Week 28

13th – 19th July 2010

the macro trader's guide to major markets

John Lewis

SEVEN DAYS AHEAD

SUMMARY

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Global Calendar

US Markets

+ EURODOLLARS	**BULLISH** on stumbling recovery
+ 10 YEAR NOTE	**BULLISH** on recovery fears
+ US DOLLAR	**BEARISH** v Sterling
+ S&P 500	**BEARISH**

UK Markets

+ SHORT STERLING	**BULLISH**
+ GILT	**BULLISH** on government plans to reduce the deficit and public spending
+ STERLING	**BULLISH** of Sterling v the Euro and Dollar
+ FTSE	**SQUARE**

Euro Zone Markets

+ EURIBOR	**SQUARE**
+ BUND	**SQUARE**
+ EURO	**BEARISH** v Sterling and Yen
+ DJ EURO STOXX 50	**SQUARE**

Japanese Markets

+ JAPANESE BONDS	**BULLISH**
+ YEN	**BULLISH** v the Euro
+ NIKKEI	**SQUARE**

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+ GOLD	**SQUARE**
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This week's global calendar – macro trader

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	Week of 12th July
Monday	UK Q1 GDP 0.3q, -0.2y UK Q1 C/A -4.5B UK Indx of services 0.4 3m/3m UK BRC Retail sales n/f UK RICS House prces 20% FR C/A n/f
Tuesday	US Trade data -$39.0B US Mthly bdgt stat -$73.8B UK CPI 0.0m, 3.1y UK RPI 0.1m, 4.9y UK RPI-X 4.9y UK DCLG Hse prces 10.2% DM WPI 0.2m, 5.5y FR CPI 0.0m, 1.5y DM ZEW 25.3 JP Ind production n/f JP Capacity utilisation n/f JP Cons conf n/f JP Cons conf househld 42.5
Wednesday	US MBA Mrtge apps n/f US Import pces -0.4m, 5.2y US Retail sales -0.2% US RS Ex-Autos -0.1 US Bus inventries 0.4% US FOMC Minutes UK Unemploym't chge -20k UK Unemplym't rate 4.5% UK ILO Rate 7.9% UK Avge earnings 3.0% UK AE Ex-bonus 1.9% IT CPI 0.0m, 1.3y EZ CPI 0.0m, 1.4y EZ Ind production 1.2m, 11.4y

	Week of 12th July
Thursday	US PPI -0.1m, 3.1y US PPI Ex-f&e 0.1m, 1.1y US Jobless claims 453k US Empire mfg 18.25 US Ind production 0.0% US Capacity utilisation 74.2% US Philly Fed 10 UK B of E hsing eqity wthdrwl -3.5B JP BOJ Int rate decision 0.10% JP Tokyo condo sales n/f JP Machine tool orders (F) n/f JP Tertiary ind index -0.7%
Friday	US CPI 0.0m, 1.2y US CPI Ex-f&e 0.1m, 0.9y US Net lg term TIC flows n/f US U.of Michigan conf 74 IT C/A n/f IT Trade bal EU n/f IT Trade bal n/f EZ Trade bal 0.8B JP Nationwide dept store sales n/f JP Tokyo dept store sales n/f

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	Week of 5th July
Monday	UK PMI Services 54.4 **WEAKER** IT PMI Services 51.5 **WEAKER** FR PMI Services 60.8 **WEAKER** DM PMI Services 54.8 **BETTER** EZ PMI Services 55.5 **BETTER** EZ Retail sales 0.2m, 0.3y **WEAKER** **THAN EXPECTED**
Tuesday	US ISM Non-mfg 53.8 **WEAKER** UK BRC Shop prices 1.5 **LESS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 6.7% **BETTER** FR Trade bal -5.5B **WORSE** EZ Q1 GDP 0.2q, 0.6y **AS** DM Factory orders -0.5m, 24.8y **WEAKER** JP Trade bal 391.0B **WEAKER** JP C/A 1205.3B **WEAKER** JP BK Lndg icldg trusts -2.0% **AS** JP Machine orders -9.1%m, 4.3y **WEAKER** **THAN EXPECTED**

	Week of 5th July
Thursday	US Jobless claims 454k **BETTER** UK NIESR GDP Estimate 0.7% **LESS** UK Ind production 0.7m, 2.2y **BETTER** UK Mfg output 0.3m, 4.3y **AS** UK MPC Interest rate decision 0.5% **AS** UK B of E QE decision £200B **AS** DM Trade bal 9.7B **WEAKER** DM C/A 2.2B **WEAKER** DM Ind production 2.6m, 12.4y **STRONGER** EZ ECB Interest rate decision 1.0% **AS** JP ECO Watchers survey 48.3 **LESS** JP Bankruptcies -19.3y **BETTER** JP Machine tool orders 138.8 **LESS** **THAN EXPECTED**
Friday	US Wholesale inventories 0.5% **BETTER** UK Trade bal -8.062B **WORSE** UK Trade non-EU -4.487B **WORSE** UK PPI input -0.2m, 10.7y **MORE** UK PPI Output -0.3m, 5.1y **WEAKER** UK PPI Core -0.3m, 4.8y **WEAKER** DM CPI 0.1m, 0.9y **AS** FR Ind production 1.7m, 8.2y **STRONGER** FR Mfg output 0.5m, 7.5y **AS** IT Ind production 1.0m, 7.3y **LESS** **THAN EXPECTED**

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US MARKETS: economic background

Last week we flagged several key data releases but judged the ISM non-manufacturing survey to be the main event as traders sought evidence supportive of recovery.

The reporting week began on **Tuesday with the release of a weaker than expected ISM non-manufacturing survey**.

Thursday's release **of jobless claims** offered some optimism as it came in **below expectations** and Friday's **wholesale inventories report** was also **better** 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 deficit and monthly budget statement,**
- On Wednesday; **import prices, retail sales and FOMC minutes,**
- On Thursday; **PPI, Jobless claims, industrial production and capacity utilisation, and**
- On Friday; **CPI and University of Michigan confidence.**

The markets have much to consider this week;

1. The FOMC minutes will reveal the Feds thinking as the recovery turned softer,
2. Retail sales will report on the state of consumer demand,
3. PPI and CPI will show whether deflation is even a remote possibility or if inflation is simply benign, and
4. Industrial production and capacity utilisation will give an insight into the state of manufacturing.

But of all these we judge the FOMC minutes as the most important since they will set spell out just how worried, if at all, policy makers are about the recent weakness of the economy.

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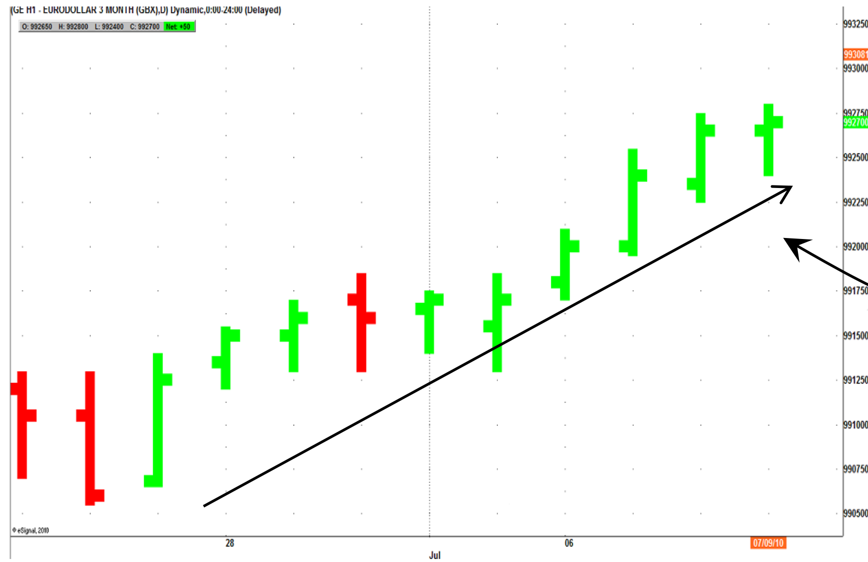
US MARKETS: Eurodollars

OUR TRADING STANCE: BULLISH of March 11.

Last week we were Bullish of Eurodollars.



See how Eurodollars added to their gains as data continued to disappoint.

The Macro Trader's view of Eurodollars is; the Eurodollar market looks well supported after yet another key data release failed to meet consensus.

Although the ISM non-manufacturing survey has been cooling for several months, traders were hoping this months report might have turned the tide of negativity, but no such luck.

Looking ahead we judge the Feds take on the economy is for this week at least the main event. Talk of tighter policy had been creeping in to some policy makers speeches lately we judge this will stop and the minutes should confirm this.

We judge only a very strong retail sales report, due mid-week, seems capable of derailing the current rally.

Traders should remain long of this market.

As said last week head room is tight, but unless the data picks up, 100.00 continues to look like a good target and we advise staying long but move the stop up to 99.12 for closer protection.

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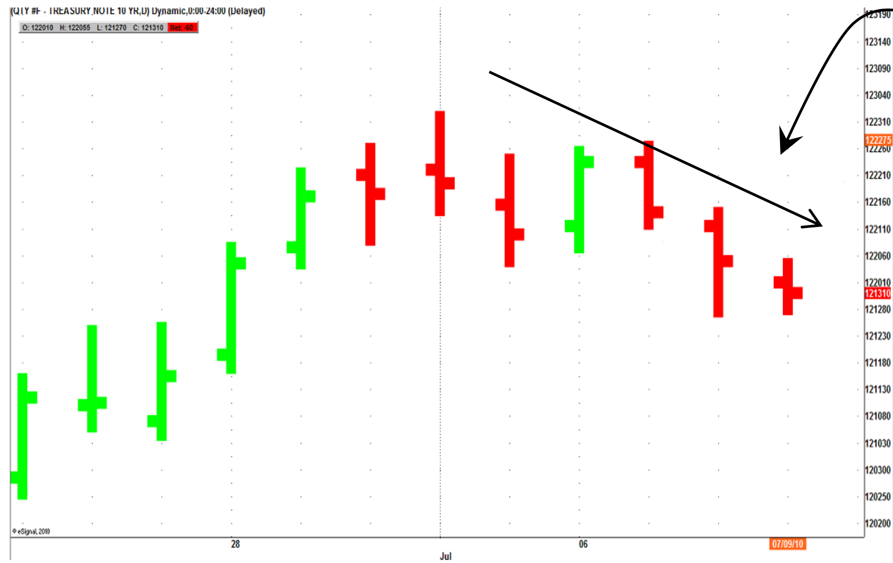
US MARKETS: 10 Year Note

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the 10 year note.



See how the 10 year note pulled back as equity markets attempted a recovery.

The Macro Trader's view of the 10 year note is; the 10 Year note pulled back further last week, but the move was clearly driven by a bounce in equity markets.

Data wise the market looks supported as yet again the ISM non-manufacturing survey under-performed consensus.

This week we look to the FOMC minutes for clues on how policy makers view events. We judge they are as concerned as every one else. With policy already at zero and the nations finances at full stretch, any additional stimulus can only safely come from the Fed re-introducing Bond market purchases, but lets wait and see.

Despite the budget deficit we judge Bond yields will decline on economic weakness as traders/investors turn to Treasuries for their relative safety, and we judge this market can rally further as we remain negative of equities medium term.

Traders should remain long of this market. Our target continues at 123.10 and our stop remains at 121.10 for close protection.

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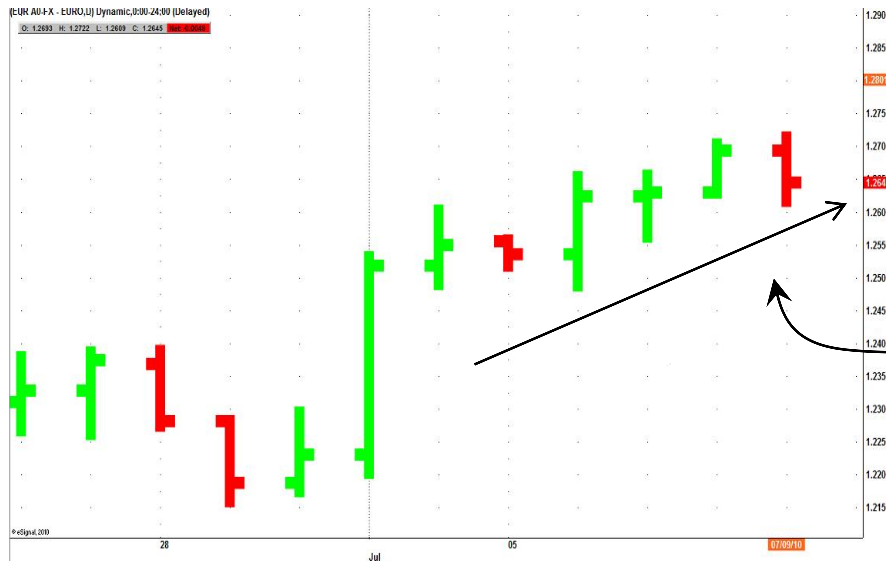
US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v STERLING.

Last week we were Bullish of Dollar/Euro, Bearish of Dollar/Sterling.



See how the Dollar continued to correct against the Euro as traders looked towards the Euro zone Bank stress tests and reacted further to continuing US economic softness.

The Macro Trader's view of the Dollar is: the Dollar remained on the back foot for much of last week against both the Euro and Sterling, at least up until Friday.

With the US economy going through what is hoped to be no more than a soft patch, traders are continuing to unwind short Euro, long Dollar positions as the Euro zone Bank stress tests promise to offer some clarity, but it might not be good news.

Against the Pound, the Dollar struggled for much of the week, as Sterling continues to benefit from UK fiscal retrenchment plans.

However a weak UK trade report on Friday and very disappointing UK C/A report this morning have seen the Dollar make some quick gains.

However we believe these will prove short lived and judge traders should remain short of the Dollar against the Pound.

Our target remains 1.5250 and our stop continues at 1.4700 for protection

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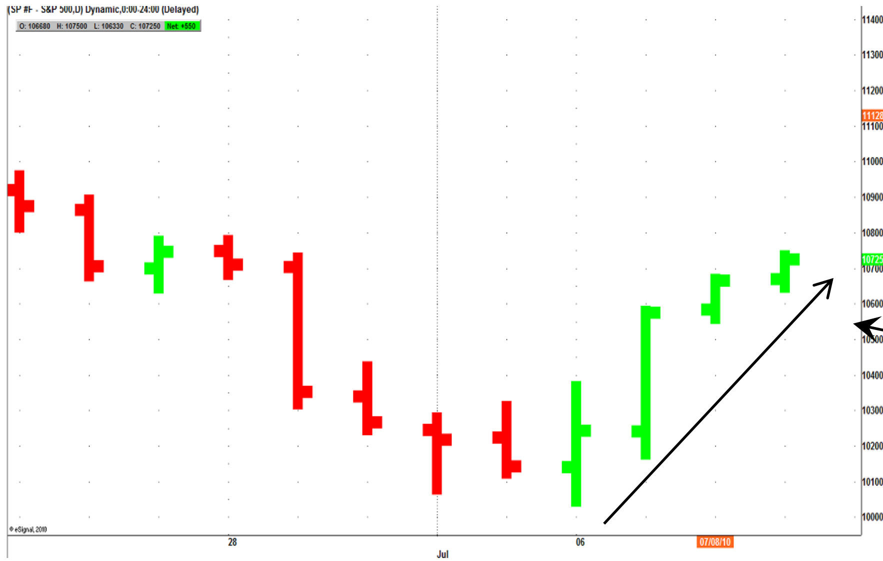
US MARKETS: S&P500

OUR TRADING STANCE: BEARISH.

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



See how the S&P rallied last week as traders turned their attention to upcoming Q2 corporate profit reports.

The Macro Trader's view of the S&P 500 is: the S&P rallied further than we expected last week and we were stopped out. But we remain bearish.

The run of data from the US remained negative last week, but what helped equity markets was primarily a shift in sentiment. The run of negative commentary from the Euro zone has for now dried up as traders await the release of Bank stress test results.

Additionally optimism about the Chinese economy continues to offer support, especially after comments from the Central Bank of Australia earlier in the week.

But after a long run of negative US data, are Q2 corporate profit reports going to be good enough to fuel a recovery in equity markets?

We remain sceptical. The non-farm payroll report has disappointed for two months running, the retail sales report turned soft last time and both ISM surveys are weakening.

We advise going short of this market once more. Our target this week is 1035.0 and our stop is suggested as 1100.0 for protection.

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UK MARKETS: economic background

Last week we flagged several key data releases but judged the main events of the week were Monday's PMI Services survey and Thursday's MPC policy decisions.

The reporting week began on Monday with **the PMI services survey** which **was weaker** than expected. The **BRC shop prices report** released the next day was **weaker** than expected (good news) and Thursday's **NIESR GDP estimate disappointed too**. But **manufacturing output and industrial production** released the same day **were broadly better than expected**, with the **MPC making a lunch time announcement that policy remained unchanged**.

The reporting week concluded on Friday with mixed news; the **PPI reports were mainly better** than expected, but the **Trade deficit widened and 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 Monday; **Q1 GDP, Q1 C/A Data and RICS house prices,**
- On Tuesday: **CPI,**
- On Wednesday; **the unemployment report, and**
- On Thursday; **Bank of England Housing equity withdrawal report.**

The main event this week is Tuesday's CPI report. Traders are closely monitoring inflation developments in the UK which has been higher than in any other G7 country.

Now the government is implementing a policy of deep fiscal retrenchment inflation should correct lower.

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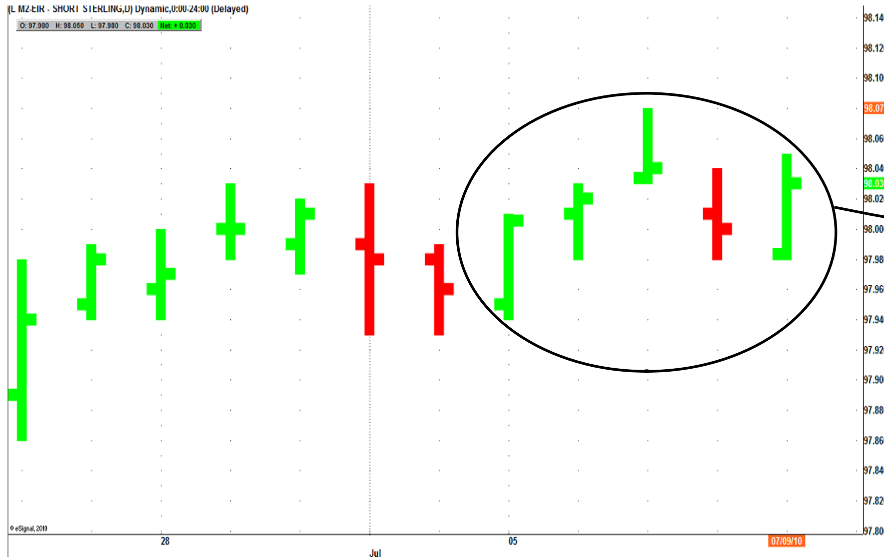
UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of June 12 Short Sterling.



See how Short Sterling advanced during the week, but both highs and lows were rejected along the way.

The Macro Trader's view of Short Sterling is; the market made gains last week, but progress was slow.

However given the rationale for the trade; convergence based on fiscal retrenchment requiring monetary policy to remain accommodative, that is precisely what we expect; a long slow, but purposeful grind higher.

The main concern arising from the new fiscal policy is that the recovery might abort, so weak data will prove supportive for this market and last week's ISM Services survey offered just that.

Looking ahead CPI will likely dominate this week, and we expect it to correct slowly lower as the public spending cuts start to bite.

We judge a long position in this market not only continues to make sense, but remains the only logical option, as we judge the convergence trade remains the underlying driving force.

Our target for this week remains 98.15 but our stop is raised to 97.85 for closer protection.

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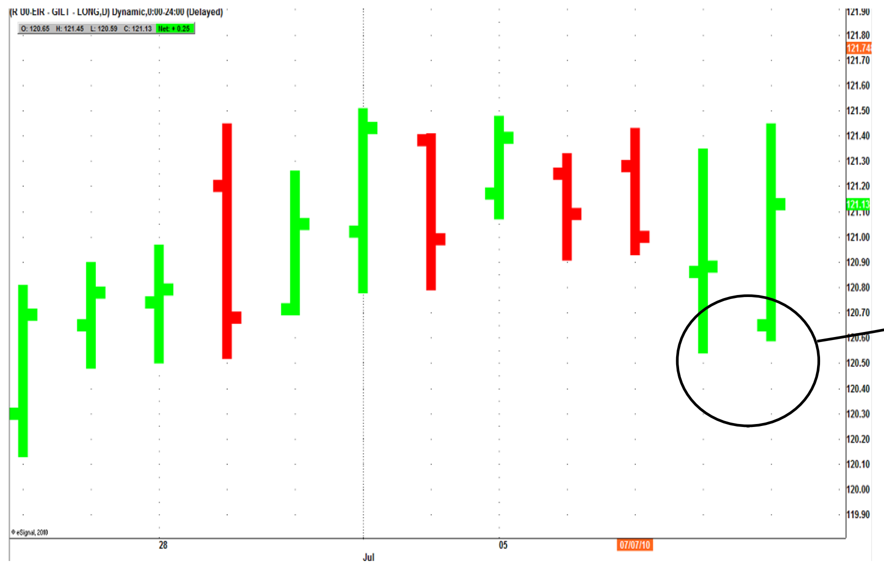
UK MARKETS: Gilt

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Gilt.



The gilt tested the downside but rejected it.

The Macro Trader's view of the Gilt is; the market performed well last week.

As other leading government bond markets succumbed to selling pressure driven mainly by a recovery in equity markets, the Gilt held up well and rejected the downside push.

If Tuesday's CPI report can show inflation is starting to trend lower, the Gilt can continue to benefit from the Governments policy of deep fiscal retrenchment.

While a period of economic weakness looks likely, a double dip recession isn't what we expect, so the governments spending cuts shouldn't be negated by economic contraction.

Moreover we are unconvinced, so far, with the recovery in equities since data from the US remains poor and the Euro zone Bank stress tests might provide disappointing results.

We judge traders should stay long of the Gilt.

This week's target continues at 122.50 and our stop remains at 120.50 for close protection.

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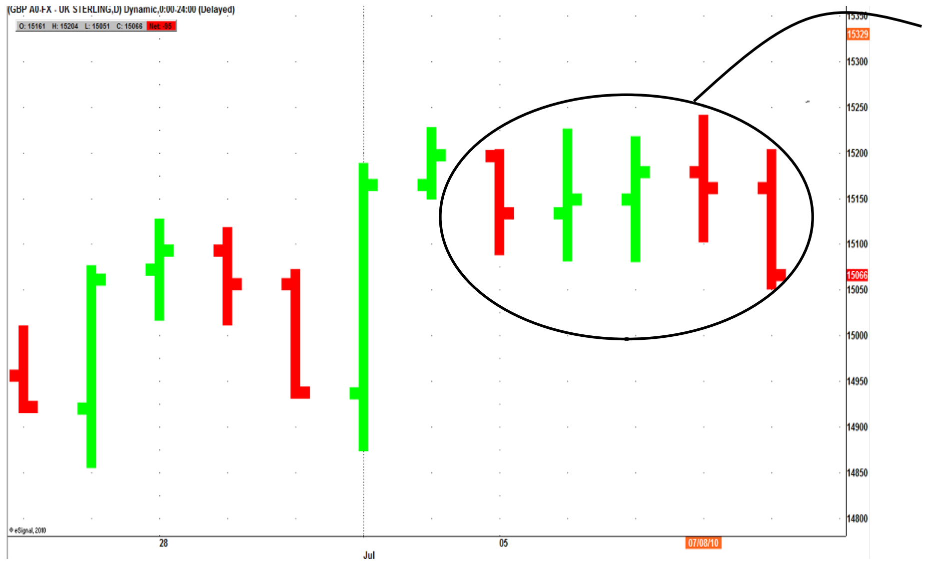
UK MARKETS: Sterling

OUR TRADING STANCE: BULLISH OF STERLING v the EURO & DOLLAR

Last week we were Bullish of Sterling v the Euro & Dollar.



See how Sterling gave back some of its gains against the Dollar and also the Euro after Friday's release of worse than expected trade data.

The Macro Trader's view of the Pound is; against the Euro the Pound corrected for much of last week as an absence of bad Euro zone news helped the Euro extend its recovery.

Against the Dollar the Pound suffered as a result of Friday's poor trade data, with today's worse than expected Q1 C/A data adding to its losses.

But we judge the underlying theme for Sterling remains the governments policy of deep fiscal retrenchment. If this can be achieved while avoiding a dip back into recession at the same time as inflation moves lower, then the Pound should rally over the medium/long term against both the Dollar and the Euro.

We advise remaining long of Sterling against both the Euro and the Dollar.

Our target this week against the Euro is 0.8200 and our stop remains at 0.8440 for protection.

Against the Dollar our target continues at 1.5250 and our stop is left at 1.4700 for protection.

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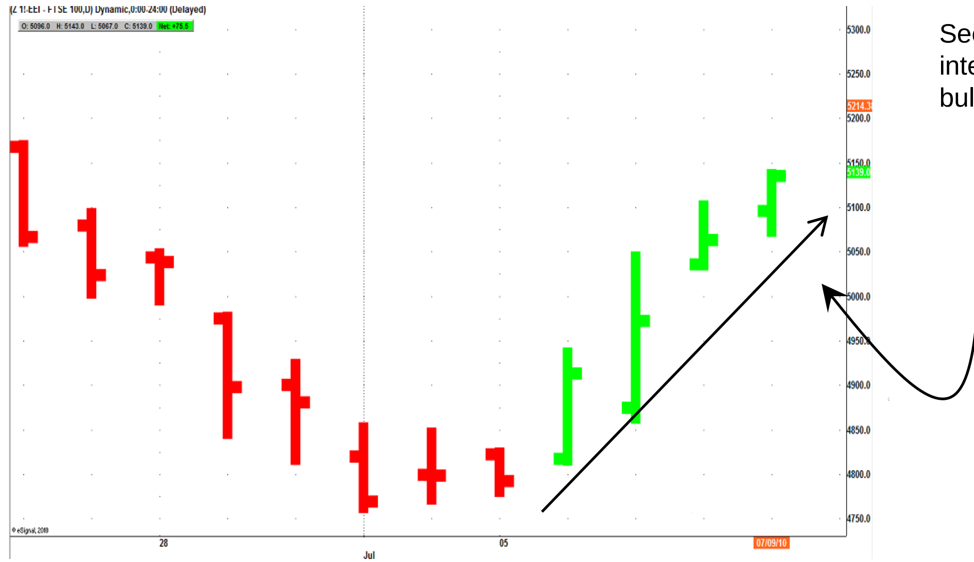
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square of the FTSE.



See how the FTSE rallied as international sentiment turned bullish.

The Macro Trader's view of the FTSE is: the FTSE corrected further than we thought last week as sentiment turned bullish.

This was surprising given the weak UK PMI Services survey on Monday and weak US ISM non-manufacturing survey on Tuesday, but once again the impetus came from abroad as traders focused on two upcoming events:

1. The US Q2 corporate profit reporting season, and
2. Hope that the Euro zone Bank Stress test results will prove positive.

We judge reality could quickly bite back. The Euro zone stress tests could well reveal a need for some banks to raise significant new capital and after a period of relative weakness in the US profits could disappoint.

Pleased to have been square last week, we are advocating a square position this week as we judge the outlook remains volatile and unclear.

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EURO ZONE MARKETS: economic background

Last week we flagged several key data releases but advised monitoring closely the following:

1. the various PMI Services surveys,
2. German factory orders,
3. German Industrial production, and
4. **The ECB interest rate decision**.

The **PMI Services reports** were split; **Italy and France were weaker** than expected while **German and Euro zone surveys were Better** than expected. The **Euro zone Retail sales** report **was weaker** than expected too, not a very positive start to the reporting week.

Things didn't improve much on Wednesday with the release of **weaker than expected German factory orders**, although **Euro zone Q1 GDP was as expected**.

On Thursday more mixed news as the **German Trade and C/A reports** were both well **below consensus**, but **industrial production was stronger** than forecast and the **ECB held interest rates steady**.

On Friday **France reported stronger industrial production and in line manufacturing output**, but Italy disappointed with a **weaker than expected industrial production** report. The reporting week closed with German **CPI meeting consensus**.

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 C/A data,**
- On Tuesday; **German ZEW survey**
- On Wednesday; **Euro zone CPI and industrial production, and**
- On Friday; **Euro zone trade data.**

The main event this week is the Euro zone industrial production report.

Traders will be looking for evidence that the German manufacturing led expansion is continuing to drag the rest of the Euro zone along with it.

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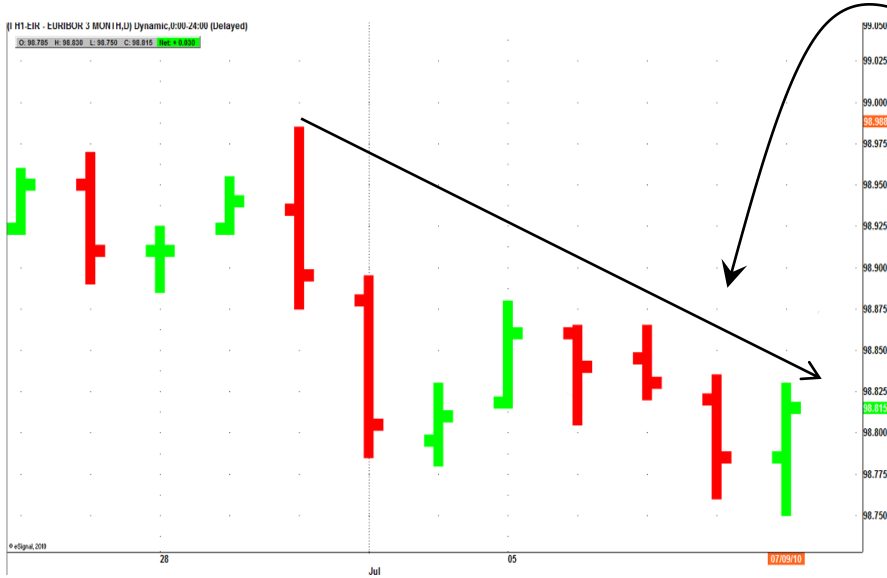
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were square of December 10.



See how Euribor remains under pressure as the LIBOR rate in the cash market continues to rise due to ECB liquidity operations.

The Macro Trader's view of Euribor is; our view of Euribor remains unchanged.

The sell off late last week was likely due to movements in the Euro LIBOR rate which has been on the rise as non-Euro zone Banks remain reluctant to lend in the wholesale inter-bank market to Euro zone Banks.

The reasoning behind this is that many French and German Banks have a high exposure to Sovereign debt issued by the beleaguered Euro zone periphery so there is a solvency issue here.

These fears are exacerbated by ECB liquidity operations which are effectively draining funds from the market, albeit through maturity profile management.

The much anticipated stress tests may not improve matters if they reveal a wide spread need for Banks to raise new capital to cover bad/non-performing loans.

But for now we advise remaining square as the economic recovery isn't sufficiently strong to warrant higher rates and may not be for some time judging by the absolute weakness of the Euro zone money supply.

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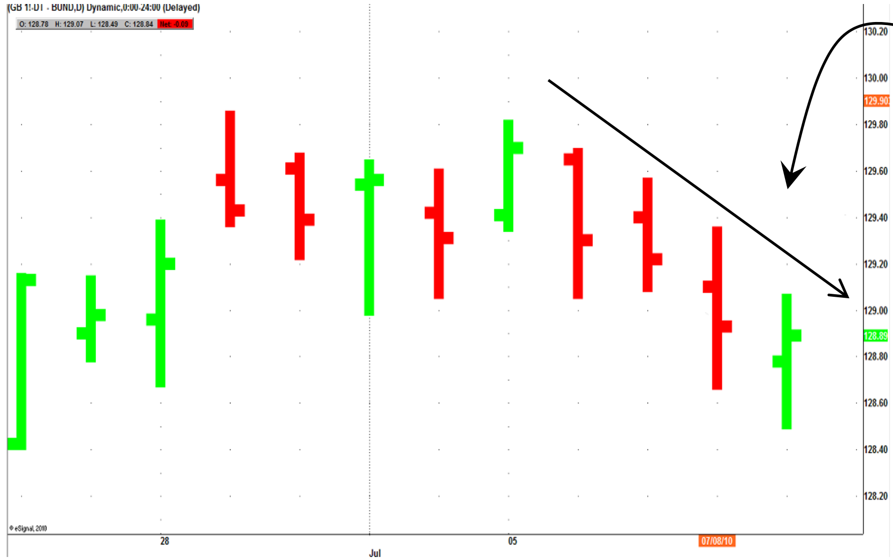
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of The Bund.



The Bund traded lower last week in response to a recovery effort in equity markets.

The Macro Trader's view of the Bund is: the Bund sold off last week in response to a short covering rally in equity markets, stopping us out.

This was driven by several factors:

- renewed optimism about Chinas economy,
- hopes for a positive US Q2 profit reporting season, and
- unrealistically high expectations of the much anticipated Euro zone Bank stress tests; note the rush of Euro zone Banks to issue new Bonds.

The Bund has enjoyed a long rally on the back of the Euro zone crisis, just because the stream of bad news has seemingly dried up, doesn't mean the crisis is resolved; it isn't.

We see the rally in equity markets as a correction that will likely fail.

The release of the Stress test results will likely reveal the need for several Banks to raise substantial new capital, and that could prove the catalyst for a second leg of the crisis in the Euro zone.

For now we advise remaining square.

More

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v STERLING and YEN.

Last week we were Bearish v the Dollar, Sterling and Yen.

See how the Euro extended its recovery against the Pound as traders hoped the crisis was nearing an end.

The Macro Trader's view of the Euro; the Euro extended its recent gains against the other major currencies last week, with Sterling in particular feeling the strain.

Despite some mixed data from the Euro zone, the Euro remained well supported as traders began to articulate the sense the worst of the Euro zone crisis could be over; we judge more like a lull before the storm.

Economic recovery in the Euro zone is at best likely to be tepid as a result of the fiscal austerity program. The much awaited stress tests could trigger another round of negative sentiment if a big whole in larger Bank's capital is exposed.

The release of worse than expected UK trade data on Friday didn't help Sterling either.

For now traders should remain short of the Euro as follows:

Against Sterling our target this week is 0.8200, and the Stop is left at 0.8440, and

Against the Yen our target continues at 108.50 and our stop is left at 114.50 for protection.

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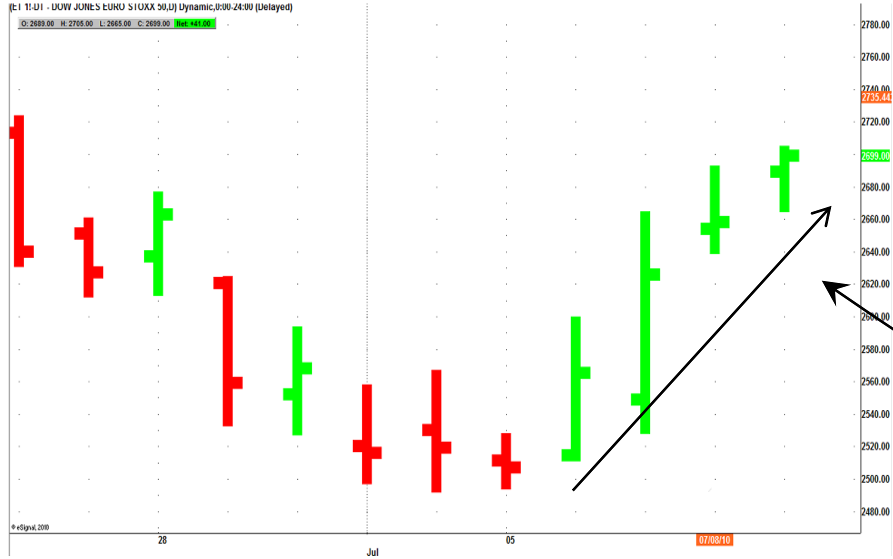
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market rallied on a spike in optimism.

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

the loosing streak in stocks snapped last week as leading equity markets rallied, initially on up beat comments from the Central Bank of Australia regarding the Chinese economy.

The move continued as sentiment towards the Euro zone improved. This was caused by growing optimism, albeit potentially miss-placed, over the results of the Euro zone Bank stress tests.

Add in a lack of fresh bad news stories about the Euro zone sovereign debt crisis and it isn't difficult to see how a relief rally could emerge.

But is the crisis really over. Has anything really changed in the Euro zone? Yes and no. The debt burden is being tackled, but no one really knows yet what impact this will have on growth.

For those countries making the deepest cuts a return to growth is essential or else economic weakness will simply restore the deficit problem again.

Short/Medium term we remain bearish of stocks, at least until some clarity emerges, and for now we advise remaining square.

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JAPANESE MARKETS: economic background

Last week we flagged several key releases, but judged the main events of the week were the Machine orders and Machine tool orders reports.

In a week with few releases to follow, the reporting week began with Wednesday's release of **the trade data** which was **weaker** than expected, followed by a **weaker C/A report**. **Machine orders** released the same day also disappointed coming in **weaker** than expected.

Moving on to Thursday, the news wasn't that much better. The **Bankruptcies report was better** than expected, but **the Eco watchers survey and Machine tool orders were both weaker** than forecast.

Looking ahead there are several data releases due this week, but we judge these are the key releases;

- On Tuesday; **industrial production, capacity utilisation and consumer confidence,**
- On Thursday; **BOJ Interest rate decision, Tokyo condo sales, Machine tool orders and Tertiary industry index, and**
- On Friday; **Nationwide department store sales and Tokyo department store sales.**

The main event this week is the Industrial production and Capacity utilisation reports.

Japan is an economy driven by manufactured exports so strength in these reports will be positive news for the economic recovery.

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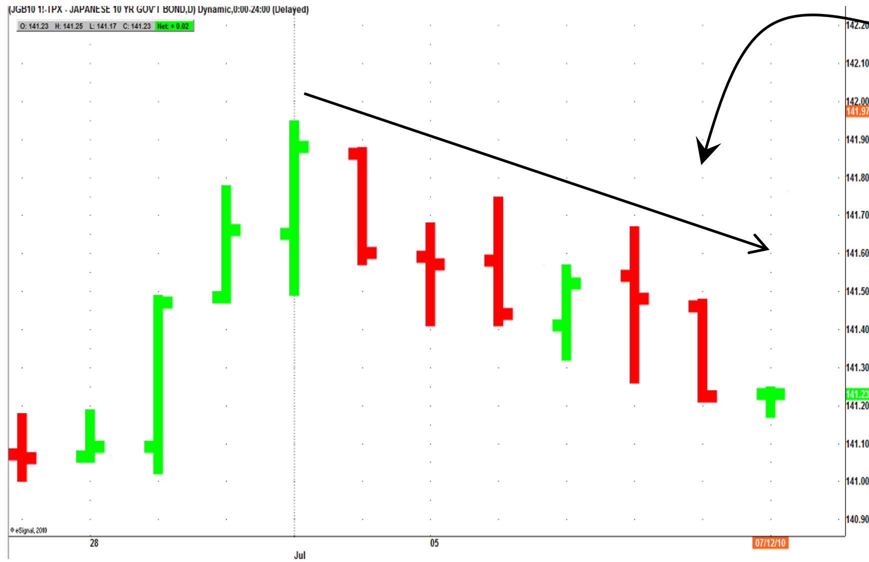
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Japanese Bonds.



See how the JGB corrected lower last weak as equity markets rallied and the Yen weakened against the Euro.

The Macro Trader's view of the JGB is: the JGB suffered a week of set backs as equity markets rallied. This despite some disappointing Japanese data releases.

But as ever stocks don't simply move on domestic data and sentiment, the international environment has a significant impact on how markets trade. Last week optimism was growing about the US Q2 profit season, together with, probably unrealistically high hopes for the Euro zone Bank stress test; we shall see!

But with news released last week that China has been a major player in the JGB market, we expect this market to bounce back and rally further.

Moreover if sentiment towards the Euro zone does correct, then the Yen will recover and equity markets retreat offering this market renewed support.

Traders should be long of the JGB our target this week remains 142.00 and our stop continues at 141.00 for closer protection.

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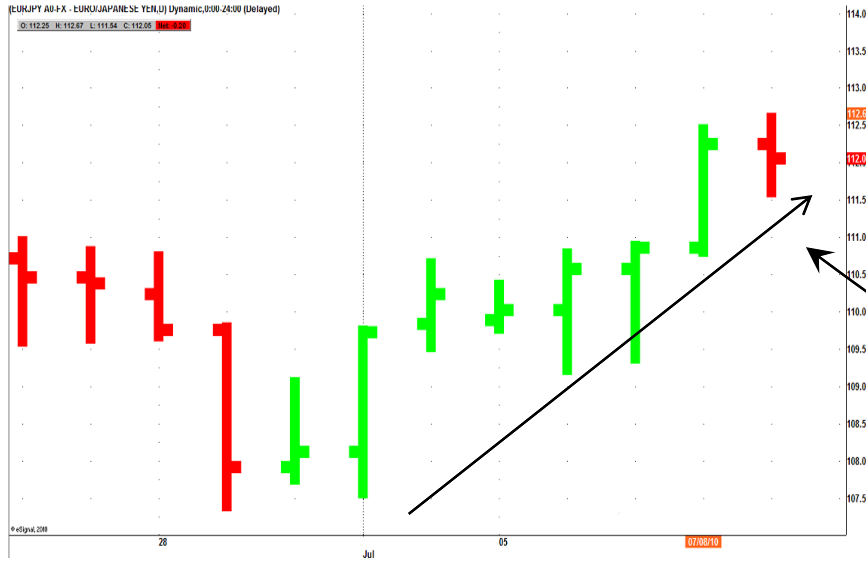
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v the EURO

Last week we were Bullish v the Euro.



See how the Yen continued to correct lower against the Euro, as fears over the Euro zones survival eased.

The Macro Trader's view of the Yen is; the decision to run a large stop in this trade has proved sound. The panic that drove the Euro lower was unlikely to endure uninterrupted, but neither is it credible that it has simply evaporated either.

We judge the Euro is simply enjoying a stay of execution as the non-stop stream of negative news and commentary has apparently eased.

But we still await evidence to show how growth will hold up as a result of Euro zone austerity measures. The German economy continues to do well, but what of the weak periphery; early signs are not that encouraging. The markets seem to have placed much emphasis on the Bank stress tests and we can not help but wonder what happens if these throw out more questions than answers? The most obvious response is fresh Euro weakness.

In summary we judge traders should stay long the Yen/Short the Euro.

Our target this week is again 108.50 and our stop is again 114.50 for protection

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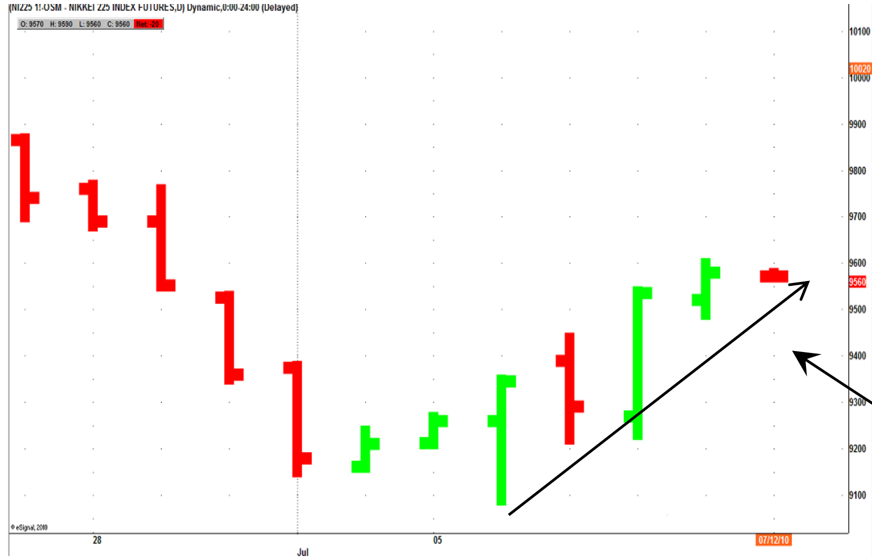
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei bounced on up beat remarks about China from the Australian Central Bank on Tuesday, with the weakening Yen offering additional support.

The Macro Trader's view of the Nikkei is; the Nikkei was driven lower the previous week by the same fears that dominated every other equity market and last week rallied for virtually all the same reasons.

In addition it is an almost established fact that the Nikkei rallies on Yen weakness as it is perceived to benefit the all important export sector of the economy, and Yen weakness was very much in evidence last week.

While we judge the Nikkei does benefit from Japan's proximity to the massive markets of Asia and especially China, we are a little apprehensive about getting too excited about last week's short covering rally.

Data out from Japan over recent weeks has at best been patchy. Data out of the US is disappointing and no one is really sure about the Euro zone right now.

So for now stay square.

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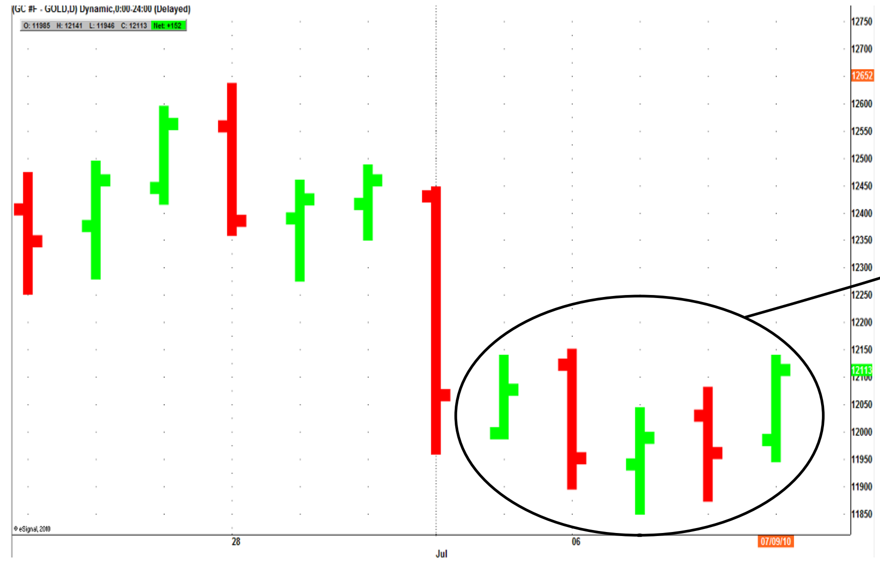
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how gold seems to have hit bottom last week, but this market is proving volatile and unpredictable.

The Macro Trader's view of the Gold is; the decision to stay square last week looks sound as the market made a fresh attempt at the lows before trying an unconvincing recovery.

Over recent months this market has made several all time highs, but in between has suffered significant corrections, making it an unpredictable market to trade with a high degree of volatility.

The old relationship of weak Dollar/Strong Gold seems also to have been broken recently making timing a trade even trickier.

But if the US and Global recovery really is at risk, should gold be a more clear cut bull market?

On the one hand no because low inflation, even deflation could result from a double dip recession, but on the other hand yes, because Governments would find it extremely difficult to stay with announced austerity measures, likely resulting in a further deterioration of the fiscal health of the developed economies and that would drive investors into gold as an almost universal hedge.

For now we retain a bullish bias, but are advising a square position short term in the hope that a degree of clarity returns to this market.

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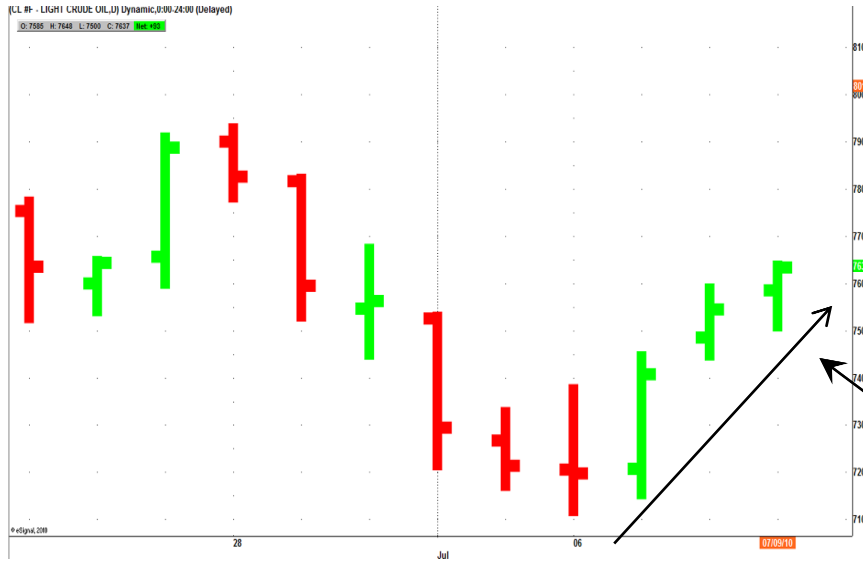
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil hitched a ride on equities last week and enjoyed an almost parallel recovery.

The Macro Trader's view of oil is: the oil market rallied last week as a degree of risk appetite returned to..... Oh yes equity markets.

But the data remained at best patchy globally and in places weak. So where is the support for a fresh bull run in oil?

There isn't any.

Traders were literally reacting to the recovery in equity markets and hitched a ride on that rally.

Looking ahead the oversupply of the market remains and unless the pace of recovery picks up, will be around for quite some time yet.

What does seem clear is that oil is stuck in a range with no immediate prospect of breaking out in either direction.

Range trading can prove a very frustrating and at times costly affair unless selling strangles in the options market, but then when the market does break out eventually that proves costly too.

For now we advise staying square, we see no under lying direction in this market and a flip of the coin right now is as good a method as any to decide which way it will go, **but range bound it certainly is**.

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