



27<sup>th</sup> September 2014

the technical analyst

AWARDS 2011

F I N A L I S T

# Market Update:

## Sterling bulls, Euro bears...

UPDATE  
Technical  
Fundamental

[Full performance of  
our Key Trades  
recommendations  
2006-14 here](#)



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### Monthly chart

The pull back is reaching a critical level - the horizontal from the Prior Low in 2012 is also an important Fibonacci cluster...

**If that were to break the Sterling bulls would really get going...**



### Daily chart

This suggests that there is real bear Euro momentum to at least test the important 0.7770 level...

**Note well the breakdown from the trading range from mid July 2014...**

**The test of the important medium-term level of 0.7770 is about to begin.**



### FUNDAMENTALS:

Sterling has enjoyed almost a one year rally against the Euro, driven by the divergence of the UK and Euro zone economies.

When the financial crisis hit and led to recession, the Pound was hit hard on the foreign exchanges.

Traders saw a country that had enjoyed a huge debt binge in both the private and public sectors and a Banking system literally on the brink of collapse. The country faced an almighty hangover that almost all economists and analysts judged would lead to a long, deep and damaging recession.

In the event policies were put into place that were difficult to bear but aimed at achieving two goals;

1. Reduce the budget deficit and ultimately the debt to GDP ratio, and
2. Foster a recovery that was sustainable, broad based and grounded on policies that were affordable.

The first is still a work in progress. The deficit has been greatly reduced, but is still too large, but the second aim has been achieved.

The UK economy is embarked on a strong recovery that is now self-sustaining with low inflation with unemployment falling sharply. The Bank of England is engaged in a debate about when to begin the delicate process of raising rates.

In the Eurozone the economy is still struggling to recover. Italy and France are still either in or on the cusp of recession and the German economy has cooled. The ECB has cut interest rates to the bone and looks set to begin a QE policy in the near future to prevent current very low inflation turning to deflation..

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## FUNDAMENTALS: CONTINUED

The contrasting economic health of the UK and Eurozone makes the Pound a strong buy against the Euro, as these fundamentals continue to influence the decisions of traders/investors.

But the Pound's rally hasn't been without risk:

1. The recent Scottish referendum place a question mark over the UK as a political and economic entity, now thankfully resolved,
2. A general election is due in less than a year and the opposition Labour party currently leads in opinion polls which is a worry given its increasingly leftist sounding economic policies, which hark back to policies that nearly ruined the economy,
3. The current Conservative Prime minister has given a pledge to give an in out referendum on the UK's EU membership if the Conservatives win the next election which is a source of concern to business given the uncertain nature of life outside the EU.

However, these are risks that aren't about to materialise in the short/medium term. A year is a very long time in politics.

In short, the price action in Sterling/Euro remains driven by economic fundamentals. The Euro remains saddled with a sclerotic economy comprised of countries that seem unwilling to under take long term economic reforms. The Pound Sterling by contrast is supported by a still - strengthening economy, based on sound economic policies. There is a medium term prospect of higher interest rates.

So the Pound looks set to rally much further and recover yet more of the ground previously lost to the Euro at the start of the financial crisis/recession.

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#### SEVEN DAYS AHEAD

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