Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, November 28, 2007 (09:00 CST; 10:00 EST; 15:00 GMT)

Key Views

- **What a wild opening for week in the equities markets, as the influence of the undesirable political influences returned the markets to a tumultuous state late Monday afternoon. We will have more to say on the pernicious nature of the political influence in *Capital Markets Observer* III-39. While we had suspected weakness last Wednesday and subsequent recovery on Friday might have been the emotional capitulation of the near-term selloff in the equities, it was obvious that the far higher the degree of emotionalism generated Monday was the more likely exhaustion of the near-term down trends. Much of whether that is so will rest with whether or the DJIA manages to continue to hold any further tests of 12,800 interim support in the wake of the important reports and extensive Fed-speak during the remainder of this week.**
- **In the meantime, it will also be important to see whether the DJIA can close back above the 13,050 near-term resistance in order to ratchet up into the 13,250-350 extended resistance near the previous reaction high. The same is true of December S&P 500 future Close below interim 1,425-21 support last week leading to a sharp gap higher opening Friday, yet another dip below it this week. The question now is whether it can close back above 1,451-44 for a move to the upper 1,400 area.**
- **Even though Europe seemed to be playing catch-up on the downside, its rally on Thursday contributed to strength on Friday's US opening. That was in spite of significantly weak economic US data last Wednesday, as well as softer European and UK data mid-to-late week as well.**
- **What remains most interesting about the recovery in the equity markets is how little the long dated fixed income reacted to the downside. Upside leader December T-note barely reacted from its 113-15 resistance prior to running up to higher resistance in the low-to-mid 114-00 area. The Gilt also held quite well after overrunning low-to-mid 109.00 resistance for a quick move to the bottom of 110.50-.76 congestion. Even weak sister Bund managed to test critical resistance into the 115.50 area.**
- **Foreign exchange saw B-pound recover a bit elsewhere while EUR/GBP shot through .6980-.7020 and .7120-50, with next major resistance at .7254. The US Dollar Index resumed its drop from the low end of .7600-50 resistance, and EUR/USD extended its rally above 1.4535-1.4600 resistance and 1.4800, with 1.5000 the next target. EUR/JPY held 159.00, yet has 164.00 resistance. GBP/JPY below 225.00 still has 220.00 area support. USD/JPY below 109.00-108.70 area may test 106.90 or even 105.00 supports.**
- **January Crude Oil held near 89.00 (still support), and pushed up through 97.00 and 98.00resistance prior to dropping back to its current retest of the 93.50-95.00 range.**

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Markets

EQUITIES (and some general background)
Continued negative announcements from financial services firms highlight the risks for the global economy into next year, as the need to underpin previous investments may see current interbank lending disruptions spill over into diminished credit availability. The saving grace may be the ECB finally allowing there may be some economic weakness possible in Europe, and that has caused DAX and FTSE to stabilize a bit after leading the way down previous. However, the markets can also be burdened by beating influence of politically motivated pronouncements, as was the case on Monday's emotional late session selloff in the US equities. We will have more to say and add this week's *Capital Markets Observer* III-39.

That said, while we had thought previous that the weakness into last Wednesday's Closes being countered by the higher activity on Friday could have been the exhaustion of the downed trends in the equities, in fact it seems that the more emotional response on Monday's drop below 12,800 in the DJIA and subsequent recovery yesterday morning was in fact the true emotional blow off to the downside.

Equity Indices Technical Levels: Cash or December Future*					
	DJIA	**S&P 500***	**DAX**	**FTSE**	**NIKKEI***
R5	**13,500**	**1,495**	**7,764**	6,530-25	16,700
R4	**13,400-350**	**1,485**	7,736-20	**6,450**	**16,500**
R3	**13,250**	1,468-64	7,675	**6,400-6,367**	**16,100-15,900**
R2	13,140	**1,451-44**	**7,632**	6,300-6,280	15,600-500
Res1	**13,035-00**	**1,435-32**	**7,575**	6,180-60	**15275-35**
TU CL	**> 12,958 <**	**> 1,426 <**	**> 7,531 <**	**> 6,140 <**	**> 15,220 <**
Supp1	12,950	1,425-21	7535-25	6,123	**14,400**
S2	12,800	**1,410-00**	7,430	**6,055-38**	**14,000**
S3	**12,500-450**	**1,375-64**	**7,375-55**	5,915	13,750
S4	**12,300**	**1,336-30**	**7,270-45**	**5,821**	**13,425**
S5	**12,000-11,950**	1,322	**7,190**	**5,775-50**	**13,000-12,985**

The key for the balance of this week is whether the DJIA can continue to hold no worse than the 12,800 (with a tolerance to 12,750) in the wake of today's US Existing Home Sales figures and the release of the Beige Book. Especially as each of those are likely to be downbeat in their outlook for the US economy, and the latter is the preparation for the next FOMC meeting on December 11th, if the equity markets do not respond too badly it may be a sign that they are entering another "bad news is good news" period. If so, then a more extensive recovery is possible, with the DJIA extending to as high as the 13,250-350 area once again, and the other markets achieving similar sorts of recoveries.

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Things are very interesting on a technical level as well. We have noted previous how the MACDs had failed to turn UP on the equity markets' recovery into the last FOMC meeting. With the European markets, playing catch up on the downside in recent trading, all of them are nearing some fairly important weekly oscillator support around the recent trading lows. That reinforces the importance of the DJIA me to hold the 12,800 area support, as it still remains a prime mover of sorts for the trends of the other markets. That includes old flea equities as well as the fixed income, and even the foreign exchange markets to some degree.

LONG DATED FIXED INCOME

What can we say other than fixed income markets continue to demonstrate that the primary fundamental input for their trend is the forward view of weakness to come in the US housing market possibly spilling over into the general economy, with triggers from the equity markets. That reached extreme proportions in the US late Monday afternoon when disruptive influence from the political front made the potential failure of the DJIA below 12,800 (which would have indicated immediate further slippage to the 12,500-300 range) a driving force for the highly manic bid that drove the December T-note above the previous high in the 113-24 area all the way to the extent that resistance in the 114-16 area. A similar phenomena was observable in the Bund extend that electronic trading, which saw it push above significant resistance in the 115.50 area prior to gapping back below it yesterday. Much as the equities have extended down to important weekly oscillator supports, the mirror image is the T-note extension to significant oscillator resistance at weekly MA 41 plus 6-00 on Monday into 114-16.

However, in spite of all of the overt residual strength, if the equities should weather the storm over the next couple of days, then it is likely that the fixed income will experience some sort of downside correction within what will most likely remain overall up trends.

Long Dated Debt Technical Levels: December Future			
	T-NOTE	**GILT**	**BUND**
R5	**117-05/-14**	**111.50-.65**	118.00-.10
R4	116-08	111.20	**117.40-.50**
R3	**115-13/-18**	**110.76-.84**	**116.90-117.00**
R2	114-16	**110.45-.55**	116.50
Res1	**114-00/-11**	109.80-110.10	**115.45-.60**
TU CL	**> 113-30 <**	**> 109.66 <**	**> 114.95 <**
Supp1	**113-15**	109.25-.40	**114.92-115.00**
S2	**113-02/-06**	**108.45-.70**	114.67
S3	112-20	**108.00-.20**	**114.45-.57**
S4	111-28	107.50	114.00
S5	**111-06/-12.5**	107.00	113.50-.35

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SHORT MONEY

There is just not much to say about the short money forwards except that they are subject to all of the same forward looking economic implications of the US equity market activity as the long ends, yet are weakened by the impact of the disarray in the interbank lending market. That likely leaves them still bullish in the long run, yet less technically explosive than the US and UK long ends in the near term. The relative trend strength differentials, their ability to hold their respective lower supports and recover, and likelihood that will continue if the equities continue to weaken are all very much the same as the long dated fixed income.

The difference is that the **Euribor** is burdened by an ECB that is likely to remain hawkish in spite of their seeming acknowledgment of some economic slippage in the equity market weakness in the near term, while Bank of England is likely to remain more flexible. As such, any strength in the **Eurodollar** is more likely to influence the **Short Sterling** than Euribor.

Short Term Debt Forwards Technical Levels: March Future			
	EURODOLLAR	**SHORT STERLING**	**EURIBOR**
R5	96.38-.42	**94.60-.62**	**96.00-.02**
R4	**96.25**	**94.52-.55**	95.91
R3	96.15-.20	94.40-.45	**95.80-.82**
R2	**96.02-.05**	**94.33-.36**	**95.74**
Res1	95.80	94.29	95.68
TU CL	**> 95.78 <**	**> 94.22 <**	**> 95.62 <**
Supp1	**95.72-.73**	**94.20-.22**	95.60
S2	95.62-65	94.14	**95.55-.52**
S3	95.50-.48	**94.05-.00**	**95.40**
S4	95.42	93.96	95.35
S5	**95.36**	93.91-.87	95.30

FOREIGN EXCHANGE

The US dollar picture has changed from our previous views, where we expected the US dollar debacle would occur in 'slow motion.' Various factors from extremely strong economic news elsewhere to hawkish central bank responses as well as the unsettled geopolitical situation that continues to bring the US leadership ability into question have evolved into a full-fledged crisis of confidence for the US dollar. And what drives the continued psychology is the fact that there is no sense any of this will reverse soon. At some point US economic weakness spilling over elsewhere will mean the very worst of the US data will likely create a bottom in the buck. However, the situation is nowhere near that juncture at present.

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However, what has also changed markedly is the British pound becoming a co-weak sister with the US dollar and Japanese yen after the Bank of England Quarterly Inflation Report two weeks ago pointed out the fragility of the UK economy. That resulted in a failure of **GBP/USD** below the entire 2.07-2.10 resistance range, as well a drop back below 2.0550-00 congestion. Yet that has now been mitigated to some degree by a recovery back above the 2.0550 DOWN Break below in that area (below the up channel support from the mid-August low.) The sustained recovery back above the 2.0550 level might signal that GBP/USD is on the mend, and that left more pressure on the US dollar once again after the previous week's softness in the pound assisted a bit of a bid in the buck back up to its .7600-50 resistance.

Of course, what remains more telling is the pound weakness against remaining European strong sister euro. That was in fact an extension of the existing trend which had seen the euro become the upside leader relative to sterling for the past couple of months. As we noted in the TRENDVIEW **MARKET ALERT**: **FOREX** three weeks ago, **EUR/GBP** Closing above the .6980 down Break Tolerance at .7000 was likely the trigger for more extensive strength. That was the case from early last week on technical follow through above previous .7020-50 recent and historic congestion (now strong congestion and daily MA support.)

It has been exacerbated and reinforced for the intermediate term by the BoE report and other weak news, with a push up through critical near term resistance in the .7120-50 area, with that area as near-term support, which is currently being tested. The next obvious resistance is at the .7254 May 2003 high (also oscillator resistance.) Yet, much above that extended targets for the overall trend are not until the extended congestion and Fibonacci levels as well as weekly oscillator thresholds at .7350, .7550 and .7700-.7800 (the latter of which are also consistent with extended weekly oscillator thresholds at MA 41 plus 0.0750 and 0.0900.)

Meanwhile, back on the buck, while there might be occasional shocks for US dollar bears, it seems obvious our previous supposition equity market weakness could assist the **US Dollar Index** hold the critical .7650-00 area support did not work out as projected. In fact, that is now resistance. While a bounce came from the .7700 area previous (as projected), it died as soon as it retested .7820 a month ago in spite of that daily activity representing an UP CPR from .7740-35; the latter was Negated over the next several days. Truly ugly.

Extended supports below weekly channel and oscillator levels which currently being violated are not until the .7400 area next channel bottom (major return line projection from the overall down channel from November 2005 high of the rally), as well as oscillator thresholds that extended into the mid-.7300 area over the next couple of weeks. That means unless the buck can recover markedly back above .7650 in the near term, the low .7400-mid .7300 area may be seen sooner than not. Extended supports remain in the .7100 and .6900 areas.

EUR/USD also attempted a failure on a DOWN CPR a month ago, yet acted as expected in violating it by returning to and overrunning the 1.4300 area in short order. Violation of the 1.4300 area resistance left the market up through its historic 1995 all-time *de facto* all-time high for the 'synthetic' basket of the component currencies. The inferred level of that high is 1.4535. However, that is an approximation, as nobody can no for certain if the 'synthetic' history of the trade weighted 'basket' indicates where a true trade would have occurred.

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Yet, it's a pretty fair estimate, and works very well with the violated US Dollar Index projected .7650-00 area support, as the EUR/USD also ran into major weekly oscillator resistance by the 1.4600 area that has now been exceeded along with the 1.4800 area on its way to near the next resistance in the 1.5000 area. Even though it is somewhat back below 1.4800 and presence there is near-term trend support into the 1.4700 area as well. Only back below there will the market possibly retest the low 1.4500 area in the near term.

As also noted in our TRENDVIEW **MARKET ALERT**: **FOREX** two weeks ago Friday, the US dollar finally failed against the yen on the violation of the 112.00 Tolerance of the previous major weekly H&S UP Break and lower congestion in the 113.50-112.50 range. That leaves those levels as formidable resistance, with next key support at the May 2006 110.00-109.30 weekly Up Closing Price Reversal (also very important Fibonacci 0.618 support) also violated, and now resistance. Lower support remains in the 107.00-106.50 range at the market neared on the selloff earlier this week.

However, in considering whether this has any implications for the long anticipated carry trade 'crisis' it is evident from the relative activity of **EUR/JPY** and **GBP/JPY** that the extensive technical pressure on USD/JPY below previously tenacious key support is just another manifestation of secular US dollar weakness. That is especially true in the wake of the British pound recovery over the past several days. Which is not to say there was no emotional buying in the yen on the back of such an obvious previous failure of the US dollar against it, as well as the equity market weakness.

As we have also noted in the past regarding the selloff in the European currencies against the Japanese yen, EUR/JPY has support at 159.00 and GBP/JPY 228.00 support was violated, yet with only temporary slippage below secondary support at 225.00 congestion for what is now the weaker sister. Yet, even though they dropped to those levels on the current weakness, that would seem to be the delayed reaction to equities weakness that is the normal sequence we have noted quite a few times previous. That equities have led the way so far down prior to extensive yen strength reinforces our perspective that the asset sales lead the yen strength, and not *vice versa*.

In the event, EUR/JPY held 159.00 support, even though it failed on a sharp recovery back into fresh resistance in the 164.00 area. In fact, extended resistance is 165.00 and 167-168. That is even moreso the case for the now weaker British pound, as GBP/JPY first holding into 225.00 had left it weak again into interim resistance in the 132.00 area, yet it has now recovered from that minor slippage below 225.00. Extended resistance is back in the 235.00 area, and every 2.50 up from there.

However, even if recent supports are violated in each case, the major lower supports remain in the EUR/JPY 150.00 area, with GBP/JPY (not surprisingly) much closer in the 220.00 area. While they will have broken their major up channel supports (from the late 2003 consolidation pullback lows in each case) somewhat above those *de facto* Tolerance levels, those levels also remain major Fibonacci 0.50 retracement and congestion supports.

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It all still smacks of US equity market weakness being a harbinger for the broader economic weakness likely into next year, and that keeps the US dollar on the defensive. What is obvious is that the USD/JPY failure is fomenting some residual yen strength, but no major carry trade 'crisis' in light of how far the equities have already dropped prior to any weakness of the European currency failures against the yen.

ENERGY

While January **Crude Oil** had failed from the 97.00 area (when the December contract tested the 98.00 area) early this month, it recovered from a very temporary test of UP Acceleration support into the 89.00 area two weeks ago to push back above the reinstated resistance into the 93.50-95.00 range. While it is back down retesting in that area now, it's previous push out took it above both of the trading eyes into 97.00 and 98.00 (January and December contracts, respectively) to near the 100.00 area.

We hope you find this helpful.
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