Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, January 17, 2008 (07:00 CST; 08:00 EST; 13:00 GMT)

OVERVIEW

▪ **The major influence after this morning's release of still upbeat ECB Monthly Bulletin will be Mr. Bernanke's statement and Q&A session at the US House Budget Committee. That is because the real surprise on Wednesday was the rather more downbeat assessment of the European economy from ECB Governing Council member Yves Mersch, which tipped the euro back below EUR/USD 1.4750-20 and EUR/GBP below .7550-00, as well as putting a further bid into the Euribor contracts into this morning.** Yet, unlike the Fed where professor Bernanke has lost control of the classroom, at the ECB President Trichet is still first among equals. When some clients inquired on the relevance of this, we cautioned that Mersch's comments did not mean a whole lot unless confirmed by the ever upbeat and hawkish Monsieur Trichet. And sure enough, before the afternoon was out the 'big dog' let loose with some duly hawkish growls. However, given the continued weakness of the euro and bid in the Euribor there seems to a sense that the markets are beginning to ignore Monsieur Trichet's view and concentrate on the real economic situation.

▪ **No surprises the DJIA camped out near 12,500 prior to the Beige Book after trading well below it early, and recovered to no better than 12,600 area in its wake. The reason that was so important not just yesterday but into the end of this week is Tuesday's failure below last Wednesday's 12,590-65 daily UP CPR prior to Mr. Bernanke's friendly Thursday speech. While the market capitulated back below 12,800 on Friday's opening, the failure below 12,590-65 is the refutation of the Fed ability to 'cure' things.** What that leaves us with is consideration of whether the DJIA can recover for a sustained rally back above the 12,590 area. If so, it might signal it has shaken off the worst effects of the weak financial services corporate earnings and other news, and allow for a recovery to at least retest 12,800, and possibly even reach higher resistances at 13,000 or 13,250-350 once again; we doubt is can actually recover all the way to the 13,500-50 area Christmas highs. However, the longer it fails to recover above 12,590, the more likely slippage back below 12,500 will also include a test of the secondary support in the 12,300 area, with not much below that until more important 12,000-11,940 congestion, Fib and even major trend support. Of course, all of the other equity markets would then be dragged down to their own significant supports, as noted in yesterday's *TrendView* **BRIEF UPDATE**. Countervailing effects on the fixed income markets and direct influence on the US dollar also still apply.

▪ **That leaves a lot of pressure on Mr. Bernanke today, especially in the wake of the upbeat ECB Monthly Bulletin that signals no assistance will be coming from Europe (much as was the case at the bottom of the last contraction back in 2003-2004.) Yet, he will be significantly restrained by the downbeat Beige Book, so the response of the equities (and other markets) to pressure from the Congress will be most interesting.**

▪ **The implications for fixed income remain as previous, with the short money likely experiencing sustained strength on any equity market failure, yet long ends being much more problematic if the Fed is forced to ease in the face of equity market failure. March T-note resistance in the 116-16/117-00 area was already tested when the DJIA dipped below the 12,500 area yesterday, yet dipped quickly back below 116-00 once the DJIA stabilized back in that area.** That would seem to establish it as considerable resistance unless there is actually a DJIA meltdown below the 12,300 area; in that case it is possible (and just possible) that a push above it could lead to a test of the major 118-00 or 119-00 extended resistances noted previous.

This is part of the reason why any Fed easing which actually rescues the equities might be a negative for long-dated fixed income that has already achieved such lofty levels. At 117-00 the lead contract T-note is only four percentage points below the 121-00 June 2003 deflation fear high; what grounds are there in the current environment other than the fear generated by equity market weakness to justify yields sustaining themselves at such low levels? We will have more to say on that in *Capital Markets Observer* IV-3, which is now deferred until next week so that we can properly revise it to include some further very interesting and important developments on the housing and political fronts.

Lower initial support in the March T-note is 115-22, with extended support into the 114-24 area, and more major support at 114-00/113-24. That said, it is important to keep in mind not just that the market was as low as the mid 111-00 area as recently as Christmas, but that it also may be experiencing the top of a full cyclical correction in a very compressed manner due to the twelve point rally from the lows only taking seven months due to the extensive influence of the very weak economic outlook in the US. Previous intermediate-term historic corrections have lasted for roughly a year or more. We presume the European fixed income will follow the lead of the US in a more subdued manner.

▪ **The foreign exchange picture is that much more convoluted due to today's euro capitulation, and that is the most interesting bit. In spite of Big Dog Trichet's attempt to restore order in the yard that was in evidence in the ECB Monthly Bulletin, failures of EUR/USD back below 1.4750-20 and EUR/GBP below .7550-00 seem to be sticking.** As such, we can see those as reinstated resistance, with lower supports into **EUR/USD** initially at 1.4550-00, yet with full trend support not until a washout below the mid-December 1.4311 low into the 1.4150-00 area (full trend channel support from the last major 1.2500 area consolidation low back in October 2006.) With the British pound now the weak sister, a commensurate reaction there might bring **EUR/GBP** down into the .7300-.7250 area, albeit with near term trend support as nearby as .7380-50. Whether the pound remains weak sister will have much to do with whether **GBP/USD** remains weak enough to drop back below the 1.9650-00 range for a move to 1.9200, or recovers further on its recent improvement to reinstate that area as support for a move back up to 2.00-2.01 congestion and DOWN Break. Of note, the **US Dollar Index** has failed at .7650 near term congestion (with trend resistance as high as .7700), and may be vulnerable if the equities fail once again.) **USD/JPY** has tried to base out not too much worse than the 106.85 UP Break from May 2005, below which there is not much until the 104.00 area. Resistance remains as nearby as 108, 109 and 110.

Energy markets have reacted quite a way down in the wake of Mr. Bush's Middle East "Pump The Stuff" Tour, yet February Crude Oil has still held the test of 90-89 so far. However, that leaves resistance reinstated at 94-95, 98 and the 100 area, of course.

We hope you find this helpful.

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