

5th June, 2008

Investment Report

RIO Professional Investors Fund takes position in Sterling ahead of BOE meeting

Concerns that Bradford & Bingley's financial problems could send the UK credit and housing markets reeling have clearly died out; but the damage has already been done with the Pound now consolidating over 200 points when coupled with the BOE meeting today has presented a buying opportunity. On Thursday, June 5, the Bank of England and the European Central Bank will each announce their monetary policy decisions. I am very sure that both banks will leave rates steady, but given the steep declines we've seen in the British pound recently, even decisions in line with expectations are likely to lead to a rally. I have positioned the RIO Professional Investors Fund accordingly with three trading positions taken between Wednesday and Thursday. I expect the Sterling to open Friday on a rally and have positioned first sell order at 1.96 selling 45% of position taken on Wednesday at which point I will reanalyze data. I anticipate being able to close out 75% percent of the total trade in position taken in Sterling by early next week. Should this be the case the fund will again post further positive gains more importantly all trades positioned since January 2008 have been profitable to date.

Bank of England – Risks Tilted Toward Additional Rate Cuts This Year

I expect the Bank of England is expected to leave rates steady on Thursday at 5.00 percent the lowest since December 2006 for the second consecutive month. The rate decision will come at 7:00 EDT. In the past week we've seen signs that the UK housing, manufacturing, and services sectors are taking a heavy hit, as BOE mortgage approvals slumped to 58,000 in April the lowest since record keeping began in 1999 while the manufacturing purchasing managers' index (PMI) for the UK tumbled to a reading of 50 from 51, indicating that growth in the sector has stalled. Finally, UK services PMI unexpectedly fell below 50 to 49.8 in May, signaling contraction in the sector just as I predicted in previous reports.

The most daunting piece of news was an announcement from Bradford & Bingley, the UK's largest lender to landlords. B&B appears to be in trouble financially, as they said they would sell shares at a 33 percent discount amidst deteriorating housing market conditions. The news led Fitch Ratings to cut its long-term default rating and placed the firm on "watch negative," and while B&B's Chairman has affirmed that the company remains "well capitalized".

Profits are possible GBP/USD from a Technical Perspective

Ahead of the Bank of England's MPC meeting, the GBPUSD has broken to multi-day lows, and according to Technical Strategists, the larger bullish bias is intact as long as price is above 1.9362. Today's low (1.9525) is at the confluence of the 61.8% of 1.9362-1.9850 / former resisting trend line (is now supported). As long as 1.9362 is intact my research indicates that the GBP/USD should exceed 1.98 and reach resistance from daily highs just shy of 2.0250. While as I said no action is expected by the BOE, the simple lack of a rate cut could be enough to spark buying of GBP/USD.

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