



Bond Technical Strategy - Weekly

5th October 2007

Bonds under pressure

Market overview

Whilst US short and long end bond futures have lost upward momentum, it should be noted that one day does not constitute a trend and, after the dust has settled, the market may well view the current rise in yields as an opportunity to buy bonds.

US 2 year yields remain above the key 4.00% level, which is proving to be a tough psychological barrier, but long term objectives remain at 3.60% and, on a spread against the 10 year, targets remain at -1.00%. The trend in 10 year note futures remains bullish from July despite a rising equity market. However, if the current retracement extends to 108.12, the profile will turn negative into year end.

In the UK, gilts remain a buy on retracements with targets at 108.00. Short sterling remains range bound short term, the bias on a break-out remains positive with 94.12 the target into November.

Bunds continue to grind higher, but the strategy remains to sell against T-notes on a spread basis, with parity the long term objective.

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December long bond futures close to a major trendline below 110.19 and the trend turns negative.

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Technical Strategy - US 2y, US yield spread, T-Note futures

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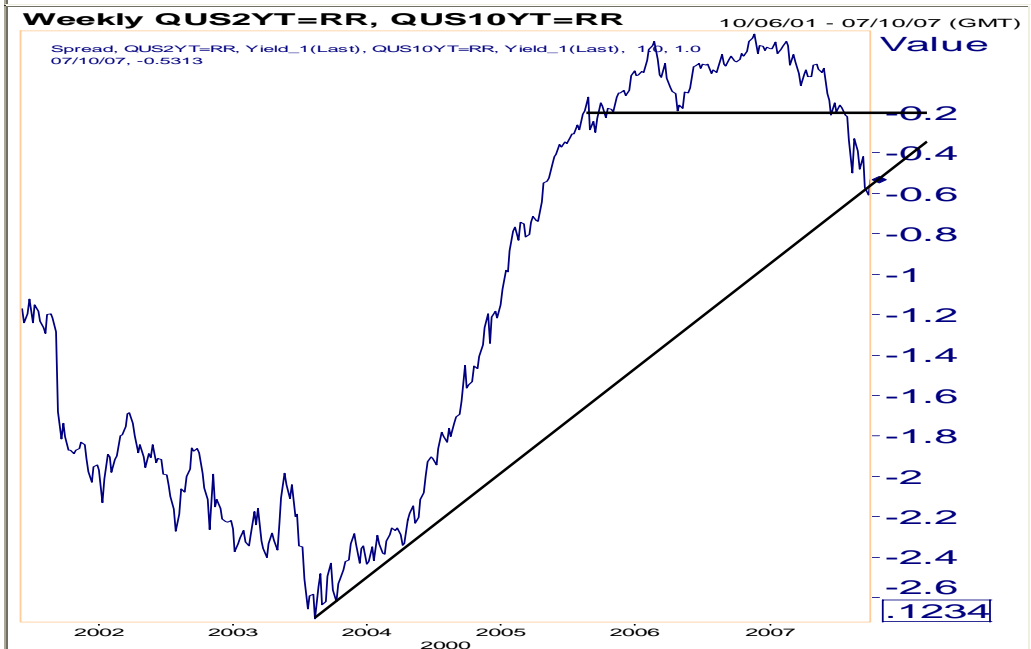
US 2 year yields

3.60% remains the target.
The 4.00% barrier remains key, but should give way as we move into year end.



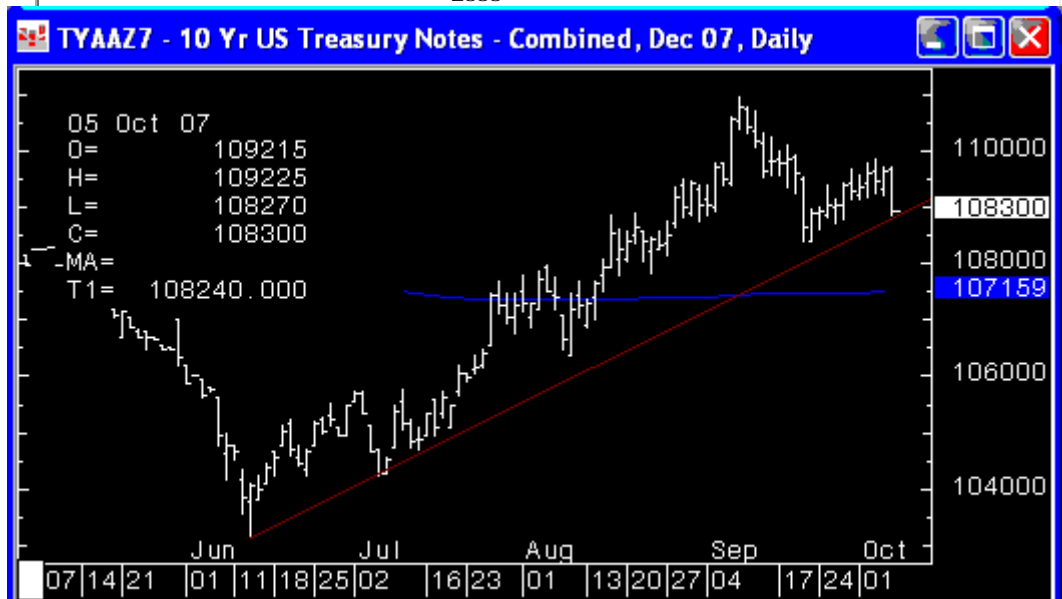
US 2y/10y yield spread

-1.00% remains the objective with retracements towards -0.50 a chance to sell Modest support at the current trendline.



US 10Yr treasury note future

Trend remains positive in the face of rising equities. Bias for 111.00 over the coming weeks with stops below 108.13.



Technical Strategy - short sterling, long gilts, UK 5yr yield

December short sterling

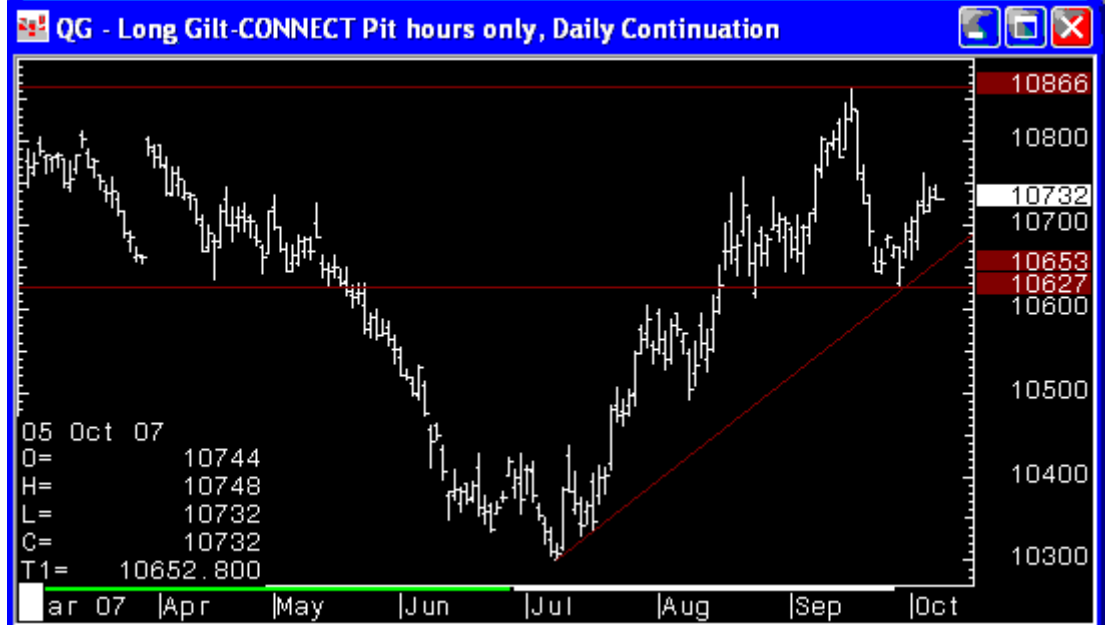
Momentum has stalled, but prospects remain for a move up towards 94.12- A key trigger line.



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UK gilts continuation

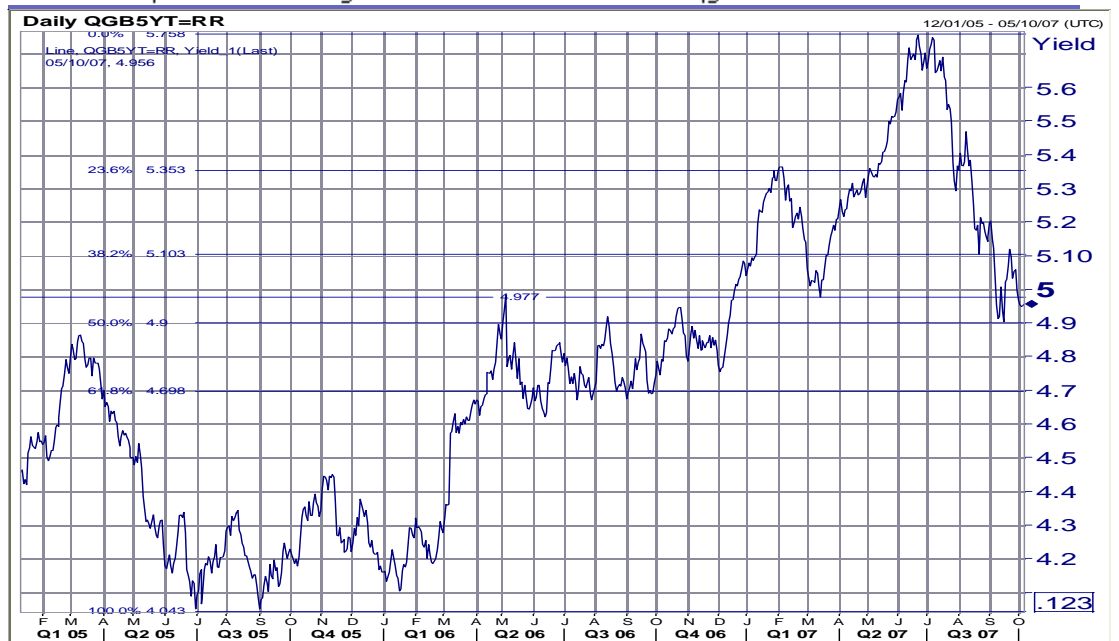
The bias from last week remains positive with targets at 108.66. Stops below 106.50.



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UK 5 year yield

Below the 5.00% psychological barrier with 4.90% a fibonacci retracement support. Objectives are at 4.70% into November. Only above 5.10 would reverse the view.



Technical Strategy - euro BOBL, euro schatz

Euro BOBL

Grinding higher with a modestly positive bias. A break through 108.00 should see momentum accelerate. Stops below the trendline at 107.49

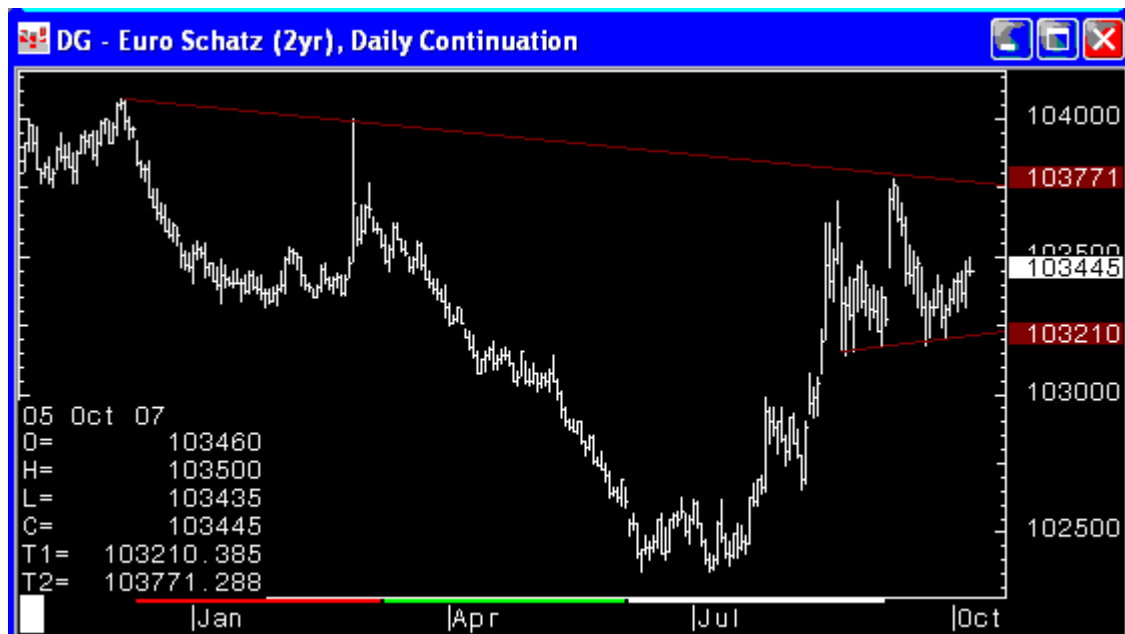


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Euro schatz continuation

Bias to the upside remains with 103.77 the key target line. May well tread water for now. Below 103.21 negates.



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