ROHR REPORT
TRENDVIEW

GENERAL UPDATE: FIXED INCOME/ EQUITIES/FOREX/ENERGY

Tuesday, May 2, 2006 (08:00 CST; 09:00 EST; 14:00 GMT)

OVERVIEW

With some modest variation in generally on-estimate Euro-zone Manufacturing PMI's (APR) the news today is strong once again. It is especially interesting that UK PMI was better than expected at the same time that the CBI Distributive Trades Survey (APR and May estimate) blew the roof off the estimates. It is the nature of trends to find the news to extend the momentum when quite a few observers begin to feel things may have gone far enough. As the Gilt and Short Sterling were the more resilient sisters through most of April, they were either going to continue to buffer the trend elsewhere, or finally get hit with stronger than expected economic news that would put them moreso in line with the weak US and European fixed income activity. The latter now seems the case.

And while we are on the topic of markets finding reasons to extend the trend when quite a few observers begin to feel things may have gone as far as they would like them to go, Mr. Bernanke did not blink as we had previous reported, Yet, rather, he misspoke in a most egregious manner. The first point that is therefore important is that our scenario for the 50 basis point hike on May 10th is not necessarily as compelling as when it seemed the "street" had inferred that the Fed Chairman had signaled a pause was imminent (i.e. likely in June.)

The second, much more critical issue is Mr. Bernanke's credibility. As noted in yesterday's *Capital Markets Observer*, we can respect his reason for attempting to anticipate and head off quite a bit of inquiry on the future path of FOMC activity after fifteen consecutive base rate hikes. Yet, his attempt to defuse aggressive questioning by the Joint Committee may have misfired *in extremis*.

It gets worse. As we were listening to the CNBC financial broadcast network yesterday in the background, it seems that there was a direct question from commentator Maria Bartiromo as to whether the financial community was supposed to infer from his Thursday remarks that the Fed was ready for a pause. Mr. Bernanke's response was that he did not necessarily mean to have them read any more into it than the Fed was buying itself room for total flexibility.

Well, maybe he should have prefaced his remarks with a clear indication of that. It seems he had no idea that in the current environment many folks (especially the political class in an election year) were so hungry for a pause that if there was any mention of it, they were going to infer that it was coming sooner than not. In any event, correcting what he realized was a misimpression via an ad hoc response to a media commentator was less than well-received in many quarters. The ultimate requirement that is the key to truly successful stewardship of the Fed is anticipating what people will infer from your remarks.

Talk about eviscerating credibility; he lasted 35 days. We have a strong sense that he'll soon see the wisdom behind his predecessor's lengthy, cryptic responses that buried any answers in the middle of extensive technical details and vacillation. It is almost impossible to be the Fed Chairman into the transitional phase at the top (or bottom) of the economic cycle and be as fully transparent as Mr. Bernanke would like. (This is due in part to the need for the sort of flexibility that shifting conditions may require.) If you attempt transparency when the FOMC itself is not really sure what it will do, you only sow confusion, and rightfully reap derision. The best he can hope for now is damage control, and rebuilding his stature. We wish him well in that effort, as it serves nobody to have a Fed Chairman that lacks credibility.

As to the markets, they all remain on track with the weak fixed income, strong equity market, weak US dollar, and strong energy and commodity trends noted previous.

LONG DATED FIXED INCOME

The long dated fixed income pause from its aggressive down trend after the more sanguine observation Mr. Bernanke's Thursday, and returned to it yesterday after he cast doubt on the inferences drawn from remarks. However, it is of note that the long dated US fixed income was already back under pressure due to strong news prior to his reversal of the dovish impression some folks took away from his previous statements. As noted previous, it was still vexing to any residual bulls that the markets only recovered to the Negated support at June T-note 105-16 (with a resistance Tolerance to yesterday's high at 105-20), and Bund 115.50 (with a resistance Tolerance to 115.70) that are also aggressive near term down trend resistance. The renewed weak sister Gilt never got anywhere near 110.50 (which we always suspected could quickly lead to much lower levels), and has near term resistance into the 109.50-.70 range.
Those near term bottom technical levels (and Tolerances at the lower end of the specified range) are T-note 105-04/-01, Bund 115.27-.10, and Gilt 109.33-.31. If the markets fail back below those near term bottoms (i.e. Negate the basing signal) we suspect they will quickly head for the next supports in the 104-00 area in the T-note, the low 109.00-mid 108-00 area Gilt, and the 115.00-114.50 range in the Bund, with the low end the more likely target.

SHORT MONEY

As the short money was underpinned by last Thursday's missives from the Chairman, ability of the long ends to hold Thursday's minor daily UP Closing Price Reversal Bottoms will be the more telling sign for the fixed income trend, ultimately even the short ends. It also pertinent that December EURODOLLAR only made it to the bottom of its 94.80-.75 support at the top of the rally last Friday. While there is some recently generated near term support at the 94.61 Tolerance of last Thursday's minor daily UP CPR, below there both recent and historic tendencies project next support into the 94.55-.50 range. That is also noteworthy as an indication that the Fed might still go to at least 5.25% Fed Funds, or beyond.
Similarly, December **EURIBOR** got nowhere near previous support (now resistance) at 96.60, as it failed at the lower violated next historic congestion at 96.50. Yet, that is an interim level, with heavier congestion and gap support not until 96.35-.30. Previous strong sister December **SHORT STERLING** has extended its break in the wake of decidedly stronger than expected recent economic releases. It is now below the bottom of its 95.20-.15 area historic

and recent support range after stalling at interim resistance at 95.24-.27 area on the last rally. As it is also already vigorously testing the next interim support in the 95.10-.07 range, any failure of the long ends likely foments an extension of the break to the next major support in the 95.00-94.94 range.

EQUITIES

We have noted for some time that equities remain constructively choppy in spite of recent signs they might finally be taking heed of the weak activity in the fixed income, and continue to feel that way. The near term selloffs do not seem able to keep the markets down, in spite of higher costs for everything from energy to materials to finance. While there is a sense that at some point the extended central bank tightening will make continued "good news bad news", the markets seem to be moreso encouraged by economic strength and tightening conditions than demoralized by it. In fact, as we have noted both extensively and emphatically previous, along with stronger prices elsewhere, the more strength the equities continue to exhibit, the more bearish it is in the intermediate term for the fixed income.

Along that same line, June S&P 500 had not been able to violate the key support at the low end of the 1,300-1,294 range, and is even back up holding interim support in the 1,310-08 range. The low end of the 1,300-1,294 is now reinforced by the daily Area Gap higher (1,295.60-1,292.90) from two weeks ago (the pre- and post-FOMC meeting minutes release activity.) Extended S&P 500 trend support remains as low as the 1,280-75 area. The next significant resistance remains in the 1,324 area (at which the market stalled late week two weeks ago), with extended resistance now up to 1,340 area.

In spite of the recent minor bout of weakness, international equities are not really capitulating either. They had previous held back at their own critical violated resistances (now supports), and held minor congestion supports at the bottom of the near term selloffs. While they continue to lead the way on overall price trend performance during the current phase, they will continue to be generally influenced by the swings in the relatively weaker US market. Yet, the holding actions still include **DAX** respecting 5,860 (and now back above 6,000), and **FTSE** remaining above 6,000. As noted previous, each of those has next objectives in the 6,250 area. Even the weak sister **NIKKEI** is not back down to fully testing the higher of the near term supports back at 16,650, with extended near term support at 16,400.

FOREIGN EXCHANGE

The additional upside follow through the previous 1.2320 high has also carried up through the September 2005 1.2588 high in a manner that is compelling. This leaves short term support back into the 1.2500-1.2450 range. Capitulation of USD/JPY from 118.50 resistance below the 115.50 support (now resistance) has now also violated the major January reaction 113.43 trading low to begin to Negate a major UP Break, although it is back up testing that area today. Capitulation of USD/JPY still requires a weekly Close well below that level to confirm, with near term support as early as the 112.50-.00 range, yet extended support back at 109.00 and below. Yet, that said, the general rout of the US dollar is now well established after frustrating the US dollar bears previous since the first EUR/USD push above the 1.2250 area back in late January.

As such, **EUR/USD** is likely headed to at least a test of the trend resistance (from the major 1.3666 2004 high) in the 1.2800-1.2900 area, with commensurate extended reactions in the US dollar against the other currencies as well. However, that is not the only potential upside target (i.e. downside target for the buck.) As noted previous, if EUR/USD is going into a larger version of the same sort of triangulation as part of a topping action as the base it left back in 2000-2002, then higher targets in the 1.3250-1.3450 range are also entirely possible.

Reinforcing continued nominal general bearishness of the US dollar is the degree to which previous weak sisters like **Canadian** and **Australian dollars** have now also strengthened (with recent new USD/CAD major trend lows.) As we have noted many times previous, in spite of the extreme divergence at times, all other US dollar relationships will likely fall in line with the decision of the EUR/USD.

GBP/USD exceeding the 1.8000-1.8100 resistance (now support) has run up to the next congestion in the 1.8500-1.8600 area at which it stalled last September, above which there is not much until the 1.9000 area.

USD/CAD failing from the previous recovery to the major resistance in the 1.1750-1.1800 area shattered the previous recent and major historic support in the 1.1200 area (1991 low.) It has now dropped all the way to the 1.1050 area 1977 (that's right, 1977) congestion (also significant weekly oscillator support), or fall immediately to the next congestion in the 1.0900 area, with next major oscillator support not until the 1.0700 and 1.0400-1.0300 areas.

AUD/USD was a bit of an anomaly after leading the way down previous back into its major .7100-.7050 area weekly and daily oscillator support (also, not surprisingly, the bottom of the weekly down channel) prior to reversing. Yet, that holding action was fully reversed by the mid April weekly Close back above the upper .7200 area once again. It is now above the low-mid .7500 congestion and weekly trend resistance (the weekly down channel UP Break was actually at .7470), which points to retests of the mid .7700, mid .7800 and even the .7950-.8000 area back at the major highs (which is next major weekly oscillator resistance.)

USD/CHF stalled repeatedly on rallies to the 1.3200 area critical resistance, ultimately breaking badly back below the 1.3040 failed major H&S Bottom UP Break. As it violated progressive support in the mid 1.2900, mid 1.2700 and low 1.2500 areas (all now resistance), it leaves only the September 2005 low at 1.2241 as a buffer this side of a failure to the more major supports that range between the 1.2000 and 1.1500 areas (the EUR/USD equivalents of 1.2800-1.2900, and the 1.3250-1.3450 ranges.)

The **US Dollar Index** also failed repeatedly back into the.9030-50 resistance that was also it Now Negated weekly major H&S Bottom UP Break. Its serial supports that were progressively violated (and are now resistance) were the .8950, .8850-00, and .8650-00 that was the early September 2005 low. As with the other similar failed bottom patterns, that leaves various supports back into the low .8400s, and the .8200-.8150 range.

ENERGY

The energy markets finally weakened a bit last week, yet recovered into Friday to respect near term support on the pullback of a still very strong up trend. The previous lead contract May Crude Oil push back above the 68.00 area UP Break above the weekly down trendline and oscillator resistance. Its extended move above daily congestion and gaps, as well as exceeding the old 70.85 all

time high left the June contract (now the lead) above 73.00 (weekly oscillator resistance) at the end of the week two weeks ago. While the market had slipped temporarily back below there, it has now recovered. The overall signals remain that any inability to fail back below the 68.00 area still point to an extended target in the 80.00 area.

May **Unleaded Gasoline** held the reaction back near the important 1.8500 area in early March, and never looked back. It has now pushed up through higher resistances that were every five cents up from there, as well as the more major psychological and technical weekly and daily resistance in the 2.0000-2.0400 gap, congestion and Fibonacci range, which it has still not quite tested on any reaction. While the market did Close the week two weeks ago above the interim resistance in the 2.1500-2.2000 range, the June contract is now back below that area. Whether it eventually recovers back above that range likely determines whether an extension to the late September 2.3700 high is likely (based on weekly oscillator indications.)

We hope you find this helpful.

-Rohr