

The Taylor Fixed-Income Outlook - Monday, March 06, 2000, Volume 15 #45 Monday Overview

One by one the shorter maturities are joining the longer maturities on buy signals. Euro's are moving above an important/daily weekly downtrend, fives are turning higher from the vicinity of great support (not to mention deeply oversold), Tens (both notes and futures) have moved onto tentative oscillator buy signals and the bonds (although they probably need to post a daily perspective correction) have clearly done a lot of very positive technical work. Additionally the German Bund is working its way above an important weekly downtrend. It is important to note that many of the auction markets that have been acting as drags and negative leaders for the bonds are overextended in their trends or are beginning to show definite signs of reversals.

BONDS: Monthly trends are clearly lower but monthly charts are pushing into oversold and weekly charts are bouncing strongly from very strong intermediate support. Weekly bond oscillators moved onto buys several weeks ago and have now been joined by the notes. The weekly NOB spread is also on a sell signal but I suspect that the spread will come back in (in fact it started to do so convincingly last week). In terms of value, I like the short and intermediate portions of the curve more than I like the long end).

The Dollar is resting at major resistance and is overbought in both weekly and monthly perspectives. A sign of weakness in the Index would represent a huge problem for U.S. financial assets.

The CRB has rallied strongly but is on the verge of moving into a weekly overbought condition and is showing at least a few signs of distribution. Rates (other than the long bond) won't fall tremendously until commodities relax. Commodities typically move lower in the mid Feb to mid March time period (the Feb. break). If the Feb. break materializes it will represent bonds best near term opportunity to strengthen. Note that the commodities strength has occurred across a

wide spectrum of sectors (adding confirmation to the general strength.). I expect that going forward (big picture) higher commodities prices will be the rule rather than the exception. Note that both the CRB and Goldman Indexes are overbought and due to correct. U.S. rates have risen in the expectation of higher rates of inflation. The next big mark down in bonds will require overt proof (for instance, a rally in the CRB index, gold and crude). Remember that... inflation has typically been a very late cycle phenomenon that does not worsen significantly until long after the economic peak has been reached. On a more positive note, gold is showing signs of moving lower for awhile

Global bond markets are still weak. This weakness is a significant negative for our market. Note that the German Bund is oversold, approaching major support and is trying to take out an important downtrend. JGBs are moving to the apex of a major triangle. The breakout here should evolve into a strong trending move in the very near future. The combination of oversold Euro and oversold Bund may be setting up a very nice trade. Rising Bunds in conjunction with a rallying Euro (weakening Dollar) would produce a nice carry trade.

Strength in copper, the Baltic Freight Rate Index, crude oil, palladium, platinum and a host of other industrially sensitive materials, suggest that the manufacturing segment of the economy is still roaring along. HOWEVER: The overbought conditions in many of these materials make it clear that a correction is overdue. Note this weeks steep decline in copper.

S&P is still resting at macro resistance and price volume studies suggest that distribution is occurring. Note that the Utilities topped in June and that the typical lag/lead is typically about 6 months. NASDAQ is in a world of its own. There is no connect with the rest of the market (or with economic reality). BUT: Bubbles

are only over when they are over. Trying to pick a top in the Techs and Bios would be mistake. Last weeks S&P rally suggests two to three weeks lateral to higher.

The Yen may have turned a daily corner but weekly and monthly charts suggest that the Yen will weaken in the bigger picture. Remember that bonds are very cheap when priced in Yen. If the Yen continues to weaken in relationship to the Dollar, it will be a significant bond positive. Nikkei Dow also looks very topy. I suspect that serious supply is entering on the short side of the Nikkei. I expect that price behaviors will favor significant flows from the Asia and the U.S. to Europe over the next year or so.

CONCLUSIONS: There are very few signs of economic weakness and persistent increases in commodities prices continue. The climate is still not conducive to big gains in bonds. GOING FORWARD: Many of the related markets that have been working against bonds should be very close to beginning weekly perspective corrective moves. Many of the metals are overbought, crude is overbought and even the CRB index is on the verge of accruing a weekly overbought Corrections in these should open the door for a significant correction in the fixed income markets, particularly if it is helped along by flight to quality. IT IS INTERESTING TO NOTE THAT: The intermediate term charts suggest that many of shorter term maturities may be on the verge of changing trend. ASSET ALLOCATIONS: Decrease exposure to equities, increase exposure to the mid portion of the curve, decrease exposure (modestly) to Dollar denominated securities, begin moving out of Japan and into Europe. **HIGH POTENTIAL TRADES FOR THIS YEAR:** 1) Short Nikkei Dow. Still a bit premature but I am watching this trade very closely. 2) U.S. accounts should begin buying very small positions in German Fixed Income.

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Trading Plan for March 06, 2000

FOR TODAY: The market didn't give us much in terms of follow through on Friday and now the hourly is on the verge of moving into overbought. I tend to think that Tuesday is a better candidate for a swing high than Monday, but I don't think that I want to hang out on the long side at this point. Again, although the market has done nothing that could be considered overtly bearish, I suspect that the market needs to consolidate gains for a week or two before moving higher. Odds of a daily perspective correction unfolding are pretty strong. Anyway, I am a better seller but, other than scalps I want to have a more market neutral position until the market makes up its mind.

DAILY WORK: If you have work that must be done today (hedges, duration changes etc.): **BONDS:** Be a better seller in the 95.14-16 zone and a better buyer in the 94.16-18 zone. **NOTES:** Be a better seller in the 96.02-04 zone and a better buyer in the 95.06-08 zone.

BEST IDEAS: Aggressive swing and daily perspective traders can sell a rally into the daily resistance @ 95.24 with a stop just above. More conservative traders should wait for signs of reversal (ending action, buying climax, spike extreme, etc.) before entering. 1) Aggressive Bond traders, Sell a small position @ 95.18 with a 96.09 stop. Aggressive note traders sell a small position @ 96.08 with a 96.24 stop. 2) Notes: If the market moves above 96.01 by at least 3/32, place a sell stop @ 95.27. Initial stop should go just above the high of the day but no more than 12/32 from entry. 3) Bonds: If bonds push above 95.24 by more than 3/32, place a sell stop @ 95.18. Initial stop should be 2/32 above the morning high or 12/32 from entry (whichever is less). 4) Daily perspective traders should place a sell entry stop 2/32 below Friday's low (@94.20). Initial stop should be just above the greater of either Friday or Monday's high. 5) Aggressive weekly perspective traders should place a sell stop just below 94.00. A move below here would imply a move back into the 92.00 zone (at a minimum).

TRADING TACTICS: HOURLY CHART: Is on the verge of moving into overbought. I am a better seller in this perspective. **DAILY CHART:** Overbought and signs of short-term distribution. This perspective should be near a short term high. Next daily low (10-12 days from now) should evolve into a weekly buying opportunity. **WEEKLY CHART:** On a buy signal. Daily declines should be bought. **MONTHLY CHART:** The pattern of lower closes (10 consecutive) has been broken but it is still a bear market. This chart is oversold.

I WANT TO CALL YOUR ATTENTION TO: 1) So many maturities besides bonds are at or near major supports and have accrued oversold weekly conditions. This is not an environment that is conducive to positional shorts. **AT THIS STAGE:** Either at your duration or modestly long is preferred stance 2) Many of the related markets that have been working against the bonds may be on the verge of correcting and changing trends.

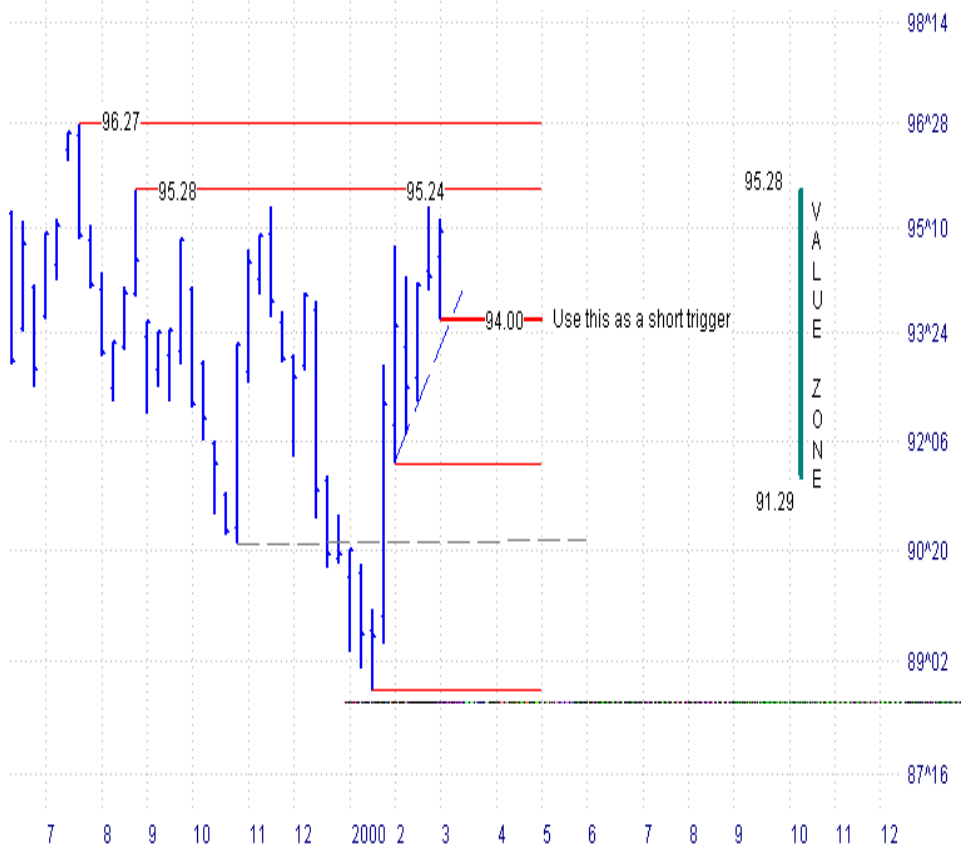
TRADE DESKS: Should increase ratios. A long is ok.... But it needs to be a small one. **HEDGERS.** NEXT OPTION ROLL **POINTS:** Options should have been rolled up in strike on Friday. Next roll points 96.22 and 92.16. **INTERMEDIATE AND POSITION:** **PORTFOLIOS:** A moderately long position is appropriate. The next daily decline should offer a great opportunity to add in the middle portion of the curve. **INVESTMENT ACCOUNTS:** We have been extending duration but your commitment to the market must be small and you must be willing to live with it for awhile. Begin softening. I would make another add into weakness. **LONGER TERM: GENERAL:** Trends are lower but a resurgence from this position in the trend would be worth a small extension. Over the next year, I expect to see lower prices.

	Normal		Extended	
Ranges	High	Low	High	Low
Bonds	95.20	94.26	95.28	94.18
10 YR	95.31	95.12	96.04	95.07
30 Yr Yld %	6.14	6.09	6.161	6.07
Support/Resistance				
Resistance	95.08-14	95.24	95.10	
Support	95.03-05	94.20	94.06	94.00
Oscillator	Hourly	Condition	Daily	Condition
Stochastic	45/43 Up	Neut	74/74 Ttest	OvrBt
	14 Day ATR	P Close	70%	-70%
ATR Projec	1	95 7/32	95 29/32	94 17/32
Pivots	R1	R2	S1	S2
	95 3/32	95 18/32	94 24/32	94 9/32

June Bond Weekly

US MO LAST-Weekly C=95^08 +^14

Last Weeks Range: 94.00—96.14
 This weeks Range Projections:
 Normal: 94.17—95.31
 Extended: 94.03—96.13



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MARCH BOND WEEKLY TRADING DETAIL: Bonds are into strong weekly resistance in the area just below 96.00. I view this as the upper end of the current weekly value zone and suspect a daily perspective pullback. Back below 94.00 would confirm a daily pullback.

June Note Weekly

TY MO LAST-Weekly C=95^22 +^07

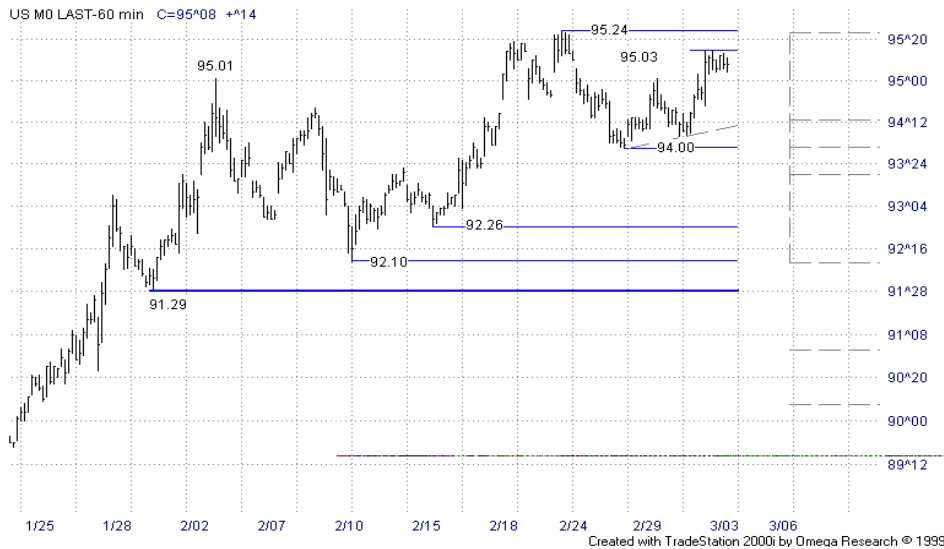
Last Weeks Range: 95.04-96.01
 This weeks Range Projections:
 Normal: 95.08—96.05
 Extended: 94.31—96.13



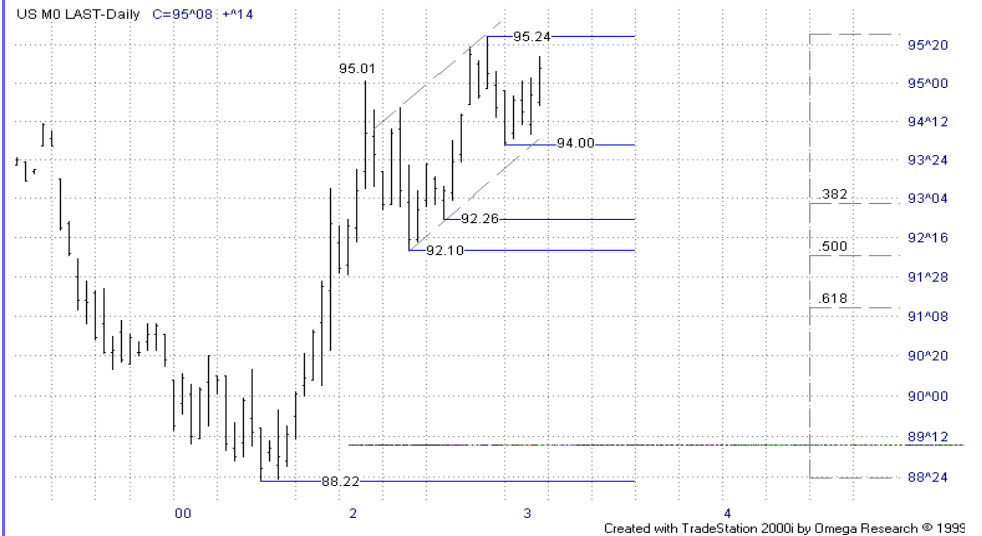
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MARCH NOTE WEEKLY TRADING DETAIL: The close in the center of last weeks range isn't particularly encouraging. There is strong resistance around the 96.13 zone. So far, the rally back into this are of the chart has the look of a secondary test. I am a better buyer this week in the 94 3/4 zone and a better seller in the 96.008-16 zone but below 95.04 (last weeks low) would strongly suggest three to four weeks lower.

June Bond Hourly



June Bond Daily

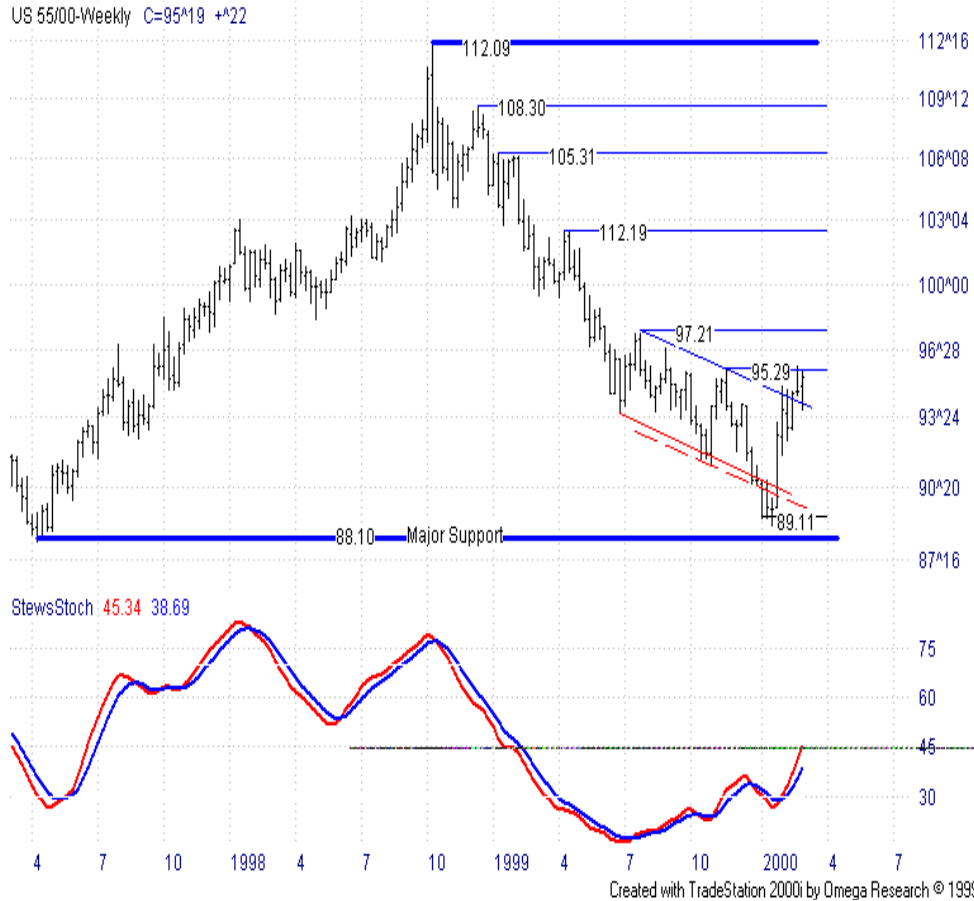


OBSERVATIONS: 1) The market has moved to the upper portion on the recent value range and is on the verge of being overbought. The move back to the area of the highs has occurred on lower volume and narrower price spread than the initial move higher and comes with the daily perspective strongly overbought. 2) Be very alert to ending action either late Monday or early Tuesday. As the market moves back to the vicinity of the high set up short triggers beneath the market. 3) Expect strong support in the 93.16-20 zone (the .6185 retracement of the last rally). Below here, next chart supports come in @ 92.26, 92.10 and 91.29. 5) Chart resistance comes in @ 94.28 and 95.24. **TRADING OUTLOOK:** I am a better seller over the next two hours. I would prefer to see the market move back to the mid to high 95.00 zone before hitting bids.

OBSERVATIONS: 1) Volume increased and price spread widened as the market turned lower two weeks ago. Volume has decreased and price spreads have been narrower as the market has rallied over the last few days. Note the very high volume the last two days of as the market made the 95.24 high. The high volume with the market overbought and at strong resistance suggests that strong handed sellers are working. Last Monday and Wednesdays steep drops in Open Interest suggests that many of the weak hands have been forced out. Open Interest has declined to the point that a new trend can be supported. 2) The oscillator is very overbought. Note that the market is in trend test position. Trend test marks the next few hours as critical to the daily trend. 3) The pattern uptrend from the 92.10 zone intersects price in the area around 94.00. A failure to hold the uptrend would represent an important near term change in the markets behavior. 4) Odds of two to three weeks of moving laterally to lower are very good. Below the uptrend strong support shows up in the 92.10-26 zone. **TRADING OUTLOOK:** We may see a small bounce over the next few hours, but hourly perspective rallies should evolve into daily declines. I am a better seller in the 95.-95.16 area and a better buyer in the 92.10-16 zone.

BONDS

Weekly Bond Continuation



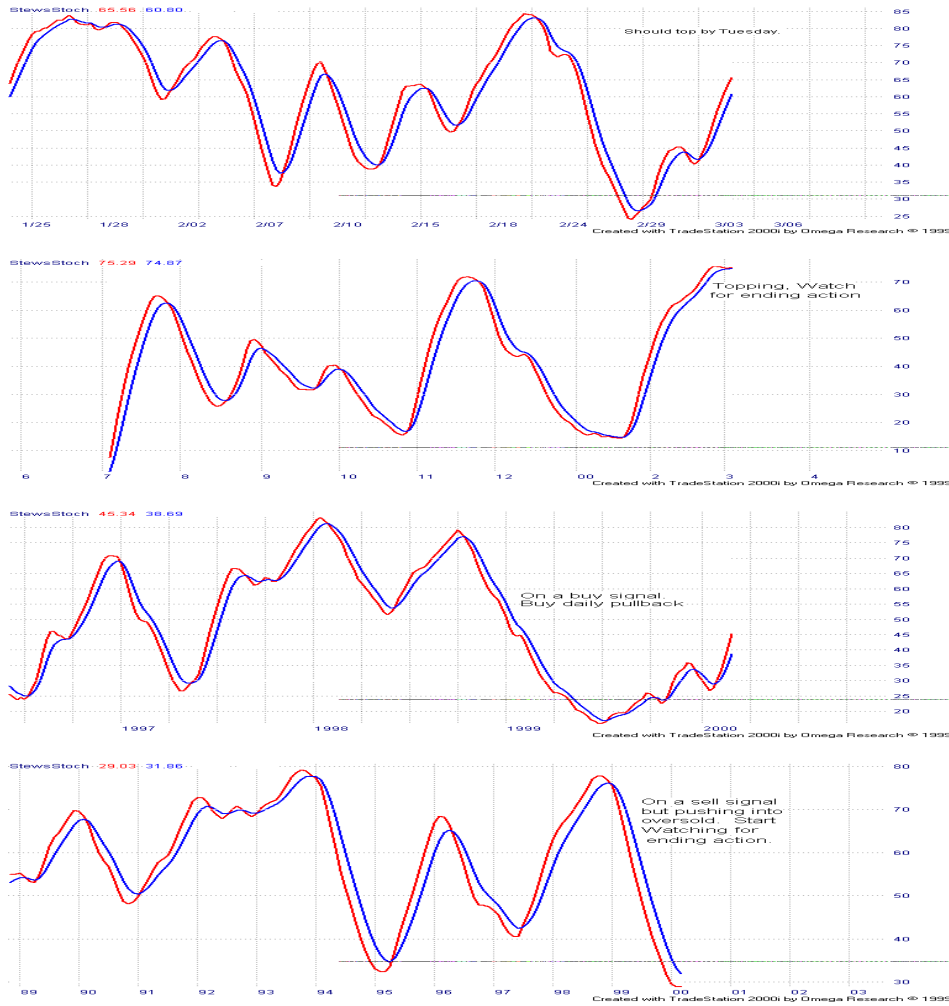
Prices have rebounded sharply from the oversold channel line. Note the strong support zone just a point or two below the Jan. low. Price has now moved and closed above the supply line across the last several weekly highs. The close above the stride of this trend-line represents an impressive change in the markets behavior. There is strong lateral resistance in the 95.29 zone and again in the 97.21 zone. The weekly oscillator has moved onto a normally very reliable buy signal and now the tens have also moved onto a signal. Bottom Line: A very promising chart. The odds of an intermediate term correction to the longer-term bear market have increased significantly over the last four or five weeks.

Monthly Bond Continuation



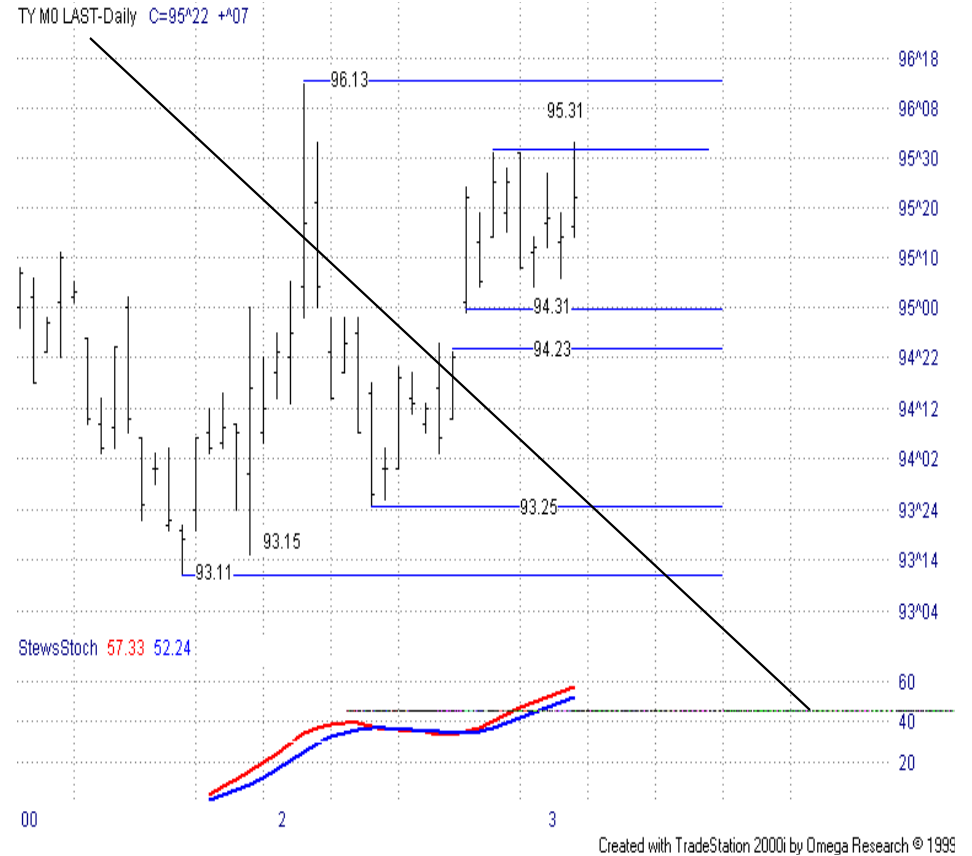
The pattern of higher lows and higher highs persists, but note that this is the first time in 20 years that the market made a significant new high and then essentially retraced the entire rally. I continue to believe that the 112.09 high represents a secular turning point in the overall trend. Note that the lateral support in the 87.28 zone is very strong and that the market (in terms of the oscillator) is oversold. Odds of the correction from the vicinity of 87.28 are fairly good. The broken trend line (from the 79.23 and 87.28 lows) should provide strong resistance (currently in the 100 zone). January marked the first positive monthly close in 11 months. BOTTOM LINE: I am a better seller of weekly perspective rallies.

Oscillators (Hourly/Daily/Weekly/Monthly)



Oscillator Notes: The monthly trend is still clearly lower but has moved into oversold. The weekly has generated a fresh buy signal (this is typically a very powerful buy signal but it has not been confirmed by the Note oscillator). The daily is moving into overbought (watch for ending action). Note weeklies have now joined the bonds on buy signals.

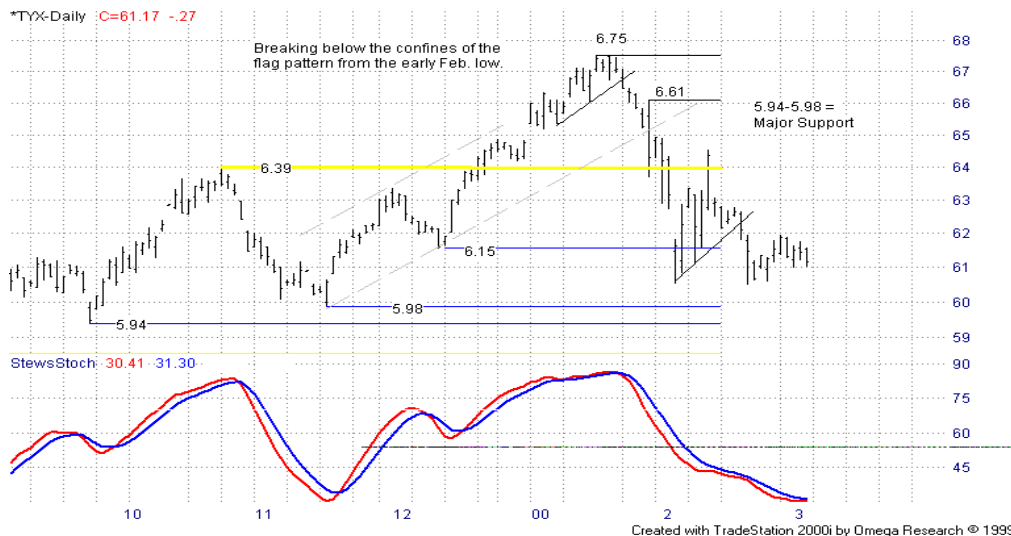
June Note Daily



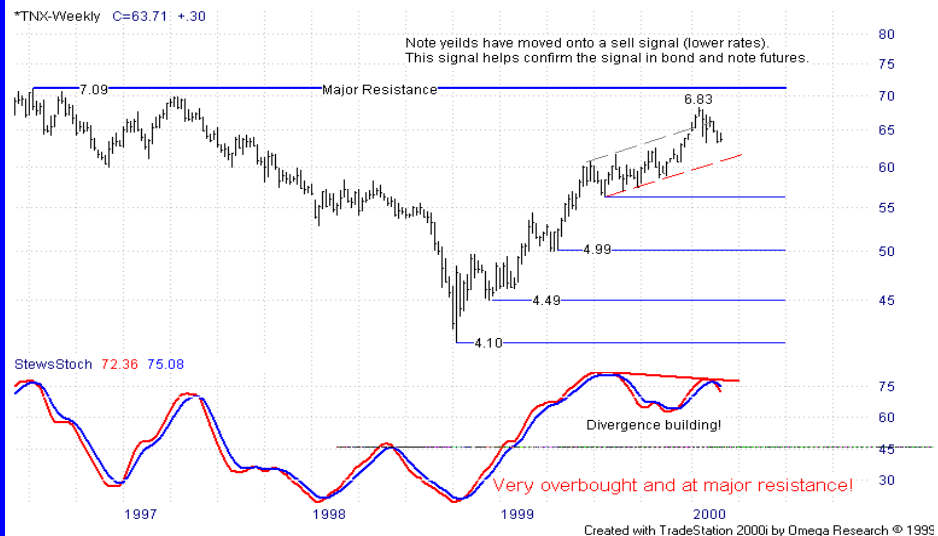
OBSERVATIONS: The market is clearly having a hard time in the area just below 96.00. Note the multiple closes well ff of the high of the day, wider daily price spread and stronger volume (not shown) on the down days. The poor result of effort after gapping above 94.23 is disappointing. These relationships suggest that supply still has the upper hand. In broader terms, it will be critical for the area around the bottom of the gap to hold on pullbacks. Expect initial support in the 94.31 and strong support in the 94.23 zone. I like the note chart better than I do the bond chart, but it appears as if a daily pullback is building. I am a better seller of hourly rallies.

Rate Miscellaneous

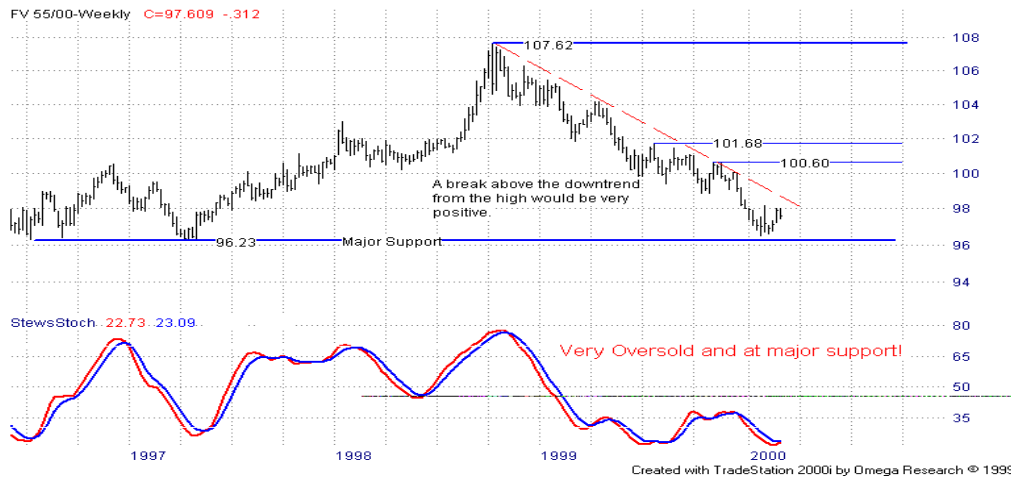
30 Year Yield Daily



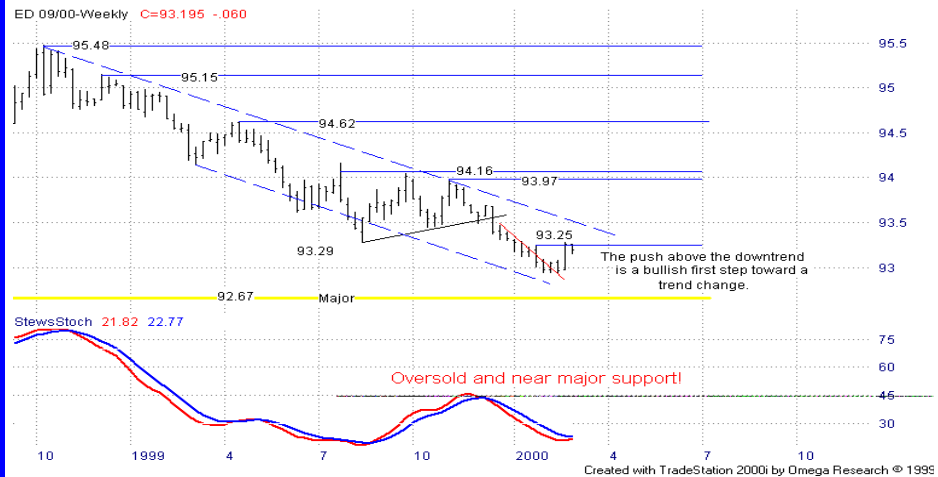
10 Year Yield Daily



Five Year Futures Weekly Continuation



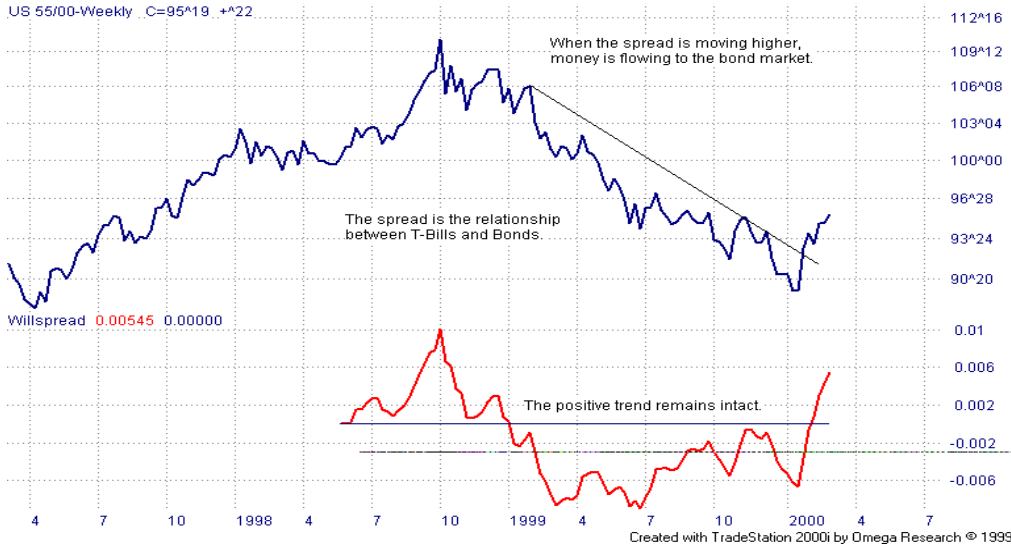
Eurodollar Weekly Continuation



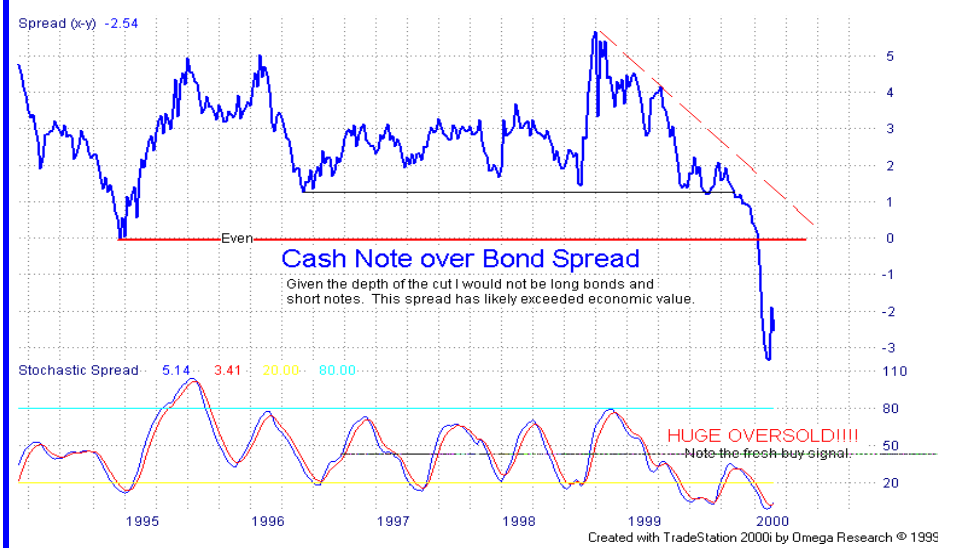
Rate Misc: The short end of the curve is looking better and better. Eurodollars are breaking above the minor downtrend along the last two months of highs. This is occurring from an oversold condition and from an area of major support. Euros above 93.25 would be bullish. Fives: Are rounding up from major support (note the oversold oscillator). Above the selling tail high (@98.187) would be positive. Weekly 10-year note yield chart has moved onto a sell (higher prices). At this stage in the trend, **Do not be caught short.** *These charts may be making important turns.*

Rate Leaders

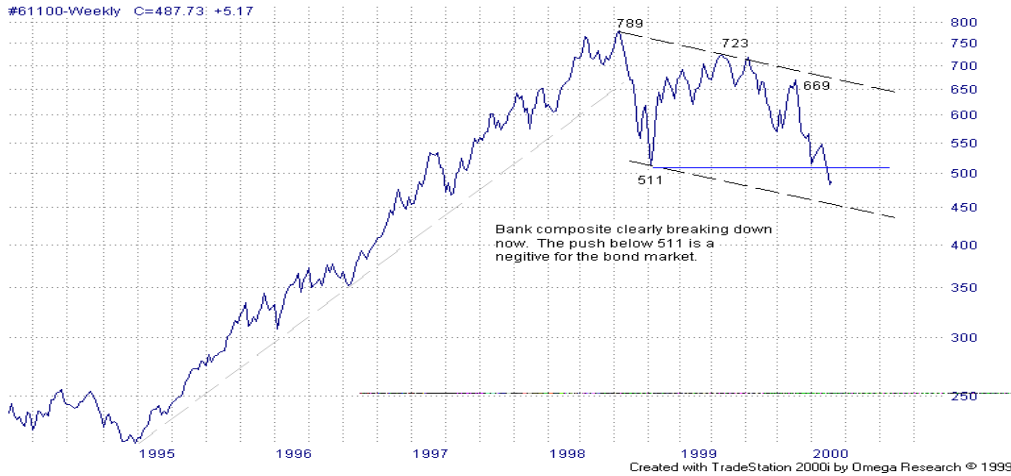
Will Spread



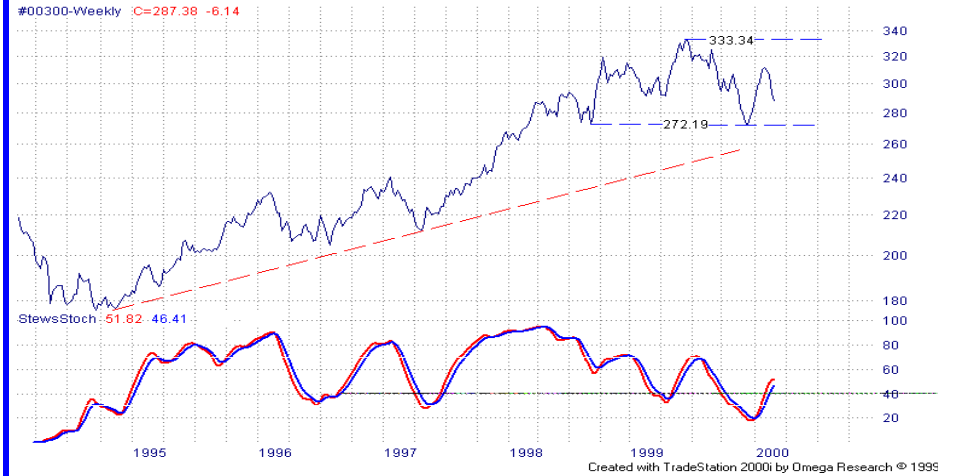
Cash Note/Bond Spread



Bank Composite



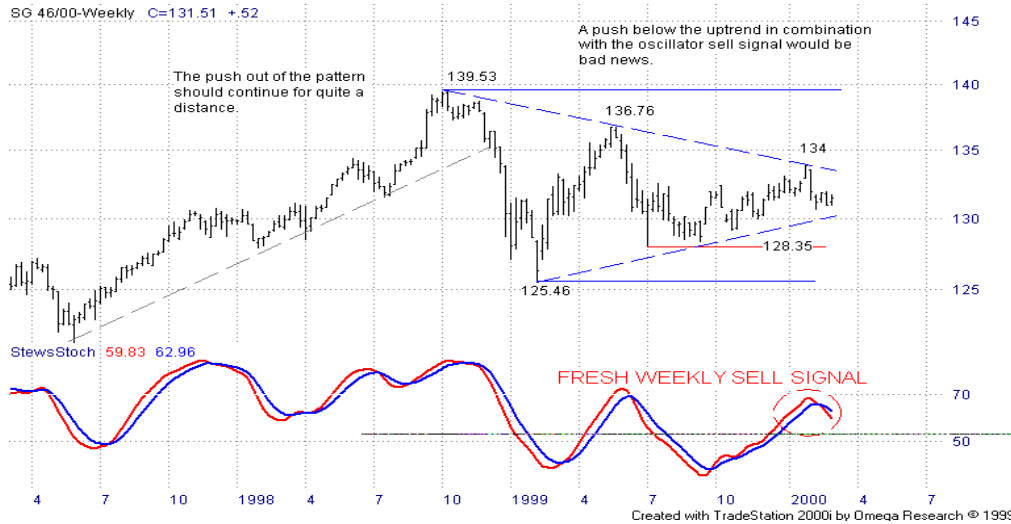
Dow Utilities



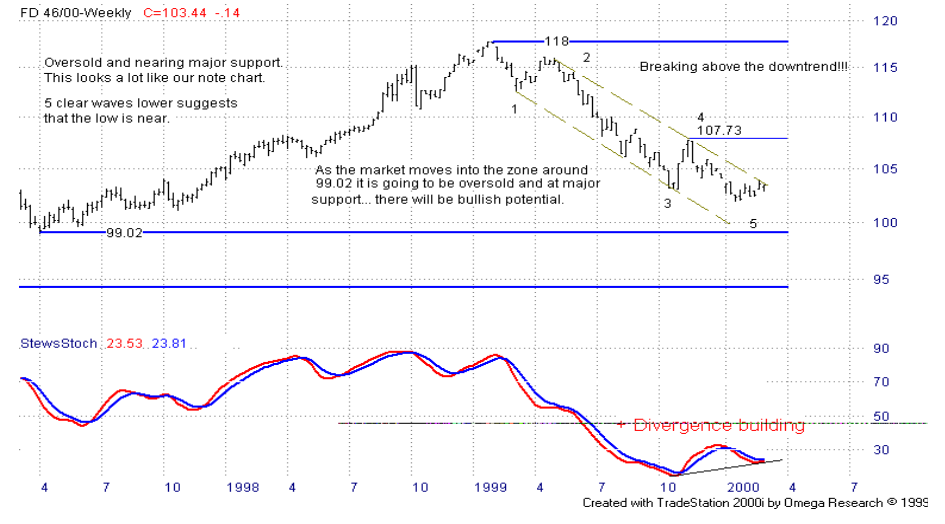
Rate Leaders: Note over bond (NOB) spread has completely collapsed but last weeks sharp turn higher is encouraging. Note that the oscillator is ready to move back onto a buy signal. I suspect that the recent low represents obscene number that the market can retrace from. The Bank composite (rate sensitive shares) has clearly broken below strong support and the Utilities are moving sharply higher but hooked lower this week. Will Spread: Money (obviously) is starting to flow back into the bond market.

Global Rates

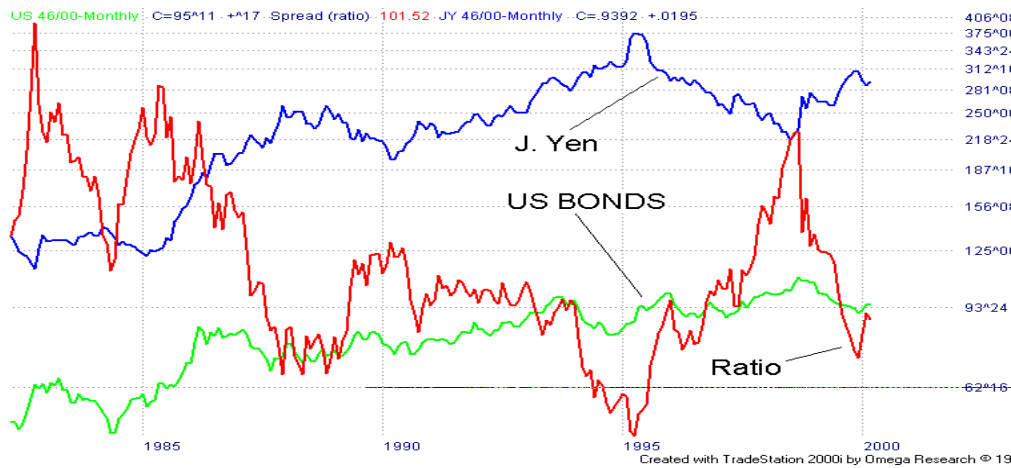
JGB Weekly



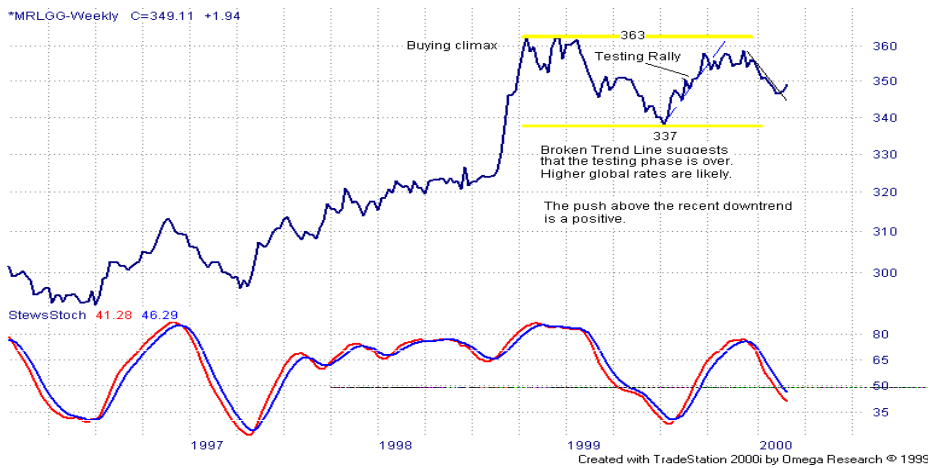
German Bund Weekly



Yen/Bond Ratio



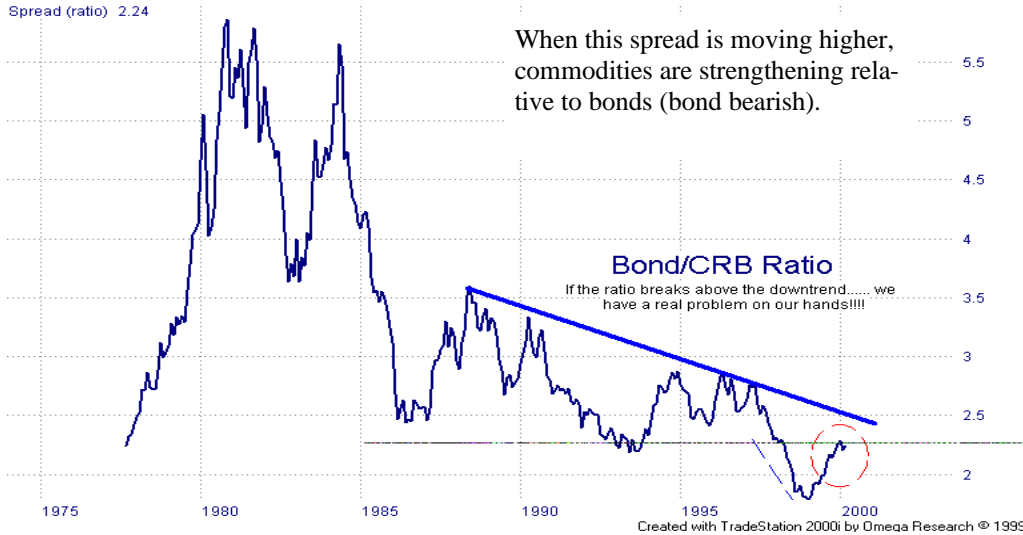
M-Lynch Global Bond Index Weekly



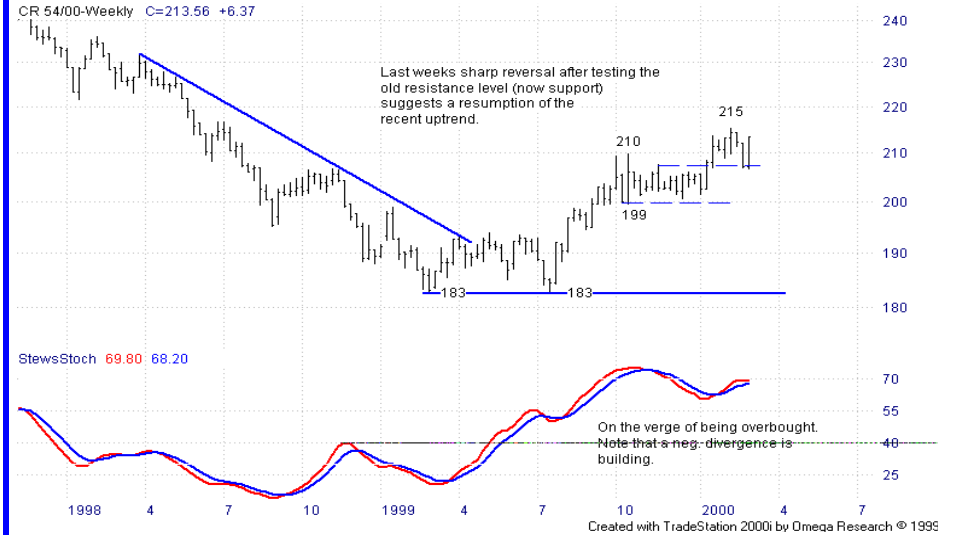
Global Rates: Global rates are still rising (making it difficult for our market to do better). The Bund has been a major contributor but note that the Bund is oversold, showing an early divergence at major support and is trying to break above the stride of supply. I am struck by the similarity between the Bund and the U.S. notes. Anyway, a push above the major downtrend would be very positive for Global fixed income. JGBs are in breakout position in terms of the Triangle. The direction out of the congestion will be important and I expect that the resolution will be a negative one. Note the double top in terms of the Lynch Index. Bonds offer good value in terms of Yen. This should be at least a modest source of demand over the next few months.

Commodities

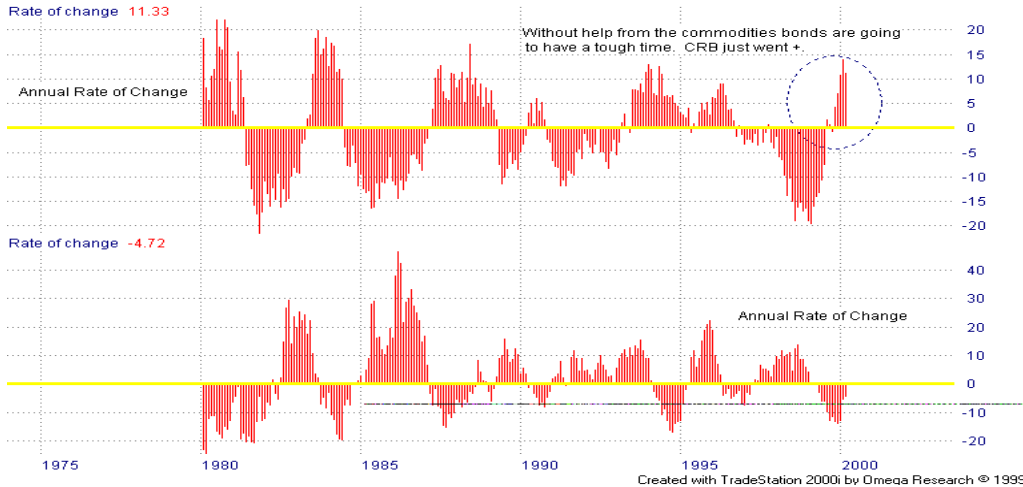
CRB/BOND RATIO MONTHLY



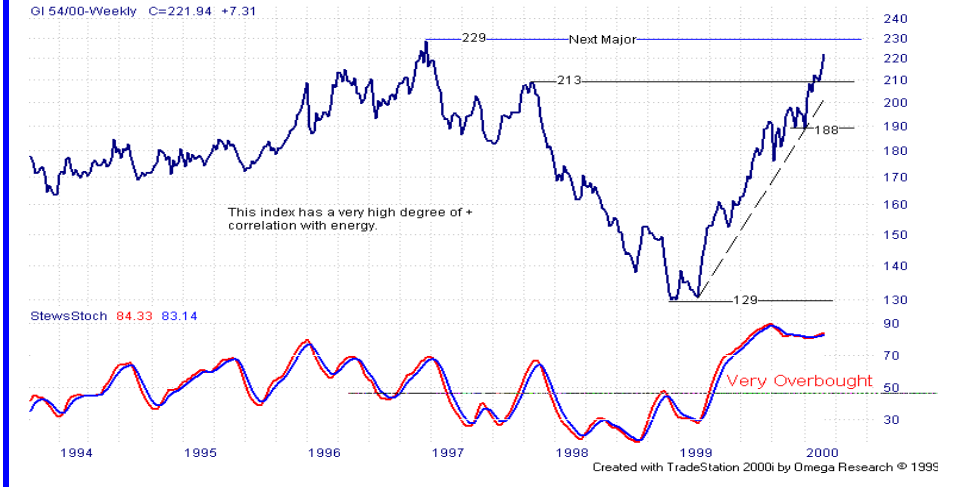
CRB WEEKLY



BOND/CRB MONTHLY W/ANNUAL RATE OF CHANGE



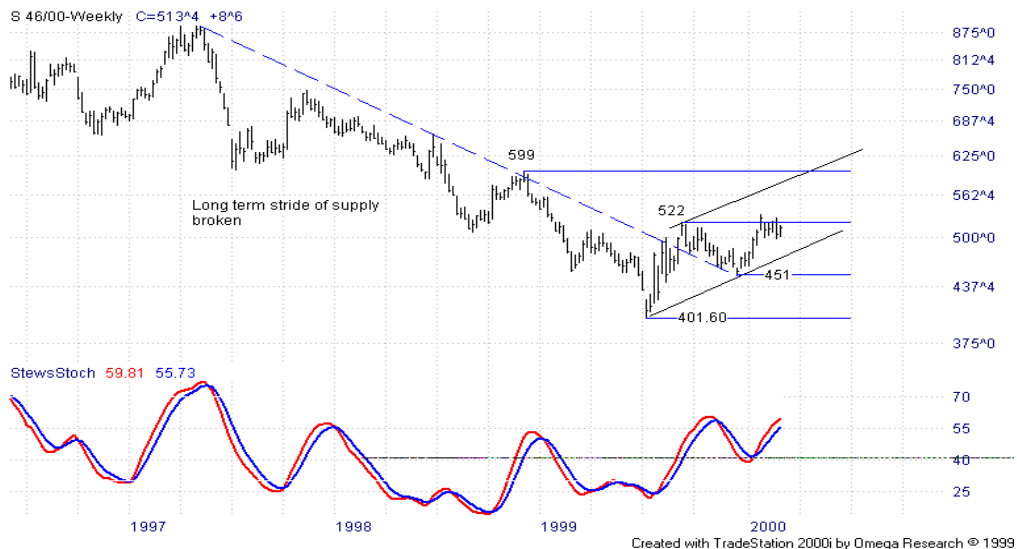
GOLDMAN SACHS INDEX



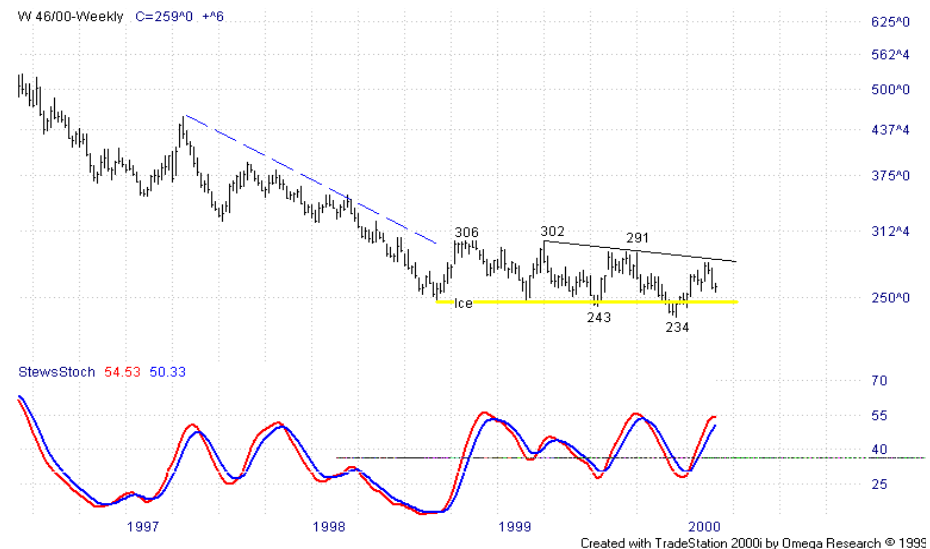
Commodities: Have turned an important corner and should continue to pressure bonds over the next two to three years but the lack of carry through to the breakout of two weeks ago (from an overbought condition) significantly increases the odds of a weekly perspective correction. In more general terms, note that the Bond/Commodity ratio is still trending higher and that the annual rate of change for the CRB is positive (Typically a strong negative for the bonds). The Goldman Index (mostly due to the strength in Oil) is trending strongly (note the push above the 213 resistance) but has acquired a huge overbought condition. Anyway, I don't see much in the way of overt good news from this sector but definitely see potential for a turn. Keep in mind... February is notorious for producing breaks in commodities prices. At this stage, a break in the CRB (most likely fueled by ags) would be very positive.

Farm and Misc. Commodities

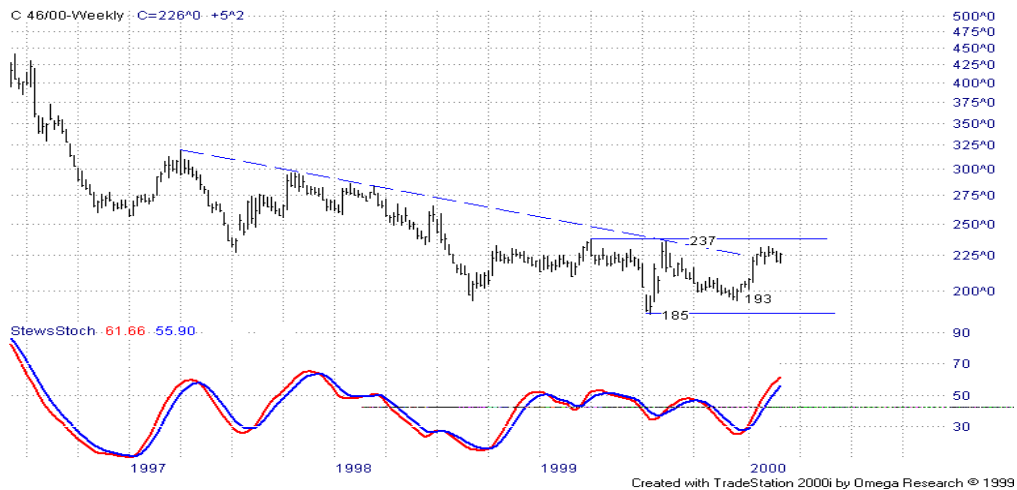
Bean Weekly



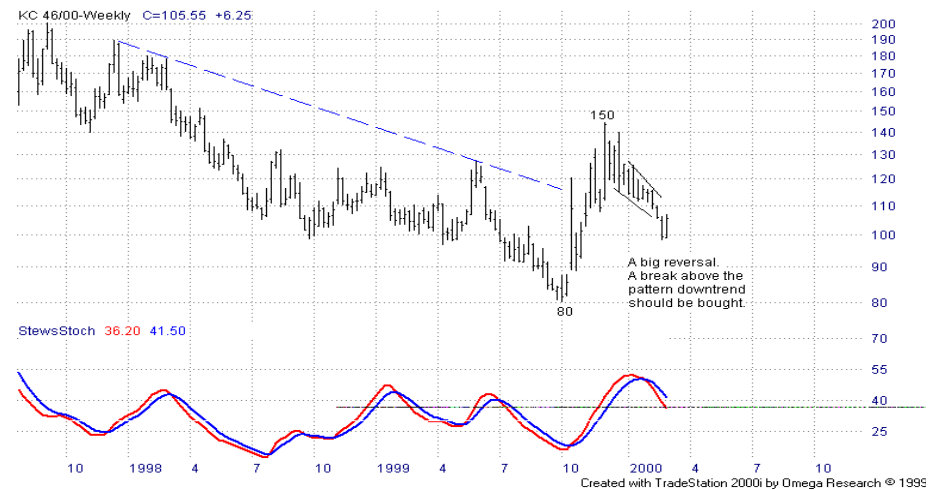
Wheat Weekly



Corn Weekly



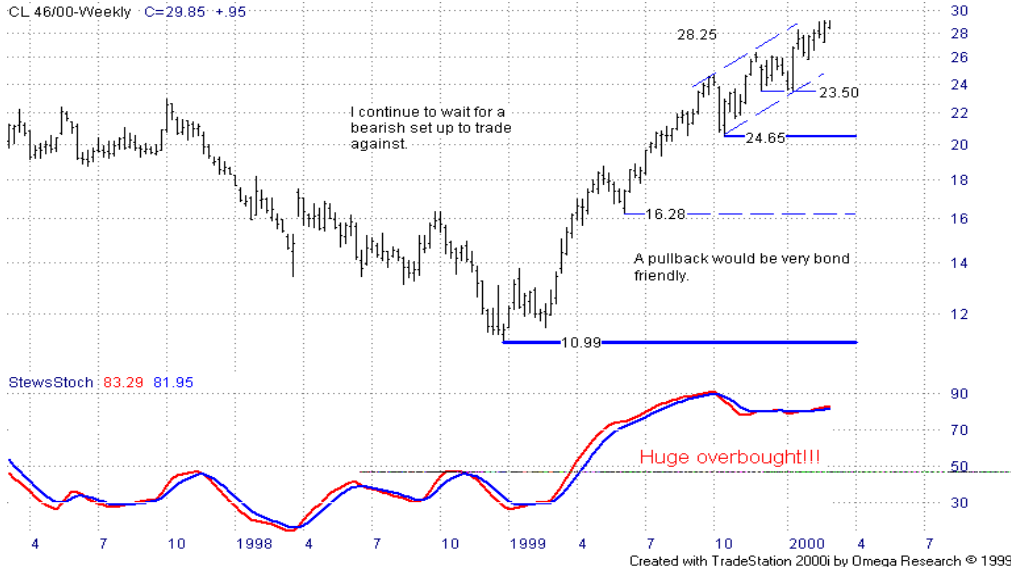
Coffee Weekly



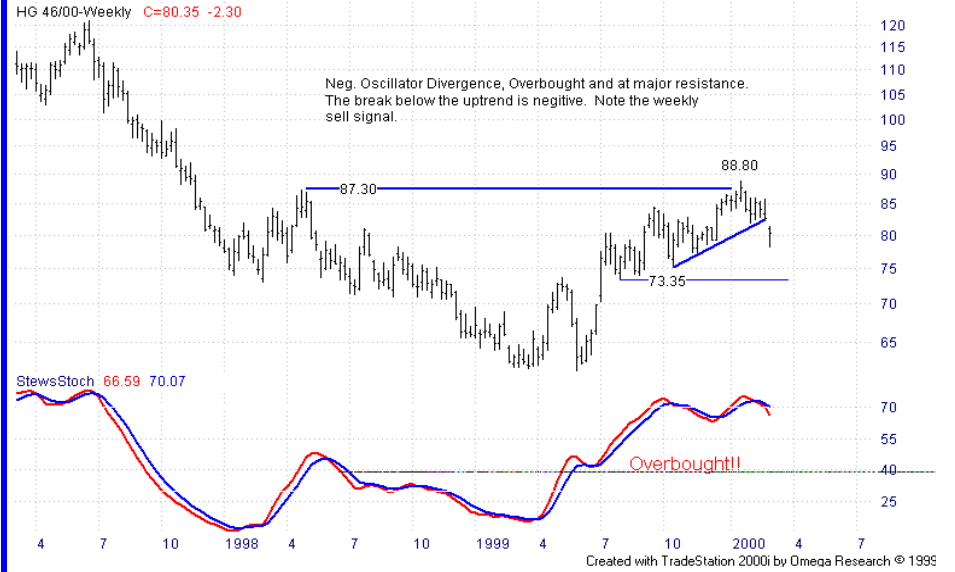
Farm and Misc.: Beans and Wheat are displaying bullish behaviors (bullish for the CRB and bearish for Bonds). Note that the weakness in the CRB index over the last year or two has had much to do with the weakness in the AG sector. If Ag's join the metals and energies on the upside, the bonds will have big trouble. I have included coffee, as it seems to have a great deal of influence on the CRB index. Note the weekly bull flag that is setting up. These charts are not yet overtly bearish for the bonds, but strength in the Ag sector given the markets current preoccupation with inflation would be a pronounced negative. Don't forget that the month of Feb. is responsible for many, many commodities breaks. It is a seasonally weak period.

Economic Leaders

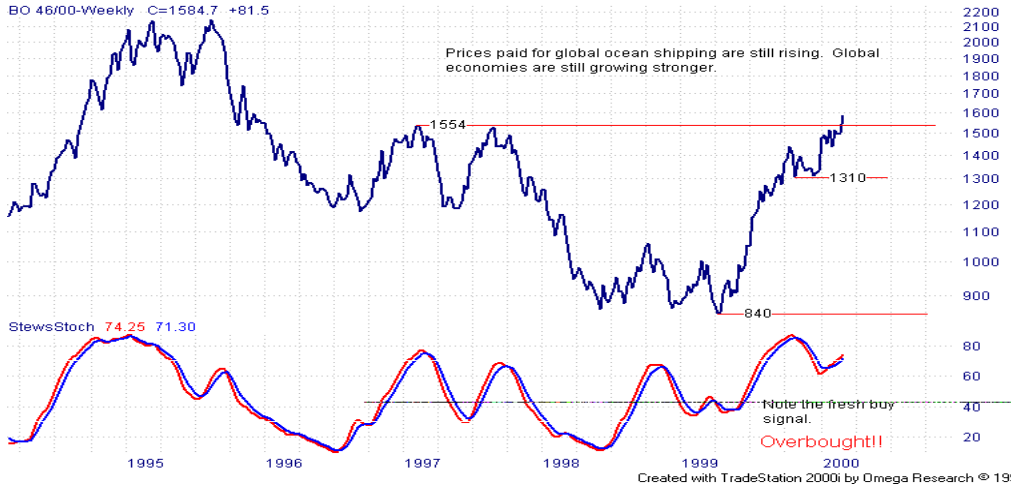
Crude Oil Weekly



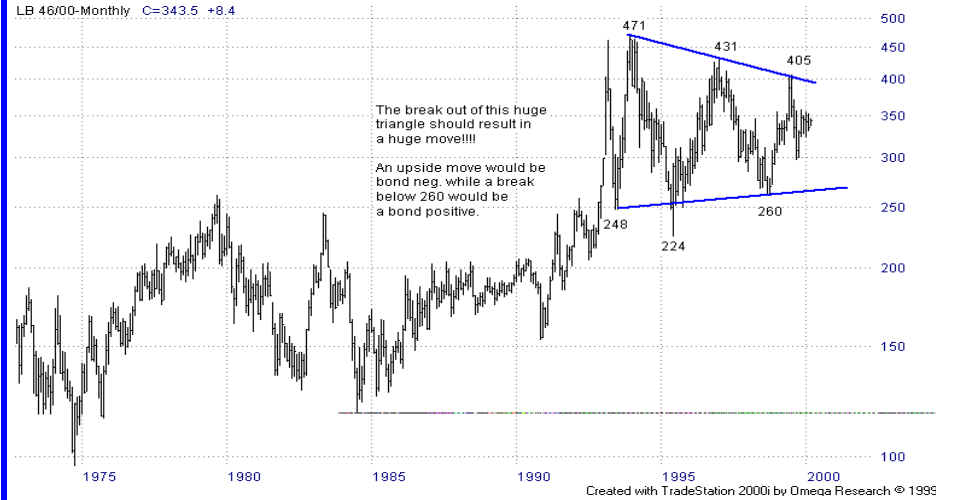
Copper Weekly



Baltic Freight Rates Weekly



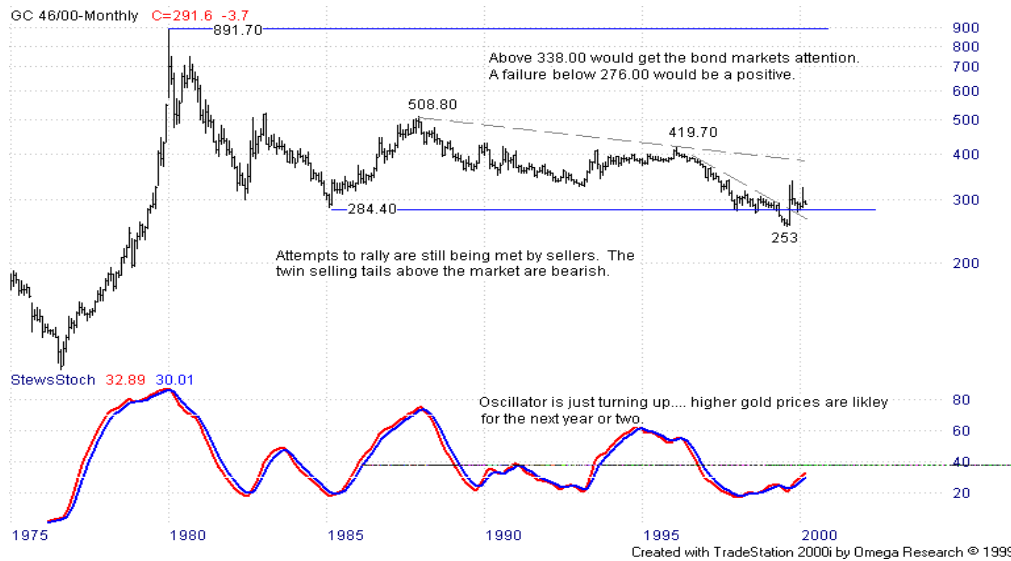
Lumber Monthly



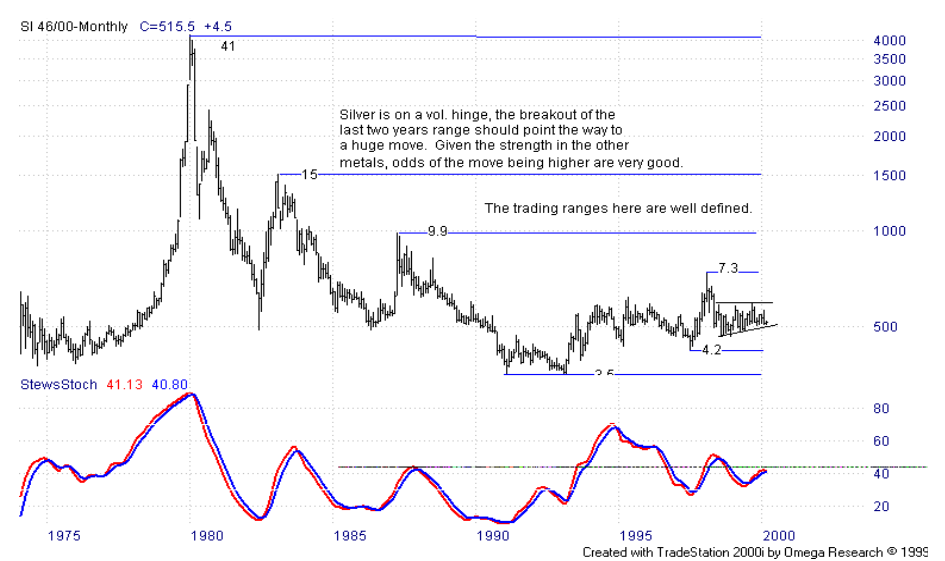
Economic Leaders: Economically sensitive materials and indices continue to do well. Note that the prices paid for international ocean shipping are still trending sharply higher. The good news, many of these indexes are overbought and overdue for corrective activity. Note the weakness in copper over the last few weeks. The push below the uptrend suggests a much stronger downtrend over the next two to three months. Current contract Crude is very overbought but continues to make new highs. I see very little in terms of immediate good news for the bonds in these charts but can see copper and crude both making significant corrections over the next few months.

Metals

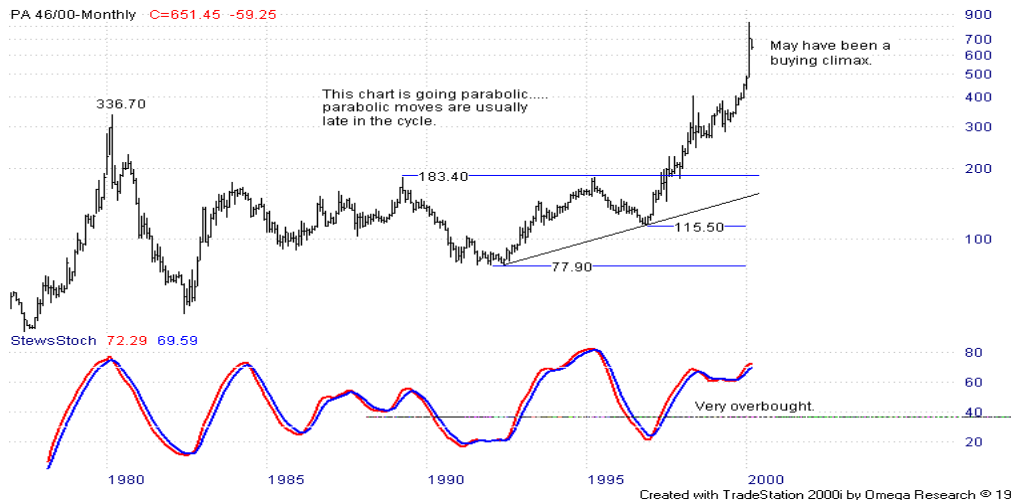
Gold Monthly



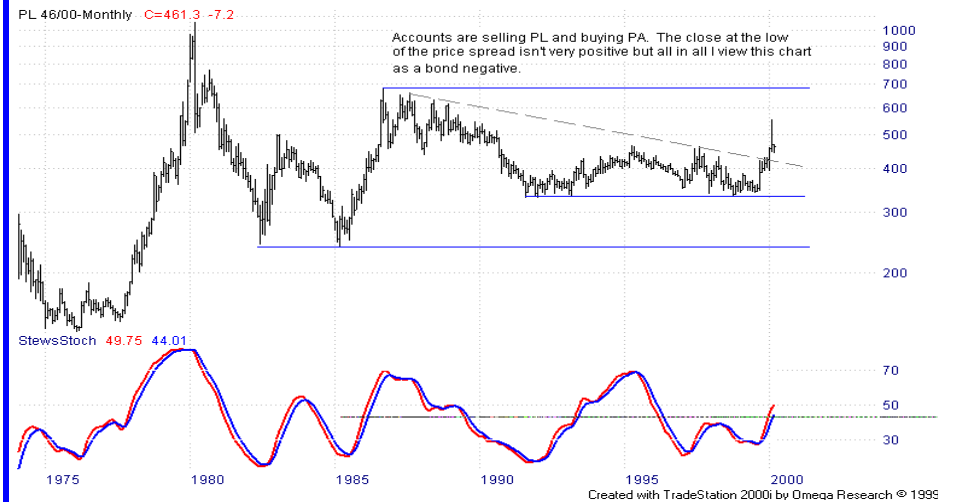
Silver Monthly



Palladium Monthly



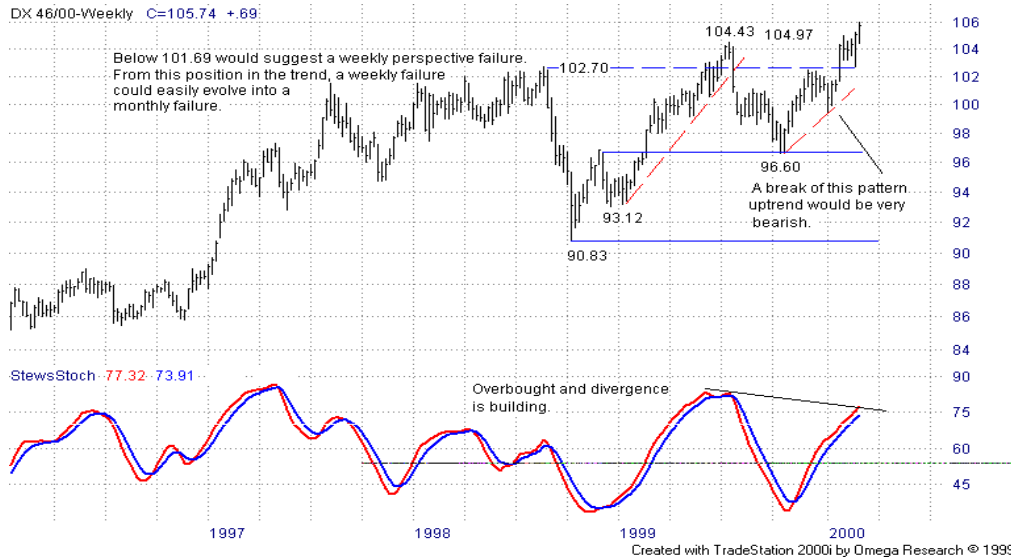
Platinum Monthly



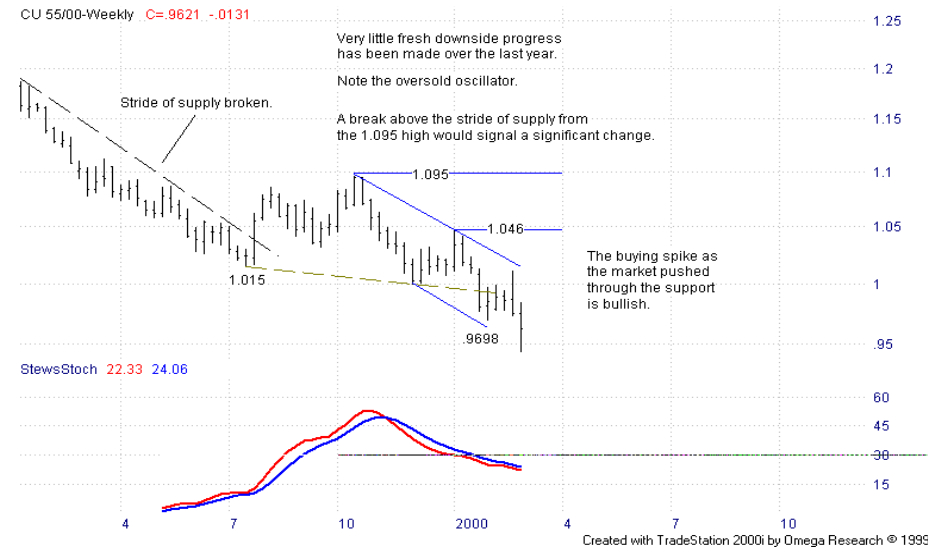
METALS: Metals have turned mixed. The lack of follow through in gold and the twin spike highs above the market call its ability to rally into question. Silver is resting on a volatility hinge. The break of the range should point the way to a huge move. Note the tremendous bull markets in platinum and palladium (both represent a nice combination of industrial and store of value materials) however both are showing signs (particularly PL) of having undergone a buying climax. The overall impact of the metals on the bond charts is a modestly bearish one. THE GOOD NEWS: Plat and Pal are overbought in terms of the weekly and are in the midst of a parabolic move. Parabolic moves are typically late cycle phenomenon that often lead to consolidations.

Currencies

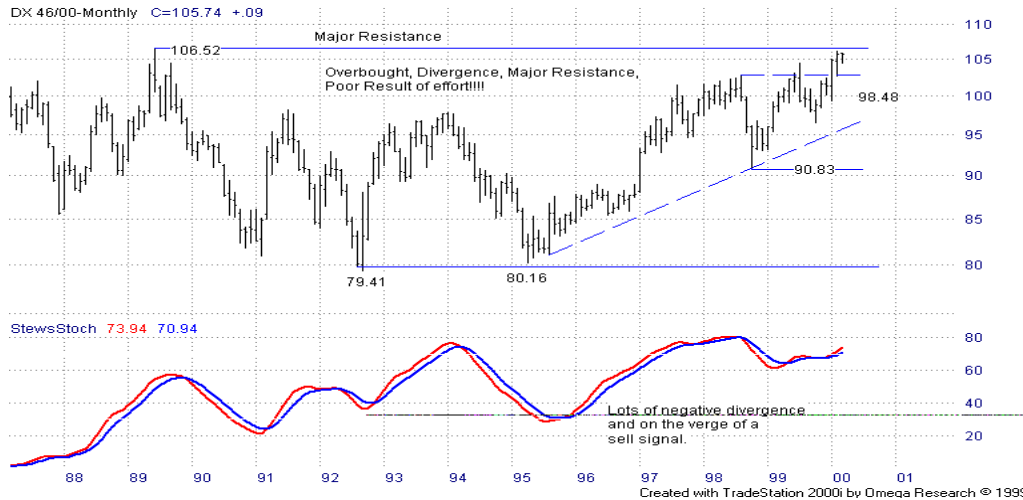
Dollar Index Weekly



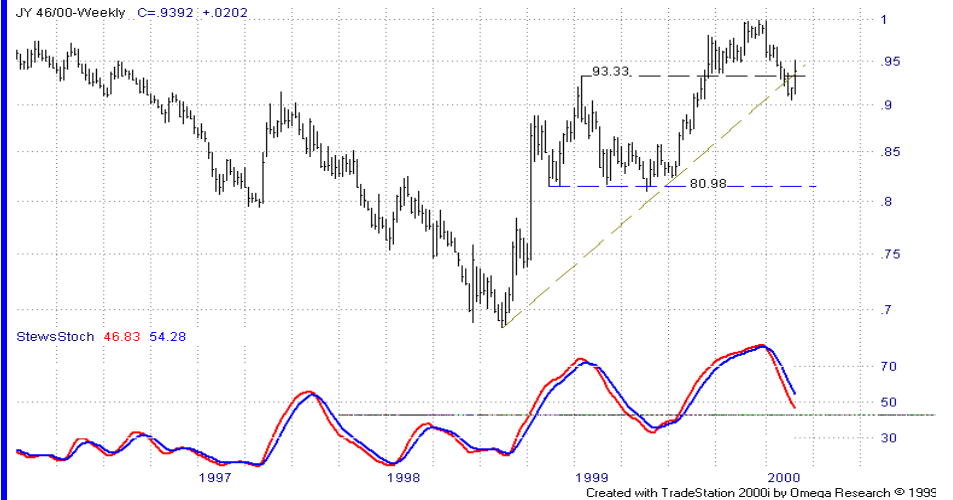
Euro Weekly



Dollar Index Monthly



Japanese Yen Weekly

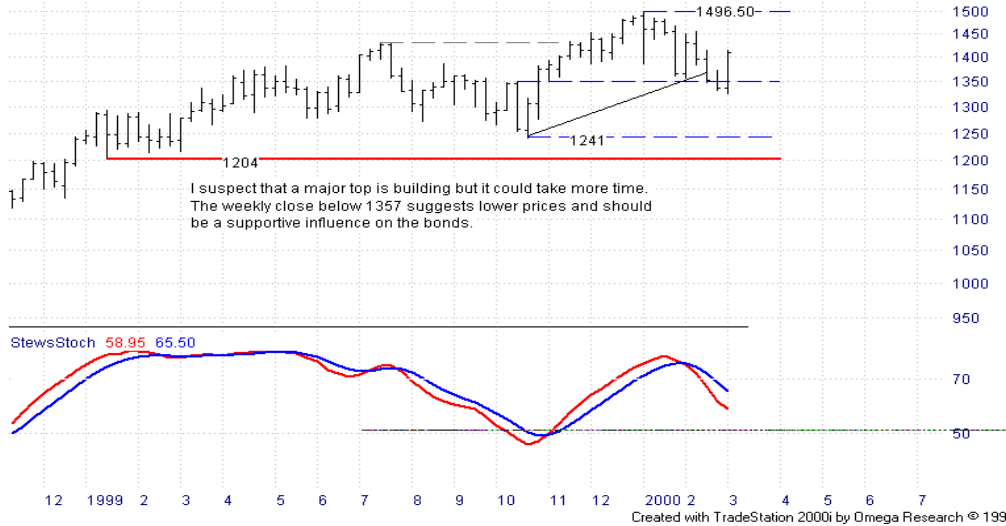


Currencies: In terms of our financial and commodities markets the Dollar is cornerstone. When it finally breaks, all kinds of bad things are going to happen. Dollar Monthly Chart: I continue to view the move to the top of the band as test of the 1989 high. A break of the uptrend from the 1995 low would be extremely positive for the CRB index and negative for bonds. Note that the weekly Dollar chart is in upthrust position (technically vulnerable unless it follows through higher very soon). **I would expect over the next few weeks for the Dollar to weaken against both the Yen and Euro.** The Euro is oversold and displaying modest signs of accumulation. Note the spike low. Remember that bonds are very inexpensive in terms of Yen (creating a source of demand). Over the next few months I expect to see a lower Dollar, higher Euro and lower Yen.

Equities

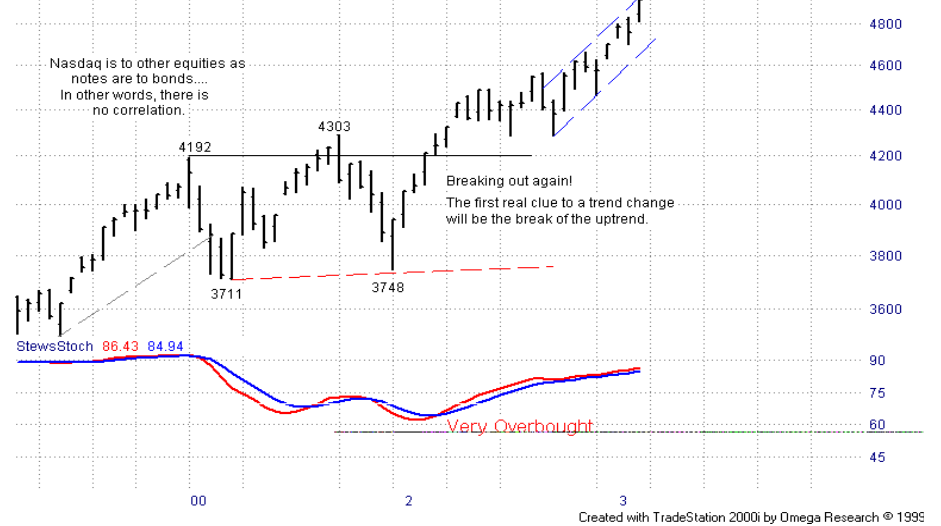
S&P WEEKLY

SP 55/00-Weekly C=1410.70 +72.60



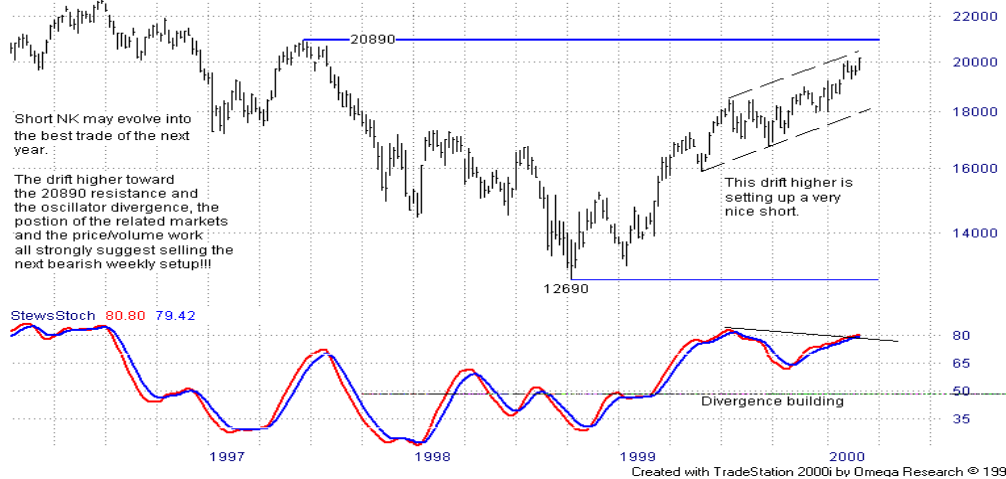
NASDAQ COMPOSITE DAILY

*OTC-Daily C=4914.79 +160.28



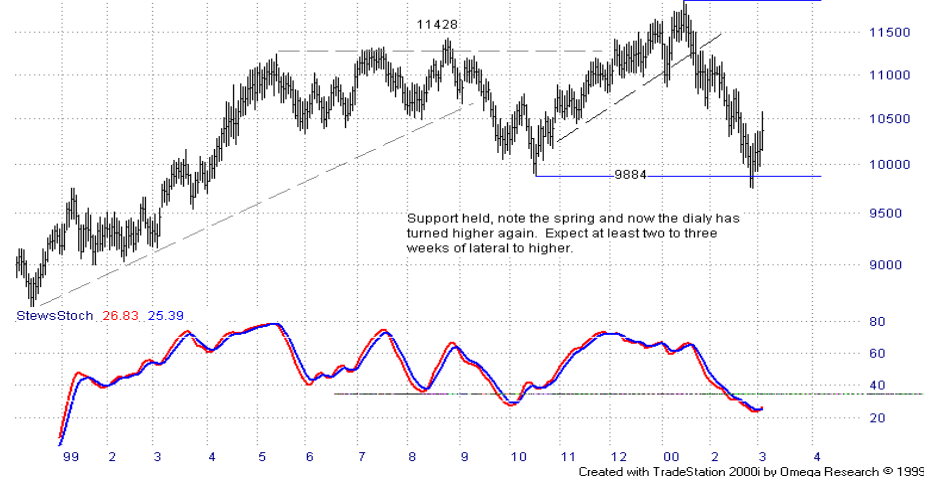
NIKKEI DOW WEEKLY

NK 46/00-Weekly C=20150 +520



DOW DAILY

*DWI X-Daily C=10367.200 +202.280



Equities: Overall, I view the last years action as a broad top that has been characterized by active distribution. The S&P is obviously marking down, but moving back above the high of two weeks ago suggests at least another week higher. **Note the pattern in the Nikkei Dow.** I suspect that a **World Class short will set up here over the next two to three months.** Nasdaq has undergone a total disconnect from the bulk of the market. No matter how compelling the case for higher highs into infinity, I have been standing aside from techs and nets. DOW: Tested the trading range lows (note the spring) and is making a show of strength. At least a week or two higher is in store. **JUST HOW FROTHY IS THE MARKET?** It isn't. 60% of 6,500 most active stocks are down since July 1999, 475 of the S&P 500 stocks are down and 9 out of 11 S&P sectors are down on the year.