Week 42

16th – 22nd October 2012

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the macro trader's guide to major markets

John Lewis

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	Week of 15th October
Monday	US Retail sales 0.8% US RS Ex-Autos 0.6% US Empire mfg -4.8 US Business invntry 0.5% JP Ind production n/f JP Capacity utilisation n/f
Tuesday	US CPI 0.5m, 1.8y US CPI Ex – F&E 0.2m, 2.0y US Net lg trm TIC flows n/f US Capacity utilisation 78.3% US Ind production 0.2% UK PPI Output 0.3m, 2.2y UK PPI Input 0.5m, -0.5y UK PPI Core 0.1m, 1.0y UK CPI 0.4m, 2.3y UK DCLG House prces 1.8y UK RPI 0.5m, 2.7y UK RPI-X 2.7y EZ CPI 0.7m, 2.7y DM ZEW -15 EZ Trade bal 10.0B JP Condo sales n/f JP Nat'nwide dept stresales n/f JP Tokyo dept stre sales n/f
Wednesday	US MBA Mrtge apps n/a US Hsing strts 770k US Buildg permits 810k UK Unemplym't rate 4.8% UK Unemploym't chge -3.0k UK ILO Rate 8.1% UK Avrge earngs 1.6% UK AE Ex-bonus 2.0% EZ Construct'n output n/f JP Machine tool orders n/f

	Week of 15th October
Thursday	US Jobless claims 363k US Philly Fed 0.2 UK Retail sales 0.5m, 2.6y
Friday	US Existing home sales 4.70M UK PSNB 11.0B UK PSNCR n/f DM PPI 0.3m, 1.6y EZ C/A n/f JP All ind actvty indx 0.1%

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	Week of 8th October
Monday	UK RICS Hse prces -15.0% **BETTER** UK BRC Sales 1.5% **STRONGER** DM C/A 11.1B **WEAKER** DM Trade bal 16.3B **STRONGER** DM Ind production -0.5m, -1.4y **AS** JP Trade bal -644.5B **WORSE** JP C/A 454.7B **BETTER** **THAN EXPECTED**
Tuesday	UK Mfg output -1.1m, -1.2y **WEAKER** UK Ind production -0.5m, -1.2y **WEAKER** UK Trade bal -£9.844B **WORSE** UK Trade non-EU -£4.169B **WORSE** UK NIESR GDP Est 0.8% **STRONGER** JP Bankruptcies -7.0% **BETTER** JP Eco watchers 41.2 **LESS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -1.2% **WORSE** US Wholesale invntry 0.5% **BETTER** US Fed's beige book DM WPI 1.3m, 4.2y **MORE** FR Ind production 1.5m, -0.9y **BETTER** FR Mfg output 1.8m, -0.4y **BETTER** JP Machine tool orders -3%y **WEAKER** JP Machine orders -3.3m, -6.1y **WORSE** **THAN EXPECTED**

	Week of 8th October
Thursday	US Trade bal -$44.2B **WORSE** US Import prces 1.1m, -0.6y **STRONGER** US Jobless claims 339k **BETTER** DM CPI 0.0m, 2.0y **AS** FR CPI -0.3m, 1.9y **BETTER** FR CPI -0.3m, 1.9y **BETTER** JP Cons conf 40.1 **LESS** JP Tertiary Ind indx 0.4m **AS** JP Dom corp gds prces 0.3m, -1.4y **MORE** **THAN EXPECTED**
Friday	US PPI 1.1m, 2.1y **STRONGER** US PPI ex F&E 0.0m, 2.3y **WEAKER** US U. of Michigan conf 83.1 **STRONGER** US Mnthly Budget deficit $75.0B **BETTER** IT CPI 0.0m, 3.2y **AS** FR C/A -4.0B **WORSE** EZ Ind production 0.6m, -2.9y **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week we highlighted the trade data as a key indicator of economic activity as the deficit has a history of expansion/contraction which inversely mirrors the growth profile of the economy.

In the event the trade report was marginally worse than expected so offered little new insight into the current and potential future health of the economy.

Other data released throughout the week showed a bigger than expected decline in jobless claims and a stronger than expected University of Michigan confidence report, all of which are positive indicators.

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; **Retail sales, Empire manufacturing survey and business inventories,**
- On Tuesday; **CPI, Capacity utilisation and industrial production,**
- On Wednesday; **Housing starts and building permits,**
- On Thursday; **Jobless claims and Philly Fed, and**
- On Friday; **Existing home sales.**

The main event this week is the retail sales report.

The US economy is principally driven by service sector activity and consumer demand/retail sales is a significant component of this. Without strong consumer demand the economy will struggle to recover.

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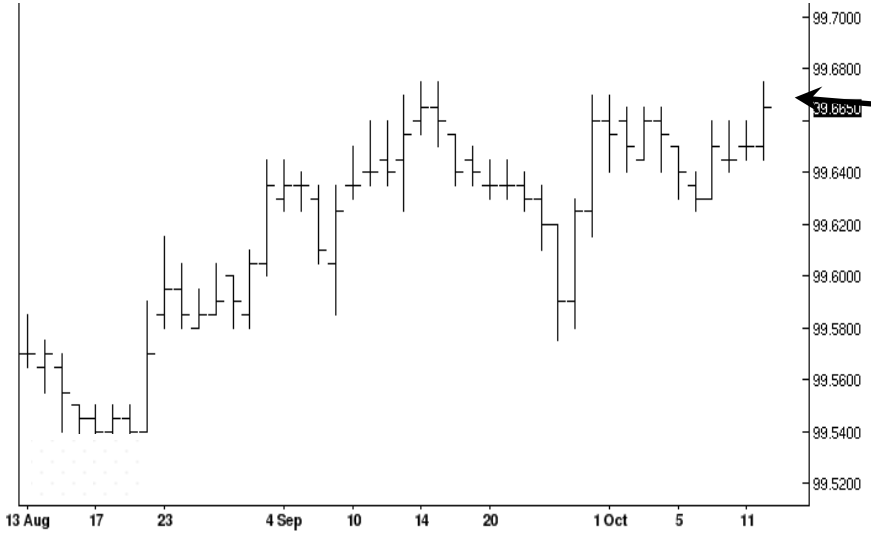
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Eurodollars.



See how the market remains largely range bound.

The Macro Trader's view of Eurodollars is; the Fed only recently announced it's intention to begin QE3, which helped this market stage a limited rally, but almost immediately after that decision data began to improve, albeit moderately.

The impact on this market has been clear. Although remaining within a clear trading range, volatility has increased as some question the wisdom/timing of the Fed's policy move.

The Fed clearly aware of this has let it be known that its policy stance is intended to foster a self sustaining recovery and that despite recent improvements they judge they economy will require policy stimulus for an extended period.

Looking ahead the key number this week is retail sales but we judge this market is unlikely to react significantly in either direction.

We continue to advise remaining square of a market that we judge is likely to remain stuck in a trading range for a considerable period.

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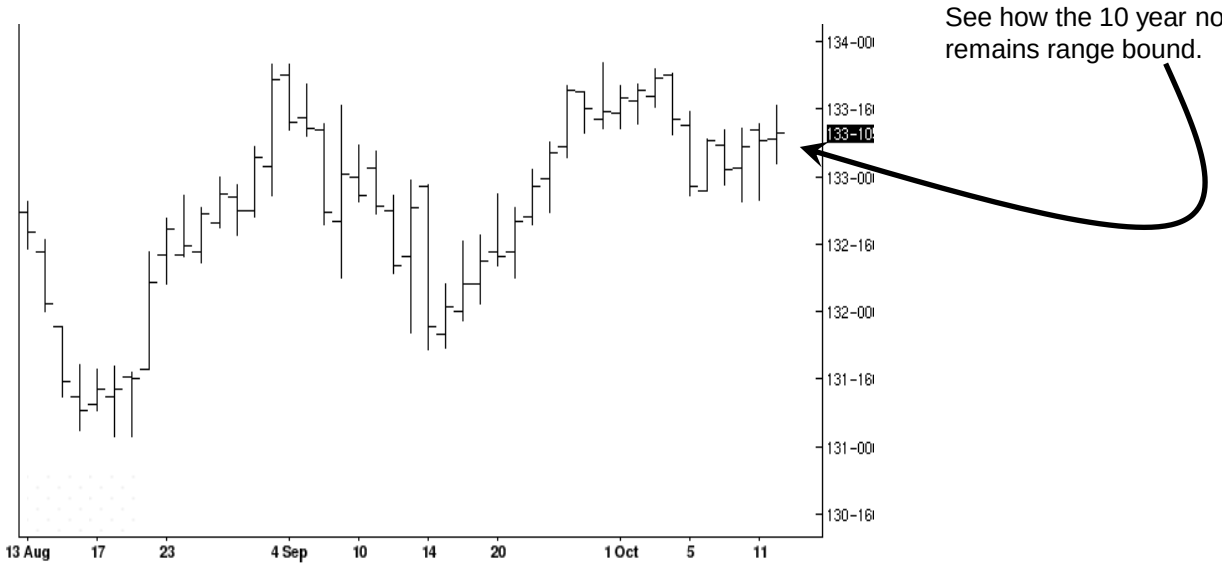
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The Macro Trader's view of the 10 year note is; the market is clearly range bound.

The US economy has begun to show some small improvement but this is offset by the Fed's policy stance and the on going Euro zone sovereign debt crisis.

While demand for safe haven assets is no where near as strong as it was at the height of the crisis earlier in the year, there remains residual demand due to the complete inability of policy makers in the EU/EZ to resolve the problem.

Looking ahead the key release in the US this week is retail sales, but existing home sales are important too.

However we judge this market is likely to remain range bound as the competing forces already outlined continue to largely off set one another.

For now remain square.

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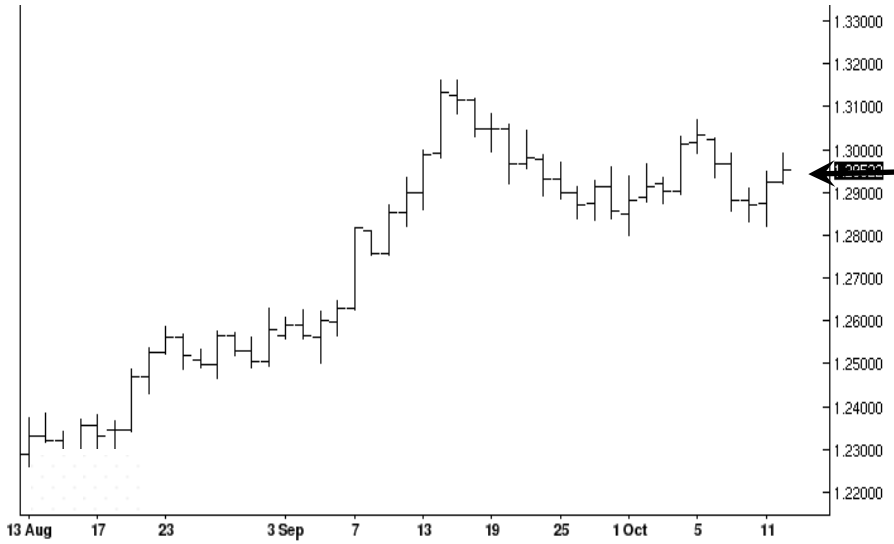
US MARKETS: US Dollar

OUR TRADING STANCE; SQUARE.

Last week we were Square



The Dollar remains in locked in a sideways trading pattern.

The Macro Trader's view of the Dollar is; the Dollar remains range bound. The Euro zone debt crisis persists, but the Dollar seems unable to take advantage due to US uncertainties about the impact QE3 will have on future inflation and due to the debate on the so called "fiscal cliff".

Looking ahead retail sales stand out as the main event this week, but we judge Dollar/Euro will continue to trade off of events and news flows relating to the debt crisis in the Euro zone.

It is clear that earlier optimism generated by the ECB's policy stance has all but evaporated, which has capped the Euros advance but with so much uncertainty still attached to the US economy and fiscal policy the Dollar is weakened..

Our advise in the current environment of uncertainty is to remain square since we see no strong directional trade in either direction over the short/medium term.

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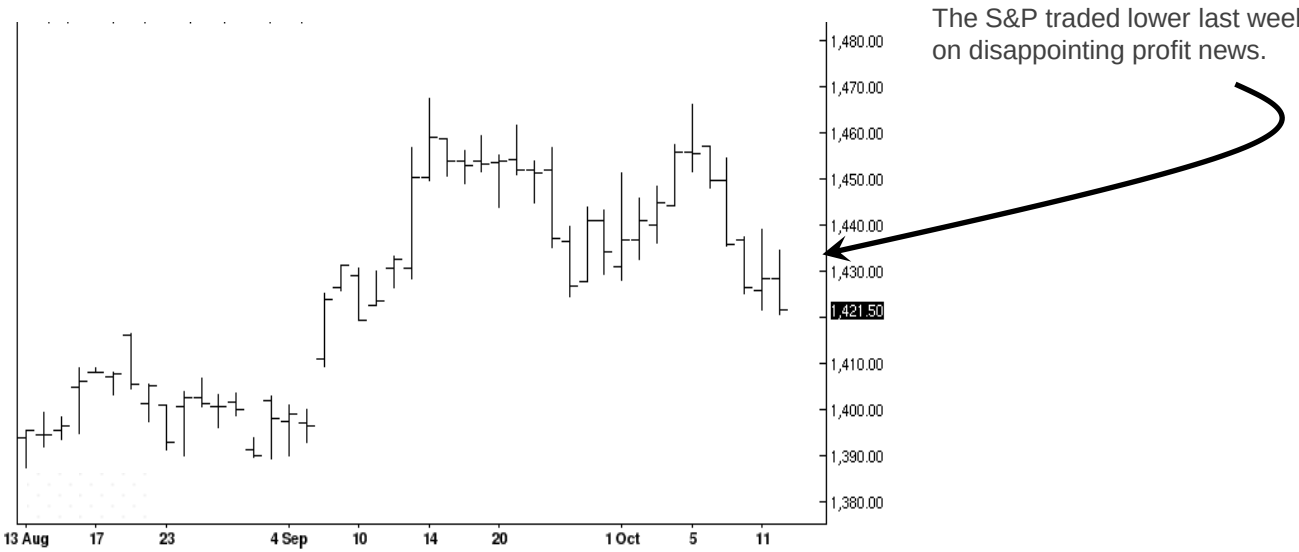
US MARKETS: S&P500

OUR TRADING STANCE; SQUARE.

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



The Macro Trader's view of the S&P 500 is the S&P sold off last week despite better than expected jobless claims data and stronger than expected University of Michigan confidence report.

Traders were focused on the Q3 Corporate earnings season and were feeling somewhat defensive as weaker data is anticipated.

Looking ahead the market looks set to remain in the doldrums. US data has shown some improvement but the over all sense of weakness remains. Additionally the Euro zone debt crisis persists and Euro zone leaders continue to look clueless.

Combined with the so called US fiscal cliff the are of uncertainty remains a potent force in this market.

We advise remaining square. The market looks vulnerable to a further period of correction.

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UK MARKETS: economic background

Last week we highlighted the industrial production and manufacturing output reports as the key events of the week.

Following the previous week's disappointing PMI surveys, traders were hoping for rather more optimistic news, but it didn't come as both reports fell short of consensus.

However one glimmer of hope was offered by NIESR which estimated GDP grew by 0.8% over the last 3 months?

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; **PPI and CPI,**
- On Wednesday; **unemployment data,**
- On Thursday; **retail sales, and**
- On Friday; **PSNB and PSNCR.**

The main event this week is the retail sales report.

The governor of the Bank of England recently commented that much less attention should be paid to inflation in the current environment meaning that PPI and CPI both due on Tuesday wont be the main concern of policy makers as they focus on growth, or the lack of it.

Retail sales then stands out as the key indicator as it represents the Lions share of GDP.

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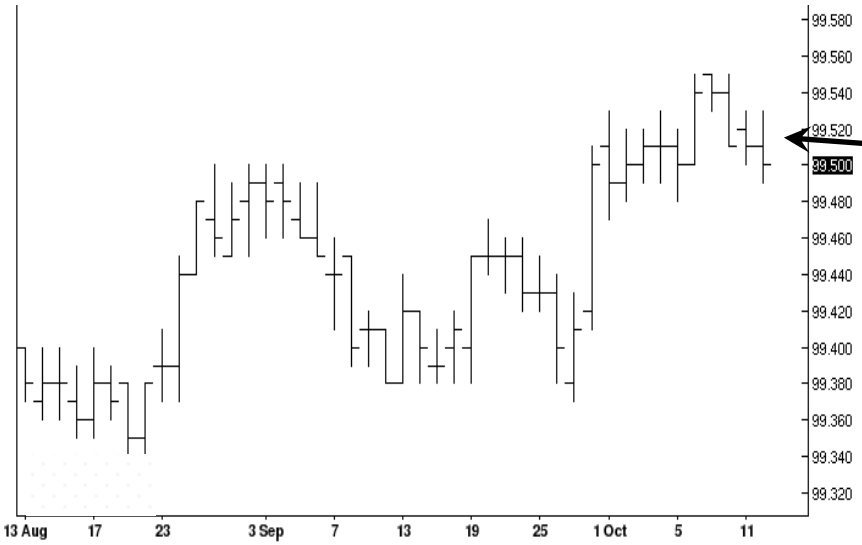
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Short Sterling.



Note how Short Sterling rallied on the weaker data earlier in the week but could not hold its gains.

The Macro Trader's view of Short Sterling is: the market again responded meekly to last week's data. In a week when both industrial production and manufacturing output fell short of consensus, a stronger performance might have been expected from Short Sterling.

But as we have said many times in the past, the market is already pushing against a level of interest rates that the Bank has no intention of changing.

Looking ahead retail sales stand out as the key event this week, but unless very much different to consensus we judge this market will likely drift.

We advise remaining square since we see no profitable trading opportunity in the short/medium term.

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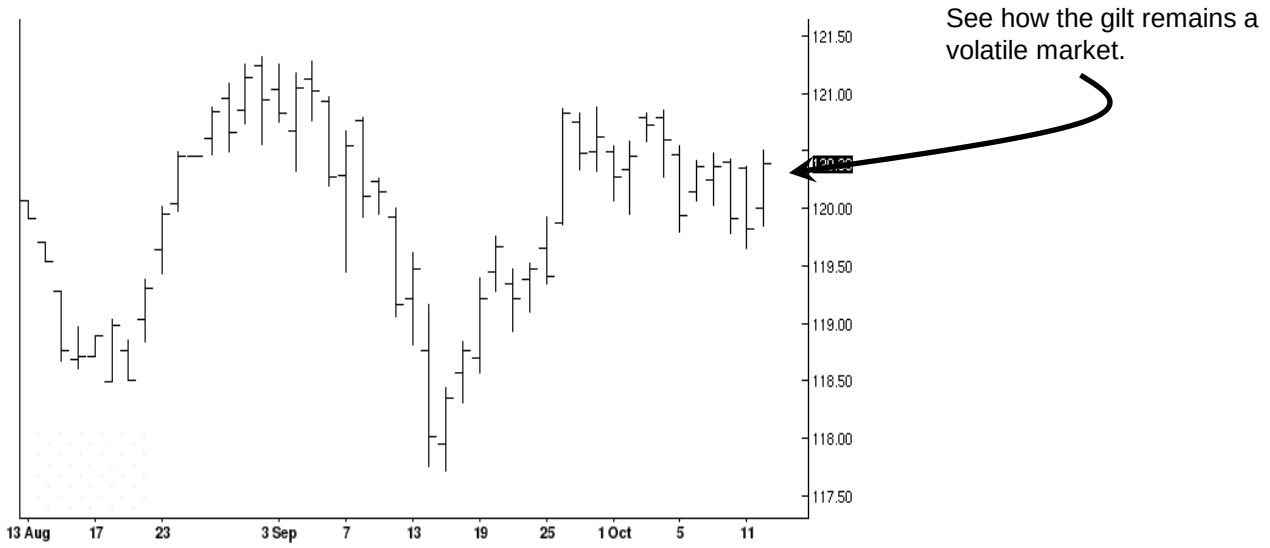
UK MARKETS: Gilt

OUR TRADING STANCE; SQUARE.

Last week we were Square of the Gilt.



The Macro Trader's view of the Gilt is; the Gilt looks increasingly volatile, as UK data showed continued weakness last week.

And although the government looks unlikely to meet its own deficit/debt reduction targets, the weakness of the economy acts as support.

Moreover the on going Euro zone Sovereign debt crisis continues to generate a degree of safe haven buying, albeit at a reduced level, which offers this market some underlying support.

Looking ahead Retail sales stand out as the key domestic event, but we judge this market will remain vulnerable to events from abroad, mainly the Euro zone debt crisis.

For now we judge this market lacks clear direction. It remains supported but could become vulnerable to the downside should conditions in the Euro zone improve and UK growth picks up, neither of which look set to happen any time soon.

For now we advise remaining square.

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UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

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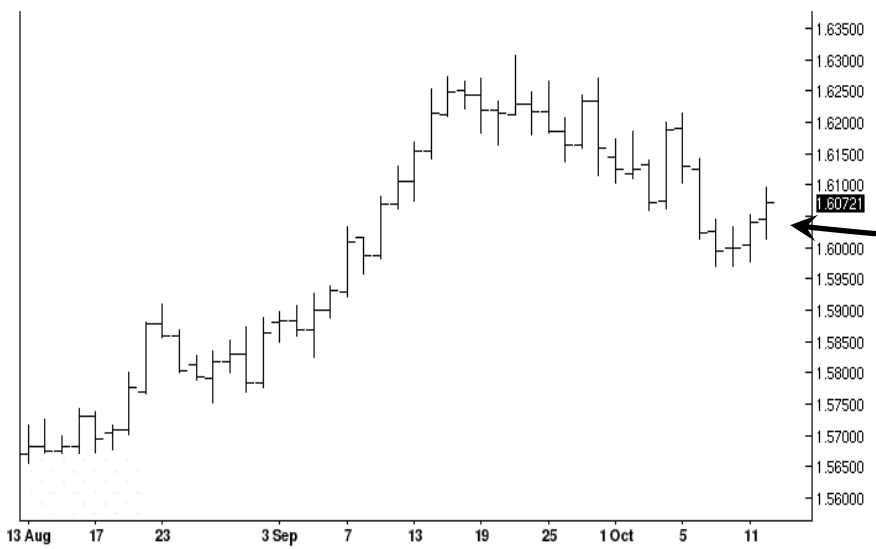

See how Sterling steadied against the Dollar but remains vulnerable.

The Macro Trader's view of the Pound is; the Pound appears to have reverted to the dynamics which drove it earlier in the year.

In other words the price action in Cable has become a by product of the movements in Dollar/Euro.

The UK economy stills compares poorly to that of the US, but is no worse than the Euro zone.

But despite US data showing improvement where as last week's UK data was worse than expected, the Pound closed the week off the lows, driven by a small Euro recovery against the Dollar.

Looking ahead the key release in the UK as in the US is retail sales, but we judge the data will have limited impact.

The main driver in currency markets this week is likely to remain the Euro zone debt crisis.

In summary, the Pound appears directionless, so for now stay square.

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UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

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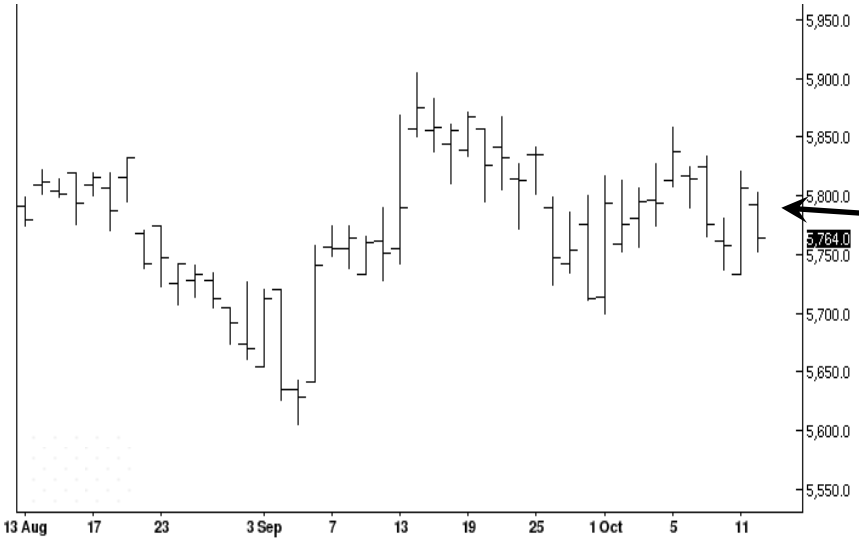

See how the FTSE has become a range bound market with increased volatility.

The Macro Trader's view of the FTSE is; the FTSE lacked direction last week, indeed the market was characterised by increased volatility within a clearly defined range.

With UK data continuing to disappoint, the US earnings season starting to dominate and the Euro zone debt crisis still unresolved, equities showed no obvious sign of direction.

Looking ahead retail sales is due this week, but unless both the UK and US number convincingly beats consensus we see the current trading range continuing to dominate.

In short we see markets in a state of flux with no clear direction so for now remain square.

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EURO ZONE MARKETS: economic background

Our focus last week was the German and Euro zone industrial production reports. The German number was as expected, but the Euro zone report came in stronger.

The other important release of the week was French industrial production and manufacturing output; both were better than expected, offering some hope of improvement in the Euro zone economy.

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 Tuesday; **Euro zone CPI, German ZEW and Euro zone trade data,**
- On Wednesday; **Euro zone construction output, and**
- On Friday; **German PPI and Euro zone C/A data.**

The main event this week is the German ZEW report.

The German economy is feeling the strain of the long running debt crisis and Euro zone recession, this number will inform on the health of the Euro zones largest economy.

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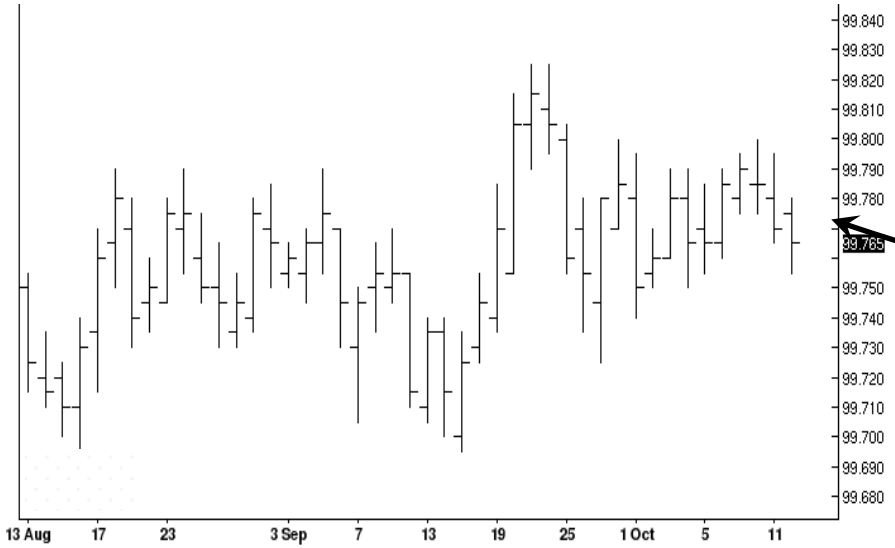
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of September 12 Euribor.



See how Euribor like many other markets has become confined to a range but with heightened volatility.

The Macro Trader's view of Euribor is; the market remained volatile and range bound last week as data sent out conflicting signals.

The Euro zone economy is in recession, but French and Euro zone industrial production were both better than expected with German industrial production meeting consensus.

Result a market struggling for direction.

Looking ahead the German ZEW survey is due this week, but we judge this market is likely to exhibit similar price action to last week in the absence of any fresh and positive debt crisis developments.

With volatility remaining elevated and the market clearly unable to find direction, we advise staying square.

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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

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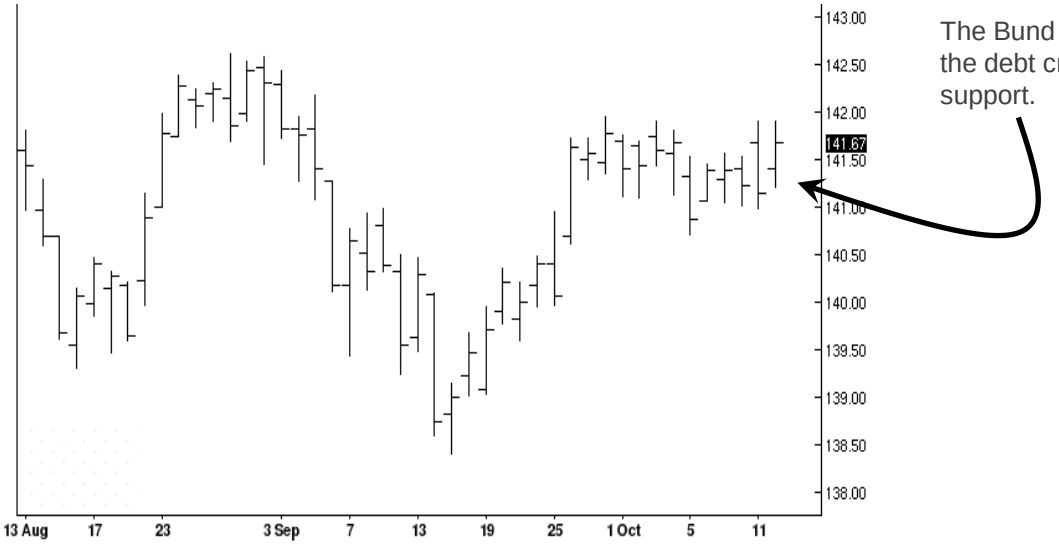

The Macro Trader's view of the Bund is: the Bund held its gains last week despite our expectation of a new test of the lows.

But with the debt crisis continuing to dominate with Greece and Spain very much in the news, the Bund found support despite better than expected industrial production reports released last week.

Looking ahead the German ZEW survey is the main event this week, but with EU/EZ leaders still failing to find a formulae to resolve the debt crisis, the Bund seems set to retain much of its support.

Any direction is likely to be provided from abroad as the US releases the retail sales report this week, but we judge it will need to be materially different from expectations to deflect attention away from the debt crisis.

For now we advise staying square of a market that lacks direction.

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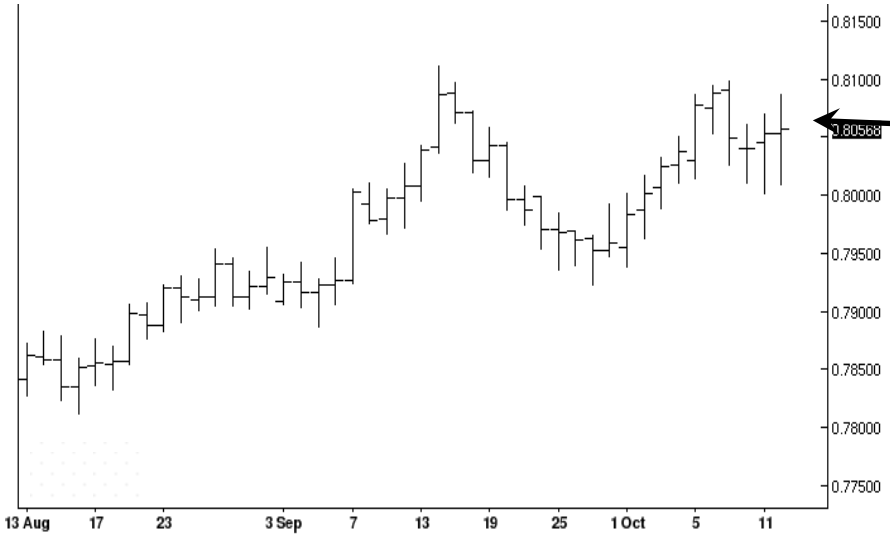
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



See how the Euro looks range bound against the Pound.

The Macro Trader's view of the Euro; the Euro held up well last week against both the Dollar and Sterling.

Although US data surprised on the upside, so too did the Euro zone's, leading to a week of essentially directionless trading.

Looking ahead we judge traders remain focussed on the debt crisis.

The German leader visited Greece but offered little to help that country resolve its problems that have seen GDP virtually collapse.

In Spain too unemployment is running at very high levels, how much longer will the Spanish people tolerate this as a price to remain in the Euro zone.

We judge currencies have lost much of the dynamism they exhibited during the summer.

Given the lack of clarity, for now we advise remaining square.

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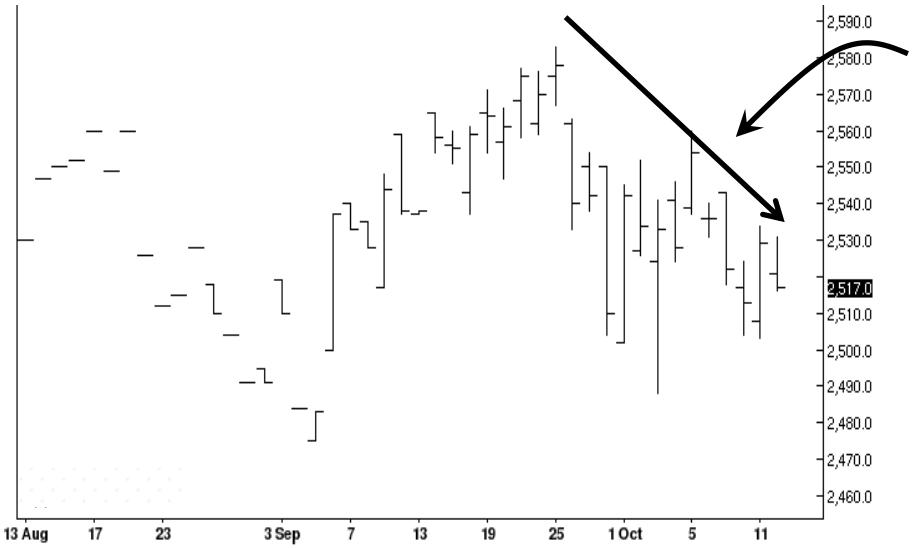
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market looks vulnerable to the downside..

The Macro Trader's view of DJ Euro Stoxx 50 is: volatility appears the main feature of this market as traders struggle for direction, but a closer look shows the market vulnerable to the downside.

Although data was a little better than expected last week, the economy is in recession and with austerity the main tool deployed to cure the debt crisis the recession looks set to deepen. Why then buy stocks?

Looking ahead the German ZEW survey is due this week but we do not expect it to offer this market a way out of its current trading pattern.

For now we judge equity markets are dangerous. They lack direction but are prone to heightened volatility.

For now stay square.

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JAPANESE MARKETS: economic background

Last week there were several important releases due and once again they were mainly weaker than expected.

The trade report was our one to watch, but that too disappointed with a bigger than expected trade deficit, likely reflecting to challenging conditions in the US and the cooling Chinese economy.

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; **Industrial production and capacity utilisation,**
- On Tuesday; **Tokyo condo sales and department store sales,**
- On Wednesday; **Machine tool orders, and**
- On Friday; **All industry activity index.**

The key release this week is the Industrial production report.

With the global economy at risk of a slowdown, Japan is at risk as an exporter of manufactured goods, this report is a good gauge of her economic health.

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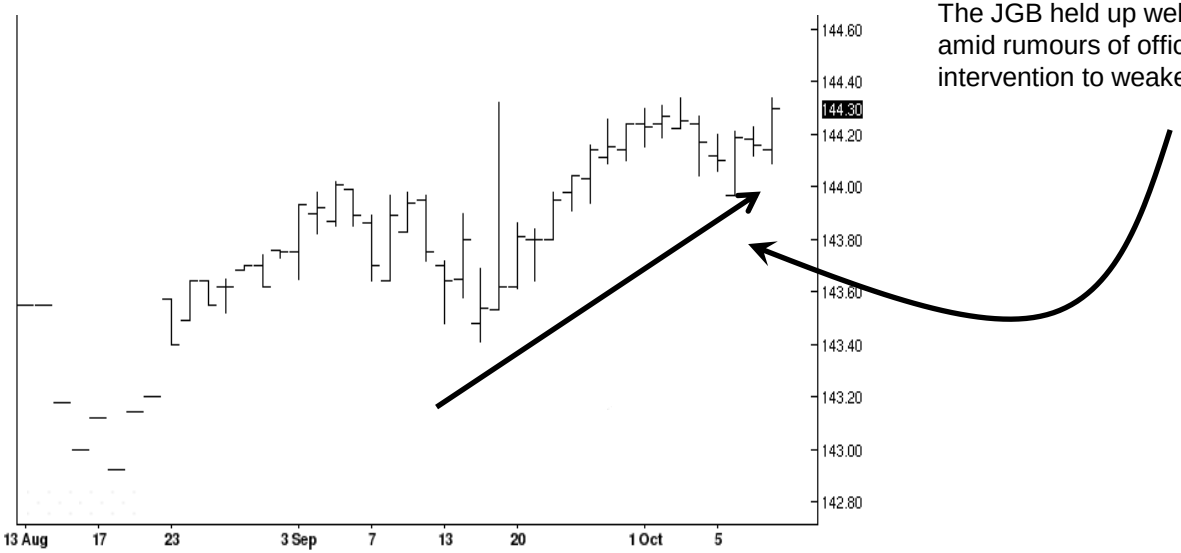
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB held up well last week amid rumours of official intervention to weaken the Yen.

The Macro Trader's view of the JGB is: the market held up well last week on rumours of currency market intervention to weaken the Yen.

Unlike many other markets volatility was not a major feature here as data was mainly weaker than expected and added support.

Looking ahead the key release this week is industrial production, but with the global economy at risk of weakening as the Euro zone continues to pursue austerity as its main policy tool in its attempt to control the sovereign debt crisis, we see Japan's economy as remaining vulnerable and the JGB a possible future buy.

For now with markets and economies in a state of flux we are remaining square of this and many other markets.

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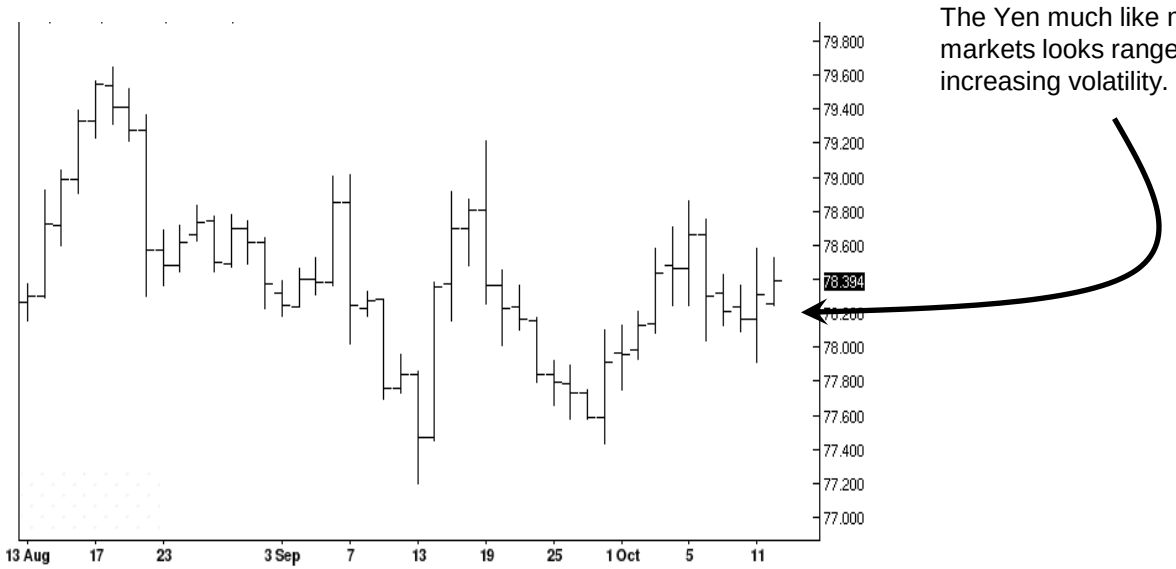
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE.

Last week we were Square.



The Yen much like many other markets looks range bound with increasing volatility.

The Macro Trader's view of the Yen is; the Yen much like many other markets looks range bound with increasing volatility.

The reasons here though are reasonably straight forward.

The Yen is viewed as a safe haven asset, and with the Euro zone debt crisis still unresolved remains in demand despite domestic economic woes of its own.

The authorities in Japan do not want to see a stronger Yen when the Japanese economy is still vulnerable to renewed weakness.

The message last week from Japan was intervention, the result for the Yen was a tightening trading range with volatility..

For now we advise remaining square of the Yen as we see it remaining within the trading range while remaining volatile.

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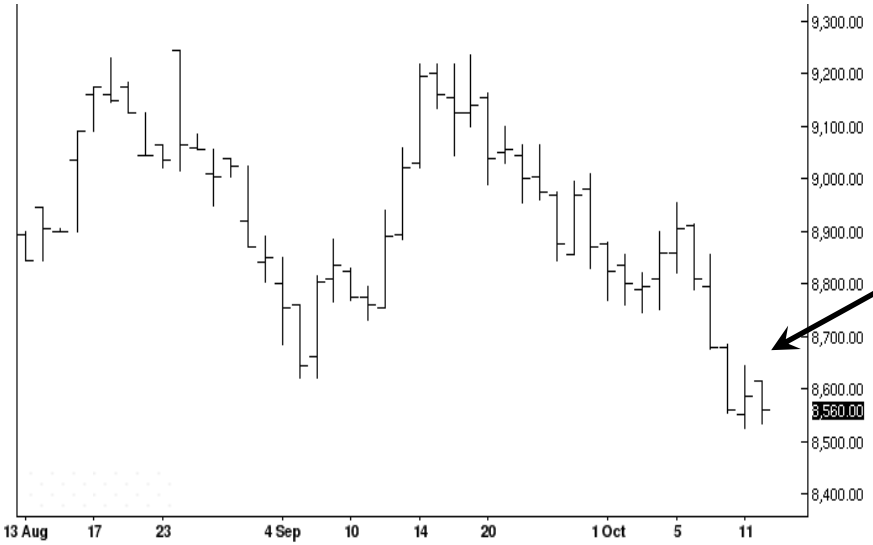
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei looks on the verge of a sell off.

The Macro Trader's view of the Nikkei is; the Nikkei extended the sell off last week and looks vulnerable to further selling.

The Nikkei's underperformance is likely due to several factors:

1. The slowing Chinese economy causing concern about possible knock on effects on Japan,
2. The territorial dispute over a chain of uninhabited Islands in the South China See that both Tokyo and Beijing claim Sovereignty over and which has given rise to fears of a regional trade war,
3. The on going Euro zone debt crisis which threatens a global slowdown, and
4. Still sluggish US demand.

Looking ahead the key release this week is industrial production, but with other leading equity markets looking under pressure the outlook for the Nikkei is poor.

We judge equity markets are currently highly unreliable and advise remaining square.

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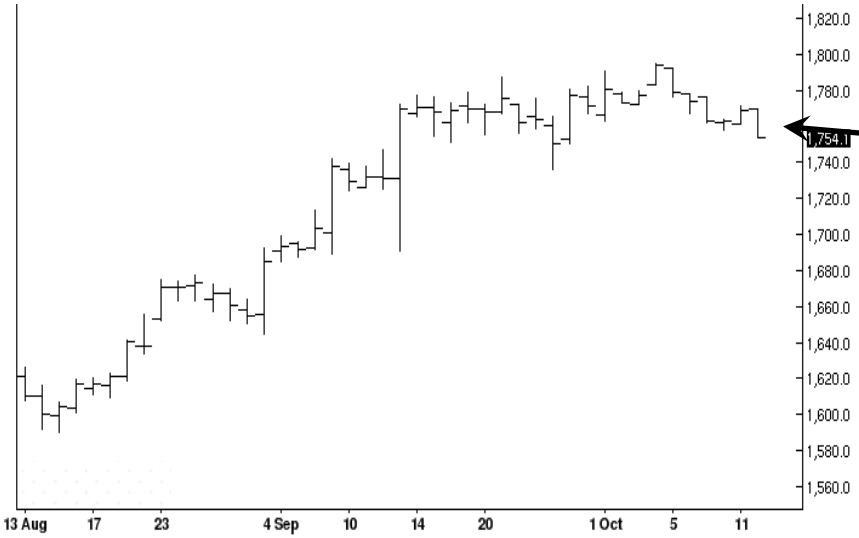
COMMODITIES: Gold

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Gold.



See how gold remains pegged back, unable to advance further.

The Macro Trader's view of the Gold is: Gold continues to cling to the highs as traders/investors grow ever more concerned about the health of the Global economy and the policy responses to the weakness in the world's leading economies.

With the Fed, Bank of England, ECB and Bank of Japan all engaged in some form of government bond buying activity, whether called QE or otherwise, there is a growing sense of unease about the longer term impact on inflation and the Dollar, as the Dollar remains under pressure against the flawed Euro.

With policy makers appearing increasingly more concerned about ending the current prolonged period of economic weakness and trying to support the weak members of the Euro zone rather than focus on the potential impact on future inflation, as communicated last week by Bank of England Governor King, gold remains supported, but needing fresh news to push it higher.

We judge this awkward policy stance will continue to fuel the long term rally in Gold and advise that traders should remain long of this market, despite the stop being hit.

Our target remains 1820.00 and our stop now set at 1700.00 for close protection in still very uncertain conditions.

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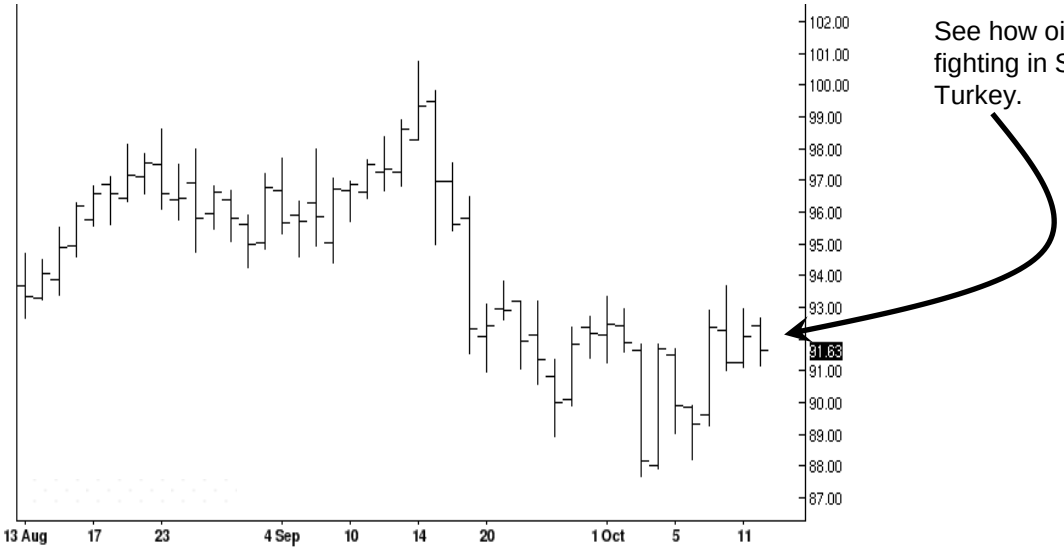
COMMODITIES: Oil

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Oil.



See how oil bounced as the fighting in Syria further involved Turkey.

The Macro Trader's view of oil is: the economic fundamental took a back seat last week as geopolitical tensions dominated.

Turkey forced a Syrian aircraft flying over her air space to land last week on suspicion of carrying arms to Damascus.

The Russians were furious; the plane began its journey there and so was the presumed source of the munitions that were found on the plane.

Clearly Russia has not only blocked a UN resolution to help stop the Syrian violence, but appears to be actively supplying the murderous regime with arms.

However it is noticeable just how tame the rally on this news was, which leads us to conclude the economics will again soon dominate this market sending it lower.

Traders should be short of oil.

Our target is 85.00 and our stop is set at 94.00 for protection.

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