Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, January 8, 2009 (10:00 CST; 11:00 EST; 16:00 GMT)

OVERVIEW

- **Well, sooner or later somebody had to say it, and it took the Bank of England to drive the last nail into the coffin of the Great Delinking. To wit (from today's statement accompanying their 50 basis point easing to 1.5%): "The world economy appears to be undergoing an unusually sharp and synchronised downturn." The disturbing part is not the non-news of the depth and breath of the economic weakness, yet rather that it seems ECB has still not figured it out. While some may be shocked by their lack of aggressive support for the global easing exercise, it is in fact business as usual. As we have pointed out at many previous junctures, it is happy to sit back and play sanctimonious Überhawk while the other central banks pursue heavy monetary easing when that is what is required. While Alan Greenspan certainly had his (now self-admitted) failings, his lack of ability to hike rates again quickly in 2004 was in good measure due to the continued deflation threat to the global economy; and that was significantly centered in Europe on the back of ECB parsimony in spite of a still very weak German economy. It will be very interesting to see what Monsieur Trichet & Co. do and say at next Thursday's meeting.**

- **That said, the balance of the economic data and central bank psychology remains abysmally weak on as well; even more so than expected. Everything from the dovish FOMC minutes released Tuesday to Australian real estate to the shockingly weak German Factory Orders from just this morning, and in large measure the disastrous indications from Challenger Job Cuts and (allegedly more accurate) ADP Employment Change estimates only reinforce everyone's worst instincts on the future path of the global economy and equity markets. Which means the less than shiny silver lining might be the US Employment report (DEC) release tomorrow morning looking constructive if the actual numbers are no worse than the 500,000 job loss originally estimated coming into this week. Indeed, that might be enough to provide a relief rally. We shall see.**

- **However, the influence of those US employment indications from earlier this week, along with the reasonable expression by president-elect Obama that even the major stimulus package currently winding its way through Congress will not immediately restore any extensive economic strength was enough to put the equity markets back under pressure, reinvigorate the bid in the fixed income market, pressure the US dollar after its recent near-term recovery, and (along with very burdensome inventory numbers yesterday) knock the February Crude Oil back down from major 49.90 resistance (the violated bottom of an old major trading range.) All of which makes sense as the DJIA failed at no better than 9,150 resistance Tolerance, March T-note held no worse than the 124-00 area 'even penny' support (with a tolerance to 123-16) noted previous, and EUR/USD held the 1.3350-1.3250 support range, while even the British pound rallied.**

▪ Of course, the most important consideration now is what all that means to these markets into tomorrow's US Employment numbers and beyond. While the full exploration will wait for our next *TrendView* GENERAL UPDATE (somewhat delayed due to our technical problems this week), some key points are in order. As DJIA failed to sustain its push through resistance in the 8,850-9,000 area by exceeding the Tolerance factor to 9,100-50, it came 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 (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.

▪ However, there is a real question over whether anything other than a truly abysmal US jobs number (i.e. in the minus 600,000 range or worse) will be able to drive it through even the 8,500 area support in the wake of so much negative anticipation. Or, as has been the case in some circumstances of late, will a moderately negative number (not too much worse than a half million jobs lost) allow the market to rebound after any initial knee-jerk selling? We shall see. Whatever may transpire, what we do know is that the DJIA remains the arbiter of the trend if not the short-term trading activity in most of the major equity indices. While that must allow for the somewhat more buoyant activity in other US indices, and especially Europe, as always the DJIA must still be the last shoe to fall that confirms overall violation (or lack thereof) for trend supports and resistances.

▪ Divergences in the classical relationship between the equities and fixed income remain the case, substantially based upon the long dated government debt markets continuing to react to real-world economic weakness in spite of whatever the equities may be doing. That is significantly reinforced by the degree to which the Federal Reserve is now overtly committed to the aggressive purchase of long dated debt securities via MBS and agency paper assisting the sustained uptrend of the "govvies." And that is in spite of a very large contingent that literally hates those markets up at these levels, and feels they can implode at any time. A classical word of caution is in order: do not fight the Fed!!

▪ And that is from folks who appreciate all of the bears' arguments will ultimately come to fruition once the Fed and Treasury accomplish their goal of stabilizing the economy and underpinning the equity markets. Yet, nobody can know when that will happen to a sufficient enough degree to create flows back into other fixed income assets, and trigger enough inflation to burst the Bond Bubble. In the meantime, the bears are fighting an unholy trinity of bullish bond market factors: 1.) Lack of confidence in other long dated debt will continue to reinforce the "haven" status of govvies in spite of savvy buyers knowing they will need to figure out when to dump them onto a greater fool; 2.) As the owner of the printing presses the Fed has no margin calls as such, and can indefinitely continue its program to drive down rates; 3.) A significantly friendly technical influence from the classic futures expiration rollover continuation chart implications…

▪ While that last bit may seem a bit obscure some folks, it is actually a very simple and powerful historic tendency. If after a premium priced lead contract (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 first.

- **Foreign exchange continues to reflect the sense that when equities are basing it is time for US dollar strength on the prospect that aggressive US stimulation may cause it to recover first, yet with the agony on the other side when the equities weaken. It is, of course, another bit of mindless short-term perspective in the broader US dollar bear trend that is likely to maintain across time. Even the massive recovery of the dollar between the time it became apparent economic weakness was at least as bad elsewhere as in the US last summer and the peak last November was nothing more than a sharp correction. It failed around US Dollar Index trend resistance in the .8800 area, and has now been substantially reversed. That said, in general the foreign exchange market is going through a ripple effect from 'unwinding of unwindings' that leaves it vulnerable to very sharp individual moves without any real major theme apparent so far this year.**

- **Our clients who specialize in foreign exchange have called it a "smash-and-grab" market that needs to be assessed on a case-by-case basis, and we certainly agree. Possibly the best recent example of this is in the EUR/AUD highly dynamic range trading. While there were some fairly interesting yet orderly trends elsewhere into and just after the recent holiday period, the combination of some euro weakness into early this week and the previous weak sister Aussie strength against the US dollar (and even previous strong sister Japanese yen) created a wild whip in EUR/AUD. From a technical point of view it is easy enough to cite the failure up at 2.1000 into the serial stallouts against classic 2.0591 (October 1998 high) reinstated resistance leading to the plunge back down to near 1.8500 support on Tuesday. Yet, that does not in any way imply that Aussie strength and euro weakness are broader trading themes that should be pursued beyond that particular confluence of factors. In fact, just since Tuesday's low that market is back up toward the mid-1.9000 area. Really no major views yet this year.**

- **That said, there is one other situation on a strictly isolated basis reflecting the unwind of the premier trade from late last year, which raises the question of whether the sharp reaction is complete or has further to go. No surprise likely that it is the EUR/GBP swing back down from the extreme high in the .9800 area (at the top of a straight up 15 point rally since early December) into psychological and technical support back around its .9019 November 1995 previous all-time high; that is also after exceeding and failing back below its .9645 Widening continuation pattern Objective. Along the way the .9000-.8930 range now represents some significant Fibonacci retracement levels, support from weekly MA 9, and only modest slippage onto an aggressive daily up channel (from the October lows) DOWN Break below .9120. As such, we feel that any Close below the .8930 area might spill to the lower congestion in the .8650-.8550 range, yet any Close above roughly .9150 (i.e. Negating the attempted .9120 DOWN Break) might well reinvigorate the uptrend for significant swing back up. That is because any holding action in this area would leave the door open to the possibility of a triangulated topping action; on past form that could encourage a retest of the .9645 Objective that would still be well short of the overall highs as part of the still *bona fide* topping activity. We shall see.**

- **All other analysis of the various markets remains consistent with our previous very extensive *TrendView* GENERAL UPDATE, and we refer you back to that for extended trend views and technical levels, including further extensive foreign exchange projections.**

We hope you find this helpful.

-Rohr
(www.rohrintl.com)