



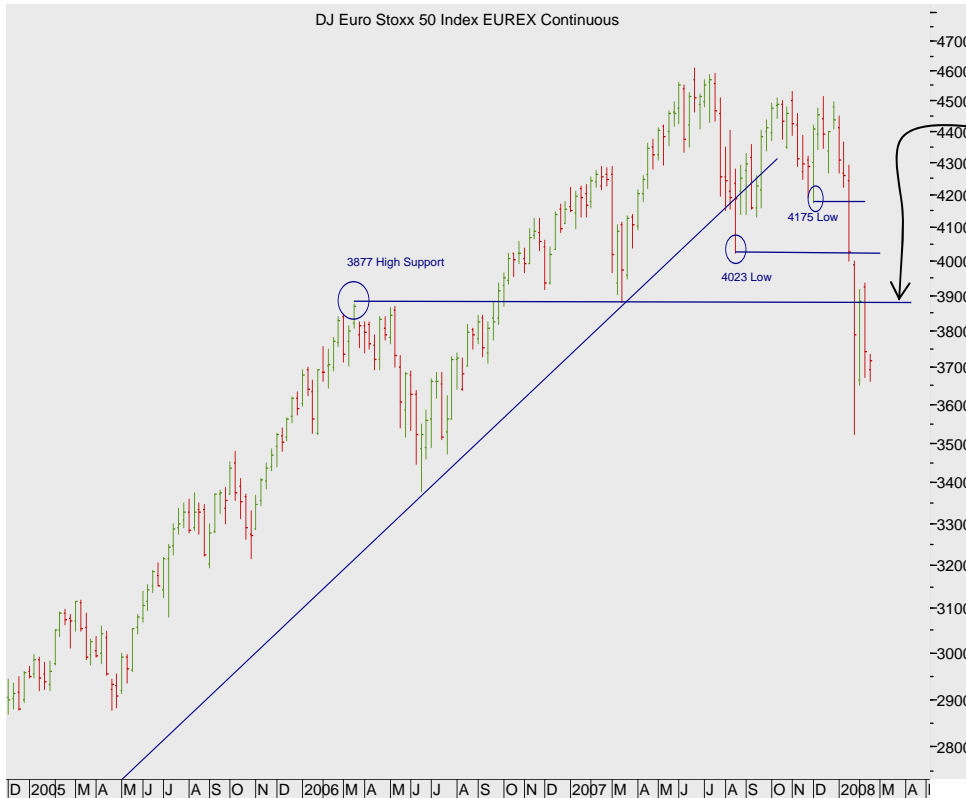
Key Trades

12th February 2007

Open Positions

1. Dow Jones EuroStoxx50

Short March 08 DJ EuroStoxx @3730.0 (7th Feb) Stop 3950. Currently 3779.



Weekly Bar chart

The market has smashed down through the support from the prior High.

This signals the end of the bull trend – and reveals most clearly the strength of the bear forces within the market.

Now look closer.



Daily Bar chart

The attempted break back through the broken support from the Prior High has failed.

And in so doing, the market has completed a Bear Rising Wedge – not the most reliable of patterns – but the bear context is very encouraging.

Note the support from the 23.6% Fibonacci... a break of that should send the market lower.

(We have a large Stop to reflect the volatility of the market – which of course means a reduced position – since each of our trades risks the same proportion of notional capital.)

The Macro Trader's view:

Last week we advised going short of this market, as we judged upcoming data would confirm the established view of the Euro zone economy, with domestic inflation at a level that ties the ECB'S hands short/medium term.

However that view has changed.

The US economy is in even worse shape than thought and the ECB are now more worried about Euro zone growth, even though inflation remains a problem for them.

Now all the major developed economies appear at risk to a greater or lesser degree of a sharp slowdown, equity markets look a clear sell and this week's data should throw more light on the situation with the release of several important Euro zone Q4 GDP reports.



If these have weakened by more than expected, the outlook for Q1 will clearly be negative and after last week's worse than expected Euro zone PMI Services surveys the signs aren't that promising.

The US is already in deep trouble, the UK expects a sharp slowdown, but the Bank of England have a short term inflation problem, now too in the Euro zone the ECB is faced with a similar situation. Even though inflation is significantly above target they will likely ease policy in the next couple of months, but there will be no rush to push rates lower, the moves will be slow to come.

However much still depends on the oil price since it was a sharp and sustained rally in this market over several years that drove inflation higher.

Clearly if all the major economies now weaken oil prices should fall, but there remains much uncertainty. The Oil price has rejected the recent lows, thus prolonging the inflation agony and restraining the ECB and MPC to the detriment of stocks.

Mark Sturdy

John Lewis

Seven Days Ahead