



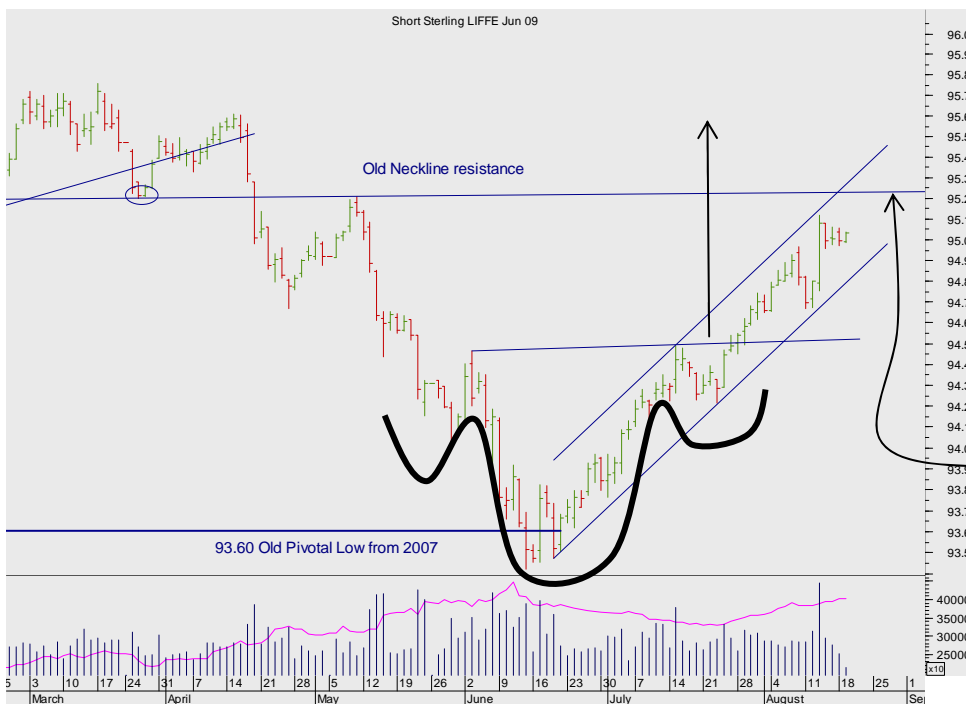
# Key Trades for this week: 19th August 2008

## Open Positions

### 1. Short Sterling

Long JUN 09 Short Sterling (25th July) @ 94.52. Stop 94.89. Target 95.50. Currently 95.025. Unrealised profit 50.5bps.

#### The Technical Trader's View:



#### Weekly Bar chart

The trade has gone well. The Head and Shoulders Reversal has been driving the market better.

The target (95.60 or so) is a long way off, but we note the close and substantial resistance at the 95.20 level.

It will be difficult to resist taking profit there...



### Daily Bar chart

We moved the Stop up in the week (13<sup>th</sup> August) to 94.89 to preserve profits – and anyway from a feeling that the market might be a little over-extended.

But we are sticking with the trade.

### The Macro Trader's view:

The most important development last week was the Bank of England quarterly inflation report. While King acknowledged the fact that inflation has further to rise, he also made it very clear that the weakening economy would ultimately correct CPI back to just under target over the two year target horizon.

And since the Bank judges the downside risks to growth as more serious now than they were back in May, the next move in interest rates isn't up.

Additionally with the oil price remaining near the recent lows even as the drama in Georgia continues to unfold, with all its threats of nuclear targeting from Russia, the oil market seems more likely to fall further once this current crisis is resolved, which will obviously drive inflation lower.

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

- On Wednesday; **MPC minutes**, M4 Sterling lending, PSNCR, PSNB and CBI Industrial trends survey,
- On Thursday; **Retail sales** and total business investment, and
- On Friday; **Q2 GDP** and index of services.

This week's key releases are highlighted red, and we judge the retail sales report as the most important as additional weakness here will increase the likelihood of recession.

The MPC minutes too should be watched for insights into committee members thinking but the Quarterly inflation report renders it a little obsolete, but Q2 GDP could provide a useful surprise for the Bulls; we thought it hadn't fully factored in the weakness of retail sales when released a couple of weeks ago, this is a 2<sup>nd</sup> estimate and should be revised weaker.

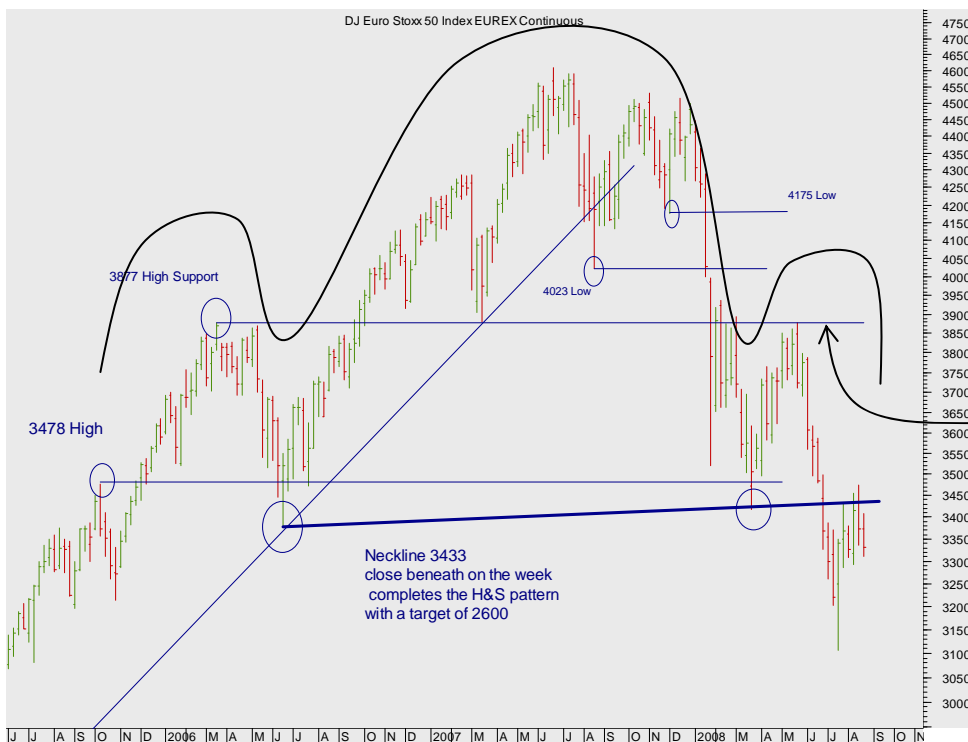


In summary we advise traders to remain long of this market.

## New Trade:

### 2. DJ EuroStoxx 50

SELL Sept Eurostoxx today (19th August) @ 3315.0 Stop 3480.



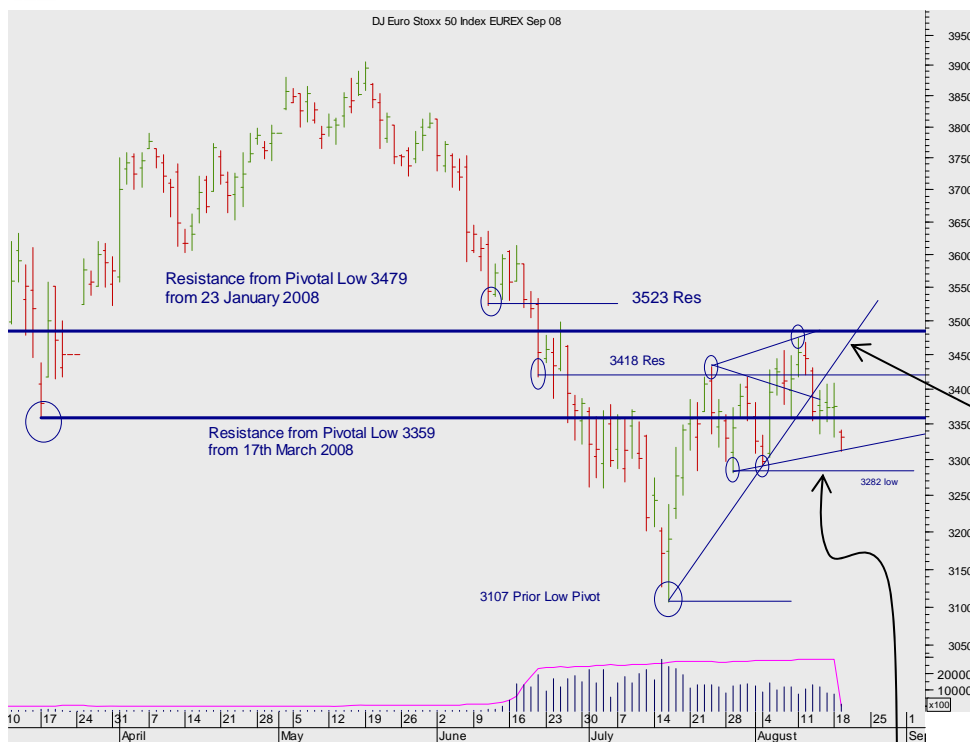
#### Weekly Bar chart

The big picture will be familiar.

The massive Head and Shoulders Reversal is still the clearest in the markets.

The Neckline has proved to be good resistance.

We are preparing for a breakdown.



### Daily **SEPT 08** Bar chart

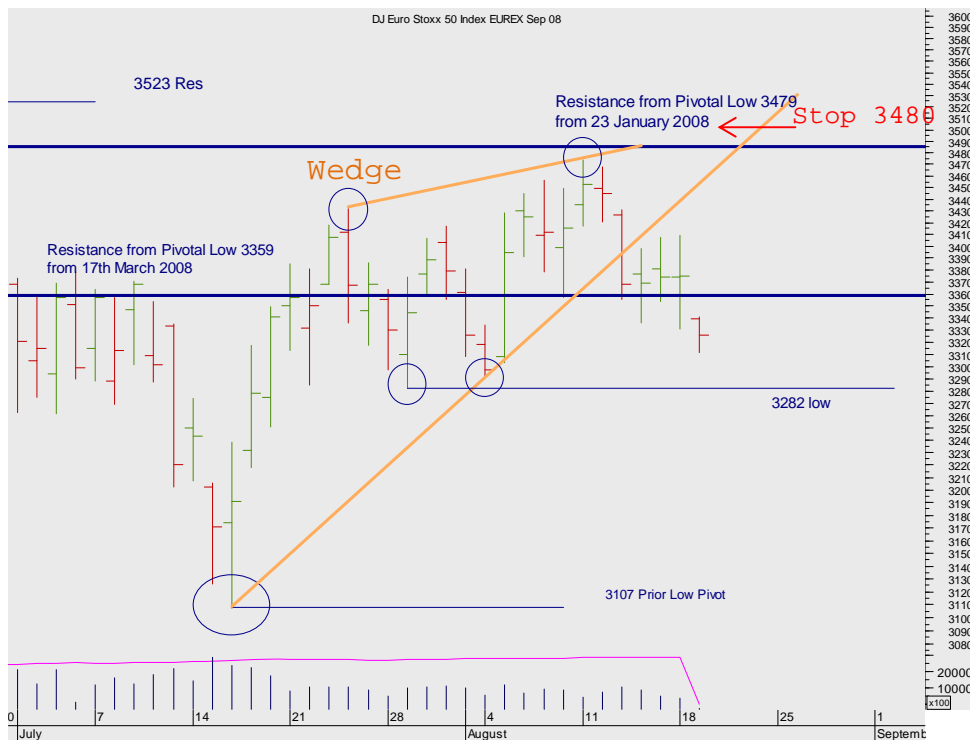
The rally back up to the Neckline has been complex.

(Note the failed Bull triangle)

But we think we have a short-term signal at last – the completion of a small Bear Rising Wedge.

That Wedge is showing the market's rejection of the band of resistance in the September 08 chart **AND** the Neckline in the Continuation Chart.

(The real bear impetus may have to wait for a break down through the low at 3282. But we want to get in)



## Daily Bar chart

Our stop at 3480 is conservative (since we have struggled with the volatility)

That is, just above the band of resistance and the recent high.

## The Macro Trader's view:

Recently we have remained square of this market, but recent Comments from Trichet revealed the ECB's feared worst case scenario for growth had hit. And as data throughout last week continued to come in below consensus, with even Euro zone CPI less than expected, the market looked vulnerable to the downside.

This vulnerability materialised late last week when Euro zone Q2 GDP was released; together with French and German Q2 GDP it contracted, leaving traders in no doubt that the economy was teetering on the brink of recession.

Looking ahead the key releases this week are **German PPI and ZEW survey** but we doubt they will have a material impact on the market. We judge traders will be led by sentiment from the US and the already established evidence of Euro zone economic weakness which despite a correcting oil market, won't easily reverse.

Additionally, any fresh evidence of corporate weakness will drive this market lower, re-establishing the underlying bear trend, and with little goods news entering the market, stocks look as though the current correction has failed and we advise going short of this market.

*Mark Sturdy*

*John Lewis*

**Seven Days Ahead**