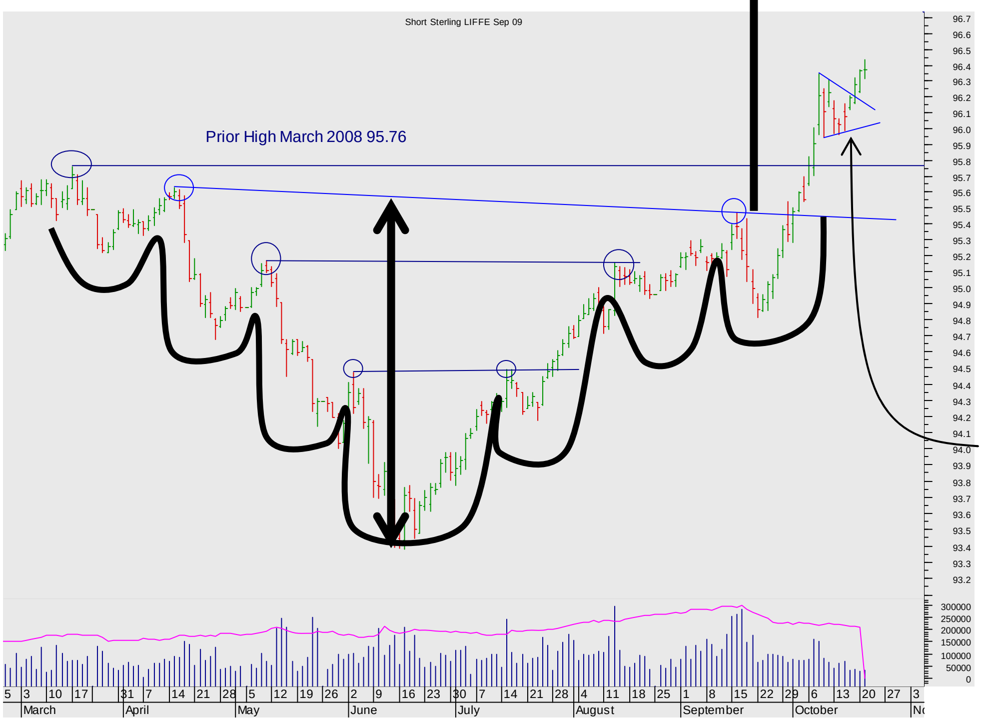
Key Trades Round Up
21st October 2008

Open Positions

1. Short Sterling

LONG Short Sterling Sept 09 @ 96.12 (15th October) Stop raised to 95.93 (21st October). Currently 96.375. Running profit 27.5 bps.

The Technical Trader's View:



Daily Bar chart

The market is still being driven by the multiple Head and Shoulders Bottoms - the latest and largest of which suggests moves up as far as 97.50.

The completion of a small continuation Triangle should drive the market hard in the short term.

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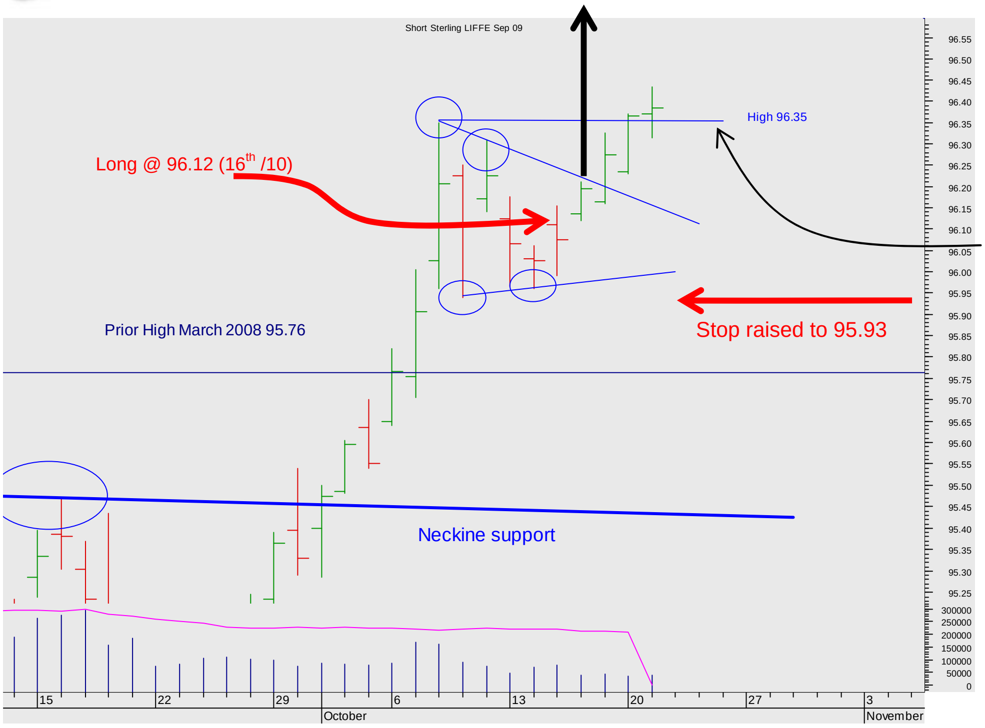

Daily Bar chart
The detail of that continuation Triangle is clear.

And so is the additional impetus from driving up through the near High too.

<u>All is set for further bull progress,</u>

The Macro Trader's view:

Last week we were bullish of June 09 Short Sterling as we judged any set back caused by a short covering rally in stocks would prove short lived as the threat of recession demanded lower interest rates.

And in a week with few key data releases due, we advised traders to monitor the following:

- On Monday; PPI input; worse than expected, output & core; better than expected, and BRC Retail sales monitor; weaker than expected,
- On Tuesday; CPI, RPI, RPI-X; all worse than expected and DCLG house prices report; weaker than forecast, and
- On Wednesday; ILO Unemployment rate & change; worse than expected, claimant count unemployment rate; better than expected and claimant count unemployment rate; as expected.

The market ignored the worse than expected inflation data, as analysts began to talk of the peak having been reached with a sharp fall now the next most likely development, and as equities once more began to sell off attention turned to the large jump in 3mth ILO unemployment count which agreed with forecasts of a deep recession.

Looking ahead there are several key reports due this week and we advise traders to monitor the following:

- On Monday; PSNCR, PSNB; worse than expected,
- On Tuesday; CBI quarterly industrial trends survey,
- On Wednesday; MPC minutes,
- On Thursday; retail sales and BBA Home purchase loans, and
- On Friday; Q3 GDP and index of services.

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This week's key releases are highlighted red, and they are of roughly equal importance. Traders will be looking for clues on the timing of further rate cuts in the minutes, monitoring retail sales for evidence of yet weaker demand and GDP as the harbinger of recession.

And as unemployment is expected to burst through the 2 million mark and home repossessions expected to soar during the coming months, this market remains bullish.

The recent cut in interest rates was only the first of several that we see as necessary following the prolonged period of policy inactivity due to inflationary pressure.

But with oil prices continuing to fall, even as OPEC seems set to call an emergency meeting to discuss output cuts that would only make the recession worse, inflation should soon start to fall very quickly allowing the MPC to back up their new bearish assessment of the economy with rate cuts which we see moving the Bank rate down to 3.0% in the coming months.

In conclusion Traders should remain long of this market.

1. Dollar Euro

LONG Dollar/SHORT Euro @1.341 (16th October) Stop lowered to 1.3575 (21st October) Currently 1.3211. Running Profit 199 bps.

Monthly Bar chart

The breakdown through the twin supports is clear and important.

There is no major support until 1.20 or so.

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Daily Bar chart

Here's the medium-term and longer term breakdown as well as the short-term.... <u>note well the fall through the prior low at 1.3261.</u>

<u>All the time frames are pointing in the same direction</u>.

Stay short with a lowered trailing Stop.

The Macro Trader's view:

We remain bullish of the Dollar as traders continue to train their focus on the other major economies. Although the US economy remains weak and further rate cuts look likely with another 50bp possible at next week's FOMC meeting.

The real news is the deterioration of the Euro zone and others, including China which is showing tentative signs of slowing.

Until recently the Euro zone had been viewed as virtually bomb proof against not only the worst affects of the financial crisis, but also recession. But over recent weeks that view has been completely debunked. The ECB was forced to cut interest rates recently despite having sounded hawkish only a few weeks previously as Euro zone governments rushed through an emergency package of measures to support the Banking industry.

And last week German GDP forecast for 2009 were downgraded to recession.

The US may still be struggling, but its monetary policy has had a head start over other leading economies and we judge when the full impact of all the stimulus measures take effect, the US will be the first economy to recover, even if that recovery is still several quarters away.

In summary the US Dollar remains Bullish and we expect it to rally further.

Mark Sturdy

John Lewis

Seven Days Ahead