

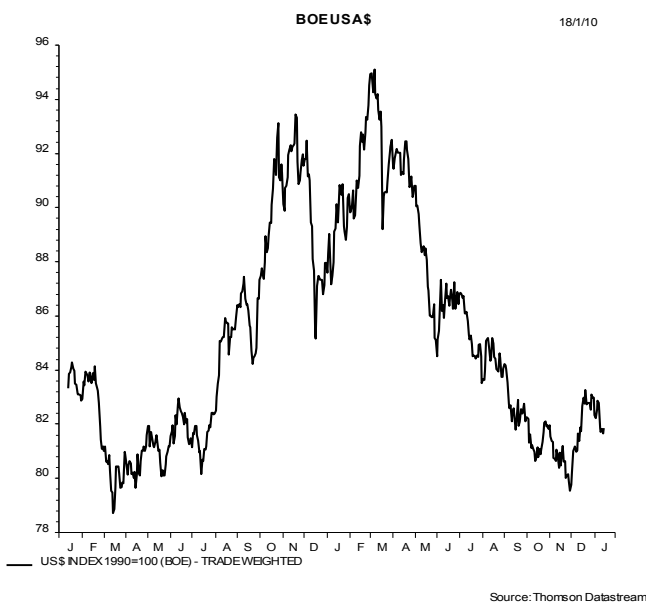
Mercantalyst



Merchant John East Securities

Monday 18 January 2010

The theme of American \$ weakness, which was so powerful a thematic determinant last year, continued last week, the Bank of England \$ index falling by just over 1% on the week from 82.7 to 81.8, its chart shown below:



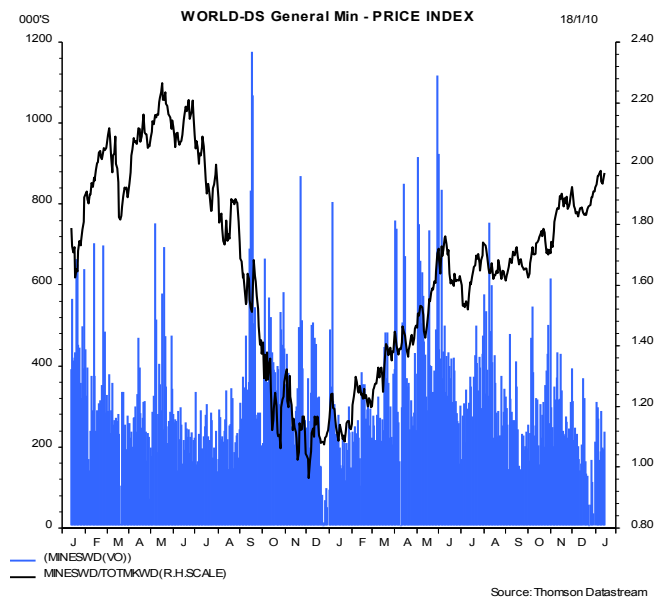
The fractional gain in Friday's session is being eroded at the time of writing.

We have throughout questioned the quality and sustainability of last month's \$ rally and recent action adds weight to the continuing bearish view.



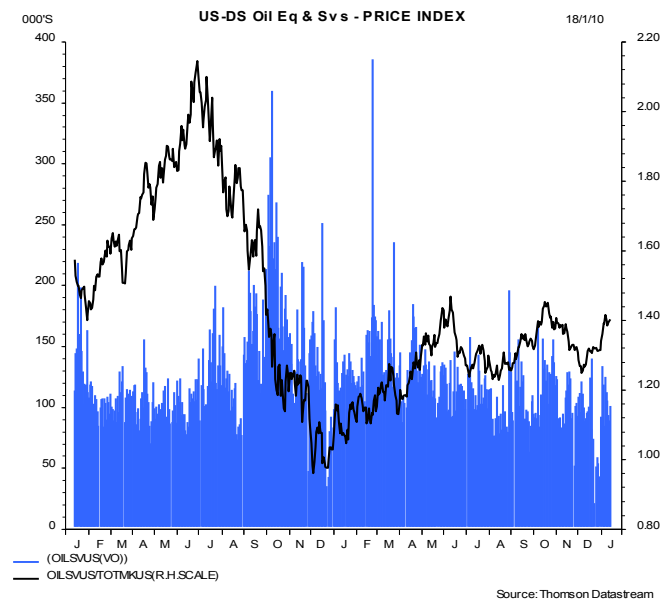
Surprisingly, in light of the quantum of last week's \$ fall,
little change took place in the themes of Emerging Market /
resource - related strength:

Though the global Mines component of those themes continues
to act well, which is what we expect to continue:





And, despite some weakness in the crude price, the American Oil - Services sector, which so often anticipates change in the crude price, continues to act well, helping to add weight to the continuing long - held bullish view of the crude price.

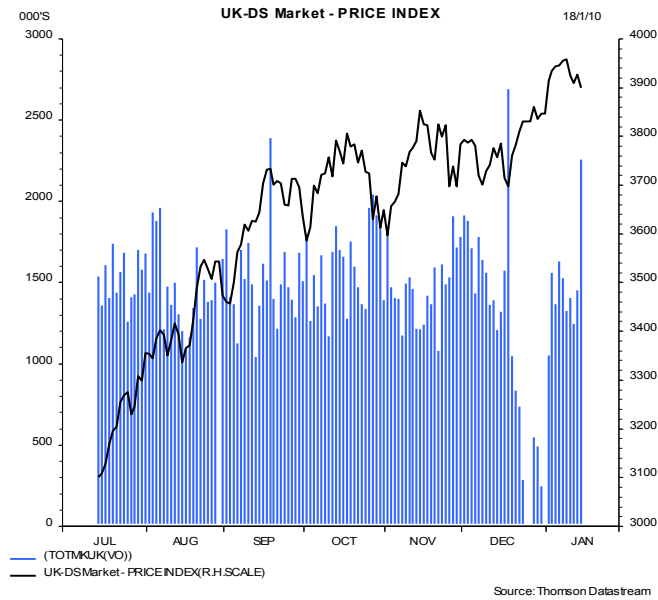


As will be recalled, strength in the Oil - Service sector when the crude price began to come under some pressure in the opening fortnight of December was an important contributing factor to the continuing bullish - oil view.

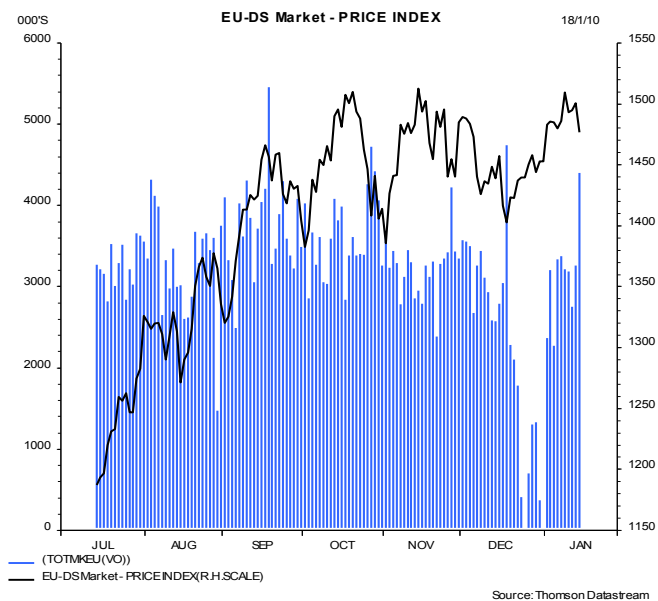
And the same is happening now



Elsewhere, a slightly weaker trend across the main equity centres
in Friday's sessions, and now selling pressure
picking up appreciably in the two centres below:



Total U.K. Equities.



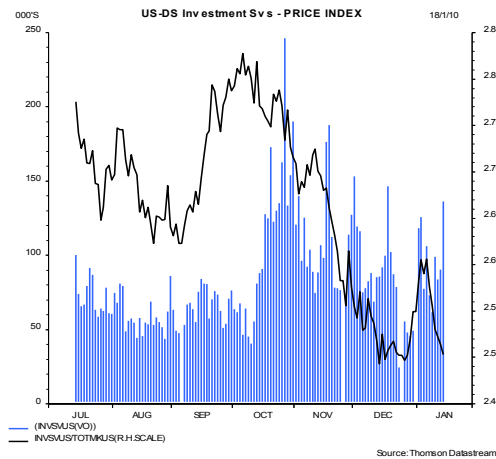
Total European Equities.



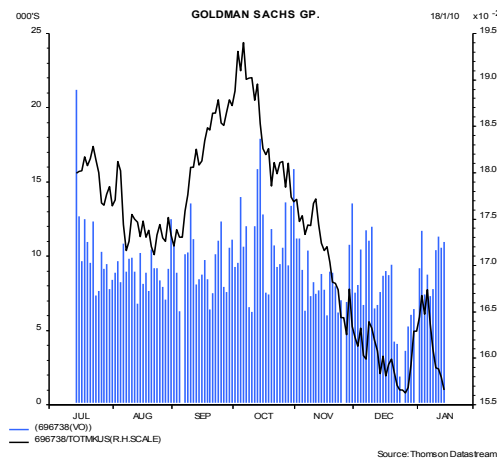
In Friday's weaker American session, minus just over S&P 1% (despite a late rally), leadership on the downside lay in familiar areas, Industrial Engineering minus 2%, Banks minus a little over 2.5%.

We have questioned the quality and sustainability of the American Financials - related rally since the opening fortnight of last month and we continue to do so.

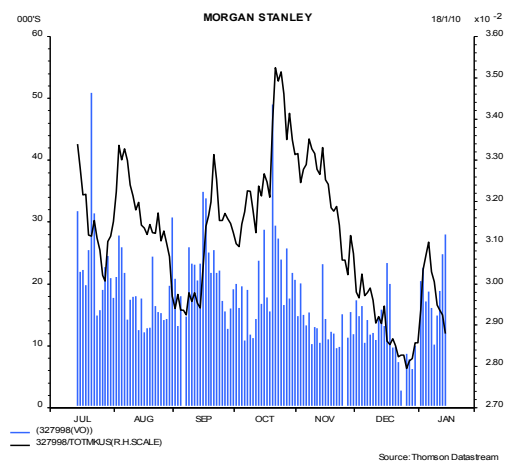
Note that the Investment Services sector has now nearly negated all of that rally:



Its two largest components are shown below:



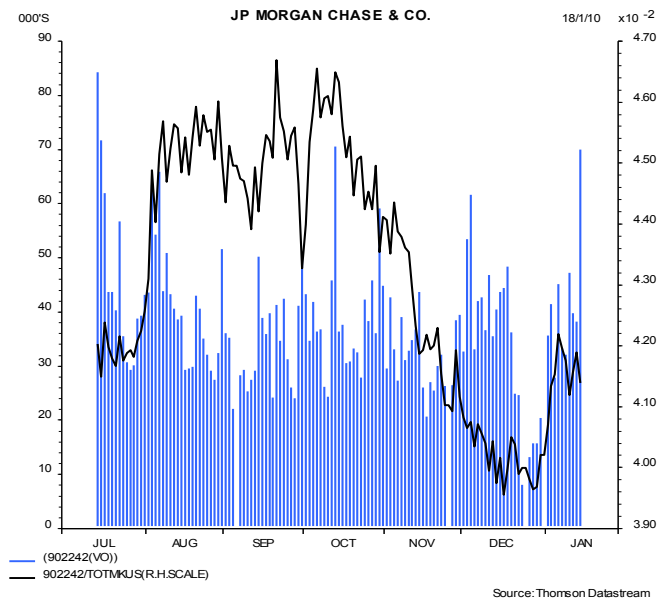
Goldman Sachs



Morgan Stanley



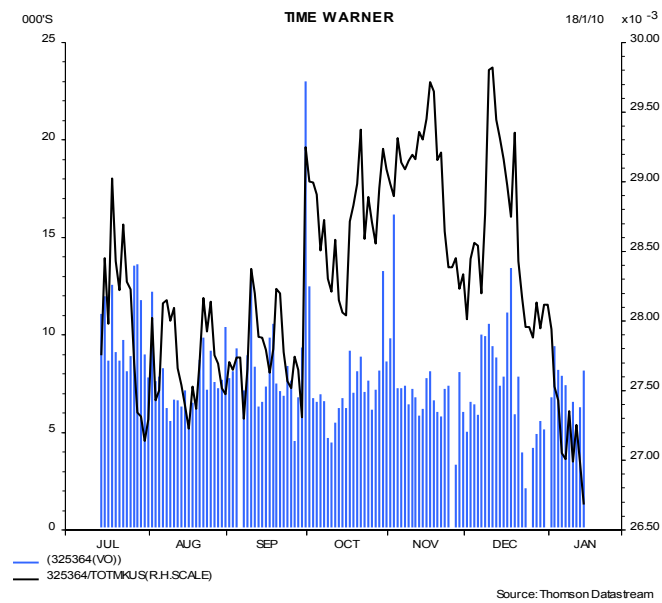
And, not as developed, but a similar phenomenon in the more mainstream - related areas of the Financials, and note Friday's volume:



J.P. Morgan Chase.



The parallel and long - held theme of weakness in prospect
in the American consumer confidence - relateds also
continues very much in focus, an example below:



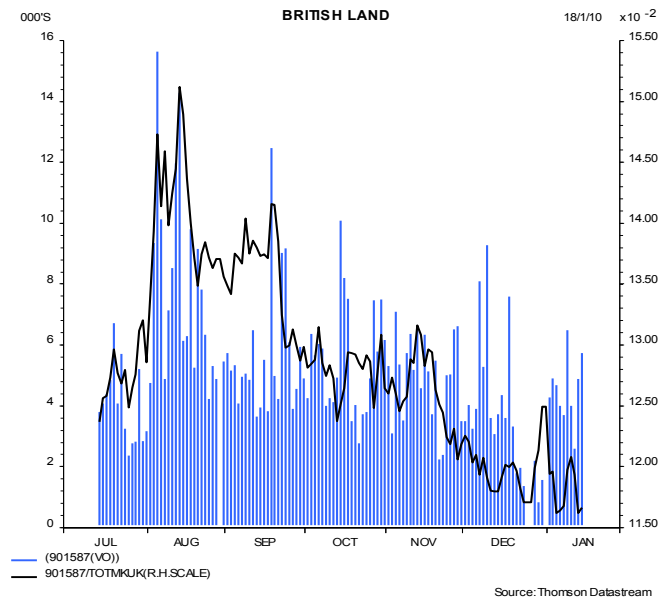
Time Warner.



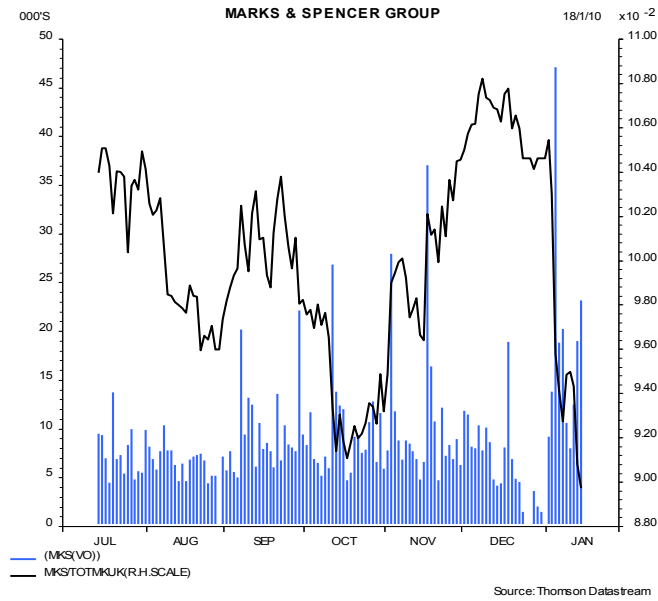
In Friday's weaker U.K. session, these same themes of continuing weakness in the financial - / consumer confidence - related areas found expression in the following, weak action / new lows / both / - endless examples could be adduced, a small sample below:



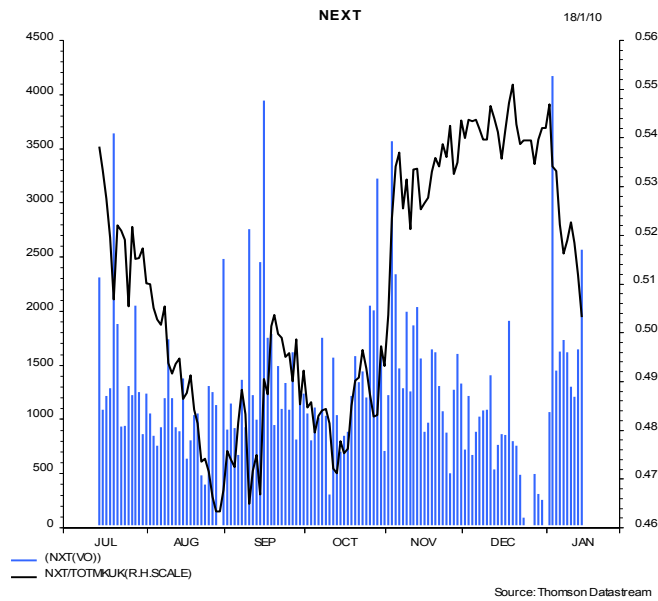
Man Group - real time.



British Land.



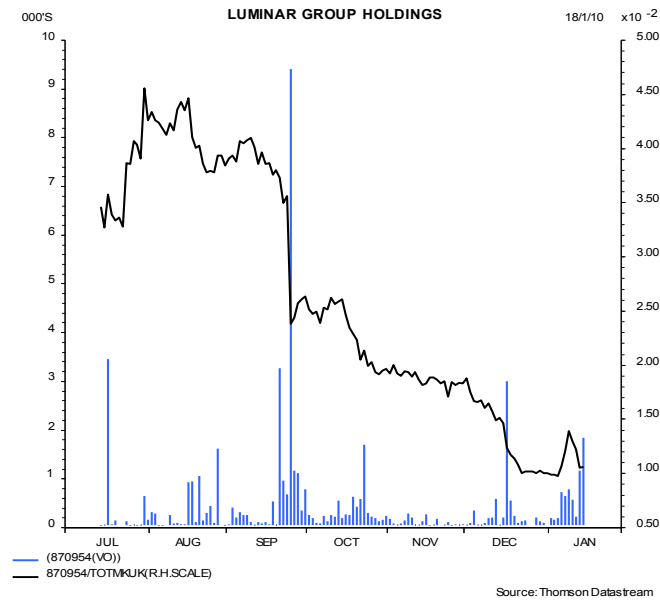
Marks and Spencer.



Next.



And, at the other end of the consumer - related spectrum,
an old sell idea continues to act extremely weakly:



Luminar.

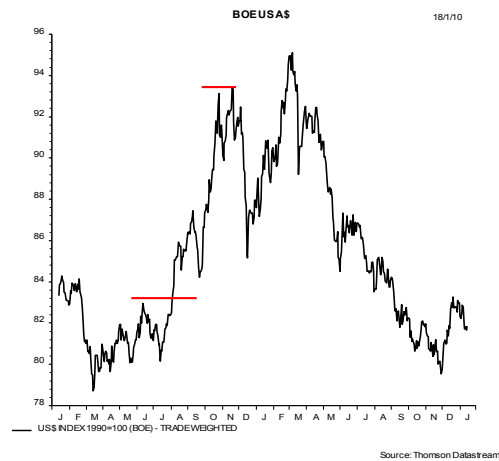
All very much in line with the script.



P.S.

As readers of this note are aware, we generally restrict ourselves to the American and U.K. equity markets.

We can also apply the same methodology to other areas, commodities, currencies etc. - and, in fact, the investment themes developed here in the last four years or so have been almost completely based on the views we have taken on the American \$, mostly through that four year period bearish, the one exception being the massive upside breakout of August 2008, shown below:



Bank of England \$ index.

(The period immediately post the August 2008 \$ breakout was hugely exciting - between then and the reassertion of \$ weakness which made its presence felt in January last year, the global Mines halved, the crude price divided by three.)



Our methodology has always been capable of application
to the main European equity centres.

We now have the authorisations to deal in institutional size in stocks throughout Europe.

Our dealers are named below.

Dealing Desk

STX 77331

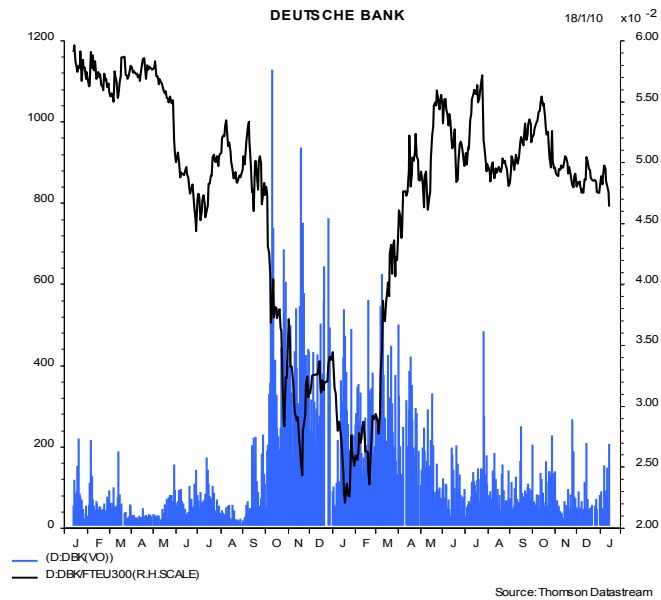
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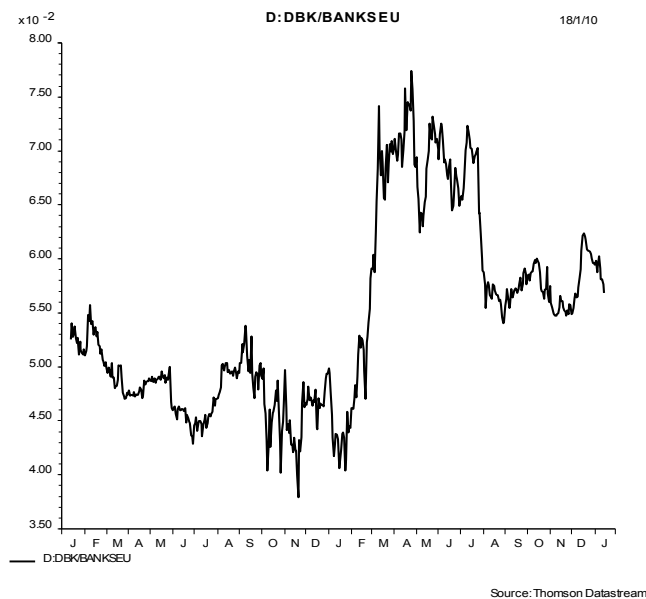


Any institution is welcome, encouraged in fact,
to seek technical views on any European stock.

We would definitely start be recommending a sale of this one:



Deutsche Bank / Fteu300



Deutsche Bank / European Banks sector.

R.T.C



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