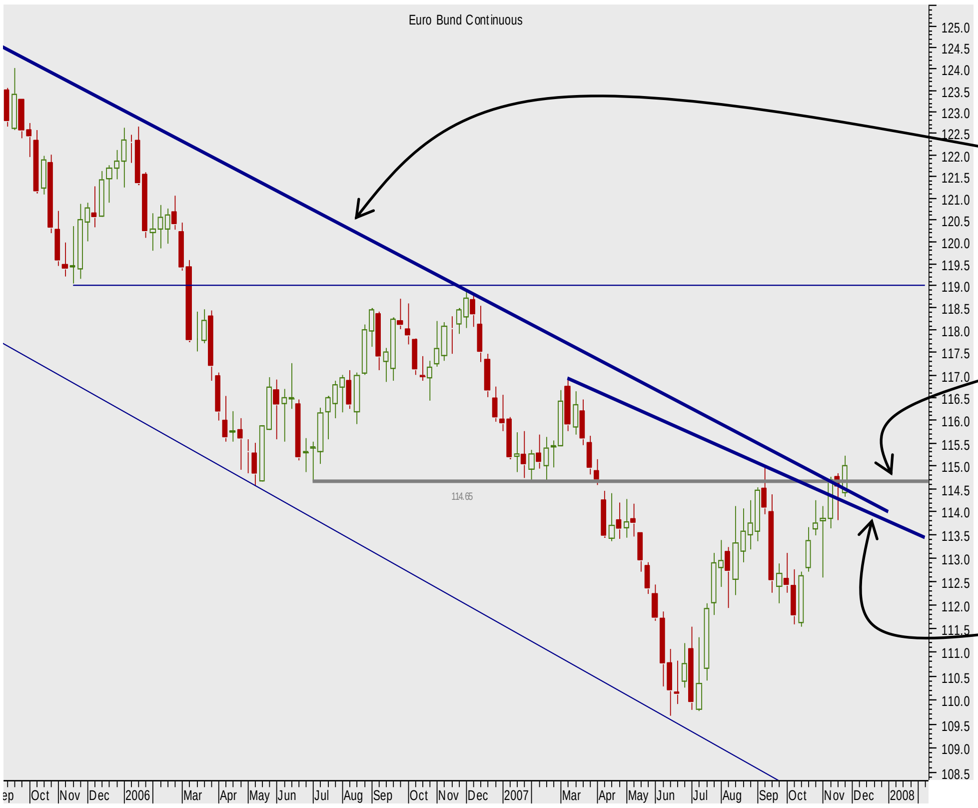
Key Trades for this Week 20th November 2007

New Positions

1. Bunds

Buy Dec 07 Bunds today @114.86. Stop 114.45. Target **116.75**

Technical Trader's View:



Weekly Bar chart

1. The market has broken out of a bear channel from mid 2005.

2. It has broken through the resistance from the Neckline of the old Head and Shoulders pattern at 114.65

3. It has completed a Head and Shoulders Reversal.

Look closer

TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM JLEWIS@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

Daily Bar chart :

The market has driven up through the short-term highs at 114.82 and 114.98.

They should act as good short-term support as Prior Pivots.

We are buying here and the Stop is beneath the market at 114.45.

The Macro Trader's view:

Market consensus is for the ECB to hike rates in the near future by 25bp, and we share that view. However, the ECB may find its self hiking interest rates just as the Euro zone economy is about to be hit by the slowdown expected in the US and UK.

Equity markets are already turning bearish on the bad news they already know and fears about what they don't. The markets are well used to hearing off write downs and losses from US and UK Banks, but little has been said about potential problems yet to be revealed by Euro zone Banks.

We judge it inconceivable that they wont soon reveal similar problems.

This will weigh on not only equities but economic activity, and at a time when short term interest rates have just risen. The only relief will come from falling short term yields; we've seen something of that already, there is likely more to come.

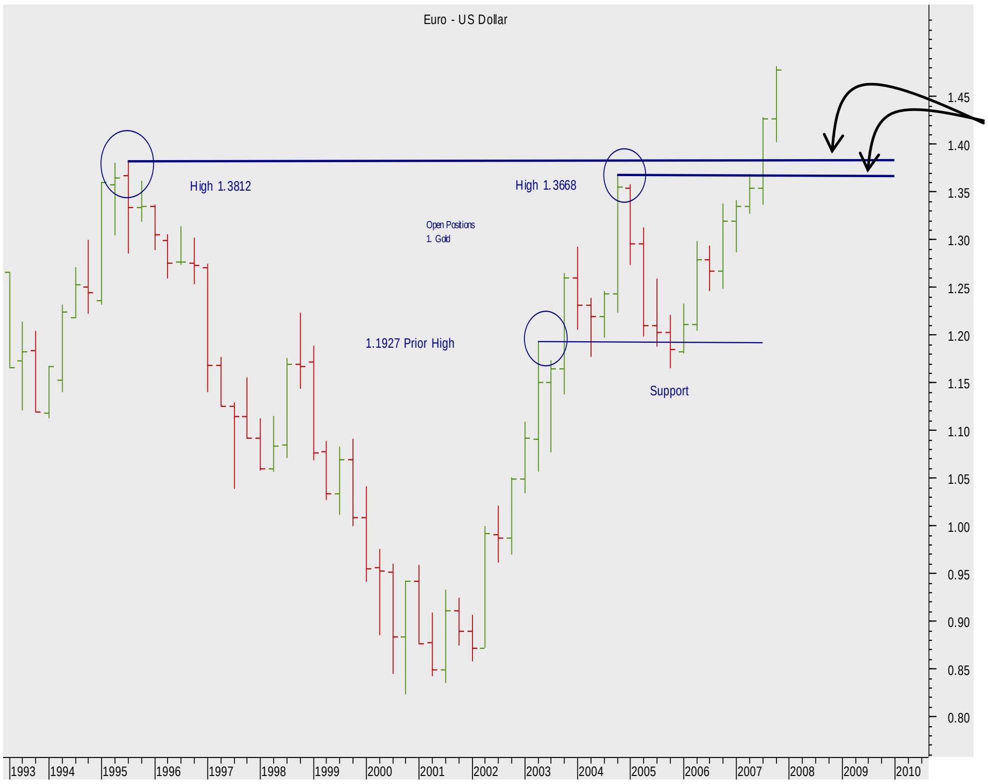
We advise being long of the Bund.

Open Positions

2. Dollar Euro

LONG Dollar Euro at 1.4392 (30th October). Running profit of 0.0392bp. **Stop Loss raised to 1.4600**

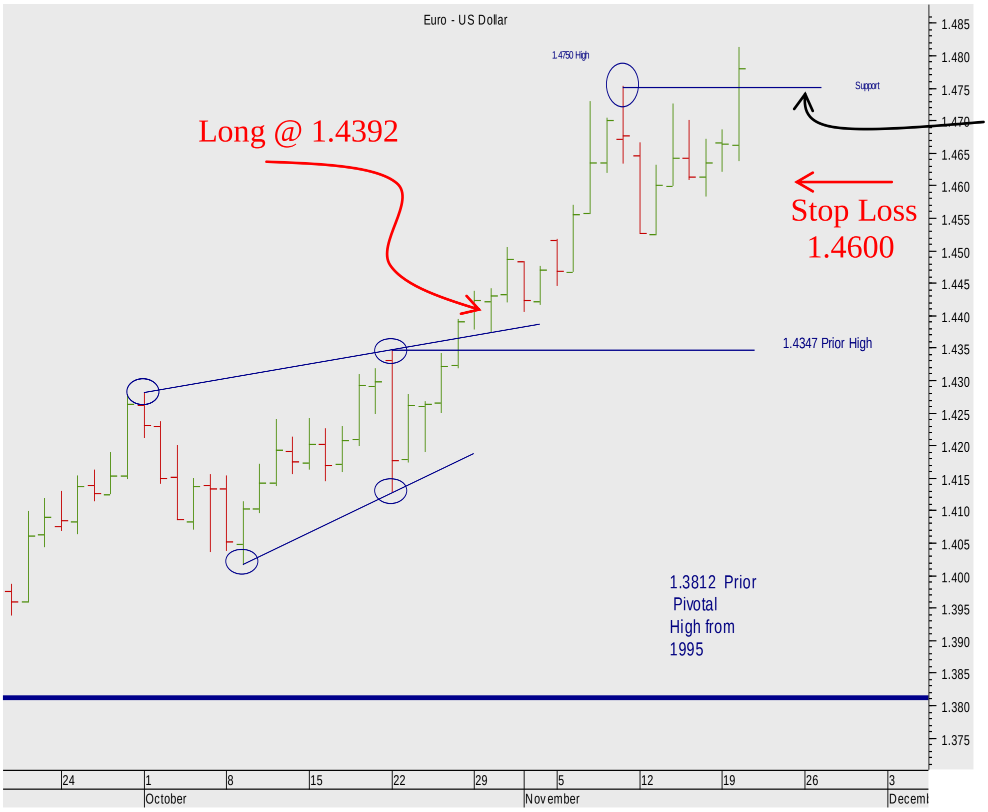
The Technical Trader's View:



Quarterly Bar chart:

The market is driving up and away from those Prior Highs – which are ratcheting it better.

TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM JLEWIS@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM



Daily Bar chart

The market has driven better through the Prior High at 1.4750 which should now be good support.

Raise the Stop to 1.4600

The Macro Trader's view:

Last week we were bearish of the Dollar as we judged the negative outlook for growth would continue to weigh on the US currency.

And in a week with several key reports due, we advised traders to monitor the following:

- Tuesday; the monthly budget statement was better than expected,
- on Wednesday; MBA mortgage applications were stronger, US PPI was less than expected, Retail sales were mixed and business inventories were greater than expected,
- on Thursday; CPI was as expected, Empire mfg survey was stronger than expected, Jobless claims were worse than expected and the Philly Fed survey was better than expected, and
- on Friday; Net TIC flow was weaker than expected, industrial production was less than forecast as was capacity utilisation.

The Dollar largely ignored last week's data and managed to hold its own against the other major currencies, with a surprise rally against the Pound, albeit for UK domestic reasons.

The dynamic behind the price action was a growing sense of doubt that the Fed would quickly follow up October's rate cut, preferring to wait a while instead.

Looking ahead there are several key releases due this week, and we advise traders to watch the following:

- on Tuesday; Housing starts, building permits and October 31 FOMC minutes, and
- on Wednesday; MBA Mortgage applications, Jobless claims and University of Michigan confidence,

TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM JLEWIS@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM

This week's key events are highlighted red, with the FOMC minutes due on Tuesday the focus of the week. After comments from the Feds Kroszner on Friday suggesting no more rate cuts, traders will be urgently seeking clues on the outlook for policy.

It seems the Fed may be prepared to tolerate weaker growth in order to clamp down on inflation, but what are their tolerances? The comparison between the US and Euro zone economies are interesting:

- in the Euro zone the ECB forecasts growth to remain at trend, where as the Fed forecast a period of slow growth, and concerning inflation
- in the Euro zone inflation has moved above target, driven by rising oil prices, where as US inflation eased on last week's PPI measure and met consensus on the CPI report.

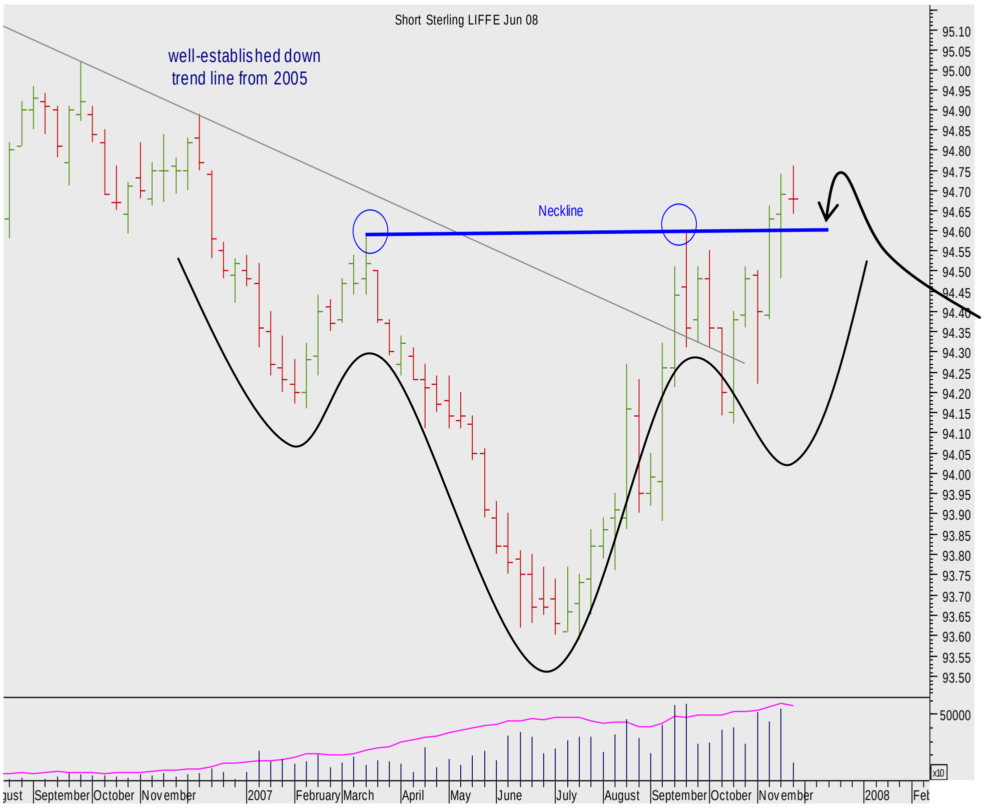
It is clear why the ECB is eager to hike, but if US growth does collapse as expected, surely the Fed will ease further, in-spite of what they currently say, and already this week sentiment has evolved further to expect the Fed to ease in December, clearly expectations are very fluid.

But with capital inflows into the US recording another weak month last week, we remain bearish of the Dollar.

3. Short Sterling

LONG Jun 08 @ 94.67 (15th November). Stop 94.55. Target 94.90

Technical Trader's View

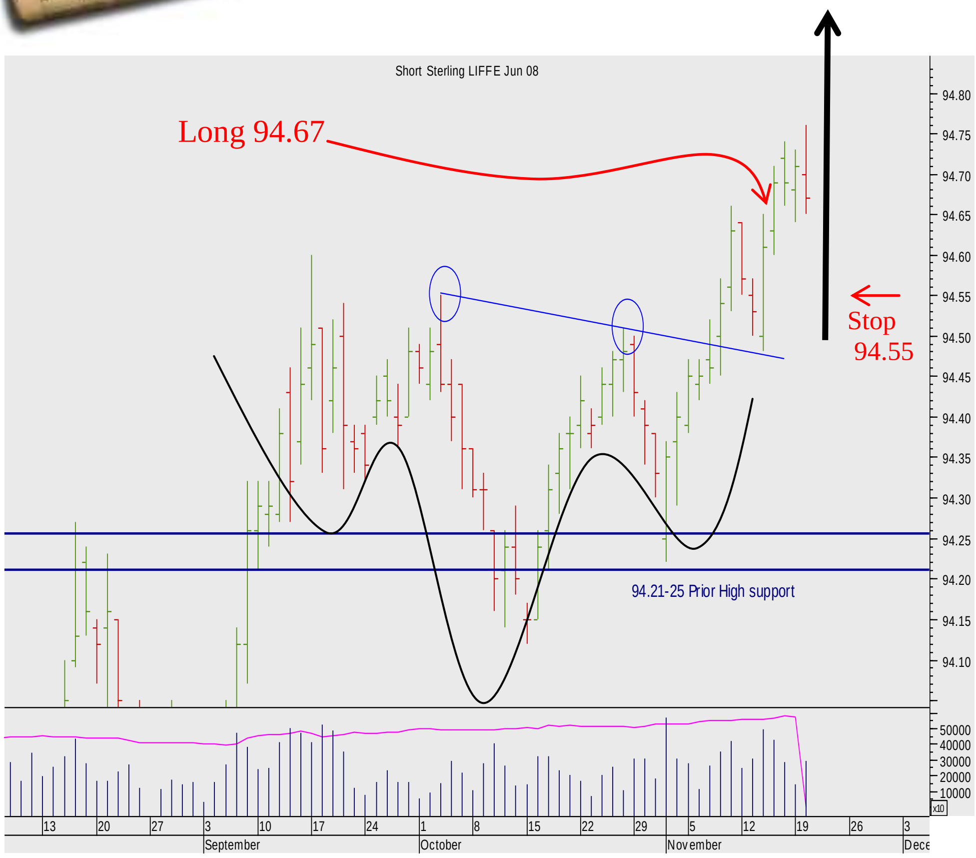


Daily Bar chart

The market has broken up and completed a Head and Shoulders Reversal.

Massive support lies at the Neckline at 94.60.

:



Daily Bar chart

The market has completed a day Head and Shoulders Reversal too.

Note the good support at the Neckline.

The minimum move? 94.90.

The Macro Trader's view:

We had long held the view that the Bank would be reluctant to ease policy based on facts rather than gut feeling:

- the Bank's approach during the summer crisis signalled an arm's length approach,
- recent quarterly inflation reports and minutes from earlier meetings have revealed policy makers judged there was no spare capacity in the economy and they desired a period of slower growth to ensure inflationary pressures remained in check,
- Q3 GDP at 3.3% signalled the economy hadn't even began to slow, and
- We doubted the housing market would suffer a correction similar to that in the US due to the difference in population density in the UK and the very low rate of unemployment even as immigrants continue to come to the UK.

But last week's quarterly inflation report changed our minds, as it revealed the Bank judged economic activity risked a sharp slowdown, even allowing for the yield curve assumptions implied by Short Sterling, and although inflation is expected to remain volatile due to energy costs, the target is forecast to be met 2 years out.

Clearly if the Bank now sees a weaker economy on the back of slower consumer demand and a housing market slowdown, rates could fall further than what is currently implied.

With many house owners over extended on both their mortgage and personal borrowing, a drop in house price inflation and even a small increase in unemployment could cause a disproportionate drop in demand and we advise being long of this market.

Looking ahead there are several key reports due this week and we advise traders to monitor the following:

- on Tuesday; PSNCR, PSNB, M4 Sterling lending, BSA Mortgage approvals and CBI Industrial trends survey,
- on Wednesday; the MPC minutes,
- on Thursday; total business investment, and
- on Friday; Q3 GDP, Q3 Private Consumption, index of services and BBA Mortgage lending.

This week's key releases are highlighted red, and of those the MPC minutes will be the most closely watched.

Although rate cuts are now expected, the timing is vague due to ongoing concerns over inflation; any hints in the minutes that reveal policy makers are leaning towards cutting rates sooner rather than later, will send this market higher.

If Christmas retail activity disappoints the Bank could act in January and after a leading chain of estate agents announced this week they are closing branches and shedding labour due to a marked reduction in sales transactions a cut could come in December; watch Wednesday's minutes and stay short.

Closed Positions

4. FTSE

SHORT Dec 07@ 6407 (15th December). Target hit: 6150 Profit taken 257 bps.

Mark Sturdy

John Lewis

Seven Days Ahead

TEL +44 (0) 7849 922573 E-MAIL MSTURDY@SEVENDAYSAHEAD.COM JLEWIS@SEVENDAYSAHEAD.COM WWW.SEVENDAYSAHEAD.COM