

Rohr Report

Weekly Overview

Monday, September 8, 2008

Key Views

- What is there to say that has not already been said, and even heavily presaged? Simply put, less of a panacea than a removal of one of the most pernicious irritants of an already bad situation. Whatever one may think of US government action over the weekend, it was a necessary evil. As highlighted in the *CAPITAL MARKETS OBSERVER* IV-11 (August 14) interview excerpt, Mr. Greenspan had it right in his response to the question from CNBC's Maria Bartiromo: "...the solution here ultimately is going to be ultimately, ...a nationalization of both Fannie and Freddie." "You cannot have a type of organization which is half public, half private." The real key now will not be whether more triage that has moved from Band-Aid to tourniquet will solve the problem, but whether the administration and Treasury will now more fully accept and collaborate with the Congressional at-risk borrower relief program that is a very essential adjunct to the prevention of the GSE's collapse. We'll have more to say on that in this week's *CMO*.
- While estimating the timing of any such moves is very risky, the tide for some major underpinning of these critical organizations was no surprise. Recent days had seen dumping of some of their debt by normally solid sovereign holders, expression from a major bond fund that they were done even entertaining the idea of purchasing more debt, and (possibly most telling of all) the ECB announcement of a progressive collateral rating program at the end of last week's regular monthly press conference. That certainly crystallized the minds of all who felt the system could still be 'gamed.'
- In spite of the radical shift of sentiment over the weekend, all of the trend views and technical levels also remain consistent with last Thursday's *TRENDVIEW BRIEF UPDATE*. While we never want to rely on the government to reinforce our technical projections, regarding the major recovery of the DJIA from the first test of the 11,100-10,975 weekly UP CPR all we can say is: Thank Hank. It is always interesting when a 'two-way street' psychology reverts back to the other end of the range so quickly; yet that still means resistance is likely to restrain the equities at DJIA 11,500, 11,750-800 or the 'big penny' level at 12,000 at best. The levels for other equities also remain very much the same.
- As also revisited on Friday, it was going to be an interesting issue to see if the T-note could escape the 118-00 area resistance Tolerance at 118-12. Obviously that abject failure has left it retesting 116-16/-00 one more time. Yet, by holding well there, it illustrates the degree to which the long dated fixed income remains skeptical of the durability of equities' rally. And that has proved prescient once again on recent form.
- As the US Dollar Index is above resistance at .7900, whether equities manage to hold might also be an influence there, even as October Crude Oil has managed to hold so far no worse than the 106.23 weekly Area Gap, with lower support into 100.00-98.50.

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Reports & Events

A much lighter reporting week, entering the front half of the US mid-month vacuum. However, that does not lessen the influence of international financial luminaries as we enter a very intense phase of bulletins, reports, surveys and speeches into midweek.

There is little US economic data until the end of week somewhat influential releases. Speeches from a few officials notwithstanding, that the most interesting economic influences in the US prior to Friday are the suddenly more telling Weekly Initial Jobless Claims is a clear sign we are indeed in a typical post-Employment report economic data vacuum. Yet, Friday begins the mid-month punctuation mark that continues into next Tuesday's FOMC decision, as we see Retail Sales and the Producer Price Index (both AUG), followed by University of Michigan Consumer Confidence (SEP Preliminary) and Business Inventories (JUL.)

Central Bank influences remain very prominent, with many speeches into midweek.

While what may be a very interesting speech from the ECB's Gonzales-Paramo on 'global market turmoil: next steps for the financial industry' will be delivered on Tuesday, influence from central bank expressions increases Wednesday into Thursday. That includes multiple speeches and testimony from the ECB's Trichet, and pronouncements from ECB's Liikanen, Weber, Wellink, Lagarde, Mersch, Swiss National Bank's Hildebrand and Jordan, Bank of England's Tucker, and the Fed's Bernanke (albeit only on 'education') and Kohn.

International finance ministers also have quite an influence this week in various forms.

Those include Thursday's release of the European Commission Economic Growth Forecasts, and a Euro-Area finance ministers meeting in France on Friday.

Yet, the most telling central bank influence will likely be various reports on Thursday.

That begins with the European Central Bank Monthly Bulletin, which may carry even more weight than usual. In part that is naturally due to any indications on just how markedly the Euro-zone economy has deteriorated while the ECB remains fixated on its inflation fighting mandate, and even more potentially influential if there is any addendum expanding on the analysis behind its recent liquidity loan collateral discount program. Shortly after that the Bank of England issues its Quarterly Inflation Attitudes Survey, which will be followed by BoE's King, Bean, Tucker, Blanchflower and Sentence testifying on that report.

Last, but by no means least with bond markets under pressure, there is debt supply.

Sizable auctions in Europe and the UK this week do not diminish the influence of the major \$11.0 billion US 10-year T-note auction on Thursday; especially as it directly follows all of the major central bank reporting and testimony influences from earlier in the day.

Day-by-Day

While we prefer to have definitive dates for economic releases, the German Wholesale Price Index (AUG) is only signaled for release between today and next Tuesday.

Monday began the mid-month reporting vacuum in the US with a heavy concentration on Far Eastern and UK news. Reserve Bank of Australia Governor Stevens provided his half-yearly testimony, followed by Japanese Bank Lending figures that included Banks Adjusted Loans, and Bank Lending including-Trusts and ex-Trusts along with their Money Stock M2+CD and M3 (AUG) as well as the Economy Watchers Survey Outlook and Current indications (all of which are for AUG), followed by ANZ Job Advertisements (AUG) and Japanese Bankruptcies (also AUG) prior to jumping over to the UK for their Producer Price Index (AUG) that has come in a bit more benign than expected (albeit still at elevated levels.)

Monday (continued) After that it was a bit weaker than expected Euro-zone Sentix Investor Confidence (SEP) along with the details of the Italian BTP auctions to occur on September 11 prior to jumping back over to the Far East for Australian and Japanese Manpower Surveys (Q4), ECB's Tumpel-Gugerell speaking on the future of banking in Germany: 'Consequences of the Financial Turmoil', and finally we will be moving over to the US where the Fed's Fisher speaks in Austin at a community forum, with US Consumer Credit (JUL) to follow along with the announcement of the details for the 10-year T-note auction on September 11.

Tuesday commences with the Euro-zone Manpower Employment Outlook (Q4) and typically early UK BRC Retail Sales Monitor and RICS House Price Balance (both AUG) before shifting back to the Far East once again for Australian NAB Business Confidence and the associated Business Conditions (both AUG), as well as their Retail Sales, Home Loans, Investment Lending and Value of Loans (all JUL) along with Japanese Machine Tool Orders (AUG Preliminary) and a 5-year JGB auction. In Europe it's the German Trade Balance and Current Account (JUL) followed by UK Industrial and Manufacturing Production (JUL), with the ECB's Weber speaking in Frankfurt prior to the Fed's Bernanke speaking on education in Washington, which is followed by a more telling speech from the ECB's Gonzales-Paramo on 'global market turmoil: next steps for the financial industry.' US economic releases include the IBD/TIPP Economic Optimism (SEP), Pending Home Sales (JUL), Wholesale Inventories (also JUL) and the late afternoon ABC Consumer Confidence (for the week ending SEP 7.)

Wednesday kicks off with the literal top-of-the-morning (12:01 British Summer Time) UK NIESR Gross Domestic Product Estimate (AUG) prior to heading over to Japan for their Domestic Corporate Goods Price Index (AUG), Trade Balance and Current Account (both Total and Adjusted for JUL), Australian Westpac Consumer Confidence and the Japanese Leading and Coincident Indices (JUL Preliminary), after which it's over to Europe for French Industrial and Manufacturing Production as well as their Trade Balance (all JUL), with the ECB's Trichet speaking at the quarterly hearing before the Economic and Monetary Affairs Committee of the European Union, followed by the Italian and UK Trade Balances (both JUL) along with a £3.5 billion 5-year Gilt auction (4.50%) prior to jumping back over to the Continent for Italian Gross Domestic Product (Q2 Final) and associated figures for Private Consumption, Government Spending, Total investments and Exports and Imports (all Q2) as well as an €8.0 billion German New Schatz auction, the ECB's Liikanen speaking in Helsinki and Swiss National Bank's Hildebrand speaking in Geneva, Switzerland, the somewhat minor US MBA Mortgage Applications (for the week ending SEP 5) prior to further central banker influence from a speech in Zurich by Swiss National Bank's SNB's Jordan on the financing of mortgages and the ECB's Weber speaking in Oberhausen, Germany.

Thursday begins with the Reserve Bank of New Zealand interest rate decision that is likely see another 'high-yielder' cut their base rate a bit (to 7.75% from the current 8.00%) after the 25 basis point easing by Reserve Bank of Australia last week. Then it's on to typical weekly Japanese Foreign and Domestic Stock/Bond Purchase figures (for the week ending SEP 5) along with their Machine Orders (JUL) prior to moving on to the Australian Consumer Inflation Expectation (SEP) along with Employment Change, Unemployment Rate and Participation Rate (all AUG) after which it's over to Europe for much more telling influences from French Non-Farm Payrolls (Q2 Final), the European Central Bank Monthly Bulletin (which we would hope includes an addendum on its recent liquidity loan collateral discount program.)

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Thursday (continued) That is followed by the Bank of England Quarterly Inflation Attitudes Survey that is accompanied by the BoE's King, Bean, Tucker, Blanchflower and Sentence testimony on that report, the European Commission Economic Growth Forecasts, the ECB's Trichet, Wellink and Lagarde attending a financial conference, and ECB's Mersch speaking in Luxembourg along with auctions of Italian 5-year BTP's (4.25%) and 30-year BTP's (5.00%). In the US we see the Trade Balance (JUL), Import Price Index (AUG), the suddenly more telling Weekly Initial Jobless Claims (for the week ending SEP 6) and Continuing Claims (for the week ending AUG 30), and the Monthly Budget Statement (AUG) prior to the ECB's Trichet speaking in Nice, an \$11.0 billion US 10-year T-note auction, and the Fed's Kohn commenting on Financial Regulation at the Brookings Institution.

Friday gets back to somewhat more influential US economic releases, but not before there is once again plenty of news elsewhere, beginning with the Japanese Gross Domestic Product (Q2 Final) along with Industrial Production and Capacity Utilization (JUL Final), the Bank of France Business Sentiment (AUG) and their Consumer Price Index (AUG), after which the Euro-Area Finance Ministers meet in France and we see Italian Industrial Production (JUL) along with Euro-zone Employment (Q2) and Industrial Production (JUL) prior to shifting over to the UK for a speech from the BOE's Tucker, and finally on to the US for Advance Retail Sales (both Total and Less Autos for AUG), the Producer Price Index (Headline and Core also for AUG), University of Michigan Consumer Confidence (SEP Preliminary) and Business Inventories (JUL), and thankfully no talking heads after those US numbers into the weekly Close; at least none that are scheduled at present, which we all know can change very quickly depending on any radical erosion in equity market conditions.

We hope you find this helpful.

-Rohr

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