

ROHR INTERNATIONAL

Weekly Report & Event SUMMARY PERSPECTIVE

Tuesday, February 26, 2013

“Chance favors the prepared mind.” –L. Pasteur

▪ **Macro-Technical Trend Perspective:** The Sequestration-Berlusconi-Bernanke Matrix. The lack of economic data has not impeded the market volatility in any way. That's due to surprising populist success in the Italian elections that unnerved the 'crisis is over' mentality put forth by powers-that-be since the top of the year. There is also very much earlier than usual (typically not until the last minute) appreciation by equities that there will not be US Budget Sequestration avoidance 'compromise'. A perfect storm of sorts.

Why that took until now to be apparent is a bit of a mystery. It makes the new rally high hit by the US equities last week the real mystery. As we noted last Tuesday, even ex-Fed Chairman Greenspan is convinced it is now inevitable. And he explored that a week ago Friday in a very interesting CNBC interview (<http://bit.ly/VHwr7v>) on the likely effects and broader meaning.

The difference this week versus even the inferences drawn by the markets from disturbingly disjointed FOMC minutes last Wednesday is the surrounding factors. Not the least of which is what a return to populist government in Italy means for the rest of Europe as well. If it is no more than the very poor performance of Signore Monti means people are tired of austerity, that won't mean too much as long as Italy still generally follows a path more so dictated by the ECB. However, any wholesale reversal of the Monti program that sends Italian sovereign yields soaring will be pernicious. And to complete the 'matrix' in a week that also sees a huge amount of data we will now see Mr. Bernanke likely attempt to reverse any of the recent inferences from the FOMC minutes that the Fed might pull out early from aggressive QE.

That's the Sequestration-Berlusconi-Bernanke Matrix, and regardless of what anyone might surmise about where it all ends up, the volatility along the way is likely back for now based on sheer uncertainty. And these are all also real problems that will likely be a drag on equities.

▪ **Most Likely Critical Horizons:** The light early week economic reports yield to much more important influences which will either reinforce or tend to counter the equities weakness. It is going to be interesting to see the permutations of the Italian election and what Mr. Bernanke has to say to Congress today and tomorrow. That is after weaker-than-expected Chinese, UK and US data so far into this morning. It continues with US S&P/Case-Shiller Home Prices, Richmond Fed, Consumer Confidence and New Home Sales. Wednesday sees Japan Retail Trade, German, French, Italian and Euro-Zone Confidence indicators, UK GDP associated figures and US Durable Goods. In addition to Mr. Bernanke we hear from ECB's Draghi as well into lunchtime in the US. And then it is on to all the end and early month data Thursday into Friday, but NOT US Employment this week. That includes Japan Manufacturing PMI, Industrial Production, Housing Starts and Construction Orders, China MNI February Business Sentiment Indicator, French Consumer Spending, Spanish GDP, German Unemployment figures, and US GDP, Initial Jobless Claims, Chicago PMI & the Kansas City Fed Index. Friday brings global Manufacturing PMI's, Japan Jobless Rate, Household Spending, Tokyo and National CPI, Capital Spending and Vehicle Sales, German Retail Sales, Italian GDP, UK finance figures, US Personal Income, Michigan Confidence, Construction Spending, Vehicle Sales, and Canadian Gross Domestic Product. And of course the Budget Sequester deadline.

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▪ [Economic Data Highlights:](#)

Monday: Japan Corporate Service Price Index, China HSBC Flash Manufacturing PMI, Chicago Fed National Activity Index, Dallas Fed Manufacturing Activity.

Tuesday: UK House Prices, German Import Price Index & CBI Reported Sales, Japan Cabinet Office Monthly Economic Report & Small Business Confidence, US S&P/Case-Shiller Home Price Index & Richmond Fed Manufacturing Index & Consumer Confidence & New Home Sales.

Wednesday: Japan Retail Trade, Australia Construction Work Done, German GfK Consumer Confidence, French Consumer Confidence, Italian Economic Sentiment & Business Confidence, UK GDP & Index of Services & Total Business Investment & Gross Fixed Capital Formation & Exports & Imports & Government Spending, various end-of-month Euro-Zone Confidence figures, US Durable Goods Orders & Pending Home Sales.

Thursday: Japan Nomura/JMMA Manufacturing Purchasing Manager Index & Industrial Production & Vehicle Production & Housing Starts & Construction Orders, Australia HIA New Home Sales & Average Weekly Wages & Private Capital Expenditure, China MNI February Business Sentiment Indicator, French Consumer Spending & PPI, Spanish GDP, German Unemployment Rate & Unemployment Change & CPI, Euro-Zone CPI, Canada Current Account & Industrial Product and Raw Materials Price Indices, US GDP & associated figures & Initial Jobless Claims & NAPM-Milwaukee & Chicago PMI & Kansas City Fed Manufacturing Activity.

Friday: Australia AiG Performance of Manufacturing Index & RPDData-Rismark House PX Actual, Japan Jobless Rate & Household Spending & Tokyo and National CPI & Capital Spending & Vehicle Sales, China Manufacturing PMI & HSBC Manufacturing PM, Australia RBA Commodity Price Index, German Retail Sales, Euro-zone Manufacturing PMI's & CPI Estimate & Unemployment Rate, Italian Annual GDP, UK PMI Manufacturing & Net Consumer Credit & other finance figures, US Personal Income and Spending & PCE Deflator & Markit US PMI Final & Michigan Confidence & Construction Spending & ISM Manufacturing Index & Total Vehicle Sales, Canada Gross Domestic Product.

▪ [Central Banks, Finance Ministry & Political influences:](#)

Sunday: Italian National Elections.

Monday: Asia Pacific Economic Cooperation Finance and Central Bank Deputies' Meeting, Fed's Rosengren, Troika Review of Portugal Begins, Italian National Elections, ECB's Weidmann, BoC's Carney speech & press conference, ECB's Asmussen.

Tuesday: RBA's Debelle, Fed's Lockhart, APEC Finance and Central Bank Deputies' Meeting, BoE's Bean, Tucker, Miles and McCafferty appear before Treasury Committee, Fed's Bernanke Testifies at Senate Banking Committee, BoE's Fisher.

Wednesday: BoE's King speaks in Tokyo. ECB's Praet, BoE's Bean, ECB's Mersch, Fed's Bernanke Testifies to House Financial Services Committee, Fed's Fisher, ECB's Draghi.

Thursday: BOJ's Kiuchi, ECB's Constancio, EU's Almunia with ECB's Praet and Italy's Monti, Riksbank's Barbro, ECB's Constancio, Fed's Lockhart, ECB's Praet, Fed's Raskin, Fed's Evans.

Friday: Riksbank's Svensson, US Budget Sequester deadline.

▪ [Government Debt Auctions or Operations:](#)

Monday: Italy, Germany, US.

Tuesday: Italy, UK, US.

Wednesday: Australia, Italy, US.

Thursday: Japan.

Friday: Australia, ECB LTRO Repayment announcement.

Concise Market View

▪ **US Fiscal Cliff avoidance and some sort of assumption the US budget sequestration can be avoided had led to an extension of equities' rally until concerns last Wednesday over the Fed's commitment to continued aggressive QE. . And it was no surprise that the US was leading the way up in spite of the perception that the rest of the world is healing. So once the US proves vulnerable (quite a bit earlier than the usual last minute) to the notion that there will *not* be any compromise on the US Budget Sequestration, it is little surprise not just what happened to the other equities, but also the other asset classes.**

Yesterday's **March S&P 500 future** failure right back below the 1,510 resistance after a "possible compromise" rumor higher opening that put it back up near major 1,526-30 range resistance left it feeling very vulnerable once again. Of course Messrs. Obama and Boehner coming out to confirm with the typical 'party line' rhetoric they were content to play politics instead of seeking any adjustment that would head off the sequestration did not help one bit.

What is most interesting is the speed with which the **March S&P 500 future** dropped back down near the major 1,475-65 support. Yet, the confluence of factors including renewed concerns about Europe on Mr. Berlusconi's surprisingly strong showing made it eerily similar to a previous US-Europe failure: August 2011. Not to say that the peripheral bond markets or US economy has quite a much to fear from current events. There are buffers for each of those negative influences which were not in place back at that time: ECB influence via its OMT (Open Market Transactions) program requirements for countries to tow the fiscal reform line, and the fact that the US Sequestration will only gradually take effect. Yet, the sheer uncertainty was rightfully enough to reverse the rather mindless recent 'risk on' mentality. And in fact, we feel the US sequestration is only a modest and temporary drag compared to broader negative influences that include higher taxes and more aggressive regulation. Need to keep an eye on that as well.

Yet the equities break also dictated obvious activity in other asset classes that is also consistent with the 'risk off' mentality which quickly took hold. Those include the bid clear bid in the primary government bonds which had been so disparaged and questioned since the top of the year. It is now the govies that are resurgent on strong sister **March Bund future** that had held not much worse than the low end of the 142.62-142.30 previously violated support surging up to and now through the more prominent 143.50-.75 resistance to already test 144.50 and even near the bigger 145.00-.20 area. The same goes for weak sister **March Gilt future** holding up into its 115.50 interim area after the violation of its 116.30-.00 area had previous led to a quick test of more prominent 114.50. **March T-note future** refusing to remain below its major 131-16/-12 congestion after Closing below it several weeks ago is finally back above 132-00.

Foreign exchange reverted from an individual country affair to more general 'risk off' psychology as well. With the exception of the Japanese yen strengthening, all other currencies weakened against the US dollar. These are full corrections that after this month's ECB press conference confirm the fragility of the Euro-zone economy saw **EUR/USD** back below key 1.3550-1.3450. Also below its 1.3200 Negated DOW Break from back in January, it is now testing more major 1.3000 support that has a secondary buffer down to 1.2850. And the breathtaking weakness of the Japanese yen that saw **USD/JPY** extend above 91.00 did indeed lead to a stallout into more significant resistance at the 93.80-95.00 interim Objective. Yet, 91.00-90.00 remains support.

All the technical indications below remain the same as last Wednesday's **Current Rohr Technical Projections - Key Levels & Select Comments**. While there has been quite a trend shift since then, the levels remain the same. And the trend comments from prior to yesterday's dislocation are an interesting point of comparison. These will be updated later this week in preparation for the US Budget Sequestration on Friday once we see both the further actions in the wake of the Italian election and whatever Mr. Bernanke has to say. .

March S&P 500 Future: Push above 1,510 was s.t. bullish, yet back below 1,505 gap s.t. critical indication either way. 1,515 failure key s.t. level for topping potential after selloff.

RES: 1,515; 1,526-30; 1,545; 1,558.50; 1,570-1,573.50

SUPP: 1,510-05; 1,485-90; 1,474.50; 1,465-67; 1,460-58; 1,450

Government Bond Futures: Recent equities push higher on Fiscal Cliff avoidance and continued central bank QE expansion weighed on govies. Even strong sister March German Bund future below 143.75 fail was also a fresh DOWN Break, yet on fail below 142.62-.30 held well at top of 141.30-.00. March T-note future below major 131-16/-12 no longer strong sister, yet right back into it. March Gilt future below interim 116.30-.00 on BoE Inflation Report bounces at 114.50 next major support, with mid 113.00 also major.

MAR T-note: RES: 131-16/-12; 132-08/-05 (Jan '12 hi); 133-04/132-24; 133-10/-08

SUPP: 130-20 (12/08 hi); 129-24/-16; 129-00/128-14

MAR UK Gilt: RES: 115.50-.75; 116.30-.00; 117.20-.00; 117.57 (OCT low); 118.00

SUPP: 114.50; 113.61-.28; 112.50; 111.30; 110.56; 110.00-109.84

MAR Bund: RES: 142.30-.62; 143.00; 143.50-.75; 144.17; 144.50; 145.00-.20

SUPP: 141.70; 141.30-.00; 140.00-139.60; 138.40; 137.50; 136.50

December 2013 Short Money Forward Futures:

Eurodollar: RES: 99.64-.65 (gap); 99.66 (DEC high); 99.72 (OCT lead ctr. high)

SUPP: 99.60-.59; 99.55-54; 99.51 (gap); 99.50-.48; 99.465 (gap); 99.44

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 made that a fair result. Yet it held another test of .7930-.7860 support, and finally back above .8080 much more important l.t. MA, Fibonacci and congestion leaves door open to further to test of .8150-80 area.

RES: .8150-80; .8225-60; .8300; .8335-55; .8450; .8516; .8625-36

SUPP: .8080-50; .8015-00; .7925-15; .7860-10; .7680-50; .7500

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. Above 1.3000, 1.3200 DOWN Break (Negated) and 1.3250-80 range those are supports. Greater 1.3450-1.3550 resistance temporarily violated, but spill back below it fresh DOWN Break with Daily MACD DOWN means temporary weakness was recently likely the case.

RES: 1.3450-1.3550; 1.39; 1.40-1.41; 1.4250; 1.4500-80

SUPP: 1.3250-80; 1.3170-1.3200; 1.3080; 1.2950-1.3000; 1.2860

Foreign Exchange: US Dollar (continued):

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. Recent failures back below 1.6150 and prominent 1.6000-1.5950 are fairly ugly. Also fail below 1.5750 and 1.5500-1.5450 has led to test of the major 1.5268-33 multi-year lows.

RES: 1.5360; 1.5500-1.5450; 1.5650-00; 1.5750; 1.5880-1.5900

SUPP: 1.5268-33 (2.5 year lows); 1.5000-1.4950; 1.4800-1.4775; 1.465

USD/JPY: After February rally above key resistances at 78.35 and 79.50 were UP Breaks, near term failure at 84.00-.50 key resistance fed retest of those lower levels. Holding them led to a much more major confirmation of the overall Upturn. Back above 84.00-.50 and 85.54-.94 led to violation of more critical 87.50-.00 area that was also top of channel UP Acceleration, and above 91.00 has led to test of 93.80-95.00 Objective with 100.00 next.

RES: 93.80-95.00; 96.00; 97.75; 99.00; 100.00; 101.45; 103.80; 105.50

SUPP: 92.50-93.00; 91.00; 90.00; 87.50-.00 (NEG DN Brk)

AUD/USD: Commodity currency less than impressive on failure below 1.0450-1.0500 after stallout into resistance in 1.0600 area. Both MACDs now DOWN, and failure back below 1.0350 interim support leaves 1.0250 critical support this side of the major .9800 area.

RES: 1.0350; 1.0500-1.0450; 1.0615-25; 1.0750; 1.0850; 1.1000-83

SUPP: 1.0250-20; 1.0150-00; 1.0000-.9950; .9800; .9860; .9580; .9388

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. So return to strength after January ECB meeting 'lack of crisis' confidence no surprise. That was obviously reversed by recent Euro-zone weakness, and is still modest in the context of yen weakness. Yet it appears that all currencies are weakening relative to a new phase of US Dollar 'risk-off' driven strength, enhanced by yesterday's equities slide.

EUR/JPY: **RES:** 125.00-50; 127.94; 130; 132; 134; 136.00; 138.50-139.14

SUPP: 124.00; 122.74-123.35; 119.65-120.00; 118.50; 117.00-.50

EUR/GBP: Pound lost strong sister status since mid-November in spite of repeated euro failures at .8150 resistance. January ECB meeting confidence-led push above .8250-70 resistance fed rally above .8370-.8400 DOWN Break; still support on any sharp selloff.

RES: .8800-30; .8880; .9000; .9085; .9150; .9250-9300; .9415

SUPP: .8675-.8700; .8580; .8500; .8370-.8400; .8250-70; .8180-41

EUR/AUD: **RES:** 1.3000-1.2925; 1.3100; 1.3300-1.3260; 1.3520; 1.3640

SUPP: 1.2810-35; 1.2650; 1.2480-1.2510; 1.2360

We hope you find this helpful.

-Rohr

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