

Time running out for Gore

The electorate's patience is finite - The US public has been very relaxed during an agonisingly close and still unresolved presidential election contest, with opinion split along partisan lines. However uncertainty is always a problem for the stock market and this impasse is reducing time available for an orderly political transition. The electorate knows that if Florida's result had been determined on the same basis as the other 49 states, Bush would have been president elect following the first machine recount. Consequently opinion polls are now swinging against Gore's legal challenges. While no one can be certain of the result until a candidate concedes, Bush remains the likely victor and the US Supreme Court could virtually resolve this election on Friday by rejecting the Florida recount, which does not evaluate all votes on the same basis. A technical rally remains likely if Bush triumphs and he would have the best chance of building an effective bi-partisan coalition.

Economic conditions still favour bonds - I maintain that global GDP growth will slow further and central banks will need to lower interest rates to reduce the risk of recession in 2001. This environment remains favourable for government bonds. I own US, UK and Euro-bund futures, which are well underpinned on the charts, albeit slightly overbought in the short term. Any reaction when the US presidential result is finally known would provide investors with another buying opportunity in quality long-dated government bonds.

Yen weakness coincides with steadier euro - It looks increasingly likely that the yen has commenced a significant decline in response to the weak economy, ballooning budget deficit and ongoing deflation. The US dollar recently cleared lateral resistance near ¥110, which extends back to May, before pausing just under the February high. There has been some profit taking in dollar/yen since the euro steadied near the lower side of its range against the greenback yesterday, following rumours of intervention by the ECB. However if the dollar now finds support near ¥110 during a consolidation, further gains will not be long delayed. For euro/yen, shown on a shorter-term chart, the main features are the upward dynamics off the lows near ¥90 and the base building activity. I remain long dollar/yen and euro/yen and also like other high-yielding currencies against the Japanese unit.

Best regards - David Fuller

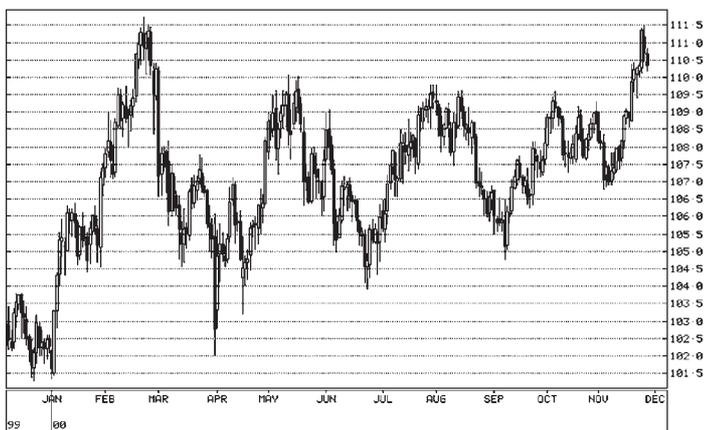
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UK Gilt Futures - 1st Month Continuation: 116.07 (1 year)



USA Dollar/Yen: ¥110.21 (1 Year)



Eur/Yen: ¥94.37 (6 Months)

