

1st April 2019

Market Update: DJEUROSTOXX look Bullish!

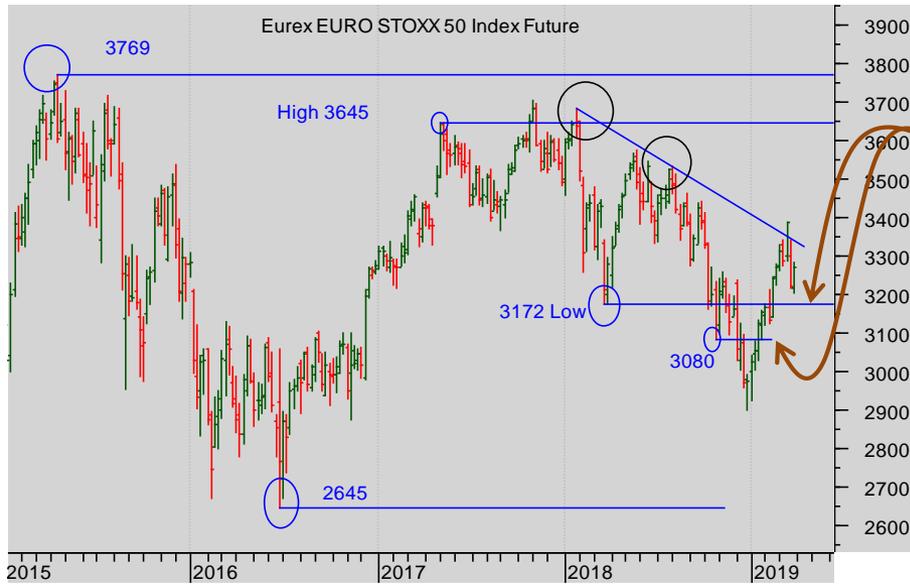
UPDATE
Technical
Fundamental





EuroStoxx look Bullish

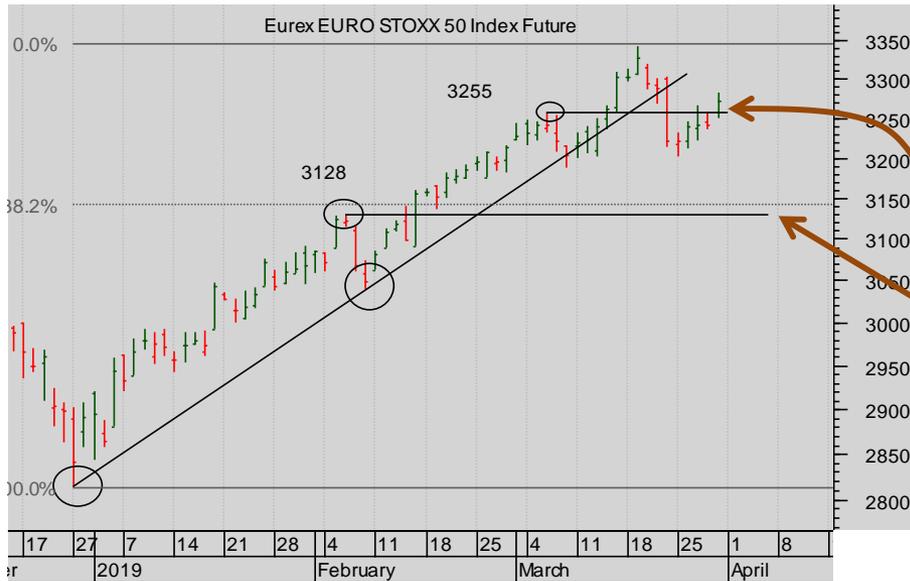
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WEEKLY CHART

The market's rally back up through the resistance from the lows at 3080 and 3172 has been very impressive.

The failure at the falling diagonal is less important than the preceding breakups...



DAILY CHART

The day chart shows that the bears, after having smashed down through the diagonal support from beginning of the year, pushed the market down through the support from the 3255 Prior High but that was quickly negated...

Only a break beneath 3128 and the Fibonacci support there would really get the bears excited.

For the moment the bulls remain in charge.

Disclaimer





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FUNDAMENTALS:

The DJEurostoxx50 has enjoyed a steady rally since early January, despite evidence of a slowdown in the Euro zone economy. Initially the ECB viewed the weakness as likely a temporary phenomena, but at the last policy meeting acknowledged the weakness as something more serious. So much so they pushed back their guidance for any future rate-hike and offered fresh special lending facilities.

The data coming from the Euro zone since that last policy meeting still points to a soft economy, but it doesn't appear to indicate a material further deterioration, this indicates to us that the ECB will be in no hurry to begin easing.

How ever that doesn't necessarily, of itself, explain the price action in this market, clearly there are other forces at work. What are they?

The current US administration has taken a very hard-nosed line with its major trading partners over its trade relationships, not just with China, but also the EU.

Although US President Trump has periodically threatened to hit EU/Euro zone exports to the US with higher tariffs, he hasn't yet followed through, concentrating on striking a new trade deal with China.

The US had announced it would significantly increase tariffs it charges on Chinese exports to the US from 1st March this year if China failed to address US concerns, but at a side meeting at a regional trade forum several moths ago, Trump and Xi agreed to work on achieving a comprehensive trade agreement.

As a gesture of good will Trump postponed the scheduled tariff increases.



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FUNDAMENTALS: CONTINUED

You may well ask what has US/China trade talks got to do with this market, and the answer would be quite a lot.

The US and China are the two world's largest economies and the trade tariffs already imposed by the US and China on each others exports have significantly slowed global trade and retarded global economic growth.

Moreover if the US and China can resolve their differences, the atmosphere may well prove conducive the a resolution of US/EU trade concerns.

Currently the trade talks between the US and China continue and although obstacles remain, there is a clear willingness on both sides to find an agreement.

Since the trade dispute erupted Chinas economy has cooled and the US economy hasn't escaped unscathed. Indeed at its recent FOMC meeting the Fed voiced clearly its concerns about foreign risks to the US economy, that combined with benign US inflation led US policy makers to expand their monetary policy pause which now resembles a change to a neutral stance.

These developments haven't been lost on equity traders. Clearly the combination of optimism that a trade agreement can be reached between the US and China together with the US Fed's current policy stance has helped fuel the rally in global equity markets, including this one.

In summary unless the US/China trade talks break down we judge the positive sentiment those talks are currently generating, together with the more dovish tone from the Fed and the ECB's recent offer of support, will help this market rally further.



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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 SEVENDAYS Ahead.COM

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