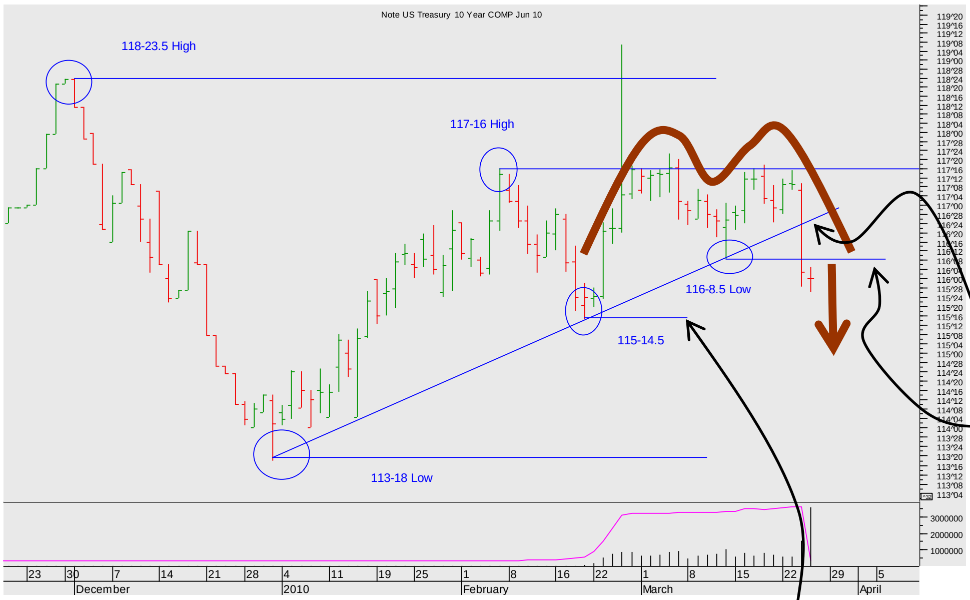
SEVEN DAYS AHEAD

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 25th March 2010

TNotes under pressure – with still more bear potential

The Technical Trader's view:



DAILY CHART

The TNote has had a torrid time this week.

The triple failure at the 117-16 level is clear, so too is the failure of the rising diagonal from the beginning of 2010.

Add to that the breakdown through the Prior Low at 116-8.5 completing a small Double Top and <u>the bears look to have the bit between their teeth.</u>

A push beneath 115-14.5 would add to the bear impetus of course.

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WEEKLY CONTINUATION CHART

There is no completed pattern here (except, maybe, the bear rising wedge in November 2009)

But there is a clear possibility of a Head and Shoulders Top should the market break down through the diagonal at 114-23 and rising.

There is an intermediate point of reference (that is being tested right now) at the diagonal (115-24) drawn through the two lows from the low of June 2009.

That has not yet broken either.

But should the market break on down through the 114.64 level a large Top will have completed and will send it on down a lot further still.

The Macro Trader's view:

We have been frustrated bears of the US 10 Year Note for quite some time, and have watched as it has found support from repeated waves of risk aversion driven by the Dubai debt scandal and the Greek debt crisis to name just two of the recent high-profile events that have caused traders/investors to sell stocks and buy government bonds for safety.

But all the time the National debt of several major economies has continued to grow, especially in the US. The US president has said the deficit needs to be reduced, but his actions don't match those infrequently spoken words.

Indeed, only this week Congress has passed the expensive heathcare reforms many argue will add to the budget deficit.

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But why now should the US 10 year Note sell off when it has defied gravity for so long? There are several reasons:

- **The US economy has over recent months shown unambiguous strength with Fed officials and several commentators expressing the opinion that the US Labour market is about to turn and start registering Job creation,**
- **The Greek debt drama remains unresolved, and although the US S&P has refocused, others haven't. A Chinese Central Banker said today that Greece isn't the only problem as there are other major economies carrying unsustainably high government deficits,**
- **Fed Chairman Bernanke said today when testifying in Congress that the US Government needs to come up with a credible debt reduction program.**

Are these factors enough to send US bonds lower, or will the backdrop of benign inflation seduce traders into remaining buyers of US IOU's?

Bond markets trade on several key fundamentals:

- **Inflation expectations,**
- **Short term interest rate expectations,**
- **National debt ratios and the ability of the government to fund it,**
- **Current budget deficit levels, and**
- **Government policy towards the fiscal stance going forward.**

The last three factors are already bond market negative. The other two factors soon will be if the US President doesn't wake up and realise that he cannot keep writing IOU's at the current pace indefinitely.

Already this week a US debt issue struggled, that could be a signal for what is to come. We judge that as economic growth becomes more entrenched, traders will become increasingly critical of this government's fiscal policies.

When they judge the stimulus has been in place for too long and is likely to feed inflation, US Bonds will surely sell off hard. We believe that day is not long off.

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