



Bond Technical Strategy - Weekly

17th April 2009

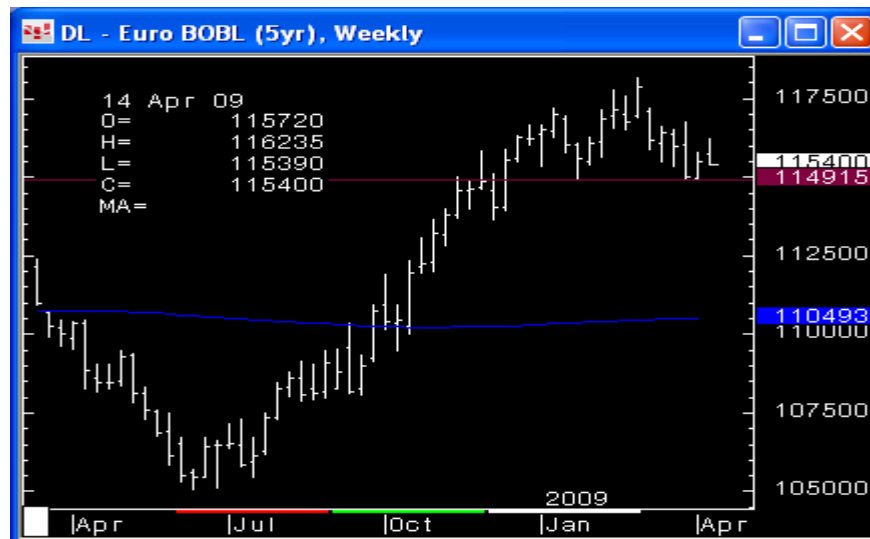
Yields to face upward pressure

Market overview

The long term outlook for the markets still favour lower yields as the rally in equities reverses, but the market is also interested in trading the medium term trends and in that regard the pressure continues to mount on core bonds. Although volatility has reduced this week and broadly speaking, bonds are still within range parameters, the risk is starting to revert towards a correction.

The reasons for this are that the commodity rally has broadened, taking with it emerging market equities and making core bond yields look stingy. This, in a self-feeding wave, is improving the back drop for the stocks which have led the broader indexes downwards. Therefore, this renewed appetite could last some months. The broader picture does still favour an equity correction, but the risk of not being in a substantial rally is worth the pain of having to re-enter bonds at a higher level.

EURO BOBL Weekly continuation chart



The set-up here looks like a potential topping formation with the main trigger at 114.90. Whilst this may produce a false signal given longer term outlook, the interim downward trend could be quite substantial.

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

US 6 month yield

The potential for yields to push through 0.50% will be examined in the coming weeks, but for the moment this level remains a key ceiling.



US 2y/10y yield spread

The upwards bias continues with resistance at 2.00% key. However this should be breached with targets at 2.40% into H2 2009. Stops are at 1.78%.



US 2 year note futures

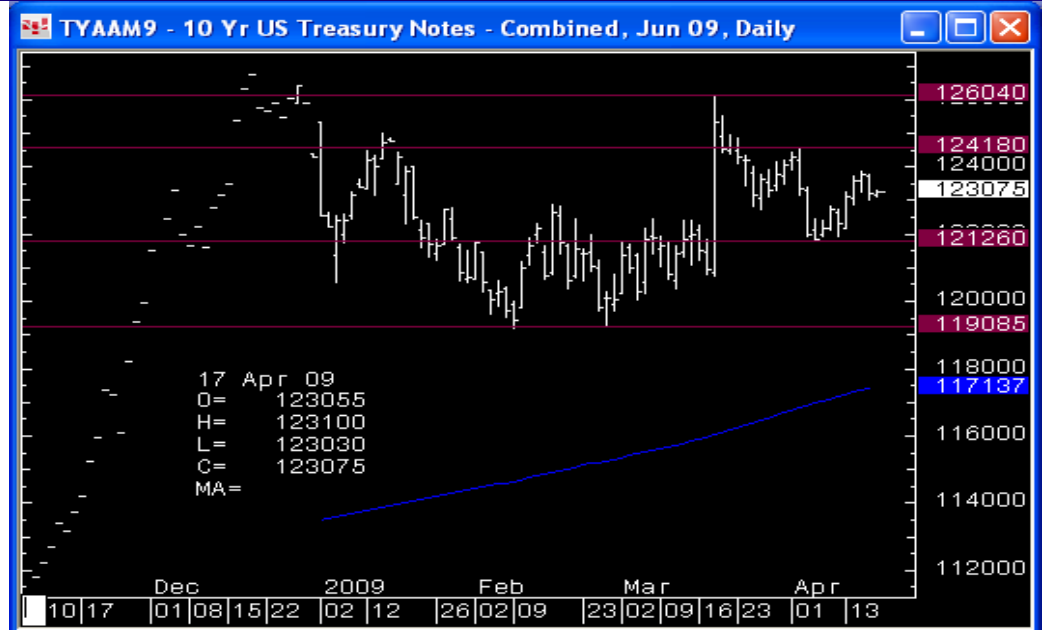
Despite the neutral chart, a break-out may be close. Sell the current 123.07, with a stop and reverse through 124.10, target 120.00.



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

US 10yr note futures

Sell the current 122.25, stop 123.10, target 121.00 initially. Add on a break of 120.24.

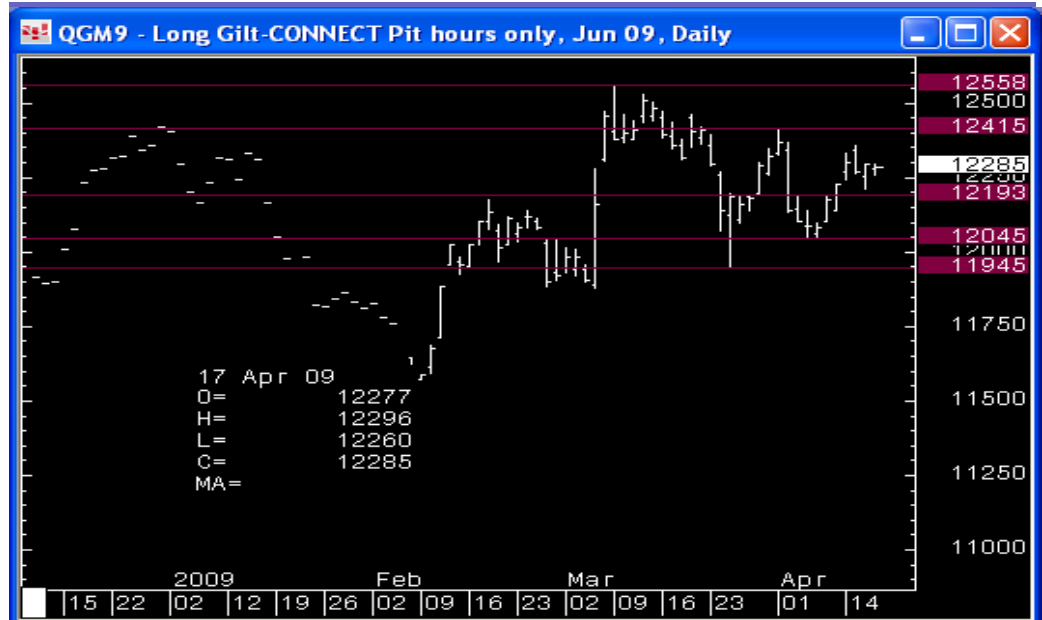


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UK gilt futures

The range looks compelling, but the triangular constriction is due a break-out. Sell the current 122.10 and on a bounce to 123.00, stop 124.10, target 119.00.



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December short sterling

Whilst the range is still dominant, even the short end rate outlook could come under scrutiny. Hence sell the current 98.27, stop 98.51, target 97.78.



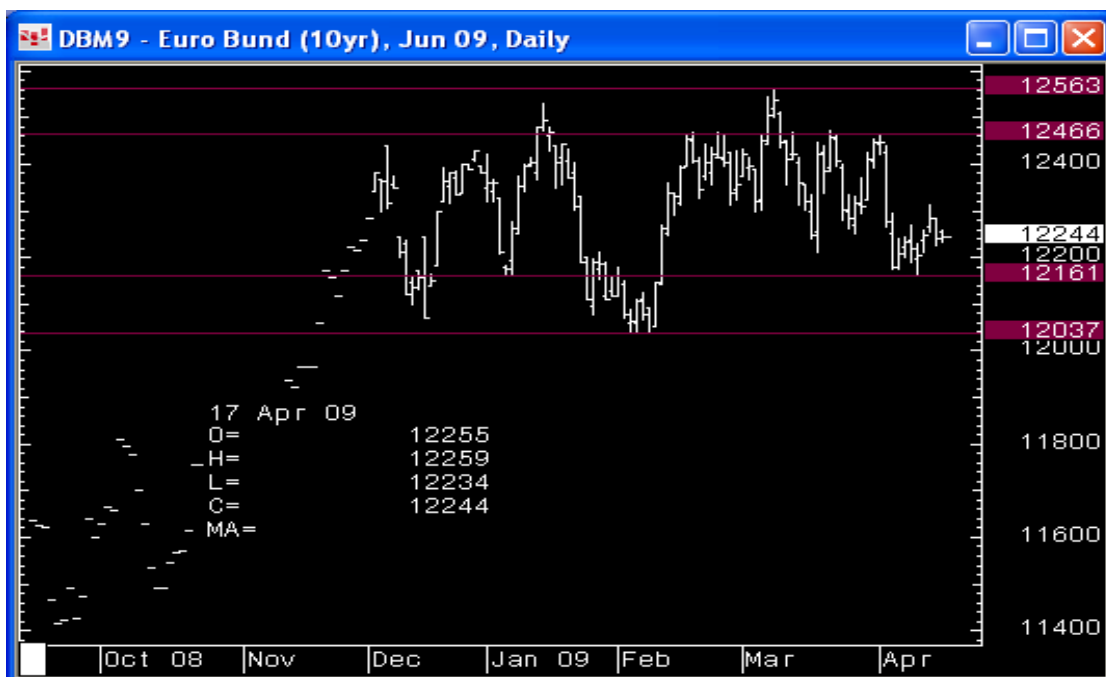
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Technical Strategy - euro bund, euro schatz

Euro bund future

The overall price action is not usually indicative of a continuation pattern (therefore a reversal pattern is more probable). Whilst further ranges may dominate in the next few sessions, sell the current 121.92 with an initial target (and add level) at 120.00. Stops are at 123.10.

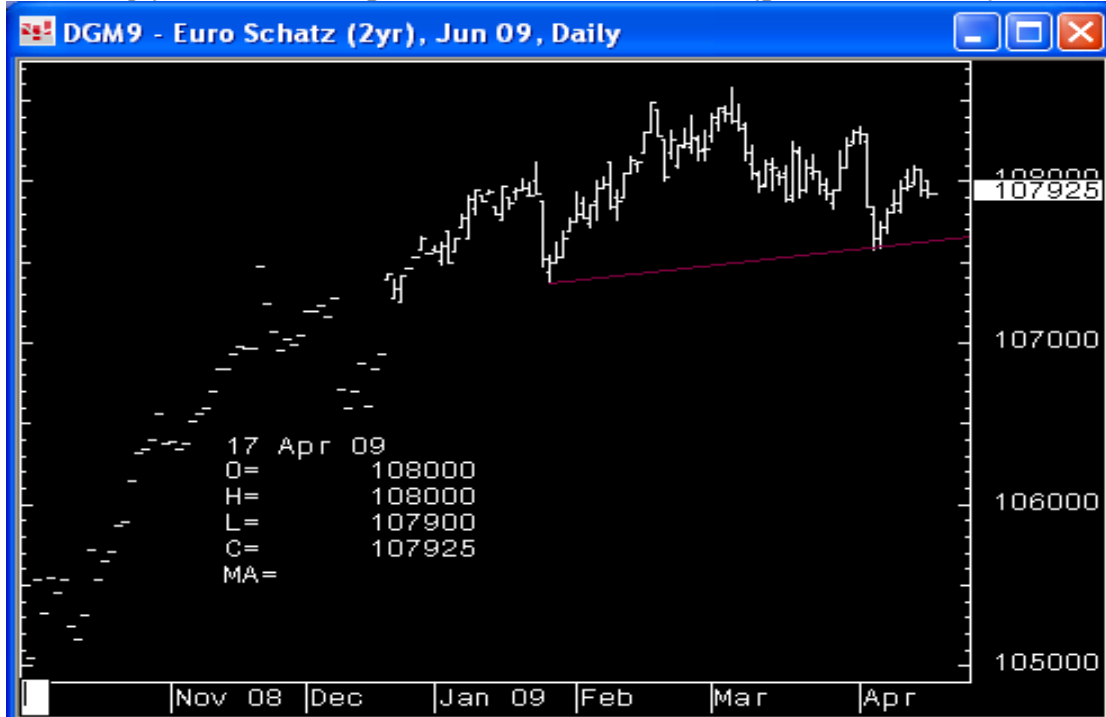


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Euro schatz

A potential head and shoulders reversal is developing. This projects a break of 107.61 (the neckline. Hence sell the current 107.84, stop 108.15, target 107.00 into May.



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