



5<sup>th</sup> July 2012

# Market Update:

## Can the FTSE keep going?

UPDATE  
Technical  
Fundamental





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## FUNDAMENTALS:

The UK economy continues to struggle, with Q1 GDP confirming the economy is back in recession. In fact the most recent release of Q1 GDP showed the recession is a little deeper than thought.

But despite this weakness the FTSE has enjoyed a solid rally which began at the start of June and shows little sign of fatigue. What makes the rally all the more remarkable is the emerging weakness of the US economy and the continued weakness of the Euro zone economy. And although last weekend's Euro zone Summit offered markets some support as a result of the decision to allow the various Euro zone rescue funds greater flexibility by lending directly to the stricken Euro zone Banks, it still falls short of resolving the Euro zone Sovereign debt crisis.

In the UK the Bank of England is concerned the UK economy remains highly vulnerable to further negative developments in the Euro zone. Today the Bank agreed to expand further its asset purchase program in an effort to kick start a recovery.

But after a previous injection of £325B will they have any success?

So why is the FTSE so bullish, and given the current LIBOR scandal engulfing some of the UK's leading Banks, especially Barclays, which has just lost its CEO and had its credit rating put on watch, one could be forgiven for thinking the market should be under downward, rather than upward pressure.

We judge the market is currently supported by a wave of positive sentiment.

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### FUNDAMENTALS: CONTINUED

What fuels this current optimism is the belief that the Euro zone authorities might just be starting to move beyond their blanket policy of austerity, to include growth.

The German Chancellor surprised markets at last weekend's Euro zone summit when she agreed to allow direct lending from the Euro zone rescue funds to the Blocs stricken Banks.

The ECB has today reduced interest rates to an all time low of 0.75% as they now judge the politicians are finally taking some small positive steps towards a solution to the debt crisis and are prepared to offer their own support. Previously the ECB seemed unwilling to act as they judged the solution to the debt crisis was political rather than the responsibility of monetary policy alone.

Add to this a growing belief that there might yet be a wider stimulus organised to help support the Global economy, especially the US and equity traders are feeling bullish.

However all is not as plain sailing as it seems. The Chinese have just delivered a surprise interest rate cut in an attempt to bolster their own flagging economy and at a recent FOMC meeting the Fed extended its policy of twist in an attempt to suppress longer dated bond yields.

So given the complexity of the current economic environment and the major hurdles still standing in the way of a sustainable economic recovery is the current rally in the FTSE a false dawn or can it continue.

We judge it can but only if equity traders continue to believe the politicians in the Euro zone are finally coming together to find a solution to their debt crisis that relies not just on austerity but promotes growth too. But be careful; sentiment can change quickly.



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#### SEVEN DAYS AHEAD

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