Key Trades for this Week

18th December 2007

Open Positions

None

Closed Positions

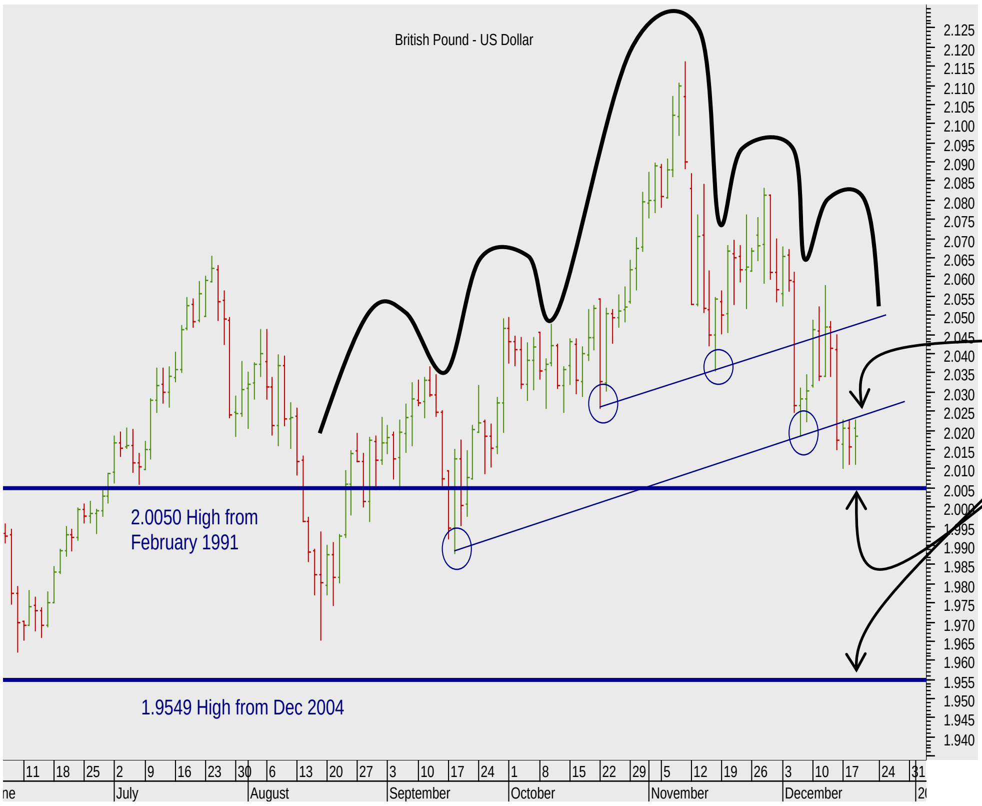
1. Short Sterling

Long Jun 08 (4th/12) @ 94.68. Stopped out at 94.53. Running loss 15 bps.

Last week's emphasis on the uncertainties in the markets remains the case. For the most part we are happy to be out. The exception is Short Sterling where we are keen to time a re-entry into the markets (especially after this week's UK figures). But not quite yet.

Areas of interest:

Currencies are beginning to be interesting - especially Sterling. We can see a push down into the 1.9550-2.0050 range:



Daily Bar chart

The market shows a pair of nested Head and Shoulders Tops set to drive the market on down.

The neckline at 2.0240 should be good resistance...

But the close presence of the long-term supports from the Highs at 2.0050 and 1.9549 robs the situation of great excitement...

So we remain out over the light volume period of Christmas

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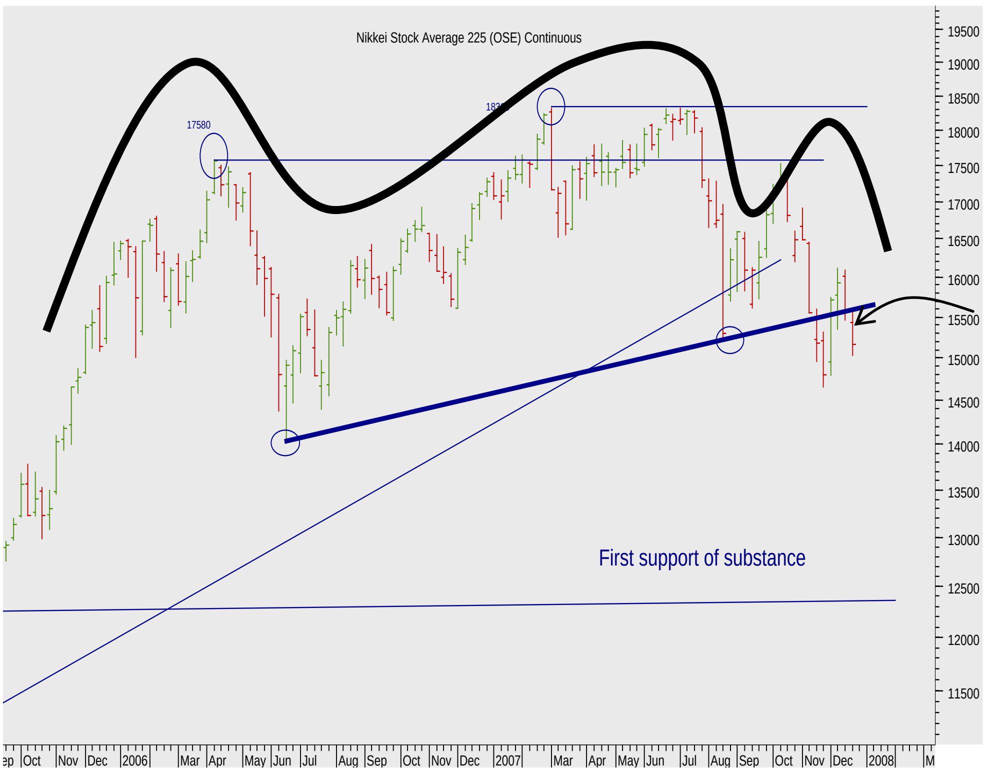
From a Macro view, Sterling remains weakened by the weakness in the housing market which increasingly points to a significant UK economic slowdown and today's UK CPI data which remains almost at target, and was less than market consensus, allowing the MPC the room they need to cut interest rates further.
Contrast UK inflation with CPI in the US and Euro zone and the inflation picture here is much better, but undermines Sterling against both the Dollar and Euro medium term.

And our suspicions of the Nikkei look to be coming true – it's bear moves preceded the Western markets. Will Far East bearishness add to the nervousness arising from the credit squeeze?



Daily Bar chart

We like this top formation – much the clearest of the Stock charts.

The failed re-penetration of the Neckline is clear.

But the market has been here before and bounced.

So we are waiting for the right moment to enter...

Cont'd...

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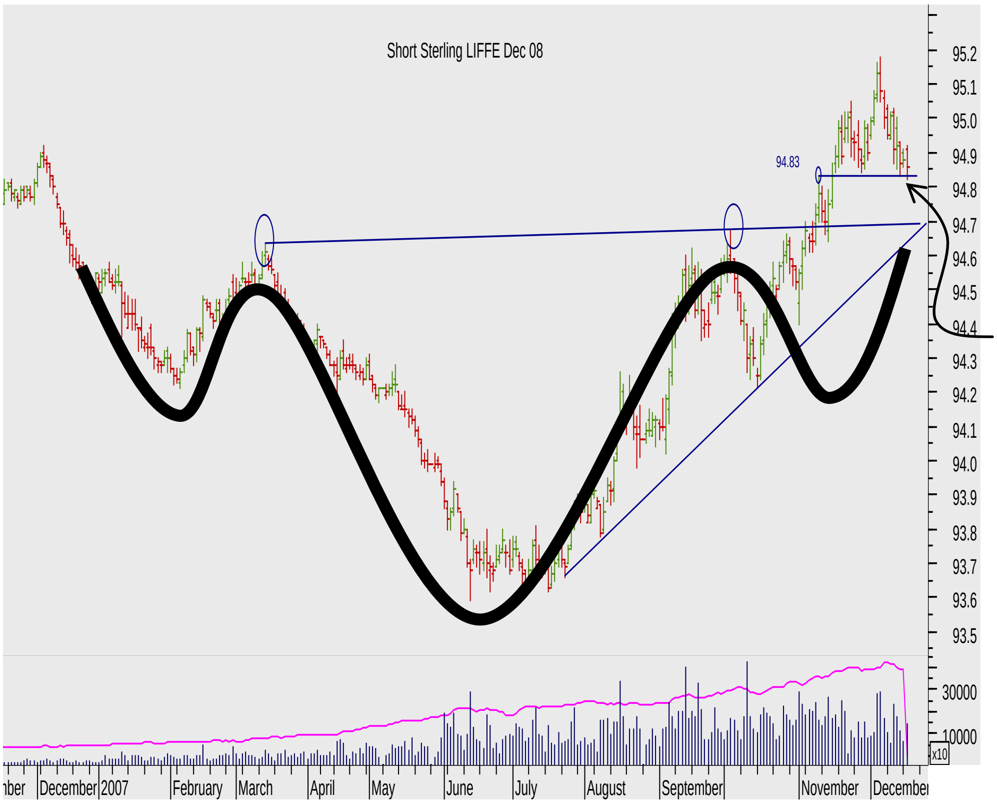
Short Sterling certainly disappointed, though we remain interested in getting long:



Daily Bar chart

We like this bottom formation – <u>but remain anxious that the market lacks short-term bull vigour</u>

If the horizontal at 94.83 break then we may have another ten ticks on the downside.

So we are waiting for the right moment to enter...

From a Macro point of view we are bullish of Short Sterling, CPI released today was benign, tomorrow sees the release of the MPC minutes and a 9/0 vote is expected, then on Thursday retail sales are due, if these are softer than expected Short Sterling should rally and establish its self in the 94.64 area. However timing is the key and after the recent unexpected selloff in this market, we are anxious to get our timing right, especially during the run in to Year End which is characterised by thin volume and funding pressures.

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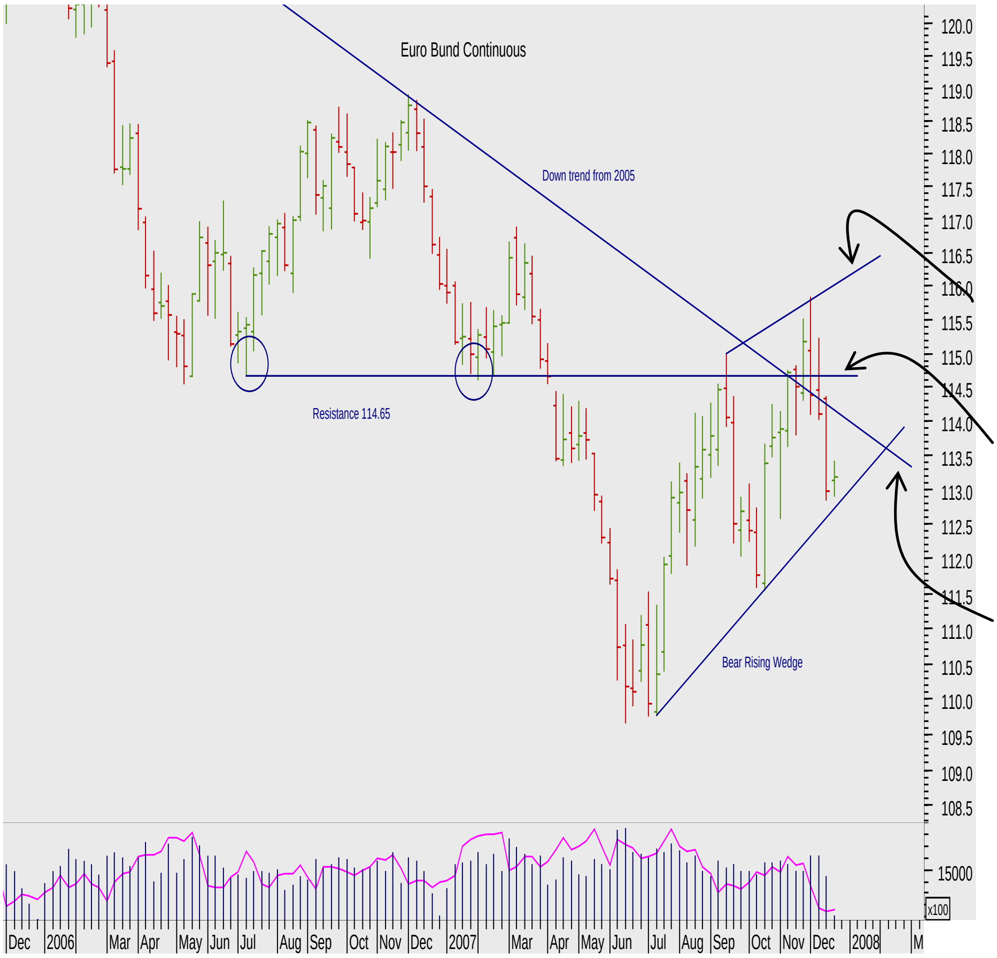
Bonds remain very unpredictable with the exception of our growing interest in the bear possibilities of the Bund after a long period of confusion.



Daily Bar chart

This is rapidly becoming the most interesting of the bond markets.

We think the possible Bear Rising Wedge is important.

Combined with the failure of the re-penetration of the 114.65 resistance.

And the strength of the downtrend resistance....

But there is nothing there quite yet....

From a Macro perspective we see Bonds as an increasingly bearish trade. The safe haven play seems to have run its course, at least for now, note how bonds have failed to rally even during recent equity market weakness.

Traders are growing ever more concerned by the buildup of inflationary pressures even as some leading Central Banks ease policy. This makes investors demand a higher risk premium for holding such assets, especially if economic weakness leads to larger Government borrowing.

Commodities; for the moment, remain sidelined.

Mark Sturdy

John Lewis

Seven Days Ahead