



Interest Rate Futures

2 Nov 2009

Summary

US T-Notes - 10yr *page 2*

Some ranging up to 119^00 this week before continuing through 119^29.

Australian 10yr Bonds *page 3*

Some ranging down to 94.320 before pushing through 94.550.

Australian 3yr Bonds *page 4*

Some ranging down to 94.65 before pushing through 95.00.

AUS 3/10 Curve *page 4*

Reaction back to +31/+35 but response at that point to determine whether resume drop towards +10 or reversal gets underway.

AUS/US 10yr Spread *page 5*

Continue drop towards +200 this week. Allow reaction before drop continues towards +180.

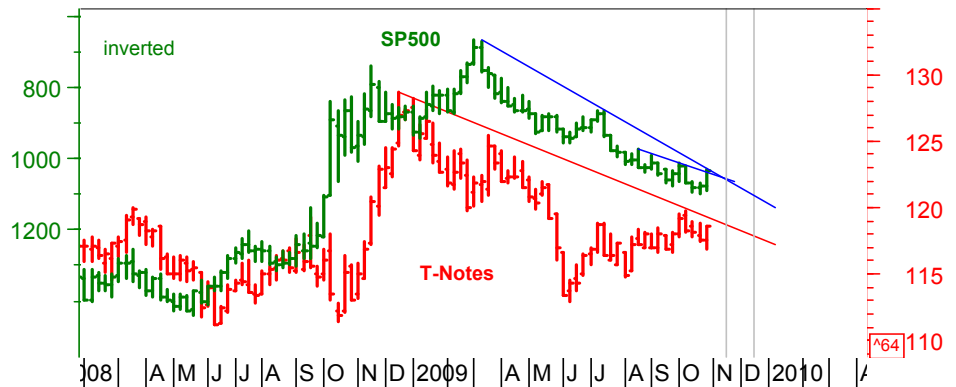
Eurodollars (Mar10) *page 6*

Reaction back to 99.400 before upward drift continues towards 99.600.

Australian Bank Bills *page 7*

Test 96.00 this week and then undergo a retracement. Not yet clear the major low in place.

SP500 & T-Notes



Once again the SP500 is in a reversal position, but this time the signal is stronger than previous opportunities. The last two weeks into the high witnessed contracting weekly trading ranges and the sell-off last week left a wider range with a close at the week's

low. This action was accompanied by T-Note prices making a bullish closing price reversal. It is a strong argument for higher T-Note prices over the next couple of weeks. But it is unclear for how long a rally now will be sustained.

Trend Positions

	Position	Stop	Actions
US T-Note (Dec)	Long	116^16	Buy again now
AUS 10yr	Buy	94.150	Buy now & dips
AUS 3yr	Neutral		
3/10 Curve	Neutral		Shorts stopped
AUS/US 10yr	Long AUS	+245	Buy AUS now
Eurodollar (Mar)	Neutral		
AUS Bills (Dec)	Short	95.90	Exit now

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US T-Notes

Test 119^00 this week but break it later

Positions:

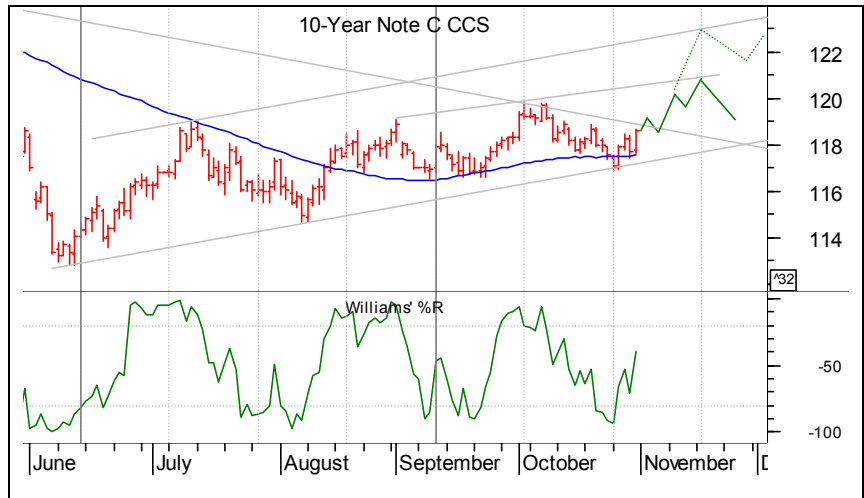
Traders can buy now and dips; stop 117^12.

Trend followers are long; stop 116^16. Buy again now.

Investors are long; stop 116^08.

Data

Current:	118^20
Last Week:	116^28/118^21
This Week:	118^08/119^00
SPT	RES
117^14	119^01
116^18	119^29
114^22	121^28
112^25	126^04



Rally resuming with potential to 121^00 within a couple of weeks.

After an initial drop to 116^28 on Monday T-Note prices finished stronger at the end of the week, after respecting mvg avg support and hitting an oversold momentum condition. A new short-term rally has begun that should take prices to a new high around 121^00 by the middle of November. It will also have the opportunity of completing the sequences from the August and June lows and so open the way for a quick decline into the middle of December.

Initially this week prices should respect resistance in the 118^27/119^01 region and then ease back to 118^16. From there the next thrust higher should begin. Expect further resistance around the existing high of 119^29 before prices eventually push to the target.

The entire rally from the June low has a distinct corrective structure and implies that eventually prices will resume their main decline. Cycles point to the middle of December and the next likely time for a key change in direction. However, the structure of recent swings suggests that the peak for the current sequence will come earlier – in the middle of November. This timing difference opens the window for alternative paths. The best of the alternatives is that T-Notes undergo a path similar to the one the AUS 10yrs have already done – a sharp drop back to the vicinity of June low and then start a new rally. Such an outcome will mean that the corrective process will extend till March when the long-term cycle is due to rollover. Prices should at least return to 121^00 but may move a little higher towards the March 2008 high of 126^04.

The other possible path is that the current rise will accelerate and persist till December. In this scenario prices will rally firmly from current levels and reach closer to 123^00 by the middle of November. Following a pullback of a week or two prices should push higher again and aim for 126^04.

Only an immediate drop through 116^18 will signal that prices will return to the June low at 111^01.



AUS 10yr Bond

Some ranging before continuing new rise

Positions:

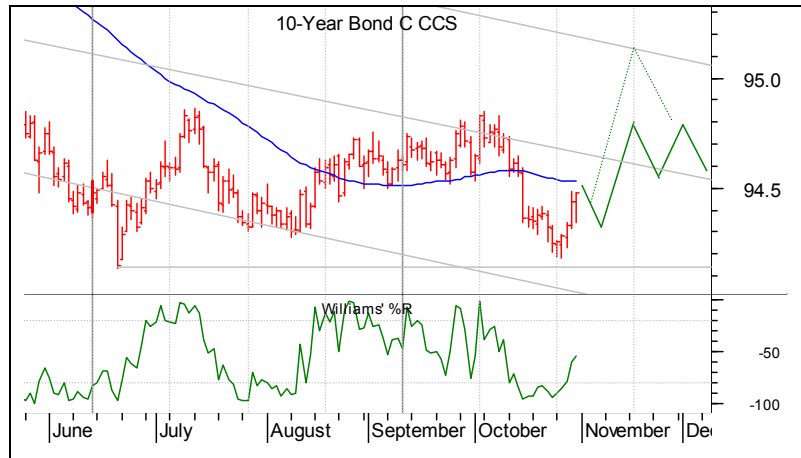
Traders are long; stop 94.150. Buy again on dips.

Trend followers can buy now and dips; stop 94.150.

Investors can buy now; stops 93.970.

Data

Current:	94.475
Last Week:	94.185/94.485
This Week:	94.320/94.500
SPT	RES
94.340	94.550
94.135	94.860
94.000	95.030
93.600	95.320



Last week's low signals the end of the corrective swing of the broader consolidation. A rally should dominate the next few months.

AUS 10yr bond prices behaved as expected, falling to 94.185 initially then rising firmly to 94.485 by the end of the week to suggest that the retest of the June low is complete and that a new rally can commence. This rally could be a fast one and peaks either in the middle of November or the middle of December. More likely I think the rally will persist till March when the long-term cycle rolls over and create a much broader consolidation from the June low. The peak should be at least in the 94.850/95.00 region, but is more likely to be nearer 95.700.

Already the action off the low, despite its relative strength, is not following a typical structure and warns that a high degree of volatility may be seen. Prices are currently at the downward trending mvg avg and previous lows points which should force the market to react for a couple of days. Allow a reaction back to 94.340 before prices move steadily towards the recent high of 94.860 by the middle of November. A stronger move to around 95.030 – a move that will be consistent with the June/July rally - will not be a bullish sign as a full corrective pattern from the June low will be complete. It will create the potential for a new decline.

Expect prices to be range-bound for the middle November to middle December period as they retrace this rise, and stay broadly inline with the expected direction in US T-Notes. In the latter half of December prices should resume their rally for their main target in March.

The position of the market from the January 2009 high is clarifying. The drop to June was the first leg of a broader decline. This drop is currently being retraced by a broad consolidation which at last week's 94.185 low completed the second leg of its pattern. The final leg will most likely peak in March 2009 in line with the long-term cycle rolling over. A test of the 95.300/700 region is a reasonable expectation for this high. Beyond March 2010 prices should start the next phase in a long-term downward trend.



AUS 3yr Bond

Top out and drift back to 94.65

Positions:

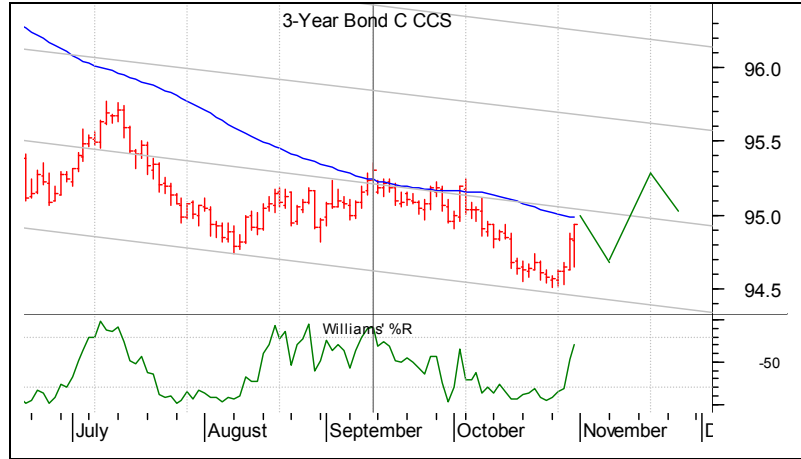
Traders can sell now; stop 95.05.
Reverse to long below 94.70 with stop 94.50.

Trend followers are neutral.

Investors are neutral.

Data

Current:	94.94
Last Week:	94.52/95.94
This Week:	94.65/94.95
SPT	RES
94.65	94.91
94.51	95.12
94.40	95.36
94.20	95.52



Cautiously accept that a low has been made.

AUS 3yr bond prices had already made the low the previous Friday so after some ranging on Monday, rose firmly to 94.94 over the week to signal that a low is in place. Unfortunately that rise does not give me full confident that the final low for this phase has been seen. It is my preferred view, but it needs a sustained rise through 95.35 to confirm it. Until that happens there is the chance of another low, around 94.40, to complete the decline from the February high.

The current rise is at immediate resistance provided by some minor highs and lows, the downward trending mvng avg and a channel line around 94.91. Any further upside this week is limited in scope and prices should fall back to as much as 94.65. By the end of the week prices should be rising again. A breakthrough 94.95 should then clear the way for a test of 95.35 by the middle of November when the short-term cycle rolls over.

If the decline did not end last week, then the low may not come till December. The action over the next couple of weeks may not get above 95.00 so that when the short-term cycle rolls over in the middle of November, prices will still be in a bearish position. A drop to channel support around 94.40 by the middle of December, in line with the medium-term cycle rolling over, will be seen to complete the decline. From there prices will rally to retrace the decline from February.

AUS Curve

Reaction back to +35

Positions:

Shorts stopped.

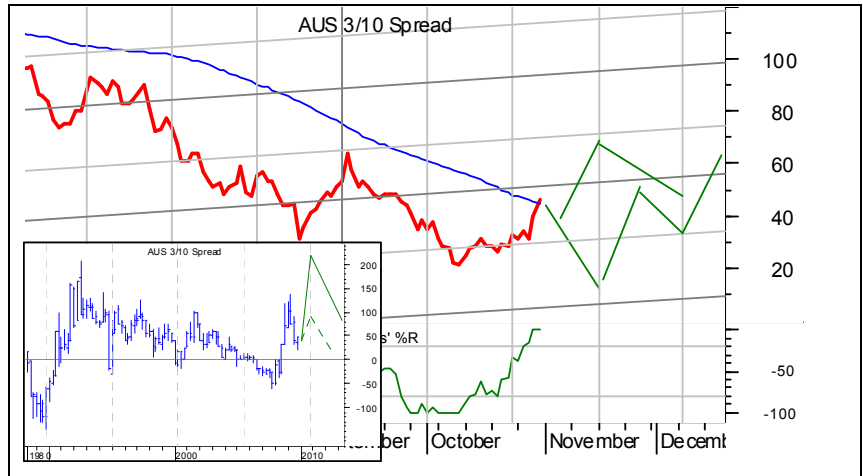
Monthly-based closing price reversal warns the low may be in place, but daily-based chart still shows the chance of another low.

The AUS 3/10yr Curve did not drop last week but pushed upwards rather firmly. The monthly action for October presents a bullish sign as the Curve closed on the high of the month the low for the decline was made. In broad terms the Curve



Data

Current:	+46
Last Week:	+31/+46
This Week:	+35/+47
SPT	RES
+31	+47
+21	+63
+10	+77
+2	+93



has achieved the basic criteria for the completion of the decline. A strongly oversold weekly-based momentum index adds to the argument that the low may already be in place. The projections on the quarterly-based charts points to a challenge of the 1992 peak at +208 by the time the cycle rolls over in the latter part of 2010.

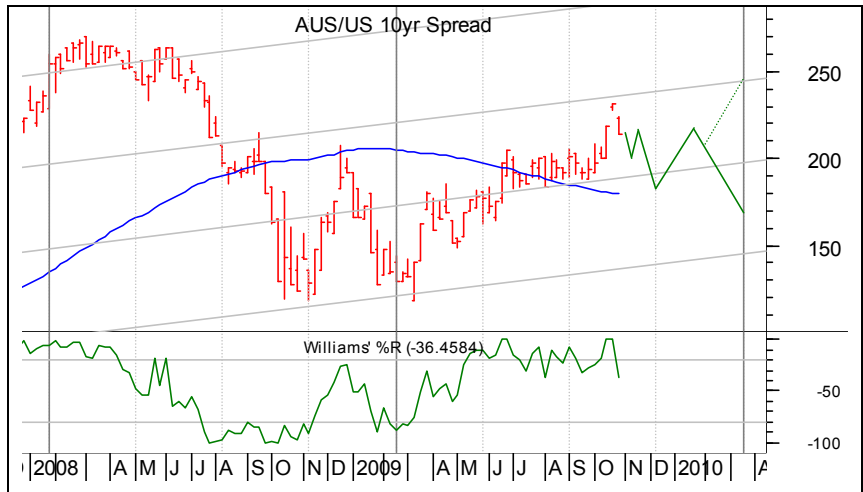
But recent action is not unambiguously supportive of a new rally. With last week's rise the Curve is against channel and daily-based mvg avg resistance with daily-based momentum in an overbought position. This configuration points to a reaction initially this week. If that drop is contained to +35 then the Curve is in a strong position and can move to break resistance around +47 within a couple of weeks. A drop through +30 however will signal that there is still another drop to come. Expect a test of the +10/+20 region by the middle of November. But then a new rally should develop.

AUS/US 10yr Spread

Continue drop to +200

Positions:

Trend followers can buy AUS and Sell US now; stop +245.





Data

Current:	+214
Last Week:	+214/+224
This Week:	+200/+218
SPT	RES
+200	+235
+180	+272
+162	+330
+118	*****

Strong drop away from channel resistance gives the Spread its best chance to start a new decline. Need a break of +180 to confirm it.

The narrow weekly range at the previous week's top was followed by a sharp drop last week, leaving an "Island Reversal" at the challenge of channel resistance and a good sign that the AUS/US 10yr Spread major trend is turning. There is still considerable work to do to break the first long-term support (the weekly-based mvg avg at +180) to confirm a trend change, but it is a great start.

This week the drop should continue and challenge the daily-based mvg avg around +200. Expect a reaction back to +210/+215 before the drop resumes. By the middle of December the Spread should be testing +180.

As the long-term cycle is not due to rollover till March 2010 there is a chance that +180 will contain the drop and force another rise, at least for a substantial retracement and perhaps for another challenge of the channel resistance nearer +250. Such an outcome will only delay the next decline.

When support does give way then the Spread should return to +118 initially and later push towards +80, so that the new decline is equal to the 2008 decline.

Eurodollars (Mar10)

Positions:

Traders can sell now; stop 99.550.
Take profit below 99.430.

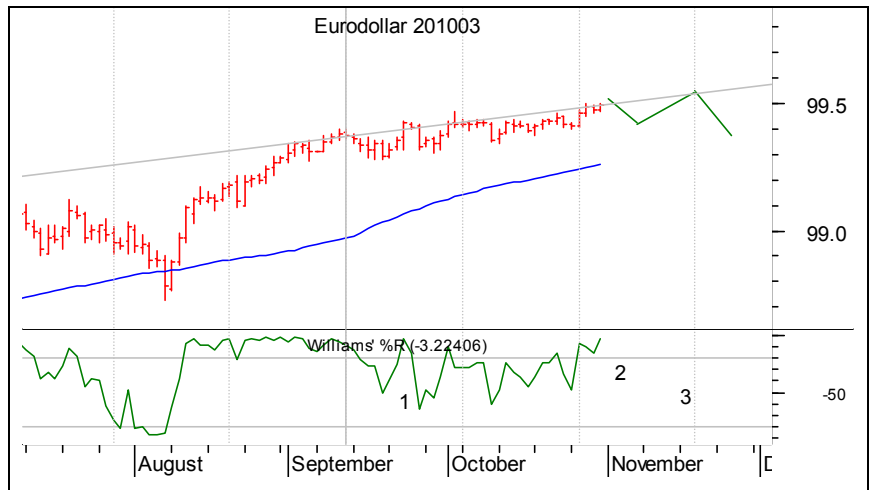
Trend followers are neutral.

Investors are neutral

Mar10 Data

Current:	99.500
Last Week:	99.400/99.500
This Week:	99.400/99.510
SPT	RES
99.400	99.600
99.230	*****
99.000	*****
98.730	*****

New high briefly then drop back to 99.400



Rally to persist till the middle of November, but with prices already against channel resistance, expect a return to 99.400 before they rise again.

Once again Eurodollar prices avoided the downside and drifted up to challenge the channel line and make a new high at 99.500. This rise should extend by a point or two early this week before easing again.

Last week's rise means that the current upward drift can now persist till the middle of November. When prices ease they should move lower for just a few



days and not exceed 99.400. The next rise should extend the rally into the 99.550/600 region.

Prices are vulnerable to a major decline at any time, but it is unclear whether the decline from the mid-November high will be of that order. First major support is around 99.000 and while it holds prices can resume the current rally and test the channel resistance again until March 2010. It will take a break of 98.730 to suggest that a larger decline may unfold. The next objective will then be the weekly-based mvg avg which is currently at 98.000.

AUS Bills (Dec09)

Positions:

Traders are long; stop 95.68.

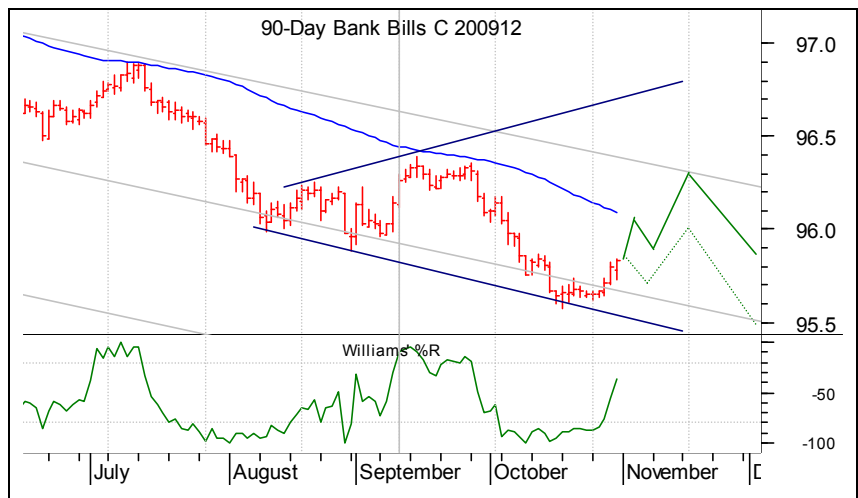
Trend followers should exit shorts now.

Investors are short; stop 96.40.

Dec09 Data

Current:	95.83
Last Week:	95.63/95.84
This Week:	95.80/96.00
SPT	RES
95.73	96.00
95.57	96.30
95.40	96.39
95.00	96.86

Continue rise into 96.00



Prices are responding to the broadening base formation so expect further rises over the next couple of weeks.

AUS bill prices did not make another drop last week and pushed up firmly to 95.84. But the structure of this rise does not have the typical structure for a rally and so warns that the low may not be in place. The broadening base pattern and weekly-based momentum being in a strongly oversold position favour the upside and this will remain my preferred view.

Prices finished last week strongly and should continue higher initially this week. Daily-based mvg avg resistance around 96.00 should cap the rise this week and force a reaction before the prices continue higher again. By the middle of November prices should be testing channel resistance at 96.30.

A failure to push higher this week, or an aggressive reaction off the mvg avg, will suggest that the rally is already failing. Expect prices to be supported until the middle of November, but they are unlikely to breach the mvg avg at 96.00. Prices should then resume the decline and make a new low in the 95.40/50 region by the middle of November.