



Key Trades Bulletin

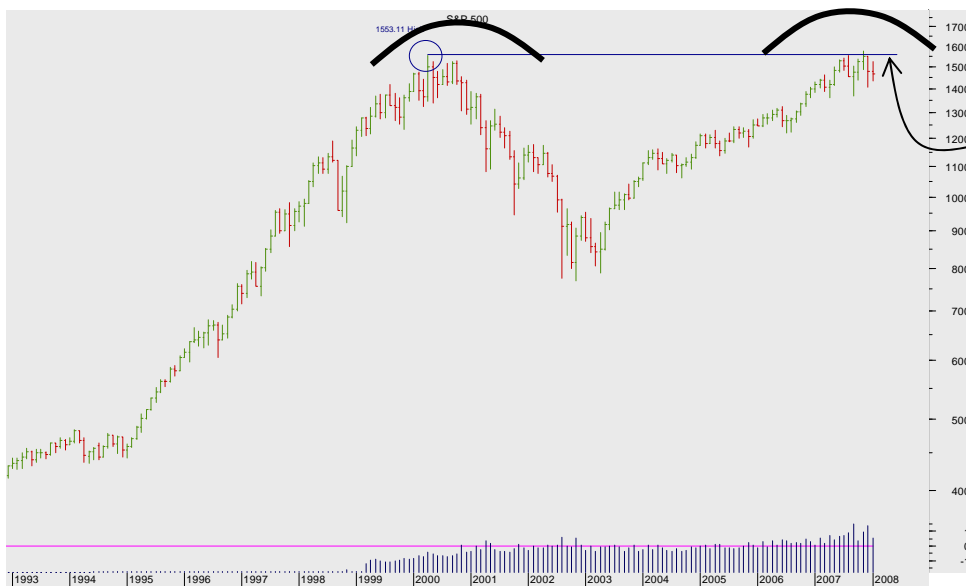
10th January 2007

S&P 500

Sell Mar 08 S&P future @ 1411.30

The market is finally looking as if it may break down from these levels.

The Technical Trader's View:



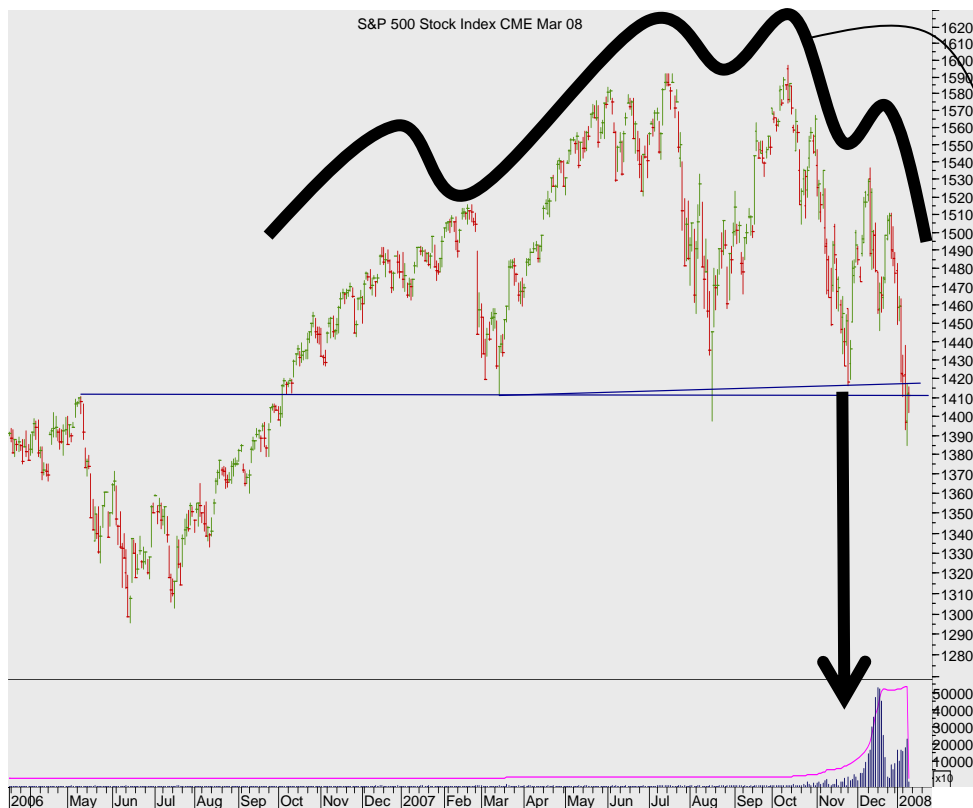
Weekly Bar chart

The tension for the market at these levels is palpable.

In technical terms, the market needs to get above the old High to re-establish momentum on the upside.

The fact of its hesitation at the old high is natural; the double failure to get through that level **has been ominous for some time.**

Look closer.



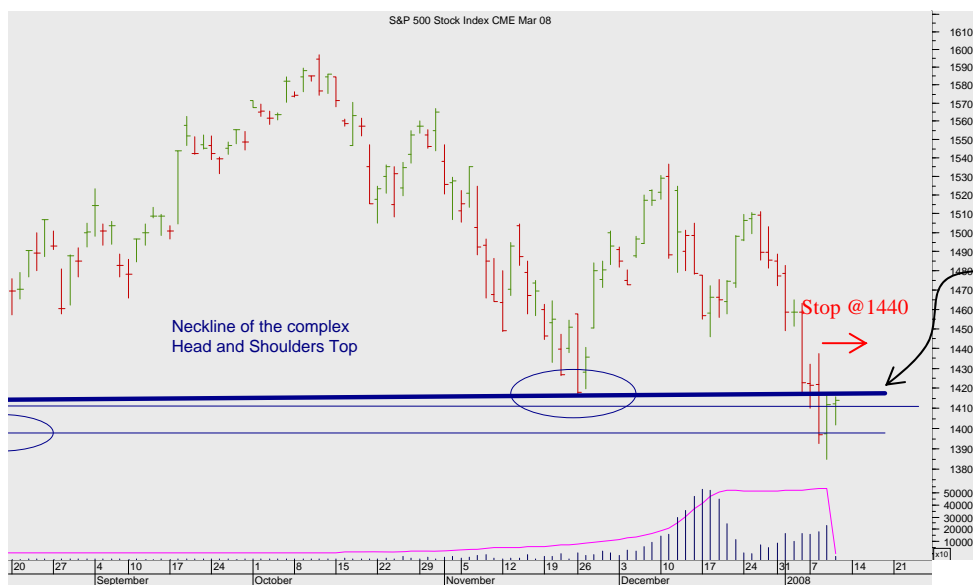
Daily Bar chart

The tantalising prospect for the bears is of a Double Headed and Shoulders Top.

Where exactly would it be completed?

Look closer...

(Note the minimum move implied by a breakdown....)



Weekly bar chart

The market has penetrated lower and tried to bounce.

The critical level is 1418.

But the market is volatile.

So we are using a long Stop up at 1440.

But we're happy with that since we think the market has a long way to go...



The Macro Trader's view:

The S&P looks increasingly bearish as several recent US economic reports have shown further weakness:

- New Home sales out on Dec 28 was again weaker than expected,
- The ISM manufacturing report released on Wednesday Jan 2 was much weaker than expected, and
- Non-farm payroll release last Friday Jan 4 was almost at a standstill with job creation below consensus at ONLY 18K.

Add to this recent disappointing retail sales data for December released over the last few days, growing concern that the US economy will experience recession this year with Goldman Sachs joining the band of forecasters predicting such an event, and fresh news that Citibank and Merrill are seeking further capital injections after their recently announced sub-prime induced losses and there are very few reasons to buy stocks.

And even though the Fed is expected to cut interest rates further at the FOMC meeting due later this month, traders are increasingly worried that inflation which remains stubbornly above the Fed's comfort zone may restrain them from easing as freely as they might otherwise do given a better inflation outlook.

In summary we judge this market is entering a medium term bear phase and advise going short.

Mark Sturdy

John Lewis

Seven Days Ahead