

## February Review - 1<sup>st</sup> March 2012

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## Summary of Major Markets

### Comment

Equities continued to grind higher throughout February with the Dax and the Nasdaq tied for the lead both gaining around 6.5%.

Commodities continued the strong run seen during January with interest switching to the Energy sector due to tensions with Iran and the increased liquidity provided by the European LTRO. Brent gained more than 10% on the month.

A clear loser in currencies emerged as the Bank of Japan added further liquidity to the system meaning the Yen lost ground against most major crosses.

AAA government bonds remained stable throughout the month.

| ▲ | . | Ticker   | Curr Px  | Chg YTD % | Chg Pct 1M |
|---|---|----------|----------|-----------|------------|
|   |   | + UKX d  | ↑5903.72 | +5.95%    | +1.95%     |
|   |   | + SX5E d | ↑2526.27 | +9.05%    | +2.25%     |
|   |   | + DAX d  | ↑6888.77 | +16.79%   | +4.11%     |
|   |   | + SPX    | 1365.68  | +8.59%    | +3.14%     |
|   |   | + INDU   | 12952.07 | +6.01%    | +1.85%     |
|   |   | + NDX    | 2623.10  | +15.16%   | +5.42%     |
|   |   | USGG10YR | ↓2.0139  | +7.34%    | +10.26%    |
|   |   | GDBR10   | ↑1.847   | +1.00%    | -.57%      |
|   |   | GOLDS    | ↓1711.20 | +9.43%    | -1.85%     |
|   |   | SILV     | ↓34.5000 | +23.91%   | +2.40%     |
|   |   | + HGA d  | ↑388.70  | +13.01%   | +1.22%     |
|   |   | + COA d  | ↓123.49  | +16.12%   | +11.30%    |
|   |   | + CLA d  | ↑107.21  | +7.95%    | +9.94%     |
|   |   | EUR      | ↑1.3325  | +2.81%    | +1.24%     |
|   |   | GBP      | ↓1.5949  | +2.61%    | +.73%      |
|   |   | JPY      | ↑81.05   | -5.11%    | -5.98%     |
|   |   | DXY d    | ↑78.762  | -1.80%    | -.13%      |

0 Monitor Alerts on this Monitor

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## Dax Index Weekly and Daily

After a strong initial start to the month upside momentum slowed, but after a brief consolidation mid month further gains returned to test the breakdown levels seen last August at 6991.60. The 76.4% retracement at 6979.60 has combined with this breakdown level and old gap resistance at 6953.98 to cap the upside for the time being.

The short term trend has undoubtedly been bullish but the recent high was not confirmed by the RSI (Red Ellipse) and a Bearish Engulfing candle posted on the last day of the month after testing the high signals the potential for a reversal. A break below 6733.59 give a Double Top sell signal whilst a move below 6651.72 is needed to break the sequence of higher highs and higher lows defining this recent trend.

Medium term we still consider this rally to be counter trend in nature and part of a consolidation. A sustained move through 6979.60 - 6991.60 will force an alternative analysis and target the 2011 high at 7600.41.

Weekly Chart



Daily Chart



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## Nasdaq 100 Index Daily and Weekly



### Comment

*'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.'*

The march higher in the Nasdaq 100 has been unrelenting throughout February as the trend line capping previous highs was surmounted and short term trend support held throughout the month.

Although clearly in a short term up trend defined by the support line (at 2611 today increasing by 8.44 points a day) the RSI is not confirming the recent highs and remains in overbought territory. Additionally, the previous 8 weeks have been green candles and so far this week gains are positive. This brings the 'Rule of 9' into play, where no more than 9 candles of the same colour can be posted consecutively. This is not a hard and fast rule, but frequently is a precursor to a pullback / period of consolidation. Any retracement will likely find buyers at a variety of supports including gap supports at 2504.16 and 2373.50, overcome trend support at 2472 and a short term Fib retrace at 2415.12.

The short term trend remains positive although overextended, and the medium and long term trends remain positive.

As the mainstream media is fully aware that AAPL US Equity is accountable for a significant portion of the recent rise and the two are now trading in lockstep as shown on the next page.



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## AAPL US Equity Daily and Weekly

### Comment

AAPL overcame 2011 highs and weekly trend resistance at 458.55 towards the end of January and has since continued to trend higher. Significant gains throughout February have seen this stock trade as high as 547.61 increasing some 600% from the 2009 low.

The recent move has now gone parabolic, often a warning that upside momentum is reaching a crescendo. In addition, the RSI has remained overbought throughout the month and is diverging relative to the new high prices.

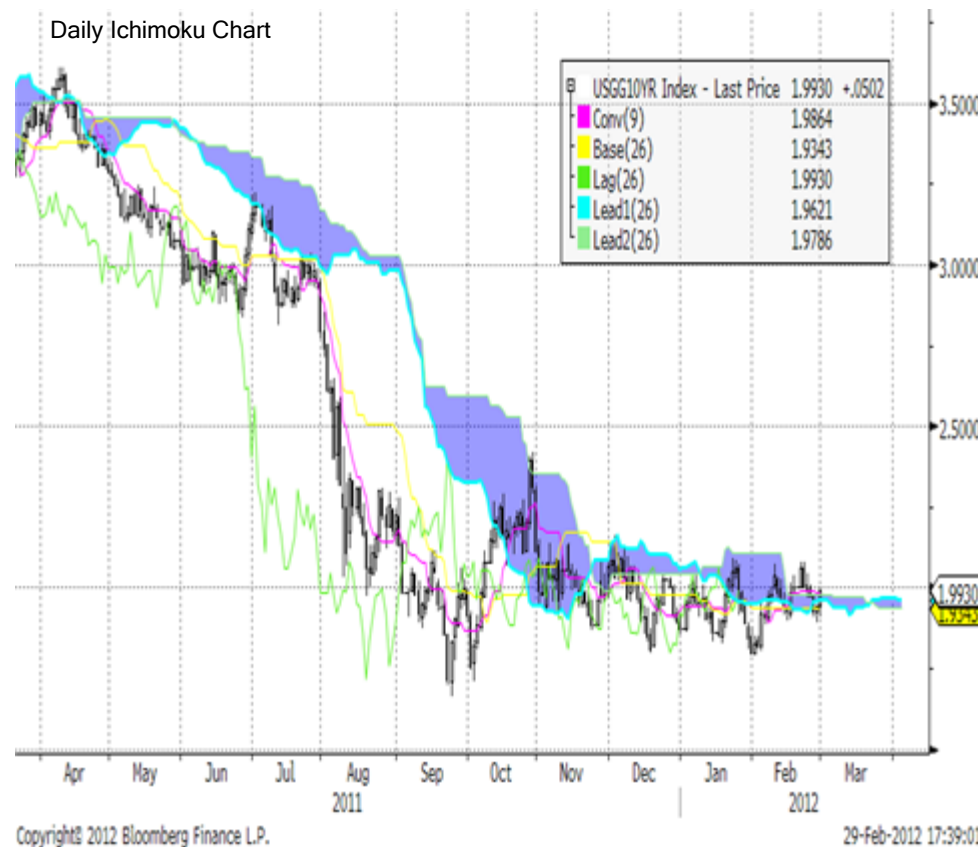


The U.S 10 year yield rallied after testing the December low and after a brief test of the upper bounds towards 2.10% is now consolidating mid range. As can be seen from the Weekly chart below a definable range is now evident between 1.79% and 2.10%

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## U.S 10 Year Yield Weekly and Ichimoku Chart

The Ichimoku Cloud is no longer capping upside advances and the cloud projection is narrowing suggesting a period of consolidation or potentially a reversal in the coming weeks. Danger of a short term reversal becomes real on a move through 2.10% and 2.16-2.18 % and would target 2.32% 2.42%



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## Brent Crude Daily

Comment

Brent Crude posted strong gains of around 10% throughout February as Iranian tensions and additional liquidity from the BOE, BOJ and the ECB was allocated into hard assets. After breaking above a short term consolidation built during January, Brent has since traded up to 125.55, making an assault on the 2011 high at 127.02.

Short term the bulls remain in control with up trend support at 116.25 (increasing by \$0.29 a day) Medium term this recent move appears to have broken out of a broad consolidation, and if/when the 127.02 high is taken out the trend can extend to \$135.29 and then the 2007 high at 147.50.

The chart to the left shows Brent in the price of Euros. Priced this way Brent broke above the July '11 and December '11 swing highs back in January, and following a brief retest is now making new multi week highs towards €93/bbl





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## Japanese Yen Weekly

### Comment

A weaker Yen was seen throughout February as an unexpected announcement by the BOJ to increase asset purchases resulted in a shift in sentiment. The USDJPY cross moved from a low of 76.03 to 81.67 in February as a result whilst the EURJPY cross reached 109.93 after trading 99.25 earlier in the month.

Whilst this short term move may seem impressive, in the grand scheme of the overall trend it doesn't appear so significant. Previous attempts by the BOJ to weaken the Yen have failed and the Weekly Ichimoku chart to the right still shows the Ichimoku Cloud holding as resistance for the time being. (Ichimoku being particularly prescient as it is a Japanese invention).

The multi week trend continues to favour a stronger Yen whilst sideways consolidation unfolds in the medium term. Short term if 80 and 78.30 are defended as support then there is scope for further upside. The weekly Ichimoku Cloud stands at 80.94 with the 'Lead Line' offering resistance at 80.94. Two consecutive weekly closes above this resistance may indicate a greater reversal.

Weekly Ichimoku Chart





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## Core European Bond Spreads.

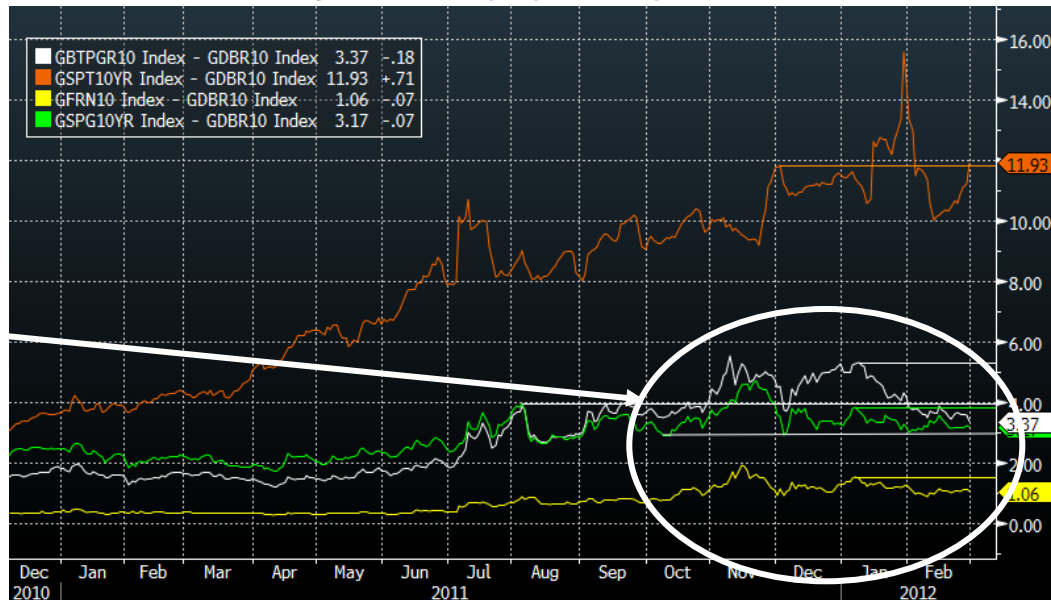
- Portuguese - German (Orange)
- Italian - German (White)
- Spanish - German (Green)
- French - German (Yellow)

### Comment

The charts below show the yield spreads of the European 10 year bonds against the benchmark German 10 year. In comparison to the preceding six months volatility has abated somewhat as various attempts by the CB's of Europe and the ECB to stabilize both core and peripheral bonds through the SMP and LTRO have proved successful (so far).

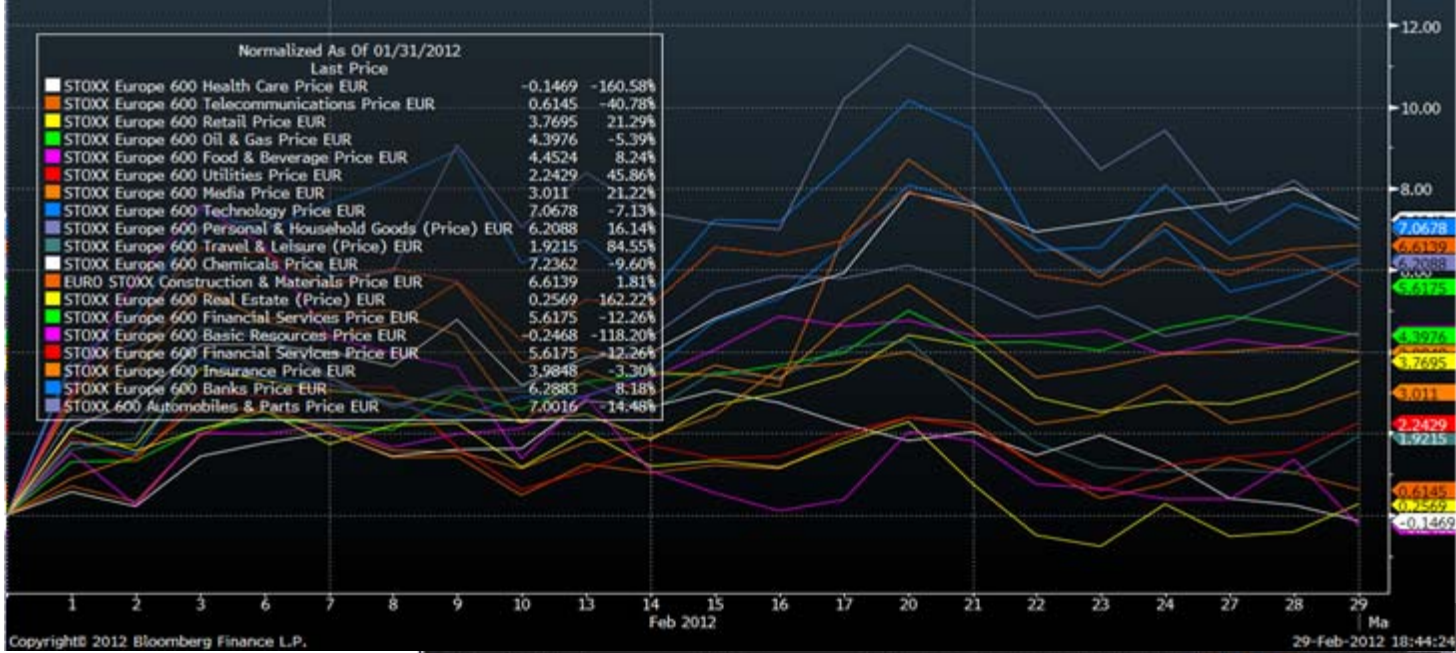
The programs implemented by the ECB have resulted in a relatively stable French spread (Yellow) of around 1% throughout February. The Spanish bond spread tested the key 300bps support level at the start of the month and rallied up to 350bps over the German 10 year. In a sign the ECB's actions are working, the Italian German spread tested the key 400bps inflection point earlier in the month but have since returned to a more acceptable 335bps.

Unfortunately the same reassuring action can not be said of the Portuguese German spread, which after testing the 2011 resistance (now support) of 1000bps rallied since the middle of the month and is now back at a worrying 1200bps. This is still yet to be a focus of the mainstream media and markets as a Greek default is becoming more likely by the day.



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## Summary Stoxx 600 Sectors



### Comment

High Beta cyclical sectors remained in vogue throughout February with the Chemicals sector gaining some 7.23% during the month, Tech gaining 7.07% and Autos gaining 7%.

Surprisingly the Basic Resources sector underperformed throughout the month finishing roughly unchanged. Also finishing unchanged on the month were the Telco's and Real Estate Sectors.

| ▲ | ■ | Ticker | Name                  | Curr Px | Pct Chg on Day | Chg on Day | Chg PCT 1M | Chg YTD % | 52 |
|---|---|--------|-----------------------|---------|----------------|------------|------------|-----------|----|
| ▲ | ■ | SX4P   | d STXE 600 Chem € Pr  | 1587.29 | -0.71%         | -4.21      | +7.24%     | +14.44%   |    |
| ▲ | ■ | SX8P   | d STXE 600 Tech € Pr  | 1211.02 | -0.50%         | -1.07      | +7.07%     | +12.08%   |    |
| ▲ | ■ | SXAP   | d STXE 600 Au&Pt € Pr | 1334.99 | -1.10%         | -3.71      | +7.00%     | +29.32%   |    |
| ▲ | ■ | SXQP   | d STXE 600 Cn&Mt € Pr | 1258.43 | +0.20%         | +5.2       | +6.69%     | +13.72%   |    |
| ▲ | ■ | SX7P   | d STXE 600 Bnk € Pr   | 1154.32 | +0.45%         | +6.9       | +6.29%     | +16.43%   |    |
| ▲ | ■ | SXQP   | d STXE 600 Pr&Ho € Pr | 1464.09 | +0.82%         | +3.77      | +6.21%     | +9.73%    |    |
| ▲ | ■ | SXNP   | d STXE 600 Ig&S € Pr  | 1313.70 | +0.51%         | +1.60      | +5.63%     | +13.13%   |    |
| ▲ | ■ | SXFP   | d STXE 600 FnSv € Pr  | 1236.99 | -0.74%         | -1.76      | +5.62%     | +13.13%   |    |
| ▲ | ■ | SX3P   | d STXE 600 Fd&Bv € Pr | 1397.64 | +0.33%         | +1.29      | +4.45%     | +3.57%    |    |
| ▲ | ■ | SXEP   | d STXE 600 Oil&G € Pr | 1358.47 | -0.24%         | -0.86      | +4.40%     | +6.26%    |    |
| ▲ | ■ | SXIP   | d STXE 600 Ins € Pr   | 1153.18 | -0.13%         | -0.20      | +3.98%     | +14.96%   |    |
| ▲ | ■ | SXRP   | d STXE 600 Rtl € Pr   | 1249.41 | +0.64%         | +1.59      | +3.77%     | +1.88%    |    |
| ▲ | ■ | SXMP   | d STXE 600 Mda € Pr   | 1170.03 | +0.51%         | +0.87      | +3.01%     | +5.12%    |    |
| ▲ | ■ | SX6P   | d STXE 600 Util € Pr  | 1265.30 | +0.69%         | +1.83      | +2.24%     | +1.73%    |    |
| ▲ | ■ | SXTP   | d STXE 600 Tr&Ls € Pr | 1120.41 | +0.87%         | +1.04      | +1.92%     | +6.66%    |    |
| ▲ | ■ | SXKP   | d STXE 600 Tel € Pr   | 1247.24 | -0.42%         | -1.04      | +0.61%     | -2.01%    |    |
| ▲ | ■ | SX86P  | d STXE 600 ReEs € Pr  | 1109.28 | +0.67%         | +0.73      | +0.26%     | +5.58%    |    |
| ▲ | ■ | SXDP   | d STXE 600 HeCr € Pr  | 1428.36 | -0.39%         | -1.67      | -0.15%     | -1.52%    |    |
| ▲ | ■ | SXPP   | d STXE 600 BsRs € Pr  | 1505.26 | +1.58%         | +8.12      | -0.25%     | +13.84%   |    |

0 Monitor Alerts on this Monitor

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## Stoxx 600 Chemicals Sector

### Comment

The Chemicals sector gained 7.25% during the month of February and led the Dax Index higher. The breakdown level at 571.45 from August 2011 was surmounted at the start of the month and by the month end 596.34 had traded which is in the middle of the consolidation phase seen in Q2 '11.

Short term the bulls remain in control but the RSI remains in Overbought territory and the recent high close has not been confirmed. A pullback to unwind Overbought conditions would be healthy with buying interest resuming at trend support at 557.47 (increasing by 1.5 points/day) and the 38.2% retracement of the last leg higher at 541.96 in the event of a deeper correction.





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## Stoxx 600 Technology Sector

### Comment

The Technology sector posted strong gains of 7% on the month and has now retraced 61.8% of the losses from the 2010 high at 210.85. An old gap at 214.74 has capped the upside for the time being, and currently a potential down trend line from the 2007 high is being acknowledged (at 212.11 declining 0.126 points a day)

Short term trend support is at 205.25 (gaining 0.5points / day) and combines with the Oct '11 high at 205.76 to provide support. Medium term trend support stands at 191.42 (increasing by 0.2 points / day)

Short term price action remains bullish but in the Medium term this appears to be a counter trend correction. Through the 61.8% retrace and gap resistance we'll re-evaluate and expect a move to 222.57, the 76.4% retracement.





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## Stoxx 600 Auto Sector

### Comment

The Auto sector gained 7% in February as the short term trend higher continued. The 61.8% retracement was overcome and a move to the 76.4% retrace at 347.15 was achieved.

Short term this move appears to have exhausted itself as the RSI has not confirmed the recent highs, and a '3 Push Pattern' is evident on the daily chart. The trigger level for the 3 Push Pattern is a break below the 326 low posted on the 7th which would target a move to the October high at 305.59 and a 38.25 retracement of the last move higher at 306.28.



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## Stoxx 600 Banking Sector

### Comment

Although it wasn't the strongest performing sector during February the Banking Sector moved ahead 6.3%

A break above the October '11 high at 152.26 spurred a move to test the 38.2% retracement of the sell off from Feb '10 – Nov '11 at 158.94.

Short term this sector is range bound between the Oct '11 high and the 38.2% retracement. The multi week trend remains lower so a hold of the 38.2% retrace as resistance is frequent in a down trend. A break above 161.23 targets a minor swing high at 176.39 and then the 61.8% retracement at 186.01. A break below 150.8 – 152.6 targets a short term retrace at 143.62.



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## Stoxx 600 Basic Resource Sector Sector

### Comment

Basic Resources were the worst performing sector last month down 0.25% even though the underlying commodities were well supported.

After breaking above the Neckline of an Inverse Head and Shoulders pattern in January gains continued in the early part of February with a move to print 544.93, testing the 61.8% retrace of the Feb '10 – Oct '11 move at 543.91.

The resultant monthly candle is a Shooting Star which at the 61.8% retrace highlights the potential for a correction. A pullback will find support at the 38.2% retrace at 475.45, and the Neckline of the inverted Head and Shoulders at 463.88 (declining by 0.13 points / day)





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## Stoxx 600 Telcos and Healthcare

### Comment

The Healthcare Sector finished the month -0.15% after rallying from Horizontal support at 422.87 earlier in the month. The monthly candle is a small Shooting Star indicating the potential for a reversal.

For now we still favour buying dips towards Horizontal support or if a deeper pullback occurs to the 38.2% retrace at 408.58.

The Telcos sector seemed content throughout February remaining within the range defined in January. Horizontal support is at 245.33 whilst resistance is at 252.79. Short and Medium term this Sector continues to consolidate sideways.





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## Stoxx 600 Food and Beverage and Utilities Sectors

### Comment

Our analysis favoured buying dips in the Food and Beverage Sector which continued to trend strongly making a new multi week high in February at 400.66. Short term trend support is at 396.19 whilst Horizontal support stands between 375.68 and 378.28. Short Medium and Long term trends remain bullish.

The Utilities sector gained 2.24% on the month but Horizontal resistance at 270.44 capped the upside. Up trend support from the Sep '11 low stands at 252.87 (Increasing by 0.15 points / day).



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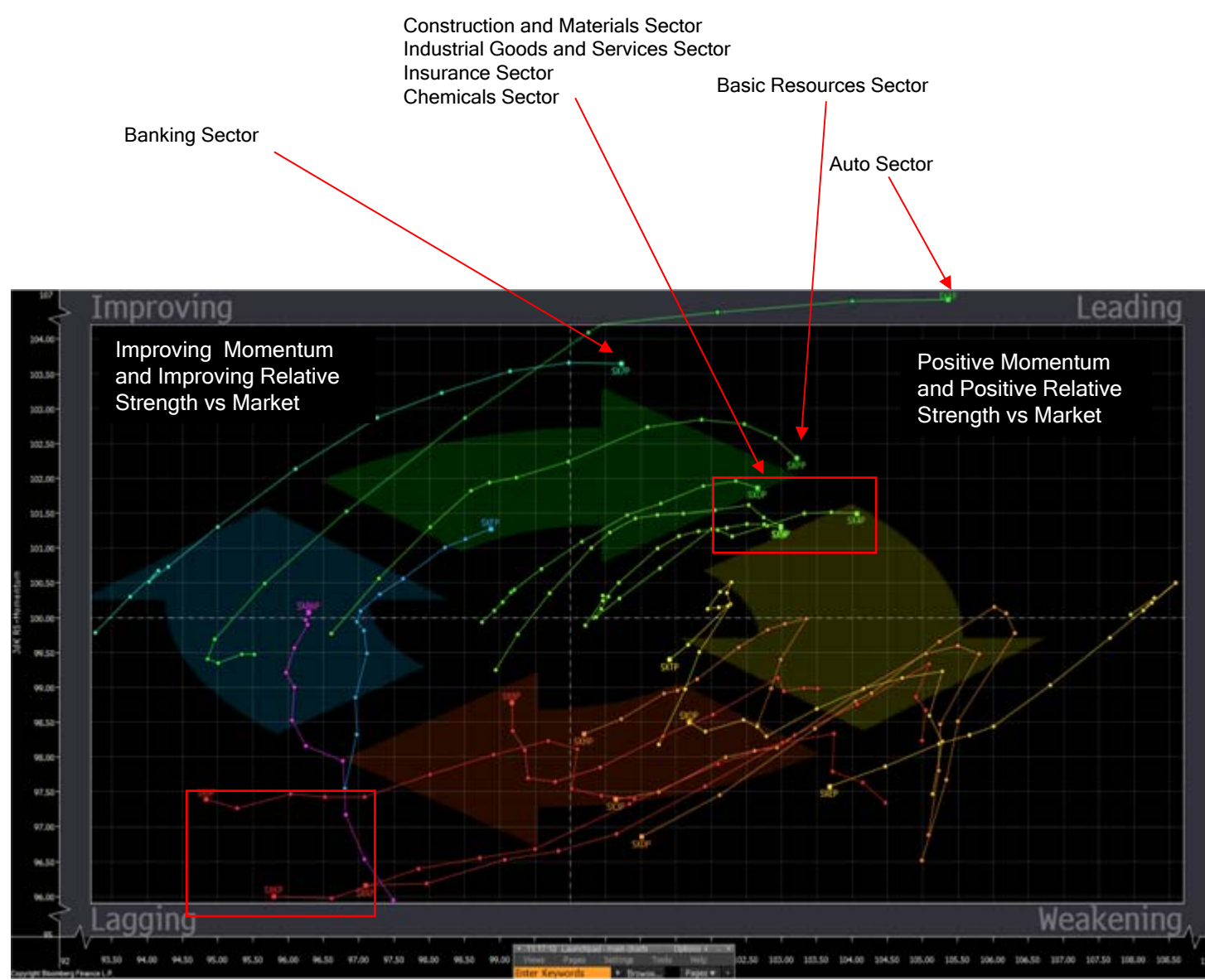
## Relative Rotation Graph

### 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 continue to lead the market but momentum in Basic Resources and other cyclicals such as Construction and Materials sector is slowing.

The Telcos Retail and Utilities sector continues to underperform the market and is yet to show any turn in momentum (Bottom Left)



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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 Kempnaer.

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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## Summary

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*From last month's summary:*

*"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".*

Although last month we were ambivalent towards new long positions in Equity markets our daily analysis has continued to back the short term trend higher despite the overbought nature of the most recent rally. It is only in the last week that our daily commentary has begun to turn neutral/bearish of particular Equity markets as short term signals highlight the potential for a pullback. US Equity markets continue to outperform on the upside and seem resilient in the face of European strife, high energy prices and geo-political concerns.

AAA bonds remain well supported as capital continues to seek safety in a world where politicians remain focused on a short term fix opposed to a long term solution to multiple issues. Last month saw the US debt/gdp surmount 100% yet the US 10 year, with the help of the FOMC is still perceived as a safe haven.

Commodities across the board, despite a correction towards the end of the month remain in a short term trend higher which has accelerated due to the additional liquidity provided by the BOE, BOJ and ECB through various market operations.

The old saying is 'The wave of liquidity lifts all boats' and that certainly appears true when looking across all asset classes in the last 3 months. However, various moves have been lacking in participation and no retracement has been staged which is not healthy for a sustained bull move. Ultimately the trend higher will correct as the market begins to price assets on reality opposed to liquidity but as they say in the world of Technical Analysis, "The Trend is your Friend"...