Rohr Report
TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY
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OVERVIEW
Continuing to churn along, the markets basically remain trading affairs with some notable short term volatility in some areas such as energy. Yet, the somewhat stronger than expected Japanese Industrial Production and Capacity Utilization (JUN F) and Italian Consumer Price Index (JUL F) seem to have trumped a benign French CPI (also JUL F), with German CPI coming in as expected. That puts European fixed income under pressure this morning as we await the US Import/Export Price Index and Advance Retail Sales (both JUL), and Business Inventories (JUN.) Especially the US Retail Sales has the ability to either reinforce or reverse this morning's weakness in Europe, as the estimate is on the high side (headline up 0.8-0.9 and Ex-Autos up 0.4-0.5.)

This comes at an interesting juncture with the Bund down near interim support at 116.35-.30 and the Gilt near its own interim support at 108.75. Yet, only T-note failure below the 106-00 congestion level's 105-24 Tolerance (trading lows, daily MA 18, and the current up channel support from the major late June lows) will likely cause the fixed income to abort its erratic holding action in favor of falling back into a directional bear trend. Similar conditions exist in the short money as well. The foreign exchange has seen a modest resurgence in the US dollar after yesterday's Trade Balance (JUN) proved to be no more abysmal than forecast. While we remain bearish of the buck overall on trend, there does seem to be a preponderance of bearish sentiment at present, and the key now is whether EUR/USD holds the 1.2760 Tolerance of the 1.2800 area support.

The equities are another matter altogether, as they remain firmly locked into trading ranges in spite of the potential fallout from yesterdays' security scare. With the DJIA consistently trading with Closes at no better than 11,300 yet no tendency to Close back below 11,100 either, it is likely that these markets are still churning out tops. Yet, under the right conditions (which might include just enough weak news to motivate further improvement in the US fixed income) the equities can still look to push up into higher resistances such as DJIA 11,570 if they can not break the support soon.

The energy markets are an interesting lot, with such significant weakness in Unleaded Gasoline not at all matched by similar slippage in Crude Oil. As noted yesterday, it illustrates the degree to which the Crude Oil might still be impacted by geopolitical uncertainty, yet ample supply can lead to lower product prices anytime there is a question over demand, the most recent vestige of which is the potential for diminished travel to crimp the airlines demand for fuel. While we do not necessarily believe this will happen, the impact of yesterday's security scare amply illustrates the potential.

FIXED INCOME

This has quite a bit to do with the leadership role of the T-note after its surge above the 106-08 Tolerance of the 106-00 area resistance late last week. Now the Tolerance of that same area on the way back down is 105-24, and unless the T-note Closes back below it soon it will more likely extend its recovery up to the 107-00/-08 area, or even the 108-00 area.

Any major divergence from the trend of the European long ends only becomes apparent if the **Bund** drop from it temporary trading above the 116.80 interim resistance extends to serial failures below the 116.35-.30 congestion and the 116.00 area trend support (congestion, up channel from the significant 114.82 early July low and weekly MA 9 & 13.) Whether the Bund even fails those levels will be very interesting in its own right, and a critical influence now that the UK fixed income is under even more pressure after today's surprise from the Bank.

The **Gilt** is already back below interim 109.00-.20 area resistance, which leaves more major support in the 108.50 area (with a Tolerance to 108.40) vulnerable if the interim support at 108.75-.68 fails. The next lower support is into the mid 107.00 area. The same can be said for the December **Short Sterling**, which not surprisingly crashed through its lower support in the 95.00-94.94 area on last Thursday's surprise BoE rate hike, fomenting a break to near the next congestion and daily oscillator support in the 94.80-.75 range.

December **Eurodollar** would need to Close back below 94.50 to violate the working Tolerance of the 94.52 UP Break (out of the major down channel resistance from the 95.37 last mid-January high prior to the aggressive winter down trend), yet still stalls against higher congestion and other resistance which begins right in the 94.55 area, and ranges all the way up to 94.63. More major support is the 94.40-.35 area (also now important congestion), while below that the next support was not until the 94.20-.15 area last seen in August 2002.

While the contract **Euribor** managed to also Break UP through its 96.41 congestion, which is also its major down channel resistance from the January highs, and is already slipping back below that UP Break. It also has plenty of resistance back up at the 96.50 congestion, which it never even approached due to the overwhelming hawkish sentiment flowing from the ECB. Next support remains 96.36 that is currently being tested, below which lower support is still ostensibly the 96.25-.20 area.

FOREIGN EXCHANGE

Yields moving back up a bit might be helping the US dollar. Yet, with UK and European yields leading the way, that does really make much sense, unless yields are not the primary influence. Perhaps the foreign exchange is simply churning in its trading ranges, and the secular strength of the British pound notwithstanding the buck has now fallen far enough to be in a position where it simply wants to punish the overly aggressive bears once again.

The bearish psychology would seem to at least partially revolve around the surprise hike from the Bank of England also encouraging a view that the FOMC may be even more prepared to pause if it thinks the other developed countries central banks are cooling their economies. As the **GBP/USD** has been especially strong in cracking the 1.8750 and 1.8875 resistances, and even the 1.9000 area weekly DOWN CPR resistance, its failure back below 1.9000 is also a big disappointment to the US dollar bears. Especially as **EUR/USD** never even hit the higher resistance in the 1.2930-50 range on the push above interim 1.2800-20 resistance, the **US Dollar Index** below the .8500 area support never reached the .8400-.8380 range, and the **USD/JPY** was actually firming after leading the way down previous. In fact USD/JPY did not even need to retest its mid 113.00 area support prior to recovering, and the next significant resistance is right back in the mid 116.00 area which it is now approaching.

Even though it had escaped the 1.2820 resistance, EUR/USD appears range bound along with other US dollar trend relationships except for the secular strength in the British pound. Unless EUR/USD can Close fully through the 1.2930-50 resistance, which ultimately means above the 1.3000 psychological resistance, the US dollar will likely remain stuck in a broad trading affair. That the buck is strengthening in the wake of another expectedly weak US Trade Balance number this morning is a sign of just how technically driven the psychology remains at present. Much below 1.2760 EUR/USD is likely headed back to at least the lower support at 1.2700-1.2660, or even lower. Yet, here as well it is important to remember this is part of a broad consolidation of the major Winter-Spring US dollar break into mid-May lows.

The other currencies are conforming to the US dollar weakness within what likely remains an overall upward trend reaction set up by the EUR/USD and US Dollar Index reversals since the mid-May dollar low. The commensurate higher resistances and lower supports are:

USD Index: RES: .8585; .8700; .8800; .8880 SUPPORT: .8500; .8450; .8400-.8380

GBP/USD: RESISTANCE: 1.90; 1.92; 1.9350 SUPPORT: 1.8875; 1.8750; 1.8600; 1.8200

USD/CHF: RES: 1.2500; 1.2650; 1.2900 SUPPORT: 1.2350; 1.2250-00; 1.2150

USD/CAD: RES: 1.1400-50; 1.1550; 1.1600 SUPPORT: 1.1250; 1.1100; 1.1000-1.0975

AUD/USD: RESISTANCE: .7750; .7700; .7850; SUPPORT: .7650; .7550; .7450; .7350

EQUITIES

While DJIA has now recovered, we remain skeptical that it can carry back above the top end of the 11,100-11,300 area resistance in the near term. However, that decision will be heavily influenced by a 'bad news is good news' psychology after the FOMC action and statement; as long as the bad news is not too terribly bad. Resistance above the top of the 11,100-300 range remains in the upper 11,500 area, and of course the old all time high at 11,750. Similarly the September S&P 500 has 1,258-62 range lower support, with higher resistances remaining in the 1,288-93 and 1,300 areas.

In a rightfully ironic twist of fate, the previous strong sister European equities suffered a bit more in the wake of their central bank rate hikes last week, yet not markedly so. The **DAX** had been the weaker sister of late, and was more contained on the break as well, not even Closing below the Negated 5,627 DOWN Break from three weeks ago (from its mid-June through early-July up channel.) Recent congestion remains resistance in the 5,700 area, albeit that has not been quite up to the higher DOWN Break and Tolerance at the 5,745 and 5,790 levels, which remain resistance. The **FTSE** fell back below the previous 5,900 area high, yet only approached its support at Negated 5,750 and 5,700 DOWN Breaks.

What is extremely interesting is that previously more buoyant **NIKKEI** has also stalled back at resistance (previously violated supports) in 15,700-15,500 area. Lower support is the Negated 14,850 intermediate term up channel DOWN Break. While the market has once again been quite resilient, it is also stalled at no better than the 15,700 area on the early July rally, and that remains the most important near term resistance. All of which reinforces the range bound nature of this market pending further developments in the US. This illustrates the importance of the US economy and equities in spite of the significant regional economic strength which has developed due to cross-trading between the buoyant economies of Asia.

ENERGY

One of the most interesting aspects of the market response to yesterday's events is the weakness of the energy markets, with the Crude Oil back into the 75.00 support, and the Unleaded Gasoline back below the previously violated 215.00-220.00 resistance. This will likely also help to underpin the fixed income and equity markets, as it illustrates the degree to which the Crude Oil might still be impacted by geopolitical uncertainty, yet there is ample supply of products that will lead to lower prices anytime there is a question over demand. Such is the case at present due to the (possibly misguided) expectation that this morning's security scare will weigh on travel and even the economy at large. Of course, the further perverse aspect of that is the lack of any major negative response from the equity markets.

Crude Oil is still on UP Breaks from a weekly Bull Triangle at 72.40 and daily Flag at 72.00. Only a lead contract weekly Close back below the lower of these is a near term failure of important support. While the obvious resistance was the congestion and oscillator threshold at the previous high in the 75.00 area, this has been overrun in both directions of late, albeit any sustained activity much above could still foment a more explosive violation of that weekly oscillator resistance that would lead at least to the 81.00 resistance, if not the extended oscillator threshold (last seen after the 1990 Iraqi invasion of Kuwait) in the mid-80.00s.

Yet, the **Unleaded Gasoline** has completely aborted its push above the 215.00-220.00 key congestion and gap resistance after not quite making it to weekly oscillator resistance at the 237.00 September high. Now it is back to approaching lower supports in the 2.0000-1.9500 area, with serial supports below in the 1.8500 area and every ten cents down from there.

We hope you find this helpful.

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