
Week 43

25th – 31ST October 2011




# the macro trader's guide to major markets

John Lewis

SEVEN DAYS AHEAD

## SUMMARY

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

### UK Markets

| | |
|---|---|
| + SHORT STERLING | SQUARE |
| + GILT | SQUARE |
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| + FTSE | SQUARE |

### Euro Zone Markets

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

### Japanese Markets

| | |
|---|---|
| + JAPANESE BONDS | SQUARE |
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# This week's global calendar – macro trader


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| | Week of $24^{th}$ October |
|---|---|
| Monday | EZ PMI Survey composite 48.8<br>EZ Ind new orders 0.1m, 5.8y<br>JP Supermarket sales n/f<br>JP Trade bal 198.0B |
| Tuesday | US S&P,Case/Shiller comp20 -3.6<br>US Cons conf 46<br>US House price index 0.2m<br>UK BBA Home buyer loans 36.0k<br>UK Q2 C/A -9.2B<br>DM GFK Cons conf 5.1<br>FR Cons conf 78<br>IT Retail sales -0.1m, -2.6y<br>IT Cons conf 98<br>JP Sml bus conf n/f |
| Wednesday | US MBA Mrtge apps n/f<br>US Durable goods -0.7%<br>US DG Ex-Transport 0.5%<br>US New home sales 300k<br>UK CBI Trnds tot orders -7<br>IT Bus conf 94.1<br>JP Retail trade -0.5m, -0.1y<br>JP Lrge retail sales -2.5%<br>JP BOJ Rate decision 0.10% |

| | Week of $24^{th}$ October |
|---|---|
| Thursday | US Q3 GDP 2.5% (A)<br>US Q3 Persnl consumpltion 1.9%<br>US Q3 GDP Prces indx 2.3%<br>US Q3 Core PCE 2.2q<br>US Jobless claims 400k<br>US Pndg home sales 0.1m, 10.8y<br>UK CBI Retail sales -15<br>UK GFK Cons conf -30<br>DM Retail sales n/f<br>EZ M3 (3M) 2.6%<br>EZ M3 (y/y) 2.8%<br>EZ Cons conf -19.9<br>EZ Ind conf -7<br>EZ Services conf -1<br>DM CPI 0.1m, 2.5y<br>DM Import prices 0.6m, 6.9y<br>JP Househld spndg -3.5y<br>JP Jobless rate 4.5%<br>JP Tokyo CPI -0.5y<br>JP National CPI 0.1y<br>JP Ind production -2.1m, -2.3y<br>JP Vehicle production n/f |
| Friday | US Q3 Employm't cost indx 0.6<br>US Persnl income 0.3%<br>US Persnl spndg 0.6%<br>US Core PCE 0.2m, 1.7y<br>US U. of Michigan conf 58<br>FR Consumer spndg 0.0m, -0.7y |

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# Last week's releases – macro trader


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| | Week of 17th October |
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| Monday | US Empire mfg -8.48 **WORSE**<br>US Ind production 0.2% **AS**<br>US Capacity utilisation 77.4% **LESS**<br>JP Ind production 0.4m, 0.4y **WEAKER**<br>JP Cap utilisation 2.4% **BETTER**<br>JP Nat'nwide dept store sales -2.4% **BETTER**<br>JP Tkyo dept store sales -3.6% **WORSE**<br>**THAN EXPECTED** |
| Tuesday | US PPI 0.8m, 6.9y **STRONGER**<br>US PPI Ex f&e 0.2m, 2.5y **STRONGER**<br>US Net lg trm TIC flows $57.9B **STRONGER**<br>UK CPI 0.6m, 5.2y **STRONGER**<br>UK RPI 0.8m, 5.6y **STRONGER**<br>UK RPI-X 5.7y **STRONGER**<br>DM ZEW -48.3 **WEAKER**<br>IT C/A -5.393B **WORSE**<br>**THAN EXPECTED** |
| Wednesday | US MBA Mrtge apps -14.9% **WORSE**<br>US CPI 0.3m, 3.9y **MORE**<br>US CPI Ex f&e 0.1m, 2.0y **LESS**<br>US Hsing strts 658k **STRONGER**<br>US Buildg permits 590k **WEAKER**<br>US Fed's beige book **WEAKNESS**<br>UK MPC Minutes QE **UNANIMOUS**<br>IT Ind sales 4.0m, 12.0y **STRONGER**<br>IT Ind orders 5.0m, 10.5y **STRONGER**<br>EZ C/A -6.3B **WORSE**<br>EZ Construction orders 0.2m, 2.5y **STRONGER**<br>JP All ind actvty indx -0.5% **WEAKER**<br>**THAN EXPECTED** |

| | Week of 17th October |
|---|---|
| Thursday | US Jobless claims 403k **MORE**<br>US Existing home sales 4.91M **AS**<br>US Philly Fed 8.7 **BETTER**<br>UK Retail sales 0.7m, 0.4y **WEAKER**<br>DM PPI 0.3m, 5.5y **MORE**<br>EZ Cons conf -19.9 **BETTER**<br>**THAN EXPECTED** |
| Friday | UK PSNCR 19.9B **WORSE**<br>UK PSNB 11.4B **BETTER**<br>FR Prod outlk indx -29 **AS**<br>FR Bus conf 97 **WEAKER**<br>DM IFO 106.4 **AS**<br>**THAN EXPECTED** |

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## US MARKETS: economic background

The US economy broadly maintained the recent run of improving data with core CPI, housing starts and existing home sales better better than expected, but there were negatives too.

The Fed's beige book painted the economy as weak and it emerged that Fed officials were considering buying mortgage backed securities as another way of helping the economy.

But with corporate results broadly better than expected and hopes riding high that the Euro zone was at last serious about fixing the long running sovereign debt problem, equity markets were in buoyant mood.

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; **consumer confidence and house price indicator,**
- On Wednesday; **Durable goods and New home sales,**
- On Thursday; **jobless claims, Q3 GDP, Q3 Core PCE and pending home sales, and**
- On Friday; **Q3 Employment cost index, personal income & spending, Core PCE and University of Michigan confidence.**

The main events this week is Thursday's Q3 GDP report.

After all the summer angst about the economy's strength, this number will reveal the truth about just how robust, or otherwise, the economic recovery is and give clues on future Fed policy moves.

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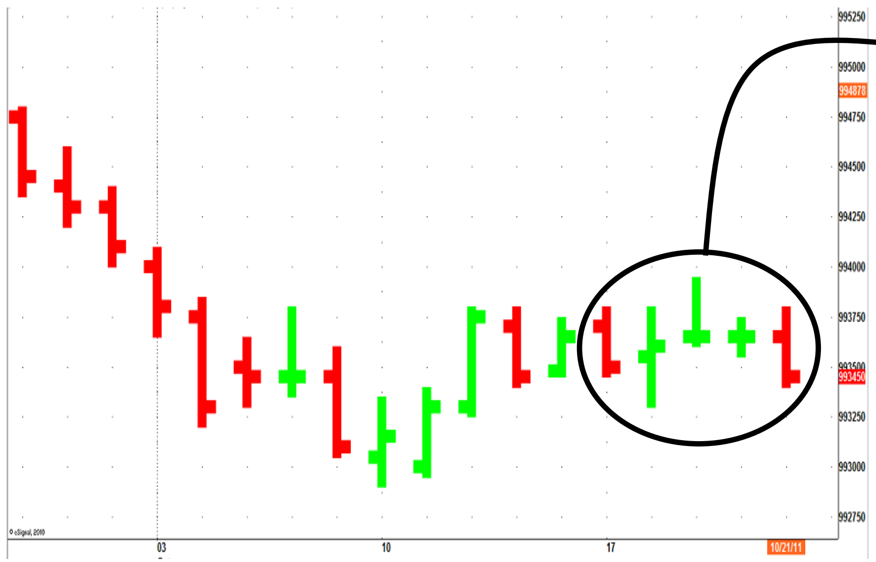
# US MARKETS: Eurodollars

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of March 12 Eurodollars.




See how Eurodollars traded sideways last week as good and bad news were broadly in balance.

**The Macro Trader's view of Eurodollars is;** last week's data painted a picture of an economy that remains stuck in the slow lane.

Additionally the Fed's Beige book maintained the Fed's pessimistic view of activity and characterised the economy as weak.

Other comments from Fed officials suggested they might want to start buying mortgaged backed securities.

Looking ahead we judge the GDP report is unlikely to materially affect the outlook for the economy.

Although non-farm payroll was revised higher recently the underlying health of the economy still appears weak and policy maker are likely to remain ready to do more if and when needed.

We continue to view this market as uninteresting to both bulls and bears and advise remaining square.

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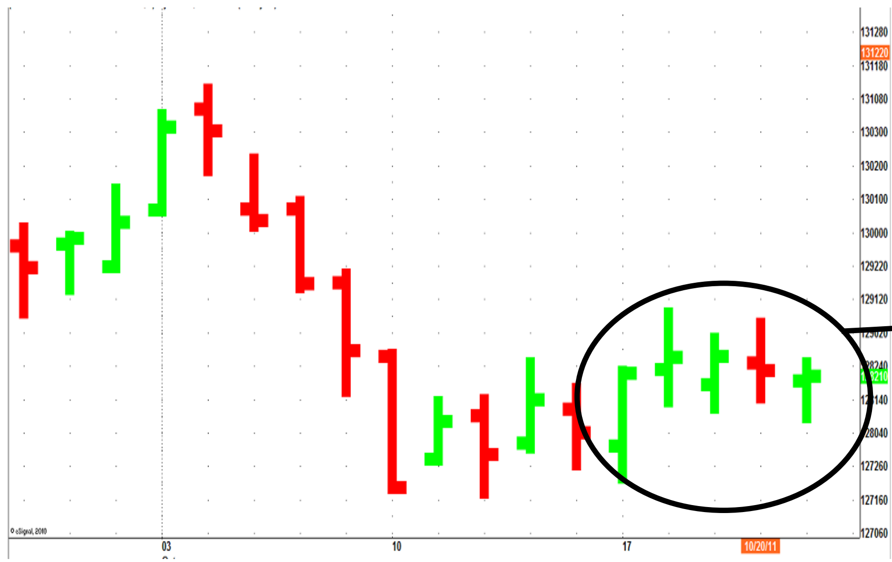
# US MARKETS: 10 Year Note

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the 10 year note.




See how the 10 year note traded mainly sideways last week despite buoyant equity markets..

**The Macro Trader's view of the 10 year note is;** the market traded mainly sideways last week as data remained broadly mixed.

But what impressed was the markets solid support as equity markets remained bullish on the combination of US earnings reports and Euro zone optimism.

However we judge the outlook for Bonds is linked more to the Euro zone Sovereign debt crisis talks currently underway between EU leaders.

If a plan to manage the crisis in a convincing way emerges then equities are likely to rally further leaving bonds testing the downside, but the big question is can the Euro zone agree a convincing plan.

Looking ahead at this week's data GDP on Thursday is the main event but we do not expect any big surprises.

So for now with so much uncertainty still hanging over markets, we advise remaining square.

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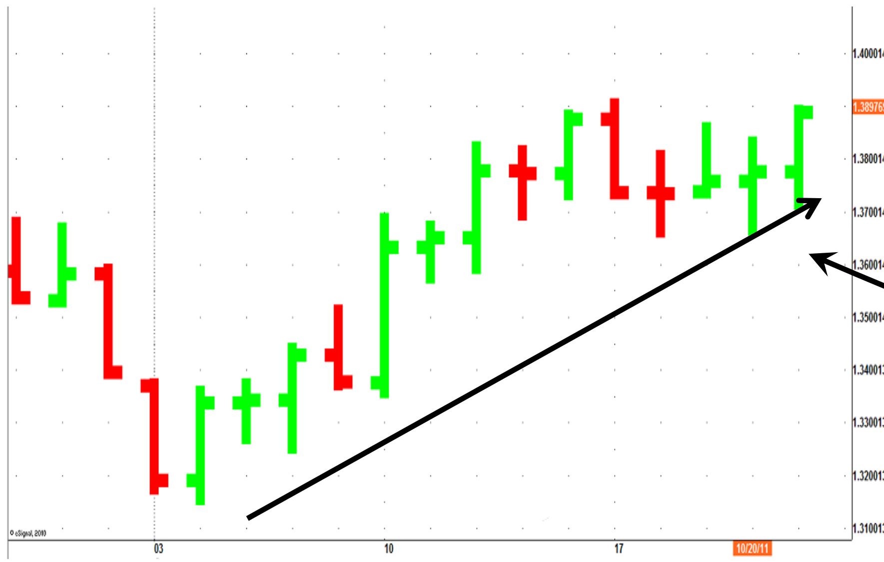
## US MARKETS: US Dollar

**OUR TRADING STANCE: BULLISH.**

Last week we were Bullish.




The Dollar looks under pressure as traders expect the Euro zone to finally put its house in order.

**The Macro Trader's view of the Dollar is:** the Dollar remained under pressure last week as traders became increasingly hopeful that the Euro zone was at last serious about sorting out the sovereign debt crisis.

Clearly if a credible plan emerges from the current negotiations, then the Euro would rally sending the Dollar back to levels last seen in the spring.

But can the Euro zone/EU leaders find a plan that at last puts them ahead of the crisis instead of constantly trying to catch up? Because if they can not, traders will punish the Euro and the Dollar will resume its rally.

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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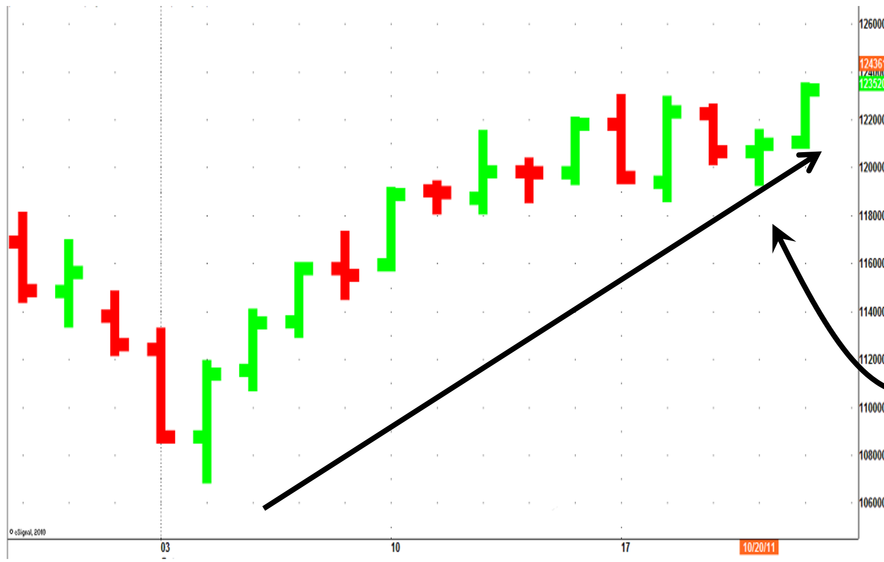
# US MARKETS: S&P500

**OUR TRADING STANCE: SQUARE.**

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




The S&P held up well on a run of earnings reports and growing Euro zone optimism.

**The Macro Trader's view of the S&P 500 is:** stocks maintained their recovery last week as traders drew support from US earnings reports and hopes of a Euro zone plan that finally solves the sovereign debt crisis.

However, if Euro zone policy makers fail to conceive a plan that both puts them ahead of events and in control of the crisis, stocks are likely to turn lower.

The US earnings season is only a relatively brief interlude and when it is over, traders will re-assess.

The US economy hasn't changed that much, indeed Fed policy makers are considering new initiatives.

Looking ahead watch Thursday's Q3 GDP report, obviously a stronger result will help the market higher, but we doubt that report can be sufficiently strong to fuel a reliable rally.

Our expectation is for equity markets to resume their sell off once the Euro zone plan is known.

However after being stopped out, we advise staying square until the situation looks clearer.

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## UK MARKETS: economic background

The MPC minutes showed policy makers at the Bank were unanimous in their decision to restart QE. In fact they even considered doing more than the £75.0B agreed.

Data wise CPI was a little worse than expected, but year on year retail sales were weaker, leaving the economy on course for yet more weakness, with few policy options left.

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; **BBA Home buyer loans and Q2 C/A data,**
- On Wednesday; **CBI Trends total orders, and**
- On Thursday; **CBI Retail sales.**

This weeks data is of minor consequence and traders will focus on the Euro zone Sovereign debt crisis talks, with a summit due Wednesday that many hope will produce a plan to solve the crisis, if not the UK economy is set to be adversely affected by the drama in continental Europe.

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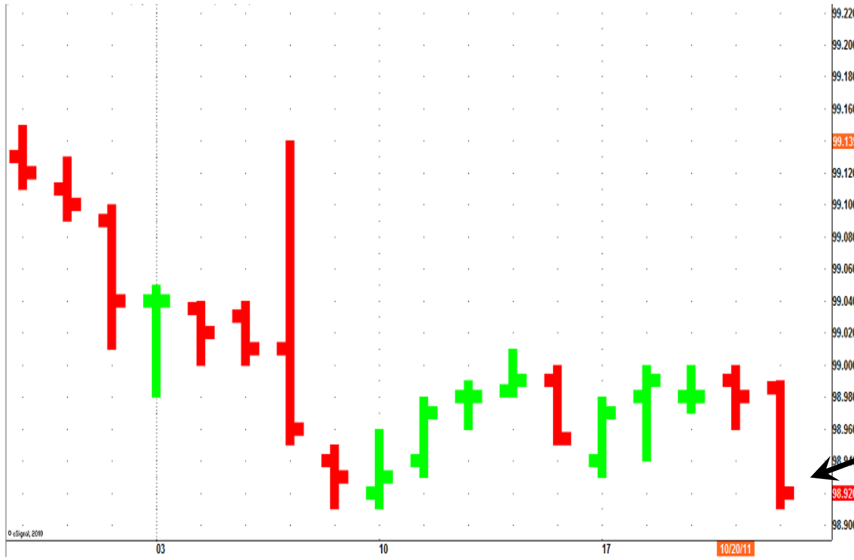
# UK MARKETS: Short Sterling

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of June 12 Short Sterling.




Note how Short Sterling sold off on Friday even though there is absolutely no chance of tighter UK interest rates any time in the next year.

**The Macro Trader's view of Short Sterling is;** the Short Sterling market is suffering from tight lending conditions in the UK money markets that continue to drive three month Sterling LIBOR higher.

And although Tuesday's CPI report was worse than expected and would usually drive this market lower, in the current environment the report is of little significance.

The Bank of England MPC committee members continue to brief that they see inflation correcting substantially lower next year as the VAT hike and oil price spike drop out of the year on year comparison.

In fact they are more worried about a significant undershoot of target hence the new round of QE.

Their fear is that given the current economic weakness, a big fall in inflation could turn to deflation if unchecked.

We see little to excite currently in this market and although our longer term view remains bullish, we advise staying square now. .

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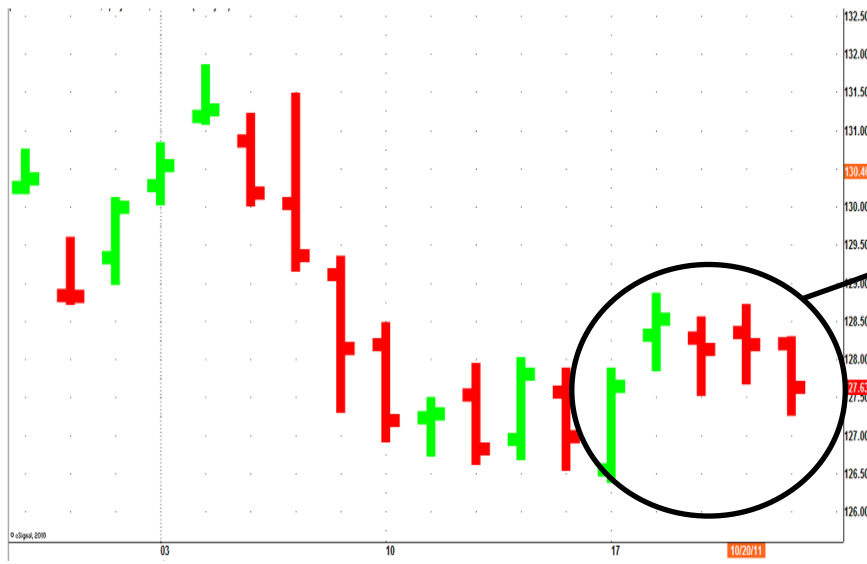
## UK MARKETS: Gilt

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Gilt.




See how the gilt remains side lined as traders focus on equity markets.

**The Macro Trader's view of the Gilt is;** the Gilt along with other leading Government Bond markets remains out of favour as traders focus on equities driven by expectations of Euro zone leaders finally agreeing a solution to the Debt crisis.

If they don't what next?

We judge stocks will fall and Bonds will be back in demand.

Currently there is too much uncertainty.

Will the politicians do what is required even though there are those which oppose taking the steps needed or will they manage a grand fudge that finally puts them in control of events.

What matters now is not that there is a magic cure, there isn't but can the Euro zone leaders manage an orderly default of Greece and convince markets they have the resources to support the rest of the Bloc.

We judge there are too many unknowns right now.

So we advise remaining square.

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# UK MARKETS: Sterling

**OUR TRADING STANCE: SQUARE**

Last week we were Square of Cable


See how Sterling rallied further against the Dollar, but not because of UK fundamentals.

**The Macro Trader's view of the Pound is;** the Pound rallied further last week, but not on UK fundamentals.

We have over recent weeks seen the price action in Sterling, especially Cable as little more than a by product of trading in Dollar/Euro and that remains our view.

With UK CPI rising above 5% and retail sales at just 0.4% year on year and the Government still reporting monthly PSNCR and PSNB totals at eye wateringly high levels, the Pound isn't an outstanding buy.

Once clarity emerges from the current Euro zone fog, the Pound is likely to sell off.

Looking ahead to the domestic data releases due this week, there aren't any of significance so trading will be dominated by developments in the Euro zone and by US data releases.

For now stay square.

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# UK MARKETS: FTSE

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the FTSE.


See how the FTSE remains supported by hopes of a fix of the Euro zone debt crisis.

**The Macro Trader's view of the FTSE is:** the market remained supported by hopes of a deal to solve the Euro zone debt crisis.

With Euro zone leaders meeting at the weekend and again this Wednesday with promises of a deal, traders have been willing to gamble on their ability to deliver.

While a strong deal would send stocks higher, if their discussions produce no more than another weak fudge then equity markets have a long way to fall.

With the outcome resembling a flip of a coin and in the absence of any significant UK data this week we advise remaining square..

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## EURO ZONE MARKETS: economic background

The main data release last week was the German IFO report which met consensus.

However the markets were dominated by developments in the Sovereign debt crisis and efforts to agree a plan capable of resolving it before an economic melt down.

The French and Germans found themselves struggling to reach agreement last week, but agreed to continue working for a solution and now all eyes are on this Wednesday's summit; failure will see market turmoil return, success will see market stabilise and begin to refocus on fundamentals.

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 PMI Composite survey and new industrial orders**
- On Tuesday; **German GFK consumer confidence and French consumer confidence,**
- On Wednesday; **Italian business confidence,**
- On Thursday; **German retail sales, CPI and Euro zone M3, and**
- On Friday; **French consumer spending.**

The main events this week are Monday's Euro zone PMI composite and New industrial orders reports which will give an insight into the health of the Euro zone economy.

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## EURO ZONE MARKETS: Euribor

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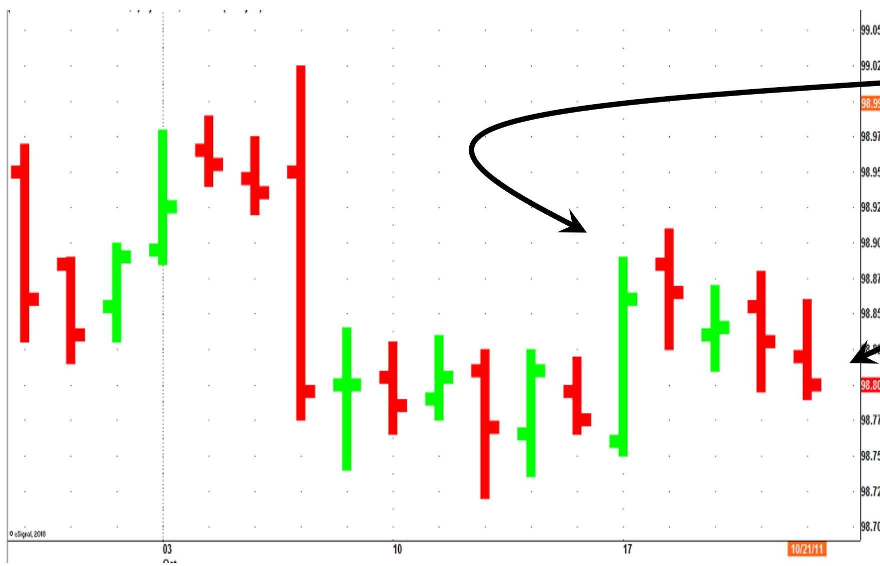
Last week we were Square of Euribor.




Euribor remains largely directionless as a strong bounce on Monday evaporated by the end of the week

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

…"we judge this market will remain listless in the current environment"...

And the graph shows just how directionless this market is.

With data mixed and inter-bank markets remaining tight, the focus remained the sovereign debt crisis.

Looking ahead the key release this week is the PMI composite survey, already released and weaker than expected compounding fears of a looming Euro zone recession; even Germany halved her growth forecasts late last week.

We judge this market lacks direction. The ECB may yet cut rates, but before Christmas, but even if they don't there seems little to be gained from a bear trade and without a rate cut the upside seems limited too..

Once again remain square.

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## EURO ZONE MARKETS: The Bund

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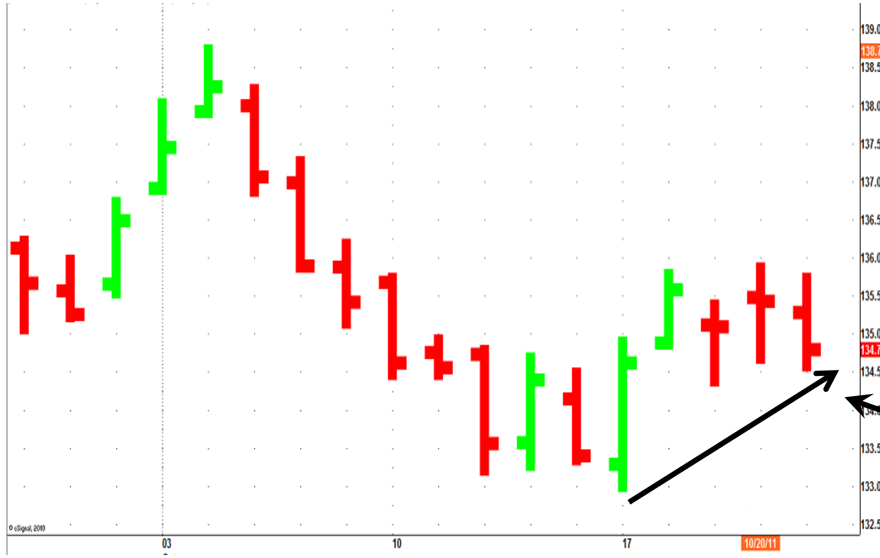


The Bund held up well last week despite resilient equity markets.

**The Macro Trader's view of the Bund is:** the Bund held up well last week despite the strong performance in equity markets, as data continues to weaken and fears of recession grow.

The German government cut its own growth forecast late last week and as the powerhouse of the wider Euro zone recovery that is bad news for the weak periphery.

Looking ahead apart from today's release of a weaker than expected Euro zone PMI composite survey, trading is likely to remain dominated by the efforts of Euro zone leaders trying to find a way out of the debt crisis.

We judge the longer term outlook for the Bund hinges on what they agree.

However, given the lack of clarity currently over how they will resolve the crisis, we advise a square position.

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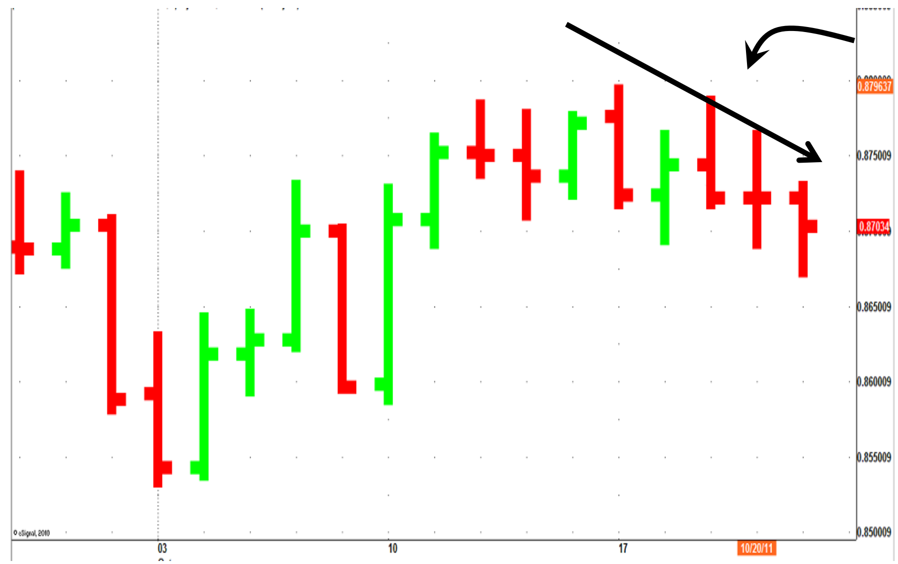
## EURO ZONE MARKETS: The Euro

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

Last week we were Bearish v the Dollar.




See how the Euro weakened against Sterling as it marked time against the Dollar..

**The Macro Trader's view of the Euro;** the Euro held its gains last week as traders continued to focus on promises made by Euro zone leaders that they will this week produce a comprehensive plan to solve the debt crisis.

But with France and Germany failing to agree over the weekend on whether there should be a role for ECB funds the outlook isn't too promising.

Clearly feeling the strain the French President rounded on the UK prime minister over the weekend for telling Euro zone countries how to manage their affairs, but in truth Cameron has a legitimate cause for concern since failure will have a serious impact on the UK and Global economies.

Looking ahead we judge data is currently of minor importance as the debt crisis dominates.

For now we continue to advise traders to be Short the Euro/ Long the Dollar as we doubt Euro zone leaders capable of producing much more than another fudge..

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

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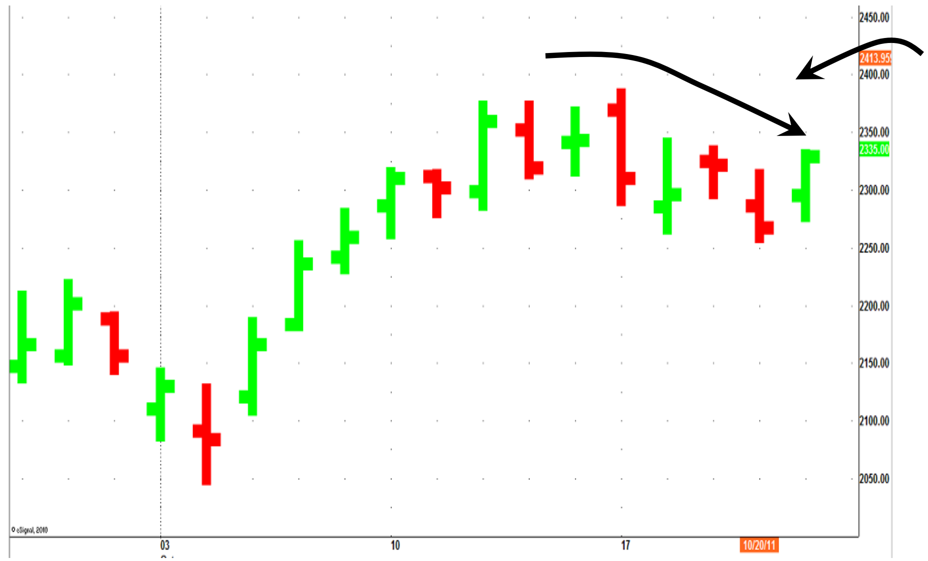
## EURO ZONE MARKETS: DJ Euro Stoxx 50

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of DJ EUROSTOXX50.




See how the market lost momentum last week and looks very vulnerable if a debt solution isn't found.

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

the focus of traders last week remained the sovereign debt crisis and the current efforts of Euro zone leaders to find a solution to it.

The plan seems still to be enlarging the rescue fund and leveraging it to enable the accommodation of a Greek default of some kind and be able to buy Sovereign bonds to defend against any market turmoil while offering protection to the Banking sector; sounds like the creation of yet more debt.

By Wednesday we should know what they have achieved, but if their plans don't measure up, stocks will sell off hard.

However, since politicians are brilliant at changing position at the last minute, we judge trading now is not much better than flipping a coin.

So for now stay square.

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## JAPANESE MARKETS: economic background

The key data releases last week once again disappointed and there are growing fears about the economy's ability to ride out a recession caused by the Euro zone failing to put its house in order.

Industrial production was weaker than expected last week and although Capacity utilisation held up, the all industry activity index didn't and was weaker than expected.

With the Yen once again hitting new highs the health of the economy is the governments main concern.

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; **Supermarket sales and trade balance,**
- On Tuesday; **small business confidence,**
- On Wednesday; **retail sales and BOJ rate decision, and**
- On Thursday; **Household spending, Jobless rate, CPI reports and industrial production.**

We judge the main event this week is again industrial production and the BOJ rate and policy decision..

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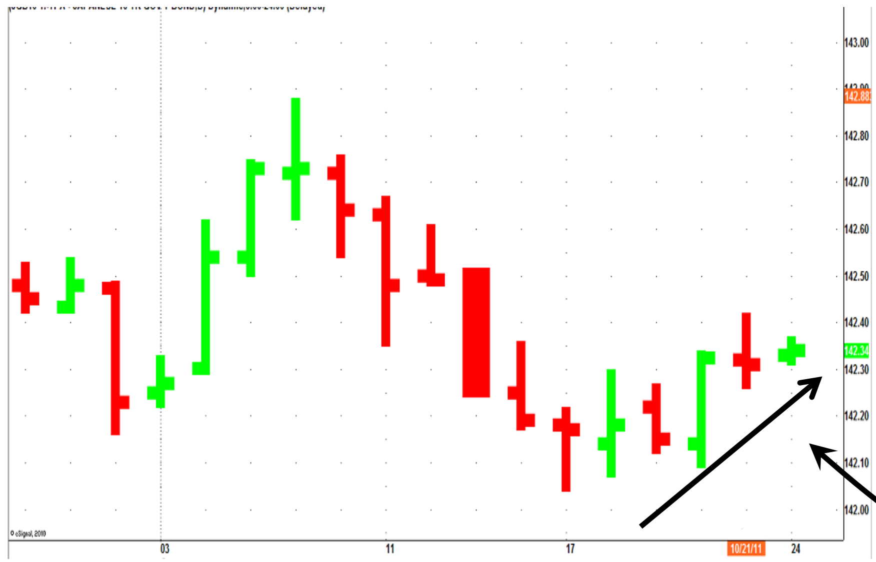
## JAPANESE MARKETS: Japanese Bonds

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Japanese Bonds.




The JGB rallied last week as the Yen made new highs.

**The Macro Trader's view of the JGB is:** last week's data was disappointing as industrial production fell short of consensus.

With the Dollar remaining under pressure against the Euro, the Yen rallied to new highs causing concern about the Japanese economy's ability to avoid falling back into yet another recession.

The impact on the JGB was a rally which bucked the trend in other global government bond markets.

Moreover with China reporting GDP at its slowest in 2 years traders had another reason to buy bonds.

Looking ahead this market is in the hands of the politicians both in Europe and Japan.

A deal to cure the Euro zone debt crisis will take some of the heat off of the Yen, and the Japanese government is again warning of intervention to force the Yen lower.

For now we advise a square position since markets are so politically driven.

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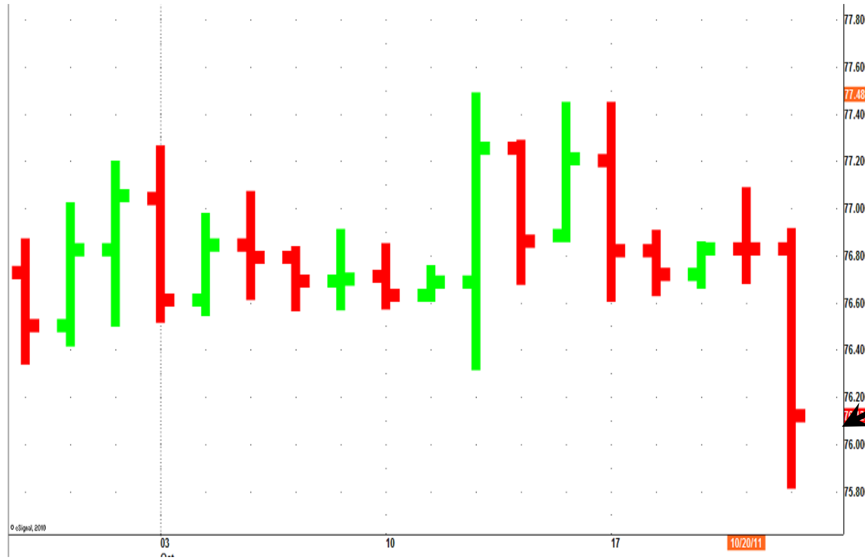
## JAPANESE MARKETS: Yen

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Yen.




The Yen made new highs against the Dollar forcing the authorities in Japan to warn of intervention.

**The Macro Trader's view of the Yen is;** As the Euro holds its gains against the Dollar on hopes of a deal to resolve the Debt crisis, the Yen again emerged as the favoured safe haven trade.

But the Japanese authorities are very unhappy since they fear a strong Yen makes a recovery in Japan almost impossible.

With the authorities threatening to intervene, and Euro zone leaders promising a debt crisis cure, now doesn't look a good time to buy the Yen.

But if the Euro zone fails to deliver, just how much intervention would be needed to hold the Yen down?

We judge the current situation is in a highly fluid and volatile sate and advise remaining square.

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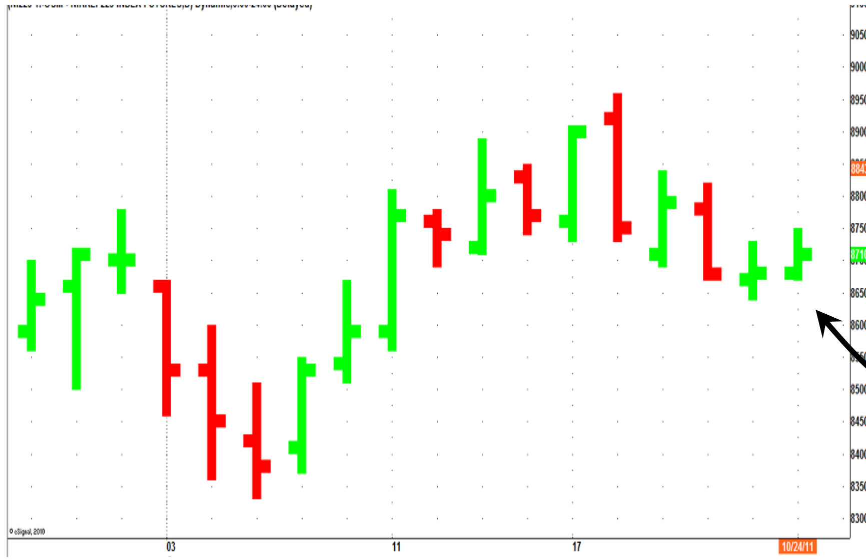
## JAPANESE MARKETS: Nikkei

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Nikkei.




See how the Nikkei bucked the trend last week and sold off.

**The Macro Trader's view of the Nikkei is;** the Nikkei unlike other major equity markets in Europe and the US sold off last week.

Traders here reacted to a sell off in the key Chinese Shanghai market which sold off on weaker than expected GDP.

Additionally the Yen is in demand as a safe haven trade and that threatens Japan's efforts to export her way back to strong growth.

The outlook then remains just as unclear in Japan as elsewhere.

If the Euro zone leaders solve their debt crisis, the Yen will likely loose its safe haven allure, if they don't it could rally further along side the Dollar.

The response from the Japanese authorities is likely to be Foreign exchange intervention.

However given so many unknowns trading is too much like a game of chance right now we advise remaining square here.

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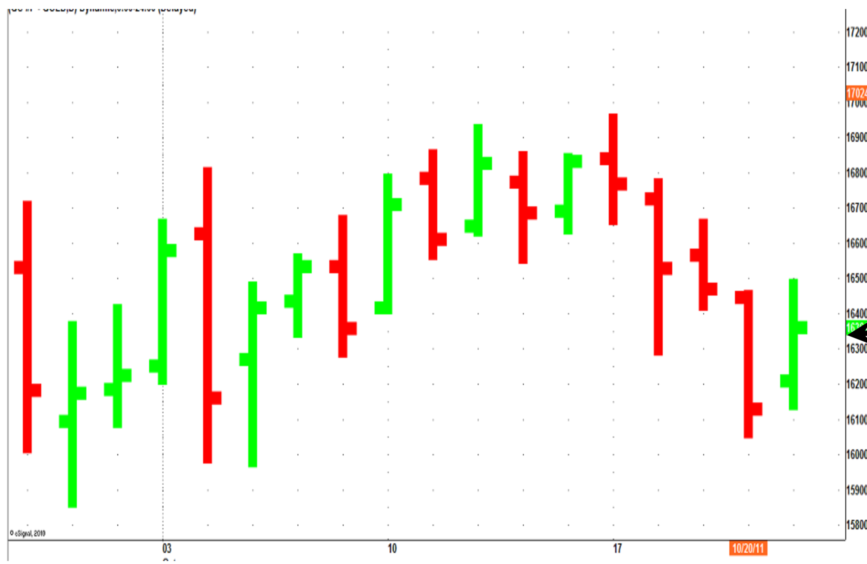
## COMMODITIES: Gold

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Gold.




See how gold continues to labour as the worlds leaders fear a recession and the Euro zone crisis seems to be coming to a head.

**The Macro Trader's view of the Gold is:** Gold has clearly lost its way short term as the Dollar remains in limbo while the Euro zone leaders struggle to find a solution to their debt crisis before a world financial crisis hits.

But looking ahead what are the likely scenarios:

1. The Euro zone leaders pull a deal out of the hat that puts them ahead of the crisis and in control of events; result for Gold; rally as the Dollar would weaken as the focus would shift back onto the short comings of the US economy, and
2. The Euro zone leaders fail to find a solution to the crisis; result for Gold, ultimately a rally as a financial crisis and recession would hit threatening deflation, but once traders realised the extent of the crisis Gold would emerge as the ultimate hedge.

So option one immediate rally, option two rally but not immediately, so for now we wait to see what plan the Euro zone can offer before making any new trading decisions.

So stay square.

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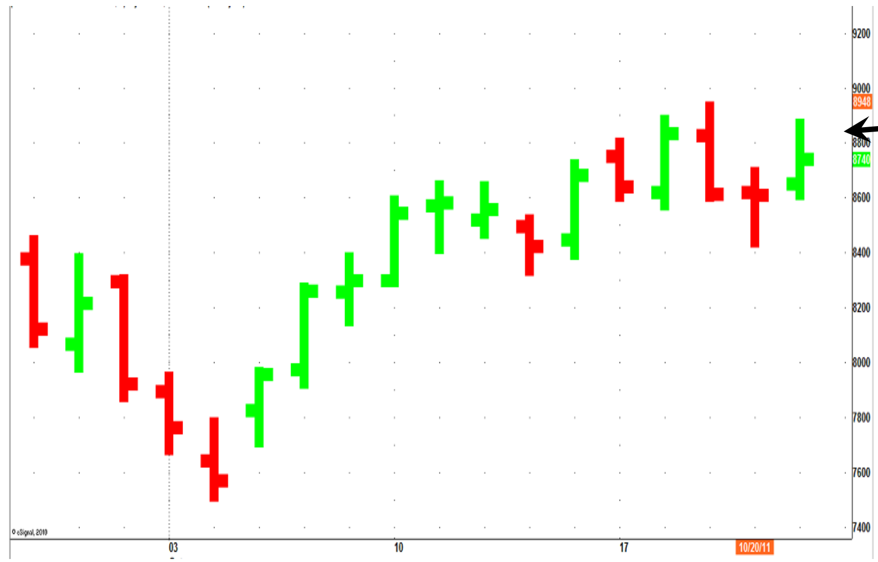
# COMMODITIES: Oil

**OUR TRADING STANCE: SQUARE.**

Last week we were Bearish of Oil.




See how oil continues to track equity markets.

**The Macro Trader's view of oil is:** the market hit our stop on Friday as oil prices continue to mirror equities.

With traders holding their breath and betting on the Euro zone to deliver a cure for the debt crisis, the bears in oil and equity markets have been in retreat.

But will the much hoped for deal be much more than yet more debt intended to buy out the debt that no one now trusts.

A fiscal union is off the table and no one publicly wants to see any country leave the Euro zone, so the rescue fund looks set to grow. It would then be leveraged (more debt) a partial Greek default engineered and the rescue fund would be deployed to mop up the mess, sounds like a great plan.

We advise a square position until the truth is known.

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