# Key Trades 26th June 2007

We have been frustrated by fast pull-backs in that US markets against our long and medium-term views that we didn't foresee - but always considered possible hence the distant Stops. For the moment we are sticking with the positions that remain intact.

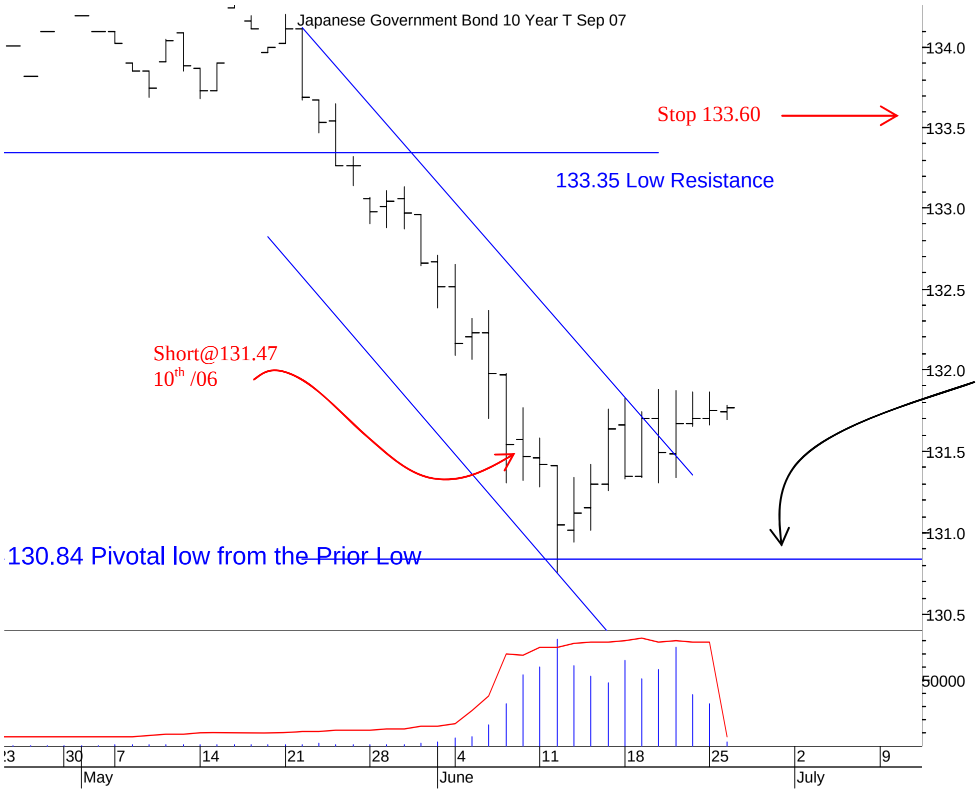
## *Open Positions*

### *1. Japanese Government Bond*

Short Sep 07 @131.47 (10th /06) Currently 131.77. Stop at 133.60.

Running loss 30 bps.

#### *The Technical Trader's View:*




**Daily Bar chart**

The market has rallied back.

But we remain keen on the short trade - wanting to stay for the breakdown through 130.84.



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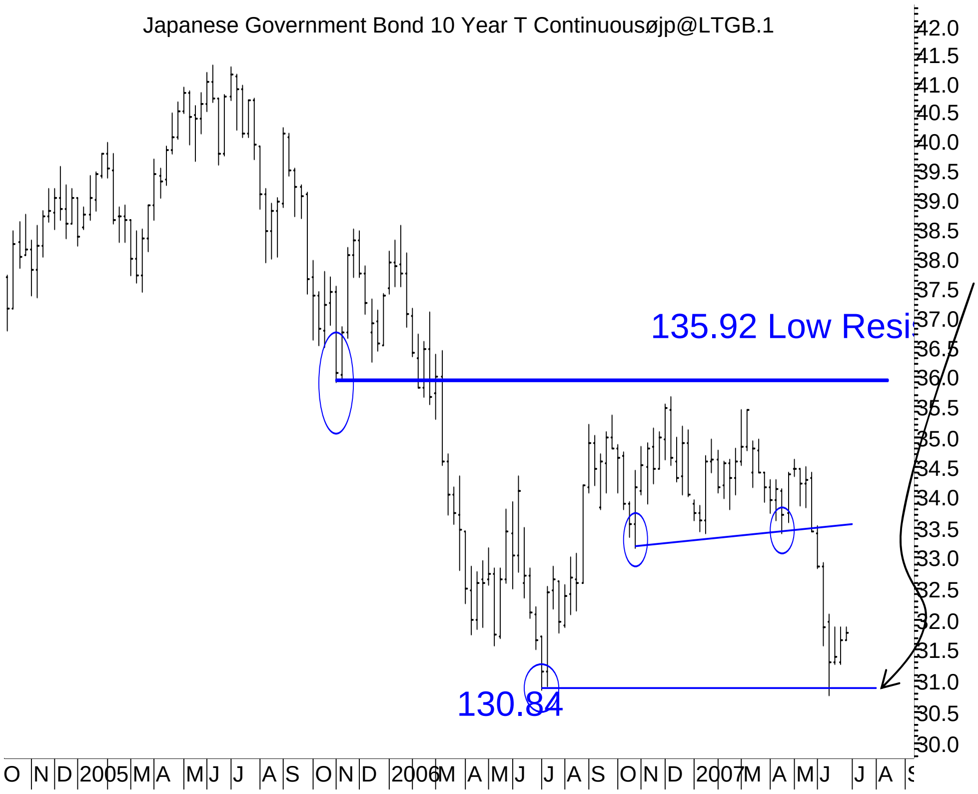



**Weekly Bar chart**

And here is the bigger picture.

The 130.84 Pivot is crucial for further progress on the downside.

## *The Macro Trader's view:*

The JGB has largely traded sideways over recent days as the brief short covering rally ran out of steam.

With all the leading global equity markets coming under fresh selling pressure last week, traders took a pause from selling bonds as fears of global inflation and universally higher short term interest rates subsided.

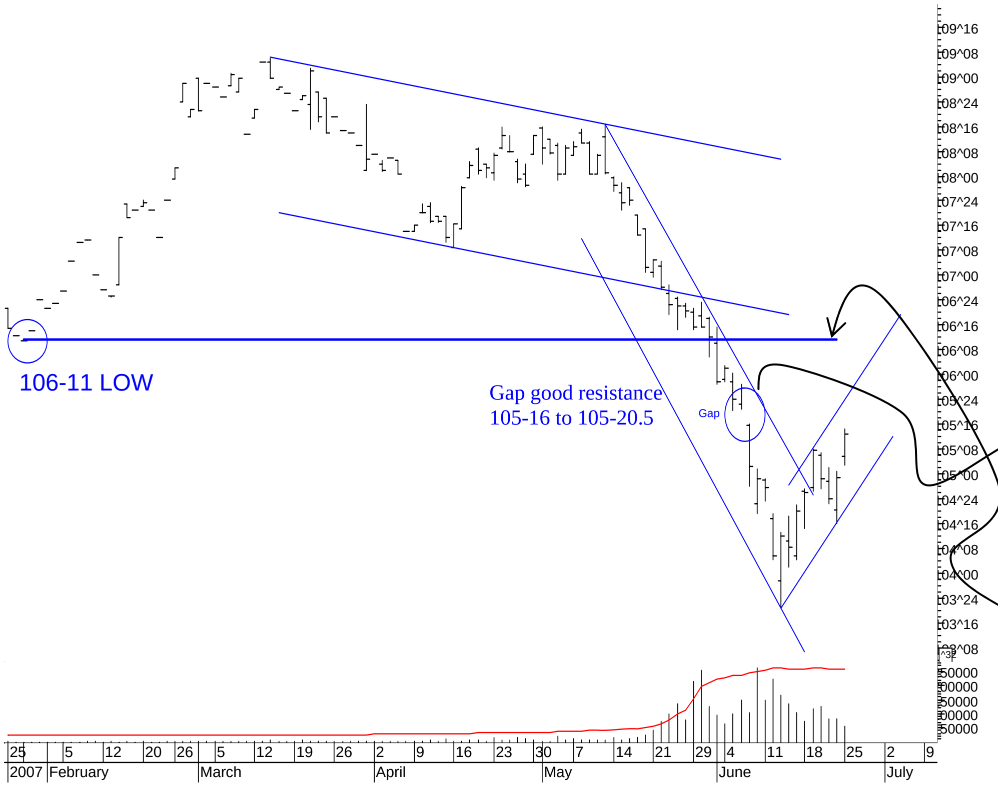
A brief run of slightly softer US data over the last 7 – 10 days has led to traders moderating their views over the likely course of US interest rates, with the core view once again emerging as; policy on hold for several more months.

This combined with the lack of inflation within Japan's own economy has allowed the JGB to mark time. But as emergency Central Bank liquidity continues to slowly drain out of the Japanese system, JGB yields will continue to drift higher, and if as we expect, the Fed policy statement due Thursday evening continues to sight inflation as a worry, bonds should come under fresh selling pressure; the JGB included.

In summary stay short and watch Thursday's FOMC announcement.

# 2. US T Note

SHORT Sep 07 US TNote at 105-25 (5th /06). Currently 104-13.  Stop raised to 106-16. Running Profit 44 32nds



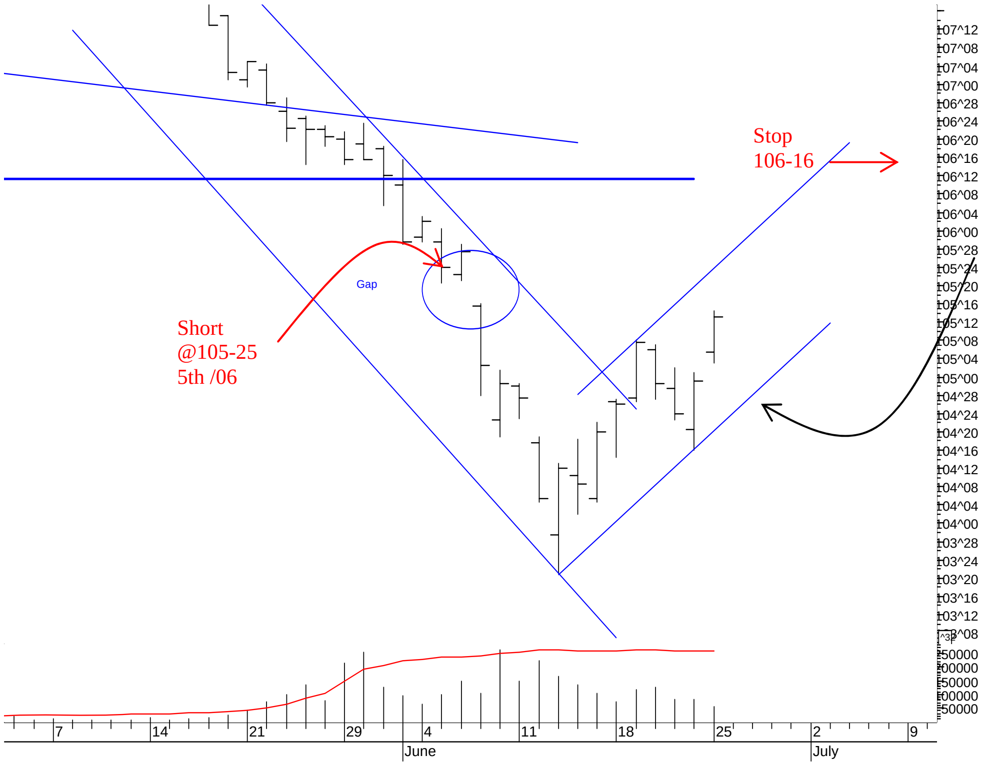

**Daily Bar chart**

The market has rallied hard - catching us badly.

We have considered switching to the Bunds but have probably left it too late.

Watch the market's reaction to the resistance at the Gap and in any event, the 106-11 resistance is the only medium-term test of the bulls...

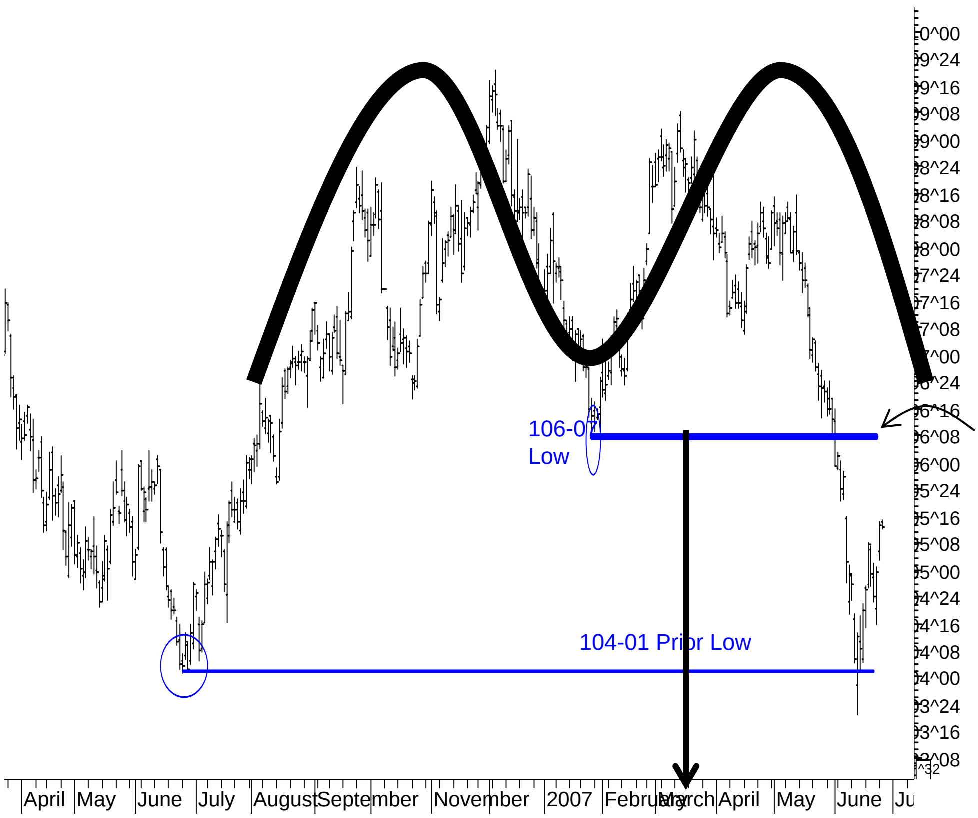
Cont'd...




**Daily Bar chart**

So the Stop is above that level.

Bears need the market to break down through the rising diagonal support <u>currently at 104-24 or so.</u>




**Weekly Continuation Bar chart**

Here's the bigger picture. The minimum target of the Double Top extends well beneath the Pivotal Prior Low at 104-01.

(Note the major resistance in the Continuation Chart is higher that the Sep 07 chart)



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## *The Macro Trader's view:*

Last week we remained bearish of this market as apart from a small improvement to core CPI the previous week, data continued to support the view that growth was beginning to recover.

However last week's data, albeit thinly spread, was mixed:

- on Tuesday; Housing starts were weaker than expected, but building permits were stronger than forecast, and
- on Thursday; Jobless claims were worse than expected but the Philly Fed survey was stronger than forecast.

The Market initially rallied after soft housing starts data, but the move fizzled out as traders remained concerned over the outlook for inflation and interest rates, with Thursday's stronger Philly Fed helping the market ease lower, but disappointing existing home sales yesterday saw the market rally once more.

Looking ahead there are several key releases this week, and we advise traders to monitor the following:

- on Tuesday; New home sales and consumer confidence,
- on Wednesday; Durable goods,
- on Thursday; Q1 GDP, Q1 Personal consumption, Q1 Core PCE, Jobless claims and the FOMC interest rate decision, and
- on Friday; Personal income and spending, Core PCE, Chicago PMI and U. of Michigan confidence.

This week's key releases are highlighted red, and of these the FOMC decision on Thursday is the most important, especially after the market rallied following a relatively benign beige book recently, but unlike the Eurodollar market, the rally here has been more patchy as traders remained focused on the outlook for inflation and growth, and we think the Fed will retain a form of words that reflects just that anxiety.

The progress on inflation has been slow, especially given the weak growth environment, so if the economy is recovering as we believe, the Fed is likely to replace immediate concerns over inflation with more medium term anxieties.

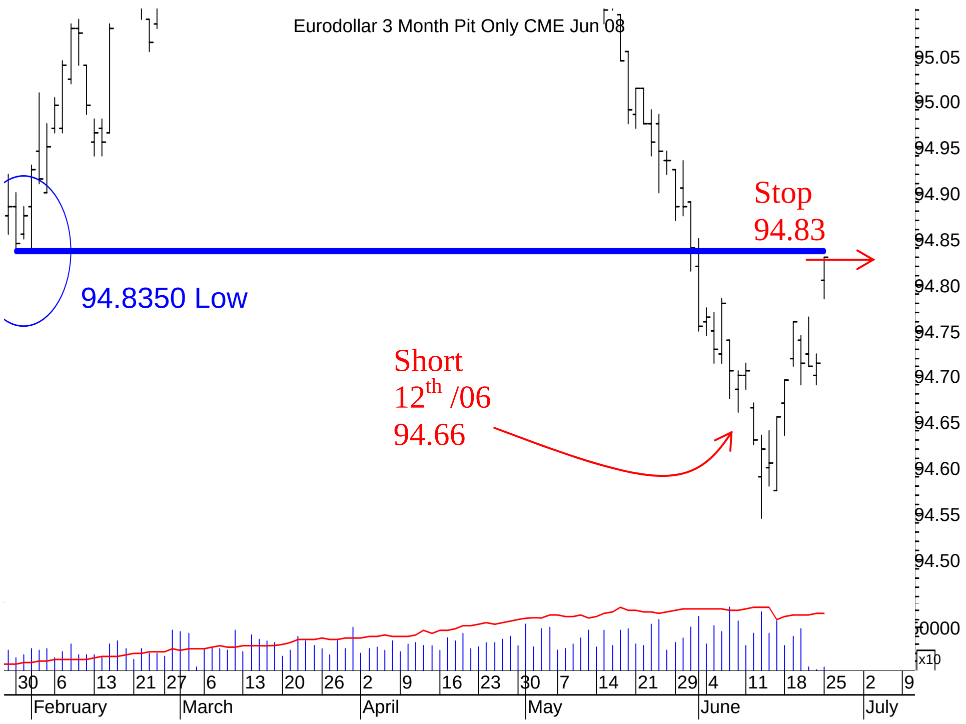
In summary we advise remaining short of this market but watch the Fed on Thursday and especially the policy statement.

# 3. Eurodollars

Short Jun 08 ED (12th/06) at 94.66. Currently 94.73. Stop HIT at 94.83.

Loss 17 Bps.

## *The Technical Trader's View:*




**DAILY BAR CHART:**
The market has retraced fast and we have been Stopped out.

It feels wrong to be out of the market at these levels - so we are looking to for an early re-entry.

## *The Macro Trader's view:*

The market has rallied to erase all thoughts of further Fed rate hikes and now reflects the view of policy remaining on hold for several more months.

After the slight improvement to the recent Core CPI report, traders are expecting a change to the wording of the Feds policy statement due this Thursday evening.

While they may well acknowledge a small improvement, given the slow pace inflation has corrected lower, especially amid a pronounced growth pause; the Fed will now likely have new medium term concerns, which will revolve around the forecast for a growth recovery which to us already seems underway.

Therefore we do not think the policy statement is going to be as benign as the market currently thinks; that being the case, an opportunity to re-establish a short position could quickly present, later this week.

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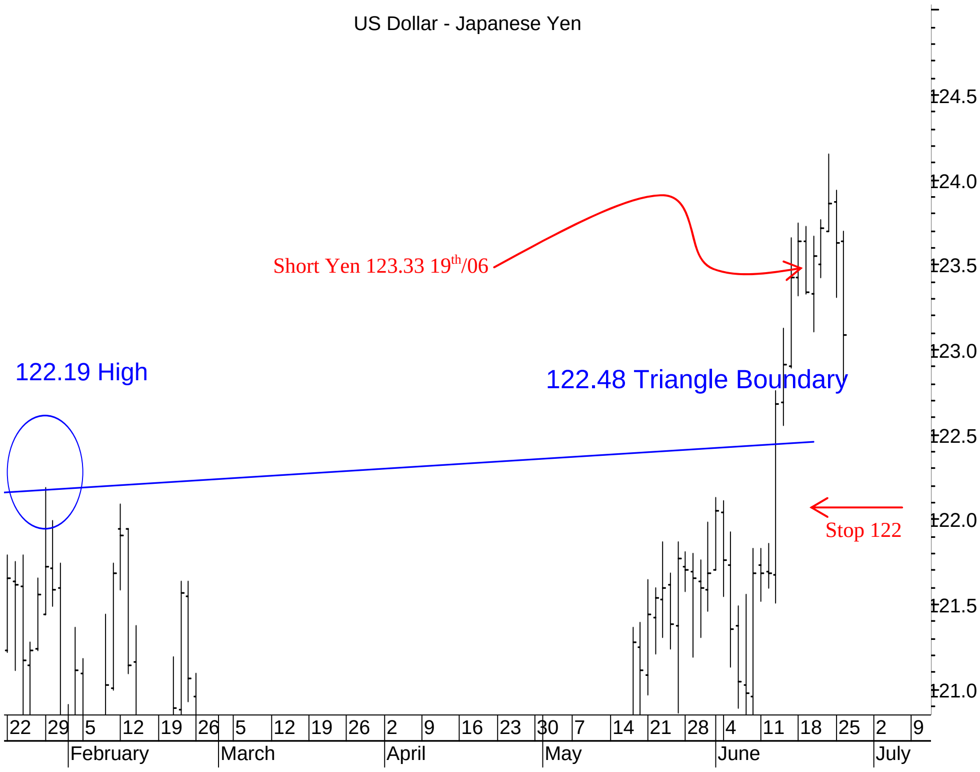
# 4. Dollar Yen

Buy Dollars sell Yen at 123.33 19th/06.  Stop 122. Current level 123.12. Interim target 130.

Running loss 21 bps.




**Daily Bar chart**

The market's pull back looks dramatic - but placed in context becomes less so.

Support begins at the 122.50 level.

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**Weekly Bar chart**

To recap: the trade's rationale is benefit from the impetus from the completed medium-term Triangle.

## *The Macro Trader's view:*

After enjoying a solid rally into Friday, Dollar/Yen has come in for a bout of profit taking, which as on previous such occasions, ties in with weakness in the equity markets.

Although it risks becoming a well worn theme, it is noticeable how the fortunes of this pair are dictated by the recent on off appeal of the carry trade.

This is evidenced by recent price action whereby the Dollar has retained strength against the Yen, at the same time as coming under selling pressure against the Pound Sterling and Euro.

However, other factors are driving this pair, and they are the yawning interest rate differential and the prospects for it changing anytime in the short/medium term in either direction.

Currently the market view is:

- US rates are on hold for several more months with no chance of a policy ease any time in the foreseeable future, but a risk of further hikes around year end, and
- In Japan policy seems on hold also for the next few months, but with expectations for an interest rate hike in the 4th quarter.

So on balance the influences there are broadly neutral; leaving a yawning interest rate gap in the Dollars favour, which traders of equities continue to exploit when stocks look set to rally.

In summary we judge these influences will remain. So currently short term profit taking is in play as equities suffer what we consider, short term selling pressures.

*Mark Sturdy*

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*Seven Days Ahead*


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