Key Trades 29th January 2007

New Position

1. Buy Feb Comex Gold today@$923.20 Stop $904.

The bear move in stocks and the bull move in rates have happened. A period of great uncertainty in those markets is now likely. The major beneficiary of that uncertainty has already been Gold and we think it's set fair to go further still.

The Technical Trader's View:

Weekly Bar chart
The big picture of Gold is familiar.

The massive Continuation Triangle has been the engine of progress. It's probably reached the minimum target for the pattern...

But the critical recent development is the break up through the long-term high at $873.

That may be the beginning of a new bull leg to the market.

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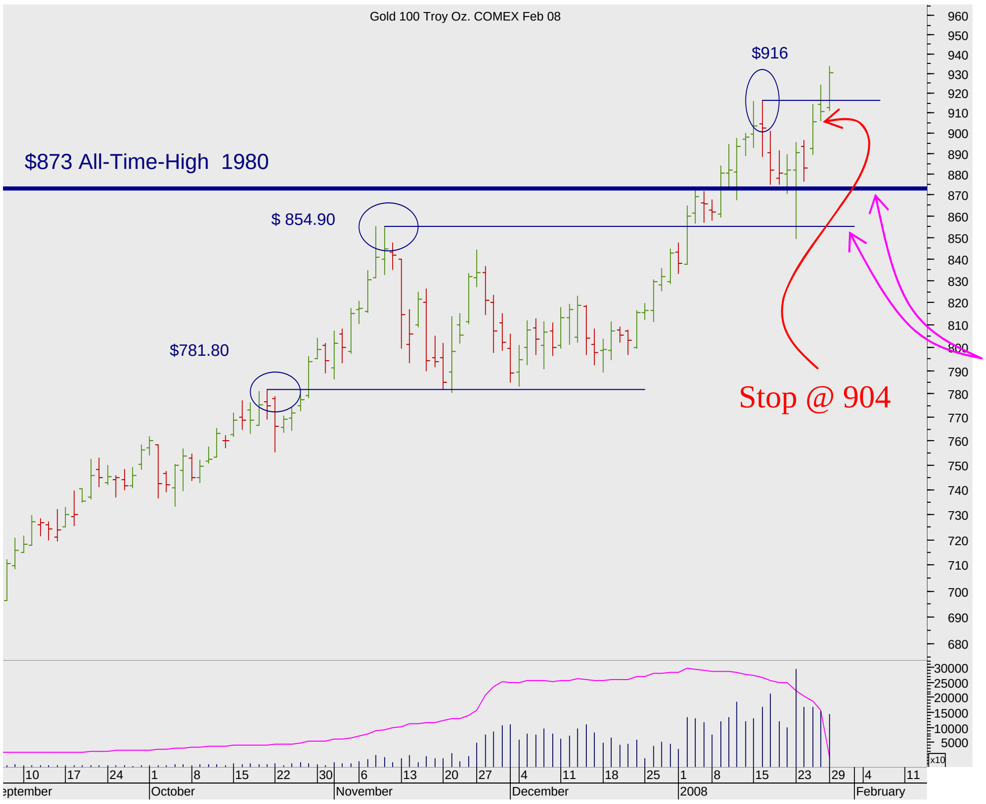

Daily Bar chart

The market was uncertain at first on the initial break-up through the long-term Pivotal High.

But the pull back of last week found tremendous support there – and the small horizontal beneath.

And now the market has driven up through the near High at $916.

We are buyers today @$922.20 with a Stop beneath the market at $904.

The Macro Trader's view:

Last week we were square of gold as the rally seemed to have temporarily run its course as fears over the severity of the widely expected US recession intensified. If the US economy was heading into a worse than average recession inflation would ease and eventually reverse as demand for many key commodities, including oil, eased.

And as stocks sold off heavily on Monday and early Tuesday the most unattractive market at that time for the bulls was gold. But when the Fed delivered an emergency inter-meeting 75bp rate cut; the largest for 29 years, and even larger than anything Greenspan conjured up in response to the 9/11 induced recession in 2001/02, gold began to rally as traders noted the potentially inflationary implications of the move.

Looking ahead traders are expecting the Fed to ease again at this week's FOMC meeting, which would be bad news for inflation hawks and good news for gold bulls.

Additionally this week's US economic calendar is packed with heavy weight data and this could temporarily confuse issues, but if the Fed cuts this week we expect gold to rally. Only last week we thought the deepening economic gloom had for now capped the rally in Gold and would result in a period of non-productive sideways trading, but the selloff in equities carried over into Tuesday and forced the Feds hand; only the previous week Bernanke had said the Fed stands ready for additional substantive measures; he wasn't fooling.

But in delivering the largest US rate cut in 29 years when it isn't even certain that a recession will hit, to us does seem rather panicky and this market seems to agree.

But equity traders have become drunk on the monetary stimulus and convinced themselves the Fed can repeat the act only one week later. To do so would be bad policy making, and risk exhausting the Feds ammunition too quickly.

Ok no rate cut will likely see equities sell off, but if the market is priced too high for current conditions so be it. It isn't the job of Central Bankers to prop up any given asset class; only to ensure orderly markets where investors can cover risk; last week's rate cut went beyond that and risks causing a bigger sell off in equities as soon as the Fed fails to oblige.

Moreover, with gold production still disrupted in South Africa, the world's 2nd largest producer, we advise traders to be long of this market; it has rallied a long way in a few short days but we judge it can go much higher.

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