



# Bond Technical Strategy - Weekly

2nd November 2007

## Crossroads...

### Market overview

Volatility is on the rise and investor nervousness continues as the financial markets try to assess the long term direction for bond yields. The opposing factors of jittery equities against the increasing concern about inflationary pressures are causing the market to lurch on short term news.

However, my view for bonds remains unchanged. I continue to target 3.6% in US 2 year yields with 4.20% in the 10 year. This should be reflected in 10 year note futures to trading up towards 112.00. This scenario is mirrored in the UK with 10 year yields conclusively below the 5.00% level and on the way to 4.80%. Interestingly, there has been an acceleration in the decline of 1 year UK yields and a major target at 5.00% is approaching. In Europe, bunds remain a buy, but are lagging US treasuries and on a yield spread basis targets at parity remain.

Conversely, the rise in Australian bond yields continues with upward pressure on the 6.30% resistance level. A breach of this important technical point would put the focus on 7.00% for H1 2008. This would only be tempered if the ASX200 equity index falls back below 6500. The S&P 500 Index. The bias remains to the downside here with 1500 targets once again and then 1400 into month end. Any move back over 1555 would negate the view.



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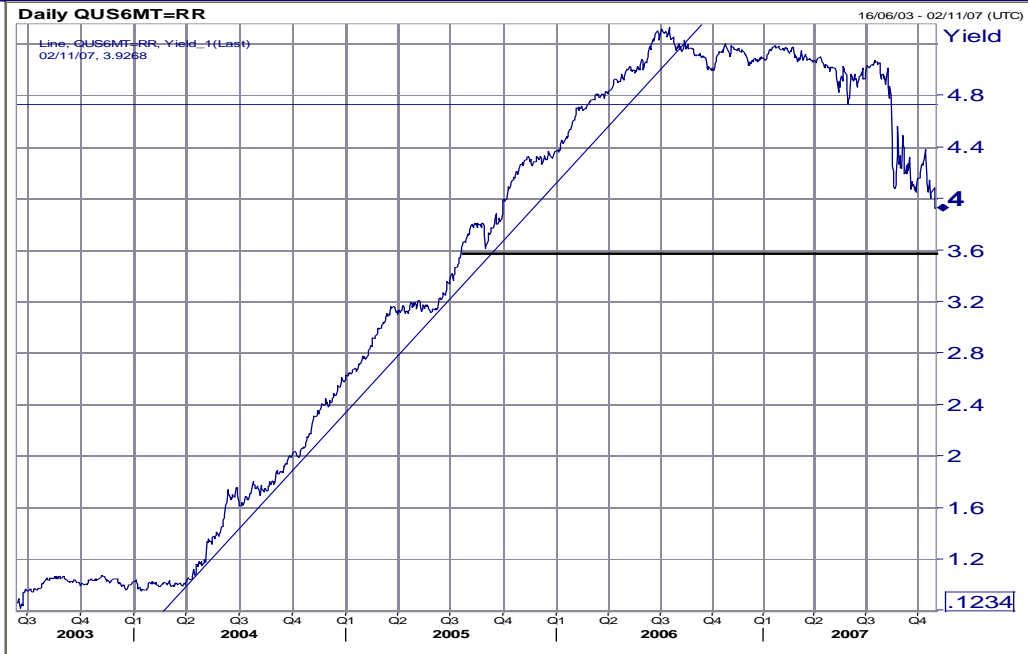
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# Technical Strategy - US 6m yield, US yield spread, T-Note futures

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## US 6 month yield

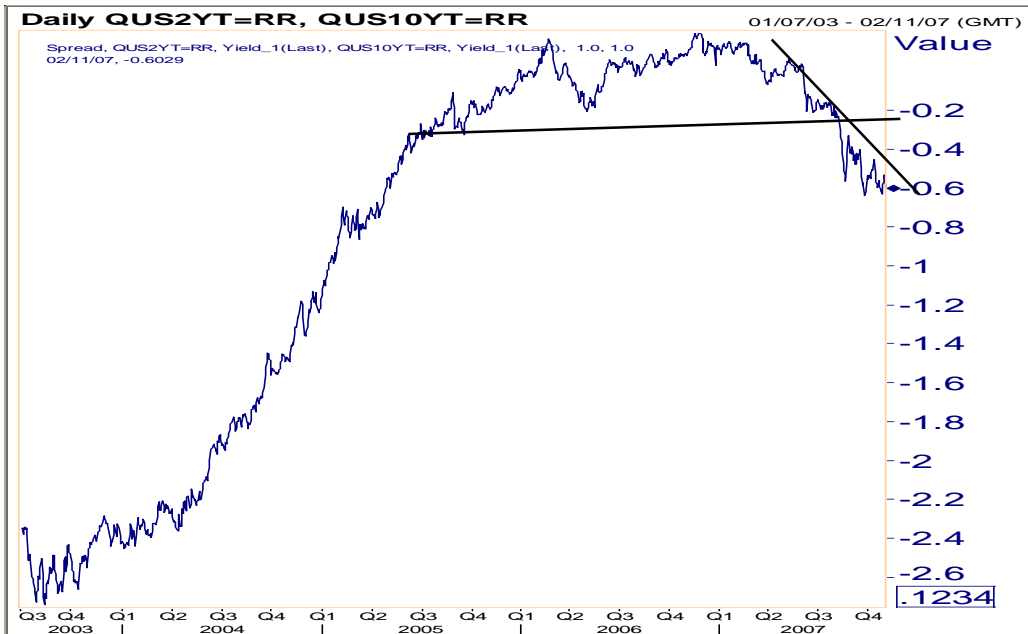
The break of 4.00% is a key technical occurrence and put the focus on 3.60% in Q1 2008



3.6%

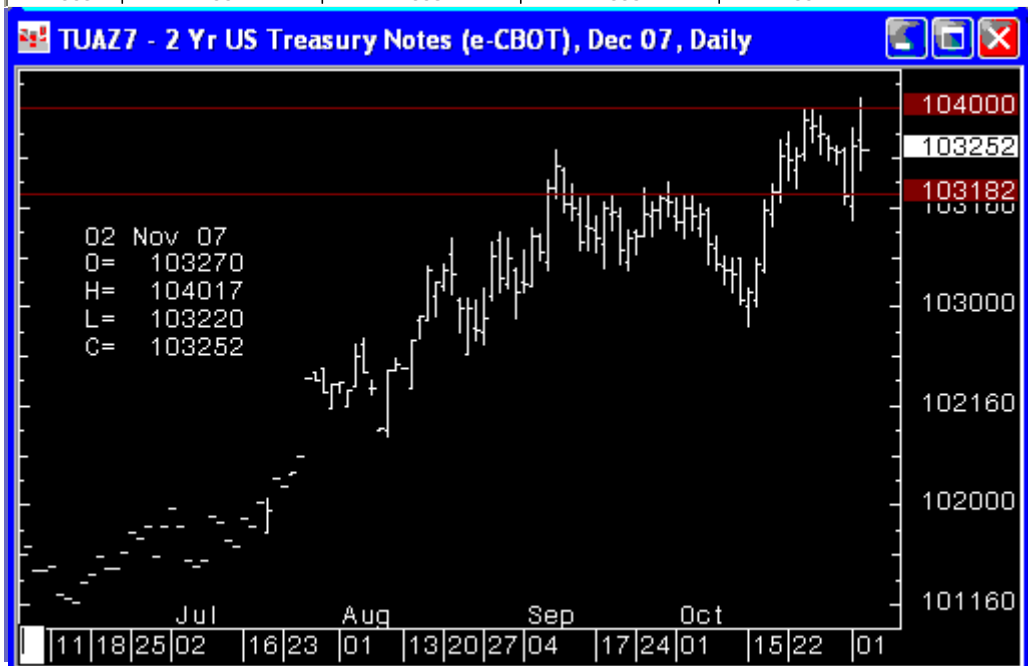
## US 2y/10y yield spread

-1.00% remains the objective. Spreads have consolidated for the past week, but a break downwards should occur for -1.00% with -2.00% the 2008 objective.



## US 2y treasury note future

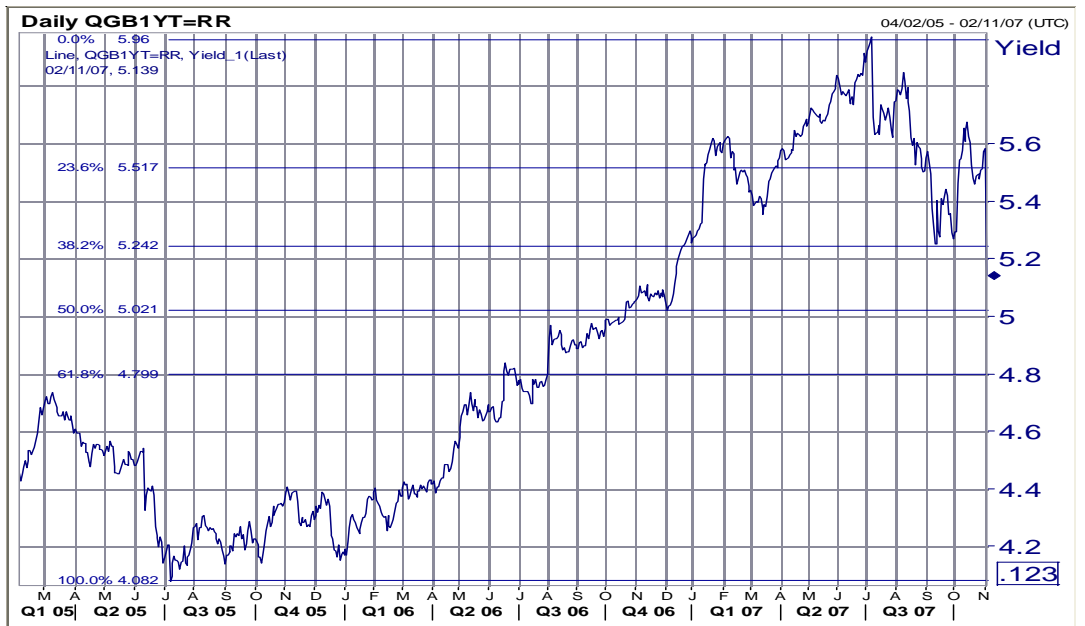
104.00 is a major resistance point. However, my bias remains bullish with targets at 105.00. A close below 103.12 would negate the view.



# Technical Strategy - UK 1 year yield, long gilts, UK 10yr yield

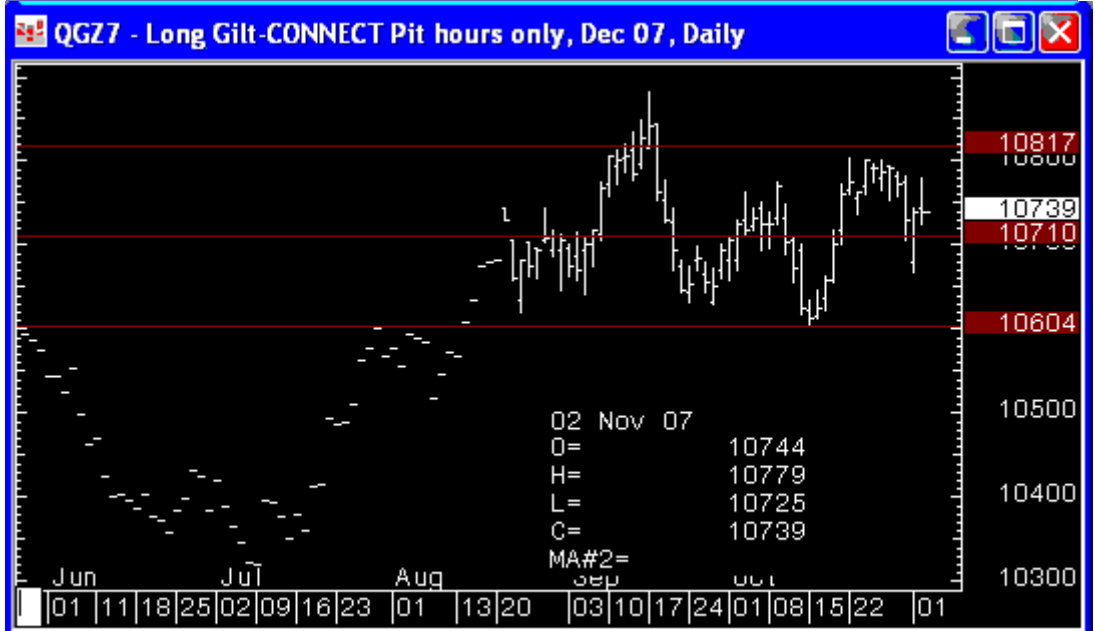
## UK 1 year yield

A head and shoulders reversal has been triggered, keeping the focus for yields to the downside into 2008. 5.00 is the main target and a key psychological and technical level.



## UK gilts

Gilts are range bound. However, my preference remains to buy on pullbacks with targets at 109.00.



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## UK 10 year yield

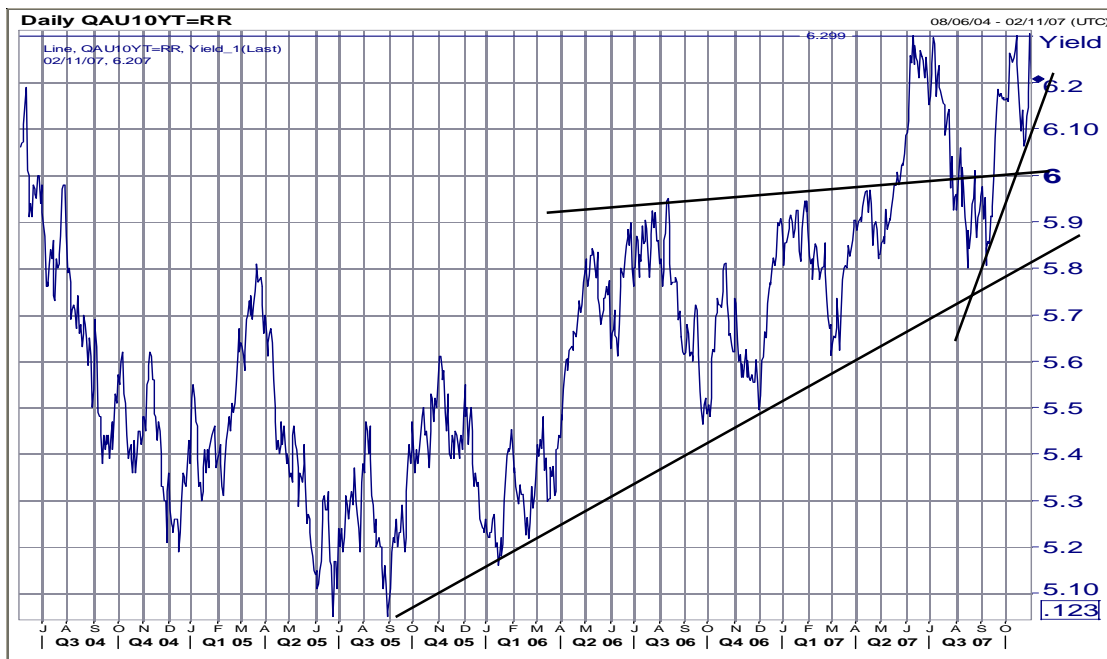
Volatility has picked up here, but my bias towards 4.80% remains and 4.60% into Q1 2008.



# Technical Strategy - Australian & New Zealand 10y yield

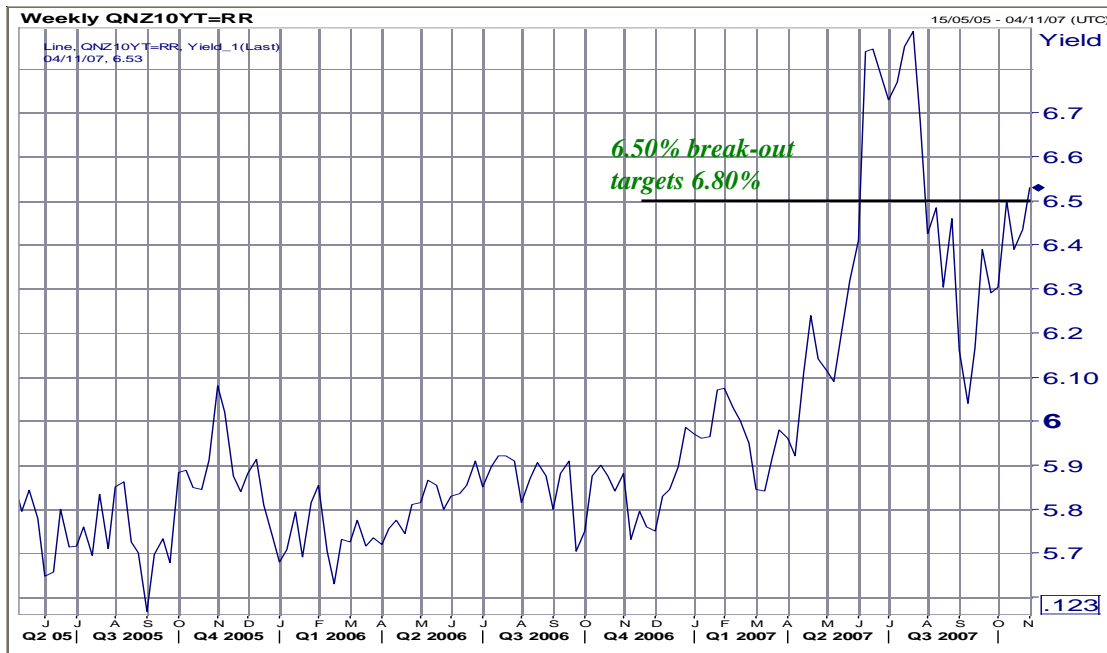
## Australian 10 year yield

6.30% is a key resistance point, but the ascending pressure implies a break over the coming weeks. Objectives are at 7.00%. 2 & 5 year yields are also accelerating upwards.



## New Zealand 10 year yield

Short term resistance has been breached here. The next target is at 6.80% and at the outside 7.00%. Only a close below 6.30% would negate this view.



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