ROHR INTERNATIONAL

Weekly Report & Event SUMMARY PERSPECTIVE

Wednesday, January 2, 2013

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

▪ **Macro-Technical Trend Perspective: Welcome to US-style PlaySkool Politics at best. Juvenile. That's the best term to describe the process by which the Fiscal Cliff plunge has been avoided with the scary last minute (even slightly past it) crisis negotiations.** But it does not speak well of the process that it took until the last minute to arrive at a deal which could have been crafted well ahead of time. With no partisan perspective intended, if the Democrats were going to allow that the threshold for higher income taxes was going to $450,000 annual income, why did that have to wait until December 31st? And if Republicans were going to cave in on taxes going up on the highest earners, same question.

The fact is that for all the awareness in Washington DC that 'crisis legislating' creates bad law instead of good policy or economic outcomes, most of them need to hew to highly partisan positions to ensure that they are not outflanked by more radical elements of their own party. The current 'deal' is a case in point. Rather than bring about any sort of real deficit relief (the ostensible original point of the Fiscal Cliff threat), it creates an additional $300 billion increase in spending due to there being no real spending cuts. And the amount of revenue it raises is also only $600 billion across 10 years, with the additional deficit is due to some groups that are maintaining federal government support. Those range from dairy farmers to folks avoiding the Alternative Minimum Tax to doctors avoiding cuts in reimbursement for treating Medicare patients; all of which were real threats. Yet the major problem remains excessive spending.

And to extend the juvenile PlaySkool tendency, the fight over spending cuts will most likely be immediately resurrected into the next US Debt Ceiling vote in 45-60 days. Anyone who thinks that will be more rational only needs to look at the statement from President Obama that he will not negotiate with Republicans on that as part of budget reform… challenging them to refuse to raise it. In other words, now that the Republicans have capitulated on tax increases, he expects they will not exert any leverage to push the spending cuts that the current deal so studiously avoided. That means US federal spending in a lot of areas will be maintained, as address of important areas like entitlements spending is kicked down the road. It is another matter altogether whether debt rating agencies will consider either the results or especially the process (which they have been closely monitoring) at all acceptable across time.

▪ **Most Likely Critical Horizons:** Economic releases are the typically heavy first week of the month selection; intensified by the fact that the first real business day is today, which means release of all the global Manufacturing and Services PMI's along with US Employment Friday. Of course, the ongoing US budget debate that has now avoided the Fiscal Cliff will remain a heavy *ad hoc* influence. That much was obvious from the sharp Friday-Monday whipsaw in the US equities. That said, there are many other meaningful influences from today's global Manufacturing PMI's and US Construction Spending, and Thursday's Spanish and German Unemployment data and US Monthly Chain Store Sales (for December) along with ADP Employment Change. And then there is Friday's global Services PMI's, German Retail Sales, Canadian and US Employment reports & US Factory Orders. It's going to be very interesting.

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▪ **Economic Data Highlights:**

Monday: Australia Private Sector Credit, China HSBC Manufacturing PMI, US NAPM-Milwaukee & Dallas Fed Manufacturing Activity.

Tuesday: Global New Year's Day Holiday: No Economic Data Releases.

Wednesday: China Manufacturing PMI, Australia AiG Performance of Manufacturing Index & House Price Index, Euro-zone Manufacturing PMI's, German CPI, UK Halifax Plc House Prices & Manufacturing PMI, US Markit PMI Final & Construction Spending & ISM Manufacturing.

Thursday: China Non-Manufacturing PMI, Spanish Unemployment Change, German Unemployment Change & Unemployment Rate, UK Money Supply & Consumer Credit & PMI Construction, US Monthly Chain Store Sales & Challenger Job Cuts & ADP Employment Change & Initial Jobless Claims & Vehicle Sales.

Friday: Australia AiG Performance of Service Index, China HSBC Services PMI, German Retail Sales, Euro-zone Services PMI's & CPI Estimate, UK Services PMI, Italian CPI, Canada Employment report & Industrial Product Price and Raw Materials Price Indices, US Employment report & Factory Orders & ISM Non-Manufacturing Composite.

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

Monday: New Year's Eve Market Holiday: Full Market Closures or Early Closes.

Tuesday: New Year's Day Holiday: No Central Bank, Finance Ministry or political activity.

Wednesday: Japan and China Exchange Holiday.

Thursday: Japan and China Exchange Holiday, Minutes of DEC 11-12 FOMC Meeting.

Friday: Fed's Plosser, Fed's Yellen, Fed's Bullard, BOJ's Nishimura (all in San Diego.)

▪ **Government Debt Auctions or Operations:**
Monday: None.
Tuesday: None.
Wednesday: Germany.
Thursday: France, UK, US announcement.
Friday: None.

Concise Market View

▪ **It is obvious that avoidance of the US Fiscal Cliff plunge in a manner which involved no meaningful spending cuts is a real fillip for equities, and the predictable burden on the primary government bond markets. This is a return to a full 'risk on' mentality for now.** Whether that maintains across time will be interesting to see as we head into the refocus on spending cuts that the Republicans will surely demand as a *quid pro quo* for raising the US Debt Ceiling in either late February or early March. Notwithstanding the President's statement cited above, the Republicans are *NOT* going to surrender one of their last bits of leverage over the budget process (such as it may be when the President's budget did not garner even one vote from his own party) without revisiting the real deficit problem: runaway entitlements spending.

Yet for now the continuation of US government spending and avoidance of an overt tax increase on the vast majority of Americans is being very well-received by equities. The **March S&P 500 future** finishing Monday up around pre-election 1,425-30 resistance has now blown through it. That makes a test of 1,450, 1,465-67 or even the 1,474.50 lead contract September high likely.

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Even if the **March S&P 500 future** should react back down at some point, the Friday-Monday whipsaw left a Negated DOWN Break at 1,405. So it is likely that the next retest of the 1,400 area will be well supported, and see at least one more good sized upsurge even if the equities are in the process of building a broader top if economic data does weaken later this quarter.

And the European equities are continuing their rally along with the impressive rise in Japan. Quite a bit of this is undoubtedly based on the continued improvement of the US economy that is always a driver of consumption from other parts of the world. Just how well that works once the higher taxes that are coming along in the US in spite of the Fiscal Cliff avoidance will be a much more problematic affair. Yet until the average US worker actually sees the reduced pay packets in January that represent the end of the payroll tax holiday (that *will* lapse) and higher taxes attendant to federal spending (Obamacare, etc.), there will be an assumption consumer spending will remain strong. That is the driver for the current equities bulge, which is based on the idea that corporate earnings will remain strong. Maybe so, maybe not. We shall see.

Yet what we know for now is that the limited revenue raise in the US with continued spending is rightfully and predictably not good for primary government bonds. It is not a huge surprise that prices have plunged and yields spiked up this morning. How much of that is a rational move in light of the fiscal implications and how much is a shift out of these 'safe haven' vehicles in a rampant return to a 'risk on' mentality is problematic. Undoubtedly yields were far too low to be considered attractive. As such, at least part of the sustained strength was surely 'haven' flows.

That said, it seems the govvies are only back near somewhat important technical levels, with the **March T-note future** only back down into the 132-00 area, where 131-16/-12 is the far more critical long term support area. Even weak sister **March Gilt future** is only back down to its key 117.57 October low, with much more major historic congestion support waiting in 117.00 area. Strong sister **March Bund future** is giving up its key near term 145.20-.00 support once again, yet is also not yet back down to key lower supports in the upper-mid 143.00 area.

The **US Dollar Index** has similarly remained back below the .8000 area, even if not even back to the recent .7900 selloff low. It must also be allowed the full .7915-.7860 range is the more critical support. That works hand in glove with **EUR/USD** not pushing above the 1.3250-80 resistance in spite of what should be a 'risk on' incentive to do so. Even the Australian dollar that should be befitting from renewed positive sentiment in Asia has only pushed back up to the top of the **AUD/USD** 1.0450-1.0500 resistance for now. The only currency continuing to show a string trend is domestically driven weakening of the Japanese yen, which has seen **USD/JPY** push to a new high of 87.33 from a reaction back down to 79.00 two months ago. Yet even that is now into important next resistance in the 87.00-.50 range. Much above it the next meaningful resistance is not until the 91.00 area.

All of the technical indications below have been evolved from the last **Current Rohr Technical Projections - Key Levels & Select Comments,** and that will be fully updated this afternoon. However, for now these are updated as of the current trading, and therefore incorporate the sharp swings this morning in equities and govvies (as of 08:30 CST; 09:30 EST; 14:30 GMT.)

March S&P 500 Future: Right back up to higher end of 1,350-1,460 range looks very good. Yet high end of range also weekly Oscillator resistances with weekly MACD still DOWN.

RES:	**1,450; 1,460; 1,465-67; 1,474.50; 1,485-90;** 1,510; **1,526;** 1,545
SUPP:	1,445; **1,425-30;** 1,414-17; **1,399-1,405; 1,389-87; 1,375-72**

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Government Bond Futures: Recent equities push higher on Fiscal Cliff negotiations looking better weighed on govvies. Even premium priced German Bund future dropping back below its 145.20-.00 congestion and weekly UP Break not a good sign; a mid-143.00 support test is likely once again. March T-note future below 132-00 possibly headed for a retest of more major 131-16/-12. Weak sister March Gilt future below 118.50-.25 is already retesting mid-117.00 support, even if more critical historic support down into 117.00 area.

MAR T-note:	**RES:**	**132-08/-05 (Jan '12 hi); 133-04/132-24;** 133-10/-08; **134-04**
	SUPP:	131-24; **131-16/-12; 130-20 (12/08 hi); 129-24/-16; 129-00/128-14**
MAR UK Gilt:	**RES:**	118.00; **118.50-.25; 119.30-.52; 120.00-.25; 121.00-120.80**
	SUPP:	117.57 (OCT low); **117.20-.00;** 116.30-.00; 115.50; **114.50**
MAR Bund:	**RES:**	**144.50; 145.00-.20; 145.70-.88;** 146.28-.44; **146.89 (all-time hi)**
	SUPP:	144.17; **143.50-.75; 142.30-.62;** 141.70; **141.30-.00; 140.00-139.6**

June 2013 Short Money Forward Future

Eurodollar:	**RES:**	**99.675 (SEP highs); 99.705 (DEC high); 99.81 (OSC)**
	SUPP:	**99.645; 99.60-.59 (AUG 2011 High);** 99.55

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/upper .7800 support. That area now takes on more importance due to advance of major channel support and 'risk on' implications of Fiscal Cliff deal.

RES:	**.8015-00; .8070-50; .8150-80; .8225-60;** .8300; **.8335-55; .8450**
SUPP:	**.7925-15; .7860-10; .7680-50; .7500; .7472-50**

EUR/USD: The upside follow-through was impressive in wake of all the various forms of ECB and Fed QE, evidenced initially in early September push above 1.2500-1.2450 area. Yet even back above 1.3000 and 1.3150-70 major Fibonacci retracement it has stalled into next real resistance in 1.3250-80 range. Weekly MACD UP, but daily MACD just DOWN.

RES:	**1.3250-80; 1.3450-1.3550;** 1.39; **1.40-1.41; 1.4250**
SUPP:	**1.3170;** 1.3080; **1.2950-1.3000;** 1.2860; **1.2750;** 1.2600-38

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 led to a full extension to major 1.6300 area April high. Current recovery back above critical 1.6000-1.5950 and interim 1.6150 good, yet area still needs to sustain above 1.6300 to confirm overall bull trend extension.

RES:	1.6302 (APR hi); 1.6400; **1.6500; 1.6620**
SUPP:	**1.6250-80;** 1.6150; **1.6000-1.5950; 1.5880-1.5900; 1.5750**

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Foreign Exchange: US Dollar (continued)

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 on selloff has led to a much more major confirmation of the overall UPturn. Now back above 82.85-83.30, 84.00-.50 and 85.54-.94 leaves it into far more critical 87.50-.00 area.

RES: **87.50-.00 (DN Brk);** 89.40; **91.00**

SUPP: **85.54-.94;** 84.00-.50; **82.85-83.30;** 82.25-.00; **81.50-.78;** 80.70

AUD/USD: Commodity currency better on equities rally than recent phases, but less than impressive swing only back to top of 1.0450-1.0500 area on rally. That perversely leaves weekly MACD finally UP, yet with daily MACD at risk of just DOWN after recent slippage.

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

SUPP: **1.0500-1.0450;** 1.0350; **1.0250-20;** 1.0150-00; **1.0000-.9950**

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

EUR/JPY: **RES:** **115.70-.116.00; 117.00-.50;** 118.50; **119.65-120.00**

SUPP: 114.18; **111.62-.85;** 110.00; **107.50-108.30;** 106.50; **105.50**

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

SUPP: .8115; .8020-00; **.7950-80;** .7850-00; **.7750-.7694**

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.

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