Rohr International

Weekly Report & Event Summary Perspective

Monday, September 24, 2012

***"Chance favors the prepared mind."* –L. Pasteur**

▪ **Macro-Technical Trend Perspective: QE3 market boost, but does it help economy?** Yes, in case you're wondering, that is the same leading line as last week. Yet it is worth asking once again as equities seem to have peaked on the Fed QE3 surge two weeks ago, and spent all of last week in a more reactive mode on the downside. And at the same time some of the other usual culprits are not acting so well on the Fed's latest attempt to boost asset prices regardless of the economic impact. Note the sharp weakness of Crude Oil, the more modest pullbacks in metals (more consistent with the quiet reaction in equities), and even the moderately subdued activity in agricultural commodities. And yet, all that may be a sign of the underlying economic weakness, and even major quantitative easing efforts are not going to change that very much in the intermediate term. We tend to take that view.

And the other problem is everything the Fed has done so far hasn't accomplished anything more than support asset prices. That only seems to benefit those who are well off enough to own equities or commodities. And the escalation of the latter is actually a headwind for a weak economy in the form of higher costs of production eating into profit margins, which is no reason to hire. And at the same time higher food and energy costs burden the consumer. 'Bernanke Hood' seems to have a perverse sense of what will help… "Rob from the middle class and retirees on fixed incomes to give to the generally more so well off." In light of all the other negative news and profit warnings it is hard to see where all this QE will do much to offset the broken monetary transmission mechanism (i.e. bad fiscal and regulatory policy.)

▪ **Rollover Alert:** The quarterly financial futures expiration rollovers are upon us again this month, as the September contracts fall by the wayside and December futures take over as the lead contract for 'continuation' data and charts. There was was once again the typically early expiration of the German Bund future in the first week of the month. Wednesday of last week saw US T-note and T-bond future expirations, which has an impact due to the discounts to the September contracts. The September S&P 500 future expired last Thursday. No need for adjustment for those, as they have already been incorporated into our analysis.

▪ **Most Likely Critical Horizons:** This is another late week influence week, and not just for the various European meetings and pronouncements. As the last week of the month, it sees all the typical major economic data for that period. And while today's German IFO, tomorrow's US Housing and Consumer Confidence, and Wednesday's US New Home Sales are of note, Thursday and Friday are still more prominent. Economic data includes Thursday's Chinese Leading Index, German Employment and various Euro-zone confidence indicators along with US Durable Goods Orders. Friday brings the typical major Japanese inflation and other data, a couple of Chinese business sentiment indicators, French and Canadian GDP, and US Personal Income and Spending along with Chicago PMI and Michigan Confidence.

▪ **Economic Data Highlights:**

Monday: Australia HIA New Home Sales, Japan Supermarket Sales, German IFO, Chicago Fed National Activity Index, Dallas Fed Manufacturing Activity.

Tuesday: Japan Corporate Service Price & Small Business Confidence, German Import Price Index & GfK Consumer Confidence Survey, UK Nationwide House Prices & BBA Loans for House Purchase, Conference Board China August Leading Economic Index, Canada Retail Sales, US S&P/Case-Shiller Home Price Index & Consumer Confidence & Richmond Fed Manufacturing Index & House Price Index.

Wednesday: UK CBI Reported Sales, German CPI, Canada Teranet/National Bank House Price Index, US MBA Mortgage Applications & New Home Sales.

Thursday: China Leading Index & Industrial Profits YTD, German Unemployment Change & Rate, UK GDP & Total Business Investment & Current Account, Various Euro-Zone Confidence Indicators, US Last Revision Q2 GDP & Durable Goods Orders & Weekly Initial Jobless Claims & Pending Home Sales & Kansas City Fed Manufacturing Activity.

Friday: Japan Nomura/JMMA Manufacturing Purchasing Manager Index & Jobless Rate & Household Spending & CPI & National and Tokyo CPI & Retail Trade & Large Retailers' Sales & Industrial Production & Vehicle Production & Construction Orders & Housing Starts, Australia Private Sector Credit, China MNI September Business Sentiment Indicator & HSBC Manufacturing PMI, French GDP & Consumer Spending, UK GfK Consumer Confidence Survey (early) & Index of Services, Euro-Zone CPI Estimate, Canada GDP, US Personal Income and Spending & Personal Consumption Expenditure Core & PCE Deflator & NAPM-Milwaukee & Chicago Purchasing Manager Index & University of Michigan Confidence.

▪ **Central Banks, Finance Ministry & Political influences:**

Monday: ECB's Cœuré, BOJ Minutes, BOJ's Yamaguchi, BoE Financial Policy Committee Statement, BOC's Carney, Fed's Williams.

Tuesday: RBA Financial Stability Review, RBA's Debelle, BoE's Fisher, BoE's Jenkins, BOC's Lane, ECB's Draghi, Fed's Plosser.

Wednesday: BoE Q3 Credit Conditions Survey.

Thursday: BoE Record of Financial Policy Committee Meeting SEP 14.

Friday: ECB's Asmussen.

▪ **Government Debt Auctions or Operations:**

Monday: Germany, Italian announcement.
Tuesday: Italy, Spain, UK announcement, US.
Wednesday: Australia, Germany, Italy, US.
Thursday: Japan, Italy, US.
Friday: Australia.

Concise Market View

▪ **As noted previous, expectations of extensive ECB support for distressed sovereign debt in Europe and major Federal Reserve QE3 influence boosted equities markedly until last week. Also interesting the Bank of Japan joined in last week, as they have been at this for a long time without any real results. Maybe there's a lesson there for the Fed.**

While questions remain over the effectiveness of those programs in preventing crisis in Europe or fomenting a stronger US recovery, for now the strength of the equities cannot be doubted. As noted early last week, they would be likely to hold the first pullback, and that is exactly what transpired on the recent December S&P 500 future tests of 1,445-40. All of the intermarket influences will remain in place as well.

The response of the primary government bond markets, foreign exchange, Gold and the other commodities is all as expected, even if the govvies have been a bit stronger than one might've expected in light of the sustained equities bid. That is likely due to the classical tendency of govvies to respond to real world news. And that has been a bit less than constructive of late, accentuated by this morning's German IFO numbers, along with a bit of discord once again on the European bailout plans for Greece and Spain. The latter continues to be an erratic "Agony and Ecstasy" (with apologies to Irving Stone) influence, as Europe still alternates between lofty plans and subsequent dissension's seeming desire to snatch defeat from the jaws of victory.

From a technical perspective **December S&P 500 future** followed the previous week's FOMC Statement release sharp surge with only the most modest and temporary intraday (less than 10 minutes) pullback to the equivalent of the lead contract top of violated major 1,440.70-1,445 range resistance (including the major May 2008 lead contract futures rally high.) It then easily pushed to next interim resistance, and the lead contract (still September at that time) ultimately pushed up near 1,475 before last week's correction. As the subsequent **December S&P 500 future** dips have held right at the top of the key 1,440.70-1,445 violated resistance, it must be presumed that the trend remains up. While it may fail back below it across time, it would be most unusual for a market to drop right back below such a significant level on the first retest. And the futures expiration rollover implication of holding that support is the December contract will find a reason to run up and retest the 1,475 area high set by September contract on the Fed QE3 surge two weeks ago, and may even extend the rally to higher resistances.

And that correlates very well with the reactions in the other asset classes, as the primary government bonds broke important port levels like **December Bund future** in the 140.00 area, even though it has pushed back up to the top of that range at 140.50. Much above that it might be ready to test 141.00-.30 once again. **December Gilt future** failed its mid-119.00 area up, and is back up testing it once again even if the bigger resistance is up in the 120.00-.25 area. Similarly in foreign exchange, the **US Dollar Index** is rallying back up toward the major failed congestion in the .8000 area, and **EUR/USD** has only dipped slightly back below the important 1.3000-1.2950 range. That slippage is likely due to extra concerns about the lack of consensus on the next steps in the various European bailout efforts. And yet, that will not likely develop into any major failure for the euro for now as long as the equities continue to rally in the near-term.

The rest of this analysis is from the levels and comments in the Current Rohr Technical Projections - Key Levels & Select Comments as of last Tuesday's US Close (available at Rohr-*Blog*.) That has already shifted to December futures for the indicated contracts, and is still relevant due to the consolidation activity in most markets since two weeks ago.

December S&P 500 Future: Rally above lead contract May 2008 1,440.70-1,445 range reinforces positive Fed influence. That should be good support on any initial pullback.

RES: 1,462; **1,485-90;** 1,510; **1,526;** 1,545; **1,558.50**

SUPP: **1,440.70-1,445; 1,425-28; 1,411-17; 1,399-1,402; 1,389-87**

Government Bond Futures: Primary government bond markets hold well and recover after previous equities rally. Yet with Europe psychology and equities now in much better shape, lead contract (December in the Bund) govvies diverge markedly: the US benefits from further QE anticipation, Bund crumbles on prospect of German ESM funding, and Gilt is even worse (likely on elevated UK inflation level.) The Bund failure below 139.34 critical Tolerance of 140.00-139.60 area leaves it as strong resistance. That is consistent with December Gilt 119.30, as the latter is struggling more than the Bund of late.

DEC T-note: RES: **133-04/132-24; 134-04/133-26;** 134-15; **134-30/135-06; 135-29**

SUPP: **132-10/-02 (Jan 2012 hi);** 131-21/-16; **130-20/-10; 129-24/-16**

June 2013 Eurodollar: RES: **99.645; 99.675 (high); 99.75 & 99.85 (OSC)**

SUPP: **99.60-.59 (AUG 2011 High);** 99.55; **99.50-.52; 99.45;** 99.38-.40

Foreign Exchange: US Dollar

USD INDEX: The recovery of the euro and psychology in Europe makes violation of .8000 area no surprise. As noted previous, more QE anticipation made that a reasonable result. Below the broad Tolerance .7915 the .8000 area is now resistance, with next supports in the mid-.7800 area and bigger congestion and Fibonacci support in the mid-.7600 area.

RES: **.8015-00; .8070-50; .8150-80; .8225-60;** .8300; **.8335-55; .8450**

SUPP: .7915; **.7860-10; .7680-50; .7500; .7472-50**

EUR/USD: The upside follow-through has been impressive in wake of ECB President Draghi's potential future bond market interventions and major Fed QE3. Once it was back above 1.2500-1.2450 area, the additional follow through above 1.2750 had only minor resistance until the 1.2950-1.3000 range. That is now key s.t. support once again as well.

RES: 1.3080; **1.3250-80; 1.3450-1.3550; 1.3830**

SUPP: **1.2950-1.3000;** 1.2860; **1.2750;** 1.2600-38; **1.2500-1.2450**

GBP/USD: Much as with EUR/USD above 1.2500-1.2450, the push back above 1.5750 key weekly MA's, Fibonacci and congestion last month led to further improvement; and will be good support on any extensive selloff. However, even above next important interim resistance at 1.6150 it stalled into more major resistance in the mid-1.6200 area.

RES: **1.6250-80;** 1.6302 (APR hi); 1.6400; **1.6500; 1.6620; 1.6748**

SUPP: 1.6150; **1.6000; 1.5880-1.5900; 1.5750;** 1.5650-00 (NEG UP Brk)

AUD/USD: Commodity currency recovered better on equities rally than recent phases, as June push above 1.0000 was an UP Break that also exceeded 1.04-1.05. Any drop back below it would be weak sign with equities still up, and is a critical QE psychology insight.

RES: **1.0500-1.0450; 1.0750; 1.0850; 1.1000-67 (MAY & AUG highs);**

SUPP: **1.0250-20;** 1.01; **1.0000-.9950; 9810-00; .9705;** .9537

Foreign Exchange: Cross Rates: Euro currency weakness had limitations based on the support expectations furthered by ECB President Draghi and the Fed's major QE effort. And with EUR/USD rally above 1.2450-1.2500 carrying above 1.2950-1.3000, euro trend against the other currencies improved further as well. And it has also benefited from Japanese yen becoming weak sister of late. Is this merely the short term fallout from the Japan-China confrontation, or something more fundamental? Only time will tell.

EUR/JPY:	**RES:**	**103.00-102.40; 104.30 (DN Brk); 105.50;** 106.50; **107.50**
	SUPP:	**101.30-.65; 100.00-99.25;** 98.50; 97.75; **97.25-.00; 95.50-.00**

EUR/GBP: British pound maintaining strong sister status overall in spite of the previous June euro recovery to .8150 resistance. Weekly MACD UP on euro bid after ECB bond market support plan. Push above .7950-.8000 area of the May selloff low leaves UP Break at .7970, and ability to push above low-.8000 congestion reinforces it as support for now.

	RES:	.8020-00; **.8067 (JUN '10 lo); .8180-41; .8250-70; .8370-.8400**
	SUPP:	**.7950-80;** .7850-00; **.7750-.7694 (MAJ OCT 2008 low)**
EUR/AUD:	**RES:**	**1.2480-1.2510; 1.2650; 1.3000-1.2925**
	SUPP:	1.2360; **1.2250; 1.2170-33; 1.2000;** 1.1865; **1.1717 (MAJ '89 lo)**

We hope you find this helpful.
-Rohr
(www.rohrintl.com)
Rohr-*Blog*: Extended Observations, Calendar & Events Perspective, Tech & Comments
(http://rohrintlblog.wordpress.com/)
