Week 24
14th – 20th June 2011

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the macro trader's guide to major markets

John Lewis

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+ 10 YEAR NOTE — BULLISH on growing economic weakness
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	Week of 13th June
Monday	UK RICS Hse price bal -20% IT Ind production 0.2m, 2.4y JP Rate decision 0.10% JP Machine orders 1.7m, 4.9y
Tuesday	US PPI 0.0m, 6.6y US PPI Ex-f&e 0.2m, 2.1y US Retail sales -0.4m, US RS Less Autos 0.3m, US Business invntry 1.0% UK DCLG Hse prces -0.2y UK CPI 0.2m, 4.5y UK RPI 0.3m, 5.2y UK RPI-X 5.2y FR C/A n/f JP Capacity utilisation n/f JP Ind production n/f
Wednesday	US MBA Mrtge apps n/f US CPI 0.1m, 3.4y US CPI Ex-f&e 0.2m, 1.4y US Empire mfg 13.0 US Net lg trm TIC flows $36.0B US Ind production 0.2% US Capacity utilisation 77.0% UK Unemploym't rate 4.6% UK Unemploym't chge 6.5k UK Avrge earngs 2.1% UK Avrge earngs ex-bonus 2.1% UK ILO Unemploym't rate 7.7% FR CPI 0.1m, 2.1y EZ Ind production -0.2y

	Week of 13th June
Thursday	US Jobless claims 420k US Buidg permits 552k US Hsing strts 545k US Q1 C/A Bal -$130.0B US Philly Fed 7 UK Retail sales -0.6m, 1.5y IT CPI 0.1m, 2.6y EZ CPI 0.0m, 2.7y JP Tokyo Condo sales n/f JP BOJ Minutes May 19-20 meeting
Friday	US U. of Michigan conf 74.0 IT Trade bal n/f IT Trade bal EU n/f EZ Construction output n/f IT C/A n/f EZ Trade bal -1.9B

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	Week of 6th June
Monday	UK BRC Retail sales -2.1% **WEAKER** EZ PPI 0.9m, 6.7y **WORSE** **THAN EXPECTED**
Tuesday	UK BRC Shop price indx 2.3% **LESS** EZ Retail sales 0.9m, 1.1y **STRONGER** DM Factory orders 2.8m, 10.5y **STRONGER** JP Lndg incldg TST -0.7% **BETTER** JP C/A Bal 405.6B **BETTER** JP Trade Bal -417.5B **WORSE** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -0.4% **AS** US Fed's Beige Bk **SUPPLY CHAIN WOES** DM C/A 8.8B **WEAKER** DM Trade Bal 10.9B **WEAKER** FR Trade Bal -7.144B **WORSE** EZ Q1 GDP 0.8q, 2.5y **AS** DM Ind production -0,6m, 9.6%y **WEAKER** JP Bankruptcies 4.9% **WORSE** JP Eco watcher survey 36.0 **BETTER** JP Q1 GDP A -3.5% **WORSE** **THAN EXPECTED**

	Week of 6th June
Thursday	US Jobless claims 427k **WORSE** US Trade Bal -$43.7B **BETTER** US Wholesale invntry 0.8% **WEAKER** UK Trade Bal -7.389B **BETTER** UK Trade non-EU -4.339B **BETTER** UK B of E AP Target £200.0B **AS** UK MPC Rate decision 0.50% **AS** EZ ECB Rate decision 1.25% **AS** DM WPI 0.0m, 8.9y **BETTER** JP Cons conf 34.2 **LESS** JP Machine tool orders 34.2 **BETTER** JP Tertiary ind indx 2.6m **LESS** JP Domestic corp gds prces -0.1m, 2.2y **LESS** **THAN EXPECTED**
Friday	US Import prces 0.2m, 12.5y **STRONGER** US Mntly bdget statem't -$57.6B **BETTER** UK Ind production -1.7m, -1.2y **WEAKER** UK Mfg output -1.5m, 1.3y **WEAKER** UK PPI Input -2.0m, 15.7y **BETTER** UK PPI Output 0.2m, 5.3y **LESS** UK PPI Core 0.2m, 3.4y **LESS** UK NIESR GDP Estimate 0.4 **AS** DM CPI 0.0m, 2.3y **AS** FR Ind production -0.3m, 2.6y **WEAKER** FR Mfg output 0.2m, 4.1y **LESS** IT Q1 GDP 0.1q, 1.0y **AS** **THAN EXPECTED**

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US MARKETS: economic background

The data released last week did little to dispel the sense of gloom hanging over the US economy. Jobless claims were worse than expected and although the trade deficit narrowed, this too is a sign of weakness since it was a result of weaker imports.

The Fed's beige book attempted to explain the renewed weakness by blaming it on supply chain disruption caused by events in Japan.

However traders had been looking to the Fed to see what policy response, if any would be deployed to help support the economy as the QE2 policy initiative expires at the end of this month.

In a nut shell, the Fed isn't planning any new help. In a speech last week Bernanke acknowledged the weakness, but blamed it on the same supply chain disruptions and failed to make any mention of new Fed help; the economy looks like its on its own, at least for now.

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

- On Tuesday; **PPI and Retail sales,**
- On Wednesday; **CPI, Net long term TIC flows, industrial production and capacity utilisation,**
- On Thursday; **Jobless claims, Building permits, housing starts and Q1 C/A data, and**
- On Friday; **University of Michigan confidence.**

We judge the main events this week are the retail sales report, Industrial production and capacity utilisation.

Consumer demand remains a key driver of economic activity, but the US is keen to see a revival in manufacturing; industrial production will inform on this.

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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of December 11 Eurodollars.

See how Eurodollars offered a slightly negative reaction to Bernanke's failure to offer fresh Fed help.

The Macro Trader's view of Eurodollars is; last week's data was weaker than expected, but the market drew no support from it.

Indeed the Feds failure to signal any appetite for giving the economy Fresh support, seems to have had a negative impact.

Looking ahead traders will be looking for fresh clues on the economy's strength and with retail sale and industrial production due, they will have solid data to mull.

We judge the data will likely draw a similar picture to the one seen over recent week's; weakness.

And although the Fed attributes the weakness to problems with the supply chain derived from Japan, just how quickly do they expect those to resolve.

For now we remain neutral of this market and advise a square position.

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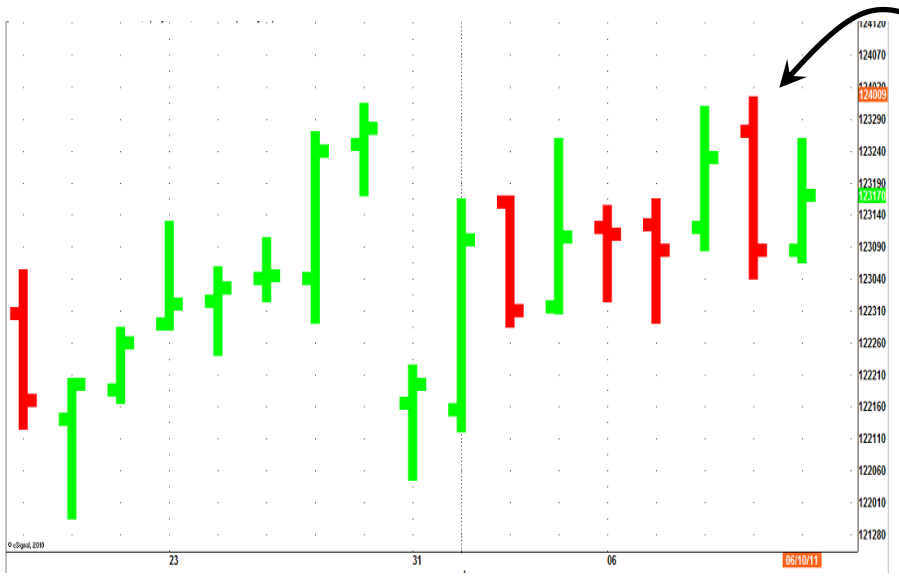
US MARKETS: 10 Year Note

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the 10 year note.



See how the 10 year note almost hit our target before retracing on debt default musings.

The Macro Trader's view of the 10 year note is; the 10 Year Note almost met our target last week before drifting lower on debt default talk.

The Chinese said any talk of default was playing with fire. The talk of default derives from the battle between the House and the administration over the debt ceiling. If it isn't raised the US may not be able to meet interest payment obligations on time, and although this would likely prove short term due to internal political tactics, it would still be a de facto default.

However will the US actually risk ruining her reputation?

Data wise the economy continues in its soft spot and although the Fed blames a supply chain break down, Japan's problems wont resolve over night.

Traders should be long of this market.

Our target continues at 124.08 and our stop remains at 122.00 for protection.

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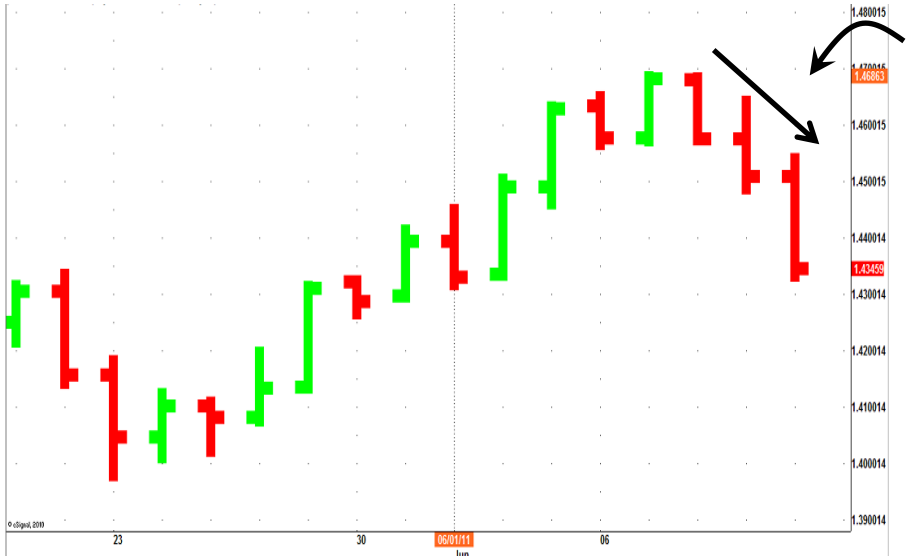
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were BEARISH v the EURO.



See how the Dollar came back to life last week as Euro zone debt problems persist.

The Macro Trader's view of the Dollar is: the US Dollar halted its slide last week despite data remaining weak.

In the Euro zone the sovereign debt crisis continues, but the Dollar seemed to draw support from the Feds lack of enthusiasm for extending QE.

Both the beige book and separately in a speech, Bernanke failed to hold out the possibility of renewed monetary policy support, blaming the current spell of economic weakness on supply chain problems caused by events in Japan.

Well time will tell. Japan's problems wont go away over night and if the US's don't either the Fed may be forced into a rethink.

For now we are square after our stop was hit, but we remain long term bears of the Dollar, so will be seeking fresh selling opportunities.

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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 continued to weaken last week on growth concerns.

The Macro Trader's view of the S&P 500 is: the market weakened further last week as data remained soft.

The Jobless claims report was worse than expected and the trade deficit narrowed on reduced imports, a sign of weaker demand.

But we judge the Feds attitude towards the economy's current period of weakness is having the greatest impact.

The Fed sees much of the current period of weakness caused by supply chain problems emanating from Japan and are unwilling, it seems, to offer fresh support once QE2 ends.

But how quickly will the supply chain repair and then there is the tightening oil market, which OPEC failed to ease at last week's meeting.

We judge equity markets remain vulnerable to the downside and for now we advise a square position.

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UK MARKETS: economic background

The UK's economic recovery remains a matter of debate. Data last week again pointed to weakness.

The PPI report was mixed but the core measure was better than expected.

But worryingly the industrial production and manufacturing output reports were unexpectedly weak making an early rise in official interest rates look even more remote.

But more worrying still for the Government was Moody's veiled threat about the UK's AAA Sovereign credit ratting; they said it was at risk if growth slows.

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 Monday; **RICS House price survey,**
- On Tuesday; **DCLG House price survey, CPI & RPI,**
- On Wednesday; **unemployment report and average earnings, and**
- On Thursday; **Retail sales.**

There are three important reports released over Tuesday, Wednesday and Thursday, but we judge the two most important are the CPI report on Tuesday and retail sales on Thursday.

Traders will be closely monitoring CPI for clues on future rate moves, but then on Thursday they will monitor retail sales for the same reasons.

Policy makers are walking a fine line between growth and inflation, eventually they will have to jump in one direction or the other. For now we judge the main concern is growth..

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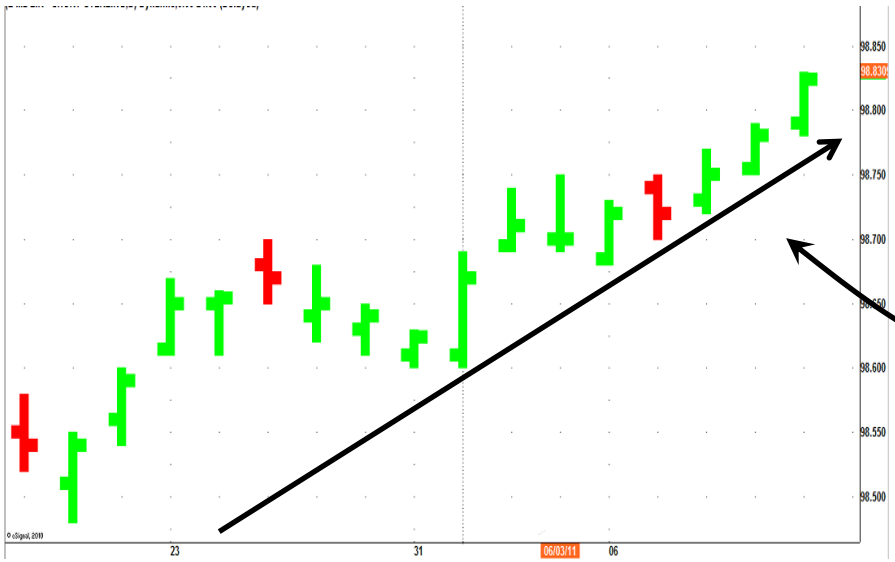
UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of June 12 Short Sterling.



Note how Short Sterling rallied further as data favoured the bulls.

The Macro Trader's view of Short Sterling is; the market extended its rally throughout last week as data continued weaker than expected.

Industrial production and manufacturing output were clear disappointments and exposed the claim of a rebalancing economy to be more hope than fact.

The one bright spot was the better than expected Core PPI, but a big correction lower is still required in that series over all.

Looking ahead retail sales are a key report this week.

Consumer demand is important for the health of the economy, but has been weak lately.

Additionally Tuesday's CPI report will have the markets on the edge of their seat as the split on the MPC about whether or not to hike rates to control inflation continues.

However we judge traders should remain long of this market, last week's target was hit.

Our target this week is 98.90 and our stop is raised to 98.65 for closer protection.

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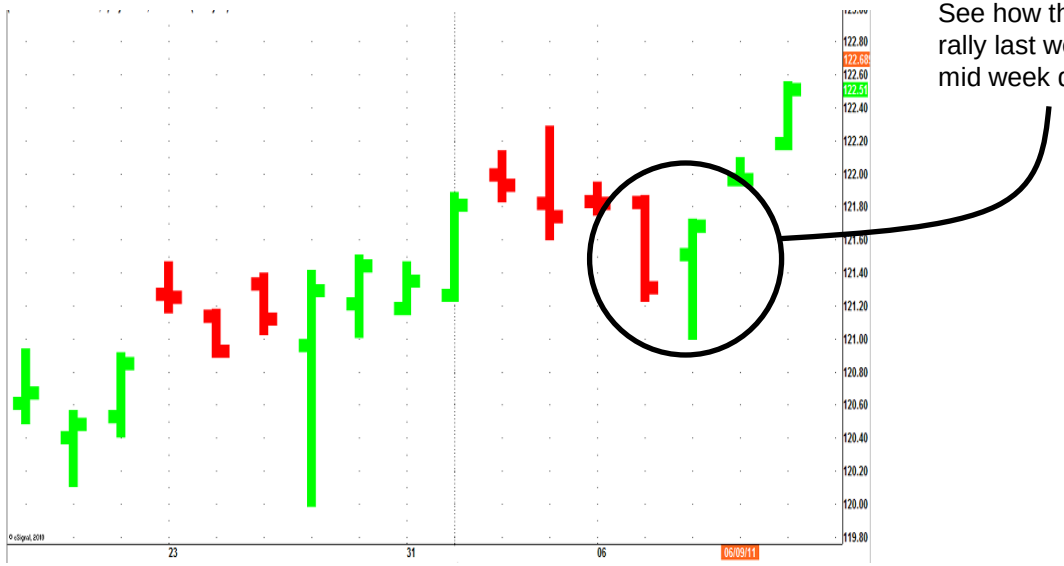
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the gilt extended the rally last week, but only after a mid week dip.

The Macro Trader's view of the Gilt is; the Gilt continues to draw support from growing concerns about domestic and global growth.

In both the UK and US last week's data remained weak.

In the UK industrial production and manufacturing output were both weaker than expected and the Bank of England again left policy on hold.

Looking ahead CPI and retail sales will grab the head lines this week, but we judge concerns about growth will keep talk of higher rates muted.

We remain neutral of this market. Last week we said...

…"If the economy weakens too much the government may be forced to water down their debt reduction strategy and we think that might rattle the markets"...

Moody's obviously had that thought too and said last week, weaker growth could cost the UK her AAA rating.

For now we remain square.

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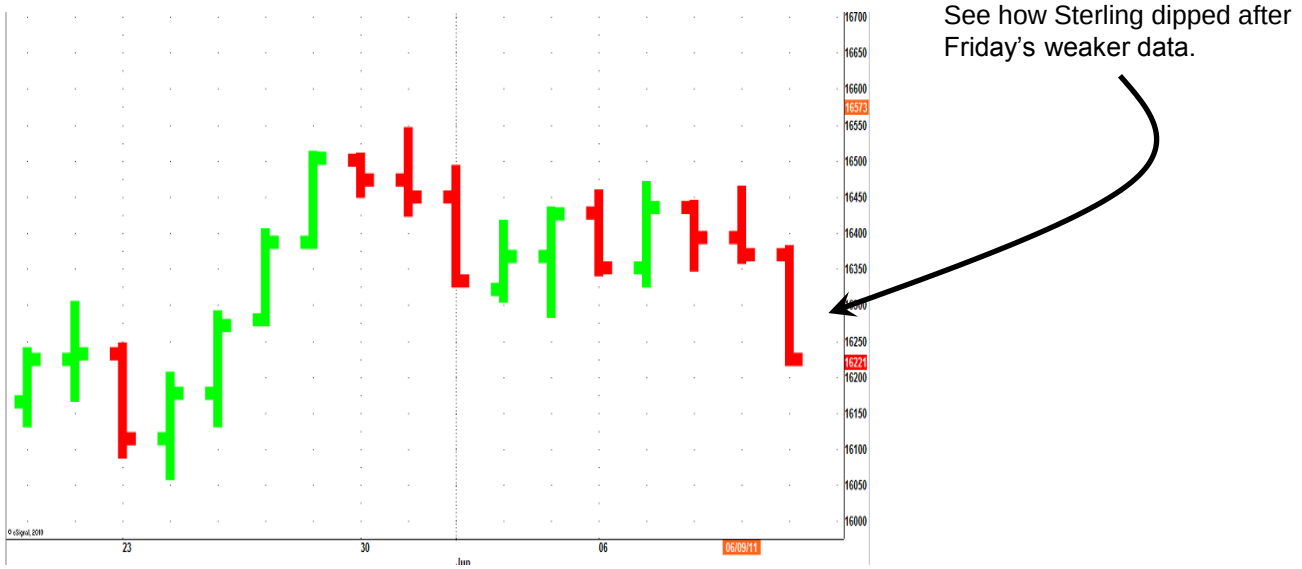
UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were square of Sterling



See how Sterling dipped after Friday's weaker data.

The Macro Trader's view of the Pound is; although our long term view of the Dollar is bearish, Sterling seems unable to profit from the Dollars weakness.

Both the US and UK continue to report economic weakness, but the Pound faired the worst.

What seemed to help the Dollar last week was the Feds apparent lack of interest in offering the US economy additional support despite on going weakness.

In the UK the Bank is under pressure in the media to hike rates to tame inflation, but policy makers judge that would be too dangerous and the economic recovery would grind to halt.

So for now the mix of slowing growth and still above target inflation weighs heavily on Sterling and it is prone to sudden periods of weakness.

We judge Sterling remains volatile and advise not trading it for now.

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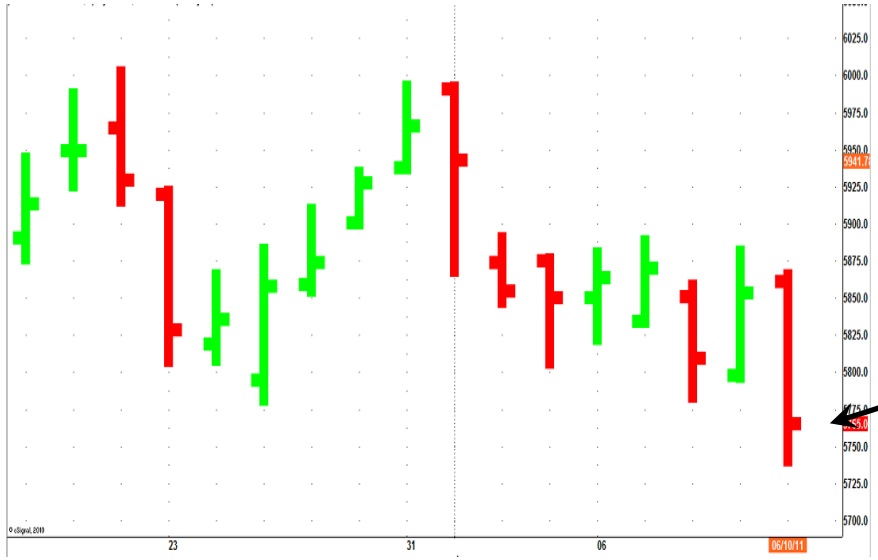
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square of the FTSE.



See how the FTSE continued to weaken on global growth fears and weak UK data released on Friday.

The Macro Trader's view of the FTSE is: the market again reacted negatively to last week's data both domestic and foreign.

In the UK industrial production and manufacturing output were both weaker than expected. Policy makers had hoped the economy would rebalance away from consumer demand towards exports, on last week's data there isn't much evidence of that.

Additionally US data disappointed, but so too did Chinese data, and equity markets globally suffered.

Looking ahead we doubt this week's key reports will alter the recent trend. CPI is likely to remain higher than desired and retail sales are likely to signal continued consumer weakness.

Until the US economy shakes off the current spell of weakness we doubt stocks can rid themselves of the frequent periods of risk aversion that continue to sweep through equity markets.

Additionally traders need to see a greater willingness from OPEC to keep oil prices from rising due to tightening supply/demand.

For now we advise remaining square.

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EURO ZONE MARKETS: economic background

The markets were focused on the ECB last week, especially Trichet's press conference. The ECB left policy unchanged as expected, but Trichet dropped strong hints that rates would rise at the July meeting, using the term "Strong vigilance".

Other data released during the week of particular interest were the German factory orders and the Industrial production reports.

The first was stronger than expected, but the second was disappointingly weaker, as was French industrial production and manufacturing output released last Friday.

Over all a run of mixed to soft data appears to be developing and is worth monitoring closely.

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 industrial production,**
- On Tuesday; **French C/A data,**
- On Wednesday; **French CPI and Euro zone industrial production,**
- On Thursday; **Euro zone CPI, and**
- On Friday; **Italian trade data, Euro zone trade data and construction output report.**

The main events this week are the Euro zone industrial production and CPI reports.

It is unlikely the CPI report will have any impact on the ECB's intention to hike in July, unless the number is much less than expected.

The industrial production report is more likely to drive the Euro rather than the ECB.

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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

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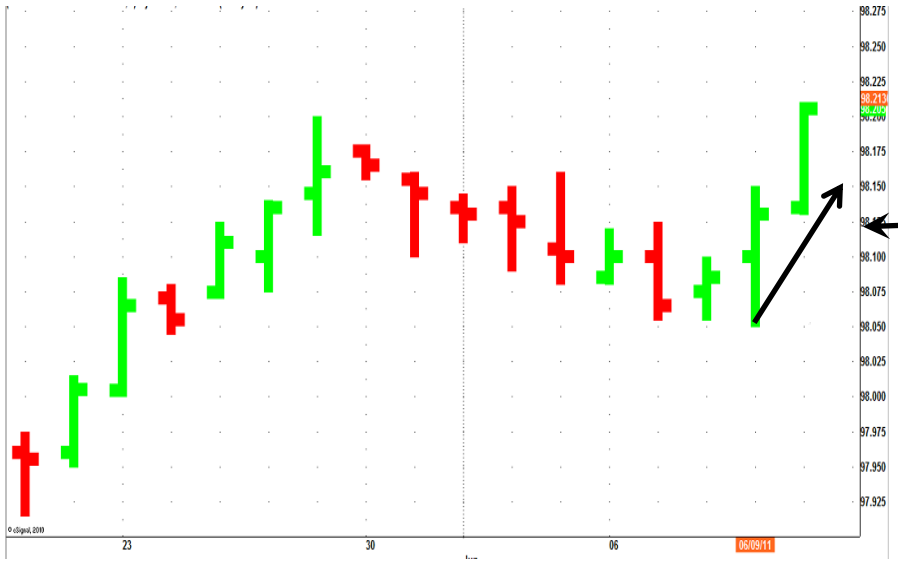

See how Euribor rallied last week as the ECB held rates steady.

The Macro Trader's view of Euribor is; the ECB held policy steady last week, and given that Trichet offered no guidance at all at the previous meeting, any other out come would have un nerved markets.

Next month though, expect a hike, that was Trichet's coded message this time.

However, the data releases recently have become a little mixed, so will the ECB judge a small pause is prudent there after to allow time for monitoring.

Looking ahead Euro zone industrial production is due on Wednesday, will the number continue in the recent trend or flag a return to stronger activity.

We judge this market is pricing in policy rising to 1.75 – 2.0% by year end and that seems a reasonable assumption, more would seem to aggressive.

For now we advise remaining square of this market as both upside and downside opportunities look limited for now.

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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

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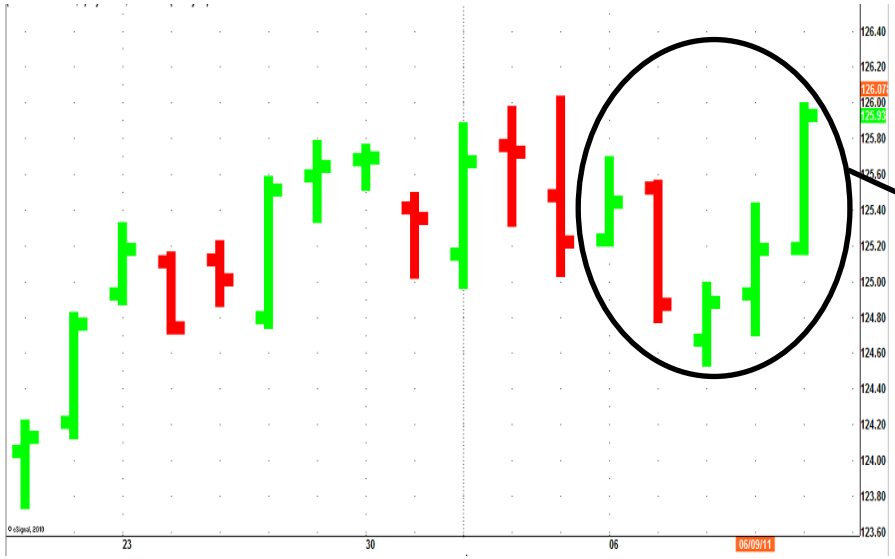

The Bund suffered a choppy week, but closed on a positive note as the debt crisis remains unresolved.

The Macro Trader's view of the Bund is: in our opinion the Bund remains supported by safe haven buying fuelled by the Euro zone Sovereign debt crisis.

Additionally concerns remain about the strength of the Global economic recovery as US data remains soft and China released weaker than expected data last week.

But the market suffered a mid week sell off before staging a recovery as the Fed Chairman failed to signal an extension of the current QE policy to help support growth.

Moreover, Euro zone data has softened over recent week's but the ECB remains focussed on returning rates to neutral.

Looking ahead we judge Bonds will remain driven by the sovereign debt crisis, still unresolved, and the US debt ceiling wrangle and wider budget deficit debate.

Add in the cooling economic data and we judge traders should be long of this market.

Our target this week is 127.05 and our stop is set at 124.48 for protection.

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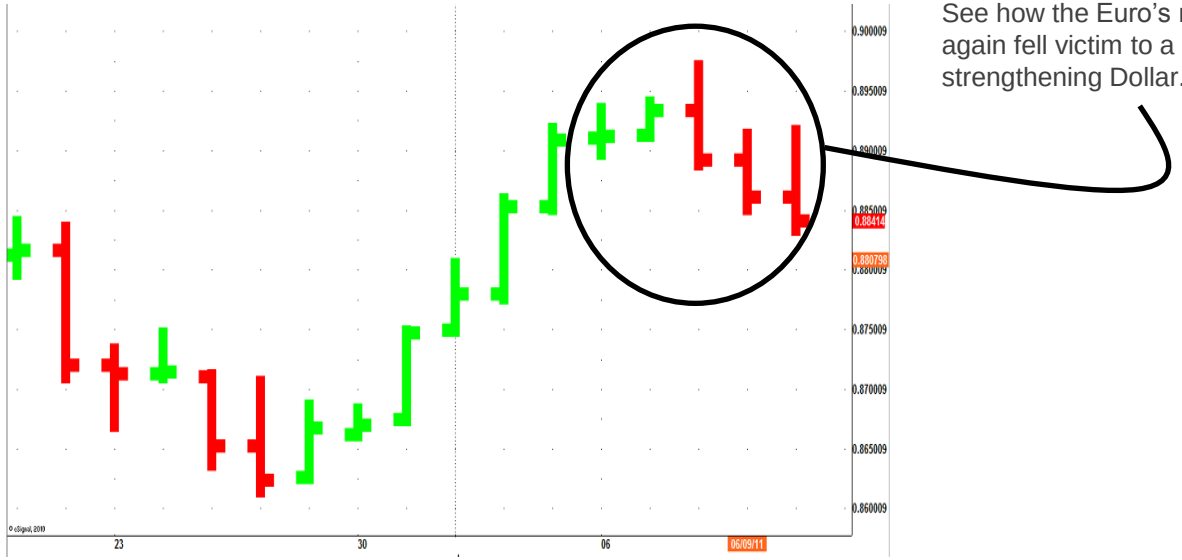
Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE.

Last week we were BULLISH v the DOLLAR.



See how the Euro's rally once again fell victim to a strengthening Dollar.

The Macro Trader's view of the Euro; last week's data only served to confirm the established weakness of the US economy and signal worrying signs of softness in the Euro zone economy.

But what stopped the Dollar's weakness was the Fed Chairman's failure to commit the Fed to at the very least considering renewing the QE policy set to expire at the end of this month.

Whether or not that support will prove durable is a matter for debate.

The Fed states the US economy's problems are caused by supply chain disruptions emanating from Japan; how soon will Japan recover.

For now we advise remaining square. The stop was hit.

However we remain long term bears of the US Dollar and will seek new selling opportunities. The Fed may be forced to review its reluctance to offer further assistance in a few weeks if the current economic slowdown shows no sign of abating.

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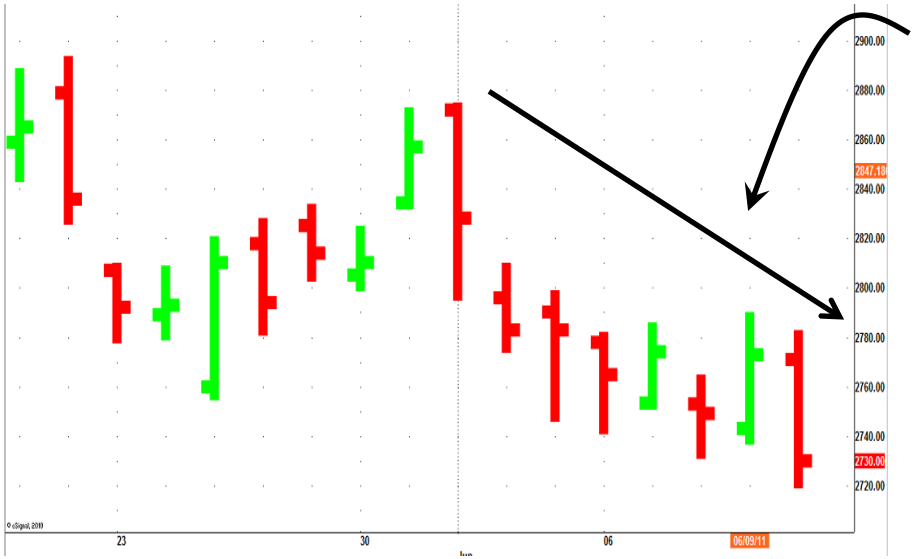
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market sold off in concert with other leading equity markets.

The Macro Trader's view of DJ Euro Stoxx 50 is: equity markets remained under pressure last week as data globally continued to cast doubt on the strength of recovery with the UK, US Euro zone and China all releasing disappointing data.

The fact OPEC failed to increase out put only served to add to uncertainty as rising oil prices act as a de facto tax on consumers and retards spending and growth.

As stated last week, we are neutral of this and all other equity markets. The Fed may think the US's current slowdown is caused by supply chain problems involving Japan, but when will they resolve; it could be a long time.

We think the economic recovery globally is entering a difficult phase. The west has few policy levers left to pull and the Chines and India are worried by inflation.

For now remain square..

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JAPANESE MARKETS: economic background

Last week's data remained weak and mainly undershot consensus.

The Q1 GDP report was weaker than expected last week and showed activity suffered a deeper hit than initially estimated.

Worryingly Bankruptcies rose last week and the trade deficit was larger than expected.

On the positive side the Eco watchers survey was a little better than expected as were machine tool orders, but over all the economy has a mountain to climb.

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

- On Monday; **BOJ Rate decision and machine tool orders,**
- On Tuesday; **Capacity utilisation and industrial production, and**
- On Thursday; **Tokyo condo sales and BOJ minutes from the May 19 – 20 meeting.**

We judge the main event this week is the industrial production and capacity utilisation report.

This number should give an insight into how industry is reorganising after the disaster earlier in the year and as a manufacturing export led economy industry needs to recover fast.

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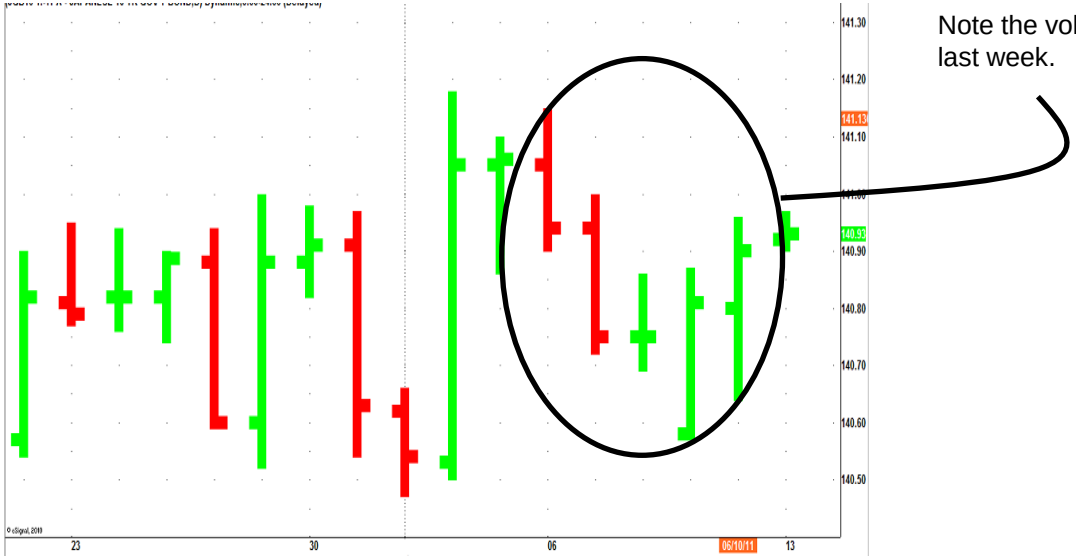
Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



Note the volatility hitting the JGB last week.

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

…"the JGB remains a market trapped in a range"...

…"Other government bond markets have over recent weeks staged solid rallies, but the JGB has moved mainly sideways"...

And we judge that statement still holds true; the range may be wide with a degree of volatility, but a range never the less.

The task and cost of rebuilding are likely colliding with the reality of deteriorating public finances and already alarming the rating agencies. The deteriorating trade data doesn't help either, but that will likely correct once the output side of the economy starts to recover.

Once again, this market offers us little that excites. Data remains weak and the global outlook is deteriorating especially in the US.

For now we remain square of this market.

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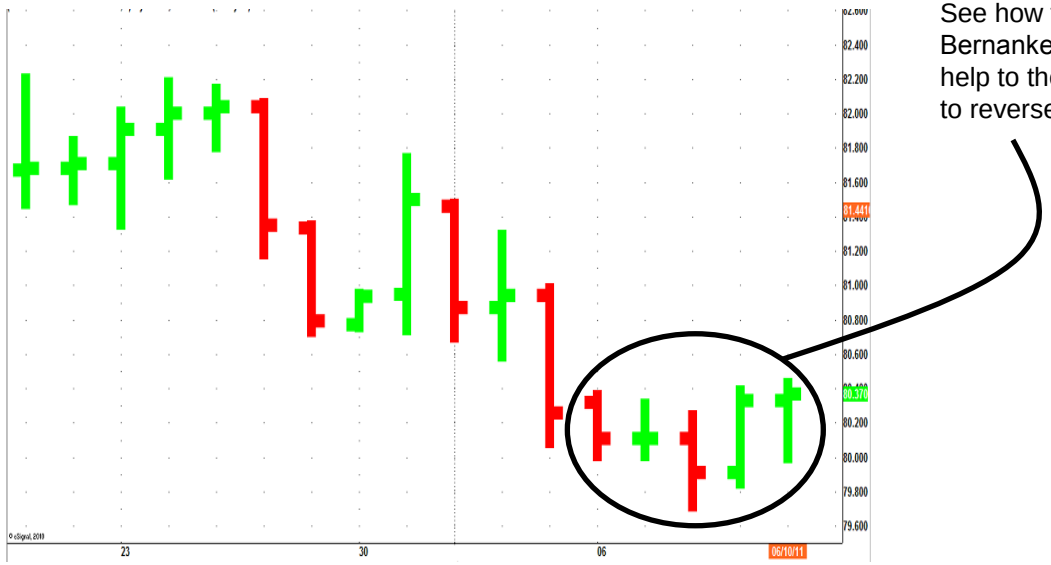
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Yen.



See how the Yen's rally met Bernanke's failure to offer fresh help to the economy and began to reverse.

The Macro Trader's view of the Yen is; the Dollar's rally that looked over at the beginning of last week, came back to life.

The Fed had two opportunities last week to talk about the weakness of the economy and hold out the possibility of new measures to support it.

The Beige book was silent on that, no big surprise, but so too was Bernanke, more of a surprise.

However Bernanke's simply explanation that the current weakness starts with Japan and the disruption to the supply chain, may not stop speculation building that the Fed might have to do more, if the Japanese economy isn't able to plug the gaps in the supply chain quickly.

Then we shall see what Bernanke's response is and how the Dollar reacts; likely a return to weakness.

So for now stay square.

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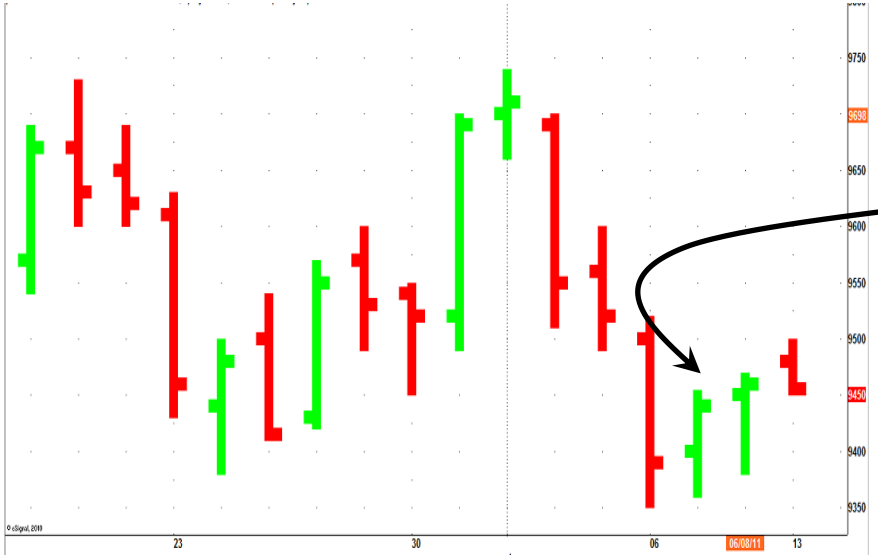
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei picked up on a stronger Machine toll orders report released on Thursday.

The Macro Trader's view of the Nikkei is; the weaker than expected Q1 GDP data weighed heavily on the Nikkei, but its affect was brief.

Better than expected Machine tool orders released the next day helped the market recover.

The move looked all the more encouraging as other leading equity markets in Europe and the US looked set to trade lower.

If the Yen's brief rally against the Dollar is over and industry can recover faster than expected, then the Nikkei could become a buy.

But for now we are neutral of all equity markets. The global recovery has thrown out so far unanswered questions.

The US recovery looks weak and it can not all be blamed on Japan disrupting the supply chain. The Euro zone economy has begun printing softer data and China continues to struggle with inflationary pressures.

In all not a good back drop to be bullish of stocks.

For now stay square.

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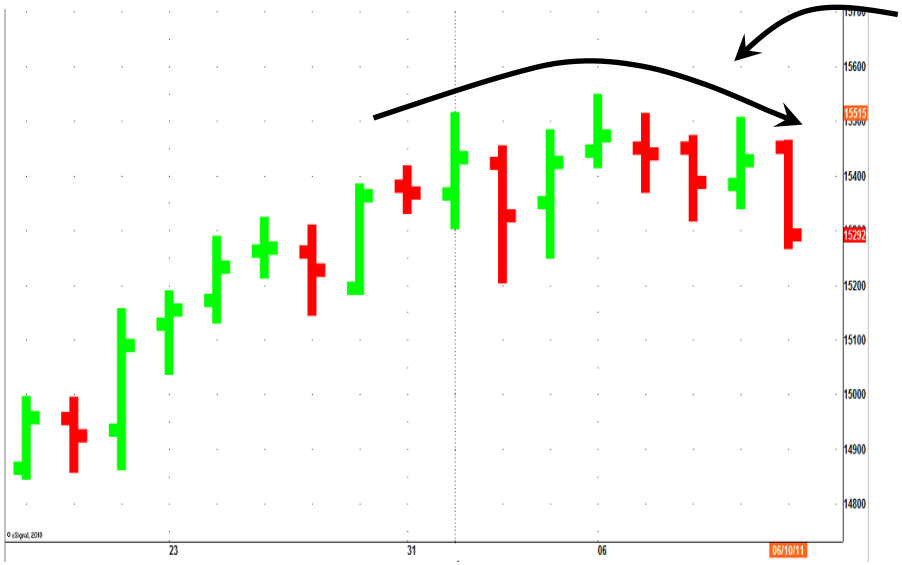
COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Gold.



See how gold failed to build on the previous week's rally as the market began to drift.

The Macro Trader's view of the Gold is: the Dollar's rally that last week looked spent, revived as the week progressed. But just stop and look at the fundamentals.

Traders were looking towards the Fed to see if there would be a new policy response to replace the soon to expire QE2, but in a speech last Tuesday Bernanke failed to mention new help.

He judged the economy's current soft patch was a result of Japan's crisis disrupting the supply chain.

To a degree that is true, but it isn't responsible for the weakness of the US housing market.

And the manufacturing sector is a relatively small part of the economy with the service sector still the most dominant, how does Japan's problems hit that.

We judge the Dollar's rally is likely to prove a short term response to an unexpected speech from Bernanke. When it resumes its slide the rally in this market should resume too.

Traders should be long of this market.

Our target remains 1560.0 and our stop continues at 1485.0 for closer protection, but still allow for a degree of volatility.

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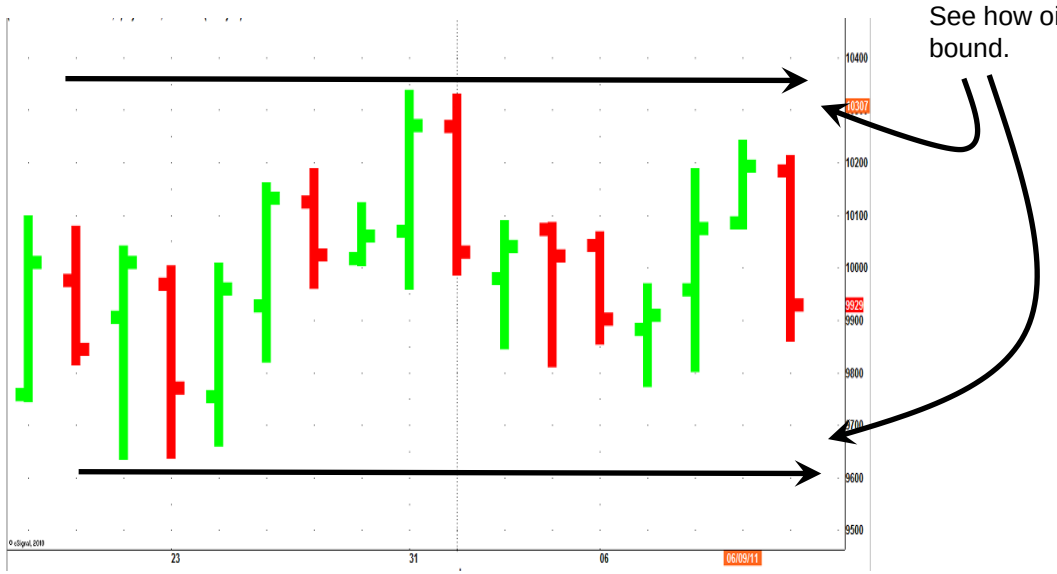
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



The Macro Trader's view of oil is: this market continues to look range bound.

Early in the week an output increase from OPEC looked probable, it didn't happen after Iran managed to under mine support for the Saudi Arabian proposal.

But what is holding oil back is the continuing view the global economic recovery is cooling.

Last week again provided evidence to support that view from the US, UK, Euro zone and China.

For now it isn't clear how the leading economies intend over coming this weak patch, currently it seems they are hoping to ride it out.

While we are long term bulls of this market based on likely future supply/demand pressures, for now we judge this market looks set to remain moribund.

So for now stay square.

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