Alan Rohrbach

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Sent: Wednesday, June 13, 2007 10:49 AM
To: Alan Rohrbach
Subject: ROHR: TrendView: BRIEF UPDATE: FIXED INCOME: Wednesday, June 13, 2007 .
Importance: High

Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, June 13, 2007   (07:00 CDT; 08:00 EDT; 12:00 GMT)

On an administrative note, everyone should have received the email distribution of *Capital Markets Observer* III-24 that was sent into 12:00 CDT (13:00 EDT; 17:00 GMT) yesterday; if you have not, please let us know as soon as possible.

The further drop in fixed income this morning is in spite of some weaker than expected Far Eastern news, benign French inflation indications along with weaker than expected CPI in Italy, and lower than expected UK Average Earnings figures. All of this is accompanied by the financial headlines stressing the failure of the bond markets. However, the markets are forward oriented, and the more critical news is yet to evolve later this week, beginning with the Fed Beige Book this afternoon, and various other central bank and government influences over the next couple of days; all of which is detailed in the 'Reports & Events' section of *Capital Markets Observer* III-24. We will soon find out if the hawkish central bank indications are priced in, or whether these markets can (proverbially) break from a break right through the next key technical levels.

What we know for certain at this point is the indication in yesterday's *CMO* section on 'Debt Divergence Denouement' is being reinforced by the degree to which the long ends are in a synchronized drop to critical supports. As a technical point regarding the September US T-note, while as noted previous there is no major price spread between the lead contract (June) and September, the latter is trading at the better part of a half point discount to the June contract. As the June does not expire until next Wednesday, it will therefore actually take sustained September contract Closes below the 103-16 level to indicate the lead contract is violating the 104-00 continuation support.

We would have concentrated on that sooner, but until the past couple of sessions that spread had only been approximately five points. Yet, that said, with today's further selloffs in the September contracts, the T-note has indeed held right near 103-16, the Gilt (with an atypical lack of any expiration spread) has dropped right near the 103.17 April 2002 seven year trading low Tolerance of the 104.00-mid 103.00 support, and the Bund has already tested the low end of critical long term continuation and oscillator support into the 110.00-109.65 range.

Using the Bund as an examples of what could happen next if the long ends fail, that lower support is the multiple August-October 2002 pullback lows from during the overall up trend to the major 2003 highs. Much below that the 110.50 major Fibonacci retracement would be definitively violated as well, and the next support is not until the mid 107.50-00 area, with major support not until the low 106.00 area. Yet, on the other hand, violation of 110.00-109.65 would mean a drop to more than 6.00 points below weekly MA 41, which is historically a very rare occurrence.

Similar support vacuums exist below the other current long end supports. As noted yesterday, lead contract T-note does not like to hang around 104-00 very long, with an historic tendency to move two points quickly above or below, and does not have much until the 102-00 area if 104-00 is Negated. Similarly in the Gilt, there is not much below 103.17 until the 100.00 area.

All of which makes the burden of proof on the bears a bit greater at the bottom of the break. Classically markets that project prices moving to much further levels through the next major technical threshold after a recent extensive trend are tougher to put through those levels than the initial technical levels at the beginning of the price move. As such, we are fully muting our sustained bearish view at present, pending the decision from roughly today's lows in the long ends. While we remain bearish fixed income across the longer term cycle, there are too few bulls after the recent high profile capitulations, and too many headlines delivering all of the reasons the fixed income can never rally again for our comfort. As opposed to the extreme bearish view carrying the day, it is all beginning to feel very much like last May.

All other analysis remains consistent with yesterday's ***Capital Markets Observer*** III-24, and we refer you back to that for further trend views and technical levels.

We hope you find this helpful.

-Rohr
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