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Week 50

15th – 21st December 2009

the macro trader's guide to major markets

John Lewis

SEVEN DAYS AHEAD

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This week's global calendar – macro trader

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	Week of 14^{th} December
Monday	UK Rght mve n/f FR C/A n/f EZ Q3 Employment n/f EZ Industrial prod -0.7m, -10.8 JP Tokyo Condo sales n/f JP Ind production n/f JP Capacity utilisation n/f
Tuesday	US PPI 0.8m, 1.7y US PPI Ex f & e 0.2m, 0.9y US Empire mfg 25.0 US Net lg trm TIC flows $42.3B US Ind production 0.5% US Capacity utilisation 71.1% UK RICS Hse prces 39.0% UK CPI 0.2m, 1.8y UK RPI 0.2m, 0.2y UK RPMI-X 2.6y UK DCLG n/f FR CPI 0.2m, 0.4y DM ZEW 50.0 EZ Q3 Labour costs 3.5y JP Tertiary ind indx 0.5m
Wednesday	US MBA Mrtge apps n/f US CPI 0.4m, 1.8y US CPI Ex F & E 0.1m, 1.8y US Housing strts 575k US Bldg permits 570k US C/A bal -$106.0B US FOMC Rate decision 0.25% UK Unemplymt chge 12.0k UK Unemplymt rate 5.1% UK ILO unemplymnt rate 7.9% UK Avge earngs 1.2% UK AE Ex-bonus 1.8% UK Mfg unit wge costs n/f EZ PMI Composite 54.0 IT CPI 0.1m, 0.7y IT Trade bal n/f IT Trade bal-EU n/f EZ CPI 0.2m, 0.5y IT C/A n/f JP Machine tool orders y/y F n/f

	Week of 14^{th} December
Thursday	US Jobless claims 466k US Philly Fed 15.8 UK Retail sales 0.5m, 3.7y UK CBI Distrib trades n/f IT Unemploymt rate 7.7 EZ Construct'n output n/f
Friday	UK PSNCR 17.3B UK PSNB 23.0B UK Q3 Tot bus investm't -3.0q, -21.7y UK BK mrtge apps 64k DM PPI 0.2m, -5.9y FR Bus conf 91 FR Prod outlk indicator n/f IT Ind orders n/f IT Ind sales n/f DM IFO 94.5 EZ C/A n/f EZ Trade bal 5.7B

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	Week of 7th December
Monday	US Fed's Bernanke speaks DM Factory orders -2.1m, -8.5y **WORSE** JP Trade bal 949.0B **BETTER** JP C/A 1397.6B **WORSE** JP BK Lndg incl trsts 0.2% **WEAKER** **THAN EXPECTED**
Tuesday	UK NIESR GDP Estimate 0.2% **BETTER** UK BRC Retail sales 1.8% **LESS** UK Ind production 0.0m, -8.4y **WEAKER** UK Mfg output 0.0m, -7.8y **WEAKER** DM Ind production -1.8m, -12.4y **WEAKER** JP Eco watchers 33.9 **LESS** JP Q3 GDP 0.3q, 1.3y **WEAKER** JP Q3 GDP Deflator -0.5y **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 8.5% **STRONGER** US Wholesale inventry 0.3m, **BETTER** UK BRC Shop prces 0.2% **AS** UK Trade bal -7.108B **WORSE** UK Trade bal non-EU -3.533B **WORSE** UK Pre-budget report **DISAPPOINTING** DM Trade bal 13.6B **BETTER** DM C/A Bal 11.0B **BETTER** DM CPI -0.1m, 0.4y **STRONGER** JP Machine tool orders -8.6y **BETTER** JP Machine orders -4.5m, -21.0y **AS** JP Domestic corp gds prces 0.1m, -4.9y **MORE** **THAN EXPECTED**

	Week of 7th December
Thursday	US Trade bal -$32.9B **BETTER** US Jobless 474k **MORE** US Mnthly budget statmnt -$120.3B **BETTER** UK MPC Int rate decision 0.5% **AS** UK B of E QE Target £200.0B **AS** DM Wholesale prces 0.7m, -3.2y **STRONGER** FR Ind production -0.8m, -8.4y **WEAKER** FR Mfg output -0.8m, -8.8y **WEAKER** IT Ind production 0.5m, -11.8y **WEAKER** IT Q3 GDP 0.6q, -4.6y **AS** **THAN EXPECTED**
Friday	US Retail sales 1.3%, **STRONGER** US RS Ex-Autos 1.2, **STRONGER** US Import prces 1.7m, 3.7y **STRONGER** US U. Of Michigan conf 73.4 **STRONGER** US Bus inventry 0.2m **STRONGER** UK PPI Input 0.1m, 4.0y **BETTER** UK PPI Output 0.2m, 2.9y **BETTER** UK PPI Core 0.1m, 2.0y **LESS** JP Cons conf 39.9 **LESS** JP Cons conf households 39.5 **LESS** **THAN EXPECTED**

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US MARKETS: economic background

Last week we judged the main event would be Retail sales, and we advised a stronger than expected report could continue the price action in markets begun by the previous week's stronger than expected non-farm payroll report.

The week began with a speech from Bernanke. While he **acknowledged the improved economic outlook, he said that growth was unlikely to be strong enough to re-employ workers displaced by the recession and re-affirmed the Fed's policy line that interest rates are likely to remain low for an extended period.**

This put an end to the convulsions in many markets that began the previous week, and traders focused on to other key releases, which saw the **Trade balance and monthly budget statement both undershoot market consensus. On Friday retail sales were stronger than expected and so too was the University of Michigan confidence report.**

The net effect was recovery optimism remained in tact, supported by expectations of an accommodative Fed.

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

- On Tuesday; **PPI, Industrial production and capacity utilisation,**
- On Wednesday; **CPI, Housing starts, building permits and FOMC Rate decision, and**
- On Thursday; **jobless claims.**

The main event this week is the FOMC interest rate decision. The Fed will leave policy unchanged, but traders will be scrutinising the policy statement for any subtle shifts of position.

On more than one occasion in recent week's Bernanke has repeated the content of the previous meeting's policy statement in an attempt to calm markets, will policy maker stick to that line or more overtly acknowledge the economic improvement underway.

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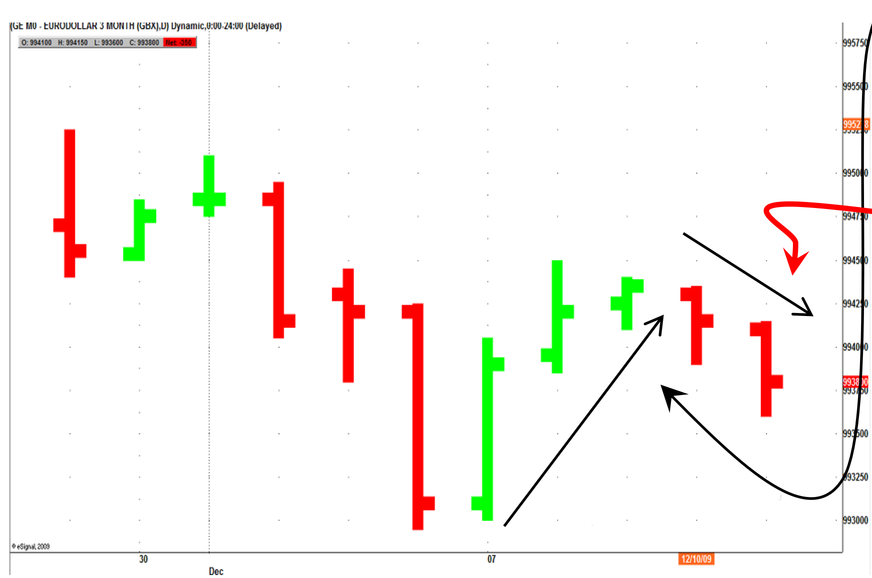
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were square of June 10 Eurodollars.



See how Eurodollars rallied on Monday through to Wednesday after Bernanke's speech on Monday, but stronger data on Thursday and Friday saw the market ease lower.

The Macro Trader's view of Eurodollars is; the market recovered from the previous week's correction thanks to Bernanke's verbal intervention.

But the move proved unsustainable as data later in the week led the market lower. With an FOMC rate decision and policy statement due this week, traders are alert to any subtle change in the wording of the policy statement which could be construed as preparing markets for higher interest rates in 2010, albeit not before well into the 2^{nd} quarter.

While this market could yet stage a retest of the highs, we judge sentiment is slowly evolving with the Bears set to emerge during 2010 as the dominant force.

But unless the Feds tone changes more rapidly than we think, that process is likely to be slow with a period of sideways trading, most likely probably within a reasonably large trading range.

This Wednesday offers the Fed a first chance to evolve its guidance, but we judge they will wait until the New Year before starting to set the stage for higher interest rates.

For now we advise traders to remain square.

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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were square of the 10 year note.

See how the 10 year note copied Eurodollars and recovered the previous week's losses following Bernanke's speech on Monday which re-assured on policy. But data and comments from Moody's about the US AAA sovereign credit rating un-nerved traders and the market retested the lows.

The Macro Trader's view of the 10 year note is; the 10 Year note attempted a recovery driven by re-assuring comments from Bernanke on Monday.

But data later in the week was stronger than expected, especially retail sales and with Moody's raising the sustainability of the US Sovereign AAA rating.

Although their comments affirmed the rating and left a clear impression that it was safe for now, this must be a first for the USA to be questioned over its credit worthiness.

Clearly questions are being asked due to Obama's economic policies. A $1.8T deficit could be ok if it were intended to help the economy through a threatening recession, but for it to be an almost permanent fixture, that's asking too much especially as the US is already the world's largest creditor nation and emerging economic super powers such as China are openly and frequently questioning the Dollars role as world reserve currency.

While we judge this market remains volatile, and we have struggled this year to place a profitable trade in it, we do judge this market is shaping up for a Bear run.

Traders should be short of this market, our target this week is 116.30 and our stop is placed at 119.00 for protection.

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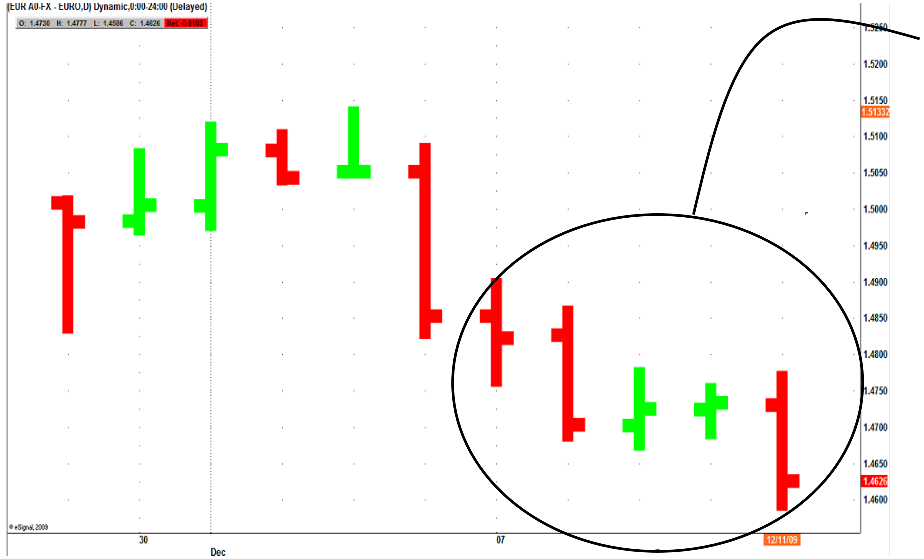
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were square of the Dollar.



See how the Dollar extended its correction on a mix of policy comments from Bernanke and stronger than expected retail sales.

The Macro Trader's view of the Dollar is: the Dollar extended its rally last week despite Fed Chairman Bernanke using a speech on Monday to underline Fed policy which is to keep interest rates at low levels for an extended period.

While he did acknowledge an improving economic landscape, he also said growth was unlikely to be strong enough to re-employ those who lost their jobs in the recession, with a risk of falling inflation still real.

This fitted our stated view last week, that one months decent non-farm payroll report was unlikely to prompt the Fed into action, now or in the near future.

And as Retail sales came in stronger than expected on Friday, the Dollar again rallied on good news, which until the previous Friday's payroll data, was not the established trend.

For now sense this market could correct a little further, especially in the run up to Wednesday's FOMC interest rate decision and policy statement.

But if the Fed passes the opportunity to amend its statement, even slightly, we judge this correction could exhaust and see the Dollar resume its underlying trend lower.

For now we advise remaining square.

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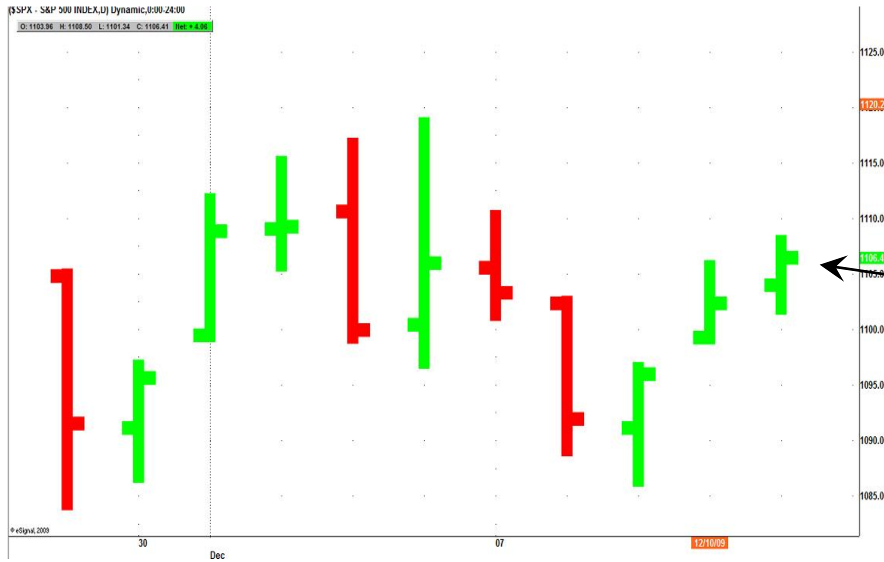
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



See how the S&P remained volatile last week until stronger than expected retail sales on Friday underpinned support.

The Macro Trader’s view of the S&P 500 is: our target wasn’t met, but more importantly our stop wasn’t hit either.

In a week when stocks traded lower on renewed concerns over Dubai debt, despite Bernanke’s attempts to re-assure on monetary policy, it took a combination of narrower trade deficit, smaller budget deficit and stronger than expected retail sales to get this market moving away from the lows.

Looking ahead we judge the immediate outlook for this market hinges on Wednesday’s FOMC decision. While unchanged rates are guaranteed, what about the policy statement?

The market fears a shift in the Feds commitment to maintaining a lax policy framework, no matter how subtle it is worded. We judge policy makers may delay any movement in their stance, no matter how small, until the New Year.

Our expectation is that this market will rally into year end.

Traders should remain long of this market. Our target for this week is still 1115.0 with our stop remaining at 1080.0 for close protection.

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UK MARKETS: economic background

Last week we focussed on **the pre-budget report**, with so much hype surrounding this event with apparent leaks of what the Chancellor was going to do in several papers, **the actual event was a let down, mainly for its timidity over cutting the deficit, but more importantly cutting spending**.

And as we suspected there were **no surprises from the MPC on either interest rates or QE.** Other data released during the week saw **stronger than expected GDP estimate from NIESR, unexpected weakness in the industrial production and manufacturing output reports, and a benign picture of PPI on Friday**.

The overall impression in the markets was one of an opportunity missed by the government, with who ever wins next years General Election having to be much tougher.

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

- On Tuesday; **RICS house price survey and CPI,**
- On Wednesday; **the unemployment report and average earnings,**
- On Thursday; **Retail sales, and**
- On Friday; **PSNCR & PSNB.**

The market will have much to focus on this week as the UK releases it heavy weight economic data.

CPI will be keenly watched for evidence of the MPC’s forecast spike in inflation, unemployment for any early signs that job losses are moderating and retail sales for evidence of any increased strength in consumer demand.

And of course the Government borrowing data on Friday will be of interest after last week’s Pre-budget report.

On balance equities should benefit from signs recovery is finally set to emerge.

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UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH OF DEC 10.

Last week we were Bullish of Dec 10.

See how Short Sterling recovered throughout last week, as traders reacted to Bernanke's assurances over US monetary policy and dismissed the pre-budget report as broadly neutral.

The Macro Trader's view of Short Sterling is: the market hit our target last week a little easier than we thought as traders shrugged of worries about tighter policy following US Fed Chairman Bernanke's re-assurances over US monetary policy.

And with industrial production and manufacturing output unexpectedly week, question marks were again placed over forecasts of the UK recession ending in this quarter.

Looking ahead, we judge this market can rally further. The pre-budget report has left all the difficult fiscal decisions for the party who wins next years election.

If it is Labour expect small spending cuts but more tax hikes, if it is the Conservatives the reverse will occur. Either way the fiscal tightening will allow the Bank to keep policy lax for much of next year to help the economic recovery find its feet.

While a stronger than expected retail sales report on Thursday could force some profit taking, we expect the market to recovery fairly quickly as there is so much un-used capacity in the economy.

Traders should remain long of this market, our target this week is 98.30 and our stop is raised slightly to 98.00 for protection.

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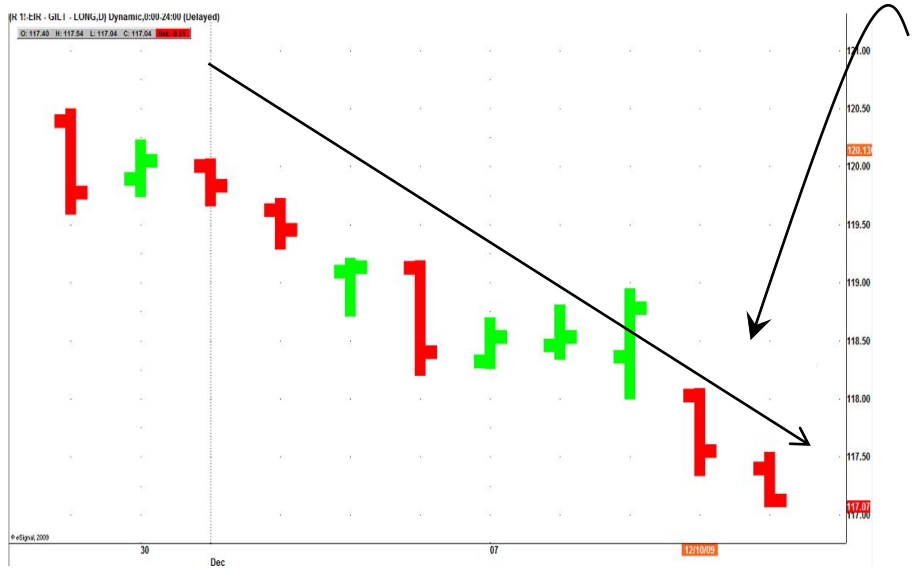
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.



See how the Gilt sold off last week as Moody's again raised the issue of the UK's Sovereign AAA rating and the Chancellor failed to bite the bullet over spending cuts.

The Macro Trader's view of the Gilt is; the Gilt suffered a difficult week as Moody's again raised the sustainability of the UK's AAA rating.

And even though they left it in place for now, it is becoming clear that action is being deferred until after next years election.

If the new government fails to tackle the deficit and build up of debt seriously the rating will likely be lost and gilt yields rise.

For now we remain unwilling to trade this market. It has proved volatile over recent months as the gilt has exhibited a Teflon quality aided by the Bank's QE program. This will be in its wind down phase in the New Year and then might be the time for those with Bearish intent to come forward and sell into this market.

Unless this Friday's PSNCR and PSNB data is truly poor we advise remaining square.

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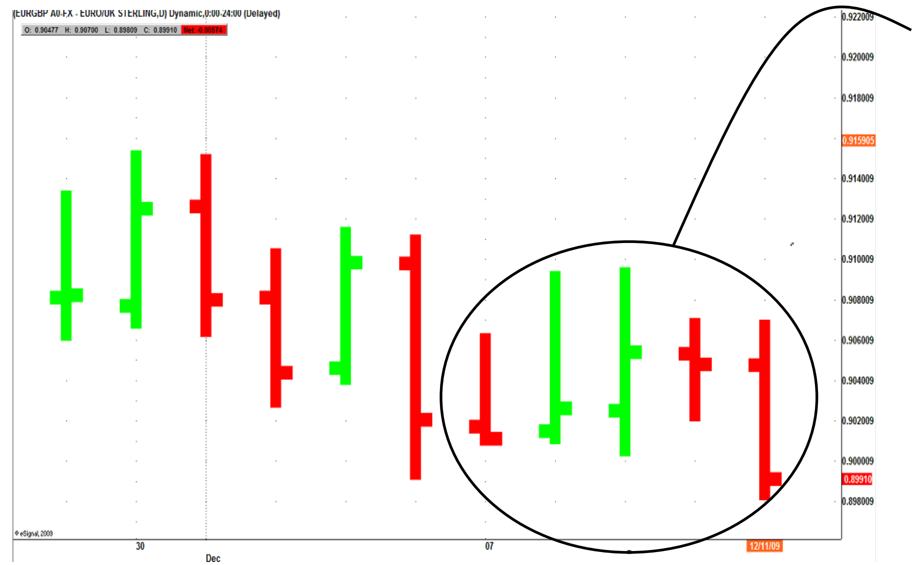
UK MARKETS: Sterling

OUR TRADING STANCE: BEARISH of STERLING/EURO.

Last week we were bearish of Sterling/Euro.



See how Sterling gained some small relief against the Euro last week as Greece suffered a Sovereign credit down grade, with Ireland taking drastic budget measures and other Euro zone countries debt levels coming in for closer inspection.

The Macro Trader's view of the Pound is; last week we remained Bearish of the Pound as we judged traders would punish any attempt by the Government to dodge difficult spending decisions and basically produce a fudge instead of the pre-budget report the country required to get its finances back on track.

In the event the Pound enjoyed a reprieve as Euro zone fiscal policies came under the spot light with Greece suffering a Sovereign credit rating downgrade.

And although the UK was along with the US, no action was taken.

However we judge the Pound remains vulnerable. The pre-budget report deferred difficult decisions and this week sees the release of Government borrowing data; a worse than expected release could weaken the Pound, as could a disappointing retail sales report.

While our stop was nearly hit last week, we judge remaining short of Sterling v the Euro remains a valid trade and advise traders to remain short of Sterling/Euro.

This week's target continues at 0.9150, and our stop continues at 0.8965 for close protection.

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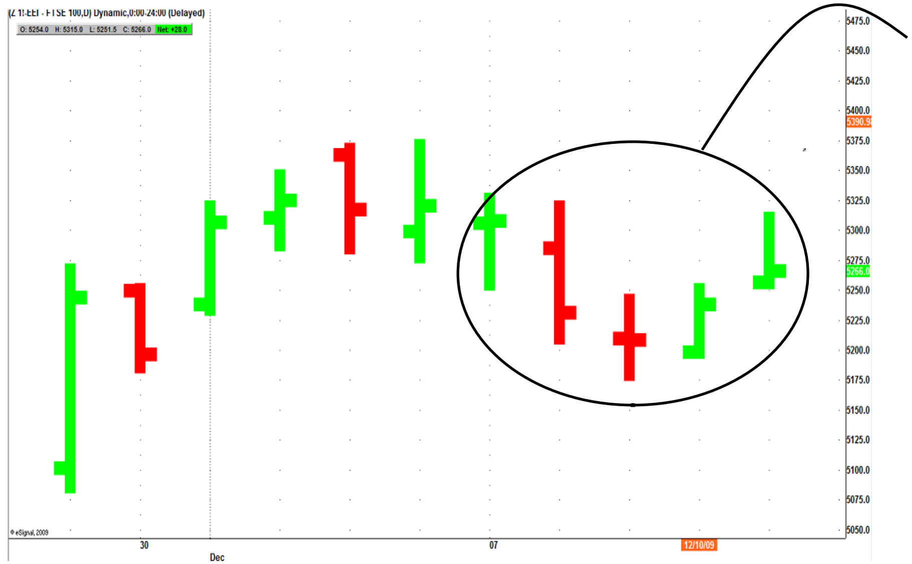
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the FTSE.



See how the FTSE remained vulnerable to negative news coming from Dubai over its attempts to reschedule debt, with poor domestic data taking its toll.

The Macro Trader's view of the FTSE is: lingering concerns over the Dubai debt drama continued to weigh on stocks for much of last week.

With Industrial production and manufacturing output weak too doubts re-emerged about the UK's chances of emerging from recession this quarter, which also added to negative sentiment.

Not until later in the week when China reported some stronger than expected data, did equities stage a recovery, which has extended into today as Abu Dhabi gave Dubai US$10.B to help with its debt problems.

Looking ahead we expect the Dubai drama to fade further with traders focussing on data. With retail sales due this week, a stronger than expected report would help this market higher.

From an international perspective traders will be watching the Fed to see if they amend their policy statement on Wednesday; unchanged would be bullish for stocks globally.

Traders should remain long of this market. Our target for this week continues at 5400.0, and our stop remains at 5100 for protection.

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EURO ZONE MARKETS: economic background

Last week we looked forward to a run of industry related reports for fresh evidence on the strength of the Euro zone recovery.

In the event most data releases were disappointing and placed a question mark over the strength of the recovery.

The week began with a **weaker than expected German factory orders report, the news didn't get any better as German industrial production also came in weaker as did French Industrial production and Manufacturing output.**

The only good news was that the German Trade balance and Current Account balance were both better than expected, flagging up stronger exports.

German CPI was stronger than expected, but at 0.4% year on year, it poses no policy issues for the ECB.

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; **Euro zone Industrial production,**
- On Tuesday; **German ZEW survey,**
- On Wednesday; **Euro zone PMI Composite, and**
- On Friday; **German IFO survey.**

The main focus this week is likely to be the Euro zone PMI Composite survey as it is a broad spectrum survey of economic activity.

But both Euro zone Industrial production and German IFO are likely to cause a reaction in the markets if materially different to consensus..

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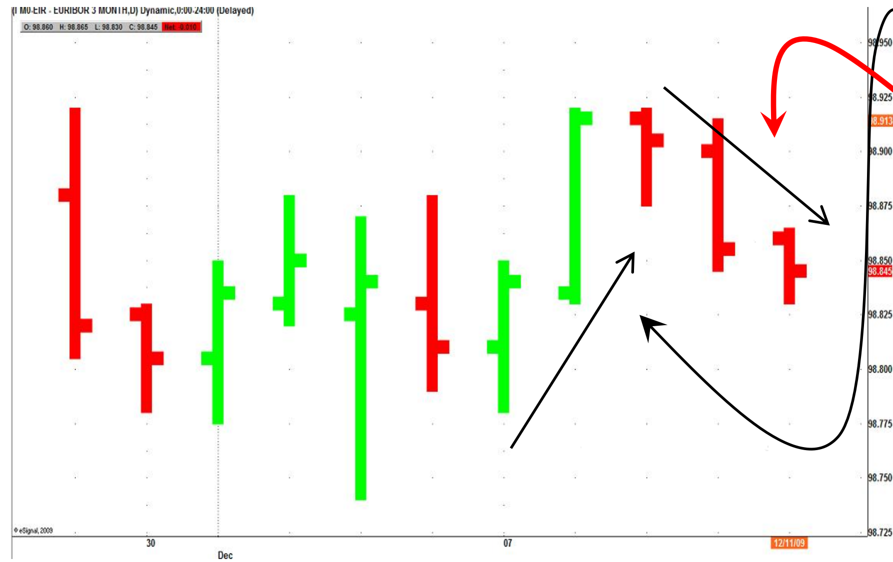
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were square of March 10.



See how Euribor rallied on weak German data on Monday and Tuesday, but sold off on stronger CPI and wholesale prices reports later in the week.

The Macro Trader's view of Euribor is: Euribor endured a choppy session, but remains within a range.

Unexpectedly weak industrial activity data failed to support the market for the entire week which was surprising, given the Euro zone recovery has been an export led affair.

And with inflation still at very low levels it is even more surprising how the market would react as it did to slightly higher CPI from Germany.

However stronger trade and C/A data are also measures of economic activity and German data was better than expected suggesting the recovery remains firmly led by manufactured exports.

This week's data should throw more light on the strength of Euro zone industrial activity, but we expect this market to continue range trading a while longer.

For now with no compelling case for either Bears or Bulls, we again advise remaining square.

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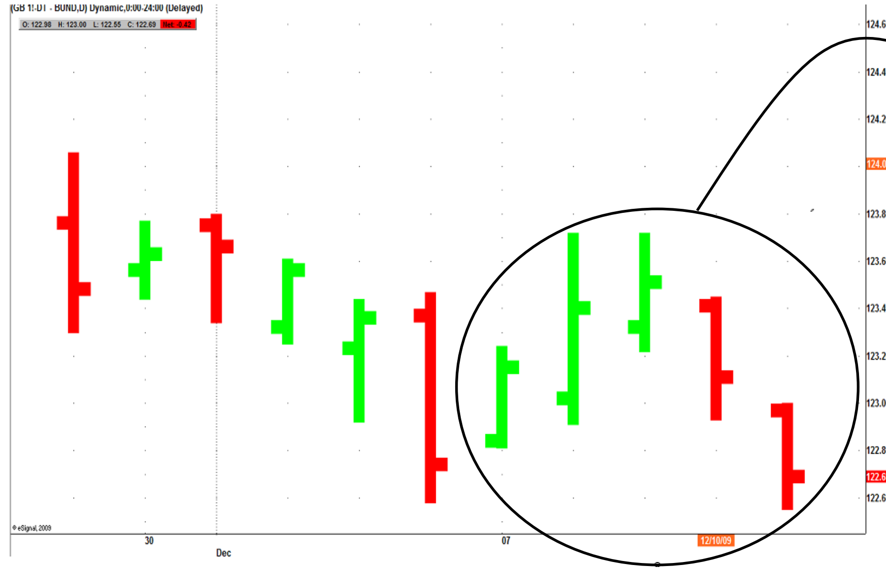
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of The Bund.



See how the Bund reacted negatively to the Greek Sovereign rating down grade, which reminded traders that Euro zone debt to GDP is set to hit 100% in the next few years without corrective action.

The Macro Trader's view of the Bund is: the Bund had an interesting week, last week. As fears over the Dubai debt drama rumbled on, government Bonds began the week on a bullish note, assisted by some weak domestic data.

But the tone changed as Moody's again raised questions over the UK and US sovereign AAA debt rating, albeit without taking action, and Fitch downgraded Greece's sovereign credit rating.

With several other Euro zone countries running large deficits that have caused recent funding concerns, the Bund came under selling pressure as the week wore on.

Looking ahead we are apprehensive of government bond markets. Although government debt generally has built up during the recession, the tepidness of economic recovery and weakness of inflation continues to balance that out. Only when recovery becomes clearly self sustaining, will debt become the main focus, and for now we judge that is the current situation.

So yet again we advise remaining square of the Bund.

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SEVEN DAYS AHEAD

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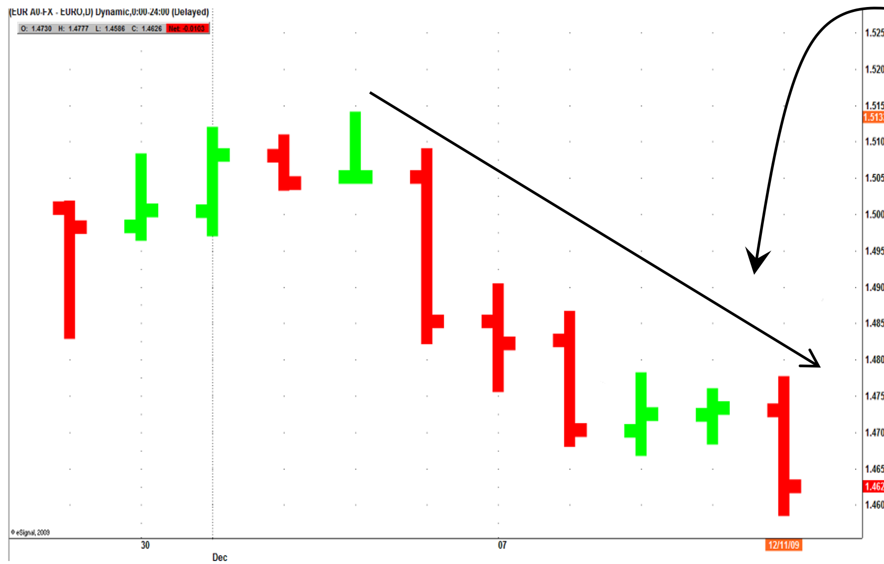
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BULLISH of the EURO v STERLING.

Last week we were bullish of the Euro v Sterling & the Dollar



See how the Euro continued to weaken against the Dollar as a Greek rating downgrade and week data contrasted poorly with stronger US data and the benefit of the doubt shown to the US over its credit rating by Moody's.

The Macro Trader's view of the Euro: the Euro suffered further against both the Dollar and the Pound last week, but more so against the Dollar and our decision to remain square of Dollar/Euro looks fully justified.

Against the Pound the weakness looked more contained and given the disappointing UK pre-budget report last week we remain bearish of Sterling.

The Euro suffered from a run of weaker than expected domestic data, lingering fears over Dubai and worries over Sovereign ratings as Greece suffered a down grade.

Looking ahead as the Dubai problem looks to have been eased by Abu Dhabi's financial intervention, we expect risk aversion to recede, which should work against the Dollar and help the Euro recover

Traders should remain short of Sterling/Long the Euro and our target this week remains 0.9150 and our stop continues at 0.8965.

Against the Dollar we advise remaining sidelined until this correction shows clear signs of exhaustion.

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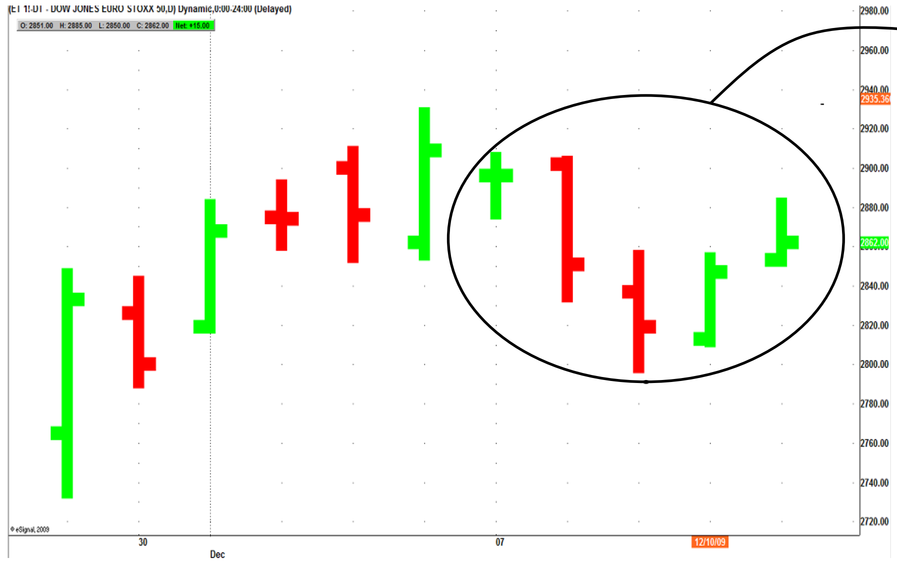
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of DJ EUROSTOXX50.



See how the market came under fresh selling pressure into the middle of last week as worries over Dubai debt continued to dominate.

The Macro Trader's view of DJ Euro Stoxx 50 is: the drama of Dubai came back to haunt equity markets last week, despite our earlier assertion to the contrary.

With domestic industrial activity data disappointing, traders were reluctant to buy equities, until stronger data from China and the US later in the week bolstered confidence.

Together with better than expected German trade and C/A data optimism for the Euro zone recovery, which has been export led, was partially restored.

Today's news that Abu Dhabi is giving Dubai US$10.0B to help resolve its debt crisis has helped restore confidence in equities, but we judge traders will remain cautious ahead of this week's US FOMC interest rate decision.

Some small amendment to the policy statement is expected, but if the commitment to maintain current policy stance of an extended period remains traders should feel re-assured and begin taking equity markets, including this one, higher.

But given recent volatility and uncertainty we advise waiting until that decision is known.

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JAPANESE MARKETS: economic background

Last week we sought clarification from data of the strength of the economic recovery. While deflation had once again emerged as a significant force for policy makers to deal with, growth had appeared to hold up.

The trade report released on Monday was better than expected, but balanced out by weaker C/A data and **lending**. The **Eco watchers survey was also a disappointment,** but the biggest surprise came from **the sharp downward revision of Q3 GDP**.

While Machine orders and machine tool orders were more encouraging, **other data wasn't** and on balance traders were left with a sense that the Japanese economy still has a hole to climb out of.

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

- On Monday; **Tokyo condo sales, industrial production and capacity utilisation,**
- On Tuesday; **Tertiary industrial index, and**
- On Wednesday; **final release of Machine tool orders data.**

The focus this week has likely already been released on Sunday night/Monday morning, the Bank of Japan's Tankan survey.

This was disappointing mainly due to companies cutting back on capital spending in reaction to the recent strength of the Yen, which despite a correction has again re-emerged, as traders seek alternatives to the Dollar and a still correcting Gold market.

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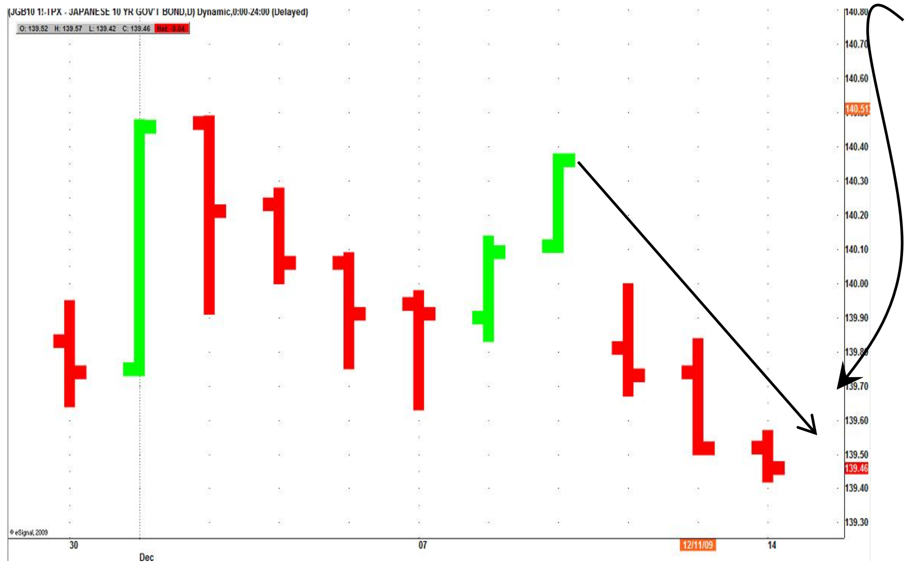
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were square of Japanese Bonds.



See how the JGB resumed its bear trend mid week as domestic data pointed to a weaker recovery than previously expected, especially after the surprise Q3 GDP downgrade.

The Macro Trader's view of the JGB is; the JGB enjoyed a brief rally early in the week as fears over Dubai's debt did the rounds again after a failed attempt to organise a reschedule.

But as domestic data began to dominate the market, traders pushed the JGB to new recent lows as a surprise downward revision to Q3 GDP made the recovery look far more fragile than previously thought.

With deflation haunting the economy and the Government already committed to a new US$81.B stimulus, traders were concerned it might not be enough; bad news for the health of Japan's fiscal accounts.

While a strong trading account and in excess of US$1.0T of reserves makes funding Japan's deficit not too problematic, markets are gradually becoming more attuned to the mountain of debts run up by the developed economies in their bid to avoid a deep and damaging recession, but is the resultant debt burden going to be worth it.

After a weaker than expected Tankan report, traders may take profit in this market and we judge the outlook remains cloudy so stay square.

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JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were square of the Yen.

See how Yen initially shook off the weak domestic data and rallied as markets once again focused on the Dubai debt problem.

The Macro Trader's view of the Yen is; the Yen did a sharp about turn last week after an extraordinary correction the previous week.

With Gold still correcting lower, a re-emergence of the Dubai debt crisis forced the Yen higher against all the other major currencies, as traders sought a safe haven.

Earlier hopes that Dubai would be able to reschedule its debts proved premature and the spot light fell onto Banks with exposure to the problem.

The rally was all the more impressive since it occurred against the back drop of a sharp downward revision to Q3 GDP.

With the Bank of Japan's Tankan report released over night, the outlook for recovery looks even more fragile as confidence has taken a knock and companies have cut back on capital spending due to the strength of the Yen.

This could cause some volatile trading as non-domestic traders regard the Yen as a safe haven alternative to the US Dollar.

For now we advise remaining square.

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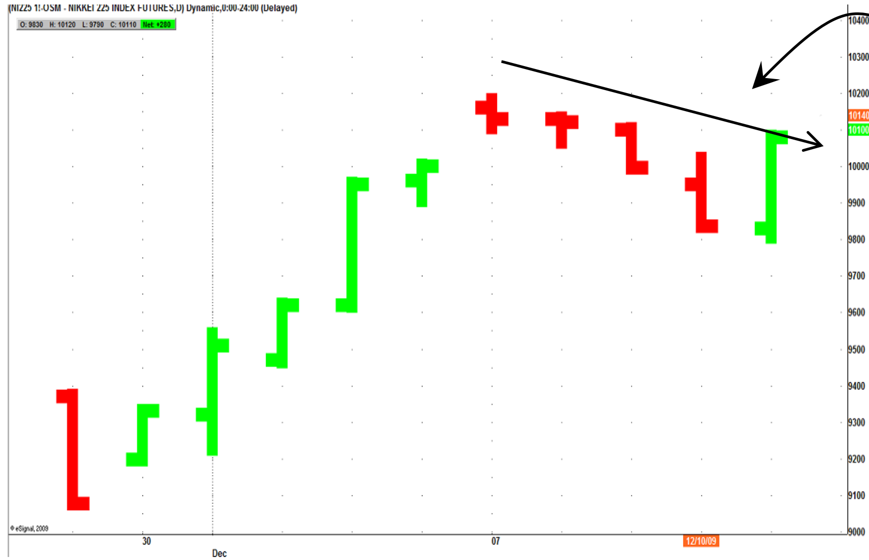
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were square of the Nikkei.



See how the Nikkei began to drift lower last week after the release of a run of disappointing data.

The Macro Trader's view of the Nikkei is: despite the previous week's rally, the Nikkei looks vulnerable to the downside.

The Dubai debt crisis was the initial reason for the weaker start to last week's trading, but this was replaced by weak domestic data.

The sharp downward revision to Q3 GDP was an unwelcome surprise and together with the deflation problem, paints a gloomy picture going forward.

The authorities will likely need to support the economy further with additional fiscal measures, but today's Tankan report certainly wasn't a reason for celebration.

We judge the only reason the market rallied on Friday was due to stronger US retail sales and stronger than expected data from China.

With the backdrop of deflation and a wilting recovery we advise remaining square of this market.

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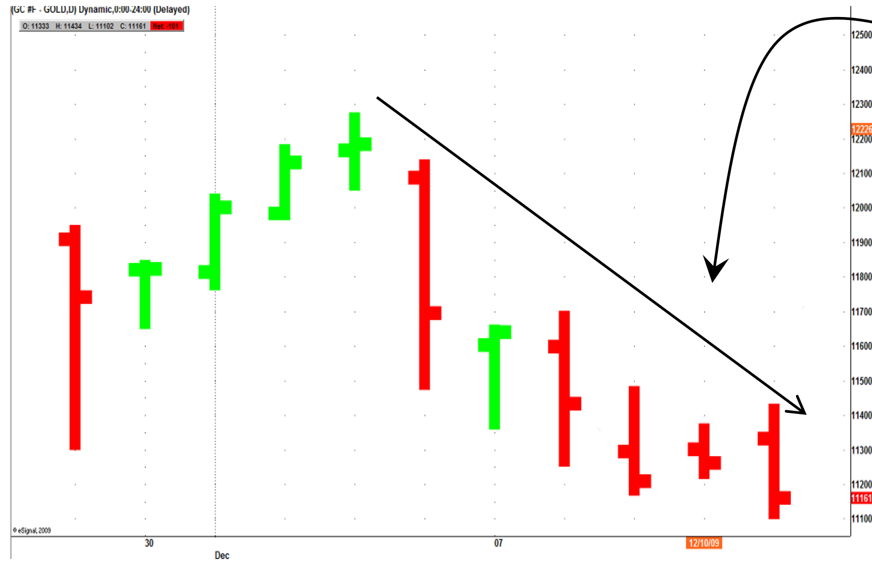
COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were square of the Gold.



See how Gold continued to correct last week as the US Dollar extended its rally driven by improving data.

The Macro Trader's view of the Gold is: the market continued to correct lower last week as Dubai debt fears continued to drive a Dollar recovery and for much of the week weigh on stocks.

In turn this dampened recovery expectations and Gold continued to suffer.

But last week saw some promising signs from the US; wholesale inventories came in better than expected (a turn in the inventory cycle has been flagged as a prerequisite of a strong recovery), the trade data was much better than expected and retail sales, both head line and ex-autos were much stronger than expected.

If inflation reports this week remain benign, the recovery looks likely to dominate trading with the Dollar likely pushed aside for riskier assets such as stocks.

This could see a revival of Gold's fortunes as the likes of China will once more begin complaining about the Dollar's long term health and the economic policies that so undermine it.

We judge the correction is likely close to an end and advise going long of this market.

Our target this week is set at 1140.0 and our stop is placed at 1090.0 for protection.

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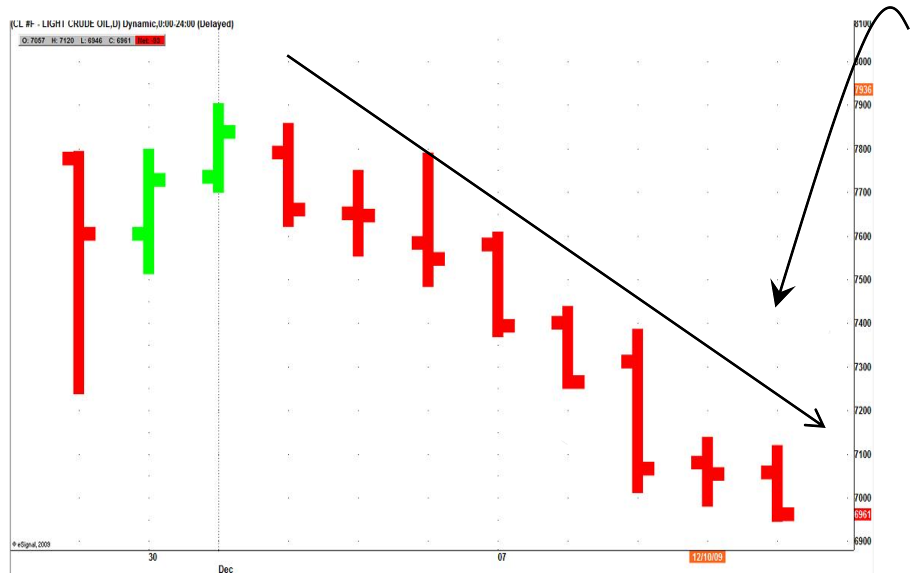
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were square of the Oil.



See how the Oil market continued to hit the lows last week as traders judged there is enough oil floating around in storage to satisfy demand in the early stages of economic recovery.

The Macro Trader's view of oil is: we continued our cautious stance again last week, and the market corrected even lower.

Despite some stronger than expected data from the US, Bernanke reassuring on monetary policy, strong data from India and China, traders seem to judge demand will not for now outstrip supply, since there is adequate oil floating around in storage in idle super tankers.

That said we judge underlying demand/supply is tighter than that. Once data again satisfies traders that recovery is progressing, the market will refocus back to production, rather than what's in storage.

The three dynamic economic areas in the global economy are the US, China and India. All three are big energy consumers and importers of oil. And then there is Brazil and Russia, but they are more energy independent.

With China and India growing strongly, it only needs the US to show a quickening in its growth rate and oil prices will once again start to rise.

An important part of the equation is US monetary policy, and we expect the Fed to fulfil its often stated pledge to keep policy lax for an extended period, at least until Q2 next year.

This should see US growth strengthen and oil prices rally, but for now we advise remaining square, that dynamic isn't currently part of this market.

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