Week 13

27th March – 2nd April 2012

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the macro trader's guide to major markets

John Lewis

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	Week of 26th March
Monday	US Pendg home sales 1.0%m, UK Nat'nwide hse prces 0.2m, 0.9y DM IFO 109.6 JP Corp service prces -0.4%
Tuesday	US Case/shiller Comp-20 -3.8% US Cons conf 70 UK CBI Sales -5 DM Import prices 1.0m, 3.5y DM GFK 6.1 JP Sml bus conf n/f
Wednesday	US MBA Mrtge apps n/f US Durable goods 2.9% US DG Ex-Transport 2.0% UK Q4 GDP -0.2q, 0.7y UK Q4 C/A -8.4B UK Q4 Tot bus invstmnt -5.6q, -1.9y FR Q4 GDP 0.2q, 1.4y EZ M3 (3M) 2.2% EZ M3 (Y/Y) 2.4% DM CPI 0.3m, 2.1y JP Lrge retailers sales -0.3% JP Retail trade 0.0m, 1.4y

	Week of 26th March
Thursday	US Jobless claims 350k US Q4 GDP (A) 3.0% US Q4 GDP Price indx 0.9% US Q4 Core PCE 1.3q US Q4 Persnl consumpt'n 2.1% UK Net lndg ondwllgs 1.4B UK Mrtge apps 57.2k UK Indx of services 0.2m, 0.33m/3m UK Net cons CR 0.2B UK GFK Cons conf -29 DM Unemploym't rate 6.8% DM Unemploym't chge -10k EZ Cons conf -19 EZ Ind conf -5.8 JP Tokyo CPI -0.1y JP Nation'l CPI 0.0y JP Househld spndg -0,5y JP Jobless rate 4.6% JP Ind production 1.3m, 3.7y JP Loans & Discount corp n/f
Friday	US Persnl spndg 0.6% US Persnl income 0.4% US Core PCE 0.1m, 1.9y US Chicago PMI 63 US U. of Michigan conf 74.8 DM Retail sales 1.2m, 0.1y EZ CPI Est 2.5y JP Vehicle prod n/f JP Construction orders n/f

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	Week of 19th March
Monday	IT Ind new orders -7.4m, -5.6y **WORSE** IT Ind sales -4.9m, -4.4y **WORSE** EZ C/A -12.3B **WORSE** EZ Construction output -0.8m, -1.4y **WORSE** **THAN EXPECTED**
Tuesday	US Housing starts 698k **LESS** US Buldg permits 717k **STRONGER** UK CPI 0.6m, 3.4y **WORSE** UK RPI 0.8m, 3.7y **WORSE** UK RPI-X 3.8y **WORSE** UK CBI Trends -8 **WORSE** DM PPI 0.4m, 3.2y **BETTER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -7.6% **WORSE** US Existing home sales 4.59M **LESS** UK MPC Minutes 7/2 **AS** UK PSNCR -7.8B **BETTER** UK PSNB 12.9B **WORSE** UK Budget **AS** JP All ind actvty indx -1.0% **WORSE** JP Convenience stre sales 4.8 **STRONGER** JP Trade bal 32.9B **STRONGER** **THAN EXPECTED**

	Week of 19th March
Thursday	US Jobless claims 348k **BETTER** US Hse prces indx 0.0m **WEAKER** UK Retail sales -0.8m, 1.0y **WORSE** EZ PMI Composite survey 48.7 **WEAKER** EZ Ind new orders -2.3m, -3.3y **WEAKER** EZ Cons conf -19.0 **BETTER** **THAN EXPECTED**
Friday	US New home sales 313k **WEAKER** UK BBA home buyer lns 33.105k **WEAKER** IT Retail sales 0.7m, -0.8y **STRONGER** FR Business conf 96.0 **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week the calendar was lighter than usual but there were two important releases; Existing and New home sales.

Both were weaker than expected showing that housing remains a weak spot in the current recovery.

However all was not doom and gloom as the jobless claims report fell below 350k for the first time in 4 years. This is yet another mile stone along the route of the labour market's recovery.

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; **Pending Home sales,**
- On Tuesday; **Consumer confidence,**
- On Wednesday; **Durable goods,**
- On Thursday; **Jobless claims, Q4 GDP, Q4 Core PCE and Q4 Personal consumption, and**
- On Friday; **Personal spending and income, Core PCE, Chicago PMI and University of Michigan confidence.**

The main even this week is the final look at Q4 GDP.

But watch Jobless claims, further improvement will be a good sign that the Labour market is well and truly on the mend and that the recovery is strengthening.

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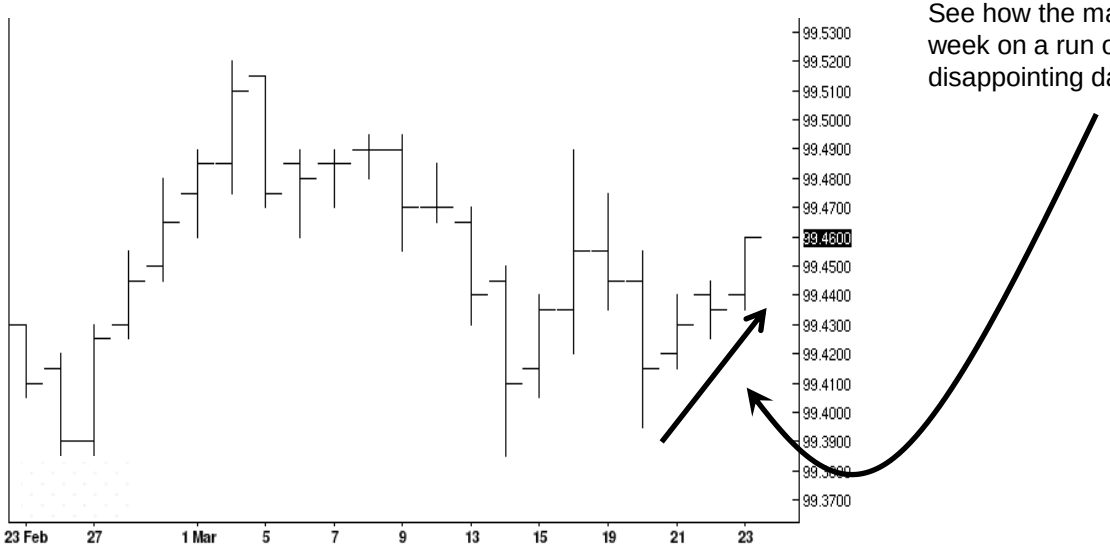
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Eurodollars.



See how the market rallied last week on a run of mainly disappointing data.

The Macro Trader's view of Eurodollars is; the market showed last week why we are so reluctant to trade this market, it lacks any sense of direction.

Although the over all view of the economy is on of a strengthening recovery, last week through out another set of disappointing housing market releases and Eurodollars rightly rallied.

Looking ahead the main event to watch this week is the Q4 GDP report. This is the last outing for this release and major revisions are not expected.

Other data to watch is the weekly initial jobless claims report. This number has been improving over a run of several weeks and fell below a key level last week.

If the number continues to decline other economic data should strengthen further.

For now we judge this market remains trapped between the dovish Fed and a slowly but surely improving economic recovery.

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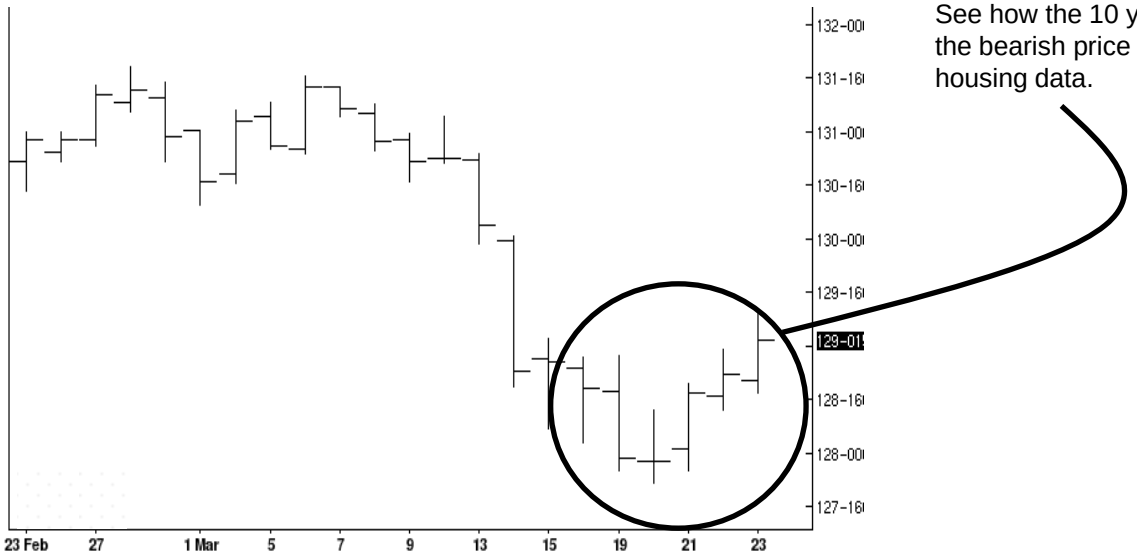
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note broke the bearish price action on weak housing data.

The Macro Trader's view of the 10 year note is; the market gained a reprieve last week on weaker housing data after a run of bearish price action.

But in addition to US data the market found support from a growing sense of unease that Spain is starting to emerge as the next Euro zone crisis economy, but with fewer options for policy makers to deploy.

Looking ahead there are several important data releases due this week and Bonds may well close the week down, but watch the final release of Q4 GDP.

No major revisions are expected, so if data is materially different to consensus the market will react.

For now we see little compelling reason to trade this market. Stocks seem to be the dominant market for investors right now and although they suffered a minor set back last week, we sense they can go much higher.

For now we advise remaining square of here.

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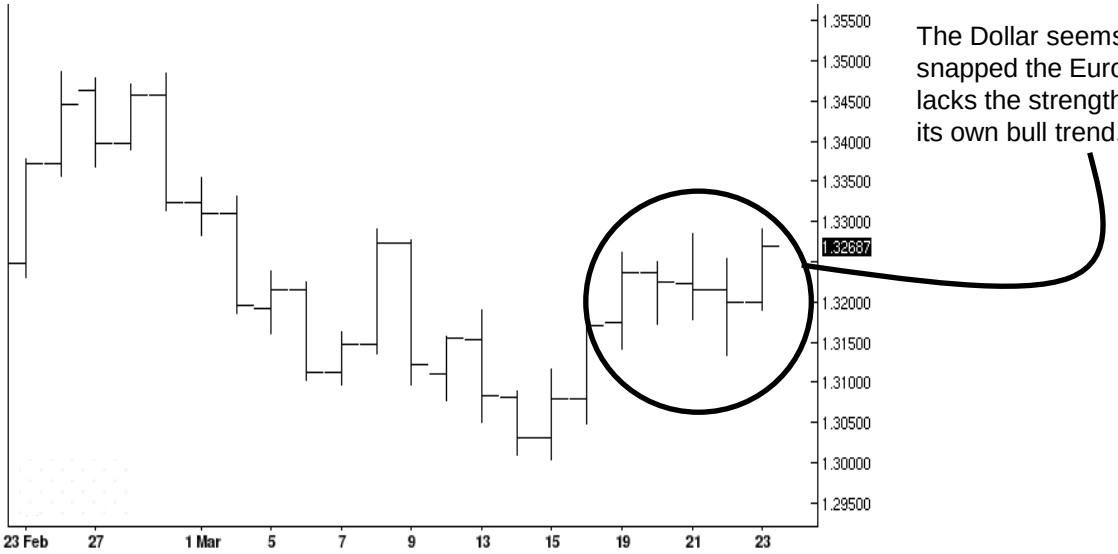
US MARKETS: US Dollar

OUR TRADING STANCE; SQUARE.

Last week we were Square.



The Macro Trader's view of the Dollar is: the Dollar's recent period of weakness seems to be coming to a close as traders focus on two factors:

1. The obvious strengthening of the US economic recover set against the growing weakness of that of the Euro zone, and
2. The re-emergence of concerns over the Euro zone debt crisis, but this time with a recalcitrant Spain at is epicentre.

Looking ahead we judge this week's data should confirm the good news that has become increasingly evident over recent weeks that the US economy is picking up speed.

However, we prefer to wait a little longer before going long of the Dollar as we want to see a clear break back through 1.3000 against the Euro which will indicate to us the Dollar is back on track.

Given the growing concerns about Spain, we may not have too long to wait.

For now stay square.

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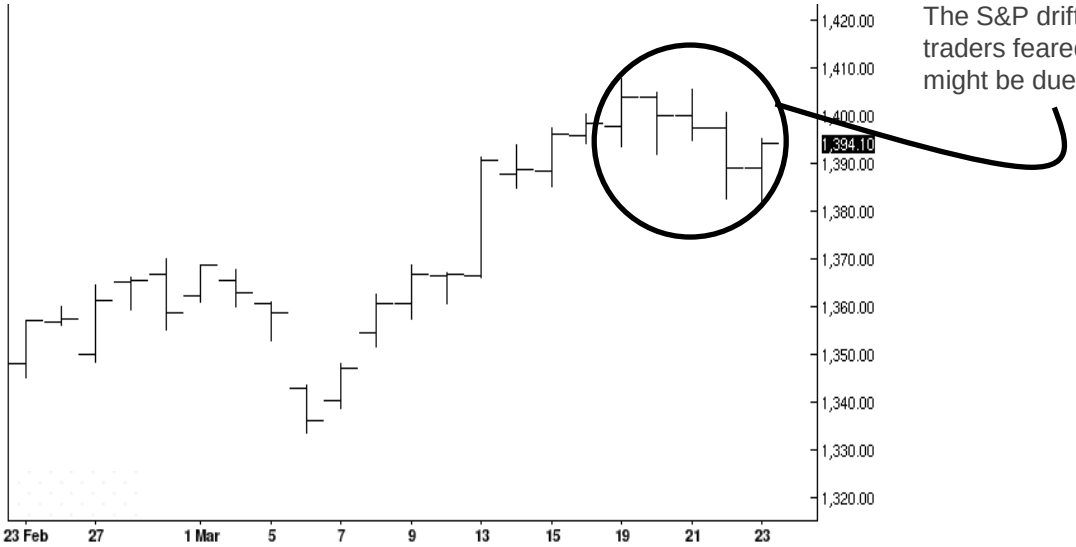
US MARKETS: S&P500

OUR TRADING STANCE; BULLISH.

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



The S&P drifted last week as traders feared a new correction might be due.

The Macro Trader's view of the S&P 500 is: the market drifted lower last week as traders feared a new correction might be due after what has been a period of strength.

And although last week's housing data was disappointing, the housing market has been the consistent weak link during this recovery.

We judge the better than expected jobless claims report is more important. A strengthening labour market will allow for a pick up in consumer demand and begin to fuel a turn round in housing, so we judge last week's price action was no more than a pause.

And although fresh concerns are emerging about the Euro zone debt crisis centred on Spain, we think the US economy will ride it out.

Traders should remain long of this market.

Our target continues at 1420.0 and our stop remains set at 1360.0 for close protection.

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UK MARKETS: economic background

The budget took centre stage last week and although there was some fiddling on the periphery, the central theme remained the need to eliminate the fiscal deficit.

Other data released saw the CPI rate fall, but not as much as expected. The MPC minutes surprised a little with two members favouring more QE, but the main disappointment was the weak retail sales report which if not offset by a stronger March report will act as a drag on Q1 GDP when released next month.

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; **Nationwide house price survey,**
- On Tuesday; **CBI Sales,**
- On Wednesday; **Q4 GDP, Q4 C/A and Q4 Total business investment, and**
- On Thursday; **Net lending on dwellings, Net consumer credit, Mortgage approvals and Index of services.**

The main event this week is the Q4 GDP report. Although this is the final release of this number, it is sometimes unexpectedly revised as the ONS has a more complete set of data as apposed to estimates used in earlier releases, clearly a revision in either direction will be a market mover.

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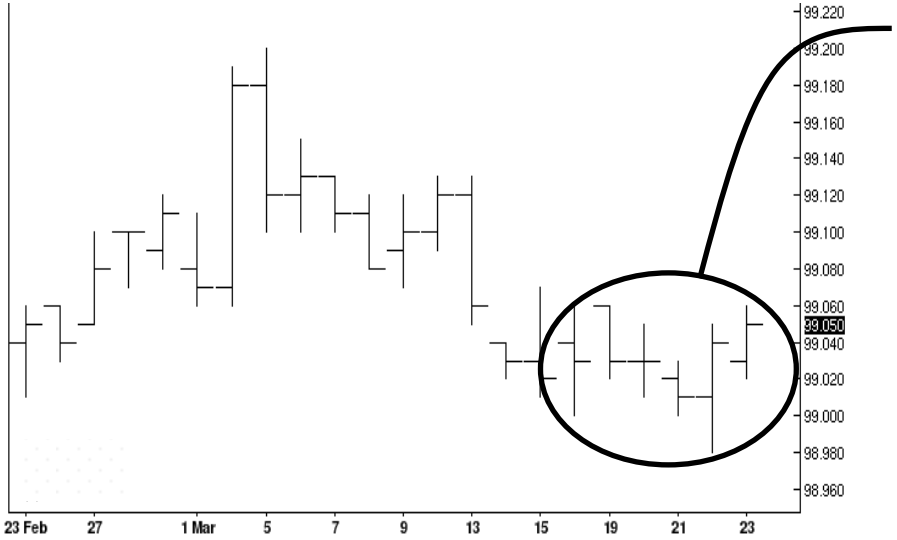
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Short Sterling.



Note how Short Sterling sold off on the CPI report but bounced on weak retail sales.

The Macro Trader's view of Short Sterling is aside from the budget, which we though mainly as expected, last week's data was disappointing.

The CPI report did decline further, but was worse than expected and retail sales was weak, which is bad news for Q1 GDP unless reversed by March data.

On balance last week's data once again fully illustrated why we are not involved with this market; it lacks direction as the recovery is in very early stages.

Looking ahead the Q4 GDP report stands out. It is the last of a series of releases for this number, but now the ONS has a complete set of data as apposed to an incomplete picture filled in with estimates, as for earlier release.

There could then be final revisions in either directions which would move this market, a little.

So for now we continue to hold the view that this market has now where to go. The recovery is still fragile and could yet fail forcing the Bank to ease further, so for now stay square.

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UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

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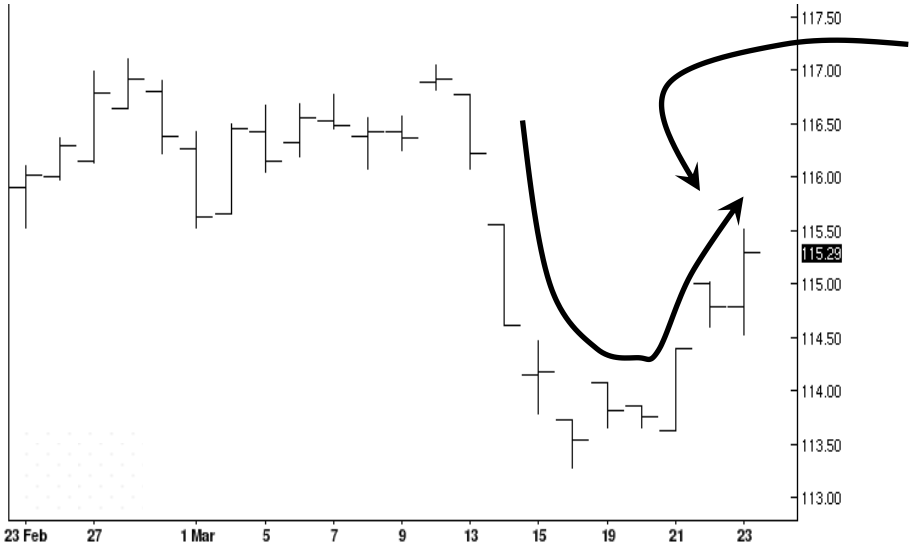

See how the gilt took a roller coaster ride over recent weeks.

The Macro Trader's view of the Gilt is; the Gilt has become volatile over recent weeks driven by a combination of hopes of strengthening recovery and the changing fortunes of the Euro zone.

Because the UK economy is in the early stages of recovery, data can still shock with the occasional very weak release as we saw last Thursday when retail sales fell well short of consensus, giving this market reason to rally.

Additionally the Euro zone debt crisis reared its head again last week, as Spain become the new major concern.

Due to the size of its economy, we doubt there is either the will or resources to mount a rescue along the lines of Greece and as with Italy help will have to come from within, but Spain's political will is vanishing making Bonds seem attractive again as safe haven trades.

We judge the main trend traders should follow is the clear recovery now under way in the US and the nascent recovery here in the UK.

Bonds therefore are not so attractive, but stocks are so stay square of the gilt during this current period of conflicting information.

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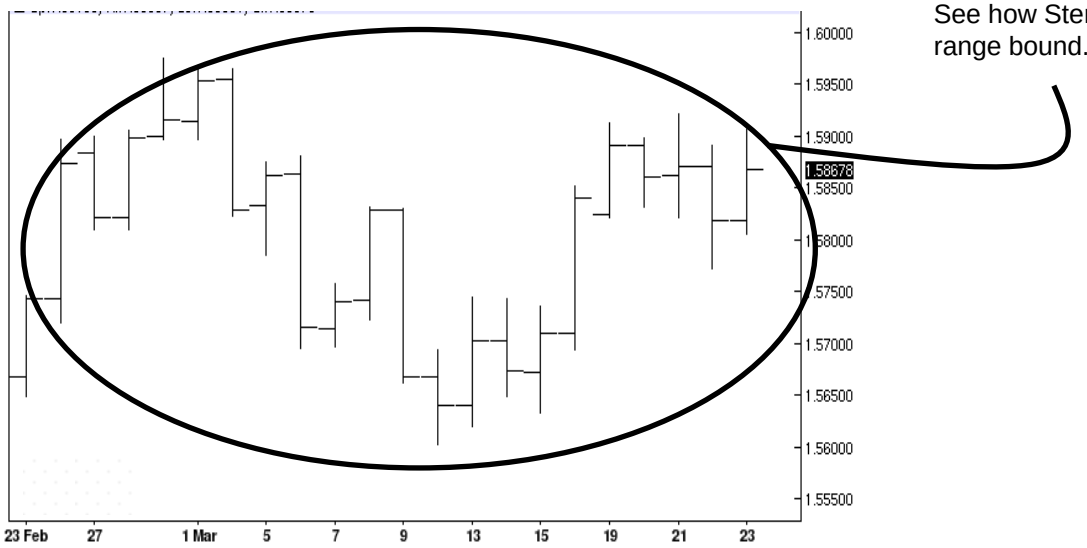
UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were Square



See how Sterling remains clearly range bound.

The Macro Trader's view of the Pound is; last week we said...

…"Looking ahead the budget should be an opportunity for the government to re-assure markets it is business positive while maintaining the austerity drive"...

Which we judge it did. We also said…

…"That should help stabilise Sterling, but the US recovery is on firmer ground than the UK's and news from the US is likely to remain the driving force"...

…"We judge the Pound is likely to remain range bound until the UK economy can show stronger signs of recovery which isn't likely just yet"...

And we still hold that view after last week's disappointing retail sales report.

Looking ahead Q4 GDP is likely to dominate but we see the Pound remaining range bound.

So for now we advise maintaining a square position.

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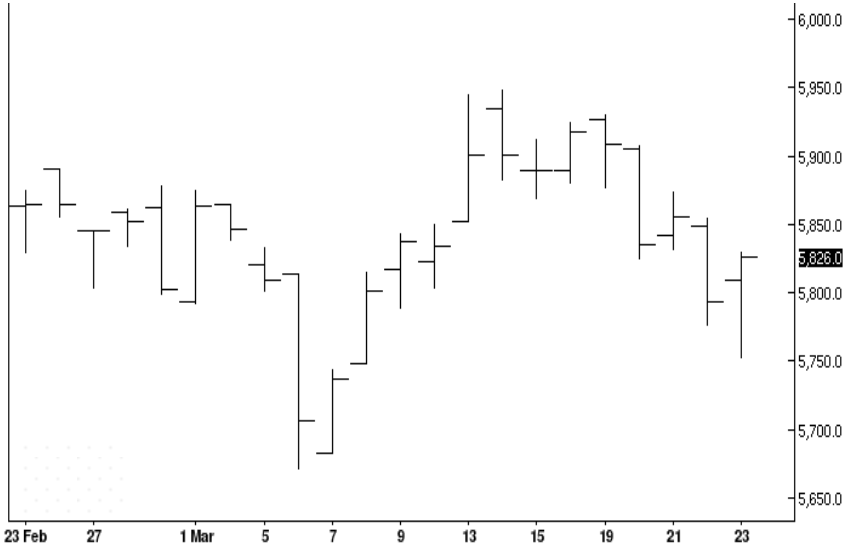
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the FTSE.



See how the FTSE tested the downside last week on new concerns about the Euro zone debt crisis.

The Macro Trader's view of the FTSE is: the FTSE suffered a set back last week which was bigger than in US markets as a combination of:

1. weaker UK data,
2. fears about the strength of China, and
3. new concerns about the Euro zone debt crisis forced a correction.

Looking ahead this week's Q4 GDP report is the main event, but on balance we expect no new revisions leaving the market to respond to growing concerns about Spain's debt crisis verses the strengthening US economy.

On balance we remain bullish of equity markets.

The US economy is strengthening and the Labour market is showing increased signs of recovery as jobless claims dipped below 350k for the first time in four years, last week.

We judge traders should stay long of the FTSE.

Our target remains set at 5955.0 and our stop is continues at 5715.0 for protection in a still very fragile economic environment

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EURO ZONE MARKETS: economic background

Last week we flagged Euro zone Industrial New orders and Euro zone PMI Composite as the week's key releases; both fell short of consensus fuelling concerns the Euro zone economy could be back in recession.

Additionally the sovereign debt crisis came back into focus as Spain seemed to loose her appetite for the austerity drive demanded by Brussels, risking a new and more damaging phase of the long running sore that has so dogged the Euro zone for over two years.

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 IFO,**
- On Tuesday; **German import prices and GFK consumer confidence,**
- On Wednesday; **French Q4 GDP, Euro zone M3 and German CPI,**
- On Thursday; **German unemployment report, and**
- On Friday; **German retail sales and Euro zone CPI.**

The main event this week is the German IFO report.

The Euro zone economy looks to be heading into recession, but Germany looks to be performing better, ultimately any hope of a Euro zone recovery rests on German economic strength.

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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

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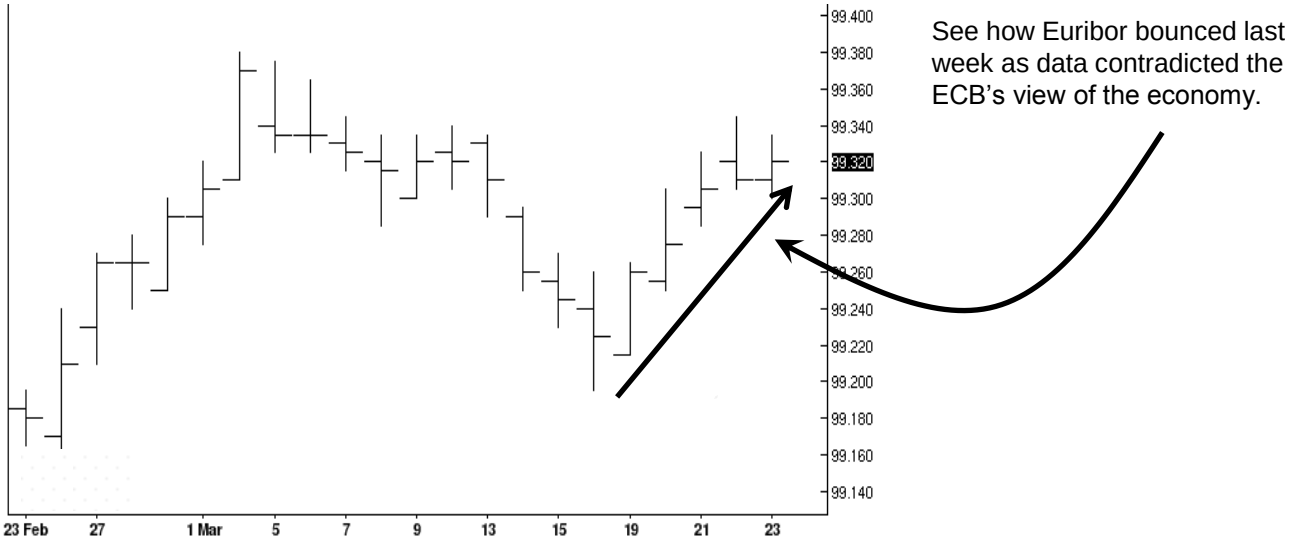

The Macro Trader's view of Euribor is; the ECB at its last press conference seemed to be laying the ground work for a change of policy focus, meaning eventually higher rates.

But last week's data showed why any attempt to hike rates would not only be premature, but wrong.

The Euro zone PMI Composite survey was weaker than expected last week and at 48.7 clearly flags recession.

The Industrial new orders report was also weak and although the German economy is still expanding, policy set by the ECB is for the pan Euro zone not just Germany and amid such an aggressive austerity drive as is taking place in most Euro zone economies the ECB needs to tread carefully.

For now stay square.

When the Central Bank and economic data are singing from different hymn sheets the result is likely to be increased volatility.

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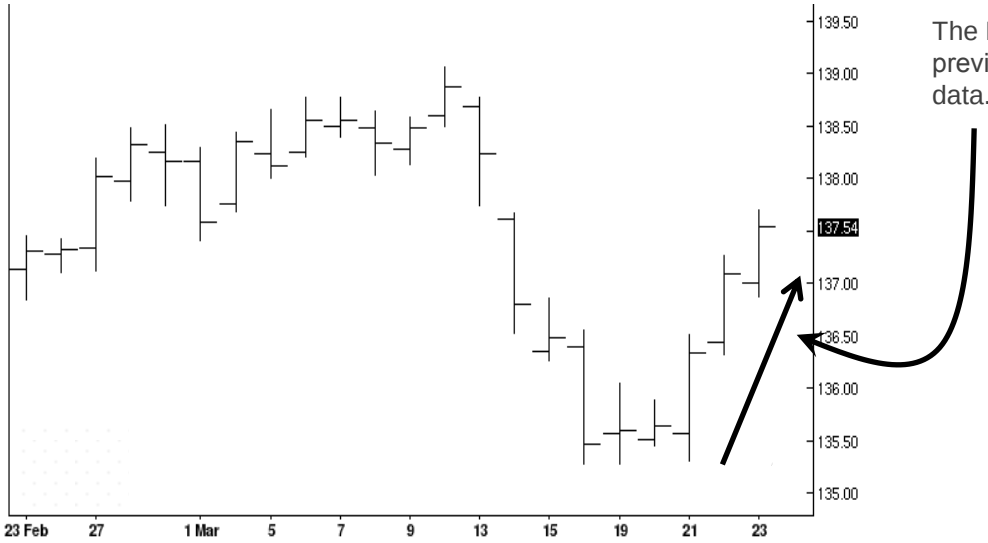
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund snapped out of the previous week's sell of on weaker data.

The Macro Trader's view of the Bund is: the bund received a double life line last week as key economic data releases were worse than expected and fears about the debt crisis re-surfaced, so soon after Euro zone leaders proclaimed it resolved.

The country at the centre of concerns now is Spain. The Spanish government appears to have lost its enthusiasm for an austerity drive that has sent unemployment soaring, but unlike Greece, Spain is unlikely to succumb to the bully tactics deployed against Greece and so a deeper crisis could result.

Looking ahead the German IFO report is the key data release, but watch how the crisis centred on Spain evolves as this could drive a new wave of safe having Bund buying.

For now we advise staying square of this market as we judge volatility could return as traders experience the compelling forces of the US recovery set to drive stocks higher, versus the fears associated with the debt crisis that supports Bonds.

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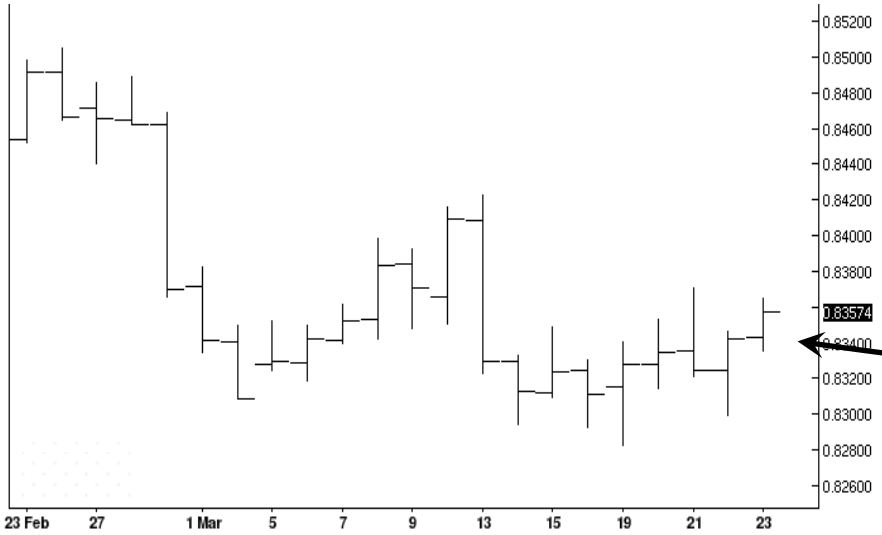
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Euro lacks direction against Sterling and has lost energy against the Dollar.

The Macro Trader's view of the Euro; the Euro seems to have lost all direction against the Pound which is drawing support from growing evidence of a slowly building economic recovery.

Against the Dollar the recent rally seems to have lost energy as the US economic recovery is clearly growing in strength where as the Euro zone seems either in or on the brink of recession.

Looking ahead if the growing concerns about Spain's commitment to her austerity drive grow into a full blown crisis, we judge the Euro will relinquish all the gains made against the Dollar. Moreover the Dollar, supported by the US recovery should re-establish its rally and make new recent highs.

However until 1.3000 breaks we are un willing to trade and advise remaining square of a market that could frustrate the Dollar bulls a little longer.

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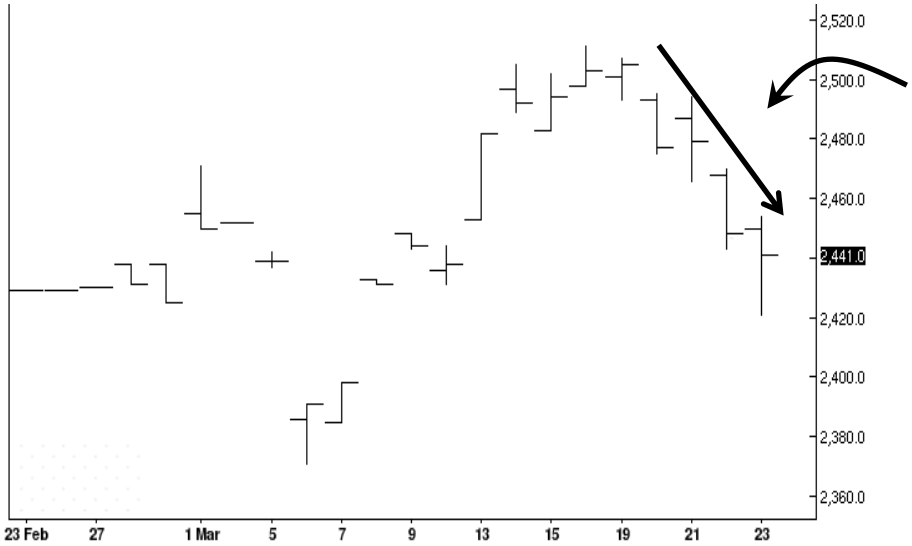
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market sold off last week on growing concerns about Spain.

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

The market gave back a large chunk of its recent gains last week as new concerns emerged about the Euro zone Sovereign debt crisis, but this time centred on Spain.

The Spanish government seems to have lost enthusiasm for the austerity drive previously agreed with Brussels as her economy suffers.

Since Spain's economy is much larger than Greece, a solution was always likely to come from within as with Italy since the required size of a rescue fund was obviously going to be too large, but if Spain is no longer willing to bear the pain, what next?

We judge this uncertainty and the weak Euro zone data that points to recession is a major negative for this market.

We only hold back from selling it because we are bullish of US and UK markets..

For now we advise remaining square.

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JAPANESE MARKETS: economic background

The calendar was very sparse last week, but the trade report stood out as an indicator to watch and it lived up to our expectation.

From a Yen 1,475.0B deficit the previous month last Wednesday's report showed a Yen 32.9B surplus; a sizeable turnaround!

The main reason sighted was increased demand from the US, and obviously the weaker Yen played a part in encouraging US demand for Japanese goods.

And while only one strong number out of a string a weak data releases over recent weeks, it does offer hope that the Japanese economy is at least in a position to respond positively given the right conditions.

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; **Corporate service prices,**
- On Tuesday; **Small business confidence,**
- On Wednesday; **Large retailers sales and retail trade,**
- On Thursday; **Tokyo CPI, National CPI, Household spending, jobless rate and Industrial production, and**
- On Friday; **vehicle production and construction orders.**

The main event this week is Industrial production, it may be too soon to expect a follow through but after last week's much improved trade report Industrial production should reflect this.

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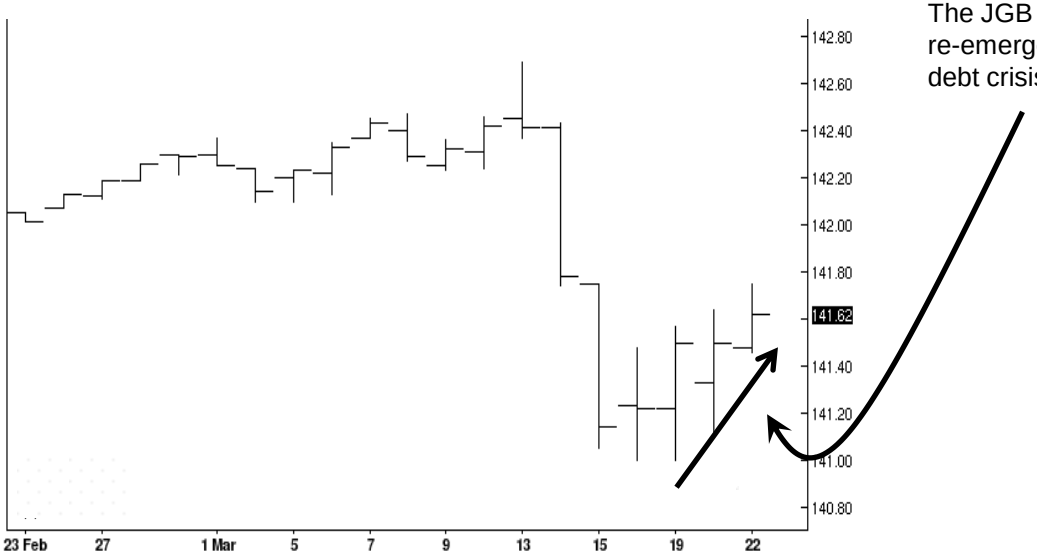
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB recovered on fears of a re-emergence of the Euro zone debt crisis.

The Macro Trader's view of the JGB is: In a week of few data releases traders focussed fully on the trade report, which pleasingly turned a large deficit into a small surplus on increased demand being generated by the US economic recovery.

But the bounce in the JGB was more likely driven by new fears over the Euro zone debt crisis fuelled by problems in Spain.

Additionally there were concerns about the strength of Chinas economy and all of this combined to weigh on stocks while giving bonds a safe haven lift.

Looking ahead this week will likely be dominated by news from the Euro zone and especially Spain where the government seems to be moving away from its commitment to implement an austerity drive that is shrinking the economy and driving up unemployment.

For now we advise remaining square since it isn't yet clear if Spain has abandoned her austerity pledge or is merely seeking to win concessions from her Euro zone partners, mainly Germany.

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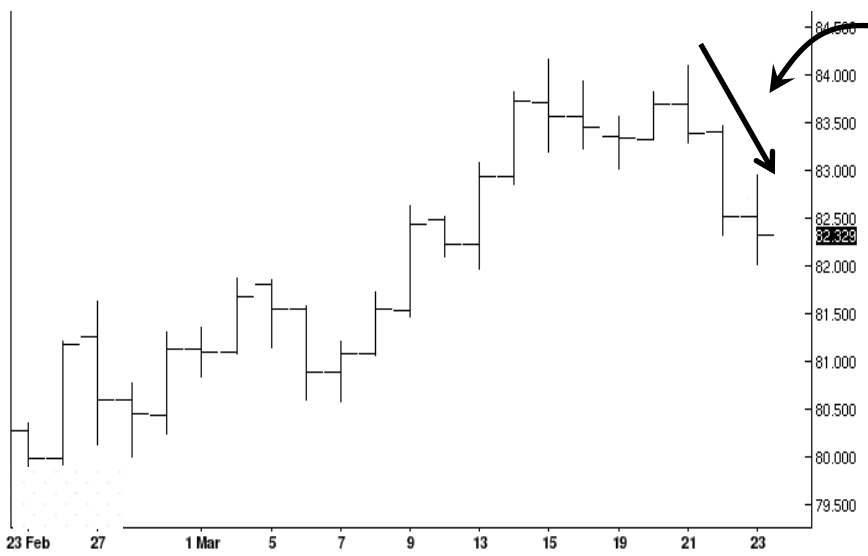
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square.



The Yen regained some lost ground last week after the release of stronger trade data.

The Macro Trader's view of the Yen is; The Yen regained some lost ground last week on the back of some stronger trade data which paradoxically was made possible partly by the weakness of the Yen.

However we judge another significant reason for the Yen's rally was the return of anxiety over the Euro zone sovereign debt crisis with Spain now the focus.

Spain had earlier managed to ease concerns about her own fiscal health by agreeing to implement a tough austerity drive, that commitment seems to be evaporating fast.

What that means for currencies is the Dollar and Yen are likely to strengthen at the Euros expense.

But since we are as yet uncertain whether Spain's new position is posturing or something deeper we advise remaining square here.

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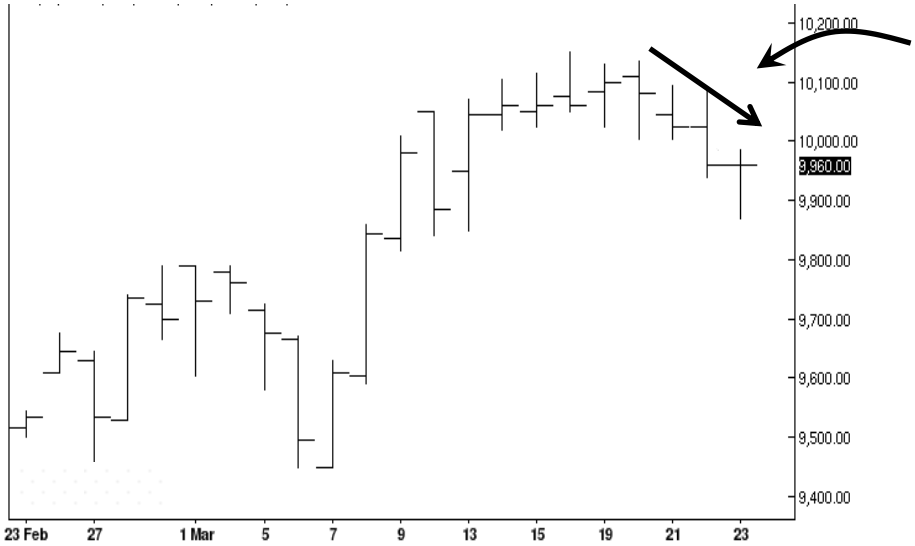
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Nikkei.



See how the Nikkei drifted lower on negative international sentiment.

The Macro Trader's view of the Nikkei is; the Nikkei eased lower last week fuelled not by domestic data, but negative international sentiment generated by the long running and as yet unresolved Euro zone sovereign debt crisis, this time centred on Spain.

If traders become convinced that Spain is set to go the same way as Greece then stocks could be in for a rough ride.

But we are not convinced of that outcome. Spain is different to Greece in several ways.

It is a much bigger economy and so more difficult to prop up through a bail out, but then has greater diversity so has a chance to find its own solution given political will.
Unlike Greece it makes things to sell abroad; cars are one such commodity.

We sense Spain may not be intending to provoke a new round of the crisis, but may be looking for concessions from her partners. In any event we judge the main story for now is the growing US economic recovery which has through Japan's trade data, once again demonstrated its value to the Global economy.

Traders should remain long of this market.

Our target remains 10,205, and our stop continues at 9800.0 for close protection.

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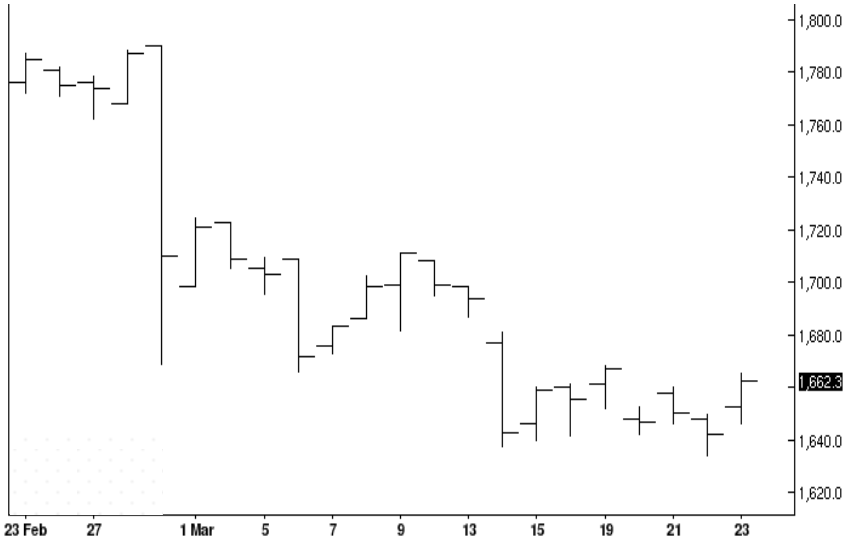
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how gold continues to bump along at the lows as the Dollar's weakness has abated.

The Macro Trader's view of the Gold is: the gold market has run out of energy as the Dollar sell off has halted and the US economic recovery strengthens.

But interestingly the market seems to have found support.

Although we judge a fully fledged US economic recovery would be the single most important event for global markets to focus on, when it finally comes, until it does there are still enough reasons to remain bullish of Gold.

The Euro zone debt crisis, which seems to have taken a new turn is one.

The uncertainty surrounding Iran's nuclear program, despite upcoming talks, is another.

And then there is the uncertainty of how the leading Central Banks will time the withdrawal of the unprecedented easing currently in place, which could lead to a wave of strong inflation if badly timed.

Although still the right policy course for now, events can move on quickly and there is a lot of Central Bank generated/printed money in the system with policy effectively at zero.

For now we remain square of this market while the current correction continues to play out.

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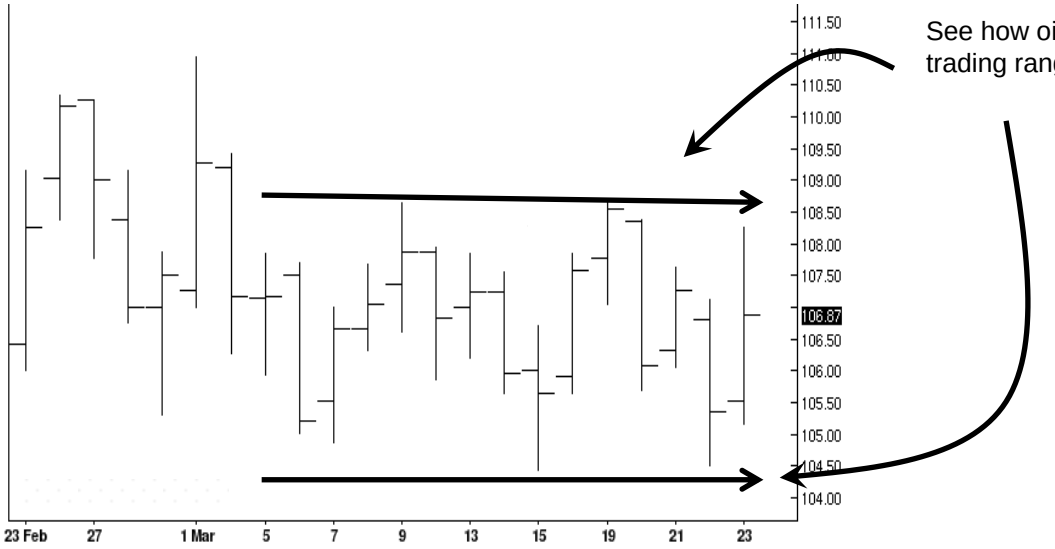
COMMODITIES: Oil

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Oil.



See how oil remains stuck in a trading range.

The Macro Trader's view of oil is: since the news broke that Iran was prepared to talk to the west about her nuclear program, Oil has fallen into a clear trading range, but we repeat or well known view if this market…

…"we remain long of oil for geopolitical reasons and judge they remain very much in play"...

…"The Iranian regime continues to ignore world opinion over her nuclear program, gambling the major powers have no stomach for a fight"...

…"But should tension in the Gulf escalate further and Iran miscalculate the oil price could yet soar and we judge a long position is a insurance policy against the economic mayhem a serious disruption of oil supplies would cause and advise staying long"...

We judge traders should remain long of this market. The current round of talks are no more than Iran playing for time and once the major powers reach the same conclusion they will break down and the crisis rebuild.

Our target is again 110.00 and our stop continues at 104.20 for close protection.

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