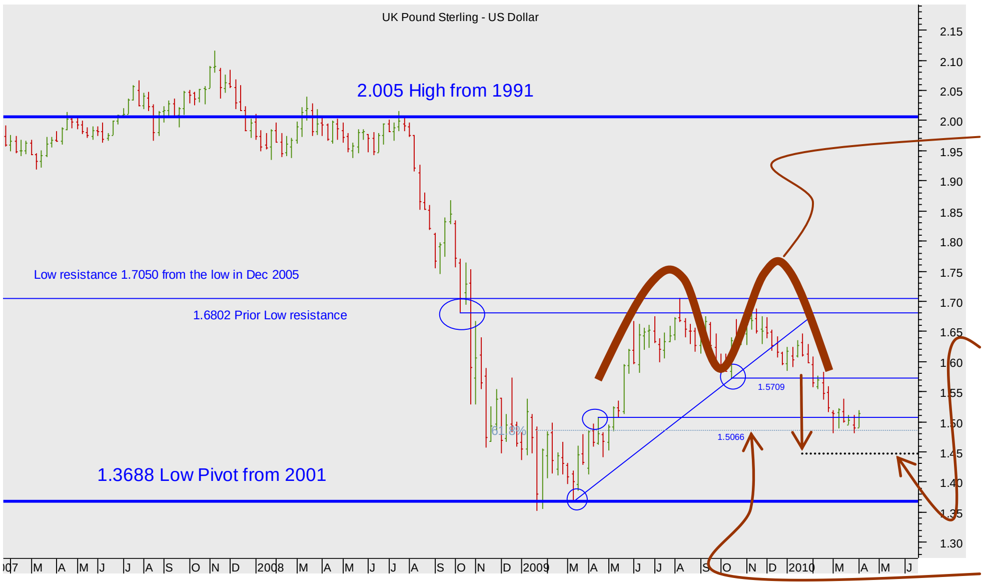
Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details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

Market Update

31st March 2010

Has Sterling found its feet?

The Technical Trader's view:



WEEKLY CHART

The market has been pressured down from the Double Top that formed beneath the resistance from the Prior Lows at 1.7050 and 1.6802.

The measurable minimum move implied by that Top was actually somewhat lower than where the market got to. Probably as far as 1.45.

But the support from the Fibonacci at 1.4860 has been considerable – plus that from the High at 1.5066.

That has certainly held up the bears.

But it may have reversed the move as well…

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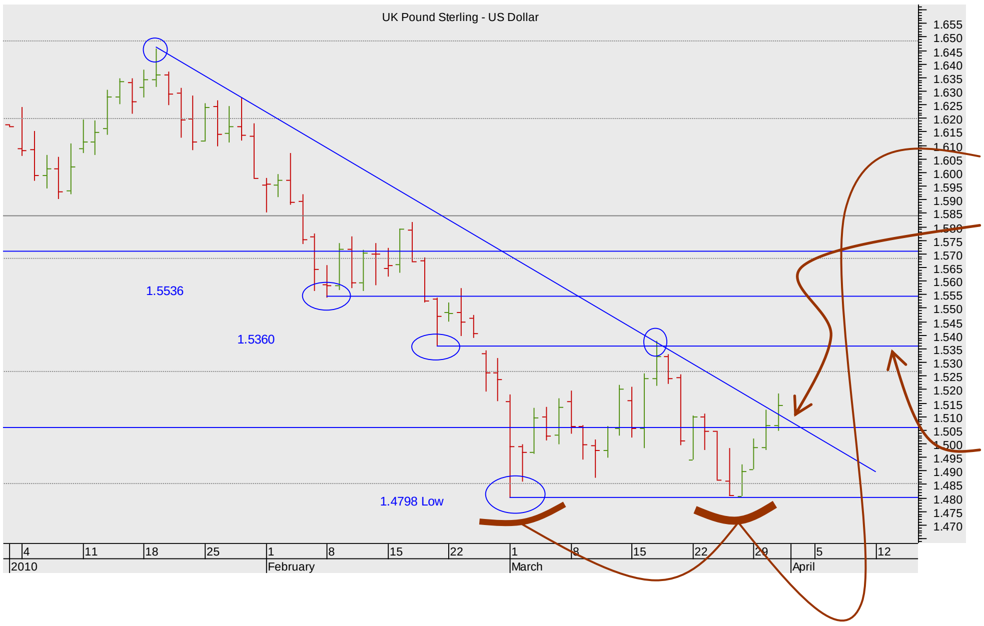

DAILY CHART

The Double bounce from the 1.4798 low is clear. As is the penetration of the (weak) falling diagonal around 1.51.

But the bulls should be wary of anticipating too much on the upside.

Only a break up through 1.5360 would really get them going by completing a Double Bottom

And that is a little way off.

The Macro Trader's view:

Until quite recently traders were almost queuing up to sell the Pound and there seemed an almost endless list of reasons to justify their bearishness:

- **The UK economy was the last of the major developed economies to emerge from recession,**
- **UK government spending had pushed the budget deficit to record levels with a rapid expansion of the National debt,**
- **The trade data remained deep in negative territory as it refused to adjust after a prolonged spell of currency weakness,**
- **Inflation never collapsed in line with official forecasts and remained above levels experienced in other G7 countries, and of course**
- **The political landscape looked challenging to say the least. With an election drawing ever closer, a hung Parliament looks likely making important difficult decisions look almost beyond agreement.**

So why has Sterling suddenly bucked up?

Over the last couple of weeks one or two of the ear factors above have changed. True, a hung Parliament still looks the most likely outcome, and, whichever political Party emerges as the largest will have a difficult time trying to push through necessary public spending cuts/tax hikes.

But the economic recovery looks a little more robust:

- The Q4 C/A deficit released yesterday shrank to £1.7, a fraction of what was expected.

- The final version of Q4 GDP showed an upward revision; recovery will still remain a tepid affair, but talk of a dip back into negative growth looks misplaced.
- Inflation released the previous week corrected lower instead of the upward spike the markets had feared, and
- Retail sales, which are by far the largest chunk of GDP, recorded a month on month increase of 2.1% when released last week.

And despite a hung Parliament looking likely, politicians are at last starting to agree that the deficit needs to be cut. The disagreement now is about how fast and by what route: spending cuts, tax hikes or a mix of the two.

So now, when investors look at the UK and the Pound more specifically, they struggle to find new reasons to be bearish. Against all three major currencies, the Dollar, Euro and Yen, the Pound has rejected the lows. If the run of data can be maintained a recovery may be possible.

But the election result is likely the missing piece in the gig saw holding back a more robust recovery. Note well that if the Conservatives were to win, the Pound could rally again and smartly.

Mark Sturdy

John Lewis

Seven Days Ahead

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