ROHR REPORT

TRENDVIEW

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Thursday, November 16, 2006 (07:00 CST; 08:00 EST; 13:00 GMT)

OVERVIEW

It has been a most interesting week so far into what might be a critical juncture. While the markets have had an extensive amount of very soft economic data, yields have had not extended their weakness from last week. The fixed income bears have been duly impressed with the inability of yields to drop further in the wake of all of this weak news, as they were likely prepared to see their views put paid at various points this week by the T-notes and other long dated fixed income pushing above their critical resistance levels.

There are two distinct possibilities for price activity unfolding in this manner, and any decision is that much more important due to the return to a typical US mid-month reporting vacuum into next week's (essentially) three-day US trading week due to the Thanksgiving holiday. The first is that markets are just nervous into the important news coming today on the Euro-zone CPI (OCT) that has already come in as expected, followed by this morning's US CPI (OCT), Industrial Production and Capacity Utilization (OCT), Philadelphia Federal Reserve Index (OCT), and NAHB Housing Market Index (NOV) along with various rounds of relevant Fed-speak. And if those indications are weak, they may still carry the fixed income bears out on stretchers by today's Close.

However, if this activity is symptomatic of the market looking right past near term weak news and focusing on 'facts on the ground,' that may be a different indication altogether. From the very strong equities not signaling any further weakness into next year, to the inflation harbingers remaining quite strong overall in spite of some sharp near term setbacks, and the Democratic Party penchant for social spending lurking in the wings (and their penchant for squabbling already apparent), it's possible that we hit a juncture where the long dated fixed income looks up and says, "I just don't like it."

After all, as opposed to central bank dominated short term rates, the long term instruments are psychological animals. The ultimate *coup de grâce* would be if the long ends drop today in spite of weakness in headline US CPI numbers. Who knows? We shall see.

Explosive equities skew the outlook towards a return to real US strength into 2007, which is consistent with the recent OECD Composite Leading Indicators. That could also be the undoing of the Fed's attempt to allow inflation to cool down on its own. Again, we shall see. Yet, if any of that strength equities above their oscillator resistances (see below) into the weekly Close tomorrow is indeed accompanied by a sustained drop in the long dated fixed income, it likely indicates inflation expectations are eroding the real yield that drives long term fixed income investment, and the Fed might just still need to pull the punchbowl by getting back to a firming program that many observers have discounted as a possibility.

MARKETS

Yet, whatever transpires in the news and reports, the fact remains of US fixed income upside leadership of improvements in the other debt markets. Since the **T-note** first recovered back above the 107-00/106-24 range three week's ago the failures from the previous resistance in the 108-11/-16 range remain a key delimiter of the rallies, with interim support at 107-16/-12. The mid 108-00 area remains a critical weekly oscillator resistance, above which it might see 110-00/-16, or even higher resistances. Similarly as telling at this point, the still falling weekly MA 41 in the **Bund** (due to the continued influence of the sharp early year break) means that the 118.10-.20 resistance there is as important as the mid 118.00s were in late August and late September; essentially, the weekly oscillator decision by the T-note and Bund is closely calibrated. Lower support in the Bund remains 117.40 and the 117.00-116.80 area.

Weak sister **Gilt** remains in a different world, yet with the 110.10 and 110.50 resistance areas remaining critical there as well. Support also remains 109.50-.40, 108.80 and the 108.50-.31 range. The still weak European short money forwards have only benefited moderately from the September 2007 **Eurodollar** rally back to its 95.15 resistance, and will also only do that much worse if it ever fails more convincingly below 94.94-.92 support.

The equities also held up very well at the end of last week, foreshadowing the extension of their rally into this week. Even with any uncertainty over maintaining the accommodative tax regime, especially the capital gains portion of it, the market performance seems impressive. While we did not wish to draw any major conclusions until the markets reflect on the specific legislation put forth by the Democratic majority (which may take some time given they have already achieved a state of disarray that would have been unthinkable into the election), there is another factor that looks likely to dominate the equities if this week's strength maintains into tomorrow's Close: year end window dressing by portfolio managers not yet fully invested.

The **DJIA** recovering above the 12,100 oscillator resistance, and the December **S&P 500** recovering to push markedly above the rising weekly oscillator levels in the 1,380 and 1,390 areas is encouraging. If they escape, the next major resistances (consistent with the full extension into the final phase of the primary rally into late 2003-early 2004) are DJIA 12,700, and 1,415 area for the S&P 500; with commensurate levels for the other main equity markets.

After a bit of a fright on the **US Dollar Index** failure below the .8513 trendline support late last week, and **EUR/USD** pushing above congestion as 1.2830, the buck seems to be stabilized yet again in the wake of the EUR/USD failing to carry on for a push above the 1.2900 equivalent down trendline. **USD/JPY** would also still need to break 116.00 support to signal any secular weakness of the US dollar, as **AUD/USD** also did not fare very well at all in its attempt to remain above the .7700 area resistance, and **USD/CAD** is very resilient up into its 1.1400 resistance once again.

As such, temporary weakness of the US Dollar Index below the .8500 area notwithstanding, unfortunately we do not see any significant overall trend here either, in spite of longer term misgivings about the US currency. The other key US dollar parameters are:

GBP/USD: RES: 1.9000; 1.9325; 1.9500-50 SUPPORT: 1.8750; 1.8625; 1.8500

USD/JPY: RES: 118.50-.00; 1.2000; 121.00-.40 SUPPORT: 117.50; 116.00; 1.1500

USD/CHF: RES: 1.2500; 1.2600 SUPPORT: 1.2400; 1.2300; 1.2200-1.2180; 1.2020-00

USD/CAD: RES: 1.1400-50; 1.1700-50 SUPPORT: 1.1300; 1.1225-00; 1.1100; 1.1050

AUD/USD: RESISTANCE: .7670-.7700; .7570-.7600 SUPPORT: .7500; .7400; .7300; .7250

The energy markets remain weak in their own right as the **Crude Oil** continues to have trouble sustaining any strength back above the 60.00-59.00 area in spite of Closing above the 60.75 gap last Thursday. However, as noted previous, Closing above that gap does lend a bit of stability, and whatever the ultimate fate of the trend in these markets that could mean the attempted formation of a broader bottom with near term support back into 58.00-57.50. The next major supports remain in the 55.00 and 53.00 areas.

This is evident in the other energy products as well, with the December **Heating Oil** pushing up to post a daily Close above its commensurate gap at 1.7385. While this also stabilizes that market, it still leaves the 1.8000-1.8200 area as resistance, even though it reinforces the lower congestion and gap supports in the 1.7000 and 1.6500 areas.

That said, both markets are hanging around significant trend DOWN Breaks, which means the overall trend decision can only be decided by a definitive further push from here that does not look very likely in the near term. Those are the lead contract continuation major up channel DOWN Breaks in the Crude Oil at 62.00 and in the Heating Oil at 1.7085. As such, at this point Crude Oil remains the more critical market, insofar as any push through near term resistance for a weekly Close above the 62.00-.50 resistance would also indicate that the relatively recent major DOWN Break attempts might not be working. If that occurs, it would be a harbinger of a return to the major up trend in the energy markets, even if that is a temporary feature of these markets forming broader tops.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)