Rohr Report

Weekly Overview

Monday, January 12, 2009 (Monday distribution)

Key Views

- **The entire market psychology remains very much the same as reviewed in our previous analyses in the wake of the near-term equities weakness, bond market strength right into last Thursday's US auction, and highly diverse foreign exchange trends. Anyone who is still wondering why a somewhat better than expected US Employment report Friday has not assisted equity markets need only look at OECD Composite Leading Indicators (NOV) from this morning. Their consistently prescient projections' headline "…deep slowdown in OECD area and major non-OECD member economies" is a six-month forward view the equity markets will need to respect. (A copy is attached for your direct review.)**

- **The DJIA failure to sustain its push through 8,850-9,000 resistance by exceeding the Tolerance factor to 9,100-50 brought it back under pressure. Considering the overall bottom it is trying to form, that leaves it vulnerable to a swing back down at least recent congestion in the 8,500 area (with a Tolerance to roughly 8,350), below which it might he capable of selling off once again into the 8,200 area, or even 8,000-7,900 area while still basically bottoming. 9,500 and 9,654 and the 10,000 area remain major higher resistance.**

- **As we noted last week, a friendly bond market technical influence from the classic futures expiration rollover implications may seem a bit obscure to some folks, yet is actually a very simple and powerful historic tendency. If after a premium priced lead contract T-note (December 2008) expires the second month does not violate the next significant support (as in the March contract holding the 124-00/123-16 area recently), then the new lead contract (March) is entitled to swing up to test the higher levels reached by the old, expired lead contract. Which creates a possibility March T-note will rally through its mid-December 128-22 rally high up to 130-00/-19 continuation high as long as it does not violate 124-00/123-16 sometime soon. More extensive background on psychology underpinning that was presented in Thursday's *TrendView* BRIEF UPDATE from the middle of page 2 down to the bottom of that page. While there is quite a bit of divergence in their trends, that is the likely influence on other fixed income markets.**

- **Foreign exchange remains very diverse, as weakness of the euro and strength of the Japanese yen remain most prominent. With Sterling and the Aussie weakening as well, the secular strength of the yen does appear to be the secular trend on soft equities.**

- **Weakness of equities and burdensome inventory numbers weighed on February Crude Oil after it failed at 49.90 resistance (violated old major trading range) early last week. Now below psychological support and near-term congestion at 40.00, the 37.00-36.00 area top end of another major congestion range will also be very critical. That is because any failure into that major lower range (from mid-1999 until the push above 40.00 in summer 2004) leaves the next supports into 25.00, with 20.00 and 16.70 below that.**

Reports & Events

In addition to a crescendo of economic data and speeches which builds into Thursday's ECB rate decision and press conference (and shortly thereafter), there are quite a few other important central bank and governmental influences throughout the week.

Not the least of those is the US Congress' plan for the second half of TARP funding. Now that President-elect Obama has added his voice to others (both in and out of government) expressing significant concerns that he first tranche of TARP funding was not used in any way for direct at-risk home borrower assistance, it only adds to the expectation that the early week announcement by Representative Frank will finally move toward direct foreclosure mitigation. That would seem to have been one of the missing links of the Paulson/Bernanke approach, and may encourage equity markets dealing with otherwise abysmal economic data and sentiment.

ECB is prominent Thursday, yet with many other central bank influences the whole week. Those begin with today's Bank of Canada Senior Loan Officer Survey (Q4), followed by the Fed's Beige Book on Wednesday, Thursday's Bank of Italy Quarterly Economic Bulletin and Fridays Bank of Japan Quarterly Branch Managers' Meeting in Tokyo. Along the way there are quite a few speeches from various Fed officials (and very little from other quarters) primarily focused upon the current economic crisis and economic outlook.

All of which takes place against the backdrop of this morning's OECD CLI (NOV.) While it has been unusual in the past for the OECD to release Composite Leading Indicators on anything other than a Friday, this year seems to have brought what we consider a constructive change of heart on deferring for a full week when the data cannot be ready timely for the first Friday of the month. This important data set accurately predicted the top of the developed economies into mid-2007, and subsequent weakness setting in on the BRIC economies as well. It was also extremely accurate (contrary to received wisdom in early 2008) in pointing out the continued linkage between the ingrained weakness in the US economy and the fact that Europe and the other developed economies would not escape collateral damage from that greater than expected US shock to the system. Now very negative on BRIC economies as well.

And throughout it all, there is ample supply of long dated fixed income to test the market. That includes tomorrow's 10-year Gilt auction (4.50%), then Wednesday's 5-year JGB, €7 billion of 2-year German Schatz (2.25%) and various Italian BTP offerings including 5-year (3.75%), 30-year (5.00%) and 20-year (5.25%) maturities, Thursday's Spanish Obligacions of 15 years (4.80%) and 31 years (4.90%), as well as UK DMO 23-year Index-Linked Gilts (1.25%), and the details of the 38-year Index-Linked Gilt (0.75%) auction to be held on January 27th.

While there is also plenty of inflation data this week, we are not sure it is that relevant. In the current environment, expectations of annualized inflation rates dropping sharply is not so constructive toward equity markets that would have cheered lower inflation a year ago. While it is allowing central banks to ease aggressively, it is also no secret that it is only an effect of the economic and credit market melt down. If anything, too steep a drop will be a further negative.

Interesting that Friday's US Employment release came right into a weekend full moon. That equity markets could not push higher on a waxing moon into last weekend only reinforces the most negative instincts. Any equity bulls should be hoping that the Congressional refocus of the TARP program into more direct homeowner relief is very impressive. Otherwise the influence of diminished animal spirits might drop DJIA back below the 8,500-8,350 support.

Day-by-Day

While we prefer definitive dates for economic releases, the German Wholesale Price Index (DEC) is only known to be scheduled for release between today and this Thursday, with Bank of France Business Sentiment (DEC) between today and next Monday, Australian NAB Business Confidence (Q4) between Wednesday and the end of the month, and Tokyo and Japanese Nationwide Department Store Sales (both DEC) between this Thursday and next Wednesday. However, in addition to those semi-random releases, the various pronouncements from current or soon-to-be government officials on either the TARP, TAFF or other initiatives may occur at any time or be scheduled on short notice.

Monday is a light reporting day of sorts, yet with a couple of interesting influences that begin with Australian Quarterly Wage Agreements (3Q) and typical top-of-the-morning (literally 12:01 AM GMT) UK NIESR GDP Estimate (DEC) expected to show a 1.0% annualized contraction, followed by another key economic indication from Australian ANZ Job Advertisements (DEC) and the Bimonthly Meeting of the Bank for International Settlements and the only European influence from a €7 billion six-month German Bubill Auction. That said, North American influences are also rather limited yet possibly important from the Canadian New Housing Price Index (NOV), their Business Outlook for Future Sales (Q4) what may be a very interesting Bank of Canada Senior Loan Officer Survey (also Q4) prior to the Fed's Lockhart speaking on the US Economic Outlook in Atlanta and a Fed auction of $150 billion of 28-day TAFF securities.

Tuesday commences the more important influences that will continue through the balance of the week, beginning with the Japanese Trade Balance and Current Account (Total and Adjusted figures for NOV) as well as their Bank Lending figures that include Adjustments, Lending including Trusts and Lending Banks ex-Trust, and the Money Stock M3 and M2+CD (all DEC) followed by their Economy Watchers Survey Outlook and Current (both DEC) that yield temporarily to the once again typical top-of-the-morning (literally 12:01 AM GMT) UK BRC Retail Sales Monitor and RICS House Price Balance (both DEC) prior to heading back for the final Japanese figures of the day on Bankruptcies (DEC.) In Europe we see the French Central Government Balance (NOV) and UK Visible and Total Trade Balance along with their Non-EU Trade Balance and DCLG UK House Prices (all NOV) and a DMO 10-year Gilt auction (4.50%) and the details of the 4-year Gilt (4.50%) auction to be held on January 22nd. In North America it's the early morning release of the currently important Weekly ICSC-Goldman Sachs US Same-Store Sales (for the week ending JAN 10), an early (US) morning speech by Chairman Bernanke on Crisis and Policy Response in London, the Canadian International Merchandise Trade figures (NOV), US Trade Balance (NOV), Interim Assistant US Treasury Secretary for Financial Stability Neel Kashkari providing and update on TARP implementation, IBD/TIPP Economic Optimism (JAN), Monthly Budget Statement (DEC) and the Fed's Lacker speaking on the Economic Outlook in South Carolina, followed only by the typical late afternoon ABC Consumer Confidence (for the week ending JAN 11.)

Wednesday sees only a bit of Far Eastern influence from Australian Home Loans, Investment Lending and the Value of Loans (all NOV) and the Japanese Machine Tool Orders (DEC Preliminary) along with a 5-year JGB Auction prior to shifting over to Europe for interesting influences from the French Current Account (NOV) and Consumer Price Index (DEC), German Real GDP Growth and the associated Public Finances Balance-GDP Ratio (2008), as well as Italian Industrial Production and Euro-zone Industrial Production (both NOV) as well as auctions of €7 billion of 2-year German Schatz (2.25%) and various Italian BTP offerings including 5-year (3.75%), 30-year (5.00%) and 20-year (5.25%) maturities.

(**Wednesday** continued) In the US it's MBA Mortgage Applications (for the week ending JAN 9), Advance Retail Sales and the Retail Sales Less Autos (both DEC), Import Price Index (DEC), the Fed's Plosser speaking on the Economic Outlook in Newark, Delaware, Business Inventories (NOV), and the Fed's Stern speaking in Cedar Rapids, Iowa on Policy Prospects, all of which is merely the appetizer course for the early afternoon release of the Fed's Beige Book in preparation for the two-day January 27-28 meeting of the FOMC. That is followed by what is an influence into Thursday for the rest of the world, as San Francisco Fed President Janet Yellen gives a speech in the evening from San Francisco on the US Economic Outlook.

Thursday starts with some limited yet important influences out of the Far East in the form of the Japanese Domestic Corporate Goods Price Index (DEC) and Machine Orders (NOV) along with the early day release of the Bank of Italy Quarterly Economic Bulletin prior to heading over to Australia for their Employment Change, Unemployment Rate and Participation Rate (all DEC.) In Europe we see what are most likely only confirmation of previous data on finalized German, Italian and Euro-zone Consumer Price Indices (all DEC) as well as Euro-zone EU 25 New Car Registrations (also DEC.) All of which is also only the setup for a very interesting European Central Bank rate decision. While expected to be a 50 basis point easing to 2.00 percent, it is worth noting that this could be as little as a 25 basis point accommodation now that Monsieur Trichet is signaling his lack of support for the coordinated quantitative easing as the critical imperative discussed by other central banks.

Whatever the actual rate adjustment, we will hear much more on the overall ECB mentality when they convene the typical post-rate decision press conference 45 minutes later. All of which will be that much more interesting in light of both the auctions of Spanish Obligacions of 15 years (4.80%) and 31 years (4.90%) as well as UK DMO 23-year Index-Linked Gilts (1.25%) and the details of the 38-year Index-Linked Gilt (0.75%) auction to be held on January 27th, and the major raft of economic data released in North America concurrent with the beginning of the ECB press conference on Canadian New Motor Vehicle Sales (NOV) and the US Producer Price Index (DEC), Empire (New York State) Manufacturing (JAN), the still important Weekly Initial Jobless Claims (for the week ending JAN 10) and Continuing Claims (for the week ending JAN 3), and subsequent Philadelphia Fed Manufacturing Index (JAN), the testimony of Fed Nominee Tarullo at his Senate confirmation hearing, none less than the ECB's Stark speaking in Frankfurt, a speech by the Swiss National Bank Governing Board member Thomas Jordan, followed by the early afternoon (US time) speech by the Fed's Evans in Madison, Wisconsin and the Fed's Lockhart speaking on the US Economic Outlook in Mississippi. Quite a day.

Friday is less fraught, yet still has a couple of key indications up its sleeve, beginning with the typical weekly Japanese Foreign and Domestic Stock/Bond Purchase figures (for week ending JAN 9), the Bank of Japan Quarterly Branch Managers' Meeting in Tokyo, and Euro-zone Trade Balance (NOV) prior to heading over to the US for the Consumer Price Index (DEC), its Net Long-term and Total Net TIC Flows (NOV), Industrial Production and Capacity Utilization (DEC) and University of Michigan Consumer Confidence (JAN Preliminary), followed by a speech from Swiss National Bank Vice President Philipp Hildebrand and the Fed's Jeffrey Lacker speaking on the US Economic Outlook in Richmond. And that's it.

We hope you find this helpful.

-Rohr
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