Rohr Report

TrendView

GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Monday, March 5, 2007 (10:00 CST; 11:00 EST; 16:00 GMT)

OVERVIEW

In light of the highly active trends in most markets out of last week into the beginning of this week, we have chosen to provide a full technical assessment of the markets, and defer the *Capital Markets Observer* overview until tomorrow. While we have much to say about market background and central banks, those aspects are less important early this week than articulating a full view of the critical trend parameters.

Demonstrating just how much of the current short term trend is the pure psychological animal which we noted from the middle of last week, the news in Japan and Australia this morning was actually quite strong, with mixed Services PMI's (FEB) in Europe. The biggest dilemma for the equity market bulls in that area was the German Services PMI reflecting the same sort of modest below estimate activity which was evident in the European Manufacturing PMI's last week. It is not very helpful for the overall economic picture that the Euro-zone PMI's came in as expected on average, yet the leading economy is weak on both fronts. The US Services PMI (FEB) was also weak.

Yet, the risk aversion which continued into the weakish equity market Closes in the US on Friday spilled over into Asia and Europe this morning, with commensurate strength in the Japanese yen. The latter is likely due to pressure on asset values leading to further liquidation of positions that were assumed either directly with cheap interest expense yen, or on the presumption that the yen would remain weak. However, as noted previous, this still seems moreso asset price weakness fostering liquidation of yen carry trades than any intrinsic 'vicious circle' forced liquidation of those positions.

That said, we noted previous that enough weakness elsewhere was a potential trigger for a carry trade meltdown, and we must now be sensitive to critical technical trend supports and psychological watersheds in equity markets and other major currencies against the Japanese yen. In other words, where are the tipping points beyond which current market activity moves from aggressive reaction into disorderly debacle?

The answers are actually quite straightforward, because as far as the equities have fallen and other currencies have depreciated against the Japanese yen, they have more or less just reached the levels which can still be considered sharp reactions that maintain broad overall trend momentum support. While it seems a long way off (and possibly a bit of a dodge) to note on Monday of the sort of week we are likely to see this week that these levels are critical for the weekly Closes, that is the way real trend signals work, and these parameters will maintain throughout the week.

In brief, key levels are DJIA 12,000-11,965, very important gap support at the low end of the S&P 500 (lead contract) 1,380-65 range and DAX 6,500-6,425 range (especially after gapping below 6,500 initially this morning.) USD/JPY support at 113.50 is likely a bit less important than EUR/JPY 151.00-150.00 weekly major channel and MA 41 support, and the commensurate GBP/JPY 221.00-220.00 range support. While there are no doubt many important indications elsewhere, that's about it for the truly critical levels.

There are also the considerations of the expiration rollovers as we progress through March, and the typical early expiration of the Bund is this Thursday. Yet, the trend structure of the June contract there is very similar to the lead contract minus the 50 point discount which the June has maintained for some time. As such, a simple deduction of 50 points from the March contract levels will suffice for now.

All of that said, we will continue the updated technical view, and revisit the broader background in the various aspects of *Capital Markets Observer* III-10 tomorrow.

LONG DATED FIXED INCOME

As noted previous, once the weak sister March **Bund** finally Broke UP through its 115.68 high from two weeks ago all of the long ends were entitled to improve by roughly a point or more. This was led by strong sister **T-note** pushing through 107-22 and **Gilt** violating its own 107.00-.15 resistance, all of which are now support. There are also near term supports higher than those levels at either violated interim resistance or fresh gaps and congestion that might well hold if there is only a partial recovery in the equities. Those are in the Bund at 116.00-115.90, T-note 108-04/-00 and Gilt in the 107.35-.25 range. Resistances remain Bund 116.70 and 117.00, T-note 108-24 and into the low-mid 109-00 area (ala December 2006), and Gilt into the 108.00-.30 range.

SHORT MONEY

Previous September 2007 contract weakness that had seen the **Eurodollar** weaken below its previous 94.94-.92 major channel UP Break, and subsequent failure below the Tolerance of that UP Break at the 94.84-.82 major congestion that was the six month trading lows has all been sharply reversed by the prospect of an equity market meltdown. The sharp recovery to just above 95.00 last Tuesday reinstates 94.94-.92 as support, with fresh secondary support down into 94.86-.83 from Tuesday's daily gap higher and previous congestion. As to where resistance might lie, keep in mind all of these markets will likely remain very emotional if the equities remain weak below last week's lows. That said, congestion areas up at 95.09-.12 and 95.20-.22 are likely restraints. Any push above the higher of those would only maintain if equity market weakness achieved proportions pointing to more than a half point of easing from the Fed by early August (i.e. by the last meeting prior to September contract expiration.)

Of course, the European instruments have been much weaker all along, and there will still be negative influences maintaining in these markets in the form of the ECB's hawkish attitude moving forward. Hence the inability of the **Euribor** to maintain much of a bid above the early February 95.93 high of the trading range in spite of spiking well above 96.00 in the midst of last Tuesday's equity carnage. Trend channel, congestion and oscillator resistance remain in the 96.02-.05 range in spite of Tuesday's temporary spike above it. Secondary resistance is in the 96.15-.20 range.

Short Sterling had been weaker than Euribor in the wake of the somewhat surprising BoE action in January, yet firmer after soft data in Mid February had allowed it to recover back above the 94.20 area previous congestion resistance (now support once again.) As noted last week, further equity market weakness would make it reasonable to expect a retest of the previous 94.40 congestion that we have now seen today, or even the previous 94.47 DOWN Acceleration. Only a major failure of the equities which requires massive central bank liquidity infusions is likely to firm Short Sterling beyond those resistances in the near term.

EQUITIES

As noted yesterday, once the **DJIA** fell below the 12,650-00 support into which it had already eroded by late last week and also violated of next lower support in the 12,500-12,450 area, it left an intermediate term up channel DOWN Break from 12,460 that will now likely leave that range as formidable resistance on any rally. Lower supports in the 12,100 area trading low tested last Tuesday have now been violated, along with the 12,000-11,956 Fibonacci and congestion (from the last early November pullback low on the initial push above 12,000.)

However, so far slippage below the 12,000 area was temporary in overnight electronic trade, and the market has now recovered back above last week's low on trading in spite of that somewhat weaker than expected US ISM Services (FEB) release this morning. This amply illustrates the need for early week circumspection, and why the weekly Close will ultimately be the arbiter of whether this remains a somewhat orderly reaction or a debacle by the end of this week. It is of note that while there is interim support in the 11,900-11,850 range, the next major Fibonacci retracement if the 12,000 area 0.382 (of the swing from the July 2006 low to the highs two weeks ago) fails is (naturally) the 0.50 retracement of that same swing. And where might that be? 11,740, or right in line with the old 11,750 area January 2000 previous all-time high that was such a major consideration on the way up regarding whether the markets were really as bullish as they appeared as they sustained the overall bull trend out of late 2005 into last year.

Yet, as important as the levels in the DJIA have been in leading the way up during the extended bull, there are natural buffers to even any near term DJIA failure back below the 12,000 area. Not surprisingly, these include the intermediate term trend supports in the more gradual major index up trends noted above. While it struggled more than the DJIA at many times on the way up, the **S&P 500** future (lead contract) now also has a bit more gradual intermediate term trend support that allows for it to retest equivalent gaps and congestion to the DJIA support, yet at relatively lower levels. Those are in the 1,380-65 range, with lower support below that not until the 1,330-20 range, which was similar resistance to the 11,750 that the DJIA needed to surmount to maintain its overall strong trend. Higher resistance is in the congestion and near term trend DOWN Breaks in the 1,410, 1,420 and 1,435 areas.

As noted previous and revisited above, once strong sister **DAX** had Broken DOWN below its DJIA 12,500-12,450 equivalent 6,700-6,650 support, the next lower support was not until the congestion and gaps in the 6,500-6,425 range into which it slid temporarily this morning. That sets up the critical decision in this other major corollary trend indication for whether any DJIA failure below the 12,000 area is *bona fide* or merely near term psychological slippage. With lower major DAX support not until the 6,100-6,000 range, this decision works very well with the major considerations of lower support elsewhere.

Similarly in the **FTSE**, the DOWN Break through intermediate term channel and congestion support in the 6,225-6,175 left the market de-stabilized for a likely move down to the more important 6,000-5,950 interim congestion and MA support, with major support not until the 5,500-5,450 range. The **NIKKEI** also reflected the nervousness on its overall slide back below congestion around its previous major April 2006 high into the 17,600 area, and lower trend channel and weekly MA 13 support consistent with previous 17,000-16,800 resistance. As that has failed, broader trend channel and congestion support at 16,600-400 are now critical, as the next lower major trend channel and congestion support are all the way back down into the mid 15,000 area; all consistent with the major weekly trend decision elsewhere.

FOREIGN EXCHANGE

As noted above, **EUR/USD** pushing through its 1.3150 Tolerance of the 1.3100-20 resistance after previous secular US dollar weakness elsewhere appears to leave 1.3150 and 1.3100 as good support on any selloff. The old topping action in the mid 1.3300 area is the next upside target in what may be a return to even further secular weakness in the US dollar.

As important right now as arbiters of whether carry trade concerns do indeed spill over into exacerbating the sharp appreciation of the Japanese yen (which might compound the current disorderly state of the equities markets) are the activity in Japanese yen cross rates moving quietly through support at the end of last week, yet collapsing into more major support to begin this one. Those levels are **EUR/JPY** 155.00-1.5450 interim channel trend support which has yielded to a drop to the 151.00-150.00 weekly major channel and MA 41 support. The commensurate activity for the **GBP/JPY** was the somewhat broader channel trend support at violation at 229.00 along with its Tolerance to the early January 228.00 trading low last Friday. This brought a swift move to the more major weekly channel and MA 41 support in the 221.00-220.00 range this morning.

Meanwhile, the buck has now even weakened against previous weak sister Japanese yen, as **USD/JPY** fell from the last tests of 122.00 and 120.00 area resistances straight back down through previous support in the 118.00 area Tolerance around the 117.35 trading lows, right into the 116.00-115.00 congestion, early December weekly UP CPR, and current major up channel support (from the 109.00 May 2006 low.) However, as noted previous, the ultimate major support remains at the major Inverted H&S Bottom 113.50 UP Break last tested in July of last year.

On balance this means the US dollar had still stalled at resistance against strong sister British pound, with the equivalent **GBP/USD** 1.9200-1.9150 back in January, and 1.9500-1.9450 throughout February. However, of late the pound has reverted to weak sister against the Euro in the wake of the weaker UK economic data, and had problems getting back to test the GBP/USD resistance in the 1.9700-50 range which has now left it back at the lower support noted above and on a 1.9350 DOWN Break from its interim weekly up channel (from the 1.8100 area June 2006 reaction low.) Next lower congestion and weekly MA 41 support is the 1.9100-1.9000 range.

EUR/GBP holding major support in the .6500 area (multiple early-mid 2004 lows) back in late January was always likely to bring a reaction back up to at least the low .6600 area or even the .6700 area congestion and major triangle DOWN Break. As such, from late January the GBP/USD is likely to lag any further strength of the other currencies against the US dollar in the near term. However, while the EUR/GBP push above .6700 might normally be grounds to feel the .6715 DOWN Break had been Negated, it also needed to break significant congestion and weekly MA 41 into the .6750 area. Now that it's violating .6800 area official Tolerance of that .6715 DOWN Break, continued strength appears possible, albeit with support back into the current weekly channel UP Break above .6760 extending down into the low .6700 area.

Higher resistances revert back into .6900 and .7000 areas, with the higher of those remaining weekly oscillator resistances, as was the case in 2005 and 2006. Yet, this secular weakness of the British pound also means that the key support for the other currencies on the yen cross rates needs to see EUR/JPY violate 150.00, as GBP/JPY weakness may be pound driven.

USD/CHF had also stalled repeatedly into telling congestion in the 1.2500-50 range, and subsequent failed back below the previous resistance in the 1.2325-1.2400 range, which included the lowest of the weekly MAs. However, much as with many of the US dollar trend indications, it takes just a bit more weakness to convincingly turn weekly MACD's back DOWN from their current balanced state (from up previous.) As such, a weekly Close below the fairly prominent 1.2100 area congestion is likely what it takes to foment the next fall below 1.2000 (which has not really been all that important as a technical level) to the 1.1900 area May and December 2006 trading lows.

As it failed once again as on multiple previous tests, the **AUD/USD** selloff from the .7900-30 resistance is not really much of a surprise after it stalled there once again early this week. This is another market where concerns about the carry trade made be restraining the upside potential out of respect for the significant Australian dollar involvement in those positions. With AUD/USD already below lower support at .7800-.7765, ultimately the .7690-70 weekly UP Break and congestion remains overall arbiter of whether its up trend is intact.

While **USD/CAD** also got hammered after its sustained early January-early February attempt to push through the top end of its upper 1.1700-low 1.1800 area resistance failed, it is now recovering from its test of 1.1600-1.1570 congestion support. However, higher congestion resistance into the 1.1750-1.1800 range remains formidable, and the true underlying trend support is not until down in the congestion and major up trend channel support (from the major May 2006 1.0930 cycle low) is not until the 1,1450 area.

As usual, all of this averages out in the **US Dollar Index** where even while the buck was keeping the bid it failed to post a weekly Close convincingly back above .8515 major weekly Symmetrical Triangle DOWN Break, with a Tolerance to the congestion and weekly MA 41 in the .8550-70 range (equivalent of the EUR/USD not failing the 1.2900 area support.) Serial failures back below .8450 and .8400 left the market vulnerable to further slippage into the .8330 congestion that is also the (so far) successful UP break from the sharp November-December 2006 selloff. As noted in the USD/CHF comment above, it takes just a bit more weakness to convincingly turn the US dollar weekly MACD's generally back DOWN from their current balanced state (from up previous.) Next support if .8330 fails is the early December .8250-25 weekly UP CPR.

ENERGY

While it has failed to sustain activity much above it, April **Crude Oil** (now lead contract) keeping the bid into the 60.00-61.00 congestion and gaps is impressive. How much of this is *bona fide* energy market strength, and how much geopolitical nervousness as the various hotspots generate a bit of extra heat of their own is an imponderable. What we do know is that the key daily MA indications are now centered in the 60.00 area, and only a failure back below that level will now speak of the potential for any sustained weakness. Even if that should occur, the previous lower support in what is now a Negated major weekly channel DOWN Break range at 55.00-54.50 range should hold any initial retest. Higher resistance remains in the 64.00 and 67.50-68.00 areas.

We hope you find this helpful.
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