Rohr Report

Weekly Overview

Monday, May 19, 2008

Key Views

- **And then there were five. DAX has joined the DJIA, S&P 500, FTSE 100 and the NIKKEI above its February high. That would seem more than justified in the wake of last week's strong ECB Monthly Bulletin and EU Commission GDP Forecast revisions. Yet, it is also seems to still be based to some degree on the assumption that the US economy is going to perform better than the poor expectations set up by the major equity market weakness in the first quarter. And that will ultimately be decided by the DJIA decision to either press on above 13,100 for a potential move to 13,500 or even higher, or a failure back below 12,700 and more critical support into 12,500-450 area; the latter of which would seriously impugn the overall bottoming tendencies.**
- **As noted previous, there are two good reasons to remain a bit skeptical of the equities at present. Those include the upside Objective of the DJIA Double Bottom at 13,900 (S&P 500 future Close above 1,401 points to 1,550, with FTSE 100 having an Objective at 6,870), indicating they might all be ready to return to full blown bull markets once again. That still seems premature seven months into a bear. Volume is also still abysmal weeks into what is supposed to be an UP Break of that magnitude.**
- **The other key question is why all of the long dated fixed income markets are holding on in the face of that equities strength. After holding 115-00/114-24, the next important resistance in June T-note was 116-16, above which 118-00/-16 is next. Yet the T-note stalling into that area two weeks ago left it vulnerable to a setback, and it duly dropped below its previous trading low at 114-17 prior to recovering to Close back above the 115-00/114-24 support. Closes below that still have both continuation and contract support into 114-00 area (Tolerance 113-24), which is a retest of the key resistance the market overran on the way up into the first of this year. However, that also still points out the degree to which the equities chaos was a key influence in the premium 'haven' bid that long ends enjoyed earlier this year in spite of the obvious inflation pressures.**
- **As such, any failure of the T-note back below the 114-00 area speaks of a complete rejection of that previous constructive psychology. While it may seem that the long ends have dropped a long way already, on both historic form and current lack of any real yield, it is quite possible that a June T-note future failure below the 114-00/113-24 support could lead to a quick meltdown to at least 110-00 area, and possibly as low as the 108-00 (review the mid 2003 and early 2004 activity for historic examples of this.) As noted extensively, it takes a failure of the equities (DJIA progressively below 12,700 and 12,500-450) to foment a return to strength in the long dated fixed income. In light of the inflation influences and credit market tightness, when and even if the short money (especially non-US) will base out and head higher is anybody's guess.**

▪ **The US Dollar Index sagged back below near term support in the area of the .7320 March high on Friday, but not the support Tolerance at .7270. Resistance remains into the .7375 area and .7450 areas; extended support remains .7160-35 weekly UP CPR. EUR/USD has Closed above 1.5500-50 near term resistance with 1.5800-50 area next after the previous drop from 1.5850-1.6000 resistance; 1.5350 remains support, with extended support not until 1.51-1.50. EUR/GBP failure from .8025 weekly DOWN CPR (Tolerance: .8050) still saw it hold .7750 support. GBP/USD failing the low 1.9700 area still leaves that as resistance in spite of recovery above 1.9500, and still appears quite weak, with 1.9350-00 next critical support this side of 1.9100-1.9000. USD/JPY back below 105.00 has support at 103.50 and 100.00-99.00, and resistance into 106 & 108.**

▪ **Crude Oil rebounding from 112-110 above 120 has resistance into the 125-127 area, and not again until 135. Near term lower support has moved up to the 120-118 area.**

Reports & Events

▪ **Inflation numbers and central bank influences were as critical as expected last week (at least for fixed income and equities.) Yet, those are behind us, and even with a few midweek central bank influences the most critical factors might revert back to the late week US weekly employment numbers and Thursday's & Friday's housing indications.**

▪ **Talking heads tsunami last week yields to fully discounted reports most of this week.** While only the Bank of Japan makes a rate decision (likely 'no action') Tuesday morning, there are quite a few central bank releases this week. Yet, there are also very few speeches compared to last week's explosion of Fedspeak. Extended expositions last week along with the Bank of England Inflation Report and ECB Monthly Bulletin also mean that there is likely little chance of surprises from the FOMC meeting minutes or other such reports. Can anyone really say that they are not aware of central bank psychology at this stage?

▪ **Inflation a background issue, less bullish for equities than some may hope.** While the equities tend to like a bit of inflation, it is a bit high for comfort right now. Of note was that US CPI breakdown showed much of the 'as expected' high level was due almost entirely to energy and food prices. The prices of other goods and services in many categories were either benign or actually dropped. That does not speak well of economic conditions beyond those major influences.

▪ **Bond auctions were not a very critical influence, as long ends recovered late week.** With last Thursday's settlement date of the previous week's US T-note and T-bond auction occurring after the European bond markets had been under pressure and equities were firm, had their been any sense that the bond markets were stale it might have resulted in serious further damage. Yet, in spite of the new lows in the long ends they only hit the lower supports they did not quite reach at the bottom of their breaks three weeks previous. In essence, while it was a very big downdraft last week, it did not really change the overall bottoming action.

▪ **Energy markets are entity unto themselves, and possible fly in the equities ointment.** While some chance that the extended resistance into $127/bbl. might restrain the Crude Oil market and the equities might ignore it even if it moves higher, there is an unfolding question surrounding the impact of last week's Chinese earthquakes. While strenuously denying any impact on hydroelectric power generation due to dam problems, official communication on nuclear power plant issues has been lacking. Whatever the state of things into the weekend, this still bears close watching throughout this week for signs of additional Chinese demand.

- **Early US fixed income and foreign exchange pre-holiday weekend Closes on Friday.** And it all ends up with the early Closes of US cash and derivatives markets in fixed income and foreign exchange markets after the US Existing Home Sales report on Friday morning.

Day-by-Day

Monday begins with the Bank of Japan to regular policy board meeting that likely results in yet another 'no action' on Tuesday Morning, followed by Japanese Tokyo and Nationwide Department Sales (APR), UK Rightmove House Prices (MAY), Japanese Loans to Individual Hedgefunds (1Q), Australian Preliminary Imports (APR) and Japanese Supermarket Sales (APR) prior to shifting over to Europe for the Bank of France Business Sentiment (APR) and Euro-zone Construction Output (MAR.) In the US it is only Leading indicators (APR.)

Tuesday commences with the Japanese Tertiary Industry Index (MAR), followed by the Bank of Japan interest rate decision. Then it's the Reserve Bank of Australia's board minutes and Australian Treasury Chief Ken Henry speaking in Sydney before returning to Japan for their Leading and Coincident Economic Indices (MAR Final) and the Bank of Japan Monthly Report and Convenience Store Sales (APR.) In Europe we see German Producer Prices (APR), Italian Industrial Orders and Sales (MAR) as well as their Current Account (also MAR), and the possibly critical German ZEW Survey (MAY) that includes both the Current Situation and Economic Sentiment, as well as the Euro-zone ZEW Survey (MAY Economic Sentiment only) and the Bundesbank Monthly Report. Another light reporting day in the US still brings the Producer Price Index (APR) and late afternoon ABC Consumer Confidence (for the week ending MAY 18), with the EU's Almunia in a debate on `Dealing with the Credit Crunch' along the way into lunchtime in the US.

Wednesday is very light on Far Eastern influences, albeit with a 15-year Japanese Floating Rate Note auction along with only the Australian Westpac Leading Index (MAR), Westpac Consumer Confidence (MAY) and New Motor Vehicle Sales (APR) are released prior to the Bank of England MPC meeting minutes. Of course, that does come along with UK Public Finances (PSNCR) and Public Sector Net Borrowing (both APR), and UK M4 Money Supply and M4 Sterling Lending (both APR Preliminary.) In the US we see the MBA Mortgage Applications (for the week ending MAY 16) and what are likely to be the least surprising set of FOMC meeting minutes (from APR 29-30) in light of the massive amount of insight which various Fed officials chose to share last week.

Thursday also sees very limited Far East influence in the form of the Japanese Merchandise Trade Balance Total (APR), their Foreign and Domestic Stock/Bond Purchase figures (for the week ending MAY 16) and All Industry Activity Index (MAR.) In Europe it's Italian Consumer Confidence Index (MAY) and Retail Sales (MAR), UK Retail Sales (APR) and Total Business Investment (Q1 Preliminary), Euro-zone Industrial New Orders (MAR) and UK CBI Monthly Industrial Trends (MAY.) In the UK there is also a £900 million DMO Gilt auction. The US gets a bit more interesting with suddenly more important Weekly Initial Jobless Claims (for the week ending MAY 17) and Continuing Claims (for the week ending MAY 10), the Fed's Kroszner speaking to state banking regulators in Florida, and wrapping up with the House Price Index (MAR) that is a very nice setup for Friday's Existing Home Sales. There is also another Federal Reserve Bank of New York TSLF liquidity auction, and the announcement of the terms for the next $30 billion of 2-year T-notes and $20 billion of 5-year T-notes.

Friday is another day of very light influence from the Far East in the form of the minutes of the previous BoJ Board Meeting (APR 8-9), and BOJ Governor Masaaki Shirakawa speaking at the National Press Club. In Europe it's French Consumer Spending (APR), the French, German and Euro-Zone Purchasing Manager Indices of Manufacturing and Services, as well as the Euro-Zone Purchasing Manager Index Composite (all MAY Advance), Italian Non-EU Trade Balance (APR) and the Istat Preliminary Italian Gross Domestic Product Figures (Q4 2007 and Q1 2008), followed by UK Gross Domestic Product (Q1 Preliminary) and the usual host of associated figures on Private Consumption, Government Spending, Gross Fixed Capital Formation, Exports and Imports, as well as their Index of Services (rolling three-month indication for MAR.) Then it's back over to the Continent for Italian Gross Domestic Product (Q1 Preliminary) prior to heading over to the US for the only economic release of the day, yet what may be the key economic release of the week: Existing Home Sales (APR.) That is followed by the talking heads getting the last word once again, as Germany's Herr Glos speaks in Frankfurt.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)
