the technical analyst AWARDS 2011 FINALIST

16th June 2011

Market Update:

Stocks are weak, especially the EuroStoxx50

UPDATE
Technical
Fundamental

Disclaimer

SEVEN DAYS AHEAD

Stocks are weak, especially the EuroStoxx50

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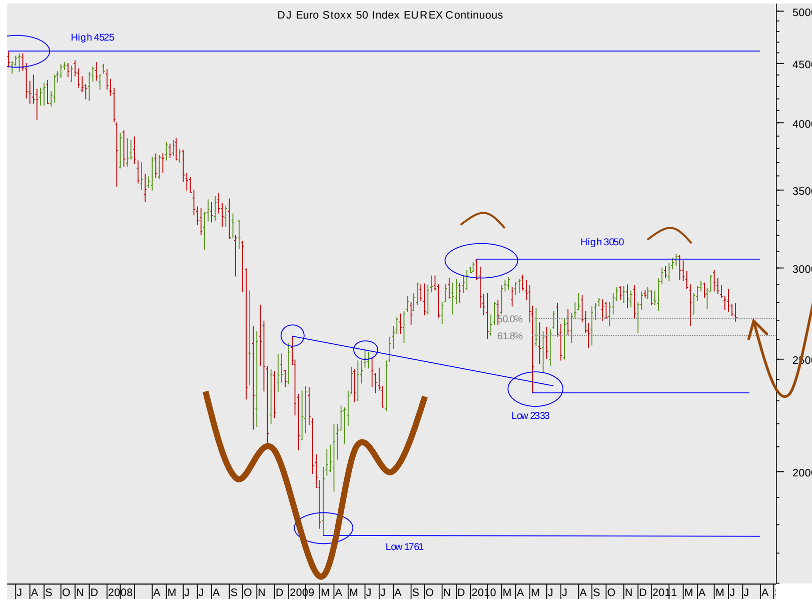
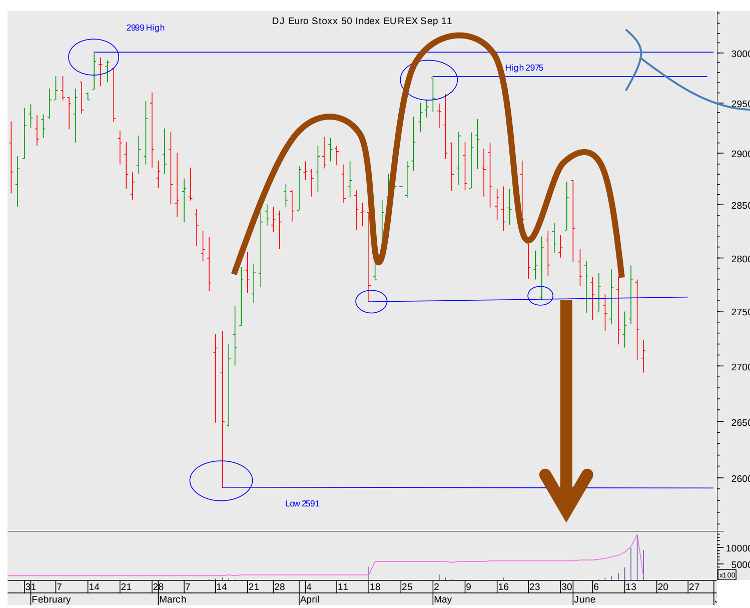


WEEKLY CHART

The market's double failure at the 3050 High is very troubling for the bulls.

Note the support at the 50% pull-back which has already forced a substantial bounce once before…

But there is no clear Top formation in place here…



DAILY CHART

The day chart has a near Double failure (not apparent on the weekly chart) at the 3000 level.

Note too the completion of a bear head and Shoulders at the 2760 level (though there was some uncertainty at the Neckline).

Minimum move for the bears measured from the Neckline?

About the Prior Low at 2591.

The bears are in charge.

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FUNDAMENTALS:

The rally in equity markets globally looks at risk now as traders start to re-assess the health of the global economy. And no matter where one looks, all the major economies are experiencing their own unique and sometimes shared difficulties.

In the US the burden of run away fiscal deficits and clear signs of persistent economic weakness are taking toll on equity markets as investors turn to bonds.

In the UK, the fiscal retrenchment has turned a recovery that was pumped up on fiscal stimulus under Labour, into a more sluggish affair as the current administration struggles to return UK public finances to a healthier path, leading the Bank of England to turn a blind eye to clear inflationary pressure.

In Japan, that economy was already struggling to free its self from the grip of a deflation that has persisted for the best part of two decades, and cruelly just as the authorities seemed to be on the verge of improving conditions, a natural disaster struck earlier this year that swamped the economy and pushed Japan back into recession, requiring the authorities to spend Billions at a time when the rating agencies are starting to feel uneasy about Japans fiscal health.

Even in the much-heralded economies of India and China the authorities are trying to tame inflation induced by growth rates in excess of 8% a year.

But it is the Euro zone that seems to have the most difficult task ahead. The Euro zone came about by the force of political will even though many of the conditions required for an optimal currency area had either not been met or even prescribed.

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FUNDAMENTALS: CONTINUED

Many Euro zone countries have maintained their 1st world lifestyles on the back of public spending. As members of the EU funds were made available to the poorer regions to help develop infrastructure and support regional economies, there has never been an imposed discipline requiring EU member states to keep budgets to GDP or debt to GDP ratios in a sustainable range.

The Maastricht treaty did stipulate acceptable ratios as part of the Euros launch, but have never really been imposed. When core Countries like France and Germany have exceeded these on occasion, how can the weaker periphery be expected to behave any differently?

When economic times were good, these problems were conveniently ignored, but the financial crisis/recession exposed all of these weaknesses and despite repeated efforts to rescue the likes of Greece, Portugal and Ireland with huge amounts of money and externally imposed fiscal retrenchment, the Euro zone sovereign debt crisis goes on.

With the health of the global economy once more under scrutiny and the US sleep-walking towards its own fiscal crisis, are equity markets and in particular the DJ EUROSTOXX50 such a good buy?

Over recent weeks this market has corrected lower, but the correction risks becoming a new bear trend. Greece has seen its debt downgraded to a level where default is imminently expected and although the spot light shines on the hapless Greeks several other peripheral economies aren't fairing much better.

We judge the DJ EUROSTOXX50 looks vulnerable to further material downside weakness since the problems outlined are yet to be convincingly addressed, let alone solved.

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