Rohr Report
TrendView

BRIEF UPDATE: FIXED INCOME/ EQUITIES/FOREX/ENERGY

Thursday, June 8, 2006 (05:30 CDT; 06:30 EDT; 10:30 GMT)

OVERVIEW

Very brief today indeed, as the markets are still dealing with the technical parameters reviewed early this week. While Monday's central banker hawk-fest put the US and European short money forwards to new modest lows for this selloff, the effect on the long ends was much more subdued. Especially as weak sister US long ends held up better than not after the weak economic data of the past two weeks, there was a suspicion that the allegedly data driven Fed chairman had misspoke when he seemingly de facto instated an inflation targeting policy just as US wage numbers were imploding. This was likely another bit of bad timing. Less than six weeks after his initial US Congress Joint Economic Committee seemingly dovish faux pause (sic), he was obviously trying to dispel any residual sense he was a 'girlie man' central banker; enter Bernanke the Bold. (Or perhaps they just left him in the anteroom prior to the panel for a bit too long with J.C. Trichet!)

FIXED INCOME

Unfortunately, his timing on that was just as abysmal as his attempt to court the political class with proactive discussion of an interest rate tightening pause while the data remained strong back in late April. While we remain bearish the fixed income markets overall, the data and current intermarket influences still seem to point to greater likelihood of a pause in the down trend as long as the long ends (now September contracts) hold support at **T-note** 105-08, **Bund** 115.60, and **Gilt** at 109.20. It all boils down to how the long ends and the equities react to the likely ECB 25 basis point rate hike and hawkish press conference.

If long ends like any further negative effect on the equities from hawkish central bank-speak, then even short money forwards that are already discounting further rate hikes might even rebound. Key resistances are now the modestly violated supports in the December contract **Eurodollar** at 94.61, and **Euribor** at 96.51. As **Short Sterling** had not even slipped below the bottom of its 95.05-.00 support, it only needs to hold that to remain stabilized at worst.

EQUITIES

Which brings us to the equities, which have now violated critical support on a trading basis. The **DJIA** slippage below the 10,900 area in spite of some friendly fundamental and geopolitical news on the energy front yesterday is a sign that central bank hawkishness is having an impact. The fine line Tolerance of that significant congestion and Fibonacci support is the 200 day moving average at 10,870. Much below that on a Close (especially weakness that maintains for the weekly Close tomorrow) the DJIA can lead the rest down to much lower levels. While there is initial support at 10,650, the market is likely to need to get back to more extended supports in the wake of any such failure. These are 10,500-400, and the low ends of the previous trading range in the 10,150 and 10,000 areas. The latter is also approximately the Fibonacci 0.382 retracement of the entire move up from the 2002 low. The other equity markets are likely to follow the lead of the DJIA, as we saw overnight in both the Far East and Europe.

FOREIGN EXCHANGE

While **EUR/USD** recovered back above last Tuesday's 1.2840 daily Triangle UP Break after last Friday's weaker than expected US Employment report, that was moreso secular strength in the Euro than any broad-based US dollar weakness. The real question remains whether EUR/USD can push through the top of the 1.2800-1.2950 resistance? While on current form that appears less than likely, if so, then any Close above 1.3000 "big penny" is the sort of near term strength likely to reinvigorate the trend for targets in the 1.3250 or 1.3450 areas. Among the most interesting features was the daily MACD remaining (not surprisingly) DOWN after the last two weeks slippage. Along with daily oscillator resistance slightly above the market, this keeps the burden of proof on the US dollar bears to push EUR/USD above the 1.3000 area.

If it cannot accomplish that, then failures back below the working Tolerance of the UP Break at 1.2800 (congestion and daily MA 18; also now the overall up channel support from the 1.1827 late February low up to 1.2780 today), and more important full Tolerance at 1.2700 (with weekly MA 9 in the upper 1.2600 area) would signal a more significant reaction had begun. Lower reaction targets (within an overall US dollar down trend) remain at the obvious 1.2588, with more subtle supports into the 1.2500 and 1.2400-1.2350 areas. This is consistent with the US dollar trend elsewhere.

ENERGY

Since the selloff began three weeks ago the energy markets have been moreso volatile trading range affairs than any overt failure of the intermediate term up trend, and remain significantly stronger once again. Which is why it was especially critical that June (now expired lead contract) **Crude Oil** held its weekly Triangle UP Break, congestion, gaps and weekly MA 13 in the 68.00-67.40 range, and that remains the critical lower support. This is especially so now that the July contract has pushed up once again to the very top of the broad daily 72.40-74.11 Area Gap and failed.

Similarly, the June **Unleaded Gasoline** slipped temporarily back below the 204.00-200.00 range. Yet the recovery in that market has allowed the modestly discounted July contract to recover well back above the 200.00 level. More important at this point is that 215.00-220.00 remains the key congestion and gap resistance, which the market failed from again just three days ago. The weekly oscillator still points to the 237.00 September high if the market sustains activity above 220.00.

We hope you find this helpful.

-Rohr