



# Key Trades

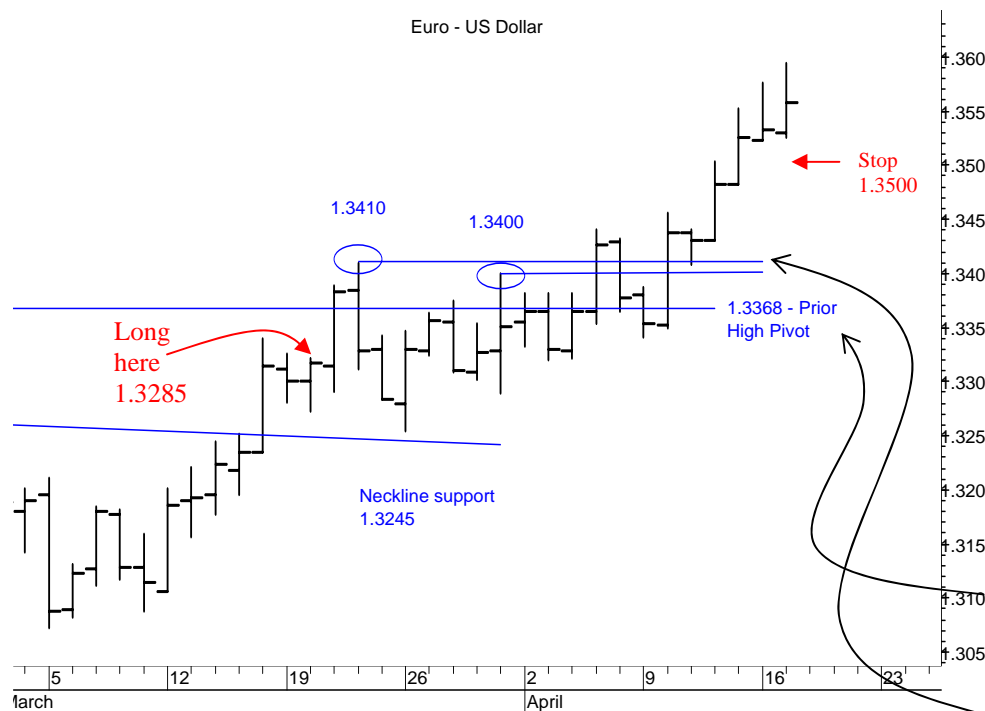
17<sup>th</sup> April 2007

## Open Positions

### 1. Spot Dollar Euro

Long at 1.3285 (20/03). Currently 1.3555. Stop raised to 1.3500. Running profit of 270bp.

### The Technical Trader's View:



#### Daily Bar chart

The market has gone well over the last week. We think it will go further because of the driving energy of the Head and Shoulders pattern beneath the market - but also because of the good supports now established:

at the Prior Pivot 1.3368

and nearer term, the 1.3410 and 1.3400 levels.

But to secure profits, our Stop is raised.



### *The Macro Trader's view:*

The Dollar continued to weaken last week in line with our expectations, and recent data from the Euro zone and UK makes further rate hikes there seem highly likely as growth remains solid and the ECB and Bank of England continue to predict a volatile outlook for inflation, as evidenced by today's UK CPI release.

In the US growth remains weak and although the Fed have acknowledged the problem, their overriding concern is inflation, as last week's release of the March 21 FOMC minutes revealed.

So while a run of disappointing inflation reports will make further US rate hikes more likely, the Dollar is weakened by the prospect because already weak economic growth would weaken further.

The Fed knows this and looks set to keep policy on hold for as long as it can to give previous policy actions and the weakness of growth time to bear down on inflation.

But it is becoming clearer from their communications that they are beginning to doubt whether this strategy will work.

However, whether they remain on hold or hike, the Dollar is vulnerable to the down side, and although we have raised our stop close to in order to protect profits, we advise holding this position.

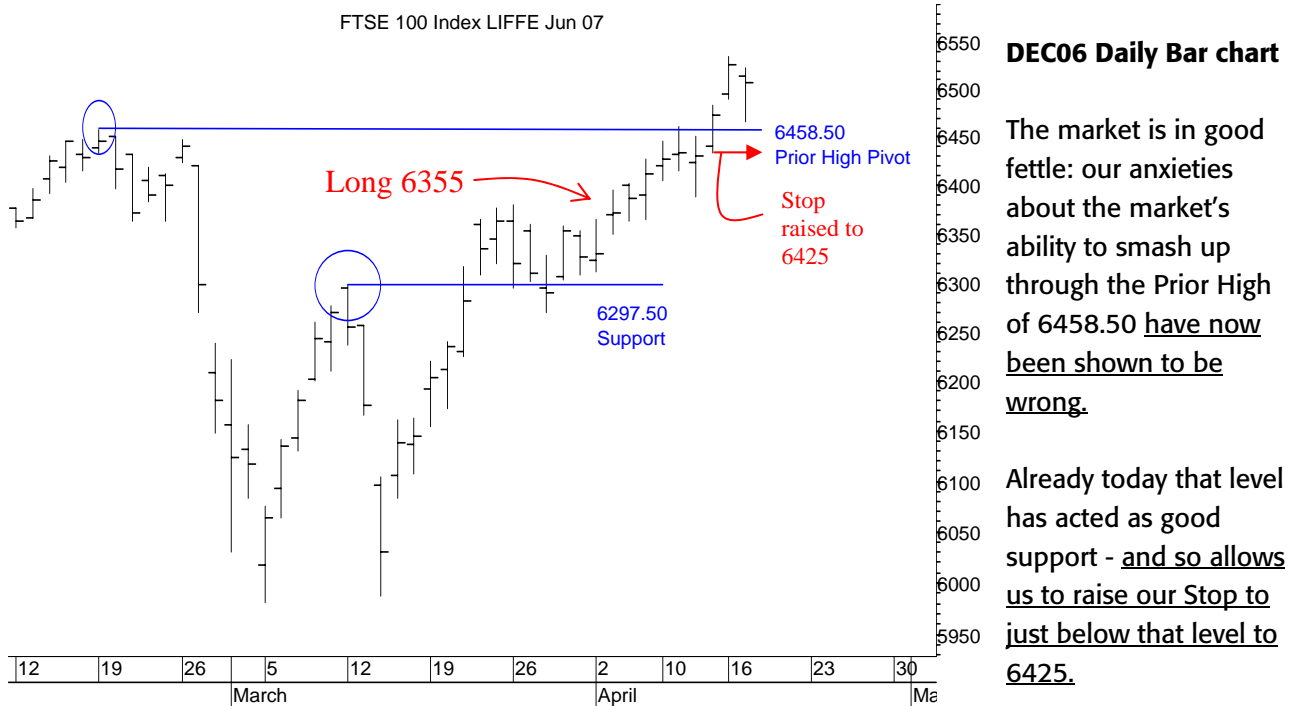
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## 2. The FTSE 100

Long June 07 FTSE Futures at 6355.0 (29/03). Currently 6509. Stop raised to 6425. Running profit: 154bp.

### The Technical Trader's View:



Remember the minimum move of the Double Bottom to 6700 or so. There's more to come.

### The Macro Trader's view:

Traders have quickly moved on from the negativity attached to the Iran hostage issue and refocused onto the fundamentals supporting this market.

Additionally oil prices fell back less than previously thought as tensions remain elevated in the Middle East, but the oil companies are benefiting again from the boost to their profitability.



This together with the current whirl of frenetic M&A activity, with Sainsbury's the target in one deal, and Barclay's targeting ABN AMRO Bank in another, the FTSE looks well supported.

And even though there are clouds on the horizon:

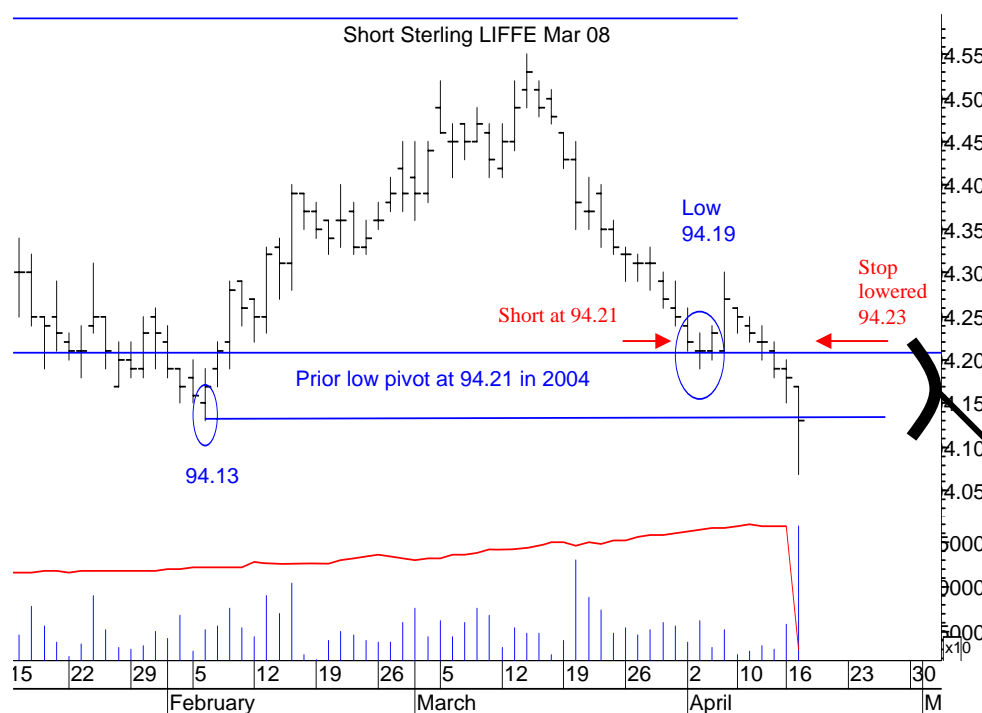
- today's CPI report was above consensus and forced the Governor of the Bank to write a letter of explanation to the Chancellor, and
- concerns remain about the strength of the US economy,

Growth is strong enough in the UK and the wider world economy to overcome this and stocks remain bullish.

### 3. Short Sterling March 08

Short at 94.21 (3rd/04). Currently 94.13. Interim target 94.00. Stop lowered to 94.23. Running profit of 8 bps.

#### The Technical Trader's View:



#### Daily Bar chart

The market broke down. Traders have to find a balance between three levels - the weekly Pivot a 94.21, the near daily low at 94.19, and the old daily low at 94.13.

All are broken - but they represent a wide band of resistance above the market.

Thus enabling us to drop our Stop to 94.23.



### *The Macro Trader's view:*

After today's UK CPI report was not only stronger than expected, but also more than 1.0% higher than the inflation target, forcing the Governor of the Bank of England to write a letter of explanation to the Chancellor, we remain bearish of Short Sterling.

Recent housing market reports, both official and industry based, show price increases becoming established on an annual basis at 10.0% or higher.

Additionally retail sales are strong and the economy for now seems almost bullet proof. In our opinion interest rates will be increased in May, and we now think the Bank rate could rise to 6.0% this year, as oil prices look set to remain volatile and the MPC strive to bring inflation back down to target.

We advise holding this position and although we have lowered our stop to provide greater protection, we expect this contract to sell off further.

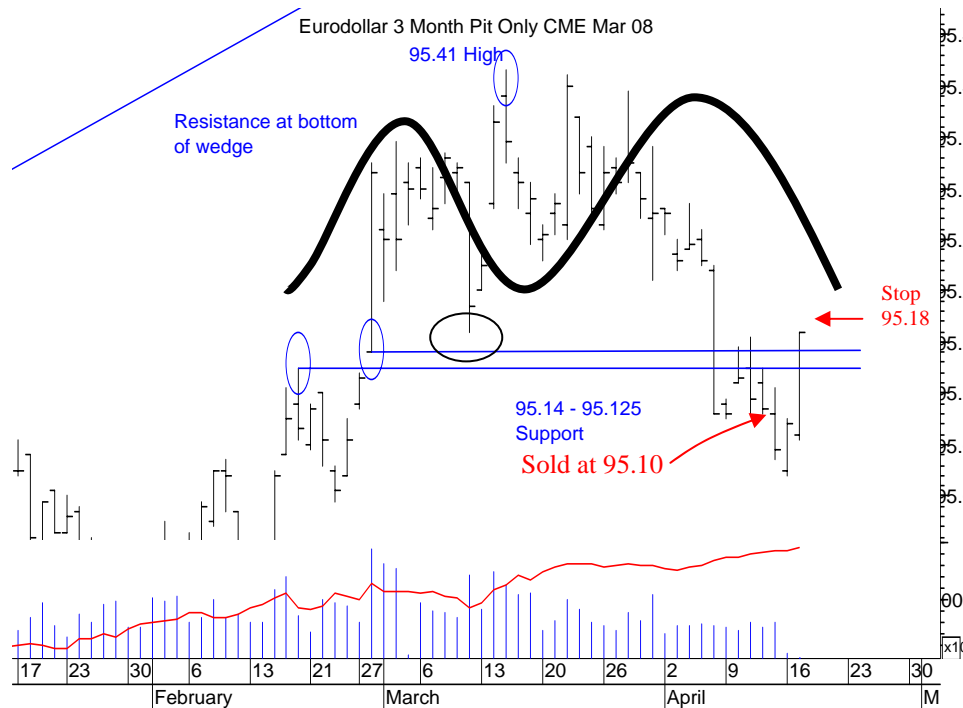
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## 4. Eurodollars

SELL March 08 at 95.105 (12th/04). Currently 95.15. Stop at 95.18. Interim target 94.80. Running loss 4.5 bp.

### The Technical Trader's View:



#### DAILY CHART:

The market has retreated back through the resistance at 95.14- 95.12.

But note that the Double Bottom breakout level lies a little higher at 95.16.

So the bear Top is not yet seriously compromised.

Still, it is a setback.

We remain short with our Stop at 95.18.

### The Macro Trader's view:

The release last Wednesday of the March 21 FOMC minutes surprised the market by its tone.

After Bernanke's testimony in Congress a couple of week's ago, traders knew that the Fed regarded controlling inflation as its primary goal, but what they didn't know until the release of the minutes was, that even as the Fed was releasing a less hawkish statement on March 21, the conversation in the meeting focused on inflation and whether or not it would eventually moderate in line with their previous forecasts or, if as most committee members voiced, policy would need tightening further to force the desired result.



We have mentioned on several occasions in recent weeks in The Macro Trader's Guide, that after a further period on hold, the Fed may yet need to hike further. Now we know which way policy makers are leaning.

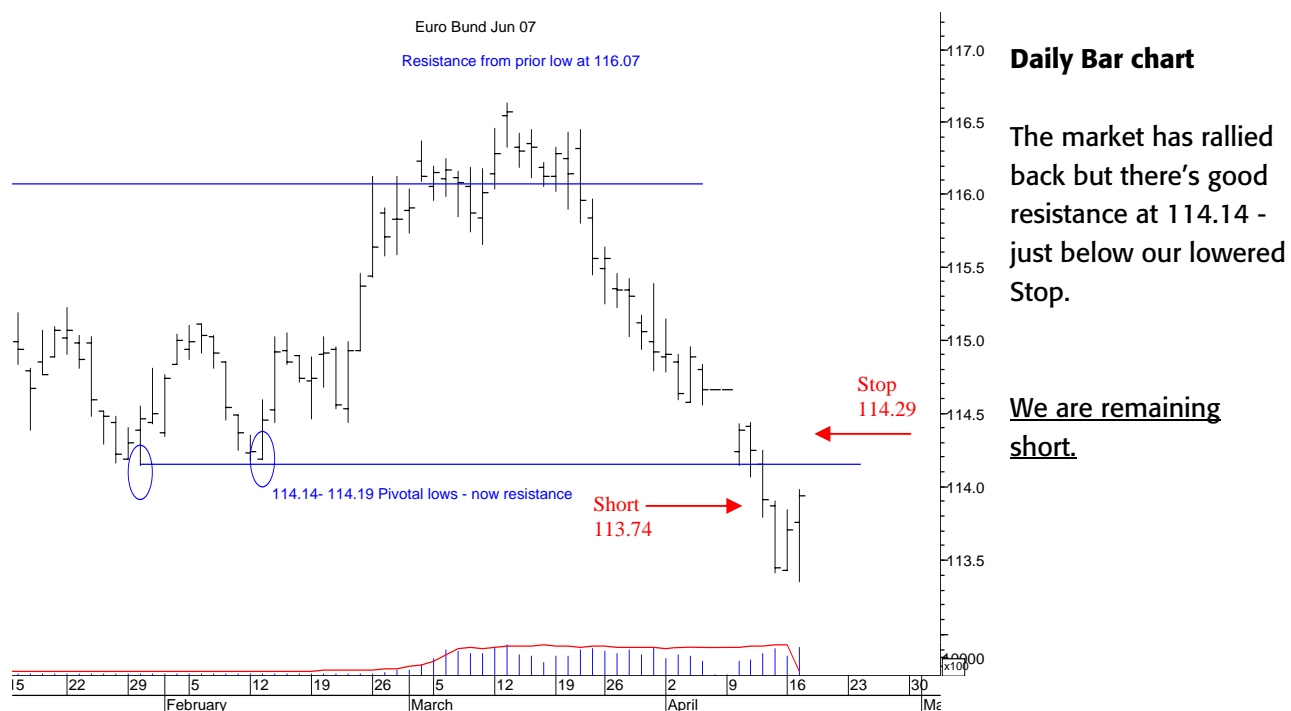
And even though the market rallied today after CPI was in line with expectations, the number was still higher than the Fed would like, and Monday's release of PPI saw the headline rate much higher than expected.

Additionally retail sales too were stronger than forecast, so on balance we regard today's price action as a relief rally and remain bearish.

## 5. Bund

SHORT Jun 08 at 113.74 (13th/04). Currently 113.94. Stop at 114.29. Running Loss 20 Bp.

### The Technical Trader's View:





### *The Macro Trader's view:*

Although the ECB left rates unchanged at last Thursday's meeting, it is clear they will rise further in the not too distant future, as Trichet forecast future deterioration of inflation after a brief period of improvement, and said the ECB will closely monitor upside risks to price stability.

So their decision to hold rates steady this time should be viewed as tactical, since it might be difficult to justify tightening policy while inflation remains below target.

But recent IFO reports have remained strong, indicating the best economic expansion since the German re-Unification boom in the early 1990's.

Taken together with the expansion of the money supply which is a concern to the ECB it is clear that the first signs of inflation starting to rise will provoke a response.

Although the Bund rallied today, we regard this as driven by a general relief rally in the US, since today's German ZEW survey was stronger than expected, and after a period of weakness, appears to be coming back into line with the more widely respected IFO survey.

In summary, we expect the Bund to sell off further and advise remaining short.

*Mark Sturdy*

*John Lewis*

*Seven Days Ahead*