Week 04

27th – January – 2nd February 2009

Summary

Global Calendar

Interest Rate Futures
- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds
- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies
- + US Dollar
- + Pound Sterling
- + Euro

Stocks
- + S&P 500
- + FTSE 100
- + Dow Jones Eurostoxx50

Commodities
- + Gold
- + Oil

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the macro trader's guide to major markets

John Lewis

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summary – macro trader

Summary

Global Calendar

Interest Rate Futures	
+ Euro Dollars	**BULLISH** short, medium & long term
+ Short Sterling	**BULLISH** short, medium & long term
+ Euribor	**BULLISH** short, medium & long term
Government Bonds	
+ US 10yr Note	**SQUARE** short, medium, long term
+ Gilt	**BEARISH** short, medium & long term
+ Euro Bund	**BEARISH** short , medium & long term
Currencies	
+ US Dollar	**BULLISH** short, medium & long term
+ Pound Sterling	**BEARISH** v the Dollar
+ Euro	**BEARISH** v the Dollar
Stocks	
+ S&P 500	**SQUARE** short, medium & long term
+ FTSE 100	**BEARISH** short, medium & long term
+ Dow Jones Eurostoxx50	**SQUARE** short , medium & long term
Commodities	
+ Gold	**BULLISH** short, medium & long term
+ Oil	**SQUARE** short, medium & long term

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	Week of 19th January
Monday	UK Rght move hse prces -1.9m, -7.3y **WORSE** EZ Constrct'n output -1.1m, -4.7y **WORSE** **THAN EXPECTED**
Tuesday	UK CPI -0.4m, 3.1y **MORE** UK RPI -1.4m, 0.9y **BETTER** UK RPI-X 2.8y **WORSE** IT Ind orders -6.3m, -26.2y **WEAKER** IT Ind sales -3.9m, -13.9y **WEAKER** DM ZEW -31.0 **BETTER** IT C/A -4.657B **WORSE** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -9.8 **WORSE** UK MPC Minutes 9/0 **AS** UK unemploym't chge 77.9k **BETTER** UK Unemplym't rate 3.6% **WORSE** UK ILO Unemploym't rate 6.1% **AS** UK Avge earnings 3.1% **WEAKER** UK Average ex-bonus 3.6% **AS** UK PSNB 14.9B **WORSE** UK PSNCR 44.2B **WORSE** DM PPI -1.0m, 4.3y **MORE** IT Trade bal -1.07B **BETTER** IT Trade bal EU 151M **BETTER** **THAN EXPECTED**

	Week of 26th January
Monday	US Existing home sales 4.4M UK BBA Hse purchse loans n/f
Tuesday	US Case-shiller hme prce idx n/f US Cons conf 38.9 UK CBI Distributive trdes n/f DM Import prces -2.9m, -3.7y IT Cons conf 99.0 DM IFO 81.0 EZ C/A n/f IT Trade bal non-EU -1.35B
Wednesday	US MBA Mrtge apps n/f US FOMC Rate decision 0.25% DM CPI -0.3m, 1.1y DM GFK Cons conf 1.9 FR Cons conf -45 IT Bus conf 65.4

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	Week of 19th January Cont'd
Thursday	US Hsing strts 550k **WORSE** US Bldg permits 549k **WORSE** US Hse prce indx -1.8% **WORSE** US Jobless claims 589K **WORSE** UK CBI Ind trnds -48 **WORSE** EZ Ind new orders -4.5%m, -26.2y **WORSE THAN EXPECTED**
Friday	UK Q4 GDP -1.5%q, -1.8%y **WORSE** UK Retail sales 1.6m, 4.0y **STRONGER** UK Indx of Services -0.4% **WORSE** FR Business conf 73 **BETTER** FR Prod outlk indicator -75 **BETTER** EZ PMI Composite 38.5 **BETTER** IT Retail sales 0.2m, -3.0y **WORSE THAN EXPECTED**

	Week of 26th January Cont'd
Thursday	US Durable goods -2.0% US Durables ex-transport -2.5% US Jobless claims n/f US New home sales 400k UK Nationwide hse prces -1.7m, -16.7y DM ILO Unemploy't 7.2% DM Unemploy't chge 30k DM Unemploy't rate 7.7% EZ M3 (3m) N/F EZ M3 (Y/Y) 7.6% EZ Economic conf 65.0 EZ Cons conf -31 EZ Bus climate indx 3.50
Friday	US Q4 GDP -5.0% US q4 Persnl consumpt'n n/f US Q4 Core PCE n/f US Q4 Employm;t cost indx 0.7% US Q4 GDP Price indx 0.4% US Chicago PMI 34.2 US U. Of Michigan conf 61.9 UK Mrtge apps 26k UK Net cons cr 0.7B UK Net lndg on dwellings 0.6B FR PPI -1.1m, 0.3y EZ CPI 1.4% EZ Unemployment rate 7.9% IT PPI -1.1m, 1.1y

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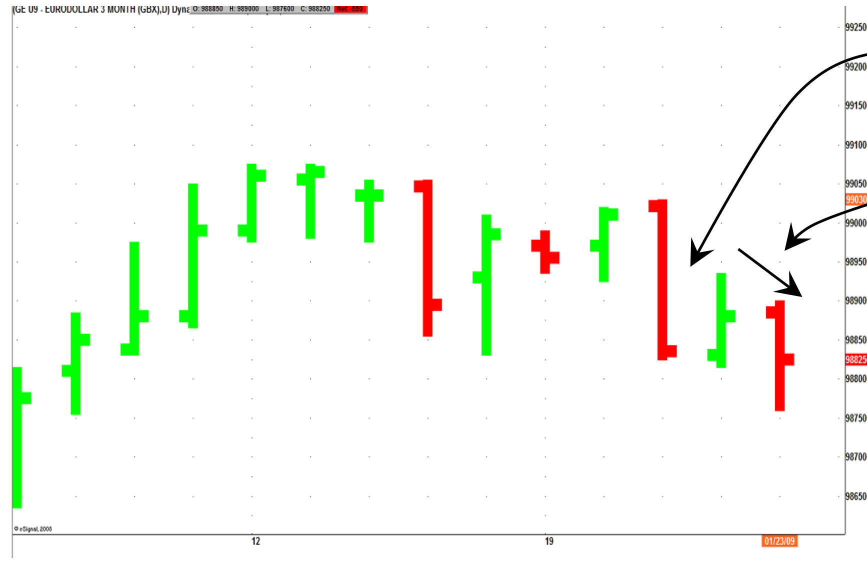
Interest Rate Futures: Euro Dollars September 09

OUR TRADING STANCE: BULLISH.

Last week we were bullish of September 09.



See how Eurodollars sold off on Wednesday as equities staged a strong recovery from Tuesday's sell off and remained weak even though Thursday's release of housing starts and building permits came in much weaker than expected.

Last week we remained bullish of this market following another run of weak data the previous week, which saw retail sales and capacity utilisation reports coming in below consensus, indicating a very weak Q4 GDP report.

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

- On Wednesday; MBA Mortgage applications; worse than expected, and
- On Thursday; housing starts; worse than expected, building permits; worse than expected, house price index; worse than expected and jobless claims; worse than expected.

The market virtually ignored the weak data releases, especially the housing starts and permits reports which show the housing market weakening further, but instead sold off in reaction to the price action in equity markets; a sharp rally in equities on Wednesday, was mirrored by a sell off in Eurodollars, that persisted into the week's end.

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Interest Rate Futures: Euro Dollars

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

- On Monday; existing home sales,
- On Tuesday; Case-Schiller home price index and consumer confidence,
- On Wednesday; MBA Mortgage applications and FOMC rate decision,
- On Thursday; Durable goods, Jobless claims, and New home sales, and
- On Friday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 Employment cost index, Q4 GDP Price index, Chicago PMI and University of Michigan confidence.

The key events this week are highlighted red, and for once an FOMC meeting isn't the main event even though the policy statement should be closely scrutinised for any new policy initiatives.

But with Q4 GDP due on Friday, we judge this to be the main event, with forecasts of a 5.0% annualised contraction.

The Macro Trader's view is; the Fed has done all it can with short term interest rates, but still the economy continues to weaken.

Last week's sell off in Eurodollars was likely more to do with the emotive price action in the equity markets surrounding the inauguration of President Obama.

Far from sitting back and hoping the measures already taken will bring the economy back to life policy makers are likely to extend their commitment to buying bonds by purchasing US Treasuries.

Bernanke has noted on previous occasions that when Fed funds hit zero, policy makers can chose another maturity to target.

In short if the economy fails to respond the Fed will intervene in the Bond market and in an extreme set of circumstances drive the yield curve almost flat.

Mortgages would be come very attractive helping both existing home owners remortgage at cheaper rates and kick start the housing market by facilitating cheap funding for houses at bargain prices.

This leads us to conclude that Eurodollars can rally further and traders should remain long of this market.

Our interim target is now 99.10, but our stop continues at 98.75 for very close protection.

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SEVEN DAYS AHEAD

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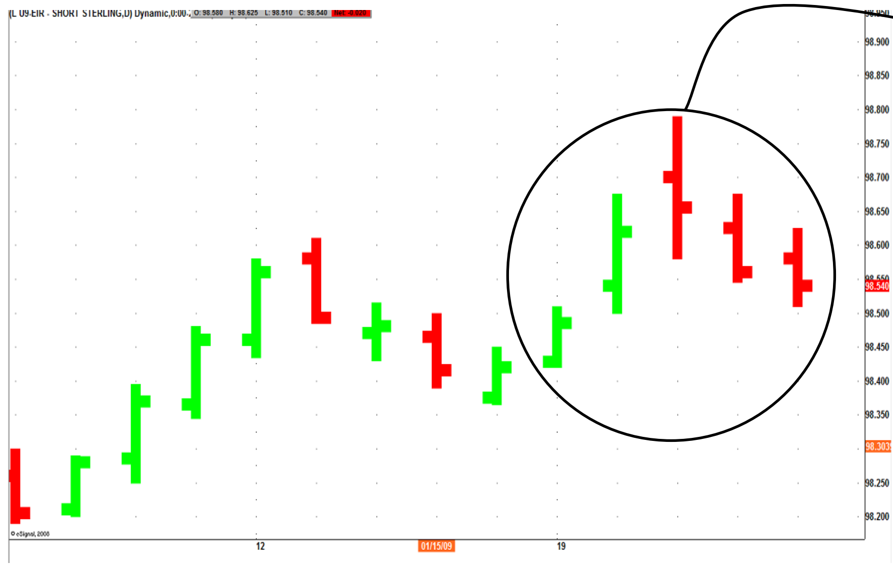
Interest Rate Futures: Short Sterling September 09

OUR TRADING STANCE: BULLISH.

Last week we were bullish of September 09.



See how Short Sterling sold of from Wednesday as the market digested higher than expected CPI on Tuesday, worse than expected borrowing data on Wednesday and on Friday a weak Q4 GDP report which was confused by stronger than expected retail sales.

Last week we remained bullish of September 09 Short Sterling as the outlook for the economy seemed to darken daily with well known high street firms folding and job losses mounting.

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

- On Monday; Right move house price survey; worse than expected,
- On Tuesday; CPI; worse than expected, RPI; better than expected and RPI-X; worse than expected,
- On Wednesday; MPC minutes; the vote was bullish but members discussed a pause, unemployment report; worse than expected, average earnings; weaker than expected, ex-bonus; as expected, PSNB; worse than expected and PSNCR; much worse than feared,
- On Thursday; CBI Industrial trends survey; weaker than expected, and
- On Friday; Q4 GDP; worse than expected, Retail sales; stronger than expected and index of services; worse than expected.

The market was disappointed by the CPI data on Tuesday and un-nerved by the MPC minutes on Wednesday, with the strength of retail sales on Friday a big surprise.

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Interest Rate Futures: Short Sterling

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

- On Monday; BBA loans for house purchase,
- On Tuesday; CBI Distributive trades survey,
- On Thursday; Nationwide house price report, and
- Friday; mortgage applications, net consumer credit and net lending on dwellings.

This week's key releases are highlighted red, and are all linked to the flow and availability of credit within the economy and since the restriction of credit has caused the recession, these numbers are predictive of how it will develop in the coming months.

The Macro Trader's view is: last week's data clearly confused the market. Although CPI was worse than expected, it was still much lower than the previous month and a strong downward correction is certainly underway, which will likely accelerate now British Gas has announced a 10% price cut.

The unemployment data too came in a little better, but a rise of 77k is nothing to celebrate.

But Friday sprung the biggest surprise; Q4 GDP was worse than expected and reported the economy weakening at a pace not seen since the 1980's recession.

However, Retail sale came in much stronger. With all the talk of doom and gloom on the high street, especially around Christmas, with several well known high street names going under, how come the number was so strong?

The answer lies in the report its self. **In the UK retail sales is measured by volume of sales, not by value**. In the run up to Christmas and into the New Year heavy discounting was wide spread, so the volume of sales went up, but at a cost to the shops who saw their profitability fall.

Remember GDP records the value of items sold not how many pairs of socks etc moved off the shelves. **If retail sales in the UK were reported by value, as in the US**, the situation would have looked very different.

How ever this anomaly was revealed in the GDP data; Q4 covered December and that number was weaker than forecast, and is a more reliable measure of the strength of economic activity in the UK.

Traders should remain long of this market, our interim target is now set at 98.79, last week's high and our stop is raised to 98.35 for close protection.

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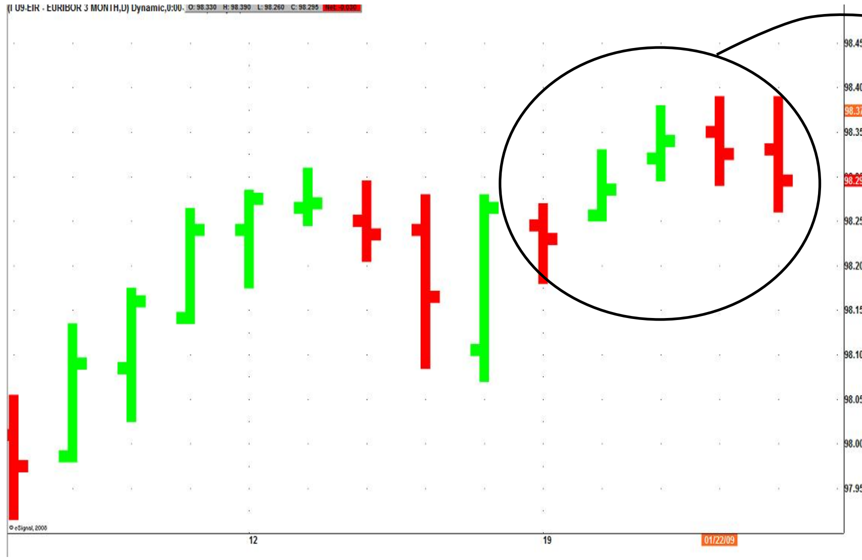
Interest Rate Futures: Euribor September 09

OUR TRADING STANCE: BULLISH.

Last week we were bullish of September 09.



See how Euribor held onto some of last week's gains as the trend of data releases remained weak.

Last week we remained bullish of this market as data remained weak and the ECB eased policy the previous week as widely anticipated.

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

- On Monday; Euro zone construction output; worse than expected,
- On Tuesday; Italian industrial orders and sales; weaker than expected, German ZEW survey; better than expected and Italian C/A report; worse than expected,
- On Wednesday; German PPI; more than forecast, Italian trade balance and EU Trade balance; better than expected,
- On Thursday; Euro zone industrial new orders; worse than expected, and
- On Friday; French business confidence; better than expected and production outlook indicator; better than expected, Euro zone PMI Composite; better than expected and Italian retail sales; worse than expected.

The market eased back from the highs last week as one or two reports came in better than consensus, but these improvements were relative, in absolute terms data remains very weak.

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Interest Rate Futures: Euribor

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

- On Tuesday; German import prices, Italian consumer confidence, German IFO, Euro zone C/A and Italian non-EU trade balance,
- On Wednesday; German CPI, GFK Consumer confidence, French consumer confidence and Italian business confidence,
- On Thursday; German unemployment reports, Euro zone M3, economic confidence, consumer confidence and business climate index, and
- On Friday; French PPI, Euro zone CPI, unemployment and Italian PPI.

This week's key releases are highlighted in red, and they are all capable of moving the market if wide of consensus, but we judge traders should pay special attention to German IFO and unemployment.

As the largest Euro zone economy and largely responsible for the previous expansion, what happens in Germany has Euro zone wide ramifications.

The Macro Trader's view is; the Euro zone economy continues to weaken, despite one or two releases coming in above consensus last week; most notably the Euro zone PMI Composite survey, which in absolute terms remains very weak.

As the market relinquished some of last week's gains, we judge this to be a good opportunity to go long, if not already involved, as we are.

With the ECB still in easing mode, Euribor is bullish and draws its support from weak economic data which increasingly looks set to be the worst recession in Europe since WW11.

The IMF is about to downgrade world growth to 1 – 1.5% and that's with China still growing at around 6.0%, which in the west looks Stella but to the Chinese will feel like recession after years of near double digit growth rates.

Traders should remain long of this market, our interim target remains 98.50 but our stop is raised to 98.05 for closer protection.

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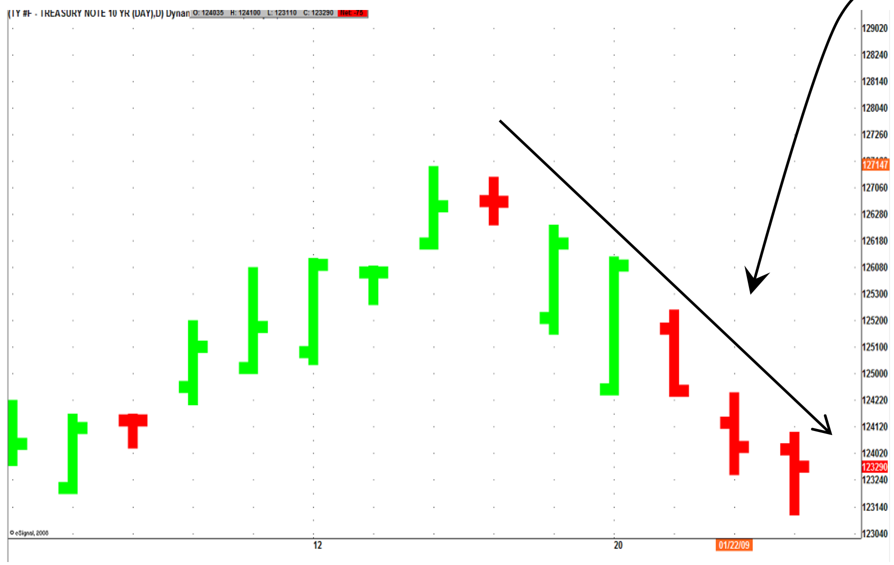
Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were bullish of the 10yr Note.



See how the 10 yr note sold off last week as traders began to question whether deficits in excess of $1.0T were sustainable and financeable over the medium term.

Last week we remained bullish of this market, as key data release revealed an economy still sinking deeper into recession, with the Banking industry still in a fragile state.

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

- On Wednesday; MBA Mortgage applications; worse than expected, and
- On Thursday; housing starts; worse than expected, building permits; worse than expected, house price index; worse than expected and jobless claims; worse than expected.

The market seemed to ignore the data last week, which although sparse still revealed a housing market stuck in a deep contraction with weaker than expected housing starts and building permits.

Even Jobless claims which had shown some improvement in earlier weeks leapt higher showing corporate America continued to bleed jobs at a very high rate.

But mounting fears over the size of the budget deficit, crystallized with the inauguration of Barak Obama and sent Bonds lower.

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Commodities
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Government Bonds: US Treasury Note (10yr)

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

- On Monday; existing home sales,
- On Tuesday; Case-Schiller home price index and consumer confidence,
- On Wednesday; MBA Mortgage applications and FOMC rate decision,
- On Thursday; Durable goods, Jobless claims, and New home sales, and
- On Friday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 Employment cost index, Q4 GDP Price index, Chicago PMI and University of Michigan confidence.

The key events this week are highlighted red, and they are unlikely to show any let up in the run of negative data that has shown the US economy contracting at a rate not seen in recent recessions.

Traders are advised to monitor the New and Existing home sales data closely, but we judge Friday's Q4 GDP report will be the main event this week.

The Macro Trader's view is; we were stopped out last week by the unexpected correction that gripped the market last week.

We now judge the bull market in bonds is subject to a large question mark, and although the thought of Central Bank intervention offers underlying support, traders have re-focused back to the issue of the budget deficit, which looks set to run at a level in excess of $1.0T for several years.

Unlike one or two other advanced economies, we think the US should be able to fund this deficit due to the enormity of foreign reserve holdings denominated in US Dollars, but eventually at a cost; maybe eventually has hit sooner than thought.

The inauguration of President Obama, brought with it the reality of his stimulus package which comes on top of several multi billion rescue attempts already launched throughout 2008.

However as the economy continues to weaken and the Fed mulls its options in the Bond market, can Treasuries recover.

Bernanke has previously said that when short term interest rates hit zero the Fed will pick another maturity and repeat the operation.

Theoretically that could mean either 3 month money or anything out to the 10 year maturity.

Certainly quantum easing involving the purchase of government Bonds would more likely be focussed around the 10 year horizon as in Japan.

For now we have elected to remain square, and await Friday's Q4 GDP report and the Feds policy statement for clearer insight into this markets future direction.

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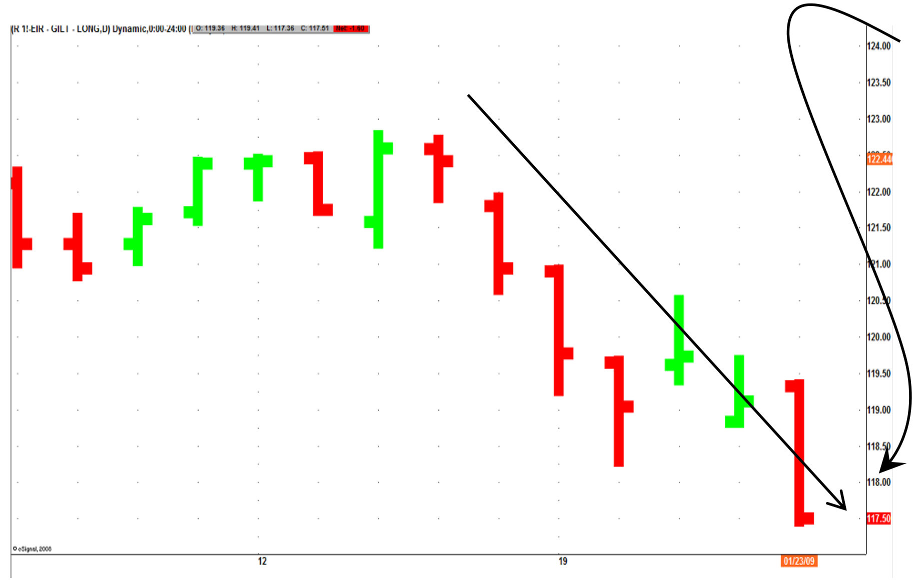
Government Bonds: The Gilt

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.



See how the Gilt sold off heavily last week as government borrowing went through the roof and the EU issued a damming report on the UK economy and government finances.

Last week we were bearish of the Gilt as the government rolled out another multi Billion Pound Banking rescue following a run on UK Bank stocks.

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

- On Monday; Right move house price survey; worse than expected,
- On Tuesday; CPI; worse than expected, RPI; better than expected and RPI-X; worse than expected,
- On Wednesday; MPC minutes; the vote was bullish but members discussed a pause, unemployment report; worse than expected, average earnings; weaker than expected, ex-bonus; as expected, PSNB; worse than expected and PSNCR; much worse than feared,
- On Thursday; CBI Industrial trends survey; weaker than expected, and
- On Friday; Q4 GDP; worse than expected, Retail sales; stronger than expected and index of services; worse than expected.

The Gilt was hammered last week as the Bank bail out run into the fall out of the record loss reported by RBS and the much worse than expected government borrowing data which looks set to get worse during the course of this year at the very least.

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Government Bonds: The Gilt

Looking ahead there are few key reports due this week as we approach the Christmas holiday, and we advise traders to monitor the following:

- On Monday; BBA loans for house purchase,
- On Tuesday; CBI Distributive trades survey,
- On Thursday; Nationwide house price report, and
- Friday; mortgage applications, net consumer credit and net lending on dwellings.

This week's key releases are highlighted in red, and we advise monitoring them all closely, but following last week's government borrowing data we do not expect the tone of this market to change anytime soon.

The Macro Trader's view is; our decision to go short last week after a prolonged period on the sidelines warning of a bear market in Gilts, proved highly rewarding.

As a rumour ran through the market that the UK'S Sovereign AAA rating was at risk, since denied, traders dumped gilts.

The publication of a PSNCR figure on Wednesday revealing a deficit of £44.2B together with an EU report highly critical of the current fiscal policy and highlighting the enormity of the debt burden this country now bears, simply added fuel to the fire.

While reports from certain market traders of the UK's imminent demise seem well wide of the mark, there is no denying the sense that this government has lost control of events and thinks simply throwing Billions at the problem will cure it.

The Banking system remains dysfunctional despite two attempts to mount a rescue. But the problem of economic weakness is becoming self perpetuating as the Banks scale back their lending, companies and individuals struggle to meet obligations, previously sound loans issued by the Banks turn bad and their capital is further eroded.

Simply pumping yet more money into the Banks isn't the only answer.

The authorities need to by pass the Banking system and instruct the Bank of England to use its Balance sheet to the fullest extent and buy up private and corporate assets, thereby pumping money directly into the economy.

The Banks would be relieved from seeing previously sound assets going bad and the situation would gradually stabilise.

Additionally the Bank should buy all the extra gilt issuance resulting from recent Bank bail outs and the November budget in the form of 10yr Gilts and hold them to maturity. By then the economy would surely have stabilized and the government spared from funding its bloated deficit at ever higher yield.

However, although the Bank has been given new powers, they aren't exactly using them with alacrity as the situation demands.

Traders should remain short of this market.

Our interim target is now 116.80 and our stop is placed at 120.70 for closer protection.

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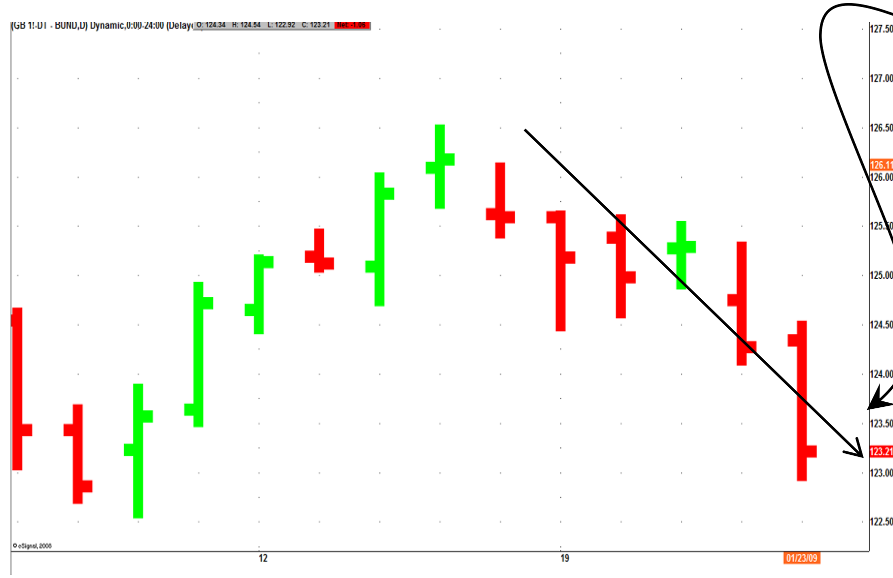
Government Bonds: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were bullish of the Bund



See how the Bund sold off last week as anxieties over funding growing government deficits came to the fore after several peripheral Euro zone countries were down graded.

Last week we remained bullish of the Bund as German GDP for 2008 came in weaker than expected and speculation over quantum easing increased.

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

- On Monday; Euro zone construction output; worse than expected,
- On Tuesday; Italian industrial orders and sales; weaker than expected, German ZEW survey; better than expected and Italian C/A report; worse than expected,
- On Wednesday; German PPI; more than forecast, Italian trade balance and EU Trade balance; better than expected,
- On Thursday; Euro zone industrial new orders; worse than expected, and
- On Friday; French business confidence; better than expected and production outlook indicator; better than expected, Euro zone PMI Composite; better than expected and Italian retail sales; worse than expected.

The Bund sold off last week, driven mainly by growing concerns relating to funding issues.

As three peripheral Euro zone members, including Spain, had their credit rating reduced and Ireland was placed on negative watch, due to fiscal sustainability issues, the Bund gave back all of the previous week's gains.

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Government Bonds: The Bund

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

- On Tuesday; German import prices, Italian consumer confidence, German IFO, Euro zone C/A and Italian non-EU trade balance,
- On Wednesday; German CPI, GFK Consumer confidence, French consumer confidence and Italian business confidence,
- On Thursday; German unemployment reports, Euro zone M3, economic confidence, consumer confidence and business climate index, and
- On Friday; French PPI, Euro zone CPI, unemployment and Italian PPI.

This week's key events are highlighted in red, and we advise paying close attention to the German IFO survey and Euro zone M3 but concern over fiscal sustainability among Euro zone states is likely to remain the dominant theme in this market.

The Macro Trader's view is: the Bund sold off throughout last week and although our stop wasn't hit, we went square.

Following the German governments problem with funding a Euro6.OB Bund issue a couple of weeks ago, the market received another shock last week when three Euro zone members, including Spain had their Sovereign credit rating cut.

While so far only peripheral states have been affected, the Euro zone is a monetary Union and to varying degrees the concerns of one are issues for the whole.

As a result the Euro Bund has received a knock, which even the Gilt hasn't yet endured despite a run up in UK government debt.

Moreover, as talk of quantum easing has occupied the minds of traders and policy makers alike, a new anxiety has emerged; can the ECB operate a quantum easing policy in the same way as the Fed or the Bank of England. Because unlike the US and UK there isn't currently a central authority for issuing debt on behalf of the Euro zone.

This raises the question of what debt instruments the ECB would buy. Clearly Germany or France might object to having their debt purchased, but more importantly how would the ECB insure that the funds released by such a policy ended up where intended.

Could the ECB start buying up private and corporate debt in any Euro zone member state without the agreement of the National government.

While these problems could likely be overcome through negotiation and agreement, the wheels of the EU and Euro zone usually move slowly, making quantum easing in the Euro zone seem a less imminent possibility than elsewhere, which makes the Bund suddenly seem all the more vulnerable to the downside.

Traders should be short of this market, our interim target is 121.50 and our stop is placed at 123.75 for close protection.

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Summary

Global Calendar

Interest Rate Futures

+ Euro Dollars
+ Short Sterling
+ Euribor

Government Bonds

+ US 10yr Note
+ Gilt
+ Euro Bund

Currencies

+ US Dollar
+ Pound Sterling
+ Euro

Stocks

+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

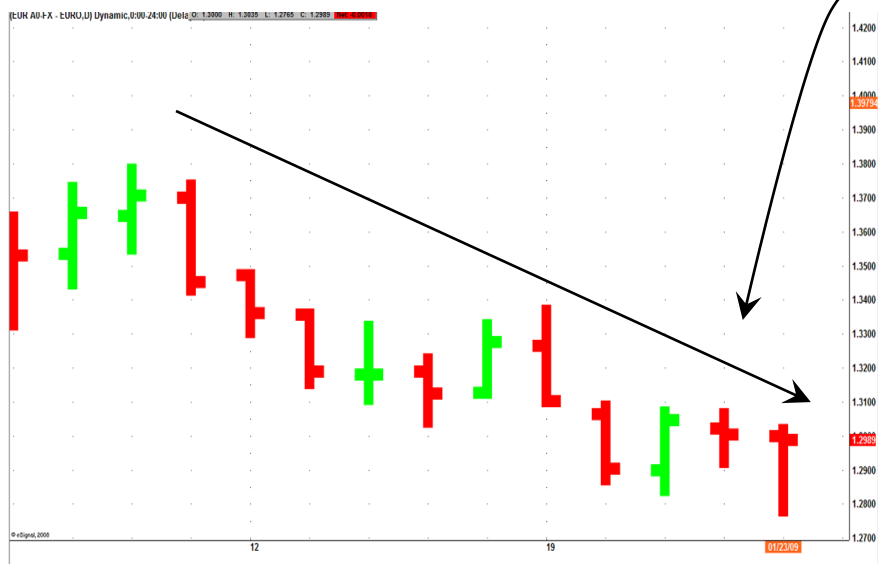
Commodities

+ Gold
+ Oil

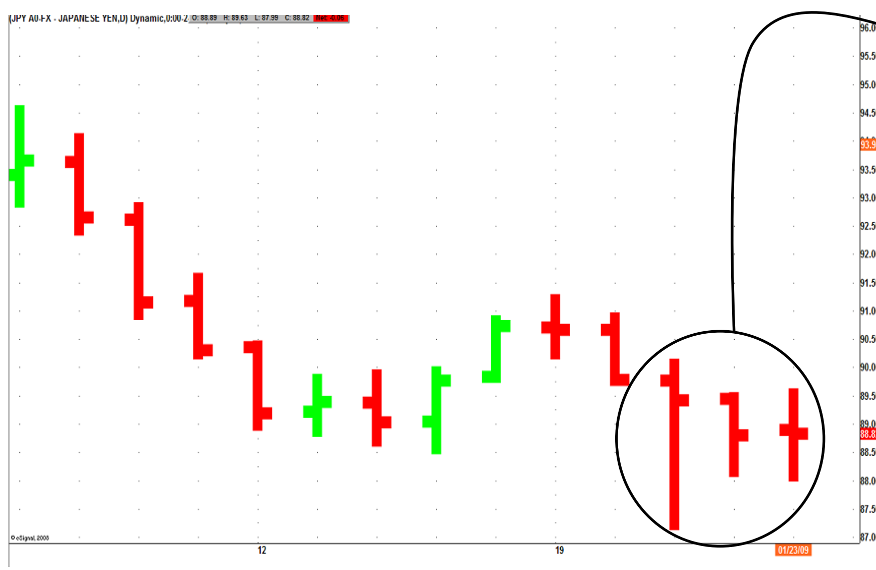
Currencies: The Dollar

OUR TRADING STANCE: BULLISH.

Last week we were square of the Dollar



See how the Dollar strengthened further against the Euro last week as fiscal sustainability and Sovereign credit risk began to become an issue for members of the Euro zone.



See how the Dollar tested the lows against the Yen as the Japanese currency is currently the vehicle of choice to sell the other majors against.

More

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Global Calendar

Interest Rate Futures
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+ Short Sterling
+ Euribor

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+ Euro Bund

Currencies
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+ Pound Sterling
+ Euro

Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Dollar

Last week we remained square of the Dollar, but advised if it broke through 1.3000 against the Euro to go long Dollar/short Euro.

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

- On Wednesday; MBA Mortgage applications; worse than expected, and
- On Thursday; housing starts; worse than expected, building permits; worse than expected, house price index; worse than expected and jobless claims; worse than expected.

The data seen in the US last week wasn't exactly bullish for the US currency, but as several Euro zone members saw their Sovereign credit rating cut and the EU issued a negative assessment of the UK economy and fiscal outlook, the Dollar rallied.

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

- On Monday; existing home sales,
- On Tuesday; Case-Schiller home price index and consumer confidence,
- On Wednesday; MBA Mortgage applications and FOMC rate decision,
- On Thursday; Durable goods, Jobless claims, and New home sales, and
- On Friday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 Employment cost index, Q4 GDP Price index, Chicago PMI and University of Michigan confidence.

This week's key events are highlighted red, and there is much for traders to digest with New and Existing home sales both due. The FOMC policy statement is also important; will the Fed widen there bond market operations to include Treasuries.

But we judge the main event this week is Friday's GDP data.

The Macro Trader's view is: the Dollar broke through to the lower half of the range against the Euro and threatens to strengthen further as concerns over the Euro zone economy and fiscal health of several members continue.

Against the Pound the Dollar also looks strong after the UK government enacted a 2nd bank rescue plan last week which collided with heavy criticism from both the EU and one particular well known international hedge fund manager.

And although Friday's GDP data runs the risk of coming in worse than expected, the Dollar is still considered the best of the bunch, apart from the Yen, which although saddled with a recession in Japan continues to out perform most other majors.

Traders should be long of the Dollar:

1. Against the Euro our interim target is 1.2800 and our stop is at 1.3350,
2. Against Sterling our interim target is 1.3620 and our stop is at 1.4260.

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Commodities
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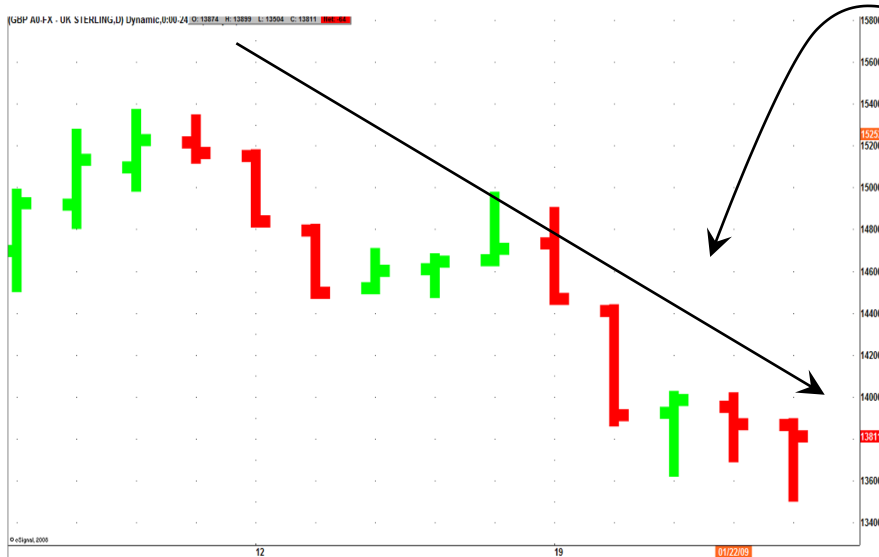
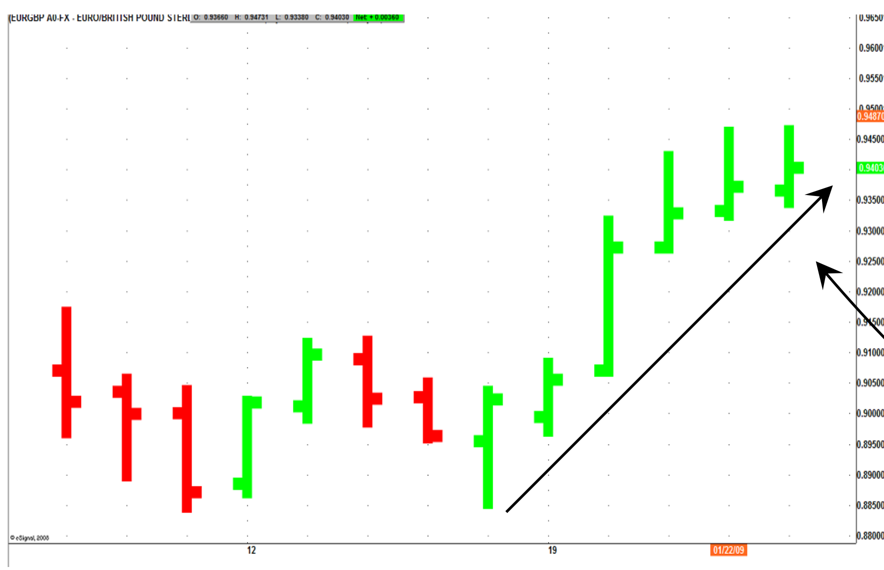
Currencies: The Pound Sterling

OUR TRADING STANCE: BEARISH.
Last week we were square of Sterling.



See how Sterling sold off hard last week making new multi year lows as confidence in the UK governments handling of the current crisis has begun to evaporate.



See how Sterling weakened against the Euro as a negative EU report on the UK economy, government finances and economic outlook undermined the Pound against all the other major currencies, with rumours, later denied, of a threaten downgrade of the UK'S Sovereign AAA rating.

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+ Euro

Stocks
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+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Pound Sterling

Last week we were square of Sterling, as we judged the Pound remained dogged by economic weakness and expanding deficits, but so to do the other major economies.

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

- On Monday; Right move house price survey; worse than expected,
- On Tuesday; CPI; worse than expected, RPI; better than expected and RPI-X; worse than expected,
- On Wednesday; MPC minutes; the vote was bullish but members discussed a pause, unemployment report; worse than expected, average earnings; weaker than expected, ex-bonus; as expected, PSNB; worse than expected and PSNCR; much worse than feared,
- On Thursday; CBI Industrial trends survey; weaker than expected, and
- On Friday; Q4 GDP; worse than expected, Retail sales; stronger than expected and index of services; worse than expected.

The Pound was hammered last week by a combination of disappointing data, a record corporate loss published by RBS and another multi billion Pound banking rescue that further adds to the alarming build up of government debt.

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

- On Monday; BBA loans for house purchase,
- On Tuesday; CBI Distributive trades survey,
- On Thursday; Nationwide house price report, and
- Friday; mortgage applications, net consumer credit and net lending on dwellings.

This week's key events are highlighted red, and they are all linked to the flow of credit in the economy.

But we judge the Pound will continue to be driven by sentiment linked to perceptions of this governments economic competence and the sustainability of the UK'S rapidly deteriorating fiscal position.

The Macro Trader's view is: the Pound found few friends last week as a toxic combination of data and negative sentiment sent it to multi year lows against the Dollar.

The principal concern among traders last week was an unfounded rumour that the country's AAA rating was placed on negative watch.

While this has been denied, the fears that gave rise to such a rumour gaining currency in the market haven't gone away; in fact they were re-enforced by a damming EU assessment of the UK economies prospects and fiscal stance.

A huge loss by RBS didn't help and the Bank rescue announced by the government on Monday was lost in the turmoil that ensued.

The outlook for the Pound remains negative and there is a good chance that Cable will re-visit the lows made in 1985 0f around 1.0520 in the coming months if the government isn't perceived to have got a grip of the economy.

Traders should be short of Cable, our interim target is 1.3620 and our stop is at 1.4260 for protection.

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Commodities
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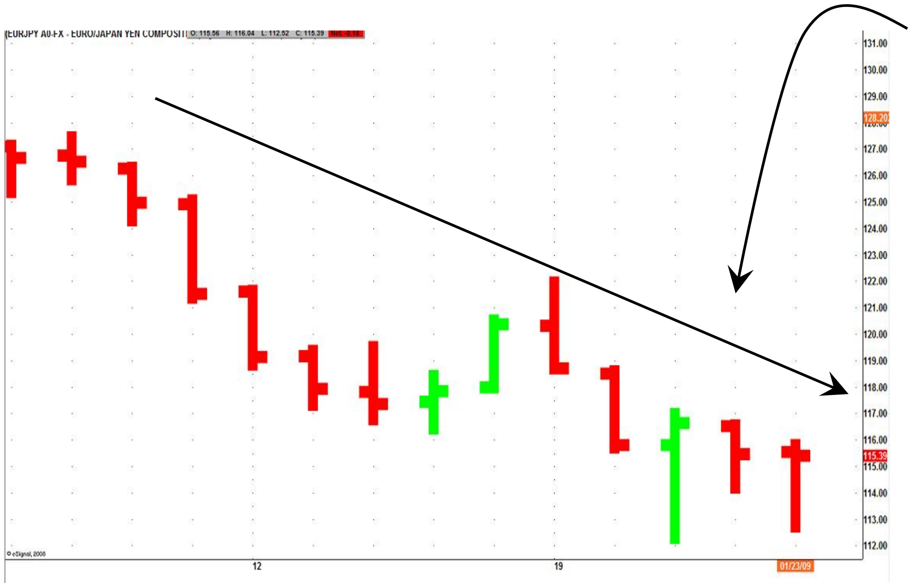
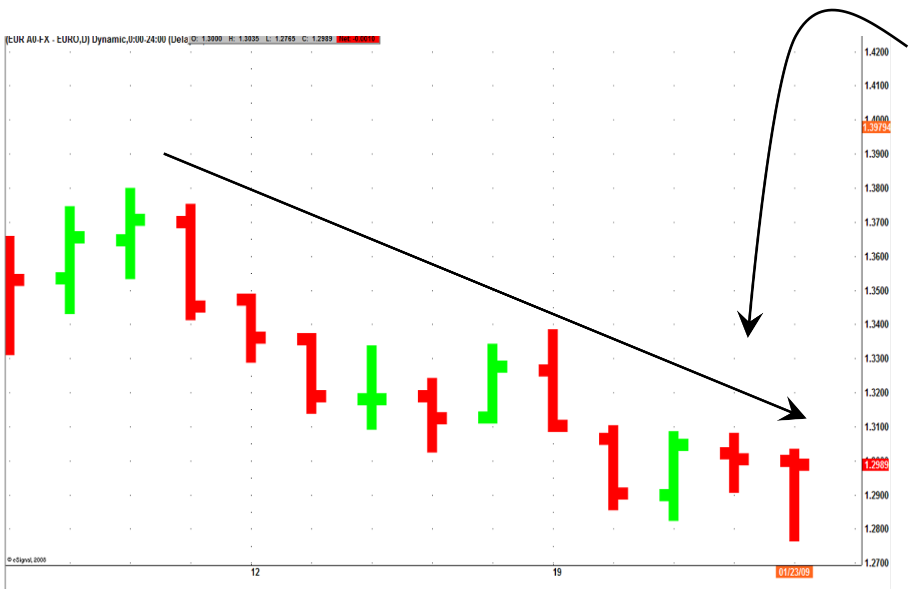
Currencies: The Euro

OUR TRADING STANCE: BEARISH.

Last week we were square of the Euro.



See how the Yen rallied further against the Euro as the Yen benefited from several peripheral Euro zone members having their Sovereign debt rating reduced, with Ireland placed on negative credit watch.



See how the Euro weakened against the Dollar as traders registered their concern over the outlook for the Euro zones coherence after three members including Spain, had their Sovereign debt rating reduced.

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+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Euro

Last week we were square of the Euro as the market remained range bound, but with data continuing weak we were alerted to a possible re-assertion of Dollar strength.

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

- On Monday; Euro zone construction output; worse than expected,
- On Tuesday; Italian industrial orders and sales; weaker than expected, German ZEW survey; better than expected and Italian C/A report; worse than expected,
- On Wednesday; German PPI; more than forecast, Italian trade balance and EU Trade balance; better than expected,
- On Thursday; Euro zone industrial new orders; worse than expected, and
- On Friday; French business confidence; better than expected and production outlook indicator; better than expected, Euro zone PMI Composite; better than expected and Italian retail sales; worse than expected.

The Euro weakened further last week as data remained weak and Greece, Austria and Spain had their Sovereign credit rating cut with Ireland placed on negative credit watch.

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

- On Tuesday; German import prices, Italian consumer confidence, German IFO, Euro zone C/A and Italian non-EU trade balance,
- On Wednesday; German CPI, GFK Consumer confidence, French consumer confidence and Italian business confidence,
- On Thursday; German unemployment reports, Euro zone M3, economic confidence, consumer confidence and business climate index, and
- On Friday; French PPI, Euro zone CPI, unemployment and Italian PPI.

The key releases due this week are highlighted in red, and we advise monitoring the German IFO and M3 money supply, together with a fast decelerating Euro zone CPI report.

The Macro Trader's view is: the Euro breached the 1.3000 level against the Dollar we highlighted last week and we went Short Euro/Long Dollar.

In the current environment where more than ever, currencies are moving on perceived measures of relative strength, even though in absolute terms, all the leading economies are very weak, the Euro suffered last week from having three member countries downgraded.

Moreover as quantum easing rises up the policy agenda, questions have arisen over how the ECB would operate such a policy when it is a supra national Central Bank without an opposite number responsible for Euro zone wide debt issuance.

As the Euro zone economy continues to weaken, we judge this makes the Euro vulnerable to further downside price action and advise going short.

Our interim target for Dollar/Euro is 1.2800 and our stop is at 1.3350 for protection.

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Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: S&P 500

OUR TRADING STANCE: SQUARE.

Last week we were square of the S&P 500

See how stocks remained under pressure last week after the rescue of B of A the previous week with concerns mounting that the economy will weaken further, resulting in a further period of poor corporate results.

Last week we remained square of this market, as we judged equities remain volatile, and largely directionless after a prolonged period of sideways trading.

But the sell off of the previous week fed into last week's trading as the market probed the downside on several occasions.

Much as we have suspected over recent weeks, the optimism built up for the change of administration, virtually evaporated once Obama was sworn in.

No time was lost by the new President in trying to play down expectations and raising the possible need for extra funds to rescue the Banking system.

The data too weighed on the market as housing starts and building permits came in much weaker than expected.

Looking ahead there are several key releases due this week as detailed in the global calendar, but we judge Friday's Q4 GDP data is likely to be the most important.

Consensus is for a decline on an annualised basis of 5.0%, but with unemployment soaring and retail sales plunging, the report might be worse.

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+ Euro

Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: S&P 500

The Macro Trader's view is: we have consistently made the case for another down leg in this market and although it virtually moved sideways around the lows, we judge the market was merely in consolidation mode.

As data continues to show an economy still plunging deeper into recession, equities have few reasons to celebrate, and as we have said previously, Obama's stimulus wont start the day he takes office, he needs to get authority from Congress, forecast for sometime in February, plans need to be drawn up, people selected to do the work; it could still be many months before anything practical occurs.

In the meantime the economic situation will continue to worsen, just look at last week's housing starts, they continue to fall to yet lower levels almost every month.

For now though we are remaining square. The market is still range bound, we want to see the bottom of the range properly tested before becoming involved.

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SEVEN DAYS AHEAD

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Global Calendar

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+ Short Sterling
+ Euribor

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+ Gilt
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+ Euro

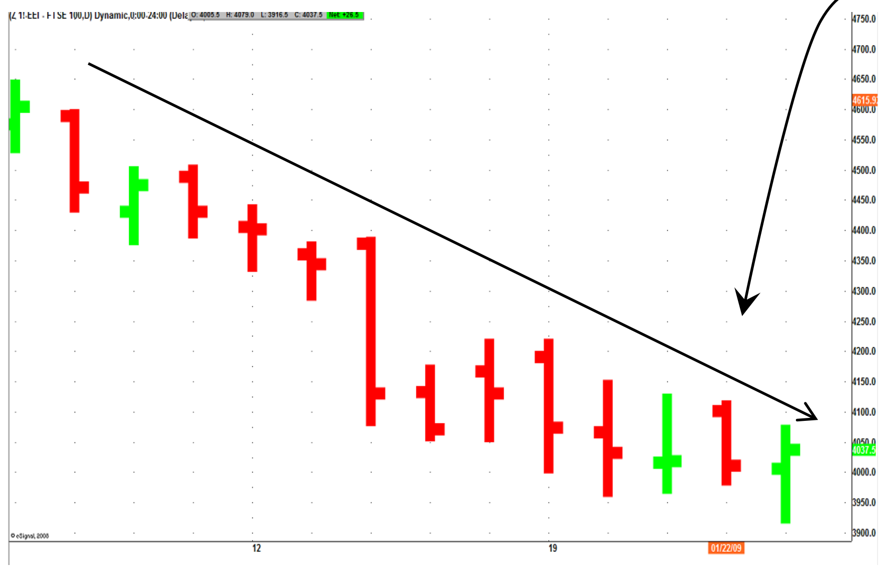
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: FTSE 100

OUR TRADING STANCE: BEARISH.

Last week we were square of the FTSE 100



See how the FTSE sold off further last week as RBS announced a write down of £28B with a loss, the largest every suffered by a UK corporate, combined with a growing feeling that the country and traders a like are fast losing confidence in the governments economic competence.

Last week we remained square of this market as we remained unmoved by a market that has been range bound for a prolonged period, yet still experience large intra-day ranges with heightened volatility.

However as the spot light turned back onto the Banking industry with Bank shares taking a pounding last week following the release of RBS's results showing a record loss for a UK corporate. The market probed the downside further, even as the government launched round 2 of its Bank rescue plan.

But with businesses folding almost daily and job losses continuing to mount, equities looked ever more vulnerable to the downside.

The lurch lower stopped on Friday after the release of stronger than expected retail sales, but since these are volume, not value based, they do not portray an accurate picture of the difficulties retailers are experiencing, but Q4 GDP at -1.5% did.

Looking ahead there are few key releases this week and we judge the market will be driven by a combination of sentiment from abroad and news of real economic difficulties facing companies struggling to do business in the UK.

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Summary

Global Calendar

Interest Rate Futures
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+ Short Sterling
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+ Euro Bund

Currencies
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+ Pound Sterling
+ Euro

Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: FTSE 100

The Macro Trader’s view is: we said last week “the FTSE looks set to make new lows, but will probably test the old lows first before traders force it lower”.

And while those levels still remain to be tested, the tone in the market last week was unmistakably bearish.

Job losses continued to mount, the Q4 GDP report was worse than expected, the EU issued a damming report on the state of Government finances, RBS released details of a massive loss, followed this week by Barclays and the government increased its stake in both RBS and Lloyds Banking group as their share were literally trashed on fears of even larger losses being revealed later.

In short the economy is set for a recession at least as bad as the one in the early 1980’s and probably the worst since WW11.

The government in a hyper-active attempt to avoid the inevitable has severely damaged the UK’s fiscal position and undermined the Pound more than any other government in living memory.

Given this back drop we are bearish of the FTSE and advise going short.

Our interim target is 3900.0 and our stop is set at 4300.0 for protection in what is still a volatile market.

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Summary

Global Calendar

Interest Rate Futures
+ Euro Dollars
+ Short Sterling
+ Euribor

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Currencies
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+ Euro

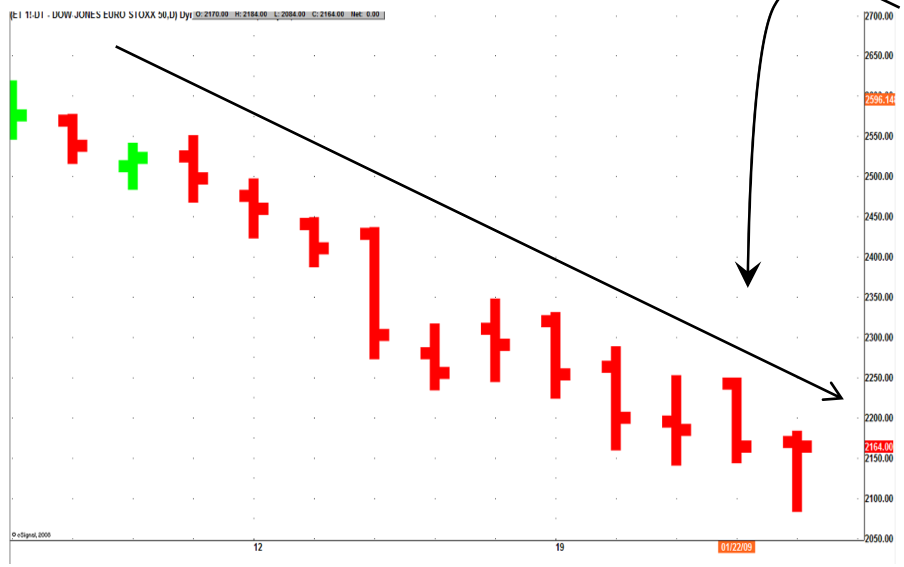
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ Euro Stoxx 50



See how the market how the market sold off in line with other equity markets as traders turned bearish of the Euro zones economic prospects as data continues weak.

Last week we remained square of this market as we saw a pattern of volatility and large intra-day ranges continuing, albeit within an established range.

But the market sold off further last week as fears persisted that the Banking sector hadn't yet disclosed all its bad news.

The release of worse than expected Euro zone New industrial orders on Thursday and another weak Euro zone PMI composite survey on Friday, ensured the bearish tone persisted right until the end of the trading week.

Looking ahead there are several key reports due this week and we advise monitoring German IFO closely.

The German economy drove the recent expansion and is now set on a path to experience its worst post WW11 contraction and IFO is a fairly reliable guide of business sentiment and the likely outcome over the coming months..

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Stocks: DJ Euro Stoxx 50

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Stocks
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Commodities
+ Gold
+ Oil

The Macro Trader's view is: the market looks on course to test the old lows made late last year, as consensus builds for a recession worse than any seen since WW11.

Unlike past bouts of economic weakness that have been lead either by a collapse in demand or a sharp drop in investment due to the creation of excess capacity, this recession is a result of extreme weakness in the Banking sector which has fed into the so called "real economy".

Not until Banks clear out the toxic assets from their balance sheets or at least fully reveal the extent of their exposure can confidence return.

But because liquidity and credit is still not flowing freely, companies are finding it hard to operate, consumers not spending as freely with jobs lost or at risk, so loans that were previously considered sound are turning sour and fuelling another round of losses and so on. So Banks may not be able to fully reveal the full extent of their losses because the situation is still evolving.

However we remain sidelined from this market as we remain reluctant to engage in a market driven by still heightened volatility and we advice others to remain square.

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Stocks
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+ FTSE 100
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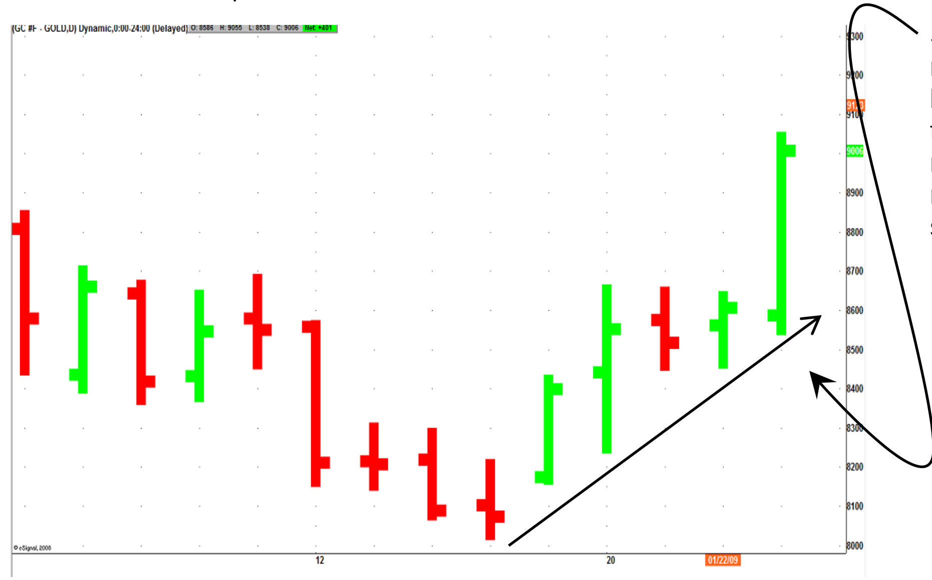
Commodities
+ Gold
+ Oil

Commodities: Gold

OUR TRADING STANCE: BULLISH.
Last week we were square of Gold



See how Gold rallied last week in reaction to the weakness of both bonds and equities as the down turn seemed to gather momentum leaving investors reaching for a relatively neutral store of wealth.

Last week we remained square of Gold as it seemed to lack the impetus to resume the Bull run we have recently predicted it would as a result of a deepening economic crisis that has spread to all the major economies.

With several Euro zone member states having their Sovereign debt ratings cut and a rumour in the market that the UK was about to lose its AAA status, the Euro and Sterling were punished on the foreign exchange markets with Sterling touching multi-year lows against the Dollar.

And even though the US economy looks set to continue contracting throughout 2009, the Dollar drew strength from the difficulties highlighted in the UK and Euro zone.

But with Bonds being sold in the US, UK and Euro zone, Gold rallied and looks set to advance further.

Looking ahead there are several key data releases due this week, mainly from the US and in the likely ensuing turmoil we judge gold will rally further.

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Commodities
+ Gold
+ Oil

Commodities: Gold

The Macro Trader's view is; our long term bullish view of gold seems finally to have come back into play as fears over fiscal sustainability in the major economies has moved centre stage.

Although the US Dollar is holding up well despite a weak economy, bonds aren't and we judge this has led to the re-awakened interest in gold.

While the very large deficits now being run up by almost all western governments pose no immediate or even medium term threat of higher inflation, the sad reality is that as economic recovery begins to take hold, the burden of government debt will risk depriving the private sector of finance, thus crippling its future productive capacity and risking shorter periods of expansion, with inflation then emerging as a potential risk.

This leads investors to buy gold.

Traders should be long of this market, our interim target is $923.00 and our stop is placed at $885.0 for protection.

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+ FTSE 100
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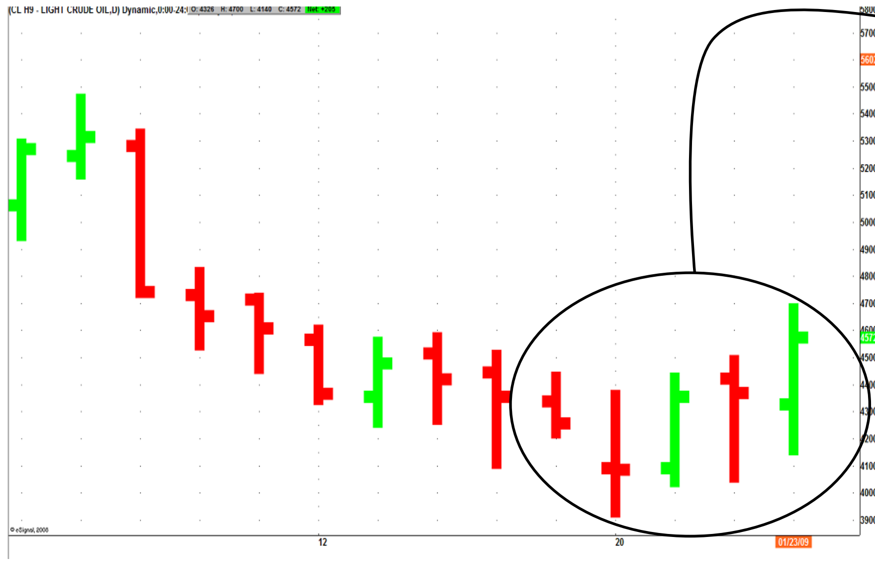
Commodities
+ Gold
+ Oil

Commodities: Oil

OUR TRADING STANCE: SQUARE
Last week we were bearish of Oil



See how oil bounced last week as traders took profit in a week that saw stocks sell off on renewed economic worries, and bonds follow on fears of fiscal sustainability.

Last week we were bearish of this market as we judged the geopolitical impact of the Russia/Ukraine gas dispute and the violence in Gaza was waning.

And as the global economy continued to slip into recession, supply/demand would emerge as the main determinant of price.

And indeed until Tuesday that proved the case even as Saudi Arabia cut production by more than agreed in the last OPEC meeting.

However fears of further production cuts driven by continued global economic weakness lead to a correction in the market as it struggled to get below the psychologically important $40.00 a barrel level.

Looking ahead there are several key releases due which are likely to confirm the trend of weak economic growth both in the US and globally, which should undermine the current limited rally in oil.

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Commodities
+ Gold
+ Oil

Commodities: Oil

The Macro Trader's view is; oil prices have corrected higher as Saudi Arabia's extra cut a week or so ago has sunk in.

More over with longer term supply issues a concern for when economic recovery does emerge, the $40.00 a barrel level is acting as a psychological barrier; remember when oil first began to rally several years ago on the war in Iraq, OPEC set $40.00 as an upper boundary through which they would endeavour to prevent it rising.

We all know how hard they tried to hold that line, but as the price falls producers will attempt to support it.

Ultimately we judge their efforts will fail and the market will fall further, but for now we are square and advise traders to remain square until the current correction exhausts.

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