21st September 2015

the technical analyst
AWARDS 2011
FINALIST

Multi-Asset Update:

UPDATE
Technical
Fundamental

The UK Gilts are underpinned

[Full performance of our Key Trades recommendations 2006-15 here]

Mark Sturdy
John Lewis

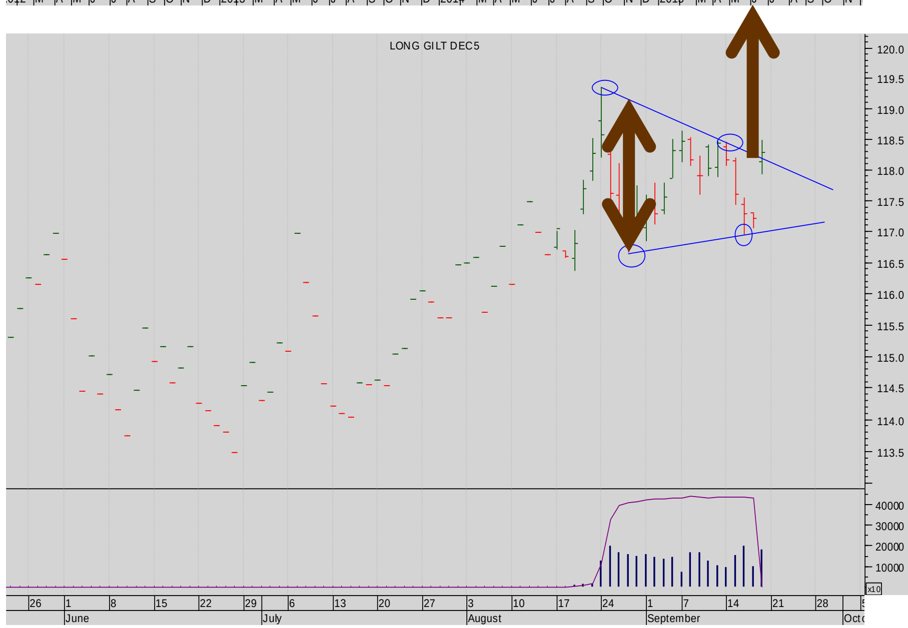
Disclaimer

The UK Gilts are underpinned

UPDATE
Technical
Fundamental

iShares UK Gilt ETF weekly chart

The market has completed a bull wedge that has been created since the beginning of 2015.



Dec Gilt futures daily chart

Short term there has been a completion of a continuation Triangle suggesting a move to 121 or so as a minimum move.

Disclaimer

More

The UK Gilts are underpinned

UPDATE
Technical
Fundamental

FUNDAMENTALS:

After a prolonged period of uncertainty in financial markets, all eyes were on Thursday's FOMC meeting to see if the Fed would finally pull the trigger and raise US interest rates.

In the event US policymakers demurred and left interest rates unchanged, despite months of warning that US interest rates needed to rise as the US economy recovered and the labour market tightened;

So why didn't they raise rates? And why does it matter to the Gilt?

The Fed ultimately decided to leave rates unchanged for two main reasons:

1. They were concerned about the weakness of China's economy, the impact that has already had on global equity markets and the impact it could potentially have on the Global economy.
2. They revised down their own forecast for growth and inflation as a result.

In reality, the US economy has only been registering moderate growth and even the Fed acknowledges that and inflation remains tame. But they were seeking to tighten policy due to the exceptionally low level of interest rates, the bloated size of the Feds Balance sheet and the need to begin moving towards normalisation in small gradual steps so as not to unsettle markets and derail the economic recovery. In leaving policy unchanged markets remain unsettled as <u>the period of uncertainty has been lengthened.</u>

The UK Gilts are underpinned

FUNDAMENTALS: CONTINUED

All of this matters to the UK Gilt market because the Bank of England has also been warning of the need to raise rates sooner rather than later as the economic recovery becomes more entrenched, and traders expected the Bank to follow, rather than lead the Fed. Now the Fed remains on hold the Bank will struggle to act alone.

In the UK the economic recovery has already moved down a gear and inflation as measured by CPI is at a year on year rate of 0.0% against the Central Banks own target of 2.0%, so how can the Bank justify hiking rates?

Much like the Fed, the Bank of England nurses a bloated balance sheet inflated by its own QE program. With rates also close to zero it judges the move towards normalisation is best done gradually and in small steps.

But China has upset the calculations of these two Central Banks.

Moreover, the oil price remains close to recent lows and will continue to bear down on inflation. Additionally, the ECB has let it be known that its own QE program will be extended beyond the original September 2016 end-date as it struggles to revive the Euro zone economy and drive inflation closer to target. And then there is Japan, an economy that continues to underperform with inflation remaining worryingly close to zero.

In summary, neither the international environment nor the domestic UK economic environment of not too strong growth, zero inflation and a Government dedicated to restoring the nations finances are crying out for higher rates. And with equity markets continuing to look vulnerable after last night’s FOMC decision, the UK Gilt looks capable of a solid rally.

SEVEN DAYS AHEAD

UPDATE
Technical
Fundamental

SEVEN DAYS AHEAD
Authorised and Regulated by the FCA
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

The material and information set out in this research is not intended to be a quote of an offer to buy or sell any financial products. Any expression of opinion is based on sources believed to be reasonably reliable but is not guaranteed as to accuracy or completeness.

The material and information herein is general and for informational purposes only. Although Seven Days Ahead endeavours to provide useful information they make no guarantee as to the accuracy or reliability of the research.
The derivative market comprises volatility and considerable risks. To the maximum extent permitted by law no responsibility or liability can be accepted by Seven Days Ahead, any company or employee within its group for any action taken as a result of the information contained in this presentation. You are requested not to rely on any representation in this research and to seek specific advice from your accountant, legal adviser or financial services adviser when dealing with specific circumstances.

Seven Days Ahead is regulated by the UK Financial Conduct Authority.