

SevendaysAhead

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The Macro Traders guide To Major Markets

14th -20th September 2004

Confused short end.

Range bound currencies.

Oil consolidates

John Lewis

SevendaysAhead

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About John Lewis

John Lewis has worked in the London financial markets for 27 years. He joined Standard Chartered Bank London in 1976 trading the Sterling money markets.

He then trained as a floor trader with Holco Trading on the London Commodity Exchange specialising in cocoa and oil futures.

He began to trade off the floor with Drexel Burnham Lambert becoming Deputy Manager of their Money Desk in Europe responsible for all funding, money market trading and FX hedging for the European operation.

He rose to become Deputy Global Head of Proprietary Trading with Skandinaviska Enskilda Banken and thence Head of Proprietary trading Svenska Handelsbanken London.

After 1998 he moved into the hedge fund business as a senior fund manager of Weaving Capital UK.

Now in association with *SevendaysAhead* he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

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UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK

	Week beginning 6 th September
Monday	
Tuesday	Manufacturing production -0.2% m, -0.9% y Industrial Production -0.3% m, 0.1% y. BOTH WEAKER THAN EXP
Wednesday	
Thursday	Trade balance -5.2bln WORSE THAN EXP Trade non-EU -2.7bln WORSE THAN EXP MPC Rate decision UNCH AS EXPECTED
Friday	

Last weeks calendar, as above.

Last weeks data showed a surprise drop in manufacturing output and industrial production. Although now only a small proportion of GDP it is none the less still significant and after a period of relatively solid performance it is troubling to see this set back, especially since the currency has come off the boil recently. The trade data was none too pretty but this had a lot to do with the recent surge in Oil prices. As the UK again becomes a net importer of Oil, this very volatile commodity will again be a sizeable negative in the UK's trade numbers. The MPC, meeting last Thursday took all this in its stride and held policy after recently soft data from the housing market and consumer. The Markets reaction was to trade higher over the week.

JUNE 05 SHORT STERLING



See how the MPC'S decision to hold rates together with weaker trade data on Thursday led the market higher.

THE WEEK AHEAD

	Week beginning 13th September
Monday 9.30am	PPI ex food & energy. +0.5m, 1.4y (A)
Tuesday 9.30am	CPI 0.4m, 1.4y RPI-X 2.2y/y
Wednesday 9.30am	Unemployment -9.5k Average earnings 4.25%
Thursday 9.30am	Retail sales. 0.1m, 5.8y/y
Friday 9.30am	

This week's calendar, as above.

This week the market gets a full view of the economies strengths and weaknesses. On Tuesday; PPI and CPI will give an insight into the current and likely future direction of inflation, as will average earnings on Wednesday. On Thursday Retail sales will be keenly watched for further signs of the apparent consumer slowdown. If we see demand bouncing back after last months weakness the market will start hunting for another increase from the MPC however, if as presumed, the consumer has cooled and the number is soft then the market will likely continue its move higher.

MY TRADING STANCE: BULLISH.

Last time I was neutral of June 05.

This week I am bullish of June 05. The MPC having indicated a few weeks ago that their work was nearly done and last weeks decision to leave policy on hold after softer consumer demand and relative housing market weakness have led many to conclude that interest rates in the UK have very little further to go. Indeed if this week's data solidifies that view then the market can indeed move higher to around 95.10 over the coming weeks.

BULLS build a small long position and add on after Thursday's retail sales data. If soft the market will continue to rally.

BEARS sit tight until Thursday's data is known; if stronger than consensus; go short.

THE GILT

MY TRADING STANCE: NEUTRAL.

Last time I was neutral.

DECEMBER 04 GILT



This week I am neutral.

The market helped by soft UK data, regained most of the losses induced by the previous Fridays US non-farm pay roll number. Indeed if as now is expected UK demand, both consumer and housing market, have come off the boil the Gilt will short term benefit and rally further. However in the back ground is the small problem of the Governments fiscal stance and a slowing economy will do nothing to correct it. Although the Labour Government will more than likely raise taxes further after the next general election to correct this, that is a long way off and in any case they may not win and even if they do, if the world economy suffers a prolonged soft patch induced by Oil, it may not be expedient to immediately follow that course.

BULLS remain square.

BEARS for now stay square.

THE POUND STERLING

MY TRADING STANCE: NEUTRAL

Last time I was neutral the currency.

THE CABLE CHART



THE STERLING/EURO CHART



This week I remain neutral of Sterling.

The pound had a mixed week. Against the Euro it lost ground but against the Dollar it enjoyed a rally. Since the data out of the UK was softer than anticipated and the MPC left policy on hold, the reason for the Pounds better showing against the Dollar was due to comments on Wednesday from Alan Greenspan and later the Feds beige book. Greenspan noted that although the economy appeared to have regained some traction, it would be doing a lot better were it not for the high price of Oil. The beige book echoed the theme; solid growth but no real signs of acceleration.

BULLS for now stay square.

BEARS be careful, the Dollars weakness may not persist and we still appear to be range bound for now.

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US MARKETS

EURO DOLLARS

WHAT HAPPENED LAST WEEK

	Week beginning 6 th September
Monday	US HOLIDAY MARKET CLOSED.
Tuesday	
Wednesday	Fed Chairman Greenspan testifies to house budget panel on economy & fiscal issues. Fed Beige book.
Thursday	Import prices 1.7 HIGHER Initial Jobless claims -44K MORE THAN EXPECTED
Friday	PPI -0.1, ex-food & energy -0.1. Intl trade balance -50.15bln ALL LOWER THAN EXPECTED.

Last weeks calendar as above.

The number which most caught the markets attention was the PPI data released on Friday. This was lower than expected and eased market concerns over inflation. The other event was Alan Greenspan's speech on Wednesday; inflation didn't seem to worry him unduly and although he noted the economy had regained some traction he noted it would be doing a lot better were it not for the elevated Oil price. The market took this to mean that although the Fed would continue tightening, the evidence thus far suggested they would continue with 25bp moves. This encouraged the market to recoup most of last Friday's losses.

JUNE 05 EURO DOLLARS



See how the combination of Greenspan's speech and the release of the Feds beige book on Wednesday followed by Fridays PPI release led the market higher.

THE WEEK AHEAD

	Week beginning 13 th September
Monday	
Tuesday pm	Retail sales -0.2m/m, Retail sales ex-autos +0.2m/m 2 nd Quarter C/A -\$161.0bln
Wednesday pm	Empire state mfg Index 20 Business inventory +0.8 Cap use 77.4 Indus Production +0.5
Thursday pm	CPI +0.2m, ex-food & energy +0.2 Initial jobless claims 340k Philly Fed 24.2
Friday	Prelim Univ of Michigan sentiment 96.7

This week's calendar as above.

This week we focus on retail sales on Tuesday, Cap use and Industrial production on Wednesday, CPI on Thursday and on Friday Michigan sentiment. Retail sales will be a key indicator this week as it is responsible for a sizeable chunk of economic activity and a soft number is widely expected, Cap use will also come under strong scrutiny as will CPI on Thursday. Inflation has been reasonably tame and if this trend continues together with soft retail sales the market will rally further. The view in the market is the Fed wants to return policy to near neutral and the pace remain unchanged at 25bp moves.

MY TRADING STANCE: NEUTRAL

Last week I was neutral.

This week I am staying neutral. If as said above, the data comes in benign the market will want to rally. However, the overall picture is still unclear; it is not yet certain the economies soft spot has come to an end. Sure non- farm payroll was stronger than of late but the number its self was nothing special, the US economy needs to generate 200-250k jobs each month so 144k is nothing to get excited about.

BULLS should stay square for now. If the data is soft then go small long.

BEARS need to be cautious. The economy is not yet out of the woods but the trees maybe thinning out.

THE US TREASURY NOTE (10 yr)

MY TRADING STANCE: BEARISH.

Last week I was bearish.

US 10yr NOTE DECEMBER 04



This week I am bearish.

Last week I was bearish and the market rallied back. If the numbers are weak this week it may rally further. However as I have said many times, the US is running a large budget deficit and no one either in Government or the prospective candidate to be President have a plan to reduce it; a slowing or underperforming economy will only make it worse; why buy bonds? Ok inflation is still low but high deficits and high Oil prices make for sluggish economic growth and ultimately high/higher inflation and incidentally a weaker Dollar which also argues against buying bonds.

BULLS stay square.

BEARS should be short but watch out for short covering rallies.

THE DOLLAR

MY TRADING STANCE: NEUTRAL.

Last week I was neutral the Dollar.

EURO/DOLLAR CHART



See how the Dollar weakened on the back of Greenspan and the Fed's beige book. The Dollar gave back all its gains and more from the previous week.

This week I remain neutral.

Although the Dollar suffered heavily last week what we have seen is the currency being whipsawed by oscillating economic data. Until we get a run of consistent data releases one way or the other, I fear the market will remain choppy. The data from Euro land is not strong enough on its own to take the lead; the activity in this pair is US led. Ultimately I think the resolution will be a lower Dollar, very large budget and Current account deficits are not currency supportive in the long run.

BULLS stay square, for now.

BEARS wait for retail sales. If the number is much weaker then go short but be prepared for more whipsaw activity short term..

EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK

Week beginning 6 th September	<u>German</u>	<u>French</u>	<u>Italian</u>
Monday	Mnufac orders 3% MUCH STRONGER THAN EXP		
Tuesday	Ind prod +1.6m, 2.2y STRONGER THAN EXP		Consumer conf +101.7 AS EXPECTED
Wednesday			Foreign trade non-EU N/F Business conf 98.3 STRONGER THAN EXP
Thursday	Trade bal +13.5bln LOWER Current a/c +3.1bln LOWER THAN EXP CPI 0.2m, 2.0y. AS EXP		Indust orders -0.7m, 6.4y STRONGER Industrial sales -1.4m, 5%y STRONGER THAN EXPECTED
Friday		Trade bal -437mio WORSE THAN EXP	GDP 0.3q, 1.2y. AS EXPECTED

Last week's calendar; as above.

The data last week was mainly stronger although French and German trade data disappointed a little. Although on the face of it good news, the economy is not actually accelerating which means the ECB will continue to hold policy unchanged going forward. The market, together with others covered here, rallied last week mainly due to international sentiment but the market lacks direction and is range trading.

JUNE 05 EURIBOR



See how the market rallied last week even though EU 12 data was better than consensus. International news dragged it higher.

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THE WEEK AHEAD

Week beginning 13 th September	<u>German</u>	<u>French</u>	<u>Italian</u>
Monday	WPI 3.9Y/Y	Mfg output 3.1y/y	
Tuesday	ZEW econ sent 45	HICP 2.6%y/y	HICP 2.3y/y
Wednesday			Ind prod -0.5y/y
Thursday			
Friday	PPI 2.2Y/Y		

This week's calendar as above.

This week's data is mainly inflation oriented and is likely to continue showing the target being missed. This is almost entirely due to the elevated level of the Oil price. The ECB understands this and is very unlikely to move policy higher when the economy is still underperforming.

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

This week I am neutral.

There is very little to aim for in this market; inflation remains above target thanks to energy costs, growth remains below target due to among other factors, energy costs. The ECB is sitting tight and will continue to do so with the market largely following the US. Well trade Euro Dollars.

BULLS stay square

BEARS should stay square for now.

THE BUND

MY TRADING STANCE: NEUTRAL.

Last week I was neutral the bund.

THE BUND DECEMBER 04



See how the market followed the international move and rallied after Greenspan's comments and the Fed's beige book release on Wednesday.

This week I am neutral of the Bund.

The Bund rallied back smartly last week eradicating all the losses from the previous week induced by US non-farm payroll. If the US numbers are soft this week the Bund will rally further. However, the market has mainly moved sideways over the last several weeks and before getting involved again I want to a/ see some clarity in the numbers and b/ see the market develop some sort of trend. My long held view is that the Bund will eventually move higher; the fundamentals in EU 12 are weak also if the Dollar does resume its downward path the ECB will be unhappy with a materially higher Euro because, coupled with high Oil prices, damage will be done to the Euro land economy.

BULLS should stay square.

BEARS stay square for now.

THE EURO

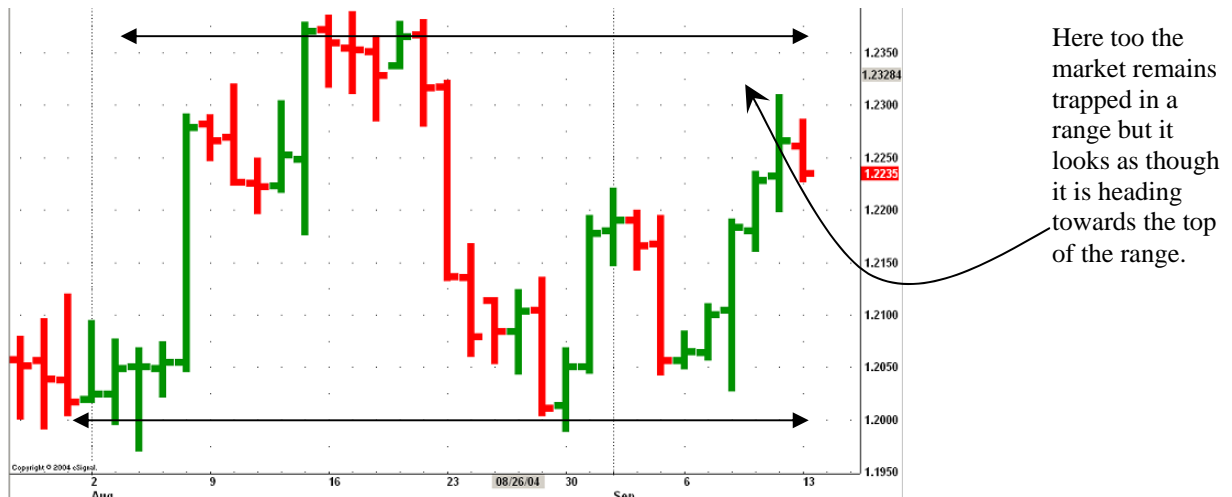
MY TRADING STANCE: NEUTRAL

Last time I was neutral the Euro.

EURO/YEN CHART



THE EURO/DOLLAR CHART



This week I remain neutral.

I have little to say about the market, the currency has been trading a large range for some considerable time now. Eventually the range will break and I believe the result will be a weaker Dollar. However for now there is no clear sign of resolution being at hand. If retail sales in the US are weak then I believe it will be worth going long the Euro but wait for that number.

BULLS sit tight until Tuesday's release of retail sales.

BEARS await direction.

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COMMODITIES

GOLD

MY TRADING STANCE: BULLISH

Last week I was bullish of gold.

THE GOLD CHART



This week I remain bullish.

This week I am staying with my position, if the data out of the US is soft the Dollar should move lower to the benefit of Gold. Also as we move into the Northern hemisphere Autumn and Winter, demand for Oil will increase and the price will remain well supported, keeping worries of inflation to the fore, notwithstanding that so far inflation has remained benign but for how long with such a large and growing budget deficit.

BULLS stay long while the market holds above US\$400.00.

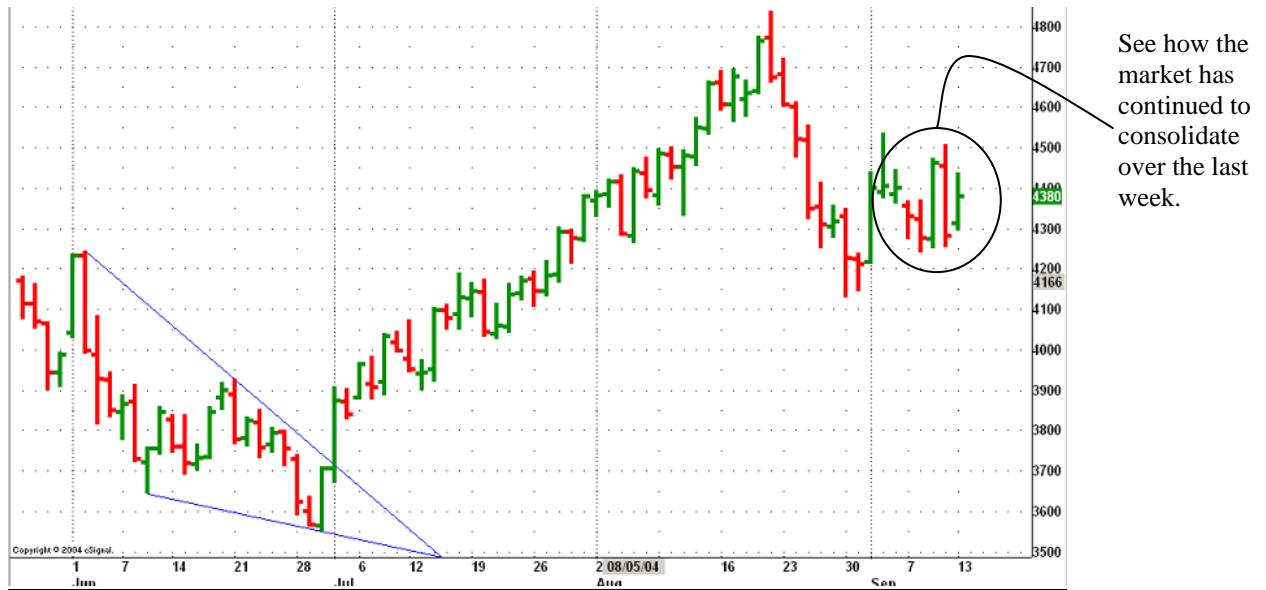
BEARS Stay square until the market breaks US\$390.00 an ounce.

OIL

MY TRADING STANCE: NEUTRAL.

Last time I was neutral of oil.

THE CRUDE OIL CHART



This week I remain neutral of oil.

The market continues to consolidate and I remain unengaged. However the factors that drove oil higher in the first place still exist and I believe the price will again soon test the highs. OPEC is unwilling to increase production further as they are worried the price will soon correct dramatically lower. The truth is with winter approaching in the north, demand for Oil will increase, also once the US presidential election is out of the way and assuming Bush wins, he will even more vigorously prosecute the war on terror which may lead to confrontation and even conflict with Iran. That would result in Oil at between US\$50- US\$60.00 a barrel, something which the market is not even considering right now.

BULLS stay square for now

BEARS don't go short.