



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

27th May 2010

Is the correction in the S&P over?

The Macro Trader's view:

Equity markets had enjoyed a solid rally until a couple of weeks ago when the Greek debt crisis morphed into a full blown Euro zone Sovereign debt crisis. The reaction from traders was swift; stocks were dumped and the Dollar rallied hard against the Euro as traders began to fear what some had long said; the Euro zone is such an imperfect creation it cannot survive.

As we know the authorities in the EU/Euro zone put together a very sizeable support fund expecting this to restore market confidence in both the solidity of the Euro zone and the commitment of the member states to defend it.

However after only a brief 24-36 hour period traders had concluded it wasn't enough and even some ECB and Bundesbank officials said the fund wouldn't solve the underlying problem but just buy some time.

So although the crisis was European US equity markets sold off too. Why you might ask?

The reason is also connected with US Sovereign debt. While no one is suggesting the US government is about to default on its debt obligations, traders are none the less alarmed by the size of the US budget deficit and the impact it is having on the US debt to GDP ratio which is fast approaching 90%, and feared a contagion effect.

SEVEN DAYS AHEAD 124 REGENTS PARK ROAD LONDON NW18XL Authorised and Regulated by the FSA Page 1
TEL +44 (0) 7849 933573 E-MAIL
MSTURDY@SEVENDAYS Ahead.COM JLEWIS@SEVENDAYS Ahead.COM WWW.SEVENDAYS Ahead.COM

This information memorandum has been prepared solely for informational purposes for customers of Seven Days Ahead and is based on publicly available information from sources believed to be reliable. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. No representation is made as to the completeness or accuracy of any statements or forecasts contained herein and no responsibility or liability is accepted for losses arising from transactions undertaken or investments purchased, sold or held on its recommendation. Consequently, any persons acting on information contained herein do so entirely at their own risk. Although the opinions contained herein were considered valid at the time of release, financial markets are subject to rapid and unexpected movements. Seven Days Ahead, its associated companies, their directors, employees, other customers or connected persons may from time to time undertake transactions or deal in investments mentioned in this information memorandum or have a material interest, relationship or arrangement in relation to them.



Your response might then be; why did traders/investors turn so readily to US Treasuries and the Dollar if anxiety about sovereign debt generally forced the stock market selloff. Answer, as I said the US is building up a pile of IOU's, but the US economy is recovering, and increasingly that recovery is taking the shape of a V shaped recovery, so for now traders see the US economy as a safe haven.

Now after a very severe correction stocks are showing signs of stabilizing. This is for two reasons.

1. The Euro zone governments have virtually all committed themselves to austerity packages, even the Germans who will shoulder the lions share of the rescue fund and the Italians who usually manage to avoid difficult issues, and
2. The US economy continues to churn out strong data.

Ok today saw Q1 GDP revised slightly lower, but Existing and New home sales both released this week have shown strength in the housing market leading traders to conclude that despite fears that a Euro zone economy might default, or the Euro zone could potentially break up, the US economy is performing well.

Indeed prior to the correction Q1 corporate earnings were strong and inflation benign. So do we think the correction is over; possibly, but the market may need time to fully retrace the recent sell off, so caution remains the watch word in these very volatile markets.

Mark Sturdy

John Lewis

Seven Days Ahead