ROHR INTERNATIONAL

Weekly Report & Event SUMMARY PERSPECTIVE

Tuesday, October 2, 2012

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

▪ **Macro-Technical Trend Perspective: QE3 not maintaining positive equities influence! Is it possible that the 'event' (as opposed to previous 'anticipation') is underwhelming?** To be fair about it, we need to allow that the major global quantitative easing efforts may still produce results, and the current weak economic news is not necessarily a sign it has failed. After all, monetary policy does take some significant time to work. However, while all of the current weak economic data might reinforce the need for major QE expansion, it also seems to illustrate how much weaker the global economy is than many might have expected. And it must be acknowledged that lack of liquidity is not the driver of that weakness.

So it gets back to the question of whether liquidity expansion can restore growth if the real reasons are more so things like broken Monetary Policy Transmission Mechanism in the US, a significant liquidity crunch in Europe, and a generational shift to a more consumption-based economy in China? It is of note that weakness in the latter was finally fully acknowledged in the Reserve Bank of Australia statement **(http://bit.ly/QG5QTz)** accompanying its somewhat surprising 25 basis point rate cut this morning. And the degree to which Europe is still having problems sorting out the most pressing aspects of its Sovereign Debt Crisis remains an issue.

We are referring of course to Spain. Dynamics there are almost perverse. ECB commitment to support their sovereign debt brings lower interest rates, which in turn encourages Spanish powers-that-be to take an aggressive line on not asking for the requisite bailout to receive that ECB support. Rather than expound further in this limited forum, an excellent analysis of this was provided last weekend by the Financial Times' James Mackintosh. We have marked up a copy of it **(http://bit.ly/QAmrF5)** for your ease of review, but strongly suggest you access the online version at **(http://on.ft.com/VaUMRf)** for the very interesting additional video content.

That aspect of market influences will undoubtedly become very prominent once again into Thursday's ECB post-rate decision press conference. And yet, President Draghi deferring to the political class once again likely means the *ad hoc* pronouncements out of Germany and Spain are unfortunately going to be the short-term market psychology drivers this side of any formal Spanish bailout request; which will be a constructive influence if and when it occurs. And then there will be Friday's US Employment report as the final major influence this week.

▪ **Most Likely Critical Horizons:** While late week influences will be critical once again, it is an entire week of fraught with important news and data. That has already been illustrated by the somewhat surprising RBA rate cut. Tomorrow's European Services PMI's undoubtedly play right into end of week anticipation due to the ADP Employment Change report that is looking for lower numbers. In addition to the ECB meeting, Thursday also brings Spanish and French debt auctions and US Factory Orders. And Friday remains critical due to important Asian and European economic data even prior to the Canadian and US Employment reports.

▪ **Economic Data Highlights:**

Monday: Japan Tankan Surveys, Australia House Prices & Inflation, Global Manufacturing PMI's (except Australia), Euro-Zone and Italian Unemployment Rates, Canada Industrial Product & Raw Materials Prices, US Markit PMI & ISM Manufacturing & Construction Spending.

Tuesday: Australia AiG PMI Manufacturing & RBA CPI, Japan Labor Cash Earnings, UK Halifax Plc House Prices & PMI Construction, Euro-Zone Producer Price Index, OECD Consumer Price Indices, Canada Historical GDP Revisions, US ISM New York & Vehicle Sales.

Wednesday: Australia HIA New Home Sales & Trade Balance & Retail Sales, Global Services PMI's (except Australia) & Euro-Zone PMI Composite, UK BRC Shop Price Index, Euro-Zone Retail Sales, US ADP Employment Change & ISM Non-Manufacturing.

Thursday: Australia AiG PMI Services & Building Approvals, US Challenger Job Cuts & Weekly Initial Jobless Claims & ICSC Monthly Chain Store Sales & Factory Orders, Canada Ivey PMI.

Friday: Japan Leading and Coincident Indices, German Factory Orders, Canada Employment & Building Permits, US Employment & Consumer Credit.

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

Monday: Chinese, Australian, Hong Kong Markets Closed, Bank of Portugal's Costa, ECB's Nowotny, Fed's Williams, ECB's Asmussen & Nowotny, Fed's Bernanke.

Tuesday: Chinese and Hong Kong Markets Closed, Reserve Bank of Australia Rate Decision and Statement, French Parliament Votes on EU Fiscal Pact, Spanish Regional Presidents meet.

Wednesday: Chinese Markets Closed, German Bank Holiday – Day of German Unity.

Thursday: Chinese Markets Closed, BOE Asset Purchase Target, Bank of England Rate Decision and Statement, European Central Bank Rate Decision and Statement, ECB's Draghi post-rate decision press conference, BoE's Bailey, FOMC Meeting Minutes, Fed's Bullard.

Friday: Chinese Markets Closed, Bank of Japan Rate Decision and Statement Portuguese Markets Closed, Germany's Schaeuble, Germany's Merkel, Fed's Duke.

▪ **Government Debt Auctions or Operations:**

Monday: Portuguese announcement.
Tuesday: European Financial Stability Facility, UK, UK announcement.
Wednesday: Australia.
Thursday: Japan, Spain, France, US announcement.
Friday: Australia, Italian announcement.

Concise Market View

▪ **As noted previous, expectations of extensive ECB support for distressed sovereign debt in Europe along with the Fed's major expansion of its quantitative easing (QE3) were expected to keep equities buoyant above key December S&P 500 future historic and recent resistance in the 1,445-40 range. Last week's failure was that much more telling due to the Bank of Japan joining the QE party the previous week, even if they've already been at this a long time without any real results. Maybe there's a lesson there for the Fed.**

And it is therefore that much more telling that the equities struggled once again both Monday and today in the wake of the Reserve Bank of Australia also putting through a surprising 25 basis point rate cut to 3.25% this morning. Today's equities weakness in the wake of it is consistent with yesterday's S&P 500 weakening back near Friday's weekly Close in spite of the early excitement over further quantitative easing remarks from the Chicago Fed's Evans with more from Chairman Bernanke into lunchtime.

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 have 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 European indications of continued recession spite of modest improvement, and the serial weaker than expected news out of the US since last week's Durable Goods Orders into yesterday's Construction Spending. While ISM Manufacturing was better than expected, it looks suspect in the context of so many other weak numbers. Those include the Australian Manufacturing PMI that was reinforced by the suddenly more downbeat statement from Reserve Bank of Australia, which had previous been almost obliviously optimistic.

From a technical perspective **December S&P 500 future** has been sagging back below major 1,440.70-1,445 range resistance (including the major May 2008 lead contract futures rally high.) While it pushed up to the 1,450 area Tolerance of that significant zone on Monday's early rally, it will now actually need to Close above Monday's 1,451.20 hi to re-establish upside momentum. Otherwise it might be vulnerable to a correction at least back down to last week's 1,424.50 low, and may even be ready to test more important intermediate term supports in the 1,400 area.

And that correlates very well with the reactions in the other asset classes, as the primary government bonds recovered back above important support levels like **December Bund future** in the 140.00-.50 area, and even 141.00-.30 once again. It is of note that the latter area has held well during the equities recovery of the past couple of days. D**ecember Gilt future** that had failed its mid-119.00 area support is back above the bigger resistance in the 120.00-.25 area. Here as well, holding the latter area on the equities rally is a constructive sign. The US govvies are very distorted by the major quantitative easing influence, and were not as weak as others on the early September selloff. Of late they can hardly pullback at all, even though the December T-note future above 133-00 has not even been able to reach the 134-00 resistance.

And there are some inconsistencies in the other asset classes as well. Not the least of which is how well the **US Dollar Index** is holding back up near major failed congestion in the .8000 area. That is in spite of **EUR/USD** also holding up not too much worse than its current retest of failed support in the important 1.3000-1.2950 range. Yet, that does leave the burden of proof on the equities and euro currency bulls once again. And a good part of the strength of the **US Dollar Index** likely has to do with the weakness of commodity currencies in the current global matrix. Considering how well the euro is holding up, the sustained weakness of the Australian dollar back below **AUD/USD** 1.0500-1.0450 and Canadian dollar back through **USD/CAD** mid-.9700 area seem to be significant reinforcement for the overall weakness of the global economy.

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

December S&P 500 Future: Slippage back below May 2008 high 1,440.70-1,445 range reinforced by daily MACD DOWNturn. Yet resistance Tolerance is up in the 1,450 area.

RES: **1,440.70-1,445;** 1,462; **1,485-90;** 1,510; **1,526;** 1,545; **1,558.50**

SUPP: **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. Europe psychology and equities now in better shape led to early-mid month selloff. However, continued inconsistencies and lack of consensus in Europe along with relatively weak global data have encouraged extended govvies rally. Especially in the case of weaker sisters Bund and Gilt, the recovery has been impressive. They are now up above key resistances once again at December Bund 141.30-.00 and December Gilt 120.00-.25. Unless equities break resistance, those areas will hold on dip.

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

SUPP: **133-04/132-24; 132-10/-02 (Jan 2012 hi);** 131-21/-16

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 made 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, yet with daily MACD now UP. That reinforces the critical nature of the low-mid- .8000 resistance right now.

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 the 1.2950-1.3000 range looked very good until this week. That is now the key s.t. technical area again as well.

RES: **1.2950-1.3000;** 1.3080; **1.3250-80; 1.3450-1.3550; 1.3830**

SUPP: 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 a full extension to the major 1.6300 area April high. Easily the strong sister, yet even here daily MACD is now DOWN. That highlights the importance of the interim 1.6150 support (also daily MA-18 right now.)

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. Drop back below it a weak sign with equities still up, and is a critical Asian drag on bullish QE psychology.

RES: **1.0500-1.0450; 1.0615-25; 1.0750; 1.0850; 1.1000-67**

SUPP: 1.0350; **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 yet, it has failed to remain strong sister against the British pound and Aussie dollar, and Japanese yen reverting to the strong sister of late also raises questions about the durability of the equities rally.

EUR/JPY:	**RES:**	**101.30-.65; 103.00-102.40; 104.30 (DN Brk); 105.50;** 106.50
	SUPP:	**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 and Fed moves, but recent slippage has dropped it down for a vigorous test of .7950-.8000 area of the May selloff low. That leaves .7950-80 area UP Break and congestion critical right 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.
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