Week 33

14th – 20th August 2012

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the macro trader's guide to major markets

John Lewis

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	Week of 13th August
Monday	UK RICS Hse prce indx -23 DM WPI n/f JP Tertiary Ind indx -0.3m, JP Q2 GDP 0.6q, 2.3 (A)
Tuesday	US PPI 0.2m, 0.5y US PPI Ex-F&E 0.2m, 2.3y US Retail sales 0.3% US RS Ex-Autos 0.3% US Business invntry 0.2% UK DCLG House prces 1.5y UK CPI -0.1m, 2.3y UK RPI -0.2m, 2.8y UK RPI-X 2.9y FR Q2 GDP -0.1q, 0.2y DM Q2 GDP 0.2q, 0.9y EZ Q2 GDP -0.2q, -0.4y EZ Ind production -0.7m, -2.1y DM ZEW -19.3
Wednesday	US MBA Mrtge apps n/f US CPI 0.2m, 1.5y US CPI Ex-F&E 0.2m, 2.2y US Empire mfg 7 US Net lg term TIC flows $60.0B US Capacity utilisation 79.2 US Industrial production 0.5% UK Averge earngs 1.7% UK Averge earngs ex-bonus 1.9% UK Uuemploym't rate 4.9% UK Unemploym't chge 6.0k UK MPC Minutes UK ILO Rate 8.1% JP National dept stre sales n/f JP Tokyo dept store sales n/f

	Week of 13th August
Thursday	US Jobless claims 364k US Buildg permits 765k US Housing starts 757k US Philly Fed -4 UK Retail sales -0.2m, 2.0y EZ CPI -0.5m, 2.4y JP Tokyo Condo sales n/f
Friday	US U. of Michigan conf 72.2 DM PPI 0.3m, 1.2y EZ C/A n/f EZ Trade bal 9.5B

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	Week of 6th August
Monday	UK BRC Retail sales 0.1y/y **BETTER** UK Halifax hse prces -0.6m, -0.6(3m/y) **AS THAN EXPECTED**
Tuesday	US Cons cr $6.459B **MORE** UK Ind production -2.5m, -4.3y **STRONGER** UK Mfg output -2.9m, -4.3y **STRONGER** UK NIESR GDP Est -0.2% **BETTER** IT Q2 GDP -0.7q, -2.5y **LESS** DM Factory orders -1.7m, -7.8y **WEAKER** JP C/A 433.3B **BETTER** JP Trade bal 112.0B **LESS THAN EXPECTED**
Wednesday	US MBA Mrtge apps -1.8% **LESS** US Unit labour costs 1.7% **MORE** US Non-farm productvty 1.6% **MORE** UK B of E inflation report **WEAK GROWTH** DM Trade bal 17.9B **STRONGER** DM C/A 16.5B **STRONGER** DM Ind production -0.9m, -0.3y **WORSE** FR Trade Bal -5.990B **WORSE** JP Bankruptcies -5.1% **BETTER** JP ECO Watchers survey 44.2 **BETTER** JP Machine orders 5.6m, -9.9y **WORSE** JP Rate decision 0.1% **AS THAN EXPECTED**

	Week of 6th August
Thursday	US Trade bal -$42.9B **BETTER** US Jobless claims 361k **BETTER** US Wholesale invntry -0.2% **WEAKER** UK Trade bal -10.119B **WORSE** UK Trade non-EU -5.176B **WORSE** JP Cons conf 39.7 **WEAKER** JP Machine tool orders -6.8y **BETTER** JP Dmestic corp gds prces -0.4m, -2.1y **LESS THAN EXPECTED**
Friday	US Import prices -0.6m, -3.2y **WEAKER** US Monthly budget statm't -$69.6B **BETTER** UK PPI input 1.3m, -2.4y **WEAKER** UK PPI Output 0.0m, 1.7y **WEAKER** UK PPI Core 0.0m, 1.3y **WEAKER** DM CPI 0.4m, 1.7y **AS** FR Ind production 0.0m, -2.3y **WEAKER** FR Mfg output 0.1m, -2.6y **WEAKER** IT CPI 0.1m, 3.1y **MORE** JP Industrial production 0.4m, -1.5y **BETTER** JP Capacity utilisation -2.3 **LESS THAN EXPECTED**

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US MARKETS: economic background

Last week we suggested the trade balance was the focus of attention as we have noted over many years the relationship between the trade deficit and the health of the economy. Growing economy usually means growing deficit, where as shrinking or slowing economy usually leads to a narrowing trade deficit.

Last week's trade deficit was smaller than expected and we judge that shows the economy remains in a slowdown phase.

However other data, namely jobless claims pointed to a slightly different direction as the report showed a smaller number of claimants than expected. But jobless claims are yet to break below 350k and have remained in a range of roughly 360 – 390k for several months, so we judge last week's report offered nothing new.

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; **PPI, Retail sales and business inventories,**
- On Wednesday; **CPI, Industrial production and capacity utilisation,**
- On Thursday; **Jobless claims, housing starts and building permits, and**
- On Friday; **University of Michigan confidence.**

The main event this week is the retail sales report.

Traders are still seeking evidence of whether the economy is merely cooling or heading into a deeper downturn, this number will provide clues.

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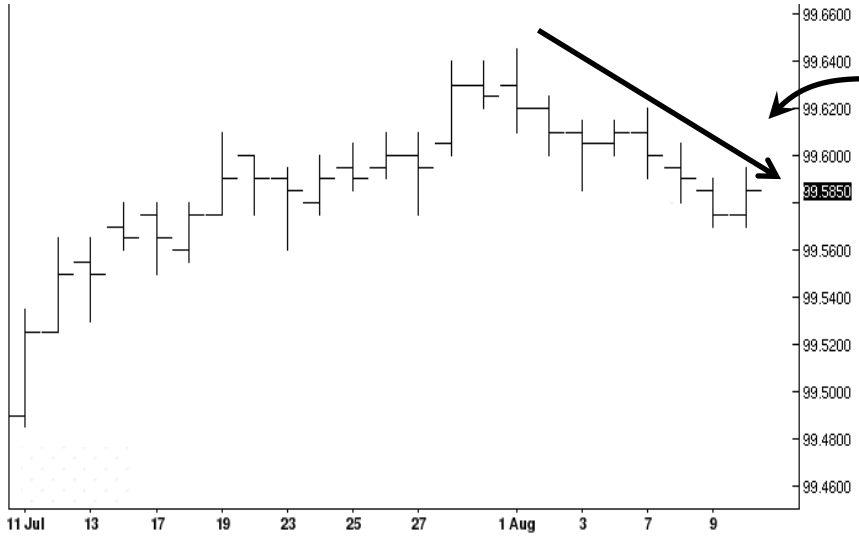
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Eurodollars.



See how the market continued to correct lower as traders scaled back their QE expectations.

The Macro Trader's view of Eurodollars is; the market extended the previous week's correction as traders continued to scale back expectations of renewed QE activity after the Feds recent policy statement.

And although data remains largely unchanged, in that it shows the economy cooling, traders were unable to take the market back to the recent highs.

Looking ahead the Retail sales report stands out as this week's main event. In an economy where the consumer is king, traders will watch the number very closely.

We judge this market has limited upside potential; policy stands at 0.25% and isn't going lower, but neither are rates moving higher in the foreseeable future, meaning we see this market offering limited risk reward.

For now stay square.

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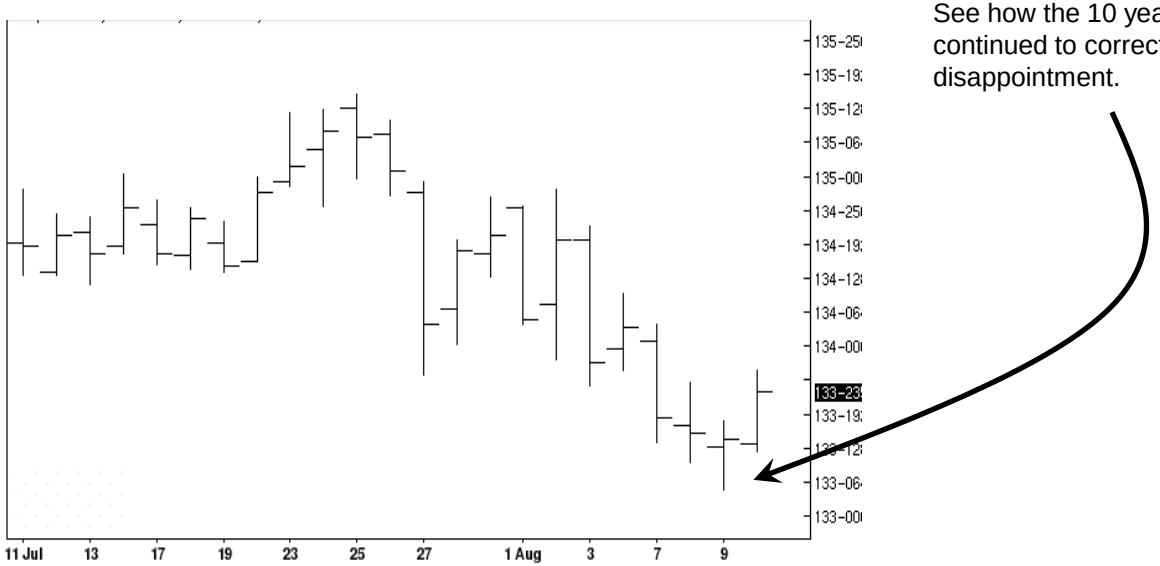
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of the 10 year note.



See how the 10 year note continued to correct on Fed disappointment.

The Macro Trader's view of the 10 year note is; last week the market extended its recent correction and our stop was hit.

But we judge the current price action is more likely a correction rather than a change of direction. The US economy has yet to prove whether it is suffering a lull or a more serious slowdown.

Meanwhile the Euro zone debt crisis continues unabated. And although expectations are growing the ECB will soon take decisive action, they are still yet to act leaving Spain drifting closer to a full sovereign rescue.

Looking ahead retail sales are due this week, but we don't expect ground changing news.

For now we advise remaining square until the current correction exhausts.

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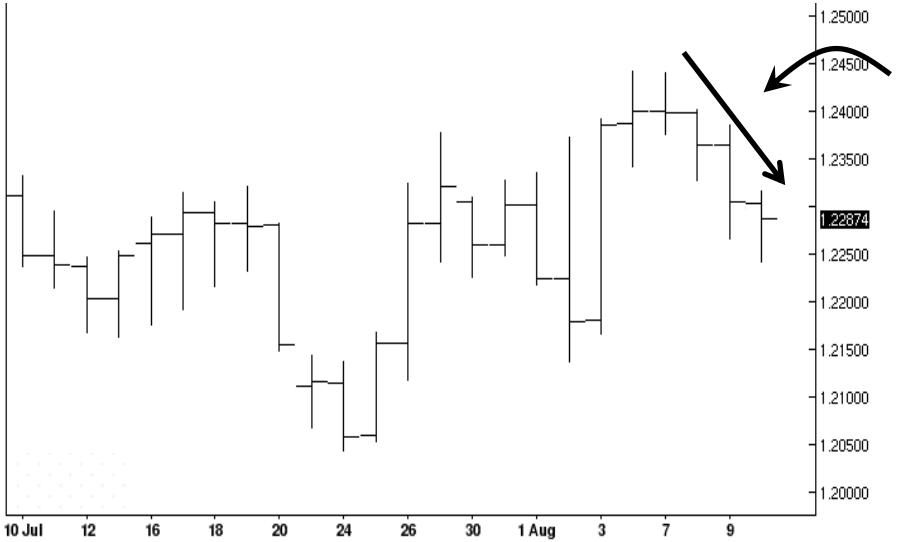
US MARKETS: US Dollar

OUR TRADING STANCE; BULLISH v the EURO.

Last week we were Bullish v the Euro.



The Dollar shook off the Euros attempt to rally last week as the Euro zone debt crisis re-asserted its grip.

The Macro Trader's view of the Dollar is; the Dollar snapped out of the correction last week, but not before hitting our stop.

But we are firm Dollar bulls and soon reinstated the position.

Last week's trade data was better than expected but likely reflected a shrinking import bill rather than a growing export drive, meaning inherent economic weakness.

Looking ahead the retail sales number stands out, but we judge the Dollar will remain driven by the Euro zone debt crisis.

Since no new initiatives have emerged from the Euro zone we judge the crisis remains as yet unresolved and a bearish influence on the Euro.

We judge traders should remain long of the Dollar/Short the Euro.

Our target remains set at 1.2050 and our stop is now set at 1.2475 for close protection.

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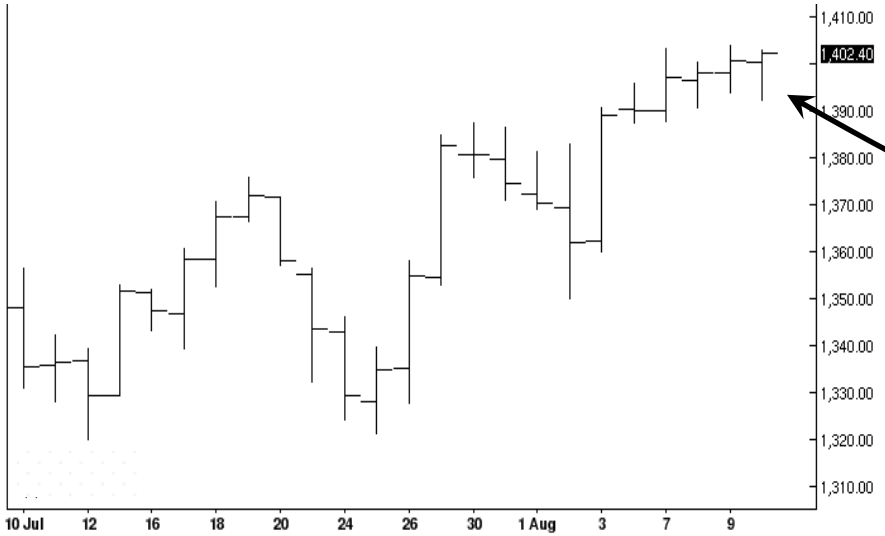
US MARKETS: S&P500

OUR TRADING STANCE; SQUARE.

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



The S&P continues to defy gravity but is sentiment sufficient to maintain current levels..

The Macro Trader's view of the S&P 500 is: the S&P continues to defy gravity, but other than sentiment what else is holding it up?

The run of US data continues to point to weakness.

The Euro zone is in recession and the German economy is hurting too.

China is seeing her economy cool and inflation correct lower.

With expectations of Chinese monetary policy action rising traders are pinning their hopes on China cutting rates being enough to re-invigorate growth.

We sense Chinas economy still responds to the importing economies of the west rather than leads them, so don't expect China to drag the world out of this mess.

For now we remain square of this market as we judge a reality check is over due.

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UK MARKETS: economic background

Last week's Bank of England quarterly inflation report was by far the most significant event on the domestic data calendar.

The Bank downgraded both its inflation and growth forecasts, blaming the current weakness on the Euro zone debt crisis.

However policy makers were reserved about further monetary policy stimulus. Governor King sought to play down talk of easing interest rates, saying lowering them further could do more harm than good as it would make it even harder for Banks/Building Societies to attract funding.

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,**
- On Tuesday; **DCLG House price index and CPI,**
- On Wednesday; **Unemployment report and MPC minutes, and**
- On Thursday; **Retail sales.**

The main event this week is the Retail sales report. The economy is in recession and consumer spending weak.

Traders will be watching this report closely. The service sector dominates the UK economy and within that consumer spending is by far the largest component.

Until consumers re-discover their confidence and appetite to spend, the economy will continue to struggle.

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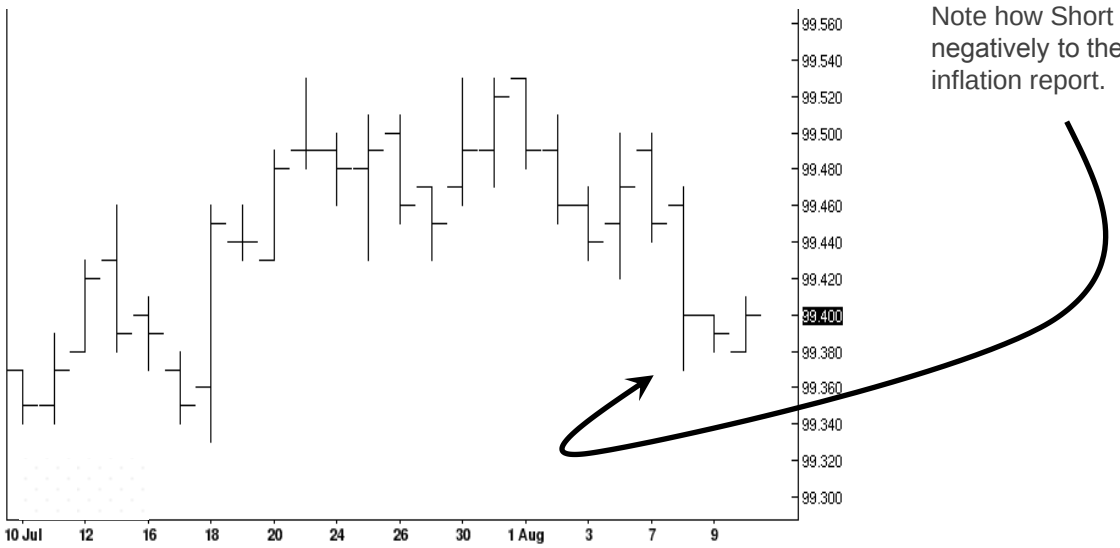
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Short Sterling.



Note how Short Sterling reacted negatively to the Bank's quarterly inflation report.

The Macro Trader's view of Short Sterling is: last week's quarterly inflation report offered few surprises.

The growth and inflation forecasts were both lowered giving the Bank increased room for manoeuvre, but King all but ruled out cutting interest rates any further, as some have called for, as he felt it would do more harm than good.

Additionally a further boost to QE wasn't flagged and traders scaled back their bull positions.

Looking ahead we judge CPI will likely show inflation continues to ease and retail sales show the consumer remains in hibernation.

The employment report is unlikely to be up beat either.

On balance we judge the upside in this market remains limited and the downside a dead end.

For now remain square.

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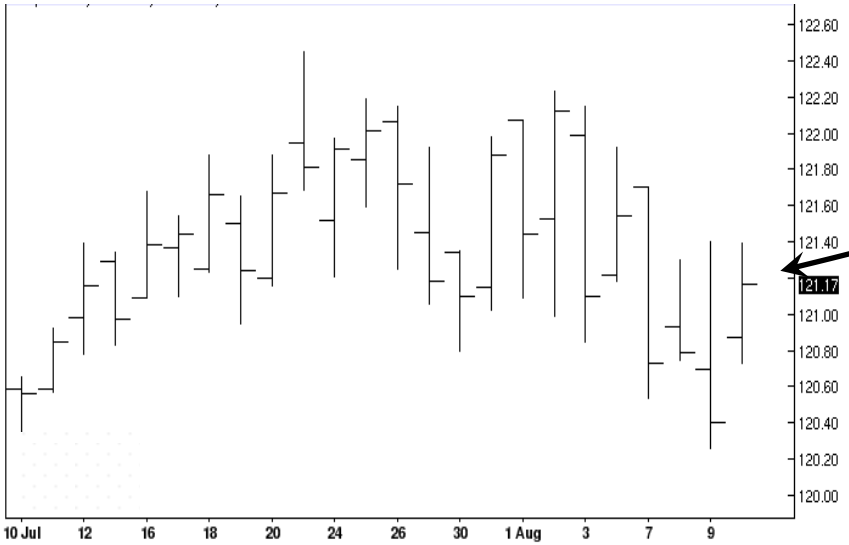
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of the Gilt.



See how the gilt remains volatile as Bulls and Bears struggle for control.

The Macro Trader's view of the Gilt is; the Gilt remained volatile last week as weak data collided with the Bank's quarterly inflation report.

Although the inflation report showed policy makers expected growth to turn out weaker than previously forecast, with inflation also expected to correct lower quicker, the market struggled for traction as King more or less ruled out cutting interest rates any further while playing down expectations of extending further the asset purchase program, at least near term.

However the big picture remains the same.

The UK economy is in recession and currently there are scant few signs of it ending.

The Euro zone crisis is still unresolved.

Bonds are still the favoured safe haven trade and we judge the Gilt will recover from the current correction, but timing is unclear so for now stay square.

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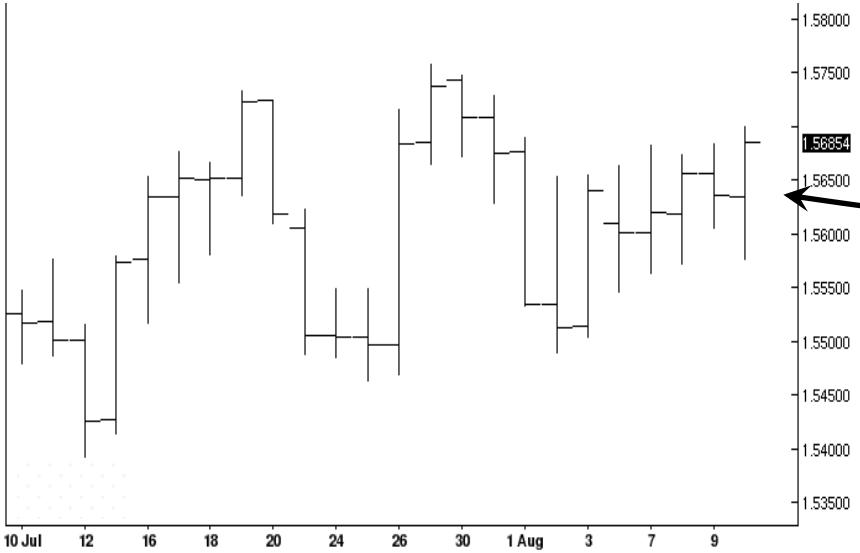
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling lacks any sense of direction.

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

"the Pound remains caught in the back draft of the price action in Dollar/Euro and last week's price action again proved the point"...

The Dollar began to shake off the recent correction against the Euro but despite the Bank of England all but ruling out any further rate cuts, the Pound barely reacted.

Looking ahead we judge this week's data is likely to support last week's quarterly inflation report which reduced the forecast for both growth and inflation, meaning the Pound isn't exactly a ragging buy, but off setting this is the limited safe haven appeal Sterling has against the Euro which remains dogged by the intractable debt crisis.

On balance we judge this market offers poor risk reward and advise staying square.

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UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

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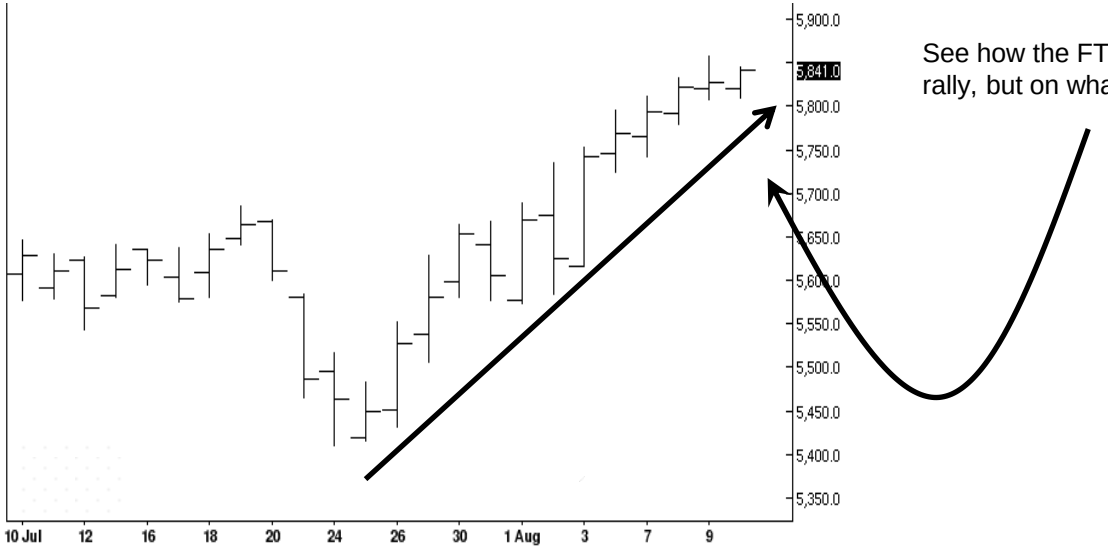

See how the FTSE extended its rally, but on what?

The Macro Trader's view of the FTSE is: last week we said…

…"with the UK economy sinking deeper into recession, the Euro zone crisis dragging on endlessly and the Fed cautiously agreeing the US economy is weakening and may require more help, one could be forgiven for expecting this and other equity markets to be firmly in the control of the Bears"...

…"But it isn't"...

And again last week the market continued to attract good support, even though the Bank of England quarterly inflation report forecast weaker growth and all but ruled out the chances of cutting interest rates and sounded cautious on extending its Asset purchase program.

What then drives this market.

Traders still expect a concerted Autumn stimulus from the leading Central Banks. Moreover Chinas relative economic weakness has prompted talk of China easing monetary policy which traders expect to spur not just Chinas economy but have a global impact too.

We judge Chinas economy predominantly remains a client economy of the west and will struggle unless the major western economies, especially the US stage their own recovery, meaning we judge equities are vulnerable to a sharp change in sentiment so stay square.

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EURO ZONE MARKETS: economic background

Last week we were focused on one key number; German industrial production. For so long Germany has resisted the slide into recession that has hit many of the other Euro zone members, the Industrial production report was seen as a bell weather of the German economy's health.

The number was weak. The -0.9m/m and -0.3y/y reading points towards recession. The rest of the Euro zone will wonder who now will drag the Euro zone economy out of its mess.

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 WPI,**
- On Tuesday; **French, German and Euro zone Q2 GDP,**
- On Thursday; **Euro zone CPI, and**
- On Friday; **German PPI and Euro zone trade and C/A data.**

The main event this week is Tuesday's batch of Q2 GDP reports and of them the German report stands out as traders wait to see if the German economy has also fallen into recession.

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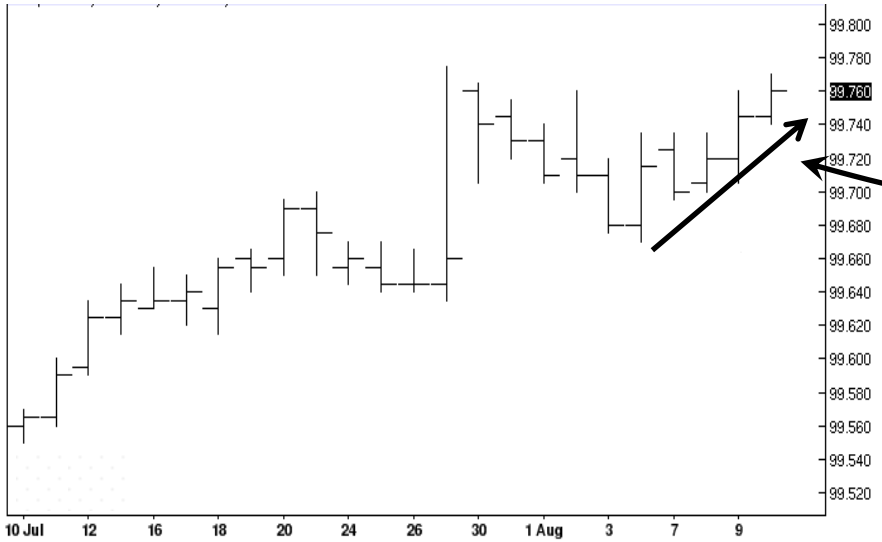
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Euribor.



See how Euribor bounced as key data releases came in weaker than expected.

The Macro Trader's view of Euribor is; the market recovered from the previous week's sell off as key data release were weaker than expected.

On Tuesday German factory orders fell short of consensus and were firmly in negative territory, and on Wednesday German industrial production was also weaker than expected.

Looking ahead the Q2 GDP reports due on Tuesday will reveal just how week the Euro zone economy is and more important, those of France and Germany, the Bloc's two largest.

We judge the Euro zone is set for a period of recession that will prove difficult to recover from over the short/medium term meaning this market will remain well supported.

But we judge there is little upside room left so advise remaining square.

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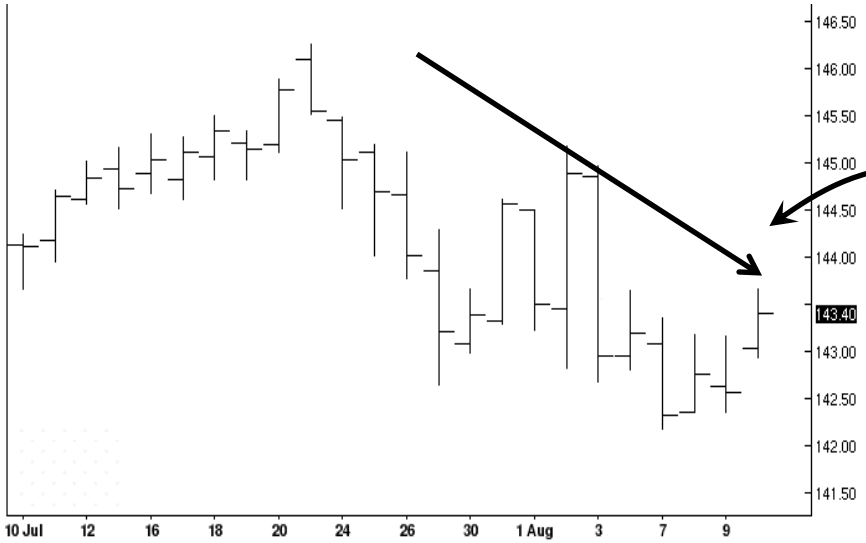
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund has for so long been a crisis driven bull market and despite the recent correction we expect it to retain that status.

The Macro Trader's view of the Bund is: last week's data was weak. The two key German reports; Factory orders and industrial production were both weaker than expected and raise important questions about the health of the Euro zone as a whole.

We judge the Bund is experiencing a correction driven by a wide spread belief that a new round of stimulus will be delivered in the Autumn.

But the world's leading Central Banks have been pulling every policy leaver they can for several years and we are still waiting for the positive outcome they promised.

In the absence of a debt crisis solution, another wave of risk aversion can not be long off and when it hits the Bund will be a significant beneficiary..

Traders should be long of this market. Our suggested target remains 146.25 and our suggested stop continues at 142.00 for protection.

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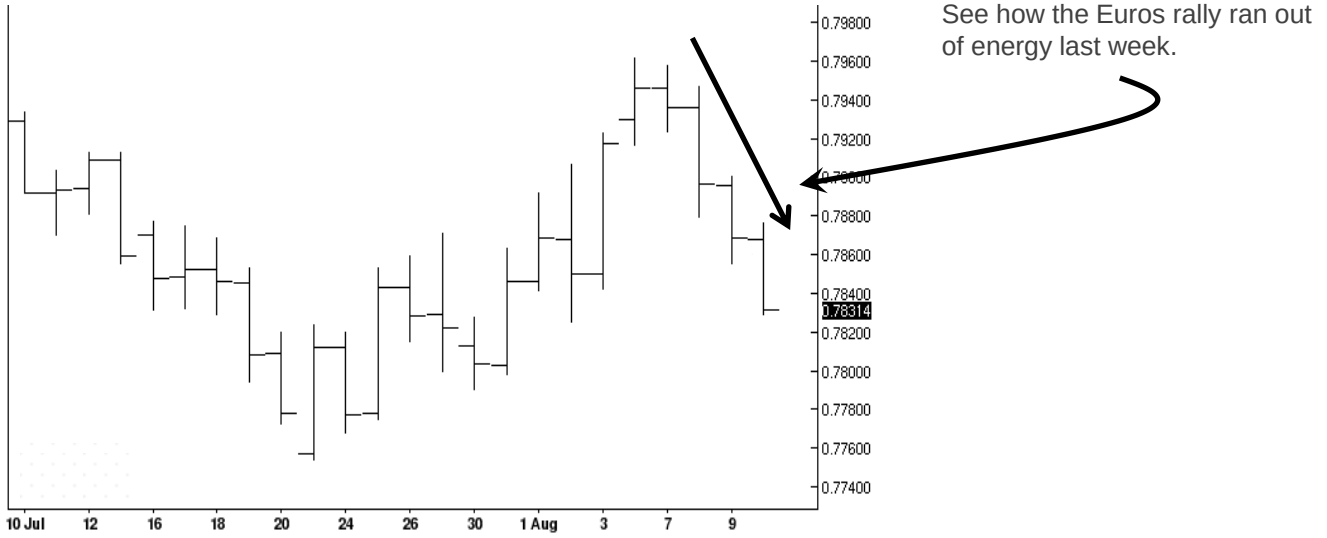
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the US DOLLAR.

Last week we were Bearish v the US Dollar.



The Macro Trader's view of the Euro; the Euros rally seemed to run out of steam and reverse last week as German data came in weaker than expected and Spain moved closer towards requesting a sovereign bailout.

After all the hype of the previous few weeks and the ECB claiming it will do what ever is necessary to save the Euro with to date little or no evidence it is doing anything, traders have begun to unwind and reverse positions built up on the wave of optimism those claims generated.

Looking ahead we judge the Euro remains vulnerable to the downside. The debt crisis is no where near over and all attempts to resolve it to date have failed and this week's Q2 GDP reports will reveal the scale of the task ahead for policy makers now grappling with recession too.

Traders should remain long the Dollar/Short the Euro, as we advise re-instating the trade after the stop was hit.

Our target remains set at 1.2050 and our stop continues at 1.2475 for close protection.

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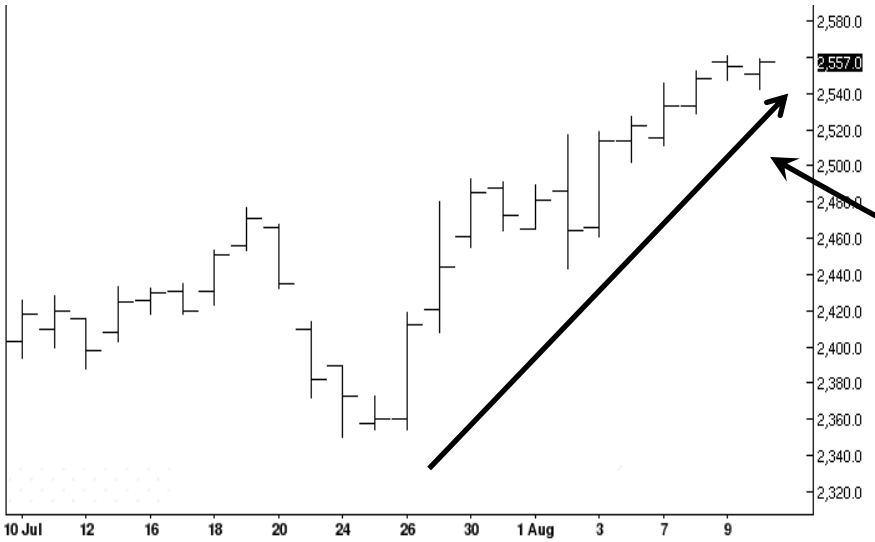
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market remains supported by a wave of positive sentiment while fundamentals point the other way.

The Macro Trader's view of DJ Euro Stoxx 50 is: the market appears well supported, but by what?

The Euro zone economy is weak and getting worse.

The Euro zone Sovereign debt crisis rages on.

The Spanish look almost on the brink of requesting a bailout.

Italy looks troubled.

Greece continues to look troubled and needs to cut spending deeper to get the aide already promised.

The US economy looks soft at best.

And the Chinese economy is experiencing its own cooling off with inflation unexpectedly falling prompting talk of easier Chines monetary policy.

But we judge Chinas economy still relies heavily on exports and with the major developed economies in trouble, an export led economy needs some where to export to, to get out of trouble, hence our reluctance to see this market as ripe for a sell off when risk aversion emerges once more.

We advise a square position.

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JAPANESE MARKETS: economic background

Last week's data was mainly better than expected. The C/A and trade data showed improvement, bankruptcies were down, the Eco watchers survey was better than expected and although Machine orders were weaker, this was off set by stronger Machine Tool orders.

But crucially the industrial production report came in better than expected, dispelling fears Japan's economy was again on the slide.

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; **Tertiary industry index and Q2 GDP,**
- On Wednesday; **National and Tokyo department store sales, and**
- On Thursday; **Tokyo Condominium sales.**

The key release this week is today's Q2 GDP report.

And although weaker than expected it shows the economy was not in recession in Q2 despite several important reports during the quarter giving the opposite impression.

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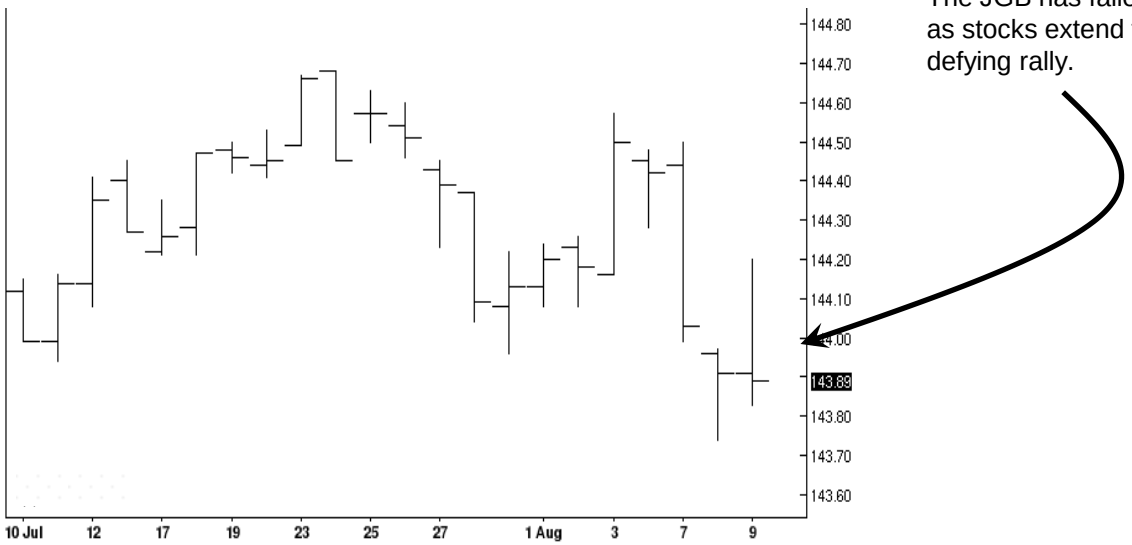
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Japanese Bonds.



The JGB has fallen out of favour as stocks extend their gravity defying rally.

The Macro Trader's view of the JGB is: last Monday's rally failed and the previous week's sell off extended as traders closed bond positions in the face of strengthening equity markets.

Since much of the rally in leading government bond markets over recent months has been fuelled by safe haven buying, as traders/investors sought protection from the Euro zone debt crisis, the recent correction isn't too surprising as equity markets extended their rally.

Despite weak economic data globally, including in China, traders have moved out of bonds as they now expect rate cuts from China and monetary policy stimulus from elsewhere will re-invigorate the global economy.

We see things differently.

The Euro zone debt crisis needs to be fixed before economic health can be restored. And although it is right for over indebted economies to reduce spending and borrowing in an effort to shrink their debts, it won't work if a collapse in GDP is the result.

We expect Bonds to recover, timing as ever is difficult so for now stay square.

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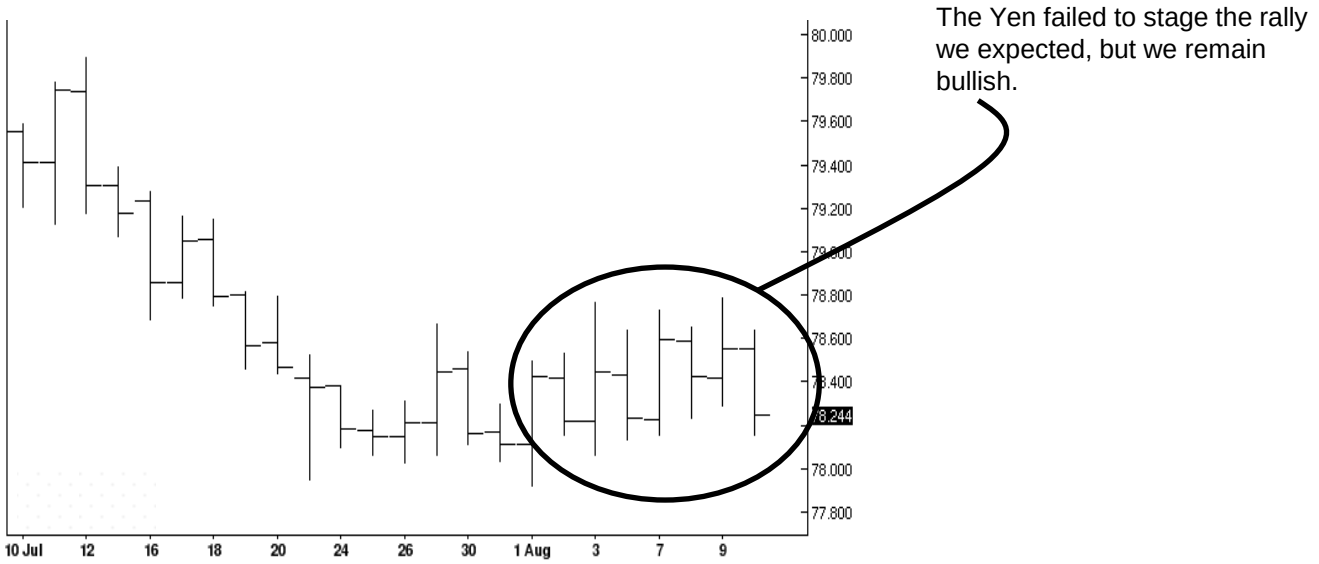
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v the DOLLAR.

Last week we were Bullish.



The Macro Trader's view of the Yen is; the Yen continued to trade mainly sideways last week, with in our view, increased volatility.

Although the Euro gave back much of its recent gains last week as expectations of decisive ECB action faded, and Spain moved ever closer towards requesting a Sovereign bailout.

The disappointment has not yet hit equity markets as traders there still pin their hopes on a new Autumn stimulus; we shall see.

Given that the Yen's strength has rested mainly on safe haven buying, it isn't surprising that in the current environment the currency has continued to mark time.

But recent domestic data has been better than expected and although today's Q2 GDP report fell short of consensus, it showed the economy isn't in recession.

We expect a new wave of risk aversion to hit equities and benefit assets such as the Yen.

Traders should be long of the Yen/Short Dollar. Our suggested target remains 76.00 and our suggested stop continues at 80.20 for protection.

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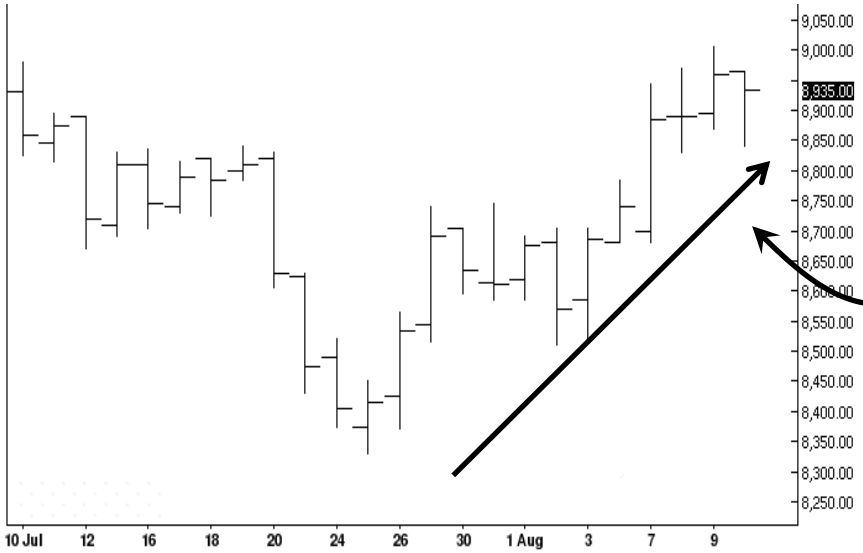
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei rallied on a range trading Yen and expectation of a fresh Autumn stimulus from the leading global Central Banks..

The Macro Trader's view of the Nikkei is; last week's price action again highlighted this market's responsiveness to the price action in the Yen.

With safe haven trades continuing to be squared last week despite an apparent end to the Euros correction, the Nikkei enjoyed an other period of bullish activity.

Indeed with Dollar/Yen continuing to mark time and data holding in reasonably well last week, the Nikkei looked well supported.

However, we judge equity markets in general are in denial. The expected Autumn stimulus that currently supports equity markets may either not materialise or simply disappoint.

The Euro zone debt crisis isn't yet close to being resolved; in short we judge another wave of risk aversion should be expected, meaning we think stocks remain vulnerable to the downside.

For now stay square.

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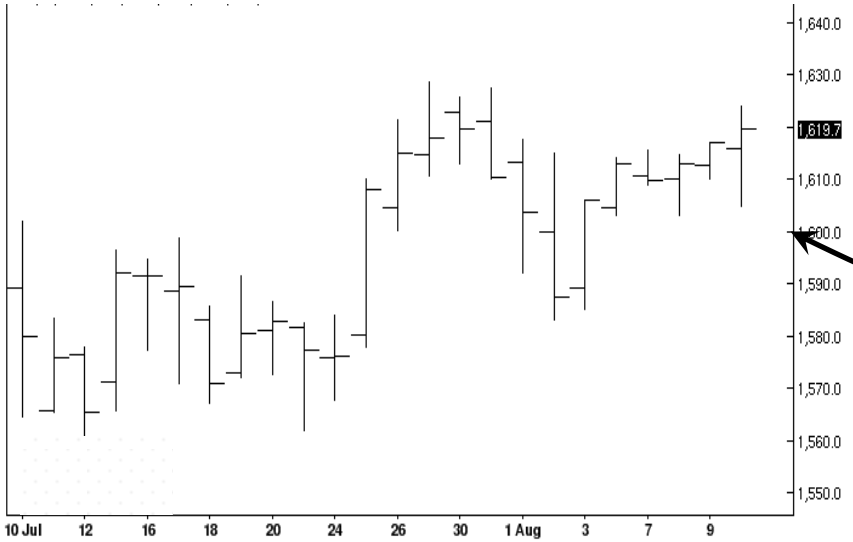
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how gold remains trapped in the well established trading range.

The Macro Trader's view of the Gold is: last week we repeated what we said on several previous occasions about this market…

…"gold remains an unclear market"...

And we judge that remains true today.

And even as the Dollar snapped out of it's downward correction against the Dollar, Gold clung to recent gains near the upper end of the established trading range.

What now for Gold?

Despite our absence from this market over recent weeks, we remain long term bulls and judge the market is still working through a protracted correction.

What then will drive this market higher?

The realisation, when it finally hits, that there is no short term fix for the Euro zone debt crisis.

That the economies of the Euro zone, UK and US are faced with an unusually protracted period of economic under performance as they work off the excess borrowing and debt of their governments over a prolonged period.

For now stay square.

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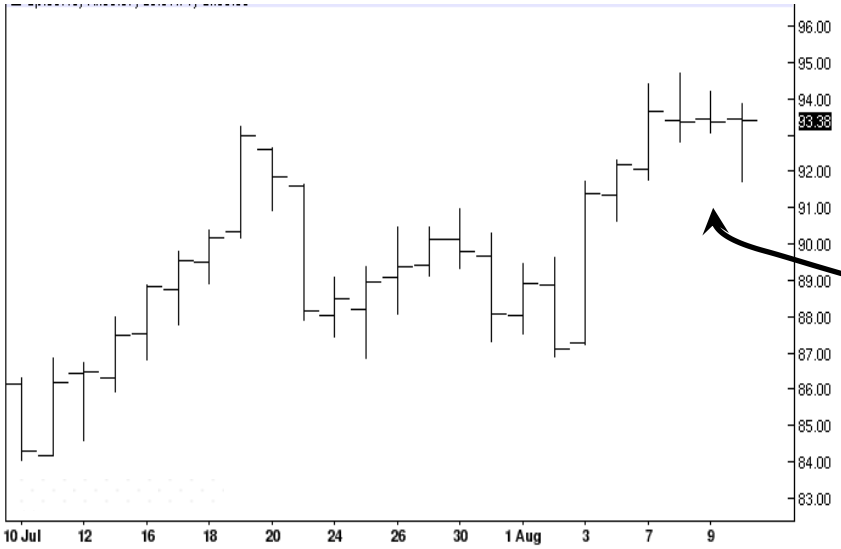
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil maintained its recent rally on Middle East tension.

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

…"Despite clear economic weakness in the leading economies, oil seems to enjoy solid support, which we judge is derived from the uncertainty coming from the conflict in Syria and the unproductive dialogue with Iran about her nuclear program that has seen Presidential hopeful; Mitt Romney talk hawkishly about a future US response should Iran continue to pursue her ambition of acquiring nuclear weapons"….

…"On balance we judge geopolitical concerns have for now replaced economic worries as the main dynamic in this market"...

And we continue to hold that view today.

Several high ranking Syrian government officials have defected to the "rebel" cause and the US and Turkey are discussing a no fly zone option.

Iran are clearly not going to give up their pursuit of a nuclear weapon and as they get closer to mastering the technology the stakes rise as the US and or Israel will soon have to decide whether to attack Iran's facilities or simply accept Iran will soon become a nuclear state.

We judge these tensions and uncertainties continue to support oil, but we also expect economic fundamentals to re-assert unless the Syria crisis spreads beyond her boarders.

On balance we advise remaining square.

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SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL jlewis@sevendaysahead.com,
msturdy@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM

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