ROHR INTERNATIONAL

Weekly Report & Event SUMMARY PERSPECTIVE

Tuesday, October 16, 2012

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

▪ **Macro-Technical Trend Perspective: Bullish week that clearly began before it began.** Some Chinese data over the weekend might have disposed the equities to 'pop' on Sunday's overnight trade into Monday. Yet, it is more likely the Teutonic, IMF and ECB 'meeting of the minds' that pure austerity was becoming more problem than solution likely turned the key.

Funny that the official view was the same as our early perceptions (among quite a few others) that the Greek debt crucible had illustrated how heavily indebted weak economies could not weather the extreme stress of sharp reductions in government spending dictated by their (ostensible) benefactors in Northern Europe. And it either did not occur, or did not matter, to the Germans that their success with significant austerity was in the context of a buoyant global economy, and in tandem with major pension and labor reforms. It was refreshing to hear the IMF repeat its recent mantra that these things take time, and the way to prevent further crises (and potentially unacceptable political devolution) is through measured steps.

That amounts to a tacit commitment to help without demanding extreme reforms. Just the sort of tonic the equities needed to counter some of the softer data coming through Europe right now; with knock-on effects into Asia and elsewhere. It seems the full 'risk on' psychology of 'Buzz Lightyear' Bernanke's QE-Infinity program along with what looks like a fairly effective 'liquidity' Band-Aid on the broader European 'solvency' problem is trumping any crisis now.

And what we also know right now is that folks who are chasing returns in a zero interest rate policy (ZIRP) environment are not going to worry about piddling things like the US Fiscal Cliff or the fact that Europe's overall insolvency will remain a problem for the next several years across the cycle. Problems elsewhere might also represent economic and market influences that the equities find hard to digest. What if the US still has a split Congress after the general election on November 6th, or the German Parliament does indeed reject the most recent round of accommodation suggested for Greece and Spain? And along the same line, what if the Spanish-German agreement Spain not request the bailout right now does not maintain the uneasy truce on the further German rescue funding. Yet, for now there has been a definitive basing action after the post-QE3 selloff since mid-September. We explain that in extensive technical trend detail in the **Concise Market View** below. For now suffice to say that the failed attempt to knock out the **December S&P 500 future** late September 1,024.50 low from the end of last week was a watershed that reinforces the bullish trend view for now.

▪ **Most Likely Critical Horizons:** While Quite a bit has already impacted the markets this week, such as the Chinese data and NGO's (Non-Governmental Organizations ECB and IMF/World Bank) and German influences coming in from over the weekend noted above. Along with better-than-expected US Retail Sales on Monday, it all supports the bullish case right now. Yet that will potentially have some challenges from Wednesday's UK Employment data and Euro-Zone Construction Output. Thursday is also very interesting for renewed focus on a lot of Chinese data, UK Retail Sales, and US Philadelphia Fed and Leading Indicators, after which things quiet down Friday except for recently important US Existing Home Sales.

- **Economic Data Highlights:**

Saturday: China New Yuan Loans & Money Supply.

Monday: UK Rightmove House Prices, Australia New Motor Vehicle Sales & Investment Lending & Home Loans & Home Loans, China Consumer Price Index & Producer Price Index, Japan Industrial Production & Capacity Utilization, US Advance Retail Sales & Empire Manufacturing & Business Inventories, Canada Existing Home Sales & Business Outlook Future Sales & Bank of Canada Senior Loan Officer Survey.

Tuesday: Tokyo Condominium Sales, EU 25 New Car Registrations, UK PPI & CPI & RPI & DCLG House Prices, Euro-Zone ZEW Survey (Economic Sentiment) & CPI & Trade Balance, German ZEW Survey (Economic Sentiment & Current Situation), Canada Manufacturing Shipments & International Securities Transactions, US CPI & TIC Flows & Industrial Production & Capacity Utilization & NAHB Housing Market Index.

Wednesday: Australia Westpac Leading Index, Japan Nationwide & Tokyo Department Store Sales & Machine Tool Orders, UK Employment data & Average Weekly Earnings, Euro-Zone Construction Output, US MBA Mortgage Applications & Housing Starts & Building Permits.

Thursday: Australia NAB Business Confidence & RBA Foreign Exchange Transactions, China September Property Price & Fixed Assets Investment Excluding Rural & Real GDP & Retail Sales & Industrial Production, UK Retail Sales, Canada Wholesale Sales, US Initial Jobless Claims & Philadelphia Fed & Leading Indicators.

Friday: China MNI October Flash Business Sentiment Indicator, Japan All Industry Activity Index & Coincident Index & Leading Index, German Producer Prices, Euro-Zone Current Account, UK Public Finances, Canada CPI, US Existing Home Sales.

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

Saturday: IMF/World Bank Group Annual & Spring Meetings, ECB's Asmussen, ECB's Draghi.

Sunday: BoJ's Shirakawa.

Monday: BoJ's Yamaguchi, Portugal 2013 Draft Budget, Spanish Government/IMF Bank begin talks, Fed's Dudley, Fed's Lacker, Fed's Bullard, BoC's Carney.

Tuesday: Australia Reserve Bank Meeting Minutes, BoE's Bailey, BoE's Tucker, EU General Affairs Ministers meet in Luxembourg, Troika quarterly review of Ireland, ECB'S Honohan, UN Expert to Brief on High Food Prices, Fed's Raskin, Fed's Lockhart, Fed's Williams.

Wednesday: Bank of England Minutes, New German Government Macro-Economic Forecasts, Former Fed Chairman Paul Volcker.

Thursday: RBA's Edey, EU's Van Rompuy & Barroso, EU's Rehn, ECB's Liikanen, EU Leaders Start Two-Day Summit in Brussels.

Friday: BoJ's Shirakawa, EU Leaders conclude summit.

- **Government Debt Auctions or Operations:**

Monday: UK Gilt syndication.
Tuesday: Japan, Australia, Spain, Greece.
Wednesday: Australia, Germany, Portugal.
Thursday: Japan, Spain, France, UK, US announcement.
Friday: Australia.

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. In spite of that December S&P 500 future failed back below its recent 1,451 UP Break at the top of last week. And yet, that was a minor signal failure compared to the inability of the bears to keep it below 1,430 early this week.** The reason for that is 1,430 was last Friday's DOWN Break below the intermediate-term daily up channel (from the significant 1,253 June selloff low.) After churning in a sideways-to-lower trading range for a month after the post-QE3 mid-September high, that weakness below such a major (five month) trend channel should have been a telling bearish confirmation.

What is now critical for the equities is today's Close back above the Tolerance of that DOWN Break at last Thursday's 1,439 high. Short of that it might have still been ready to extend the current weakness for a test of the more major 1,400 area supports. Above it, the bears have let a window of opportunity Close, and that has typically led to the next upside extension.

While it may still run into trouble temporarily in the area of the previously Negated 1,451 UP Break, that was a relatively minor failure (and it has already been tested today.) The far more major point is that the inability to maintain last Friday's DOWN Break for even one day means the bears missed a chance to keep the down trend going. That area should now act as excellent support on any pullback from the mid-1,400 area. By comparison, the previous minor failure at 1,451 looks like and easily overrun way station in the middle of the broader recent trading range from the 1,430-25 area (now reinforced support) up to the mid-1460's highs.

And if the lower support continues to hold, the expiration rollover psychology still indicates that the **December S&P 500 future** is entitled to retest the 1,474.50 mid-September continuation trading high (set by the September contract shortly before expiration.) Along with that the bullish psychology remaining intact also means that the market is not likely to become as overbought in the near-term as it was at the highs until it extends to the upper 1,400 area. That is consistent with both 1,485-95 historic congestion noted previous, and the recent and historic weekly oscillator thresholds at MA-41 plus 115-125.

▪ **That decision in equities obviously has implications for the other asset classes, even if there are leads, lags and outright divergence at times. The current situation is reinforced by the previous stubborn residual softness in primary government bonds in spite of equities weakness, with that now turning into overt extensions of the govvies' breaks.** The **December T-note future** may still be holding on stubbornly at no worse than the low-end of its 133-04/132-24 support range for now. Yet it would seem that even the most-QE favored primary government bond market should have further problems if equities continue their upward march after the recent correction. In this case that means breaking down to the next supports in the 132-00 area, with the 131-23 mid-September trading low a critical Tolerance this side of the much more critical major support in the low-131-00 area.

Of course, European govvies have already been under more pressure, especially **December Gilt future** that is naturally plagued with high and escalating inflation expectations. Those were reinforced by today's UK PPI and CPI releases. While it was able to hold minor slippage below its 120.25-.00 support while the equities were weakening, it also never really regained traction above 120.80-121.00 resistance on any bounces. Once equities were pushing back up it was easy to see it break below 119.70 Tolerance of the support range. While there is some support is nearby as the 119.30 area, the more major support is not until the 118.50-.25 major June low.

And while it has been a bit more resilient than its UK cousin, similar tendencies are apparent in the **December Bund future**. After also holding 141.30-.00 for the past several weeks, it now appears at risk of failing the 140.80 Tolerance of that zone on today's Close. If so, next support is down in the 140.00-139.60 range. Yet, here as well that seemingly significant 'big penny' psychological top end of major congestion only intensifies down into the 139.00 area. And that is now an obvious low end Tolerance of that support, reinforced by the mid-September weekly UP Closing Price Reversal from the 138.77-.60 area. As that was the "rescue job" preventing the market from sliding further into the lower major range, it is very critical.

Much below it the interim congestion and Fibonacci support is not until the 137.50-.00 range, with the more obvious extended supports not until 135.00 and 133.00 areas. While that may seem a long way down, it all depends on how far the equities rally (i.e. might the **December S&P 500 future** actually reach the 1,490 area before it tops out again), and whether any 'grand bargain' on Spanish and Greek debt (and by inference potentially Italian debt as well) and fiscal reform involves any definitive payments out of the German treasury. While that is something they have cleverly sidestepped for now, it is an important consideration among those that also knocked the Bund down into those lower support ranges back in late 2011 and earlier this year.

▪ **The same goes for the strength in the euro on EUR/USD back above 1.2950-1.3000, and US Dollar Index failure from .8000 on the current round of December S&P 500 strength. While that had been less responsive to equities swings over the past several weeks, the fact that the strength is coming out of the becalmed state in Europe is very important.** That could well lead to extension of the **EUR/USD** rally up to the mid-1.3200 area resistance that it missed at the top of the post-QE3 rally into mid-September. And it must be noted even that area is more so interim congestion since late 2010. If it gets that far, there is a reasonable chance will extend up to the more prominent 1.3450-1.3550 resistance.

And it is very obvious that the **US Dollar Index** is suffering mostly from the heavy weighting of the euro in its composition. Most other currencies, from the British pound through the Japanese yen and even the commodity currencies that should be benefiting from the better economic psychology are demonstrating far less strength against the greenback. That is making it apparent that this round of weakness in the **US Dollar Index** is a euro-centric affair.

That said, there is no reason to think it will find any sort of base until the euro is done rallying. And it is of note that the weakness of the other currencies is assisting it in holding no worse than the hefty congestion at which it held the .7860 low back in mid-September. Even below that there are significant pullback lows in the .7810-.7792 range acting as a buffer against failing into an entire lower range that might lead to a test of the mid-.7600 area.

On that comparison between the other currencies it is notable that the strength of the euro has taken it right back into its recent test of the **EUR/GBP** .8100 area. However, here as well it is important to note that the more prominent resistance both historically and at the June rally high is in the .8150 area. That would also be the natural Tolerance of MA-41 in the low .8100 area.

And speaking of the commodity currencies, the Australian dollar has finally managed to Close back above **AUD/USD** 1.0250, which opens the door to a retest of the interim 1.0350 area or the bigger resistance up in the 1.0450-1.0500 range. And given its better-than-expected data of late, it is also interesting that the Canadian dollar has not been able to push back through the **USD/CAD** .9770-25 resistance that also restrained it during the equities weakness of the past couple of weeks. Considering that it traded down through that important old UP Break area on its initial post-QE3 surge to .9632, this is not a very good sign of overall economic improvement.

▪ **December Gold future is a most interesting indicator on its gap below 1,755-50 support at the top of this week. That is possibly an indication that the current bout of bonhomie in Europe diffusing any crisis mentality. However, one would think that the yellow metal should be responding better to the additional quantitative easing implied by agreements to allow Greece and Spain some further slack in their austerity programs.** Yet, after a few retest of the important 1,800 area of late, anything that smacks of a more congenial global financial situation might be enough to attract some profit-taking. The sheer technical trend psychology is now that 1,755-50 represents near-term resistance, with a Tolerance to last Friday's 1,760 area Close. Much above that it might be ready to retest the 1,800 area again. However, if it should fail to get above there, interim support is not until the 1,720 and 1,700 areas, with the far more major support down into the early September 1,675 UP Break above the major weekly continuation chart down trendline (which is projected across the September 2011 and February 2012 highs.)

We hope you find this helpful.

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