


Week 41

11th – 17th October 2011


# the macro trader's guide to major markets

John Lewis

# SUMMARY

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Global Calendar

## US Markets

| | |
|---|---|
| + EURODOLLARS | SQUARE |
| + 10 YEAR NOTE | SQUARE |
| + US DOLLAR | BULLISH v the Euro |
| + S&P 500 | BEARISH |

## UK Markets

| | |
|---|---|
| + SHORT STERLING | SQUARE |
| + GILT | SQUARE |
| + STERLING | SQUARE |
| + FTSE | BEARISH on growing fears of recession |

## Euro Zone Markets

| | |
|---|---|
| + EURIBOR | SQUARE |
| + BUND | SQUARE |
| + EURO | BEARISH v the Dollar |
| + DJ EURO STOXX 50 | BEARISH |

## Japanese Markets

| | |
|---|---|
| + JAPANESE BONDS | SQUARE |
| + YEN | SQUARE |
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| | |
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| + GOLD | SQUARE |
| + OIL | BEARISH |

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# This week's global calendar – macro trader


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| | Week of 10th October |
|---|---|
| Monday | UK RICS Hse prces -24%<br>UK BRC Retail sales -0.9%<br>DM Trade bal 9.0B<br>DM C/A 5.0B<br>FR Ind production -0.8m, 2.3y<br>FR Mfg output 0.2m, 3.7y<br>IT Ind production 0.2m, -2.7y<br>JP C/A Bal 453.6B<br>JP Trade bal n/f<br>JP Machine tool orders n/f |
| Tuesday | US Monthly budget stat -$61.9B<br>UK Ind production -0.2m, -1.2y<br>UK Mfg output -0.1m, 1.6y<br>UK NIESR GDP Est n/f<br>DM WPI n/f<br>JP Bankruptcies n/f<br>JP Cons conf 37.2<br>JP Eco watchers survey 46.5<br>JP Machine orders 3.9m, -3.6y |
| Wednesday | US MBA Mrtge apps n/f<br>UK Unemploym't rate 5.0%<br>UK Unemploym't chge 24.0k<br>UK ILO Rate 8.0%<br>UK Averge earngs 2.8%<br>UK Avrge earngs ex-bonus 1.9%<br>FR CPI 0.1m, 2.5y<br>FR C/A n/f<br>EZ Ind production -0.8m, 2.1y<br>JP Tertiary ind indx -0.3m |

| | Week of 10th October |
|---|---|
| Thursday | US Trade Bal -$46.0B<br>US Jobless claims 405k<br>UK Trade bal -£8.8B<br>UK Trade ex-EU -£5.35B<br>DM CPI 0.1m, 2.6y<br>JP Dmestic corp gds prces -0.2m, 2.5y |
| Friday | US Import prces -0.4m, 12.5y<br>US Retail sales 0.5<br>US RS Ex-autos 0.2<br>US U. of Michigan conf 60<br>US Bus inventry 0.4%<br>IT Trade bal n/f<br>IT Trade EU n/f<br>EZ CPI 0.8m, 3.0y<br>EZ Trade bal -4.0B<br>IT CPI 0.1m, 3.1y |

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| | Week of 3rd October |
|---|---|
| Monday | US Construction spndg 1.4m, **STRONGER**<br>US ISM Mfg 51.6 **STRONGER**<br>US ISM Prces paid 56.0 **STRONGER**<br>UK Hometrack hse pces -0.1m, -3.5y **WORSE**<br>UK PMI Mfg 51.1 **STRONGER**<br>UK Halifax hse prces -2.3m, **WEAKER**<br>IT PMI Mfg 48.3 **STRONGER**<br>FR PMI Mfg 48.2 **STRONGER**<br>DM PMI Mfg 50.3 **BETTER**<br>EZ PMI Mfg 48.5 **BETTER**<br>JP Tankan 4 **BETTER**<br>JP Tankan all ind Capex 3.0% **WEAKER**<br>JP Vehicle sales 1.7% **STRONGER**<br>JP Labour cash earngs -0.6% **WORSE**<br>**THAN EXPECTED** |
| Tuesday | US Bernanke to testify @ JEC **DOVISH**<br>US Factory orders -0.2% **LESS**<br>UK PMI Construction 50.1 **WEAKER**<br>UK BRC Shop prices 2.7% **AS**<br>EZ PPI -0.1m, 5.9y **STRONGER**<br>**THAN EXPECTED** |
| Wednesday | US MBA Mrtge apps -4.3 **WEAKER**<br>US ADP Emplymnt chge 91k **STRONGER**<br>US ISM non-mfg 53 **AS**<br>UK PMI Services 52.9 **STRONGER**<br>UK Q2 GDP 0.1q, 0.6y **WEAKER**<br>UK Q2 Tot bus investmt 11.6q, 3.8y **BETTER**<br>IT PMI Services 45.8 **WORSE**<br>FR PMI Services 51.5 **WEAKER**<br>DM PMI Services 49.7 **WORSE**<br>EZ PMI Services 48.8 **WORSE**<br>EZ Retail sales -0.3m, -1.0y **WEAKER**<br>**THAN EXPECTED** |

| | Week of 3rd October |
|---|---|
| Thursday | US Jobless claims 401k **LESS**<br>UK Indx of services 0.2m, 0.9 3m/3m **BETTER**<br>UK BOE QE Target £275B **MORE**<br>UK MPC rate decision 0.50% **AS**<br>ECB Rate decision 1.50% **AS**<br>DM Factory orders -1.4m, 3.9y **WEAKER**<br>**THAN EXPECTED** |
| Friday | US Non-farm payroll 103k **STRONGER**<br>US Unemplym't rate 9.1% **AS**<br>US Avge hrly earngs 0.2m, 1.9y **AS**<br>US Averge wrk week 34.3 **MORE**<br>US Wholesale inventry 0.4% **WEAKER**<br>UK PPI Input 1.7m, 17.5y **WORSE**<br>UK PPI Output 0.3m, 6.3y **WORSE**<br>UK PPI Core 0.3m, 3.8y **WORSE**<br>DM Ind production -1.0m, 7.7y **BETTER**<br>JP BOJ Rate decision 0.10% **AS**<br>**THAN EXPECTED** |

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## US MARKETS: economic background

The US economy showed some welcome signs of life last week with better than expected ISM Manufacturing and non-manufacturing surveys.

But what really pleased the markets was the stronger than expected Non-farm payroll report which also posted significant upward revisions to earlier data releases.

However despite the improved data, the rate of job creation is still insufficient and Bernanke still sees the economy as weak, pledging the Fed can do more to help.

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; **Monthly budget statement,**
- On Thursday; **jobless claims and trade balance, and**
- On Friday; **import prices, retail sales and University of Michigan confidence.**

The main event this week is the retail sales report. Consumer demand is an important motor in the US economy so its current state of health is of interest.

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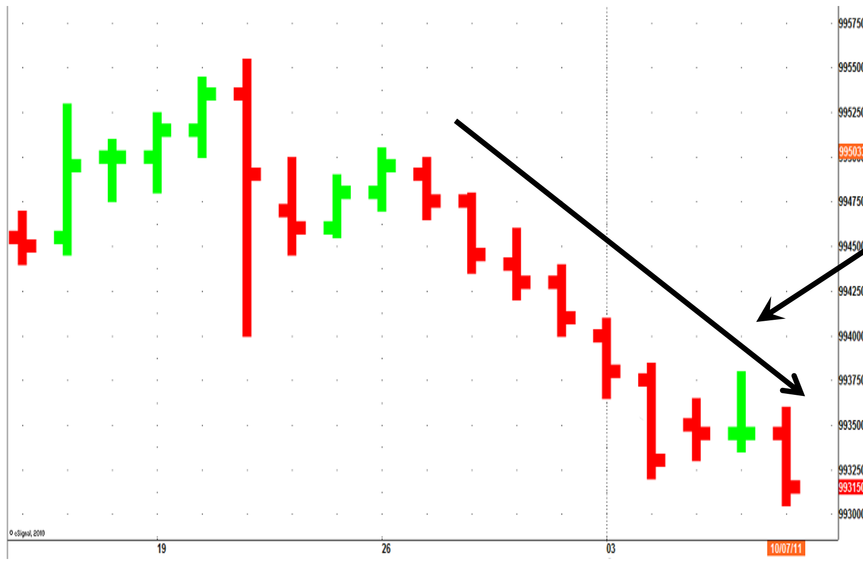
# US MARKETS: Eurodollars

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of March 12 Eurodollars.




See how Eurodollars sold off last week on the run of better data.

**The Macro Trader's view of Eurodollars is;** last week's data was a surprise. The two ISM surveys beat expectations and revealed there is life in the economy yet.

The non-farm payroll with its upward revisions also painted a slightly more optimistic picture and Eurodollars sold off.

We have remained side lined from this market for some time as we judged both the upside and downside looked limited. And although traders took the market lower, how much further are they willing to push.

At 103k the rate of job creation last month is still woefully inadequate and will not provide jobs for those thrown out of work during the recent recession.

The Fed still sees weakness in the economy and judging by Bernanke's comments is considering what other measures can be taken to spur growth.

We continue to advise a square position, since one months improved run of data isn't a new trend.

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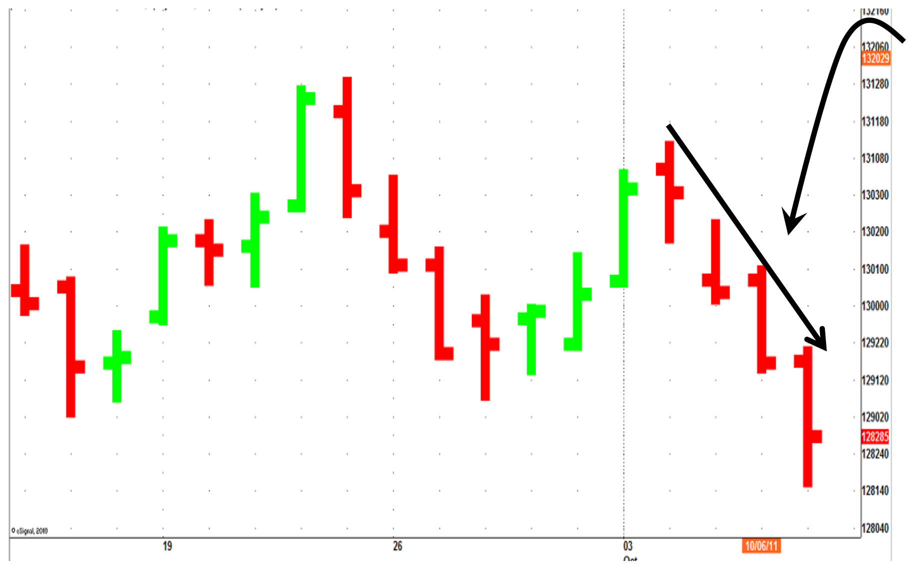
# US MARKETS: 10 Year Note

**OUR TRADING STANCE: SQUARE.**

Last week we were Bullish of the 10 year note.




See how the 10 year note sold off last week as equity markets extended their rally on Euro zone optimism.

**The Macro Trader's view of the 10 year note is;** the market suffered a sharp sell off last week as equity traders grew increasingly optimistic about the commitment of the Euro zone leaders to find a solution to the long running debt problem.

Additionally, US data came in stronger than expected and this also fuelled optimism about the US economy leading investors to liquidate safe haven trades in bonds.

We are stopped out of this market, but we remain sceptical about the ability of the Euro zone to resolve the debt problem.

Furthermore, one months data isn't a new trend so for now we remain long term bulls of bonds. However we judge now isn't the time to re-establish a long position.

The impact on sentiment from last week's data could last into next week. Additionally traders will need more bad news from the Euro zone to begin aggressively buying bonds again.

For now we advise remaining square.

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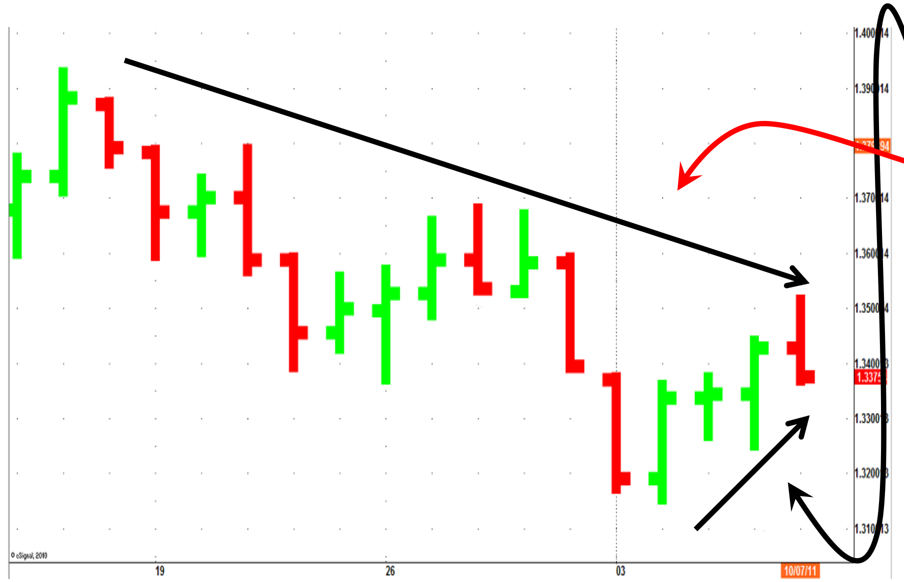
# US MARKETS: US Dollar

**OUR TRADING STANCE: BULLISH.**

Last week we were Bullish.




The Dollar corrected, but remains bullish.

**The Macro Trader's view of the Dollar is:** the Dollar corrected last week as traders relaxed a little about the Euro zone crisis, as sentiment turned towards Euro zone leaders fixing their sovereign debt problem.

With talk of Banks being recapitalised, traders were relieved a financial crisis could be avoided in the event of a Greek default.

We judge if Greece defaults and leaves the Euro zone, recapitalising the Banks will not prevent an economic storm hitting the global economy.

Looking ahead this week's key US data release is retail sales, traders will be watching to see if last week's run of improving data can carry forward.

However we judge developments in the Euro zone will continue to have a major impact on Dollar/Euro.

For now we continue to advise, 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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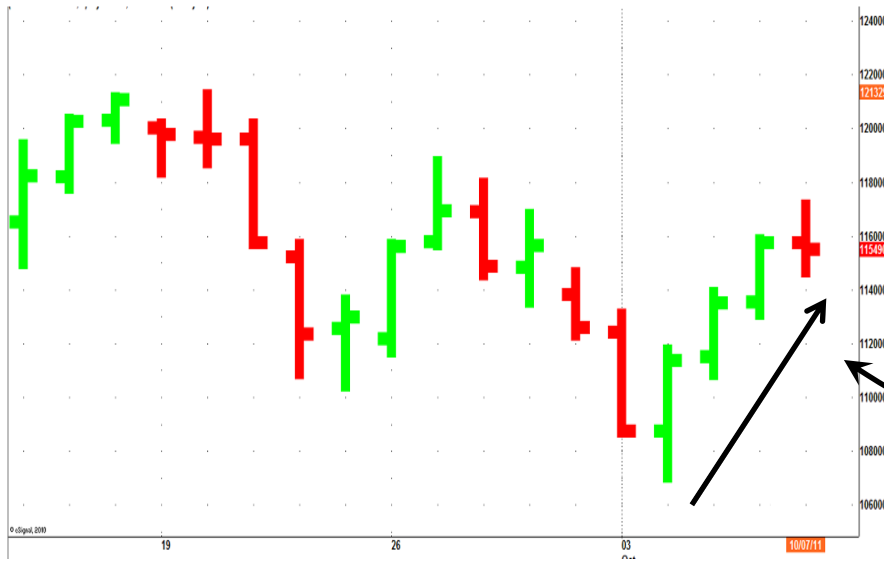
## US MARKETS: S&P500

**OUR TRADING STANCE: BEARISH.**

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




The S&P staged a solid recovery last week on better US data and improved market sentiment.

**The Macro Trader's view of the S&P 500 is:** stocks staged a solid recovery last week as US data turned sentiment increasingly positive.

Moreover the new found urgency among Euro zone leaders about resolving the debt crisis further fuelled the rally.

However, we remain bearish of equity markets.

We doubt the Euro zone has enough collective political will to take the necessary tough decisions needed to kill the crisis and we are not convinced the US economy has shaken off its malaise.

The Fed Chairman only last week voiced once more his concern about the negative outlook for the economy, and one week of improved data isn't a new trend.

And in any event the economy needs to create a lot more than 100k new jobs each month to re-absorb the unemployed and employ new labour market entrants.

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 key event last week was the MPC/Bank of England policy decision. Much to the markets surprise the Bank acted and restarted QE, and by a bigger amount than expected.

But as we said last week…

..."but if the economy is that bad, why wait"…

Policy makers obviously took the same view.

Other data released last week was a little stronger than expected, with both PMI surveys beating consensus, but the Bank is concerned about the impact on the economy from the Euro zone debt crisis and fears any default or break up of the Euro zone will have a serious knock on effect in the UK.

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 and BRC Retail sales survey,**
- On Tuesday; **Industrial production and manufacturing output,**
- On Wednesday; **Unemployment report and average earnings, and**
- On Thursday; **Trade data.**

The main event this week is the unemployment report due on Wednesday.

This report is becoming increasingly politically sensitive as unemployment continues to push relentlessly higher.

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SEVEN DAYS AHEAD

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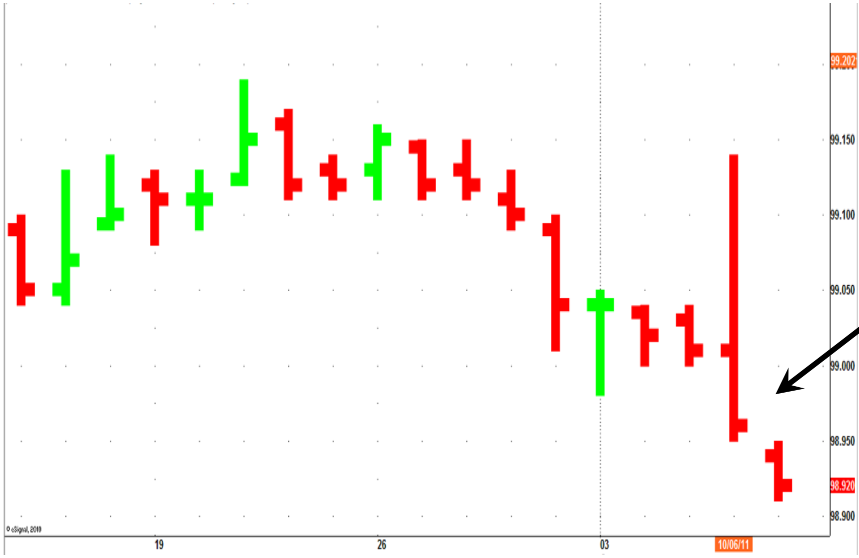
# UK MARKETS: Short Sterling

**OUR TRADING STANCE: SQUARE.**

Last week we were Bullish of June 12 Short Sterling.




Note how Short Sterling reacted negatively to the Bank's decision to restart QE.

**The Macro Trader's view of Short Sterling is;** the Bank of England restarted QE but Short Sterling sold off?

Opinion is divided over the impact of QE, some judge it will only stoke inflation, others judge it necessary to stop a mild bout of inflation imploding into deflation as the Euro zone sovereign debt crisis has a debilitating affect on the UK economy over the coming months.

We judge the UK economy has been cooling for months. We are not impressed by the current efforts of the Euro zone to find a solution to the crisis and judge the situation will likely get worse.

However our stop was hit and we are in no hurry to re-enter a market where sentiment isn't inline with our long held view.

For now stay square, but we judge the bulls will be back.

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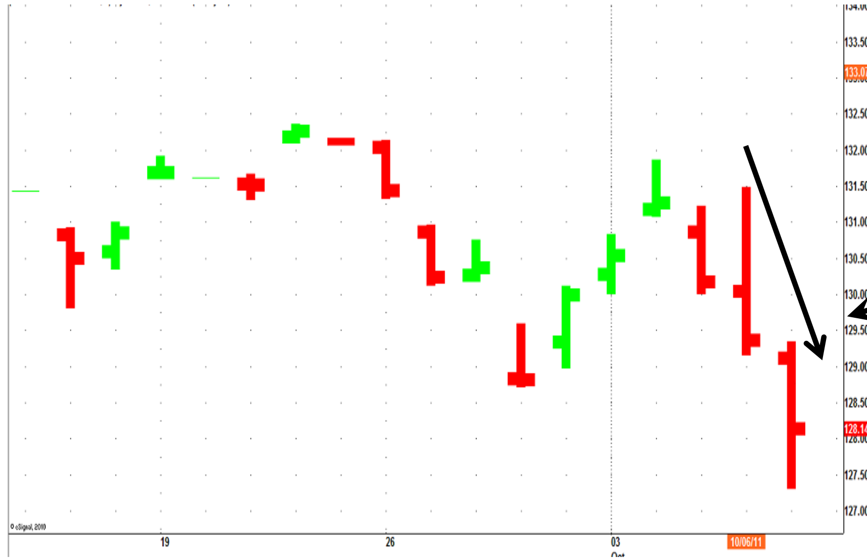
## UK MARKETS: Gilt

**OUR TRADING STANCE: SQUARE.**

Last week we were Bullish of the Gilt.




See how the gilt sold off hard last week despite the Bank of England restarting QE.

**The Macro Trader's view of the Gilt is;** the Bank announced it was restarting QE and by a bigger amount than expected, but the Gilt still sold off, as traders remained focussed on equity markets and the more positive sentiment currently driving them higher.

The motor in bonds and equities currently are the same; the twists and turns of the Euro zone sovereign debt crisis.

The latest twist has traders believing policy makers in the Euro zone are at last about to solve the crisis, but why after almost two years of dashed hopes and wasted opportunity.

We judge the much anticipated solution will again be long on talk, short on action and stocks will resume their slide sending investors running for bonds.

However the markets reaction to the Bank of England restarting QE was disappointing and since our stop was hit we are remaining side lined, so for now stay square.

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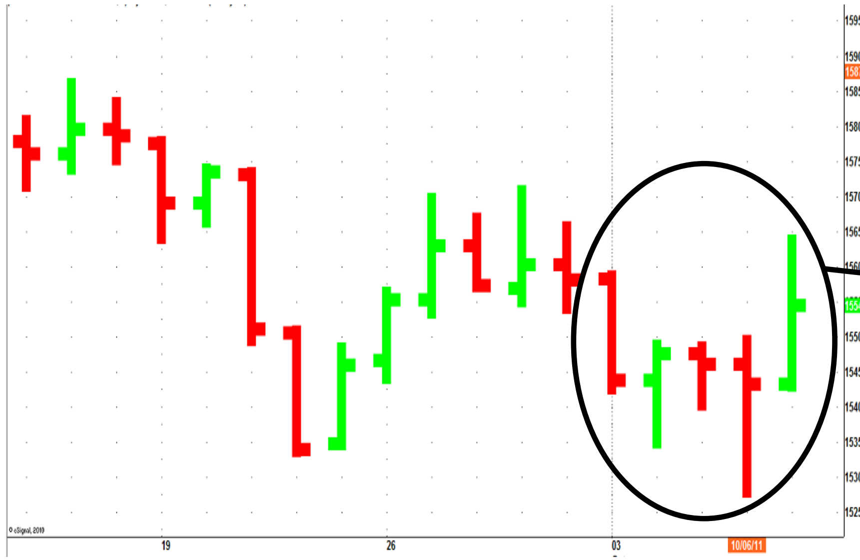
# UK MARKETS: Sterling

**OUR TRADING STANCE: SQUARE**

Last week we were Square of Cable




See how Sterling bounced last week as the Dollar corrected lower against the Euro.

**The Macro Trader's view of the Pound is;** the Pound recovered last week from a sell off driven longer term by the price action in Dollar/Euro and shorter term by the Bank of England's decision to restart QE.

The dynamic in currency markets remains the Sovereign debt crisis and its potential to tear the Euro zone asunder.

Currently traders are optimistic a solution to the crisis is at hand as French and German leaders discuss how best to recapitalise their Banks.

But that is a secondary issue, it doesn't deal with the crisis which is over indebted sovereign borrowers and the risk of one or more of the Euro zones members resorting to default as their only relief.

For now we remain side lined from this market as we judge it trades on the fall out from Dollar/Euro, rather than its own merits.

For now stay square.

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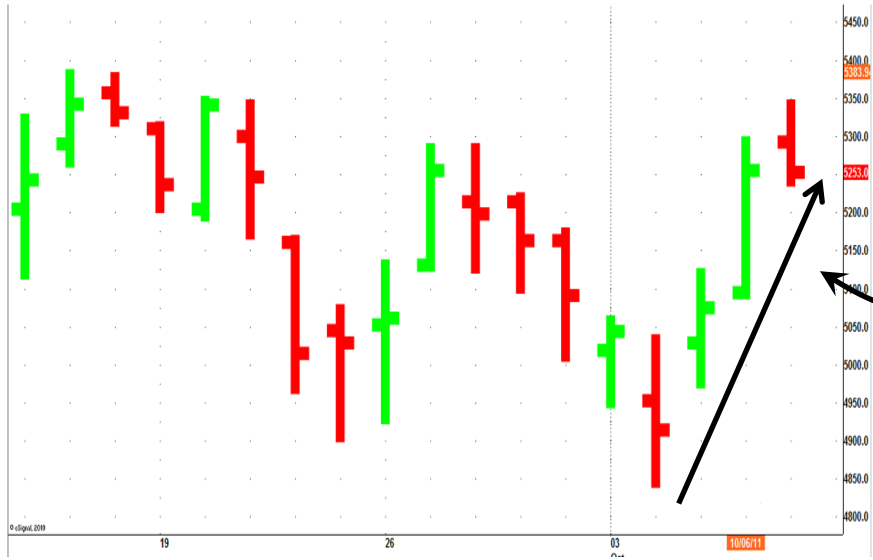
**OUR TRADING STANCE: BEARISH.**

Last week we were Bearish of the FTSE.




See how the FTSE rallied on news the Euro zone is seeking to recapitalise its Banks.

**The Macro Trader's view of the FTSE is:** the market corrected further than we expected last week and given the dynamics behind the move it may correct further, but we remain longer term bears.

The motor behind the rally is:

1. Renewed hope the Euro zone leaders are at last about to solve the debt crisis,
2. The improved data released by the US last week, and
3. The Bank of England's decision to restart QE.

We judge the restarting of QE is a measure of how bad the situation really is.

The improved US data may turn out to be a brief blip and after nearly two years of crisis and many lost opportunities why now should we expect a solution from the Euro zone?

We continue to expect a recession and remain equity market bears and advise traders should be short of the FTSE.

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

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## EURO ZONE MARKETS: economic background

The Euro zone economy threw out mixed readings last week. The PMI manufacturing surveys were largely better than expected but at sb-50 flag recession.

The PMI Service sector surveys were all weaker than expected and were mainly sub-50 too so the Euro zone seems on the brink of recession.

The ECB, as expected left policy on hold last week, but the door is open to a pre-Christmas rate cut; wait and see.

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

There are several CPI reports due this week and they should be closely watched, although we don not expect any of them to change policy at the ECB.

The main event this week is the Euro zone Industrial production report. In a week where hopes continue to ride high the Euro zone is finally close to solving its debt crisis, data should be watched closely to see just how much the crisis is damaging the economy.

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## EURO ZONE MARKETS: Euribor

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Euribor.


Euribor sold off on Thursday driven by unchanged ECB policy and a stock market rally.

**The Macro Trader's view of Euribor is;** the market suffered a steep correction on Thursday after the ECB held policy unchanged and stocks rallied on hopes of a debt crisis fix.

The ECB was never going to cut rates at last week's meeting, although the door is open to a move pre-Christmas.

However given the weakness of last week's PMI surveys which show the Euro zone heading for recession on both the manufacturing and Service sector surveys, last week's sell off seems over done.

Even allowing for current optimism that Euro zone leaders will at last resolve the debt crisis, the move lower seemed over done.

We judge this market offers little in either direction to justify a trade. The ECB will likely be slow to act and politicians slow to cure the crisis, if indeed they can muster the collective political will to act.

Once again remain square.

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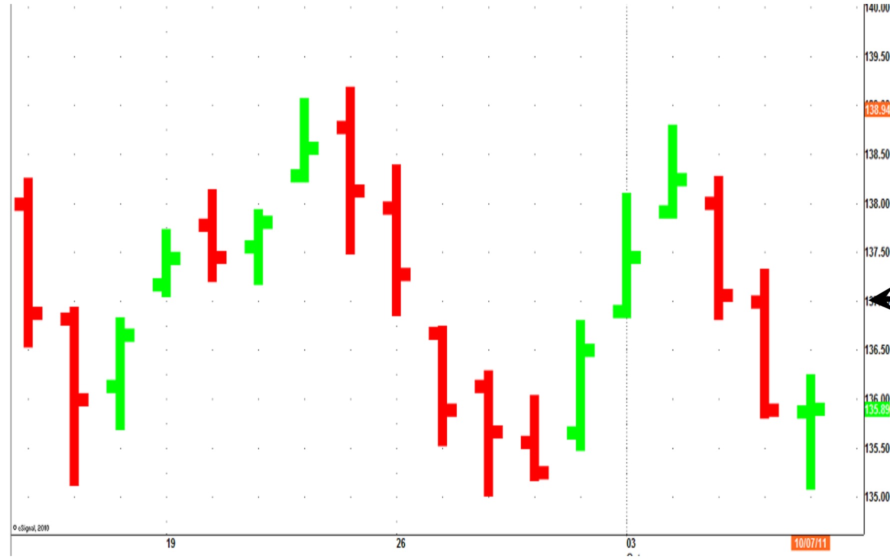
# EURO ZONE MARKETS: The Bund

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of The Bund.




The Bund has become volatile over recent weeks; note last week's reversal of the previous weeks price action.

**The Macro Trader's view of the Bund is:** the Bund has become a very volatile market as traders constantly adjust to the ebb and flow of news on the sovereign debt crisis.

Last week saw optimism grow on hopes of a solution to the crisis, with stocks up and bonds down. Direction has for now been lost.

Last week's data was bullish for the market, but traders reacted to the price action in equity markets. This week sees several important data releases with the Euro zone industrial production report standing out, but traders are likely to remain focussed on developments relating to sovereign debt.

The German and French leaders have pledged to find a solution by months end, whether they can remains to be seen, but markets are likely to trade on that hope.

We doubt anything material will result, but for now advise a square position.

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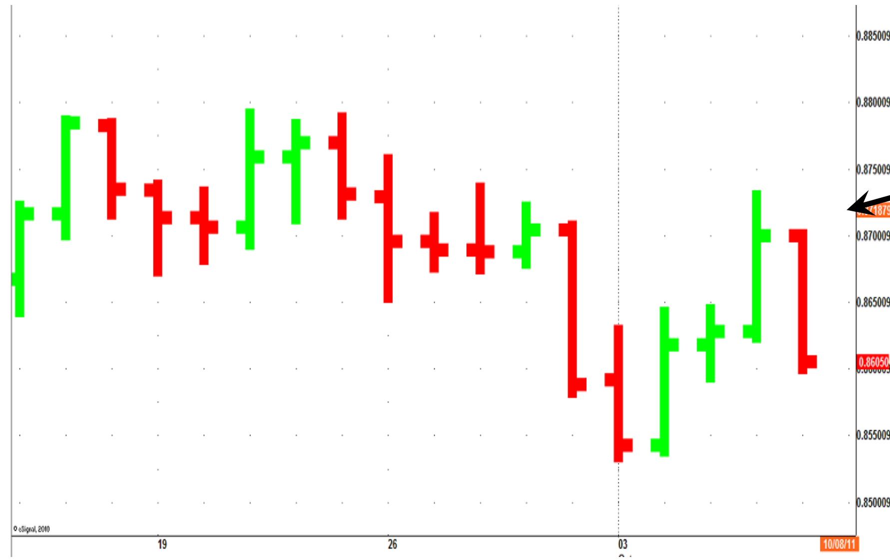
**Disclaimer**


## EURO ZONE MARKETS: The Euro

**OUR TRADING STANCE: BEARISH v the DOLLAR.**

Last week we were Bearish v the Dollar.




See how the Euro recovered some lost ground on debt crisis optimism.

**The Macro Trader's view of the Euro;** the Euro rallied last week against the Dollar and Sterling for one reason; optimism. Optimism the Euro zones leaders were getting serious about resolving the debt crisis.

We have no doubt they have been serious since the crisis broke almost 2 years ago, but still they offer no solution.

The decision to re-capitalise the zones Banks, while a pragmatic precaution, doesn't solve the crisis caused by over indebted governments..

We judge the Euro can and will weaken further against the Dollar and advise traders to 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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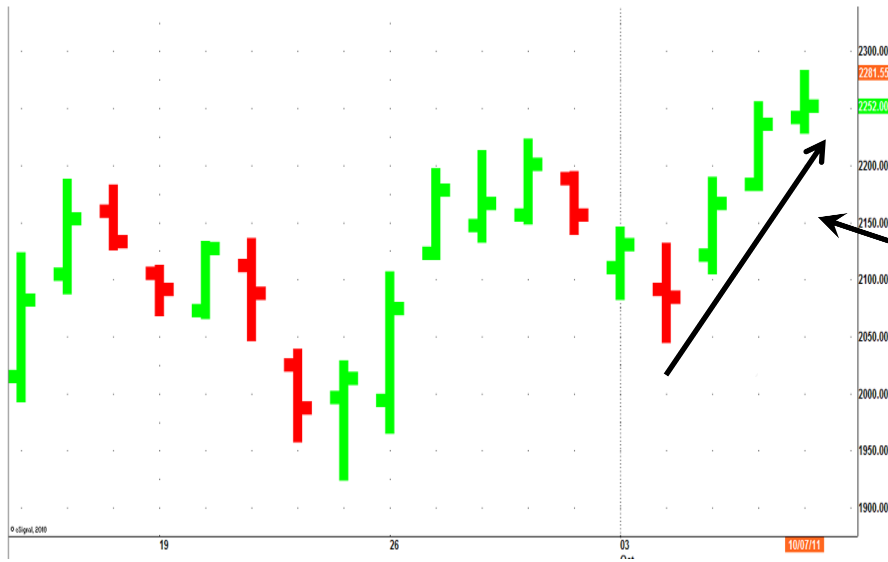
## EURO ZONE MARKETS: DJ Euro Stoxx 50

**OUR TRADING STANCE: BEARISH.**

Last week we were Bearish of DJ EUROSTOXX50.




See how the market in line with other equity markets rallied on hope of a deal to solve the debt crisis (there is no other reason).

**The Macro Trader's view of DJ Euro Stoxx 50 is:** the main event driving equity markets last week was optimism a deal to solve the debt crisis was about to be agreed.

The source of the optimism this time was that Euro zone leaders announced plans to re-capitalise their Banks. Good idea if they need it, but what about over indebted Euro zone governments, that's the source of the problem, a plan to tackle that is what's needed.

However markets took the news about the Banks as a positive step, since if a country defaults the Banks would be hit, so shoring them up makes sense.

Looking ahead the main data release this week is Euro zone industrial production, but the main market moving news remains the Sovereign debt crisis.

Although still bearish our stop was hit, so stay square until the fog of optimism is replaced by the clarity of realism.

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## JAPANESE MARKETS: economic background

The key release last week was the Tankan survey and it was marginally better than forecast, but CAPEX was weaker so net not much to get excited about.

The Bank f Japan left policy on hold retaining its view of economic conditions, which over recent weeks have deteriorated as the Yen has strengthened and the Euro zone debt crisis sapped confidence.

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; **The trade and C/A reports and machine tool orders,**
- On Tuesday; **Consumer confidence, Eco watchers survey and Machine orders,**
- On Wednesday; **Tertiary industry index, and**
- On Thursday; **Domestic corporate goods prices.**

We judge the main reports to watch this week are the Machine tool orders and Machine orders.

As an export led economy these are good indicators of activity.

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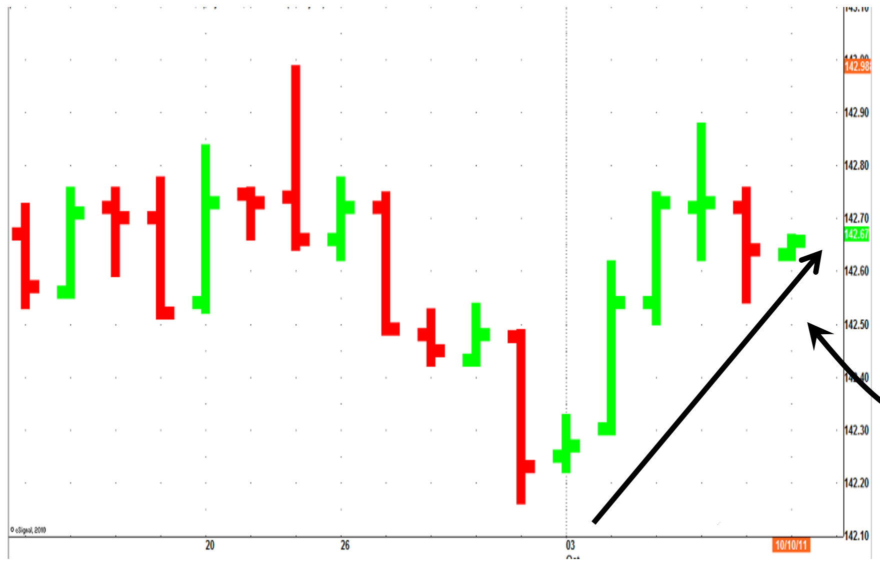
## JAPANESE MARKETS: Japanese Bonds

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Japanese Bonds.




The JGB held up well while other bond markets sold off.

**The Macro Trader's view of the JGB is:** the JG bucked the trend in global bond markets to a degree last week and remained supported.

While Treasuries, Bunds and Gilts sold off on optimism a Euro zone debt crisis rescue plan might be soon forthcoming, the JGB focussed more on domestic events.

Data last week was mixed and the Nikkei remained under greater pressure than other equity markets. The Bank of Japan held to its view of domestic economic conditions and left policy unchanged.

Looking ahead we judge the Machine tool orders and Machine orders reports are the main releases this week.

But conditions in markets seem unpredictable as the authorities globally struggle to contain a spread of crisis, ranging from Japan's recovery from the natural disaster earlier in the year to the Euro zone debt crisis.

For now we advise remaining square of this market.

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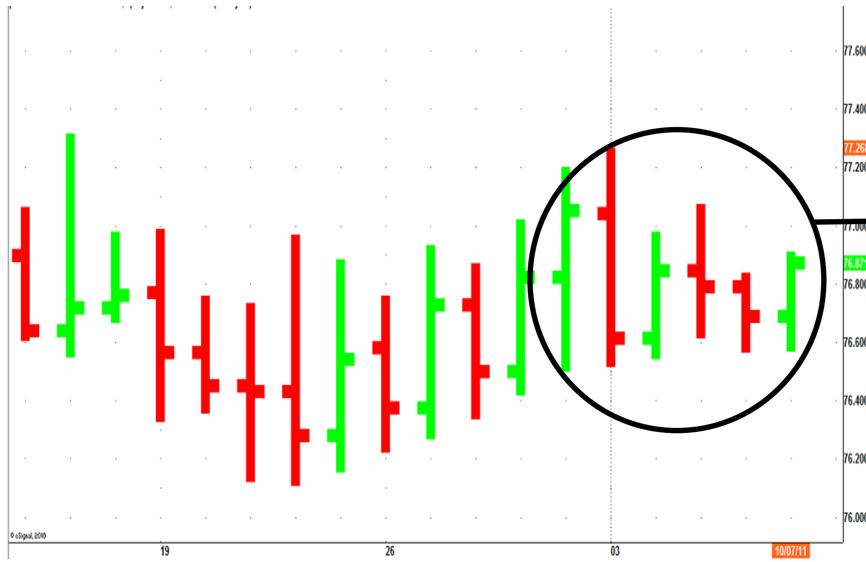
# JAPANESE MARKETS: Yen

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Yen.




The Yen moved mainly sideways last week as the threat of intervention waned.

**The Macro Trader's view of the Yen is;** the Yen moved mainly sideways last week with intra-day volatility easing.

The recent threat by Japan's authorities to intervene in the currency markets was loosing its fear value as no action has taken place.

With the Euro zone remaining centre stage on currency markets trading in Dollar/Euro continues to dominate as traders focussed attention on pledges made by Euro zone leaders to fix the problem by months end.

We judge the Yen remains a currency in demand, and as the threat to intervene recedes further, the Yen will likely begin to trend higher once more.

However, since intervention works best through surprise, complacency would likely prove dangerous.

We continue to advise a square position in very uncertain markets..

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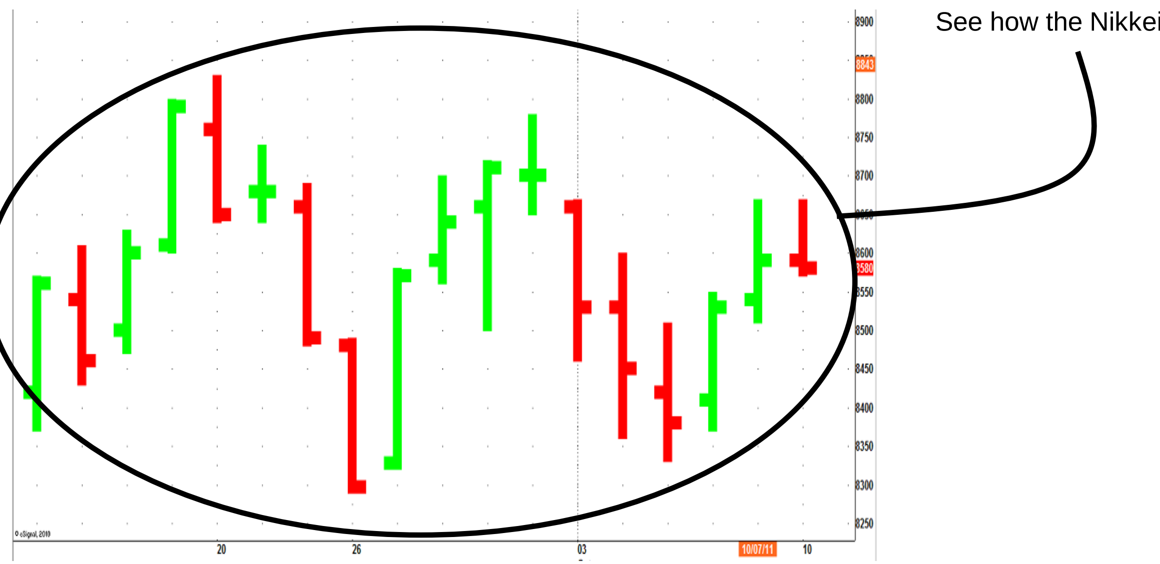
## JAPANESE MARKETS: Nikkei

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Nikkei.




**The Macro Trader's view of the Nikkei is;** the Nikkei looks trapped in a broad range as domestic news vies with international news for attention.

The Japanese economy has lost energy and looks like drifting back into recession.

With the Euro zone crisis raging on and threatening a global recession equity markets remain vulnerable to the down side despite last week's optimistic rallies in the S&P, FTSE and DJEUROSTOXX50.

It is noticeable how the major equity markets in the west have rallied further today, but the Nikkei has been subdued.

Until the sovereign debt crisis resolves one way or the other we are bearish of stocks. We are sceptical about the latest efforts to find a solution and the longer the crisis drags on the closer the world comes to recession.

However sentiment is currently against our bearish view.

So for now we advise remaining square here.

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SEVEN DAYS AHEAD

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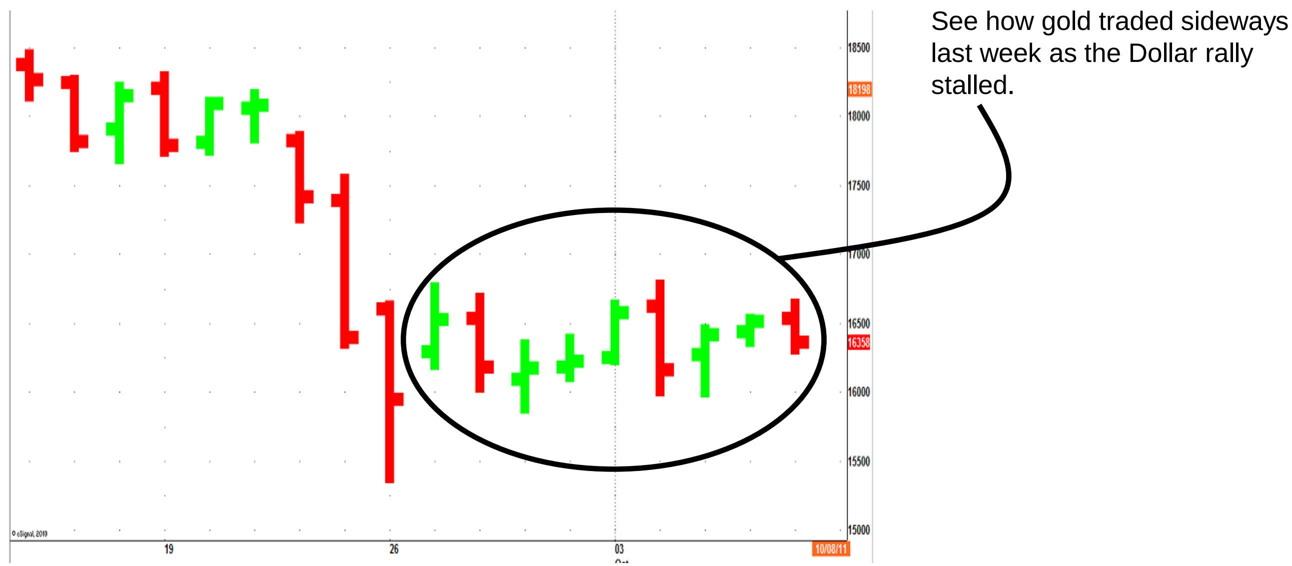
## COMMODITIES: Gold

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Gold.




**The Macro Trader's view of the Gold is:** the Dollar's rally stalled last week as traders hoped the Euro zone was at last getting to grips with its debt crisis.

The Euro zone leaders pledged to recapitalise their Banks, but that is a side issue to a problem of Sovereign solvency.

However traders were enthused by the fact something at last looks like being done and the Dollar corrected lower helping Gold stabilise.

Looking ahead we judge the Crisis is set to continue unless Sovereign debt levels are reduced, not just shuffled.

Ultimately in a world where a recession is looming and policy makers have virtually no fiscal tools and few monetary tools left, Gold stands out as a safe haven, even though it is currently tarnished by fear of deflation; in an environment where national currencies are damaged by national policy failure, gold is the only alternative..

However given the uncertainty in markets, volatility behind price movements and focus of sentiment, for now we advise a square position.

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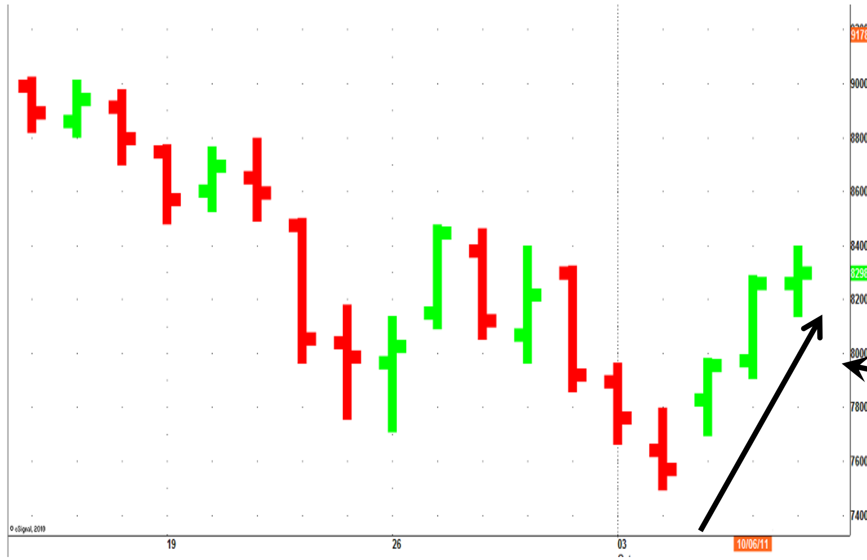
## COMMODITIES: Oil

**OUR TRADING STANCE: BEARISH.**

Last week we were Bearish of Oil.




See how oil continues to follow the price action in equity markets.

**The Macro Trader's view of oil is:** timing a short position in Oil has proved difficult over the months.

We judge the debt crisis is a major threat to the global economy and will likely cause a recession that will force oil prices lower.

However oil traders continue to follow the price action in equity markets believing a recession isn't looming.

The Euro zone talks of finding a debt crisis cure by month end, but all previous "serious" attempts to solve the problem have failed and because of how they are approaching the problem are likely to do so again..

Traders should be short of this market. We see little evidence that policy makers are any closer to agreeing a mechanism for solving the debt crisis and oil could fall a long way, as will stocks.

Our target is US$35.00 and our stop is set at 88.50 for protection.

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