



Bond Technical Strategy - Weekly

7th December 2007

inflation ?

Market overview

The outlook for bench mark bonds has changed. Regular readers will know that I have been bullish on bonds for the past few months with a bias to buy into retracements. However, the technical scenarios are pointing to a potential large retracement in the current trends, hence the current strategy has to be adjusted accordingly.

The US long bond and bunds have been the first to show sell signals. This is unsurprising as, a) any inflationary fears would affect the longer end of the market and b) on a spread basis bunds have lagged in terms of price rises so are likely to lead any fall. The extent of any retracement still remains to be seen. However, the broad market is due a corrective phase given the strong gains we have seen of late, but for the moment the cautious bias remains.

10 Year JGBs: A rebound in yields is worth monitoring. Whilst the signal is not enough to warrant a strategic rise in yields, it has certainly reversed the Q4 momentum.



Paul Rodriguez, Senior Technical Analyst

Contents:

	Page
Overview	1
US 6 month yield, US yield spread, US/EU yield spread	2
US2 yr notes, US 10yr notes future, US long bond	3
UK1 year yield, long gilts, short sterling	4
euro Bund, euro schatz	5

Client support

Economic Research Team
Trevor Williams
 0207 158 1748
 trevor.williams@lloydstsb.co.uk
Nichola James
 0207 158 1741
 nichola.james@lloydstsb.co.uk
Jeavon Lolay
 0207 158 1742
 jeavon.lolay@lloydstsb.co.uk
Kenneth Broux
 0207 158 1750
 kenneth.broux@lloydstsb.co.uk
Hann-Ju Ho
 0207 158 1745
 hann-ju.ho@lloydstsb.co.uk
Rabia Bhopal
 0207 158 1747
 rabia.bhopal@lloydstsb.co.uk
Paul Rodriguez
 0207 158 1744
 Paul.Rodriguez@lloydstsb.co.uk
Distribution
 Sarah Pedder, 0207 158 1746
Information Manager
 Hugh Geen, 0207 158 1740

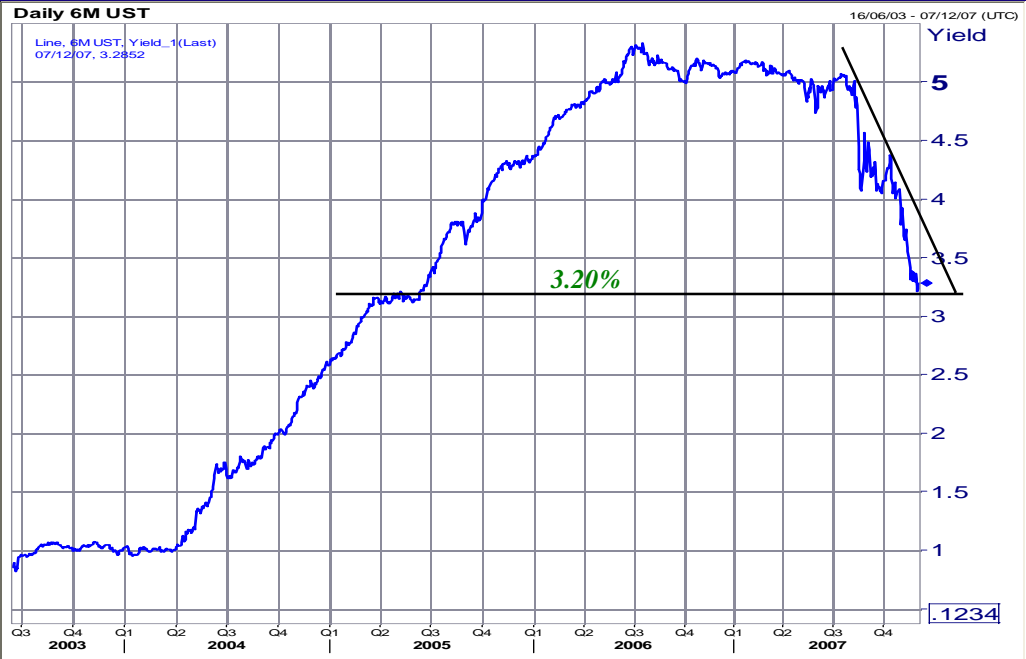
Economic Research,
 Corporate Markets,
 10 Gresham Street,
 London EC2V 7AE,

Switchboard:
 0207 050 - 6045

Technical Strategy - US 6m yield, US yield spread, US/EU yield

US 6 month yield

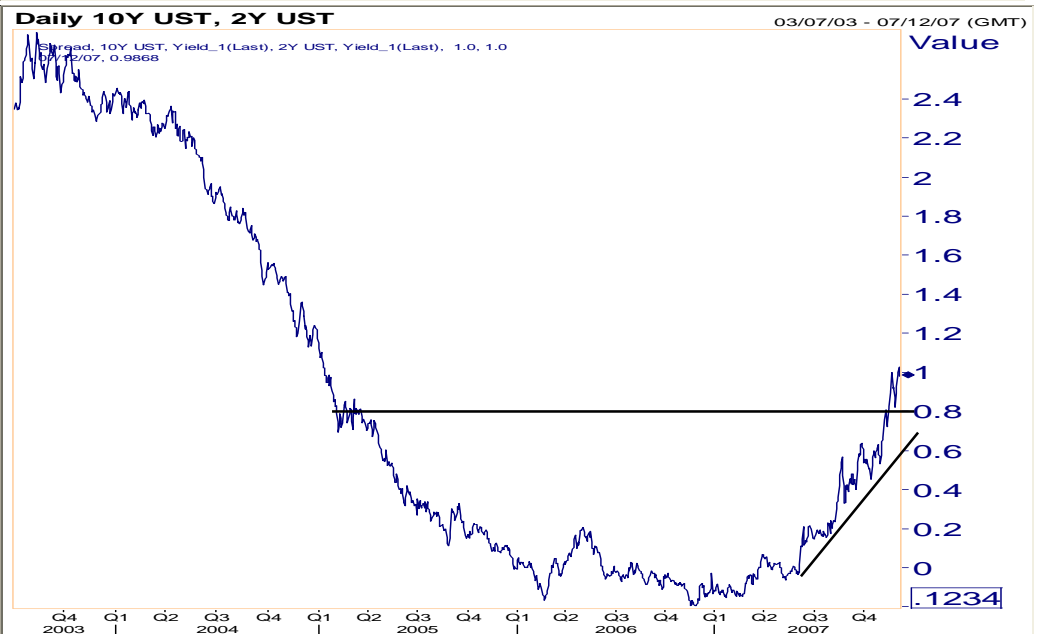
The 3.20% target has been hit. This is a key support level and is likely to induce a short term rebound in yields. Despite this, the longer term scenario implies 2.70% in 2008. Only a close over 3.60% would suggest a change in momentum.



US 2y/10y yield spread

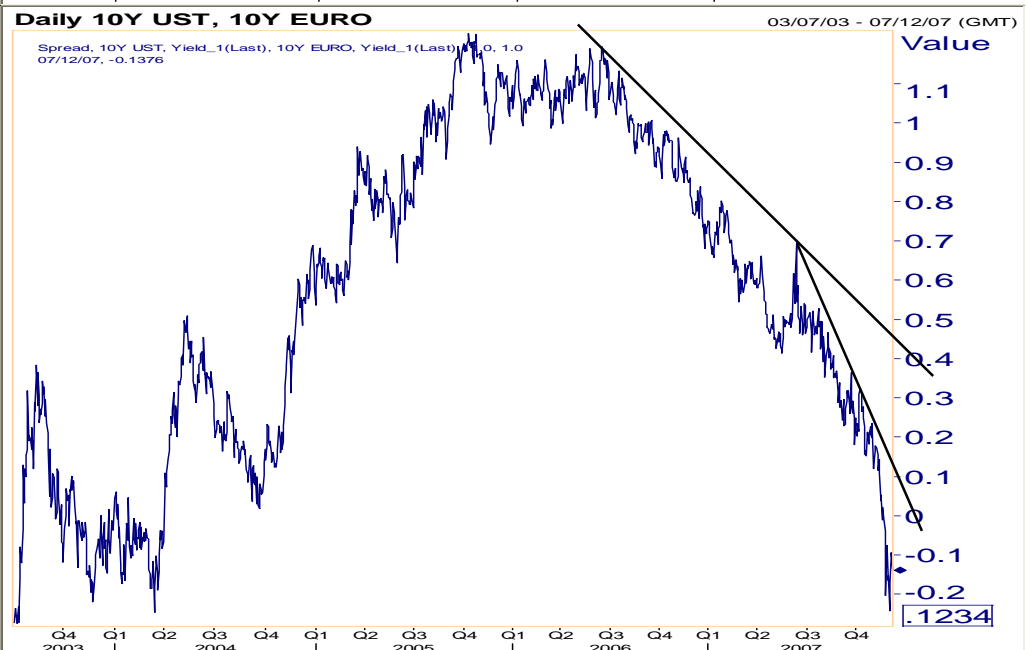
The 1.00% objective has been hit. This level did not provide support on the way down, but it should provide the catalyst for a consolidation.

Support on retracements comes in at 0.80% with 1.80% the target for next year. A close below 0.72% negates this view.



US/EU 10 year yield

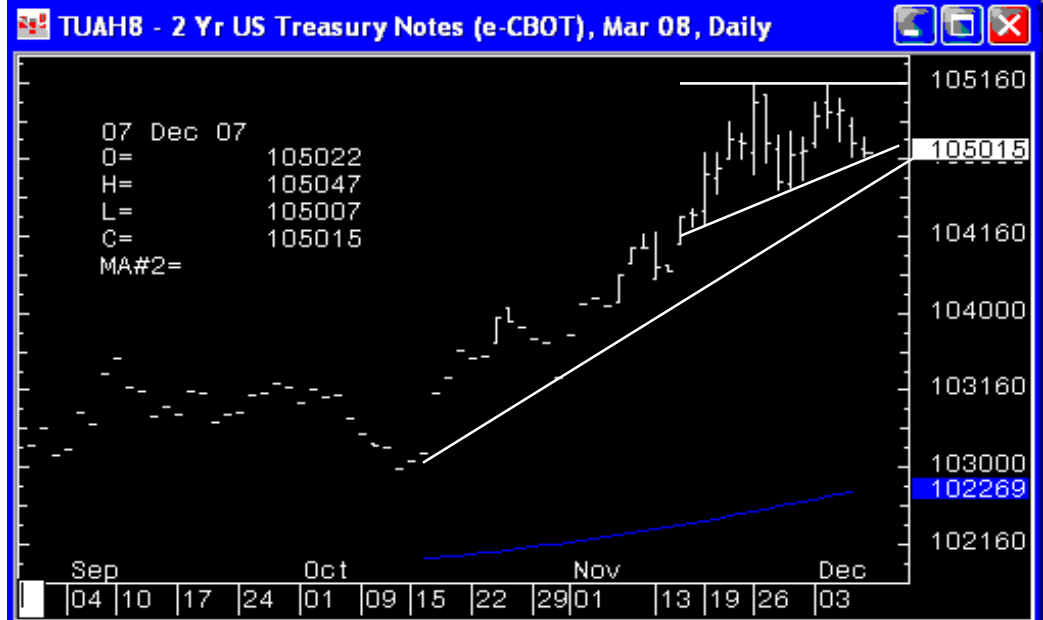
The target at -0.20% has been hit. The likelihood is for a range here given the chart support from late 2003/2004.



Technical Strategy - US 2yr notes, US 10yr notes, Long bonds

US 2yr note futures

We could be close to a top here and hence any retracements will be used as a sell signal from now rather than a buying opportunity. The main trigger to sell is at 104.25. Whilst above this level, I am cautiously positive.



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Fri Dec 07 2007

US 10yr note futures

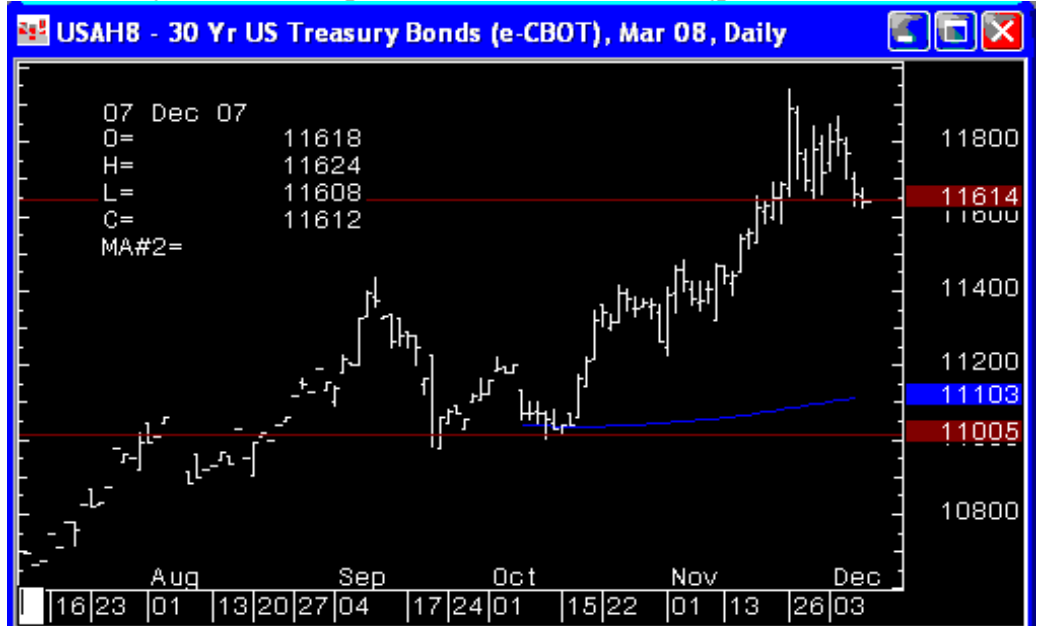
The scenario here is similar. The trend is positive, but the consolidation has the risk of turning into a correction. The strategy is to stay long bonds for now, but with a stop and reverse signal on a break of 112.14.



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Fri Dec 07 2007

US Long Bond futures

Long bonds have completed a double top formation, implying further downside for 114.00 over the coming weeks. Sell retracements to 117.07 with a stop and reverse at 118.09.



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Fri Dec 07 2007

Technical Strategy - UK 1yr Gilt yield, long gilts, short sterling

UK 1 year yield

I continue to expect yields to trade in a range around the 4.50% area. A break of 4.70% does suggest an extended rebound as my view for bonds becomes more cautious.



UK gilts

Having broken the trend line here, the bias for bonds is turning to the downside. Look to sell gilts with a stop over 110.05 looking for a retracement back towards 108.00.



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Fri Dec 07 2007

March short sterling

This contract continues to trade a range with the resistance line at 94.40 capping any significant gains. The question is, could the risk be reverting to the downside?

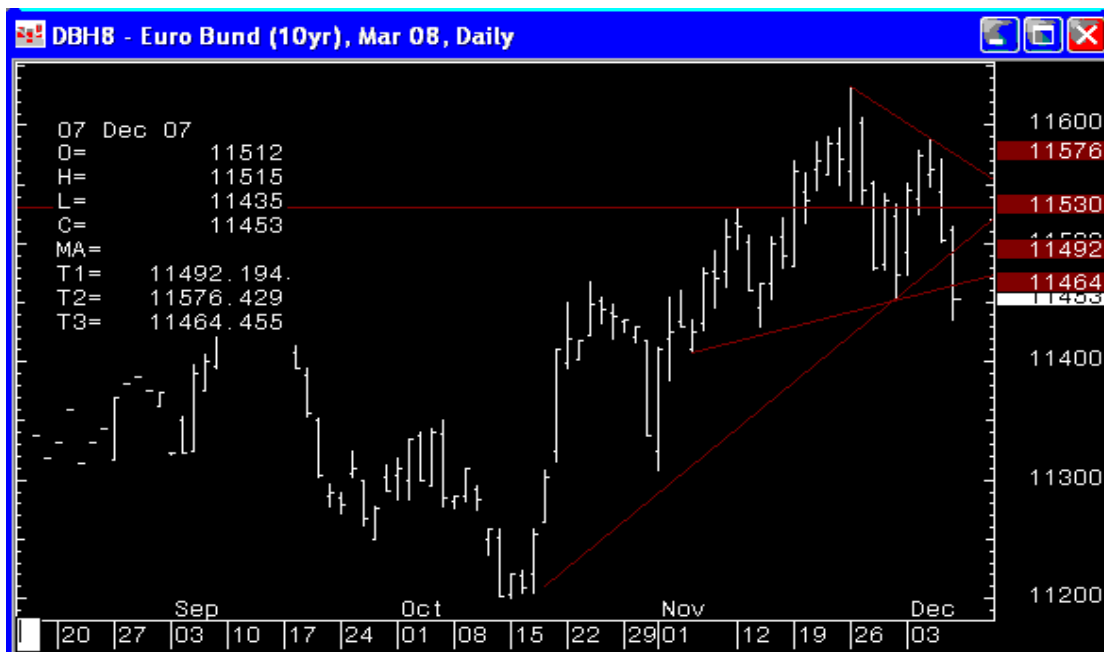


Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com Fri Dec 07 2007

Technical Strategy - euro bund, euro schatz

Euro bund future

Stops were hit from last week at 114.10. It will be interesting to see the extent of the retracement here, but for now the bias is to the downside. The target is at 113.20 with a stop over 115.10.

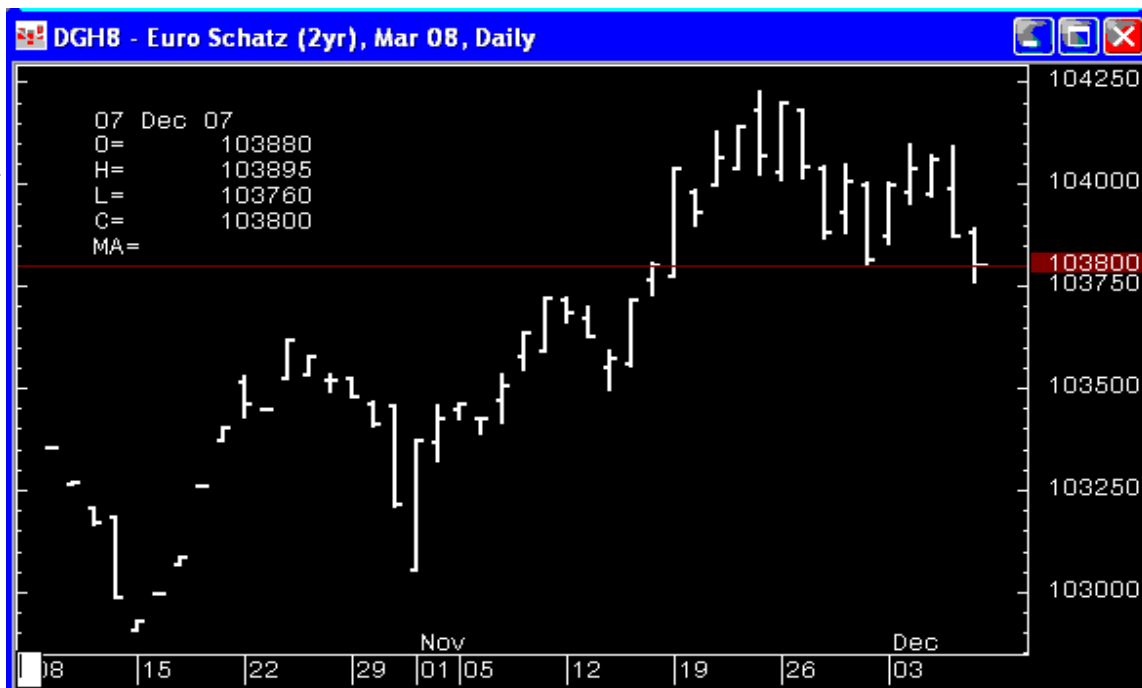


Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com

Fri Dec 07 2007 13:50:22

euro schatz

A double top formation has been triggered at 103.80. This implies a drop towards 103.20 with interim support at 103.60. A move back through 104.00 would suggest a change in view.



Source: CQG, Inc. © 2007 All rights reserved worldwide. www.cqg.com

Fri Dec 07 2007 13:51:10

Disclaimer

Any documentation, reports, correspondence or other material or information in whatever form be it electronic, textual or otherwise is based on sources believed to be reliable, however neither the Bank nor its directors, officers or employees warrant accuracy, completeness or otherwise, or accept responsibility for any error, omission or other inaccuracy, or for any consequences arising from any reliance upon such information. The facts and data contained are not, and should under no circumstances be treated as an offer or solicitation to offer, to buy or sell any product, nor are they intended to be a substitute for commercial judgement or professional or legal advice, and you should not act in reliance upon any of the facts and data contained, without first obtaining professional advice relevant to your circumstances. Expressions of opinion may be subject to change without notice. Although warrants and/or derivative instruments can be utilized for the management of investment risk, some of these products are unsuitable for many investors. The facts and data contained are therefore not intended for the use of private customers (as defined by the FSA Handbook) of Lloyds TSB Bank plc. Lloyds TSB Bank plc is authorized and regulated by the Financial Services Authority and is a signatory to the Banking Codes, and represents only the Scottish Widows and Lloyds TSB Marketing Group for life assurance, pension and investment business.