Key Trade Bulletin

17st December 2009

New Position

1. Sell Sterling Buy Dollars

Sell spot Cable at 1.6130 today. Stop at 1.6430

The Technical Trader's View:

MONTHLY BAR CHART

Within the wide range the market has failed to rally up through the resistance from the horizontals from 1.7050 and 1.6802.

And in pulling back has smashed down through the rising diagonal from early 2009

Look closer.

SEVEN DAYS AHEAD 124 REGENTS PARK ROADLONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

DAILY BAR CHART

The succession of highs at 1.6802 is interesting.

So too, is the completed Head and Shoulders Top that coincided with the break of the rising diagonal support…

Minimum move for the H&S pattern? About 1.5709.

And a break of that would complete the medium –term top formation…

The Macro Trader's view:

The Pound is under pressure on the foreign exchange markets as the UK economy remains in recession. And although Q4 GDP is expected to show the recession has ended with a return to growth, recent key data releases have put a question mark over that.

Last week industrial production and manufacturing output were much weaker than expected. This week, today in fact, retail sales came in worse than expected; consensus was an increase of 0.5% on the month it actually contracted by 0.3% on the month.

Add to this the very disappointing pre-budget report which has left all the really difficult decisions about government debt, borrowing and spending until after next year's general election, and it isn't hard to understand why traders have fallen out of love with the Pound.

If you factor in rising UK inflation and the fact that the US and Euro zones have already emerged from recession with their Central Banks starting to end the special market support measures put in place to prevent financial market meltdown, the UK looks weak by comparison.

In summary, we advise selling Sterling against the Dollar, for an interim target of 1.5700. Depending on how it behaves at that level we may take profit or decide to let the trade run.

Mark Sturdy

John Lewis

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