Key Trades for this week: 3rd November 2009

New position

1. Gold

Buy Dec 09 Comex Gold today at 1079.50. Stop 1048.

The Technical Trader's View:

Weekly Bar chart
We have been bulls of Gold for a long time.

The week chart shows the market to be in the grip of a massive bull Head and Shoulders pattern that is set, we feel, to drive the market up to 1330 or so.

There has been a pause at the old Prior High at 1060.

But now the market looks to be testing that level and trying to break through.

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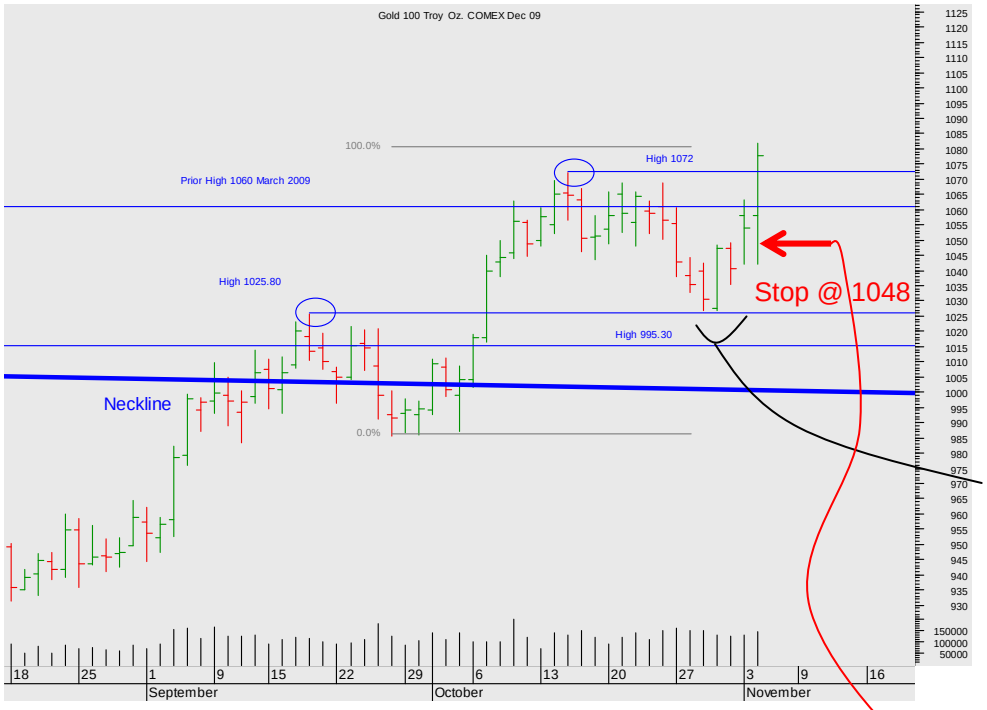

Daily Bar chart

This day chart is powerfully constructed and working in favour of the bulls.

Note well the drift back from the initial test of the prior High at 1060 that found support at the horizontal from the High at 1025.

That was the closest it got to the Neckline.

Today's price action reveals the pent-up bullishness of the market - we note that the market has yet to close above the 1072 High , but given the wider context, we are keen to get in.

Stops beneath the close of yesterday at 1048.

The Macro Trader's view:

The Gold market corrected further last week, mainly as a result of increased risk aversion forcing a Dollar recovery, but that correction now looks over, after US Q3 GDP came in stronger than expected, and at 3.5% annualised, marked a strong exit from recession.

Although some tried to write the data off as insignificant due to government stimulus, close inspection of the data reveals this to be untrue.

Looking ahead we expect this week's heavy weight US data releases to reveal that Q3 wasn't a one hit wonder, and if data meets or exceeds consensus our expectation is that risk aversion will abate, the Dollar will resume its slide and Gold will rally.

A US economy in recovery accompanied by lax fiscal and monetary policy is not good news for inflation long term. The Fed seems aware of the need to act in a timely manner to contain inflation, but it still seems to lack a sense of when to act.

Add into this the fact that India has bought large quantities of Gold from the IMF in a bid to begin diversifying its reserves, and Gold looks an even better buy, and we advise traders to go long.

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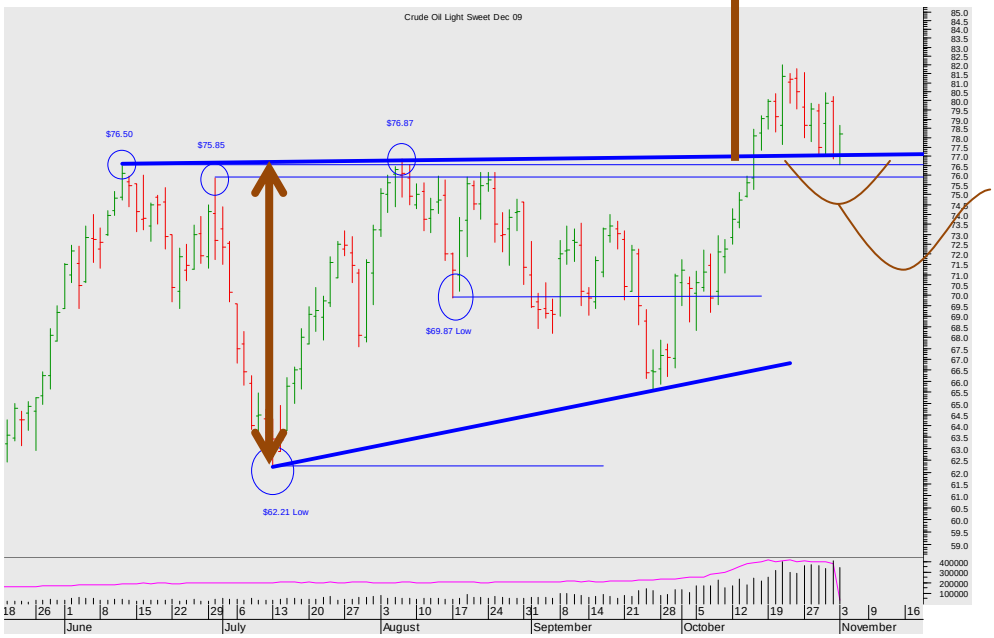
Open Positions

2. Oil

19th October Dec 09 Light Crude Long @ $79.14. Stops lowered to $75.40 27th October. Current price $78.15. Unrealised loss of $0.99

The Technical Trader's View:



Weekly Bar chart

The massive weekly bull continuation chart is supporting the market just as one might classically expect.

The succession of horizontals and the upper diagonal of the Triangle has been touched but the market is drifting lower without vigour, on falling open interest (but good volume it must be admitted)

Look closer.

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Daily Bar chart

We remain bulls though the market is drifting lower.

We lowered the Stop to place it beneath the lowest support for further safety so that we are not whipped out of the position.

Stay with the trade.

(We are looking to add on break up through $82 – the recent high.)

The Macro Trader's view:

The market was volatile and traded lower last week on a mix of rising risk aversion and an increase in US Petrol supplies. Of the two factors at work we judge the risk aversion had the greater influence and as it eventually abates this market should recover.

The recent rally in Oil has been built on expectations of Global rather than just US recovery.
It is important to grasp that this recovery is different. Before there were the western economies: US, UK, Europe and Japan. But now China, India and also Brazil have emerged as significant economic players.

China and India are large consumers of energy, meaning as the recovery takes hold, demand for energy will ratchet up much faster than in previous recovery phases and ultimately drive the oil price up to new all time highs.

So after last week's US Q3 GDP revealed an end to recession in the US economy, we remain bullish of oil and advise remaining long.

Mark Sturdy

John Lewis

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