
# Week 12

24th – 30th March 2009




# the macro trader's guide to major markets

**John Lewis**

# summary – macro trader

| | |
|---|---|
| **Summary** | |
| **Global Calendar** | |
| **Interest Rate Futures** | |
| + Euro Dollars | **SQUARE** short, medium & long term |
| + Short Sterling | **SQUARE** short, medium & long term |
| + Euribor | **SQUARE** short, medium & long term |
| **Government Bonds** | |
| + US 10yr Note | **SQUARE** short, medium, long term |
| + Gilt | **BULLISH** short, medium & long term |
| + Euro Bund | **SQUARE** short , medium & long term |
| **Currencies** | |
| + US Dollar | **SQUARE** short, medium & long term |
| + Pound Sterling | **SQUARE** short, medium & long term |
| + Euro | **SQUARE** short, medium & long term |
| **Stocks** | |
| + S&P 500 | **SQUARE** short, medium & long term |
| + FTSE 100 | **SQUARE** 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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+ Euribor

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**Commodities**
+ Gold
+ Oil

| | Week of 16th March |
|---|---|
| Monday | US Empire mfg -38.23 **WEAKER**<br>US Net lg term TIC flow -$43.0B **WEAKER**<br>US Industrial prod -1.4 **WEAKER**<br>US Capacity utilisation 70.9 **WEAKER**<br>UK Rght mve hse prces 0.9m, -9.0%y **AS**<br>IT CPI 0.2m, 1.6y **AS**<br>EZ CPI 0.4m, 1.2y **AS**<br>**THAN EXPECTED** |
| Tuesday | US PPI 0.1m, -1.3y **LESS**<br>US PPI Ex-f & e 0.2m, 4.0y **WORSE**<br>US Housing strts 583k **STRONGER**<br>US Buildg permits 547k **STRONGER**<br>UK DCLG Hse pces -11.5% **AS**<br>DM ZEW Survey -3.5 **BETTER**<br>**THAN EXPECTED** |
| Wednesday | US MBA mrge apps 21.2 **STRONGER**<br>US CPI 0.4m, 0.2y **MORE**<br>US CPI Ex-F & E 0.2m, 1.8y **MORE**<br>US Q4 C/A Bal -£132.8B **BETTER**<br>US FOMC Rate decision 0.25% **AS**<br>UK MPC Minutes 9/0 **AS**<br>UK Jobless claims 138.4k **WORSE**<br>UK Unemployment rate 4.3% **WORSE**<br>UK ILO Rate 6.5% **AS**<br>UK Avge earngs 1.8% **WEAKER**<br>UK avge ex-bonus 3.5% **AS**<br>UK Mfg unit wage cost 8.1% **STRONGER**<br>IT Ind production -0.2m, -16.7y **WEAKER**<br>IT C/A Bal -7.248B **WORSE**<br>**THAN EXPECTED** |

| | Week of 23rd March |
|---|---|
| Monday | US Existing home sales 4.45M<br>EZ Trade bal -9.0B<br>EZ Construct'n output n/f |
| Tuesday | US Hse prce index -0.8%<br>UK CPI 0.3m, 2.6y<br>UK RPI -0.1m, -0.7y<br>UK RPI-X 1.9m<br>UK BBA Hse purchse loans n/f<br>FR Cons spndg -0.8m, -0.4y<br>FR Bus conf 67<br>EZ C/A n/f<br>EZ PMI Composite 36.9 |
| Wednesday | US MBA Mrtge apps n/f<br>US Durable goods -2.0%<br>US Durables Ex-transport -2.0%<br>US New hme sales 300k<br>UK CBI Distributive trdes n/f<br>IT Cons conf 103.0<br>DM IFO 82.2 |

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| | Week of 16th March Cont'd |
|---|---|
| Thursday | US Jobless claims 646k **BETTER**<br>US Philly Fed -35.0 **BETTER**<br>UK PSNCR 4.4B **WORSE**<br>UK PSNB 9.0B **WORSE**<br>UK CBI Ind trends -58 **WORSE**<br>IT Trade bal -3.585B **WORSE**<br>IT Trade bal EU 404.0M **BETTER THAN EXPECTED** |
| Friday | DM PPI -0.5m, 0.9y **LESS**<br>EZ Ind prod -3.5m, -17.3y **WORSE THAN EXPECTED** |

| | Week of 23rd March Cont'd |
|---|---|
| Thursday | US Q4 GDP -6.6%<br>US Q4 Persnl consumptn -4.4%<br>US Q4 Core PCE 0.8%<br>US Q4 GDP Price indx 0.5%<br>US Jobless claims n/f<br>UK Retail sales -0.4m, 2.5y<br>UK Q4 Tot bus investm't -3.9q, -7.7y<br>DM GFK Cons conf 2.5<br>FR Cons conf -44<br>IT Bus conf 62.8<br>IT Trade bal non-EU n/f<br>EZ M3 3mth 6.3%<br>EZ M3 y/y 5.6% |
| Friday | US PCE Core 0.1m, 1.6y<br>US Persnl income -0.1<br>US Persnl spndg 0.2<br>US U. Of Michigan 56.6<br>UK Q4 GDP -1.5q, -1.9y<br>UK Q4 C/A -5.9B<br>DM CPI N/F<br>FR Q4 GDP -1.2q, -1.0%y<br>IT Ind orders -6.7m, -22.3y<br>IT Ind sales n/f<br>EZ Ind new orders -5.5m, -28.0y |

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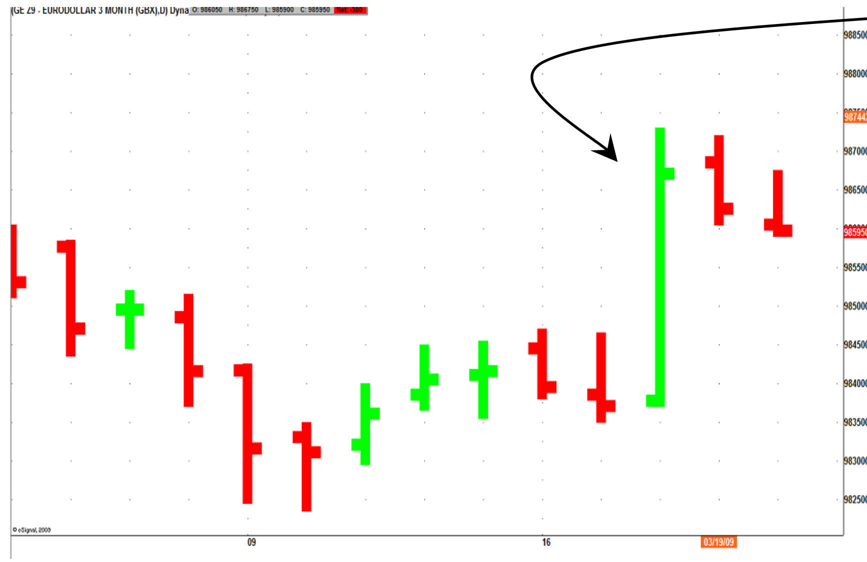
# Interest Rate Futures: Euro Dollars December 09

## OUR TRADING STANCE: SQUARE.

Last week we were square of December 09.




See how Eurodollars rallied hard on Wednesday after the FOMC rate decision and policy statement which announced the start of quantum easing.

Last week we remained square of this market after the release of stronger than expected retail sales data which we judged would act as a cap on the market.

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

- On Monday; Empire mfg; weaker than expected, Net long term TIC flows; weaker than expected, industrial production and capacity utilisation; weaker than expected,
- On Tuesday; PPI; mixed, Housing starts and Building permits; both stronger than expected,
- On Wednesday; MBA mortgage applications; stronger than expected, CPI; more than expected, Q4 C/A Balance; better than expected and FOMC rate decision; as expected, and
- On Thursday; jobless claims; better than expected and Philly Fed; better than expected.

The market rallied hard after the Fed announced its unchanged rate decision but surprised the market by starting a quantum easing program with the purchase, over six months, of US$300.B of Treasuries.

Moreover the Fed also announced that Fed funds would remain at current levels for an extended period as the Central Bank continued to stimulate an economy in the grip of a fierce down turn.

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## Interest Rate Futures: Euro Dollars

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

- On Monday; Existing home sales,
- On Tuesday; House price index,
- On Wednesday; MBA Mortgage applications, durable goods and New home sales,
- On Thursday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 GDP Price index and jobless claims, and
- On Friday; PCE Core, personal income, personal spending and University of Michigan confidence.

The key events this week are highlighted red, and we advise traders to monitor them all, but we judge the Existing and New home sales together with Q4 GDP are the main events this week.

**The Macro Trader's view is;** the market rallied smartly after the Fed announced the start of quantum easing, but failed to rally further on Thursday and Friday.

For many the Feds decision was a complete surprise and that accounts for Wednesday's price action, but whether the market can rally further remains to be seen.

The target for Fed funds has been at 0 – 0.25% for a while, but Eurodollars has remained out of sink, mainly due to LIBOR levels.

And even though the Fed said policy would remain at current levels for an extended period, which we read as at least 18 months, traders are becoming uneasy about the risk of a fresh more deeper embedded outbreak of inflation as a result of the massive fiscal and monetary stimulus thrown at the economy.

For now we advise remaining square of this market, any market impact from policy is now likely to be felt in the Treasury market.

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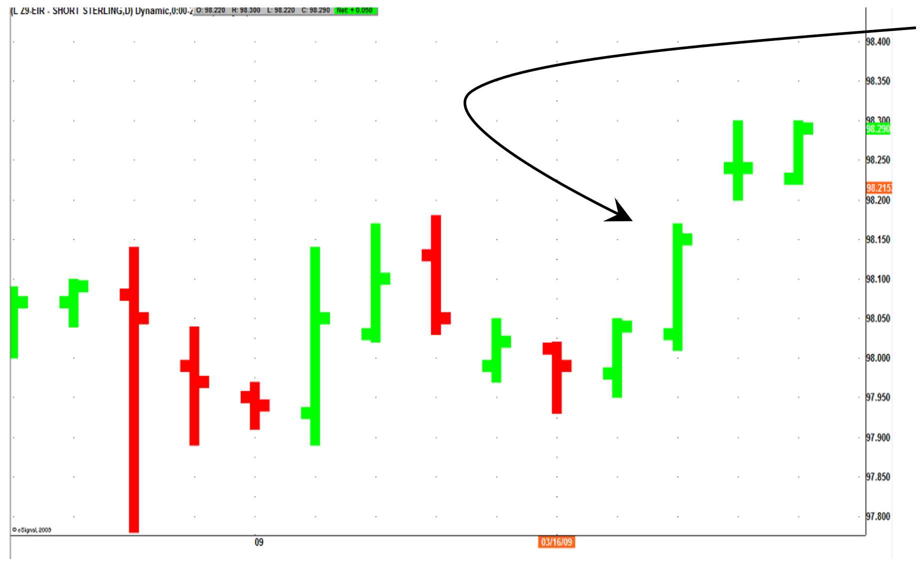
## Interest Rate Futures: Short Sterling December 09

**OUR TRADING STANCE: SQUARE.**

Last week we were square of December 09.




See how Short Sterling rallied on Wednesday after the MPC minutes revealed a 9/0 vote and unemployment rose by much more than expected.

Last week we remained square of this market as we judged the upside in Short Sterling was strictly limited with any bullish price action likely to be constrained within the current range.

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

- On Monday; right move house price survey; as expected,
- On Tuesday; DCLG House price survey; as expected,
- On Wednesday; MPC minutes; as expected, unemployment report; worse than expected, average earnings; weaker than expected and manufacturing unit wage costs; higher than expected, and
- On Thursday; PSNCR; worse than expected, PSNB; worse than expected and CBI Industrial trends survey; worse than expected.

The market rallied last week as the MPC minutes echoed earlier comments from Bank officials about the weakness of the economy and unemployment surged by much more than expected with average earnings coming in weak.

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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 Tuesday; CPI, RPI, RPI-X and BBA House purchase loans,
- On Wednesday; CBI distributive trades survey,
- On Thursday; retail sales and Q4 Total business investment, and
- On Friday; Q4 GDP and Q4 C/A data.

This week's key releases are highlighted red, and we advise traders to monitor them closely, but we judge the retail sales report on Thursday will prove the main event. In recent months officials retail sales data has appeared out of step with reports from the high street and GDP personal consumption data; a weak report would be bullish for this market.

**The Macro Trader's view is:** the price action last week has done little to change our view of this market. While the market rallied on the worse than expected unemployment report, we judge sentiment from the US driven by the Fed announcing the start of quantum easing had a part to play in last week's price action.

The economy has been on its knees for months and interest rates have been on a path to near zero for a similar period, but Short Sterling has consistently failed to converge with official interest rates during this easing cycle, mainly due to an elevated LIBOR resulting from a locked up wholesale money market.

And even after liquidity injections from the Bank of England, inter-Bank lending remains dysfunctional.

We judge Short Sterling offers very limited opportunity currently as we expect it to trade within the current range for an extended period.

Economic weakness will negate any bearish price action, but so too will the end of the easing cycle together with fears of future inflation, albeit premature, negate any material bullish price action.

In short we advise remaining square.

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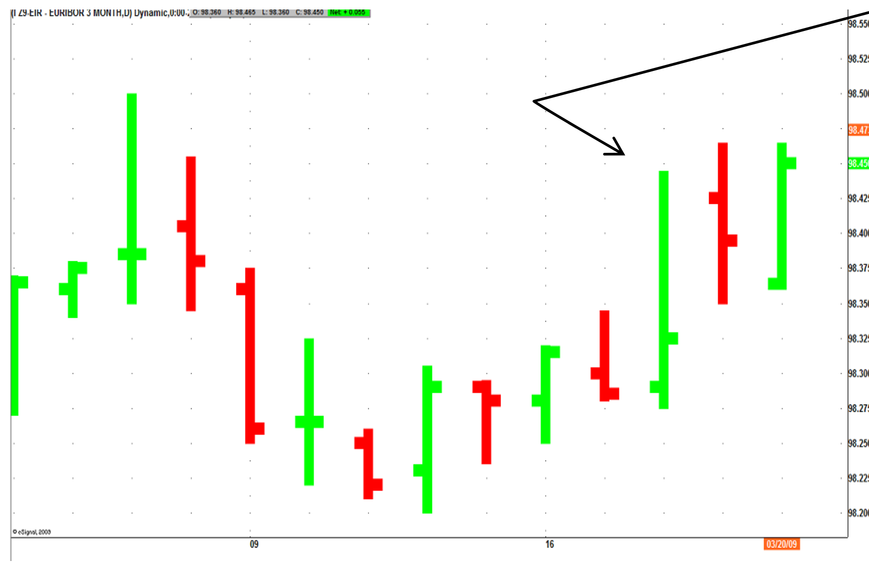
## Interest Rate Futures: Euribor December 09

**OUR TRADING STANCE: SQUARE.**

Last week we were square of December 09.




See how Euribor spiked on Wednesday after the FOMC announced the start of quantum easing, which exposed the ECB'S current reluctance to adopt an equivalent policy even though the Euro zone economy is extremely weak.

Last week we remained square of this market following the disappointing price action that followed the release of weaker than expected French and German industrial production the previous week.

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

- On Monday; Italian CPI; as expected and Euro zone CPI; as expected,
- On Tuesday; German ZEW survey; better than expected,
- On Wednesday; Italian Industrial production; weaker than expected and C/A data; worse than expected,
- On Thursday; Italian trade data; mainly worse than expected, and
- On Friday; German PPI; less than expected and Euro zone industrial production; worse than expected.

The market rallied from Wednesday into the week's end, but we judge the price action had little to do with domestic data and more to do with traders being taken by surprise by the Feds decision to start a quantum easing program.

With the Euro zone economy very weak with industrial activity collapsing, the Feds decision threw the spot light onto the ECB'S languid application of monetary policy.

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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 Monday; Euro zone trade data and construction output,
- On Tuesday; French consumer spending, business confidence, Euro zone C/A and PMI composite,
- On Wednesday; Italian consumer confidence and German IFO,
- On Thursday; German GFK consumer confidence, Italian business confidence, Trade balance and Euro zone M3, and
- On Friday; German CPI, French Q4 GDP, Italian industrial orders and sales and Euro zone new industrial orders.

This week's key releases are highlighted in red, and we advise traders to monitor them closely, but we judge the Euro zone PMI Composite, German IFO and Euro zone M3 data will be the main events this week.

**The Macro Trader's view is;** the ECB seems increasingly out of step with the current economic reality.

Three major Central Banks are now involved with quantum easing:

1. The Federal Reserve,
2. The Bank of Japan, and
3. The Bank of England.

Meanwhile the ECB continues to drag its feet over cutting short term interest rates and tries to delude its self that pumping extra liquidity into the Banking system through regular, albeit expanded tenders, equates to quantum easing; obviously it doesn't.

The central tenet of quantum easing is that the Central Bank expands the money supply through the creation of new money.

The ECB isn't doing this even though the Euro zone economy is fairing just as badly, if not worse, as the US and UK economies.

For now we advise remaining square of this market as we judge the Bond markets are likely to be the arena where anxieties over the conduct of monetary policy are likely to be played out.

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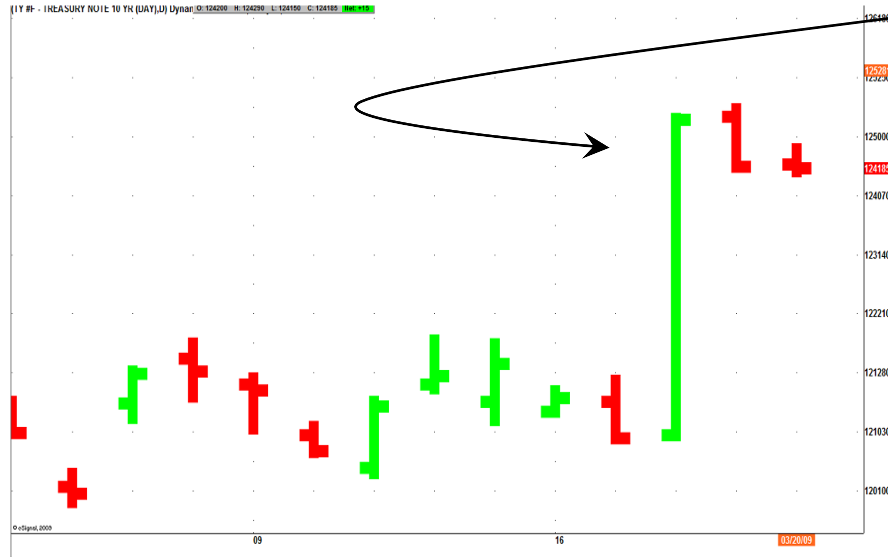
## Government Bonds: US Treasury Note (10yr)

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the 10yr Note.




See how the 10 yr note rallied on Wednesday after the Fed announced a US$300.B Treasury purchase program in an effort to hasten economic recovery.

Last week we remained square of this market, as we judged recent price action hasn't followed the run of data over the same period.

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

- On Monday; Empire mfg; weaker than expected, Net long term TIC flows; weaker than expected, industrial production and capacity utilisation; weaker than expected,
- On Tuesday; PPI; mixed, Housing starts and Building permits; both stronger than expected,
- On Wednesday; MBA mortgage applications; stronger than expected, CPI; more than expected, Q4 C/A Balance; better than expected and FOMC rate decision; as expected, and
- On Thursday; jobless claims; better than expected and Philly Fed; better than expected.

The market ignored the mixed signals coming from industrial production and the housing market and rallied hard after the Fed's FOMC policy statement announced the start of quantum easing, through a US$300.B Treasury purchase program spread over six months.

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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; House price index,
- On Wednesday; MBA Mortgage applications, durable goods and New home sales,
- On Thursday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 GDP Price index and jobless claims, and
- On Friday; PCE Core, personal income, personal spending and University of Michigan confidence.

There are several key events this week, marked red and we advise traders to monitor them carefully, but we judge the New and existing home sales data, together with the Q4 GDP release on Thursday will prove the main events for the market this week.

**The Macro Trader's view is;** the Fed surprised markets last week with their Treasury purchase program. While we thought there could be further reference to such a plan in the policy statement, its immediate start wasn't anticipated.

However, last Wednesday's rally notwithstanding, we remain cautious of this market. The Congressional budget office has challenged Obama's forecasts for the budget deficit over the next several years, saying that by their analysis the deficits will be much larger and basically unsustainable, this could hinder any further bullish price action in the Treasury market.

Traditional buyers of Treasuries can not be relied upon to buy the increased supply that is about to flood the market as they have their own financial difficulties to manage, requiring domestic spending, so while the Feds actions will likely act as a floor, a new bull run may not be forthcoming.

For now we advise remaining square of this market a little longer.

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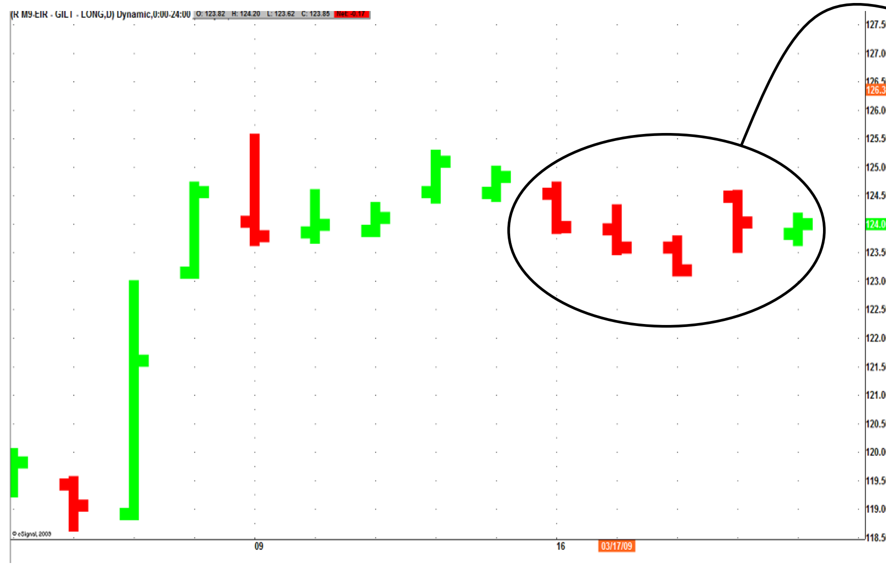
# Government Bonds: The Gilt

**OUR TRADING STANCE: BULLISH.**

Last week we were bullish of the Gilt.




See how the Gilt drew little benefit from the Feds announcement having recently enjoyed a rally of its own induced by the Bank of England's Gilt buying program.

Last week we remained bullish of the Gilt, based on the Bank of England's Gilt purchase program which we judged would offer the market crucial support.

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

- On Monday; right move house price survey; as expected,
- On Tuesday; DCLG House price survey; as expected,
- On Wednesday; MPC minutes; as expected, unemployment report; worse than expected, average earnings; weaker than expected and manufacturing unit wage costs; higher than expected, and
- On Thursday; PSNCR; worse than expected, PSNB; worse than expected and CBI Industrial trends survey; worse than expected.

The Gilt had to negotiate several conflicting signals last week as unemployment soared further and Government borrowing continued to deteriorate, but the difficult gilt action on Thursday took some of the shine off of this market as the government experienced lukewarm demand and a longer than usual tail indicating governments running large deficits could experience ongoing funding problems.

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# Government Bonds: The Gilt

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

- On Tuesday; CPI, RPI, RPI-X and BBA House purchase loans,
- On Wednesday; CBI distributive trades survey,
- On Thursday; retail sales and Q4 Total business investment, and
- On Friday; Q4 GDP and Q4 C/A data.

This week's key releases are highlighted in red, and we advise traders to monitor them carefully, but we expect the retail sales report to be the key release this week.

Retail sales have seemingly held up reasonably well despite high street bankruptcy and surveys showing week demand.

**The Macro Trader's view is;** we retain our bullish view of the Gilt for now as we judge economic weakness and the Bank's Gilt purchases will just out weigh concerns over the growing budget deficit which looks set to top the governments official projections by a margin.

As the Bank conducts future tenders, traders may try to force the price higher in the hope of squeezing more out of the Bank and this could prove bullish despite recent gilt auction difficulties.

Moreover policy makers have said they can extend the program if they deem it necessary.

Traders should remain long of the Gilt, our interim target in the June 09 future remains at 125.60 and our stop continues at 123.00 for protection.

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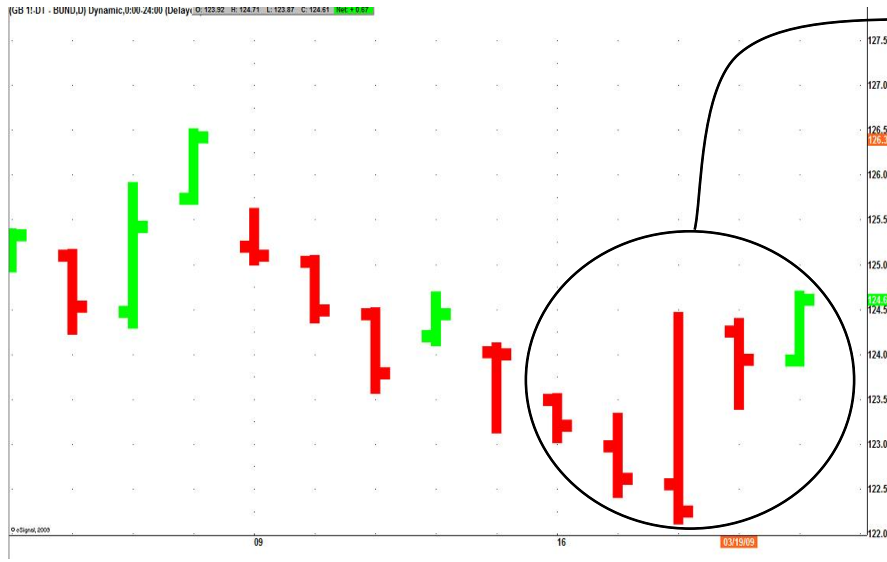
SEVEN DAYS AHEAD



## Government Bonds: The Bund

### OUR TRADING STANCE: SQUARE.

Last week we were square of the Bund




See how the Bund suffered heightened volatility last week as a lack of heavy weight domestic data, allowed sentiment from the US arising from the Feds quantum easing program to dominate with Friday's weaker than expected Euro zone industrial production data adding support.

Last week we remained square of the Bund as we judged bond markets lacking Central Bank support could underperform those with it.

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

- On Monday; Italian CPI; as expected and Euro zone CPI; as expected,
- On Tuesday; German ZEW survey; better than expected,
- On Wednesday; Italian Industrial production; weaker than expected and C/A data; worse than expected,
- On Thursday; Italian trade data; mainly worse than expected, and
- On Friday; German PPI; less than expected and Euro zone industrial production; worse than expected.

The Bund had little to trade off of from a domestic perspective last week until the release on Friday of worse than expected Euro zone industrial production data, which was bullish.

But a volatile session was caused by the Fed's announcement of a quantum easing program which contrasted with the ECB'S noncommittal position at a time when the Euro zone economy is in the grip of a deepening recession.

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## Government Bonds: The Bund

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

- On Monday; Euro zone trade data and construction output,
- On Tuesday; French consumer spending, business confidence, Euro zone C/A and PMI composite,
- On Wednesday; Italian consumer confidence and German IFO,
- On Thursday; German GFK consumer confidence, Italian business confidence, Trade balance and Euro zone M3, and
- On Friday; German CPI, French Q4 GDP, Italian industrial orders and sales and Euro zone new industrial orders.

This week's key events are highlighted in red, and we advise traders to monitor them carefully, but we judge the German IFO survey and Euro zone PMI Composite survey will prove the key events of the week.

**The Macro Trader's view is:** the Bund suffered an amazingly weak session on Wednesday considering the Feds news. However with the ECB in the shape of Noyer having recently voiced its view on quantum easing in the Euro zone; they judge generous liquidity provision has the same affect, the markets reaction is understandable.

We judge heightened volatility in bond markets is likely to become a frequent occurrence, especially in government bond markets not supported by a quantum easing program; the Bund.

With the Fed, Bank of Japan and the Bank of England all operating such a program the ECB seems out of step and with an economy that is as weak if not more so than some of the others we fail to understand their reticence.

For now we advise remaining square of this market due to volatility concerns.

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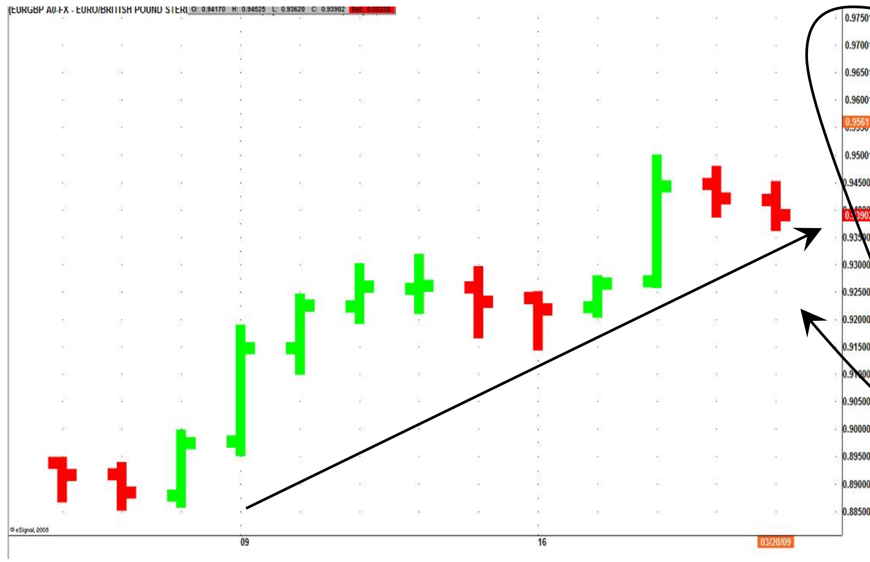
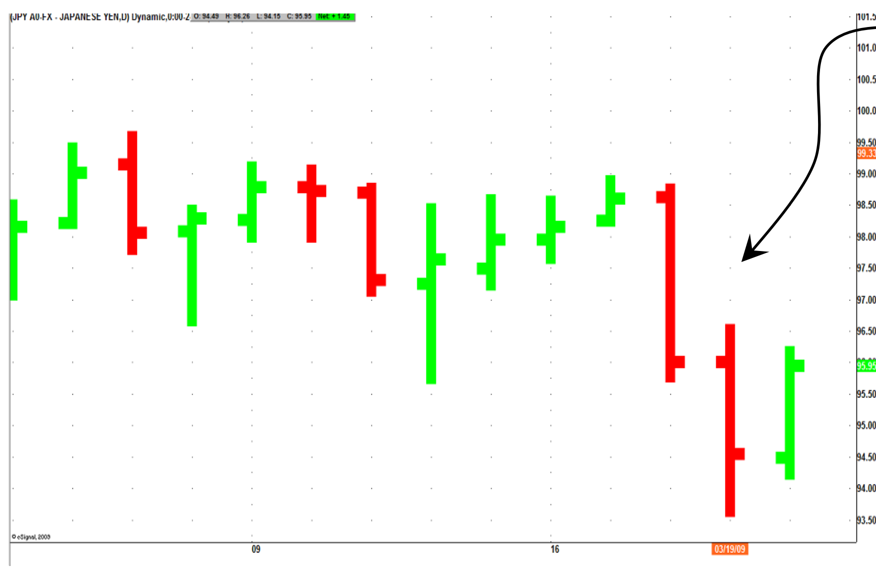
## Currencies: The Dollar

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the Dollar




See how the Dollar came under additional selling pressure last week after the Fed announced its quantum easing program.




See how the Dollar sold off hard against the Yen on Wednesday after the FOMC policy statement, but recovered as the weakness of the Japanese economy was unable to sustain the Yen's rally.

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## Currencies: The Dollar

Last week we were square of the Dollar, as we judged the US currency could correct further against the other majors.

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

- On Monday; Empire mfg; weaker than expected, Net long term TIC flows; weaker than expected, industrial production and capacity utilisation; weaker than expected,
- On Tuesday; PPI; mixed, Housing starts and Building permits; both stronger than expected,
- On Wednesday; MBA mortgage applications; stronger than expected, CPI; more than expected, Q4 C/A Balance; better than expected and FOMC rate decision; as expected, and
- On Thursday; jobless claims; better than expected and Philly Fed; better than expected.

The Dollar ignored the better than expected Housing starts and Building permit data and sold off on the Feds decision to start a US$300.B Treasury purchase program, despite the Bank of England and Bank of Japan already engaged in equivalent policy actions.

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; House price index,
- On Wednesday; MBA Mortgage applications, durable goods and New home sales,
- On Thursday; Q4 GDP, Q4 Personal consumption, Q4 Core PCE, Q4 GDP Price index and jobless claims, and
- On Friday; PCE Core, personal income, personal spending and University of Michigan confidence.

This week's key events are highlighted red, and we advise traders to monitor them closely, but we judge the Existing and New home sales data are likely to prove the main event for the week, unless Q4 GDP springs a major surprise.

**The Macro Trader's view is:** the Dollar's rally looks on the verge of unravelling. Initially we judged the recent spell of weakness was a correction, and that may yet prove to be the case, but the Euro has taken strength from the ECB'S refusal, at least for now, to start quantum easing, as against the Feds surprise decision to begin.

And together with Obama's fiscal policy, which the congressional budget office judges to be unsustainable due to their own analysis projecting much larger budget deficits, places the Dollar at risk of a fresh period of weakness.

With a budget deficit expected to exceed 12% of GDP President Bush's economic adviser Larry Lindsey asked the question; what combination of foreign buyers will buy all these new IOU'S.

If there are indeed insufficient buyers, the Dollar looks in trouble.

For now though we advise remaining square of the Dollar, since we fail to understand why the Euro would strengthen because the ECB is unwilling to do ALL that is necessary to support the Euro zone economy.

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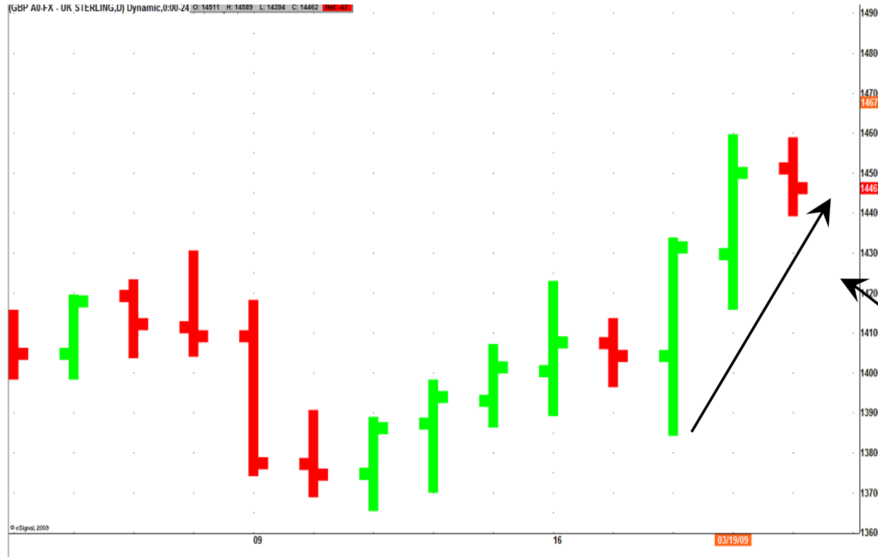
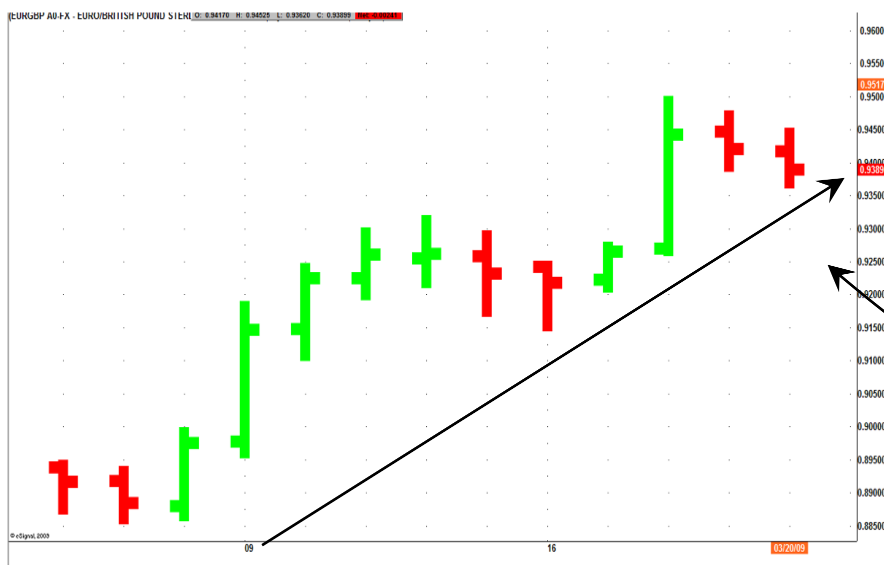
## Currencies: The Pound Sterling

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




See how Sterling rallied hard against the Dollar last week after the Fed announced the start of quantum easing, a policy already adopted by the Bank of England.




See how Sterling weakened further against the Euro as the ECB now stands out as the only major Central Bank not operating a quantum easing policy, despite serious economic weakness.

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## Currencies: The Pound Sterling

Last week we were square of Cable as we judged Sterling's recent strength against the Dollar was likely due to a Dollar correction and could prove transitory.

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

- On Monday; right move house price survey; as expected,
- On Tuesday; DCLG House price survey; as expected,
- On Wednesday; MPC minutes; as expected, unemployment report; worse than expected, average earnings; weaker than expected and manufacturing unit wage costs; higher than expected, and
- On Thursday; PSNCR; worse than expected, PSNB; worse than expected and CBI Industrial trends survey; worse than expected.

There was nothing in last week's UK data to offer the Pound any support against the other majors; unemployment soared and government borrowing is on course for a near disaster.

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

- On Tuesday; CPI, RPI, RPI-X and BBA House purchase loans,
- On Wednesday; CBI distributive trades survey,
- On Thursday; retail sales and Q4 Total business investment, and
- On Friday; Q4 GDP and Q4 C/A data.

This week's key events are highlighted red, and we advise monitoring them closely, but we judged the retail sales report could be the most important, unless there are big surprises in CPI or Q4 GDP.

Retail sales have held up better than expected, more unexpected strength would support the Pound, but if the consumer has thrown in the towel and the report is weak, the Pound will come under renewed selling pressure.

**The Macro Trader's view is:** the Pound's recent price action re-enforces our decision **to remain square**.

The UK economy is in the grip of a serious economic downturn, the Government has all but fired all of its bullets, leaving the economy to grown under the considerable weight of an enormous debt burden which we judge will be a serious impediment to any eventual economic recovery, especially since policy makers seem intent on pursuing a witch hunt against the financial services industry which although the vehicle through which the current weakness arrived is necessary for a vibrant economy.

In fact the government's focus on the Banking industry's errors is a political ploy to deflect attention away from the fact that it was Brown's own imposed flawed regulatory environment that allowed the problem to seed and flourish.

We judge the best position currently regarding Sterling is a square one since much of recent price action looks unsustainable, even against the Euro, as we judge the ECB will ultimately resort to quantum easing on the back of further serious Euro zone economic weakness.

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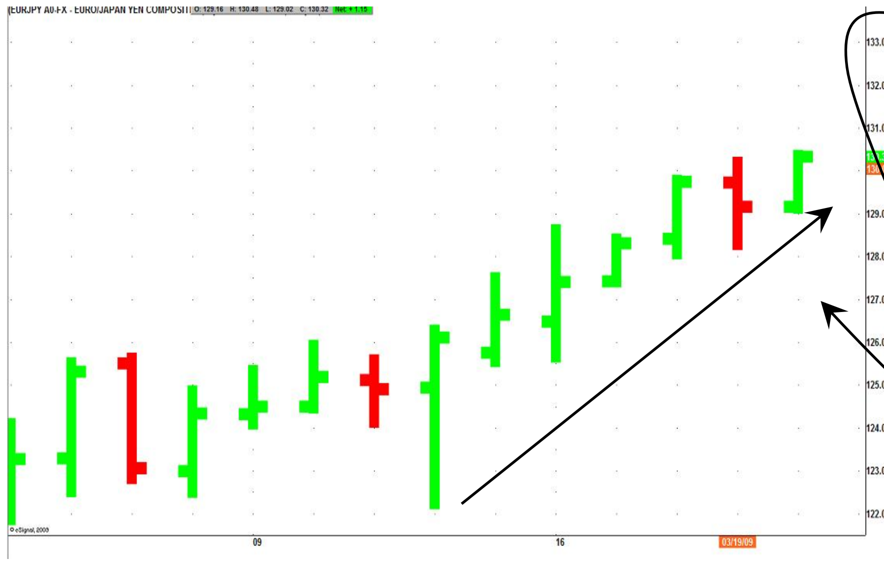
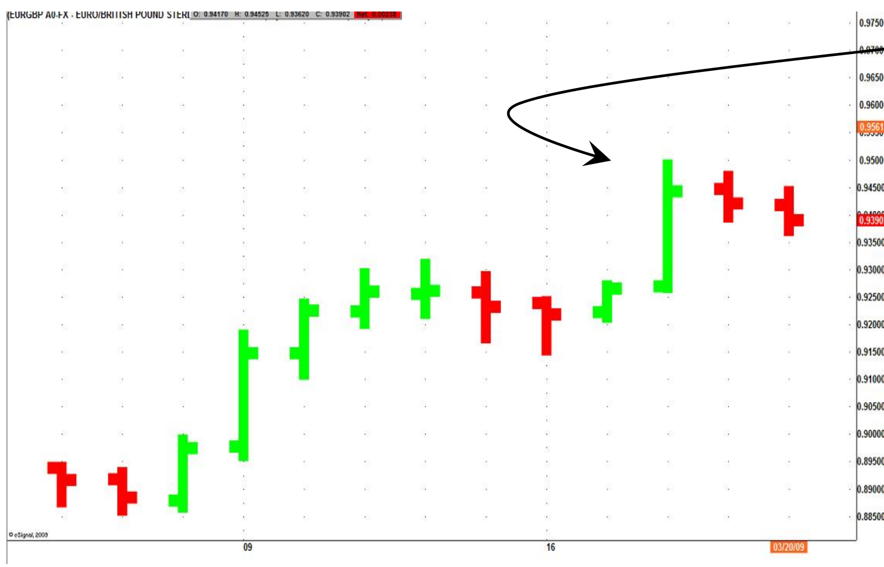
## Currencies: The Euro

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the Euro.




See how the Euro rallied against the Yen last week as the Japanese economy continued to send out distress signals following the collapse of industrial production and the biggest C/A deficit in decades with the Bank of Japan returning to quantum easing.




See how the Euro rallied further against the Dollar after the FOMC policy statement on Wednesday, heralded the start of US quantum easing.

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## Currencies: The Euro

Last week we were square of the Euro as we judged the Euros current spell of strength could prove transitory and based on a Dollar correction.

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

- On Monday; Italian CPI; as expected and Euro zone CPI; as expected,
- On Tuesday; German ZEW survey; better than expected,
- On Wednesday; Italian Industrial production; weaker than expected and C/A data; worse than expected,
- On Thursday; Italian trade data; mainly worse than expected, and
- On Friday; German PPI; less than expected and Euro zone industrial production; worse than expected.

The Euro rallied last week, despite fresh evidence of Euro zone economic weakness coming in the shape of Friday's worse than expected Industrial production report.

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

- On Monday; Euro zone trade data and construction output,
- On Tuesday; French consumer spending, business confidence, Euro zone C/A and PMI composite,
- On Wednesday; Italian consumer confidence and German IFO,
- On Thursday; German GFK consumer confidence, Italian business confidence, Trade balance and Euro zone M3, and
- On Friday; German CPI, French Q4 GDP, Italian industrial orders and sales and Euro zone new industrial orders.

The key releases due this week are highlighted in red, but we judge the Euro zone PMI Composite survey and German IFO reports to be the key events.

**The Macro Trader's view is:** the Euro performed well last week as the ECB'S continued well publicised caution over quantum easing seemed to support the currency.

Indeed the Euro rallied as the Fed announced it would buy Treasuries as a means of expanding the money supply at a time when deflation appears a threat and short term interest rates are as low as they can go.

But all the while the Euro zone economy weakens. Industrial production and factory orders in Germany have fallen off a cliff, but policy makers sit tight, almost it seems hoping that the actions taken by policy makers in the other leading economies will give them a free ride to recovery.

We judge the weak Euro zone economy will ultimately force the ECB'S hand with the Euro coming under intense selling pressure.

Europe, especially France, has a history of protesting, if not rioting in protest against economic hardship, if that occurs in the not too distant future, we doubt the Euro will retain its aura of solidity, and advise traders to remain square.

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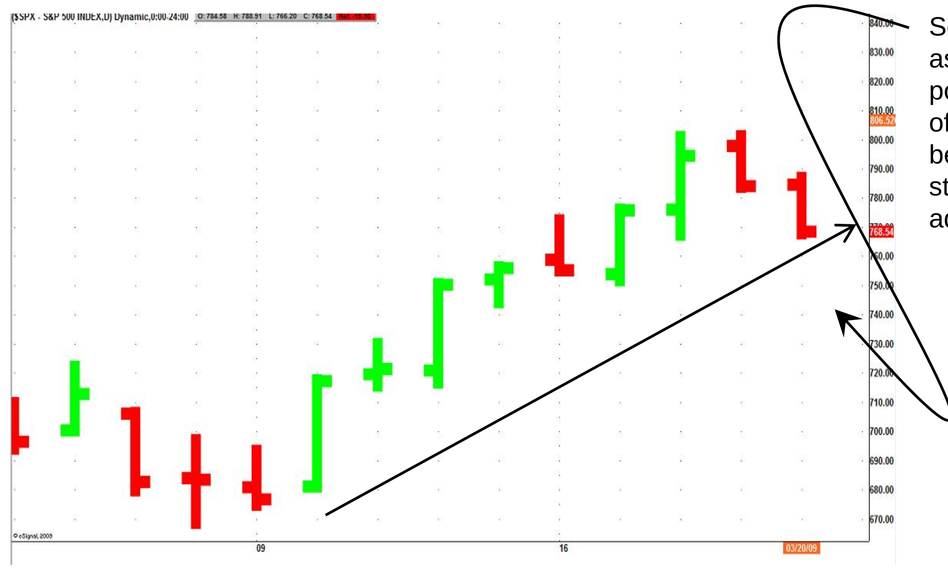
## Stocks: S&P 500

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the S&P 500



See how stocks rallied last week as traders continued to react positively to the apparent revival of three leading US Banks with better than expected housing starts and building permits data adding further support.

Last week we were square of the S&P as the market corrected on optimism generated by three leading US Banks over their return to profitability.

The recovery was further aided by better than expected housing starts and building permits data which held out a glimmer of hope that a recovery in housing might not be too far off.

But the markets attention was grabbed by the Feds decision to begin quantum easing. We said last week that traders would be monitoring the Feds policy statement for clues, well policy makers delivered more than just clues; they begin a US$300.B Treasury purchase program in an attempt to drive longer term yields lower as a means of getting lending and the housing market going again.

Looking ahead there are several key releases due this week and we judge Existing and new home sales together with Q4 GDP will be the week's main releases.

But equities are excited as the Administration releases details of its plan to make US$1.0T available to relieve the Banks of toxic assets.

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## Stocks: S&P 500

**The Macro Trader's view is:** the market rallied further last week as traders are looking for any excuse to buy, following up beat comments from Citi Group etc the previous week. And now the Government has announced plans to relieve the Banks of their toxic assets, the rally has advanced further.

As we move forward, traders will be balancing the inevitable flow of negative news against any small signs of optimism.

The acid test for this market from here will be how traders react to any new bad news; will that encourage the Bears to take control, or will the market require not only bad news, but evidence that the recession is deepening even further before traders are willing to begin selling again.

We remain bearish, but sense the outlook is becoming a little more balanced than in recent months, but until a clearer picture emerges we advise remaining square.

Current price action may still represent no more than a correction which could resolve to the downside at anytime on loss of confidence.

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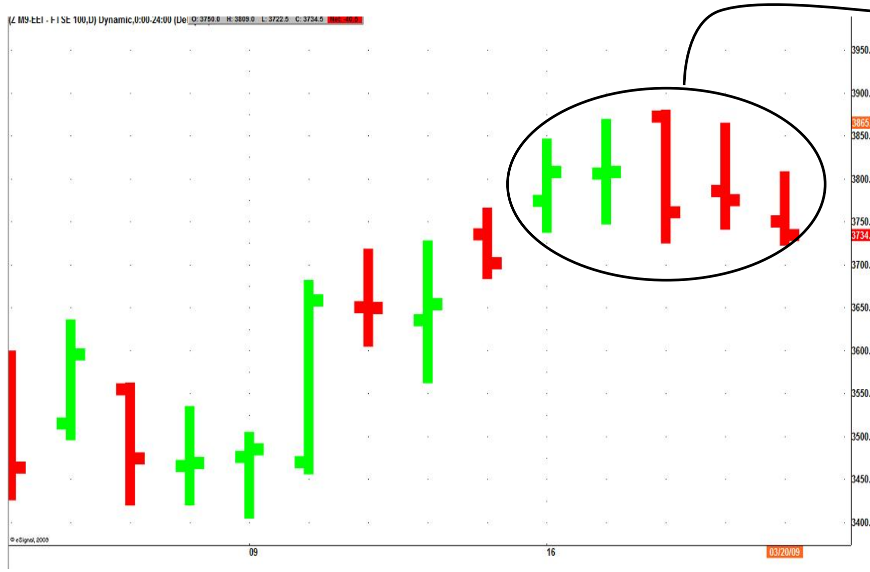
# Stocks: FTSE 100

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the FTSE 100




See how the FTSE tried to rally last week but more bad news on unemployment and worse than expected government borrowing data held the market back.

Last week we were square of this market as we judged the FTSE was enjoying a correction within a Bear market and following last week’s price action which saw an attempt to rally further fail, we judge our decision to go square as justified.

The two key data releases of the week; unemployment and government borrowing were worse than expected, underling the severity of the recession which is expected to last into next year with government debt far exceeding earlier government estimates.

Worryingly for the government was last week’s poorly covered gilt auction; if investors are already starting to balk at the prospect of the amount of debt the UK Government will need to sell, the authorities could find themselves in for a very difficult time indeed as they try to cover fiscal commitments.

Looking ahead the key releases this week are, CPI, Retail sales and Q4 GDP, of which we judge retail sales as the main event.

GDP is essentially old news, and CPI is on a downward path, where as the official retail sales report has beaten expectations over recent months. Weakness now would weigh on the FTSE as retailers stocks would come under pressure.

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## Stocks: FTSE 100

**The Macro Trader's view is:** the FTSE proved yet again just how volatile these markets can be as optimistic news from the US sent equities into a rally which the FTSE was unable to sustain last week.

However as we write, stocks are well up on the day as traders react positively to the US Governments latest initiative which involves committing US$1.0T to removing toxic assets from the balance sheets of US Banks, yet another piece of positive news which the market has reacted to in preference to the continuing stream of reports highlighting economic weakness.

However in the UK the government is virtually out of fiscal options. The budget deficit to GDP ratio is already forecast to hit 12% with debt levels spiralling out of control, the opposition conservative party has ditched most of its pledges to cut tax, with a pledge to get borrowing back to a sustainable level, so if the economy fails to recover in the medium term, the Bank of England will have to shoulder the responsibility of stimulating the economy on its own.

We judge the FTSE remains a bear market. The latest rally is likely no more than traders latching onto false dawns. There is likely to be several quarters more of Bad news, before an economic turn around is truly detectable.

For now we advise remaining square.

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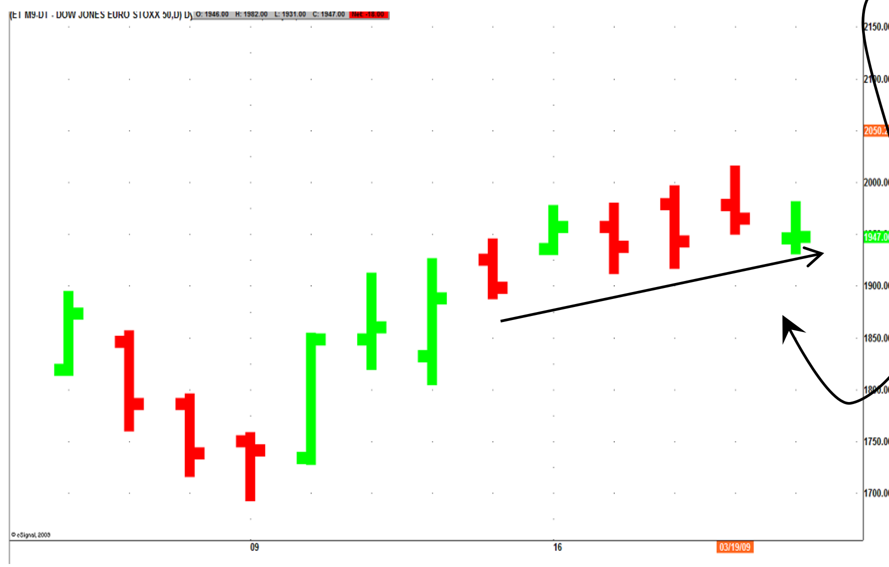
## Stocks: DJ Euro Stoxx 50

**OUR TRADING STANCE: SQUARE.**

Last week we were square of the DJ Euro Stoxx 50




See how the market ground higher last week as optimistic sentiment from the US filtered into this market.

Last week we remained square of this market as we judged the correction fuelled by positive sentiment from the US was unlikely to mark the start of a general turn around in the fortunes of equity markets.

The recent news that three leading US Banks were in profit was a relief, but that's all, there is a long way to go before the economy hits bottom, let alone turns around and although a decision has been made to rid the US Bank's of their toxic assets, that doesn't include Euro zone Banks.

While the ECB drags its heels over monetary policy, the economy deteriorates further as evidenced by last Friday's drop in Euro zone industrial production.

Looking ahead the key events to watch this week are the Euro zone PMI Composite survey on Tuesday and German IFO due on Wednesday, neither are likely to offer any good news.

So while US Banks may be starting to do a little better, the real economy globally continues to sink with a large question mark remaining over General motors German subsidiary OPEL.

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## Stocks: DJ Euro Stoxx 50

**The Macro Trader's view is:** sentiment can be a powerful force in the market, but it cannot of its self sustain a market move without hard economic data to back it up.

Currently equities are responding to optimism, but Euro zone data remains very weak. In all the leading Euro zone economies, especially Germany, industrial production and factory orders have collapsed.

The governments of these countries are unwilling to implement additional fiscal stimulus, preferring to rely on the efforts of their main export markets to stimulate their economies.

The ECB too is reluctant to buy government bonds as a means of expanding the money supply, preferring to add liquidity against collateral which isn't the same thing.

For now we continue to advise remaining square. We are medium/long term bears of this market, but until the current correction exhausts judge it futile to take a short position; as ever timing is everything.

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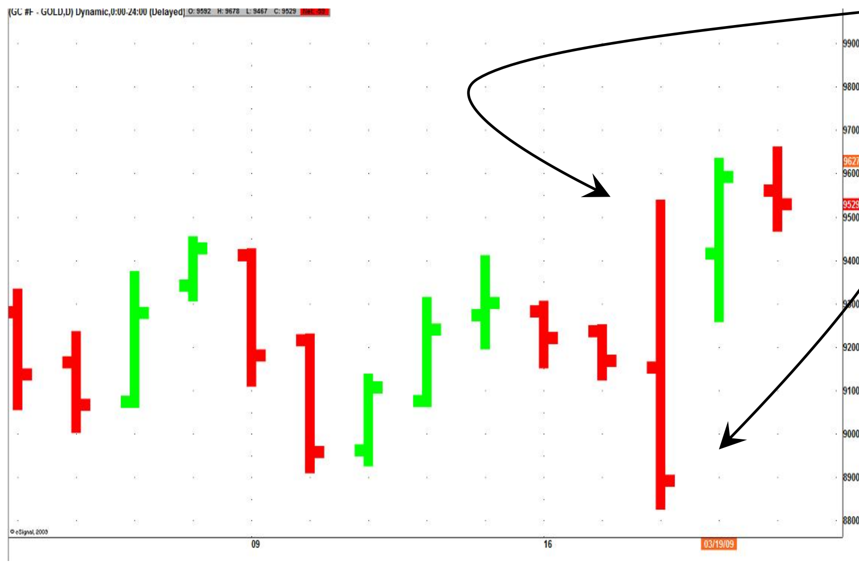
## Commodities: Gold

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




See how Gold experienced a very volatile week as traders reacted to the Fed policy initiative to begin a quantum easing program.

Last week we were square of this market as we judged Gold could extend the recent correction a little further, despite the substantial increases in budget deficits in several key countries including the US and UK as policy makers struggle to catch up with rapidly evolving economic events.

But to the great surprise of traders generally, the Fed announced the start of a quantum easing program and the extension of other pre-existing security purchase programs.

Following a bout of extreme price volatility, the market rallied as traders judged the move together with other fiscal and monetary stimulus events, risked an eventual devaluation of the Dollar.

Unless policy makers get their timing right, a serious burst of inflation could be in the offing once the economy begins to recover.

Not only will monetary policy makers need to be alert but with the US Budget deficit set to expand beyond the levels indicated by President Obama, the US may find like the UK last week, that there simply aren't enough investors to absorb all this new debt, which could have a negative affect on Treasury yields and lead investors into gold.

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## Commodities: Gold

**The Macro Trader's view is;** gold emerged from a torrid week looking set for a renewed bull run.

As the authorities devise ever more means of injecting printed or borrowed money into the economy, the fiscal position of the US especially but others also, is beginning to look unsustainable.

The UK's gilt auction held last week attracted a tepid response, much like a German Bund auction a few weeks earlier, but with the Congressional budget office in the US questioning the Obama administrations budget deficit projections, claiming the outlook is for even bigger deficits which would produce an unsustainable debt to GDP ratio, the US could soon suffer a similar experience.

The Chinese recently publicly voiced their concern over the value of their US investments, while it is virtually impossible for them to liquidate these in the current environment, they could seek other uses for their vast reserves and surpluses.

The Chinese economy is set to slow as exports weaken, the authorities would do well to spend on relevant infrastructure, and on stimulating domestic demand.

Ultimately an economy, no mater how big, that relies almost totally on exports, is in the hands of others, a strong domestic market offers a sounder footing through diversified demand.

In the current environment we judge Gold will remain in demand as an alternative to the other major currencies and expect it to rally further.

Traders should be long of this market, our interim target is $970.0 and our stop is set at $925.0 for protection.

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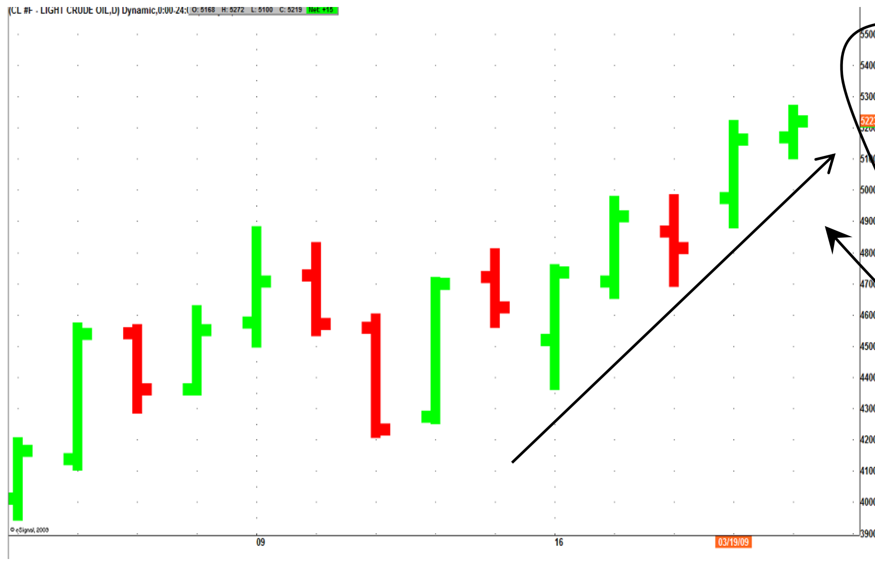
# Commodities: Oil

**OUR TRADING STANCE: SQUARE**

Last week we were square of Oil




See how oil remained well supported last week as traders judged all the fiscal and monetary stimulus should soon translate into economic recovery and increased demand for oil.

Last week we remained square of this market as we judged ongoing geopolitical concerns and tensions were likely lending support to the market.

And although we judge the global economy remains deep in recession, traders continued to buy, even though OPEC recently passed on the opportunity to cut production further.

The likely cause of the current rally is the belief among traders that economic recovery can not be far off.

The authorities in several leading economies, but especially in the US have pumped billions, if not Trillions into encouraging economic recovery, with interest rates slashed to zero and three leading Central Banks adopting a quantum easing program.

Moreover, there are fears that all this stimulus will result, eventually, in inflation, either way traders have turned bullish of oil and certain other key commodities.

But with economic data remaining weak, the current rally could prove premature. True some US data has shown marginal improvement, but the over all tone remains very weak, with the Fed seeing the weight of risk to the downside, while hoping growth might return sometime in 2010, if the financial system is fixed.

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## Commodities: Oil

**The Macro Trader's view is;** the market remains well support despite OPEC'S decision to leave output unchanged.

However we judge that given OPEC'S own forecast that oil demand will continue to fall and their own admission that the cartels members are barely 79% compliant with earlier output cuts, we would expect the current rally to fail.

But after three leading US Banks announced their return to profitability, the Fed announced the start of quantum easing and the Treasury has announced a US$1.0T plan to purge the Balance sheets of US Banks of toxic assets, the rally could extend a little further.

In summary we remain bearish of this market, but the current correction keeps us out, and until the rally shows clear signs of failure we advise remaining square, as we do not think this is the start of a new Bull market in oil; economic reality doesn't support such a move.

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