Key Trades 4th December 2007

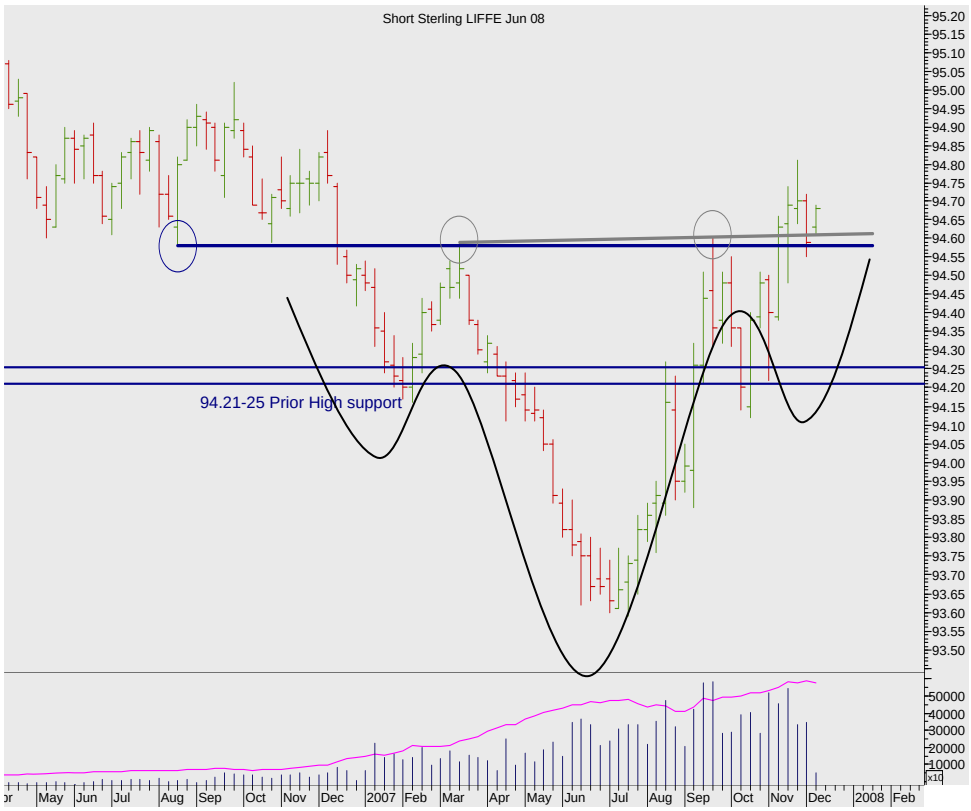
The markets remain volatile with a great deal of uncertainty, but we believe good trading opportunities remain; we judge Short Sterling is currently the most exciting.

New Positions

1. Short Sterling

Buy Jun 08 today @ 94.68. Stop 94.53. Intermediate target 94.81.

The Technical Trader's View:



Weekly Bar chart

We were Stopped out last week and immediately regretted it.

The pattern remains intact.

We're buying back in at this level.

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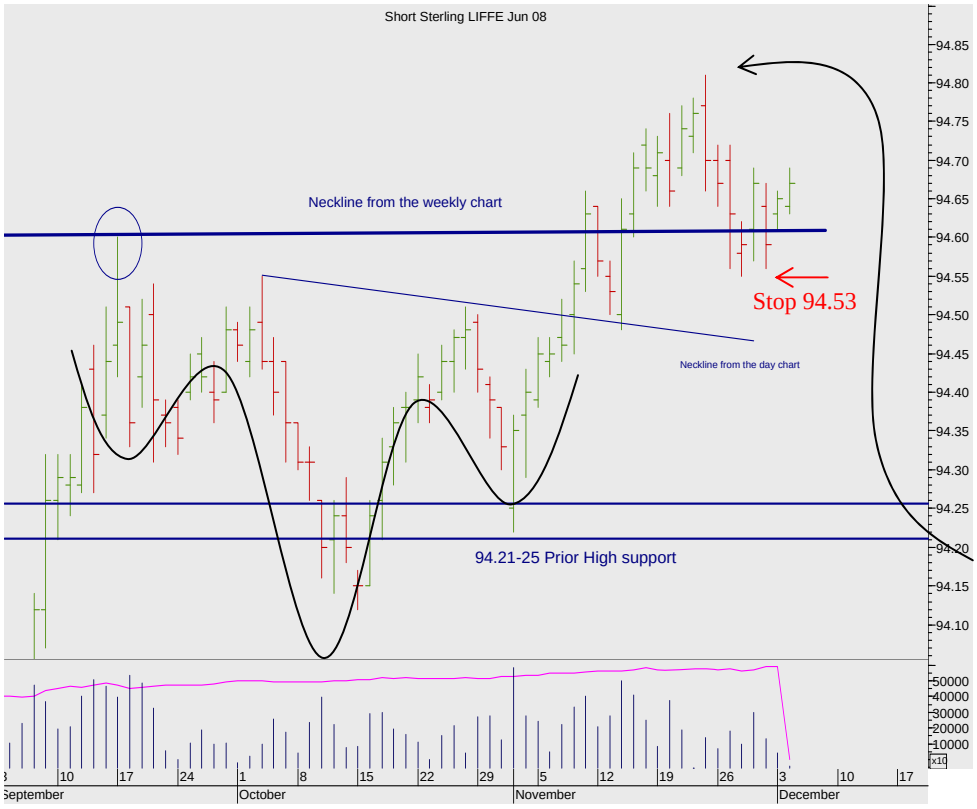

Daily Bar chart

The Market has had a good look beneath the weekly Neckline support – but been unable to establish itself beneath.

The small Head and Shoulders bull pattern is still driving the market...

Initial target the prior recent high at 94.81.

The Macro Trader's view:

Last week we were bullish of this market as we judged the prospect of easier monetary policy over the coming months would offer Short Sterling a degree of support.

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

- on Thursday; the Nationwide house price survey was much weaker than expected, M4 Sterling lending was as expected, Net consumer credit was stronger than expected, Net lending secured on dwellings was weaker than expected, mortgage approvals were weaker than expected and the CBI Distributive trades survey was weaker than forecast, and
- on Friday; GFK Consumer confidence was weaker than consensus.

The sell off last week was mainly a reaction to trading in the equity markets as the FTSE staged a powerful short covering rally, as it followed US stocks higher on renewed hopes of a US rate cut.

But UK data was soft and we expect the market to recover as calls for the MPC to ease policy grow ever louder.

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

- on Monday; the PMI Manufacturing survey which was stronger than expected,
- On Tuesday; the BRC Retail sales monitor and PMI Construction survey,
- On Wednesday; the PMI Services survey and BRC Shop prices monitor, and
- On Thursday; Industrial production, manufacturing output, the MPC interest rate decision and the NIESR GDP estimate.

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This week's key releases are highlighted red, and we judge the MPC rate decision on Thursday as the most important.

Although a rate cut isn't widely expected, the MPC may act as even Mervin King accepts the credit crunch is a reality and the property market is likely to be the first victim, which depending on the severity of the hit has unpleasant ramifications for the whole UK economy, and although we were stopped out of our position last week as equity markets staged a strong short covering rally, we are eager to re-establish a long position.

The Nationwide house price survey reported the largest drop in prices in any month since 1995, and we expect this market not only to recover, but make new highs.

What will be interesting this week will be the HBOS house price survey; frequently this has been at odds with the Nationwide's report, but if it returns a similar result it may just persuade one or two committee members to vote for a cut at this Thursday's MPC meeting.

That would surprise the market, since although Governor King said on Friday the housing market faces a correction; he also said inflation remains a threat.

But at some point Central Bankers will have to do what they are paid for; make a decision and get off the fence. To us the right decision would be an ease now; if economic activity does cool as much as expected so too would inflation, however a preoccupation at this juncture with inflation will ensure the economy does recess as the flow of credit at both the retail and wholesale level further dries up.

The London money market continues to witness LIBOR rates way above the official Bank rate and that has persisted for several months and together with strong Sterling represents a de facto tightening of monetary policy at a time when the economy doesn't need it and the MPC doesn't intend it.

So in conclusion we advise being long of June 08 Short Sterling.

Closed Positions

1. Bunds

Buy Dec 07 Bunds (20th November) @114.86. Stopped out at 114.75. Loss 11bps

2. Dollar Euro

LONG Dollar Euro at 1.4392 (30th October). Stopped out at 1.4725. Profit 333 bps

3. Short Sterling

LONG Jun 08 @ 94.67 (15th November). Stopped out 94.55. Loss 12 bps.

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