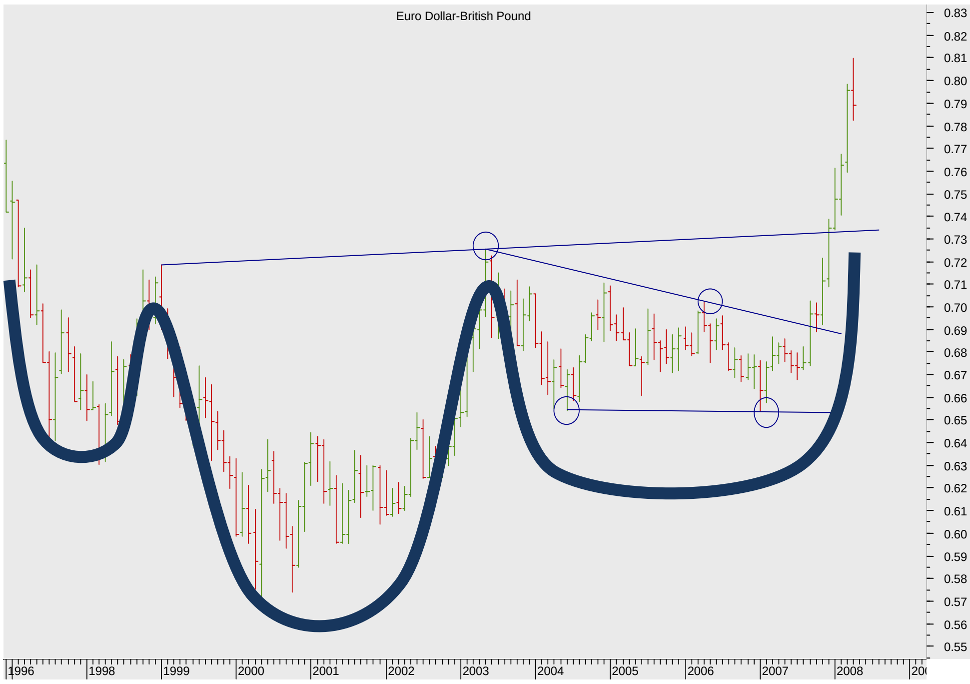
# Key Trades 29th April 2008

## Open Positions

## 1. Spot Sterling Euro

LONG Euro SHORT Sterling 10th/04 @ 0.8012. Stop 0.7820. Currently 0.7916. Running Loss 96 bps

### The Technical Trader's View:




**Monthly Bar chart**
The long term chart of the Sterling Euro is famously bullish – a Head and Shoulders Reversal that calls the market up a lot further.

But the detail gives short-term pause for thought...



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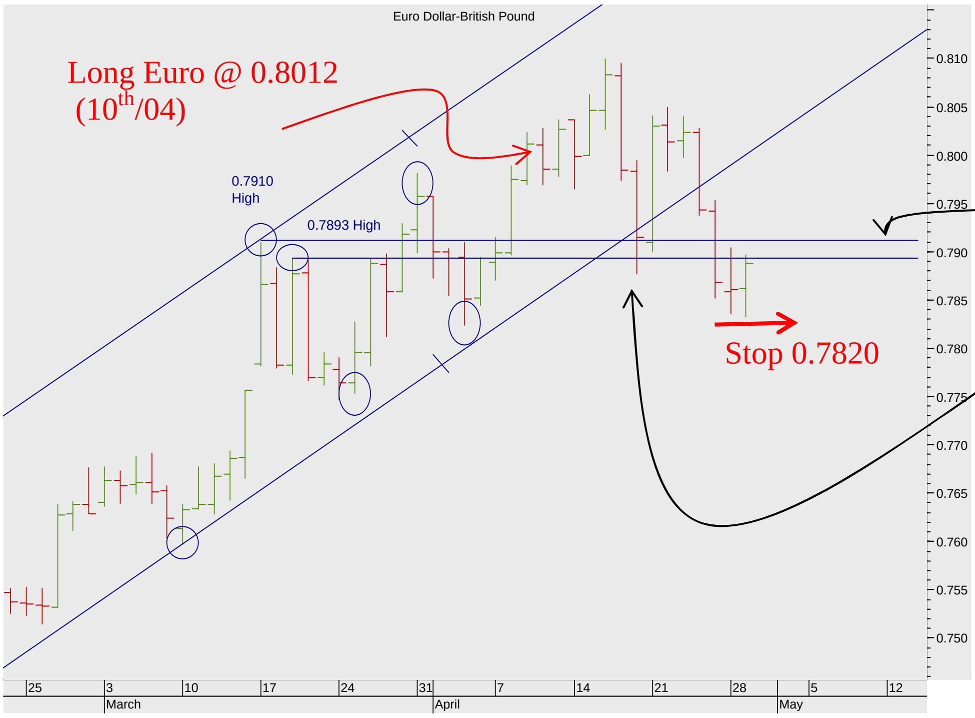


**Daily Bar chart**

The bulls will have been disappointed by the pull back through the band of support from the Prior Highs.

Whence the market bounced before.

But not this time...our Stop is at 0.7820.

<u>It's very close. But stick with it.</u>

## *The Macro Trader's view:*

Last week we remained bearish of Sterling against the Euro, as we judged the Pound was vulnerable to further negative price action as UK growth prospects remained weak and Euro zone inflation remained elevated.

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

- On Wednesday; the April MPC minutes were interestingly mixed and BBA House purchase loans were weaker than expected,
- On Thursday; retail sales were stronger on the year due to historic upward revisions and CBI Quarterly trends survey was weaker than expected, and
- On Friday; Q1 GDP was weaker than expected and Index of Services was weaker than forecast.

The Pound steadied against the Euro last week as the MPC minutes indicated caution on the part of policy makers while retail sales raised questions over the real strength of the economy.

Looking ahead there are several key releases due this week, and we advise traders to monitor the following:

- On Tuesday; M4 Sterling lending, as expected Net consumer credit stronger than expected, Net lending secured on dwellings weaker than expected, mortgage applications weaker than expected, the CBI Distributive trades survey much weaker than expected,
- On Thursday; PMI manufacturing survey, and
- On Friday; PMI Construction survey.

SEVEN DAYS AHEAD 124 REGENTS PARK ROADLONDON NW18XL
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This week's key data releases are highlighted red, and several were out today, covering both consumer demand and demand within the housing market.

Although the Pound strengthened last week as many well established views in the currency markets were questioned:

- The Dollar benefitted by a growing view that maybe the worst is already over for the US economy,
- Sterling benefited from continued caution over policy from the MPC with one Hawk expressing his view that last week's rescue package of £50.0B from the Bank would allow policy makers to focus better on inflation, and
- **The Euro seemed to weaken even though the ECB now looks set to hike interest rates**.

However we judge most of the new found optimism over the US is premature and based on the ability of some Banks who had lost a fortune to raise fresh capital.

The Pound has shown its vulnerability after today's data, and moving forward the MPC by their own admission will need to cut rates further, albeit at the current slow pace.

And the Euro is likely to gain support from the expected series of rate hikes that the ECB could begin to deliver as early as next week's meeting.

In short recent price action looks like a correction and we judge Sterling remains vulnerable to additional weakness.

Cont'd


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# 2. Bund

SHORT Jun08 Bunds 22ND/4 @113.77. Stop 114.75. Currently 113.99. Running Loss 22bps.

## *The Technical Trader's View:*


**Weekly Bar chart**

The market I retracing but we still feel bearish.

## *The Macro Trader's view:*

Last week we were bearish of this market following the release of worse than expected CPI which we judged would rule out any possibility of a rate cut and force long term bond yields higher.

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

- On Tuesday; Italian trade data was better than expected,
- On Wednesday; French consumer spending was weaker than expected, Euro zone PMI composite was better than expected, Italian retail sales were better than expected and Euro zone industrial new orders were stronger than expected,
- On Thursday; French business confidence was weaker than expected & production outlook indicator was better than expected, Italian consumer confidence was better than expected, Euro zone C/A was better than forecast and German IFO came in below consensus, and
- On Friday; German import prices were better than expected and Euro zone M3 was mixed.

Last week's data showed growth remains solid with industrial new orders very strong, and although IFO dipped; at over 100.0 still flags solid growth. But fresh rhetoric from the ECB over inflation weighed on the Bund and forced a new low.

Looking ahead there are several key reports due this week, and we advise monitoring the following:

- On Monday; German CPI better than expected, GFK consumer confidence better than expected, and Italian business confidence weaker than expected,


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- On Tuesday; French consumer confidence as expected, business demand survey weaker than expected, Italian retailers confidence as expected and PPI worse than expected,
- On Wednesday; German ILO & unemployment report, Italian CPI, Euro zone CPI, unemployment rate, consumer confidence and economic confidence, and
- On Friday; German retail sales, French PPI and Italian, French, German & Euro zone PMI manufacturing surveys.

This week's key events are highlighted in red, and again we judge the various inflation reports as the key events, with any further deterioration sending the Bund lower.

The two reports we highlighted last week as the biggest potential market movers; German IFO and Euro zone M3, proved generally weaker than expected, but the market made fresh lows, which we judge reveals the true bearish nature of the Bund.

We have observed on several occasions that rising Euro zone inflation, combined with the ECB'S restraint due to growth fears, would ultimately lead bond yields higher, and this is clearly the case. Furthermore the ECB appears to have concluded that it can no longer sit on the fence and has begun briefing for higher short term interest rates.

Unless growth now suddenly nose dives we judge the Bund remains vulnerable to the downside as global inflation appears to have entered a new era, driven by higher commodity and energy prices resulting from increased demand from China, India etc.

In short we advise remain short of the Bund.

*Mark Sturdy*

*John Lewis*

***Seven Days Ahead***


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