



## **Weekly Market Update** **October 26<sup>th</sup> – 30<sup>th</sup> 2009**

**David James Norman**

*The views below represent the opinion of independent analysts The Trader Training Company Limited. These views are based on technical analysis including but not limited to price action, volume and market breadth studies*

**Focus:**

***GB CBI Industrial Trends, Eurozone M3, US Consumer Confidence, US Case-Schiller House Price Index, German CPI, US Durable Goods, Bank of Japan Interest Rates decision, German Unemployment, Eurozone business confidence, US GDP, US Personal Consumption, German Retail Sales, US University of Michigan Confidence survey***

In the Weekly report on 31<sup>st</sup> August I wrote that “the normal intermarket relationships between global bonds, the equity markets and the US Dollar seem to have broken down whereby all three asset classes are moving upwards together”. This seemed to be an anomaly at the time with such asset price behaviour only expected at turning points at the beginning of longer term cyclical downturns. The next stage in the cycle would have been a bond downturn followed several months later by an equity downturn. This cycle would have normally taken several months, if not over a year to play out but interestingly, it is now well on its way to fruition. Bond markets originally turned south around the start of the year with US T-Bonds at the time peaking at 144.00. Now they are struggling to reach 119.00 and have further to fall. Equity and commodity markets however, have powered strongly upwards while the US Dollar has weakened. The Bond markets are leading the way and the next card to fall will be equities followed a few months later by commodities. The worrying aspect to this cyclical orchestration is that it is arriving at the wrong time in the business cycle. Historically, such asset class movements happen at the end of long cyclical up-trends in economic activity, at the conclusion of booms rather than in the middle of busts; commodities become overheated

Disclaimer: Any opinions, news, research, analyses, prices, or other information contained in this report are provided as general market commentary, and do not constitute investment advice. The Trader Training Company will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

bringing inflationary pressures into the mix prompting fears of interest rate rises which knocks out the bond market and latterly subdues equity markets. What seems to have skewed the recurring pattern of cyclical trends in core asset classes is deflation and Quantitative Easing. The efforts of the US Federal Reserve to re-inflate the US economy through the artificial means of a stronger gold price in relation to a weaker US Dollar has affected the markets in a bizarre way. This procedure has only been used once before in the 1930's during the depression and is untested up until now. It will be very interesting to see if the bond/equity/commodity cycle runs its course over the next few months. If it does, expect the equity markets to realize that the bond market is a leading indicator in the next quarter.

---

**Wild cards:**

Central banks hike interest rates between official MPC meeting dates in Asian, US, UK or EU Zone; a financial institution linked to consumer credit defaults; there is a significant increase in implied volatility; a major unexpected international terrorist attack occurs; an energy installation becomes a target for terrorism.

**Commodity Watch**

<b><u>Gold</u></b>	As expected, the Gold price is taking a breather this week falling gently from recent highs to the \$1038 level. What matters is global expectations for inflation and how likely it is that we will see a spike in commodity prices in general. US Dollar easing has potentially reached its trough and we could see a gentle decline in the Gold price back to the \$1000 level and below as the US Dollar strengthens.
<b><u>Oil</u></b>	The Oil price has followed Gold back down to lower levels this week currently around the \$76.60 level. Oil overshot the mark reaching \$80 but has drifted following mixed earnings reports and a stronger US Dollar. Expectations are for the price to drop back towards \$70 very soon.
<b><u>Wheat</u></b>	Wheat shot back through the \$5.00 mark hitting \$5.46 only to fall back towards \$5.00 as the US Dollar recovers and momentum continues to drop. The recovery in prices over the last two weeks is really only a result of Dollar weakness rather than Wheat price strength. Prospects for Wheat depend on demand as inventories remain healthy and a better harvest places downward pressure on prices.
<b><u>Sugar</u></b>	Sugar is still in an uptrend and is testing the 600 level as demand remains strong. It would be very bold to call the turn on the market just now but it is tempting to see the 600 level as a significant

Disclaimer: Any opinions, news, research, analyses, prices, or other information contained in this report are provided as general market commentary, and do not constitute investment advice. The Trader Training Company will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

	barrier. However, it wasn't long ago when we thought 500 was a significant barrier. One more attempt at 600 could breach it and then there's very little to stop it hitting mid 600's in a short time.
<b><u>Coffee</u></b>	Coffee has broken through its downside trend line and is languishing in the mid 1300's ready it seems to make another assault on the 1500 level. Price activity continues to narrow considerably so the prospect of a sudden breakout remains undeniable. If commodity prices in general experience a good week this week, Coffee could breach resistance very quickly.

## **Index Watch**

<b><u>FTSE</u></b>	It's a cliffhanger as FTSE peers down the abyss and contemplates its elevated position. Having briefly hit 5290 and then drifted back with lower trading activity, the index does not seem sure which way to go. A correction of 250 points from current levels (5186) is still not out of the question as it would be difficult for the market to maintain its upward momentum for much longer. Over the last ten months the bond market has given us the lead, now it's the equity market's turn to follow suit.
<b><u>DAX</u></b>	The DAX reached 5876 on optimism of further evidence of global recovery. This quickly dissipated and the index is looking for fresh ideas to propel it onward and upward. The air seems to be coming out of the balloon at the moment so a period of consolidation could be the best we can hope for. Otherwise, it's a drop to sustainable levels, possibly below 5.000.
<b><u>Eurostoxx</u></b>	The EuroSTOXX has reversed early this week as sentiment over global recovery weakens and fresh upward price movements look less likely given little impetus. The index is likely to drift unless there are fresh signs of recovery in the global economy. Expect further weakness in the meantime.
<b><u>E mini S&amp;P</u></b>	The S&P is struggling, like other equity markets, to find fresh reasons to move on up. The quick fall back from the 1100 level suggests that momentum has dropped and the opportunity to breach the recent high has diminished. Expect consolidation this week unless the Fed throws us a surprise on interest rates.

## **Bond Watch**

<b><u>BOBL/BUND</u></b>	German Bonds have fallen for a week and now look set to consolidate while the equity markets are uneasy. Opening weaker
-------------------------	---

Disclaimer: Any opinions, news, research, analyses, prices, or other information contained in this report are provided as general market commentary, and do not constitute investment advice. The Trader Training Company will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

<u><b>/SCHATZ</b></u>	at the start of this week, the outlook for European bonds in general is muted until further signs of economic recovery emerge from the Eurozone. There is little impetus for movement on the upside unless fresh information on the rate of recovery suggests that interest rates are going to remain subdued for several more months.
<u><b>US Treasuries</b></u>	US T-Bonds extended their sell off last week with a mixed outlook for bonds remaining this week. The lull in the market suggests a period of consolidation is at hand and without added stimulus from corporate earnings results or government moves on interest rates, there is little to suggest upward momentum in bond prices. Expect US Treasuries to drift.

### Currency Watch

<u><b>EUR/USD</b></u> <u><b>GBP/USD</b></u>	The US Dollar hit the ceiling against the Euro at 1.5050 and attempted a breach three times before drifting back below 1.50. The benign attitude towards the fate of the Dollar remains in place so it is quite likely that Euro/US Dollar 1.50 level will be assaulted again soon. The Pound against the Dollar is recovering from its recent lows of \$1.6260 as the shock news of the state of the UK economy abates. Directional momentum may be lacking this week.
<u><b>JPY</b></u>	The US Dollar has strengthened against the YEN but appears to have run out of steam. Traders are still wary of Japanese Central Bank intervention, so movement may be muted this week. The YEN has also recovered against the Euro and looks set to stage further strengthening as the week continues.

Disclaimer:

The contents of this marketing communication are solely the opinion of David Norman and **neither ABN AMRO Bank N.V. nor any member of The Royal Bank of Scotland Group plc take any responsibility whatsoever for the contents of this marketing communication.** The contents of this marketing communication are not intended to, nor do they, provide any financial, investment or professional advice and nothing in the marketing communication shall be regarded as an offer or provision of financial, investment or other professional advice in any way. Access to the marketing communication or the retrieval of any

Disclaimer: Any opinions, news, research, analyses, prices, or other information contained in this report are provided as general market commentary, and do not constitute investment advice. The Trader Training Company will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

information set out in the marketing communication by a user does not mean that the user becomes a client of ABN AMRO Bank N.V. or any member of The Royal Bank of Scotland Group plc. In particular, you should obtain advice from a qualified expert before making any investment decision.”

Disclaimer and warning: This marketing communication is intended for UK investors. This warning notice draws your attention to some of the high risks associated with contracts for difference (**CFDs**). You should not buy CFDs with money you cannot afford to lose. CFDs may involve a high degree of 'gearing' or 'leverage'. This means that a small movement in the price of the underlying asset may have a disproportionately dramatic effect on your investment. A relatively small adverse movement in the price of the underlying asset can result in the loss of the whole of your original investment and in some cases you may owe more money than originally invested. Past performance is no guarantee of future results. You should be aware of counterparty risk against the operator of marketindex. Changes in rates of exchange may have an adverse effect on the value or price of any investment in sterling terms. As with other investments, transactions in CFDs may also have tax consequences and on these you should consult your tax adviser.

Disclaimer: Any opinions, news, research, analyses, prices, or other information contained in this report are provided as general market commentary, and do not constitute investment advice. The Trader Training Company will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.