Rohr Report

Weekly Overview

Monday, October 13, 2008

Key Views

- **Nothing seemed to help the equity markets last week once the DJIA broke the major congestion and long term trend support in the 10,000-9,700 area. Both major technical and 'big penny' psychological support (including the 9,708 October 2004 pre-election lows), the failure below it indicated a fresh DOWN Break Out of the uptrend from the December 1974 low. That was our basis in Wednesday's *Capital Markets Observer* IV-15 for noting we are now in a 'Super-Cycle Correction.' In essence, while there are quite a few interim supports along the way, the baseline trend now relates back to the overall uptrend from, dare we say it... the July 1932 low; which is in the 5,800-5,400 range.**

- **While that likely sounds very scary to most folks out there, it is a natural extension of the inability of the powers-that-be to stabilize the core underlying asset of the troubled MBS market: US home prices. While the implications of this are that DJIA is not likely to recover back above the 10,000-11,000 area anytime soon (i.e. quite a few years), at least the authorities on this go round (as opposed to the early 1930's) have gone to school on disastrous consequences of too heavy an inflation focus and withdrawing liquidity at just the wrong time; at least in that regard, they seem on the right track.**

- **As far as the further market projections, they are much the same as expressed last week in the extended support levels for the DJIA that will provide some guidance as to the lower support and higher resistance (in other equities as well.) Those are 9,350-00, 9,000-8,850 and the 2002-2003 lows in the 7,400-7,200 area, with interim levels in between (internal congestions that formed between 2001 and 2003) at 8,600, 8,200, 8,062-00 (the high end of which is the September 2001 9/11 selloff low), and the 7,500 area July 2002 low that is also the UP Closing Price Reversal area from the 7,197.50 dead low from early October 2002. Of course, 10,000-9,700 remains major resistance.**

- **As noted previous, the pressure on long dated "govvies" was going to become quite prominent once equity markets showed signs of basing. Indeed, last week they were already under pressure even as the equities continued their sharp decline, which we view as verification of previous analysis that significantly negative 'real yield' along with much higher levels of bond issuance were not going to be healthy for her the long dated government bonds; especially the T-note. That has already seen the December T-note slip below key near-term 114-00 support. Next support is the 112-00/111-20 area, yet with the more important historic support from the overall 2005-2007 trading range in the 110-00/109-16 area, and extended levels well below (the 104-00 area lows.)**

- **The foreign exchange situation remains much as extensively reported last week, with the US Dollar Index re-approaching .8100 resistance (now support.) November Crude Oil overran major support at 86.00 area, but held the higher of the 78.00 & 75.00 areas.**

Reports & Events

The continued slippage of US equities after the DJIA Closed below 10,000-9700 major support last Tuesday meant that little in the economic news was relevant in the face of crisis mitigation measures (as we warned could be the case in last Monday's report.) While there are important economic releases this week, the focus will likely remain on market reactions to more rescue plan announcements along with scheduled speeches.

There are no central bank rate meetings, yet financial luminaries dominate the news. Allowing that there is room for any number of *ad hoc* announcements as the measures to address the credit and equity market crises evolves, planned speeches by central bankers and treasury officials hit a crescendo from Tuesday into Wednesday. Those include missives from the ECB's Trichet speaking in New York, the St. Louis Fed's Bullard speaks at the Economic Club of Memphis and the Fed's Yellen speaks on the economic outlook in Palo Alto, California on Tuesday, into Wednesday's influences from the Boston Fed's Rosengren speaking on the Economic Outlook, Fed Chairman Bernanke speaking to the Economic Club of New York, the Federal Reserve Beige Book shortly after that, Fed Vice Chairman Donald Kohn speaking on the economy in New York, and the Fed's Stern speaking in Houghton, Michigan. The one outlier is possibly the Boston Fed's Rosengren speaking on the very important topic of foreclosures in Boston on Thursday evening.

Extensive inflation indications this week are less than relevant in the current situation. Those began with a mixed UK Producer Price Index (SEP) this morning, see the French and Italian Consumer Price Index (SEP) along with UK Consumer and Retail Price Indices (SEP) tomorrow, Wednesday's German and Euro-zone Consumer Price Index (SEP) and the US Producer Price Index (SEP), and Thursday's US Consumer Price Index (SEP.) Yet, with the current expectations for much weaker economic growth, there is a corresponding sanguine view that sharply weaker commodity prices will significantly mitigate inflation pressures.

While Europe is in crisis, the most important economic news still comes from the US. Certainly any consideration that there was a "Great Delinking" of developed economies has been thoroughly refuted by facts on the ground. In spite of the problems various European economies may be suffering due to the credit market problems that are flowing out of the US, that still makes the US outlook and crisis remedies the most telling factors. This week those will certainly include Wednesday's Federal Reserve Beige Book and Thursday's release of the NAHB Housing Market Index (OCT), with a minor coda from Friday's somewhat suspect (builder sentiment barometer) Housing Starts and Building Permits (SEP.) We should likely all be thankful that influential (and recently depressing) US Existing Home Sales (SEP) with its important annualized price change component is not released until a week from Friday.

Day-by-Day

Sunday was the actual start of the week, with the talking heads attempting to provide some comfort, as the ECB's Bini-Smaghi spoke in Washington, followed by the Dallas Fed's Fisher also speaking there on the financial crisis.

Monday is a quieter trading day than normal (which is not saying much these days in light of the extreme volatility last week) except for the market reactions to various crisis mitigation plans that spill over from last week. That is due to the US bond market closure and lighter than usual foreign exchange trading with the banks closed in observance of Columbus Day, and that is after the Japanese Health-Sports Holiday on Monday as well.

(**Monday** continued) In the event there is still plenty of volatility, due in part to fresh action (as opposed to tentative plans) from the international conferences over the weekend and follow up this morning. The reporting began with only Australian ANZ Job Advertisements (SEP) in the Far East prior to jumping over to Europe for the French Current Account (AUG) and UK Producer Price Index (SEP) and the Bundesbank Monthly Report, the Bank of England's Sentance speaking at a Market News International event in London, US Treasury's Kashkari speaking in Washington, and the Kansas City Fed's Hoenig speaking on regulation in Washington as well.

Tuesday kicks off with the top-of-the-morning (literally 12:01 AM British Summer Time) UK BRC Retail Sales Monitor and RICS House Price Balance (SEP), the Japanese Domestic Corporate Goods Price Index, Australian NAB Business Conditions and Japanese Consumer Confidence (both General and Households for SEP) prior to jumping over to Europe for Bank of France Business Sentiment (SEP), the French Consumer Price (SEP), and the Italian Consumer Price Index (SEP Final), then UK Consumer and Retail Price Indices (SEP) and DCLG UK House Prices (AUG), followed by the German ZEW Survey (Economic Sentiment and Current Situation for OCT) as well as the Euro-zone ZEW Survey (OCT), and Euro-zone Industrial Production (AUG.) In the US it's IBD/TIPP Economic Optimism (OCT) followed by the ECB's Trichet speaking in New York, the Fed's Plosser introducing Zambia Governor Fundanga in Philadelphia, the US Monthly Budget Statement (SEP) and typical late afternoon ABC Consumer Confidence (for the week ending OCT 12.) Then it's more from the talking heads, as the St. Louis Fed's Bullard speaks at the Economic Club of Memphis and the Fed's Yellen speaks on the economic outlook in Palo Alto, California.

Wednesday starts with the Japanese Trade Balance and Current Account Total (both AUG), the Bank of Italy releasing its Quarterly Economic Bulletin and Australian Westpac Leading Index (AUG), Tokyo Condominium Sales (SEP) and Japanese Industrial Production and Capacity Utilization (AUG Final) prior to heading over to Europe for the German Consumer Price Index (SEP Final) and EU 25 New Car Registrations (SEP), and typical UK employment data such as Jobless Claims Change and Claimant Count Rate (both SEP), as well as ILO Unemployment Rate (rolling three-month indication for AUG), Average Earnings including- and ex- bonus and Manufacturing Unit Wage Cost (annualized rolling three-month indication for AUG.) Then it's the Euro-zone Consumer Price Index (SEP) prior to hopping over to the US for MBA Mortgage Applications (for the week ending OCT 10), Bloomberg Global Confidence (OCT), the Boston Fed's Rosengren speaking on the Economic Outlook, Advance Retail Sales (headline and ex-Autos for SEP), the US Producer Price Index (SEP), Empire (New York state) Manufacturing (OCT), Business Inventories (AUG), then more Fed influence from Chairman Bernanke speaking to the Economic Club of New York, the Beige Book, Fed Vice Chairman Donald Kohn speaking on the economy in New York, and the Fed's Stern speaking in Houghton, Michigan.

Thursday begins with Reserve Bank of Australia Foreign Exchange Transactions (SEP), Japanese Machine Tool Orders (SEP Final) and a 5-year JGB Auction prior to moving over to Europe for the Italian Trade Balance and Current Account (AUG), and a series of European bond supply in the form of French BTAN auctions and a 32-year Spanish Bono (4.90%) auction., along with a UK 5-year DMO Gilt Auction (4.50%.)

(**Thursday** continued) In the US it's the CPI (SEP), Weekly Initial Jobless Claims (for the week ending OCT 11) and Continuing Claims (for the week ending OCT 4), Net Long-term and Total Net TIC Flows (AUG), Industrial Production and Capacity Utilization (SEP), the St. Louis Fed's Bullard speaking on US Growth Potential, the Philadelphia Fed Index (OCT), the US NAHB Housing Market Index (OCT), and all wrapped up by the ECB's Gonzales-Paramo speaking in Santiago de Compostela and the Boston Fed's Rosengren speaking about foreclosures in Boston.

Friday commences with the Japanese Tertiary Industry Index (AUG) and their typical weekly Foreign and Domestic Stock/Bond Purchase figures (for the week ending OCT 10), Australian Import and Export Price Indices (Q3), the Japanese Nationwide Department and Tokyo Department Store Sales (SEP) and the Bank of Japan's Shirakawa speaking at the Annual Meeting of Credit Unions prior to shifting to Europe for Industrial Orders and Sales (AUG), the Euro-zone Trade Balance and their Construction Output (AUG.) In the US it's the always somewhat suspect (builder sentiment barometer) Housing Starts and Building Permits (SEP), the University of Michigan Consumer Confidence (OCT Preliminary), and wrapping up with still more talk from the St. Louis Fed's Bullard moderating a panel on economic policy, and the Fed's Evans speaking on the Economic Outlook in Wisconsin.

We hope you find this helpful.

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