Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, June 11, 2009 (07:00 CDT; 08:00 EDT; 12:00 GMT)

Key Views

▪ **The US long bond auction is irrelevant. Of course, the notable exception to that is for anyone who is actually trading it, and whatever modest effect any uptick in yields during the process might have on the equities; because it is still the equities that hold the key. In our rather extensive experience there has never been a bond auction large enough to sustain an extended down trend if equities appear to be failing badly. Conversely, even with a relative lack of debt supply, extended equity market strength tends to weigh on the long dated fixed income, as has been the case of late in spite of central bank support.**

▪ **As such, the real issue right now is what the DJIA does with what has so far been a well-defined 'mirror image' topping action to the basing pattern from back in early March. As we have discussed that at length lately, and fully summarized the contingencies surrounding DJIA 8,800 resistance and the critical 8,600 UP Break and gap support, we refer you back to yesterday's *TrendView* BRIEF UPDATE (http://bit.ly/TJ1O0) for any additional review. Discussion of the depressed US MBA Weekly Mortgage Survey, weak current economic data, the Obama administration's new "Roadmap to Recovery" to speed up generally weak stimulus spending, and the US Unemployment Rate pushing up to 9.4% having an affect on US housing problems are all noted there as well.**

▪ **In fact, in addition to all that there was so much news already out earlier this week into this morning that we felt it better to focus on the key influences than provide a lengthy *TrendView* GENERAL UPDATE in front of the final important trend decisive influences of the week: US Advance Retail Sales (MAY) and Bank of America head Ken Lewis's testimony on whether Messrs. Mr. Paulson and Bernanke pressured him into completing the Merrill Lynch purchase in spite of significant reservations. While we have made much of the current situation finally evolving into the stagflation scenario (including rising long rates) which we projected back in our March 2005 major report (*1970s Redux: Son of Stagflation*, still available at http://bit.ly/VRJby), even back during the G. William Miller said we do not recall any prominent financial executives saying of the US central bank's Chairman, "Liar liar, pants on fire." It is going to be interesting.**

▪ **However, more critical from a trend standpoint are likely to be those US Advance Retail Sales figures for two specific reasons. The first is that they are the last economic data of a robust week that culminated with many influences from yesterday into today. The only possible critical data tomorrow is likely to be the Euro-zone Industrial Production figures, as only Preliminary University of Michigan Consumer Confidence is released in the US. The second reason US Advance Retail Sales figures are important is they are expected to show 0.5% improved turnover in May from the depressed -0.4% in April. While anything is possible, there reasons to doubt it we will review at the end of the summary below.**

▪ And in addition to the factors reviewed yesterday, this morning has already seen the expected Reserve Bank of New Zealand base rate 'no action' at 2.50 percent yet with their statement remaining quite accommodative, the Bank of England Quarterly Inflation Attitudes Survey that showed people believe inflation is much higher than it actually is yet that it might indeed be headed up from low levels, and the ECB Monthly Bulletin's cheery reference to the degree to which confidence and economic activity might improve more quickly than expected (their typical cover for a natural hawkish tendency.) All of which in conjunction with other mixed economic news had the effect of canceling each other out prior to the US influences today. However, there are other indications that the ECB's naturally upbeat, hawkish view may be greatly misplaced…

▪ … not the least of which is the degree to which Germany and the rest of continental Europe feel they can remain parsimonious in their economic stimulation approach, and hope that they are mercantilist export driven model will be rescued once again by the now beleaguered American consumer. As we have already expressed our views on the fact that Europe is the Blanche ("I always rely on the kindness of others") Dubois of developed economies, we were pleased to see a more extensive review of the impact of the general unwinding of extreme global imbalances from one of our favorite analysts. Wolfgang Munchau of eurointelligence.com is a regular contributing analyst to the Financial Times' Comment column, and his Monday observations on "Down and out for the long term in Germany" (http://bit.ly/m3pO6) also touches on important issues for other export-driven economies, including Japan and China. As he notes, "…the governments of the classic export nations cling on to their export-based economic model…" along with… "Their only strategy, if you call it that, is to hope for a miraculous bail-out from the US consumer – which is not going to happen this time." We are glad to see someone else confirm our instincts, and so aptly expand that to a global view.

▪ And that global picture still remains extremely fraught according to Monday's OECD Composite Leading Indicators (APR), available at http://bit.ly/2CAc4V. While always delayed one month, these have also been very prescient as a six-month forward view. On one hand they reinforce the hopes of the economic bulls by pointing to a possible upturn in China, where 'possible' is the operative term. Along with what appears to be incipient bottoms in UK, France and Italy, that might be a hopeful sign. However, among the developed economies things still look dire in the US, Japan and, oh yes, Germany. There is a real question of whether improvement in the others can offset that sort of weak six-month forward view. In addition to the fact that the Chinese targeted their stimulus program to specifically be spent right away in the consumer sector (possibly giving a false boost to headline economic activity), the indications for the other rapidly developing BRIC economies remained dire. So the question becomes whether Chinese growth is simply good measure of how strong its further domestic development remains, or whether it alone can offset the weakness in the developed and developing economies.

▪ All of which gets back to the final factor as we head toward this morning's US Advance Retail Sales: can the sort of improvement the estimates project really have occurred in the still weak general environment? In the wake of the radically better than expected Nonfarm Payrolls last Friday it was generally missed that April US Consumer Credit was down by close to $16 billion; almost $10 billion more than expected. If that tendency continued into May, it is almost inconceivable spending also rebounded that well; and we will know the answer to that and the markets response very shortly.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)
