

Rohr Report

TRENDVIEW

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Friday, September 17, 2010 (11:00 CDT; 12:00 EDT; 16:00 GMT)

Key Views

▪ **Bad news is good news for equities? Or just a 'squeeze-in' S&P 500 expiration rally?** As we noted at the top of the week, this was a Market Charge of the Light Brigade into trend influence cannon-fire all-around all week. And after Japanese intervention in the yen was thrown in for good measure, it was even more intense than originally projected. Yet the OECD fly-in-the-upbeat-assessment-ointment laid the groundwork for nothing less than disappointing economic data in the wake of upbeat Chinese weekend news. Very much to the point on that, even the news out of the allegedly strong Euro-zone and Australia was significantly weaker than expected. We will be revisiting the main points on the conflict between the European Commission Interim Forecast and the OECD Composite Leading Indicators when we return to our [Key Views](#) below. Suffice to say for now that as the late session push up in equities yesterday seemed to be driven by better-than-expected earnings from Oracle and RIM, it might have been nothing more than a squeeze of the bears in both futures and options into expiration of the **September S&P 500** contracts. It is of note that even though **December S&P 500 future** managed to keep the bid all week after gapping up Monday into the important interim resistance in the 1,110-15 range, it failed to sustain its push above the far more important 1,125-30 area. And yet, stalling at resistance has never made any market a bear, and whether it drops back below its 1,105 Close from last week will also be critical.

Concise Trend Perspective

▪ **General Comment:** As noted at the top of the week, after significant divergences between the asset classes, this is all technically deliciously 're-calibrated'. It's so telling that all the markets are back in synch to make decisions at their individual trend levels. However it turns out at the end of the week, that the equities are attempting to escape some important interim resistance just as the recently depressed govies are holding important lower supports, and some foreign exchange relationships are also critical once again is compelling.

▪ **Equities:** And on that theme, it has definitely been the case the market is still killing all the players on both sides prior to proceeding with the real trend. The current punishment of the bears has carried on (even if just temporarily) above 1,125-30 in the wake of the **December S&P 500 future** holding up no worse than 1,110-15 (as we suspected it might.) Lead contract September expiring yesterday reinforces importance of 1,110-15 resistance, and the issue of whether the December contract will need to finish back below its own 1,105 Close from last Friday to completely shut off Monday's gap higher opening. Lower interim support remains 1,090-84 and 1,066-64, with more major support remaining at 1,055 and 1,040-35.

▪ **Govvies:** The general holding action into support of the heavily discounted **December contracts** is impressive. And not just because of equities strength, upbeat massive amount of government debt auctioned this week. Suffice to say **December Bund** reached its major UP Break at 129.50, and managed to hold without slipping below its Tolerance in the 129.00-128.80 area. That is the most critical test while firmer **December T-note** held best into mid 123-00s, and **December Gilt** was second best holding the 122.00 area. Still watch equities.

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Concise Trend Perspective: (continued)

▪ **Govvies (continued):** Yet, all of that flies in the face of the actual economic data that came in much weaker for Europe support, even if the US also remained very weak (except for somewhat better-than-expected August Retail Sales, which may have just been a back-to-school splurge.) And that gets back to something we discussed many times previous: the degree to which the bond markets tend to focus on real-world economics, while equities can keep the bid for an extended period on hopeful expectations for corporate earnings (which will be with us again soon enough.) In fact, the results from Oracle and RIM yesterday likely contribute to a sense that portfolio managers need to be invested prior to the sort of positive results that have buoyed the equity markets over the past couple of quarterly cycles.

It is a bit early for this sort of thing, which would typically not affect the market until the top of the next quarter. Yet, as the managers who were not positioned for it over the past couple of cycles had to chase the market, maybe we are seeing some pre-positioning that reinforces the need for managers to make money in a year where the markets have been significantly stagnant. However, that sort of 'squeeze-in' is occurring at elevated levels this time around, and the cynic in us can only wonder whether this is the phase where earnings disappoint and leave the lot of less than committed portfolio managers long equities at the top of the market. That is especially so in light of likely downbeat guidance from financial services firms (in spite of the temporary euphoria over accommodative Basel III implementation) due to depressed volumes. All of which would be just the sort of thing to put the bid back into the bond markets while equities roll back down into the major range (which leaves quite a ways back to test the major lower supports.)

▪ **Foreign Exchange:** **The Japanese government shocker was not so shocking after all in light of their continued weak economic numbers. Deliciously perverse, isn't it, that the weaker the numbers out of Japan, the stronger the yen should get on an overall global "risk-off" mentality?** This only reinforces the degree to which we believe that there is no incentive for inward investment into Japan. As such, the strength of the currency is therefore nothing more than massive risk aversion on the part of Mrs. Watanabe, who wants her savings bank at home as she senses the hoped-for global recovery is less than likely.

With commodity currencies thriving, euro fragile, yen still stubbornly strong (no sign of a trend reversal), and US dollar Breaking DOWN temporarily (below .8190-50 on US Dollar Index) but essentially still waiting for a more convincing sign of whether any equities weakness might still restore its 'haven' bid, things here are still critical as well rather than decisive. Especially note that the Australian dollar has returned to multiple **AUD/USD** .9350-.9407 tops without sustaining activity above them, **Crude Oil** has experienced only the most minor temporary squeeze above 74.00-75.00 and is right back below it, and the **Gold** market is keeping its bid above previous May-June 1,250-65 exhaustion levels. It all feels like it is not just govvies futures stabilizing at significant support levels in the discounted December contracts, yet the whole world of other indications pointing to the fragility of the current low-volume equities rally.

▪ **Crude Oil:** **Given strength of commodity currencies and general sense of economic well-being the recovery in equities should have provided, it is kind of surprising that this normal bellwether of economic activity remains so weak. It is looking more so than ever like the 'tell' that the real economy is still not as friendly as bulls would like to believe.** The failures since the push above the lead contract and **October Crude Oil** 80.00 resistance on equities strength into early August has seen this market fail back below not only that level, but leave a 77.50-78.00 area gap lower, at which it failed on the recent recovery. The current drop back below 75.00-74.00 support is a weak sign given heavy congestion in that area from the basing action late August into early this month. Lower supports remain 72.50-71.90 and 70.50-70.00, and especially the reinstated (after the mid-may pop to 64.24) 69.50 and 68.50 lows.

Concise Trend Perspective: (continued)

▪ **Gold:** Still a truly schizophrenic market. Yet it's very interesting as a sign of whether or the equities sentiment is truly strong or merely another technical rally that might evolve into another round of panic buying like the one that ended in mid-May. Given this week's economic data has fully confirmed there is no inflation, nor any sense that the economic recovery will be strong enough to create any inflation, the recent steady grind higher that has turned into this week's push above the key 1,250-65 area In October Gold can only suggest there is a certain amount of flight capital that feels safer here. And the complexion of the buyers has changed to a degree that will likely reinforce further strength, as central banks that were net sellers of gold due to a lack of interest yield are now returning to it as nervousness over all fiat currencies is increasing.

While we do not want to read too much into it, this would seem to be fully consistent with our perspective on the degree to which US data indicative of potential for economic weakness is also likely to spread to other quarters. This has been confirmed this week by the unexpected weakness of economic data everywhere from Australia and Japan right through Europe and UK. Of course, we suppose that anyone who really believes that China has pulled off a near perfect 'soft landing' after its central bank's recent withdrawal of accommodation (even though the OECD significantly disagrees) can send their money there as the reserve currency. It is an economically strong country that still shows a net profit from a highly mercantilist export regime. Of course, there is that little matter of currency controls, and what some would characterize as a sketchy rule of law as it applies to outsiders; so maybe everyone still stuck with the US dollar when things look unsettled, with the yellow metal is the only practical alternative.

In the meantime, the **October Gold future** continuing to strengthen whether equities were still weak during August or strong for the past several weeks reinforces our sense that the yellow metal is betting on a return to real weakness in the stock markets. Even if it should find cause to slip back below current support at 1265-50, interim lower support is in the 1,238-35 area, and most definitely at the old 1,221 November 2009 high. Key higher resistance (which must be based on oscillators and topping lines at these new all-time highs) are 1,300, 1,320 and much above that not until 1,370-80. While that last bit may sound like a bit of a radical extension, not only is there a tendency to sometimes move sharply when a 'big penny' (major round number) is convincingly surpassed, but much above 1,320 would represent a move back above weekly oscillator resistance at weekly MA 41 plus 150; next resistance not until 200 points above it.

And it all still comes back down to the general tendency we noted above that also applies to the **Gold and Crude Oil:** after significant divergences between the asset classes, technically it is all deliciously 're-calibrated'. It's very telling that all markets are back in synch to make decisions at their individual trend levels, and that extends to typical 'economic strength' and 'inflation' fellow travelers **Gold and Crude Oil** exhibiting such divergent trends at present. In our opinion it all represents the degree to which economic weakness is more likely to dominate the markets in spite of equities' ability to tenaciously hold and squeeze higher due to financial considerations that will ultimately neither rescue economies, nor even support the equities bull.

Technical Projections and select comment

Equities: DJIA (cash):

RES: 10,750; 10,950-11,000; 11,200-250; 11,650; 11,800-867
SUPP: 10,600; 10,500; 10,400-10,330; 10,250; 10,150; 10,055-00

Technical Projections and select comment (continued)

Equities (continued):

December 2010 S&P 500 Future:

RES: 1,125-30; 1,145-52; 1,170-75; 1,190; 1,212-1,216.30
SUPP: 1,110-15; 1,105; 1,090-84; 1,066-64; 1,055-50; 1,040-35; 1,025

DAX (cash): The ultimate strong sister attempted an UP Break above the 6,335 area back on the general equities strength into early August, but the failure back below it seems to put it up on not just the equity psychology, but raises issues for the overall economics. Especially as this alleged 'tower of strength' economy indicator is stalling once again.

RES: 6,310-35; 6,387 (August high); 6,415; 6,565-6,627; 6,850
SUPP: 6,250-70; 6,200; 6,125-50; 6,050; 5,970-6,000; 5,800-60; 5,750

FTSE 100 (cash): Weaker sister in Europe has regained its footing, and has pushed out above the August 5,418.50 high. That assists it with catching up with strong DAX by getting a bit closer to 5,834 April high (even if still quite a ways above the market.)

RES: 5,600; 5,700; 5,800-5834; 5,950-6,000; 6,300-50
SUPP: 5,500-50; 5,335; 5,250; 5,100-5,033 (Feb low); 5,050; 4,955

December NIKKEI Future: Weakest sister sees the continuation of negative economic news after the admission of poor employment and investment and continued stubborn deflation by BoJ last week, yet has best several weeks in several months on the back of further government stimulus and especially intervention against yen strength.

RES: 9,570; 9,650-9,750; 9,850-75; 10,000; 10,150-90; 10,265
SUPP: 9,500; 9,265-50; 9,100-9000; 8,750; 8,560-00; 8,300; 8,050-00

December 2010 Long-Dated Government Bond Futures:

While it is the case for the T-note and Gilt that some of the near-term resistances were based upon previous trading from late 2008 into early 2009, those levels also coordinated with more important key oscillator thresholds that will now reinforce the lower supports in the December contracts as we head into the expiration rollovers (with the obvious counterpoint influence from the overall decision in equities.)

US T-note: RES: 124-16/125-00; 126-00/-08; 128-00/-16; 130-00/-16; 132-00/-16
SUPP: 123-16; 122-16; 122-00; 121-08/120-24; 120-00/-08; 119-16
UK Gilt: RES: 123.50-.70; 124.50-.67; 125.50; 126.20; 126.74 (March 2009 hi)
SUPP: 122.00; 121.50; 121.10; 120.30-.00; 119.50-.37; 118.50
Bund: RES: 130.50-.00; 131.50; 132.00-.50; 133.00-.29; 134.00-.50
SUPP: 129.50 (UP Break); 128.80-.70; 128.20-.00; 127.37-.12

Technical Projections and select comment (continued)

June 2011 Short Money Forward Futures:

Eurodollar: Having projected that this would trade above 99.00 after it crossed back above the 98.10 area back in January, we might have been inclined to 'declare victory and go home'... except that it would probably push above 99.00 once a more aggressive down trend returned to equities (which occurred a bit sooner than originally expected.)

Eurodollar: RES: 99.46-.485 (current high); 99.60; C'mon, getting ridiculous
SUPP: 99.40-.37; 99.33; 99.28-.25 (gap); 99.14-.10 (gap); 99.03-.00

Short Sterling: RES: 99.00; 99.09-14 (current high); (oscillator): 99.25; 99.40; 99.55
SUPP: 98.93; 98.86; 98.71-.73; 98.60-.66; 98.45; 98.35; 98.15

Euribor: RES: 98.85-.80; 98.92-.90; 99.00-.04 (current high); (OSC): 99.15
SUPP: 98.93; 98.65-.63; 98.58-.56; 98.50; 98.42

Foreign Exchange: US Dollar

USD INDEX: RES: .8200-.8150; .8380-.8420; .8525-10; .8630; .8750; .8850; .8962
SUPP: .8050-00; .7950; .7825-00; .7700-7660; .7525-.7475

EUR/USD: RES: 1.3250; 1.3336-1.3400; 1.3500; 1.3800; 1.4000
SUPP: 1.2887; 1.3000; 1.2750; 1.2500-1.2450; 1.2330; 1.2100; 1.2000

GBP/USD: RES: 1.5700-50; 1.5850; 1.6000; 1.6200; 1.6450-1.6500
SUPP: 1.5500-50; 1.5250; 1.5125; 1.5000-1.4950; 1.4850-00; 1.4750

USD/JPY: RES: 86.50; 87.50 (DOWN Break); 88.15; 89.30-90.00
SUPP: 85.00-84.82 (NOV 2009 low); 84.13-83.35 (CPR) 82.80-.50

AUD/USD: RES: .9384-.9407 (April high); .9500; .9650; .9850
SUPP: .9325; .9250; .9150; .9000-50; .8850; .8800; .8710; .8600-.8550

USD/CAD RES: 1.0300-25; 1.0400; 1.0700-80; 1.0850-1.0900; 1.1150; 1.1350
SUPP: 1.0230-50 (Negated DOWN Break); 1.0100; 1.0000-.9930

Foreign Exchange: Cross Rates

EUR/JPY: RES: 113.50; 115.00-.50; 117.00-.50; 119.50-120.00; 122.50; 125.00
SUPP: 109.00; 107.50; 106.50; 105.65; 104.20; 103.25; 100.00-99.85

GBP/JPY: RES: 136.25; 137.80; 140.00-.50; 141.75; 145.00-146.00; 150.50
SUPP: 131.00; 130.50-.00; 127.50-126.75; 125.00; 118.89 (all-time low)

EUR/GBP: RES: .8400-50; .8500-50; .8670; .8775-.8810; .8900; .9000-30
SUPP: .8320-00; .8200; .8140; .8067 (JUN low); .8000; .7840-00; .7700

Technical Projections and select comment (continued)

Foreign Exchange: Cross Rates (continued)

EUR/AUD:	RES:	1.4000; 1.4150; 1.4300-50; 1.4450-1.4500; 1.4600-50; 1.49-1.50
	SUPP:	1.3700; 1.3500; 1.3300; 1.3100-1.3000; 1.2817; 1.2645-1.2545
AUD/JPY:	RES:	80.87; 83.80; 85.50; 87.00-88.07; 90.50-91.00; 93.00; 95.00
	SUPP:	80.00; 78.50; 76.40-.00; 74.00-73.50; 70.75-00; 68.50; 67.50-.00
EUR/CHF	RES:	1.3250; 1.3450-1.3520; 1.3700-50; 1.3900-25; 1.4000-45
	SUPP:	1.3100-1.3050; 1.2960-00; 1.2765 (lo); 1.2650-30 (basing/OSC)

Energy and Gold futures: see [Concise Trend Perspective](#) (above)

Key Views (revisited)

▪ As we noted on Monday, what was most interesting in the intense confluence of NGO influences was as much the inconsistencies both internally and between reports as any one report. While the Bank for International Settlements announcement of Basel III protocols was a bit of a foregone conclusion and even lacked teeth according in some assessments, the EC revisions to its economic forecast directly clashing with OECD Composite Leading Indicators was most interesting. Each is worth a closer look.

That the BIS Basel III protocols were considered an unexpected fillip for the international banking industry was a bit of a surprise; at least insofar as they were significantly anticipated to not be too draconian in deference to the Europeans and Japanese who did not want excessive strictures on banking systems which had weathered the crisis much better than the US and UK. In that regard it can be considered a rare recent triumph of common sense over hope. It is the political vogue in the UK and US to think massive reserve requirements might have prevented the housing finance securitization mess. Of course, lax regulation, accounting and ratings were at least as much to blame, and hiking bank reserve requirements to burdensome levels would not have then prevented, and will not in future prevent, such problems. The Basel III guidelines are eminently sensible in that regard, and the real boost for the markets was more likely the very long adjustment time given the industry to adapt their funding and portfolios.

The inconsistencies in the upbeat outlook for the EC and Euro-zone are of note. While there is something to say for the unexpectedly strong Q2 global GDP growth, as we have seen in the US, that is over now. Certainly it will make the year a bit more of an improvement on average compared to the abysmal 2009; still, that's a pretty low bar. And then degree to which the European Commission has allowed that export growth is a key right into the signs the rest of the global economy is slowing creates quite a few hostages to fortune. To wit, from the opening page summary of the "Interim forecast" (accessible at <http://bit.ly/d2jowb>, with the title alluding to "...an uncertain global environment"), "...both the EU and euro area surprised markedly on the upside in the second quarter of 2010. ...from an export-driven industrial rebound, in line with the continued strong dynamics of global growth and trade..." "Encouragingly, signs of a revival in domestic demand, including private consumption, also became evident..."

Key Views (continued)

Further noting, *"While a moderation of EU GDP growth in the second half of the year is still foreseen, some momentum from the second quarter should feed-through to the following quarters,..."* *"However, the global economy is still expected to go through a soft patch in the second half of the year, implying a dampening effect on EU export growth."* As well as, *"... the (financial-market) situation remains tenuous, and adverse effects on bank credit provision to the economy cannot be ruled out."*

Regarding the reliance on sustained and expanding export growth, Graph 4 on page 3 would seem to suggest that total net exports have not been all that strong. Possibly that is a product of averaging in the weak performance elsewhere with the very robust German exports. It is also curious that they should cite a move to private consumption that is healthy. As the tendencies apparent in Graph 6 on page 4 suggest, disposable incomes remain very weak after the sharp contraction from last year into early 2010, and domestic consumption has been underwritten by a sharp decline in the savings rate. Is it possible the Europeans are developing the 'spending habit' in this last spree; or more likely weak incomes have forced this diversion from saving? However much some would like to believe it is so, it would be quite a surprise if Europeans had actually abandoned their long time penchant for ample savings. We remain skeptical this consumer revival will be sustained at current levels without some sort of robust income growth.

And OECD Composite Leading Indicators (JUL) fly in the face of all this constructive sentiment. It is clear that the recent upbeat data from China may be a temporary condition, much like the US when the data still looked good in 2008 in front of the contraction. Other than Germany and Russia, the rest of the world looks in a bit of bother (<http://bit.ly/cJv6S4>), and these things tend to keep going once set in motion. And as far as the peak in the US being tentative, there are enough drags into next year that we tend to believe it will indeed develop.

In that regard, the seeming compromise in the US political debate over the extension of the Bush tax cuts for folks earning less than \$250,000 per year beyond the anticipated expiration at the first of next year was likely already mostly discounted by the markets. From the time the Obama administration that had been so adamantly against any extension of the cuts admitted it had a problem with the economy two weeks ago, some sort of extension of those lower tax rates was likely. And it was in fact a bit of rightful *realpolitik* that House Minority Leader John Boehner was willing to allow that he would not obstruct the extension for that subset, even though he openly noted he felt it would be better policy to extend them for everyone.

In doing so he avoided taking the bait on the same sort of trap that allowed Bill Clinton to characterize Newt Gingrich and his cohorts as the mean unreasonable Republicans who had shut the government (including everything but emergency social services) back in 1995. It is also likely that additional disposable income (approximately \$1,500 per person) being in the pocket of high (but not too high) earners next year was another constructive influence at the top of this week along with firm Chinese data. Yet, it is also likely since the Obama administration and Congressional Democrats began focusing on further stimulative measures two weeks ago and needed something that would turn into immediate further stimulus, the likelihood that at least a partial extension of the tax cuts was likely was probably cooked into the markets.

And the degree to which those sorts of convoluted factors are keeping folks from committing to strong trend views is clearly reflected in one key tendency: Equities volumes this month are 30% below last year. While some may feel that is a preliminary indication only part of the way through the month, August also saw that sort of slippage from 2009 levels.

Key Views (continued)

Domestic and international political aspects are also unsettled yet critical now. On one front directly related to finance, the Europeans have closed ranks around Greece as the IMF, ECB and the Greek Finance Minister have been running around the past couple of days assuring everyone the worst is over. Possibly so. Yet there is a matter of protesters being back in the streets, and recent tax revenues falling a full 10% short of the 13.7% increase that was projected in the sovereign debt rescue package.

Of course, the US has entered a phase that seems even more disconcerting (another "D" word that can be added to our previous Debt-Disarray and Disinflation.) While we agree with the US Tea Party sentiment on reduced spending and taxes, the US political *modus operandi* on both sides of the aisle in the run-up to the November midterm elections and previous seems to have moved on from 'overreaching self-defeat' to 'full scale self-immolation'. It is one thing to make a point to Republicans that quite a few Party members have been far too cozy with the Obama administration in assisting the passage of its legislative and social agenda. However, going so far as nominating right-wing candidates who can't defeat Democrats because they scare the moderate-independent voters (who will likely decide the election) is wholly self-defeating.

Republicans are not going to achieve the standing they need to counter the excesses of the last two years unless they capture a majority in both houses. For those less than fully acquainted with the niceties of the legislative branch of the US government, the majority party gets to appoint not just the leader of each house of Congress, but all of the committee heads. It will be likely if Republicans can achieve majorities in each house, they can convince a goodly number of conservative Democrats to cooperate with their legislative counterpoint to the worst aspects of the Left-Liberal programs enacted by the current Congress. However, if they cannot then those Democrats will have a much harder time supporting any Republican initiatives. In fact, if they fall short, liberal Democrats will maintain enough power as the heads of key committees to stop most of the Republican legislative counterpoint from ever coming to a vote!

As much as we are skeptical that they can get the President to sign any significant reversals of his healthcare program and other major initiatives, if they don't capture a majority, Republicans have no chance to even present any counterpoint to the last two years programs. And that is why mainstream Republican leaders and advisors are so exercised over the "toss out the baby with the bathwater" approach of the radical anti-government forces now afoot on the Right.

We hope you find this helpful.

-Rohr

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