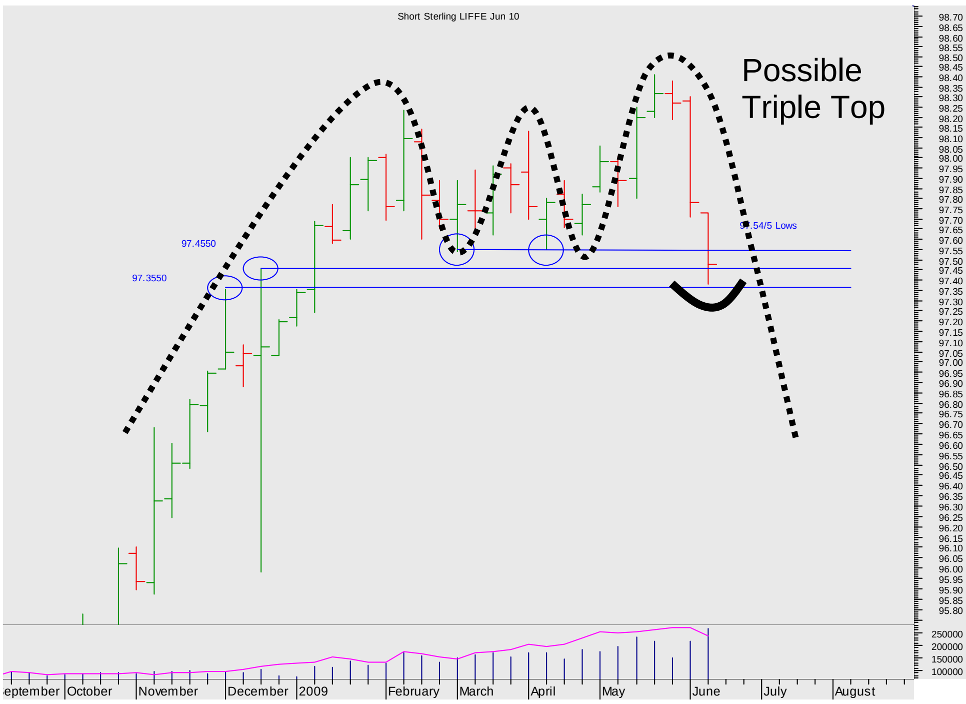
Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details about all these products: CLICK HERE

Market Update 11th June 2009

Is Short Sterling topping out?

The Technical Trader's view:



WEEKLY CHART

There is a tension within the market: the possible completion of a Bear Triple Top (due to a breakdown through 97.54/5)

versus

the support from the prior Highs at 97.4550/97.3550 which has yet to break.

On balance though, because of the longevity of the sideways consolidation - 6 months - we feel the bears are likely to prevail.

Look closer at the detail.

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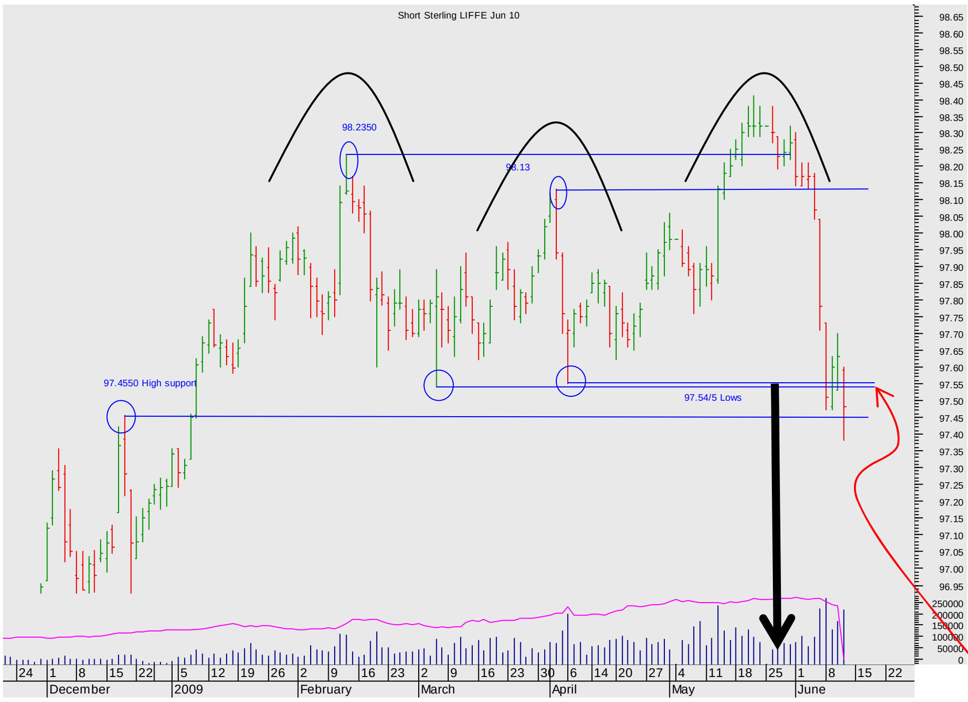

DAILY CHART

This emboldens the bears – in this chart the completion of the Triple Top is much more emphatic :note that the substance of the price action is some way above the 97.54/5 lows.). Note too, that the good volume days are all bear days. (Of course, the falling Open Interest suggests closing of longs not new shorts)

If the Top is complete, then the measured move down will be substantial – at least as far as 96.70…..

And good resistance on any rallies will be found at 97.54/5

The Macro Trader's view:

With the Bank of England recently holding official interest rates at 0.50% and confirming its commitment to quantum easing, as policy makers continue to talk about a weak economy, one could be forgiven for wondering what on earth is going on in Short Sterling; why over the last few days has it sold off so hard?

Over recent weeks, a tentative stream of slowly improving data has become stronger. Where until only a few weeks ago traders were talking of data showing the pace of economic contraction was slowing, now data is encouraging traders to talk of outright recovery.

Over recent weeks the UK economy has produced unmistakable signs of recovery:

- Both recent PMI surveys have come in stronger than expected, with the Services survey moving convincingly above the key 50.0 level,
- The Nationwide and HBOS house price surveys have both recorded rising house prices on a month on month basis,

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- The council of mortgage lenders have reported a strong increase in mortgage approvals, and
- NIESR, have reported an Improvement in their estimates of GDP with the latest 3month on 3month report coming in at -0.9% and more importantly the May report stood at +0.1% after April's +0.2%.

While the NIESR estimates are just that, they do have a good track record of correlating with official data, which means there is every possibility that Q2 GDP could mark the end of the recession.

Accordingly traders are already building into Short Sterling early expectations of tighter policy, and although the MPC may not tighten until late in the year, the markets anticipate the moves of policy makers rather than follow them.

With the UK economy having received a huge injection from both fiscal and monetary policy, the Bank of England will not have the luxury of time when it comes to beginning a tightening cycle. The current government is so unpopular they are unlikely to take any meaningful steps ahead of a General election in June 2010 to rebalance fiscal policy and reduce the unprecedented peace time deficit.

Moreover, the Bank of England will not easily remove the quantum easing it has adopted to ward off earlier threats of deflation. This leaves interest rates. They are both effective and easy to change, and we believe that the MPC will need to tighten policy aggressively starting later this year in an effort to:

- Protect against inflation as the economy grows,
- Counter a fiscal stimulus that will no longer be needed, but which the Government will be reluctant to remove, and
- Counter its own quantum easing policy that will take time to unravel.

So what is going on in Short Sterling? The Bull market is over and traders are now pricing in what will likely prove a sharp bear market driven by the Bank of England later this year.

Mark Sturdy

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Seven Days Ahead

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