Rohr International

Weekly Report & Event Summary Perspective

Monday, December 10, 2012

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

▪ **Macro-Technical Trend Perspective: Just a bit less acrimony on the US Fiscal Cliff. Well, at least if you go by the Sunday news shows. Republican Senator Corker joined the very Liberal Senator Schumer on FOX News Sunday (http://fxn.ws/TPRa59), and allowed that the Conservatives might have to offer at least a partial tax hike for now.** While that is an anathema to many of them, public opinion polls show that the Republicans are going to get tagged with the lion's share of the blame if the US actually goes off the Cliff.

Not part of this video is the panel discussion at the end of the show, where highly regarded conservative paper *Weekly Standard* founder and editor William Kristol reiterated his view that the tax rate issue is a loser for the Republicans. Whatever the extended influence of any tax hikes into next year, the Republicans are never going to get to debate equally important entitlements spending cuts until they get out from under the 'blame' for taxes going up on everyone if they do not allow the Democrats their desired rate increase for "the rich". As such we are reversing our previous perspective, and suspect there will be a deal late this year.

On other fronts, the economic news remains all over the map. While some of the news out of China was indeed improved, that does not reflect its poor trade figures that might be the most important bit. European news is also highly diverse, as was reflected in both the headline and substance of this morning's OECD Composite Leading Indicators **(http://bit.ly/YWIkaT)**, yet with a still positive spin. We find this misguided with Germany showing a depressed outlook along with the weak data elsewhere. The bottom line remains the primacy of the US in any idea of where the global economy is headed next year. And even if the Fiscal Cliff threat is headed off, there are no small number of additional substantial headwinds.

Yet, in the near term there will be additional upbeat communication, most prominently in the form of whatever the FOMC and Chairman Bernanke have to say in projections and ensuing press conference on Wednesday. The counterpoint will be European summits on Thursday into Friday, where some dissention over banking regulation and the like are still possible.

▪ **Most Likely Critical Horizons:** While the typical big first week of the month is over, there is every reason to believe this week is going to be equally interesting. In the first instance there is the *ad hoc* influence of the continuing US Fiscal Cliff avoidance negotiations, which began to sound a bit more constructive over the weekend on some Republicans allowing a modest increase in the top tax rate might be possible. We shall see. There are also significant central bank and NGO influences along with some important economic data. Chinese and Japanese data kicks off the week along with OECD Composite Leading Indicators. Tuesday brings German and Euro-zone ZEW, and Wednesday things really pick up with Euro-zone Industrial Production and the major FOMC announcements and press conference. And while Thursday sees the OECD Quarterly GDP Growth Forecasts there will also be heavy late week influence from the IMF and ECB Joint Conference and EU Leaders Summit that extends into Friday. Thursday also happens to bring the next US Retail Sales figures, with Friday also seeing the Advance PMI's for Europe and the US along with UK DMO Q1 2013 Gilt Issuance calendar.

- **Economic Data Highlights:**

Sunday: China PPI & CPI & Industrial Production & Fixed Assets Investment Excluding Rural & Retail Sales.

Monday: China Manufacturing Activity Volume & New Yuan Loans & Money Supply, Japan BSI Large All Industry & BSI Large Manufacturing & GDP & GDP Deflator & Trade Balance & Current Account & Bank Lending & Eco Watchers Survey (Current & Outlook), Bankruptcies & Consumer Confidence, Australia Home Loans & Investment Lending & Value of Loans, UK Lloyds Employment Confidence, German Trade Balance & Current Account, French Industrial Production & GDP, French Industrial Production, Euro-zone Sentix Investor Confidence OECD Composite Leading Indicators, Canada Housing Starts.

Tuesday: Japan Money Stock, UK RICS House Price Balance, Australia NAB Business Conditions & Confidence, French Non-farm Payroll, UK RICS House Price Balance, German ZEW Survey (Current Situation & Economic Sentiment), Euro-zone ZEW Survey (Economic Sentiment), OECD Harmonised Unemployment Rates (HURs), US NFIB Small Business Optimism & Trade Balance & Wholesale Inventories & IBD/TIPP Economic Optimism & JOLTs Job Openings, Canada Wholesale Inventories.

Wednesday: Australia Westpac Consumer Confidence Index & New Motor Vehicle Sales & RBA Credit Card Purchases, Japan Machine Orders & Tertiary Industry Index & Domestic Corporate Goods Price Index, German CPI, UK Jobless and Employment data & Average Weekly Earnings, Swiss ZEW Survey, Euro-zone Industrial Production, US MBA Mortgage Applications & Import Price Index & Monthly Budget Statement.

Thursday: Australia Consumer Inflation Expectation, Swiss SECO December 2012 Economic Forecasts, Spanish CPI, Euro-zone Labor Costs, OECD GDP Quarterly GDP Growth Forecasts, US PPI & Retail Sales & Weekly Initial Jobless Claims & Business Inventories, Canada New Housing Price Index & Capacity Utilization Rate.

Friday: Tankan Non-Manufacturing Index and Outlook & Tankan Large Manufacturers Index and Outlook & Tankan Large All Industry Capex & Industrial Production and Capacity Utilization, Euro-zone EU 25 New Car Registrations & Advance PMI's (France, Germany & Euro-zone) & Employment & CPI, Canada Manufacturing Shipments, US CPI & Markit US PMI Preliminary & Manufacturing (SIC) Production & Industrial Production and Capacity Utilization.

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

Monday: UK Quarterly DMO/GEMMs meeting, BoE's King.

Tuesday: BoE's Cohrs.

Wednesday: OPEC Summit, BOE's Dale, EU Finance Ministers Meet on Banking Supervision, BoE's Jenkins, ECB's Constancio, Federal Open Market Committee Rate Decision and Statement, FOMC Projections for US Economy and Fed Funds Rate, Fed Chairman Bernanke post-rate decision Press Conference.

Thursday: Swiss National Bank Rate Decision and Statement, Luxembourg Central Bank Presents Quarterly Report, EMU Finance Ministers Meet on Greece & Cyprus, ECB Monthly Bulletin, IMF and ECB Joint Conference on Fiscal Governance (through Friday), EU Leaders Summit in Brussels (through Friday), BoE's Bailey, ECB's Praet.

▪ **Central Banks, Finance Ministry & Political influences (cont.):**

Friday: BoE's Weale, IMF and ECB Joint Conference on Fiscal Governance concludes, EU Leaders Summit in Brussels concludes, Austrian Central Bank Presents Financial Stability Report, UK DMO (Debt Management Office) publishes Q1 2013 Gilt issuance calendar.

▪ **Government Debt Auctions or Operations:**

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

Concise Market View

▪ **It was very obvious that the US Fiscal Cliff threat was easing from the market activity late last week. December S&P 500 future back up to and above the 1,400 area, and not slipping below it after last Monday's "outside day" DOWN Closing Price Reversal (CPR.)** The problem with short term selloffs in bull markets is the next support must be violated to confirm any significant trend reversal. While last Monday's topping action reinforced resistance between 1,415 and 1,418, the top end is the Tolerance of the short term DOWN signal. As such, today's US Close has Negated it; in most cases an indication prices area ready to move higher.

And while next resistance is as nearby as 1,425-30 (pre-existing and pre-election congestion), the constructive sentiment of any *bona fide* Fiscal Cliff avoidance likely encourages an advance to the more prominent resistances in the 1,450 or even 1,460-65 areas. The March contract trading at a $6.00 discount creates a bit of additional challenge, but the general direction seems to remain up for now, and the quarterly futures expiration is not until the end of next week.

And the usual intermarket influences are less than pronounced, as **govvies** hold up very well (as we had suspected would be the case.) It seems they are more so focused on real world indications like our very weak 2013 outlook, and that improved Chinese data was accompanied by a much weaker than expected trade surplus. All of which further reinforces our instincts that the stronger (if still moderate) economy recovery in the US is the key. Anyone who doubts that merely needs to take a look at the OECD Composite Leading Indicators cited above. The only real growth is in the US and (interestingly enough in light of recent official forecasts) the UK, with growth or even economic basing elsewhere problematic at best.

So it would seem that equities are transfixed by the positive or negative outcome to the US Fiscal Cliff situation, and conveniently ignoring all of the other headwinds which impact the US economy next year. We will not know until next year if it we were wholly right in last Tuesday's **Rohr-*Blog*** post describing the higher taxes and lower spending as the ***US Age of Austerity***. Yet even if the Fiscal Cliff is avoided, the one economy the OECD shows as sustaining growth will be fairly heavily impacted. We will have more to say on that in a further blog post soon on whether USA 2013 tax hikes are the equivalent of Japan 1997.

Suffice to say for now that the govvies are still in sustained up trends, especially the **March German Bund future** that has pushed to a significant new high for the current rally. Out above the 145.20-.00 area resistance was also a weekly trendline UP Break last week. Unless it is back below it soon, it will want to test the major June 1st 146.89 lead contract high. Maybe that is only proper as Italy slips back into a less stable political situation.

The **US Dollar Index** was also only marginally below its .8000 support last week prior to recovery above it without even testing its low-.7900 support. It would still take a Close above its .8060 November 28th bounce high to Negate the DOWN Break for a move to higher ground. Yet, on balance, the strength of the greenback and govvies speaks of the degree to which the equities rally appears less than fully credible. It is also very interesting that **US Dollar Index** right back down to .8000 support is in conjunction with **EUR/USD** rallying right back to 1.3000 and **AUD/USD** poking its nose marginally above 1.0450-1.0500. All fairly critical.

All of which will also need to be digested by the equities in the context of generally weakening economic data. Yes, there have been some bright spots out of the US and even China. But Europe remains damaged and the UK is still quite weak as well. So how do we square the QE-Fiscal Cliff-potential US slowdown-mixed data circle… technically of course. And the projections and comments below are from last Monday's last set of **Current Rohr Technical Projections - Key Levels & Select Comments** using December financial futures contracts.

December S&P 500 Future: Stalling near 1,425-30 DOWN Break, congestion and weekly MA 41 not impressive. MACD's same as DJIA, with key lower support remains 1,389-87.

RES: 1,415-18; **1,425-30;** 1,445; **1,450; 1,460; 1,465-67; 1,474.50**

SUPP: **1,399-1,402; 1,389-87; 1,375-72; 1,355-50;** 1,338-35; **1,323-20**

Government Bond Futures: Govvies were not acting well during the equities recovery from the US post-election Fiscal Cliff selloff. Yet, they also only dropped to supports, and recovered nicely spite of the equities rally last week. Although under some pressure at present, they are holding important previous support: December T-note did not even hit 133-00, December Gilt held 119.30-.00 again, with the December Bund holding 142.62-.30. That is important: typical early expiration is Thursday, and March Bund is up at 144.30.

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

SUPP: 133-10/-08; **133-04/132-24; 132-10/-02 (Jan '12 hi); 131-21/-16**

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;** 145.17; **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 another selloff below .8000 area no surprise. QE-driven equities rally makes that a fair result. Yet never convincingly below .7915 broad Tolerance, and now that area takes on more importance due to the advance of a major channel support over the past month-and-a-half.

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

SUPP: **.7925-15; .7860-10; .7680-50; .7500; .7472-50**

Foreign Exchange: US Dollar (cont.)

EUR/USD: The upside follow-through was impressive in wake of all the various forms of ECB and Fed QE, evidenced in the early September push back above 1.2500-1.2450 area. Even the vigorous test of 1.2750 area was not enough to turn weekly MACD back DOWN. Yet even back above 1.3000 burden of proof on bulls to sustain activity above 1.3080.

RES: 1.3080; **1.3250-80; 1.3450-1.3550;** 1.39; **1.40-1.41; 1.4250**

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 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 led to failure below far more critical 1.6000-1.5950. Needs a bit of a further push up to turn Weekly MACD UP as well.

RES: 1.6150; **1.6250-80;** 1.6302 (APR hi); 1.6400; **1.6500; 1.6620**

SUPP: **1.6000-1.5950; 1.5880-1.5900; 1.5750;** 1.5650-00

USD/JPY: After February rally above key resistances at 78.35 and 79.50 were UP Breaks, not a surprise that fueled the extended rally through serial resistances. Yet 84.00-.50 was key resistance, and failure below 82.00 area fed further failure. Holding lower supports and not be able to drop back below 79.00 in November has led to a much more major confirmation of an overall UPturn. While stalled for now at the low end of 82.85-83.30, as long as setbacks hold the mid-81.00 area is probably still bullish in the near-term.

RES: 82.25-.00; **82.85-83.30;** 84.00-.50; **85.54-.94; 87.50-.00 (DN Brk)**

SUPP: **81.50-.78;** 80.70; 80.25; **79.56;** 78.90; **78.30-.45; 77.00-76.75**

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 only marginally back UP, with overall equities decision a major driver.

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**

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. That is all relatively modest now in the context of Japanese yen weakness. Whether that is an election rhetoric-driven swing or recognition of extended Japanese demographic and industrial problems is yet to be seen. Yet the yen technical trend is still very weak.

EUR/JPY: **RES:** **107.50-108.00;** 110.00; **111.62-.85;** 114.18; **115.70-.116.00**

SUPP: 106.50; **105.50; 104.30 (DN Brk); 103.00-102.40; 101.30-.65**

EUR/GBP: British pound losing strong sister status since mid-November overall in spite of repeated euro recovery failures to .8150 resistance; also October key resistance retest failure as well. The .7950-.8000 area remains critical as UP Break as well as congestion.

RES: .8115; **.8180-41; .8250-70; .8370-.8400; .8500;** .8580

SUPP: .8020-00; **.7950-80;** .7850-00; **.7750-.7694 (JUL '12/OCT '08 los)**

Foreign Exchange: Cross Rates (cont.):

EUR/AUD:	**RES:**	**1.2650;** 1.2880-1.2900; **1.3000-1.2925; 1.3200-30;** 1.3350
	SUPP:	**1.2480-1.2510;** 1.2360; **1.2250; 1.2170-33; 1.2000**

We hope you find this helpful.

-Rohr
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