



Key Trades

13th February 2007

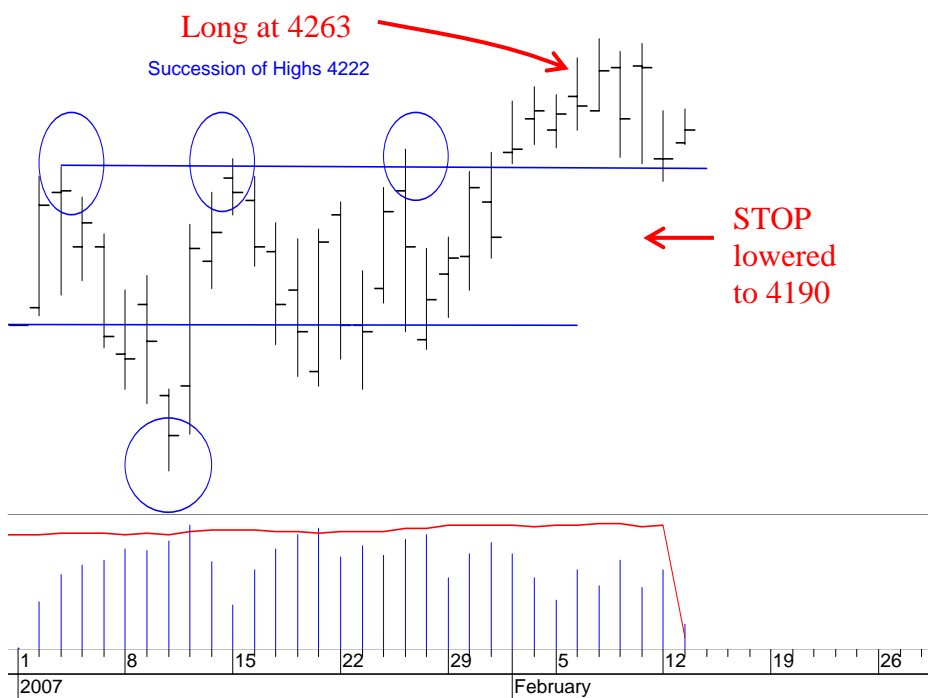
We got back into the Bund and so far that has gone well. Other positions have been hesitant but Stops have been left intact. We are watching the Gold and Oil closely....

Open Positions

1. DJ Euro Stoxx 50

LONG Mar 07 at 4263 (06/02). Change Stop to 4190. Currently 4236.
27 bps running loss

The Technical Trader's View:



DEC06 Daily Bar chart

The market has retested the clear support at 42222 - and narrowly missed our Stop.

It was too close in the current volatility and so we have lowered it to avoid being prematurely Stopped out.

But the position still looks good. In particular relative the S&P.

We think the bull market still has further to go.

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The Macro Trader's view:

Last week the ECB dropped strong hints that they will soon tighten policy further, probably as soon as March. Their reasons were the usual suspects:

- strong money supply growth,
- strong demand for credit, and
- Their expectation for inflation to rise later in the year.

The DJ EUROSTOXX 50 has responded negatively to this, but we believe the market remains bullish and well supported by the strength of Euro zone growth.

Although the trade is a little under water, we recommend staying with it. Over the last year stocks have enjoyed a strong bull run and we see no reason to assume it has, or is about to end.

Even though the recent rally in Oil has a negative impact on this market, we remain bearish of oil longer term so expect that influence to wane too.

Cont...

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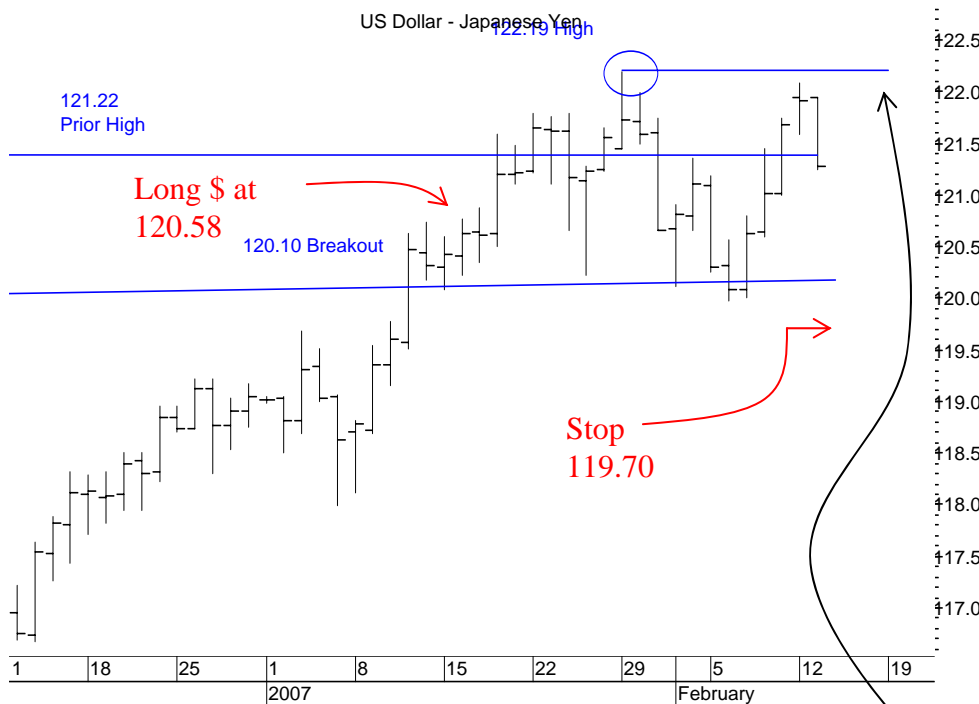


2. Dollar Yen

LONG at 120.58 (16/01). Currently 121.27. Stop 119.70.

69 bps running profit

The Technical Trader's View:



DAILY DEC06 INDEX CHART:

The market has oscillated wildly, but within a tight range and seems to find the support at 120.10 to be very strong having bounced from that level three times.

We're sticking with the trade even though the profits have been modest so far.

Our Stop remains at 119.70.

Our confirming breakout signal is the prior high at 122.19

The Macro Trader's view:

Last week's G7 meeting offered no tangible support for the Yen and we remain bearish of its prospects against the Dollar.

Today's release of the US trade deficit was a little worse than expected due to rising oil prices so this will likely be a factor next month too, but we believe the Dollar will shake

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this off if other key data releases through this week reveal growth has stopped deteriorating and is in-fact beginning to recover.

Additionally, we suggest keeping an eye on Bernanke's testimony in Congress this Wednesday and Thursday; he is talking about the economy and monetary policy.

We expect him to flesh out the theme of the recent FOMC statement, but may well put more emphasis on inflation and the Fed's determination to contain it. This would support the Dollar.

Cont...

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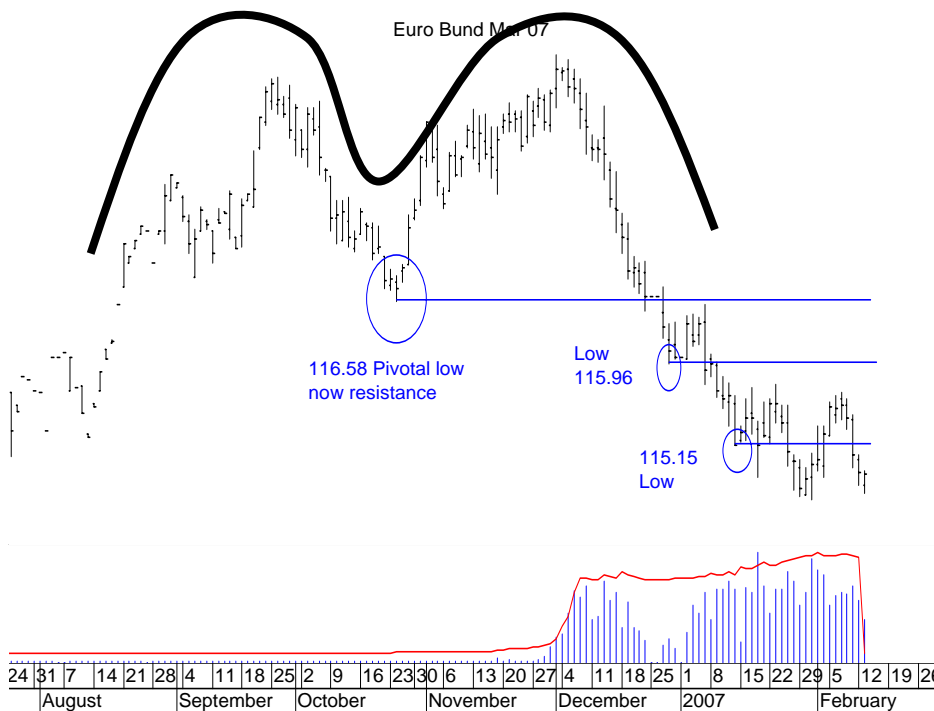


2. Bund

SHORT Mar 07 115.10 (16/01). Currently 114.85. Stop 115.85.

25 bps running profit

The Technical Trader's View:



DEC06 Daily Bar chart

The market is under the influence of the Double Top and the wider pattern of a Head and shoulders Top in the Weekly Continuation Chart.

We got back into this trade in timely fashion three trading days ago.

The minimum target for the pattern is 114 or so.

But that is just an interim target; the minimum target of the weekly continuation H&S is much lower again.

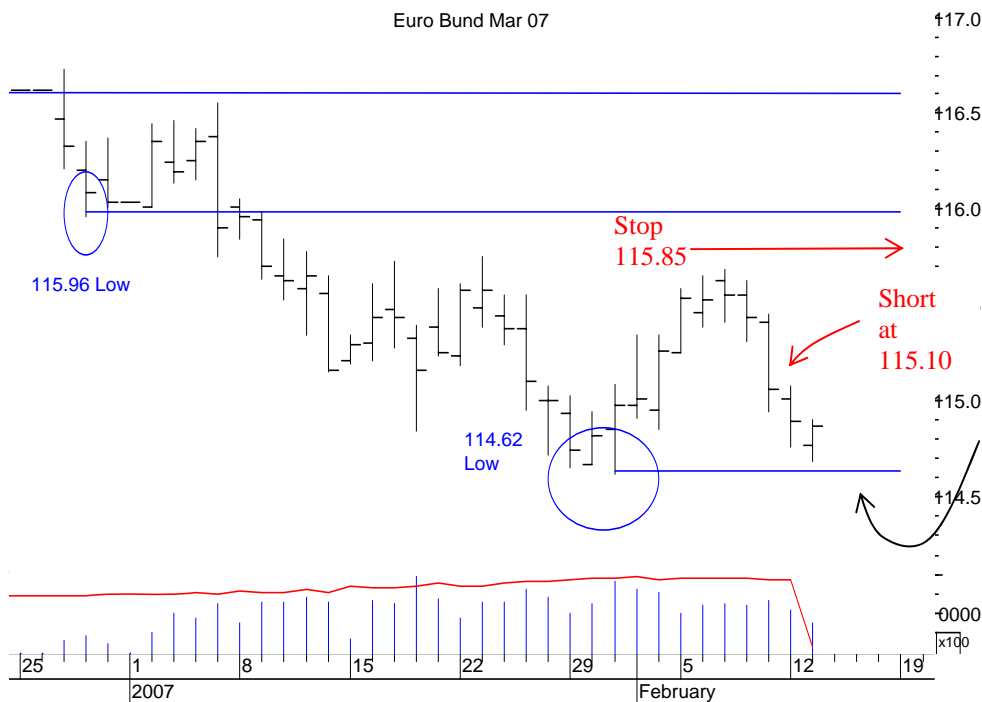
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DEC06 Daily Bar chart

After we cut out last week, the market tried to go better and failed.

So our Stop is at 115.85 just above the recent failure.

The trigger to add on will be a break down beneath the 114.62 low.

The Macro Trader's View:

The Bund came under renewed selling pressure after last Thursday's ECB press conference, and we judge it has further to go on the downside.

Euro zone growth remains strong and although Euro zone inflation is currently below target, the ECB expects it to increase as we move through the year. They will respond by tightening policy further; probably to around 4.25% by the 3rd quarter.

We see Bond yields rising over the long term as the "emerging" economies of China and India compete more aggressively for the world's raw materials and western governments begin to divert more resources towards defence spending to tackle global terrorism.

Though these are longer term themes, they do have a near term impact and we remain bearish of the Bund.

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