ROHR REPORT

*TRENDVIEW*

## GENERAL UPDATE: FIXED INCOME/EQUITIES/FOREX/ENERGY

Wednesday, September 20, 2006 (09:00 CDT; 10:00 EDT; 14:00 GMT)

### OVERVIEW

**Welcome to Fed Day. It is not just another interest rate decision today, as it is also a key psychological inflection point for quite a few markets in the wake of the FOMC meeting. In fact, it is likely there will be no interest rate decision. Rather, the entire market response today will be based upon the tea leaves at the bottom of the accompanying statement cup. We have attached a copy of the statement from the August 8th 'no action' meeting for your convenience.**

**While it may be a case of a pure carbon copy statement today, that will be taken as an abrogation of the Fed's duty to satisfy the financial community's voracious appetite for some indication of whether recent Fed inaction is just a pause, or prelude to reversal of the tightening cycle. As such, some modest adjustment of the previous statement to reflect the Fed's staff forecasts have mostly come up right on recent weaker economic and inflation indications is probably built into expectations. The real question on the language revolves around whether there will be anything even more dovish than that.**

**Yet, the critical technical levels and trend psychologies other markets are challenging at present create cross-currents which can hardly be ignored. While there are implications for the foreign exchange, energy and commodity markets, the most telling of these, which will likely influence all of the rest, is the sustained strength of the equity markets. Their decision on whether to proceed apace in the wake of whatever the FOMC says today could be a more telling influence back into all of the markets (fixed income included) than even any consensus on the overt implications of the FOMC statement.**

We continue to focus on Mr. Greenspan's view of how the Fed misread the implications of the equity market bull trend after the 1994 tightening exercise was complete. In addition to our oft-quoted, ***"Yet the significant monetary tightening of 1994 did not prevent what must by then have been the beginnings of the bubble of the 1990s"*** …there are also other excellent insights in his September 27, 2005 NABE annual dinner "*Economic Flexibility*" speech (available with page 4 highlights on our website's [www.rohrintl.com] **Sample Reports** page, just below our September 28, 2005 ***TrendView*** **BRIEF UPDATE** analysis of that speech.) Some of the most telling observations were:

"A decline in perceived risk is often self-reinforcing in that it encourages… …a willingness to reach over an ever-more-extended time period." "…we at the Fed were uncomfortable with a stock market that appeared as early as 1996 to disconnect from its moorings." "…equity prices continued to rise during the tightening of policy between mid-1999 and May 2000. Indeed, the equity market's ability to withstand periods of tightening arguably ***reinforced*** the bull market's momentum." (Mr. Greenspan's italics on 'reinforced.')

The equity market response to yesterday's abysmal housing numbers (which are allegedly the major focus of the economy and the markets) is a case in point. Only an extremely forward view that this brings interest rate relief can possibly explain the fact that the DJIA was down a mere 14 points in the wake of those numbers, along with the continued focus on geopolitical conundrums at the UN, and, oh yes, that minor Thai governmental adjustment.

Given that, is it really time for the Fed to ease as the DJIA is already challenging the mid-May 11,580 DOWN Closing Price Reversal resistance, above which it is once again within striking distance of the 11,750 all-time high? Or does an increasingly dovish stance and possible action by the Fed lead to an extensive bullish equity market response, which has the ability to reinforce already upbeat corporate capital investment plans, and (along with somewhat lower energy prices) even reinvigorate consumer confidence?

The Greenspan Fed now allows it did not see the bubble developing soon enough, and in any event was constrained by external shocks to the global financial system which precluded any strong action once it was obvious equity markets had slipped their moorings. The Bernanke Fed should be that much more well-informed, and has a much stronger world market context in which to ensure 'irrational exuberance' does not insinuate itself back into the situation. Fueling the boat that is once again slipping its moorings hardly seems sensible.

From a trend perspective the real question now is, "Will the markets wholly accept any dovish view from the Fed?" Can the fixed income continue its summer rally (i.e. incipient trend toward lower yields) in the wake of Fed dovishness if the equity markets become extremely bullish for a move to a new all-time high in the DJIA and very extensive strength elsewhere? Even if US short rates look to fall, will the US dollar come back under pressure, or will the received wisdom be refuted by the sense that the US economy will once again be strong enough to attract significant inward investment that can at least partially offset hemorrhaging near term capital flows?

Good questions all; and they will likely be answered timely after the FOMC statement today. Not necessarily all in one gulp this afternoon, yet with some surety into the end of this week and early next as various market trends evolve. We conclude with a reminder that there is no hard and fast rule that equities and fixed income must counter-trend at any given time. In fact they often move together, as the fixed income encourages equity market activity. The recent mutual up trend from the early-mid July lows amply demonstrates this.

It is moreso the extreme equity extension back to significant psychological and technical thresholds which leads us to question whether any near term dovish view is sustainable, or will sow the seeds of a forced return to a more hawkish stance in the near future? For further background on how Bernanke and Co. are out of step with other central banks, and possibly underlying inflation as well, please see ***Capital Markets Observer*** II-36, from Wednesday, September 13, 2006 (also available on the **Sample Reports** page of our web site.)

## LONG DATED FIXED INCOME

This all comes at a very interesting juncture, as the **Bund** has repeatedly tested and held important support in the 116.80 area, which is also the Tolerance of the lead contract low 117.00 UP Breaks from late August. However, adding to the critical nature of that support is up channel support (from the major early July low) moving up into the 116.90-117.00 area

late this week, and all of the daily MACD's on the fixed income remaining DOWN. It is now ranging just above initial resistance at the recent congestion in the 117.40's, with the 117.81 previous highs for the contract above that, and extended resistance back into the lead contract levels in the low-mid 118.00's tested by the September contract prior to expiration. Commensurate resistance in the **T-note** is the 107-16 area, with extended major resistance in the 108-00 area. Similarly for the weak sister December **Gilt**, the resistances are failed supports at 109.35 and 109.50-.60, with extended resistance back into the mid 110.00 area.

## SHORT MONEY

The September 2007 **Eurodollar** has recovered back above the ostensible failure below its 94.94 UP Break. As the Bund has been the leader of the long end trend in both directions since January, and Eurodollar has been the bullish ray of light for the otherwise depressed short money, the decision late this week by those two markets likely holds the key to the near term fixed income trend decision. The September 2007 Eurodollar resistance extends back up into the 95.03-.07 congestion, gap, Fibonacci and oscillator resistance, above which there is interim resistance at 95.15, yet no major resistance until 95.25. Of course, any rally to that sort of extended higher resistance would likely be in conjunction with a long dated fixed income move through the T-note low 108-00 resistance, and thereby represent confirmation of reversal into a bona fide up trend.

No so much bullish indications for other short money yet, as the September 2007 **Euribor** is just recovering from its 96.10-.05 support which still points to at least several more hikes from the ECB. Resistances are at 96.20 and every 10 points up from there, albeit daily Closes above 96.20 is all that is necessary to put the market back above trend averages, and likely turn daily MACD back UP (even though that is just the next flip-flop experienced on all of the recent trips above and back below 96.20.)

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 is just a preliminary sign. Initial resistance at 94.72 becomes heavier into congestion and trend MAs in the 94.80 area, which is the commensurate daily MACD signal level for the 96.20 area in the Euribor. Extended resistance is the 94.87 level, and into the low-mid 94.90's.

## EQUITIES

Especially if the equities respond so well to any dovish language from the Fed that they actually foment fixed income weakness, continued strength in this area is likely not only not constructive for the debt markets, that may come back to haunt the equities as well. As noted previous, the **DJIA** remaining above the top of 11,100-11,300 resistance, likely enabled it to push up to the mid-May 11,580 DOWN CPR that it has been challenging for the past several sessions, and is within striking distance once again of the 11,750 all-time high.

The somewhat equivalent levels in **S&P 500** future remain very critical secondary indications. In spite of the sharpness of the selloff two weeks ago, the contract expiration cycle worked to the advantage of the equity markets, as the congestion and gaps in the 1,301-1,306 range were held by the December contract. Now the market remains above the next higher trading range that projected resistance on continuation and contract congestion in the 1,320-25 area, with extended resistance on the contract at 1,335-40 which the December contract is now challenging (at a major new continuation high), and extended resistance for the contract not until in the 1,347-50 range Daily Exhaustion Gap (left back near the early May highs.)

In the meantime the **DAX** and **FTSE** are exhibiting another of their sustained role reversals with the DAX gaining the lead above 5,700-5,750 resistance (which it held on the recent selloff) that Negates some important channel DOWN Breaks in a way that suggests further strength up into the 6,000 area once again (likely pending the action in the US markets.) While FTSE is still holding against its own support in the mid-low 5,800 area, that leaves serial resistances back into the 5,900, 6,000 and especially the weekly channel DOWN Break in the 6,050 area. All of which reinforces the degree to which any escape 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 the **NIKKEI** continuing to hold the 15,500-15,700 area (with next resistance not until the upper 16,000 area) in spite of weakening economic sentiment.

## FOREIGN EXCHANGE

Foreign exchange remains a convoluted affair, with previous US dollar weakness modestly to moderately reversed, even though that is in the wake of the selectively lower yields. **EUR/USD** never quite reached the 1.2930-50 resistance in early September, and has now failed on a retest of its previous near term support in the mid 1.2700 area (now resistance.) **US Dollar Index** did not reach its mid .8400 area congestion in mid September, prior to pushing up through resistance in the upper .8500s. Support is back in the .8530 area, with interim resistance at .8600, and more major resistance not until the .8700 area.

The one big insight from the US dollar trend over the past several weeks is its inability to weaken further during all of the soft US and relatively strong European news (with some notable recent exceptions.) It seems that the buck has been waiting for a sign of the overall fixed income trend prior to establishing any sustained trend, and any extended fixed income weakness may be the key to its long delayed resurgence from some fairly major support.

The other currencies are conforming to the near term US dollar strength within what likely remains an overall upward bias by the EUR/USD and US Dollar Index reversals since the mid-May dollar low, and recent weakness of the Pacific Rim currencies. The somewhat commensurate higher resistances and lower supports are:

**USD Index**: RES: .8600; .8700; .8800; .8880 SUPPORT: .8530-00; .8450; .8400-.8380

**GBP/USD**: RESISTANCE: 1.90; 1.91; 1.92; 1.9350 SUPPORT: 1.8750; 1.8600; 1.8200

**USD/CHF**: RES: 1.2500; 1.2600; 1.2650; 1.2900 SUPPORT: 1.2400; 1.2350; 1.2250-00

**USD/CAD**: RES: 1.1300; 1.1400-50; 1.1550; 1.1600 SUPPORT: 1.1225-00; 1.1100

**AUD/USD**: RESISTANCE: .7570-.7600; .7670-.7700; .7800 SUPPORT: .7450; .7400

## ENERGY

While energy markets remain weak, the October **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) has so far held into the more important trend support in the 62.00 and 60.00-59.00 areas.

We hope you find this helpful.

-Rohr
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