Week 46

15th – 21st November 2011

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the macro trader's guide to major markets

John Lewis

SEVEN DAYS AHEAD

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+ S&P 500	BEARISH

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+ GOLD	BULLISH
+ OIL	BULLISH on Iran tension

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This week's global calendar – **macro trader**

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	Week of 14th November
Monday	US MBA Mrtge forclsure n/f FR C/A n/f EZ Ind production -2.3m, 3.6y JP Condo sales n/f JP Q3 GDP 1.4q, 6.0% (A) JP Ind production n/f JP Capacity utilisation n/f
Tuesday	US PPI -0.1m, 6.3y US PPI Ex-F&E 0.1m, 2.9y US Retail sales 0.3% US RS Ex-Autos 0.2% US Empire mfg -2 US Bus inventry 0.2% UK CPI 0.2m, 5.1y UK RPI 0.1m, 5.5y UK RPI-X 5.7y UK CBI Trnds orders n/f FR Q3 DP n/f DM Q3 GDP 0.5q, 2.4y IT Trade n/f IT Trade EU n/f EZ Q3 GDP 0.2q, 1.4y DM ZEW Survey 32 EZ Trade bal 2.0B JP BOJ Rate decision 0.10%
Wednesday	US MBA Mrtge apps n/f US CPI 0.0m, 3.6y US CPI Ex-f&e 0.1m, 2.1y US Net lg trm TIC flows n/f US Ind production 0.4% US Capacity utilisation 77.7% UK Unemplym't rate 5.1% UK Unemploym't chge 21.0k UK Avrge earngs 2.5% UK AE Ex-bonus 1.6% UK ILO 8.2% UK BOE Inflation report EZ CPI 0.3m, 3.0y

	Week of 14th November
Thursday	US Housing starts 610k US Building permits 605k US Jobless claims 395k US Philly Fed 10 UK Retail sales -0.3m, -0.2y EZ Construct'n output n/f EZ Consumer conf n/f JP Machine tool orders n/f
Friday	DM PPI 0.1m, 5.3y IT Ind orders n/f IT Ind sales n/f IT C/A n/f

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	Week of 7^{th} November
Monday	UK BRC Retail sales -0.6y **WEAKER** UK RICS Hse prices -24% **WEAKER** UK Halifax hse prces 1.2m, -1.8(3m/y) **BETTER** EZ Retail sales -0.7m, -1.5y **WEAKER** DM Ind production -2.7m, 5.4y **WEAKER** **THAN EXPECTED**
Tuesday	UK Ind production 0.0m, -0.7y **BETTER** UK Mfg output 0.2m, 2.0y **BETTER** UK NIESR GDP Est 0.5% **AS** UK BRC Shop prices 2.1% **AS** DM Trade bal 17.4B **STRONGER** DM C/A 15.7B **STRONGER** FR Trade bal -6.303B **WORSE** JP C/A 1584.8B **BETTER** JP Trade bal 373.2B **BETTER** JP Eco watchers 45.9 **WEAKER** JP Bankruptcies -14.4 **BETTER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 10.3% **BETTER** US Bernanke speaks US Wholesale inventry -0.1% **WEAKER** UK Trade bal -9.814B **WORSE** UK Trade non-EU -5.715B **WORSE** DM WPI -1.0m, 5.0y **WEAKER** JP Machine orders -8.2m, 9.8y **WEAKER** JP Cons conf 38.6 **WEAKER** **THAN EXPECTED**

	Week of 7^{th} November
Thursday	US Import prces -0.6m, 11.0y **WEAKER** US Trade bal -$43.1B **BETTER** US Jobless claims 390k **BETTER** US Monthly budget statm't -$98.5B **BETTER** UK MPC Rate decision o.50% **AS** UK B of E QE 275B **AS** FR CPI 0.2m, 2.3y **AS** DM CPI 0.0m, 2.5y **AS** FR Ind production -1.7m, 2.3y **WEAKER** FR Mfg output -1.6m, 3.4y **WEAKER** IT Ind production -4.8m, -2.7y **WEAKER** JP Machine tool orders 25.9% **BETTER** JP Tertiary ind indx -0.7m **WEAKER** JP Dom corp gds indx -0.7m, 1.7y **WEAKER** **THAN EXPECTED**
Friday	US U. of Michigan conf 64.2 **STRONGER** UK PPI Input -0.8m, 14.1y **BETTER** UK PPI Output 0.0m, 5.7y **BETTER** UK PPI Core -0.1m, 3.4y **BETTER** **THAN EXPECTED**

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US MARKETS: economic background

The main focus of last week was the trade balance and it showed improvement.

The other big deficit, the budget deficit also came in a little better than expected.

But the most pleasant surprise came from jobless claims which was better than expected and at 390k gives a glimmer of hope that the labour market might just be improving, or is it seasonal hiring ahead of the holiday season?

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; **MBA mortgage foreclosures,**
- On Tuesday; **PPI, Retail sales and Empire manufacturing survey,**
- On Wednesday; **CPI, Industrial production and capacity utilisation, and**
- On Thursday; **jobless claims, Housing starts and building permits.**

The main focus this week is divided between Retail sales and Industrial production.

These two reports give an up to date assessment of the economy's current state of health, but the Retail sales report is the most important of the two.

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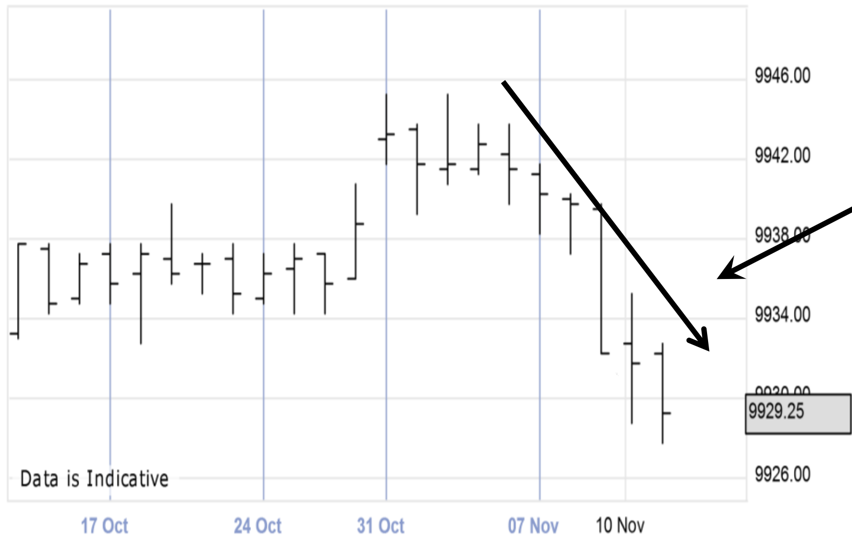
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of March 12 Eurodollars.



See how Eurodollars sold off on a week of improving data.

The Macro Trader's view of Eurodollars is; last week's data was mainly better than expected and this market traded lower on the extended run of improving data releases.

However the Fed remains wary. The Labour market and Housing markets still have a long way to go before they can be considered as recovered.

Moreover the Fed is genuinely concerned about the impact on the US economy from the on going Euro zone Sovereign debt crisis.

Italy and Greece may have installed new unelected technocrat led governments, but the hard work still remains to be done.

With the Fed previously announcing rates on hold until 2013, we are uninspired by this market as we see the upside and downside as very limited on current evidence.

For now, unless the data changes materially, we advise remaining square.

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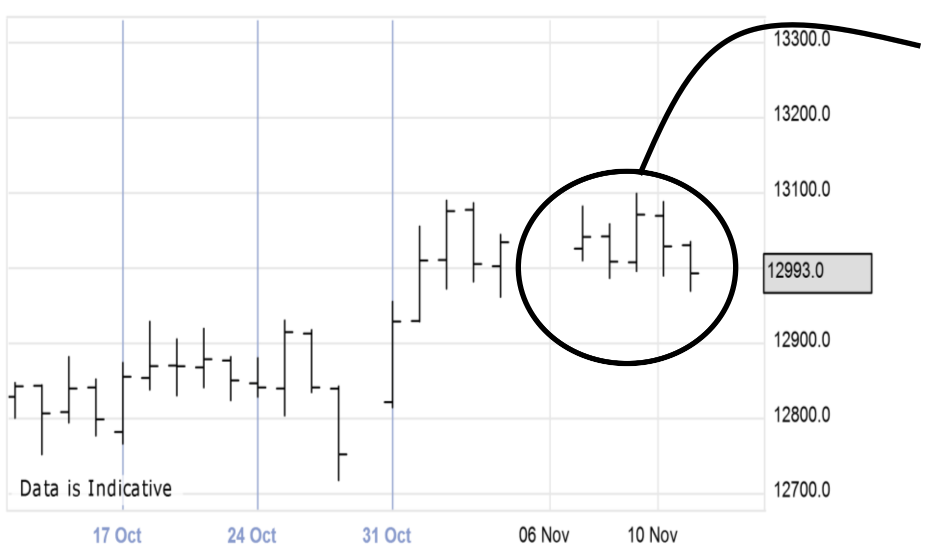
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note remained supported last week as uncertainty continued about how the Euro zone will resolve the debt crisis.

The Macro Trader's view of the 10 year note is; the market was well supported last week despite a run of improving data.

However with the Euro zone crisis still unresolved, traders held on to safe haven trades in an environment where two Euro zone democracies were installing governments led by unelected technocrats!

Looking ahead there are several key data releases due this week and in the run up to the Holiday season all eyes will be fixed on retail sales.

Additionally industrial production is due and traders will be seeking evidence of sustained improvement here too.

After last week's drop in Jobless claims, below the important 400k mark, traders will want to see if this is maintained or just a one off.

For now we judge the market remains supported if not actually a strong buy. The Euro zone debt crisis keeps Bonds in demand.

But the bull run for now seems stalled, so we are remaining square.

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US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the Euro.

Last week we were Square.

The Dollar remained in demand for much of last week amid the drama in the Euro zone..

The Macro Trader's view of the Dollar is: the Dollar remains well supported by the on going crisis in the Euro zone.

Although the Italians and Greeks installed new Prime ministers, there is a long way to go before the crisis can be declared solved.

Italy may have voted through difficult austerity measures, but Greece has done that on several occasions, what is needed is reforms designed to improve the economy's performance or else a shrinking GDP will demand yet more harsh spending cuts.

Looking ahead there are several important data releases due this week, but we judge the Dollar is driven currently by the debt crisis in Europe which we think is far from over.

Traders should be long the Dollar v the Euro. Our target is 1.3405 and our stop is 1.4165 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: with the Euro zone debt crisis remaining the focus of market attention, equities endured a choppy week as traders repeatedly repositioned on each twist and turn in the debt crisis.

And although several of last week's domestic data releases were better than expected, the market was unable to make any gains.

Looking ahead there are several important data releases due, with retail sales the main point of interest, but we judge this and other equity markets will remain driven by news coming from the Euro zone.

The Italians and Greeks have new governments, but can they make a real difference, and what of the Euro zone its self, can it get to grips with reforms needed to tackle the root of this crisis; too much debt or will the remedy remain yet more sticking plasters in the hope of covering it up.

We judge traders should remain short of this market.

Our target remains 1208.0 and our stop continues at 1292.0 for protection.

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UK MARKETS: economic background

The industrial production and manufacturing output reports were our main point of interest last week and they were a little better than expected.

But the trade data also released was worse, which given the recent better performance of Sterling was a mild surprise.

However on the positive side PPI was a little less than expected and that offers hope that CPI will, as forecast start to improve..

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; **CPI, RPI & RPI-X,**
- On Wednesday; **Unemployment report and Bank of England quarterly inflation report, and**
- On Thursday; **Retail sales.**

The market has four major reports to digest this week.

Retail sales on Thursday is for us the most important, since it will be consumer demand that eventually pulls the economy out of its rut.

But if unemployment climbs too far, too fast consumers will remain wary of spending on anything other than essentials, and if inflation doesn't start to moderate soon then their spending power will continue to erode making recovery difficult.

Enter Wednesday's B of E inflation report which will likely dominate the headlines, but will likely only tell us what we already know;

- Inflation should correct lower, and
- Growth remain weak.

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UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of June 12 Short Sterling.

The Macro Trader's view of Short Sterling is; the market sold off further last week driven by tight Inter-Bank lending keeping 3 month Sterling LIBOR at elevated levels.

Looking ahead thee are several key releases due this week, and while we judge retail sales as the main event, traders are likely to focus on the Bank of England's quarterly inflation report.

But we fail to see what it can say that isn't already known.

Inflation is forecast to correct lower, growth is weak and the Bank stands ready to do more if the economy suffers further weakness due to the risk of recession in the Euro zone caused mainly by the unresolved sovereign debt crisis.

For now we judge this market is driven mainly by the tightness of inter-Bank lending rather than fundamentals and advise remaining square.

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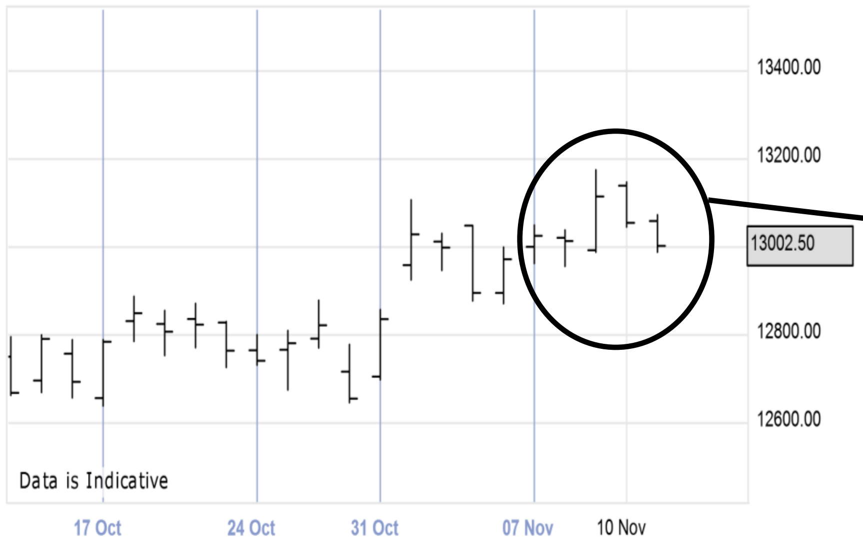
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the gilt closed the week virtually unchanged as traders awaited news on political developments in the Euro zone.

The Macro Trader's view of the Gilt is; the Gilt reacted yet again to developments in the Euro zone debt crisis and the impact that has on equity markets.

A mid week rally soon fizzled out as Italy quickly moved to adopt budget cuts and a change of PM helping equities stage a limited bounce.

In the UK, data was mixed with industrial production up, but a worse than expected trade deficit.

Looking ahead traders will focus on the BOE quarterly inflation report due Wednesday, but with CPI, Retail sales and the unemployment report due, not to mention the yet unresolved debt crisis in the Euro zone, traders are likely to experience another choppy week.

We judge this market remains well supported ,but we judge it needs fresh news to either propel it higher or cause a correction.

For now we remain square..

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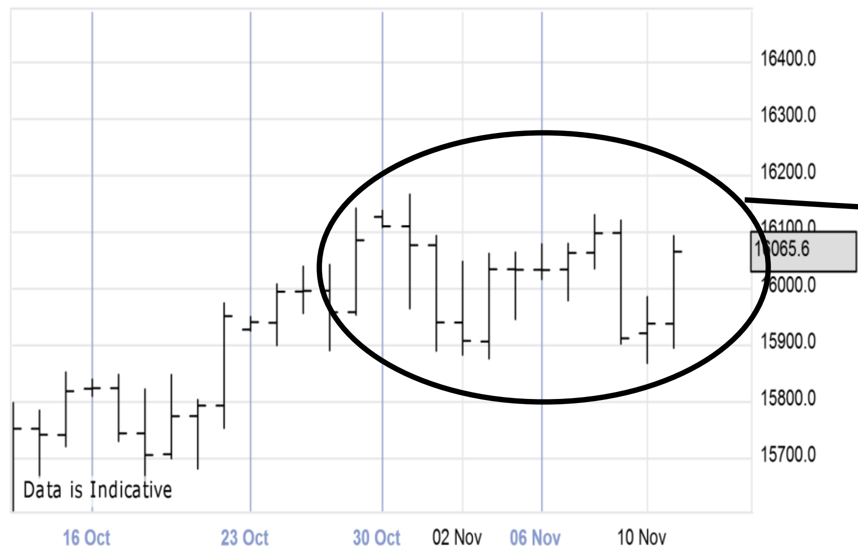
UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were Square of Cable



See how Sterling remains locked in a sideways pattern that has dominated since late October.

The Macro Trader's view of the Pound is; the Pound remains trapped in a range that has dominated for several weeks.

With UK data pointing to another recession, but the Euro zone trapped in its long running debt crisis, the Dollar has been the dominant currency, but hasn't made much headway against Sterling due to the Gilt enjoying safe haven status.

Unlike the US or Euro zone, the UK has a serious debt reduction strategy in place and this has led to UK Gilt yields hitting lows not seen since the 1950's.

This offers the Pound support and off sets the downward pressure of the UK's economic fundamentals.

For now we see little to suggest this price action is about to break down, in either the Bulls or the Bears favour and advise staying square

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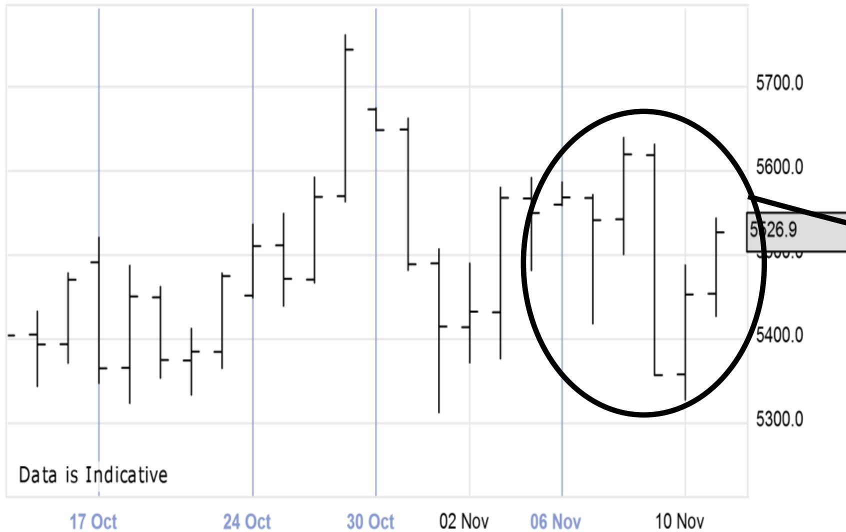
UK MARKETS: FTSE

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the FTSE.



See how the FTSE rejected both the upside and downside amid the political drama played out in the Euro zone.

The Macro Trader's view of the FTSE is: last week we were bearish of the FTSE as we observed the political drama playing out in the Euro zone that threatened Global and UK economic stability.

As the Greeks and Italians fought to regain some control of their public finances, and install new governments capable of calming the financial markets, democracy gave way to expediency.

Looking ahead we judge the new leaders in Greece and Italy have much to do, but with no popular mandate will their administrations be able to see through the difficult reforms needed.

We judge equity markets including the FTSE remain vulnerable to the downside,

This week sees the release of several important UK data series and they are likely to make difficult reading.

Traders should be short of this market. Our target remains 5350.0 and our stop continues at 5675.0 for protection.

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EURO ZONE MARKETS: economic background

Last week we singled out German industrial production as the main economic data release. We were seeking evidence of the magnitude of the slowdown recently forecast by the German Government.

In the event, the number was much weaker than expected. But French and Italian industrial production also released during the week was worse than expected and hardened the view in the markets that the Euro zone was heading straight toward recession.

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 industrial production,**
- On Tuesday; **German, French and Euro zone Q3 GDP,**
- On Wednesday; **Euro zone CPI,**
- On Thursday; **Euro zone consumer confidence, and**
- On Friday; **German PPI and Italian industrial orders and sales.**

The main event this week is Tuesday's Q3 GDP reports.

This number should spell out the damage being done to the Euro zone economy by the debt crisis and allude to what will follow if the crisis isn't swiftly dealt with.

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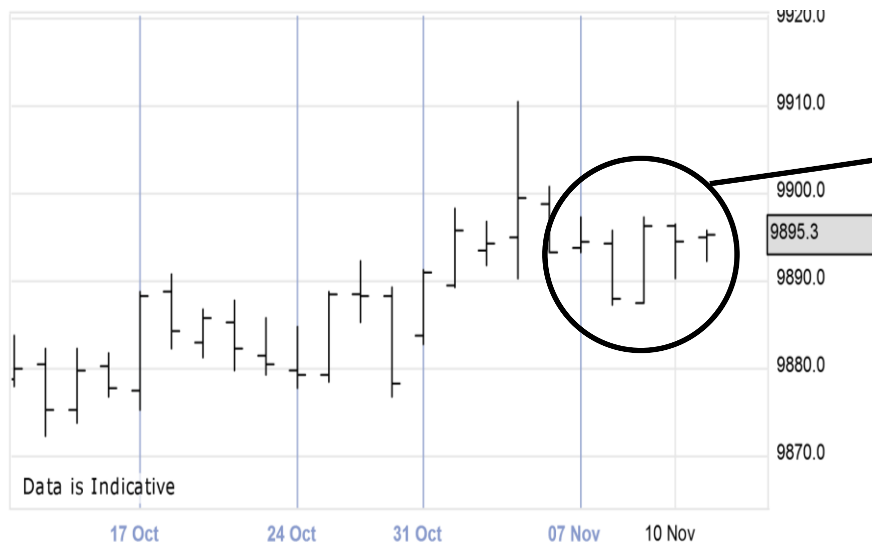
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor traded sideways as the traders focus their attention elsewhere.

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

…"we judge the short end of the market isn't where the action is"...

…"Inter-bank lending is tight and investors are hopping between equities and bonds as their risk appetite swings with events in the Euro zone debt crisis"...

Last week proved no different as all eyes were on Italy and Greece as the crisis intensified claiming two of the Euro zones elected governments.

But with data weaker than expected the price action was disappointing.

Looking ahead Q3 GDP is the number to watch and will likely illustrate the damage the crisis is inflicting.

However, we judge this market has no where new to go and advise remaining square.

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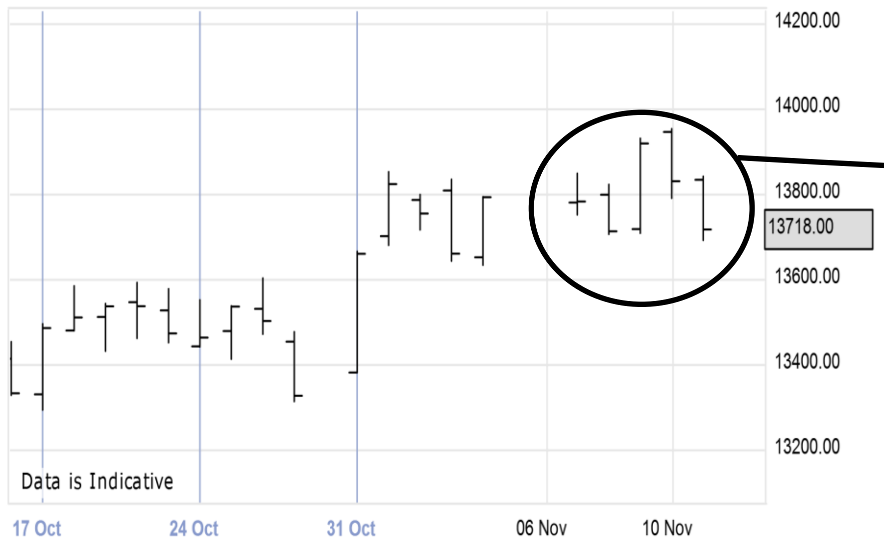
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund like other Bond markets remains supported on safe haven buying.

The Macro Trader's view of the Bund is: the Bund like the Gilt and T Note remains supported by safe haven buying but lacks the impetus to make new highs.

Ahead of last weekends scramble in Italy and Greece to form new governments traders were marking time.

However now the political uncertainty is reduced, traders seem to be saying nothing much has changed; where is the crisis solution.

Looking ahead the main domestic data event is Q3 GDP, but this is likely to share space with any new debt crisis developments.

We judge the Bund needs new news, either negative or positive to break new ground and currently we can't see its source, so for now we advise remaining square.

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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the DOLLAR.

Last week we were Square.

See how the Euro remains under pressure against the Dollar.

The Macro Trader's view of the Euro; the change of government in Greece and Italy does not solve this crisis. It puts in place fresh faces that the markets might have confidence in to try something new.

But neither leader has a popular mandate, that means when the going gets tough they have no core voter support to call upon and could soon be out of office with new elections called.

Until the Euro zone is willing to either break up – apparently not an option, or take the difficult political steps needed towards closer political and fiscal integration, this crisis seems to have no end other than destruction.

Traders should be short of the Euro, long the Dollar.

Our target is 1.3405 and our stop is 1.4165 for protection.

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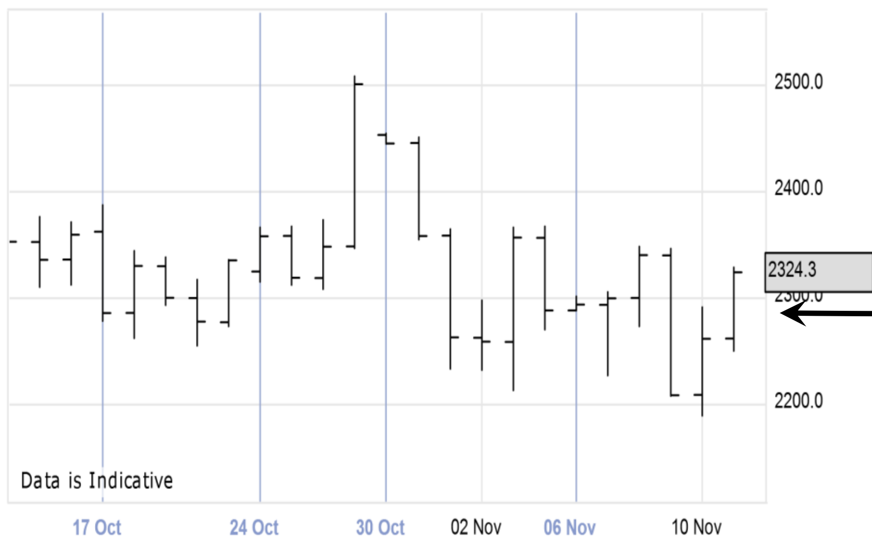
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of DJ EUROSTOXX50.



See how the market marked time while Greece and Italy struggled to form new unity governments.

The Macro Trader's view of DJ Euro Stoxx 50 is: as the crisis evolved to focus on Italy with the fall of the Italian Government, traders waited for the outcome of attempts in Greece and Italy to form new Governments with data taking a back seat.

In the event to non-elected leaders have emerged at the behest of the markets and Germany, a worrying development.

Since this crisis is about debt, the Euro zone needs to work together to solve it.

Imposing austerity without economic reform, will only shrink the ability of the focus country to generate income to service even the reduced debt burden, so clearly demonstrated by Greece through her repeated requests for financial aide.

We judge the outlook for stocks remains bearish.

Traders should remain short of this market.

Our target remains 2205.0 and our stop continues at 2515.0 for protection in a volatile environment.

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Summary

Global Calendar

US Markets
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+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: economic background

The main event last week was the trade data which came in above consensus indicating the economy and key export industries were coping with the strong yen.

However other data was a little more mixed indicating the economy remains on a fragile path to recovery.

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; **Condo sales, Q3 GDP, Industrial production and capacity utilisation**
- On Tuesday; **BOJ rate decision, and**
- On Thursday; **Machine tool orders.**

We judge this week’s main event is the Q3 GDP report.

After everything Japan has endured this year, from natural disasters to a strong Yen, this number will report on just how far down the road to recovery Japan is.

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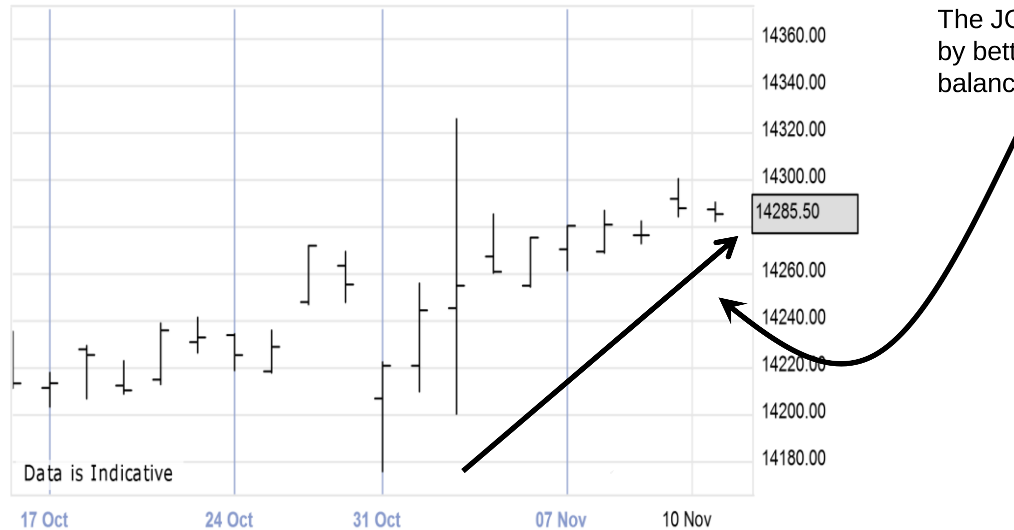
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied last week aided by better news on the trade balance.

The Macro Trader's view of the JGB is: the JGB enjoyed a positive week helped by the release of better than expected trade data.

Despite a strong Yen exporters have held up well and the trade surplus has steadily increased, helping Japan slowly export her way back to economic health following the devastating natural disaster earlier in the year.

Looking ahead the key release this week is Q3 GDP, already released, and stronger than expected, indicating Japan has emerged from recession.

However, for now we remain square of this market as it remains essentially range bound, and with the Euro zone Sovereign debt crisis entering a new phase, bond markets are likely to remain choppy..

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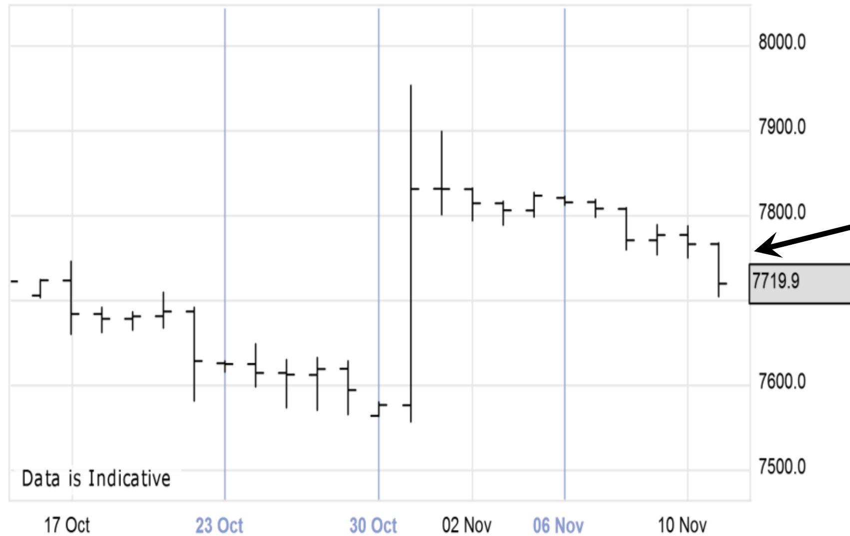
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square.



The Yen remains well supported despite recent intervention.

The Macro Trader's view of the Yen is; the Yen has, as we mentioned the previous week, begun to claw back the losses sustained as a result of Bank of Japan intervention.

And with Q3 GDP released earlier today and better than expected together with the trade data performing well last week, traders may be emboldened to take the Yen higher.

However the threat of further intervention remains.

Chinas economy seems to be cooling and with the Euro zone crisis still in play safe havens remain in demand and the Yen has fulfilled that role recently.

We judge the authorities may decide not to wait so long to intervene again and aware of the large corrections such action entails 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 remains under pressure despite the solid trade data released last week.

The Macro Trader's view of the Nikkei is; equity markets remain under pressure as the prospect of a global recession looms.

And although Japan posted stronger than expected trade data last week, and better than expected Q3 GDP data today, if the global economy goes into recession, Japan will not be immune.

The Euro zone reported more weak data last week and looks certain to experience recession.

The UK too looks set for a deep slowdown and the Jury remains out on the US.

Even China has seen a cooling and there is talk of a policy ease.

For now we remain cautious of equity markets globally and prefer to focus on the UK, US and Euro zone.

So for now stay square.

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COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Gold.

See how gold rallied last week as the Euro zone crisis saw two elected leaders replaced by non elected technocrats.

The Macro Trader's view of the Gold is: as the monetary policy authorities in the UK, US and Euro zone seem ready to trade short term higher inflation for longer term growth prospects, gold has re-discovered its bullish tone.

Add in the rising Middle East tension relating to Iran's nuclear program and the possibility that Israel might take unilateral military action, Gold looks set to rally further.

Moreover if the Iran crisis develops into a military rather than diplomatic engagement, then oil prices would undoubtedly rise.

This would have the effect of hastening the global economy's slide into recession while at the same time stoking energy inflation, creating the traditional environment for a strong bull run for gold.

Traders should remain long of gold. Our target remains 1880.0 and our stop continues at 1674.0 for protection.

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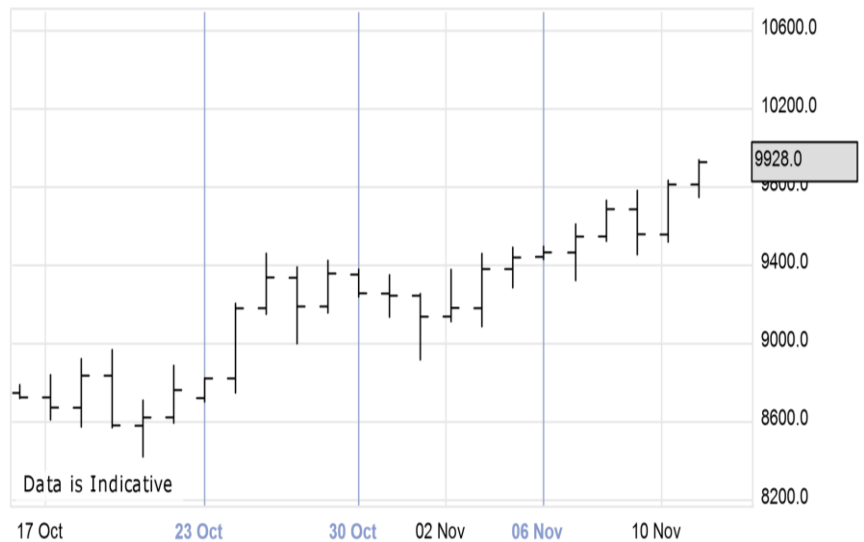
COMMODITIES: Oil

OUR TRADING STANCE: BULLISH.

Last week we were Square of Oil.



See how oil

The Macro Trader's view of oil is: we advised staying square last week unless Middle East tension intensified; we judge it has.

The latest intelligence and IAEA report suggests Iran is much closer to making a nuclear weapon.

Israel is nervous and may strike alone.

The UK had previously all but ruled out military action against Iran, but Foreign Secretary Hague said today the Military option remains.

Obviously he would not say that unless other allies were like minded.

Should the west/Israel launch a pre-emptive strike against Iran, there would likely be great disruption to oil supplies and reprisal terrorist attacks.

While that shouldn't stop the western powers from dealing with a country that has a chequered history and if it gained a nuclear devise would pose a serious threat to regional peace, it is worth under standing what would be at stake both from a security perspective and economically.

The main concern here is the potential for much higher oil price and the accompanying negative economic consequences.

Traders should be long of oil, our target is 104.00 and our stop is set at 92.98 for protection.

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MAIN MENU