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

Week 20
17th – 23rd May 2011

the macro trader's guide to major markets

John Lewis

Authorised and regulated by the FSA

SUMMARY

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

EURODOLLARS	SQUARE
10 YEAR NOTE	SQUARE
US DOLLAR	SQUARE
S&P 500	BULLISH
SHORT STERLING	BULLISH
GILT	SQUARE
STERLING	SQUARE
FTSE	SQUARE
EURIBOR	SQUARE
BUND	SQUARE
EURO	SQUARE
DJ EURO STOXX 50	SQUARE
JAPANESE BONDS	SQUARE
YEN	SQUARE
NIKKEI	SQUARE
GOLD	SQUARE
OIL	SQUARE

More

This week's global calendar – macro trader

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

	Week of 16th May
Monday	US Empire mfg 1.8% US Net lg trm TIC flows 32.6B US Fed chairman speaks IT Trade bal n/f IT Trade bal EU n/f EZ CPI 0.6m, 2.8y EZ Trade bal 2.0B IT CPI 0.5m, 2.6y JP Cons conf 36.7 JP Machine orders -10m, -8.0y
Tuesday	US Housing strts 568k US Housing prmits 587k US Ind production 0.4% US Capacity utilisation 77.6% UK DCLG House prces n/f UK CPI 0.7m, 4.1y UK RPI 0.8m, 5.2y UK RPI-X 5.3Y DM ZEW Survey 87.5 JP Machine tool orders n/f JP Tertiary ind indx -5.8%
Wednesday	US MBA Mrtge apps 0.6% US FOMC Minutes UK Unemploym't chge 0.0k UK Unemploym't rate 4.5% UK ILO Unemploym't rate 7.8% UK MPC Minutes 6/3 UK Avrge earngs 2.0% UK Averge earngs ex-bonus 2.2% EZ Construction orders n/f JP Condo sales n/f JP Q1 GDP -0.5q, -2.0y JP Housing lns n/f

	Week of 16th May
Thursday	US Jobless claims 420k US Existing home sales 5.2M US Philly Fed 20.0 UK Retail sales 0.8m, 2.5y UK CBI Trnds orders -9 IT C/A n/f JP Ind production n/f JP Capacity utilisation n/f JP Nat'nwide dept stre sales n/f JP Tokyo dept stre sales n/f JP Interest rate decision 0.10%
Friday	DM PPI 0.6m, 6.0y EZ C/A n/f IT Ind orders 0.5m, 15.7y IT Ind sales n/f EZ Cons conf -12.0 JP All ind actvty indx -6.1m, JP Convnce stre sales n/f

More

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

	Week of 9th May
Monday	UK BRC Retail sales 5.2% **STRONGER** UK RICS Hse prices -21.0 **BETTER** UK Halifax Hse prces -1.4m, -3.7y **WEAKER** DM C/A 19.5B **STRONGER** DM Trade bal 18.9B **STRONGER** **THAN EXPECTED**
Tuesday	US Import prces 2.2m, 11.1y **STRONGER** US Wholesale invntry 1.1% **STRONGER** FR Mfg output -1.0m, 4.6y **WEAKER** FR Ind production -0.9m, 3.7y **WEAKER** IT Ind production 0.4m, 0.8y **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 8.2% **STRONGER** US Trade bal -$48.2B **WORSE** US Mnthly bdget statmnt -$40.5B **BETTER** UK Trade Bal -7.6B **WORSE** UK Trade non-EU -4.479B **WORSE** UK B of E Qurtrly inflation report **INFLATION+** UK NIESR GDP Est 0.3% **LESS** DM CPI 0.2m, 2.4y **AS** JP Bank lndg incl Trusts -0.9% **BETTER** JP C/A 1679.1B **LESS** JP Trade bal 240.3B **WEAKER** **THAN EXPECTED**

	Week of 9th May
Thursday	US Jobless claims 434k **MORE** US PPI 0.8m, 6.8y **WORSE** US PPI Ex-F&E 0.3m, 2.1y **MORE** US Retail sales 0.5m **LESS** US RS Ex-Autos 0.6% **AS** US Business inventories 1.0% **STRONGER** UK Mfg output 0.2m, 2.7y **LESS** UK Ind production 0.3m, 0.7y **WEAKER** FR CPI 0.3m, 2.1y **LESS** EZ Ind production -0.2m, 5.3y **WEAKER** JP Machine tool orders 32.3 **LESS** **THAN EXPECTED**
Friday	US CPI 0.4m, 3.2y **AS** US CPI Ex-F&E 0.2m, 1.3y **AS** US U. of Michigan conf 70.0 FR Q1 GDP 1.0q, 2.2y **STRONGER** DM Q1 GDP 1.5q, 5.2y **STRONGER** IT Q1 GDP 0.1q, 1.0y **WEAKER** EZ Q1 GDP 0.8q, 2.5y **STRONGER** **THAN EXPECTED**

More

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

US MARKETS: economic background

Last week's data showed inflation pushing up in the US economy, and although the Fed publicly states they view inflation as contained, import price data released last week reported an increase of 2.2% month on month.

The more closely watched PPI report, released last Thursday, also came in worse than expected, with the headline measure reporting an increase of 0.8% month on month and the core up 0.3% month on month giving a year on year rate of 2.2%.

While that may not seem a disaster, PPI has been pushing up slowly but surely over the months and with oil prices remaining elevated could go higher yet.

So although CPI met consensus last Friday, price pressures clearly exist further down the chain.

Elsewhere in the economy the labour market continues to pose questions with the jobless claims report now re-established back above 400k, which seems to contradict the recent run of good news from non-farm payroll.

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; **Empire manufacturing survey and Net long term TIC flows,**
- On Tuesday; **Housing starts, building permits, industrial production and capacity utilisation,**
- On Wednesday; **FOMC minutes, and**
- On Thursday; **Jobless claims and existing home sales.**

We judge the main event this week is the release of the FOMC minutes.

With the QE2 program set to expire in June, traders will be scrutinising every comment from the Fed as the try to assess the timing of an eventual turn in the interest rate cycle, which currently doesn't look immanent.

More

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

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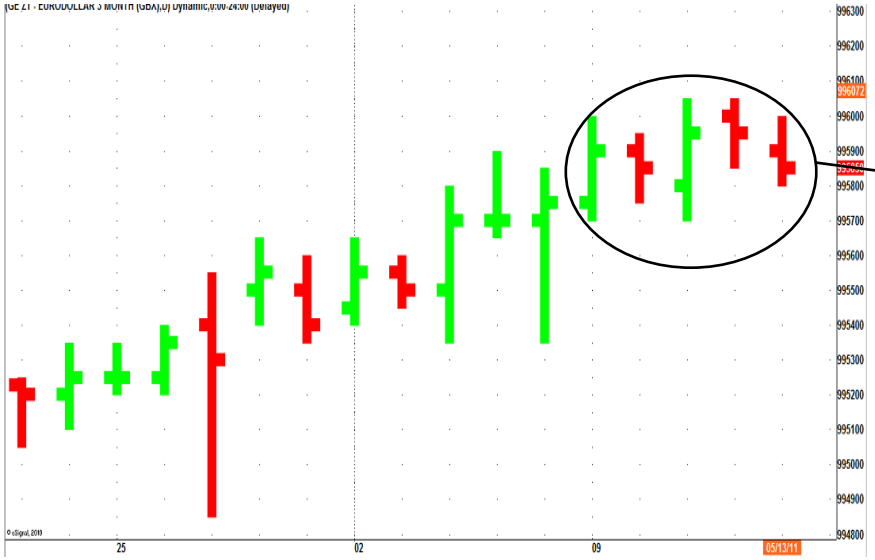
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of December 11 Eurodollars.



See how Eurodollars held up well last week despite the worse than expected import price and PPI data earlier in the week.

The Macro Trader's view of Eurodollars is; last week we were focused on retail sales, in the event the report had limited impact on the market, as the headline reading only narrowly missed consensus.

However inflation was more of an eye catcher than we expected as Import prices pushed higher and so too did PPI on both measures.

The only saving grace was an in line CPI report on Friday, but clearly there are pipe line inflationary pressures within the US economy that must concern the Fed.

With the FOMC minutes due this week we will surely see just how concerned they are.

Other data due this week which we suggest monitoring is Industrial production and Existing home sales. The manufacturing leg of the economy has been performing well, but the housing market continues to cause concern.

For now we judge this market doesn't offer a clear opportunity to either Bull or Bear and advise remaining square.

More

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

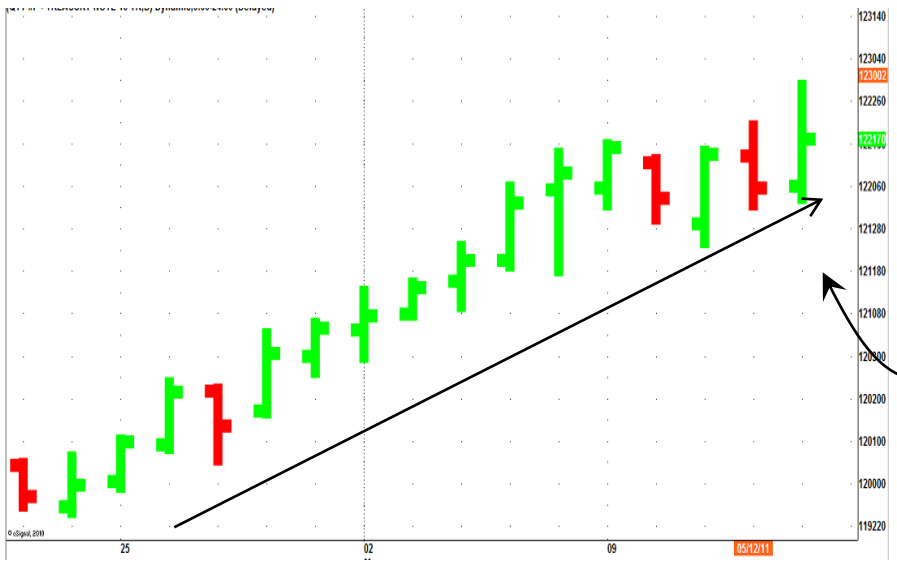
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note remains well supported on what we judge as safe haven buying.

The Macro Trader's view of the 10 year note is;
Bonds continue to frustrate the Bears, if there are any left, as the market remains well supported.

Given the anxieties that exist about sovereign debt, both Euro zone and US, one could be forgiven for thinking Bond markets should be much weaker.

But traders express their anxieties in the form of risk aversion, so they reduce positions in asset classes such as stocks and commodities and search for relatively safe assets; Bonds, never mind that if their fears actually materialised; Sovereign debt default, their Bond holdings would be worthless.

What that actually tells us is, currently no one seriously expects the US to default on its debt even though traders/investors are very nervous about the size of the budget deficit, the debt build up and what that means for the economy longer term if not tackled.

Additionally there are anxieties about the health of the global economy and that also offers Bond markets support. We judge those fears will pass and Bonds lose some of their current appeal.

For now we advise standing back a little longer.

More

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

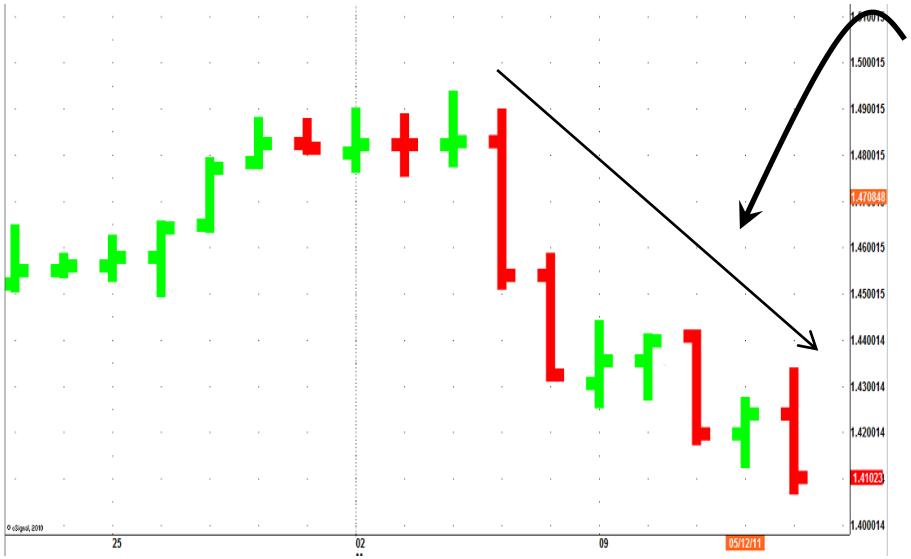
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Dollar maintained its impressive rally last week, but is it still a correction or a trend reversal?

The Macro Trader's view of the Dollar is: the US Dollar remained in demand last week as the Euro zone sovereign debt crisis rumbled on and sapped the Euros strength.

Additionally China reported slightly weaker growth and that heightened fears that the global economy might be slowing down, but in truth those concerns have risen to the surface many times since recovery began and as yet have proved false.

However US inflation data released last week was a little worse than expected and all eyes will be on the FOMC minutes to see if policy makers continue to retain their relaxed view about price pressures.

Looking ahead we continue to view the Dollar's rally as a risk aversion induced correction, since German/French Q1 GDP growth was so strong and the ECB has begun hiking rates.

But timing as ever is crucial and since we are Dollar bears for now we advise remaining square while this correction plays out.

More

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

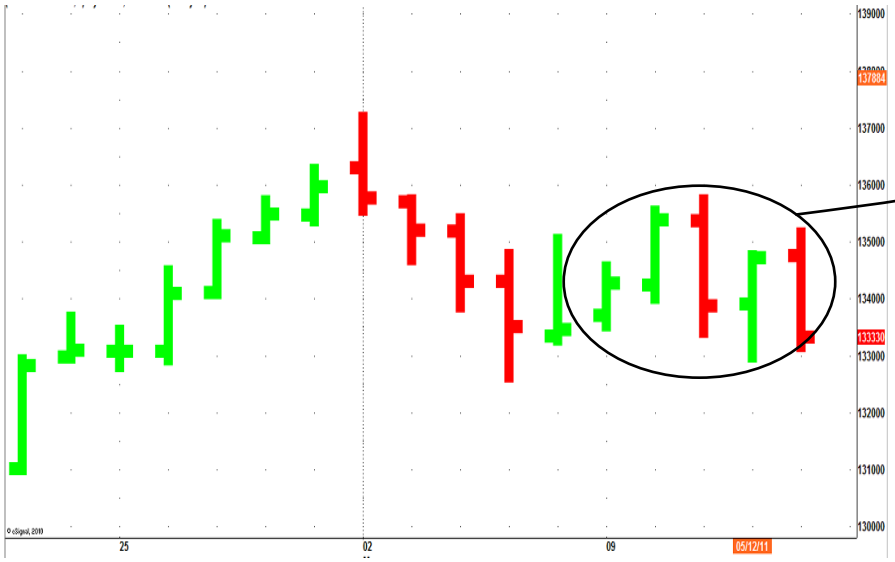
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



See how the S&P traded mainly sideways last week as traders remained nervous about debt and growth.

The Macro Trader's view of the S&P 500 is: last week our focus was retail sales, but the number failed to excite as the headline number was just below consensus with ex-autos inline.

What continues to haunt the markets is the fear of a global growth slowdown, debt levels in the developed economies and to a degree inflation.

China fanned the fears of growth slowdown, by reporting slightly slower than expected growth data last week and the US issued Import price and PPI data that showed inflationary pressures at work in the economy, although not yet adversely affecting CPI.

Debt wise the US is close to hitting her debt ceiling again so unless Congress agrees an increase, the Federal government faces shut down.

We judge traders should remain long of this market. Risk aversion has been a persistent feature of the equity market rally and we judge this bout of nerves will eventual pass.

Our target this week is 1355.0 and our stop remains set at 1320.0 for close protection.

More

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

UK MARKETS: economic background

The main event last week was the Bank of England quarterly inflation report. The forecasts showed a chance of CPI hitting 5.0% this year with slower growth as the backdrop.

The markets took this to mean an increased chance of tighter policy this year, but King in his press conference seemed to muddy the waters.

He explained that Banks are paying well over current Bank rate for funding and that this is retarding their ability to lend into the economy, he also said this was an important factor for policy makers when deciding interest rate policy.

Since he also said that spread wouldn't improve if Bank rate was increased and that policy can not influence short term inflation pressures, we aren't convinced that very much has changed.

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

- On Tuesday; **DCLG, CPI, RPI and RPI-X,**
- On Wednesday; **Unemployment report, average earnings and MPC minutes, and**
- On Thursday; **Retail sales and CBI total orders index.**

The main events this week are CPI and the MPC minutes.

Clearly CPI will direct the MPC's decision making as we move forward, but traders want to know if the balance on the MPC remains the same or has it shifted and although the quarterly inflation report was released only last week, King heavily dominates its presentation and how it is perceived by the markets, where as the minutes are more representative of the various committee members views.

More

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

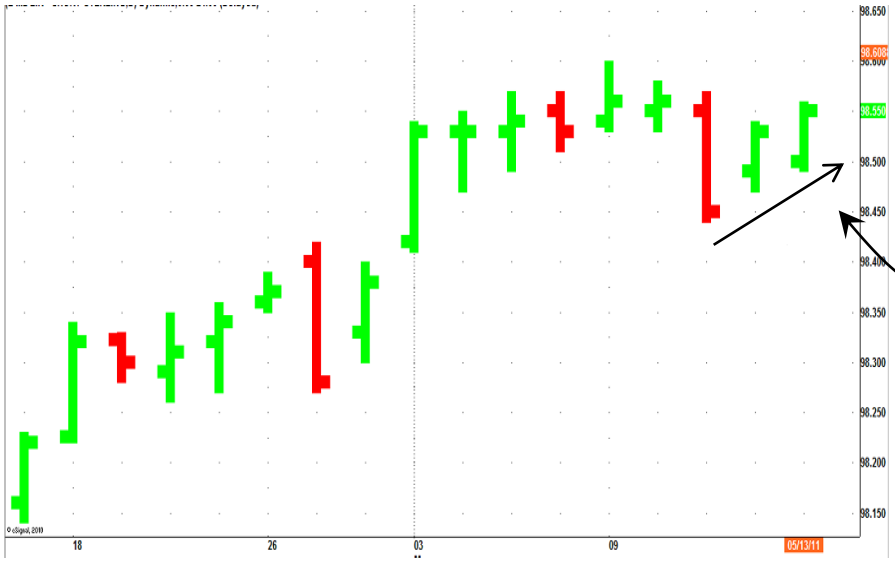
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of June 12 Short Sterling.



Note how Short Sterling rejected Wednesday's lows.

The Macro Trader's view of Short Sterling is; last week we said...

…"Looking ahead our focus this week is the Bank of England's Quarterly inflation report"...

As we suspected the report moved the market and although initial conclusions were the chances of a rate hike this year had increased, the market quickly recovered from last Wednesday's sell off.

We think the chance of a rate hike this year remains the same as before last week's inflation report. CPI could hit 5.0%, but growth is cooling; manufacturing data last week showed that clearly.

If unemployment nudges higher on Wednesday and retail sales are soft on Thursday, the markets will quickly refocus and this market could rally further.

Traders should remain long of this market.

Our target this week remains 98.65 and our stop continues at 98.25 for protection.

More

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

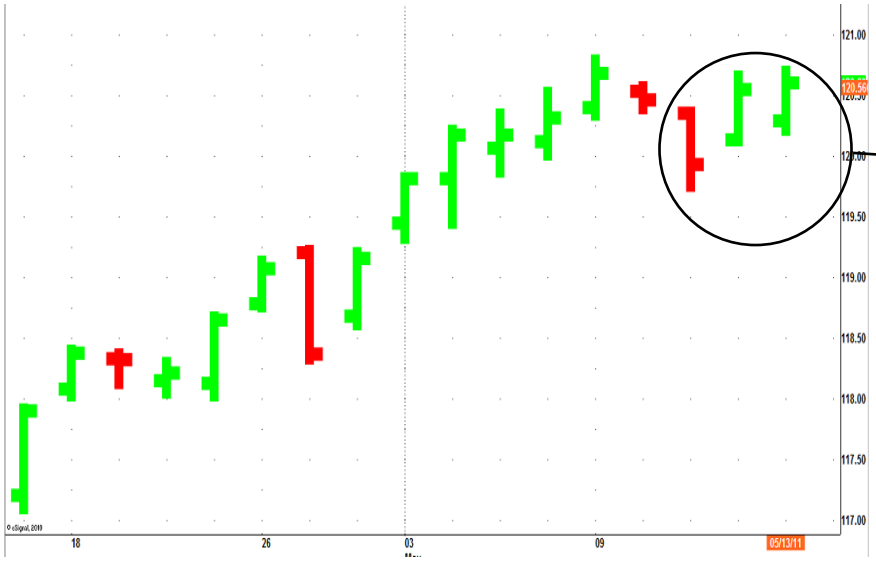
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the gilt recovered from Wednesday's dip as international sentiment helped the gilt recover.

The Macro Trader's view of the Gilt is; the Gilt held up well last week and recovered swiftly from Wednesday's quarterly inflation report induced sell off as traders were quickly reminded on Thursday of the economy's growing weakness.

Moreover Government bond markets are currently supported by safe haven buying as traders shy away from riskier assets; equities and commodities, on fears of a global growth slowdown and sovereign debt levels in the developed economies.

We had viewed the rally in this market as more of a correction, but it has extended beyond those parameters.

However given the dynamics driving government bond markets generally; safe haven buying driven by risk aversion, we are not tempted to trade this market as we judge risk aversion will pass and the gilt will be unable to resist the subsequent general bond market correction.

So for now stay square.

More

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

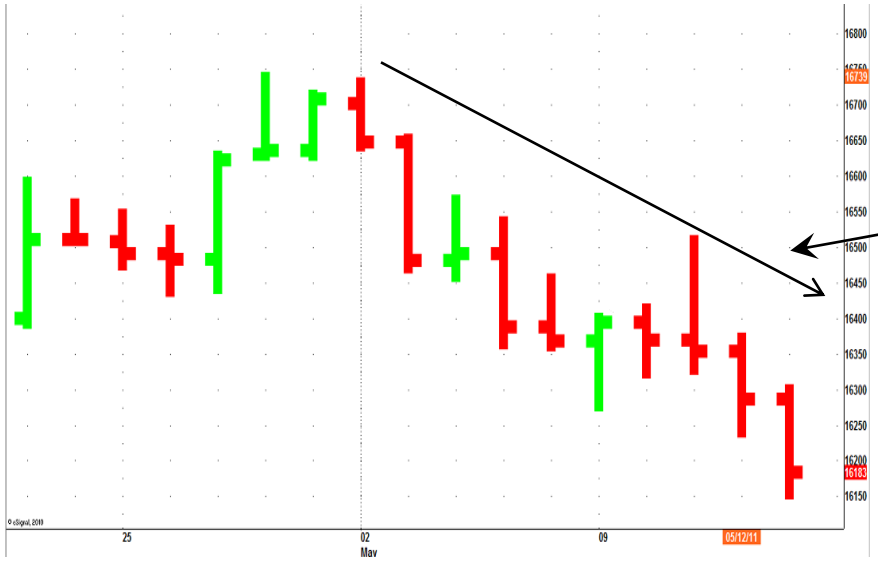
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were square



See how Sterling remained under pressure last week as domestic data remained soft and the Dollar extended its rally.

The Macro Trader's view of the Pound is; the Pound remained under pressure last week as data remained soft.

Additionally the Bank of England quarterly inflation report offered an uncomfortable forecasting mix of firmer inflation short term and softer growth.

We judge the Bank's record on forecasting inflation over the last two years has been poor and suspect the current crop of forecasts will prove no more accurate.

The economy is clearly weakening and will have an impact on inflation.

The problem fore policy makers though is the balance between domestic and foreign influences. If the oil price continues to rise then inflation isn't going to correct to far, but if fears of global economic weakness can lead to a period of steady oil prices then weak domestic influences can push inflation lower.

For now we advise remaining square of the Pound. Domestic considerations aren't too supportive, but the Dollar's rally is likely a correction which when over could start a small Sterling recovery; too many ifs.

More

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

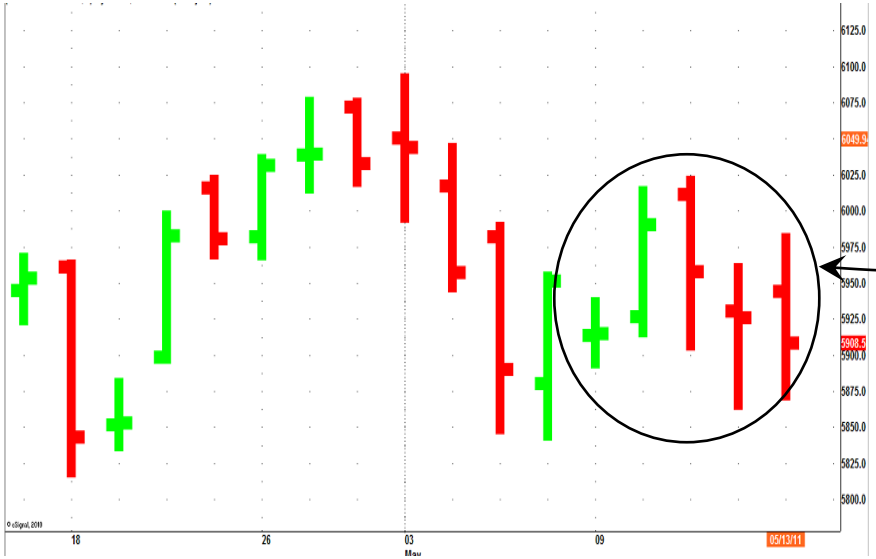
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square of the FTSE.



See how the FTSE experienced a volatile week only to close roughly where it opened the week.

The Macro Trader's view of the FTSE is: the market was bounced around by data last week as the Bank of England's quarterly inflation report was taken to mean a greater chance of a rate hike this year.

But data released the next day pointed the other way. And with traders generally retreating from equity markets over recent days on risk aversion the market experienced a degree of volatility.

We judge this market, much like other leading equity markets remains confused. Traders are currently standing back from equities on global growth concerns and fears about sovereign debt, mainly in the Euro zone but with one eye on the US too.

The UK economy is struggling under the weight of the governments fiscal tightening and we continue to take the view that the Bank will refrain from tightening policy while the see the growth outlook weak.

For now we advise remaining square of this market as we judge equities generally are prone to weakness.

More

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: economic background

Last week our focus was the various Euro zone Q1 GDP reports. What the data clearly showed was the Euro zones economic recovery is driven mainly by German and French growth as the long peripheral tail struggles with fiscal retrenchment as they continue to battle with recession.

Only one week after the ECB voted to keep policy at 1.25%, council members are already out talking up the need for higher rates with Jürgen Stark saying inflation justifies further rate hikes.

And with Euro zone CPI standing at 2.8% no one should under estimate the ECB's determination to bring inflation back to target even if the periphery has to suffer; Germany and France can handle higher rates.

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 trade balance, CPI, Euro zone CPI and Trade balance ,**
- On Tuesday; **German ZEW,**
- On Wednesday; **Euro zone construction orders,**
- On Thursday; **Italian C/A, and**
- On Friday; **Italian industrial orders & sales and Euro zone C/A data.**

The main event this week is Monday's CPI report. The ECB are clearly on a path to return policy to at least neutral and today's data might offer clues about the timing of their next move.

More

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

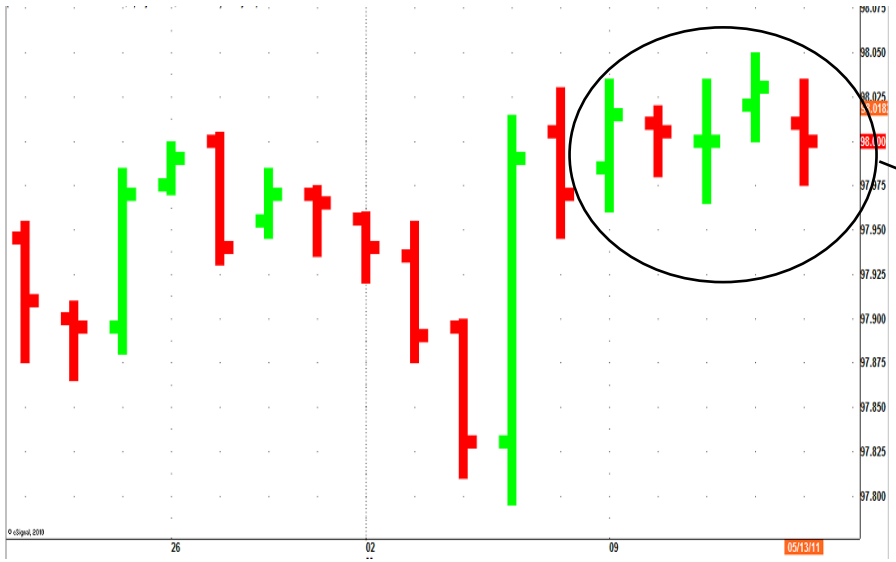
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor traded mainly sideways last week as traders compared weaker current data to the strong Q1 GDP reports released on Friday.

The Macro Trader's view of Euribor is; last week we said...

…"Looking ahead Friday's Q1 GDP reports are likely to prove the main event, as traders seek clues about the timing of the next ECB rate hike"…

…"One report we are reasonably confident about is the German GDP report which is likely to show that economy growing strongly"...

In the event German GDP was very strong at 1.5%q and 5.2%y. The ECB's Jürgen Stark lost no time in calling for higher Euro zone interest rates to bring inflation back under control.

Looking ahead there is a whole raft of data due this week with Euro zone CPI the key report, 2.8% is expected and that is likely to provoke a response from the ECB, anything higher and the rhetoric will be stepped up.

However with equity markets under pressure we judge selling pressure in the short end of the market is unlikely to build, so for now stay square.

More

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

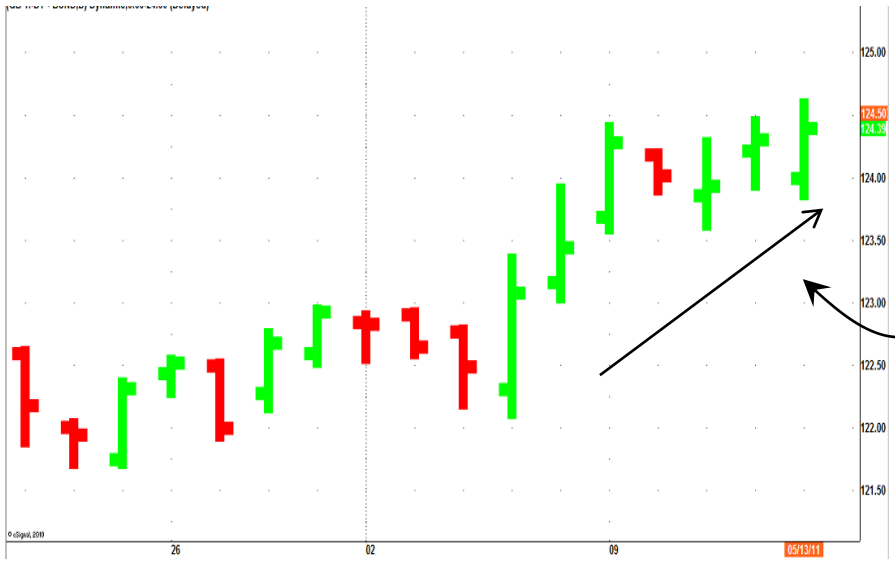
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund rallied further last week on safe haven buying.

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

..“Looking ahead we judge the Bunds strength is likely safe haven buying. The Euro zone Sovereign debt crisis continues, with talk in the news of Greece still struggling despite the huge rescue package earlier”...

And broadly speaking that analysis was true. The Euro zone authorities continue in their struggle to hammer out a deal with those countries that have applied for aide, while the markets remain nervous and buy Bunds as a hedge against peripheral default.

Moreover traders have became nervous about the health of the Euro zone economy after China said last week growth had cooled.

We are cautious about this market. The Global economic recovery has been questioned on several occasions and found to be in good shape, and risk aversion that has driven equities down and bonds up passed, we expect the same this time.

For now we are staying square and advise others to do the same.

More

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

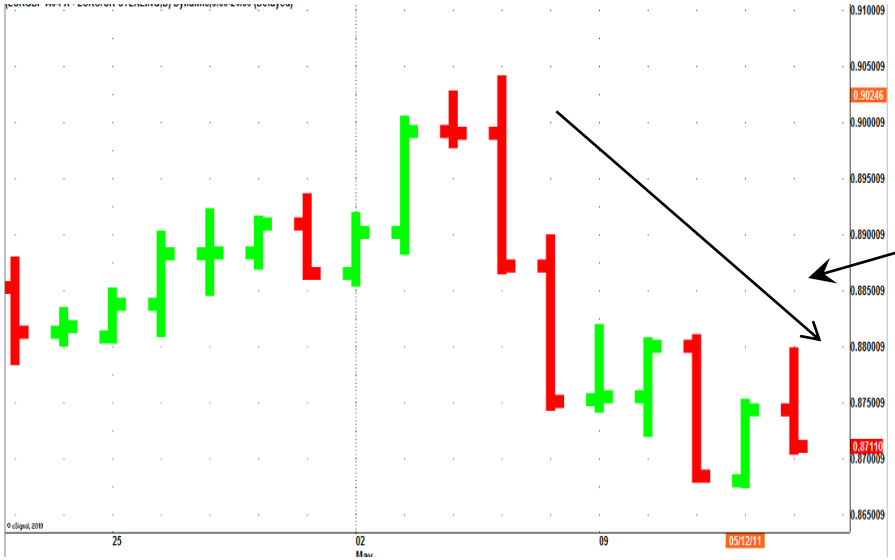
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Euro remains under pressure against the Dollar despite strong Q1 GDP data.

The Macro Trader's view of the Euro; the Euro remains under pressure against the Dollar despite strong Euro zone Q1 GDP data from France and especially Germany.

And although further ECB rate hikes look forthcoming in the not so distant future, traders are currently concerned about two things:

1. The health of the global recovery, and
2. The still unresolved Sovereign debt crisis.

And although the US is running a very large budget deficit of its own which is racking up a huge national debt, currently no one seriously expects the US to default.

And that is why the Dollar still emerges as the preferred safe haven buy during periods of crisis.

We judge the current round of risk aversion will pass and the Dollar's current period of strength be revealed as a correction.

But for now we advise remaining square.

More

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

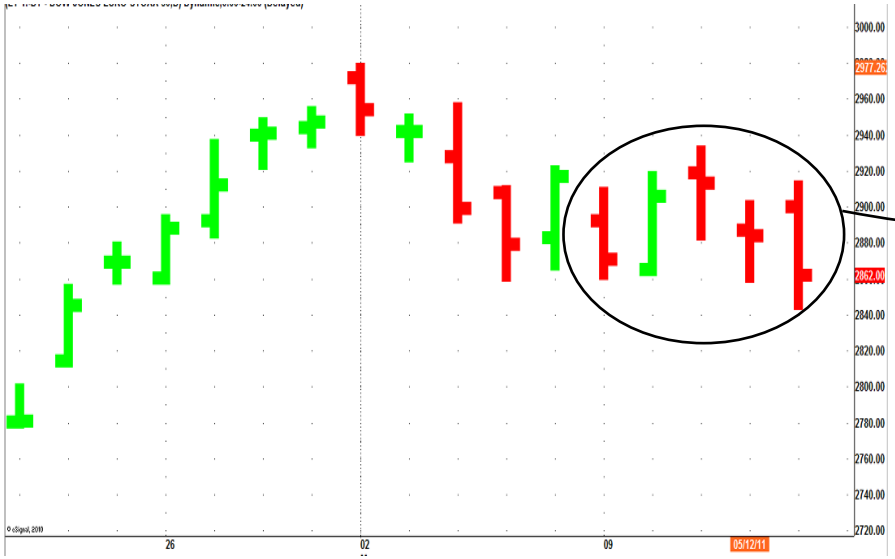
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market traded sideways as risk aversion dogged equities for a second week.

The Macro Trader's view of DJ Euro Stoxx 50 is:
equity markets, including this one continued to be un-nerved by fears over the health of the global recovery and the debt build up among the developed economies.

Although the Euro zone sovereign debt crisis has seen three member states apply for help, the crisis seems far from over.

The debt restructuring enforced on any country that applies for assistance almost ensures that country remains mired in at best slow growth or at worst; recession.

The fact that the Euro zone recovery appears to be to be strengthening is something of an illusion since the growth is provided mainly by Germany with support from France. Since these two account for at least 40% of the Euro zones GDP it isn't difficult to see:

1. How the smaller states economic performance can be masked, and
2. Why the ECB sees the need to normalise policy.

We judge this market will lag, even when confidence generally returns to equity markets and advise remaining square.

More

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

JAPANESE MARKETS: economic background

The problems facing the Japanese economic are becoming only too manifest. The trade account is weakening, and machine tool orders, are too.

For now there really isn't anything new to say.

The damage done by the recent natural disaster and nuclear crisis will take years to fully recover from.

In the mean time, at least short/medium term, economic data can only report the loss of opportunity experienced by this economy.

Looking ahead there are few economic releases due this week detailed on the global calendar, but we judge these are the week's key releases;

- On Monday; **Machine orders,**
- On Tuesday; **Machine tool orders and Tertiary industrial index,**
- On Wednesday; **Tokyo Condo sales and Q1 GDP,**
- On Thursday; **Industrial production, capacity utilisation, department store sales and BOJ Rate decision, and**
- On Friday; **All industry activity index.**

We judge the main event this week is the Industrial production and Capacity utilisation report.

As an export led economy focused on manufacturing this report should provide a good insight into the health of the economy.

The other noteworthy release is the Q1 GDP which should reveal the hit the economy took from the natural/nuclear disaster.

More

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

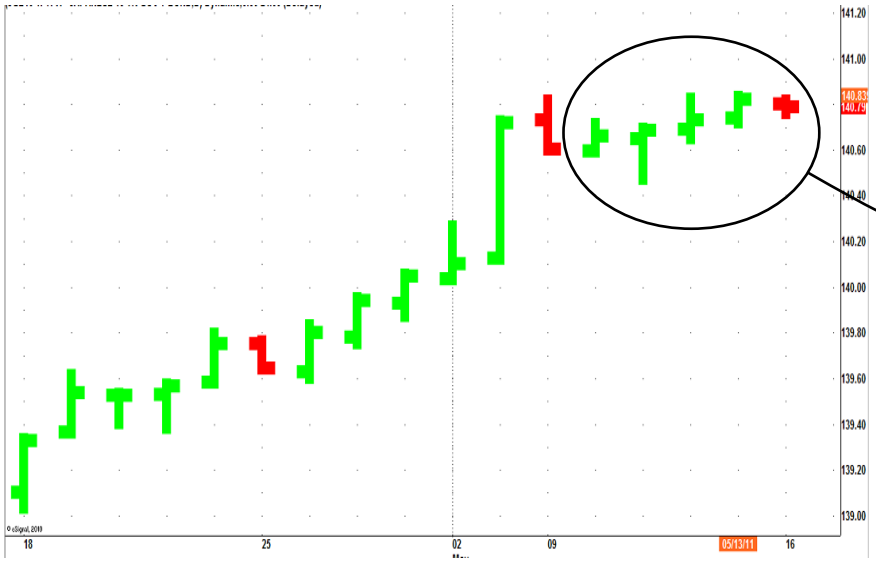
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



Note how the JGB moved sideways when other leading government Bond markets were rallying.

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

…"The market is driven higher by several factors;

1. Bullish international sentiment driven by geopolitical events,
2. Low Japanese interest rates that will remain at current levels for a very prolonged period,
3. Zero inflation, and
4. The crisis state of the economy which requires support from central government"...

But what was interesting last week was the markets torpid price action when other global government bond markets were rallying in response to safe haven buying.

Is this market no longer considered a safe haven?

In short we remain square of this market until the cost of rebuilding becomes clearer.

More

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

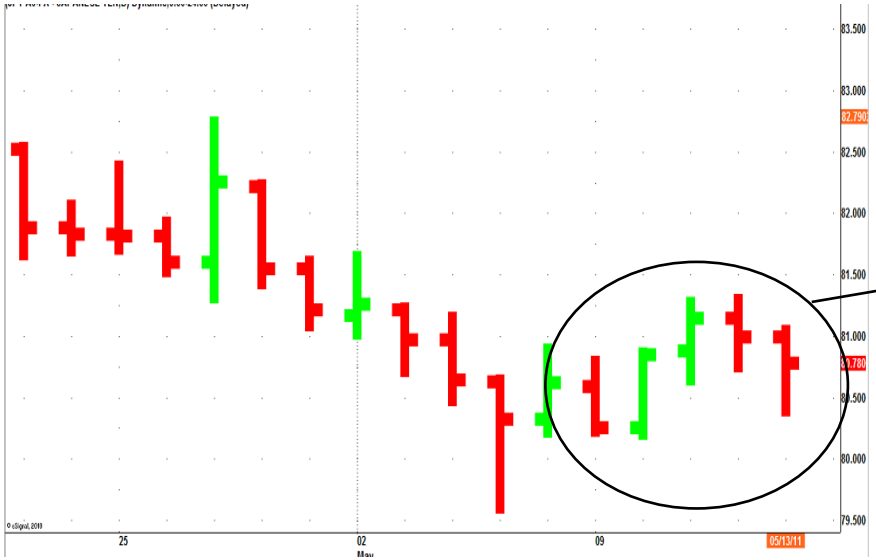
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Yen.



See how the Yen looks set for a period of sideways trading as it misses out on safe haven buying.

The Macro Trader's view of the Yen is; the Yen was until the natural disaster struck, a safe haven currency, almost in preference to the Dollar.

Now price action reveals that status for now at least, has been lost due to the unknown cost of rebuilding after the natural disaster.

The authorities will have to foot the bill, but at the expense of the debt to GDP ratio deteriorating further; it is already well beyond 100%.

In any event the last thing the authorities want is a strong currency as they look to exports to help fuel economic recovery; a weak currency will help greatly.

For now we sense a period of range trading is setting in, albeit within wide parameters.

So for now advise staying square.

More

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

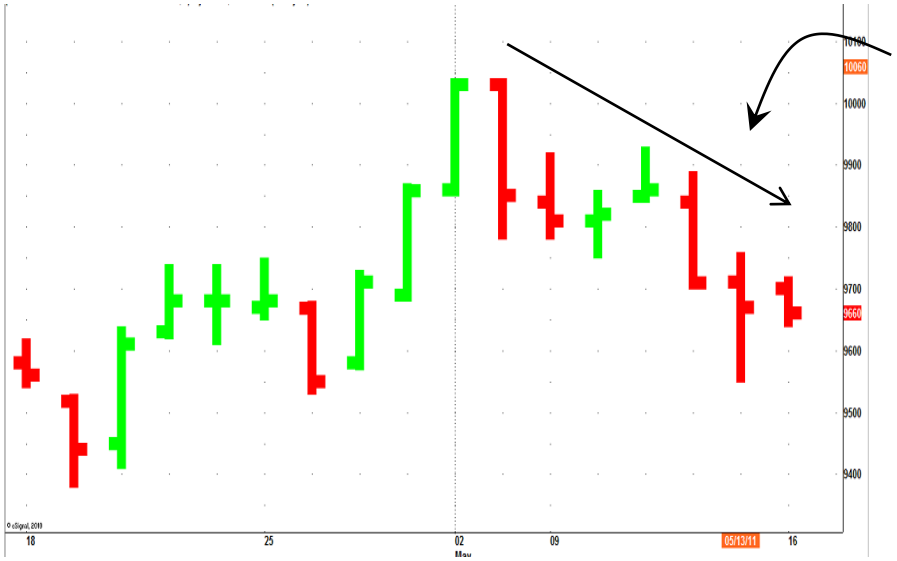
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei sold off in concert with other equity markets last week on global recovery concerns.

The Macro Trader's view of the Nikkei is; We judge the Nikkei is sensitive to any anxiety about the health of the global recovery.

Following the disaster that struck Japan earlier this year, a strong global economy would help Japan export her way back to health.

But currently traders are worried that high levels of debt and rising oil prices threaten to derail the recovery.

Clearly as a manufacturing exporter such as Japan a cooling global economy is bad news and the Nikkei registered those anxieties in last week's price action.

With domestic data due this week likely to report further economic weakness, we judge this market remains vulnerable and isn't much of a buy even when the other leading equity markets regain their nerve.

We advise remaining advise remaining square.

More

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

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Gold.

See how gold sold off as the Dollar rally consolidated.

The Macro Trader's view of the Gold is: the Dollar's rally finally took its toll on Gold as the market retested the lows, indeed today's price action has traded through the stop.

With the Dollar enjoying a spell of safe haven buying driven by risk aversion, gold has given back much of its recent gains.

But apart from the Dollar's price action lets remind ourselves why Gold has been bullish:

1. Fears of Sovereign debt default among the developed economies, not just the Euro zone periphery, but unease at the debt build up in the US,
2. Concern the QE policies adopted by several key Central Banks will ultimately seed global inflation, and
3. Wide spread disenchantment about the Dollars role as global reserve currency.

For now we are square, but a long term view of this market remains bullish and once the current correction looks exhausted we will be seeking fresh buying opportunities.

More

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

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Oil.

See how oil remained under pressure as fears of a global economic slowdown have robbed the market of its bullish dynamism.

The Macro Trader's view of oil is: oil had enjoyed a solid rally on the back of expectations the global economy was embarked on a strong recovery, led by China and India with the US expected to add additional strength as the recovery there gained traction.

But over recent weeks the oil price rally has turned into a major source of concern. Traders are now worried the high price of oil will be too great a burden for economies still struggling for traction.

Moreover they also worry that rising oil prices will lead to inflation requiring a monetary policy response from the leading Central Banks.

In all likely hood the major economies can cope with higher oil prices as they are mostly service sector led.

China and India though may struggle as their economies are geared more towards manufacturing.

But in the end the price of oil comes down to demand and supply.

There isn't much new supply coming on stream, and due to the size of the Chinese and Indian economies demand is already much higher than it would be at this stage of the economic cycle, so we judge current price action a correction.

So for now stay square but seek a fresh buying opportunity.

More

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

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