



Key Trades

5th June 2007

The markets remain exciting with Bonds and short term interest rates clearly bearish against very bullish stocks, and although we see short term interest rates looking set to rise in several key economies, Short Sterling's move over recent weeks, presented a good profit taking opportunity this morning as per our earlier email.

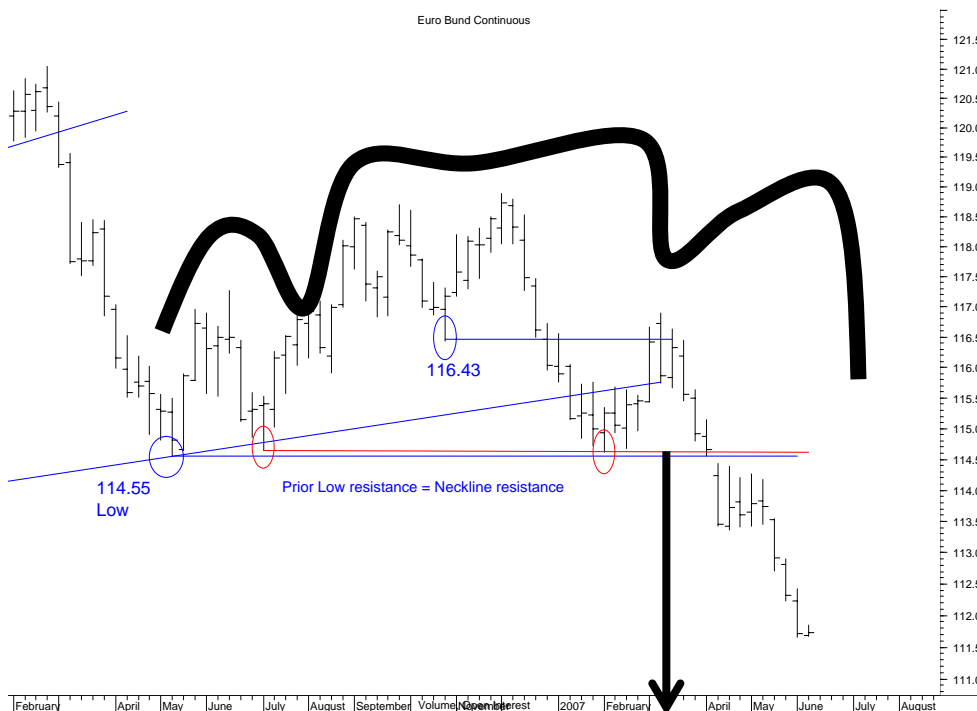
Open Positions

1. Bund

Short Jun 07 at 112.19 (29th /05). Currently 111.72. **Stop raised from 112.65 to 112.90.**

Running profit 47 bps.

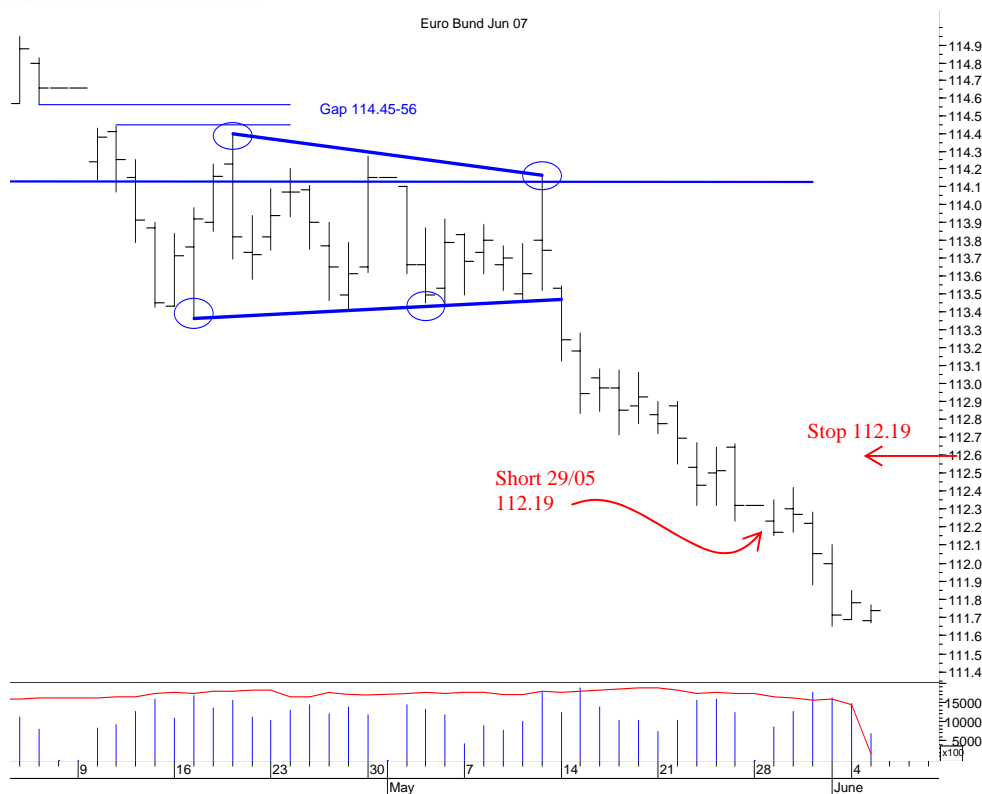
The Technical Trader's View:



Weekly Bar chart

The rationale for the bear position in the Bunds remains the same: a large very long term Top given added bearishness by a clear Head and Shoulders Continuation pattern in the week chart.

The move is extended, but the minimum target is some way off still at 110.50 Or so...



Daily Bar chart

The market has been driving down hard and fast.

Clearly there is scope for a retracement, but because of the clarity of the patterns driving the market, we are staying short -

and would look to add to out shorts on any retracement.

The Macro Trader's view:

Our decision to quickly re-establish a short position proved timely as the Bund sold off further despite a weaker than expected Euro zone M3 report, but with so much of last week's other data above consensus, including several inflation reports, it can only be a matter of time before interest rates are increased in the Euro zone.

The consensus in the market is that the ECB will hike this week when it meets on Wednesday to decide on interest rates, but as always the press conference after the decision will need monitoring closely.

Will Trichet signal more to follow soon, our sound a more relaxed note?

We judge he will maintain his hawkish tone and repeat the ECB'S view that inflation is set to rise later this year, sending the Bund a good deal lower; so we advise remaining short.

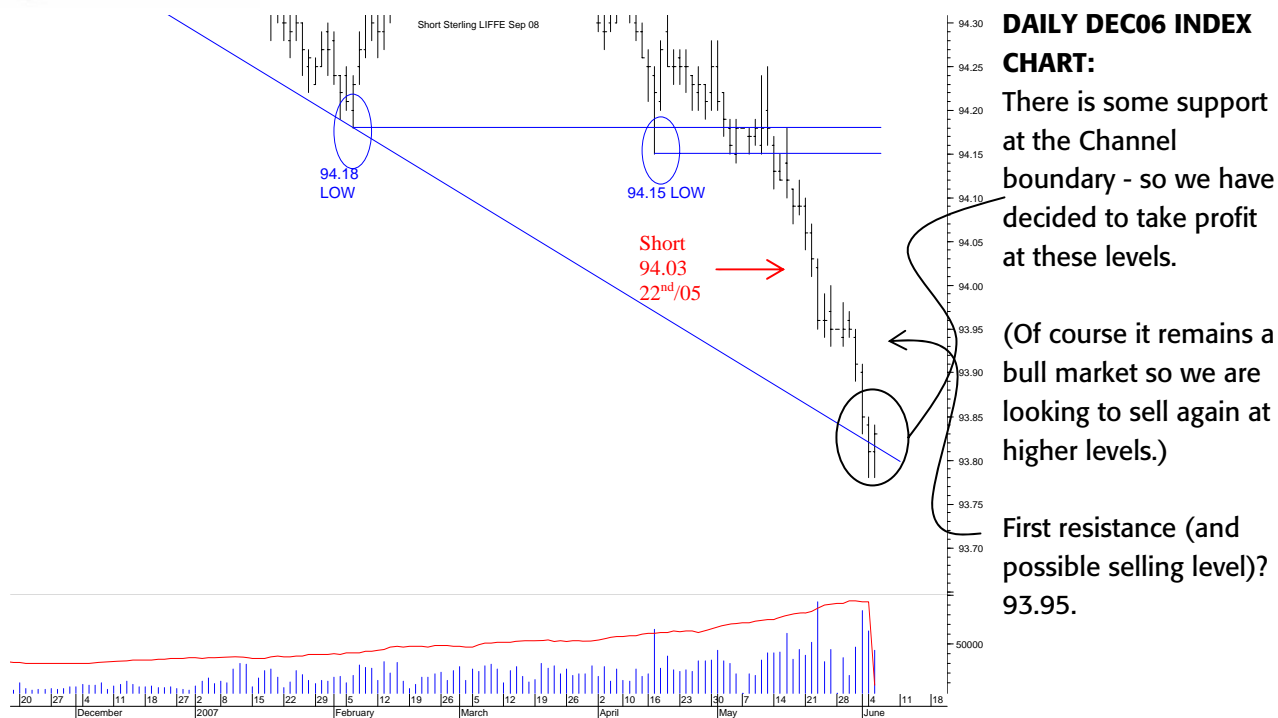


2. Short Sterling

SHORT Sep 08 (22nd/05) at 94.03. **Position closed this morning at 93.80** (as per email 09.30 hrs) Currently 93.82. Realised profit 23 bps.

The Technical Trader's View:





The Macro Trader's view:

Although we remain bearish of Short Sterling longer term, we took profit today for tactical reasons, as the market has declined a long way and is almost pricing in 6.25%.

By all reasonable measures we see that as being as much as can be realistically hoped for near term.

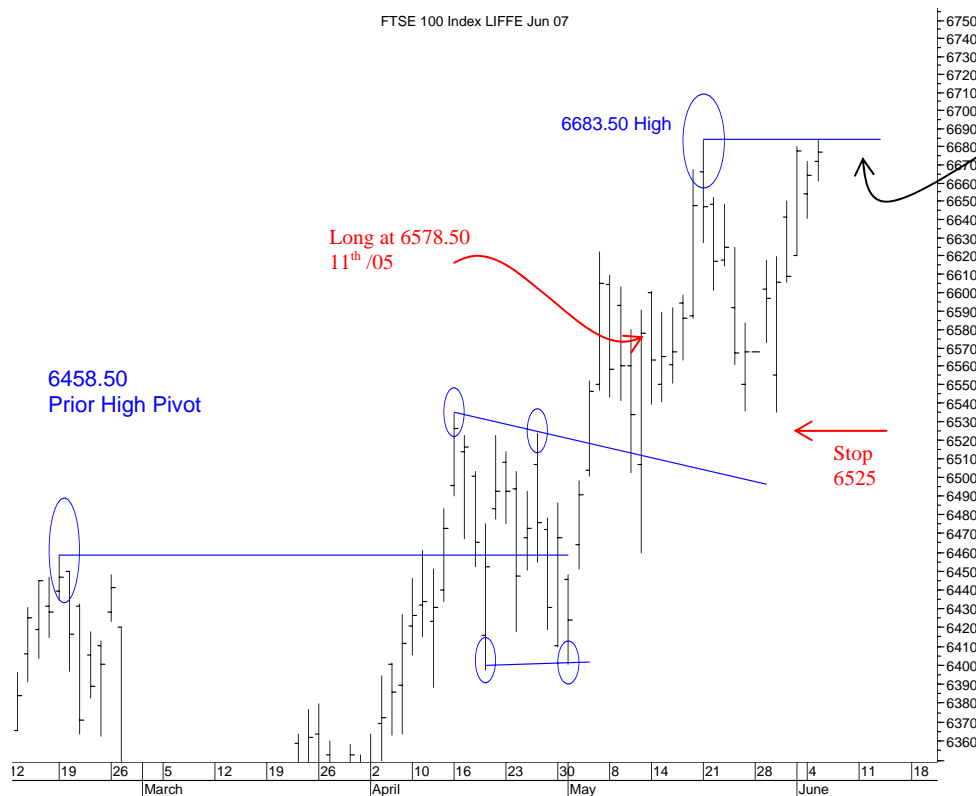
The MPC are likely to hold interest rates steady at this week's meeting and we think that will spark a short covering rally, which should provide a fresh opportunity to sell this market, as we continue to expect interest rate to rise to 6.0% by year end and possibly higher early next year.

So for now take profits and stand back, as soon as we judge the time is right to re-establish a short position, we will be in touch.



3. FTSE

LONG Jun 07 at 6578.50 (11th/05). Currently 6682. **Stop 6525**. Medium-term target 6700. Running profit 104 bp.



Daily Bar chart

The market is driving up again but needs a breakup through the Prior High at 6683.50.

We think it will do it.

And then there is little before the Prior High and major Fibonacci resistance at 6925-6995.

The Macro Trader's view:

Last week we remained long of this market, expecting traders to quickly move on from the correction that occurred the previous week after the Chinese market suffered a correction which coincided with:

- Alan Greenspan's comments that he saw a large retracement occurring in Chinese equities, and
- the decision by Chinese authorities to increase the stamp duty on share dealing to 0.3%.

In the event the recovery was swift and the market briefly broke through the 6700.0 level on stronger UK data, positive international sentiment and a very active M&A market.



Looking ahead the MPC announce their interest rate decision on Thursday, and although some in the market fear a back to back rate hike, we think they will pass this time before eventually increasing interest rates to 6.0% by year end.

Clearly an unchanged decision combined with today's slightly better than expected PMI Services report should send this market higher over the coming days.

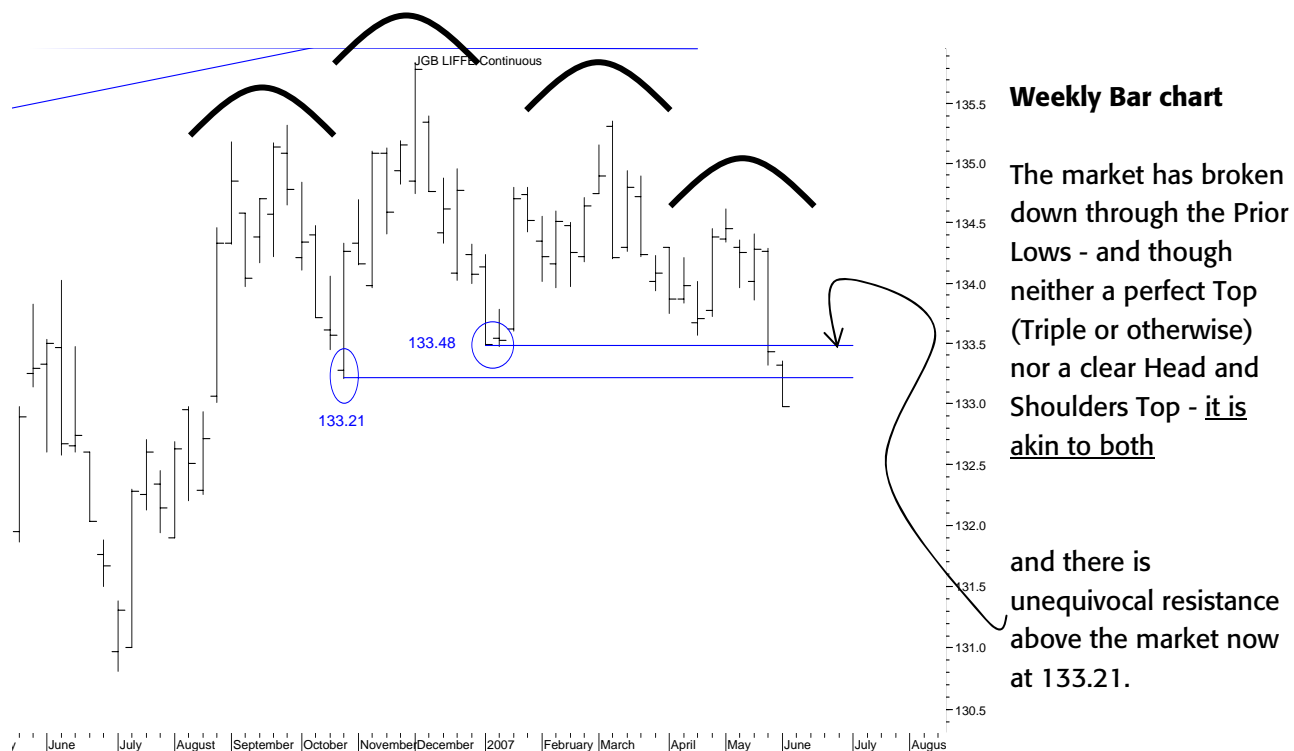
And a clear sign of how bullish this market is occurred yesterday; the Chinese index fell by 8.0% the previous night and although the FTSE opened lower and spent most of the session off the high's the decline was insignificant and recovered by the close.

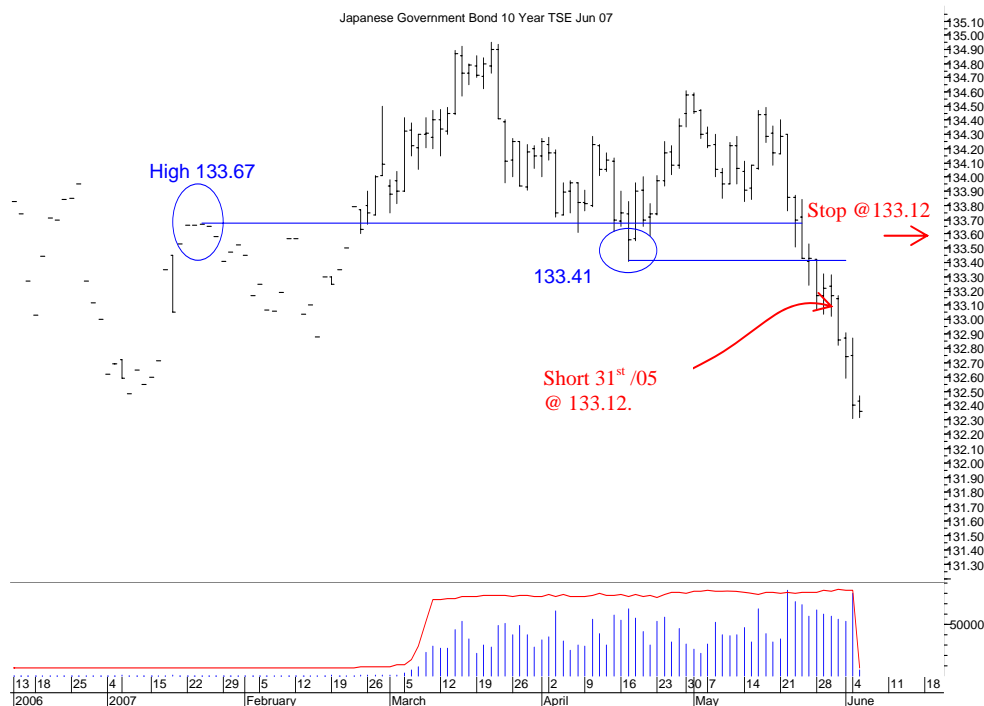
In conclusion our advice is to remain long.

4. Japanese Government Bond

Short Jun 07 JGB (TSE) future 31/05 at 133.12. Currently 132.36. Stop at 133.60.

Running profit 76 bps.





Daily Bar chart

The June future has pulled down beneath the Prior Low at 133.41 with enormous bear energy - look at the volume.

We think it will go further.

The Macro Trader's View:

The Japanese bond market sold off smartly over recent days in line with other major Government Bonds.

The move was assisted by comments on Friday from a Bank of Japan board member saying Japan's CPI is set to start rising again from October this year.

While we do not expect the BOJ to hike rates in the near term, their bias clearly remains for higher interest rates as the economy continues to expand. And this ensures the JGB is as vulnerable to the downside as all the other major Bond markets.

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