

18th October 2012



Market Update:

The Bunds are topping out

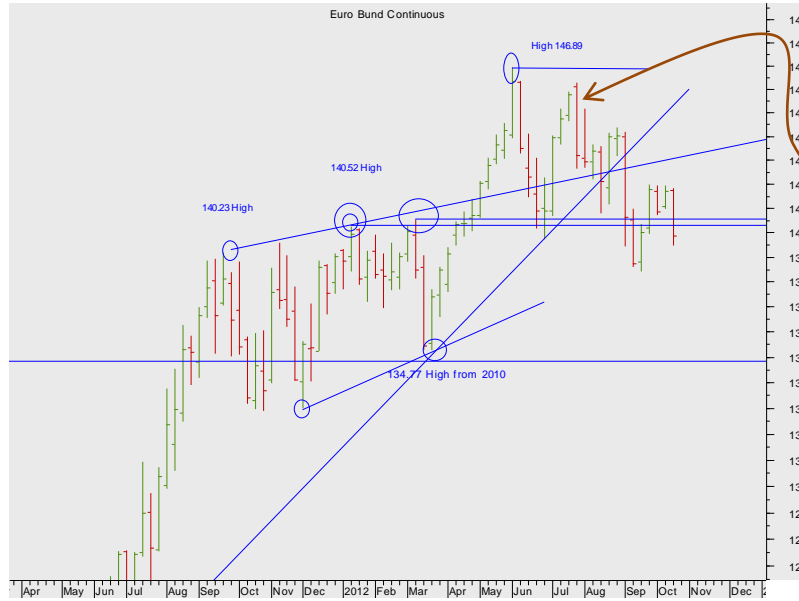
UPDATE
Technical
Fundamental





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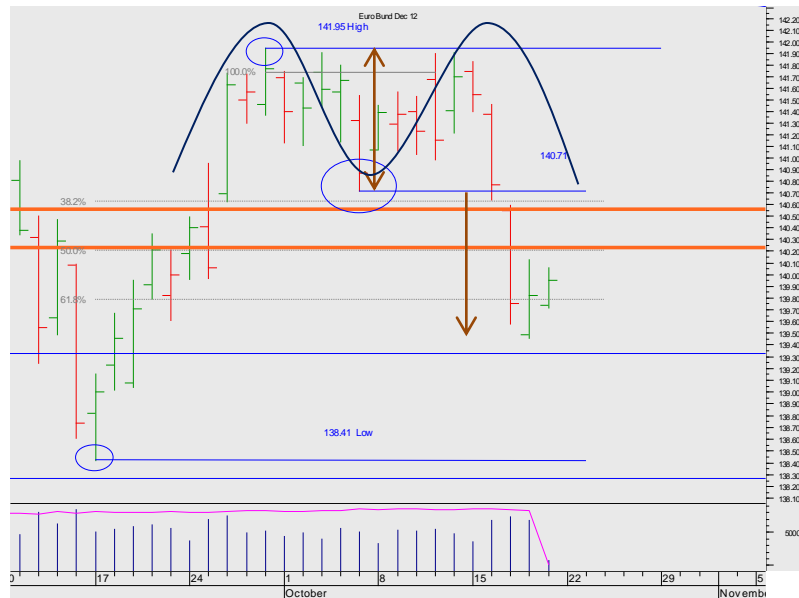
UPDATE
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WEEKLY cont. CHART

The market looks to have made a determined break beneath the good support from the Prior Highs 140.23 and 140.52.

There is one weekly Key Reversal on this chart.



Weekly Dec 12 CHART

The Dec 12 has a fine small Double Top in place.

The minimum move has been achieved, no question.

But the pressure remains.

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FUNDAMENTALS:

The Euro zone Sovereign debt crisis has dominated markets since it first broke, around three years ago. Initially the problem was seen mainly affecting the weaker peripheral states of Greece, Ireland and Portugal.

All three were offered rescue deals financed by the EU/EZ/IMF in exchange for harsh austerity measures designed to rein in inflated public deficits and reduce unsustainable debt to GDP ratios.

It wasn't long before the problem spread to other states initially considered less vulnerable such as Italy, Spain and even France. While France and Italy decided to act before the markets and rating agencies picked them off, the crisis forced the government bond yields of the affected countries very much higher.

The result was that traders/investors sought safe-haven assets. Of these the Bund stood out and for a couple of reasons:

1. Issued by the AAA rated German government, the Bund was seen as virtually risk free since the ultra cautious monetary and fiscal German policy stance almost guaranteed German public finances would remain in the rudest of health,
2. Since the Euro zone is a single currency Bloc, there were no national currencies for traders/investors to sell, but they could sell the government bonds of the troubled nations and buy German Bunds as a proxy currency trade instead.

That was what happened, as the yields on Irish, Greek, Portuguese, Italian and Spanish debt soared, those of the German Bund collapsed.



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FUNDAMENTALS: CONTINUED

But over recent weeks that scenario has begun to reverse; why? The Euro zone debt crisis is far from resolved.

We judge the news flows from the Euro zone are now reporting more of what we already know, rather than reporting fresh bad news, so in other words traders already know the situation is bad and that the Euro zone leaders are still flailing around in search of a solution.

But while this goes on, the US economy has survived the crisis despite dire warnings of impending global economic gloom. True the US Federal reserve has had to deploy several tranches of QE in an attempt to revitalise the economy, but never the less the US economy continued to grow, albeit sluggishly.

More recently though, US data has begun to pick up, only this week two housing market reports turned very much stronger. Additionally the Q3 US earnings reporting season has been better than expected and this has led to a recovery in risk taking, note the decline of the Dollar.

But of greater interest, the safe haven Government Bond assets such as the Bund have lost their allure. Not only is the Bund off its highs but is beginning to look ripe for a correction lower.

Indeed if this week's EU summit produces any agreement on a way of resolving the debt crisis, what currently looks like a burgeoning correction could turn into something a little more significant; an unravelling of the crisis Bull run enjoyed by the Bund.



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