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January Review

2nd February 2012

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Summary of Major Markets

Comment

After an initially slow start to the month Risk Assets received a boost across the board. As shown by the Monitor to the right the best performing Index that we cover was the Dax - up 11.79% for the year to date (01/02/12). Slipping below the financial medias radar has been the gain in Silver, some 20% odd. All the while, the U.S and German 10 year bonds have remained bid and both hover at 1.80%, near multi week lows. The Dollar suffered a volatile month but remained largely unchanged.

Ticker		Name	Curr Px	Pct Chg on Day	Chg YTD %
+ UKX	d	FTSE 100 INDEX	5756.61	+1.32%	+3.31%
+ SX5E	d	Euro Stoxx 50 Pr	2457.28	+1.68%	+6.07%
+ DAX	d	DAX INDEX	6593.94	+2.09%	+11.79%
+ SPX		S&P 500 INDEX	1312.41	-.05%	+4.36%
+ INDU		DOW JONES INDUS. AVG	12632.91	-.16%	+3.40%
+ NDX		NASDAQ 100 STOCK INDX	2467.95	+.11%	+8.35%
USGG10YR		US Generic Govt 10 Year Yield	1.8022	+.29%	-3.94%
GDBR10		German Government Bonds 10 Yr	1.808	+1.16%	-1.16%
GOLDS		GOLD SPOT $/OZ	1746.63	+.52%	+11.70%
SILV		SILVER SPOT $/OZ	33.8300	+1.97%	+21.50%
+ HGA	d	COPPER FUTURE Mar12	381.10	+.55%	+11.11%
+ COA	d	BRENT CRUDE FUTR Mar12	112.04	+.96%	+5.06%
+ CLA	d	WTI CRUDE FUTURE Mar12	98.85	+.38%	-.36%
EUR		EURO SPOT	1.3173	+.69%	+1.64%
GBP		BRITISH POUND SPOT	1.5841	+.52%	+1.92%
JPY		JAPANESE YEN SPOT	76.14	+.17%	+1.01%
DXY	d	DOLLAR INDEX SPOT	78.846	-.54%	-1.69%

0 Monitor Alerts on this Monitor

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Dax Index Weekly and Monthly

Comment

As we write the Dax Index is adding to Januarys gains and is testing 6600.

The 200sma has recently been surmounted and sits at 6344 today. This is defended by trend support at 6430 (Gaining 26 points per day).

The 61.8% retracement of the May '11 – Sep '11 move offers resistance at 6595.5 and an old trend line offers resistance at 6630.5.

As Dax tests resistance it should be noted that Volume has diminished since the 18th Jan and the RSI is in overbought territory. Although the short term trend is bullish, a failure at current levels and pullback in the medium term trend is a reasonable expectation.

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Nasdaq 100 Index Daily and Weekly

Comment

The Nasdaq 100 gained 8.34% throughout January after starting the year with a significant gap higher. A straight-line trend has seen a move through the multi week high at 2838.44 and appears to be continuing the multi week trend from the 2008 low as shown by the weekly chart below. A trend line across the highs at 2465.15 is being surmounted in today's trade and if breached on a closing basis will add weight to the upside. However, the daily RSI at 73 indicates this recent trend is becoming overstretched and a pullback would be healthy.

The short term trend remains positive, and provided the move above trend resistance is sustained this week, then the medium and long term trend will also remain positive.

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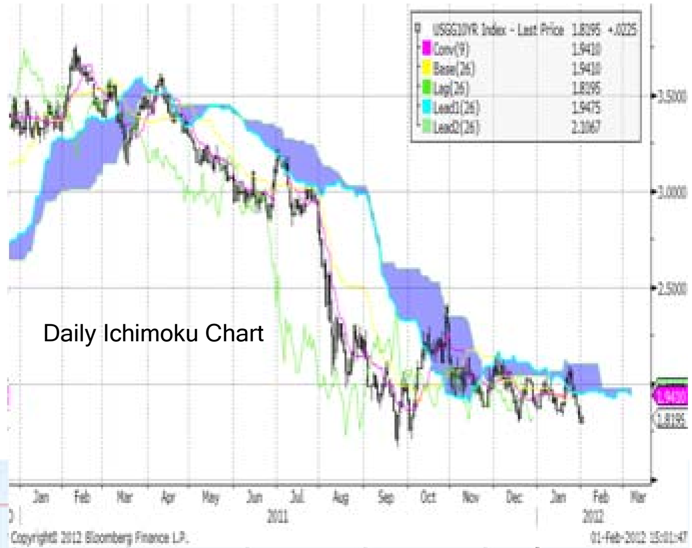
U.S 10 Year Yield Daily and Ichimoku

Comment

The U.S 10 year yield is currently testing the December low at 1.7959. The next target is a swing low at 1.7151 and then 1.6714, the multi year low.

Each lower high since the 2010 high of 3.7660 has been capped by the Ichimoku Cloud so until the Ichimoku Cloud has been surmounted our outlook continues to favour lower yields.



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Silver
Weekly (Log)

Comment

Silver experienced an exceptionally volatile 2011 and closed near the low of the year. In January Silver posted one of the best monthly gains across all asset classes, up some 19.1%

Although the short term trend is higher, the medium term trend is a consolidation capped by a 38.2% retracement of the 2011 range at 35.13, the 200sma at 35.20, and a swing high at 35.6875.

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Dollar Index Weekly

Comment

2011 was a year of two halves for the dollar, which declined in the first 6 months and rallied in the final 6 months to finish marginally higher on the year.

Towards the end of 2011 it appeared the Dollar Index had broken to the upside of an Inverse head and Shoulders formation. A weekly Evening Star put an end to this thought process and a break back below the Neckline has since occurred.

The short term trend targets a retracement at 78.38 whilst the medium term trend is higher.

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Core European Bond Spreads.

Comment

The chart below shows the contraction of yield spreads of the 'Core' European 10 year bonds against the benchmark German 10 year. The French (yellow), Spanish (Green) and Italian (White) have all staged significant moves since early January as the ECB's SMP and first LTRO have stabilized prices. It's likely the spreads over the German 10 year will remain stable in the run up to the next LTRO, rumoured to be €1 trillion.

Ignoring Greek yields which everyone is only too aware of, the bonds of one other European country aren't behaving as planned. Portuguese yields (Orange) have not compressed but instead widened reaching a high of 1560bp (Closing Basis) over the German 10 year, a fact the political elite would like to keep quiet.

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Stoxx 600 Insurance Sector

Comment

The contraction in European bond spreads has alleviated some of the pressure on the Financial sectors.

The Insurance sector posted solid gains of 10.55% in January and is currently consolidating around the October swing high of 148.29.

One of the best performing sectors throughout January and one of the least favoured last year, further upside remains possible. Further gains target the 61.8% retracement of the Feb '11 to Sep '11 bear move. The short and medium term trends favour the upside.

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Stoxx 600 Banking Sector

Comment

The contraction in European bond spreads has alleviated some of the pressure on the Financial sectors, especially the banks.

Gains of 9.54% during January surmounted down trend resistance dating back to Apr '11. The October spike high of 152.26 is yet to be surmounted and defends the 38.2% retracement of the bear move at 158.94.

The short term trend remains positive whilst medium term this sector is in a consolidation phase between 115.14 and 152.26.

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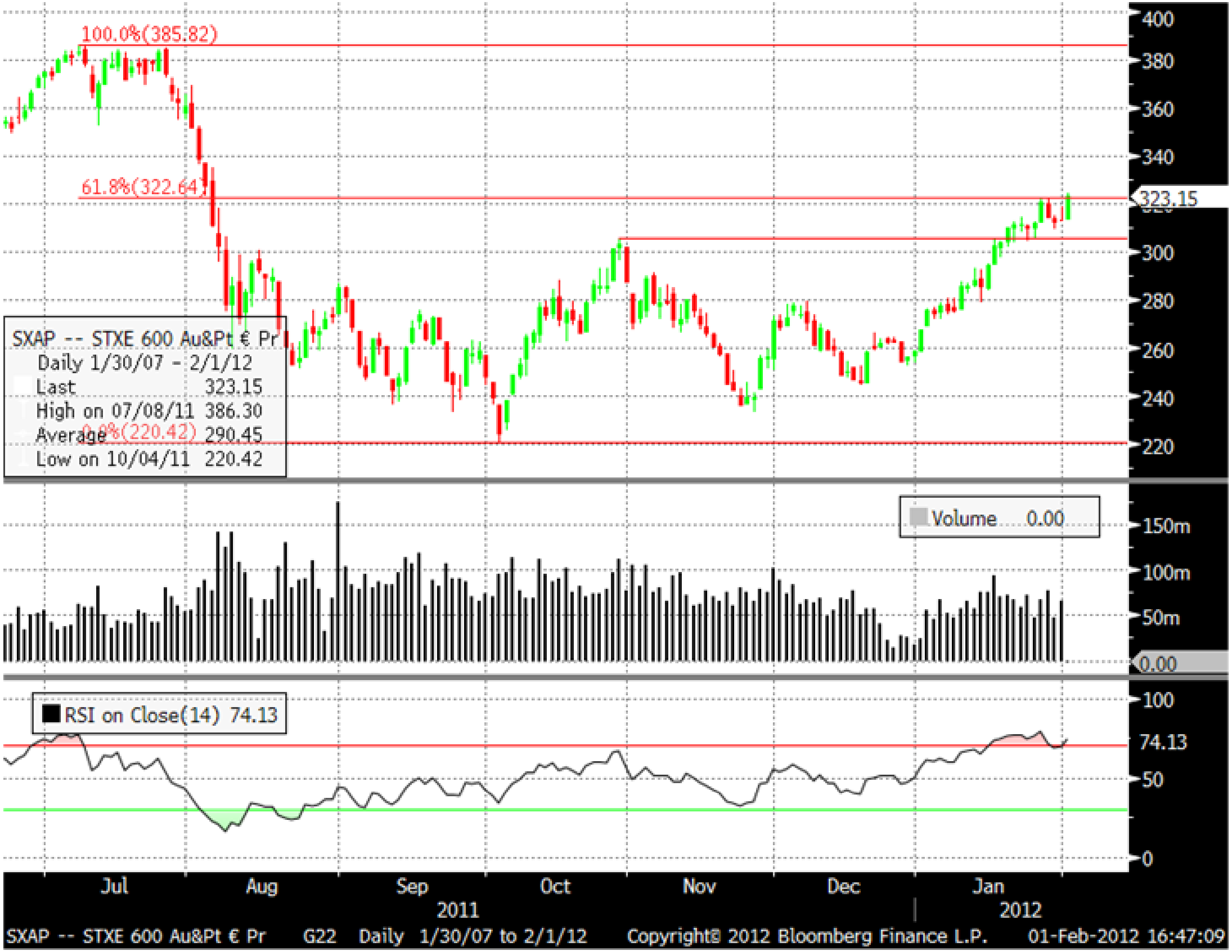
Stoxx 600 Auto Sector

Comment

After crashing from a high of 385.82 down to 220.42 in 2011 the Autos finished 2011 out of favour. A sharp move higher of 20.8% in January made this the best performing sector.

The short term trend is positive albeit overstretched as the RSI trades above 70. The 61.8% retracement of last years move from 385.82 to 220.42 provides resistance for the bulls at 322.64. A reversal signal at this juncture would signal a pullback in this medium term trend higher.



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Stoxx 600 Utilities, Telcos, Healthcare and Food and Beverage

Comment

Not all sectors partook in the January rally as Fund Managers rotated out of the ‘safe havens’. Utilities, Telcos, Healthcare, and Food and beverage remained largely unchanged on the month.

Whilst Telcos and Utilities remain mid range in a consolidation, the Food and Beverage and Healthcare sectors are staging a healthy pullback from Overbought territory (Red Ellipse). The pullback is returning to Horizontal support at 375.68 (Fd&Bev) and 423.14 (Health) and likely provides an opportunity to be involved in the medium and long term trends higher.

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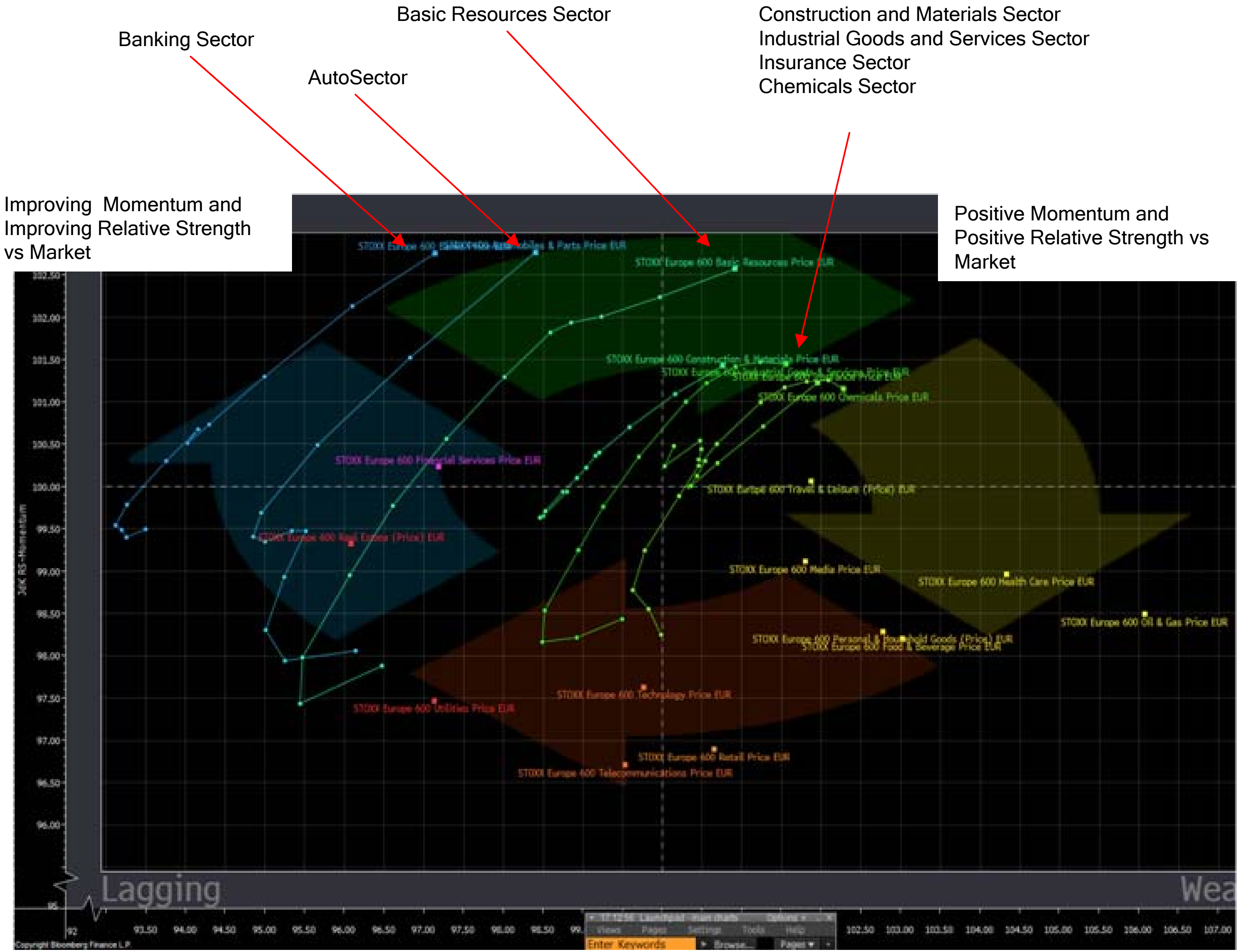
Relative Rotation Graph

Comment

The Relative Rotation Graph shows the momentum and relative strength of the Stoxx 600 sectors relative to the Eurostoxx 50 over the past 3 months.

As indicated by the graphic, the high beta sectors; Banking, Autos and Basic Resources have made solid progress and after underperforming the market are now almost trading in line with increasing positive momentum.

A cluster of cyclical sectors such as Construction and Materials, Industrial Goods and Services, and Chemicals maintain a positive momentum albeit slowing, and have outperformed the Eurostoxx.



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Relative Rotation Graph

Notes:

This Graph is a relatively (if you'll pardon the pun!) new addition to the Bloomberg terminal, developed by Dutch Technical Analyst Julius de Kempenaer.

You can look at any group of securities versus a chosen benchmark, for example Sectors vs Main index (as per the previous page), or Sector components versus the Sector Index.

To look at this go to RRG <GO> or alternatively ask us to look at your particular Sector, Portfolio or area of interest! We have a solid understanding of what to look for, Clive having spent time with it's "inventors"!

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1st February 2012

Summary

Risk assets, especially equities, staged one of the best starting months to the year on record with gains of +10% in the headline index (Dax) and in some instances over 30% in individual stocks (RBS LN). Gains like these are the result of an adjustment in underweight market positioning opposed to the allocation of fresh capital and as such should be treated cautiously.

Although upside price action in particular assets appears to be genuinely constructive and is an extension of the short, medium, and long term trends higher, others are becoming overstretched and nearing resistance following a move that has been lacking in participation. The rotation into high beta cyclical sectors seen since mid December has likely set the tone for Februarys trade as underweight fund managers attempt to align their portfolio with market gains.

We suggest the Risk/Reward of long positions in Indices is not favourable at current prices but do not underestimate the potential for further gains given the exceptional amounts of liquidity in the financial system. Currency markets remain in flux as a policy of devaluation to stimulate growth and inflate away national debt continues to be implemented by most developed nations Central Banks. As a result, commodities remain in a multi week up trend due to inflationary policy as investors search for hard assets, although recent price action has seen a medium term consolidation. True AAA bonds, although in a consolidation phase, remain in a multi week trend towards lower yields.

Liam Roberts