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The Macro Trader's guide
To
Major Markets

28th Sept – 4th October 2004

Short Sterling looks to be a buy.

Currencies remain range bound for now.

Oil wants to move higher still.

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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 Handlesbanken London.

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

Now in association with Sevendays*Ahead* 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 20th September
Monday	Public sector finances -3.6bln **LOWER THAN EXPECTED**
Tuesday	
Wednesday	MPC Minutes. 9/0 **AS EXPECTED**
Thursday	CBI Trends survey 12 **WEAKER THAN EXPECTED**
Friday	

Last weeks calendar, as above.
Last weeks data was of a benign nature. The Governments finances were better than expected due to higher income tax receipts and the MPC minutes showed a unanimous vote; although some members raised the idea of another increase, this was brushed aside since data at that time showed the housing market clearly decelerating and the consumer spending less. The market responded favourably to the data and rallied into the middle of the week. The tone was soured however, by minutes from the FOMC in the US showing a more Hawkish tone than anticipated, this took the edge off the UK rally. However a weak CBI survey on Thursday showed a weaker picture than consensus and suggests the down side in Short Sterling to be limited for now.

JUNE 05 SHORT STERLING

See how the market's rally was halted and somewhat reversed by the FOMC minutes released on Thursday.

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THE WEEK AHEAD IN SHORT STERLING

	Week beginning 27th September
Monday 9.30am	BBA Mortgage lending GBP16.6B (A) Labour Party conference (all week)
Tuesday 9.30am	
Wednesday 9.30am	2nd QTR GDP (3) 0.9q, 3.7y. 2nd QTR C/A -5.4B Net Consumer lend'g GBP 10.2B CBI Distrib trades 15
Thursday 9.30am	PMI Manufacturing 53.7
Friday 9.30am	

This week's calendar, as above.

This week, given the MPC'S focus on the housing market, all eyes will be on; Monday's release of Mortgage lending and Wednesdays Net consumer lending data. These two releases will provide further insights into the strength of that market and any further signs of deceleration will bolster the view rates are very near their peak.

MY TRADING STANCE: BULLISH.

Last time I was bullish of June 05.

This week I remain bullish of June 05.
As anticipated last week, the market largely recovered from the surprise strength in the retail sales report and was indeed aided by further signs of softness. I expect the market to do the same this week with regards to the surprise coming from last weeks US FOMC minutes. The UK interest rate cycle is more mature than in the US and interest rates in the UK never reached the Emergency levels set in the US so consequently UK policy is already very close to neutrality.

BULLS continue to look for opportunities to build a long position.
BEARS remain square for now unless the lending numbers out this week show surprise strength.

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THE GILT

MY TRADING STANCE: NEUTRAL.

Last time I was neutral.

DECEMBER 04 GILT

This week I am neutral.

Although last weeks numbers did indeed paint a slightly brighter picture of UK Government finances and may even suggest that the Chancellor will meet his borrowing target, the good news maybe short lived. If the economy does indeed slow down on the back of a slowdown in the housing market accompanied by weaker consumer spending then the Government may yet find it difficult to hit its fiscal targets. At the moment the Gilt is not focussing on this and better inflation figures and housing market weakness are encouraging investors to go long the market.

BULLS remain square.
BEARS for now stay square.

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THE POUND STERLING

MY TRADING STANCE: NEUTRAL

Last time I was neutral the currency.

THE CABLE CHART

See how Sterling benefited from the Dollars unease caused by higher energy prices and the Feds comments on the US economy.

THE STERLING/EURO CHART

Against the Euro the Pound largely moved sideways as higher Oil prices seem to translate very quickly into higher inflation in the EU 12 zone.

This week I remain neutral of Sterling

Lat week the pound traded higher against both the Dollar and the Euro. This is because on a relative performance basis the UK economy is doing a little better than the US right now and a lot better than the EU 12 zone. Further, inflation in the UK is well under control with interest rates here almost at their neutral level, additionally the UK still produces a lot of its own oil unlike the EU 12 zone which imports virtually all its needs and the US which imports about 50% of what it uses; this together with the interest rate differentials which are heavily in Sterling's favour, keep the Pound well supported.

BULLS for now remain cautious.
BEARS stay square. While Oil prices trade like this markets will be skittish.
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US MARKETS

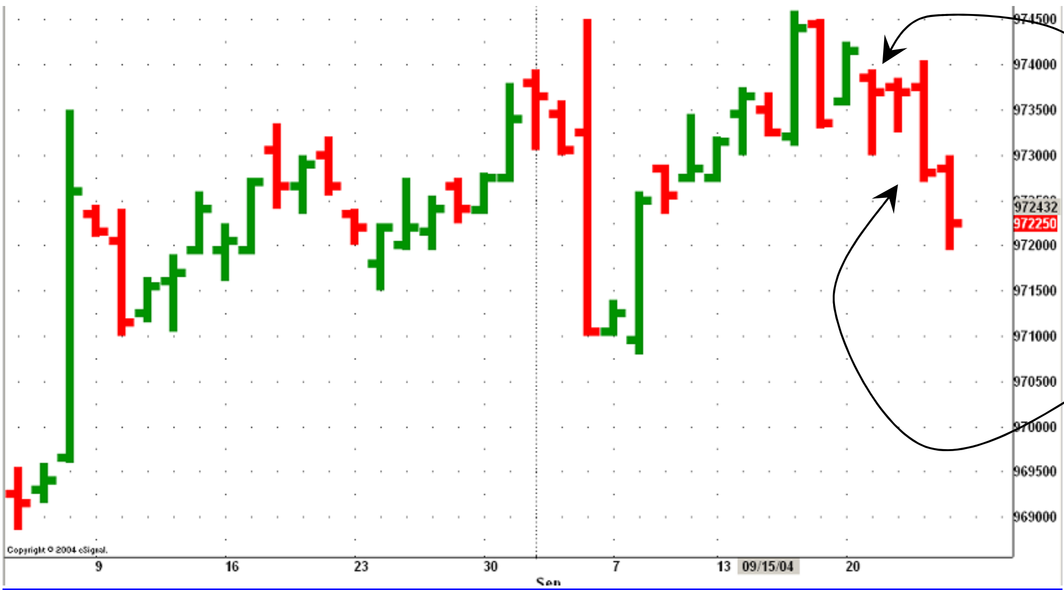
EURO DOLLARS

WHAT HAPPENED LAST WEEK

	Week beginning 20th September
Monday	
Tuesday	Housing starts +0.6 **STRONGER THAN EXP** FOMC meeting +25bp **AS EXPECTED**
Wednesday	
Thursday	Initial jobless claims +14 **HIGHER THAN EXP** Leading indicators -0.3% **WEAKER THAN EXP** FOMC minutes **MORE HAWKISH THAN EXP**
Friday	Durable goods -0.5 **WEAKER THAN EXP** Durables less Transport +2.3% **STRONGER THAN EXP** Existing home sales -2.7% **WEAKER THAN EXP**

Last weeks calendar as above.
Last week I said the most important piece of data would be the FOMC meeting on Tuesday; it turned out to be the minutes from the previous FOMC meeting release on Thursday. It emerged that even during their meeting in August they were completely unfazed by the economies soft spot and acknowledged that policy will have to be moved up to neutrality. They re-affirmed their intention to move at a measured pace for now but noted they would respond as the economy evolved. What ruffled the markets feathers though was their phrase concerning that meetings policy action wherein they said "for now they would increase the Fed funds rate by the relatively small amount of 25 basis points". Needless to say this caused a sharp sell off in the Euro Dollar market.

JUNE 05 EURO DOLLARS



See how the policy tightening at Tuesdays Fed meeting had a minor impact on the market, but note the impact from the minutes of the August FOMC meeting released on Thursday.

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THE WEEK AHEAD IN EURO DOLLARS

	Week beginning 27th September
Monday	New home sales 1.4%
Tuesday pm	Conf board confidence index 99.0
Wednesday pm	2nd QTR GDP (F) 3.1%
Thursday pm	Personal inc +0.4 Personal spend'g +0.1 Jobless claims -10k Chicago PMI 58
Friday	Final univ of Michigan sent 95.8 ISM Mfg index 58

This week's calendar as above.

This week the market will be watching the two measures of confidence released on Tuesday and Friday; the Chicago PMI survey and the ISM manufacturing survey. These numbers will give us further insights into the strength of manufacturing and the consumer's appetite to spend. Both of these sets of numbers are important because if manufactures are up beat they will hire more workers this will make the workforce generally more confident and likely to spend; in turn this will quicken the pace of the economic recovery.

MY TRADING STANCE: NEUTRAL.

Last week I was bullish.

This week I am neutral. I expected the Fed to show more concern about the prolonged soft spot currently being experienced by the US economy. The fact they didn't and even back in August were confident the pace would pick up, and according to their minutes felt that a policy adjustment of 25bp was small, suggests that when and if the economy starts to move up through the gears, we can expect larger policy adjustments.

BULLS stay square.
BEARS show caution. We have, starting this week but running into next, a whole raft of heavy weight numbers. If these should show the pace of recovery has stepped up then there is time a plenty to go short. On the other hand, should they show the soft spot persists; with another weak non-farm payroll number next week, then the market will rally back smartly.

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THE US TREASURY NOTE (10 yr)

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

US 10yr NOTE DECEMBER 04

The market ended the week little changed. However see how the market shrugged off Tuesday's rate increase, only to be hit by Thursday's FOMC minutes.

This week I am neutral.

Although the economy continues to exhibit mild signs of distress, the Fed it seems is impervious to them. The US central Bank is of the view; the economy is amidst a self sustaining recovery and the current soft spot is transitory. Further the US congress voted narrowly, last week, to extend the Bush tax cuts, which had they not, would have expired and removed a powerful economic stimulus. This action will underpin consumer activity and support the economy, but do very little to help the parlous state of US Government finances.

BULLS stay square. The short term argues for lower yields. The medium/long term argues for higher yields.
BEARS stay square and await clarity.

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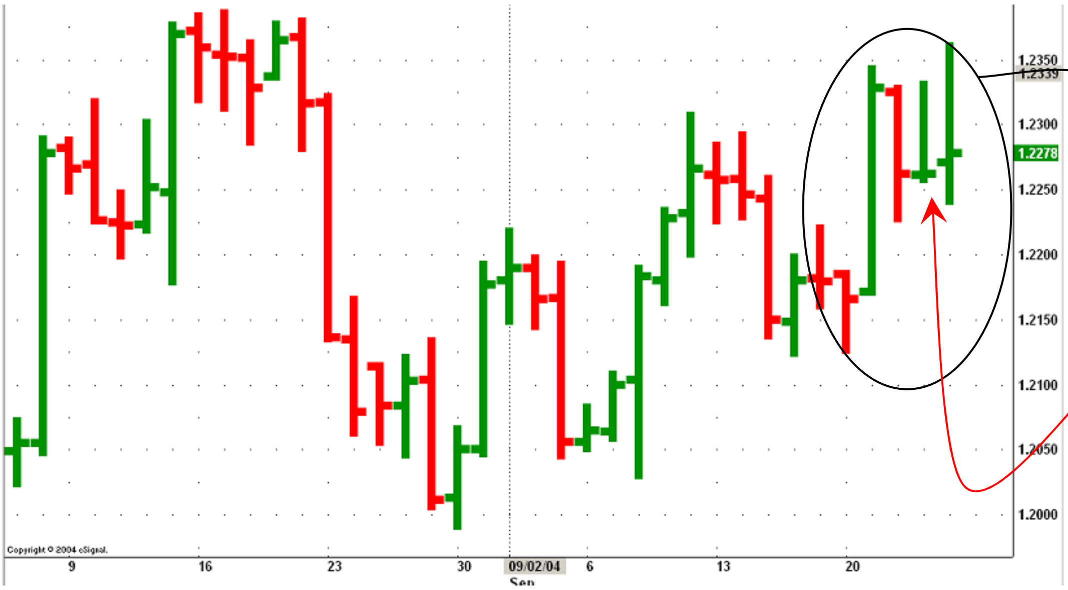
THE DOLLAR

MY TRADING STANCE: NEUTRAL.

Last week I was neutral the Dollar.

EURO/DOLLAR CHART



The Dollar still hardly knows which way to turn. Tuesday's policy action and familiar text saw it weaken. Thursday's minutes and more hawkish comments saw it rally back.

This week I remain neutral.

The Dollar for now is stuck in a tug of war. On the one hand seemingly weaker data undermine its attractiveness to foreign investors, on the other hand, hawkish comments from the Fed regarding their desire to return policy to neutral as quickly and smoothly as they can, add some support to the Dollar. Then we have the steady flow of unfavourable news from the Middle East. The carnage in Israel continues and seems to have spilt over into Syria with the killing of a Hamas operative in Damascus, last week by Israel, the Iranians have announced their intention to defy the World (US/UK/Israel) and carry on enriching enough Uranium to start building nuclear weapons, and the nightmare in Iraq continues. This does little to support the Dollar when the US is so heavily dependent on imports of Middle East Oil and at a time when the US is in the middle of a Presidential election campaign with the incumbent suspected of harbouring malign intent against Iran and the challenger having no coherent policy.

BULLS stay square.
BEARS do the same.

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EURO 12 MARKETS

EURIBOR

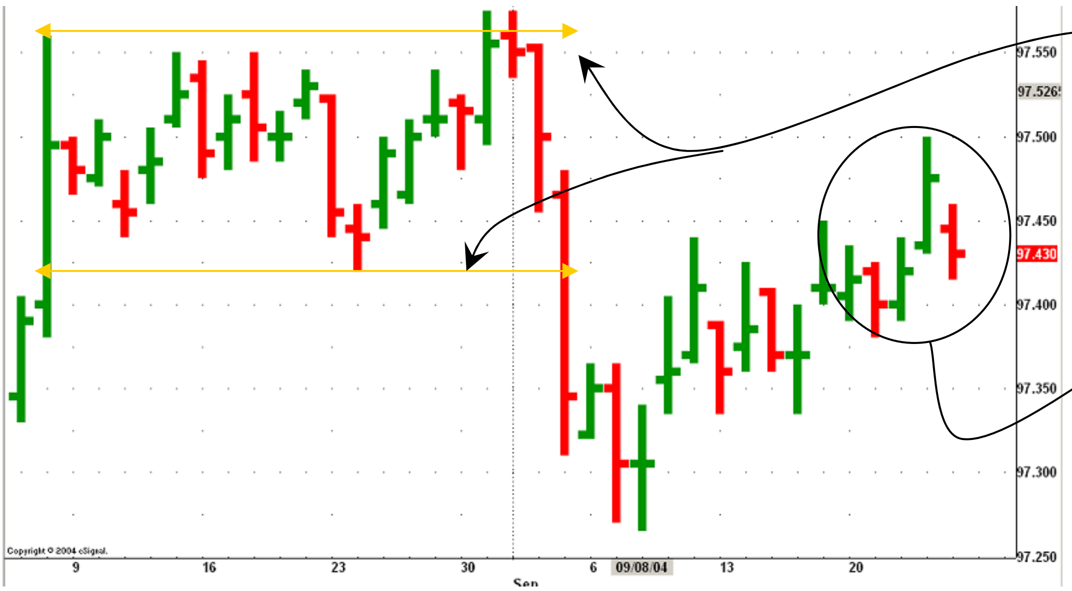
WHAT HAPPENED LAST WEEK

Week beginning 20th September	German	French	Italian
Monday			
Tuesday			
Wednesday		Consumer spndg 0.5m, 5.4y. **LOWER THAN EXP**	Hourly wages 2.6%y/y **LOWER THAN EXP** ISAE Consumer conf 102.8 **HIGHER THAN EXP**
Thursday		CPI +0.3m/m, 2.4%y/y. **AS EXPECTED**	Retail sales -0.4m ,-0.3y. **WEAKER THAN EXP**
Friday	Imp't prices 0.9m, 2.5y **HIGH THAN EXP** Prelim CPI -0.3m, 1.8y **LOWER THAN EXP**		Foreign EU trade 1.9B **AS EXPECTED** Indus orders -1.8%y/y **LOWER THAN EXP**

Last week's calendar; as above.

Last weeks mainly weaker data helped the market move higher. Measures of inflation and consumer spending were mostly below consensus. The rally came to a halt on Friday in the after math of the release of US FOMC minutes on Thursday; as a result the market ended the week more or less unchanged.

JUNE 05 EURIBOR



Until Friday, the market had almost regained the range pertaining prior to the last non-farm payroll release. Friday's reaction to Thursday's US FOMC minutes pushed it back down.

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THE WEEK AHEAD IN EURIBOR

Week beginning 27th September	German	French	Italian
Monday	IFO Index 95.2 A		
Tuesday		PPI Aug. +0.4m, 2.6y.	Unemploy't +8.5%
Wednesday			Foreign trade non-EU n/f CPI Cities 0.1m, 2.3y.
Thursday		Business sent 105.0 Unemploy't 9.8% 2nd QTR GDP 0.8m, 3.0y. Consumer sent -22	Prelim CPI 0.2m, 2.2y. ISAE biz conf 97.7 PPI 0.4m, 3.4y.
Friday	Retail sales 0.1%m. PMI Mfg 54.9	PMI Mfg n/f	PMI Mfg 52.5

This week's calendar as above.

This week we see further data showing how inflation and consumer demand are evolving in Euroland's three largest economies. Also we have German IFO and French and Italian unemployment data. I say this most weeks and it usually proves the case, I don't see any of these releases changing the current outlook for the Euro land economy.

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

This week I am neutral.

There is very little to go for this week, the contract followed, shows rates moving up to 2.5% by June 05. That doesn't seem unreasonable and the market is likely to trade in a 10 tick range either side of 97.50 for the time being. In the big picture that means there is very little to go for at the moment.

BULLS stay square
BEARS should stay square for now.

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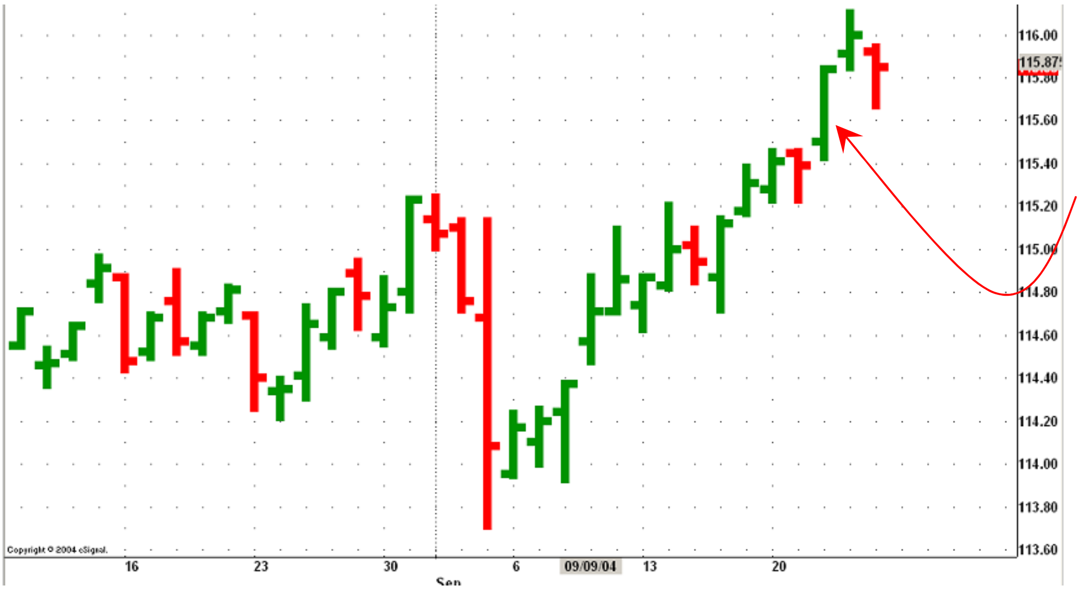
THE BUND

MY TRADING STANCE: BULLISH.

Last week I was bullish of the bund.

THE BUND DECEMBER 04



The Bund continued its recent rally. Aided on Wednesday by the after math of Tuesday's FOMC decision and accompanying statement.

This week I am remain bullish of the Bund.

The Bund continued to build on its rally and last week traded above 116.00 for the first time. This was supported by the continuation of weak fundamentals in the Euro land economy, but also recent strength of the Euro against the Dollar. Together with the more broadly based rally in G7 Government bond markets brought about by the somewhat benign statement released by the Fed when it increased interest rates by 25bp, as expected, on Tuesday.
With the price of Oil reaching new highs over concerns surrounding continuity and security of supply, I expect the Bund to rally higher yet as the market starts to fret that Oil prices at these levels and higher, if sustained, will impinge on growth prospects in the Euro land economy and elsewhere.

BULLS stay long and use any mild pull back to add on.
BEARS stay square for now.

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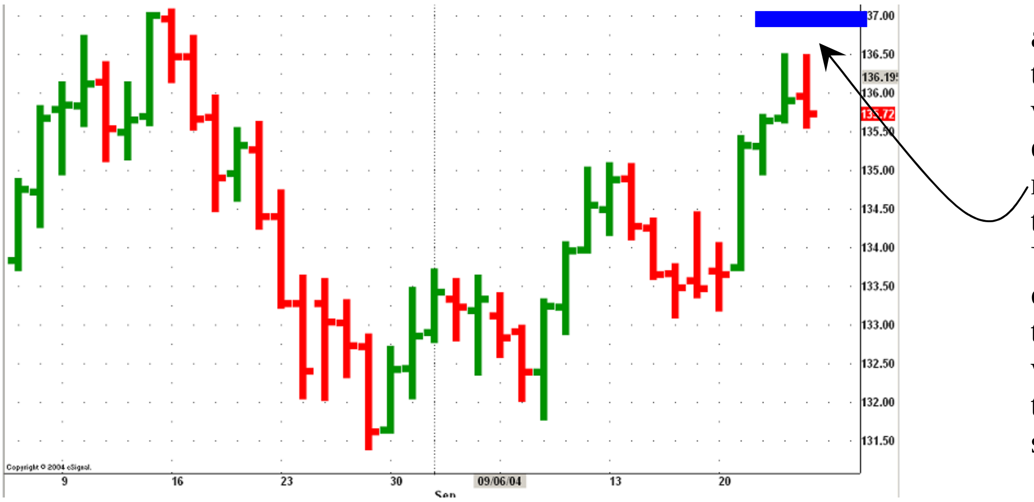
THE EURO

MY TRADING STANCE: NEUTRAL

Last time I was neutral the Euro.

EURO/YEN CHART



The Euro almost made it to the top of its well established range against the Yen. Unless it can close above that level it will continue to trade in the same range.

THE EURO/DOLLAR CHART

Here too against the Dollar the Euro is endeavouring to break out. See how strongly the Euro rallied after Tuesday's rate decision from the US Fed.

This week I remain neutral.
Last week I thought the Fed would exhibit more concern than it did over the economy's summer long soft spot. In the event, although they made calming noises, they still raised rates and reminded the market of their flexibility. Many took this to mean that they would pause should the economy falter further but on Thursday when the minutes of the August meeting were released we were all left in no doubt as to their meaning; they saw the soft spot as transitory, they intended continuing with their policy of measured tightening towards neutrality and would respond as the economy evolved. Their true intent was disclosed by the phrase, "for now we will increase policy by a relatively small 25bp". They will quicken if the economy picks up.
BULLS sit tight, watch the numbers and wait for a trend break.
BEARS do likewise.

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COMMODITIES

GOLD

MY TRADING STANCE: BULLISH

Last week I was bullish of gold.

THE GOLD CHART

Gold has remained well supported during this current period of instability. See how it has slowly edged higher, ignoring the machinations of other markets.

This week I remain bullish.

This week I am holding to my view of Gold. There is a lot of uncertainty around in the World economy at the moment. Most of this has to do with the very high level Oil is currently trading at and that has every thing to do with security of supply and terrorist activity. The reason this helps Gold is the World's major economy and issuer of the World's only true reserve currency is experiencing a very anaemic recovery by its own standards mainly due to the high and volatile price of Oil

BULLS stay long above US$400.00 an ounce as the market will move higher if the current instability and uncertainty intensifies and it probably will.
BEARS Stay square until the market breaks US$390.00 an ounce. Which isn't likely for the moment?

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OIL

MY TRADING STANCE: BULLISH.

Last time I was bullish of oil.

THE CRUDE OIL CHART

See how the market was forced higher last week, making new highs. The market was hit by more terrorist outrages in Iraq and elsewhere.

This week I remain bullish of oil.

The Oil price was forced dramatically higher last week on news of more instability and violence in Iraq against civilians helping to rebuild the country also against the military. The Russian Oil giant Yukos was forced to suspend its deliveries to China and US Oil inventories were lower than the market expected. Iran announced to the World its intention to enrich enough Uranium to build up to six nuclear weapons and the EU announced it would not tolerate a nuclear armed Iran. This together with Israel's recent statement; that if Iran embarked on precisely that strategy it would launch pre-emptive strikes on that country. Then added to all of this was the shut down of most oil producing facilities in the Gulf of Mexico because of a series of Hurricanes affecting the Caribbean and the US southern coast.
BULLS stay long and run a stop at US$43.00 a barrel.
BEARS don't go short.

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