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Reports & Events, Markets,…
…FOMC, Fixed Income & Forex Dilemmas, France

While yesterday's *TrendView* **GENERAL UPDATE** reviewed quite a bit of the initial volatile market reactions to across the board strong economic news from Europe and the US, today's **Markets** section is a bit more extensive than usual in order to articulate additional important technical perspectives as they evolved. These include the critical nature of the Bund signals and divergence in the US dollar, the broader background of which are also reviewed in the "Fixed Income and Forex Dilemmas" discussion. As we did not bother to review energy markets that had previous been range bound, their extended strength yesterday is also once again worthy of comment in the **Markets** section.

Reports and Events

As noted previous, this week has seen the sort of extremely strong economic news that fomented the initial weakness in the fixed income. That was reinforced by yesterday's FOMC interest rate decision statement (more on this below.) While all of that is important, the real measure of this week's critical news is yet to come; just not likely today. With no major US economic releases and only a smattering of comments from Federal Reserve officials, the reinforcement or refutation of early week signals will likely wait until tomorrow and Friday.

And there is much to digest in the next two days; possibly as important (if not moreso) than next week's US ISM and Employment numbers. This is because the calendar reverts to the end of this week being the monthly Close, and next week returns to a full calendar week for all of the usual data. As such, this week's finish will have a significant impact on some of the long term charts, and next week indeed only has the two ISM numbers (MAR), Construction Spending (FEB), and the Employment numbers (MAR) in the US. While important, they are once again centered on not being fully decisive until late next week.

Tomorrow sees UK Nationwide House Prices (MAR) that are estimated to have surged, German Unemployment Figures (MAR), and most importantly from Europe in light of the renewed weakness of the Bund, French and Italian Producer Prices (both FEB.) While US GDP and associated numbers (Q4 Final) are revisions of revisions, any surprises can be influential. What may be more critical are almost simultaneous speeches by the ECB's Trichet and Fed's Poole at 11:30 CST (12:30 EST; 17:30 GMT.)

Yet, Friday is the really critical juncture from an economic reporting and financial speech perspective. Aside from the early Japanese inflation numbers (variously FEB and MAR), German Retail Sales (FEB), French Unemployment (FEB) and GDP (Q4 Final), as well as Italian Hourly Wages (FEB) precede what is likely an important Trichet speech at the Institute of International Finance Conference in Paris.

And that's just the hors d'oeuvre course. They are followed by the Euro-Zone Business Climate Indicator and

the usual significant range of Confidence Indicators, as well as the Euro-Zone CPI Estimate (all MAR), Italian CPI, and UK GfK Consumer Confidence Survey (also both MAR.) Then from late morning in Europe through early morning in the US we are availed of further insights from (by order of appearance) the Fed's Ferguson, the ECB's Gonzalez-Paramo, then Ms. Tumpel-Gugerell, and finally the Fed's Hoenig speaks on nothing less than… …The 2006 Outlook.

We doubt that the Fed's Bies' comments a bit later in the morning on financial regulation will have much of an impact after all of that. Yet, even once they are all done, the markets need to deal with US Personal Income and Consumption (FEB), including the very important PCE inflation data, University of Michigan Consumer Sentiment (MAR Final), the Chicago Purchasing Managers' Survey (MAR), and (last but not least) Factory Orders (FEB.) Of all of the later reports, Personal Income and Consumption and related numbers are likely the most critical. As they are estimated to have weakened somewhat significantly in February, any overshoot might weigh heavily on the fixed income markets.

Markets

LONG DATED FIXED INCOME

As we expected all along that these markets would remain in bear trends for the foreseeable future, yesterday's return to Bund downside leadership in the long end accompanied by weakness in the US and Euro-zone short money is very important for all of them. As the markets proceed through the balance of this week to the monthly and quarterly Closes, whether the Bund respects the fresh 117.80 daily Bear Flag DOWN Break resistance is likely telling for all of these markets (even the ostensible strong sisters.) The other side of that coin is also whether it continues to show any resilience from lower levels, or melts down through (i.e. Accelerates below) the 117.15 low end of the weekly channel.

As weakness below 117.80 is also already slippage back below the weekly oscillator support (MA 41 minus 03.50), failure below 117.15 (on a weekly Close) is overall DOWN Acceleration below the bottom of the channel. The attendant continued violation of oscillator support may well encourage enough weakness to even overrun the major 116.89 March 2005 reaction low. Below there the next major congestion, Fibonacci and oscillator support is not until the mid-low 116.00 area.

As we will discuss further below, if the markets continue their near term break, the **T-NOTE** failure from last week's early week UP Break above 107-16/-20 (including its daily down channel from the mid January high) will continue to weigh on the more resilient sister as well. This is especially pernicious in the case of the T-note, because as we approach the end of the month (i.e. this week's Close) its ability to stabilize no worse than the previous major low 108-00/107-10 support is critical (more on this below.) In essence, T-note weakness back below the 107-00/106-28 support reinforces the mid 107-00 failure, and that leaves 106-16 previous oscillator support (no longer) very vulnerable into a critical monthly Close.

Similarly, the last couple of week's **GILT** failure on the retests of 112.65-.80 resistance have left it vulnerable below the 111.80 support. While any sustained failure from there may be less devastating than for weak sister Bund, next supports in the 111.40-.21 range are also quite vulnerable if the Bund and T-note also both experience a radical. Next major Gilt supports below 111.21 are not until the mid 110.00 and upper-mid 109.00 areas.

SHORT MONEY

As noted yesterday, even the somewhat depressed short money forwards were also going to suffer along with the long ends; in fact, the FOMC statement reinvigorated the secular weakness of the December **EURODOLLAR** that had led the way down previous. In the wake of the announcement it eroded back below 94.85 support, and is challenging the important 94.80-.75 area. As noted yesterday, we maintain our long held view that the Fed is likely going farther than most observers imagined a few months ago (and some still doubt at present), that is likely also temporary support. If 94.80-.75 is violated, there are quite a few recent and historic reasons to project next support into the 94.55-.50 range. In fact, it makes sense in terms of the "quarter point convention" that a market which becomes bearish enough to believe the Fed is not done at 5.00% will need to reflect a move to 5.25% Fed Funds.

Similarly, December **EURIBOR** is especially vulnerable below 96.60 recent and historic support. While the next historic congestion is as nearby as 96.50 (with heavier congestion and gap support into the 96.35-.30 range), by next week the aggressive daily down channel resistance is down to 96.60. This makes for a more compellingly bearish trend view unless the market can reverse out today's weakness by the end of this week.

Only modestly less pernicious tendencies exist in the other short money December forwards. The **EURODOLLAR** led the way down previous, and has experienced enough of a bounce to leave support into the 94.85 and 94.80-.75 areas. Yet, as we maintain our view that the Fed is likely going farther than most observers imagined a few months ago (and some still doubt at present), that is likely also temporary support. If 94.80-.75 is violated, there are quite a few recent and historic reasons to project next support into the 94.55-.50 range. In fact, it makes sense in terms of the "quarter point convention" that a market which becomes bearish enough to believe the Fed is not done at 5.00% will need to reflect a move to 5.25% Fed Funds.

The slightly more problematic UK economy leaves the **SHORT STERLING** in just a bit better shape in spite of today's stronger than expected Business Investment (Q4 Final.) Yet, even there the 95.20-.15 area is both historic and recent critical support. Much below it the next support is not until the 95.00-94.95 area.

EQUITIES

The equities remain constructively choppy as they have only seen the US market drop test important lower supports that revolve around the 1,300 area in the June S&P 500. In fact that has a Tolerance to the 1,294 level. Yet, the obvious fallout from yesterday's strong economic numbers is the weakness of equities in response to the weak fixed income. Reinforcing this idea is that in spite of all the recent constructive news, June S&P 500 has repeatedly hit and failed from the lower of the two higher oscillator resistances in the 1,320 and 1,332 areas. Extended S&P 500 trend support is as low as the 1,280-75 area.

While the international picture remains stronger than the US, the **DAX** and **FTSE** are in another of their regular leadership role swaps. This leaves FTSE reacting more heavily back below its major resistance in the 6,000 area than previous, with important short term support into the 5,900-upper 5,800 range. Much above 6,000 the next resistance is not until the 6,250 area. While DAX has lagged recently, it also finally extended up to near its own 6,000 area resistance, which is a natural Tolerance of its 5,870 weekly oscillator and major 0.618 retracement resistance that it has fallen back to on the current stallout. As such, this is also important overall near term support as well. Much the same as FTSE, above 6,000 the next resistance is not until the 6,250 area.

The **NIKKEI** was reacting back down prior to the recent recovery. Yet, having held the previous significant technical resistance (now support) in the mid 15,000 area the market is now back above weekly MA 9 & 13, and has also pushed through the 16,700 area resistance from the early February weekly DOWN CPR with daily MACD solidly back UP and weekly MACD basing out. Subsequent resistance is roughly every 1,000 points up from there.

FOREIGN EXCHANGE

The view here is much the same as yesterday, and there is more on the general background below. Essentially the US dollar has been strong against some of the weaker sisters, yet failed to knock out overall resistance against the strong sisters and on the US Dollar Index. As such, the decision becomes ever more convoluted and contentious until EUR/USD either fails the 1.1900 area once again (with any weakness below the mid 1.1900 area as a likely enough of a precursor to foment that extended failure), or surges above the 1.2200-50 resistance to signal a return to more aggressive US dollar weakness.

While there has been a high degree of divergence with various other currencies, that overall US dollar decision is now tied into some commensurate levels elsewhere. **USD/JPY** has recovered yet again back above weekly MAs and congestion in the 117.00 area, and the 118.50 Negated weekly trendline UP Break is likely the critical resistance. The nominal support remains in the 116.00-115.50 area, as well as the Negated aggressive weekly up channel DOWN Break (from the drop to the 113.43 early January low) congestion, and Fibonacci levels in the 114.75-.40 area, reinforced by weekly MA 41.

With the Euro leading the way up, the buck is also less than fully weak against weak sister (due to the weakening state of UK economic data) **GBP/USD,** which likely needs to push up through the mid 1.7600 area resistance to confirm more sustainable strength, while the **USD/CAD** remaining above the 1.1650 area is not surprisingly headed for a test of the much more major resistance in the 1.1800 area. **AUD/USD** is also critical into the weekly and daily oscillator support in the .7100-.7050 area (also, not surprisingly, the bottom of the weekly down channel.) Yet, that only represents a holding action unless the Aussie posts a weekly Close back above at least the upper .7200 area once again. On a more progressive front for the US dollar bears, **USD/CHF** remains more than a bit below 1.3200 area critical resistance, yet needs to get back below 1.3000-mid 1.2900 area that it held yesterday to signal any sustainable failure. The **US Dollar Index** is right back in the.9030-50 resistance (likely on the back of the Canadian dollar and Japanese yen weakness), and also needs to fail back below .8950 to reinforce overall weakness. Yet, that would be a lot more convincing if it capitulates against the current weak sisters as well.

ENERGY

As we suspected the energy markets would remain friendly as long as they respected support, the current return to a more aggressive up trend is not really much of a surprise. The only ones who were surprised are folks relying on classic supply/demand modeling into what remain very unstable geopolitical influences, and a bit of technical uncertainty regarding the ethanol requirements for US based refiners.

That said, lead contract **Crude Oil** holding no worse than the 60.00 support on last week's pre-expiration selloff left the May contract well supported. Pushing back above the low-mid 55.00 area resistance leaves it in good shape to extend up to the weekly down trendline and oscillator resistance, as well as daily congestion and gaps in the 68.00 area. While it is on an ostensible weekly Triangle UP Break above that area, the heavy weekly congestion and daily loose Double Top in the 70.00 area presents a fairly daunting secondary hurdle.

As the second quarter approaches, we are dropping active commentary on the **Heating Oil**, as the **Unleaded Gasoline** gains prominence in the product area. This has already had a very firm anticipatory bid well ahead of the summer driving season. The May contract there barely winced on last week's selloff in the others. It held important congestion and Fibonacci levels at the top of the 1.7200-1.7000 range that still includes important congestion and weekly MAs. As it already pushed above the important 1.8500 area yesterday, higher resistances are every five cents up from there to the more major psychological and technical weekly and daily resistance in the 2.0000-2.0400 area.

FOMC

Considering that some parties were skeptical of his inflation warrior credentials (due to what were in fact very cogent appraisals of deflation risks into 2003), the fixed income bears have had many gifts from new Fed Chairman Bernanke. He is truly the "gift that keeps on giving." And no move to transparency could have been more well received by those of us who have been predicting (since Mr. Greenspan's September 27th "history lesson") that the Fed was going to go farther than most expected to prevent a recurrence of the late 1990's irrational exuberance than the statement accompanying yesterday's FOMC rate hike.

While more extensive discussion of the economic background might have occurred in any event with the Fed is achieving current rates moreso in line with that ever elusive "neutral," the specifics that highlight the key factors were impressive. "The slowing of the growth of real GDP in the fourth quarter of 2005 seems largely to have reflected temporary or special factors. Economic growth has rebounded strongly in the current quarter…" As these gentlemen still engage in the same inexact science of economics as the rest of the folks who are often misguided in their assumptions, we doubt many folks went on the take serious thee extended projection,… "… but appears likely to moderate to a more sustainable pace."

And while allowing that price inputs to date appear… "…to have had only a modest effect on core inflation…" …they do note that… "…possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures." Thank you. As we have noted previous, even Mr. Greenspan warned that energy prices were not inflationary only so long as the increases were temporary. We seriously doubt that anybody believes the current geopolitical and global economic environment allows for any return to previous energy price levels anytime soon. As such, unless and until

there are more tangible signs of slowing (likely including yet not limited to a significant equity market selloff) look for the Fed to keep tightening in order to avoid the need to deal with the next bubble.

As we noted in last week's ***CMO*** (II-12, March 20, 2006)… "Most of those same informed observers (*economic and equity market bulls*) believe that as soon as there is any sign that the Fed is done with the tightening exercise the equity markets will become even more explosively bullish than the current, seemingly base rate immune, bull markets. Inconsistencies in the broadly accepted logic of the investment community are always of extreme interest. How can they both be so very sure that the Fed will be done at any given interest rate, and predict the next bubble will dramatically ensue from that point?"

Fixed Income & Forex Dilemmas

FIXED INCOME

As much divergence as there has been in the long ends (with the Gilt as the current more resilient sister), the general trend tendencies continue to erode in the long ends. Due to it being a much longer term view than we normally visit in our current market analysis, some consideration of the broad trend tendencies and indications is warranted as we head for the end of this month and quarter in the next couple of days.

First of all, in a general sense the public reportage on the long yields in the US is appallingly short sighted. While attempting to sound like they are providing the "big picture," The electronic financial press has almost completely dropped the ball on fully informing the average viewer the truly critical nature of the yield surge in the ten tear T-note. Repeated references to the "highest yields in two years" miss the point that the violation of that threshold will leave the market at the highest yields since mid 2002.

Moving on from the generalist view, the technical undertone of the 10 year US T-note is degrading in a most pernicious manner in spite of the seemingly orderly nature of this previous downside leader's slippage below the 108-00/mid 107-00 (lead contract future.) That is part of the importance of whether the current renewed weakness maintains into the month end this month. If so, not only id the T-note below that support, it is also exhibiting a failure of the six month RSI (an indicator we rarely discuss, as we do not find its indications on daily and weekly charts very useful.) If the current weakness remains after all of the important further reports late this week, that indication is back below the 35-32 range for the first time since the aggressive 1999 bear market.

Further, while there are very interesting supports into the 106-00 area (now also the weekly oscillator support; down from 106-16 that held several weeks ago) and every two points down, the major full reaction projections are much lower. In fact, the next major Fibonacci confluence below the 104-00 area we are fairly confident the market will see is down in the upper-mid 98-00 area. The combined Fib 0.382 and 0.500 retracements of the swings from the 1984 and 1987 lows (respectively) to the mid 2003 high is also consistent with escalation of the major up channel (from the 1987 low) trend support into the upper-mid 98-00 area also into late 2006 and early 2007.

As the RSI failure is consistent with previous aggressive bear trends, might we be back into the next one of these that has been (as often discussed previous) significantly delayed due to the major global economic correction after the 2000 peak? We tend to think so. If so, they tend to last for roughly 15-18 months. That would project from the high of the final rally in the range last August into the very end of 2006 and early 2007. The dilemma stems form getting the strong sister Gilt to capitulate back below support (i.e. some of the resistances it violated on the way back up on the surprisingly strong late 2005 into early 2006 rally.) The extended dilemma is just what this means for a Bund that is likely still very overpriced if the European economy (especially Germany) continues to outpace expectations (see last week's ***CMO***.)

FOREIGN EXCHANGE

The attempt to sort out the US dollar trend over the past couple of months has been a most contentious situation. Sort of a markets version of *The Agony and the Ecstasy*. While the buck still appears to have failed from some very major Head & Shoulders Bottom UP Breaks on the US Dollar Index, and against the Euro, pound and Swiss franc, its resilience against those currencies, and overt strength against the weak sister yen, and Australian and Canadian dollars has been troubling to the bears.

We have revisited the major fundamental themes here several times now. These include huge US twin deficits

(likely mitigated in the intermediate term by the inevitable scaling back of the military effort in Iraq), "Dark Matter" theory of enhanced US financial engineering. More recently we have added the end of tax advantaged US dollar repatriation at the end of last year as a negative, yet with both the continued US attraction of inward investment, as well as the degree to which the demise of the "carry trade" has been significantly exaggerated while US short rates continue to climb relative to any sense the cheap money sources will match either the levels or the pace for now as overt positives.

That said, it all seems to boil down to whether those somewhat stronger sisters can effect a more negative tone in the US dollar. As the weak sisters are now beaten down to near where they will either hold or become very much more bearish against the buck, greater strength of the strong sisters needs to materialize soon to prevent the US dollar from reinstating significant higher objectives that were very much in question ever since its early year spill. As noted above, this ultimately requires EUR/USD to Negate the 1.2200-50 resistance prior to violating the 1.1950-40 support. It is always interesting when such a significant dilemma finally comes down to a narrowly defined decision.

France

Just a quick further word on last week's street action observations. It is more apparent than ever the political elite on both sides are eunuchs: beautifully clad in robes of state, while any program or initiative remains extremely vulnerable to veto by the street rabble (such as it is.) As we noted after last fall's housing estate riots, it is actually quite sad to watch France that is in such need of change, yet hostage to previous political arrangements that leave it without the will to do so. The market implication is that this culture can not afford desperately needed measures to improve the lives of its lower classes while at the same time guaranteeing the social compact with the middle and upper ones.

When we mentioned last week that this was neither the starving peasants of the Revolution nor the disenfranchised North African and Muslin minorities from the wretched low income suburban housing estates, we noted that it was moreso the well groomed, and in some cases downright fashionable student elites taking to the streets along with workers. We had no idea how chic these people really are until we saw a photo in Monday's financial Times of Bruno Julliard and Julie Coudry. This was not even "radical" chic; these folks are just plain stylish. Rodeo Drive meets the Revolution. They're about as radical as a Mercedes-Benz dealership.

And the truly sad part is the hunger of the French press for any real signs of radical change. They actually compared these two to that icon of bona fide hippie-commie rabble in the person of Daniel Cohn-Bendit. He should sue. Of course, the post script here is that this sort of pseudo-radical were the very ones who lost their heads in the Terror. We shall see.

We look forward to providing further comments as the situation warrants, and hope you have found these perspectives helpful

-Rohr