# Rohr Report

## *Weekly Overview*

**Monday, March 2, 2009 (Sunday distribution)**

## *Key Views*

- **The equity markets are extremely fraught once again as we begin the week, perched on the ledge and potentially ready to dive off. While we always strive to keep things in a longer-term context and avoid alarmist statements whenever possible, there is no denying that psychologically as well as technically these markets are in a very similar condition to that seen at the end of last September. As one wag quipped in response to the markets' serial sharp slides in response to various government pronouncements, rather than a 'new dawn' markets might have hoped for, in the wake of the President's first budget it feels more akin to an Obam-Acupulco Cliff Dive.**

- **We are going to spend a bit more time on the SELECT MARKET VIEWS below in order to clarify the critical nature of the technical projections at this time. Yet the similarities between the psychology at the end of last September and at present are striking. Whatever one may have thought of the original TARP program's evolved proposal that came in the wake of the previous major funding for GSE reform, the equity market's verdict was very clear: (as we noted back at that time) $750 billion was not nearly a big enough 'bazooka.' And here we are once again with an entire series of proposals and funding plans from the allegedly better, smarter new administration. Without being coy about it in any way, we ostensibly now have a stimulus plan, the more detailed plan for application of the second half of the TARP, the budget proposal, and various associated details on how the banks are going to be rescued. While each of these brought some temporary joy (or at least consternation to the bears), the net effect is previous strong sister DJIA both starting and finishing last week below the 7,197.50 major cycle low from October 2002 that it did not even need to test last November.**

- **Other major concerns revolve around the weakness of the US government bond market in spite of the equities weakness, and a very strong US dollar that speaks of the degree to which much of the world believes if it is bad in the US, it will be even worse elsewhere. Given the degree to which Western Europe is burdened with the extensive problems of Eastern Europe, and the UK is deemed to be 6-9 months behind the US in the weakening economic cycle, that would seem to be a reasonable expectation. Yet, it also highlights the degree to which the burden of finding a solution to all this still rests with a US administration, central bank and legislative branch that can not seem to figure it out.**

- **Prior to delving into more specifics below, we can only say that the key Tolerance below the major DJIA 7,197.50 October 2002 low in is the 6,970 October 1997 low, below which the next significant support is not until the 6,300 area. Whether any further weakness in the equities assists the March T-note in holding 122-00/121-16, and to what degree that pushes the US Dollar Index above the mid-.8800 area is yet to be seen.**

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## SELECT MARKET VIEWS

### Equities

- While all the equity markets are worth reviewing as they evolve to fresh technical support and resistance levels, those are much the same as last Tuesday's ***TrendView* GENERAL UPDATE**, and we refer you back to that for those insights. Far more important is the strong confluence of technical factors in previous upside leader turned Pied Piper of Pessimism **DJIA**. It is the index setting the trend for the others, if not always the tone or near-term volatility. Its extremely fraught position from last week's Close requires exploration of the critical nature of the trend decision right from the top of this week; literally Monday morning's opening.

As we have noted extensively, successive US government program announcements proved less than effective in preventing the DJIA from slipping below its 7197.50 October 2002 major cycle low. We typically allow a broad berth around such major levels (which proved useful last November), and felt that this one deserved forbearance all the way to the 6,970 sharp pullback low from October 1997. What has interestingly transpired along the way as this market began and ended last week below the 7,200 area is its intermediate term channel bottom (return line) held early week, and has evolved to just about 6,970 into today (Channel C http://bit.ly/2QZyp.) Of course, trading out through a return line in the direction of a trend is classically known as 'Acceleration'; and just as quite a few folks were hoping that the market was grinding into a bottom, the downside shock therapy for any remaining bulls may be about to begin again.

The confluence of other factors which tie the current market back into the potential for extreme negativity are pretty impressive. In addition to the psychological malaise from ineffectual or counterproductive government plans, weekly MACD rolled back into a DOWN signal just before previous major failures, overall failure of general 10,000 area support was a convincing violation of the Total DJIA Valuation Fibonacci 0.25 support that now sees the market already below that projection's 0.50 retracement support, and Difference Oscillators (not shown) are also weak.

Presuming for a moment the negative trend influences which got the markets into this state will indeed continue into early this week (admittedly problematic), it is not just a matter of ***whether*** DJIA drops below 6,970, yet also ***how*** it does so from Monday's opening that may determine quite a bit of the market tone and trend throughout the week. That is because 'trading' through an Acceleration level often fosters a correction temporarily back against that level, even if the trend continues overall once that is complete. On the other hand, if the market 'gaps' out in the direction of the trend, the implication of a Runaway Gap into new trend ground is reinforced by the degree to which the market 'jumped' right out of its current trend momentum. In that case, an aggressive trend extension is expected without any significant correction until prices reach (or near) some further meaningful technical level. In this case, a DJIA weekly gap below the historic 6,970 low and bottom of Channel C would possibly indicate a tendency to run right to lower supports in the 6,350-6,250 (post Greenspan 'irrational exuberance' December 1996 low) areas prior to stabilizing. If the market only 'trades' through the 6,970 area this morning, it sets up a better chance it might hold the bottom of Channel B; also interim 6,600 historic congestion.

Of course, the other trick here is to watch the DJIA futures right around the opening (09:30 EST; 08:30 CST; 14:30 GMT.) This is essential to assess the extent of any gap lower opening from Friday's DJIA 7,063 cash Close. As in their wisdom the folks who manage the DJIA quote feed use a 'rolling' opening that does not reflect the true nature of any gap, this is essential insight. The equivalent of a 100 point (or worse) lower opening would be March futures 6,950 or below.



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## Fixed Income

▪ While there is still quite a bit of divergence in the long dated 'govvies', the US is weak sister for all of the obvious reasons on issuance and residual weakness of Eastern European burdens on Western Europe. It is no surprise that after failing from its higher 124-00/-16 resistance the **March T-note** was back down to, and even temporarily below its critical intermediate-term trend support and early month low in the 122-00/121-16 area. While finishing the week in that zone, in light of the performance of equities that is still a very weak showing. Even though 'haven' debt instruments can stabilize and rally when the equities are weak, 122-00/121-16 is even more important on the current swing than previous. That is due to be major March contract broad channel from last June's low having already been violated late last week on a DOWN Break below the 122-00 area. As such, any further failure below the recent mid 121-00 low might be more than just a new low for the selloff, especially if it occurs in spite of any further extensive weakness in the equity markets. That would smack of the sort of anticipation of major fiscal pressure from government action to stem the economic slide, and the attendant heavy government debt issuance accompanying the UK banking crisis in mid-January. Of course, it is thoroughly possible that if equities perform as bad as we suspect it might, there could also be an upward squeeze in the long dated 'govvies'; it remains the sort of highly prismatic picture that requires this sort of close attention we had suggested previous. Whether it is on strength or weakness of the equity markets, next support in the T-note at the 120-00/119-16 UP Break them last November is critical. Any failure would speak of a potential to swing back down to broad channel supports (from the summer '96 and '97 lows) in the 116-00 and 114-00 areas.

While activity elsewhere remains far more buoyant than the US, that is ostensibly due to the degree to which US economic weakness might still foment worse consequences elsewhere. Which raises the question of what happens if the equity markets break, and the US govvies come under pressure in spite of that? Might a psychology of the fiscal picture as well being worse elsewhere if it is bad in the US come to pass? As there have been serial stallouts in **Bund** at no better than 126.00-.50 and **Gilt** into 122.50, we suspect those markets will ultimately come under pressure for various reasons if there is significant failure in the T-note. Lower near term support in the Bund is 124.00-123.50, with extended support once again back in the 122.00-121.50 range. While the Gilt is also already back down into its 120.50-.00 support, any failure of 119.50 likely leads to a test of 118.00-117.50 or worse once again.

## Foreign Exchange and Precious Metals

▪ The strength in **US Dollar Index** above .8640 UP Break area continued to stall into no better than critical mid-.8800 area resistance, likely due to needing assurance that the equity markets have failed badly prior to the upside leader 'haven' currency progressing further. Other than the yen finally returning to a richly deserved (economy-driven) weak sister status, weakness of the others is still not convincing, as much of the US dollar bid is indeed based upon yen weakness. **EUR/USD** below 1.2850-1.3100 has not really re-approached 1.2500-1.2450, as is the case for **GBP/USD** not revisiting 1.4000. A lot still seems to rest with the extent of equities weakness. All the more notable then that the **April Gold future** reacting from 1,000-1,008 major resistance has managed to hold its 933 support with only a modest washout during Friday's wild swings; which confirms this is another highly prismatic instrument. Will any equities weakness leave it depressed into support back around 900, or tend to encourage enough of a sense of chaos to drive it back up toward 1,000? We are inclined to be circumspect in light of near-term volatility. See last Tuesday's *TrendView* **GENERAL UPDATE** for more projections on other markets.



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## Reports & Events

**Last week was a typically active end of month reporting week as well as government announcements like the new administration's US budget proposal and more details on the bank rescue plan. Yet, it is dwarfed by the combined central bank, NGO, economic and governmental activity this week in addition to typical heavy early-month reporting.**

**Welcome to the 'Week of the Central Bankers', whatever influence they may still exert.** While we have a firm view that the central bankers abdicated leadership of the economies and markets some time ago, they do get their say this week. In addition to the normal first week of the month interest-rate decisions and expressions from the Bank of England and European Central Bank, Tuesday morning sees rate decisions and statements from the Reserve Bank of Australia and Bank of Canada. That does not even begin to highlight their extensive speeches and testimony this week, including much discussion of the US and global economy. The three appearances we feel might be most contentiously telling are Tuesday's testimony by Chairman Bernanke in front of the Senate budget committee (especially in light of criticism being directed at President Obama's first budget proposal), and Thursday's simultaneous appearances of the seemingly still tentative Treasury Secretary Geithner at a hearing on the US Treasury Budget and the Fed's Kohn testifying on AIG in front of the Senate Banking Committee; which should make for very interesting listening. Which is not to diminish the potential impact of Wednesday afternoon's release of the Fed Beige Book, nor are anything that might come up in Thursday's ECB post-rate decision news conference and subsequent Q&A. It is simply that the US budget and discussion of the continuing surprises at AIG might be the most radical information.

**Needless to say, the influence of additional financial services rescue moves is critical.** While President Obama's budget has been broadly perceived to have come down significantly left of center, and his stimulus plan as less than credibly stimulative, the initial positive response to details on the bank rescue plan still finishing the week with quasi-nationalization of Citi was likely a crucial problem for the equity markets. As the authorities have consistently failed to understand the way in which the devolution into further weakness impugns all static plans, the withdrawal by General Electric of two thirds of its dividend on top of similar moves by strong bank JP Morgan have highlighted the continued weakening of confidence. Under that scenario it is only matter of time before more banks are *de facto* nationalized, and there is less hope that any aggressive and creative activity can return to financial services anytime soon. That is so obviously a problem for much more of the economy than the banking sector, the authorities had best figure out a more convincing banking and economic confidence builder very soon.

**Debt auctions continue to be heavy this week, with announcements likely telling as well.** While the UK and Europe continue to see sizable auctions this week, announcements on both their future offerings and most critically on next week's US long-dated auctions will remain a burden on 'govvies'; even remaining problematic if equities weaken markedly (see above.)

**Positive influence from a waxing moon depends on equities' early week ability to hold.** The new moon into last Wednesday should be a positive sign for the equities, as the rising 'animal spirits' that engenders reinforces any rally. However, much like technical signal levels can be negated by lack of follow through, that is also the case for temporal cycles. As the DJIA already Closed below last week's early week low, unless the equities can hold and rally from the top of this week, they are very vulnerable. That is another way in which the market situation is similar to last Fall, when a late-September new moon influence was crushed in early October.



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**Day-by-Day**
While we prefer definitive dates for economic releases, Japanese Official Reserve Assets (FEB) is only known to be coming out sometime between today and Thursday, while German Retail Sales and the German Wholesale Price Index (JAN), UK HBOS House Prices (FEB) and US Mortgage Delinquencies (Q4) are only known to be coming out sometime during this week, with the last of them presenting a special risk for already fraught economic and market psychology. However, in addition to any of the scheduled reports and events, the various pronouncements from government officials on the TARP, TAFF or other economic support or rescue initiatives may occur any time, or on short notice. This week is already rife with testimony and speeches which may provide additional unexpected influences at any time.

**Monday** is a typical first day of the month concentrated economic release springboard at the beginning of a very busy week. It begins with Australian AiG Performance of Manufacturing Index along with their TD Securities Inflation (all FEB) and HIA New Home Sales (JAN) even prior to the UK top-of-the-morning (literally 00:01 GMT) Hometrack Housing Survey (FEB) prior to returning to Australia for Company Operating Profit and Inventories figures (Q4), Japanese Labor Cash Earnings and their Vehicle Sales (FEB), wrapping up the Far Eastern influence with the Reserve Bank of Australia Commodity Index (FEB.) Influential data from Europe begins with the Italian, French, German and Euro-zone Purchasing Manager Index of Manufacturing (FEB Final), shifts to the UK for Net Consumer Credit, Net Lending Secured on Dwellings and Mortgage Approvals (all JAN), their Purchasing Managers Index of Manufacturing (FEB) and the M4 Money Supply (JAN Final) prior to shipping back to the Continent for the Euro-zone CPI Estimate (FEB) and Italian Consumer Price Index (FEB Preliminary) along with their Annual Gross Domestic Product and Deficit to GDP figures (through DEC 31.) In North America we see Canadian Quarterly Gross Domestic Product (Q4), US Personal Spending and Income (JAN) including the key Personal Consumption Expenditure Core and Deflator, as well as ISM Manufacturing (FEB), and Construction Spending (JAN.) That is followed by some interesting Fed-speak interspersed with Italian data, beginning with the Fed's Rosengren speaking at the Institute of International Bankers in Washington and Italian New Car Registrations (FEB), the Fed's Lacker speaking to economists on government lending and monetary policy in Arlington, Virginia, followed by the Italian Budget Balance (FEB), and wrapped up by the Swiss National Bank's Roth presenting a speech in Frankfurt.

**Tuesday** sees limited but possibly telling influences from around the globe, beginning with the Japanese Loans & Discounts to Corporations (JAN) and their Monetary Base (FEB) along with a 10-year JGB Auction. After that US Total and Domestic Vehicle Sales (FEB) are interspersed throughout the day, with further Far Eastern influences from the Australian Current Account Balance (Q4) and Retail Sales Trend (JAN), with the Reserve Bank of Australia interest rate decision (broadly expected to be a 25 basis point easing to 3.00 percent) and statement. In the UK we see only their Purchasing Manager Index of Construction (FEB), but also you a £3.75 billion 3-year DMO Gilt (3.25%) auction, as well as the details of the Gilt auctions on March 10th and 12th. After ECB's Weber holds a press conference in the wake of a regular Franco-German finance and economic meeting, the weekly ICSC US Same-Store Sales (for the week ending FEB 28) are released prior to the Fed's Lockhart speaking on U.S. Economy and Central Bank at Tampa, which is followed by the Bank of Canada interest rate decision (broadly expected to be a 25 basis point easing to 0.75 percent) and statement. Further central banker influence flows from Fed Chairman Bernanke testifying before the Senate Budget Committee, followed by US Pending Home Sales (JAN) and the ECB's Trichet speaking at an event in Frankfurt, and the less than influential late afternoon ABC Consumer Confidence (for the week ending MAR 1.)



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**Wednesday** is another fraught reporting day, beginning with the Australian AiG Performance of Service Index (FEB) and Reserve Bank of Australia Governor Edey giving a speech in Sydney, followed by the UK top-of-the-morning (literally 00:01 GMT) Nationwide Consumer Confidence (FEB) prior to returning to Australia for their Gross Domestic Product (Q4), and the wrap up of Far Eastern influences in the form of BoJ Board Member Suda speaking in Kyoto City. That is just the beginning of economic influences that continue in Europe with Italian, French, German and Euro-zone Purchasing Managers Index on Services (FEB Final) and Euro-zone Purchasing Managers Index Composite (FEB Final), the UK Purchasing Managers Index of Services (FEB), UK Official Reserves (FEB) and the BRC Shop Price Index (also FEB) as well as a £2.25 billion 30-year DMO New Gilt (4.25%) auction. Across the pound there is yet more influence on many levels that include US MBA Mortgage Applications (for the week ending FEB 27), Challenger Job Cuts (FEB) and allegedly new and improved ADP Employment Change (FEB), the Fed's Fisher speaking at a Global Supply Chain Conference at Texas Christian University, US ISM Non-Manufacturing Composite (FEB), the Fed's Lockhart speaking on US Economic Outlook in Miami, the Fed's Beige Book afternoon, a long with a TSLF auction and the RPX (home price index) Composite 28-Day (DEC.)

**Thursday** things continued to intensify as expected, with figures for Japanese Capital Spending that include the Ex-Software component (Q4), typical weekly Japanese Foreign and Domestic Stock/Bond Purchase figures (for the week ending FEB 27) and a 30-year JGB auction. In the midst of all that expect the UK New Car Registrations (FEB) prior to returning to Australian for its Trade Balance and Building Approvals (all JAN) to round out the Far Eastern influence. Whatever the weekly figures may have looked like, this is when we also see the early-morning release of somewhat more telling monthly US ICSC Chain Store Sales (FEB) prior to returning to Europe for the French ILO Unemployment Rate, Mainland Unemployment Rate and Mainland Unemployment Change (Q4), French Producer Prices (JAN), as well as the Euro-zone Gross Domestic Product (Q4 Preliminary) and associated figures for Household Consumption, Gross Fixed Capital Formation and Euro-zone Government Expenditure, followed by fairly extensive data offerings in the form of French OAT's of 6-year (3.00%) and 9-year (4.25%) maturities as well as a €6-7 billion 16-year (6.00%) auction, in addition to a 3-year Spanish Bono (2.75%). All of which is merely the preliminaries prior to the Bank of England interest rate decision (broadly expected to be a 50 basis point easing to 0.50 percent) and statement, as well as the European Central Bank interest rate decision (broadly expected to be a 50 basis point cut to 1.50 percent.) After which the real fun begins with the ECB's Trichet speaking at the ECB post-rate decision Monthly News Conference with its subsequent Q&A. That is not to diminish the influence from North America, which includes Canadian Building Permits (JAN), US Non-Farm Productivity and Unit Labor Costs (Q4), the still important Weekly Initial Jobless Claims (for the week ending FEB 28) and Continuing Claims (for the week ending FEB 21), the Canadian Ivey Purchasing Managers Index (FEB), US Treasury Secretary Geithner testifying at a hearing on the US Treasury Budget, US Factory Orders (JAN), the Fed's Kohn testifying on AIG before Senate Banking Committee (which should make for very interesting listening), the ECB's Tumpel-Gugerell speaking at an event in Frankfurt, the Fed's Lockhart speaking on the US Economy at Kennesaw State Forum, a New York Fed TSLF auction, and last, but by no means least, the announcement of the details of the 3-year and 10-year T-note and 30-year T-bond auctions to be held next week.



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**Friday** will classically be in thrall to the immediate influence of the US Employment Report, yet with some other interesting influences along the way. Those began with the Australian AiG Performance of Construction Index (FEB) and their Foreign Reserves (FEB), followed by the Bank of England Housing Equity Withdrawal figures (Q4), and the UK Producer Price Index Input and Output figures (FEB) along with the details of Gilt auction to be held on March 16th. From Europe we also see the details of Italian BTP auction to be held on March 13th. And then the fun really begins with the often less than immediately influential (but ultimately very telling) OECD Composite Leading Indicators prior to direct influence of the US Change in Non-farm Payrolls (FEB) and the typical associated figures for the Unemployment Rate, Change in Manufacturing Payrolls, Average Hourly Earnings and Average Weekly Hours, followed by the Fed getting the last word once again with Mr. Dudley speaking on Financial Market Turmoil in New York prior to the afternoon's mostly less than influential US Consumer Credit (JAN.)

We hope you find this helpful.

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