



Week 38
20th – 26th September 2011

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



the macro trader's guide to major markets

John Lewis

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SUMMARY

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- SQUARE
- BULLISH
- BULLISH v the Euro
- BEARISH

UK Markets

+ SHORT STERLING
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- BULLISH
- BULLISH
- SQUARE
- BEARISH on growing fears of recession

Euro Zone Markets

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- SQUARE
- BULLISH
- BEARISH v the Dollar
- BEARISH

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- SQUARE
- SQUARE
- SQUARE

Commodities

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- BULLISH on US economic weakness and the deepening Euro zone debt crisis
- SQUARE

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Week of 19 th September	
Monday	US NAHB House mkt indx 15 EZ Construction output n/f
Tuesday	US Housing strts 590k US Buildg permits 590k DM PPI 0.1m, 5.8y IT Ind orders n/f IT Ind sales n/f DM ZEW 40 JP Convenience store sales n/f JP Trade bal n/f
Wednesday	US MBA Mrtge apps n/f US Existing home sales 4.75M US FOMC Rate decision 0.25% UK B of E Minutes 9/0 UK PSNCR 6.0B UK PSNB 11.4B JP All ind actvty indx 0.5%

Week of 19 th September	
Thursday	US Jobless claims 420k US Hse prce indx 0.1m, UK CBI Trnds orders -5 UK CBI Trnds selling prces 7 EZ Ind new orders -1.2m, 10.5y EZ Cons conf -18 EZ PMI Composite 49.8
Friday	UK BBA Hme buyr loans 33.250k FR Cons conf 83 FR Product'n outlk indx n/f FR Bus conf 100 IT Retail sales 0.3m,

[More](#)



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	Week of 12 th September
Monday	UK RICS Hse prces -23 AS IT Ind production -0.7m, -4.6y WEAKER THAN EXPECTED
Tuesday	US Import prces -0.4m, 13.0y STRONGER US Mnthly bdget statm't -\$134.2B WORSE UK DCLG Hse prces -1.5y WEAKER UK CPI 0.6m, 4.5y AS UK RPI 0.6m, 5.2y MORE UK RPI-X 5.3%y MORE UK Trade data -8.922B WORSE UK Tade non-EU -5.505B WORSE FR CPI 0.5m, 2.2y STRONGER FR C/A -4.5B WORSE THAN EXPECTED
Wednesday	US MBA Mrtge apps 6.3% STRONGER US PPI 0.0m, 6.5y STRONGER US PPI Ex-F&E 0.1m, 2.5y LESS US Retail sales 0.0% WEAKER US RS Ex-Autos 0.1% WEAKER US Bus inventory 0.4% WEAKER UK Unemploy'm't rate 4.9% LESS UK Unemploy'm't chge 20.3k BETTER UK Avrge earngs 2.8% STRONGER UK AE Ex-bonus 2.1% AS UK ILO Unemploy'm't rate 7.9% AS EZ Ind production 1.0m, 4.2y WEAKER JP Machine tool orders 15.2y AS JP Condo sales 1.7% BETTER JP Ind production 0.4m, -3.0y WEAKER JP Capacity utilisation 0.6% WEAKER THAN EXPECTED

	Week of 12 th September
Thursday	US CPI 0.4m, 3.8y WORSE US CPI Ex-F&E 0.2m, 2.0y MORE US Q2 C/A -\$118.0B BETTER US Empire mfg -8.82 WORSE US Jobless claims 428k WORSE US Ind production 0.2% BETTER US Capacity utilisation 77.4 LESS US Philly Fed -17.5 WEAKER UK Retail sales -0.1m, -0.1y BETTER IT CPI 0.3m, 2.8y AS EZ CPI 0.2m, 2.5y AS IT C/A 1.663B BETTER THAN EXPECTED
Friday	US Net lg trm TIC flows \$9.5B WEAKER US U. of Michigan 57.8 BETTER EZ C/A -3.2B AS IT Trade bal 1.438B BETTER IT Trade bal EU 1.773B BETTER EZ Trade bal 4.3B STRONGER THAN EXPECTED



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US MARKETS: economic background

The key data releases highlighted by us last week only served to emphasise the mixed nature of data and the weakness of the economy.

The Industrial production report came in better than expected, but this relates to manufacturing which is a small part of the US economy and although a closely watched indicator it harks back to an earlier age.

The Retail sales report released on Wednesday, represents the largest share of GDP and was weaker than forecast highlighting the economy's lack lustre performance throughout this year.

However, markets were dominated by the ups and downs of the Euro zone sovereign debt crisis drama which remains unresolved and increasingly threatening to global economic prosperity.

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; **NAHB House market index**,
- On Tuesday; **housing starts and building permits**,
- On Wednesday; **Existing home sales and FOMC policy decision**, and
- On Thursday; **Jobless claims and house price index**.

The main event this week is the FOMC policy decision. Interest rates are on hold, but will the Fed decide to start QE3 or wait a little longer, that decision will be important for markets this week.



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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of March 12 Eurodollars.



See how Eurodollars rallied on Thursday as Global Central Banks pumped liquidity into markets.

The Macro Trader's view of Eurodollars is; last week we said and repeat...

...“We judge this market remains well supported but with limited upside potential”...

And after last week's price action we see no need to change that assessment. Economic data continues to paint a picture of weakness and the Euro zone debt crisis if not soon resolved threatens an economic “winter”.

The rally on Thursday fuelled by Central Bank liquidity provision although impressive only moved the market back to the upper part of the recent range.

Looking ahead the FOMC policy decision is due on Wednesday, but even if the Fed starts QE3 we doubt it will drive this market very much higher.

Once again our advise is remain square.



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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 succumbed to profit taking as equity markets staged a short covering rally.

The Macro Trader's view of the 10 year note is; the market gave back much of the previous week's gains even though retail sales fell short of consensus.

But with equity markets staging yet another short covering rally driven by miss-placed optimism that Euro zone leaders were close to agreeing a formulae to cure the debt crisis, bonds were a victim of profit taking.

Looking ahead the FOMC policy decision takes centre stage and should dominate for most of the week.

Traders will be watching to see if the Fed activates QE3, if it does Treasury Bonds should rally, if they don't, developments in the Euro zone debt crisis will drive the market, but we expect a rally in any event, sine the Euro zone leaders are still unable to agree a workable solution to their debt crisis.

Traders should remain long of this market.

Our target remains 132.01 and our stop continues at 128.10 for protection.



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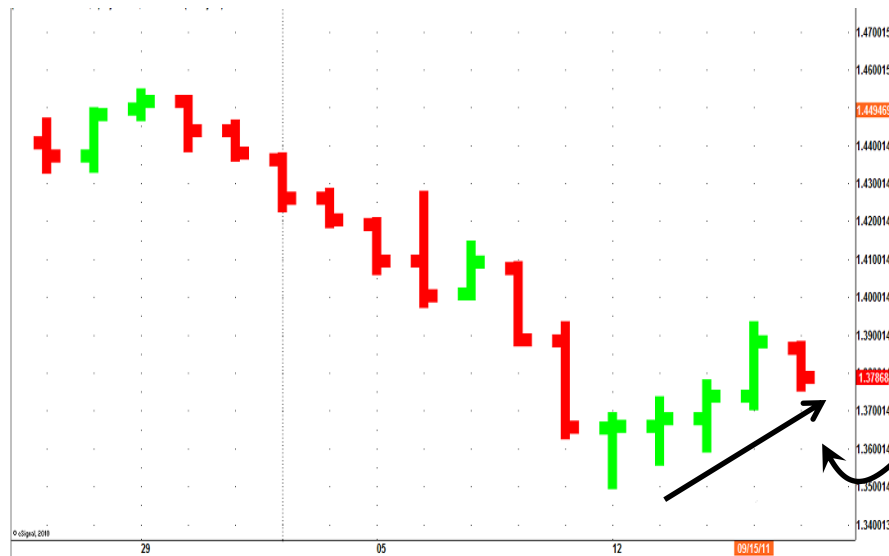
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US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.



See how the Dollar suffered a correction on hopes Euro zone leaders would finally agree a solution to the debt crisis.

The Macro Trader's view of the Dollar is: last week the Dollar suffered a correction.

Markets were expecting some positive developments from the Euro zone leaders who met to discuss the debt crisis.

In the event nothing new was agreed and the problem remains as was. How much longer the crisis can be left to fester is unclear, but it needs dealing with; it isn't going to just go away.

In fact the longer it festers the greater the threat to global economic health and the Euro's survival.

Looking ahead the main event this week is the FOMC policy decision. We don't think the Fed is ready just yet to start QE3, so the Dollar will trade off developments in the Euro zone.

We judge these will continue to be bullish for the Dollar and negative for the Euro.

Traders should be long the Dollar/short the Euro.

Our target remains 1.3065 and our stop continues at 1.4050 for protection.



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US MARKETS: S&P500

OUR TRADING STANCE: **BEARISH.**

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



The Macro Trader's view of the S&P 500 is: the market enjoyed a relief rally last week on miss-placed optimism Euro zone leaders might at last agree a way out of the sovereign debt crisis, but no, nothing new came from a meeting of leaders as a Euro zone wide bond issue was ruled out by Germany.

Looking ahead markets will have their attention fixed on two events;

1. The FOMC policy decision on Wednesday, and
2. Any new developments in the Euro zone

sovereign debt crisis.

We judge the outlook for stocks remains negative. The US economy remains sluggish and the debt crisis in the Euro zone drags on with ominous consequences..

Traders should be short the S&P.

Our target remains 1050.0 and our stop continues at 1235 for protection.



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UK MARKETS: economic background

The two key data releases last week were the CPI report and retail sales.

CPI met consensus and showed inflation stuck at 4.5%. The retail sales report was marginally better than expected, but with month on month and year on year indicators both negative the outlook for GDP isn't good.

So much so that politicians and policy makers at the Bank are talking increasingly about a UK QE2.

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 Wednesday; **MPC minutes, PSNCR and PSNB, and**
- On Thursday; **CBI Trends survey, and**
- On Friday; **BBA Home buyers loans.**

The main event this week is the MPC minutes.

Traders will be eagerly awaiting their release to gauge the committees enthusiasm for starting QE2 which judging by recent comments from policy makers seems on the increase..



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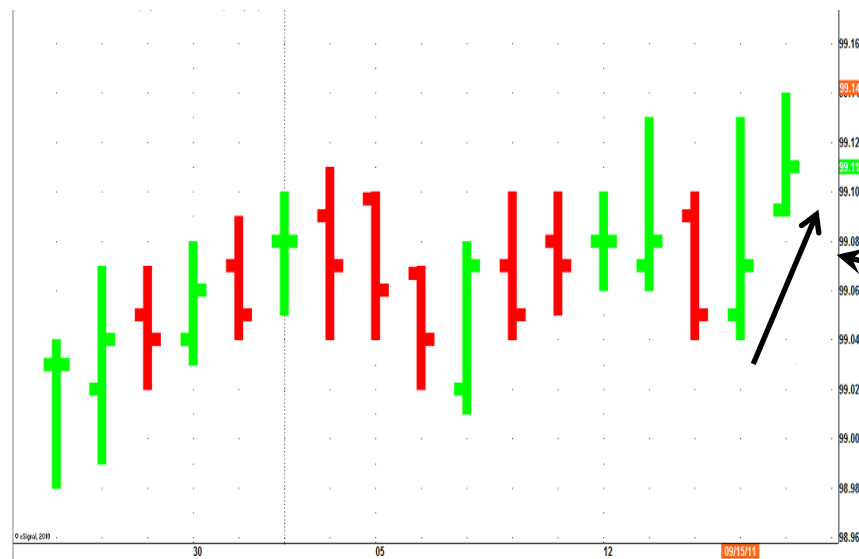
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UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of June 12 Short Sterling.



Note how Short Sterling recovered last week after weak retail sales and Central Bank liquidity injections.

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

...“the run of data last week was again weaker than expected”...

...“Additionally the crisis in the Euro zone seems to be deepening”...

And that was the main news story again last week. Add to that the co-ordinated Central Bank emergency liquidity provision on Thursday and traders took this market higher as fears of a UK and global recession

grew.

Looking ahead data is scarce this week and traders will be focussed on the MPC minutes for clues about QE2, but we judge the Bank may not be ready to act just yet, but we think a new round of QE isn't too far off.

We judge traders should remain long of this market.

Our target is 99.20 and our stop is 98.95 for close protection.



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Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: Gilt

OUR TRADING STANCE: BULLISH.

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



See how the gilt corrected lower on hopes of a Euro zone debt crisis break through.

The Macro Trader's view of the Gilt is; Last week the suffered a correction driven by hopes of a break through in the Euro zone sovereign debt crisis which helped equity markets rally.

No new deal was agreed between the Euro zone leaders and the crisis festers on threatening global economic health.

Looking ahead the MPC rate decision takes centre stage this week and although policy makers have become more vocal about the possibility of QE2, we

think the has shifted its position enough. This week's minutes will likely clarify the position.

However we remain bullish of the Gilt as the UK economy continues to weaken and the Euro zone crisis continues.

Traders should be long of this market.

Our target this week is remains 131.50, and our stop is still set at 127.50 for protection.



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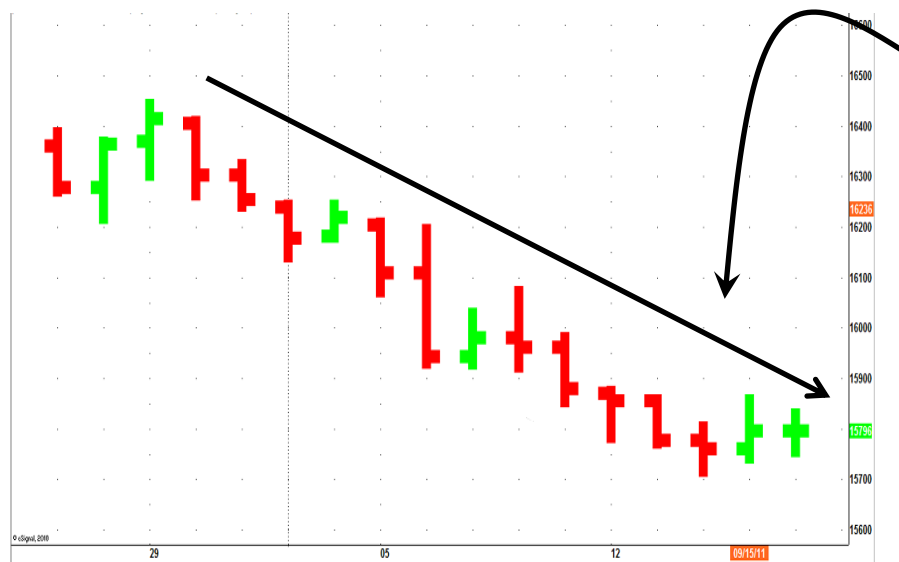
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UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were Square of Cable



See how Sterling remained under pressure against the Dollar last week as the Euro zone crisis continues to drive traders away from the other major currencies into Dollars.

The Macro Trader's view of the Pound is; the Dollar remains driven by safe haven buying as traders seek protection from the Euro zone sovereign debt crisis.

And although the Dollar corrected against the Euro last week as hopes rose of a new debt agreement in the Euro zone, the Pound remained under pressure as domestic data continued to disappoint.

Looking ahead the MPC minutes are the main event this week and traders will be watching for any changes to the stance of committee members with regard to

QE2.

However the main story in markets globally is the sovereign debt crisis and the inability of Euro zone members to agree a solution.

With fears of a global recession growing traders are likely to remain Dollar buyers, however we judge the Pound's fundamentals are no worse than those of the US where growth is also weak, but given the desire for safe haven assets, we advise focussing on Dollar/Euro while remaining square of Sterling.



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Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: FTSE

OUR TRADING STANCE: BEARISH.

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



See how the FTSE rallied on miss-placed optimism over a break through in the Euro zone.

The Macro Trader's view of the FTSE is: the market found support last week as traders speculated the Euro zone leaders would finally agree a way out of the debt crisis, nudged by US President Obama and US Treasury Secretary Geithner.

However their optimism was miss-placed.

No new agreement was reached and the likes of Greece continue to teeter on the brink of default while pledging to stay the road to austerity in order to get the aid previously pledged, but fears are that Greece will leave the Euro zone and default plunging the world

economy into a new and dangerous crisis.

We judge the debt crisis will likely lead to a fragmentation of the Euro zone since Germany isn't prepared to agree to sharing its sovereignty which the creation of Euro zone wide bonds would entail.

Traders should be short of the FTSE despite the short covering rally.

Our target this week remains 4940.0 and our stop continues at 5450 for protection.

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EURO ZONE MARKETS: economic background

The Euro zone remains in the grip of the Sovereign debt crisis, which is having an impact on growth.

Last week's Euro zone Industrial production data was weaker than expected and so too were several other key data releases.

With the hoped for break through between Euro zone leaders failing to materialise yet again last week, we judge the crisis will continue to over shadow data releases as the risk of a new global recession grows on the fear a Euro zone member will ultimately default and precipitate a Euro zone break up.

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; **Euro zone construction**

output,

- On Tuesday; **German PPI and ZEW survey,**
- On Thursday; **Euro zone new industrial orders and PMI Composite survey, and**
- On Friday; **French business confidence and Italian retail sales.**

The main event this week is Euro zone new industrial orders.

After last week's poor industrial production, traders will be looking for improvement, but probably won't get it as the Sovereign debt crisis continues to erode economic performance.



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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor gave back the previous week's gains driven by a rally in equity markets.

The Macro Trader's view of Euribor is; Euribor reversed the previous week's gains despite the release of yet more mixed/weak data.

But with equity markets rallying globally last week on hopes of a deal to settle the debt crisis, Euribor was out of favour.

And while the ECB recently abandoned its rate hiking cycle, we don't see rate cuts just around the corner,

meaning this market is likely to settle into a trading range near the top of the bullish trend.

Looking ahead traders should monitor Euro zone industrial new orders and PMI composite survey, but yet again we judge it will be developments in the debt crisis that drives this market.

Once again we advise a square position.



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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund endured a 4 point correction last week as stocks recovered.

The Macro Trader's view of the Bund is: once again the price action in the Bund last week proved volatile and driven by the changing fortunes of equity markets.

And although data was mixed traders were focused on the rally in equity markets driven once more by hopes of a new agreement to tackle the debt crisis, but alas once more these were miss-placed.

Looking ahead data is likely to remain mixed, but traders are focused on the debt crisis which rages on and threatens the Euro zone and global economy.

Euro zone leaders are clearly unable to agree a solution which would involve some pooling of fiscal sovereignty and Germany stands out as the main objector to issuing Euro zone wide bonds.

If a solution isn't soon found markets will return to panic mode and the Bund would likely rally hard.

Although stopped out last week, we advise traders to be long of the Bund.

Our target this week remains 140.00 and our stop is set at 135.00 for protection.

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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the DOLLAR.

Last week we were Bearish v the Dollar.



The Macro Trader's view of the Euro; the Euro rallied last week for one simple reason; traders were hoping Euro zone leaders were on the brink of announcing a new strategy to tackle the debt crisis, their hopes were dashed.

With Euro zone data weakening and the debt crisis raging on, we judge the Euro's rally was a short covering move with limited longevity.

Looking ahead we judge the Dollar will resume its rally against the Euro as traders buy Dollars as a hedge against a peripheral economy defaulting and or Euro

zone fragmentation/break up.

We suggest data is of limited importance again this week, watch the news closely for fresh developments in the debt crisis.

We advise traders should be Short the Euro/ Long the Dollar.

Our target remains 1.3065 and our stop continues at 1.4050 for protection.



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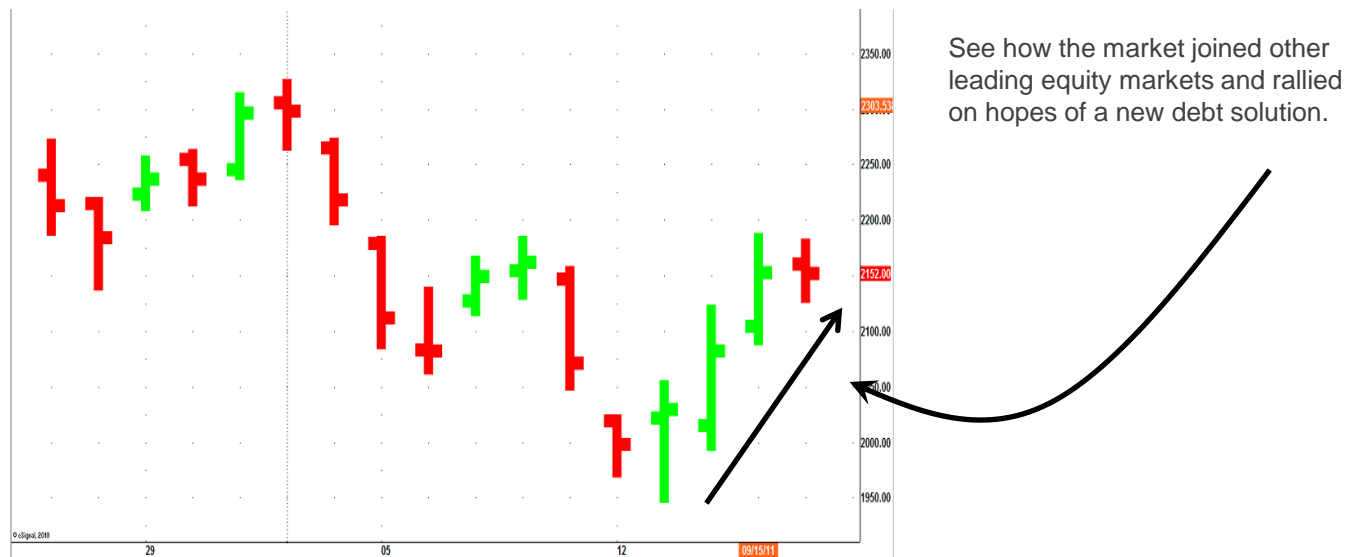
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EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish** of DJ EUROSTOXX50.



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

the story in equity markets globally last week was one of hope, hope the leaders of the Euro zone might finally agree a solution to the debt crisis.

But again they failed to rise to the challenge.

The solution most see as needed is the issuance of a Euro zone wide bond, but that means lower rates for the indebted states and higher borrowing rates for a country like Germany. It also entails a pooling of sovereignty and Germany does not want to go down that road so no new solution, the crisis rages on.

This week's data seems of limited importance as traders weigh up the options facing debt laden Euro zone countries like Greece, Portugal Spain and Italy which turned, in desperation, to China for help last week.

Once again we advise traders should be short of this market.

Our target remains 1923.0 and our stop continues at 2229.0 for protection.

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+ NIKKEI

Commodities

+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: economic background

Once again data disappointed and although data releases were sparse, Industrial production and capacity utilisation failed to meet consensus.

And although machine tool orders were as expected, there is a feeling the Japanese economy is feeling the headwinds from the Euro zone debt crisis and slower US economy and struggling to maintain the momentum that only a few weeks ago painted a picture of a Japanese economic recovery.

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 Tuesday; **Convenience store sales and trade data, and**
- On Wednesday; **All industry activity index.**

We judge the trade report s the main event this week as traders continue to focus on data that reports on Japan's exporting and manufacturing strength.



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

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JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB remained trapped last week in a sideways pattern.

The Macro Trader's view of the JGB is: last week's data continued the recent disappointing trend and raises fears of an emerging slowdown.

Both Industrial production and capacity utilisation fell short of consensus raising fresh doubts about the recovery.

Looking ahead the trade data stands out as the main release to watch, but we judge bonds globally, as are stocks, are driven by the news flows from the Euro zone Sovereign debt crisis.

Last week Euro zone leaders missed an opportunity to tackle the crisis and we expect stocks to renew their sell off, helping bonds recover.

For now we advise a square position in this market.

Japan is still trying to recover from the natural disaster that struck earlier in the year so her needs are different and at times lead the JGB in a different direction to other leading Bond markets.



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Commodities

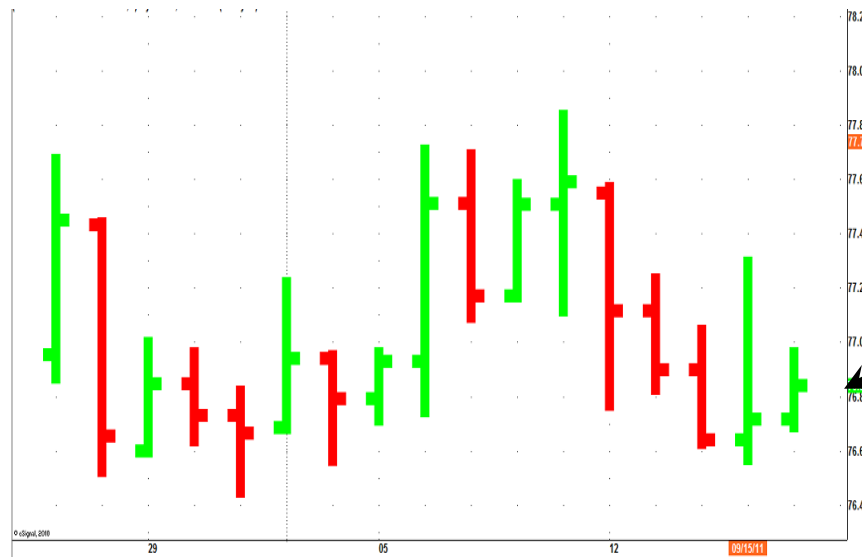
- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Yen.



The Yen regained its poise last week and moved to the upper end of the recent range against the Dollar.

The Macro Trader's view of the Yen is; the Yen recovered its poise last week and moved towards the upper end of the recent range.

In the absence of intervention on the Currency markets from the Bank of Japan, traders turned again to the Yen as a safe haven trade.

However the threat of intervention remains. The Swiss

National Bank took drastic measures to halt the rise of the Franc, arguably Japan's position would make similar action understandable.

We judge the Yen, due to the threat of intervention, is a currency that leaves traders vulnerable to sharp corrections and advise a square position.



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JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Macro Trader's view of the Nikkei is; Japanese data was again disappointing and we are firming up our conclusion that Japan is suffering from the global impact of the Euro zone sovereign debt crisis, which late last week moved to a more dangerous level, as Euro zone leaders failed to agree a new strategy and Global Central Banks pumped large amounts of Dollar liquidity into the markets to help Bank's struggling to raise funding and to calm nerves.

As a major exporting nation, a global recession will depress Japan's economy.

The threat is growing of a serious economic shock emanating from the Euro zone, its impact will be global, we judge last week's rally will fail and revert to bearish price action.

But as we said last week...

..."For now we prefer to trade the equity markets at the centre of the storm"...

So we advise remaining square here.



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COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were **Bullish** of Gold.



See how gold continued to drift lower as traders focused on the possibility of a new agreement to solve the Euro zone debt crisis emerging from last week's talks.

The Macro Trader's view of the Gold is: the Dollar corrected last week, but held most of its recent gains.

For Gold that meant a further period of correcting lower driven by expectations a deal would be struck to save the Euro.

But Euro zone leaders proved again they are unable to pull together in order to save the Euro zone, the Euro and indeed the global economy.

Looking ahead we judge last week's failed attempt to tackle the root of the crisis offers gold renewed support.

The Dollar may be back in demand, but that is essentially currency/trade hedging. Central Banks are again buyers of gold as most market players/investors seek a reliable hedge/investment that can survive the worst case scenario: default of a Euro zone economy followed by or together with exit from the Euro resulting in a run on what is left of the currency Bloc.

Traders should remain long of Gold despite the stop being hit, there are dangerous times for the global economy and a reliable hedge is required.

Our target remains 1950.0 and our stop is set at 1690.0 for protection.



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COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil remains aloof of the fears driving other markets.

The Macro Trader's view of oil is: we repeat what we said last week...

...“the oil market continues to track sentiment and price action in equity markets and both have unrealistic expectations”...

...“The US economy is slowing, and might just fall into recession”...

...“The Euro zone is still dogged by the sovereign debt crisis and there are growing fears about a Banking crisis in the Euro zone with global repercussions”...

...“The UK economy is weak”...

...“Japan's economy relies on an export led recovery which would likely abort if activity in her major trading partners weakens further as feared”...

...“In short we judge oil looks like a market on the brink of a serious correction lower, but as with most markets currently, timing is proving very difficult”...

Timing is difficult and unrealistic optimism last week about a Euro zone debt deal doesn't help, but we expect this market to trade lower.

For now we advise a square position.

More



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