



Week 5
2nd – 8th February 2010

Summary

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the macro trader's guide to major markets

John Lewis

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● SQUARE
● SQUARE
● BULLISH v the Euro
● SQUARE

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● SQUARE
● SQUARE
● SQUARE
● SQUARE

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● BULLISH on equity weakness and flight to quality within the Euro zone
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● SQUARE
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	Week of 1 st February
Monday	US Persnl income 0.3% US Pesnl spndg 0.3% US Core PCE 0.1m, 1.5y US ISM Mfg survey 55.6 US ISM Prces paid 63.0 US Construction spndg -0.4% UK Mrtge apps 61.8k UK Net cons cr -0.4B UK Net Indg on dwellgs 1.6B UK PMI Mfg survey 53.9 UK Home trck hse prces n/f FR PPI 0.1m, -3.0y IT PMI Mfg 51.2 FR PMI Mfg 54.7 DM PMI Mfg 53.4 EZ PMI Mfg 52.0 JP Vehicle sales n/f
Tuesday	US Pndg home sales 0.6% UK PMI Construct'n survey 47.0 DM Retail sales 0.9m, -2.5y EZ PPI 0.0m, -3.0y JP Lbour cash earngs n/f
Wednesday	US MBA Mrtge apps n/f US ADP emplm't chge -40k US ISM Non-mfg 51.0 UK BRC Shop prces indx n/f UK PMI Services 56.5 IT PMI Services 52.9 FR PMI Services 57.0 DM PMI Services 51.2 EZ PMI Services 52.3 EZ Retail sales 0.4m, -2.4y

	Week of 1 st February
Thursday	US Q4 Non-farm prod'ctvty 5.2% US Q4 Unit labour cst -2.1 US Jobless claims 460k US Factory orders 0.9% UK MPC Int rate decision 0.5% UK B of E QE target £200.0B DM Factory orders 0.2m, 9.6y EZ ECB int rate decision 1.0% EZ Trichet press conf
Friday	US Non-farm payroll 20k US Unemplm't rate 10.0% US Averige hrly earngs 0.2m, 2.2y US Averige wrk week 33.2 UK PPI Input 0.8m, 6.5y UK PPI Output 0.3m, 3.7y UK PPI Core 0.3m, 2.6y FR Trade bal -4.0B IT CPI 0.2m, 1.3y DM Ind production 0.6m, -3.7y



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	Week of 25 th January
Monday	US Existing home sales 5.45M WEAKER DM GFK cons conf 3.2 BETTER JP Corp Service price -1.5% AS THAN EXPECTED
Tuesday	US S&P/Case Shiller comp 20 -5.32y WEAKER US Cons conf 55.9 BETTER US Hse prces indx 0.7% BETTER UK Q4 GDP 0.1q, -3.2y WEAKER UK Indx of services 0.1 3m/3m WEAKER UK BBA Home Loans 45.897k BETTER DM Import prces 0.5m, -1.0y STRONGER FR Cons spndg 2.1m, 5.9y STRONGER IT Cons conf 111.7 WEAKER DM IFO 95.8 STRONGER EZ C/A 0.1B BETTER IT Retail sales 0.0m, -1.3y WEAKER JP Sml bus conf 41.3% BETTER JP Trade bal 545.3B LESS THAN EXPECTED
Wednesday	US MBA Mrtge apps -10.9% WEAKER US New Home sales 342k WEAKER US FOMC Rate decision 0.25% AS UK CBI Distrib trds survey -8 WORSE DM CPI -0.6m, 0.8y LESS FR Cons conf -29 BETTER IT Trade bal non-EU 1.262B BETTER JP Retail trade -1.2m, -0.3y WORSE THAN EXPECTED

	Week of 25 th January
Thursday	US Durable gds 0.3% WORSE US DG Ex-transport 0.9% STRONGER US Jobless claims 470k WORSE IT Bus conf 83.2 AS DM Unemploy'm't chge 6k BETTER DM Unemploy'm't rate 8.2% AS EZ Cons conf -16 LESS EZ Industrial conf -14 BETTER JP Jobless rate 5.1% LOWER JP Household spndg 2.1% STRONGER JP Tokyo CPI -2.1y AS JP National CPI -1.7y AS JP Ind production 2.2m, 5.3y WEAKER THAN EXPECTED
Friday	US Q4 GDP 5.7% STRONGER US Q4 Persnl consumpt'n 2.0% STRONGER US Q4 PCE 1.4% AS US Q4 GDP Price indx 0.6% LESS US Emplm't cost indx 0.5% MORE US Chicago PMI 61.5 STRONGER US U. Of Michigan conf 74.4 STRONGER UK Natw'de hse prces 1.2m, 8.6y STRONGER UK GFK Cons conf -17 BETTER EZ M3 -0.1 3mth BETTER EZ M3 -0.2 y/y BETTER IT PPI 0.2m, -1.6y MIXED EZ CPI 1.0%y LESS EZ Unemploy'm't rate 10.0% LESS THAN EXPECTED



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US MARKETS: economic background

Last week we flagged several important **key** releases and advised traders to monitor them closely for clues on the progress of the recovery and the Feds current attitude towards monetary policy.

The Existing home sales report was a disappointment and under performed consensus, consumer confidence showed improvement and beat consensus as did the house price index.

However **the New home sales report** released on Wednesday **came in weak** and later in the day the **FOMC held policy steady and repeated their well known commitment to hold policy at current low levels for an extended period.**

Thursday brought a mixed bag; **Durable goods headline report was weaker than forecast, but strip out transport and the number was better than expected**, but any optimism was eclipsed by a **weaker than expected Jobless claims report.**

Friday offered some important data too and the much anticipated **Q4 GDP report came in much stronger than expected** due to inventory build and corporate investment, the good news continued with **stronger**

than expected Chicago PMI survey and University of Michigan confidence.

However the markets remained unsettled all week.

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 Monday; **Personal income & spending and ISM Manufacturing survey,**
- On Tuesday; **Pending home sales,**
- On Wednesday; **ISM non-manufacturing survey, and**
- On Friday; **Non-farm payroll and unemployment rate.**

The main event this week is Friday's non-farm payroll report. Although traditionally a lagging indicator, many in the markets judge the recovery will struggle for momentum unless unemployment begins to drop.

The other important releases are the two ISM surveys, strength here will bode well for the economy moving forward.



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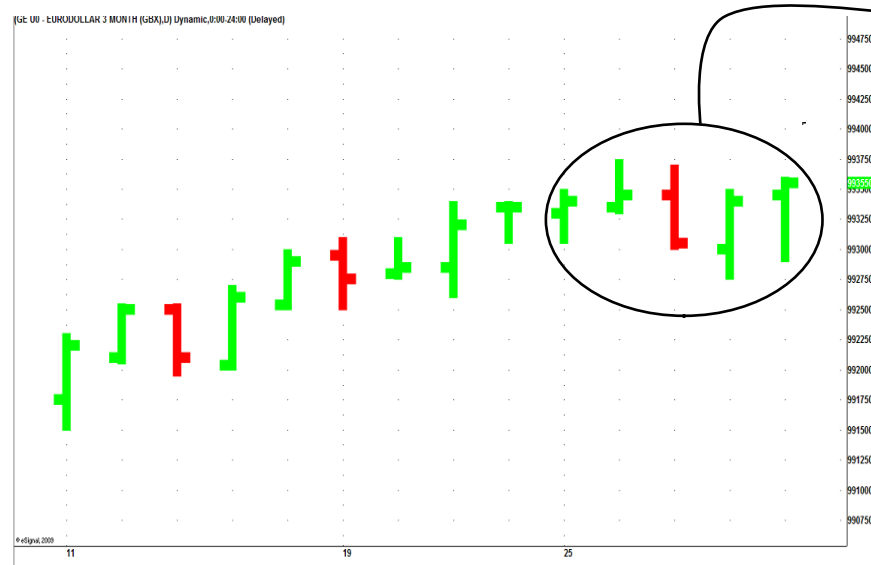
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were square of September 10 Eurodollars.



See how Eurodollars largely traded sideways last week on weak home sales and the FOMC policy statement, with the Q4 GDP report having virtually no impact.

The Macro Trader's view of Eurodollars is; the Eurodollar market retained the underlying support offered by the continued weakness in equities, driven by Obama's hawkish plans for the major US Banks.

But data in the 1st half of last week was bullish for this market, especially the disappointing home sales reports which after two months of weakness has placed a question mark over that sectors recovery.

The FOMC policy statement with its repeated commitment to low interest rates, was broadly expected, and although important for sentiment, should have been eclipsed by Friday's strong Q4 GDP report, but the market held up very well.

We judge the composition of the report with personal

consumption only contributing 2.0% of the overall strength, failed to impress traders.

And they will be looking to this week's non-farm payroll report for a supporting number, as many market players take the view that while unemployment remains so high, the recovery will lack impetus from consumer demand.

But only a few months ago economists were bemoaning the absence of business investment as a weak point in the recovery. We judge growth is growth and 5.7% isn't to be sniffed at.

While we see limited downside potential for this market; where in reality is the upside now the economy is growing. We advise a square position.

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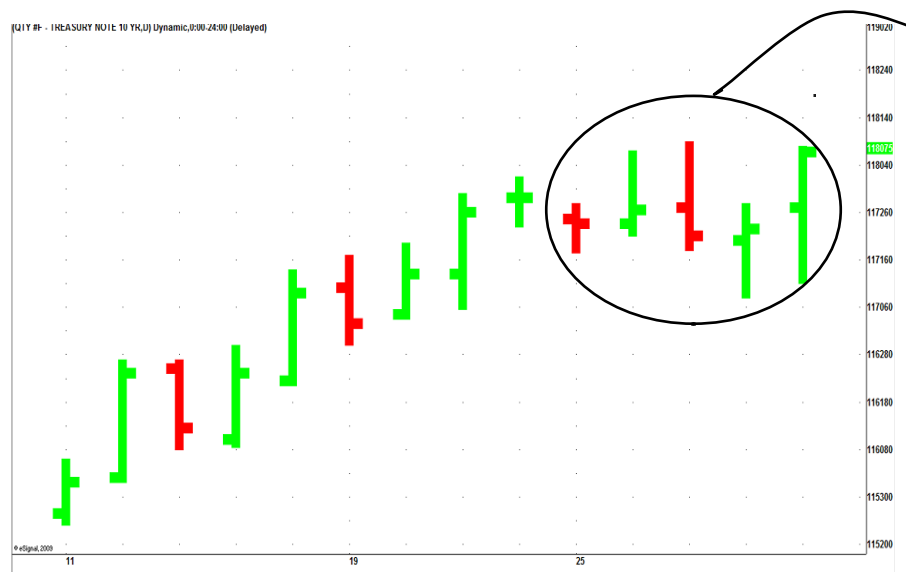
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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were **Bearish** of the 10 year note.



See how the 10 year note drew support from the weakness of equities and disappointing Existing and New home sales data.

The Macro Trader's view of the 10 year note is; the 10 Year note endured a choppy week which we thought to have survived until Friday's rally, when we stopped out.

Much of the week data was market supportive, and the FOMC policy statement said virtually nothing to upset bond traders.

Indeed it wasn't until Friday's Q4 GDP report that the market had anything to sell off on, but equities sold off instead and Bonds benefitted as a safe haven trade, why else would you buy a Bond market after such a

strong GDP report?

Looking ahead we judge this week could prove just as choppy as last, with the main move occurring on Friday.

As ever non-farm payroll is set to dominate the week's proceedings. A net job gain is expected, a weak report will help this market higher. We judge a report that meets current market consensus is optimistic, and due to the degree of uncertainty advise remaining square.



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US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v The EURO.

Last week we were square of the Dollar.



See how the Dollar strengthened further last week as risk aversion added to the Dollars current appeal.

The Macro Trader's view of the Dollar is: the Dollar has strengthened much more than we would have thought likely only a few weeks ago.

Despite several key data series turning mixed; Existing and New Home sales especially, the Dollar seems to have turned.

The current weakness in equity markets is obviously a factor, as an increase in risk aversion works in the Dollars favour, but something else appears to be driving the currency, in fact two something else's.

The first is the strength of the economy. Before last Friday's GDP report was seen, the ISM surveys had already been flagging recovery. The second is the negative impact on the Euro caused by the internal

fiscal problems generated by several peripheral economies, especially Greece.

Within the Euro zone Bond yield spreads have widened on debt fears and the Euro is taking the strain. This looks set to continue to the Dollars advantage.

Looking ahead we judge this week's data should confirm the recovery's building strength and further support the Dollar and we judge a long Dollar/Euro position makes sense.

Traders Should go long of the Dollar against the Euro, our target this week is 1.3740 and our stop is set at 1.4048 for protection.

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US MARKETS: S&P500

OUR TRADING STANCE: SQUARE.

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



See how the S&P remained under pressure last week as once again news from China worried traders early in the week, Even a profit announcement from Ford on Thursday failed to lift the market.

The Macro Trader's view of the S&P 500 is the remained under pressure again last week and even Friday's strong GDP report failed to lift it.

Indeed the news of Ford's first full year profit since 2005 also failed to turn a market that remains in retreat after Obama announced his intention to stop Banks running hedge funds or even proprietary trading desks.

The intention to restrict risk taking at the Banks has hurt stocks so much because traders fear what other restrictive measures Obama might be planning.

After years of deregulation, this administration wants the Banking industry on a short rein, never mind it was regulatory supervision that failed to spot the sub-prime mortgage problem that caused the financial crisis.

We advise remaining square of this market. Until Obama makes his plans crystal clear, we judge traders will act negatively and this market could sell off further; if last Friday's Q4 GDP report failed to lift stocks, we sense this market isn't currently reacting to economics but rather politics.



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UK MARKETS: economic background

Last week we highlighted Q4 GDP as the main event. After the disappointment caused by the weaker than expected Q3 GDP report, traders, analysts and economist were expecting this report to mark the economy's emergence from recession.

The week began with the **Q4 GDP report and it was a disappointment, although it marked the end of recession, at 0.1% it was nothing to get excited about.** The index of **services report was also weaker than expected**, as was the **CBI Distributive trades survey** released on Wednesday. The only number we flagged which beat consensus was Friday's release of the **GFK Consumer confidence report**.

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 Monday; **Net lending on dwellings and PMI Manufacturing survey**,
- On Wednesday; **PMI Services survey**,

- On Thursday; **MPC Interest rate and QE decisions, and**
- On Friday; **PPI Input, Output and Core.**

The main events this week are the PMI surveys. These have been flagging growth for many months, especially the Services report and were mainly responsible for our earlier Bullish outlook for the UK economy, which official data has so far failed to confirm.

But UK official data, especially GDP data has a long history of revision, sometimes quite substantial and we judge the Q3 and Q4 GDP data will yet be revised higher to show growth not only returned earlier last year, but has been stronger than so far reported by the ONS.

The other Key event to watch this week is the MPC interest rate and QE decision. We expect no change on either which should mean the Bank has finished its QE exercise and with CPI at 2.9% quite right too!



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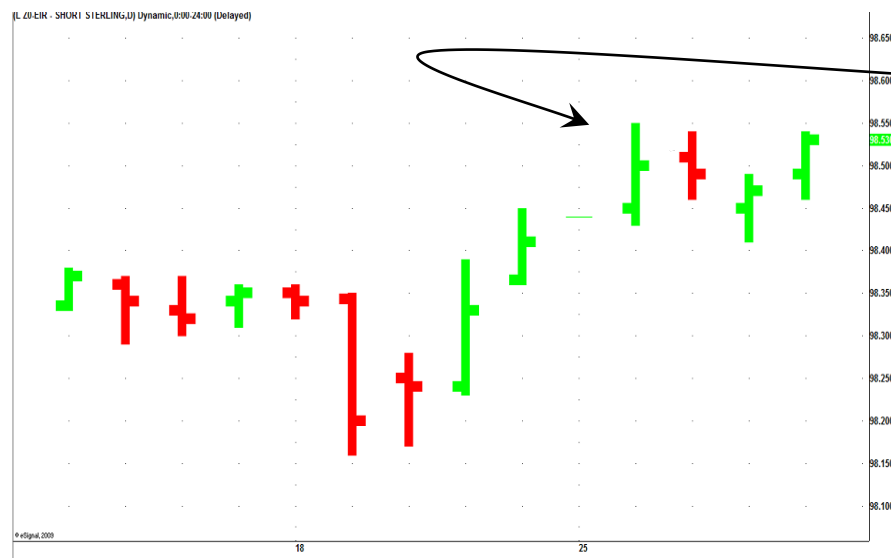
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UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Dec 10.



See how Short Sterling held up well last week, and after Tuesday's disappointing Q4 GDP report so it should.

The Macro Trader's view of Short Sterling is: the Short Sterling market is like one of those monsters in a horror movie, it keeps on going not matter what and well beyond most reasonable expectation.

For now though what else can it do? The recovery on official data looks sluggish and the MPC will surely be in no hurry at all to start hiking rates this year.

So while a convergence trade looks to be underpinning this market, so to are weak stocks. Equity markets are currently fragile as traders fear monetary tightening in China and India and are worried about Obama's Hawkish stance towards the Big US Banks that he so expensively rescued.

Short term we sense this week's data could prove bearish; we expect to see solid PMI manufacturing and Service sector surveys and receive bad news at the end of the week from PPI.

However we sense that may not be enough to undermine current sentiment running through this market, especially if equity markets lurch yet lower on Obama anxiety.

For now we advise remaining square of this market, the easing cycle is long over and inflation may be about to pose the authorities here a big problem despite the Bank's forecast otherwise.



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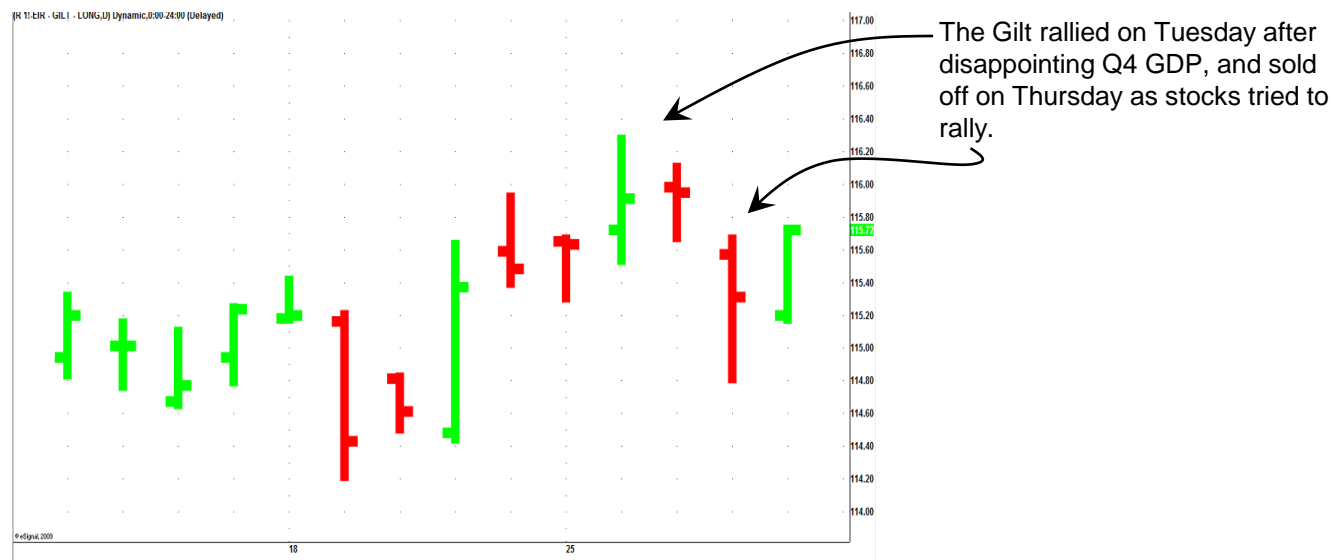
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UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were **Bearish** of the Gilt.



The Macro Trader's view of the Gilt is; the Gilt closed the week just slightly better than the previous week, but what a choppy ride in between!

The dynamics behind the price action are clear; weak GDP on Tuesday and an abortive equity rally on Thursday.

But how is this market left going forward? Confused.

Last week's GDP report is a double edged sword for the Gilt, on the one hand it was mildly bullish since weak growth should bear down on inflation, on the other it bodes badly for deficit reduction.

Additionally recent opinion polls show the

Conservatives losing ground against Labour indicating a hung Parliament; not good news for deficit reduction.

However we judge with 3 – 4 months to go before the election, the polls are likely to swing around a bit. What matters now for the Gilt is the strength of data going forward and Government rhetoric on the deficit if a hung Parliament really does look on the cards, or even a Labour victory.

For now we judge equity markets are likely to remain under pressure and offer the Gilt support, **so for now stay square** since the factors driving equities and by default government Bonds appear more political than economic.



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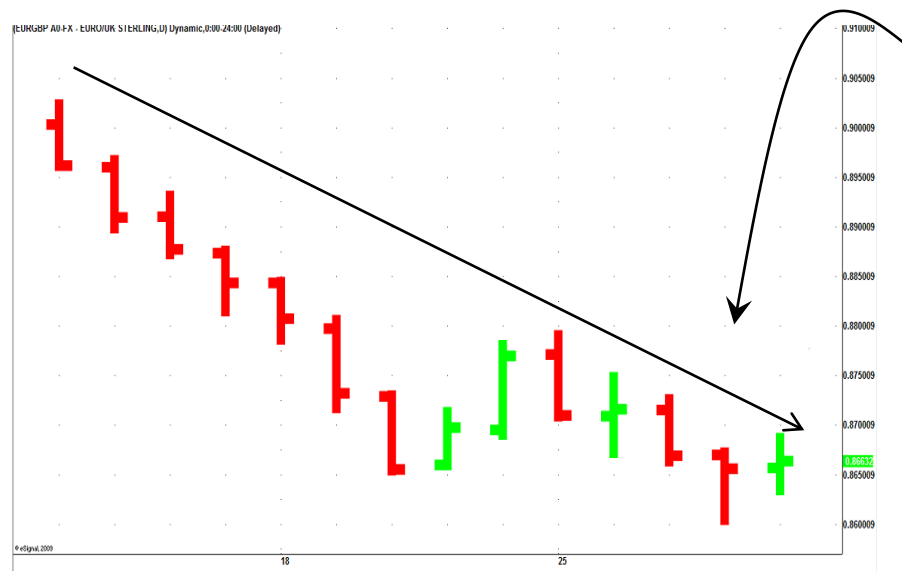
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UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE.

Last week we were square of Cable.



See how Sterling continues to rally against the Euro as internal Euro zone difficulties over the fiscal health of peripheral Euro zone countries weighs on the single currency.

The Macro Trader's view of the Pound is; what has become clear over recent weeks is traders are not buying Sterling because they have confidence in the UK economy or the way it is being managed right now, but are selling the Euro.

The weakness of the Euro boils down to fiscal problems involving Greece and other peripheral economies in the Euro zone. Bond yield spreads within the Euro zone have widened sharply and this unsettles confidence in the Euro.

So Tuesday's weak UK Q4 GDP report had very limited impact on Sterling against the Euro and we

judge that if this week's UK data meets consensus, the Pound could extend its recent run, at least until the Euro zone gets its house in order.

Fundamentally we are bearish of Sterling; growth still lags the other leading developed economies, inflation here is much higher and despite an unpopular government, the opposition Conservative party is struggling to sustain a convincing lead in opinion polls.

For now we advise remaining square of Sterling, there really is a short term lack of clarity.



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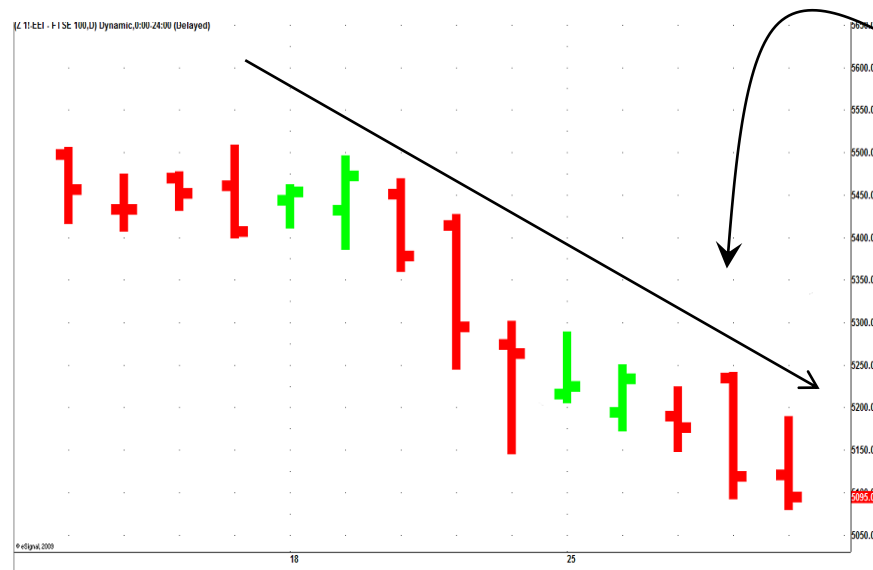
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UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square of the FTSE.



See how the FTSE continued to sell off last week as international sentiment continued to exert a bearish influence on the market.

The Macro Trader's view of the FTSE is; a combination of factors came to bear on this market last week and most were foreign in origin:

1. The after shocks of Obama's hawkish stance towards Big US Banks continued to undermine confidence among equity traders,
2. China ordered some of its Banks to rein in their lending, with India tightening Banks reserve requirements, and
3. UK Q4 GDP came in much weaker than consensus.

The China/India phenomenon isn't going away, their economies are growing fast and policy makers their are

anxious to prevent bubbles developing.

The Obama effect could drag on. Limiting what Banks can do is one thing, but the markets are really worried about how far he is going with his attack on the financial sector, until it is clarified equities are likely to remain nervous and weak.

While the UK Chancellor has so far ruled out following the US route, who knows, politicians are good at changing their minds if they think they can catch the popular mood, especially in an election year.

For now we say stay square.



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EURO ZONE MARKETS: economic background

Last week flagged the German IFO report as the main event in a week heavy on German economic data.

In the even the **German IFO report came in better than expected** showing the economy continues to expand, the next day **German CPI under shot consensus** showing a lack of price pressures in the German economy, and on Thursday, **German unemployment data came in better than expected.**

On Friday the data was all Euro zone and **the M3 reports while better than expected, remain very, very weak**, however the **unemployment report was a little better than expected**, but at 10.0% still very high.

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 Manufacturing surveys

- On Tuesday; **Euro zone PPI,**
- On Wednesday; **Italian, French, German and Euro zone PMI Services surveys,**
- On Thursday; **German factory orders and ECB interest rate decision, and**
- On Friday; **German industrial production.**

The main event this week a little harder to single out than usual. The ECB rate decision and Trichet's press conference is always important; no rate change is expected but his views can be market moving.

Then there is the various PMI surveys, always a good insight into the strength of economic activity.

But we judge the two reports to watch closely this week are German factory orders and Industrial production. The German economy is the power house of the Euro zone and its engine is manufacturing.



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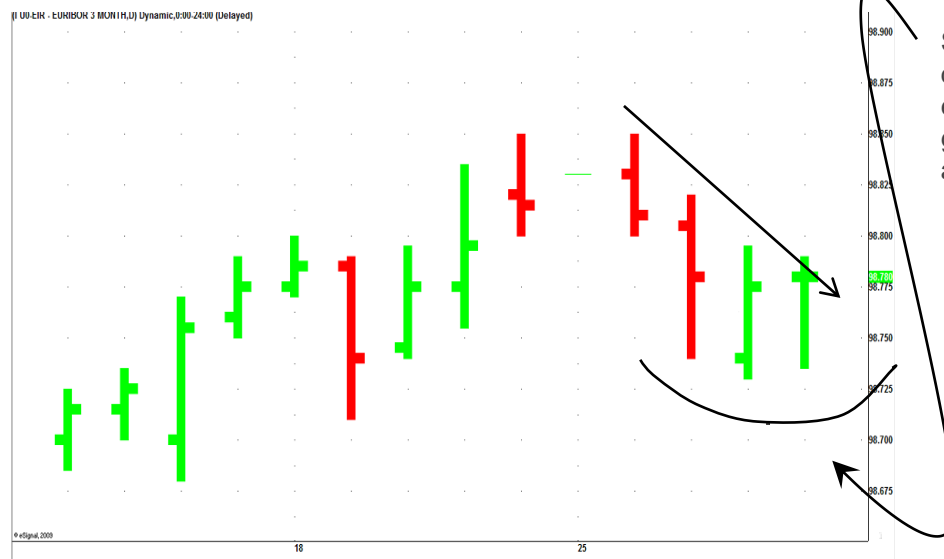
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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were square of September 10.



See how Euribor tested the downside last week despite weak equity markets as data was generally better than expected, apart from Euro zone M3.

The Macro Trader's view of Euribor is: the short end of the curve looks a treacherous place to us in many respects.

The Central Banks are pledging to keep policy lax, but recovery is underway. The recovery blows hot and cold, but there is no chance what ever of any further policy easing in any major economy, especially the Euro zone.

But inflation is very low so the ECB can afford to sit back and wait, but the Euro looks set for a period of weakness so inflation might just pick up a little and

rattle the ECB's cage.

In short this market could converge a little closer to official rates, but where is the real potential in this market; the downside? Certainly not yet.

In short, while the underlying trend definitely looks bullish we judge this market is coming to the end of that road, but isn't about to turn bearish anytime soon, hence our lack of interest in it.

Stay square.



Summary

Global Calendar

US Markets

- + EURODOLLARS
- + 10 YEAR NOTE
- + US DOLLAR
- + S&P 500

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + **BUND**
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

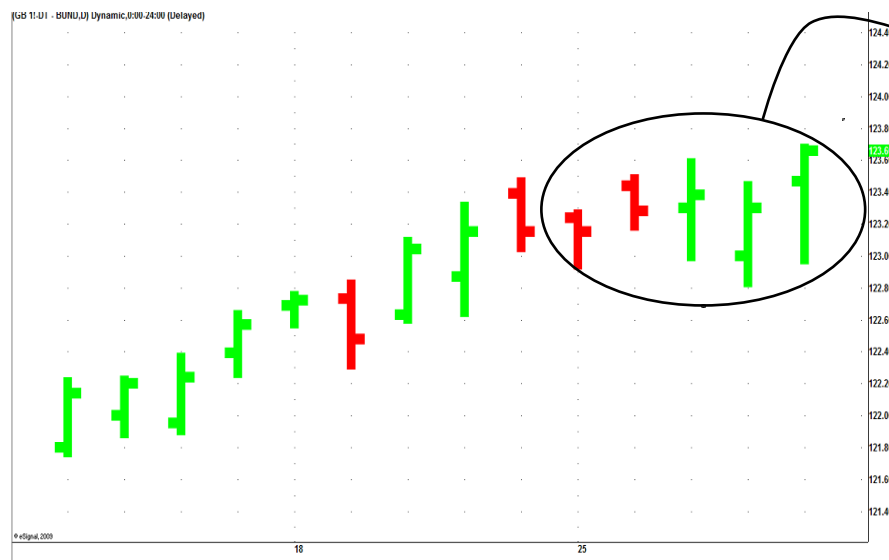
- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: **BULLISH**.

Last week we were **Bullish** of The Bund.



See how the Bund went higher, but the move was choppy with large intra-day ranges.

The Macro Trader's view of the Bund is: the Bund all but hit our target last week as tension within the Euro zone linked to the fiscal health of Greece et al and weak equity markets continued to offer support.

Although some key data last week beat consensus, **money supply remains very weak and inflation is well subdued** and unless the Euro falls out of bed, offers the Bund support.

Although the EU authorities announced to offer last resort help to Greece, the fiscal disruption looks no

nearer solution and traders sell peripheral Bonds and buy Bunds, causing yield spreads to widen out.

As already mentioned, add in weak equity markets driven by uncertainty caused by Obama's hawkish stance towards the Big US Banks and the Bund could rally further.

Traders should remain long of this market.

Our target for this week is 124.00 and our stop is placed at 122.48 for closer protection.

More



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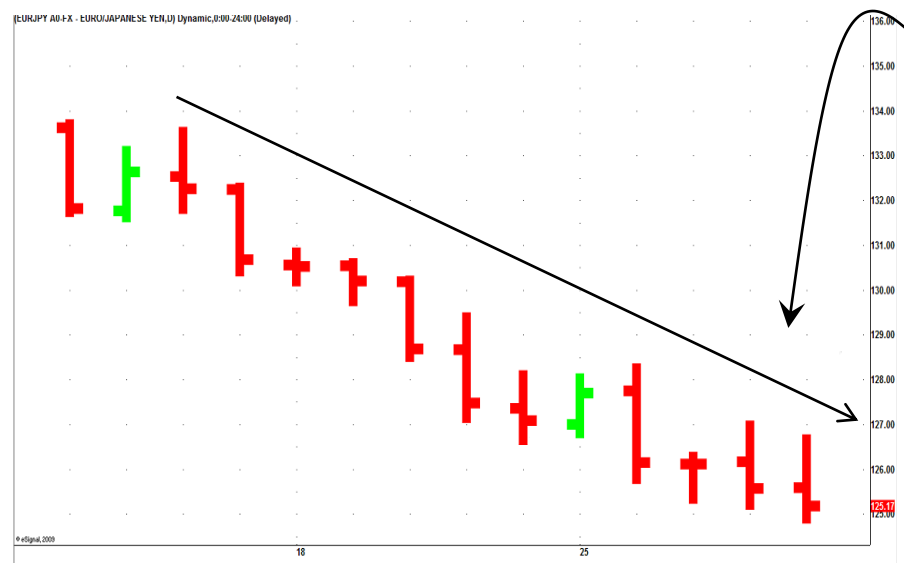
- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v The YEN & DOLLAR.

Last week we were Bearish of the Euro v the Yen.



See how the Euro continued to sell off against the Yen as internal fiscal disarray undermined its strength..

The Macro Trader's view of the Euro: last week we said...

"We are currently Bearish of the Euro due to the fiscal tensions within the Euro zone, resulting from problems with the Greek budget deficit and debt build up.

Greece has been down graded, and promised an austerity budget, but problems persist and other peripheral economies are in equally bad shape.

Although the Bond market is the rout traders are taking to deal with these concerns, internationally the Euro is weakened. Add in the Dollars rally last week on yet another spike in risk aversion and the Euro performed poorly"...

All of that remains as true this week, and even though the EU authorities tried to inject some calm and confidence into the market by offering to act as a guarantor, it hasn't worked. In fact it seems to have highlighted the problems within other peripheral economies within the Euro zone.

The Yen on the other hand looks strong due to its safe haven status and China proxy trade qualities and the Dollar is supported by very strong Q4 GDP growth.

Traders should be short of the Euro against the Dollar and the Yen. Against the Yen our target for this week is 123.75 and our stop is placed at 127.20 for protection. Against the Dollar our target is 1.3740, stop at 1.4048.



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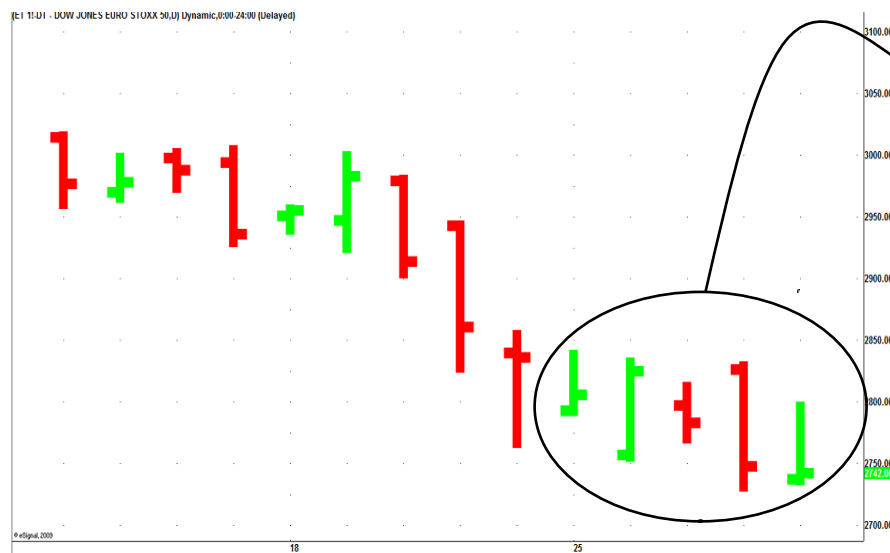
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of DJ EUROSTOXX50.



See how the market appeared to suffer less than other leading equity markets, but the same dynamics kept it at the lows.

The Macro Trader's view of DJ Euro Stoxx 50 is:

Last week we said...

"the debt drama in the Euro zone goes on and continues to undermine confidence.

Add in intensified anxiety about the path of monetary policy in China after the release of very strong Q4 growth there and stocks globally look very shaky.

Obama's comments on risk taking at US Banks didn't help either"...

So what if anything has changed; China has instructed several leading Banks to rein in lending and India has tightened reserve requirements for its Banks. A further step towards monetary tightening.

In the US no qualifying remarks from Obama, to the contrary he looks serious about controlling Bank risk, and equity traders are un-nerved, by this and rising concerns about sovereign risk.

In short the wrong environment for equity Bulls, which is what we are medium/long term, so stay square.



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Commodities

+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: economic background

Last week we were focussed on CPI, more to the point deflation and has it deepened.

But we flagged several **Key** data releases and the week began with **small business confidence which was better than expected, the trade balance** out the same day **was weaker than expected**, moving on, **retail sales was a disappointment and came in below consensus**, into Thursday and **the jobless rate offered good news; less than expected** and continued with a **better than expected household spending report**.

The main focus of the week; **CPI was as expected**, so no improvement nationally and **Industrial production came in below consensus**.

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; **Vehicle sales, and**
- On Tuesday; **Labour cash earnings.**

A light weight week data wise, offering little to judge the Japanese economy by, and in a week laden with US heavy weight data we judge markets in Japan will be influenced by risk aversion arising from over seas sentiment.



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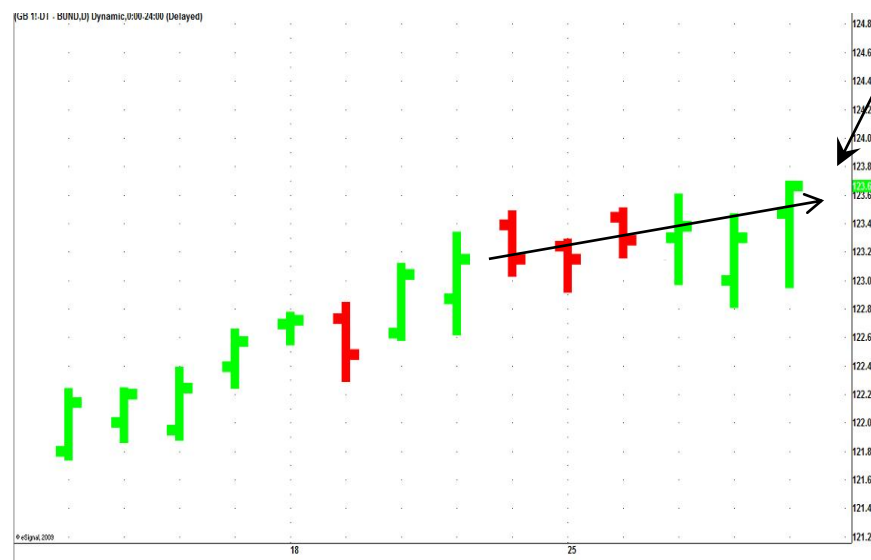
+ GOLD
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Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



See how the JGB remained supported by the steep sell of in equities but the market struggled to add to the previous week's gains none the less.

The Macro Trader's view of the JGB is: last week we said...

"the JGB managed to extend its recent correction, but not without a degree of volatility"...

And that applied to last week. We also said...

"The driving forces behind last week's price action were similar to those affecting many other markets around the World; fear of impending rate hikes in China and another assault on the US Banking Industry by Obama"...

And that too still rung true

Once again Industrial production disappointed and CPI remained deeply negative, this week with limited domestic data traders will likely look to China and the US for guidance, but China is angry with the US for supply Taiwan with defence equipment. If that looks set to grow into a bigger point of friction, stocks could fall further offering this market additional short term support, but note the reasons supporting bonds they are not fundamental but contingent on price action in other markets domestic and foreign.

For now we advise remaining square of this market.



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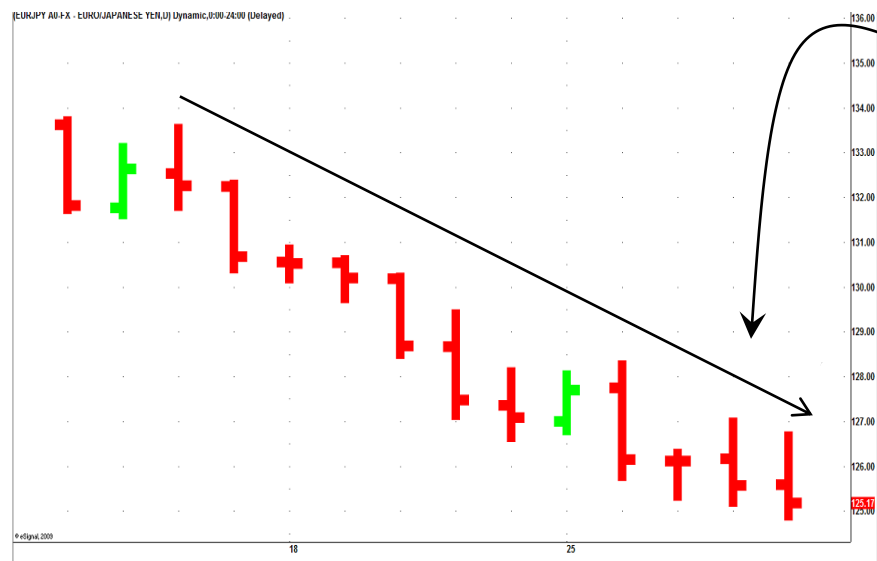
+ GOLD
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Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v THE EURO.

Last week we were Bullish v the Euro.



See how the Yen extended its rally against the Euro as the conditions we outline the previous week continued to dominate, enhanced by rising risk aversion.

The Macro Trader's view of the Yen is; we hate to keep repeating our self, but last week we said the following...

"the Yen performed in line with our expectations and more than met our target last week"...

..."Our analysis that the internal Euro zone tensions regarding the fiscal health of Greece and other peripheral Euro zone economies would weaken the Euro, especially against the Yen, proved correct and we judge those factors remain in play"...

We still judge Japan's fiscal weakness is more than

made up for by its strong external trade position, despite a slight narrowing of the surplus, and large foreign currency reserves.

Moreover, its proximity to, and access to Chinas economy makes the Yen something of a proxy trade for those wishing to go long of China, and with the threat of higher Chinese interest rates looming, especially after instructing several Banks to rein in lending, we judge the Yen should benefit further.

Traders should be long of the Yen, Short the Euro. Our target this week is 123.75 and our stop is reduced to 127.20 for closer protection of profits.



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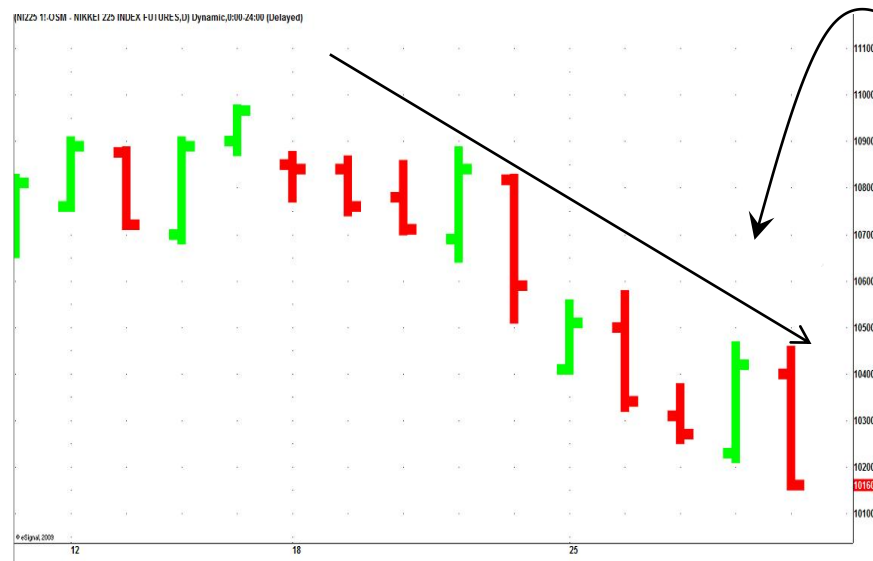
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JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were square of the Nikkei.



See how the Nikkei suffered the same fate as all the leading developed economies equity markets; weakness.

The Macro Trader's view of the Nikkei is: the theme running through all equity markets last week was risk aversion driven by Obama's hawkish stance towards the big US banks and their risk taking activities.

His policy, shaped by Ex-Fed Chairman Volker, looks miss-directed and belonging to another age. But he is the US President and if he puts his policy into law, markets will have to live with it.

Moreover markets are unsettled further by not knowing if that's it or will he come up with further draconian measures.

While it is understandable that politicians and the

public are angry at Bankers for almost destroying the financial system, it wasn't Hedge fund involvement, private equity involvement or Proprietary trading activities that led to it.

No it was a failure to understand risk and regulate the sub-prime mortgage lending activities of the wider Banking community, which arguably is core lending activity!

But Obama is unpopular and he is trying to re-establish his Presidency.

We judge equity markets are and will remain vulnerable to selling so stay square this week.



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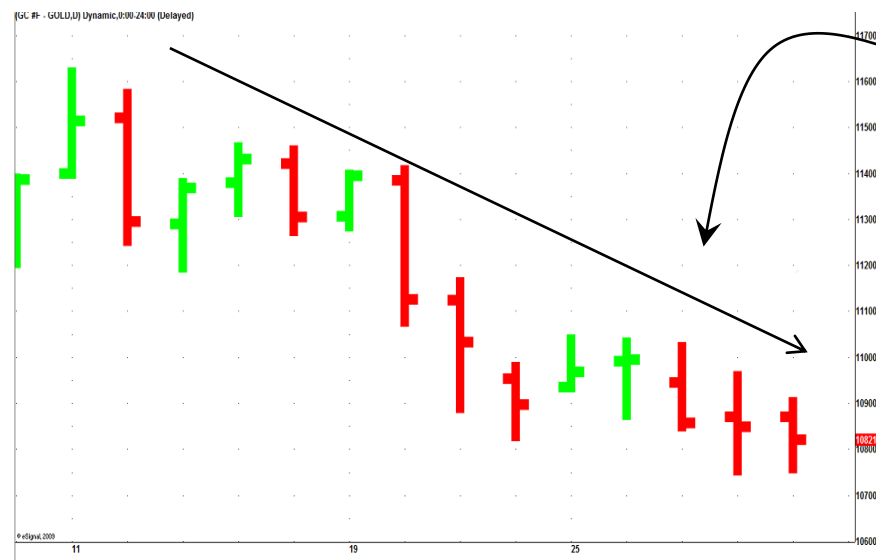
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Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how Gold weakened further as inflation in the major economies looks under control and the composition of growth in the US failed to impress traders.

The Macro Trader's view of the Gold is: the Dollar extended its New Year rally as risk aversion continues to rise.

Equities are under pressure as Obama remains hawkish towards the Banks and traders were unimpressed by the strongest US GDP report for quite some time.

With inflation under control and both China and India taking steps to tighten monetary conditions the rally in Gold looks set to suffer a further period of correction.

As China and India tighten policy, commodity markets

have cooled a little taking further pressure off of inflation and reducing Gold's appeal.

We don't think the Bull trend is over, but there isn't a trigger right now to re-ignite it.

The US Q4 GDP report looked strong but failed to enthuse traders due to its composition which was strong on corporate investment and inventory build, but light on consumer demand; 2.0% out of 5.7%.

For now we advise remaining square.



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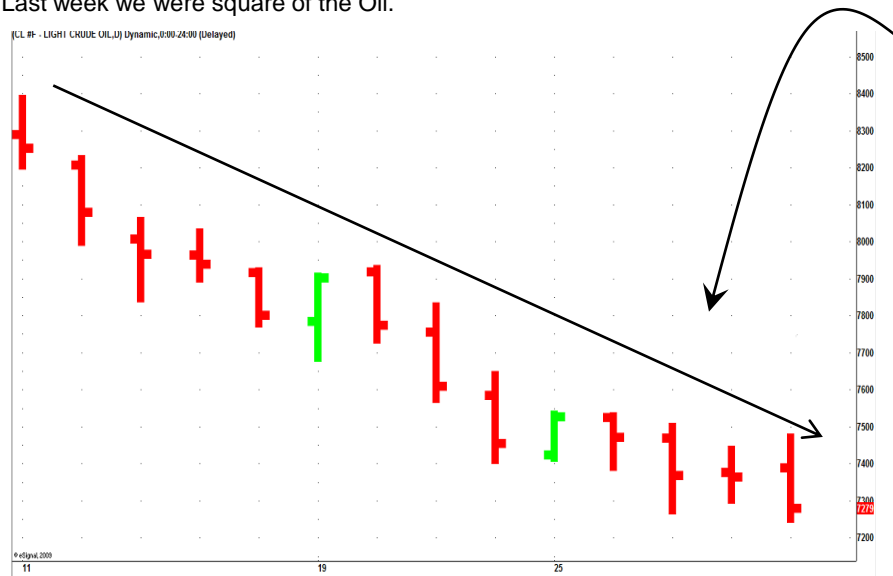
- + GOLD
- + OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were square of the Oil.



See how the Oil market remains stuck near the lows as traders focus on a still fragile recovery and monetary tightening in China and India.

The Macro Trader's view of oil is: oil remains under pressure. Although US GDP came in stronger than expected last week, its composition wasn't "right" not enough personal consumption compared to corporate investment and inventory building; only a few months ago analysts were crying out for an inventory build to sustain the recovery?

But with both China and India tightening monetary conditions and the US housing market having weakened in the last two months, the strong GDP report might prove a one off.

The Dollar is strong on risk aversion due to Obama's attack on the Banks and a strong Dollar usually calms the oil price.

Where do we see this market going from here. In a nut shell, short term no where.

While the market could dip a little further short/medium term, given our expectation for an on going recovery in the global economy, we remain long term bulls of this market, but that trade isn't on the table right now.

For now we advise remaining square.



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Commodities

- + GOLD
- + OIL

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