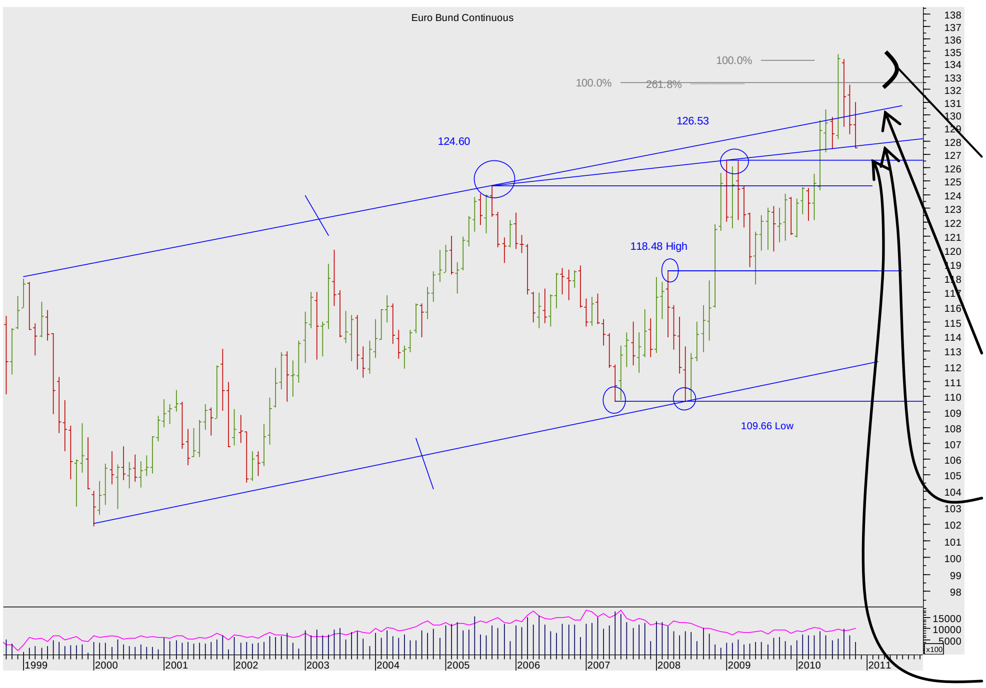
Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details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

Market Update 18th November 2010

Bulls are retracing: no reversal yet

The Technical Trader's view:



MONTHLY CHART

The market has pulled back from the band of Fibonacci resistance beginning at 132.

The first support from the parallel channel at 130 odd was breached –

but we have closed on the second (weaker) support the diagonal from the Prior Highs about 127.65.

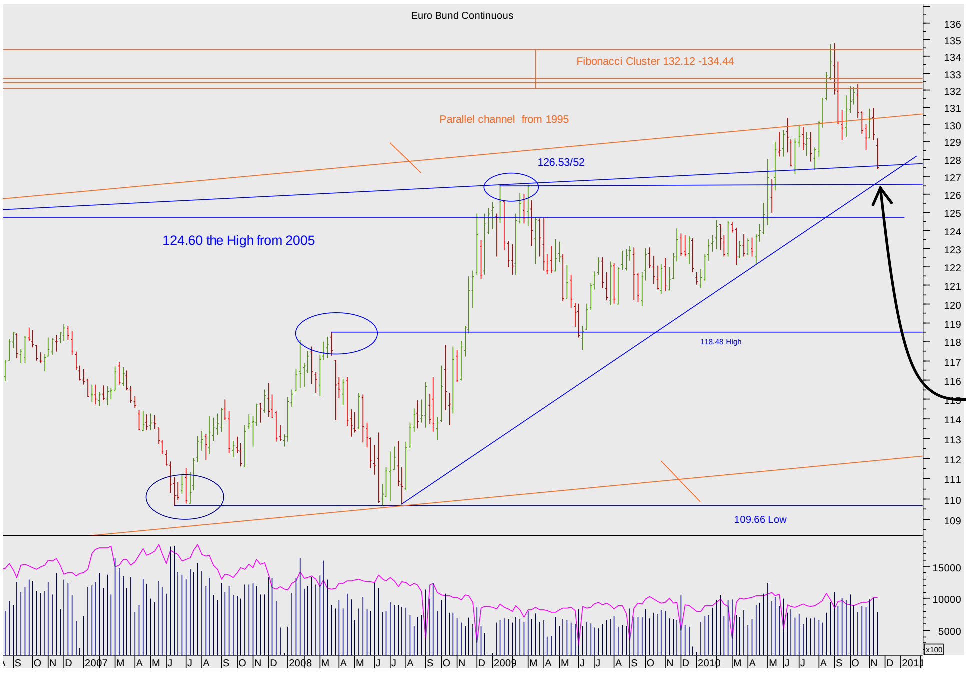
Powerful support only kicks in at the Horizontal 126.53.

And even then it is the top of a band of support really – 124.60-126.53.

Look closer.

Authorised and Regulated by the FSA 124 REGENTS PARK ROADLONDON NW18XL TEL +44 (0) 7849 933573
E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

SEVEN DAYS AHEAD



WEEKLY CHART

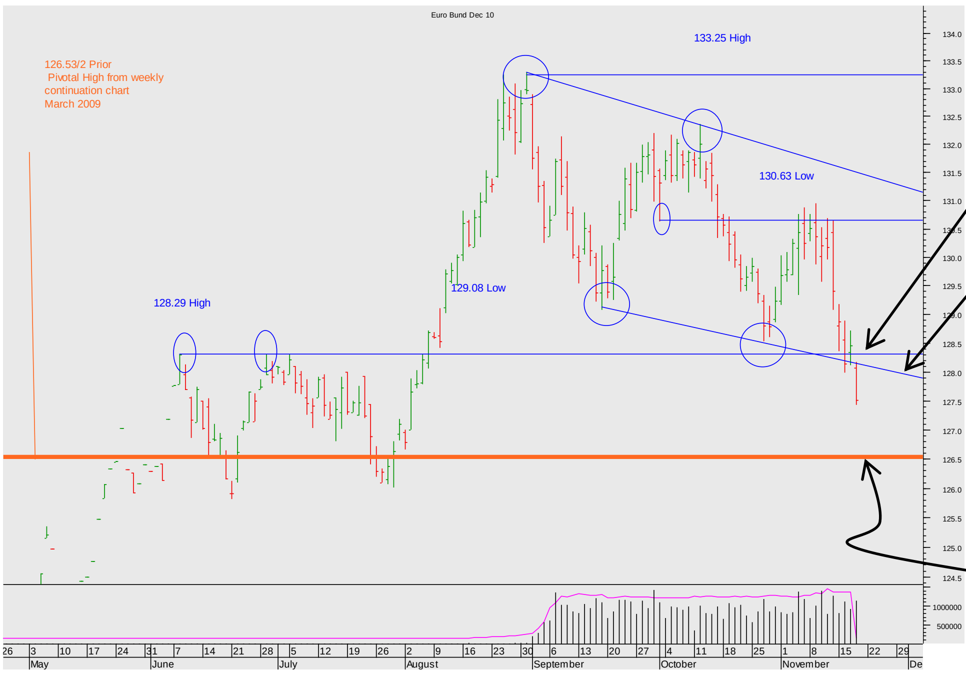
The pull-back from the Fib cluster is clear.

Note that there is no clear Top formation in place yet.

And note too, the near coincidence of the steep rising diagonal (from 2008) and the horizontal 128.53/2.

<u>So far it is a pull-back not a convincing reversal.</u>

But a pull-back that may go further. Again, look closer.



DAILY CHART

The pull-back has smashed down through the support from 128.29 – and note well that that breakdown smashed the weak pivotal support from the two Prior Lows.

Expect that area 128.00-29 to be good resistance on any pull-back.

First medium-term support of consequence is 126.53.

<u>There is no short-term support.</u>

Authorised and Regulated by the FSA 124 REGENTS PARK ROADLONDON NW18XL TEL +44 (0) 7849 933573
E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

The Macro Trader's view:

Is the Long Bull market in the Bund over?

Since June 2008 government bond markets have rallied driven by two major dynamics:

- The financial crisis which powerfully argued for lower bond yields as deflation and slump were feared,
- As a safe haven for traders seeking sanctuary from various scares which on numerous occasions have given rise to risk aversion, especially the Euro zone Sovereign debt crisis earlier this year.

The first time the Euro zone Sovereign debt crisis centred on Greece erupted **Government Bond markets rallied hard including the Bund**. Although the crisis was termed the Euro zone Sovereign debt crisis, it was really focused on several peripheral Euro zone members, which apart from Greece, included Ireland, Portugal, Spain and others.

Ireland acted quickly, initiating a severe austerity budget in the hope of convincing the markets the authorities were in control of the situation and could manage it themselves without recourse to external help, unlike Greece who needed an EU/IMF bailout.

During this period peripheral Euro zone bond yields soared, as traders bought Bunds as a hedge against the risk that the Euro zone could fragment, with the weak periphery forced to leave the Euro. The rationale was the core rump would be fiscally strong centred on the German economy that was starting to enjoy a strong recovery and this **explains why the Bund rallied so hard during that period**.

Several months on we know Greece was "rescued" and an emergency bailout fund was established in case any other Euro zone economy fell prey to similar difficulties. For a while the crisis seemed, if not actually resolved, at least under control.

However, while the German economy continued to enjoy strong growth, others in the Euro zone didn't. In fact Greek GDP slowed, making the deficit reduction targets agreed earlier seem harder to achieve.

But in recent weeks, Ireland has again become the cause of concern as her Banks desperately need restructuring. Unfortunately Ireland doesn't have the necessary resources to recapitalise

Authorised and Regulated by the FSA 124 REGENTS PARK ROADLONDON NW18XL TEL +44 (0) 7849 933573
E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

her Banks. Fearing a collapse of the Irish Banking system, economy and ultimately Sovereign default, the yields of Euro bonds issued by Ireland have soared to record highs.

This has also affected Portugal and Greece with Spain also finding herself in the firing line.

This time though, instead of the Bund futures contract rallying, they have sold off, why?

When the crisis first hit earlier this year, there was a delay in providing the help Greece needed because Germany wanted tough conditions attached. The German Government needed to convince its public that the rescue was in German national interest, and to achieve this she needed to make any future rescue seem like a last resort that would entail penalties including the rescued Country loosing of a degree of fiscal and economic sovereignty.

These conditions were eventually dropped, but Germany has since been pressing for them to be formally adopted in a treaty change together with private Bond investors being obliged to contribute to any future sovereign rescue.

Clearly Bond investors are literally scared by the implications of being required to bailout an economy purely for investing in apparently safe government, low yielding Bonds, and have been liquidating positions as a result.

But there are other factors in play too: negativity towards the Fed's QE2 policy and bearish sentiment in Japan towards JGBs. That is based on the Japanese Government seeming to have precluded its self from further unilateral currency intervention in the weeks leading up to the recent failed G20 meeting when Japan's government criticised South Korea foe currency manipulation.

So can the Bund rally if the crisis is resolved?

That depends heavily on the terms of any deal agreed with Ireland and whether or not the other peripheral economies continue to remain under attack.

Mark Sturdy

John Lewis

Seven Days Ahead

Authorised and Regulated by the FSA 124 REGENTS PARK ROADLONDON NW18XL TEL +44 (0) 7849 933573
E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM