Week 40

6th – 12th October 2009

Summary

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Interest Rate Futures
+ Euro Dollars
+ Short Sterling
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+ Euro

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+ 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	**SQUARE** for now
+ Short Sterling	**SQUARE** On King's continued verbal intervention
+ Euribor	**SQUARE**

Government Bonds

+ US 10yr Note	**SQUARE**
+ Gilt	**SQUARE** while the Bank is propping the market up
+ Euro Bund	**SQUARE**

Currencies

+ US Dollar	**BEARISH** v the Euro
+ Pound Sterling	**BEARISH** v the Euro on B of E verbal intervention
+ Euro	**BULLISH** v Sterling & the Dollar

Stocks

+ S&P 500	**BULLISH** above 1010.0
+ FTSE 100	**BULLISH**
+ Dow Jones Eurostoxx50	**BULLISH** on growing evidence of an export led recovery

Commodities

+ Gold	**BULLISH** on rising tension with Iran
+ Oil	**SQUARE**

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	Week of 5th October
Monday	US ISM non-mfg 50.0 UK Halifax hse prces 0.6m, -7.83m/y UK PMI Services 54.4 IT PMI Services 47.2 FR PMI Services 52.2 DM PMI Services 52.2 EZ PMI Services 50.6 EZ Retail sales -0.5m, -2.4y
Tuesday	UK NIESR GDP Estimate n/f UK Ind production 0.2m, -8.7y UK Mfg output 0.3m, -9.3y
Wednesday	US MBA Mrtge apps n/f UK BRC Shop prices n/f EZ Q2 GDP -0.1q, -4.7y DM Factory orders 1.1m, -20.0y

	Week of 5th October
Thursday	US Jobless claims 540k US Wholesale inventory -1.0% UK MPC Rate decision 0.50% UK MPC QE Target £175B FR Trade bal -2.5B DM Ind production 1.8m, -17.0y EZ ECB Rate decision 1.0%
Friday	US Feds Kohn on policy research UK PPI Input -0.8m, -6.8y UK PPI Output 0.1m, -0.1y UK PPI Core 0.2m, 0.9y UK Trade bal -6.3B UK Trade bal non-EU -3.6B DM C/A 8.8B DM Trade Bal 12.0B DM CPI -0.4m, -0.3y FR Ind production 0.3m, -13.3y FR Mfg output 0.6m, -13.9y IT Ind production 1.5m, -17.7y

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	Week of 28th September
Monday	DM CPI -0.4m, -0.3y **WEAKER** IT Cons conf 113.6 **STRONGER** **THAN EXPECTED**
Tuesday	US S&P/case/Schiller Comp 20 -13.3y **BETTER** US Cons conf 53.1 **WEAKER** UK Q2 GDP -0.6q, -5.5y **WORSE** UK Mrtge apps 52.3k **BETTER** UK Net cons cr -0.3B **WORSE** UK Net lndg on dwllgs 1.0B **STRONGER** UK Q2 C/A -11.4B **WORSE** UK CBI Distributive trdes 3 **AS** DM Import prices 1.3m, -10.9y **STRONGER** IT Bus conf 74.0 **WEAKER** EZ Cons conf -19 **BETTER** EZ Bus climate indx -2.07 **WEAKER** EZ Services conf -9 **AS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -2.8% **WORSE** ADP employm't chge -254k **WORSE** US Q2 GDP F -0.7% **STRONGER** US Q2 Prsnl consumpt'n -0.9 **AS** US Q2 Core PCE 2.0% **AS** US Q2 GDP Price indx 0.0% **AS** US Chicago PMI 46.1 **WEAKER** UK Indx of services -0.2 **BETTER** FR PPI 0.4m, -8.5y **STRONGER** DM Unemploym't chge -12k **BETTER** DM Unemploym't rate 8.2% **BETTER** IT PPI 0.6m, -7.8y **STRONGER** EZ CPI -0.3y **WEAKER** IT CPI -0.2m, 0.2y **WEAKER** **THAN EXPECTED**

	Week of 28th September
Thursday	US Persnl income 0.2% **STRONGER** US Persnl spndg 1.3% **STRONGER** US PCE Core 0.1m, 1.3y **AS** US Jobless claims 551k **WORSE** US Bernanke @ hse fin services committee US ISM Mfg survey 52.6 **WEAKER** US ISM Prces paid 63.5 **WEAKER** US Pndg home sales 6.4m, **STRONGER** US Construction spndg 0.8m **STRONGER** UK PMI Mfg 49.5 **WEAKER** DM Retail sales -1.5m, -2.6y **WEAKER** IT PMI Mfg 47.6 **STRONGER** FR PMI Mfg 53.0 **STRONGER** DM PMI Mfg 49.6 **AS** EZ PMI Mfg 49.3 **STRONGER** IT Trade bal non-EU -969M **WORSE** EZ Unemploym't rate 9.6% **AS** **THAN EXPECTED**
Friday	US Non-farm payroll -263k **WORSE** US Unemploym't rate 9.8% **AS** US Avge hrly earnings 0.1m, 2.5y **WEAKER** US Avge work week 33.0 **WEAKER** US Factory orders -0.8% **WEAKER** UK Nat'nwide hse prce indx 0.9m, 0.0y **BETTER** UK PMI Construction 46.7 **WEAKER** UK BofE eqty wthdrwl -£7.0B **AS** EZ PPI 0.4m, -7.5y **MORE** **THAN EXPECTED**

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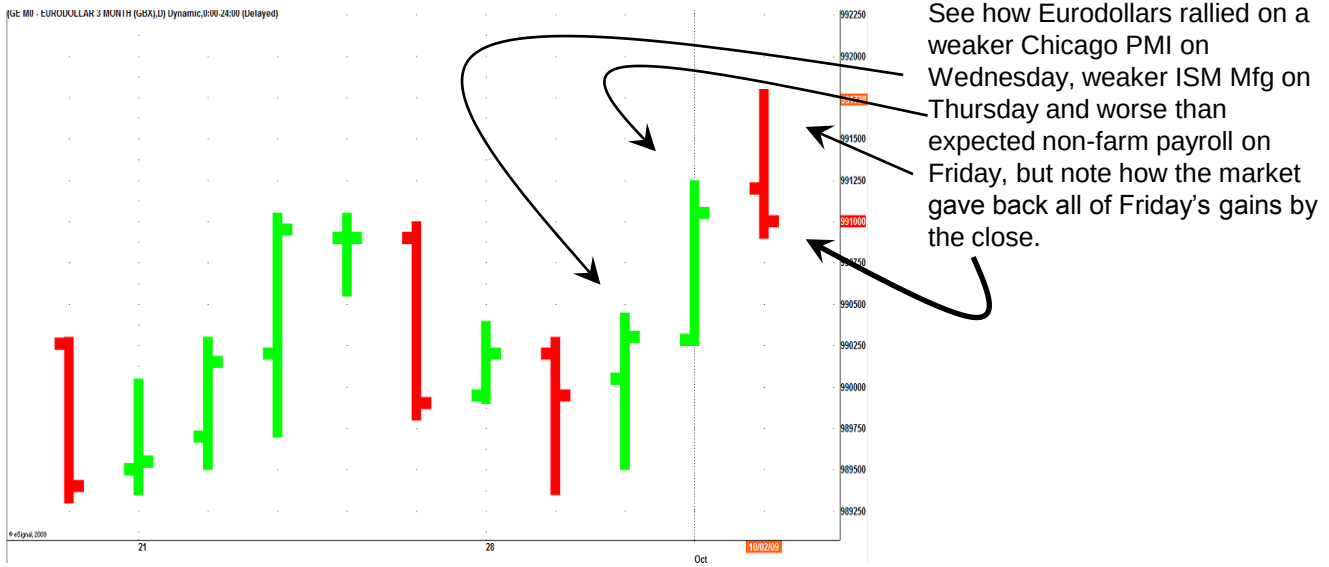
Interest Rate Futures: Euro Dollars June 10

OUR TRADING STANCE: SQUARE.

Last week we were bearish of June 10.



See how Eurodollars rallied on a weaker Chicago PMI on Wednesday, weaker ISM Mfg on Thursday and worse than expected non-farm payroll on Friday, but note how the market gave back all of Friday's gains by the close.

Last week we remained bearish of this market as we judged the Fed was starting to prepare the ground for a tightening cycle beginning in the 1st half of 2010.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Consumer confidence; weaker than expected,**
- On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
- On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
- On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

The market dipped into Tuesday, but rallied on several weaker reports.

However the highs were not held on Friday and other key data during the week came in better than expected, especially Pending home sales and personal spending, which shows the housing market and consumer demand performing well.

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Interest Rate Futures: Euro Dollars

Looking ahead there are few reports due this week, as detailed on the global calendar, but we judge this is the week's **key** release:

- On Monday; **ISM non-manufacturing.**

After last week's rally on softer data, traders will require sight of a better than expected non-manufacturing survey to re-instil a sense of confidence in the economic recovery.

The Macro Trader's view is; the market rallied last week as traders again began to question the strength of the fledgling recovery and on first inspection last week's data seemed to support their concerns, as the ISM manufacturing survey and non-farm payroll came in weaker than forecast.

However other key data releases throughout the week told a different story with Q2 GDP revised higher, Pending home sales much better than expected and personal spending stronger than forecast.

Moreover Fed officials continued to warn that the Fed might need to tighten policy before it was obviously necessary and before unemployment had turned, due to the risk of inflation being unleashed if policy was left too low for too long.

However we were stopped out and for now we judge it wise to stand aside until it is clear the market is ready to embrace our view of an impending bear market.

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Interest Rate Futures: Short Sterling June 10

OUR TRADING STANCE: SQUARE.

Last week we were square of June 10.

See how Short Sterling sold off on Tuesday after stronger than expected housing market data, but rallied from Wednesday onwards as equities sold off and the PMI Manufacturing survey came in weaker on Thursday.

Last week we remained square of this market as our upbeat assessment of the UK economy jarred with current market sentiment engineered in large part by Bank of England rhetoric.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Q2 GDP(F); worse than expected and net lending on dwellings; stronger than expected,**
- On Thursday; **PMI Manufacturing; weaker than expected, and**
- On Friday; **Nationwide house price survey; stronger than expected.**

Although the PMI manufacturing report was weaker and equities sold off, net lending on dwellings, mortgage approvals and the Nationwide house price survey were all better than expected.

Indeed the Nationwide said house prices were back to levels last seen at this time last year before the Lehman brothers drama provoked the financial market collapse.

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Interest Rate Futures: Short Sterling

Looking ahead there are several data reports due which are detailed on the global calendar, but we judge these are the week's **key** release:

- On Monday; **Halifax house price survey and PMI Services survey,**
- ON Tuesday; **Manufacturing output, industrial production and NIESR GDP estimate,**
- On Thursday; **MPC Interest rate decision and QE target, and**
- On Friday; **PPI.**

This week we look to Monday's Halifax house price survey and PMI Services report to restore confidence in the UK economic recovery which continues to attract more than its fair share of doubting Thomas's.

But with the MPC rate decision due on Thursday, traders are likely to remain nervous all week in case policy makers spring any fresh surprises with their QE program.

The Macro Trader's view is: the market remains driven by the belief the Bank of England will leave interest rates unchanged for best part of 2 years based on their assessment of inflation published in the August quarterly inflation report.

However policy makers have recently said in September's minutes, the UK economy could be at the threshold of a virtuous upward spiral; which is it.

Additionally traders should remember the August quarterly inflation report also forecast Q3 GDP of 0.2, Q4 GDP of 0.4 and solid growth for 2010; we do not believe policy can stay on hold much beyond the 2nd/3rd quarter of 2010.

For now we continue to **advise remaining square**, Q3 GDP is due later this month and it should be positive. Once the UK is seen to be officially out of recession, maybe traders will take more notice of data that has predicted it and will likely point to a broader based recovery.

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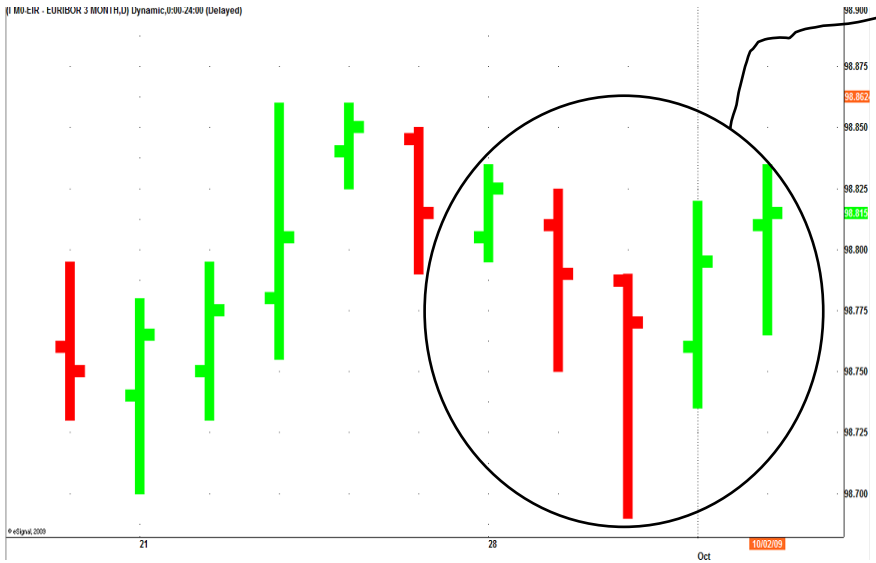
Interest Rate Futures: Euribor June 10

OUR TRADING STANCE: SQUARE.

Last week we were square of June 10.



See how Euribor suffered a volatile week driven by the ebb and flow of market confidence in the economic recovery, the price action in equities and sentiment from the US.

Last week we remained square of this market as we judged price action indicated a convergence trade was dominating the market.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Wednesday; **Euro zone CPI; weaker than expected, and**
- On Thursday; **French, Italian and Euro zone PMI manufacturing surveys; better than expected, German PMI Mfg survey; as expected.**

The Euribor market suffered a high degree of volatility last week which wasn't justified by the data releases.

The price action was more in response to traders oscillating confidence in the economic recovery, the price action in equities, which turned weak mid week, and sentiment from the US as traders focused on the weaker US data and ignored the stronger reports.

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Interest Rate Futures: Euribor

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Italian, French, German and Euro zone PMI Services surveys,**
- On Wednesday; **German factory orders, and**
- On Thursday; **German industrial production and ECB Rate decision, and**
- On Friday; **German trade and C/A data and French industrial production and manufacturing output.**

The main events for us this week are the various PMI services surveys, German factory orders and German industrial production. We judge these will be a good guide to the current state of the Euro zone economic recovery.

Trichet's press conference on Thursday should also be worth a listen as he has begun complaining about the strength of the Euro.

The Macro Trader's view is; after last week's volatile price action we were pleased to be square of this market.

Currently all the short term interest rate futures markets seem to be over discounting any thoughts of recovery and react to weakness in equity markets fuelled by the belief the Central Banks will leave policy on hold for a very long period of time.

We believe this is dangerous.

The Fed has wheeled out three senior officials within the last week to talk about how , when and why policy could be tightened in the US.

The ECB has reported a substantial decline in demand for liquidity from Euro zone Banks which points to a healing of the Euro zone financial system.

In short we think traders are being confused by the natural ebb and flow of data when economies are at major turning points.

Before too long that fog clears and the new direction is seen clearly, we judge that will happen soon leading to a bear market in all short term interest rate futures markets.

For now we advise traders to remain patient and square.

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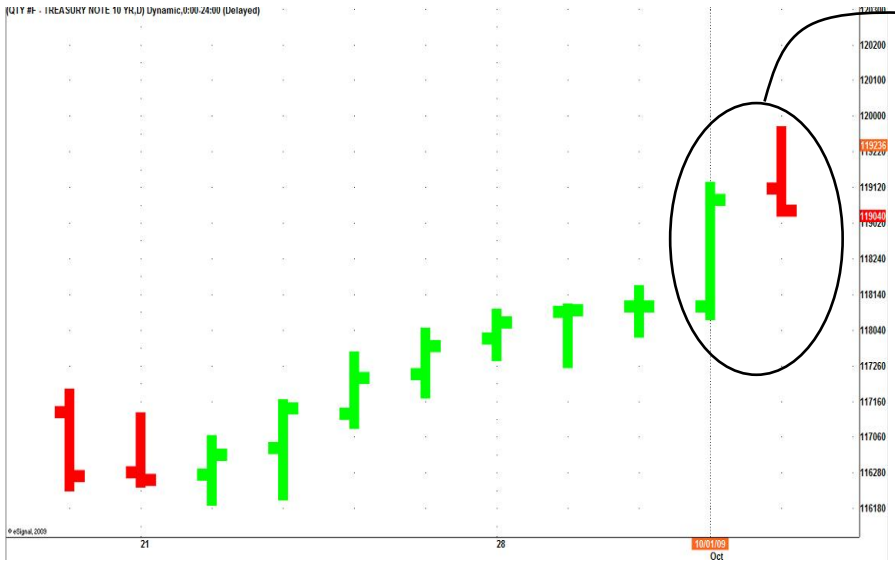
Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the 10yr Note.



See how the 10 year note rallied last week especially on Thursday, but note how Friday's highs were firmly rejected.

Last week we were bearish of this market, after Fed governor Warsh set the clock ticking on the end to exceptionally low interest rates.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Consumer confidence; weaker than expected,**
- On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
- On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
- On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

However despite two other leading Fed officials delivering a similar message to the one delivered by Warsh, the market rallied on disappointment over a weaker than expected ISM manufacturing survey and Friday's weaker than forecast non-farm payroll report, although Friday's highs were clearly rejected.

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Government Bonds: US Treasury Note (10yr)

Looking ahead there are few reports due which are detailed on the global calendar, but we judge this is the week's **key** release:

- On Monday; **ISM non-manufacturing.**

After last week's disappointing ISM manufacturing report and worse than expected non-farm payroll report, all eyes will be on the ISM non-manufacturing survey and it will need to register strength to reverse the bullishness of this market.

The Macro Trader's view is; the market enjoyed its safe haven status last week as traders bought bonds in response to equity market weakness.

Data played its part too, but traders were selective about the reports they decided to react to.

Apart from the ISM manufacturing survey and non-farm payroll, the Pending home sales report was very much stronger than expected, so too was personal income and with the Fed's Kohn and Lacker both explaining to the market how the Fed might need to tighten before data made it look obvious and even as unemployment remained weak, we judge there are reasons to question the strength of Bonds.

However traders are clearly taking the view that nothing happens to monetary policy this year and for now inflation isn't a worry.

While that is true, we are concerned about the relentless build up of debt which we judge will weigh heavily on the US economy especially as China and India continue to grow in stature.

For now, after being stopped out, remain square.

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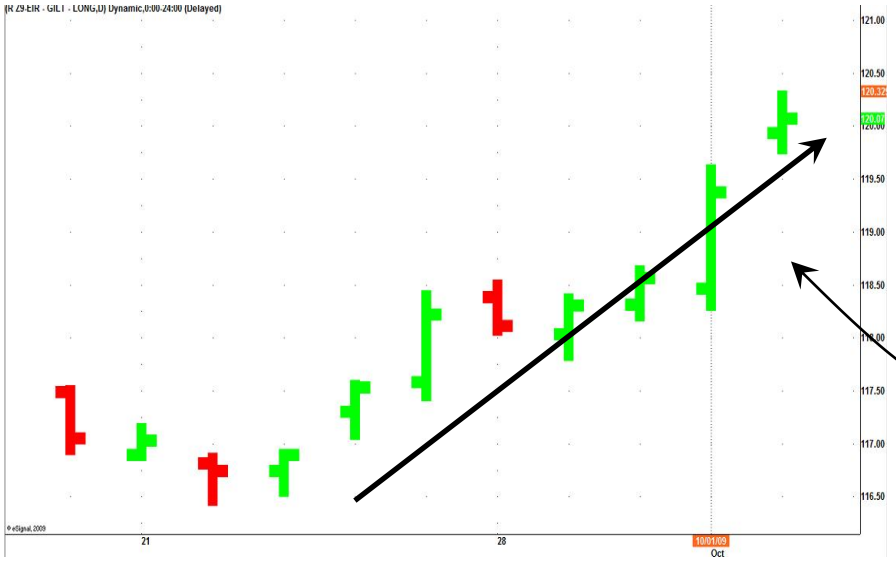
Government Bonds: The Gilt

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.



See how the Gilt continues to enjoy the protection of the Bank of England's QE program aided by promises from Brown and co that the deficit will be halved over four years starting after the general election next year.

Last week we remained square of the Gilt, as we judged the Bank of England's QE policy artificially supports a market that is bedevilled by the worst explosion of public debt ever in peace time.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Q2 GDP(F); worse than expected and net lending on dwellings; stronger than expected,**
- On Thursday; **PMI Manufacturing; weaker than expected, and**
- On Friday; **Nationwide house price survey; stronger than expected.**

The Gilt found support from the weakness of equities last week together with the weaker than expected PMI manufacturing report which represents only 14% of UK GDP.

Never mind that loans on dwellings jumped, mortgage approvals increased and the Nationwide reported a strong monthly increase in house prices with the year on year comparison now at 0.0%, in other words prices are back to levels last seen this time last year.

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Government Bonds: The Gilt

Looking ahead there are several reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Halifax house price survey and PMI Services survey,**
- ON Tuesday; **Manufacturing output, industrial production and NIESR GDP estimate,**
- On Thursday; **MPC Interest rate decision and QE target, and**
- On Friday; **PPI.**

The PMI services Survey is the main event this week, it accounts for the Lions share of GDP and if it comes in as expected or better fears over the recovery foundering will be baseless.

But do keep an eye on the MPC rate decision in case they spring a surprise.

The Macro Trader's view is; the Gilt is a market we prefer to avoid simply because it is too heavily influenced by the Bank of England's QE actions.

With a recovery looking underway **policy makers seem far too pessimistic**.

We don't blame them for being cautious given what has occurred in the last twelve months, but pessimism isn't warranted as the economy is improving and inflation has failed to collapse despite the Bank consistently forecasting such an out come, with the housing market clearly in a recovery.

In such an environment for now, remain square.

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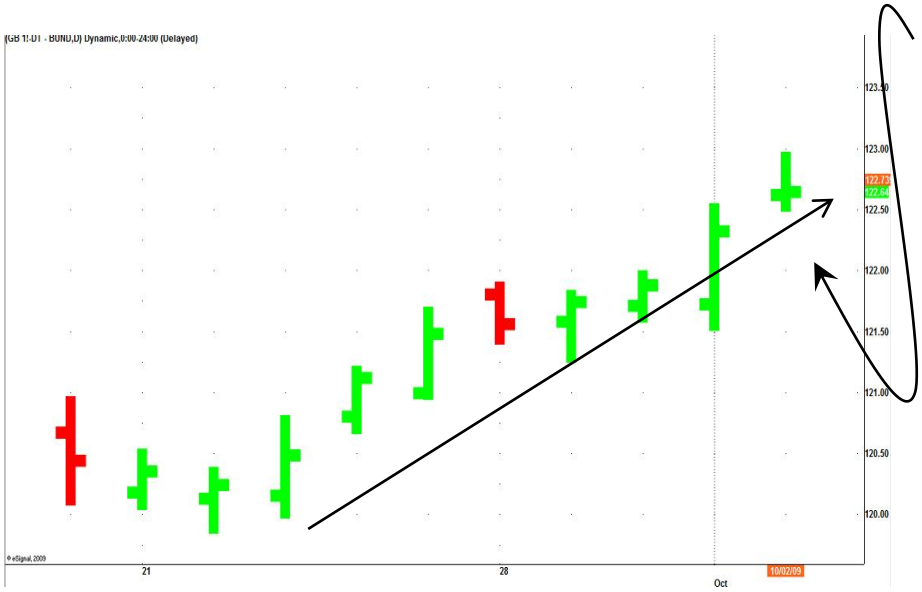
Government Bonds: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of the Bund



See how the Bund like the other major government bond markets rallied last week as equity markets sold off and Trichet voiced his displeasure over the Euro's strength which he said risked damaging exports and the Euro zone recovery.

Last week we remained square of the Bund as we judged the market remained driven by Central Bank comments that interest rates would be left unchanged for a prolonged period, despite clear evidence of economic recovery.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Wednesday; **Euro zone CPI; weaker than expected, and**
- On Thursday; **French, Italian and Euro zone PMI manufacturing surveys; better than expected, German PMI Mfg survey; as expected.**

The key PMI manufacturing surveys were broadly better than expected last week, but weak equity markets and negative sentiment from the US gave the Bund the fuel it needed for an extension of the rally, despite the ECB advising a sharp drop in liquidity demands from Euro zone Banks..

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Government Bonds: The Bund

Looking ahead there are several reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Italian, French, German and Euro zone PMI Services surveys,**
- On Wednesday; **German factory orders, and**
- On Thursday; **German industrial production and ECB Rate decision, and**
- On Friday; **German trade and C/A data and French industrial production and manufacturing output.**

We judge the German data the reports to watch this week. They are factory orders, industrial production and the trade data.

They all report on the core strengths of the German economy and what has been the motor for the Euro zone economic recovery.

The Macro Trader's view is: last week's price action looked driven by what was unfolding in the equity markets.

After a long rally in equities, traders lost their nerve as they began to doubt (yet again) the strength of the economic recovery, especially in the US.

But despite disappointing ISM Manufacturing data from the US we have seen little to worry about.

In the Euro zone the PMI data last week was generally better than expected and in the US other key reports; pending home sales and personal income, were stronger than expected by a margin.

In this environment we judge trading bonds is almost a proxy for trading equities, so advise trading the primary market; equities and stay square of the Bund.

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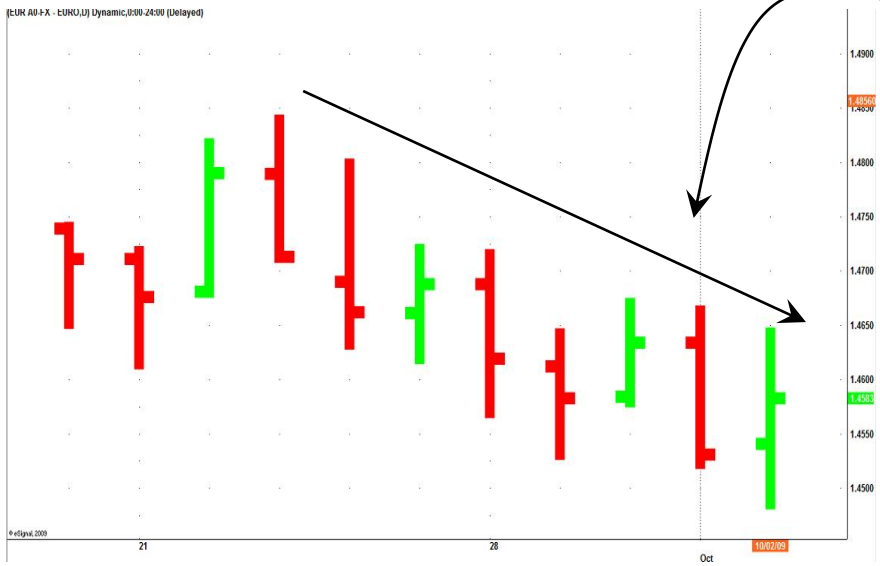
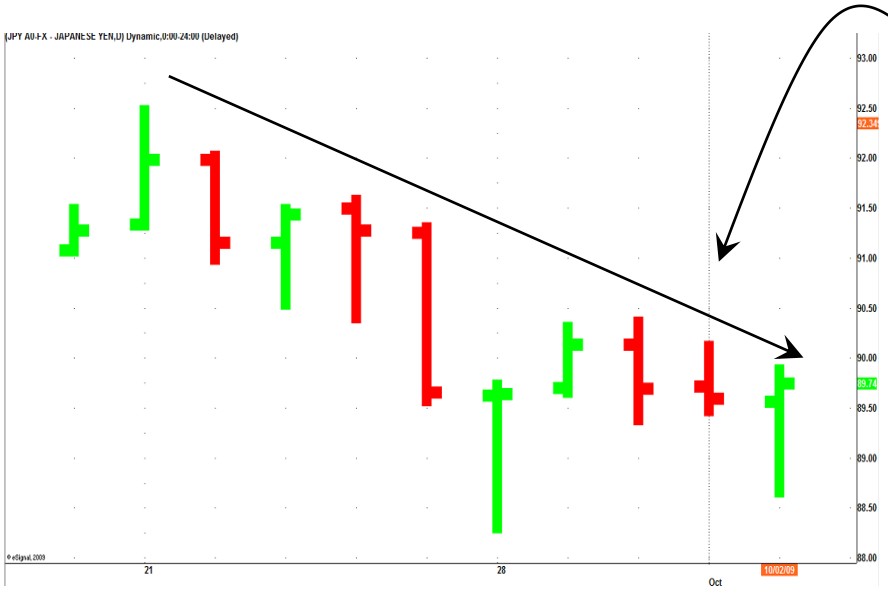
Currencies: The Dollar

OUR TRADING STANCE: BEARISH.

Last week we were Square of the Dollar.



See how the Dollar recovered last week as doubts over the economic recovery resurfaced once more with a run of mixed data offering support.



See how the Yen benefited from last week's increase in risk aversion as stocks suffered yet another brief but significant pull back.

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+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Dollar

Last week we were square of the Dollar as we judged it could correct a little further.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Consumer confidence; weaker than expected,**
- On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
- On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
- On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

The data was mixed last week with the high profile ISM manufacturing and non-farm payroll reports coming weaker than expected, but other data was stronger especially the pending home sales and personal spending.

Nevertheless the market focused on the weaker data with traders buying the Dollar on an increase in risk aversion.

Looking ahead there are few reports due which are detailed on the global calendar, but we judge this is the week's **key** releases:

- On Monday; **ISM non-manufacturing.**

After last week's correction and weaker data, we judge a strong non-manufacturing survey will resettle nerves, lead to a reduction in risk aversion and see the Dollar weaken.

The Macro Trader's view is: the Dollar rallied last week primarily on the back of yet another bout of risk aversion.

And although some data justified those fears other equally important releases didn't. Indeed the Fed feels sufficiently confident about the economic outlook to wheel out three speakers in less than a week to brief on the circumstances that could lead the Fed to begin tightening policy.

We judge the recovery is on track and traders will overcome their nerves and move back into other asset classes leaving the Dollar exposed to the reality of the massive fiscal debt build up.

Traders should be short of Dollar/Euro. Our target this week is 1.4798 and our stop is placed at 1.4455 for protection.

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+ Short Sterling
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+ Gilt
+ Euro Bund

Currencies
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+ Pound Sterling
+ Euro

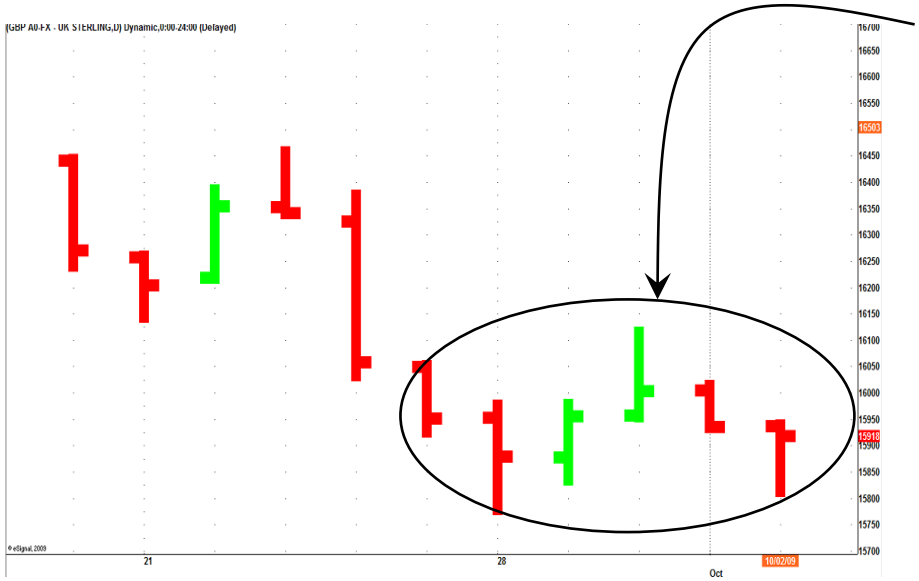
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

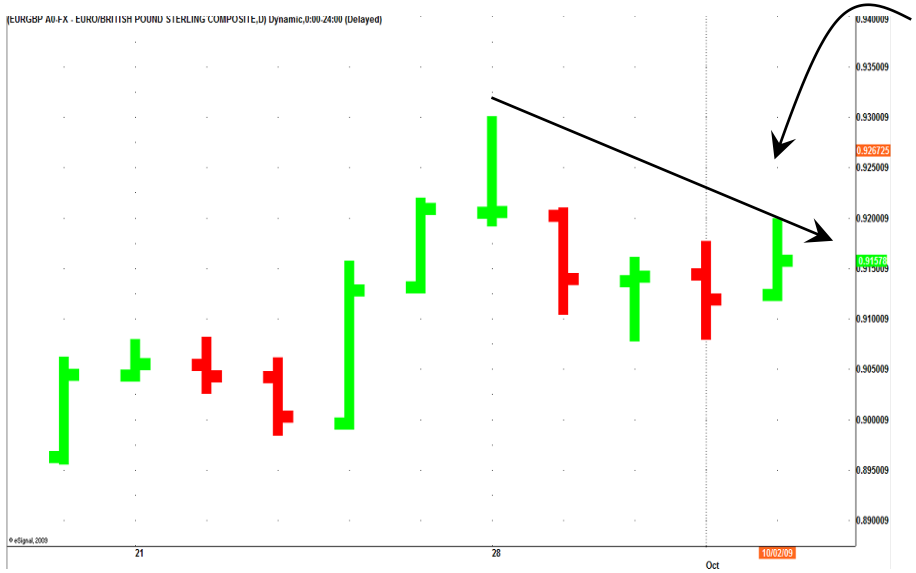
Currencies: The Pound Sterling

OUR TRADING STANCE: BEARISH Sterling/Euro.

Last week we were Bearish of Sterling/Euro.



See how Sterling suffered a choppy week but closed virtually unchanged as UK data was almost as mixed as US data releases throughout the week.



See how Sterling recovered a little against the Euro last week as the debate over UK public spending cuts intensified and Trichet bemoaned the strength of the Euro.

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+ Euro

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Commodities
+ Gold
+ Oil

Currencies: The Pound Sterling

Last week we were bearish of Sterling as we judged the Bank of England seemed enthusiastic over Sterling's de facto devaluation.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Tuesday; **Q2 GDP(F); worse than expected and net lending on dwellings; stronger than expected,**
- On Thursday; **PMI Manufacturing; weaker than expected, and**
- On Friday; **Nationwide house price survey; stronger than expected.**

The PMI Manufacturing report was disappointing, but the Housing market data certainly was not and we see the latter as more important to the economy.

However the Pound enjoyed a brief recovery as political debate over the need for spending cuts heated up.

Looking ahead there are several reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Halifax house price survey and PMI Services survey,**
- ON Tuesday; **Manufacturing output, industrial production and NIESR GDP estimate,**
- On Thursday; **MPC Interest rate decision and QE target, and**
- On Friday; **PPI.**

The main event this week is the PMI Services report which came out earlier today much stronger than expected, but so too were Euro zone surveys.

The MPC interest rate decision on Thursday is important only for its fear factor after the Bank sprung so many surprises during the summer, but we don't expect one this week.

The Macro Trader's view is; the Pound remains vulnerable to further weakness, especially against the Euro.

The Bank would like an export led recovery, in the Euro zone they have one, But unlike the ECB that has voiced concerns over the currency becoming too strong, the Bank of England has happily endorsed Sterling's weakness which despite solid data, we expect to remain a feature for a while longer.

At least until the Bank recognises the recovery for what it is and starts to contemplate the day when policy will need to be tightened, to ward off inflation and counter the inflationary potential of the massive debt build up if left un-reformed.

We advise remaining short of Sterling/Euro, our target for this week is again 0.9350 and our stop continues at 0.9050 for protection.

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Commodities
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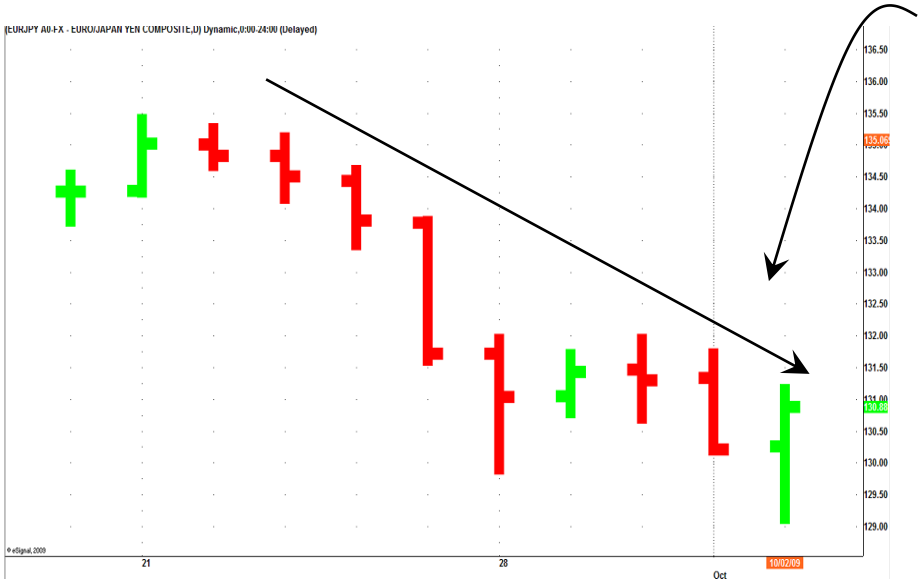
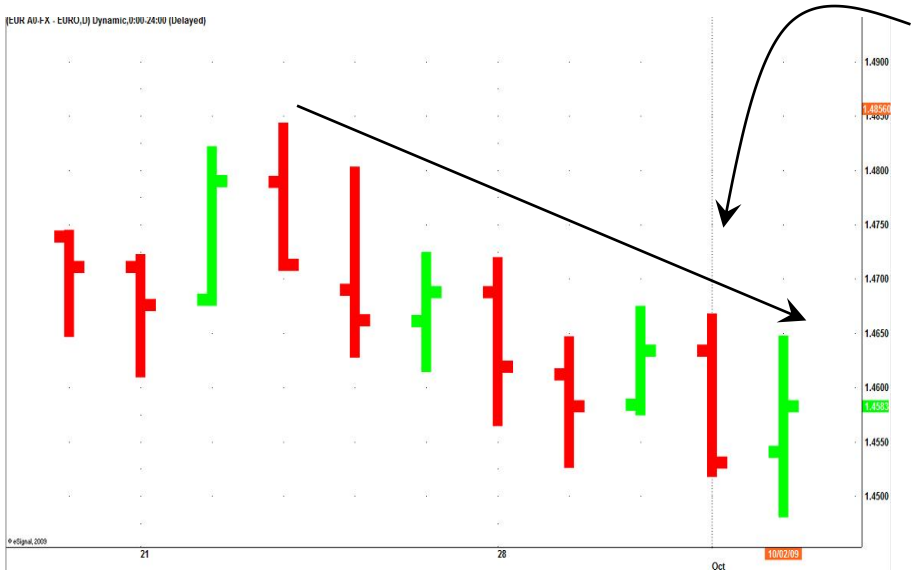
Currencies: The Euro

OUR TRADING STANCE: BULLISH V STERLING & the DOLLAR.

Last week we were bullish v the Dollar



See how the Euro sold off further against the Yen as the rise in risk aversion worked in the Yen's favour.



See how the Euro continued to correct against the Dollar but the move seemed to have run its course by Friday.

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+ Euro

Stocks
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+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Euro

Last week we square of the Euro against the Dollar as we judged it could correct further on risk aversion, but bullish against Sterling.

And in a week with several data releases due as detailed on the global calendar, we advised traders to monitor the following **key** releases:

- On Wednesday; **Euro zone CPI; weaker than expected, and**
- On Thursday; **French, Italian and Euro zone PMI manufacturing surveys; better than expected, German PMI Mfg survey; as expected.**

Last week's price action was driven by risk aversion as equity markets weakened and traders sought the relative safety of the Dollar, helped by Trichet bemoaning the Euro's strength.

Looking ahead there are several reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Italian, French, German and Euro zone PMI Services surveys,**
- On Wednesday; **German factory orders, and**
- On Thursday; **German industrial production and ECB Rate decision, and**
- On Friday; **German trade and C/A data and French industrial production and manufacturing output.**

The main releases to watch this week are the German reports due on Wednesday, Thursday and Friday, as they inform directly about the strength of manufacturing and the export led recovery.

The Macro Trader's view is: the Euro, as we suspected suffered further losses against the Dollar, but unexpectedly Sterling too, mainly due to risk aversion.

However we judge this will pass as traders refocus onto the release of Q3 corporate results which we expect to be bullish, leading to a strong Q3 GDP report for the US.

This paradoxically will work against the Dollar as risk aversion will subside as traders refocus onto the massive US budget debt build up.

Traders should be Long of the Euro against the Pound and the Dollar.

For Sterling/Euro, our target for this week is again 0.9350 and our stop remains at 0.9050 for protection.

For Dollar/Euro our target for this week is 1.4798 and our stop is placed at 1.4455 for protection.

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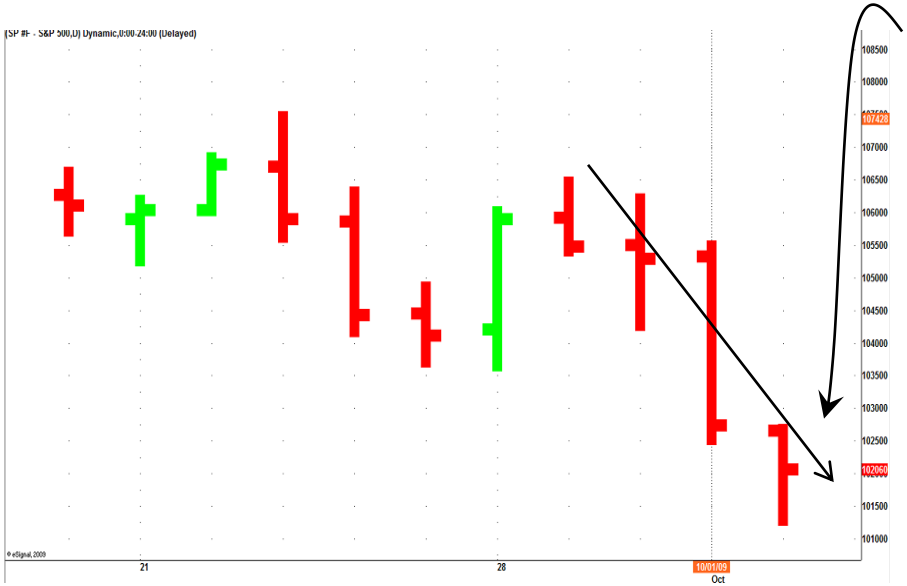
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: S&P 500

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the S&P 500



See how the S&P sold off last week as traders once more lost their faith in the emerging economic recovery with two key data releases seemingly confirming their fears.

Last week we remained bullish of the S&P500 despite the previous week's weakness as we judged the economy was on track to report growth for the 3rd quarter.

However the data was mixed last week: On Tuesday; **Consumer confidence; weaker than expected,**
On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

Traders naturally focused on the data releases that played to their current concerns and sold on the ISM Manufacturing survey and non-farm payroll reports.

Looking ahead the **Key** release this week is:

- On Monday; **ISM non-manufacturing.**

We judge traders will rediscover their confidence/optimism, if this number comes in better than expected, which after last week's better than expected personal spending data it very easily could.

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+ Euro

Stocks
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+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: S&P 500

The Macro Trader's view is: we were stopped out last week, but with profits preserved, as risk aversion continued to increase throughout the week as traders expressed their doubts about the durability of the fledgling recovery.

However we remain bullish and judge these lower levels as good buying opportunities.

While some important data was indeed a disappointment; ISM Manufacturing and non-farm payroll, other data wasn't.

We judge the strength displayed by pending home sales and personal spending was actually of greater importance.

The US economy is heavily weighted towards the service sector and the housing market is an important element of that.

As for the unemployment data, it always lags a recovery and the number on Friday wasn't dramatically worse than expected.

In summary we judge this market has much further to go on the upside and upcoming Q3 Corporate results should help it higher.

Traders should be long of this market, our target for this week is again 1050.0 and our stop is set at 1010.0 for protection.

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+ Euro

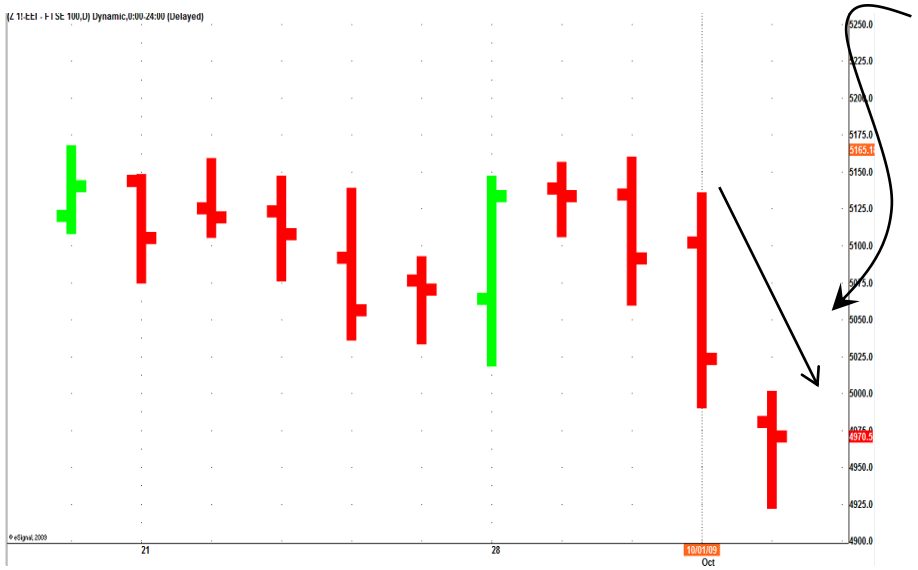
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the FTSE 100



See how the FTSE suffered a sharp sell off on Thursday that continued into Friday after the release of a weaker than expected PMI Manufacturing report.

Last week we remained bullish of this market as we judged data rather than sentiment would ultimately prove the main driving force in this market.

In the event data disappointed some data disappointed as Tuesday's **Q2 GDP report revealed a weaker y/y reading,** Thursday's **PMI manufacturing survey was both weaker than expected and below 50.0,** but Friday's **Nationwide house price index came in much better than expected with y/y readings flat and back to 2008 levels.**

But the FTSE weakened as international sentiment weighed heavily as traders in the US became fretful over the durability of their recovery.

Looking ahead the **key** releases this week, are:

- On Monday; **Halifax house price survey and PMI Services survey,**
- ON Tuesday; **Manufacturing output, industrial production and NIESR GDP estimate,**
- On Thursday; **MPC Interest rate decision and QE target, and**
- On Friday; **PPI.**

We judge the main event this week will be today's PMI Services report which was stronger than expected, but the market could remain nervous ahead of Thursday's MPC interest rate decision before a solid recovery kicks in.

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+ Euro

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

Commodities
+ Gold
+ Oil

Stocks: FTSE 100

The Macro Trader's view is: the FTSE sold off hard on Thursday and Friday and we were stopped out, but we remain bullish.

The UK housing market is unquestionably enjoying a solid recovery and today's PMI Services report should the service sector of the economy is beginning to fire on all cylinders.

Ok last week's PMI Manufacturing survey was disappointing, but it only accounts for 14% of UK GDP so will not be the deciding factor in this recovery despite the Bank's yearning for an export led recovery.

However as on so many occasions what happens in this market owes a lot to what happens in the US and last week's rise in risk aversion should reverse this week if as we expect the US ISM non-manufacturing survey comes in at least inline with consensus if not higher.

Traders should be long of this market, our target for this week is 5079.0 and our stop is set at 4875.0 for protection.

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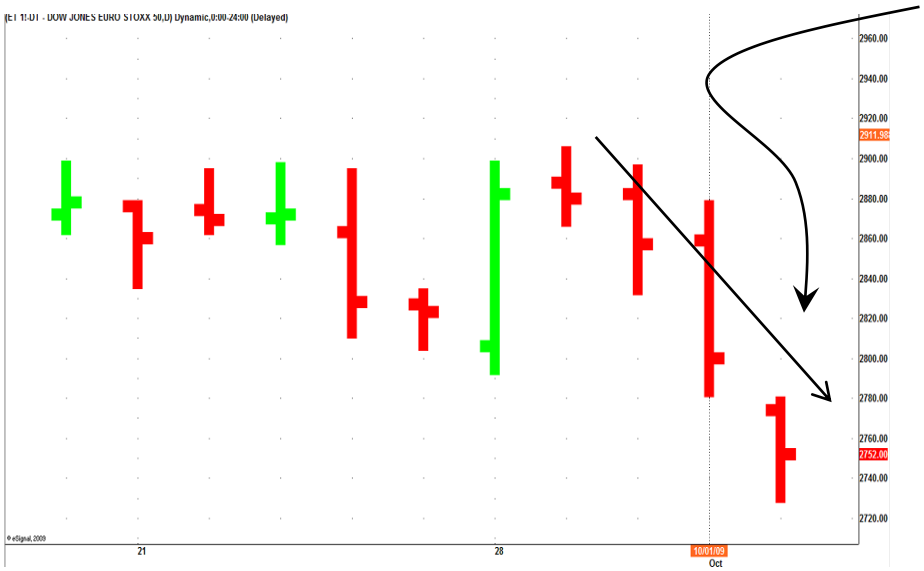
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the DJ Euro Stoxx 50



See how the DJ Eurostoxx suffered the same fate as the S&P500 and FTSE, due to a rise in risk aversion driven by doubts over the durability of the US recovery, despite Euro Zone PMI reports coming in broadly better than expected.

Last week we remained bullish of this market as we judged the building economic recovery would support stocks and extend the rally.

But last week traders judged the Fed was indeed starting to deliver a new message on monetary policy, and together with some weaker than expected **key US** data releases seen throughout the week the market corrected lower despite ok Euro zone data releases: On Wednesday; **Euro zone CPI; weaker than expected, and** On Thursday; **French, Italian and Euro zone PMI manufacturing surveys; better than expected, German PMI Mfg survey; as expected.**

Looking ahead the **key** releases this week are:

- On Monday; **Italian, French, German and Euro zone PMI Services surveys,**
- On Wednesday; **German factory orders, and**
- On Thursday; **German industrial production and ECB Rate decision, and**
- On Friday; **German trade and C/A data and French industrial production and manufacturing output.**

We judge this week's German data to be the most important, from a domestic stand point, but judge US sentiment will continue to drive the leading equity markets this week.

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+ Euro

Stocks
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Commodities
+ Gold
+ Oil

Stocks: DJ Euro Stoxx 50

The Macro Trader's view is: we were stopped out by Friday's price action following the release of a worse than expected US non-farm payroll report.

This played to the fears of the pessimists and provided the confirmation they sought that the US/Global recovery was too fragile to reach maturity.

However that report was no disaster and is a lagging indicator. In the Euro zone the PMI Manufacturing surveys were either as expected or better.

Clearly as an exporter of manufactured goods, news of building strength is important news for the economy and this market.

Once again today Euro zone PMI Services data has come in broadly better than expected, and if the US equivalent shows the same result this afternoon, we judge equities will shake off last week's gloom.

Traders should remain long of this market, our target this week is still 2860.0 and our stop is at 2670.0 for protection.

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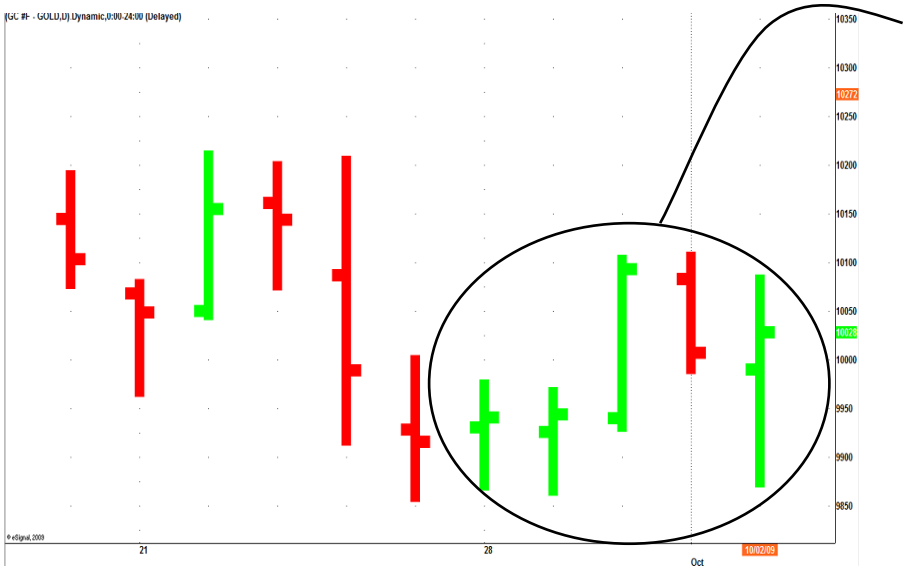
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Commodities: Gold

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



See how Gold suffered a volatile week as the Dollar enjoyed what we see as a brief rally.

Last week we remained bullish of Gold despite the steep correction suffered the previous week as we judged traders would continue to seek the safe haven status it offered.

And with several **key** US data releases due we advised traders to focus on:

- On Tuesday; **Consumer confidence; weaker than expected,**
- On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
- On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
- On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

The data main story was the Dollar's rally on increased risk aversion, data was a side show as positive releases more than matched negative ones.

Looking ahead the **key** report this week is:

- On Monday; **ISM non-manufacturing.**

If today's release of the ISM non-manufacturing survey is better than expected, we judge a drop in risk aversion will follow, leading traders out of the Dollar and into other riskier asset classes with Gold also a beneficiary.

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Commodities
+ Gold
+ Oil

Commodities: Gold

The Macro Trader's view is: the Gold market tried to stage a recovery, and although it closed higher on the week, its progress was hampered by the Dollar's own correction.

However, data points to Global economic recovery with strong PMI Services reports released in the Euro zone and UK, at the time of writing the US equivalent is yet to be released, we expect a strong survey to work against the Dollar.

Traders have bought Dollars and unloaded other assets in response to renewed fears over the strength of the recovery.

But to us those fears seem baseless. In the US last week the number of pending home sales leapt higher and personal spending was much stronger. In the UK the housing market also moves from strength to strength as reported by the Nationwide building society.

And even in the Euro zone data shows manufacturing continuing to recover with a series of solid PMI services reports today.

In all we judge gold is a market that will rally further as the recovery strengthens and traders turn their attentions to the latent threat of inflation.

Traders should stay long of this market, our target this week is 1020.0, but our stop is left at 975.0 for protection.

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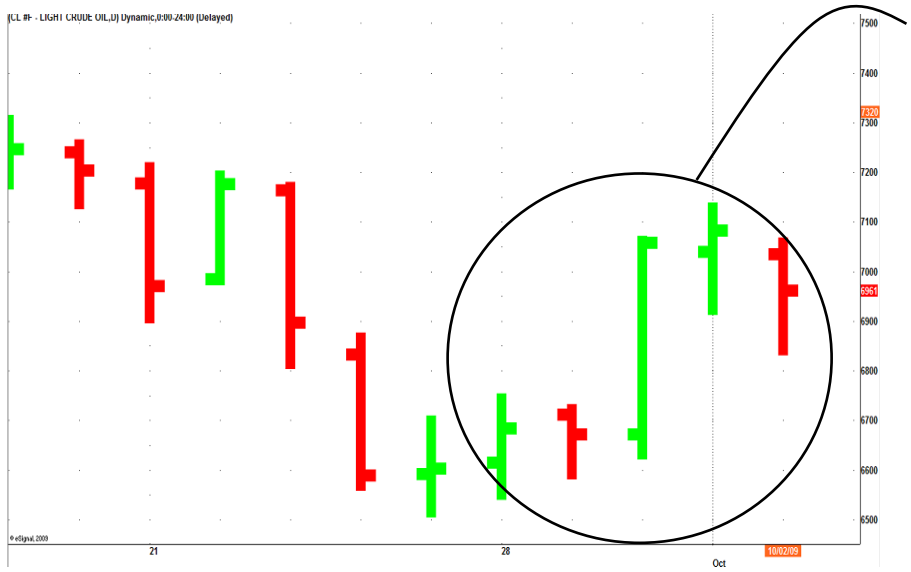
Commodities
+ Gold
+ Oil

Commodities: Oil

OUR TRADING STANCE: SQUARE

Last week we were square of Oil



See how oil recovered last week, but remains within established ranges, as tension with Iran is off set by renewed fears over the economic recovery.

Last week we remained square of this market as we judged the market would struggle to make new highs until the economic recovery seemed set to move to a new phase.

And with several **Key** reports due globally, we advised traders to monitor the following:

- On Tuesday; **Consumer confidence; weaker than expected,**
- On Wednesday; **Q2 GDP; stronger than expected, Core PCE; as expected and Chicago PMI; weaker than expected,**
- On Thursday; **ISM Manufacturing survey; weaker than expected and pending home sales; stronger than expected, and**
- On Friday; **Non-farm payroll; worse than expected and unemployment rate; as expected.**

In the event the market did recover, but failed to make new highs and was unable to hold the gains.

Looking ahead the **key** releases this week are:

- On Monday; **ISM non-manufacturing.**

We judge this week's key release could provide the energy needed to move this and other markets out of their recent ranges, but it will need to be better than consensus to assuage the fears of the recovery doubters.

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+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Commodities: Oil

The Macro Trader's view is; although the market put in a recovery last week, we judge it unconvincing.

While we believe the current economic recovery will mature into a self sustaining period of economic expansion, its early stages are unlikely to justify an oil price materially higher than recent highs based on the likely near term demand for energy.

With this in mind we see no reason to take a position in this market as we sense any gains made would fail to justify the investment or the risk, in short risk reward doesn't look compelling in this market.

For now though, we continue to advise monitoring this situation while remaining square.

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