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Week 2

12th – 18th January 2010

the macro trader's guide to major markets

John Lewis

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US Markets

+ EURODOLLARS	**SQUARE**
+ 10 YEAR NOTE	**BEARISH**
+ US DOLLAR	**BULLISH** against Sterling
+ S&P 500	**BULLISH** on growth outlook

UK Markets

+ SHORT STERLING	**SQUARE**
+ GILT	**BEARISH** on growing debt concerns and politics
+ STERLING	**BEARISH** on growing debt concerns
+ FTSE	**BULLISH** on an extended period of unchanged rates

Euro Zone Markets

+ EURIBOR	**SQUARE**
+ BUND	**SQUARE**
+ EURO	**SQUARE**
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+ GOLD	**BULLISH** on inflation and debt concerns
+ OIL	**BULLISH** on economic recovery

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This week's global calendar – macro trader

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	Week of 11th January
Monday	FR Ind production 0.5m, -5.2y FR Mfg output 1.0m, -4.4y JP Trade bal 479.0B JP C/A 999.6B JP BK Lndg + Trsts n/f
Tuesday	US Trade bal -$34.8B UK BRC Retail sales n/f UK RICS Hse prces 36.5 UK Trade bal -7.0B UK Trade bal non-EU -3.425B UK DCLG Hse prices 0.1%y JP ECO Watchers n/f
Wednesday	US MBA Mrtge apps n/f US Feds beige bk US Mthly budget statmnt -$78.5B UK NIESR GDP EST n/f UK Ind production 0.3m, -6.1y UK Mfg output 0.2m, -5.1y FR CPI 0.2m, 0.8y FR C/A n/f DM Real GDP grwth Dec 31 -4.8% IT Ind production 1.0m, -10.2y JP Machine Tool orders n/f JP Machine orders 0.2m, -10.1y JP Domestic corp gds prces 0.0m, -3.9y

	Week of 11th January
Thursday	US Retail sales 0.4m US RS Ex-Autos 0.3m, US Import prices -0.1m, 8.5y US Jobless claims 438k US Busness invtry 0.0m DM CPI 0.7m, 0.8y EZ Ind production 0.5m, -8.4y EZ ECB Rate decision 1.0%
Friday	US CPI 0.2m, 2.8y US CPI Ex-F&E 0.1m, 1.8y US Empire mfg 11.0 US Ind production 0.6% US Capacity utilisation 71.7% US U. Of Michigan conf 73.7 DM WPI 0.5m, 0.5y IT CPI 0.2m, 1.0y EZ CPI 0.3m, 0.9y EZ Trade bal 7.0B

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	Week of 4th January
Monday	US ISM Mfg survey 55.9 **BETTER** US ISM Prces 61.5 **STRONGER** US Construct'n spndg -0.6% **WEAKER** UK PMI Mfg survey 54.1 **STRONGER** UK Mrtge apps 60.5K **STRONGER** UK Net lndg on dwlgs 1.5B **STRONGER** IT PMI Mfg 50.8 **BETTER** FR PMI Mfg 54.7 **BETTER** DM PMI Mfg 52.7 **LESS** EZ PMI Mfg 51.6 **AS** IT CPI 0.2m, 1.1y **STRONGER** JP Money base 5.2% **STRONGER** **THAN EXPECTED**
Tuesday	US Pndg home sales -16.6m, 19.3y **WEAKER** US Factory orders 1.1% **STRONGER** UK PMI Construct'n 47.1 **LESS** FR Cons conf -31 **WEAKER** DM Unemploym't chge -3k **BETTER** DM Unemploym't rate 8.1% **AS** EZ CPI 0.9y **AS** JP Vehicle sales 37.0% **STRONGER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 0.5% **BETTER** US ADP Employm't chge -84k **WORSE** US ISM non-mfg 50.1 **LESS** US FOMC Minutes **MIXED ON INFLATION** UK BRC Shop prices 2.2 **STRONGER** UK PMI Services 56.8 **AS** IT PMI Services 53.9 **STRONGER** FR PMI Services 58.7 **LESS** DM PMI Services 52.7 **LESS** EZ PMI Services 53.6 **AS** EZ PPI 0.1m, -4.4y **BETTER** EZ Ind new orders -2.2m, -14.5y **WEAKER** **THAN EXPECTED**

	Week of 4th January
Thursday	US Jobless claims 434K **BETTER** UK MPC Int rate decision 0.5% **AS** UK B of E QE Target 200B **AS** UK Halifax hse prces 1.0m, 1.1y **BETTER** EZ Retail sales -1.22m, -4.0y **WEAKER** EZ Cons conf -16 **AS** EZ Ind conf -16 **BETTER** DM Retail sales -1.1m, -2.8y **WEAKER** DM Factory orders 0.2m, 1.8y **BETTER** **THAN EXPECTED**
Friday	US Non-farm payrolls -85k **WORSE** US Unemploym't rate 10.0% **AS** US Avge hourly earngs 0.2m, 2.2y **BETTER** US Avge wkly hrs 33.2 **AS** US Wholesale inventries 1.5% **STRONGER** UK PPI input 0.1m, 6.9y **WORSE** UK PPI Output 0.5m, 3.5y **WORSE** UK PPI Core 0.7m, 2.6y **WORSE** DM Trade bal 17.4B **STRONGER** DM C/A 18.1B **STRONGER** FR Trade bal -5.3B **WORSE** EZ Q3 GDP 0.4q, -4.0y **BETTER** EZ Unemploym't rate 10.0% **WORSE** DM In production 0.7m, -8.0y **WEAKER** **THAN EXPECTED**

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US MARKETS: economic background

Last week we looked forward to seeing fresh clues on the strength of the US economy as a slew of heavy weight data releases dominated the calendar.

The **ISM Manufacturing survey came in better than expected, Pending home sales were weaker than expected, ISM non-manufacturing survey came in a little weaker than consensus and the FOMC minutes mused over another stimulus should growth turn weaker, but the big news was a differing of views over inflation**.

As expected **Friday's non-farm payroll report not only dominated Friday's trading but influenced market behaviour for much of the week. When released the number was worse than expected**.

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; **the Trade data,**
- On Wednesday; **the Feds beige book and monthly budget statement,**
- On Thursday; **retail sales, and**
- On Friday; **CPI, Industrial production, capacity utilisation and University of Michigan confidence.**

The market's focus this week is likely to be retail sales. The mainstay of the economy is the Service sector and retailing is the most important component.

With the Christmas period the most important time for retailers, a strong report will give a huge clue into the intentions of consumers moving forward.

Additionally pay attention to Friday's data as it reports on manufacturing and consumer confidence.

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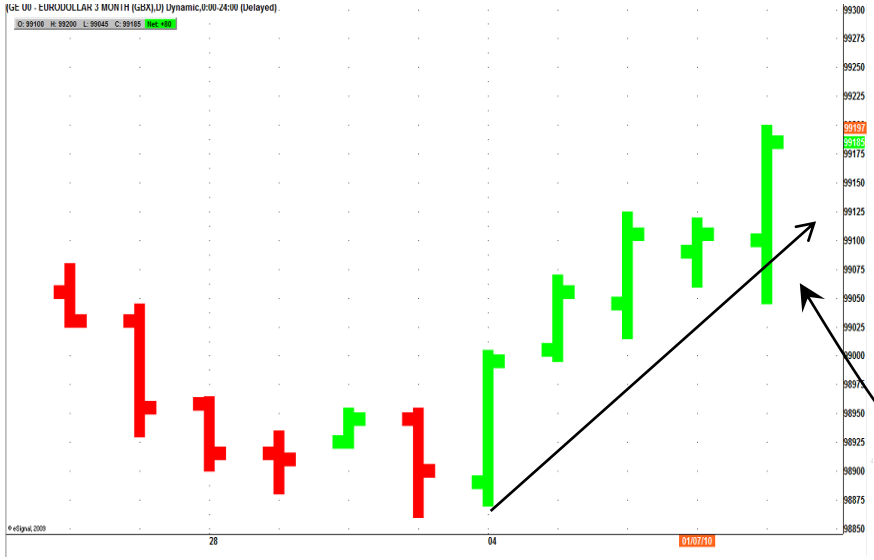
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were square of September 10 Eurodollars.



See how Eurodollars rallied after a weak pending home sales report on Tuesday which placed a question mark over the durability of the housing market recovery.

The Macro Trader's view of Eurodollars is; the pending home sales report was disappointing and offered this market support, especially after the recent weak New Home sales report.

The ISM non-manufacturing survey also offered support as it missed consensus, but was still stronger than the previous months report, with non-farm payroll on Friday sending the market even higher.

But looking ahead we judge the retail sales report is likely to prove the most important release of the month. A strong report will cap the rally as traders will look forward to the up coming FOMC meeting. No rate changes are expected, but the Fed had differing views on inflation last time and one or two Fed speakers have again been warning about not waiting too long to tighten policy.

That said it could be no more than the various committee members setting out their stance ahead of the meeting.

We judge last week's rally is of little longer term significance, but advise remaining square ahead of retail sales as traders are still easily blown off course by any slightly weaker than expected data.

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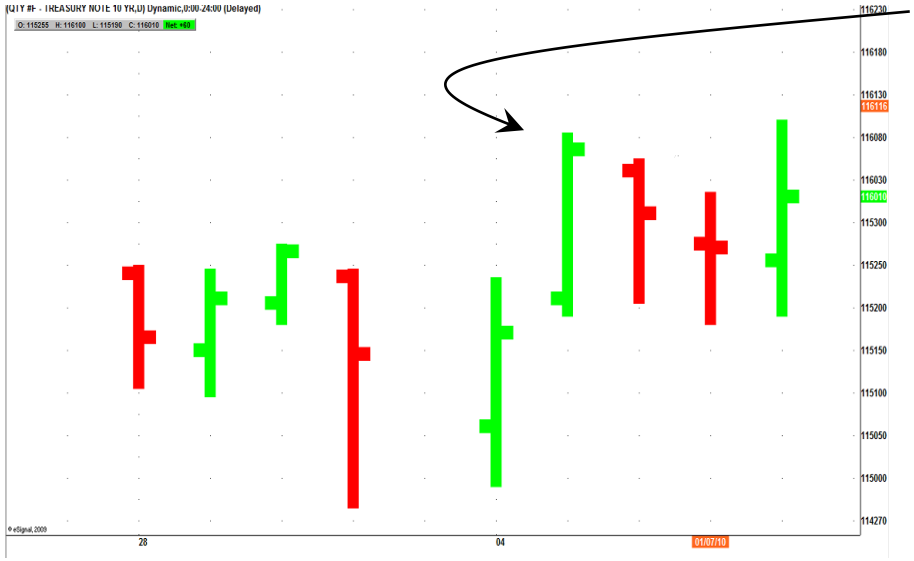
US MARKETS: 10 Year Note

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the 10 year note.



See how the 10 year note recovered last week after the week pending home sales report on Tuesday.

The Macro Trader's view of the 10 year note is; the 10 Year note rallied last week, but the move wasn't very convincing.

Pending home sales were weak and non-farm payroll disappointed, but the service sector survey moved back above 50.0 after a surprise drop the previous month.

As with Eurodollars we judge this week's retail sales report will be very important for this market. A stronger than expected report will put to sleep fears generated last week by the slight disappointment caused by one or two reports and refocus attention back onto the state of public finances.

Moreover Fed speakers have begun commenting on inflation, and last week's minutes revealed several differing views within the FOMC about how it is likely to evolve. As the next FOMC meeting draws near traders will have these remarks on their mind, especially if there are any negatives from this week's CPI.

Traders should remain short of this market, our target this week continues at 114.22 and our stop remains at 116.31 for protection.

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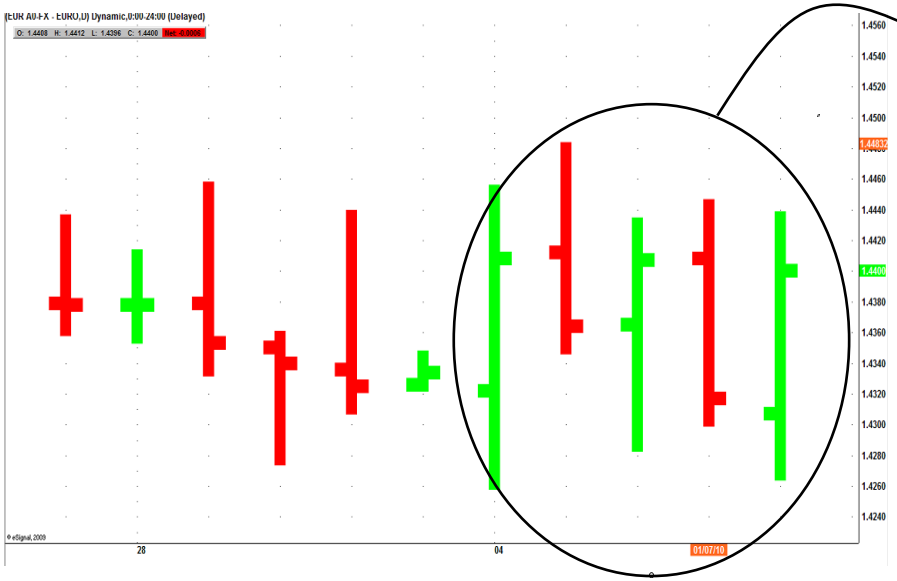
US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v STERLING.

Last week we were Bullish of the Dollar.



See how the Dollar endured a week of volatility against the Euro as both the US and Euro zone economies released one or two disappointing reports.

The Macro Trader's view of the Dollar is: the Dollar weakened against the Euro last week on one or two disappointing reports. But the move might have been greater were it not for one or two weaker than forecast Euro zone data releases.

The market was un-nerved by the very weak pending home sales report, and although other releases were no where near as dramatic, traders were reminded of the recent weak New Home sales report which places a question mark over the housing market recovery.

Against Sterling the Dollar fared a little better, as two ex-government ministers launched a failed attempt to secure a secret ballot on the Labour party leadership. Brown survived but Sterling wobbled as this added to an already growing list of woes afflicting Sterling.

Looking ahead we judge the Dollar remains in a weakening trend despite the rally over Year End, but against the Pound Sterling we are bullish.

The UK's finances are in a mess and the government looks out of ideas and soon out of time. This undermines the Pound and we advise traders to go long of the Dollar and Short of Sterling. Our target for this week is 1.5850 and our stop is 1.6350 for protection.

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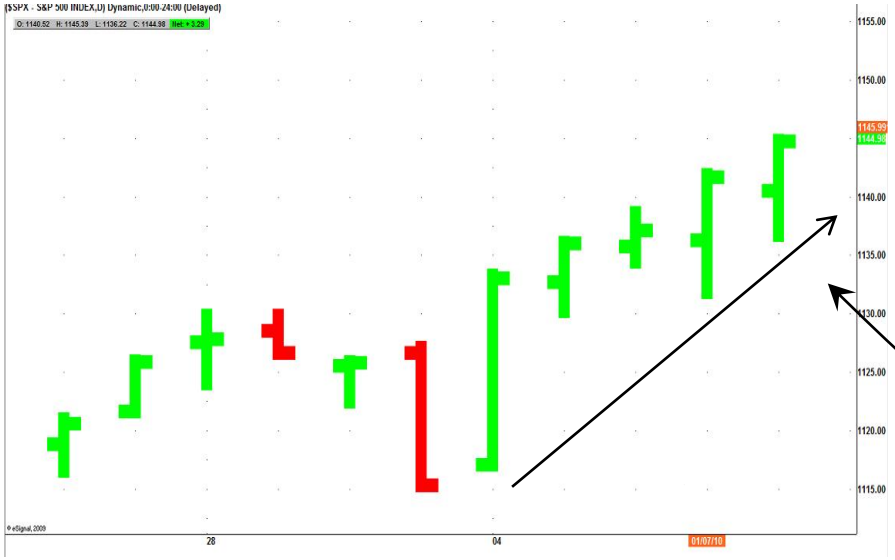
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



See how the S&P rallied throughout last week brushing aside one or two weaker reports and focussing on the underlying strength of the economic recovery revealed by the twin ISM surveys.

The Macro Trader's view of the S&P 500 is: our target was more than met last week as traders focussed on the positives in last week's data releases.

Where as other markets were disappointed by the sub-consensus ISM non-manufacturing survey, equities rallied on the report moving back above 50.0 and although the non-farm payroll was worse than expected, this is a volatile series, and will lag the recovery, but crucially the trend is still one of slowing job destruction.

If this week's retail sales report comes in above consensus this market will rally further and in line with our long term view of this market.

Traders should remain long of this market we expect o strong Bull market to develop throughout this year.

Our target for this week is 1155.0 with our stop is raised to 1114.0 for closer protection.

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UK MARKETS: economic background

Last week we highlighted several **key** releases which we expected to confirm the widely held view in the markets that the UK economy was set to emerge from recession in the 4th quarter of 2009.

The week started well with a **stronger than expected PMI manufacturing survey, net lending on dwellings was also much better than expected. The PMI Construction survey was mildly disappointing and although the PMI Services survey was just below consensus the reading remained strong**.

As expected **the MPC left both interest rates and their QE target unchanged, but Friday's PPI data showed some unwelcome developments on inflation as the three reports came in worse than expected**.

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; **BRC Retail sales and RICS house price survey, and**
- On Wednesday; **NIESR GDP estimate, industrial production and manufacturing output.**

The markets focus this week is likely to be Industrial Production and Manufacturing output. Although only a small percentage of GDP, the government harbours unrealistic hopes of a manufacturing revival which they would like to be part of a rebalancing of the economy.

A worthy ambition but unlikely to be realised given a track record of underinvestment and against the cheap labour advantage of countries such as India and China.

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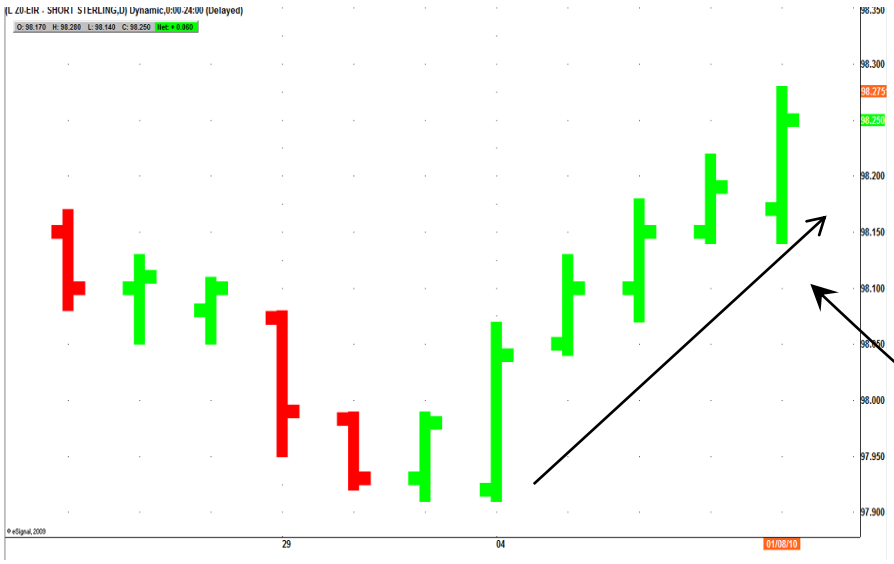
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Dec 10.



See how Short Sterling rallied last week despite a run of solid domestic data releases.

The Macro Trader's view of Short Sterling is: last week's rally certainly wasn't driven by domestic data which was generally in line with or better than consensus.

We judge there are two explanations:

1. The previous sell off was over done, and
2. Traders were un-nerved by weaker than expected data from the US and Euro zone which they feared could damage the UK recovery.

For example, the market rallied solidly on Friday, even though UK PPI was worse than expected and should have rung alarm bells over UK inflation.

But US non-farm payroll was a little worse than expected and US markets dragged other key markets such as this better over the course of the week.

Looking ahead we expected foreign data and sentiment to heavily influence this market again this week as US retail sales due on Thursday is likely to set the tone in most markets.

In an environment where domestic data has temporarily lost its impact we advise remaining square.

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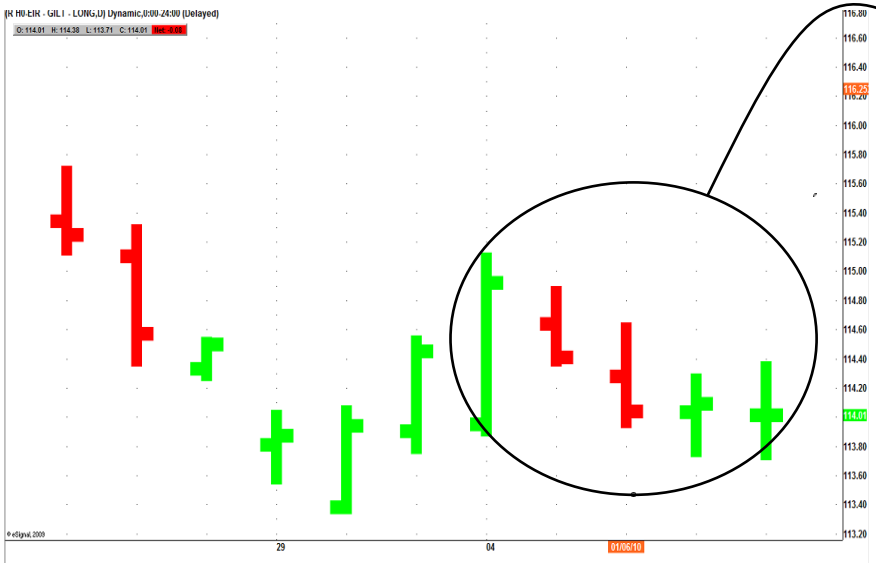
UK MARKETS: Gilt

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the Gilt.



The Gilt had a failed recovery on Monday and then weakened over the course of the week as data firmed and renewed political unrest undermined confidence.

The Macro Trader's view of the Gilt is; our target wasn't quite met, but the direction was completely in our favour.

In a week when the major releases supported the outlook for recovery and PPI sprung unpleasant surprises a political upset was all it took to push the gilt lower.

The UK debt market is already labouring under the burden of record peace time budget deficits and debt to GDP ratios with the rating agencies circling around the Sovereign debt rating, poised to pounce if their judgement that public finances will start being repaired by an incoming Conservative administration in the 2nd quarter of this year proves miss placed.

What the Gilt didn't need last week was a failed coup attempt by two disgruntled ex-government ministers, frustrated at Brown's style of leadership, which they clearly see responsible for the Labour party likely being removed from office sometime in May/June of this year.

Consequently we judge this market remains vulnerable to further heavy selling and advise remaining short.

Our target this week is still 113.50 and our stop continues at 115.90 for protection.

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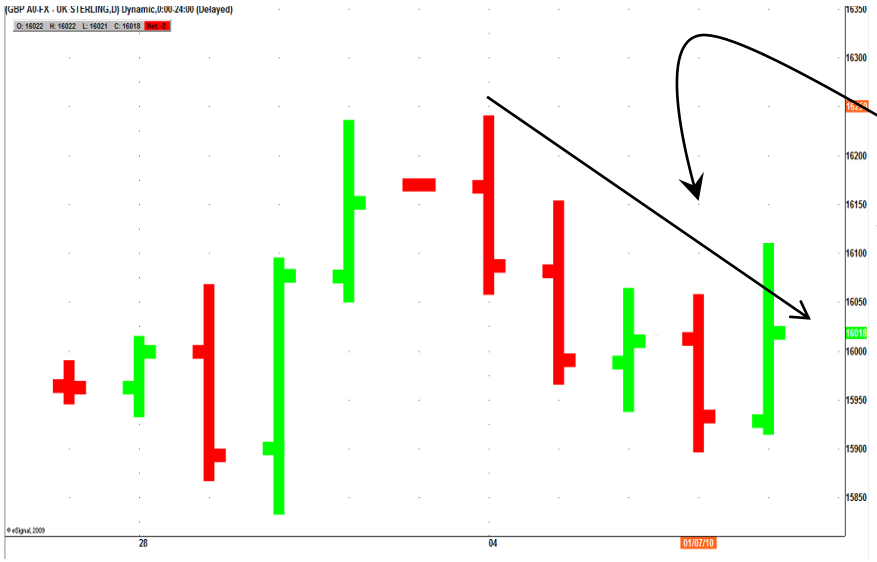
UK MARKETS: Sterling

OUR TRADING STANCE: BEARISH of STERLING/DOLLAR (CABLE).

Last week we were Bearish of Cable.



See how Cable weakened last week on the back of renewed political instability.

The Macro Trader's view of the Pound is; Sterling has suffered a prolonged spell of weakness due to initial expectations of recession in the UK being worse than in any other G7 economy and that ultimately proved to be correct.

More recently the Pound has been under pressure due to the burden placed on it by the dismal state of the public finances, as:

1. an unpopular government threw money at the economy fearing a damaging recession would ruin their chances of re-election, and
2. That same government ducked its responsibilities by failing to implement a credible plan to bring spending and borrowing under control ahead of an election they look likely to lose, even though the economy now appears to be on the mend and at risk of higher inflation due to too high borrowing and spending.

The result has been clear a weak Pound and last week's failed attempt to try and remove Brown from the Labour party leadership and as Prime Minister only worsened Sterling's plight.

Traders should remain short of Cable, our target this week remains 1.5850 and our stop continues at 1.6350 for protection.

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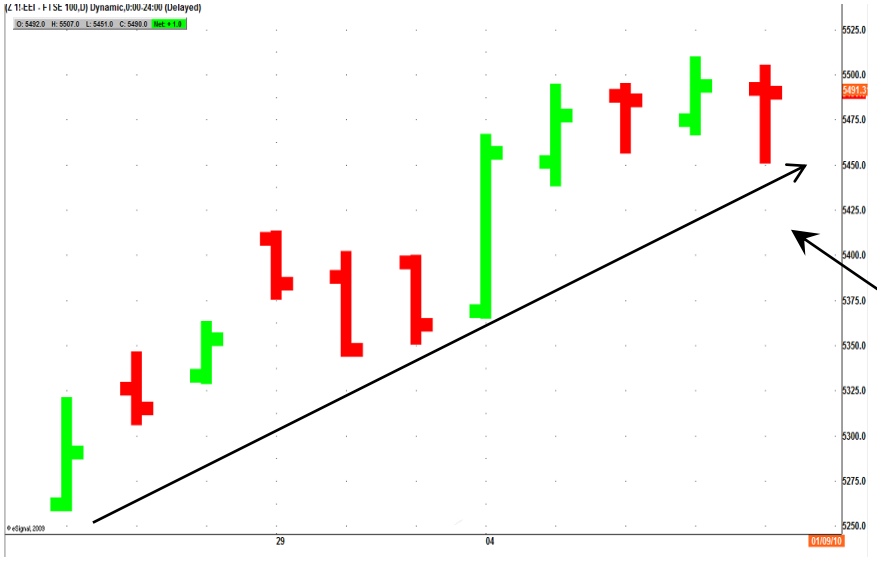
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the FTSE.



See how the FTSE shrugged of the political intrigues of last week as traders reacted to the run of solid data releases which flag economic recovery is under way.

The Macro Trader's view of the FTSE is: the FTSE comfortably exceeded our target again last week as data pleased.

And although the important PMI Services survey narrowly missed consensus it remains in strong territory.

Additionally the net lending against dwellings data was better than expected and supports hopes of further recovery in the housing market. And unlike the interest rate markets equity traders paid scant attention to the political machinations playing out in Westminster.

In the equity world traders are grateful monetary policy remains lose and see lax fiscal policy still working in favour of economic recovery, they don't **yet** fear inflation as they judge the Bank of England will react in a timely manner even if this government can not or will not with regard to fixing the public finances for the long term health of the economy.

Traders should remain long of this market. Our target for this week is 5560.0, and our stop is raised to 5325 for closer protection.

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EURO ZONE MARKETS: economic background

Last week we judged German data was likely to stand out as the dominant news in a week packed with many **key** data release.

On Monday t**he Italian and French PMI manufacturing surveys were better than expected**, the **German report mildly disappointed and the Euro zone version was as expected**. The following day the **German employment report was better than forecast and Euro zone CPI met consensus**. As the week progressed only the **Italian PMI Services survey beat consensus**, the **French and German reports were weaker than expected but the Euro zone survey was as expected**.

However the data turned weaker as the **Euro zone industrial new orders report came in weaker than forecast as did German industrial production**, although a sense of equilibrium was partially restored by a **better than expected German factory orders report and a slightly improved Euro zone Q3 GDP**.

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; **French industrial production and manufacturing output,**
- On Wednesday; **German real GDP growth to December 31 and Italian industrial production,**
- On Thursday; **German CPI, Euro zone industrial production and the ECB interest rate decision, and**
- On Friday; **Euro zone CPI.**

The markets again have much to digest this week but we judge the main event is likely to be the ECB interest rate decision and subsequent Trichet press conference. No rate change is expected but Trichet may say something that alludes to future rate changes.

Additionally monitor Euro zone industrial production for clues on the recovery moving forward as a patchy pattern is still governing data releases.

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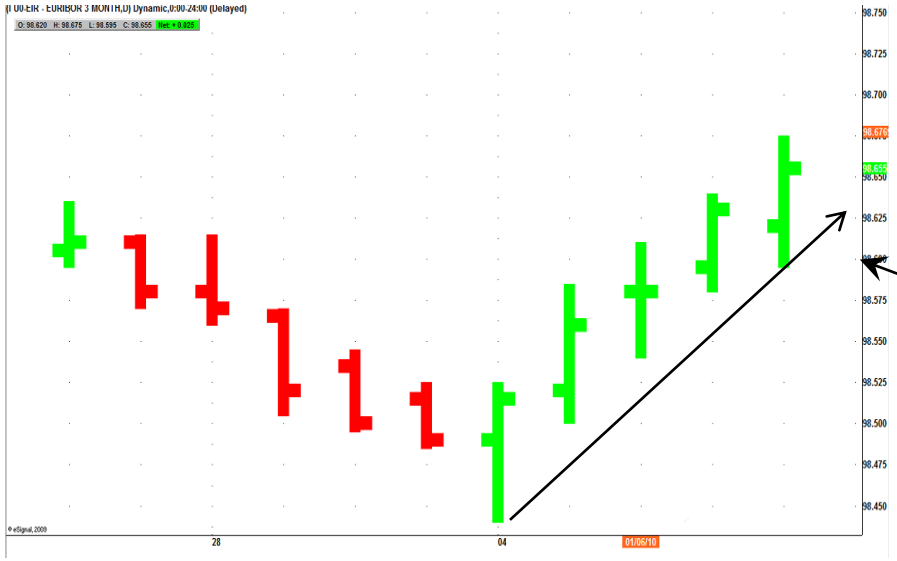
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were square of September 10.



See how Euribor rallied last week helped by some unexpected negative surprises in one or two key data releases.

The Macro Trader's view of Euribor is: the previous week's sell off proved unsustainable as the market recovered throughout last week, helped by some negative surprises from one or two key data releases.

The PMI surveys were mixed and so too were Euro zone industrial new orders and German industrial production; bad news for a manufacturing economy relying on an export led recovery.

Add to the above a couple of weaker US reports and interest rate futures generally found sufficient support to reverse the previous week's sell off.

Can the rally be sustained, the question will be better answered later this week. If key data meets or exceeds consensus domestically and US retail sales comes in strong, the answer will be no.

Since we expect nothing of substance from the ECB and Trichet isn't likely to signal tighter policy just yet, we judge this market remains range bound.

With no compelling case for either Bears or Bulls, we again advise remaining square.

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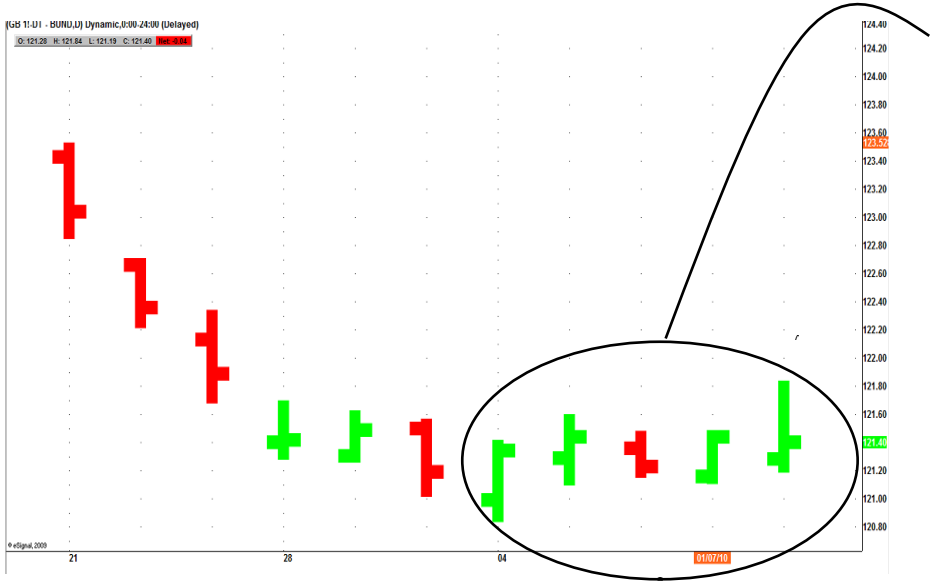
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of The Bund.



See how the Bund traded mainly side ways last week as several weaker reports off set other concerns.

The Macro Trader's view of the Bund is: the Bund continued to look vulnerable to the downside last week as it failed to recover any of the previous week's losses.

In a week where several important data releases disappointed, the Bund could have performed better, but other concerns held it back.

These were worries over debt. Greece is the country most in the news and stayed their as Stark said the EU wouldn't bail it out.

But other peripheral Euro zone countries are in poor shape fiscally and only today Portugal was warned it could see its debt rating downgraded if its fiscal house isn't put in order.

So while the Bund looks in comparatively better shape than other leading government Bond markets, further selling is likely.

For now though, we judge the Bund remains in a range and although it looks set to test the lower boundaries we want to see a break out before becoming involved, so for now stay square.

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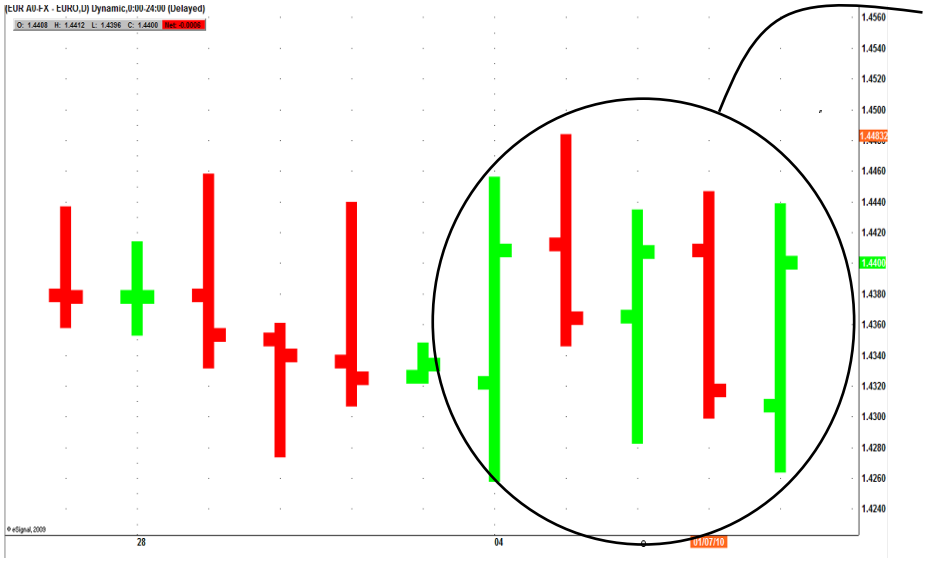
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE of the EURO.

Last week we were square of the Euro.



Note the volatility in Dollar/Euro last week as both the US and Euro zone posted one or two weaker than expected reports.

The Macro Trader's view of the Euro: the Euro was hit by several unexpectedly weaker data releases last week, which together with on going concerns about the fiscal health of several smaller Euro zone members robbed it of a chance to go better against the Dollar.

The Dollar's recent recovery seems to have stalled since the recent weaker than expected New Home sales report. With last week's US pending home sales report also very weak, traders feared the housing market recovery is faltering as Federal support schemes expire, but is bad weather the main reason.

What is clear to us, is the recovery remains fragile both sides of the Atlantic, especial in the Euro zone. But the Dollar is robbed of a chance to capitalise on this because of growing concerns about the US Budget deficit.

Given the current mix of data, we judge there is no clear cut trade to recommend. The Dollar recovery looks all but over, but the Euro doesn't seem capable of resuming its under lying bull trend just yet.

For now we advise remaining square of the Euro, especially ahead of the ECB meeting on Thursday and Trichet's press conference.

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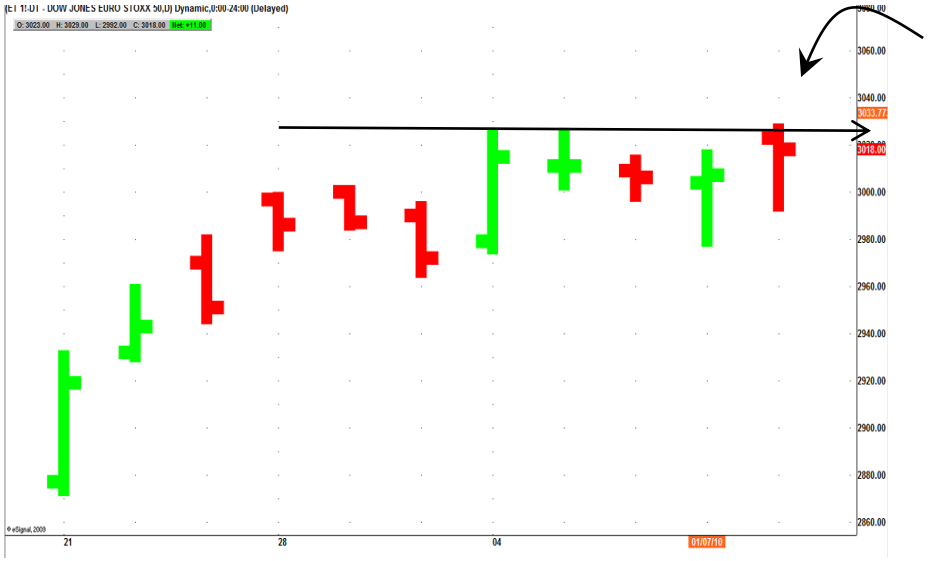
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of DJ EUROSTOXX50.



See how this market appeared to under perform the S&P and FTSE last week, held back by some unexpectedly weaker data releases.

The Macro Trader's view of DJ Euro Stoxx 50 is: the debt drama in the Euro zone doesn't yet seem over.

Why you may ask when the US and UK are also running very large budget deficits, is it more of an issue for the Euro zone.

Put simply the Euro zone, unlike the other two doesn't have a centralised budget process so any consolidation and improvement, fiscally will be fragmented and lack a sense of coordination; note Stark's threat to more or less cut Greece adrift last week.

But apart from that several important data releases already mentioned elsewhere, were weak and a question mark has been placed over the strength of the Euro zone recovery.

In the US and UK data more or less confirmed recovery expectations, apart from US pending home sales and non-farm payroll which we don't attach to much importance to as last week's readings are likely statistical noise.

With the S&P and FTSE both performing well, we advise remaining square of this market and focussing on those two.

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JAPANESE MARKETS: economic background

Last week we judged domestic data was unlikely to have too great an impact on Japan's markets as the data set for release was sparse and light weight.

However we highlighted two **key** releases for traders to monitor and they both offered good news. **The monetary base report released on Monday was stronger than expected**; good news for an economy in deflation, and the **Vehicle sales data released on Tuesday was also stronger than expected**.

But despite the dearth of heavy weight data, markets were focused on political events with the resignation of the finance minister and surprise caused by his replacement.

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

- On Monday; **Trade balance, C/A balance and Bank lending data,**
- On Tuesday; **Eco watchers survey, and**
- On Wednesday**; Machine tool orders and Machine orders.**

Most of this week's key releases are important, but we judge the Bank Lending data will be closely scrutinized for any fresh clues about the impact of deflation. But even though deflation is now the main priority for policy makers, the economy is recovering and the Eco watchers survey is a useful guide to its progress.

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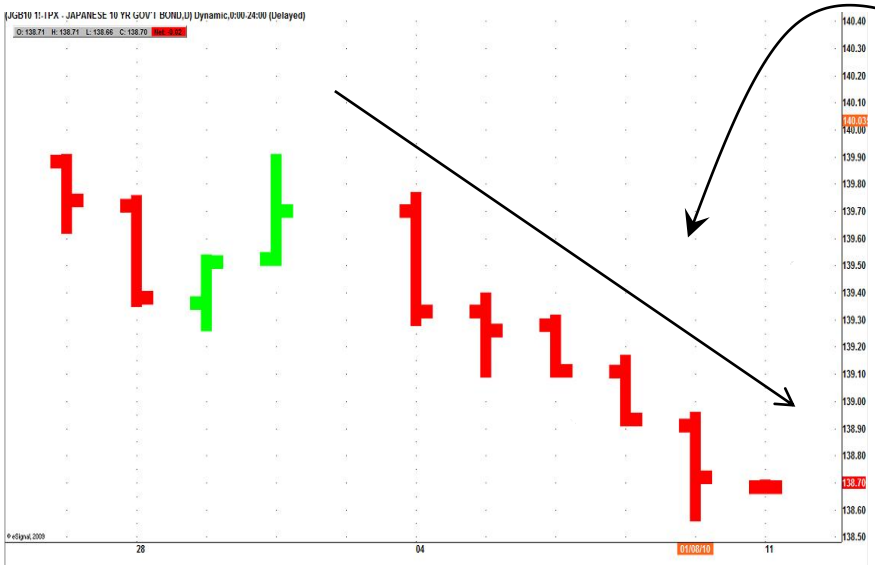
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Japanese Bonds.



See how the JGB sold off hard last week as Bond markets globally came under renewed pressure due to the build up of debt, with Japan suffering the added uncertainty of a new finance minister.

The Macro Trader's view of the JGB is; the JGB found its self suffering from a degree of political uncertainty last week.

The Finance minister resigned and his replacement almost immediately called for a weaker Yen. While this would be good news for Japanese exporters, other leading economies, especially the US wouldn't take to kindly to Currency manipulation at a time when they too are struggling to nurture a still infant recovery.

Moreover, with deflation gripping Japan's economy it is important for the authorities to retain market confidence as the Government implements its latest stimulus.

More over with Japan's GDP to debt ratio so high and more QE likely from the BOJ, it is mainly the cushion of strong currency reserves that allows Japan to retain its credit rating.

This point was obviously not missed by the Prime Minister when he said the markets decide the Yen's value prompting a retraction by the finance minister.

For now we advise remaining square of this market as politics seem to be influencing price action more than economic developments.

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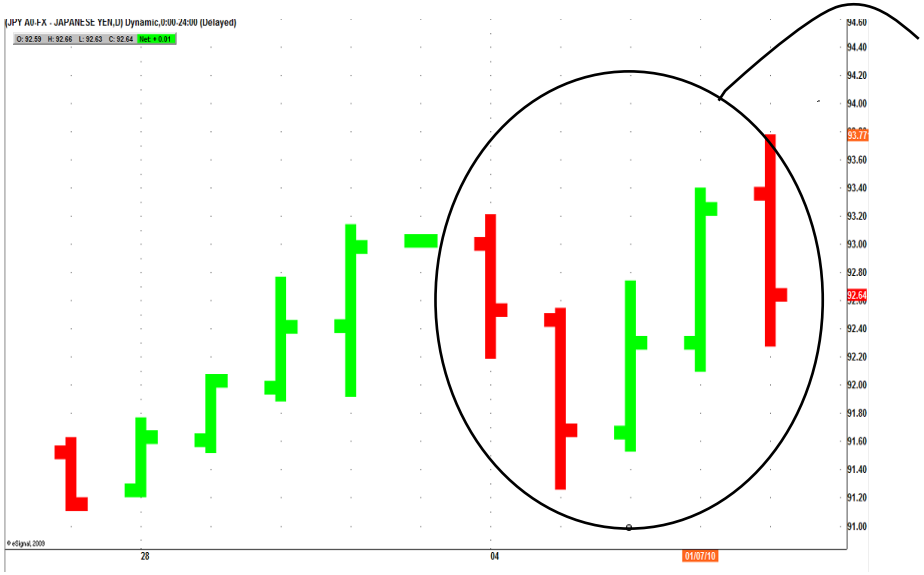
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were square of the Yen.



See how Yen strengthened on the better than expected data releases on Monday and Tuesday, but weakened after Government confusion when the new finance minister called for a weaker Yen and the PM contradicted him.

The Macro Trader's view of the Yen is; the Yen tried to go better last week on stronger expected data and a Dollar rally that appeared to run out of steam.

But as is often the case, political interference derailed the move as the incoming finance minister tried to over turn recent policy on the Yen by calling for a weaker Yen.

The Prime Minister was quick to contradict the intervention by saying the markets set the Yen's value, but uncertainty had entered the currency market and the damage was done, at least for now.

Looking ahead, if this week's key releases show the recovery remains on track and deflation hasn't worsened, the Yen could well steady, especially if the Dollar weakens further after Friday's worse than expected US non-farm payroll report; you will remember that it was an unexpectedly strong report at the beginning of December that began the recent Dollar rally.

However until it is clear that all the members of the government are singing from the same song sheet we advise remaining square.

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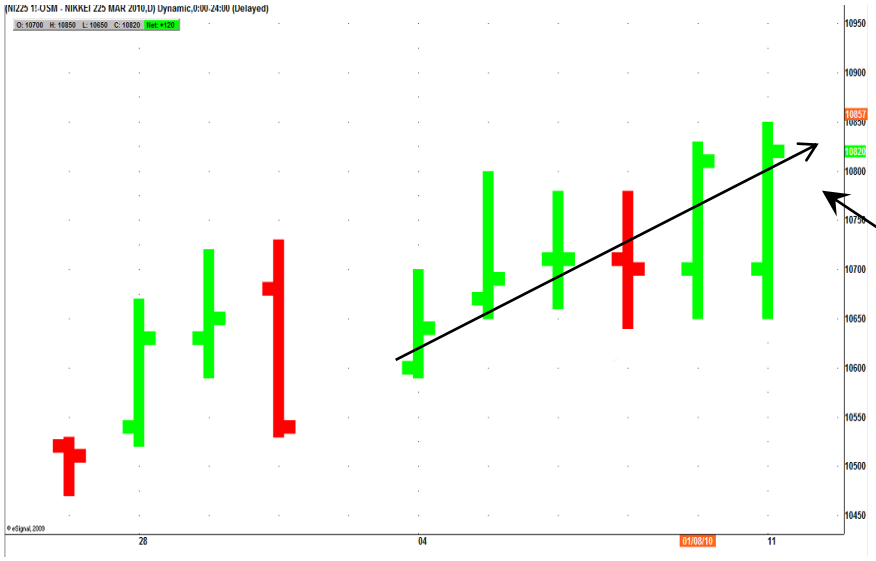
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were square of the Nikkei.



See how the Nikkei benefitted from the possibility that the finance ministry might revive the previous policy of preventing the Yen from strengthening against the other currency majors, especially the Dollar.

The Macro Trader's view of the Nikkei is: the Nikkei continued the recent somewhat volatile rally as traders reacted to the incoming finance ministers comments about not wanting a strong Yen.

And even though the PM restated his governments recent policy of non-intervention, Japan's finance ministry has a reputation which goes before it.

Clearly a weaker Yen would greatly assist the economy's exporters, it might even allow for a little imported energy inflation that might help the fight against deflation.

But with fiscal stimulus the order of the day and perhaps soon QE, the government doesn't want any lack of clarity over its policy towards the Yen.

Japan runs a very large debt to GDP ratio well in excess of 100%. Other developed countries with lower ratios are under scrutiny by the rating agencies and are at risk of Sovereign credit downgrade. Japan escapes such a fate due to its formidable foreign currency reserves built by a strong export performance.

While a weak Yen might help exporters, the current government doesn't want to lose market confidence in economic policy. Until greater clarity emerges concerning the Yen we advise remaining square of the Nikkei.

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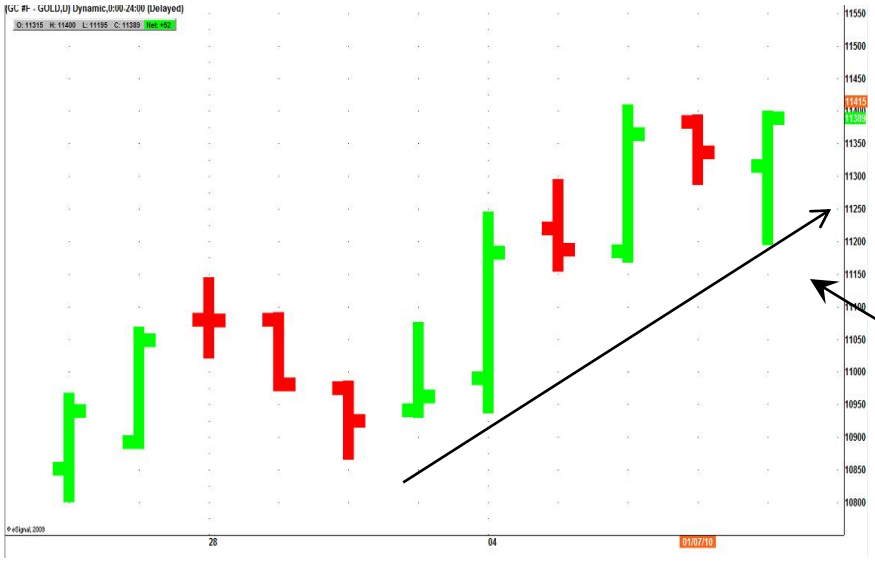
COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Gold.



See how Gold added to recent gains as the Dollar's rally seemed to stall.

The Macro Trader's view of the Gold is: our target was met last week as the Dollar's rally seemed to grind to a halt.

While both US ISM Surveys delivered encouraging news about the strength of recovery, US pending home sales were disappointingly week and although this fitted in with the week New Home sales report seen recently it was still a disappointment.

Additionally Friday's weaker than expected non-farm payroll report seems to have un-nerved some traders, but the report wasn't that bad and we judge it no more than can be expected in the still early stages of economic recovery.

But what seems to have helped Gold higher is the growing awareness among traders and investors of the still growing debt problem embedded in most leading developed economies, which if not tackled will lead to a period of weak economic performance and threaten higher inflation.

Traders should remain long of this market. Our target this week is 1150.0 and our stop is raised to 1110.0 for closer protection.

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COMMODITIES: Oil

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Oil.

See how the Oil price continued its recent recovery as economic activity in China and India offered support together with exceptionally cold weather in the North hemisphere generally this winter.

The Macro Trader's view of oil is: our target was comfortably met last week as positive economic news from China and India supported the outlook for demand.

And although some data releases from the US and Euro zone came in below consensus, the various ISM/PMI surveys from the US, UK and Euro zone were largely equal to or better than market consensus, keeping expectations of recovery on track.

With a colder than usual winter gripping the Northern Hemisphere with even parts of India and Spain seeing snow and Florida's orange crop threatened by the cold, demand for Oil has caused US stocks to decrease. OPEC recently voted to keep output steady and with no immediate end to the current very cold weather in sight, oil prices look well supported by the increased seasonal demand.

Add in expectations of a deepening economic recovery and oil prices look set to go higher. Traders should remain long of this market.

Our target for this week is 84.75 and our stop is increased to 79.50 for closer protection.

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SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL jlewis@sevendaysahead.com, pallwright@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM

MAIN MENU