the technical analyst AWARDS 2011 FINALIST

23rd May 2013

Market Update:

Sell the German Bund

UPDATE
Technical
Fundamental

Disclaimer

Sell the German Bund

UPDATE
Technical
Fundamental

Bund WEEKLY CHART

Is this the moment of truth for the Bund?

1. The triple failure at the 147 level,
2. The failure of the continuation triangle
3. the breakdown through the rising diagonal from August last year…

<u>None of this is yet compelling in the weekly chart.</u>

A multiple top would require a breakdown through the lows 141.28 and 138.41.

But the bear evidence is growing.

Bund DAILY JUN13 CHART

This is <u>much more telling</u> though.

Note the clear failure at the old High Pivot.

In microcosm, there was a continuation bull Triangle that failed.

The bear trend created a bear continuation triangle just above good horizontal Prior High support.

Note the breaking of that support from the catalyst of the Triangle.

Note too, **the Fibonacci levels that are working well – as temporary supports but they are breaking.**

Disclaimer

More

Sell the German Bund

UPDATE
Technical
Fundamental

FUNDAMENTALS: For so long the Bund has been a leading safe haven asset, favoured by traders/investors seeking shelter from the storm that is the Euro zone sovereign debt crisis.

And although the debt crisis isn't resolved, even after several Sovereign bailouts and the implementation of draconian austerity programs in several Euro zone economies, the crisis has eased its grip on the psyche of traders/investors.

This is quite remarkable since the Euro zone economy is firmly in recession. But despite this, the DJEUROSTOXX 50 stock market has enjoyed a solid rally. Much of that move has been driven by sentiment derived from the US and Japan.

The US recovery continues, albeit at a sub-par rate, and Japan's economy has received an adrenaline shot from 'Abenomics' and the ultra easy monetary policies of the Bank of Japan.

Naturally, as the leading equity markets rallied on growing optimism that the world economy might at last be heading towards a sustainable recovery, government bond markets began to test the lows.

However, over recent weeks traders have been spooked. The JGB in Japan has weakened, amid great volatility, on fears the ultra easy policy of the BOJ will unleash hyper inflation and prove more damaging than beneficial.

At the same time the recent FOMC minutes delivered a confused set of signals from the usually crystal clear Fed.

SEVEN DAYS AHEAD

Buy the Nikkei at these cheap levels

UPDATE
Technical
Fundamental

FUNDAMENTALS

The result has been a correction in equity markets. The Japanese market has led the way, but after a stellar rally over the first five months of the year a correction was inevitable at some point.

But other equity markets have wobbled too and even though Fed officials have since tried to allay the fear of am imminent policy change at the Fed, the confidence bubble for now has been pricked.

Has the Bund returned to its previous safe haven bull trend? No!

The Bund, throughout all of this uncertainty, continues to look vulnerable to the downside, as traders preferred to seek fresh buying opportunities in equity markets, rather than rush back into safe haven trades.

We judge this makes the Bund look very prone to bearishness. If a bond market is unable to draw support during a time of uncertainty and equity market weakness, where will its support come from once traders rediscover their risk appetite? Obviously the Bund will further test the down side.

In the short/medium term we expect traders to refocus on the current reality which is the Fed will keep its easy policy in place until the US economic recovery is self-sustaining, which is not the case right now.

Additionally, the Bank of Japan has set its policy objective as getting CPI up to 2.0% in the next two years. Both the US and Japan are therefore set to keep pumping enormous amounts of liquidity into their economies. **That will drive equities higher and bonds, including the Bund lower.**

UPDATE
Technical
Fundamental

SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL msturdy@sevendaysahead.com,
jlewis@sevendaysahead.com pallwright@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM