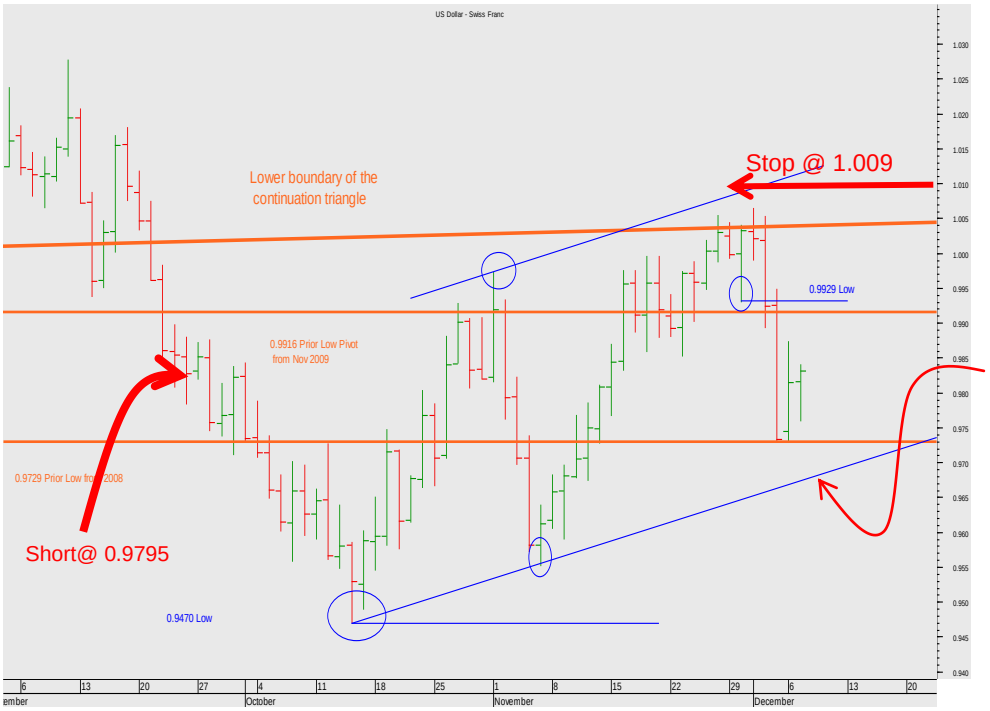
Key Trades for this week: 7th December 2010

Open Positions

1. Dollar Swiss

24th September SHORT Dollar LONG Swiss 1/2 position @0.9795. Stop @1.009.
Currently 0.9829. Performance assuming 1% at risk: **-0.05%**

The Technical Trader's View:



Daily Bar chart
The market has fallen back from the successive bands of resistance.

Short term the market needs to break back down through the rising diagonal at 0.97 or so to get the bears of the Dollar going.

But until then, the medium-term rationale for the trade remains.

The Macro Trader's view:

The Dollar's recent rally has come to a halt following last Friday's weaker than expected non-farm payroll report. Together with the spike in the unemployment rate, the report highlighted the Fed's well documented concerns about the flagging US economic recovery and supported the recent decision to start "QE2".

More recently Bernanke has said the Fed could purchase Treasuries in excess of the US$600Bn limit set by the FOMC if needed in a move already dubbed "QE3".

We judge the Dollar is likely to weaken further against the Swiss Franc as traders refocus. The Dollar had recently benefitted as almost the only safe haven trade, that tag seems to have been withdrawn as the Swiss Franc has traditionally enjoyed that role.

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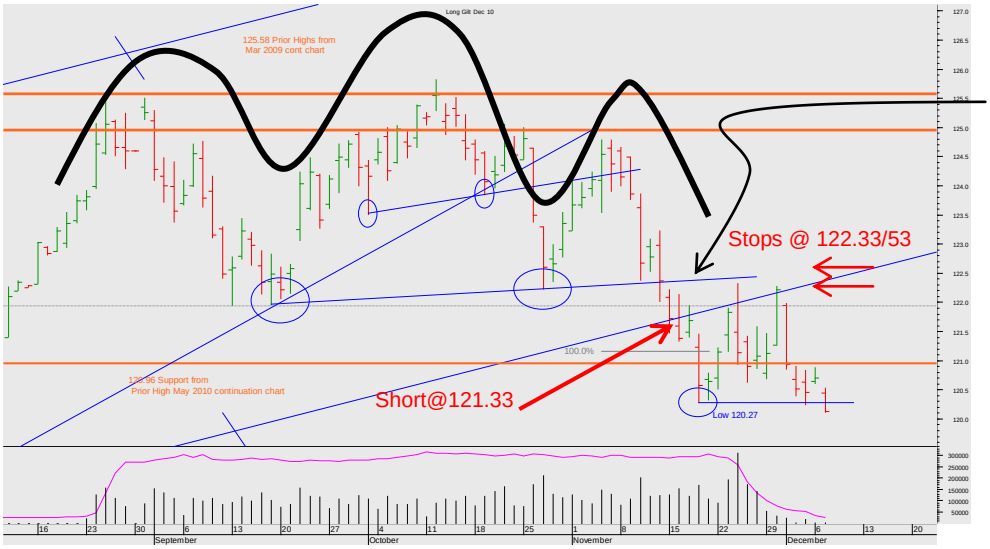
2. UK Gilt

12th November, 24th November 2010 SHORT Gilt Dec 10 (averaged in price) @121.83. ½ Stop @122.33 (reduced18th) ½ Stop@ 122.53. Currently 120.13. **Performance +1.16%**

The Technical Trader's View:



Daily Bar chart
The market has retraced hard to the neckline and Diagonal resistance….

The pull-back from the neckline – a double pull back (a Double Top?) has led to a breach of the prior low at 120.27 which is now good resistance.

The bears are in charge.

NB rollover to March 2011 at tonight's closing levels.

The Macro Trader's view:

Traders continue to watch the Euro zone debt crisis and conclude government debt isn't currently the safest place to be.

From a domestic stand point UK public finances are on a path towards dramatic improvement, providing the economy doesn't stall.

The data releases seen last week were mainly supportive of the UK economic recovery even though the PMI Services survey was a little weaker than expected.

But with the Euro zone Sovereign debt crisis yet to be brought under control, at least in the eyes of the world's markets, traders are not buying bonds.

In the US they see an administration that still thinks the US can get away with running up enormous debts, even though many state level and municipal level budgets are virtually bust, so the fact the UK has already taken corrective action isn't helping the gilt right now.
Moreover, UK inflation continues to worry the markets and with traders becoming increasingly confident the economy might just survive the fiscal retrenchment, the Gilt looks vulnerable to further selling.

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3. Gold

18th November Gold Feb 11 Long 1/2 Position 1354.5. Stop@ 1240. Currently 1413.60.
Performance : **+0.25%**

The Technical Trader's View:

Daily Bar chart

The market is edging better, the break up through the 50% retracement resistance brought forth fresh buying.

Now watch the test of the Prior High Pivot.

A break of that will lead to further fresh buying.

The Macro Trader's view:

The Gold market extended its rally last week as uncertainties seemed to mount:

- **In the US key data releases told a mixed story with the Labour market weakening,**
- **The Euro zone remained in the news as the Sovereign debt crisis refuses to go away,**
- **Concerns about Korea remained.**

Iran came back into the news with developments in her nuclear program and the Dollar gave back some of its recent gains, as the US economy is clearly struggling and Bernanke is still talking about yet more stimulus.

The Euro zone debt crisis seems to have no end in sight, as the institutions needed to control it (a central debt issuing authority at the very least) do not yet exist.
In summary, with the Dollar once again pinned back and uncertainties multiplying, Gold looks set to make new highs once more and we advise holding the trade.

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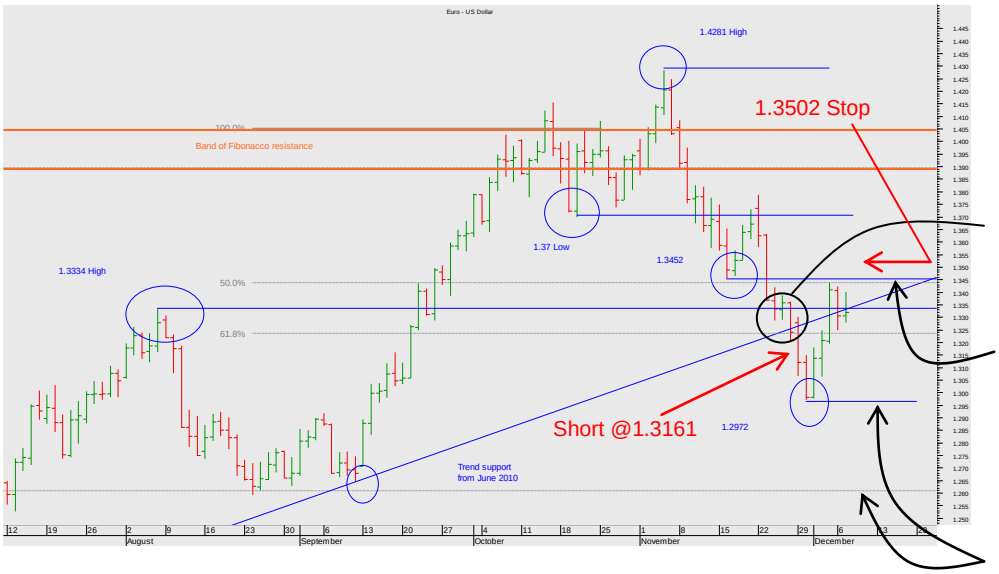
4. Dollar Euro

29th November Dollar/Euro Long Dollar @ 1.3161. Stop @1.3502. Currently 1.3327. Performance **-0.48%**

The Technical Trader's View:



Daily Bar chart

The market has broken the double support from the Horizontal and Diagonals at and around 1.3334.

We are not impressed by the rally since - it appears to have baulked at the resistance of both the 1.3452 Prior Low and the broken Trend support - now resistance.

There is little support before the weak Prior Lows at 1.2972 and then 1.26.
Stay short Euros.

The Macro Trader's view:

The forces driving this pair currently are varied and complex;

- on the one hand the US economy is weak, the Fed is printing money to buy Bonds to help support it and the Administration is yet to articulate a deficit reduction strategy, all of which serve to undermine the Dollar,
- On the other hand the Euro is damaged by the Euro zone Sovereign debt crisis which despite two sovereign rescues refuses to go away.

Last week the Dollar weakened mainly as a result of Trichet alluding to large scale purchases or Euro bonds. Coming so close to the monthly policy meeting traders thought a change of policy might be announced; it wasn't and the Euro remains under pressure, but clearly a more interventionist ECB would alleviate much of the pressures building in peripheral Euro zone Bond markets, but still policy makers are unable to agree, leaving the Euro vulnerable to further selling.
Friday's US non-farm payroll didn't help the Dollar, but we judge unless the Euro zone authorities can get a grip of this crisis, the Dollar should resume its rally against the Euro.
In summary, we advise holding the trade.

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