Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Tuesday, November 4, 2008 (11:00 CST; 12:00 EST; 17:00 GMT)

Key Views

- **Welcome to US election day. Prior to election results being the next major influence, we have seen all the fundamental news there is to see; and it is significantly abysmal. However, the equity markets do not seem to mind. And that is in spite of the worst instincts on what a highly liberal Obama Presidency will mean for the economy and financial markets. There are quite a few factors which might explain this, and we lean toward the one that revolves around one of Mr. Obama's primary themes: "change." Whatever one may believe the impact will be from proposed changes in the provision of healthcare, tax policies and the like, the current administration and its minions lack any credibility or political capital. This is akin to what occurred in Germany when Angela Merkel defeated Gerhard Schroeder's philosophically bankrupt regime, in spite of Schroeder having done a good job in pushing through necessary pension reforms. An eloquent explanation of why markets seem so sanguine about the prospect of an Obama Presidency was provided this past weekend by one of our favorite analysts, the Financial Times' John Authers. A copy of his column is attached for your review.**

- **In spite of whatever the election results may bring, we head into further telling major reports and events this week. As such, even as the DJIA pushes above 9,300-50 resistance at present, it will need to deal with the far more major resistance in the 9,700-10,000 area. The low end of that range is also the DOWN Break below the major trend support from the major cycle low back in 1974, and that puts the market into the "Super-Cycle Correction$_{sm}$" we have noted previous. With the market somewhat stabilized at present, lower violated congestion supports (from back in 2001-2003) are reinstated in the 9,000-8,850 area, 8,600 and important 8,200 area low from three weeks ago that held subsequent tests in spite of slippage elsewhere, as well as lower levels.**

- **Long dated fixed income markets remain a bit stuck while maintaining a reasonably firm bid overall. Even in the weak sister December T-note, the slippage back down from the 116-00/-16 area into orderly further erosion below 114-00 area is not likely to result in a failure of the more prominent 112-00/111-20 support that held previous. Short money forwards continue to anticipate further central bank easing, yet the US dollar and recent powerhouse Japanese yen are under a bit of pressure against other currencies in spite of that. Yet, that still does not completely eliminate the further suspicions about any basing attempt in the equities. Similarly, December Crude Oil is back above 66.00, yet still below more important interim support at 69.00 that is the key to whether it will at least get back for a retest of the mid-73.00 area. The significant congestion near the low end of the major congestion range is the 55.00 area, with the major bottom of the range at the January 2007 low back at 49.90 old UP Acceleration.**

- **As to the market tendencies, as noted in all recent *Capital Markets Observer* analysis, the slippage well below 9,700 puts the DJIA below previous sustained trend support from the December 1974 low, and would also be the market's verdict on whatever might remain of the legacy (such as it may be) of Mr. Bush's second term. The DJIA recovery on the announcement of the central bank intervention in the banking system failing badly right back up into the 9,700-10,000 area two weeks ago was a major failure that indicated the ability of the market to remain aggressively bearish. The important further indication was the intermediate term trend DOWN Acceleration below 10,500 at the end of the week five weeks ago (ironically in the wake of House passage of the financial rescue plan.) That indicated the degree to which the basic approach of the powers-that-be in only attempting to offset losses as a way to restore confidence was still quite misguided.**

- **As noted previous, that failure below 9,700 also put the DJIA back into an entire lower historic trading range. As it overran the next significant interim support at 9,350-00, and more major support at 9,000-8,850 (from back in 2001-2003), it has also traded through some of the other lower interim supports noted previous at the internal congestions that formed between 2001 and 2003 at 8,600 and 8,200 prior to recovery. In fact the last several week's holding action at no worse than 8,200 in spite of some extensively weaker indications in overnight trade has left the most resilient sister able to assist the weak markets base out in spite of their generally aggressive near-term bearish tendencies. Lower supports in the DJIA remain 8,062-00 (the high end of which is the September 2001 9/11 selloff low), while still lower is 7,500 area July 2002 low that was not quite reached on the break three weeks ago; it is also the UP Closing Price Reversal area from the even more major support at the 7,197.50 October 2002 cycle low.**

- **And in fact those are just next interim supports in that broad range that includes most of that weaker activity from the Dot.Com Bust bear market down to that low end of the range at those 2002-2003 lows in the 7,400-7,200 area. In the broad (i.e. more gradual) trend consideration, lower support across a major "Super-Cycle Correction$_{sm}$" is not until the 5,800-5,400 range. However, even that must allow for interim supports in the 7,000, 6,400 and 6,200 areas. While that may seem nothing less than an alarmist or even bizarre statement to some observers, we do not make up the regression analyses (major oscillations around mean trends) that have served us so well. And we feel that is supported by no small number of the fundamental/economic considerations that will become apparent once the 'crisis' dust settles, which we will incorporate into the fundamental 'rationale' of our 'macro' analysis along with the technical perspective when we further discuss the "Super-Cycle Correction$_{sm}$" in this week's *Capital Markets Observer*. While we have suggested we might provide that analysis sooner, it occurred to us that it would be best to include the monthly chart Close and other key end of week data.**

- **While even some seasoned observers were astounded by the pace of the down trend and four weeks ago, due to the DJIA DOWN Acceleration below the 10,500 area (out of its intermediate term down channel) it was not really so very surprising. As it is in the intrinsic nature of bear markets to drop quickly in any event, acceleration out of the overall downtrend since last October's highs reinforced the failure of the major trend support from the December 1974 major cycle low on the failure of 10,000-9,700. And that is the reason we cited previous that only a recovery well back above DJIA 10,500 was capable of defusing potential to return to somewhat aggressive weakness that is now indeed the case. In fact, as nobody expects to see that any time soon, it is merely a matter of how quickly the market erodes into testing important lower supports.**

- **Similar tendencies still abide in the other equities, as they are all so still well below their DOWN Acceleration levels (as, amazingly enough in spite of the US being the epicenter of the causes of crisis, the DJIA a remains the most resilient sister.) December S&P 500 future DOWN Acceleration was on Monday's opening of pit trading for weeks ago on a gap lower below the 1,100 area, which has a Tolerance back to the previous week's close at 1,108. Interim supports that have been violated are heavy congestion at 1,085-90, heftier congestion at 1,050-68 (including the August 2004 1,060 pre-election low), 1,015, and further lower supports at the somewhat heavy congestion into 959 area (the mid-2002 through mid-2003 congestion which is the top of basing pattern from that period), the 940 UP Break from late May 2003, and the internal lower congestion areas in the basing range at 900, 870, and the trading low from four weeks ago at 838.50 (in the vicinity of previous support around 840), 810-00, and the October 2002 low at 767.50. Much below that next supports are not still 710, 680, and the 610 July 1996 pullback low.**

- **We have noted previous that European stock indices leading the way down of late pointed up the heightened risk factors facing all of these markets. The banking crisis spilling over into Europe and the UK saw the DAX drop below 6,000 and 5,875 previous, but only drop below 5,735 four weeks ago, as it dropped sharply below the bottom of its own intermediate-term downward channel (not the broader channel from the highs late last year) in the 5,500 area. Even though that is only an intermediate-term channel, the DOWN Acceleration was as telling due to its extreme extension later that week. Due to the more aggressive downtrend in Europe since the first of the year, the bottom of the overall downward channel was at 4,880 that was violated four weeks ago, along with the failure of support at 5,425 and 5,250-80 which is now back up challenging. Congestion at the 4,725 area, 4,640, 4,450, and the hefty lower level into 4,175 had been temporarily violated. However, due to the weaker European economy back into late 2002 and early 2003, there were still further supports which held the market as nearby as 4,000, with the 3,600 and 3,200 areas below that, and really major supports down in 2,400-2,200 area. While that's a long way, it is still no worse than the last bear market into March 2003.**

- **Similar tendencies are even more so apparent in the FTSE that has exhibited DOWN Acceleration from the 4,900 area that it had already traded well below five weeks ago. And as that is from its more gradual (as compared to DAX) overall downward channel from October's highs, it always was a more vicious nature DOWNward Acceleration. Higher violated supports are 4,600 that the market is now back up testing, 4,270, 4,100, 4,000-3,950, and 3,800 areas; with the low 3,600's, 3,475 area, and ultimately the March 2003 3,277.50 low if another round of extensive weakness should return.**

- **As we had noted for some time, the obvious problems in Japan left NIKKEI obliterating its basing action in the 12,000 area, with lower support at the 11,620 mid-March low as well as major lower support back at the 10,500 low end of the 2004 extended trading range both also violated previous. The more aggressive bear trend in the NIKKEI (much as in the DAX) means that it also only traded below the bottom of its major downward channel in the 9,000 area five weeks ago and is backed up testing it at present. It also exhibited DOWN Acceleration below 11,200, reinforcing all higher previous resistances. While lower supports like 8,800 fell by the wayside, the market is back above that area now after falling previously below the weekly gap back at 8,385 (from back in May 2003), as well as the 8,000 area and the April 2003 major low at 7,600, roughly where it left and UP Closing Price Reversal last week, reinforcing that area as critical once again to any holding action that might turn into a bottom this side of the long-term basing line that is down in the 4,000 area; that is not a typo: it is 4,000.**

▪ **Of course, the long dated fixed income had responded well to this equities weakness, and had more definitive countervailing swings in the past week in the wake of much weaker economic news as well. It is a bit of a change from the market activity on the extreme crisis break in the equities four weeks ago. We surmise that is due to the crisis break creating visions of the huge additional liquidity injections that did indeed occur. However, short of the further need of those types of actions by governments, near-term equities weakness seems to have returned to providing long dated 'govvies' the "haven" bid that has assisted them since last summer. However as the long dated fixed income now also remains reasonably well bid into the current round of equity strength, it is seeming to signal that same presumption of the lack of durability for equities rally which has proved to be prescient so many times since last summer.**

▪ **That said, December T-note would still have resistance in the 118-00 area if it manages to push through the 116-08/-16 resistance. While dropping sharply and following through on the downside to below important support at 114-16/-00, it did not need to retest more important 112-00/111-20 support on this selloff. Yet, in the long run we still remain skeptical of the long dated fixed income stability to sustain what is negative or at best paltry "real yield" once the equities began to behave better. Admittedly, that day may still be quite a ways off in the future. However, more important historic support from the overall 2005-2007 trading range only begins at 110-00/109-16, and extends every two points down to the 2006-2007 lows in the 104-00 area. Once again, that seems a radical thought in light of our expectation that equities will revert to a trend to lower levels. However, even during the recent full-blown panic selloffs in equities, costs of recent rescues, bailouts and liquidity operations, as well as anticipation of upside down recessionary fiscal calculus have turned into a negative influence for the long ends.**

▪ **The Bund is experienced a similar pullback, albeit in a more subdued manner from a less extended technical level than T-notes. After overrunning resistance in the 115.00-.30 area as well as the 116.00-.30 area, it quickly ratcheted back above that to the higher resistance into the mid-upper 117.00 area. Extended lower support remains into the 115.00-114.70 area, below which another swing down to the 114.00-113.70 area, or even 113.00-112.50 area might be necessary once again. Lower supports remain at the 111.50, 110.50 and 109.5 major double bottom from summer 2006 into summer 2007.**

. Similar tendencies applied to December Gilt in spite of its massive premium to the now expired September contract. The higher interim resistances are still into the 112.57 January continuation high and multiple recent trading highs in the 113.05-.32 range, and modestly above 114.00. Lower support held at the reinstated 111.30 congestion and major weekly down trendline (across the January 2006 all-time high and January 2008 112.57 high) UP Break. Lower supports are 110.00 area and the 109.00 area.

▪ **Technical levels for short money forwards remain geared to March 2009 contracts, and were already shifting markedly in the wake of the equities weakness that increased the strong rationale for the major base rate easing (in spite of the inflation pressures) that finally came to fruition with coordinated central bank rate cuts for weeks ago. Predictably, response in futures was inversely proportional to the degree of anticipation which they had shown previous to the event, with the Eurodollar not really responding much at all due to its understanding the greatest pressure previous was on the Fed. Obviously the current bids will be put to the test based upon the specific further easing that the central banks pursue later this week, with disappointment likely in the wake of anything less than what is now presumed to be full 50 basis point easings.**

- **That said, it is possible that the March Eurodollar might still be able to dip back to the 97.50 area temporarily if there is much more strength in the equities once the US election results roll in. Yet it is clear that there is very good support into that area based upon the assumption that the Fed may be inclined to ease further. Previous higher resistance in the 97.85 area has already been violated as the market has extended into the 97.95-98.00 gap and congestion area, with only the March contract high at 98.135 above that.**

- **Short Sterling had similarly pushed above key resistance at 94.65 and 94.85-.90 as well prior to stalling at next resistance into 95.17 prior to experiencing the same sort of short-term weakness when the Paulson plan was announced back in September. Yet even at that it managed to hold on against the previously violated resistance in the 94.55-.50 area, and exploded back above 95.17 in the wake of the coordinated central bank easing, as nothing more than a 25 basis point easing was expected at the Bank of England meeting early this month. Reflecting both that surprise move and the prospect of further rate cuts, the March Short Sterling pushed dramatically above the previous contract high congestion early this year in the 95.65-.71 area, and held against it on initial setbacks, as we suspected it would. With the bias toward further easing the Bank of England can readily provide from elevated base rate levels, the current push to new highs has already significantly overrun daily oscillator resistance (MA 60 plus 1.30) into 96.50, above which a swing to 97.00 is possible, as noted previous.**

- **Due to the previous recalcitrance of the ECB, the March Euribor absolutely exploded through near-term resistance levels at 95.25 and again at 95.45-.50 on the coordinated central bank surprise rate cut. That the DAX is the western economies' weak sister had already fomented some strength in the Euribor in spite of ECB recalcitrance, yet nothing that foreshadowed the capitulation by Monsieur Trichet & Co. Already above additional heavy congestion at 95.55-.60, resistance at 96.75 stalled the market back on October 8th, and in spite of the near-term drop to the 96.00 area (which indeed held on the initial pullback) the market has exceeded the 96.775 area February peak. Next incremental resistance above that is into 25 basis points higher at 97.00, with the 97.16 contract high from back in September 2005 the last chart and oscillator resistance above that.**

- **As we noted previous, there are quite a few country specific implications of the current panicky environment that have to do with the unwinding of speculative positions across all asset classes on a global basis. While we had highlighted it fairly early, that now includes the significant strength of the yen from extreme 'Carry Trade' liquidation of either interest rate or out right alongside asset speculation. Yet with the European currencies holding in fairly well at present, it would speak of further easing by the Bank of England and ECB on Thursday already been discounted.**

- **As noted in previous analysis, there was vindication for those we had rightfully characterized over the past couple of years as "Carry Trade Cassandra's" now that a real crisis has finally fomented forced repatriation that they had erroneously expected on the more modest trend corrections previous. While equities weakness was driving yen strength previous, yen strength did appear to take on a life of its own in the wake of the more extensive flight from speculative positions (and possibly even some investments) across all asset classes. As we noted previous, the obvious debacle in the former 'last man standing' Australian dollar is another offshoot of the bursting of the previously bulletproof Commodity Bull Bubble that is even weighing in on gold. Once again it is no surprise that the 'Aussie' should suffer the most after having benefited so greatly.**

- **The US Dollar Index pushed up through resistances that might have taken months to penetrate under normal conditions (and are now support) at .8250-.8330 and .8500-30 (albeit back below that now) after seeing it seriously challenge .8700-50. That is very interesting insofar as the next resistance above that is .8870-.8900, above which it is into an entire higher range with the higher resistances not until .9125 and the mid-.9200 area. All of which puts it in line with failures of the euro and British pound and other high yielders even more so against the Japanese yen on the 'Carry Trade Crisis' repatriation. As we will review in the next *Capital Markets Observer*, all of this was likely avoidable. Yet, as cross rates previously neared significant historic thresholds (EUR/JPY 112, GBP/JPY 141, AUD/JPY 55.50 all-time low from 2000), it all still bears very close attention.**

- **US dollar swings against other currencies obviously included strength against the weak sisters of Europe and especially Australia, and slippage against the strong sister Japanese yen that had remained the case in spite of being partially reversed in the wake of equity market stabilization and finance minister saber rattling. Other than influence from manic carry trade repatriation, the strength of the Japanese yen is somewhat of a joke when one considers the relative state of their economy to even the now obviously weakening US, as any extended US and global recession can only be bad for Japan as well. It is only on a relative savings basis relevant in a crisis that the yen can strengthen.**

- **On another note regarding one of the weaker sisters, it is interesting that EUR/USD violating supports at 1.5000-1.4850 in August was especially important due to there not being any further support below it until the 1.4540 Objective. Yet, the low end of the previous trading range below 1.5300 area May-June lows was not until the 1.4300 area. The rightful implication that we expressed previous was that a weekly Close below the 1.4540 Objective for even a retest of low 1.4300 area would be more bearish (i.e. bullish for the buck) than it appears due to overrunning the mid 1.4500 Objective.**

- **As such, the early September drop to the 1.4000-1.3850 was not a big surprise, and the failure on the big bounce it up to 1.5000-1.4850 was also thoroughly predictable. Now that the market has violated 1.4000-1.3850 as well as interim supports in the 1.3600 area, 1.3350-00 area and 1.3000-1.2850. That puts the market down into an entire lower range (from May 2005 through November 2006) with interim support in the 1.2500 area held so far, but with major lower supports at 1.2200, 1.1800, and 1.1663 (November 2005 low.)**

- **Of course, the real shocker was the AUD/USD drop below the .7900 area fomenting a spill not just to interim supports at .7650 or the .7300 area, but an outright rout straight through the March 2006 .7000 area low it has recovered to once again on the equities recovery; yet not convincingly exceeded. Now back above the .6775 June 2004 low, lower supports are at .6150, .5950, and the heftier .5750 area are reinstated; below that this market is also into an entire lower range (from August 2000 through December 2002) the lower congestion of which comes in at .5550, .5400, .5225, .5000, and .4850-.4775.**

- **Equivalent trends for the other major US dollar indications have key levels at:**

GBP/USD: RES: 1.6350; 1.66; 1.7100-1.7050; 1.75 SUPP: 1.5600-1.5450; 1.5150; 1.4850

USD/JPY: RES: 100.50-00; 103.00-.50; 105-106; 108 SUPP: 99.00-98.50; 95.75; 90.00

USD/CHF: RES: 1.16; 1.1850-1.1900 SUPP: 1.14; 1.13; 1.1000-50; 1.0860; 1.0600-25; 1.05

USD/CAD: RES: 1.1850-80; 1.20; 1.23; 1.26 SUPP: 1.15-1.14; 1.1150; 1.1000-1.0950

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

EUR/JPY: RES: 130.50-.00; 133.50; 140 SUPP: 128; 126-125; 112; 110; 105-104; 100

GBP/JPY: RES: 163-165; 169; 172; 174-175 SUPP: 158; 154; 150; 141; 135

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

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

AUD/JPY: RES: 70.00; 74.00-75.00; 80.00 SUPP: 65.00; 62.30; 60.00-59.50; 55.50

EUR/CHF: RES: 1.5080-40; 1.5250-1.5350; 1.55 SUPP: 1.49; 1.4750-00; 1.4440-00

- **December Crude Oil has imploded below 100.00-98.50 congestion and Fib support as well as all of the other trend supports (now resistances) at 86.00 area, 78.00 area, 75.00 area that had a Tolerance down to the upper 73.00 area that is the broadest up trend channel support from the major 10.35 low from back in 1998. Much below that the market was on a DOWN Break out of its major long-term up trend, with interim support at 69.00 violated as well, albeit back above 66.00 now. The significant congestion at the low end of that range is the 55.00 area, and January 2007 low back at 49.90 old UP Acceleration.**

We hope you find this helpful.

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