SUMMARY

POSITIONS

+ S&P and UK Gilt

+ Oil and Dollar Euro

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Key Trade Round Up 11th October 2011

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Summary

There are no outstanding open positions.
This week's closes are crucial in stock and bonds.

We are currently square in all markets, but our underlying views of key markets haven't changed.

The recent rally in equity markets and sell -off in government bonds has been fuelled largely by optimism that the Euro zone leaders were finally getting to grips with their debt problems by announcing their intention to re-capitalise the Banks.

This had an impact on the Euro too, as it recovered lost ground against the Dollar. Additionally the oil market, which trades more like a proxy stock market these days bounced hard, confounding recent bearish analysis.

In our opinion the move to re-capitalise the Banks is a step in the right direction, but it does not address the core issue which is Sovereign solvency. Markets globally have been trading off of the fear that a Euro zone member, probably Greece, will ultimately default and may even leave the Euro zone.

This has thrown the spotlight on the banking sector due to the closely interconnected relationships banks have via funding and their holdings of Government bonds. So clearly a default by Greece or any other Sovereign would have a big impact on the financial system.

But politicians still need to address the core issue of sovereign debt. How they do that depends on their collective political will to act, but we suspect they will again fall short and Greece ultimately default, and perhaps leave the Euro zone.

In such an environment Stocks would be a sell since a deep and damaging recession would likely result with policy makers having fewer tool than in the last financial crisis to deploy.

Bond markets would likely re-emerge as a safe haven buy, but not all of them. Our preference in such a scenario would be US Treasuries. Needless to say the Dollar would also strengthen against most other major currencies, but especially the Euro, although the Yen would probably strengthen too.

As ever, the million dollar question is timing and that is what has vexed us most recently.

For now we are sidelined due to uncertainty generated by the nature of the crisis and the dependence that has on a political solution. Whenever markets are driven by politics instead of economics or technicals they become more opaque, since politicians can and usually do change their stance without a moment's hesitation.

The market that most highlights these dilemmas currently is oil. A recession threatens, but oil remains well -supported as it tracks equity markets, but should the recession hit as we expect, then demand for oil will shrink and the price should fall a long way.

So, in a nut shell, we judge markets are currently correcting. The crisis remains unresolved and recent underlying trends should soon re-assert. But timing is vague, so for now patience is key and we will revert as soon as we identify fresh trading opportunities.

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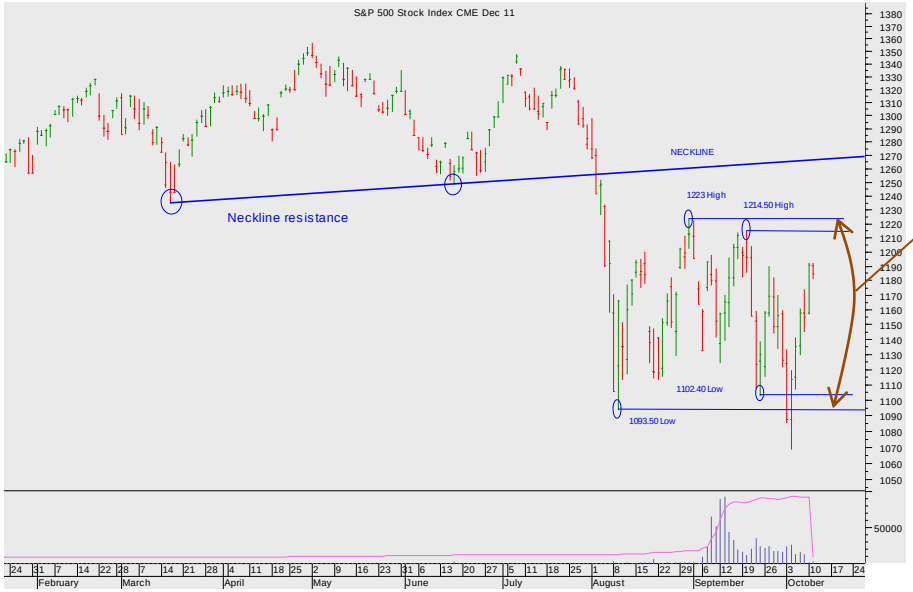
SEVEN DAYS AHEAD

(1) S&P range bound (2) The Gilt's good support



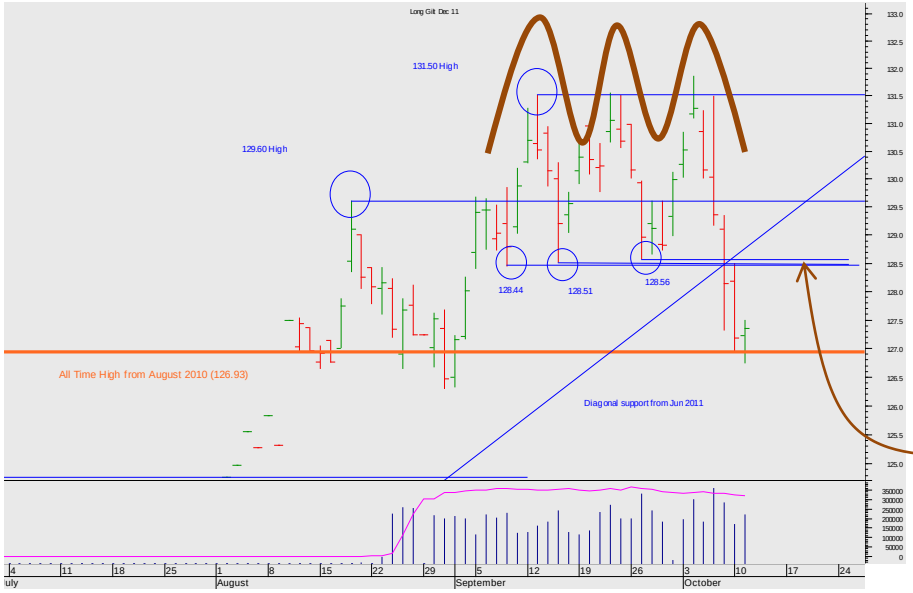
DAILY Chart S&P

The S&P has rallied less than the European markets.

It remains in a clear trading range.

There is good resistance at the top of the range and above that the Neckline of the Old Head and Shoulders Top.

We are keen to get short of this market but will the short-covering drive it further to the top of the range?



Daily UK Gilt Chart

This sums up the uneasy tension between the short-term bearishness induced by a triple top - <u>which has some way to go before it can achieve its bear targets</u> and the support from the medium-term Prior High from August 2010.

The market has bounced from here before.

But we need more evidence of recovery before we can buy... Indeed a drive back through the resistance at 128.50...

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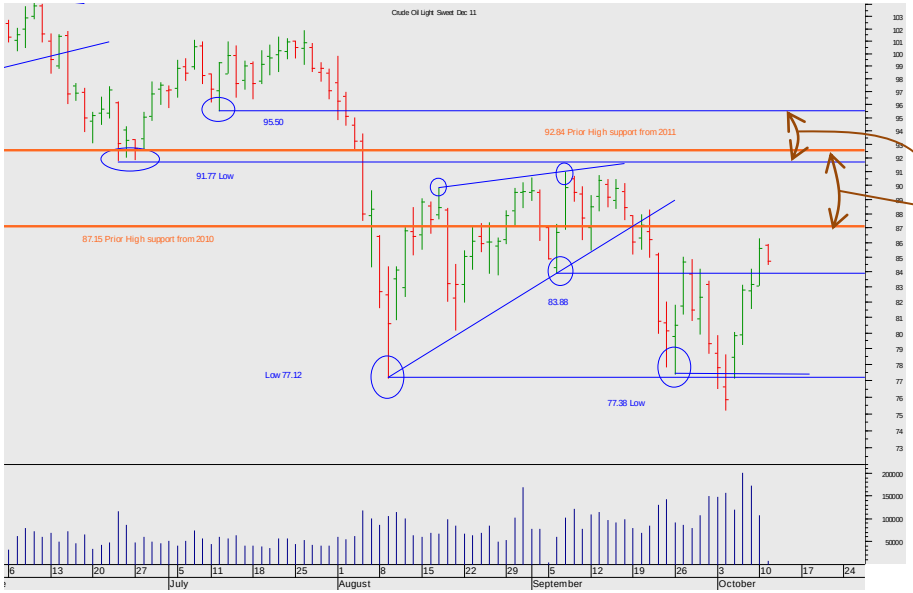
(1) Oil's double bounce (2) The Euro's rally – still short of resistance



Daily Dec 11 Oil Chart :

The market has bounced twice off the support at $77 and that has to be respected.

Yet the overhead resistance at the bands from the prior lows still looks formidable..

We are bears still waiting for a trigger to sell.

Weekly Dollar Euro chart:

The market's retracement has been unspectacular.

The only resistance of note is still some way above the market at 1.3841.

The Euro bulls look weak.

We remain interested in selling the Euro.

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the technical analyst
AWARDS 2011
FINALIST

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