Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Tuesday, October 17, 2006 (07:00 CDT; 08:00 EDT; 12:00 GMT)

OVERVIEW

After yesterday's extensive *Capital Markets Observer*, we offer just a brief overview today, and then move on to technical parameters. This is also consistent with most markets conforming to our previous trend perspectives and technical indications, even as many of the equity indices have followed the DJIA lead and pushed up to new highs for the current rally (albeit not new all-time highs like the DJIA.)

The markets are entering a couple of days of very important US news in the form of US PPI and CPI (both SEP), which are not surprisingly estimated to show marked improvement in the headline numbers in the wake of the major energy price retrenchment in August-September. Yet, the core numbers are due to keep rising mildly. Possibly the near term resilience of the fixed income is due in part to anticipation of those weak headline numbers, and that is buffering the impact of any of the recent stronger economic releases.

In that regard, it is always interesting to watch weak markets that have reached watersheds react to the current news. Our regular readers know that we have a hypothesis that bear markets often go up through sheer lack of ability to break support which would indicate they are ready to slide to the next major support level. As next supports below the 106-24 area in the T-note and 116.80 Bund are the better part of a full point lower, this in part reinforces our notion in that regard. As any Bund failure below the 116.80 Tolerance of the low 117.00 major UP Breaks is also a signal of an overall trend failure, that only reinforces our instincts that it will not fail until really ready to exhibit sustained further weakness.

Yet, as the equity markets continue their upward spiral in spite of the recent weakness of the fixed income, European and UK Core CPI (SEP) exceed forecasts, and UK RPI (also SEP) and Euro-zone Industrial Production (AUG) are above estimate, it might at least continue to weigh on the fixed income this morning. Yet, all of that was seemingly offset by the weaker than expected German and Euro-zone ZEW Economic Sentiment (OCT) forward looking view, even though the accompanying 'current' readings were a bit better than expected.

That happens quite often. It seems the forward looking expectations transmit quite a bit of Teutonic anxiety over the future that does not often actually turn out to be that bad. In this case they are likely (rightfully) concerned about the major German VAT increase scheduled for January. While the US government's fiscal management is not a model we suggest anyone else follow, the recent surge in tax receipts from lower tax rate inspired economic activity (and Japan's previous opposite experience) should be a cautionary indication for the German government that it might possibly consider a phase-in for anything as draconian as a 3.0 percent VAT increase.

However, as weak as the ZEW sentiment may be, we view it as only a convenient excuse for the market to not attempt breaking lower support until the US headline inflation numbers are out of the way. If the core numbers unexpectedly weaken as well, the markets may even choose to rally. And, indeed, there are other important reports over the next several sessions as well, mostly focused on the UK: tomorrow is the release of the Bank of England minutes from the October 5th meeting, and their quarterly Employment and Wage numbers; Thursday is Retail Sales, public finances; and Friday is their Q3 Advance Gross Domestic Product, the first of the major economy GDP numbers for the quarter just ended.

LONG DATED FIXED INCOME

On a general note, as the long ends had seen their daily MACDs all turn DOWN into the end of the week two weeks ago, the overt T-note trend support failure below the mid 107-00s is reinforcing all of the worst tendencies of the long dated fixed income. Where this comes back to be important for the short money is that while they held on just a bit better, their own across-the-board daily MACD return to DOWN early last week was reinforcement for the entire fixed income complex being in trouble on trend. It is especially important how quickly the stronger Eurodollar daily trend signals turned back down in light of the continued relative weakness of European short money that had looked to the US for any ray of hope for easing.

And the fixed income has indeed remained weak after the impact of the major rebasing of Current Employment Statistics from the Bureau of Labor Statistics one week ago Friday. That addition of 810,000 jobs to the previous figures for the year to March 2006 was striking in its potential signal that current weakness in the US economy is from a much higher base. The December **T-note** future went from not quite being able to extend to the interim resistance in the 108-26/109-05 range to dropping quickly back below its significant trend support at the bottom of the low-108-00/107-16 range.

As the 107-16/-12 range is now also the Negation of an UP Break in addition to the daily up channel DOWN Break, with an Area Gap remaining at 107-14.5/-19.5 after last Wednesday's unsuccessful attempt to stabilize from Tuesday's week-opening gap lower, the mid 107-00 area represents what should be formidable resistance on any attempt to reverse the recent down trend, if indeed the T-note manages to get that high after the next couple of sessions' inflation numbers. If it fails the 107-00/106-24 support, it could easily also fall back below next support at 106-00/105-24, and to or through the 104-00 summer lows at the more major historic support. In fact, if it's a bear, that is what it is supposed to do at some point.

All of which was reinforced by the **Bund** failure back below its 117.80-.65 support and next lower congestion at 117.50-.45 (now both resistance areas.) The higher of those also now includes a major daily up channel (from the early July low) 117.76 DOWN Break, with that level also having been the previous week's initial midweek reaction low. As noted above, the next big test for the Bund is the low 117.00-116.80 support (multiple UP Breaks, congestion and weekly MA 13/daily MA 60) held on multiple early-mid September tests.

Any failure of that lower support in the Bund would signal a return to a full blown aggressive bear trend in the long dated fixed income, insofar as the T-note would also already have Negated its own mid 107-00 multiple UP Breaks and be back below major historic congestion. Lower interim support in the Bund is the daily congestion and gap at 116.40-.29. However, that does not turn up at all on the continuation congestion or weekly oscillator supports, where the next significant supports below the 116.80 level are the 116.00-115.80 range, with the next combined support not until the 115.20-.00 range.

All of which would certainly not bode well for the weak sister **Gilt**, which is interesting in having sagged below its own 109.60 and 109.35 supports, yet holding around the 109.00 area support. It may just be a case of it having less downside ground to cede after not having pushed above its mid 110.00 June high like the T-note and Bund. Lower support remains in the 109.00-108.80 range (congestion and the bottom of its gradual daily up channel from the weak mid-August retest of its major mid-low 108.00 support, with a Tolerance to its August new minor low (how out of step was that with the T-note and Bund!!) at 108.31. If the long ends fail, while the next interim supports are 107.50 and 106.50, the major weekly oscillator support projects down to the more significant congestion in the 106-00-105.60 range.

SHORT MONEY

After September 2007 **Eurodollar** recovered sharply back above the ostensible failure below its 94.94 UP Break, it was also ready to exceed resistance into the 95.03-.07, which is now important support (congestion, gap, Fibonacci and oscillator resistance.) Even though it also overran interim resistance at 95.15 on the way to more major resistance in the 95.25 area, it has now failed back below all of those higher resistances in the wake of the BLS CES revision, and is back testing the 94.94 area, which remains critical support, with a Tolerance to 94.90. Below that it is likely to slide to the next interim support at 94.85, or more likely to the next major support in the 94.80-.75 range. Of course, even that much slippage still anticipates some potential for FOMC easing; any further reversal of that previous broadly based anticipation would likely leave it at least down to the current lead contract 94.60 area.

In fact, the December contract was rightfully more subdued on the rally in the first place, stalling against its 94.70-.72 resistance, and now dropping back to lower support at the recently violated 94.63-.60 congestion. That is consistent with 5.25% Fed Funds, and the lead contract may be stuck if there is not some further impetus for an FOMC rate move by their December 12th meeting (the week before the December contract expiration), which appears unlikely at this time; but who knows?

December **Euribor** also held slippage back to its major low at 96.295, after having failed up near 96.40 resistance. It was the case that any strength here was going to be problematic in light of both technical factors and the continued hawkishness of the ECB that points to at least one more rate hike prior to the end of the year. As such, the market is likely also stuck around current levels. September 2007 **Euribor** recovered smartly from its 96.10-.05 support, and pushed above the congestion every 10 points up until it neared the more major resistance at 96.40-.45 which it stalled against two weeks ago.

Of note on that push up was that daily Closes above 96.20 was all that is necessary to put the market back above trend averages, and turn daily MACD back UP. However, given the intermediate term trading range in which the market has been stuck (since early July lows that were reinforced by the recovery in the long ends), the 96.20 area remains important. Indeed, on the recent slippage back below there the market is once again back below trend averages, and has turned daily MACD back DOWN. Low end support remains in the 96.10-.05 area (broad channel trend support and congestion) which may well be seen if the ECB maintains its hawkish tone, and may be broken if the long ends fail back into more aggressive bear trends as an outside influence.

Similarly in the September 2007 **Short Sterling**, recovery from 94.60-.58 support generated by the mid-August daily UP CPR from the new low for the break was strong enough to push through initial resistance at 94.72, and even the heavier congestion and trend MAs in the 94.80 area. Essentially it still stalled near next important levels (gaps and congestion) into the 94.92-.95 range, and slipped back below that 94.72 level last week. As we expected, this left the door open for a revisit to the low end support. The December contract remains weak just below the bottom of its own 94.80-.75 support, likely in deference to the likelihood BoE will raise rates once more prior to the end of the year. Yet, much like the other short money lead contracts, that likely leaves this contract struck unless reason for a change of BoE policy becomes apparent.

EQUITIES

As anticipated in what was clearly still a “bad news is good news” equity market, the major US indices continued to only dip modestly in the wake of weak US economic data, and are now encouraged by the BLS CES revision that is assisting the rally in spite of the weak fixed income activity. That revision transformed it at exactly the right moment into more of a “good news is (indeed) good news” market, which is better able to withstand the pressure from rising interest rates. The continued if still partial weakness of the energy market (“It’s all getting cheaper to run”) is likely a supportive factor as well which must be watched more closely later this week in the wake of whatever OPEC has to say.

Considering it was the case all along, the **DJIA** remaining consistently above the top of the major 11,100-11,300 resistance enabled it to push up above the mid-May 11,580 DOWN CPR, and now even the 11,750 all-time high that was also somewhat significant oscillator resistance (and is now near term support.) Next oscillator resistance thresholds above that are the interim level at 11,950 that the market will violate if it maintains its bid into the weekly Close, and the next significant resistance at 12,200-250.

The somewhat equivalent levels in **S&P 500** future remained important indications as well. Yet, it is also acting very strong for now, as it has exceeded projected continuation and contract congestion resistance in the 1,320-25 area, as well as extended resistance on the contract at 1,335-40 and the extended resistance for the contract in the 1,347-50 range Daily Exhaustion Gap (left back near the early May 1,353.80 high.) Of note, there was also interim weekly oscillator resistance at that last resistance level, with the rising next oscillator resistance levels above it not until 1,372 that it is already above, and 1,382. Much like the DJIA potential violation of the 11,950 oscillator resistance, if the S&P can post a weekly Close above the 1,382 area, the next major oscillator resistance begins up near 1,400.

In the meantime the **DAX** and **FTSE** were exhibiting yet another of their typical role reversals with the weak sister FTSE surging back up once the clear indication was that the US and European equities were going for new highs on the rally. Previous the FTSE held above the Negated) daily up channel 5,835 DOWN Break that saw it slip temporarily below the low 5,800 congestion, yet not able to Close below 5,800 just three weeks ago. It then pushed back above the lower of its serial resistances at 5,900, the 6,000 area, and finally the weekly up channel DOWN Break in the 6,050 area ultimate resistance early last week. After that it was smooth sailing through the old 6,137.10 April high. That was not much of a surprise, as the weekly oscillator projections pointed to the mid 6,200 area as the next real resistance.

Yet, DAX has also maintained it overall up trend above the 5,700-5,750 resistance (Negated weekly channel DOWN Breaks), which it held on setbacks from mid-August through early-September (a strong sign), as it pushed above the 6,000 area once again (encouraged by the action in the US markets), which was also weekly oscillator resistance. After that it was not a big surprise here either that last week it Negated the early May 6.113.29 DOWN CPR, and is grinding above the old 6,162.37 high (a bit of a foregone conclusion.) If that continues to be violated, the next major oscillator threshold is not until the upper 6,200 area.

All of which reinforces the degree to which any continued activity above resistance by the US markets will likely be the last shoe to fall that will reinforce stronger tendencies already in motion in Europe and Japan as well, with even the weak sister **NIKKEI** successfully holding its 15,500-15,700 area support, and now above its next resistance in the low 16,000 area. It is also approaching its next significant resistance in the upper 16,000 area.

FOREIGN EXCHANGE

As to the influence of the CES rebasing on foreign exchange, the buck finally strengthened a bit more decisively at the end of the week two weeks ago. With the temporary exception of **AUD/USD**, even the previously more resilient **GBP/USD** has now fallen into line with the failure (DOWN Break) below 1.8750 weekly channel support also finally violating the mid-September 1.8604 trading low, albeit holding congestion in the 1.8500 area for now.

EUR/USD remains well through its recent 1.2630 trading low, with the **US Dollar Index** also well above its interim resistance in the .8600-17 range. This opened the door to moves back to next resistances in the 1.2500 and low .8700 areas (with a Tolerance to the .8733 mid-July high), respectively, which have now been achieved.

If those US dollar resistances are violated, others should fall in line with weakening against further US dollar strength. Indeed those are only the next interim targets for what may be more extensive strength in the US dollar if it begins to look like the Fed is not going to ease anytime soon. While we are never great fans of near term interest rates driving major foreign exchange trends, there is so much focus on it right now this is likely to become at least a bit of a near term self-fulfilling prophesy. Fully extended EUR/USD supports below the 1.2460 mid-July low are in the low 1.2300s, 1.2250, and every half point down into the 1.1900 area, with US Dollar Index resistances at .8800, .8890-.8920, and the mid .9000 area once again.

The other currencies are mostly conforming to near term US dollar strength within what likely remains an overall upward bias. Commensurate higher resistances and lower supports are:

USD/CHF: RES: 1.2900; 1.3000-50; 1.3200 SUPPORT: 1.2650; 1.2600; 1.2500; 1.2400

USD/CAD: RES: 1.1400-50; 1.1700-50 SUPPORT: 1.1300; 1.1200-25; 1.1100; 1.1050

USD/JPY: RES: 119.25-50; 1.2000; 121.00; 121.40 SUPPORT: 118.00-50; 116.00; 117.50

AUD/USD: RESISTANCE: .7500; .7570-.7600 SUPPORT: .7400; .7300; .7250; .7100-.7060

ENERGY

While energy markets remain weak on balance, with the lead contract **Crude Oil** sharp break back below (Negation of) the major weekly UP Break and Tolerance in the 68.00-67.39 area and 65.00 congestion (now all resistance levels) also violating more important trend support in the 62.00 and 60.00-59.00 areas. That said, the soon to expire November contract is clawing its way back above 60.00. While much likely rests with any formal announcement from OPEC on Thursday, as well as whether there is any sense there will be slippage in any discipline, the December contract is up in the upper 61.00 area, and that will buffer any near term weakness after the November contract expires later this week. As noted previous, unless there is a timely and sustained recovery back above the 60.00 area (which may be assisted by the expiration rollover premium of the December contract) a test of the more major 55.00, or even 52.50 supports may be in order; it's getting more critical this week.

Of note, the **Heating Oil** forwards continue to carry what are very hefty seasonal premiums. As such, even though expired lead contract October had fallen near the late 2005-early 2006 trading lows just below 1.6000, and that left a weekly up channel 1.7085 DOWN Break, the November contract is now above that level. With the December contract already up into the 1.8100-1.8200 range, it reinforces the lower support; probably not a huge surprise in the wake of record early measurable snowfall in the upper tier of the US last week. Higher resistances remain in the low 1.7000 area, and the heavy congestion in the 1.8200 and 1.9200-1.9400 areas.

We hope you find this helpful.

-Rohr
(www.rohrintl.com)