Key Trade Round Up for this week:
29th September 2009

Open Positions

1. Gold

11/09/2009 Dec 09 Comex Gold Long @ 1009.5. Stop @ 965. Currently 992.10. Unrealised loss $17.4.

The Technical Trader's View:

Quarterly Bar chart

The market is trying to establish itself above the long-term prior High of $873.

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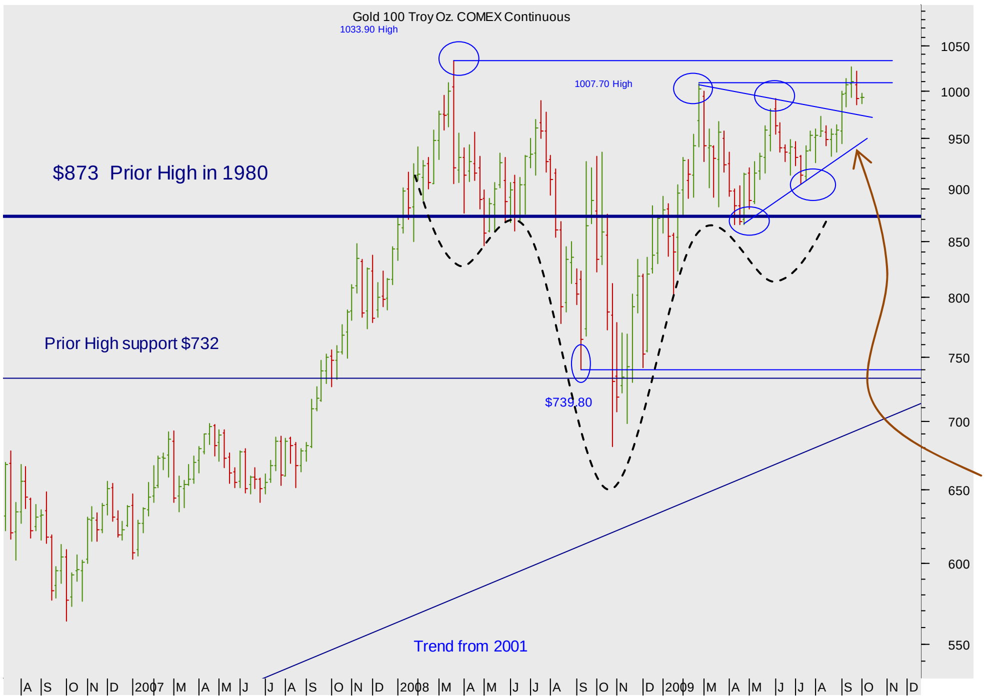
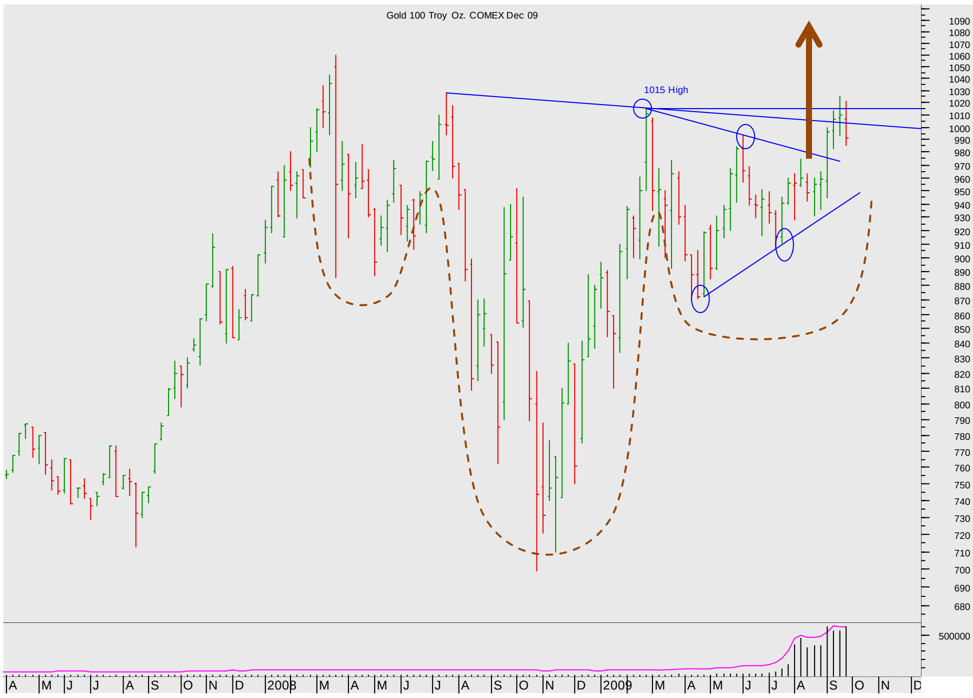


Weekly Bar chart

The medium-term pause at that level from early 2008 has resulted in a <u>possible</u> Head & Shoulder-like consolidation,

and, shorter term:

there is a Continuation Triangle set to drive the market a good deal further on up which has completed.



Weekly Bar chart

The December 09 chart is clear: the Triangle, which has completed, is already driving the market better – <u>but there is still some way to go to achieve the minimum target move</u>.

In any event, the Triangle will be the catalyst for the completion of the H&S continuation pattern…

We are currently right on the neckline…

Look closer.

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Daily Bar chart

The dithering around the neckline is disappointing short-term – but the very long term nature of the chart allows that….

Note well the band of support beneath the market …

… as well as the support from the Triangle.

The Macro Trader's view:

The Gold market suffered a correction last week, driven by a recovering Dollar, as the inverted relationship we have often described as driving the Dollar, namely economic strength = Dollar weakness and vis versa, came into play again last week. Ordinarily strong data would mean stronger currency and weak data weaker currency, but last week saw a break in a solid run of strong data, as Existing and New home sales both came in below consensus and the Dollar true to form rallied.

However on closer inspection this was more to do with the Fed. After a relatively lengthy FOMC policy statement, equity traders became concerned the Fed might be closer to tightening policy than previously thought and that fear gained currency after a speech by Warsh on Friday.

But in the big picture is that a reason to sell stocks which is what happened and helped the Dollar higher; we think not. In all probability the Fed will not tighten for sometime; most likely not before Q2 2010 at the earliest.

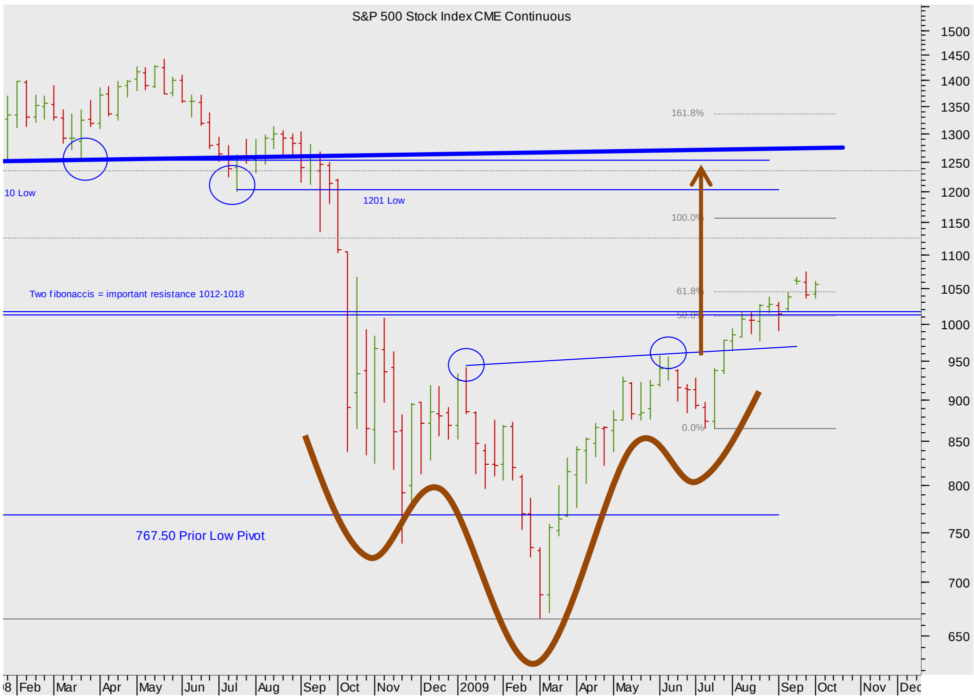
What we judge they did last week was to begin the delicate process of trying to put a time line onto when their policy stance might change and under what circumstances. Judging by last week's reaction they are right to approach the task this way, but as traders realise a hike isn't imminent the Dollar should resume its slide as the recovery gathers pace and traders increasingly focus on the growing fiscal deficit.

Additionally the standoff between the major powers and Iran looks set to move centre stage, but after recent revelations we judge the gloves could come off as time seems to be running out before Iran develops the nuclear weapon it has long denied it seeks.

This should give gold additional support and we advise staying long of this market.

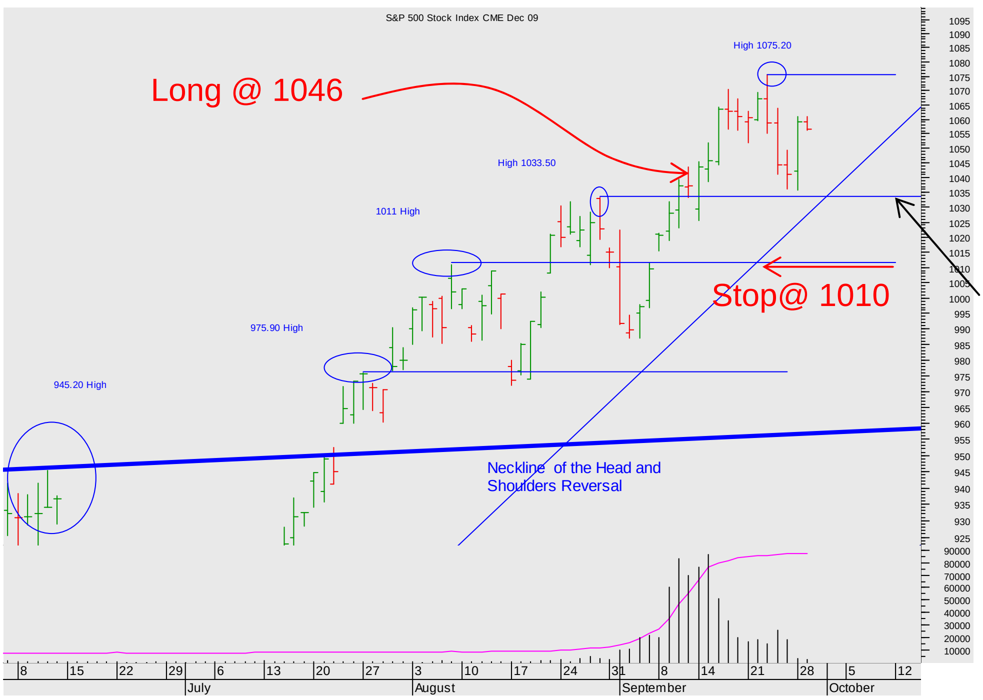
2. S&P 500

15/09/2009 S&P500 Dec 09. Long @1046.5. Stop @1010 (raised 18th Sep). Currently @1056.20. Unrealised profit of 9.7bps.



Weekly Bar chart
The underlying solidity of the bull run stems from the Head and Shoulders reversal that is set to drive the market up as far as 1250 or so…

(which is the Neckline of the Top formation that drove the market down in the first place.)



Daily Bar chart

The detail of the move after the completion of the Head and Shoulders Pattern.

Note well the support at 1033.50 which held….

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The Macro Trader's view:

Last week's price action revealed how nervous equity traders are to any change of the Feds stance; real or perceived.

While the FOMC policy statement reiterated the message that policy would be left on hold to help the fledgling recovery, traders took the longer than usual statement and its acknowledgement of better than expected growth as an early warning signal that the Fed might be about to gradually shift its position on how long an extended period is.

This fear was underlined on Friday by Fed governor Warsh when he warned that the Fed might need to begin tightening policy before the need was obvious and, basically aggressively.

While this caused a correction, we do not think the market is about to suffer a deeper set back. The Fed will not start hiking any time soon, and after a period where they have consistently led traders to believe policy is on hold for a long time, it is right that they start to gradually alter perceptions if their view of the economy has changed. The alternative would be a sudden rate hike next year which would stun markets even if it was clearly warranted.

We judge traders will get over this surprise and refocus onto data, which was a little disappointing last week, but the coming week could see that put right and we remain bullish.

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