



## **Weekly Market Update** **September 28<sup>th</sup> – 2<sup>nd</sup> October 2009**

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*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:**

***German CPI, GBP GDP, Eurozone Economic Confidence, Eurozone Industrial Confidence, US Consumer Confidence, Japanese Industrial Production, Eurozone PMI, German Retail Sales, US GDP, US Chicago PMI, US Personal Consumption, Eurozone PPI, US Non Farm Payroll***

Market attention has turned to global currencies over the last week as strong evidence of economic recovery appears elusive. Last week's poor US Durable Goods orders spooked the equity markets and spurred Treasury bonds as analysts expectations proved far off the mark. The result was a limited softening of the US Dollar and selling pressure on equity markets. The US Dollar turned right round again later and has moved strongly against major currencies since. Right now two particular currencies show cause for concern; the Japanese Yen and the British Pound. The Yen has appreciated strongly over the last eight months against the US Dollar in particular, and the Pound has slumped due to the deteriorating UK balance sheet and the benign attitude of the Bank of England. Yen appreciation is more dangerous than it seems. Firstly, it puts pressure on Japanese exporters like the Honda Motor Company that gain nearly 50% of its sales from the US and shippers like Mitsui OSK Lines Ltd who rely on buoyant international trade to maintain margins. Secondly, it exacerbates Japanese deflation as economic recovery stalls without active exporter activity. As the number 2 global economy, Japanese deflation is a strong drag on global growth especially with global interest rates at near zero with little opportunity for re-inflation through lowering rates further. The depreciation of the Pound is also troubling as the UK can no longer rely on its exporters

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to power it out of recession. There aren't enough of them. Instead, the country is at risk of a deeper and longer recession as the Bank of England moves towards *increasing* interest rates to prop the currency up. Overall global currencies will draw the main attention this week but not for the right reasons.

### **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 measured by the VIX Index, a major unexpected international terrorist attack occurs.

### **Commodity Watch**

<b><u>Gold</u></b>	The Gold price fell back below \$1000 late in the week having appreciated as far as \$1016. A stronger US Dollar and continued pressure on metals prices continued to push Gold down. At \$989 the Gold price may well attempt to move back above the \$1000 mark but fears over deflation may promote a drop in price back to the \$970 level.
<b><u>Oil</u></b>	The Crude oil price came off sharply last week as a result of a strengthening US Dollar and fears over the pace of global recovery. This week could see oil struggling to find fresh reasons to push back up above \$70.00.
<b><u>Wheat</u></b>	Wheat prices spiked on Thursday last week from 4.36 to 4.54 only to fall back on Friday just as sharply to close at 4.31. This price volatility suggests that wheat may be due for a breakout. Although profit taking in other commodities pushed them lower last week, wheat has a lot of potential for upside movement. The yearly high was 5.40 on August 3 <sup>rd</sup> 2009 and current levels are at yearly lows.
<b><u>Sugar</u></b>	Sugar appears to be undecided which direction to go at the moment with a volatile week's trading last week within a narrow range. However, seasonal interruptions in the supply chain that seem all too regular at the moment, could see the price spike on the upside in the short term.
<b><u>Coffee</u></b>	As expected the Coffee price tried to break through its resistance level around 1510 but failed, heading instead back towards the 1380 level. The price still looks very weak and has reached a critical point where it could see a bounce off of a forming trend line. However, the opportunity for a breakout has become undeniable as the price range activity narrows considerably. Watch for a potential breakout on the upside.

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## **Index Watch**

<b><u>FTSE</u></b>	The FTSE Index has faltered from the 5200 level it reached in mid September and is looking very vulnerable to a downturn. Price pressure from underweight funds looking to get into higher yielding asset classes and the threat of mergers and acquisitions activity could provide some temporary shock up moves but the market is looking very tired at these levels.
<b><u>DAX</u></b>	The DAX had a poor week last week with pressure from profit taking ahead of the close of the third quarter. The Index has been a star performer since March 2009 with a turnaround from 3635 to its current high level of 5720. Continued upward momentum will rely on fresh indications of industrial and consumer spending along with improvements in consumer sentiment. This week we see German retail sales figures which will provide an indication of high street activity.
<b><u>Eurostoxx</u></b>	The EuroSTOXX index, slipped along with other major indices last week. This week the index will need to see good statistics from the Eurozone to back up recent optimism over economic recovery. Equity markets as a whole have seen strong upward movements over the last 6 months and are ripe for a period of consolidation.
<b><u>E mini S&amp;P</u></b>	This week, the S&P 500 Index will be waiting for the Non-Farm Payroll figures on Friday and markets could find themselves in a state of flux until then. US Dollar strength which should be positive for equity markets could be tempered by the strength of the YEN with fear that the global economy could be slipping into deeper deflation.

## **Bond Watch**

<b><u>BOBL/BUND /SCHATZ</u></b>	European Treasury prices hardened over the last week with Bund prices improving a point. Investors seem even more confused than recently with the state of the global economy and subsequently have switched back, yet again, into safe haven asset classes like bonds ahead of what could be a difficult 4 <sup>th</sup> Quarter for stocks.
<b><u>US Treasuries</u></b>	US T-Bonds strengthened last week as investors viewed the US economy with caution especially following the disappointing US Durable Goods statistics. YEN appreciation is also worrying investors as the prospect of further global deflation seems a lot more likely than recently thought.

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## Currency Watch

<u>EUR/USD</u> <u>GBP/USD</u>	The evidence of Japanese deflationary influences on global inflation particularly with the appreciation of the YEN suggests that the US treasury has little option for cutting Interest rates further for fear of causing a run on the Dollar and pushing the country into mild recession. As I mentioned last week, it is not inconceivable that the Fed may look to stiffen rates soon in order to send a bullish message to the markets.
<u>JPY</u>	The YEN has appreciated strongly against major global currencies over the last few months but is now damaging export sales and margins with companies that do business with the US in particular. What has been missing from the currency markets is any form of Japanese central bank intervention to hold the YEN in check but this may change soon as pressure mounts to control the rise of the currency.

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