Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Friday, October 10, 2008 (10:00 CDT; 11:00 EDT; 15:00 GMT)

OVERVIEW

- **As noted in Wednesday's *Capital Markets Observer* IV-15, the equity market rout is a fact of life in the wake of the DJIA breaking the low end of the 10,000-9,700 support that we had highlighted as critical well before the bear market reached that area. In case it was not apparent from our discussion of that failure representing a fresh DOWN Break through the trend support from the December 1974 low, this is no longer a bull market extended correction bearish 'phase.' It puts the DJIA and other equity markets into nothing less than a 'super-cycle' correction that will be with us for quite some time. There are many more aspects of that to review, and we will be doing so in upcoming issues of *Capital Markets Observer*. Suffice to say for now that if this is a modern-day version of 1929, at least the powers-that-be seem to be good enough students of that unfortunate phrase to avoid another Great Depression. More so the pity they were not flexible and creative enough to address the core problem they had clearly articulated.**

- **Regarding the markets, all trend perspectives and technical projections remain much the same as Wednesday's *Capital Markets Observer* IV-15, with a select few important clarifications and additions; especially for the longer-term view. The first of those is for DJIA, where our broad strokes technical projections on support below 9,000-8,850 alluded only to the low end of the range the market has slipped into as the 2002-2003 lows in the 7,400-7,200 area, with the broader trend support across a major 'super-cycle' correction not until the 5,800-5,400 range (including the ultra-long-term broad channel trend support from the July 1932 low.) As any technically adept analyst or investor might surmise, there are certainly interim supports between 9,000-8,850 and the 2002-2003 lows in the 7,400-7,200 area. Indeed those are the internal congestions that formed between 2001 and 2003 at 8,600 (that has already been overrun and now represents short-term resistance), 8,200, 8,062-00 (the high end of which is the September 2001 9/11 selloff low), and the 7,500 area July 2002 low that is also the UP Closing Price Reversal area from the 7,197.50 dead low from early October 2002.**

- **The additional point of interest and clarification is for the November Crude Oil, where just today the market is slipping below major support in the 86.00 area Fibonacci levels and December-February lows (specifically 86.20.) We had noted yesterday that 78.00 is the next support. To clarify that, the Fibonacci 0.50 retracement of the entire move from the 1998 low at 10.35 to the highs is actually 78.50 (+/-), which is also some meaningful congestion from the previous uptrend during August-October 2007. It is also the case that the lower congestion we noted in the 75.00 area has a tolerance down to the upper 73.00 area that is the broadest up were trend channel support from that same major 10.35 low back in 1998. Much below that the market is indeed in an entire lower trading range, albeit with interim support is nearby as 69.00 and 66.00.**

▪ **The only other timely reminders from the extensive analysis provided in Wednesday's *Capital Markets Observer* IV-15 are that the long dated fixed income is not responding with any sort of a "haven" bid at all to the extremely extensive further equities weakness, and that with the expected notable exceptions the US dollar remains well bid. On the fixed income markets that means that the December T-note is in jeopardy of slipping below the key near-term 114-00 support. That could lead to a drop to the 112-00/111-20 support, yet with the more important historic support from the overall 2005-2007 trading range in the 110-00/109-16 area, with extended levels well below that. As we noted in the *CMO* IV-15 Fiddler's Notion discussion of 'Uncle Sam Wants YOU(R MONEY)', the situation now seems to be (to paraphrase of the late, great Illinois Senator Everett Dirksen's quip about a 'billion' dollars of deficit spending) "A *trillion* here, a *trillion* there, and pretty soon you're talking real money." Indeed; and the bonds are starting to 'get it.'**

▪ **Continued strength in the US Dollar Index seems to be putting it out above the previous resistance in the .8000-.8100 area, with the next significant resistance levels are not until .8250 and the low .8300 area. Of course, the dollar has dropped a long way and any ability to get above that low .8300 area to put it back in whole higher range it last visited between May 2005 and April 2007. At which point the higher resistances are quite a bit more spread out and could lead to a recovery to it least the .8900 area, albeit with interim resistances at .8500-50 and .8700-50. However, it is important to keep in mind that once the equity market dust settles (which may still be at somewhat significantly lower levels), the same sort of negative psychology which is beginning to percolate to the surface in the US long dated 'govvies' may come back to want the greenback as well.**

▪ **While never meaning to be alarmist, there may come a point once the markets and economies seem to be stabilized and any rabid foreign investment repatriation back into the US is over that the foreign investors questioned the wisdom major US government debt purchases. While we know this has been an unfulfilled fear of the debt market Cassandra's for many years (and indeed decades in some cases), it has not been our active view; especially not during the recent phase where we appreciated the credit market rationale for this very highest of rated debt instruments to maintain a "haven" bid. Yet it is not historically unusual for the bond market and US dollar to both be under pressure in the sort of circumstances which are brewing for the intermediate term future.**

▪ **That was fully articulated in our *1970s Redux: Son of Stagflation* major Special Market Highlight (March 2005.) Some of that was on target, such as analysis that Crude Oil prices were already accelerating upward (very a much mirror image of equities and energy at present) above the $50.00 per barrel level. On the other hand, while DJIA did indeed stall for quite some time that no better than its Head & Shoulders Bottom 10,832 Objective, by early 2006 a sustained rally above that level meant we had to begin treating it as support for a major extension of the bull trend (typical for Objective projections that are overrun.) However, most important for the long dated fixed income market is the major Falling Wedge pattern for Constant Maturity 10-year T-note yields is continuing to evolve, with the downward trendline for yields now around the 4.75% area. Any UP Break above that level still supports a broad expectation yields will classically push fully up to the late 1980s start of the pattern: essentially back up to 9.25-9.50%. While our website update is woefully behind schedule, that report (published under retail research provider affiliate Institutional Trend Insight, Inc.) can still be accessed on the Sample Reports page at www.rohrintl.com. Introduced on pages 31-32, that page 33 chart is followed by historically relevant support from a decisive UK interest rate indication on page 34.**

▪ **The cross rate foreign exchange indications are all over the map, for the very reasons of the huge carry trade financing unwind that we noted in *CMO* IV-15. And we freely admit this does finally provide some vindication to those we had rightfully characterized previous as "Carry Trade Cassandra's." That said, it is important to keep in mind once again that it is equities weakness driving yen strength, and not vice versa. However, the obvious debacle in previous 'last man standing' Australian dollar is another offshoot of the Commodity Bull Bubble bursting. Once again it is no surprise that the 'Aussie' should suffer the most after having benefited so greatly from the sustained commodity boom, and evidently that still had at least some remaining carry trade funding.**

▪ **As the specific rationale behind the movement of the other currencies is influenced in part by both relative perceptions of economic weakness relative to the already weak US and structural financial market problems, it is virtually impossible to assess their shifts in economic terms. Therefore, it seems more productive to fall back on our primary insights, and provide the technical levels for the cross-rate relationships. As such:**

EUR/JPY: RES: 135; 137; 140-141; 145; 1.50 SUPP: 133.50; 130.50-.00; 128; 126-125

GBP/JPY: RES: 171.50; 173.50; 179-180; 186; 192.50 SUPP: 165.50; 160; 156; 151; 148

EUR/GBP: RES: .8025-50; .81 00; .82 00 SUPP: .7820; .7775-50; .7700; .7600; .7400

EUR/AUD: RES: 2.0591 (OCT 98 high); 2.1130 SUPP: 1.9750; 1.92-1.91; 1.86; 1.80; 1.75

AUD/JPY: RES: 71.50; 74; 77; 79.50-80.00; 86 SUPP: 62.30; 60.00-59.50; 56.00-55.50

EUR/CHF: RES: 1.5350-80; 1.5450-1.55; 1.5650 SUPP: 1.5080-40; 1.49; 1.4750-00; 1.4550

▪ **All other analysis remains consistent with Wednesday's *Capital Markets Observer* IV-15, and we refer you back to that for further trend views and technical levels.**

We hope you find this helpful.

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