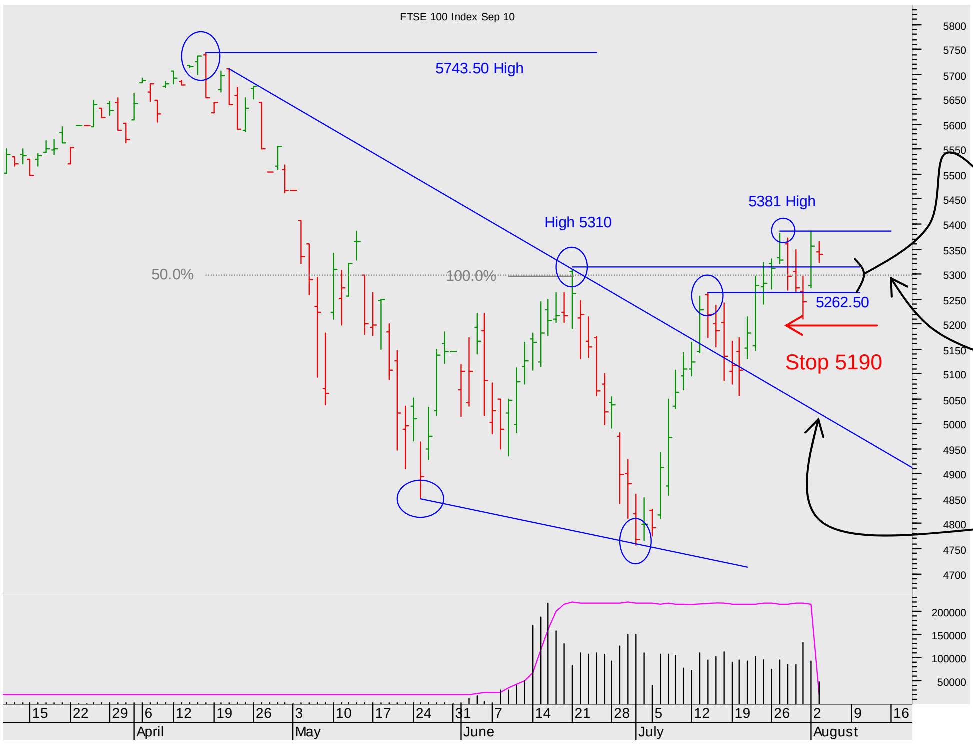
Key Trades for this week: 3rd August 2010

New Open Positions

1. FTSE

Buy Sep 10 FTSE at current levels 5360.50. Stop 5190.

The Technical Trader's View:



Daily Bar chart
The market found support at the band of support from the Prior Highs 5310-5262.50 having tried last week to sell off through it.

Note too, the Fibonacci cluster of resistance at 5298 that is overcome.

The medium-term picture is of a completed bull falling wedge <u>set to drive the market back up to the Prior High of 5743.50.</u>

The Macro Trader's view:

The FTSE suffered a brief setback last week mainly due to disappointing US Q2 GDP, but has rebounded strongly this week as UK Banks report strong profits. We judge this is good news for the FTSE for two reasons:

1. As financials recover from the prolonged period of weakness they can help drive the index higher, and
2. Strong Banks are important for the economy as they should be better placed to lend to small and medium sized businesses in need of finance, so they can drive the recovery forward at a time of fiscal retrenchment which should in turn help drive the FTSE yet higher.

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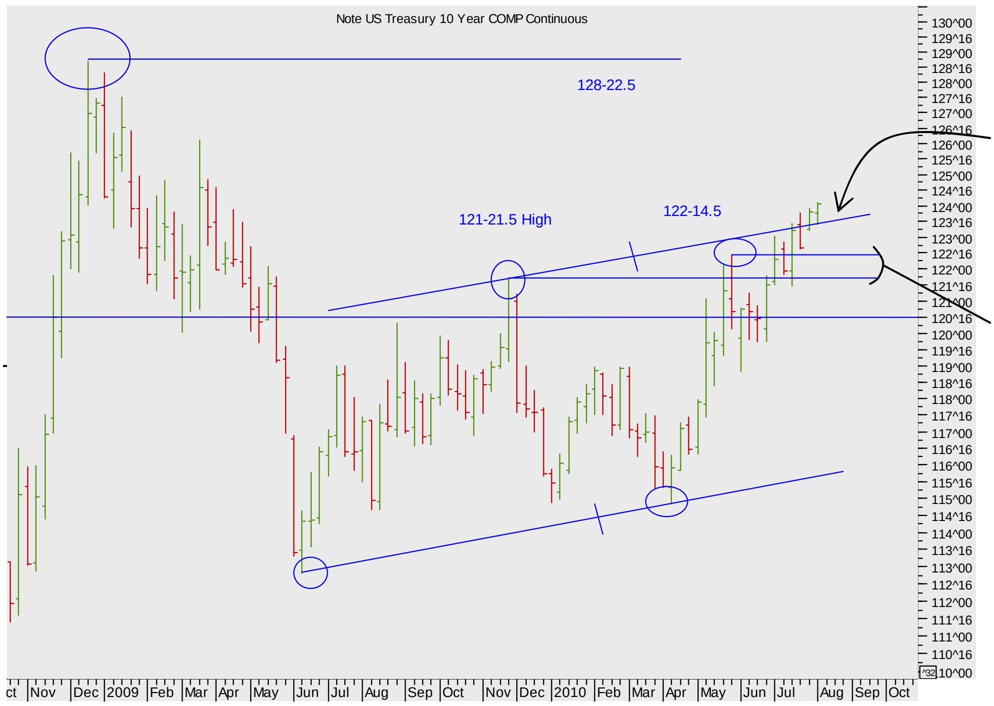
Moreover, corporate profits generally have pleased not just here but in the Euro zone and US too and although the US economy is struggling, the Euro zone, which is the UK's most important trading partner, is producing stronger growth data, especially Germany, so in summary we advise going long.

1. US TNote

Buy Sep10 TNotes at current levels 124-02. Stop 122-04.

The Technical Trader's View:



Weekly Bar chart

The market has thrust up out of the bull channel from June 2009.

And also above the support from the Prior highs at 121-21.5 and 122-14.5.

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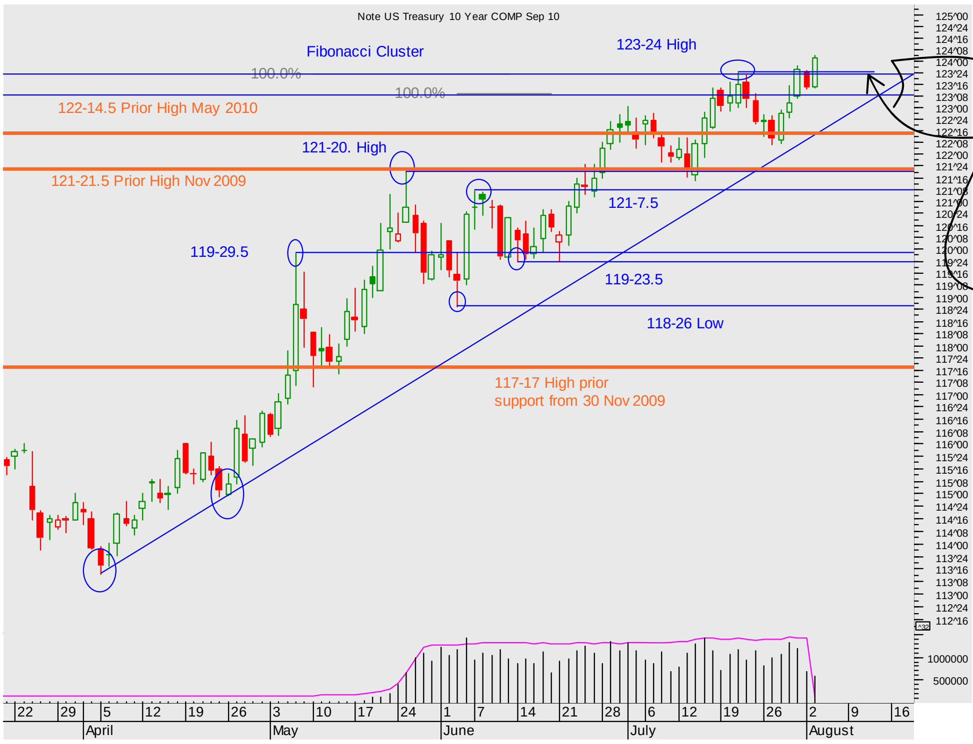

Daily Bar chart

The break up through the Prior High at 123-24 signals the escape from the resistance of the Fibonacci cluster 123-08 to 123-24.

This should act as good support on any pull-back.

Stops beneath at 122-04.

The Macro Trader's view:

Although there was some good news interspersed throughout last week's gloom the overriding tone was one of weakness and the Fed's Beige book acknowledged as much and Q2 GDP confirmed it.

With the economy clearly slowing, which may prove no more than a soft patch, as described by Greenspan over the weekend, or a more worrying slide back into recession, this market looks set to rally further as the Fed will keep interest rates at current low levels well into next year, as they support a flagging recovery that remains largely devoid of inflation.

Looking ahead we expect this week's data to re-affirm the bullish tone of this market and releases seen so far fit that pattern with yesterday's release of the ISM manufacturing survey coming in weaker than last time and today's Personal income, Personal spending and Pending home sales reports also coming in below consensus.

In short the economy seems to be running on empty with the housing market still weak and the Labour market as yet not creating enough new jobs to re-absorb the unemployed.

In summary we advise going long of this market.

Mark Sturdy

John Lewis

Seven Days Ahead