Kimura Dreamvisor Newsletter Summary 12th of June 2006

We are entering rebound phase but one cannot expect a sparkling rise…

The main factors behind recent falls are settling down, rebound is in sight.

First the technical factors. I wrote in previous newsletter that the buy/sell ratio had fallen to a 13 years low but in fact it felt to 54 % below 13th of June 1995 low of 54,39 %. Therefore this was a low on 11 years. In 1995 the TOPIX hit a low due to the US Japan trade frictions on car industry plus the US $ fall. Finally on the 28th of June 1995 Hashimoto (the MITI minister at that time) stroke a foreign exchange deal and the bottom was finally touched the seventh of July. All this said I want to stress again that such a low ratio is rare and would occurs only once in 2 to 3 years cycle.
In fact the 8th of June fall was so abrupt that I thought climax had been over, but the 9th of June was SQ day and 2090 sell contract units materialized against 1469 buy contract units for the Nikkei 225. The rumor that arbitrageurs postponed buying positions spread on that day and Nikkei touched 14459.8, the 14500 put option which could not even be priced paid 45 Yen in fine.
Futures are much more volatile than cash and end of session selling forced Nikkei to close under SQ price. MOTHERS and second sections indexes were comparatively firm therefore this was real panic selling. Nikkei 225 low was 14389. Therefore a double stage fall occurred; first stage from 7th of April at 17563 to 24th of May at 15508 -11,7 % then second stage from 29th of May at 16111 to 14389 -10,7 %. 14500 level is the august 1992 low for the Nikkei. Technically speaking the August 1992, July 1996 lows and May 2001 form a 'cluster' support line.
At this point the perfect timing was the 14:00 pm or so stronger than anticipated machinery orders announcement. Furthermore the number of traders taking short term buy positions must have fallen considering the volatility. The settlement of margin hangovers must have been easier than previous week.

Main culprit: US onshore funds investing in foreign equities increasing cash position.
The main reason behind recent falls was FRB inflation alarm declarations. The specter of stagflation came to haunt investors mind. Investors were then in no other position than to hold the purse strings taking profit on all risky positions (commodities and

stocks alike).

Cancellation of US foreign equities investment trust rose quickly. And cancellations led to further selling classical vicious cycle. Japanese stock market was further depressed by Murakami shock and New Growth markets meltdown.

However even if all type of funds started to reduce positions in derivatives, *that does not mean that shareholders capital was reduced.* Rather capital continued to increase (very low savings rate US put apart...). This increased capital must be invested. Therefore as soon as selling will disappear the low premium risk developed markets will rebound and money will also return progressively to higher risk premium markets depending on the general risk premium associated with them.

FRB intentions are very clear. Maintain the inflation rate within the 0-2 % margin (core CPI) using interest rates machine gun. It is evident that the soon to be announced core CPI will be above the 2 % mark line in which case FRB will tighten further (next announcement is 13th of June). For the 29th of June FOMC meeting there is an 80 % chance of rate increase. If one takes past experience as the reference inflation rate fall long after economy has substantially slowed down, shortly the US stock market will remember this.

Obviously if US equity market starts to fizzle down it should prove hard for Japanese stock market to smoothly go up. But as technical indicators point at: half one third of the fall should be quickly recovered. For the Nikkei 225 a 38,2 % recovery means 15600, a 61,8 % recovery means 16350. AtfFirst the chart upper resistance level of 15100 must be quickly recovered. If the recovery reaches 61,8 % then 16840 will be the next resistance. Where next will depend of the outcome of forthcoming weeks.