Rohr Report

TrendView

BRIEF UPDATE: FIXED INCOME/ EQUITIES/FOREX/ENERGY

Monday, May 22, 2006 (09:00 CDT; 10:00 EDT; 14:00 GMT)

OVERVIEW

The markets continue to mostly conform to trend views and technical levels noted in our previous analysis. As there are no US economic releases today, and the major input so far is comments from various ECB officials, this week's *Capital Markets Observer* will be distributed tomorrow. The one other event which might have some market impact is the comments from the Fed's Fisher on 'coping with globalization' around lunchtime in the US.

However, last week's trends seem to be following through for now, as the DJIA and S&P both failed on multiple retests of resistance at their violated supports. That leaves 11,250-300 and 1,275-80 as the key respective short term resistance. After some vacillation, the equity market driven stabilization of the undertone in the fixed income finally fomented a recovery in the June T-note back above the 105-16 Tolerance of the 105-11 resistance, and the Bund and Gilt stalled after trading somewhat above their own 115.67 and 110.00 resistances. While the recovery in the short ends has been a bit more varied, that is likely due to the influence of the foreign exchange markets (more on that tomorrow.)

With no further US reports out today, and the temporarily kinder, gentler ECB reverting to hawkish form for the past week or so into this morning, the fixed income rally may seem a bit of an anomaly. Yet, the weakness of the equities is now the driving force behind the fixed income recovery, and that looks to continue for awhile. The limited nature of the fixed income rally to date in the face of such a sharp equity market break is no surprise, as the inflation factors weighing on the stock markets will also likely limit the upside potential in the fixed income (modulated by near term energy and commodity market activity.) This still reinforces our view that the equities and fixed income can trend lower together; albeit not necessarily at the same time in the short term.

The US dollar also remains buoyant, yet likely disappointed by the inability of EUR/USD to Close last week below the 1.2750 near term support will be the key factor regarding whether the previous week's 1.2820 weekly channel UP Break has been decisively Negated. Therefore, it is still possible that EUR/USD can push back above the 1.2820 level once again (i.e. attempt to rescue the UP Break.) However, the significant intermediate term resistance up into the 1.2950 area remains an obstacle to any extended strength. Short of EUR/USD Closing above 1.3000 (and maintaining that for a weekly Close), the US dollar is still likely bottoming in a gradual fashion that reinforces the degree to which it will likely stall on even a relatively significant near term recovery.

The energy markets remain burdened in the near term, yet stubbornly resilient into some very important intermediate term support. It is most interesting that the June Crude Oil has held the initial test of 68.00-67.40 while the June Gold continues to weaken closer to its important near term support in the 640-636 range. The decision in these two inflation related markets may hold the key to the near term psychology of the equity markets, and that could spill over into the fixed income as well. (Quite a bit more on that relationship tomorrow.)

FIXED INCOME

Our view here remain substantially the same as the US has become weak sister once again in both the long end and short money. While that was already in evidence from last week, it was certainly reinforced by the European long ends leading the way up through the near term resistances. For various reasons the June **T-NOTE** struggled more with the 105-11/-16 range than its European peers. Next higher resistance is in the low-mid 106-00 area. If it can surmount that resistance, the next is not until the mid-upper 107-00s.

Lower major 114.50 support in the **BUND** held previous, and resistance back at the 115.67 daily Area Gap (with a Tolerance to that April 28th 115.74 high) was violated at the end of last week, and it is already up to the next resistance in the 116.00 and 116.35 areas. Next higher resistance is not until the mid 117.00 area. The **GILT** held up somewhat above its own 108.50 area major support. Now also through congestion in the 110.00 area, the Gilt does not have much above that until the previously violated 110.50-.70 area. Next higher resistance is not until the low-mid 111.00 area.

Short money forwards are likely to follow the lead of the long ends, which means the Eurodollar will be the most burdened in the near term as the US is weak sister.

EQUITIES

While bull markets do tend to have long tails, and the real question becomes whether the equities now go from very weak into meltdown by breaking the more major supports below the market. While there are some interim supports along the way the major levels are **DJIA** 11,000, and **S&P 500** future in the 1,250 area (with a Tolerance to 1,242.) Interim support in the DJIA is 11,100, with an S&P equivalent in the 1,257-56 area. Even the nasty **NASDAQ 100** future (which has led the way down for a while) has interim support at 1,565-60, with the major support into the 1,538 area (with a Tolerance to the 1,523 October 2005 trading low.) Higher resistance is 1,650 and 1,690-1,700.

However, the real key to stabilization which allows any semblance of a return to the up trend is whether these markets can get back above their broken supports. These are 11,250-300 and the 11,400 area in the DJIA, S&P future at 1,275-80 and 1,294-1,300, and 1,650-57 and 1,690-1,700 in the NASDAQ 100 future. Unless these markets can sustain activity back above those levels on a rally, especially the higher ones that are now bear trend resistance, the lower supports will ultimately be tested. Any extensive violation of those supports would confirm the beginning of the more extensive intermediate term bear trend, even if that is actually a normal cyclical correction in the big picture.

In a rightfully ironic twist of fate, the previous strong sister European equities have suffered a bit more technically on the sharp selloff. **FTSE** is now below weekly channel and MA 41 support in the 5,650 area, with lower congestion in the 5,525-00 range as a buffer. Similarly, the **DAX** is nearing its 5,500 support, with a buffer down to the 5,350-00 area congestion. These both have higher congestion and other resistances at the 5,700-50 support just violated. If they can sustain activity back above that area, the rallies can extend to the higher resistances that are most prominent at 5,900, and extend to the 6,000 area.

What is extremely interesting today, and no doubt heartening to the equity market bulls, is the stability in the **NIKKEI**. While a stronger currency and weakness elsewhere might have fomented a major scare here as well, it has only remained more resilient below its 16,500-700

support (now resistance.) That is likely viewed as a blessing by the bulls, as it may be the linchpin that holds the equity market psychology together if the European and US markets can stabilize into the late week. Even in the wake of the weakness elsewhere infecting the NIKKEI last Friday, it is only now reaching the top of lower support into the 15,700-15,500 area, with an additional major critical level at 15,000.

FOREIGN EXCHANGE

In the event, **EUR/USD** has so far failed from the 1.2800-1.2950 resistance, and Closed last week back below the 1.2820 major weekly down channel l UP Break from last week. Even so, it still takes a weekly Close back below the 1.2750 congestion to convincingly reverse the current up trend into a more sustained correction of the recent aggressive up trend. In that case the obvious support is 1.2588, with more subtle levels into the 1.2500 and 1.2400-1.2350 areas. Only above the 1.3000 "big penny" is further near term strength likely.

While the **US Dollar Index** also slipped below the old .8415 major down channel UP Break, it held its buffer down to the mid .8300s (with a Tolerance to the .8336 April 2005 trading low.) Yet, as noted previous, if a more extensive recovery is to develop, it must surmount the mid .8500 congestion at which it has stalled in recent trade. If it can accomplish this, it will likely foment a recovery to at least the .8700 major up channel DOWN Break, which is also hefty congestion.

Previous tower of strength **USD/JPY** seemed to get back on track with late week strength last week. Yet, that only took it somewhat near the major 113.43 January reaction low that was also the distorted major weekly H&S Bottom UP Break, and it is back under pressure this morning (albeit still higher on the week.) Only back above that level does a more sustained recovery seem possible. Back below the next significant 112.50-.00 congestion it may be destined to rest the near term target in the 109.00 area (with a Tolerance to the 108.77 September 2005 trading low.) The key might be whether the 111.00 weekly down channel DOWN Acceleration can be effectively reinstated on any near term break. Much below 109.00 there is interim support at 107.00, with the more major support into the 105.00-104.00 area. Any sustained near term recovery to even test the 112.00-50 range requires a daily Close above the 111.00 congestion and last week's weekly down channel DOWN Acceleration.

ENERGY

The recent stallout seems to have finally caught up with the energy markets. While they remain in overall up trends, the slippage below the previous interim supports leaves them more vulnerable than in quite some time. Which is why it is especially critical whether June **Crude Oil** holds its weekly Triangle UP Break, congestion, gaps and weekly MA 13 in the 68.00-67.40 range. Next lower support is not until the 65.00-64.00 range, with more major support remaining in the 60.00-59.00 area. Similarly, the June **Unleaded Gasoline** has slipped back below the 204.00-200.00 range. The lower congestion, gaps and weekly MA 13 in the 194.00-191.00 range is the buffer below that, with next significant support not until 181.00-178.00.

We hope you find this helpful.

-Rohr
