Sevendays*Ahead*

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The Macro Trader's guide To Major Markets

19^{th} – 25^{th} October 2004

Short end trades higher, more to come.

Euro/Dollar has broken out.

Oil & Gold consolidate.

John Lewis

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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 11th October
Monday	PPI Output s.a. ex FBTP y/y 2.2% **HIGHER** Trade Bal GBP5.2bln **LARGER** Trade Bal non-EU 25 -2.2 bln **LESS THAN EXPECTED**
Tuesday	CPI 0.1%m, 1.1%y. **LOWER THAN EXP** RPI-Ex 2.2%y/y **AS EXPECTED**
Wednesday	Unemploym’t rate 2.7% **AS EXPECTED** Change 0.0k **WEAKER THAN EXP** Avg earnings 4.3% **HIGHER THAN EXP**
Thursday	
Friday	

Last weeks calendar, as above.
Last week of all the data released the single most important was CPI. The under shoot was significant for two reasons; 1st/ The data constituted a bullish surprise for the market, 2nd/ the y/y rate is now only 1/10th of 1% away from the lower band limit, below which the Governor of the Bank of England has to, by law, write an open letter of explanation to the Chancellor of the Exchequer giving the reasons why it occurred and how it will be corrected. Naturally the market rallied strongly on this news. The bullish fervour was tempered slightly later in the week when the B of E Governor replying to a question said it was impossible to tell if rates had peaked. The true reading of the statement is of course he can not just tell the world interest rates wont rise again for obvious reasons.

JUNE 05 SHORT STERLING

See how the market rallied on Tuesday after the CPI; then retreated later in the week after Mervin King’s comment.

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THE WEEK AHEAD IN SHORT STERLING

	Week beginning 18th October
Monday 9.30am	
Tuesday 9.30am	
Wednesday 9.30am	MPC minutes for October. 9/0 PSNCR GBP8.B PSNB GBP3.5B
Thursday 9.30am	Retail sales 0.2m, 5.9y.
Friday 9.30am	GDP 3Qtr (1) 0.6m, 3.2y

This week's calendar, as above.

This week sees three key releases; MPC minutes, retail sales and GDP. The minutes on Wednesday should be a unanimous 9/0, retail sales will be very interesting, and hopefully show more signs of moderation in consumer demand, then on Friday's 3rd Qtr GDP will give us our first read of how the economy performed during that period.

MY TRADING STANCE: BULLISH.

Last time I was bullish of June 05.

This week I remain bullish of June 05.

The economy seems to be decelerating and inflation seems very tame, almost too tame, if the price of Oil continues at these very elevated levels or moves higher, then the economy will slow and paradoxically, inflation will fall further as the increase in Oil prices will act as a tax on consumption and force retailers to be even more competitive than they already are since with house prices increasing at a more subdued rate the consumer will become increasingly more cautious. The last time there was an Oil shock inflation leapt too 25% a year and almost became uncontrollable, today's economy is very different; Manufacturing is a much smaller percentage of GDP and technology has made production methods much more fuel efficient.

BULLS continue to look for opportunities to add to positions.
BEARS remain square for now.

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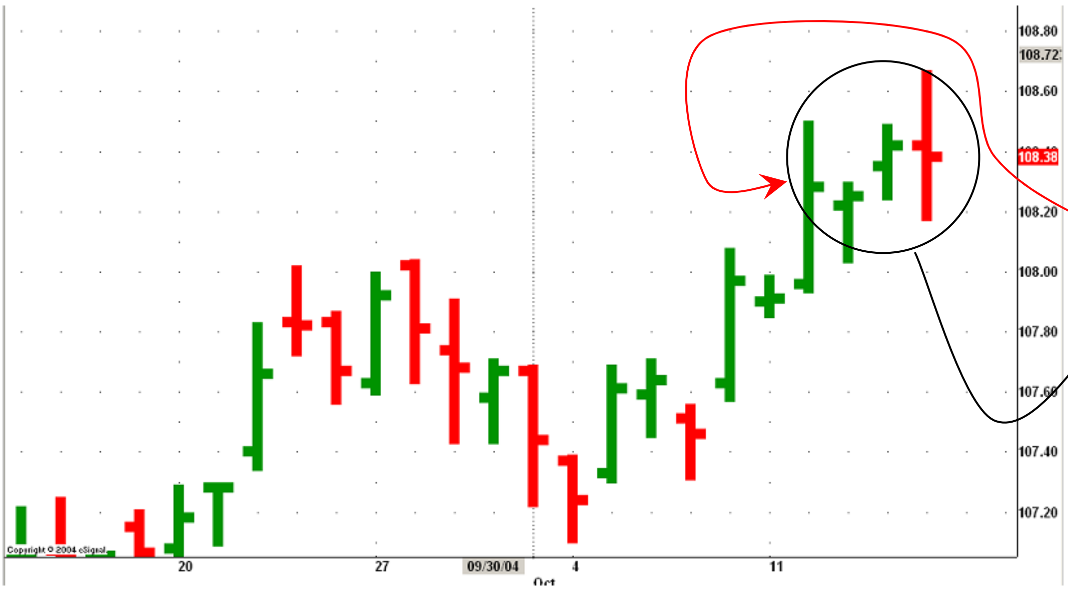
THE GILT

MY TRADING STANCE: NEUTRAL.

Last time I was neutral.

DECEMBER 04 GILT



See how like Short Sterling the Gilt rallied heartily after the CPI data, but unlike its cousin; managed to consolidate the gain.

This week I am neutral.

The Gilt managed a slightly more durable performance than the short end after the CPI data as it wasn't dragged back to the same degree as Short Sterling after the comments made later in the week by Mervin King the B of E governor, even so, I am still not convinced of the bull case and for now remain neutral. If, however this week's data come in weaker than consensus I will, for the time being, push to one side my concerns over the Governments fiscal stance and advocate being long; but lets see the numbers first.

BULLS remain square for now.
BEARS stay square.

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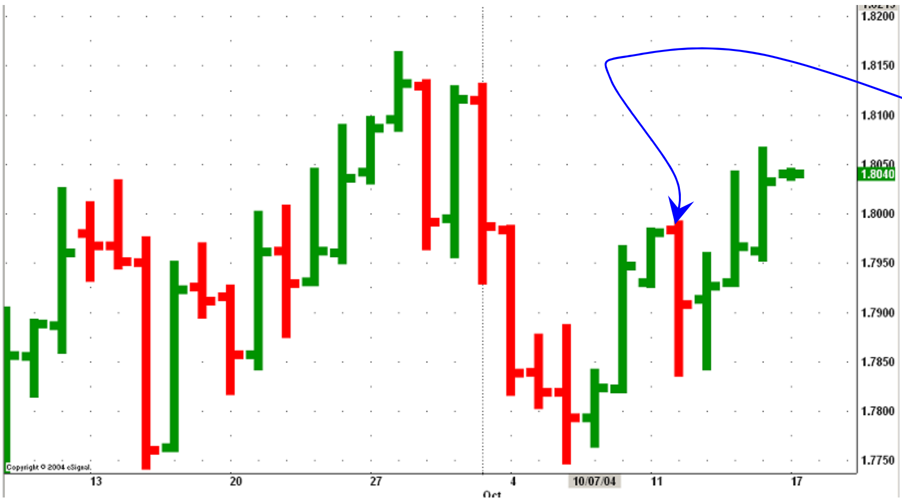
THE POUND STERLING

MY TRADING STANCE: NEUTRAL

Last time I was neutral the currency.

THE CABLE CHART



The initial reaction from Cable was to weaken after the CPI data as this raised question's over the need for more rate rises.

THE STERLING/EURO CHART

Against the Euro the response was strangely the reverse, however this was more to do with Dollar weakness than anything else.

This week I remain neutral of Sterling

Although this week I remain neutral the performance of Cable, last week, has caught my eye and I am tempted to go long. However the range still remains to be broken and until it is I shall remain sidelined. Against the Euro the pound is suffering from the forces driving the US Dollar and appears to have no independent life of its own. For that reason I remain sidelined.

BULLS for now remain square.
BEARS should be cautious and stay on the sidelines.

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US MARKETS

EURO DOLLARS

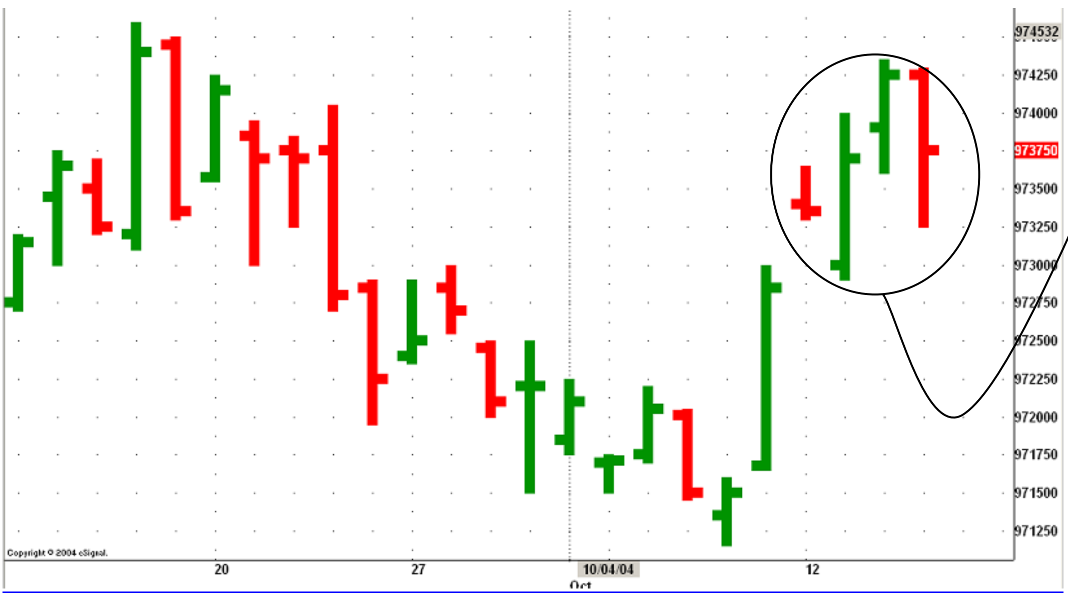
WHAT HAPPENED LAST WEEK

	Week beginning 11th October
Monday	Market closed US Holiday
Tuesday	Richmond Fed 22 **STRONGER THAN EXP**
Wednesday	
Thursday	Jobless claims 352k **HIGHER THAN EXP** Import prices 0.2% **LOWER THAN EXP** Trade bal -$54.04bln **LARGER THAN EXP**
Friday	PPI +0.2m, Ex-food & energy +0.3m. **HIGHER** Retail sales 1.5m, Ex-Autos 0.6%. **HIGHER** Ind Prod 0.1%, **LOWER** Cap use 77.2% **LOWER** Prelim Univ of Michigan 87.5 **WEAKER THAN EXPECTED**

Last weeks calendar as above.

The week began with the market adding to the gains induced by non-farm payroll the week earlier, this was helped by last Thursday's data which showed an unexpected rise in Jobless claims and a much larger, GDP sapping, trade deficit. All this changed on Friday when retail sales showed a much stronger outcome than consensus. In fact the number was twice as strong as consensus. Even the weak University of Michigan sentiment survey released later in the session was unable to turn the market around.

JUNE 05 EURO DOLLARS



See how, until Friday, the tone in the market was definitely bullish.

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THE WEEK AHEAD IN EURO DOLLARS

	Week beginning 18th October
Monday	
Tuesday pm	CPI 0.1m, Ex-food & energy 0.1m. Housing starts n/f
Wednesday pm	
Thursday pm	Jobless claims -7k Philly Fed 18.5
Friday	

This week's calendar as above.

This week the only number of true significance is CPI. The Philly Fed survey on Thursday will be important if it differs massively from consensus as it will start to ring alarm bells over the PMI surveys to be released later in the month. If the CPI data continues to remain benign then I think the market will shake off last weeks retail sales since it is the paucity of growth in the jobs market which is the true impediment to future strong growth.

MY TRADING STANCE: BULLISH.

Last week I was bullish.

This week I remain bullish. The market will need a lot of convincing that the Fed is anything other than concerned about the long term staying power of this recovery. Not withstanding all their other comments the telling one was uttered by Mr McTeer a week earlier when he said the Fed could take a pause if needed. This does not sound like a Central Bank that is completely certain of the way events are unfolding. I think they will move the Fed Funds rate up a little further to 2% and if the pace of the recovery is still sluggish I think they will take a breather for a quarter to let the economy catch up.

BULLS hold positions but don't add on just yet; wait for CPI and then decide.
BEARS for now stay square.

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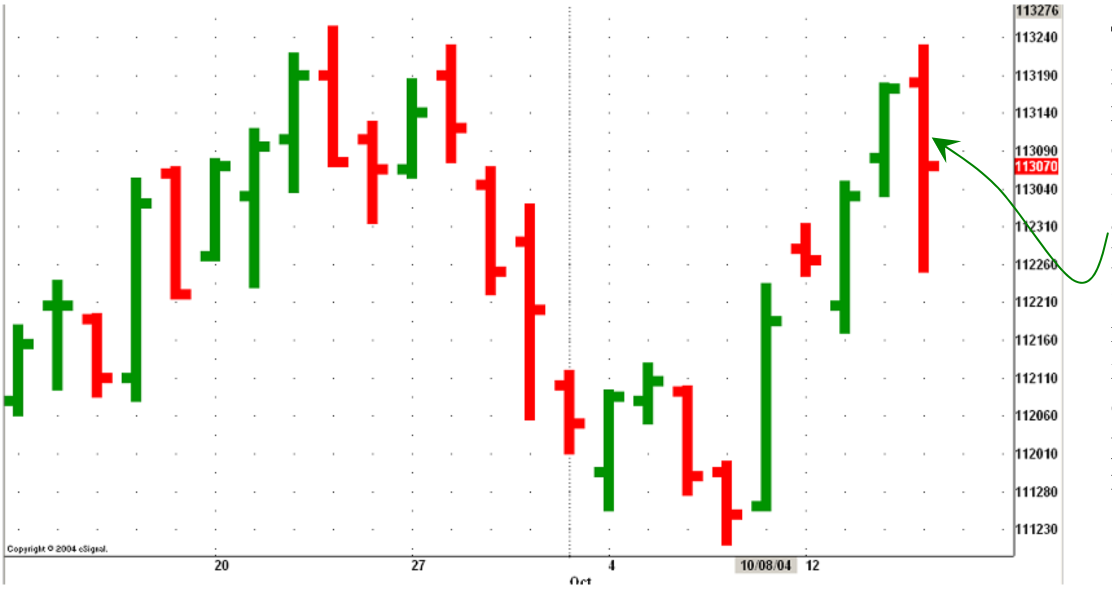
THE US TREASURY NOTE (10 yr)

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

US 10yr NOTE DECEMBER 04



The 10 year note took the retail sales data badly on Friday, although the Michigan sentiment number later in the session did induce a partial recovery.

This week I remain neutral.

After the excitement of the previous week's numbers, last week brought mixed blessings. The very strong retail sales data took the wind out of the bull's sales and they were only partially rescued later in the day by the weak Michigan sentiment survey. The other factor which weighed on the market and is a theme I have long argued and prevents me from being bullish of this market; was the release at the end of last week of a record budget deficit. Viewed in cash terms the number seems very large and one wonders for how much longer foreigners will continue to finance this and the current account deficit; only last week India said it would spend some of its large foreign reserves on its own infrastructure needs rather than buy US treasuries and prop up that economy, their words not mine.
When viewed as a percentage of GDP it does not seem quite so large, but the US with some 28% of world GDP should worry because to others the cash amount looks alarming.

BULLS stay square.
BEARS remain sidelined for now.

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THE DOLLAR

MY TRADING STANCE: BEARISH.

Last week I was neutral the Dollar.

EURO/DOLLAR CHART

See how the Euro finally appears to have broken out of the range which held it for so long.

This week I am bearish.

Like most players in this market I have awaited the day when the Euro burst free of the yoke which has bound it i.e. the range it has been trapped in for several weeks. Although it is entirely possible the breakout may fail, I think given the length of time spent in the range and the dynamism of the breakout, a failure is unlikely. The US has a very large Current account deficit and is running a record budget deficit and neither; the current President or his challenger, appear to have a plan which will reduce either let alone both. In this environment the only way long term, for the Dollar is down; the Euro is a buy until the US gets a grip of its finances.

BULLS stay square.
BEARS this is it, go short.

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EURO 12 MARKETS

EURIBOR

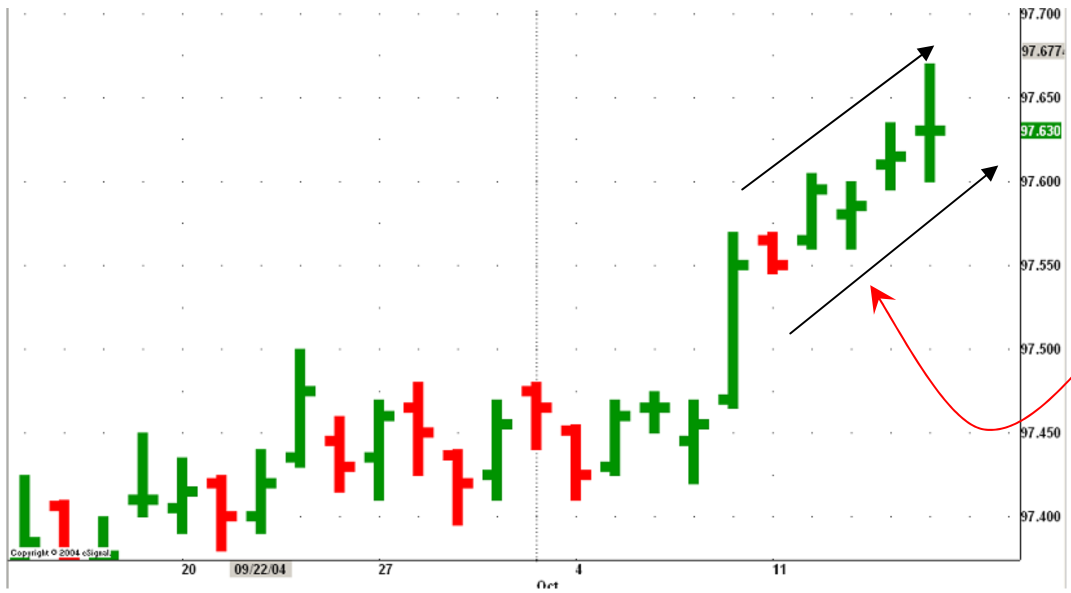
WHAT HAPPENED LAST WEEK

Week beginning 11th October	German	French	Italian
Monday	WPI 0.0%m, 3.4y. **LOWER THAN EXP**		
Tuesday	CPI -0.3m, 1.8y **AS** ZEW Survey 31.3 **LESS THAN EXP**	Trade bal -2.45B, **WORSE** Ind Prod -1.9m, -0.2y **LESS** Mfg output -2.1m **WORSE THAN EXP**	
Wednesday		CPI 0.2m, 2.2y **AS EXPECTED**	Ind Prod -0.8m, -3.5y **WEAKER THAN EXP**
Thursday			CPI 0.0m, 2.1y **AS EXPECTED**
Friday		C/A Bal -1.5B **WORSE THAN EXP**	Trade Bal +1.111B **HIGHER THAN EXP**

Last week's calendar; as above.

Last week's data seemed to tell an all too familiar story; the EU12 economy continues to under perform not only its peers but also its own long run average growth rate. The inflation rate is gradually becoming less of a concern and one wonders what, if anything will lift this economy out of its torpor. The only development of any consequence I can see is negative; the high and still rising Oil price.

JUNE 05 EURIBOR



As one would expect Euribor performed well last week adding on to the gains of the previous week.

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THE WEEK AHEAD IN EURIBOR

Week beginning 18th October	German	French	Italian
Monday			
Tuesday	PPI 0.1m, 2.2y.		
Wednesday			Ind orders -1.2m, 2.5y.
Thursday		Cons spndg 0.5m, 5.4y	Cons sent 102.5
Friday	Prelim CPI 0.1m.	CPI 0.2m, 2.2y.	Retail sales 0.4m, 0.6y.

This week's calendar as above.

This week; more inflation data and some retail sales data. As said above, inflation is proving less of a problem but unless the locals start spending the economy will never recover. The US is already running a very, very large current account deficit, as is the UK but the goods they are buying mainly come from Asia; mostly China and these two importing leviathans want to reduce the imbalance not increase it. So where will the EU 12 derive its growth from?

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

This week I remain neutral.

If I thought there was any chance near term of the ECB reducing rates I would advance the bull case, but there isn't for now. If Oil prices completely scupper the world recovery then all things are possible but we are not facing that prospect for the time being and wont unless Oil hits US$60.00 a barrel and stays near that level for some time. That isn't to say that wont happen but it isn't happening yet.

BULLS stay square and watch
BEARS do likewise.

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THE BUND

MY TRADING STANCE: BULLISH.

Last week I was bullish of the bund.

THE BUND DECEMBER 04

See how the general negativity in world markets on Friday caused by US retail sales infected the Bund too. However it traded positively on the week.

This week I remain bullish of the Bund.

The Bund traded well through out the week only giving up some of its gains on Friday as US retail sales shocked the market by their strength. However in a week with very little heavy weight data releases, I would expect the Bund to focus on the core issues for the EU 12; namely week growth with no end in sight.
Further with the Euro now exhibiting fresh strength against the Dollar this will further help the Bund since a weak economy which relies heavily on exports needs a strong and strengthening currency like a hole in the head. I expect the Bund to consolidate then push higher towards 117.20 over the coming weeks.

BULLS stay long and for the time being use pull backs to add on.
BEARS stay square for now.

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THE EURO

MY TRADING STANCE: BULLISH.

Last time I was neutral the Euro.

EURO/YEN CHART

See how against the Yen the Euro remains range bound.

THE EURO/DOLLAR CHART

But against the Dollar the Euro has broken out and looks to want to move higher yet.

This week I am bullish.

I have said for many weeks now that I would remain sidelined until the Euro broke out of its range, now it has and the move fits with the macro economics pertaining to the US Dollar I am encouraged to buy the Euro against the Dollar for the reasons I have mentioned elsewhere but are; the twin US deficits which continue to grow to new records with neither the incumbent or challenger for the US presidency having any plan to reduce them.

BULLS if not now long, build your positions here.
BEARS stay sidelined.

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COMMODITIES

GOLD

MY TRADING STANCE: BULLISH

Last week I was bullish of gold.

THE GOLD CHART

See how Gold retreated as the Dollar tried to recover from the shock of the previous weeks data only to rally again as the Dollar once more came under selling pressure.

This week I remain bullish.

Although some ground was conceded last week the move still appears to be intact. No market moves in a straight line there are always sell off's because of short term news or more usually; profit taking. The Gold market has been no exception but it still has further to go and with the Geopolitical situation looking no better and the US presidential election at hand with both aspirants running neck and neck Gold, for many, represents a safe haven trade.
Once the election is over, Gold will still attract because all the problems that currently exist will still be there when the counting is over.

BULLS stay long but run a stop at US$410.00 an ounce.
BEARS Stay square until the market breaks US$390.00 an ounce. Which isn't likely for the moment?

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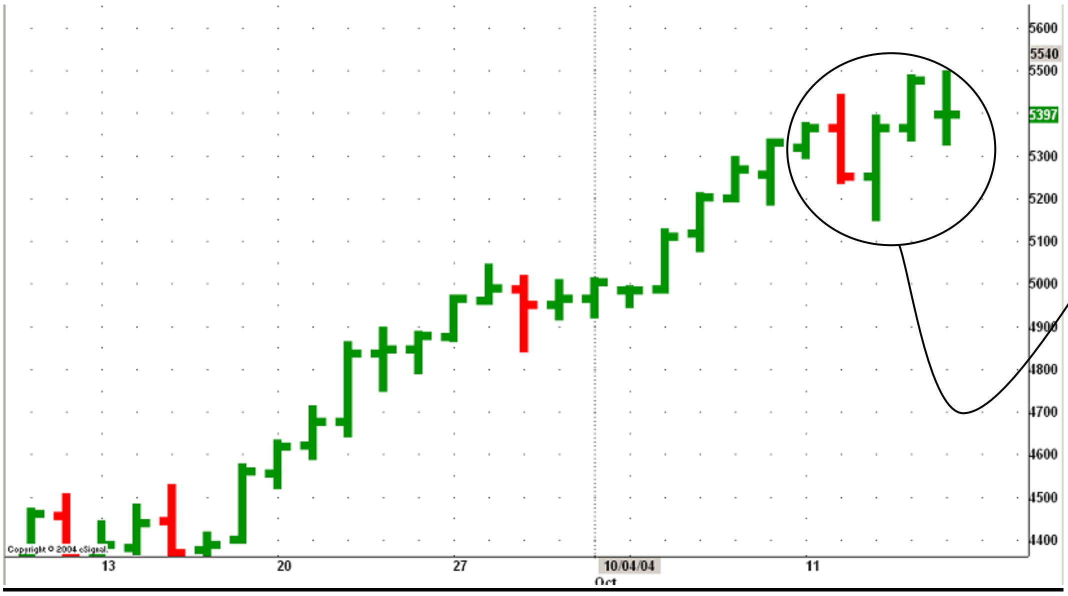
OIL

MY TRADING STANCE: BULLISH.

Last time I was bullish of oil.

THE CRUDE OIL CHART



See how after making new highs the Oil market largely consolidated its move of the previous week.

This week I remain bullish of oil.

The Oil price continues to be a major cause of concern to the western industrial powers as it traded through US$55.00 a barrel last week amid continuing supply and security of supply concerns. These were exacerbated last week when US inventory stocks were reported lower than assumed and concerns continued to build as to whether there would be sufficient supplies as the northern hemisphere winter gets underway. Continuing fierce fighting and daily loss of life in Iraq and other violence elsewhere in the Middle East conspire to ensure the Oil price remains very volatile.

BULLS stay long and run a stop at US$50.00 a barrel.
BEARS don’t go short.

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