

# ROHR INTERNATIONAL

## Weekly Report & Event SUMMARY PERSPECTIVE

Monday, May 28, 2012

***“Chance favors the prepared mind.” –L. Pasteur***

▪ **Most Likely Critical Horizons:** After the extensive global end of May holiday on Monday (only the UK was open for regular trading), it is back to another intense week. This time it happens to be the classical overlap at the end of an old month into the new... with a twist.

In addition to all the typical end of month data into Wednesday and Thursday, Friday being the 1st June also brings the US employment report that is compounded by the release of the international Purchasing Managers Indices of Manufacturing. However, as important as that may be due to previous weakness, the Eurozone Sovereign Debt Crisis will remain a key even before we see those figures. That is due to Thursday's Irish Stability Treaty vote. So it's another week where late week influences trump anything that comes before them.

Even so, along the same lines, Tuesday sees Bank of Portugal release its Financial Stability Report and EU General Affairs Ministers meeting in Brussels along with data on Japanese Retail Trade and US Consumer Confidence. That last bit is important due to the degree to which the rest of the world is still counting on the recently mixed US economic indications returning to strength to assist the situation elsewhere. Further insights on the global economic activity pick up from midweek. Those include Wednesday's Australian Retail Sales preceding a shift to more intense European influence from a range of Euro-Zone confidence indicators, the EU Convergence Report on Euro Eligibility and EU Economic Policy Recommendations to All States. Financial luminaries include the ECB's Draghi, followed by a range of Fed-speak.

And things really begin to heat up on Thursday when some Asian numbers lead to German Retail Sales and French Consumer Spending that are likely to be overshadowed by the Irish Stability Treaty Vote noted above. Even so, Thursday also sees the typical extensive US end of month data on Monthly US Chain Store Sales, ADP Employment, Q1 GDP revision and associated data, Weekly Initial Jobless Claims, and Chicago PMI with NAPM-Milwaukee.

However, the really intense influences for the end of week trend decision arrive on Friday, with the unusual twist that there are no scheduled pronouncements from financial luminaries. Of course, that doesn't preclude *ad hoc* announcements, or outright central bank and finance ministry activity if the situation in Europe should become disorderly. In that regard it is very important to note that Spanish 10-year bond yields are already above the important 6.0% level early this week. While it has been some time since they were above the unsustainable 7.0% level, all the more reason any push back above that level after such a lengthy pause would elicit a response from the ECB and/or the European Financial Stability Facility.

That said, the sheer economic data on Friday is also very important to the trend decision, with the global Purchasing Managers Indices of Manufacturing hitting first in Australia, and rolling through the rest of the world as the day progresses. Of course, the US data that wraps up the week includes the important Employment report and associated data, Construction Spending, and US Domestic and Total Vehicle Sales that will unfold throughout the session. All in all, another week of data cannon fire further exacerbated by the facts on the ground from Europe.

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▪ [Economic Data Highlights:](#)

**Saturday:** China Leading Index.

**Monday:** Japan Corporate Service Price, Italian Business Confidence.

**Tuesday:** Japan Retail Trade, German CPI, S&P/Case-Shiller US Home Price Index, US Consumer Confidence, Dallas Fed Manufacturing Activity.

**Wednesday:** Japan Manufacturing PMI, Australia Retail Sales, Euro-Zone Consumer Confidence and other confidence indicators, Euro-Zone Jobseekers.

**Thursday:** UK GfK Consumer Confidence, Japan Industrial Production, Australia Building Approvals & Private Sector Credit, German Retail Sales, Japan Construction Orders, UK Nationwide House Prices, French Consumer Spending, German Unemployment Change, US May Monthly US Chain Store Sales, US ADP Employment Change, US GDP & associated data, US Weekly Initial Jobless Claims, Chicago Purchasing Manager Index, NAPM-Milwaukee.

**Friday:** Australia AiG Manufacturing PMI, Japan Capital Spending, China PMI Manufacturing & HSBC Manufacturing PMI, Euro-Zone & UK Manufacturing PMI's, Canada Gross Domestic Product, US Employment report & all associated data, US ISM Manufacturing, US Construction Spending, US Domestic & Total Vehicle Sales.

▪ [Central Banks, Finance Ministry & Political influences:](#)

**Monday:** Most EMU and All US Markets closed for holidays, UK Markets open (holiday observed next Monday & Tuesday), RBA's Stevens, ECB's Knot, BoE's Broadbent.

**Tuesday:** Bank of Portugal Financial Stability Report, EU General Affairs Ministers in Brussels.

**Wednesday:** BoJ Shirakawa, EU Convergence Report on Euro Eligibility, EU Economic Policy Recommendations to All States, ECB's Draghi, Fed's Fisher, Fed's Dudley, Fed's Rosengren.

**Thursday:** Irish Stability Treaty Vote, EU's Rehn & Barroso & Italy's Monti, SNB's Danthine, EU Trade Ministers Meet in Brussels, Fed's Piantalo, EU's Rehn.

**Friday:** The silence is deafening; pending any need for *ad hoc* pronouncements in Europe.

▪ [Government Debt Auctions or Operations:](#)

**Monday:** Italy, UK all week (Syndicated offering), ECB Announces Bond Purchases.

**Tuesday:** Italy, Japan.

**Wednesday:** Australia, Italy.

**Thursday:** ECB Announces 7-Day US Dollar Tender Allotment.

**Friday:** Japan, Australia.

[Concise Market View](#)

▪ **However much technical repair seems to be underway after last Wednesday's ability of the June S&P 500 future to recover from its retest of the 1,297 DOWNSide Objective, it doesn't mean much unless it can also exceed key resistances at 1,338 and 1,350-55 area.** We appreciate that seems like kind of a broad berth. Yet, how many times have we cautioned in volatile equity markets that any near-term support or resistance might be easily overrun; and it has indeed been obliterated on the sharp swings between the major levels. We note that at this time because last week was such a prime example of just that sort of tendency.

When **June S&P 500 future** was down \$20 on the day last Wednesday, we noted that as bad as it looked in the moment, the burden of proof had shifted back to the bears to keep it below that 1,297 DOWNSide Objective; or suffer the consequences of not confirming the return of the aggressive bearish trend that had stabilized from the top of last week. And their inability to keep the market below 1,297 for more than a brief time left it back up near steady on Wednesday.

Volatile influences are flowing out of alternating European crisis success and failure. Economic data has also been highly erratic, and on balance somewhat weak of late; at least weaker than most of the bulls have been expecting. As such, we suggest skipping the short-term, mid-range focus in order to concentrate on the bigger decisions at the fringes of the current active range. And that applies as well to the other asset classes which are also at or near some key levels.

It is also important to note at this point that the German **DAX** has managed to hold on mostly no worse than the low-end of its 6,320-6,285 major support. That is in spite of the weakness of some of the other European equity indices for the weak peripheral sisters like Spain.

▪ **And of course the early week strength in equities along with whatever transpires across time remains an important influence on other asset classes. That is especially so for the primary government bond markets, yet with some implications for foreign exchange, Crude Oil, and Gold.** In the first instance today's recovery in the equities has fomented a minor stall out in the previously very strong primary government bond markets from key resistances. Just to be clear, this cannot even be termed a reaction in the context of the overall strong trend in the govies; and they still have plenty of lower support, that will likely mean they remain bullish in the near-term even if equities temporarily stabilize above critical levels noted above. Yet, at least for now, upside leader **June Bund future** has backed off from its 144.50 area oscillator resistance, even if it did finish last week above its 143.70 long-term weekly chart topping line. Due to the continued rise of weekly MA-41, it will need to Close the week nicely above 144.50 in order to escape that key oscillator resistance (MA-41 plus 6.00) for a possible additional two point extension of its rally. Initial lower support is now the 143.70 level at which it escaped the topping line last week, with 142.80 congestion the Tolerance below it. Casting the next supports and resistances in terms of full point swings only reflects the prevailing volatility.

The same goes for **June Gilt future** that stalled around the high end of its similar 119.00-.40 topping line and oscillator resistance prior to escaping last week. However, on psychological grounds it seems escaping the psychological resistance at 120.00 will be necessary to assist it in pushing for that additional two point extension. Near-term support there is also back into the very prominent upper-mid 117.00 area, with extended support into the upper-116.00 area. And in its way **June T-note future** is a bit of a weak sister right now, never even quite making it to its equivalent 134-00 resistance. Near-term support is back in the 133-00/132-24 area it managed to overrun two weeks ago, with very hefty extended support back in the 132-00/131-24 area.

▪ **While foreign exchange had appeared to be more of a churn of late, that has now turned back into a very dynamic trend arena. And while some relationships churn along within more trend oriented activity, there is also been some dramatic swings along the way.**

Those include the rather sharp Japanese yen rally and break in such a brief time span from a week ago Thursday into early last week. Whatever the reason, stalling no better than **USD/JPY** 80.25-08.50 UP Break and congestion leaves it in a near term Declining Wedge (from the 84.18 March high.) Until it can push back above those levels it might still work its way down to a retest of the significant .7850 major Wedge UP Break on any further weakness. And that will be the far more major test of congestion, long-term moving averages and overall UP Break psychology.

Not very surprising that weak sister euro saw **EUR/JPY** drop further below its recent 104.00 DOWN Break. Already below its 103.00-102.40 support from two weeks ago, it slid into the important 100.00-99.25 support. However, given the recent stability of the British pound even as it reacted from its highs last month, it was quite a sight to see **GBP/JPY** drop so quickly below 127.50 support to 125.00-124.50 area next significant support; where it remains critical.

The **US Dollar Index** is also very interesting insofar as it has stalled after its recent strong run to exceed the .8178 high from back in January. That said, there is important Fibonacci resistance at .8250 which might be restraining the market temporarily; much as the historic congestion at **EUR/USD** 1.2500 seems to be underpinning the euro for now. And it would seem likely that any **US Dollar Index** escape above .8250 does not leave any further resistance until the mid-.8300 area; which is also very important as the last resistance this side of .8500. Yet, even if it should set back below .8178, it should also have very good support on any selloff near .8000.

The euro has been rightfully quite weak again since the 'disconnect' in the wake of the ECB press conference three weeks ago. As such, no real surprise that the **EUR/USD** weakness below both 130.00 and the January 1.2925 UP Break has led to a failure back below support in the mid-1.2600 area also last seen in January. The retest of the 1.2500-1.2450 area noted above is also fairly critical at this time for the same reason that **US Dollar Index** .8250 being exceeded could lead to a further surge: there is not much **EUR/USD** support below the 1.2500 area until down in the low 1.2100 area into 1.2000. So it is all going to be very interesting in the context of the further evolution of European troubles.

In that context it is not a huge surprise that **EUR/GBP** should have slipped so significantly into and slightly below its interim support at .8000 after serial failures below important .8250 and .8150 supports. However, the further dilemma is that .8000 area is indeed only interim support in a major range from back in 2008, with major support not until down around the .7750-.7000. All of which speaks of a currency flight out of Europe into London, as the British economy is certainly not strong enough to justify the higher currency valuation based on inward investment.

What is most interesting along the way is how well the euro has kept its bid against fellow weak sister Australian dollar of late. That speaks volumes about weakening of commodity demand. Whereas the euro had been suffering against almost all other currencies, **EUR/AUD** maintained its recovery bid into the 1.2900 area high set early last month until the early part of last week. While much above 1.3000 it could actually claw its way back into an entire higher range that it fell out of back in December, it seems to want to weaken for now back toward lower support in the hefty 1.2650-1.2550 area congestion on renewed Australian dollar strength.

And speaking of the Australian dollar, as we pointedly noted previous the context of the global economy is also reflected in whether **AUD/USD** manages to hold major Fibonacci and channel support in the .9800 area, with a Tolerance to the .9700 area. That will determine whether it remains an uptrend overall from its major .6010 low from 2008. So its recovery today would seem to indicate that it has stabilized for now. The dilemma is that on various technical trend indications the Australian dollar will not look really good again until it managed to cross back above **AUD/USD** 1.0250. The broader trend will remain in limbo until one of those significant trend areas is violated.

▪ **July Crude Oil future not only failed hefty 95.50-94.50 range congestion, it was also dropped below important lower support (December pullback lows) in the 93.00-92.50 range on its way to test further significant 90.50-89.50 congestion support.** Yet the significant UP Break from last October is not until down at 84.50; which is probably the ultimate downside support if equities weaken once again in the near-term. Of course, the relative state of the nuclear fuel enrichment negotiation with Iran can be a somewhat significant near-term influence as well. For now, 93.00-92.50 is the important resistance to watch.

▪ **And the June Gold future finally capitulated after its previous ability to hold its major 1,615-1,600 support. And that should also be fairly scary for the equities bulls, as the only time the Gold heads down this heavily with the equities is during a potential for a significant deflation scare.** Back below the low-1,600 support last December's 1,526 low is the initial key lower support, with extended levels not again until the lower end of last summer's range in the 1,480-70 area. However, as it has held near the higher of those areas on recent selloffs, it is likely stabilized for now as long as the equities maintain their upside correction.

It is of note that industrial metal **July Copper future** remains weak below both 3.65 and has recently been significantly challenged in even getting back above critical lower support at 3.50. Next lower support is not until the 3.20-3.15 area, which will be very critical as the completion of a major top. Whether it holds or Breaks DOWN will be a most interesting economic indication.

We hope you find this helpful.

-Rohr

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