



Key Trades for this week: 23rd June 2009

Open Positions

1. Dollar Sterling

11th June: Long Sterling/Short Dollars @ 1.6462 Stop @ 1.61. Currently 1.6307. Running loss: 155bps.

The Technical Trader's View:



Weekly Bar chart

We think that the market has turned – from the Pivot from 2001.

Confirmation of the turn came from a completed Double Bottom.

That pattern may already have reached its minimum target...coincident with a 38.2% retracement Fibonacci level, but we think it will go further still.

Look closer.



Daily Bar chart

The untidy bottom formation is clear enough, and the rally up to consolidate beneath the 1.6802 level.

But there is a notable reluctance to pull-back.

We remain long and are looking to add on any break up through the 1.6661- 1.6802 band.

The Macro Trader's view:

The Pound held up reasonably well last week, overcoming the disappointment of a weak retail sales report. But traders are mature enough to realise the economic data does not follow a single path at times of flux in an economy, and even within established economic trends data can sometimes appear erratic.

But inflation does seem stubborn in the UK, the Bank has been forecasting a steep fall in CPI for months on end, but it has only managed a mild correction leaving it still above target. The argument that this was due to Sterling's weakness was initially plausible, but the Pound has staged a meaningful recovery against both the Dollar and Euro over the last several weeks as it is clear the UK economy isn't the worst affected of the G7.

But unhappily for inflation, during this period, oil too has rallied, negating any positive effect and likely meaning the trough of UK inflation will be higher than expected, making a fresh burst of inflation more likely as the economy enters a more established recovery path which we expect to emerge later this year.

For now the Pound is affected by the same malaise that is afflicting several other markets; doubt the green shoots of recovery so clearly evident in the UK over the last several weeks will be able to mature into a self sustaining recovery.

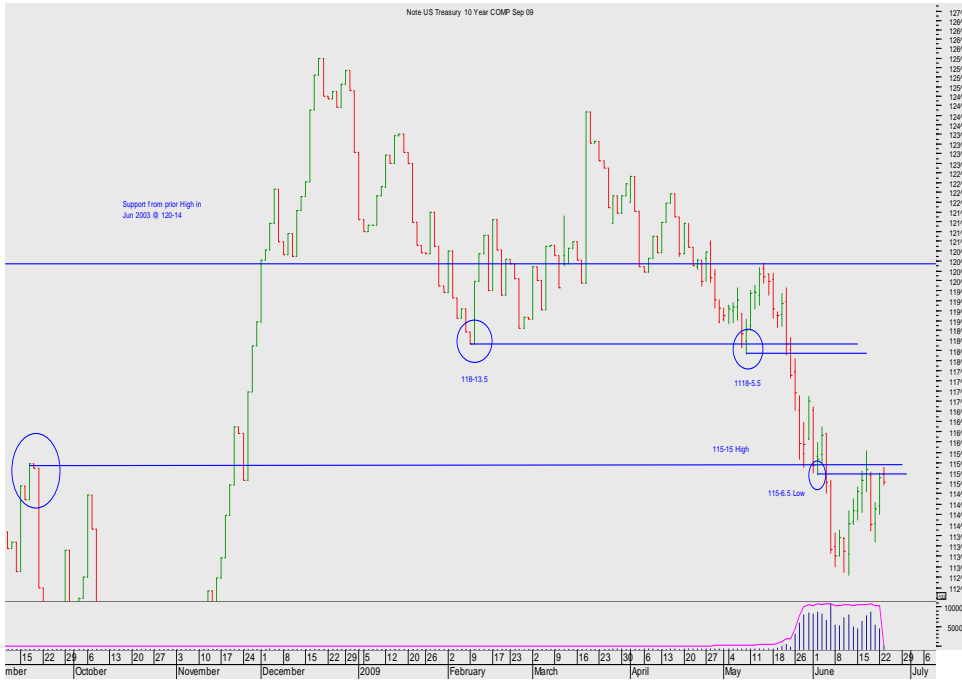
We advise holding this position, several key reports will be released next week and they should show the improvement in the economy remains intact.



2. TNotes

19th June: Short 10YrNote Sep 09 @113.29. Stop@ 115.26. Currently 115-12. Running loss 46bps.

The Technical Trader's View:

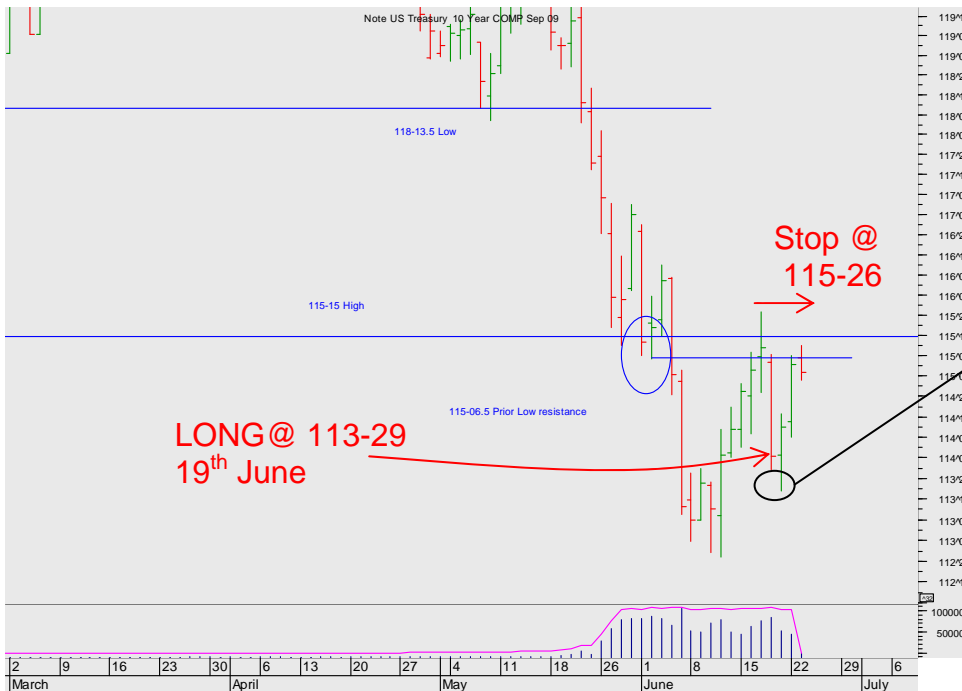


Daily Bar chart

We are bears of the market - and note with dismay the second rally back up to the band of resistance 115-06.5/ 115-15.

That took us by surprise.

But we remain short.



Daily Bar chart

The Stop is just above the recent High.

We would add fiercely to our shorts on a pull-back through the low at 113-19.



The Macro Trader's view:

The market has rallied over recent days as traders once more question whether the economy really is close to, or at a turning point, or is it merely taking a break before plunging still deeper into recession?

The definitive answer will be known in time, but we judge the economy is slowly improving, as recent ISM data has shown.

While the inventory cycle is still yet to turn, leading to doubts over the strength of corporate spending, there is no doubt about the strength of government spending which is set to remain a dominant feature of markets for several years as the administration runs a record budget deficit.

However as the economy recovers, the Fed will need to deploy an exit strategy, the administration isn't going to rein in spending since it is part of Obama's economic strategy, so monetary policy will be the tool to guard against future inflation.

We judge in an environment where the economy bottoms 3rd quarter and then moves into recovery later 4th quarter, and the Federal government issues unprecedented amounts of new debt for years to come, traders/investors will demand higher bond yields.

And we advise remaining short.

Mark Sturdy

John Lewis

Seven Days Ahead