



Bond Technical Strategy - Weekly

15th May 2009

US two year yields under pressure

Market overview

In the last release it was noted that the short end of the curve had not reacted in line with the commodity market moves and as the prospects for a correction/ consolidation in these assets becomes more compelling, this could force short term yields even lower across core bonds markets.

This scenario implies a new high break-out for two year US notes as the market hovers near key technical resistance. As the market gets drawn to the main buy signal over 109.00, the risk for a trending signal increases.

In the last release I highlighted the developing risk for a push higher in short sterling and the break-out pattern is similar to the current two US 2 year bond set up. This could encourage a price rebound in the long end and hence flatten the curve in the short term. However, the expectation of continued strength in commodities, despite any interim corrections, will limit the impact.

DJ World Stock index



The DJ World stock index has rallied a substantial 40% from the March lows, but as the main trend is still downwards, it is prudent to anticipate a correction. Resistance between 180 and 188 is strong so a break would be significant.

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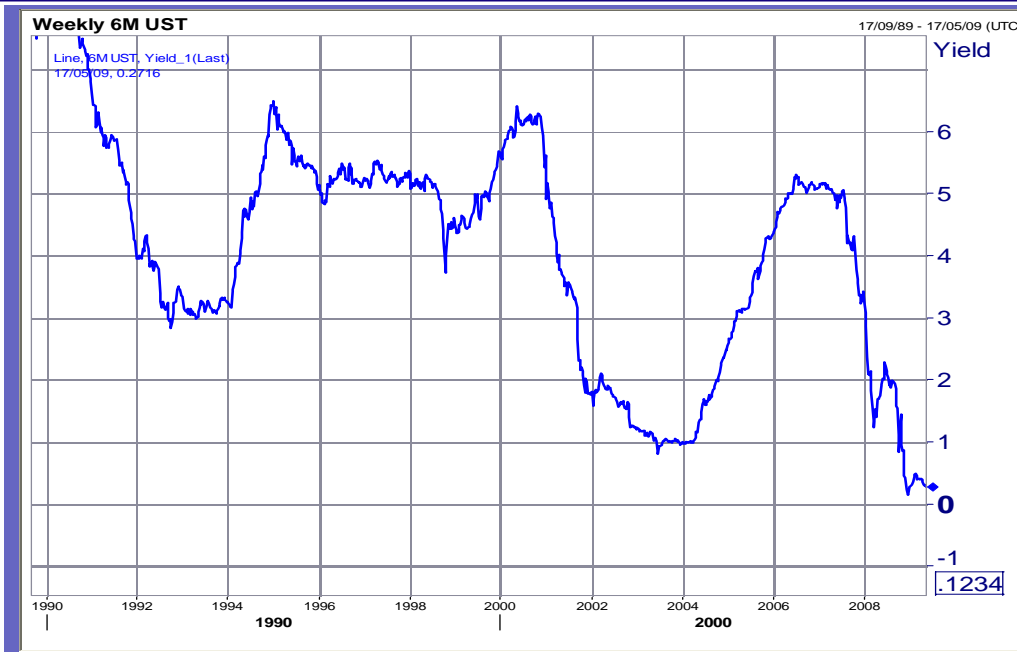
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Technical Strategy - US 6m yield, US yield spread, US 2 yr notes

US 6 month yield

Neutral until a break of 0.50% occurs.



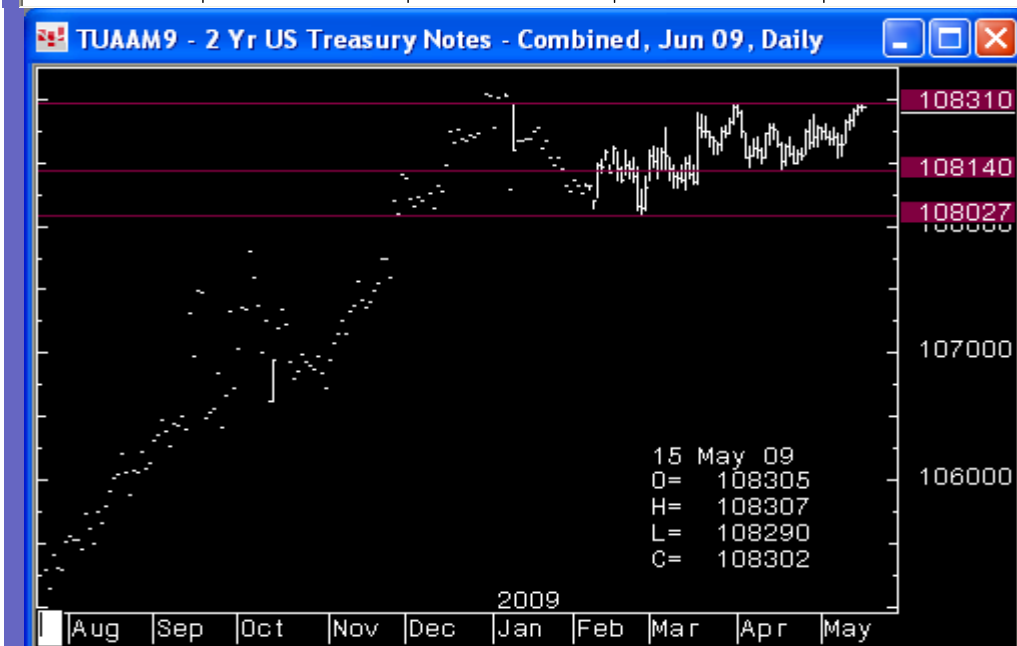
US 2y/10y yield spread

Move stops to 1.97%. Given the prospects for an equity correction, look for a move back towards 2.10%. The main targets at 2.40% remain.



US 2 year note futures

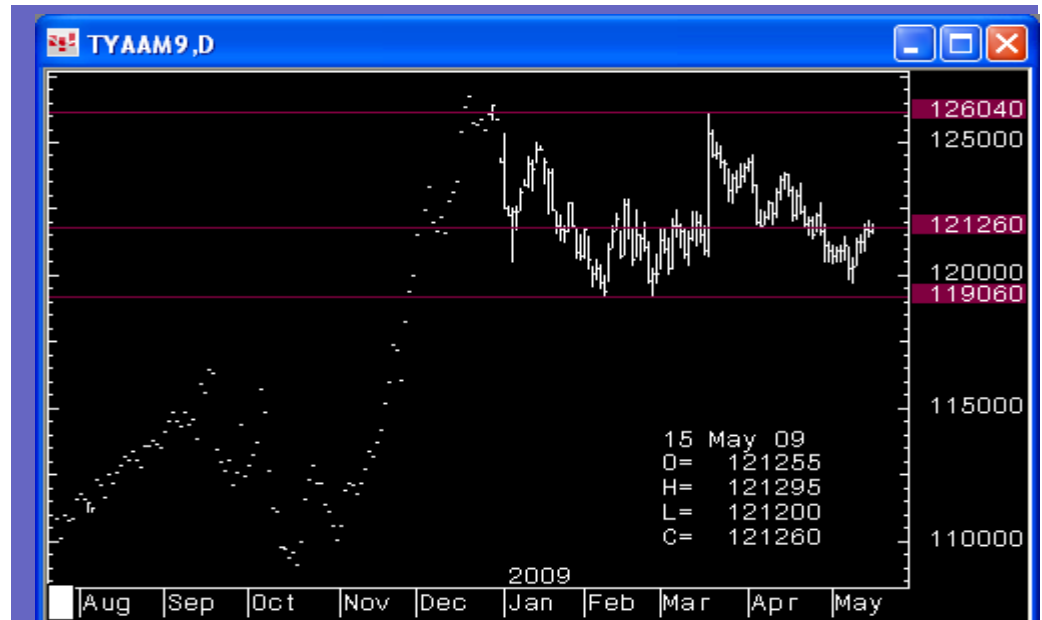
A buy signal has been initiated through 108.16 and as the price action resembles an ascending triangle, this could accelerate towards 110.00 next week. Move stops to 108.14.



Technical Strategy - US 10yr notes, gilts, Short sterling

US 10yr note futures

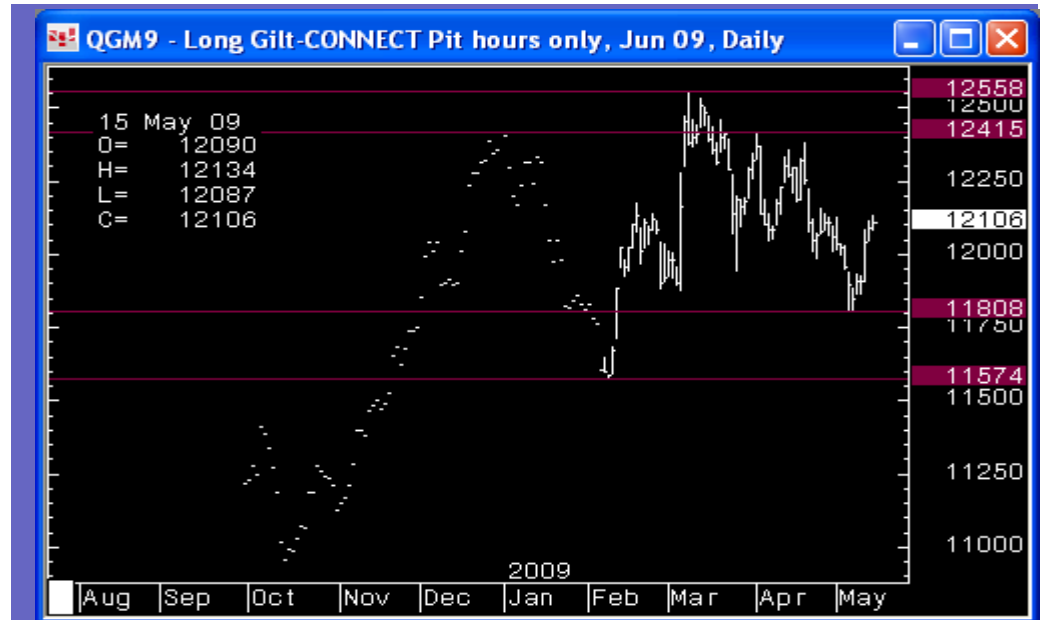
The main support level at 119.06 has not been breached. This would have triggered a major top and has changed the focus towards a range in the coming weeks. Move stops to flat at 122.25.



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UK gilt futures

Although targets at 119.00 were exceeded, the rebound has put gilts back into a neutral zone. Look for an extension towards 122.50 as a re-sell level, on stops over 122.50.



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December short sterling

The break of key resistance at 98.50 has produced the anticipated strong upward reaction. This level will clearly be important as it should represent a floor on retracements. Targets are at 99.00 on stops at 98.49.

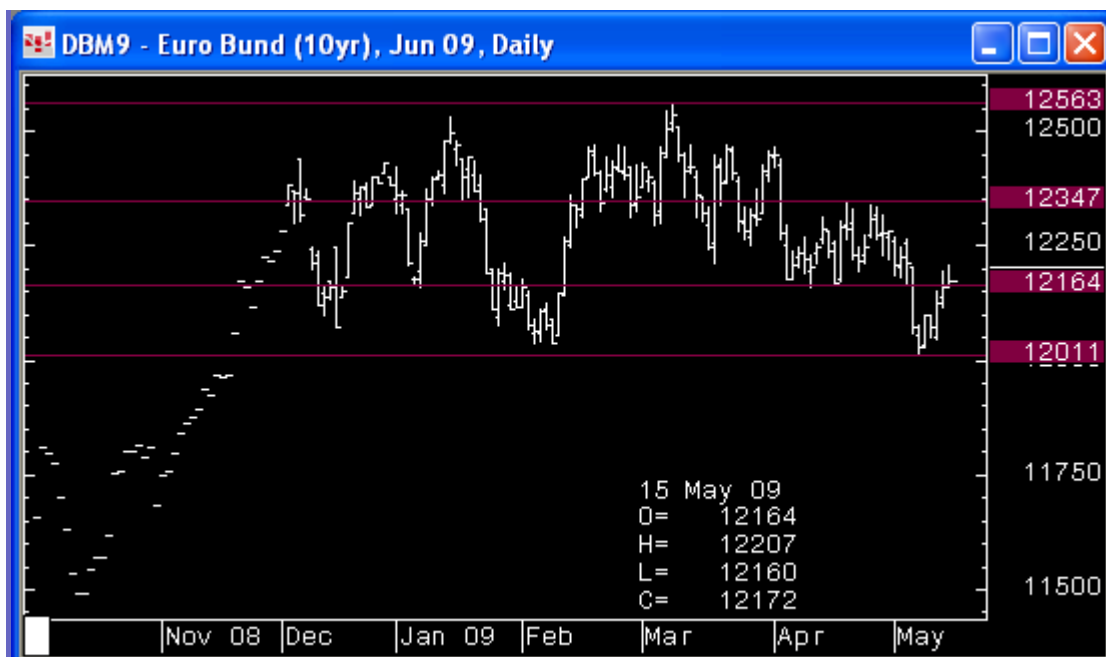


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Technical Strategy - euro bund, euro schatz

Euro bund future

Despite good traction in the bearish strategy, the market has rebounded, increasing the importance of 120.00 support zone. For this week look for a bounce back towards 123.00 as a sell zone, but ultimately a range looks in prospect.

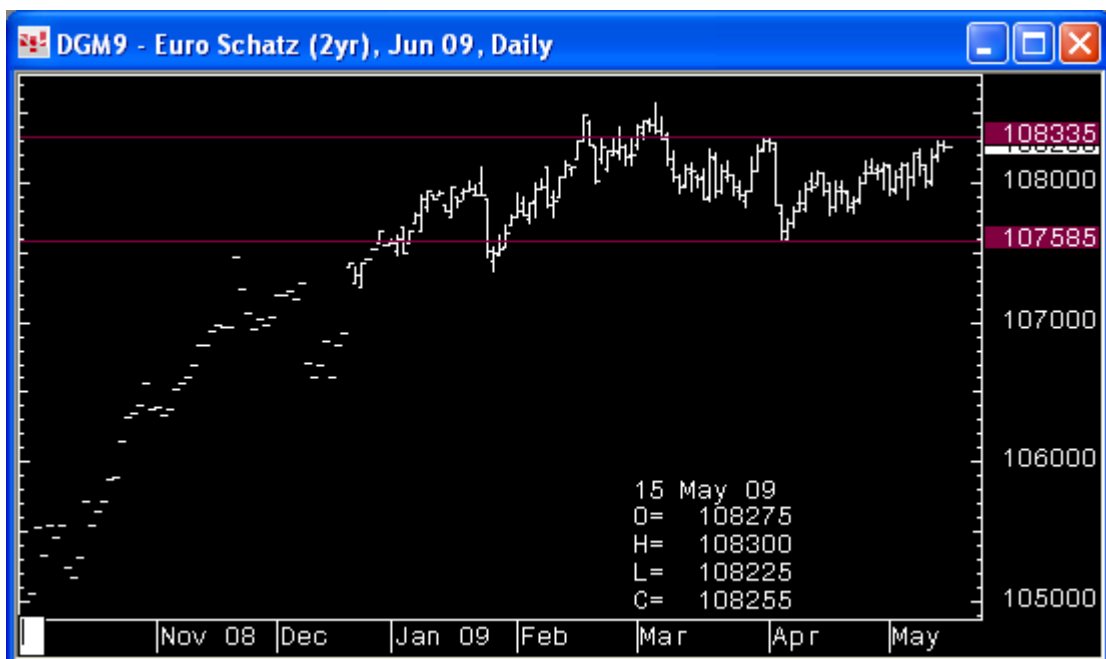


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Euro schatz

A reversal pattern here has been negated for the moment and hence the risk is reverting towards the upside. Key short term resistance is at 108.33, a break of which is the buy signal. Stop and reverse through 107.99.



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