Key Trades 16th October 2007

We are content with our current positions. The currencies are still tempting us, but for the moment we are holding off.

Open Positions

1. Gold

LONG Dec 07 Comex Gold at $723 (18th September). **Stop raised to $746**. Currently $763. Running profit $40.

The Technical Trader's View:

DAILY FUTURES CHART:

The market is now going well in our direction since the breakout from the $718.

The push back up through the prior high at $755 has signaled the next leg up.

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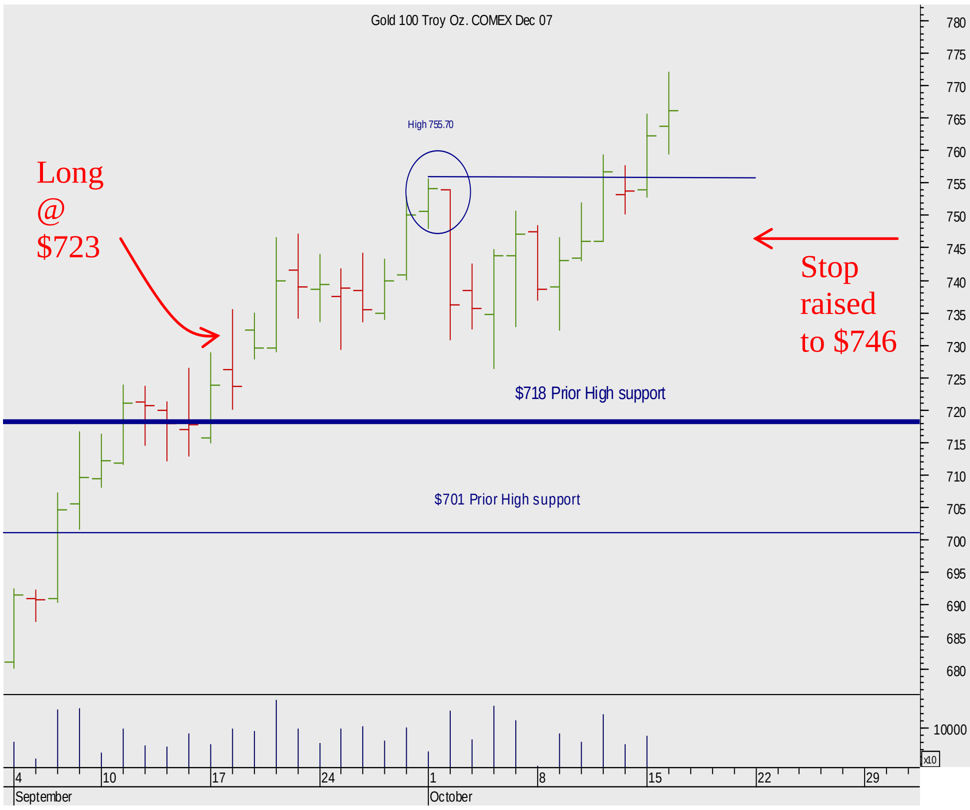


DAILY FUTURES CHART:

The market now has good support at $755.70 and that allows us to raise our trailing Stop to $746 to protect our gains so far.

The Macro Trader's view:

Last week we remained long of this market as lingering fears of a US recession and the long term weakness of the Dollar continued to drive this market higher.

Although recent US data has contradicted the view a recession could be just around the corner, the FOMC minutes revealed policy makers to be concerned enough to opt for 50bp without even discussing a 25bp move at their September 18th meeting.

While we think the economy will avoid recession, it is clear policy makers remain concerned the housing market may even yet cause some significant damage and this keeps the chance of another rate cut alive.

But with housing starts and building permits due this week, traders will likely get a fresh dose of anxiety as these reports have made for troubled reading for some time.

Aside from the economic woes supporting Gold, traders had to contend with a possible rift between the US and its ally Turkey, over the US Congress vote to view the slaughter of Armenians by the Ottoman Turks as genocide.

This is a very tricky situation; the US relies heavily on its bases in Turkey to get logistics into Iraq.

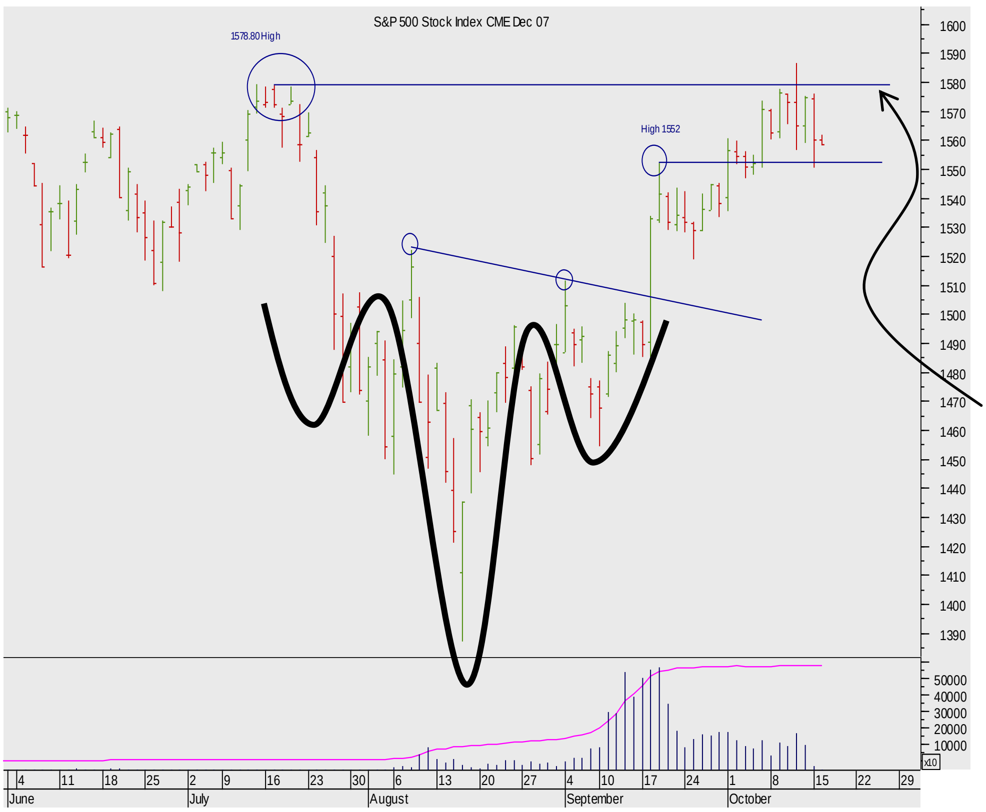
Any interruption of that co-operation would not only upset activity by US forces in Iraq, but aid the insurgents and play into the hands of Iran.

Additionally to complicate matters further, Turkey threatens military action against the Kurds in northern Iraq which the US opposes.

In all not a very united display by two supposed long standing allies? Our advice; remain long.

2. S&P

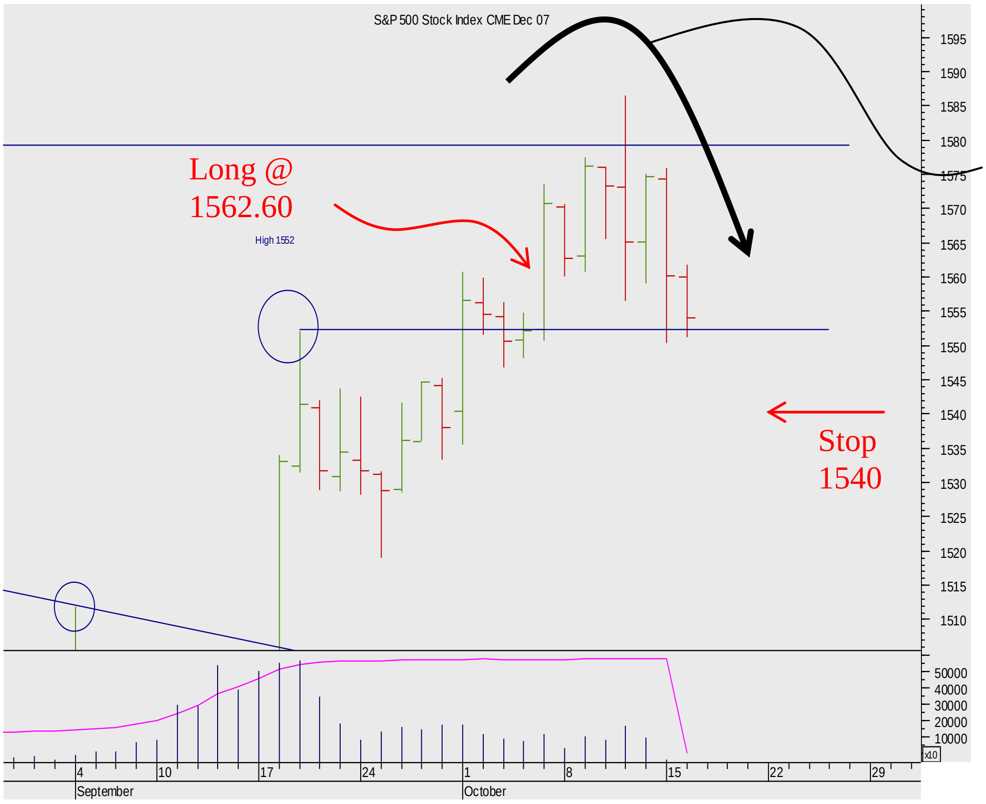
LONG Dec 07 (5th/10) @1562.60. Stop at 1540. Currently 1554. Running loss 8.6.



DAILY FUTURES CHART:

The market's central drama of a bull run driven by the Head and Shoulders Bottom (minimum target 1635) being tested against the Pivotal High of 1578.80.

We think it will do it, but evidently not at the first attempt…



DAILY FUTURES CHART:

The market has pulled back from the initial test of that Pivotal High.

<u>And we hope the support from the Prior High at 1552 will be sufficient to hold it.</u>

If it doesn't, our Stop is close by.

The Macro Trader's view:

Last week we remained bullish of this market ahead of another important week for economic data and corporate profits.

The Fed released their September 18th FOMC minutes which were more bullish than expected. We had anticipated their willingness to cut rates to be more related to the release of September's weak non-farm payroll report, but in the event policy makers had looked through that indicator, which they largely discounted, and sought instead to pre-empt any possible ill effects from the credit crunch.

We doubt they will repeat the move in the absence of solid evidence to show growth is indeed suffering.

In fact so far most data releases show the economy performing well, especially last Friday's retail sales report.

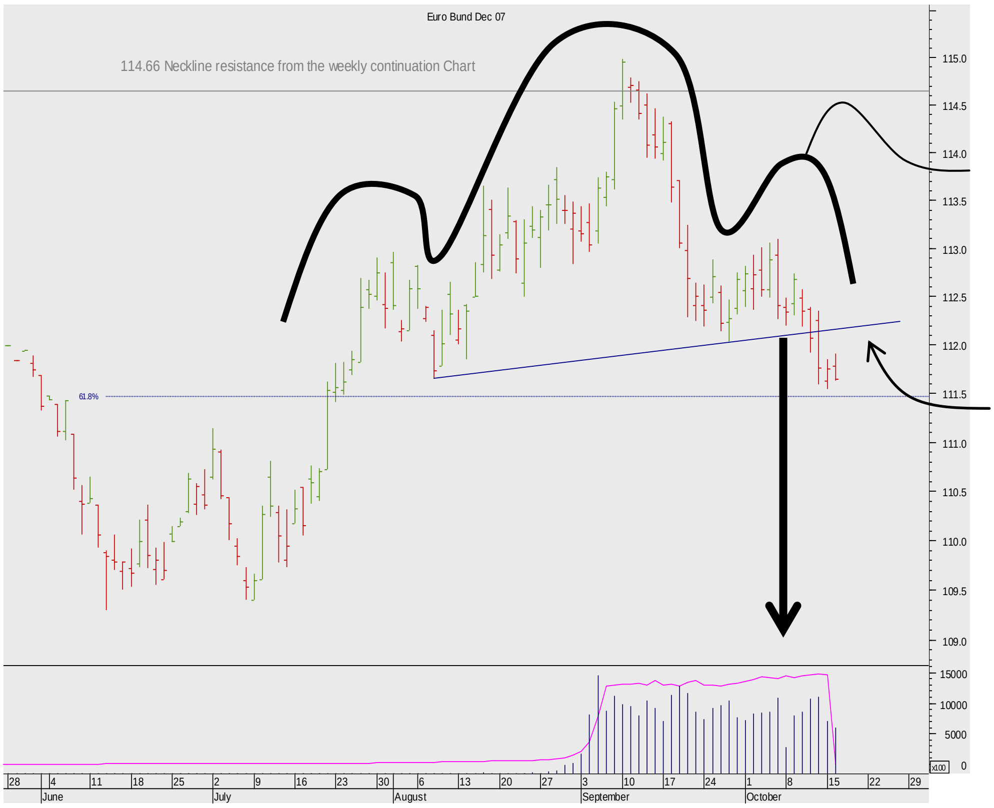
This week traders will be watching profit reports from the likes of Citibank and housing starts, building permits and CPI.

As it is becoming increasingly clear that the economy will avoid recession; at least this year, although the housing correction continues, consumer demand is holding up, and the Feds minutes removed some of the anxiety that policy makers would rush to take back their rate cut as soon as the economy failed to display distress.

With recent reports showing very little changed during the summer turmoil that hit financial markets, we judge equities remain a buy on the steady growth outlook, although stocks have suffered a two day correction following a speech from Bernanke which played up the Housing markets potential to disrupt the economy, we think this is likely a round of profit taking after several sessions of solid gains and advise remaining long.

3. Bunds

SHORT Dec 07 at 111.98 (11th/10). Stop at 112.36. Currently 111.65. Running profit 33.



DAILY FUTURES CHART:

The market is in the grip of a classic Head and Shoulders Top.

The minimum move is down as far at 109.25.

Any retracement will struggle to get back through the neckline resistance currently at 112.20 or thereabouts.

DAILY FUTURES CHART:
The market broke down and looks set to go further.

A break of the 61.8% retracement support may well add impetus to the downside.

The Macro Trader's view:

Last week we went short of the Bund as German, French Italian and Euro zone industrial production reports all came in stronger than expected, which alleviated the ECB'S anxiety over the outlook for Euro zone growth.

Looking ahead there are several key reports due this week, and we advise monitoring the following:

- on Monday; Italian CPI,
- on Tuesday; German CPI and ZEW survey and Euro zone CPI,
- on Wednesday; Italian C/A data,
- on Thursday; Euro zone trade data and construction output report, and
- on Friday; Italian industrial orders and sales, and Trade data.

This week's key events are highlighted in red, and it's mainly about inflation. After last week's better industrial production reports, any bad news on inflation will nudge the ECB closer to considering another rate hike.

And with oil prices continuing to rise which is a source of anxiety to the ECB, the Bund looks vulnerable to further selling pressure.

Crucially even with a strong Euro, the German economy continues to report strong industrial production data and as the largest Euro zone economy, the Euro zone relies heavily on a strong German economic performance.

Another factor which weighed on the Bund last week was the strength of US retail sales.

The ECB'S fears over an economic slowdown are based mainly on a possible US recession dragging the global economy down with it, so far those fears seem un-founded; in fact the US economy looks un-troubled by the credit crunch and next week's release of US Q3 GDP should make interesting reading.

Traders should remain short of this market

Mark Sturdy

John Lewis

Seven Days Ahead