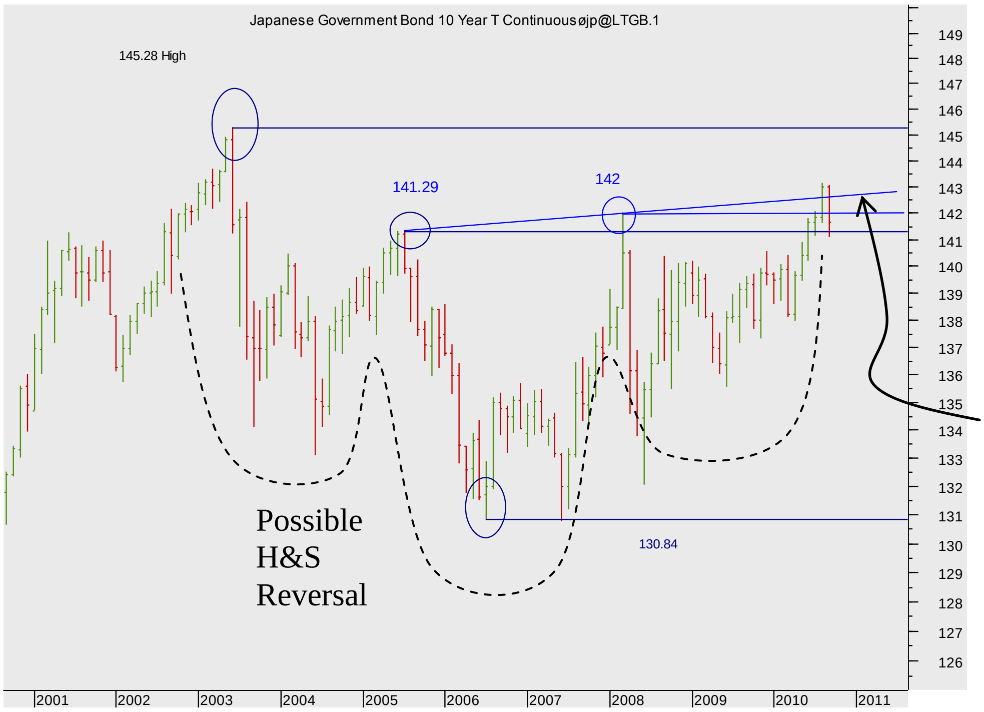
Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details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

Market Update 10th September 2010

Japanese Bonds teeter on the brink of a big bull rally

The Technical Trader's view:



MONTHLY CHART

The tantalizing possibility that technicians have found in the Yen bond market is of the completion of a large bull Head and Shoulders Reversal.

The neckline lies above the current level of the market at 142.66.

We have closed above that level once, in the monthly bar chart, but haven't yet had a confirming second close above that level

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E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

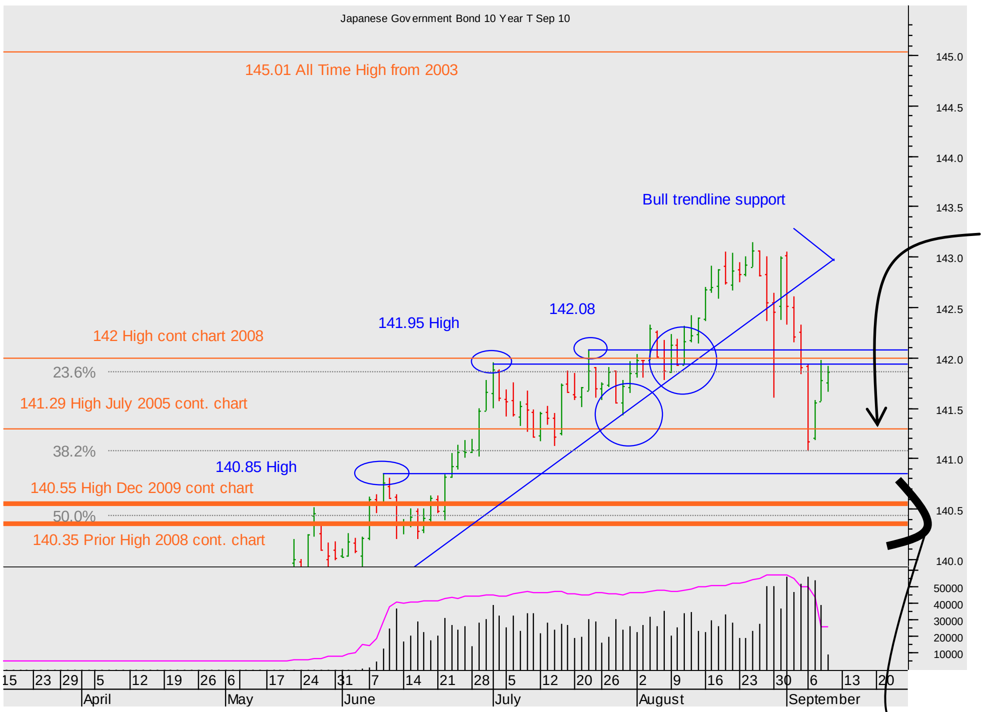
WEEKLY CHART

The pull back in the weekly chart has been rather ominous.

The market has pulled back through the support from both the Neckline and the horizontal Prior High at 142 and entered a no man's land wherein the first support beneath the market here is down at the band 140.35-55.

We think it highly likely that the market will want to come back and test that level…

It certainly remains vulnerable to sell-offs to that level.



DAILY CHART

The pull back in the day chart has found some temporary support at the 38.2% retracement (and possibly the 141.29 Prior High support from the Continuation Chart.

The question remains – have the Bulls sufficient energy to get back up and above the Neckline at 142.66 (see monthly chart). We think that small double failure above that level already suggest that there is more on the downside (probably testing the band 140.35-140.55) in the short-term before the market can build a base…

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The Macro Trader's view:

Over recent weeks the JGB has endured a reasonable pull-back, much like other bond markets, as equities staged a rally fuelled by:

1. Bernanke's recent pledge to ease further if the faltering US economic recovery continues to lose traction, and
2. A better-than-expected US non-farm payroll report last Friday.

The Bank of Japan's recent decision to ease monetary policy further also helped the Nikkei, which looks hesitant compared to the S&P and FTSE. Part of the reason for this is the strength of the Yen. Despite recent comments from Japanese officials hinting at intervention, the Yen has remained strong against a Euro that is once again dogged by worries about the health of German Banks, and the Yen is also making fresh multi-year highs against the Dollar, as it is viewed as a safe haven trade.But traders in Japan fear that a strong Yen will damage the competitiveness of exporters and act as a drag on Japanese equities. Moreover, while deflation is still a big concern in Japan long term bond yields will remain on a downward path.

Traditionally the main players in the JGB market have been domestic. But China has recently emerged as a large buyer of JGB's. This has alarmed the Japanese authorities because they fear China's purchases will further fuel the Yen's rally. Indeed, we have often cited, Japan's proximity to China as a bullish factor for the Yen.

But aside from the Yen's strength, clearly Chinas decision to diversify her foreign reserve holdings through purchases of JGB's will act to not only support that market, but send it higher.

So we judge there are several important factors at work that argue for a bull market in the JGB. And when the current equity market rally loses steam as we suspect it eventually will, bonds globally will rally hard.

In summary, the JGB is a bond market representing an economy that:

- relies heavily on manufactured exports,
- runs a large trade surplus,
- has sizeable foreign currency reserves, and
- has found favour with the world's fastest growing and second largest economy as a store of wealth.

Whatever short-term weakness the bulls are suffering the bulls are powerfully supported in the medium and longer-term.

Mark Sturdy

John Lewis

Seven Days Ahead

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E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM