7th December 2012

Market Update:

Irrepressible Bonds

UPDATE
Technical
Fundamental

Disclaimer

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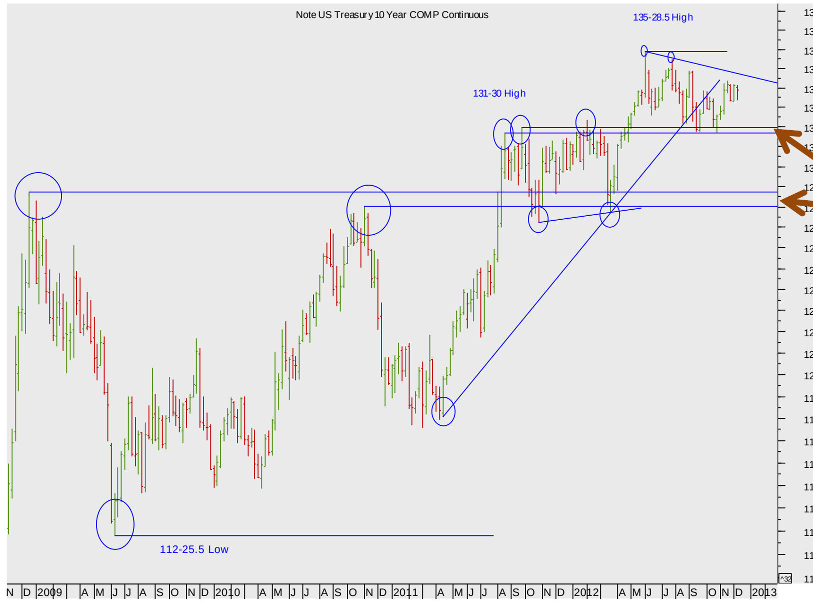
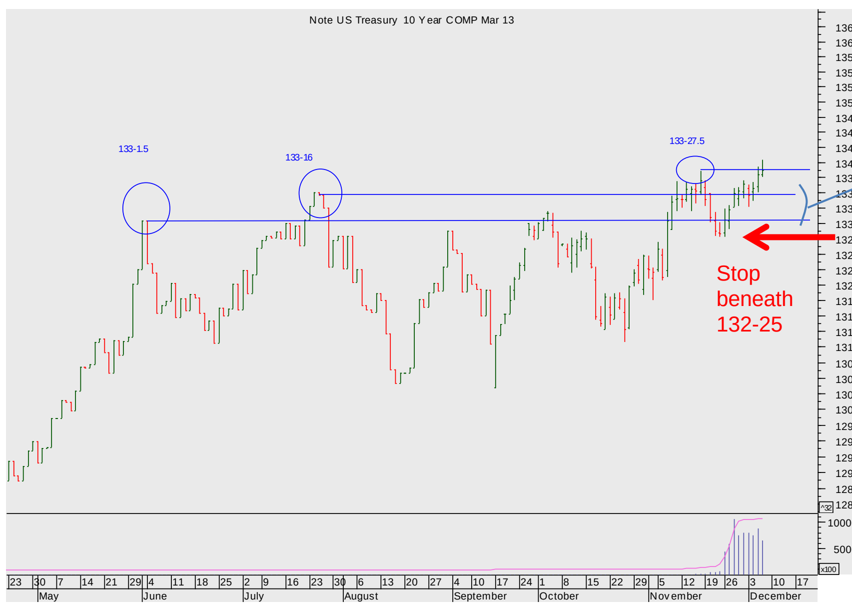


WEEKLY TNOTE CONTINUATION CHART

This is a market that is ratcheting itself better in fine style.

The horizontal support from Prior Highs are acting as good support ….



MAR 13 TNOTE DAILY CHART

And now the market has found clear support at the medium-term clear highs in June and July 2012.

The next bull leg has begun. Either wait for a confirmed break above 133-27 (with a close stop beneath that level) or buy now with stops beneath 132-25

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FUNDAMENTALS:

The US Bond market has proved a resilient animal throughout much of this year. Indeed on several occasions some market participants had called time on the long bull run in Bond markets as the US economy plodded through a recovery that at one point looked like speeding up.

However, the recovery slowed and the Fed was obliged to deliver yet another round of QE, but before that could take effect the eastern seaboard was hit by a mega storm that caused damage on an unimaginable scale and has seriously disrupted the nations economy.

Add in the much-discussed fiscal cliff which is also having a depressing impact on the economy as the politicians continue to engage in a Mexican stand-off in the hope the other side will blink first.

Initially, traders assumed a deal would be done to avoid the $600 Bn hit the economy would take if the President and Congress couldn’t find a formulae that voided going over the Cliff, **but now markets are much less confident.**

The two sides appear deadlocked and the Treasury Secretary has said publicly this week that the Administration is perfectly prepared to go over the cliff. This has worried markets and led to Bond buying. <u>The Fed Chairman has already made it clear the Federal Reserve lacks tools to offset the damage going over the cliff would do to the economy which would almost certainly plunge the US economy into recession.</u>

However the fiscal cliff is only part of the US’s fiscal problem.

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FUNDAMENTALS: CONTINUED

Even if the politicians come to there senses and do what is necessary to avoid this disaster, the much bigger problem of how to shrink the massive US budget deficit and bring debt to GDP ratios back under control remains.

The newly re-elected Democrat President obviously feels less inclined to agree to Republican measures to control the deficit, let alone avoid the fiscal cliff, so a prolonged period of uncertainty looks highly likely.

Add to that the worsening outlook for the Euro zone economy which is firmly in recession. Moreover the ECB has now this week reduced its growth forecast for the Euro zone and raised the real prospect of cutting interest rates from their already historically low level of 0.75%.

As if that wasn't bad enough, the Deutsche Bundesbank has today downgraded its own forecasts for German growth. To date the German economy had been an almost lone beacon of economic hope, if Germany slips into recession under the weight of the Euro zone crisis, what hope for the rest of the Euro zone?

So for Bonds, the bulls will be back. The prospect of recession in the US combined with recession in the Euro zone, which together accounts for around 50% of global GDP bodes badly for the global economy, hence why the OECD recently raised the prospect of a global economic recession.

In summary, **the crisis-driven long bull market in government bonds looks like it has further to go** as the developed world's governments are fast running out of policy levers to pull , **buying their own debt as a means of inflating their money supply the only option that they seem to have left.**

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