



Bond Technical Strategy - Weekly

31st October 2008

Commodity support could be close

Market overview

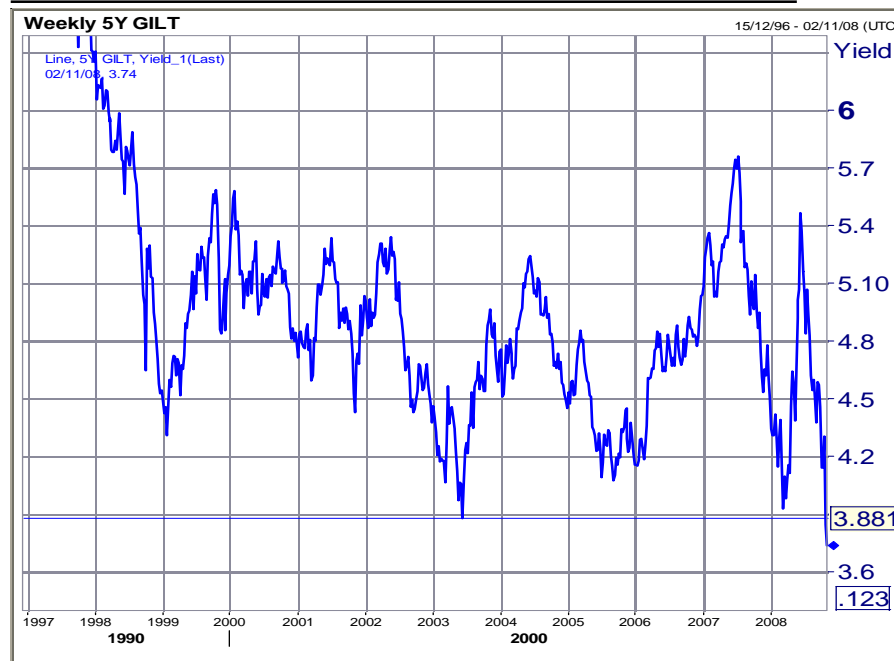
Volatility reigns supreme at the moment. The unwinding of the commodity bubble has been a key underpinning of the short end of the bond markets, but investors' concerns are still evident as you move further down the curve. The volatility (large swings with a lack of trend) in the price charts continue to reflect the prospects that commodity prices may well be approaching significant lows as investors expectations move towards deflation. Only time will tell how this will pan out, but the relatively high level of indecision reflected in the 10-30 year area for core bonds is understandable. The clearest buy signal in the longer end is evident in the bund chart. This is likely to be supported by the widening of various european bond spreads against Germany which could well accelerate over the coming weeks.

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UK 5 year bond yields



The break of major support at 3.88% was an important technical signal. The next target level is at 3.60% with potential for 3.00%. How long yields will remain deflated remains to be seen, but for the moment 3.88% is viewed as a pivotal resistance.

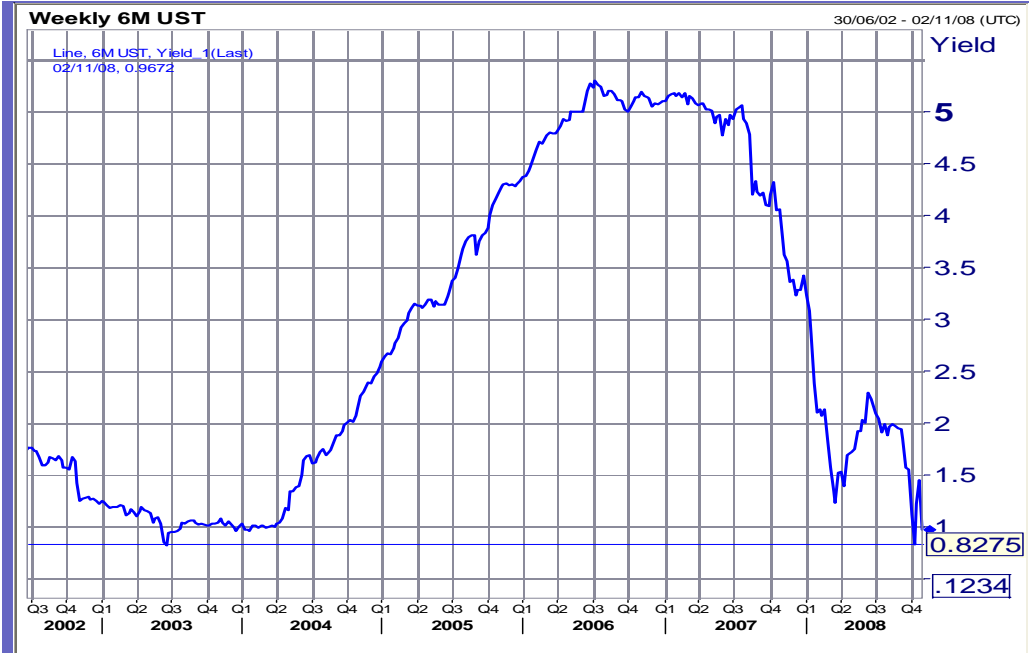
Paul Rodriguez, Senior Technical Analyst

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

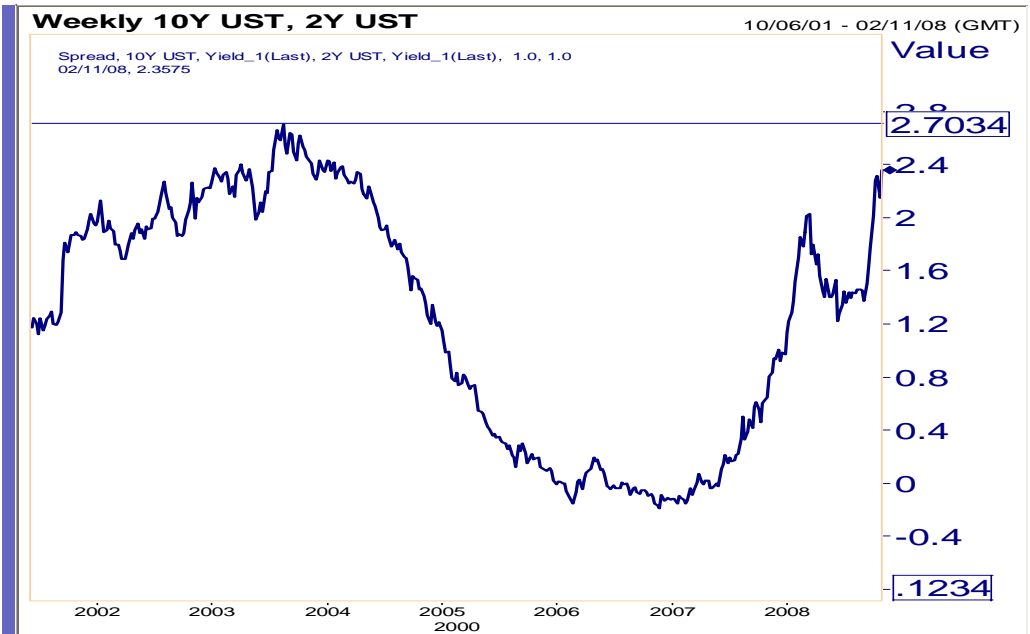
US 6 month yield

The main support target at 0.82% comes close and has produced a short term bounce. The next target below that level is at 0.63%. Only a one week close over 1.00% would suggest a review.



US 2y/10y yield spread

This spread continues towards the main long term target at 2.70%. Only a two week close below 2.10% would imply a change in sentiment.



US 2 year note futures

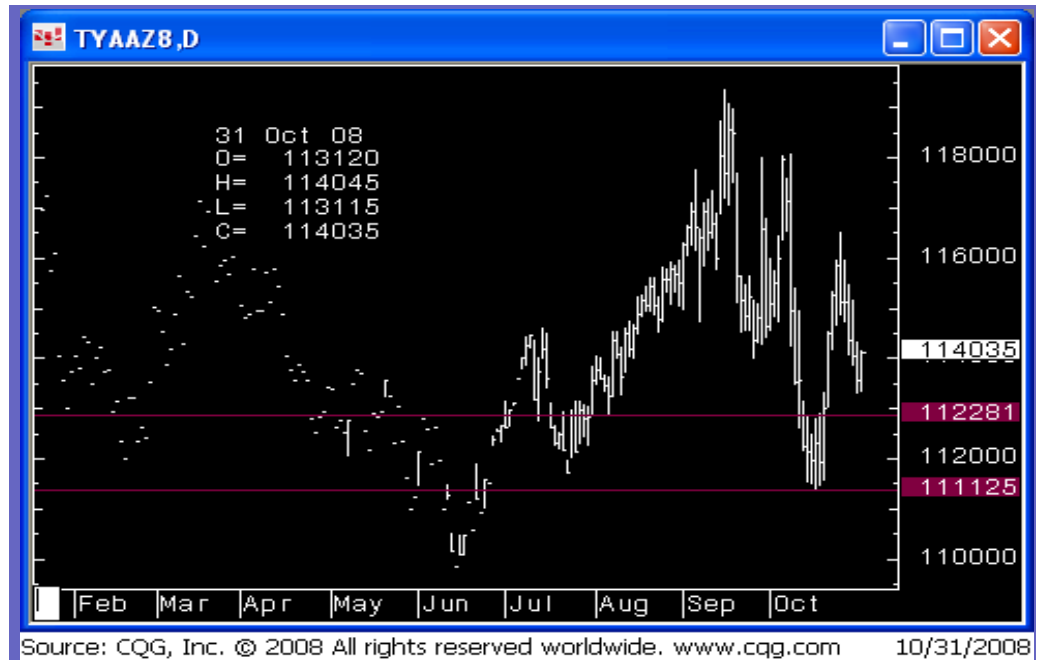
108 resistance is key and volatility remains high. However, the pressure to the upside should remain for the moment with a close over 108.00 the main signal. Buy on a retracement to 107.00, with a stop and reverse at 106.15.



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

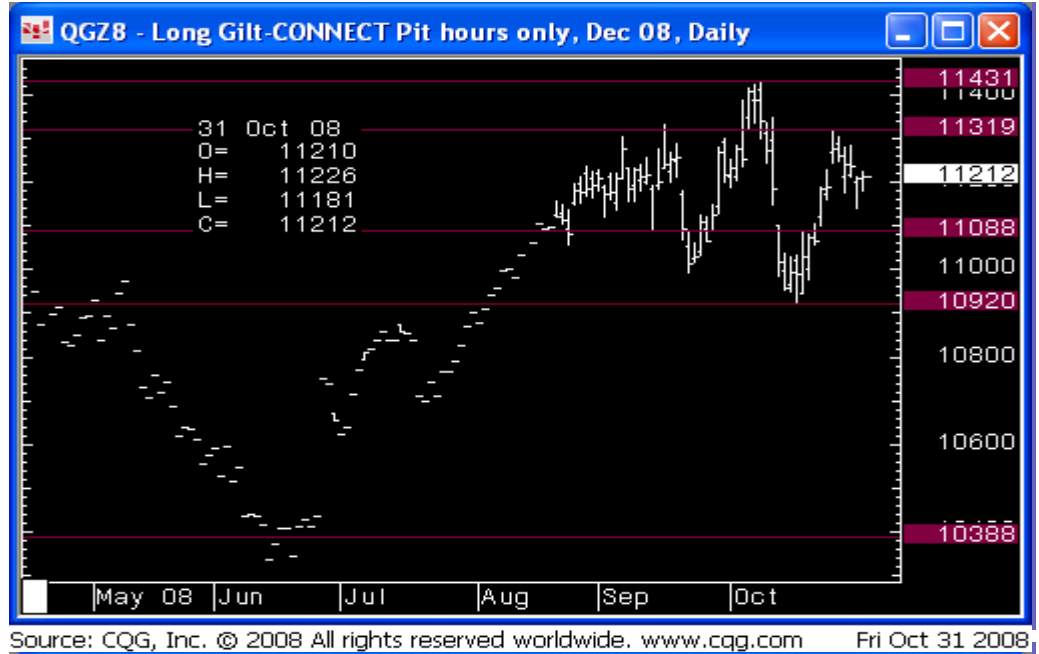
US 10yr note futures

Given that this market is at the centre of a volatile range, spread trading will continue to dominate. On balance, look for a dip towards 112.28 before a move back up to 115.00. A two day close outside these parameters would give the next trend signal.



UK gilt futures

Short term yields look set for further falls, but here the sentiment is more balanced. The outlook should become clearer in the coming weeks, but for the moment 110.88/113.19 are the break-out signals.



December short sterling

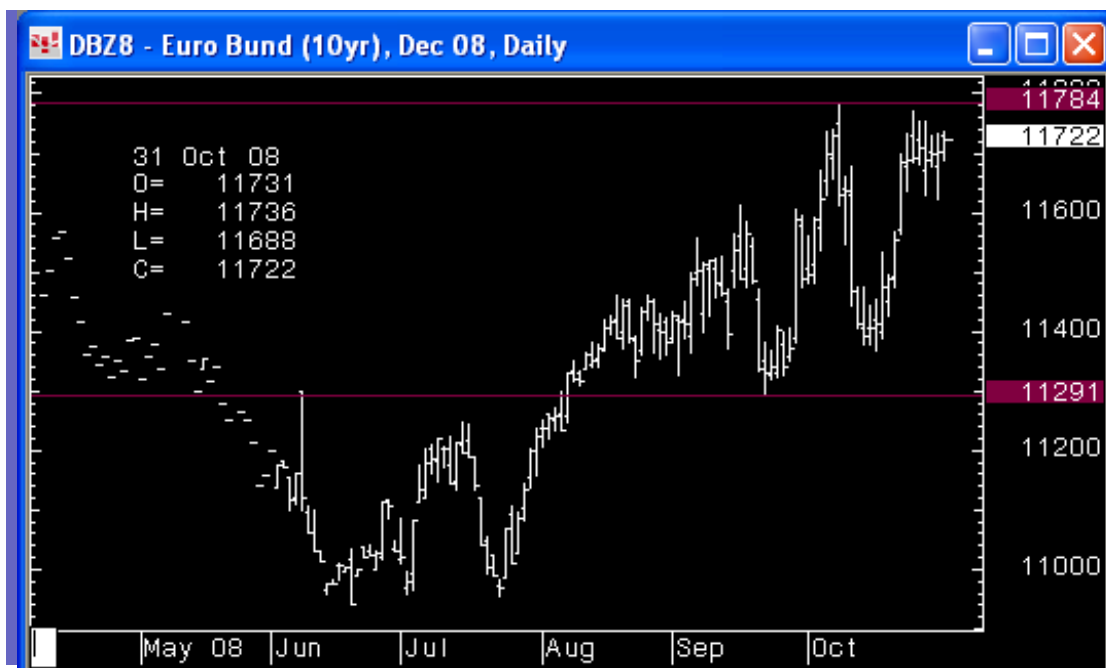
Targets at 95.50 have been exceeded with the 'running gap' to the upside indicating trend interest remains strong. The next obvious target is at 96.00 with 95.63 a strong support point on retracements. A close through the gap at 95.50 would indicate a major sentiment change.



Technical Strategy - euro bund, euro schatz

Euro bund future

Key resistance is looming here at 117.84. A potential short term flag formation implies the break-out risk is to the upside. Buy bunds at current levels. The main support level that would indicate a reversal is a break of 116.00. This is a reflection of the high market volatility.

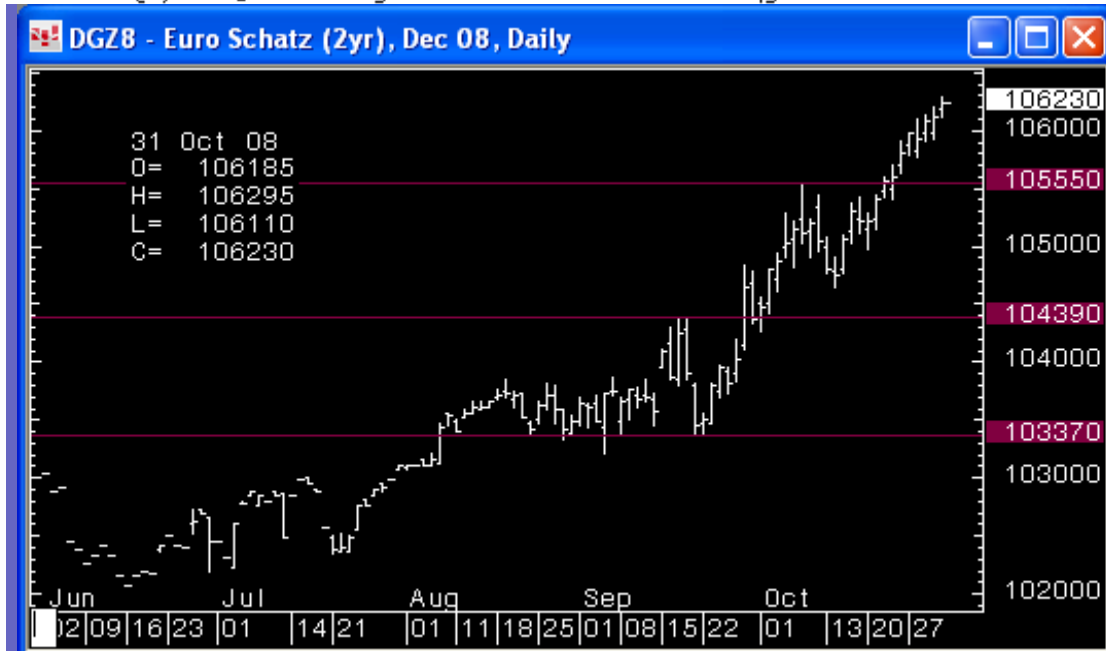


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Euro schatz

The trend remains to the upside here with 107.00 the next target. 105.90 is the buy zone on retracements on stops below 105.43.



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