUR/USD weakness below major 1.3400 & 1.2350 support.** While that encompasses quite a few diverse influences, it is of note weakening equities in Asia and the current European crisis have also significantly weakened the commodity currencies that have previous led the way up against the buck. That is even affecting the Canadian dollar which had such an impressive resurgence in the wake of last week's Bank of Canada shift to what seems to be a more hawkish stance on the timing of any rate increase. We wonder what might become of that if indeed the equity markets get into trouble over the near-term. Which is why the lower supports noted above in the S&P 500 future and the DJIA are so critical to all of the other asset classes. That is especially the case due to the degree to which the solution to the Greek and Euro-zone sovereign debt crises requiring economic turnover assumptions related to government tax receipts. Any weakness in the equities which assumes proportions that point to a possibly less robust global economy than the V-shaped recovery so many of the bulls assume is occurring (due to strength in recent economic data) may well be a self-compounding problem.

▪ **As we have already discussed US equities technical parameters above, what follows is the summary for the key resistance and support levels for the other asset classes:**

<u>June 2010 Long-Dated Government Bond Futures</u>:

US T-note:	**RES:**	**117-16;** 118-00; **119-06; 120-00; 121-08;** 122-00; **123-16**
	SUPP:	**116-16; 115-24;** 115-00; **114-14;** 113-00; **112-00/111-14**
UK Gilt:	**RES:**	**115.00-.30;** 116.00-.30; **116.80-117.00; 118.30-.50;** 119.30
	SUPP:	**114.15-.00; 113.34;** 112.90; **112.00; 111.25-.00;** 110.00

EUR Bund: Obviously benefiting from a major 'haven' bid versus the rest of Europe, strong sister gets stronger with potential for a major blow off if equities fail key supports

	RES:	125.60; **126.53; (oscillator) 128.50; 131.00-.50**
	SUPP:	**124.50-.70; 124.00; 123.00; 122.50; 122.20;** 121.70; **121.00**

<u>June 2011 Short Money Forward Futures</u>:

Eurodollar:	**RES:**	**98.635; (oscillator): 98.73;** 98.85; **99.00;** 99.15; **99.30**
	SUPP:	**98.53-.50; 98.44-.42; 98.35-.31; 98.27-.24; 98.15;** 98.05-.00
Short sterling:	**RES:**	**98.25-.20; 98.33; 98.45 (high); (oscillator):** 98.65; **98.75; 98.95**
	SUPP:	98.15; **98.05-.00;** 97.96; **97.91; 97.78-.75**
Euribor:	**RES:**	**(oscillator):** 98.80; **98.90; 99.00;** 99.20; **99.35**
	SUPP:	**98.65-.63;** 98.58-.56**; 98.50; 98.42;** 98.38; 98.32; **98.28**

Foreign Exchange:

USD INDEX:	**RES:**	**.8140-50;** .8220-50; **.8380-.8420; .8600; .8700**
	SUPP:	.8075; **.8000; .7950;** .7900; **.7800; .7680-60**
EUR/USD:	**RES:**	**1.3250; 1.3400; 1.3650-85;** 1.3750; **1.3800-20;** 1.4050
	SUPP:	1.3050; **1.2950;** 1.2750; **1.2500-1.2450; 1.2330**
GBP/USD:	**RES:**	**1.5250;** 1.5370; **1. 5550;** 1.5670; **1.5800-30; 1.6000-70**
	SUPP:	1.5120; **1.5000-1.4950; 1.4850-00;** 1.4400; **1.4060-00**
USD/JPY:	**RES:**	**95.00; 98.00;** 99.00; **100.00-.60; 101.45; 103.50-.70**
	SUPP:	93.75; 93.00; 91.80; **91.00-90.70; 90.00-89.70; 88.70-.50**
AUD/USD:	**RES:**	**.9250; .9407;** .9500; **.9610-50;** .9700; **.9800-50**
	SUPP:	.9150; **.9000-.8950;** .8850; **.8800; .8600-.8550; .8450-00**
USD/CAD	**RES:**	1.0200-15; **1.0230-50; 1.0300-25; 1.0400;** 1.0575: **1.0700-50;**
	SUPP:	**1.0100; 1.0050; 1.0000 (major Negated DOWN Break); .9954**

June Energy and Gold futures:

Gold:	**RES:**	1,190; **1,200; 1,221; (oscillator) 1,250-60; 1,280; 1,300**
	SUPP:	**1,165-69 (gap); 1,160-62; 1,142-45; 1,130; 1,112-08;** 1,100-1098;
Crude Oil:	**RES:**	**82.20-83.50;** 84.80-85.00; **86.00-.50;** 87.10; **89.00-90.00; 93-94**
	SUPP:	**78.80-.50; 77.50-.00;** 76.20; **75.00-74.50;** 73.50; **70.50-.00; 68.50**

We hope you find this helpful.

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