Rohr International

Weekly Report & Event Summary Perspective

Monday, November 19, 2012

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

▪ **Macro-Technical Trend Perspective: Quieter week, or a possible holiday ambush? It won't be the first time a major center was closed for a holiday and something radical occurred elsewhere. And the US Thanksgiving Thursday is a prime situation for that.** And there was already a minor foreshadowing of how Europe might be the focal point for a significant reversal of early week optimism in the Moody's downgrade of French sovereigns.

It is easy to surmise that this was a long time coming and has had a very limited impact so far this evening. Yet, the fact that the major focus will return to Europe later this week on many fronts while the US is effectively Closed for a four day weekend is of concern. Especially so in light of Euro-style US euphoria on upbeat multi-party comments on the negotiations around the Fiscal Cliff, and then vacating Washington DC for a holiday week. It seems US politicians are a quick study, and went to school on what the Europeans pulled this summer. Yet, it does not mean they are any closer on any of the details. Seems to us the US might also see that classical European Debt Crisis syndrome of "The Ecstasy and the Agony" (with apologies to Irving Stone.) And in any event, they have abandoned the field to Europe into the week's end.

As just a brief idea of the major aspects of that into the US also seeing no economic data out during a holiday-shortened Friday session, there is tomorrow's revisit of the EU to the Greek mess to provide it more life support. But things really become more interesting on Thursday, beginning with the BoJ Monthly Report in the wake of its likely downbeat Statement after another "no change" (from zero) interest rate decision Tuesday morning. Thursday is also very interesting for Chinese and Euro-zone Advance PMI's that are a risk factor into Friday's German GDP and all the associated data as well as this month's IFO. Thursday is also the opening of the likely challenging EU 2014-2020 Budget Negotiations in the wake of the now failed 2012 and 2013 discussions. So it might be an acrimonious European end to the week.

Early November 2004 saw the Bund backing off from its test of a key early year high, and the US bond bears were salivating over potential for a weak market to violate recent lows. Yet on the November 11th Veteran's Day holiday in the US (also Thursday), some very weak German news put the Bund up for a rally to a significant new high, which deferred a broader US bond selloff for four months. It would seem once again hard to hold positions either way in the US into that sort of influence Thursday. Might the current positive equities psychology maintain into Wednesday's US Close only to see a reversal if "Agony" breaks out again in Europe?

▪ **Most Likely Critical Horizons:** Exacerbating that general upbeat Fiscal Cliff negotiation tone today was the better than expected US housing data. Tuesday brings That BoJ rate (non-)decision and that EU refocus on Greece. Wednesday is interesting for Japanese Trade Balance, China Conference Board Leading Economic Index, BoE Meeting Minutes and the early release of US Initial Jobless Claims and Markit US PMI Preliminary to get out in front of the Thursday holiday. Thursday and Friday see the influential Asian and European factors noted above along with ECB President Draghi speaking at the European Banking Congress.

▪ **Economic Data Highlights:**

Monday: Japan Supermarket Sales & Leading and Coincident Indices, UK Rightmove House Prices, Euro-Zone Construction Output, US NAHB Housing Index & Existing Home Sales.

Tuesday: Australia Conference Board Leading Index, Japan All Industry Activity Index & Convenience Store Sales, German Producer Prices, Canada Wholesale Sales, US Housing Starts & Building Permits & Weekly ICSC US Same-Store Sales.

Wednesday: Australia Westpac Leading Index & CBA/HIA House Affordability & DEWR Internet Skilled Vacancies, Japan Trade Balance, China Conference Board Leading Economic Index, UK Public Finances & BoE Agents' Summary of Business Conditions, US Initial Jobless Claims & Markit US PMI Preliminary & Michigan Confidence & Leading Indicators.

Thursday: China HSBC Flash Manufacturing PMI, Euro-zone Advance PMI's & Consumer Confidence, UK CBI Trends Total Orders & Selling Prices, Canada Retail Sales.

Friday: China MNI Flash Business Sentiment Indicator, German GDP and associated data & IFO, UK BBA Loans for House Purchase, Canada CPI.

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

Monday: ECB's Cœuré, BoE Systemic Risk Survey, ECB's Praet, BoE's Turner & Bailey.

Tuesday: Bank of Japan Rate Decision and Statement, Reserve Bank of Australia Board Minutes, Euro-Area Finance Ministers Meet on Greece, RBA's Stevens, BoE's Plenderleith & Winters, Fed's Lacker, Fed's Bernanke, ECB's Cœuré.

Wednesday: Fed's Bernanke, Bank of England Minutes, BoE's Weale.

Thursday: Bank of Japan Monthly Report, BoE's King, Tucker & Haldane, US Thanksgiving Market Holiday, EU 2014-2020 Budget Negotiations Begin.

Friday: ECB's Draghi, NYSE & Financial Futures & SIFMA early Thanksgiving Bond Close.

▪ **Government Debt Auctions or Operations:**

Monday: UK.
Tuesday: Australia, Spain, Greece, UK.
Wednesday: Australia, Germany, Portugal, US announcement, US TIPS.
Thursday: Spain.
Friday: Australia, Italian announcement.

Concise Market View

▪ **It was very obvious that the US Fiscal Cliff threat was the primary equities driver on the post-election break. And rightfully so on some levels, because the pressure on the still somewhat fragile US economy from any major spending cuts and tax increases would likely be as major in the near term as the Cassandra's would tell us. In fact, there was a good review of that by CNBC's Steve Liesman last Wednesday (http://bit.ly/T41JRy).** While there is an animated discussion after his initial presentation, his bar graph breakdown is the most engaging part. And there will also be the additional burdens on the US economy even if the Fiscal Cliff is avoided. Yet, at least for now, Congress leaving town after sounding more collegial on Friday along with some decent data is enough to rally equities. It is also helpful that Europe is a bit more subdued. The bigger question is whether a week that begins so upbeat can maintain the optimistic tone as Europe meets on budget matters in the latter part of the week?

The one other point worth revisiting is the subdued intermarket response. The thin volume and binary psychology creates sharp short-term major equities swings. Yet the response of both the primary government bonds and foreign exchange has been fairly subdued. While they did react initially to the equities post-election weakness, the secondary selloff last week caused little further strength in the other two markets. It's a matter of the other markets appreciating the significantly volatile nature of the equities, and that their decision is likely some ways off in the context of the way the US government operates. So it's the next S&P 500 $50 spill or major surge and back the other way, with the others seeing each with a healthy degree of skepticism.

And one other matter worth considering is the weakness of the Japanese yen. It is especially interesting in light of the last time the yen showed any sustained weakness: during the credit bubble it helped to form with low interest rate 'carry trade' borrowing. Of course that was all false weakness based on speculative borrowing that fomented yen sales to apply those funds in other trades around the globe. Only the burgeoning credit crunch in 2007 and equity market meltdown in 2008 brought the extended strength back to the seriously undervalued yen.

But now it is very different. There is no bubble, comparative yields elsewhere (the 'risk free' carry trade) are depressed, and the equities rally has been accompanied by extended strength in the yen. So what's with the yen break? It seems that serial weak years might be catching up with sustained investment flows. Serial weak years. We seem to recall that at the beginning of 2011 there was a sense of unease because the Japanese inflation rate was lapsing back into a mild deflation. Almost two years later, it remains a deflationary environment there. And one of the things we are going to see this week is the next attempt of the Bank of Japan to sound hopeful in tomorrow morning's statement accompanying their next interest rate (non-)decision.

While there is a question in many minds what the extended drivers are going to be for a technical projection that puts USD/JPY back up to 95, 100 or even higher, that's what the charts and technical indicators purport to show. Yet, if the Japanese economy does continue to sag as heavily as it has in the past, maybe it is an indication corporate Japan is voting with its wallet on where to invest. Maybe not a huge surprise as the BoJ acknowledges continued deflation.

The rest of this analysis is the levels and comments excerpted from the Current Rohr Technical Projections - Key Levels & Select Comments edition of two weeks ago Thursday. The technical levels and psychology remain significantly the same into this week, and have worked very well during the highly active market swings since then.

December S&P 500 Future: Secondary slippage below 1,430 DOWN Break led to test of critical 1,400 and failed 1,387 after election. That made 1,350 or even 1,320 next targets.

RES: **1,375; 1,389-87; 1,399-1,402;** 1,420; **1,425-30; 1,440.70-1,445;**

SUPP: **1,355-50;** 1,338-35; **1,323-20;** 1,316; **1,300-1,297;** 1,286

Government Bond Futures: Primary government bond markets were not acting well in the face of previous equities resilience, and finally experienced the sort of heavier selloff associated with better US data and the further crisis mitigation in Europe. Yet that is now reversed in the wake of US election's negative economic and equity market implications. That's very clear on December S&P 500 future 1,389-87 Tolerance failure, as European stresses put Bund above 142.62. Laggard Gilt must still push above 120.25; likely if the equities continue to slide. T-note also already above 133-00 with 134-00 area next.

DEC T-note: RES: **134-04/133-26;** 134-15; **134-30/135-06; 135-29; 136-24/137-00**

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

Government Bond Futures (cont.)

DEC UK Gilt: RES: **120.00-.25; 121.00-120.80; 121.50;** 121.86-.94; **122.30-.45**

SUPP: **119.30-.52; 118.50-.25;** 117.68 (JAN hi); **117.00;** 115.75-.50

DEC Bund: RES: **143.50-.75; 144.17; 145.70-.88;** 146.28-.44; **146.89**

SUPP: **142.30-.62;** 141.70; **141.30-.00; 140.00-139.60; 139.34**

June 2013 Short Money Forward Future

Eurodollar: RES: **99.675 (SEP highs); 99.73 (topping line); 99.81 (OSC)**

SUPP: **99.645; 99.60-.59 (AUG 2011 High);** 99.55; **99.50-.52; 99.45**

Foreign Exchange: US Dollar

USD INDEX: The recovery of the euro and psychology in Europe made selloff below .8000 area no surprise. QE-driven equities rally made that a fair result. Yet never convincingly below .7915 broad Tolerance, and now above .8070-50 indicates .8150-80 likely target. With weekly MACD just back in balance (from DOWN), possibly much more upside.

RES: **.8150-80; .8225-60;** .8300; **.8335-55; .8450**

SUPP: **.8070-50; .8015-00;** .7915; **.7860-10; .7680-50; .7500; .7472-50**

EUR/USD: The upside follow-through was impressive in wake of ECB President Draghi's commitment to bond market interventions and major Fed QE3. Back above 1.2500-1.2450 area, the follow through above the 1.2950-1.3000 range looked good. Yet failure below it and low 1.2800 area buffer leaves 1.2750 critical this side of 1.2600 and 1.2500 areas.

RES: 1.2860; **1.2950-1.3000;** 1.3080; **1.3250-80; 1.3450-1.3550**

SUPP: **1.2750;** 1.2600-38; **1.2500-1.2450;** 1.2350; **1.2250;** 1.2150

GBP/USD: Much as with EUR/USD above 1.2500-1.2450, the August push above 1.5750 key weekly MA's, Fibonacci and congestion last month led to a full extension to major 1.6300 area April high. Yet failure below interim 1.6150 area has led to failure below far more critical 1.6000-1.5950 daily channel & weekly MA-13 support with 1.59 area critical.

RES: **1.6000-1.5950;** 1.6150; **1.6250-80;** 1.6302 (APR hi); 1.6400

SUPP: **1.5880-1.5900; 1.5750;** 1.5650-00; **1.5500-1.5450; 1.5268-33**

AUD/USD: Commodity currency recovered better on equities rally than recent phases, but still no push through key 1.04-1.05 area on this rally. That leaves it fairly vulnerable on weekly MACD never back UP and eventually must respect major equities weakness.

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

SUPP: 1.0350; **1.0250-20;** 1.0150-00; **1.0000-.9950; 9810-00; .9705**

USD/JPY: After February rally above key resistances at 78.35 and 79.50 were UP Breaks. And holding 77.00-76.75 long term UP Break and rebounding above 78.35 and 79.00 areas created the major bullish momentum that fed the recent sharp rally.

RES: 80.25; 80.70; **81.50-.78; 82.25-.00; 82.85-83.30;** 84.00-.50

SUPP: **79.56;** 78.90; **78.30-.45; 77.00-76.75; 76.00-75.56 (OCT 2011 lo)**

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. That is all reversed once again on Euro-stressors of the peripheral debt markets in the wake of Greek protests and Spanish foot dragging. Yet, euro-cross weekly MACD's still UP, so next support are very critical.

EUR/JPY:	**RES:**	**103.00-102.40; 104.30 (DN Brk); 105.50;** 106.50; **107.50-108.00**
	SUPP:	**101.30-.65; 100.00-99.25;** 98.50; **97.90-.75;** 96.00; **95.00**

EUR/GBP: British pound maintaining strong sister status overall in spite of the previous June euro recovery to .8150 resistance; which was the key resistance retest last month. The .7950-.8000 area critical now as UP Break as well as congestion and MAs.

	RES:	.8020-00; .8115; **.8180-41; .8250-70; .8370-.8400; .8500;** .8580
	SUPP:	**.7950-80;** .7850-00; **.7750-.7694 (JUL '12/OCT '08 lows);** .7550
EUR/AUD:	**RES:**	1.2880-1.2900; **1.3000-1.2925; 1.3200-30;** 1.3350
	SUPP:	**1.2650; 1.2480-1.2510;** 1.2360; **1.2250; 1.2170-33; 1.2000**

We hope you find this helpful.

-Rohr
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