



Key Trades

9th July 2007

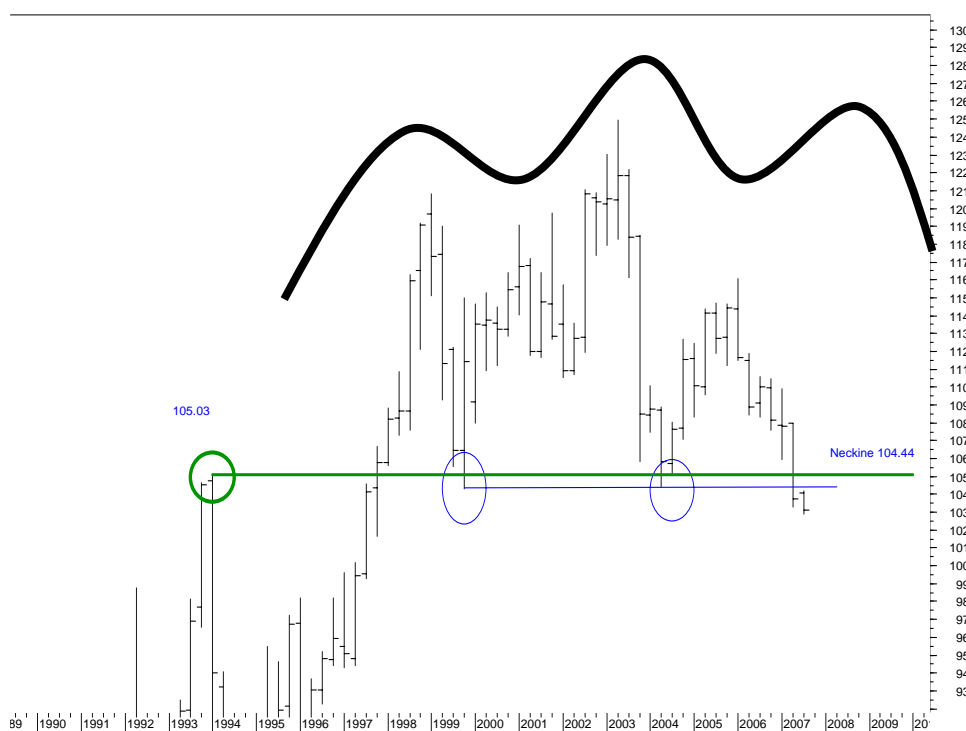
The Gilt has been quietly selling off for several weeks while the US 10yr note and Bund have attracted all the attention, but recently it has out performed them both and looks very weak.

New Position:

1. The Gilt

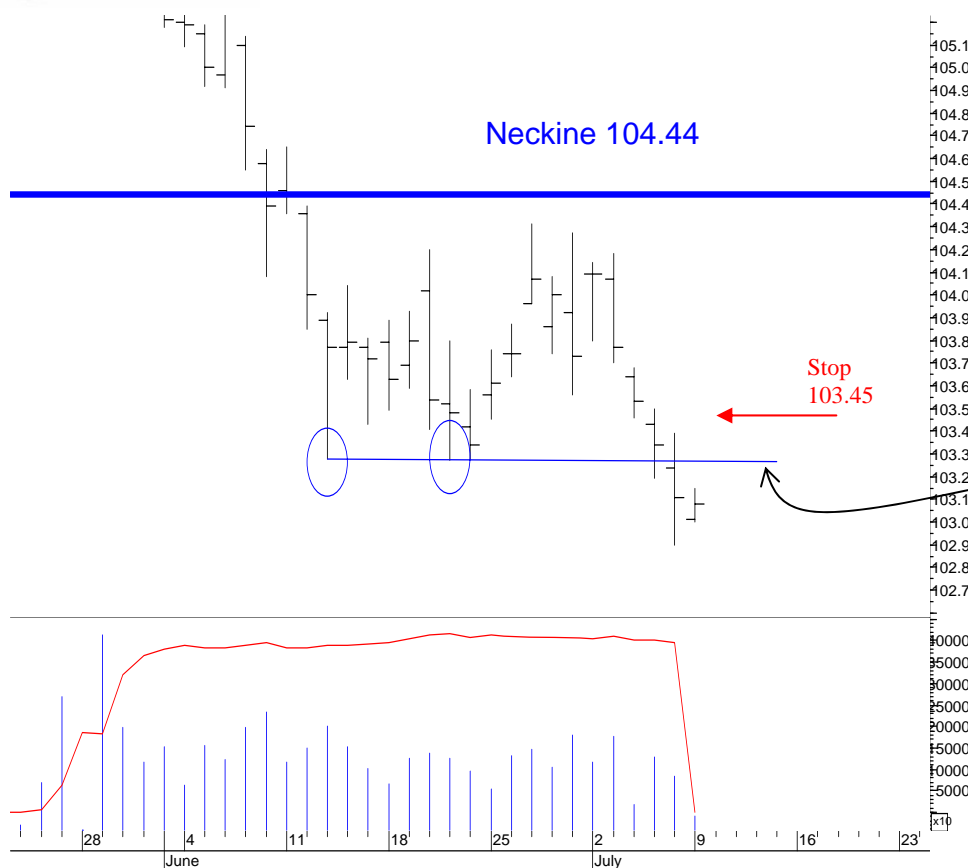
SELL Sep 07 Gilt at current levels (103.12) Stop at 103.50. Short term target 102.00.

The Technical Trader's View:



DAILY SPOT CASH CHART:

The market has broken down spectacularly – the completed Head and Shoulders Top suggests a large move on the downside.



DAILY SPOT CASH

CHART:

And in greater detail in the short-term, the market has driven beneath the Lows of June which should now act as good resistance on any attempt to go better.

That short-term resistance is at 103.23.

The Macro Trader's view:

The Gilt has been under pressure for some time as the UK economy remains strong and the Central Bank has repeatedly spoke of the need to tame inflation. With the money supply growing strongly, which we regard as a red herring and house price inflation remaining doggedly above 10.0% annually despite several recent rate hikes, the MPC are likely to hike rates further.

Although CPI inflation has receded from the 3.0% level which obliged Governor King to write a letter of explanation to the Chancellor, it remains significantly above target.

The Bank of England policy makers are concerned that with no spare capacity in the economy they cannot afford to be complacent and when they hiked last Thursday, the accompanying press released clearly flagged further hikes are likely.

But the domestic scene isn't all that weighs on the Gilt. The world economy is growing at 5.0% a year and has done for the last few years, and that is at a time when the US economy has slowed to a crawl.



Now US economic activity looks set to accelerate, the additional strain placed on the world's resources could fuel a resurgence of inflation.

The US economy on its own accounts for in excess of 25% of world GDP, so in the current global growth environment, the world will feel the full effect of a rebounding US economy forcing its way back onto the stage.

In summary we believe all Bond markets are vulnerable to further weakness; the Gilt looks set to outperform them all on the downside over the short/medium term.

Mark Sturdy

John Lewis

Seven Days Ahead