

# THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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## SEVEN DAYS AHEAD

Authorized and Regulated by the FSA

124 REGENTS PARK ROAD LONDON NW18XL

TEL +44 (0) 7776181843 E-MAIL [JLEWIS@SEVENDAYSAHEAD.COM](mailto:JLEWIS@SEVENDAYSAHEAD.COM)

[WWW.SEVENDAYSAHEAD.CO.UK](http://WWW.SEVENDAYSAHEAD.CO.UK)

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# ABOUT SEVEN DAYS AHEAD

Seven Days Ahead publishes a variety of trading guides suitable for experienced market operators.

## ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 31 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.

Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.

The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

## ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 31 years.

He left the Stock Exchange and joined Standard Chartered Bank London in 1976 trading the Sterling money markets.

He then trained as a floor trader with Holco Trading on the London Commodity Exchange specialising in cocoa and oil futures.

He began to trade off the floor with Drexel Burnham Lambert becoming Deputy Manager of their Money Desk in Europe responsible for all funding, money market trading and FX hedging for the European operation.

He rose to become Deputy Global Head of Proprietary Trading with Skandinaviska Enskilda Banken and thence Head of Proprietary trading Svenska Handelsbanken London.

After 1998 he moved into the hedge fund business as a senior fund manager of Weavering Capital UK. Now in association with Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

# GLOBAL CALENDAR

## WHAT HAPPENED LAST WEEK?

	Week of 3 <sup>rd</sup> September
Monday	UK PMI Mfg 56.3 <b>STRONGER</b> IT PMI Mfg 53.6 <b>STRONGER</b> FR PMI Mfg 52.5 <b>LESS</b> DM PMI Mfg 56.0 <b>LESS</b> EZ PMI Mfg 54.3 <b>BETTER</b> <b>THAN EXPECTED</b>
Tuesday	US ISM Mfg 52.9 <b>LESS</b> US ISM Mfg prices 63.0 <b>AS</b> UK PMI Construction 64.8 <b>STRONGER</b> IT Trade bal 377M <b>BETTER</b> IT Trade EU 547M <b>BETTER</b> EZ PPI 0.3m, 1.8y <b>WORSE</b> EZ Q2 GDP 0.3q, 2.5y <b>AS</b> <b>THAN EXPECTED</b>
Wednesday	US MBA Mrtge apps +1.3% <b>BETTER</b> US Feds beige book <b>MODERATE</b> UK PMI Services 57.6 <b>STRONGER</b> UK BRC Shop prcs 0.4 <b>LESS</b> IT PMI Services 56.2 <b>WEAKER</b> FR PMI Services 58.4 <b>LESS</b> DM PMI Services 59.8 <b>STRONGER</b> EZ PMI Services 58.0 <b>BETTER</b> EZ Retail sales 0.1m, 0.5y <b>WEAKER</b> <b>THAN EXPECTED</b>
Thursday	US Q2 non-farm productivity 2.6 <b>BETTER</b> US Q2 Unit labour costs 1.4 <b>BETTER</b> US Jobless claims 318k <b>LESS</b> US ISM non-mfg 55.8 <b>STRONGER</b> UK Ind production -0.1m, 0.9y <b>WEAKER</b> UK Mfg output -0.3m, 0.8y <b>WEAKER</b> UK MPC Interest rate decision 5.75% <b>AS</b> UK NIESR GDP Estimate 0.7 <b>LESS</b> DM Factory orders -7.1m, 9.8y <b>WEAKER</b> EZ ECB interest rate decision 4.0% <b>AS</b> <b>THAN EXPECTED</b>
Friday	US Non-farm payroll -4k <b>WEAKER</b> US Unemploy'm't rate 4.6 <b>AS</b> US Avge hrly earnings 0.3m, 3.9y <b>AS</b> US Avge wrk week 33.8 <b>AS</b> DM Trade bal 17.9B <b>BETTER</b> DM C/A 14.1B <b>BETTER</b> IT Trade bal non-EU -584.0M <b>BETTER</b> DM Industrial prod 0.1m, 4.6y <b>WEAKER</b> <b>THAN EXPECTED</b>

## WHATS HAPPENING THIS WEEK?

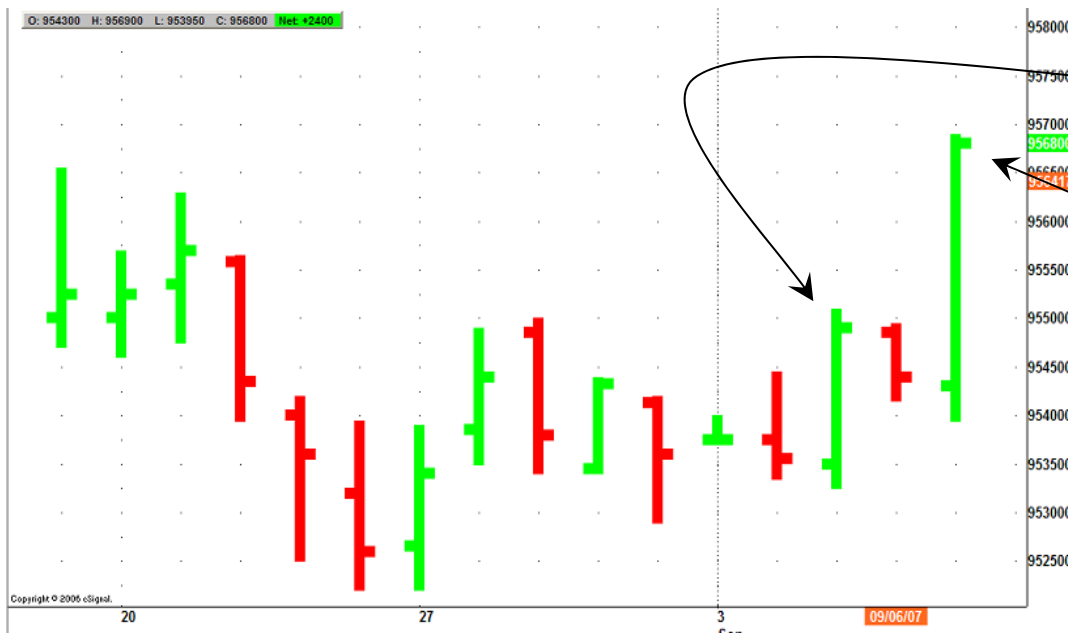
	Week of 10 <sup>th</sup> September
Monday	UK PPI Input -0.3m, 1.3y UK PPI Output 0.2m, 2.5y UK PPI Core 0.2m, 2.3y UK DCLG Hse prcs 11.4y FR Ind production 0.4m, 1.2y FR Mfg output 0.5m, 1.4y IT Q2 GDP 0.1q, 1.8y
Tuesday	US Trade bal -\$59.0B UK Trade bal -6.40B UK Trade non-EU -3.50B DM WPI n/f FR Trade bal -3.0B
Wednesday	US MBA Mrtge apps n/f UK Unemployment rate 2.6% UK Change -8.0K UK Avge earnings 3.4 UK Avge earnings Ex-bonus 3.5 UK ILO Unemploy'm't rate 5.4 UK Mfg unit wage costs n/f UK RICS Hse prcs 10.0 EZ Labour costs 2.4y EZ Ind prod 0.2m, 3.1y
Thursday	US Jobless claims 328k US Budget statement -\$79.5B FR CPI 0.3m, 1.1y IT CPI 0.2m, 1.6y EZ Employ'm't n/f
Friday	US Import prcs 0.3m US Retail sales 0.5 US Less autos 0.2 US Ind production 0.3 US Capacity utilisation 82.0 US U. of Michigan conf 84.0 US Bus inventories 0.3 DM CPI -0.1m, 1.9y FR C/A n/f IT Ind production 0.1m, 0.3y EZ CPI 0.1m, 1.8y EZ Core CPI 1.9y IT C/A n/f

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# INTEREST RATE FUTURES

## EURO DOLLARS

MARCH 08 EURO DOLLARS



See how Eurodollars rallied on Wednesday after the Fed published a moderate beige book and again on Friday after a surprisingly weak non-farm payroll report.

### THE MARKET EXPLAINED

## OUR TRADING STANCE: SQUARE.

Last week we were square of March 08.  
This week we are square of March 08.

Last week we remained square of Eurodollars as equity markets consolidated their recent gains and the previous week's data supported the view that the economy was holding up well, despite recent market turmoil, leading us to question the durability of the recent rally.

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

- On Tuesday; ISM Mfg was slightly weaker than expected,
- On Wednesday; MBA mortgage applications were better than expected and the Fed's beige book struck a balanced tone,
- On Thursday; Q2 non-farm productivity was stronger than expected, Q2 Unit labour costs were less than expected, Jobless claims fell by more than expected and ISM non-manufacturing was better than expected, and
- On Friday; non-farm payroll was much weaker than expected and the previous month's data was revised lower,

book struck a note that didn't dramatise a growth slowdown or sounded alarmed over inflation, but the real surprise came with Friday's non-farm payroll which sparked a strong rally.

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

- On Tuesday; the **trade balance**
- On Wednesday; MBA Mortgage applications,
- On Thursday; Jobless claims and budget statement, and
- On Friday; **Import prices, retail sales, industrial production, capacity utilisation and University of Michigan confidence.**

The key events this week are highlighted in red, but we judge Friday's data the most important for this market.

Following last week's non-farm payroll shock, any more signs of weakness will cement the view in the market that the Fed will cut at its next meeting, but if retail sales etc remain solid, the Fed may well stick to its current strategy.

The market rallied on Wednesday after the beige

**The Macro Trader's view is:** last week's price action fully illustrated our view of the market; highly uncertain.

Despite a recovery in equities that held the potential to unwind the rally in short term interest rate markets, a weak non-farm payroll report, the first decline in that series for 4 years, sent equities lower and Eurodollars much higher.

The significance of that report will become completely clear in the next couple of weeks as other data will place it more in context of what is going on inside the economy.

The Fed may take this report as the confirmation it was seeking that the economy is about to materially weaken, on the other hand they may conclude that one report is insufficient evidence on which to base monetary policy.

With other recent key reports still indicating economic expansion, especially the ISM non-manufacturing report released last Thursday, traders may have over reached themselves by expecting a 50bp rate cut at the September 18<sup>th</sup> meeting.

Indeed the Fed may not cut at all, especially if retail sales, industrial production and capacity utilisation all remain strong.

From our point of view the chances of a rate cut this year have definitely increased, but the decline in payrolls may be directly linked to the pain felt by financial institutions, rather than a more widespread shedding of labour, especially as Jobless claims are nowhere near levels usually associated with recession.

Moreover, this report may prove a blip as has frequently happened on occasion during other expansionary cycles.

For now we are remaining square, we missed last week's rally and think it unlikely the market will short term push up much further from here.

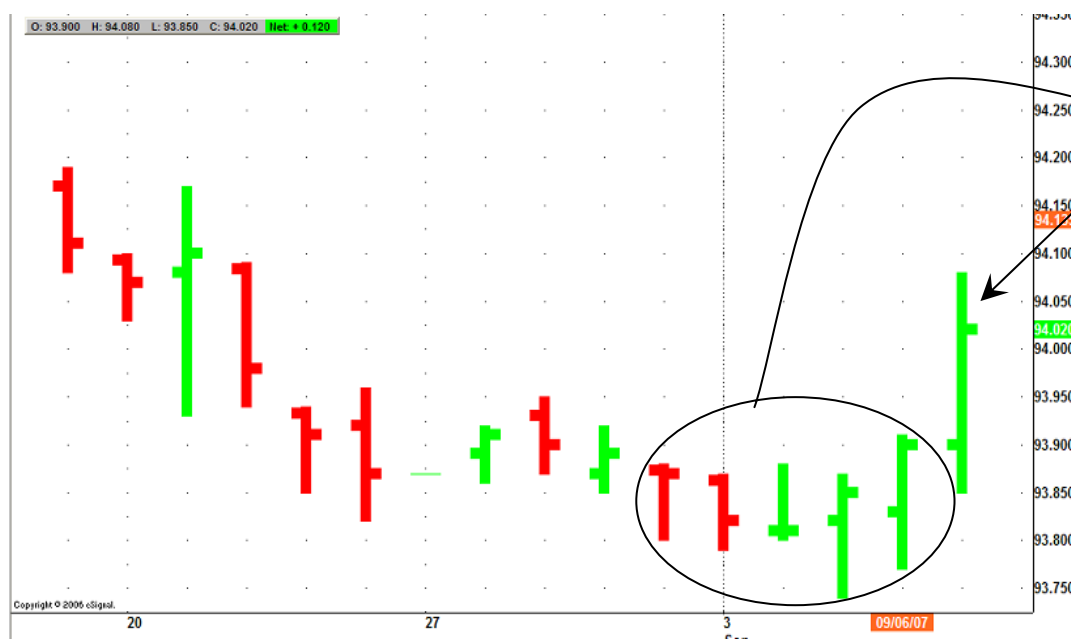
More likely next week could see a spell of profit taking with most of Friday's move retraced by the end of the week.

For new highs to be made, near term data releases need to chime with Friday's weak non-farm payroll report, if that does happen then we shall go long, as the Fed will need to aggressively cut rates.

But for now we continue to advise a square position.

# SHORT STERLING

## MARCH 08 SHORT STERLING



See how the market mainly traded sideways last week, until Friday's weak US non-farm payroll report caused all short term interest rate markets, including this one, to rally hard.

### THE MARKET EXPLAINED

## OUR TRADING STANCE: BULLISH.

Last week we were square of March 08.  
This week we are bullish of March 08.

Last week we remained square of the Short Sterling as equity markets seemed to steady, with the FTSE enjoying a strong rally the previous week, which we thought could continue on an unchanged decision from the MPC at its upcoming meeting, leaving Short Sterling looking set to decline further.

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

- on Monday; the PMI Manufacturing survey was stronger than expected,
- on Tuesday; the PMI Construction survey was stronger than expected,
- on Wednesday; the PMI Services survey was stronger than expected and the BRC shop prices monitor was less than expected, and
- on Thursday; industrial production, manufacturing output were both weaker than expected and the MPC left interest rates unchanged and released a statement.

The market traded mainly sideways early in the week, but rallied after the soft manufacturing data on Thursday and in sympathy with

Eurodollars on Friday after a weak US non-farm payroll report sent all short term interest rates much higher.

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

- on Monday; **PPI data and the DCLG house price survey,**
- on Tuesday; trade data, and
- on Wednesday; the **unemployment report, average earnings and the RICS house price report.**

This week's key releases are highlighted in red, which is almost the entire calendar, but we expect the market to continue to be influenced by sentiment coming from the US.

**The Macro Trader's view is:** last week saw the chances of a Fed rate cut increase after the much weaker than expected US non-farm payroll report.

Additionally the Bank of England issued a statement explaining the MPC'S current assessment of the turmoil that has hit UK

markets during the summer. This has resulted in wholesale money market rates trading significantly higher than official interest rates, and the longer this endures will act as a de facto tightening of monetary policy.

Traders had already trimmed their expectation of future rate hikes back to just one more, taking policy to 6.0% by year end.

But if Friday's US employment report does herald a period of weak growth or even a recession in the US, it is unlikely monetary policy will be tightened again here in the UK.

From the MPC'S perspective, having 3 month interbank interest rates trading at 6.75% as they have been in recent weeks is damaging for the economy if it persists for an extended period.

Ultimately mortgage providers and other lenders will have to pass on these higher borrowing costs to their customers and this would be bad news for the economy as it could slow the UK housing market, with economy wide implications.

No wonder the Bank's statement last Thursday sounded concerned as a full 1.0% rate hike wasn't on its agenda bearing in mind it took over a year to enact 5 X 25bp rate hikes.

The market now looks set to price out any chance of another rate hike, and we don't currently disagree with that, given the continued volatility in equities as displayed on Friday and real concerns about the possible impact on the real economy.

However we are not yet ready to forecast a rate cut as most of the data coming from the UK economy remains at levels consistent with sustained economic expansion, and the MPC have long sought a cooling of the economy.

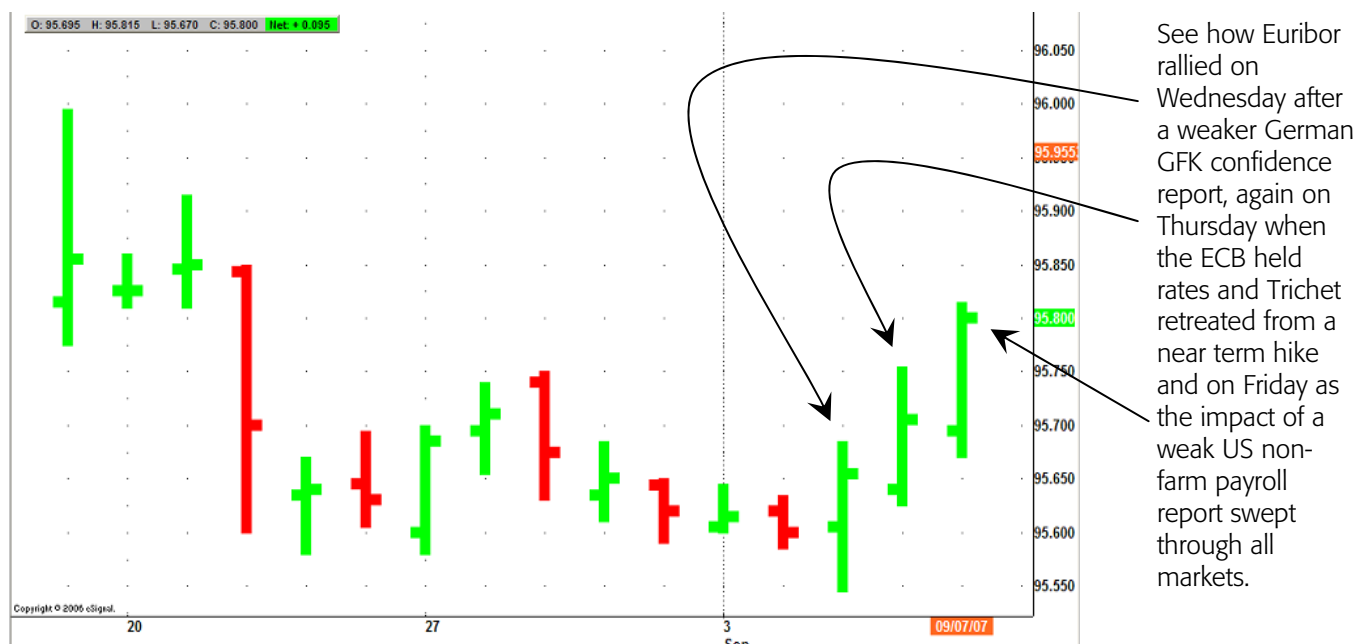
Only if an abrupt halt looks imminent will they ease.

In summary, after several weeks of market chaos, the immediate outlook remains uncertain but we expect traders to further remove any remaining expectation for higher rates and advise a long position.

Our target over the next 7 – 10 days is 94.20, but run a stop at 93.89 as protection.

Additionally, a hedge against the current money market crisis is to sell Dec 07 against buying Mar 07 as a spread, but this is a Libor play.

## MARCH 08 EURIBOR



### THE MARKET EXPLAINED

## OUR TRADING STANCE: BULLISH.

Last week we were square of March 08.  
This week we are bullish of March 08.

Last week we remained square of March 08 Euribor, as the market remained supported by the recent turmoil in financial markets, but restrained by uncertainty over the outcome of the ECB'S upcoming meeting on Thursday.

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

- on Monday; the PMI Mfg surveys from Italy and the Euro zone were stronger than expected, but the French and German reports were weaker than expected,
- on Tuesday; Italian trade data was better than expected, Euro zone PPI was worse than expected and Euro zone Q2 GDP was as forecast,
- on Wednesday; all the leading Euro zone PMI Services surveys except from France were stronger than expected, and Euro zone retail sales were weaker than consensus,
- on Thursday; German factory orders were weaker than expected and the ECB left interest rates unchanged, and
- on Friday; German trade data was better

than forecast, industrial production was weaker than expected and Italian trade data was better than expected.

The market rallied from mid week in response to the weak retail sales and unchanged interest rates on Thursday, and again on Friday as international sentiment drove all interest rate markets higher in response to a weak US labour report.

Looking ahead there are several key reports due, and we advise traders to focus on the following:

- on Monday; French industrial production and manufacturing output and Italian Q2 GDP,
- on Tuesday; German WPI and French trade data,
- on Wednesday; Euro zone Labour costs and Industrial production,
- on Thursday; French and Italian CPI and Euro zone Employment data, and
- on Friday; German and Euro zone CPI, French and Italian C/A data and Italian industrial production.

This week's data is unlikely to have any material impact on the market as traders continue to take their lead from events in the US after Friday's very weak US non-farm payroll report.

**The Macro Trader's view is:** the market received a boost last week from two sources:

- the ECB'S interest rate decision and Trichet's press conference comments, and
- Friday's weak US non-farm payroll.

From a Euro zone perspective we view Trichet's remarks as very significant as he clearly retreated from his recent coded warning that led traders to expect a September interest rate hike.

Only a couple of weeks ago Trichet was giving the market notice that the ECB'S monetary policy wouldn't be blown off course, at the same time as he was pumping vast amounts of emergency liquidity into Euro zone money markets.

At last Thursday's press conference he said due to high volatility in markets more information needed.

This leads us to conclude that Euro zone interest rates may well have hit their peak.

As traders in the US clamour for a rate cut from the Fed, amid frenzied speculation that they may even cut by 50bp rather than 25bp, with an unchanged decision at the September 18 FOMC meeting seeming a non starter. It is incomprehensible to us that the ECB would go ahead and hike.

Although the Euro zone economy continues to expand at a solid rate, it clearly slowed in the 2<sup>nd</sup> quarter, not enough for rate cuts to be considered, but together with the financial market chaos of the summer, enough for rates to remain at current levels.

With more than one German Bank suffering difficulties in recent weeks it seems a major crisis in Europe may have only just been avoided.

The market continues to price in a further rate hike, given our views we are bullish of this market and advise traders to go long.

Our target over the next 7 – 10 days is 95.95 with a protective stop set at 95.70.

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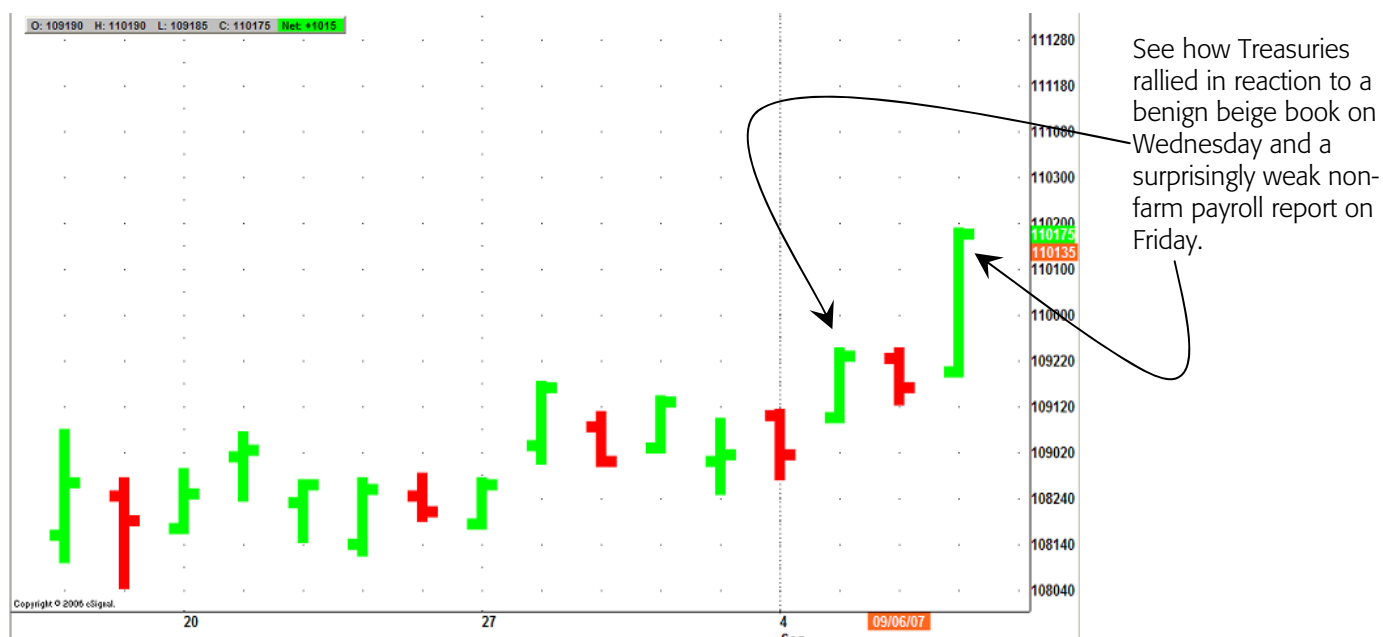
# GOVERNMENT BONDS

## US TREASURY NOTE (10 yr)

### OUR TRADING STANCE: BULLISH.

Last week we were square of the 10yr Note.

US 10yr NOTE



This week we are bullish of the 10yr Note.

Last week we remained square of this market as equities staged a recovery, helped by the Fed's recent discount rate cut and injections of emergency liquidity. And with the Fed seemingly trying to avoid easing policy while at the same time reassuring investors it would act appropriately to support the economy, we judged the most appropriate stance was square.

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

- On Tuesday; ISM Mfg was slightly weaker than expected,
- On Wednesday; MBA mortgage applications were better than expected and the Fed's beige book struck a balanced tone,
- On Thursday; Q2 non-farm productivity was stronger than expected, Q2 Unit labour costs were less than expected, Jobless claims fell by more than expected and ISM non-manufacturing was better than expected, and
- On Friday; non-farm payroll was much weaker than expected and the previous month's data was revised lower,

The market reacted to two events last week; the Beige book and non-farm payroll. Traders are no longer debating whether or not the Fed will ease they are now positioning for a 50bp move.

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

- On Tuesday; the **trade balance**
- On Wednesday; MBA Mortgage applications,
- On Thursday; Jobless claims and budget statement, and
- On Friday; **Import prices, retail sales, industrial production, capacity utilisation and University of Michigan confidence.**

The key releases this week are highlighted in red, and the majority fall on Friday. The Fed will be more likely to ease if these reports show weakness, especially retail sales.

**The Macro Trader's view is:** over recent weeks we have remained square of this market as we saw the rally as a product of safe haven buying in response to irrational fears over sub-prime

mortgages.

And in many ways we still see this chaos as over done. But it has persisted for a considerable period in spite of several liquidity injections from the Fed and a discount rate cut.

Although the chaos had been contained to the financial markets, Friday's weak payroll report could be a significant event.

While other key data series aside from housing have held up well, employment suddenly weakened when it is usually one of the last economic measures to turn. But because so many firms in the financial markets are hurting as a result of the dislocation to markets over recent weeks, they may have already begun to shed labour.

As high earners this could have an impact on the economy as lower paid workers are subsequently let go and the whole thing snowballs.

Or, it is possible that Friday's report could be a one off.

Traders will not sit idle and wait four weeks to find out!

We are still not convinced by the recession argument, but are open to the theory that the economy gives up much of the momentum it had gained in recent months and this might be enough for the Fed to ease.

Since we still have over a week to wait, traders will likely continue to trade off of last Friday's data and we advise a long position.

Our target over the next 7-10 days is 111.05, but run a stop at 109.24 as protection.

These markets remain volatile and position size should reflect this.

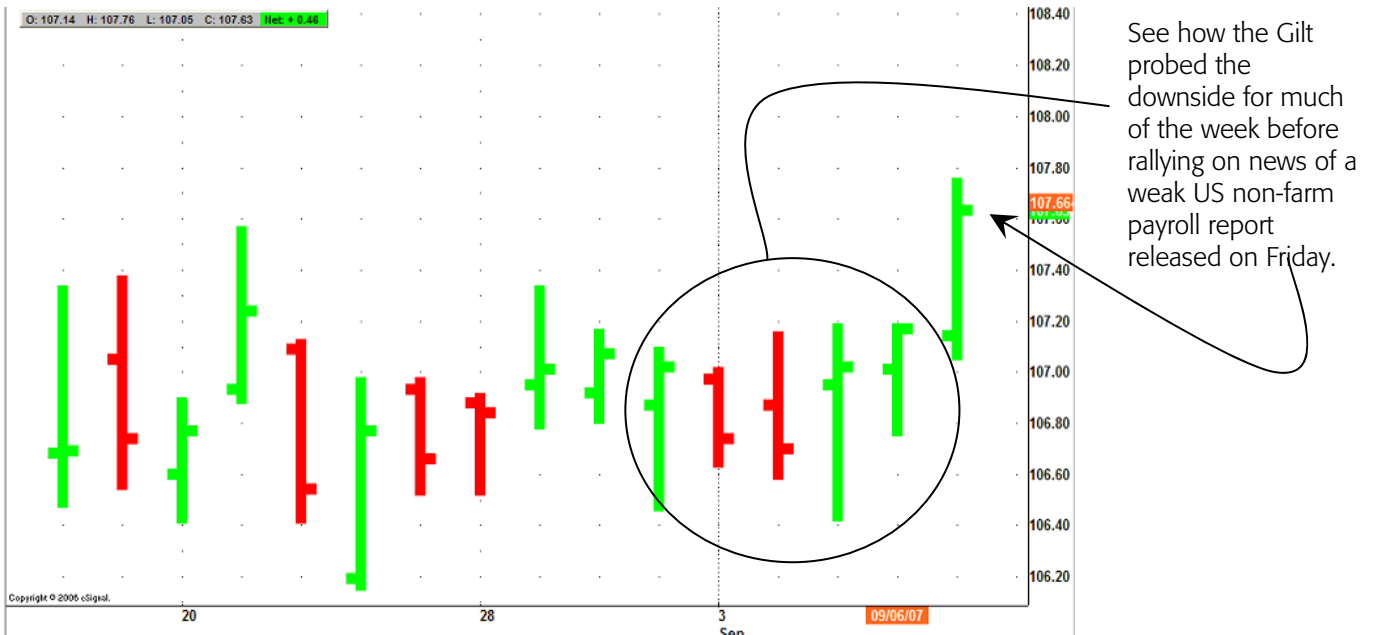
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# THE GILT

## OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

### THE GILT



This week we remain square of the Gilt.

Last week we remained square of the Gilt as we judged the fundamentals of the UK economy supported the bear case, but with liquidity concerns still dominating wholesale money markets, the Gilt remained well supported.

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

- on Monday; the PMI Manufacturing survey was stronger than expected,
- on Tuesday; the PMI Construction survey was stronger than expected,
- on Wednesday; the PMI Services survey was stronger than expected and the BRC shop prices monitor was less than expected, and
- on Thursday; industrial production, manufacturing output were both weaker than expected and the MPC left interest rates unchanged and released a statement.

The market probed the down side for much of the week in response to several strong data releases, but sentiment changed on Friday as the market followed the US Treasury market and rallied after a weak non-farm payroll report.

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Looking ahead there are few key reports due, and we advise traders to monitor the following:

- on Monday; **PPI data and the DCLG house price survey**,
- on Tuesday; trade data, and
- on Wednesday; the **unemployment report, average earnings and the RICS house price report**.

The key events this week are highlighted in red. After another turbulent week for the markets, traders will want to see whether PPI and average earnings moderate further, which could herald further improvements to CPI and how those prices are evolving.

**The Macro Trader's view is:** the Gilt rallied on Friday, but it was as a result of a weak US number dragging all government Bond markets higher.

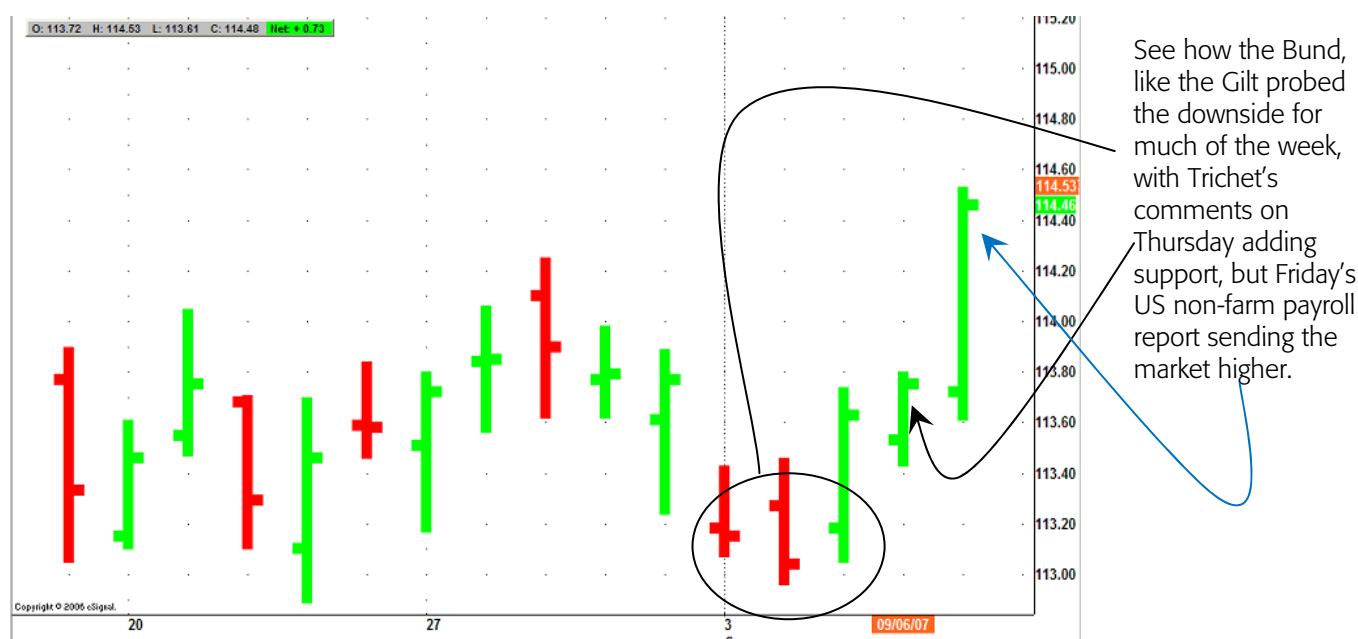
With UK economic data remaining strong, we see this market as a follower so prefer to focus on the US which is where the turmoil originates. This leaves us square of this market and we advise others to adopt the same stance.

# THE BUND

## OUR TRADING STANCE: SQUARE.

Last week we were square of the bund.

THE BUND



This week we remain square of the Bund.

Last week we were square of the Bund as we judged the recent rally was a product of the selloff in equities, but after a week when stocks revived we were left a prisoner of uncertainty; equities remained volatile, but data wasn't yet weak.

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

- on Monday; the PMI Mfg surveys from Italy and the Euro zone were stronger than expected, but the French and German reports were weaker than expected,
- on Tuesday; Italian trade data was better than expected, Euro zone PPI was worse than expected and Euro zone Q2 GDP was as forecast,
- on Wednesday; all the leading Euro zone PMI Services surveys except from France were stronger than expected, and Euro zone retail sales were weaker than consensus,
- on Thursday; German factory orders were weaker than expected and the ECB left interest rates unchanged, and
- on Friday; German trade data was better than forecast, industrial production was

weaker than expected and Italian trade data was better than expected.

The market tested the downside into Wednesday as equities consolidated their gains and looked to be making a recovery.

But Thursday's comments from Trichet following Wednesday's mixed data sent the market higher, with a rally on Friday sparked by weak US non-farm payrolls.

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

- on Monday; French industrial production and manufacturing output and Italian Q2 GDP,
- on Tuesday; German WPI and French trade data,
- on Wednesday; Euro zone Labour costs and Industrial production,
- on Thursday; French and Italian CPI and Euro zone Employment data, and
- on Friday; German and Euro zone CPI, French and Italian C/A data and Italian industrial production.

This week's data is unlikely to move the market; we expect the continued debate flowing from Friday's US labour market report with its implications for monetary policy to have the greatest effects on the market.

**The Macro Trader's view is:** the ECB threw the Bund a life line last week as Trichet clearly retreated from his earlier comments that almost pre-announced a September or, at the latest, an October rate hike.

Additionally several key reports were mixed last week, especially the ISM manufacturing and Service sector reports.

However, with the most recent German IFO and Euro zone M3 reports remaining strong, we expect the Euro zone economy to retain its momentum.

Unlike the recalcitrant Bank of England, the ECB has been pro-active in its support for the Euro zone markets with frequent sizeable injections of liquidity at various maturities.

Although sentiment supports the recent rally, we see little else other than chaotic equity markets that does.

With this back drop we are remaining square as prior to the Friday US non-farm payroll report, we judged the Bund the most reluctant of the major government bond markets to rally.

# CURRENCIES

## THE DOLLAR

### OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



DOLLAR/YEN CHART



This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar against the Pound and Euro as speculation continued to build that the Fed would soon cut the Fed funds rate to offset the impact that many analysts were expecting the recent turmoil in financial markets to have on the wider US economy.

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

- On Tuesday; ISM Mfg was slightly weaker than expected,
- On Wednesday; MBA mortgage applications were better than expected and the Fed's beige book struck a balanced tone,

- On Thursday; Q2 non-farm productivity was stronger than expected, Q2 Unit labour costs were less than expected, Jobless claims fell by more than expected and ISM non-manufacturing was better than expected, and
- On Friday; non-farm payroll was much weaker than expected and the previous month's data was revised lower,

The Dollar weakened after the Fed's beige book on Wednesday reported moderate growth and played down the worries over inflation that has until recently so occupied the Fed's mind, but it was Friday's surprisingly weak non-farm payroll report that really undermined the Dollar, with only weekend position squaring saving it from a steeper sell off.

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

- On Tuesday; the **trade balance**
- On Wednesday; MBA Mortgage applications,
- On Thursday; Jobless claims and budget statement, and
- On Friday; **Import prices, retail sales, industrial production, capacity utilisation and University of Michigan confidence.**

This week's key events are highlighted red, and the Dollar will be vulnerable to any one of them, especially as traders are now anticipating a 50bp rate cut at the Fed's September 18<sup>th</sup> meeting.

**The Macro Trader's view is:** we hadn't expected Friday's weak non-farm payroll report, though we were alert to the impact a surprise reading from that series would have on the Dollar; hence our short positions which performed well.

This week traders will continue to mull over the prospects for a 25bp move versus a 50bp move from the Fed when they meet on September 18.

After so much chaos and unpredictable activity in markets over the last month or two, it wouldn't surprise us if this week's data placed a question mark over the apparent certainty of a Fed rate cut.

But given all the anxiety in the market we expect the Dollar to remain under pressure this week.

Traders should remain short of the Dollar and our targets over the next 7 days are as follows:

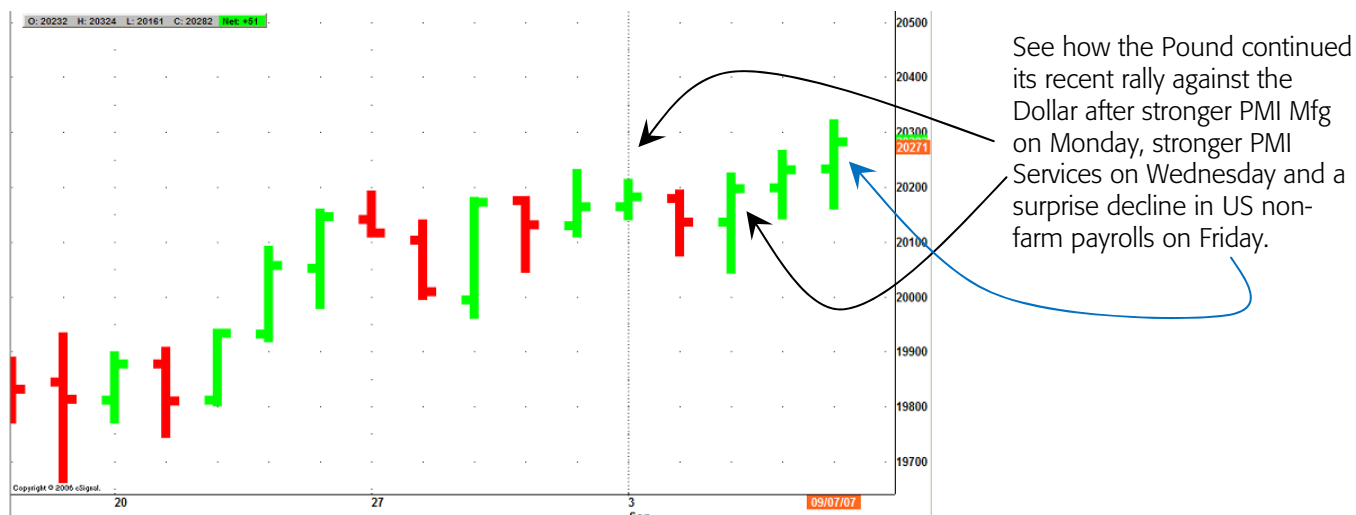
- for Cable 2.0350 with a raised stop at 2.0110, and
- for Dollar/Euro 1.3850 with a stop at 1.3650.

# THE POUND STERLING

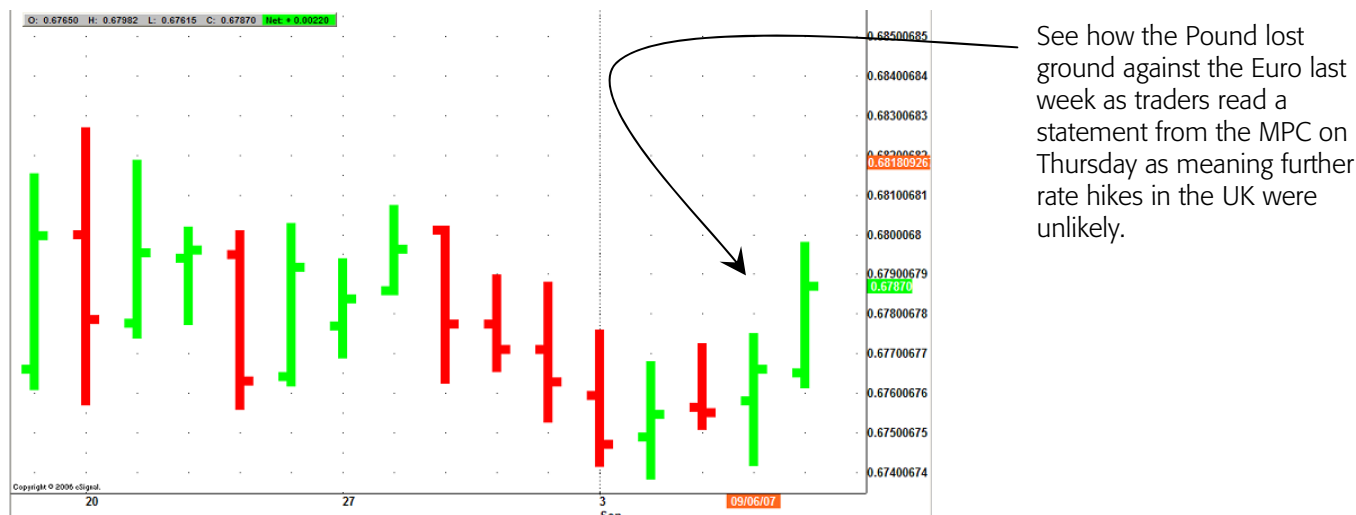
## OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

### THE CABLE CHART



### THE STERLING/EURO CHART



This week we remain bullish of Sterling.

Last week we re-established our long Cable position as we concluded the Fed seemed more prepared to cut interest rates than previously thought, albeit that remained their least preferred option.

And in a week with several key events due we advise traders to monitor the following:

- on Monday; the PMI Manufacturing

- survey was stronger than expected,
- on Tuesday; the PMI Construction survey was stronger than expected,
- on Wednesday; the PMI Services survey was stronger than expected and the BRC shop prices monitor was less than expected, and
- on Thursday; industrial production, manufacturing output were both weaker

than expected and the MPC left interest rates unchanged and released a statement.

The Pound consolidated the previous week's rally and extended it as most UK data came in stronger than expected, even the statement issued by the MPC on Thursday which seemed to kill any chance of further rate hikes this year, had limited impact as traders reacted to Friday's weak US non-farm payroll report.

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

- on Monday; **PPI data and the DCLG house price survey**,
- on Tuesday; trade data, and
- on Wednesday; the **unemployment report, average earnings and the RICS house price report**.

The main events this week are highlighted in red, but traders should study the PPI report and average earnings data for fresh clues on inflation.

Other than that the aftershocks of Friday's US data will direct this market.

**The Macro Trader's view is:** although there is much speculation among traders and analysts over the future of the UK economy, with many arguing the turmoil in the markets and expected US slow down/recession will ultimately weaken the UK economy, the evidence so far shows economic growth in the UK holding up quite well.

True the wholesale money markets are experiencing a dysfunctional period not seen for a very long time, but unemployment remains low, jobs available and consumers willing to

spend, where as in the US consumers are still spending, but non-farm payroll contracted for the first time in 4 years leading many to call for aggressive rate cuts there, to avert recession.

Usually no one would get so excited about one month's number, when other key data releases remain positive.

But this time seems different; Friday's US labour report is being taken as the confirmation of the markets worst fears.

This is because the housing market has been in distress for some time and still shows no sign of recovery, additionally financial markets have been in complete turmoil for a couple of months and may now be starting to hit the real US economy.

If the Fed believes this to be so they will cut rates; not just once but several times taking policy to at least 4.0%.

The question is does the Fed read the economy the same as financial markets currently do?

However this leaves the Dollar vulnerable to the downside and we advise traders to remain long of Cable.

Our target over the next 7 days remains 2.0350, but our stop is raised to 2.110, to give closer protection.

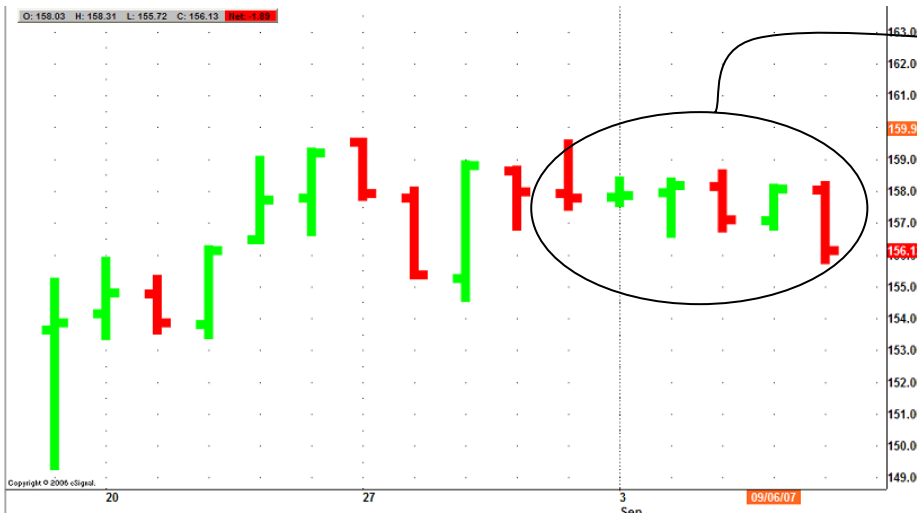
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# THE EURO

## OUR TRADING STANCE: BULLISH.

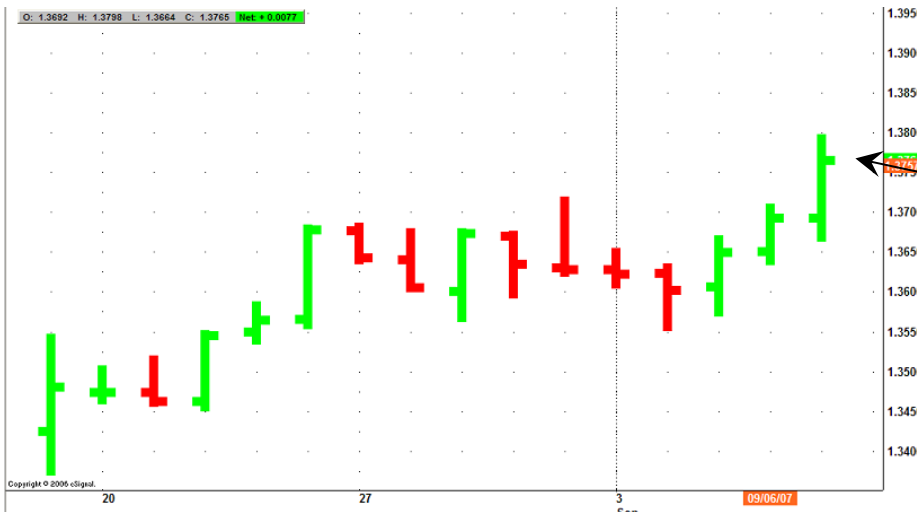
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen recovered a little against the Euro but remains unable to reverse the long standing trend since Japan's economy continues to recover but disappointingly slowly.

THE EURO/DOLLAR CHART



See how the Euro added to the rally against the Dollar as Euro zone growth is expected to continue at an acceptable rate, but Friday's US non-farm payroll report flagged fresh concerns over the US economy.

This week remain bullish of the Euro.

Last week we were bullish of the Euro following the release of a strong IFO report and M3 report the previous week, which together with speeches from Fed officials outlining their views on what would cause them to cut interest rates, led the Euro higher against the Dollar.

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

- on Monday; the PMI Mfg surveys from Italy and the Euro zone were stronger than expected, but the French and German reports were weaker than expected,

- on Tuesday; Italian trade data was better than expected, Euro zone PPI was worse than expected and Euro zone Q2 GDP was as forecast,
- on Wednesday; all the leading Euro zone PMI Services surveys except from France were stronger than expected, and Euro zone retail sales were weaker than consensus,
- on Thursday; German factory orders were weaker than expected and the ECB left interest rates unchanged, and
- on Friday; German trade data was better than forecast, industrial production was weaker than expected and Italian trade data was better than expected.

The data seen last week was generally mixed and the ECB left policy unchanged with Trichet distancing himself from his early hawkish remarks, but the Euro rallied as traders continued to judge a US recession was likely, forcing a Fed ease.

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

- on Monday; French industrial production and manufacturing output and Italian Q2 GDP,
- on Tuesday; German WPI and French trade data,
- on Wednesday; Euro zone Labour costs and Industrial production,
- on Thursday; French and Italian CPI and Euro zone Employment data, and
- on Friday; German and Euro zone CPI, French and Italian C/A data and Italian

industrial production.

This week's data is mainly second order stuff and is unlikely to change the direction of the market which will continue to follow the path set by last week's US non-farm payroll report.

**The Macro Trader's view is:** last week's target was hit as traders continued to speculate a US recession was likely before year end, and there is only one quarter left.

The rationale behind that view is by now very well known; the turmoil in financial markets caused by the US Sub-prime mortgage crisis which is expected to further weaken the US housing market and thereby the wider US economy, and Friday's release of a surprisingly week US non-farm payroll report played strongly to that view.

Even though Euro zone data was generally mixed last week the Euro remained supported as Trichet distanced himself from his earlier hawkish remarks and the outlook for Euro zone growth remained adequate.

As a result we remain very bullish of the Euros prospects against the Dollar, and traders should remain long of this pair.

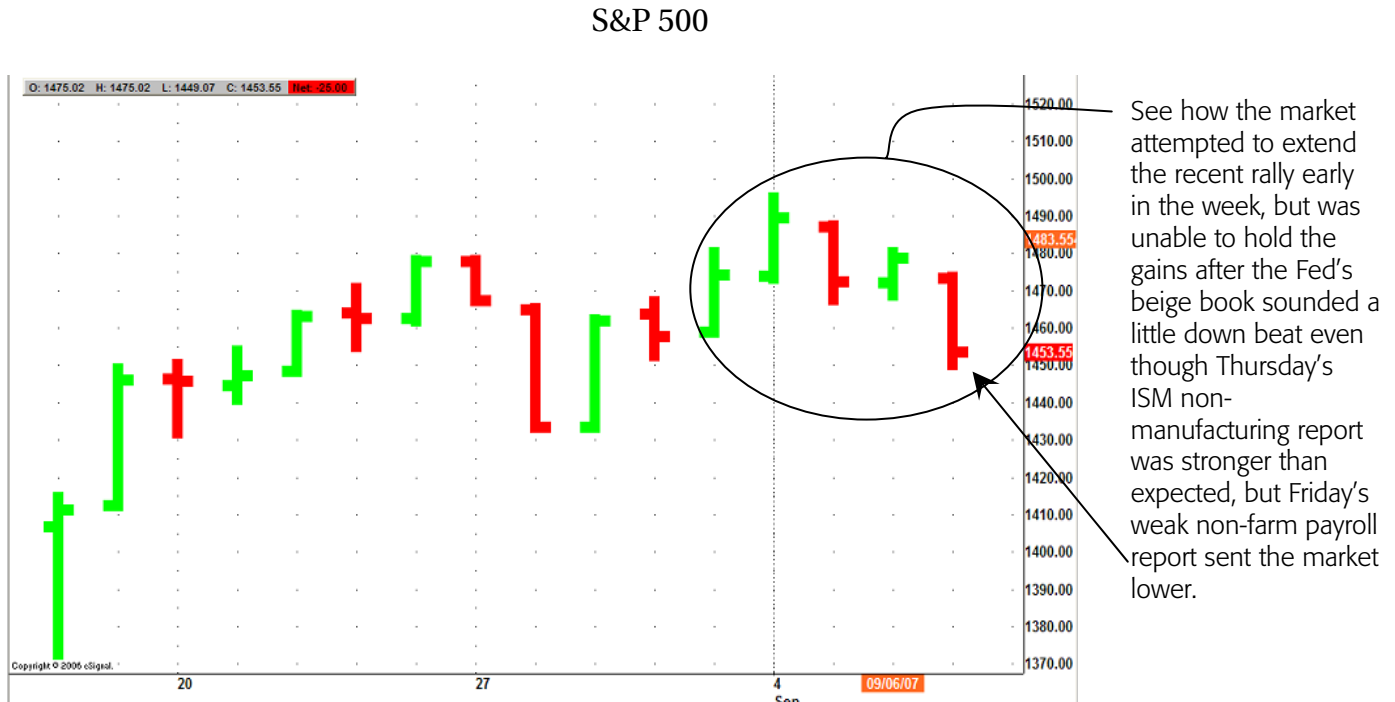
Our target over the next 7 – 10 days is now 1.3850, which doesn't seem too far off but could prove demanding. Our stop is raised to 1.3650 to provide close protection.

# STOCKS

## S&P 500

### OUR TRADING STANCE: BULLISH.

Last week we were bullish of the S&P 500.



This week we remain bullish of the S&P 500.

Last week we went long of this market following speeches from Fed officials and President Bush which specifically offered Sub-prime mortgagees in default help, in an attempt to alleviate their distress and calm the turmoil in financial markets.

The Fed too issued a statement instructing mortgage providers to operate a policy aimed at helping mortgagees in distress in a number of ways:

- by rescheduling payments,
- allowing reduced or a period of no repayment, and
- by reducing the principal owed.

The market reacted positively and almost broke through 1500.0 on Tuesday before falling back after Wednesday's Fed beige book.

And even though Thursday's ISM non-mfg report was better than expected the market looked vulnerable to a shock from Friday's data which materialised with a surprise decline in non-farm payroll.

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Looking ahead traders will focus on Friday's data, detailed in our calendar, and includes retail sales.

**The Macro Trader's view is:** our target was nearly met before the weakness set in, and although non-farm payroll weighed on the S&P we remain bullish.

Although we aren't yet fully convinced of the recession argument, it seems likely the Fed will soon ease, and by several moves which should see equities recover.

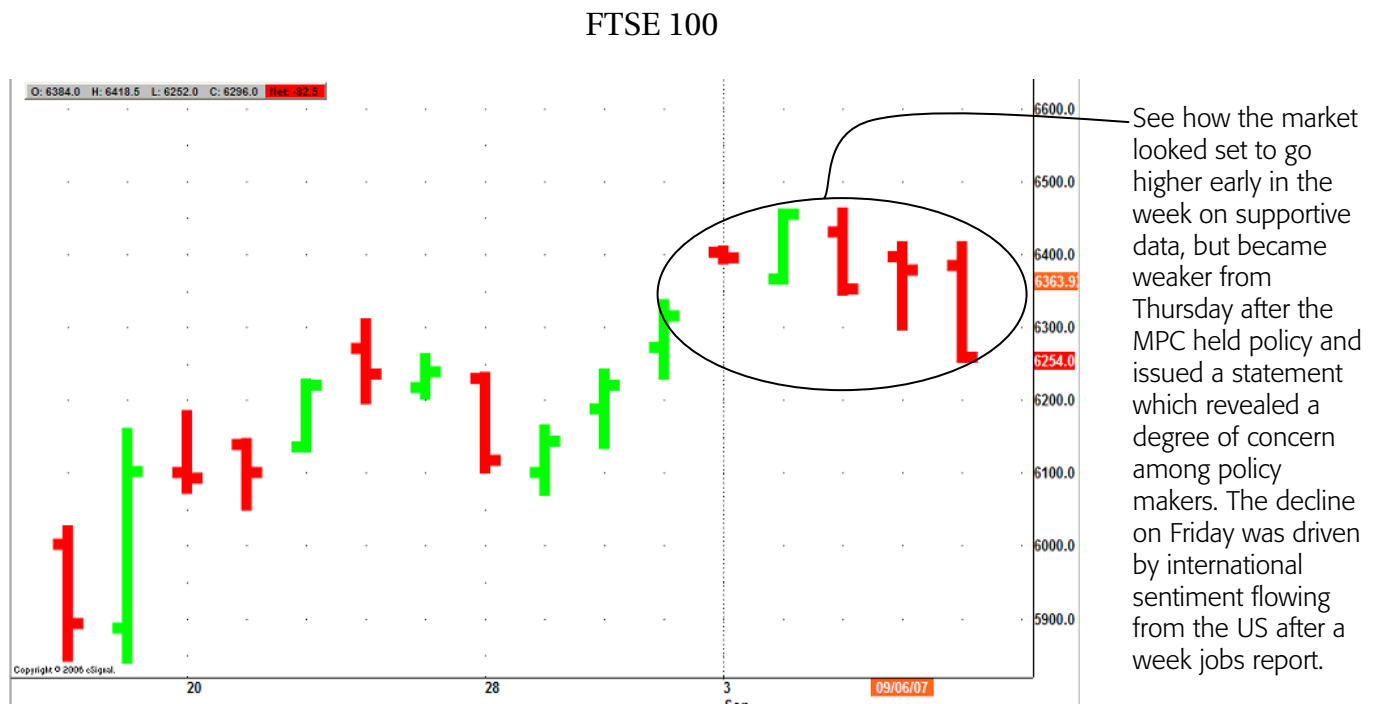
A timely rate cut from the Fed would steady markets as it is clear one cut wouldn't be sufficient and a series of moves would follow.

Traders should stay long of this market and our target over the next 10 days remains 1500.0, and our stop stays at 1440.0 as protection in what are still choppy markets.

# FTSE 100

## OUR TRADING STANCE: BULLISH.

Last week we were bullish of the FTSE 100.



This week we remain bullish of the FTSE 100.

Last week we were long of this market after Fed Chairman Bernanke laid the ground work for a rate cut if one becomes necessary, but more significantly President Bush offered assistance to troubled Sub-prime borrowers, placing a floor under that market.

With UK data remaining solid with both of the PMI reports better than expected, we judged an unchanged decision from the MPC on Thursday would send the FTSE higher.

In the event the market faltered after the MPC released a statement that revealed a degree of concern among policy makers that removed the prospect of any more rate hikes.

Although Friday's US non-farm payroll report took all equity markets lower, the outlook isn't that dark if monetary policy globally is indeed about to turn.

Traders will be keen to see how the UK labour market holds up on Wednesday, but the real

interest is now the Feds meeting on September 18; next week.

**The Macro Trader's view is:** although we were nearly stopped out on Friday after the surprisingly weak US non-farm payroll report, we remain bullish.

A US recession is now a greater possibility but not certain. However the Fed looks likely to act rather than wait for a recession to hit.

With the MPC almost certain to forego any further rate hikes this year, with the next move probably an ease, we believe equities are a buy on the turn of monetary policy.

Traders should remain long of this market and our target over the next 10 days is 6400.0 but maintain the protective stop at 6240.0.

The position should for now remain small and build on confirmation; once the market clear 6500.0.

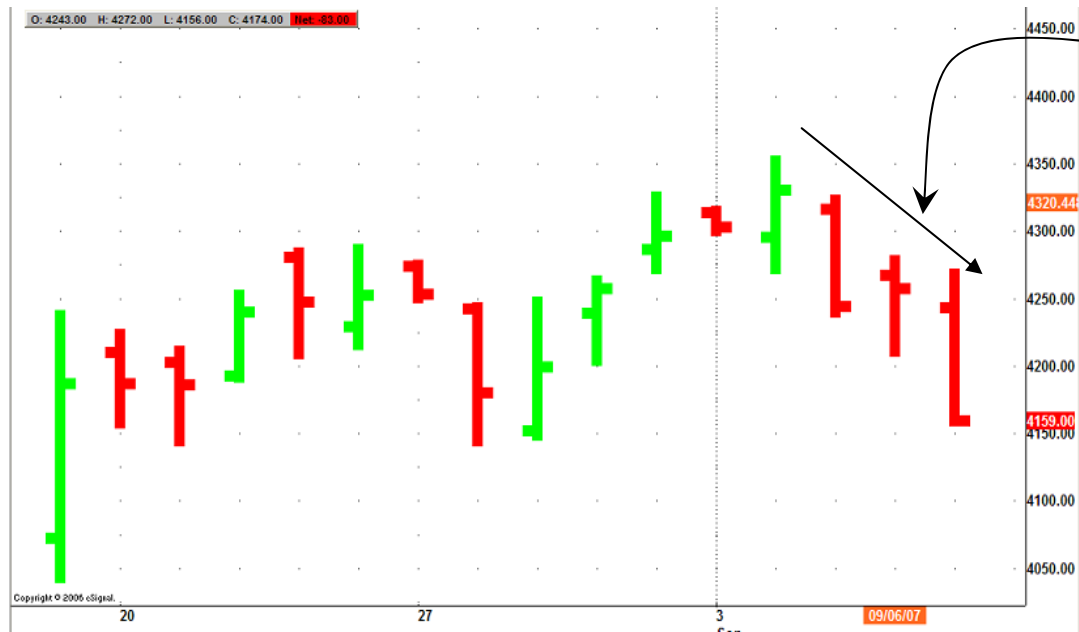
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# DJ EURO STOXX 50

## OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ EURO STOXX 50.

DJ EURO STOXX 50



See how the market gave back all of the previous week's gains as Euro zone data tended to disappoint last week and traders sold on Friday as all equity markets dropped after the weak US non-farm payroll report.

This week we remain square of the DJ EURO STOXX 50.

Last week we remained square of this market ahead of Thursday's ECB interest rate decision and Trichet's post meeting press conference.

While we correctly judge rates would be left unchanged, we were eager to hear Trichet's remarks. On at least two occasions, including the August press conference, Trichet indicated policy would be tightened soon, most probably at the now passed September meeting.

It seemed important to hear how he would re-set the time table for the still expected rate hike.

In the event he distanced himself from those remarks as he said:

- need to pay attention to market developments,
- market volatility leads to high level of uncertainty,
- due to volatility more info needed, and
- Reassuringly, but ambiguously; monetary policy remains accommodative.

With little heavy weight data due in the Euro zone and with events likely to be led from the US we remain un-involved with this market for now.

**The Macro Trader's view is:** for now we are staying square of this market.

While we expect it to recover as other leading global equity markets emerge from their Sub-prime induced panic, probably as a result of a Fed rate cut, and judge the ECB is unlikely to push through any further rate hikes, at least this year, we sense this market could prove a laggard until the ECB is clearer about its future intentions.

The growth outlook for the Euro zone seems sound, although data was mixed last week that was as measured against market consensus in absolute terms it remains positive.

We judge however that the S&P and the FTSE offer the best prospects, at least short term.

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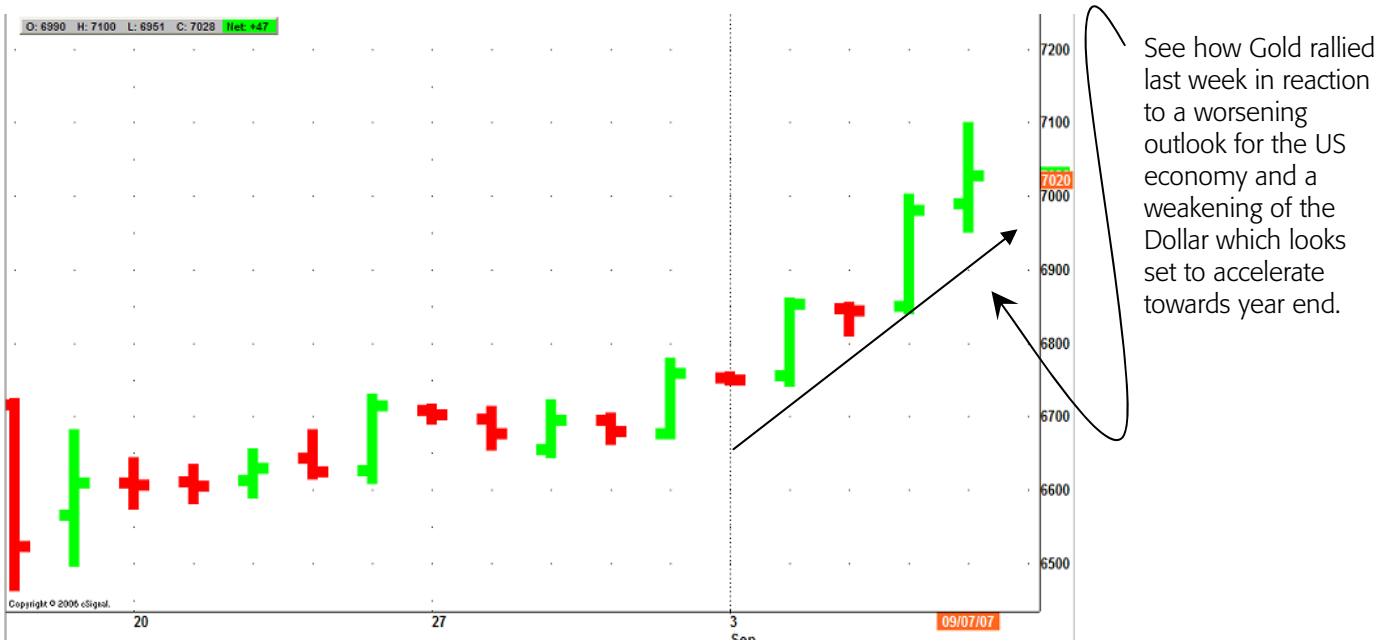
# COMMODITIES

## GOLD

### OUR TRADING STANCE: BUULISH

Last week we were square of gold.

THE GOLD CHART



This week we are bullish of Gold.

Last week we remained square of this market even though it had rallied the previous week on building concerns over the health of the US economy.

With equities looking to rally further after President Bush announced help for Sub-prime mortgagees in default and the Fed seemed to be laying the ground work for a rate cut should one prove necessary, we saw little to encourage us to go long.

However the Dollar declined further last week and equities sold off again, mainly as a result of a weak non-farm payroll report on Friday, but sentiment is now bearish for Both the US economy and the Dollar.

With several key reports due from the US this Friday, traders will seek confirmation that last week's payroll data is indeed painting an accurate picture.

**The Macro Trader's view is:** as the outlook for the US economy seems to have deteriorated, with an almost unanimous market expectation that the Fed will cut at its September 18<sup>th</sup> meeting with only the size of the move in debate, the Dollar is set to fall further.

Amid the continued uncertainty for the Global economy that this generates, Gold looks set to rally further from here.

Additionally geopolitical concerns are still to the fore and we judge this makes Gold a compelling buy.

Traders should be long of this market; our target over the next 7 - 10 days is \$720.00 an ounce. Our stop is set at \$681.00 an ounce to provide protection.

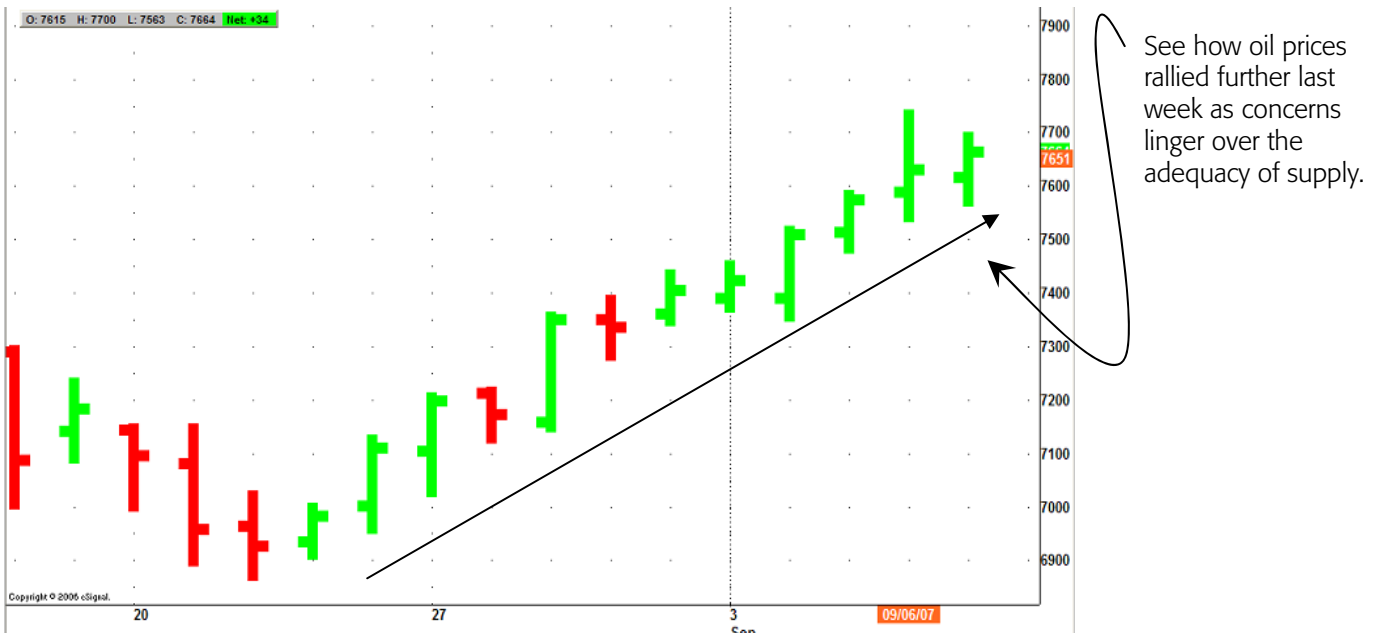
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# OIL

## OUR TRADING STANCE: SQUARE.

Last week we were bullish of oil.

THE CRUDE OIL CHART



This week we are square of oil.

Last week we closed our oil trade as our target was hit, offering a very decent profit, but the main motive for closing the trade was the deteriorating outlook for the US economy.

After the Fed released its beige book, which was less than ebullient, Oil came under selling pressure as questions were again raised over the sustainability of demand from the US should a recession hit.

Although the market edged higher the following day a weak non-farm payroll capped the rally and at the time of writing oil looks becalmed.

Looking ahead there is sufficient geopolitical drama to keep this market supported, and OPEC'S reluctance to consider a production increase, also adds support, but if the US

economy does fall into recession, the rally will become much more hesitant.

**The Macro Trader's view is:** our motive for going long recently was the rhetoric coming from the French and US Presidents concerning Iran's nuclear ambitions and talk of a military option if diplomacy fails.

That is still there supporting the market, but with all sorts of scenarios doing the rounds about the US economy, the rally looks set for a pause and we are staying square a little longer.

Longer term, the Iran question will be addressed, if military action is part of that "solution" then oil prices will move very much higher and we remain alert to fresh developments that will bring us back into the market.

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