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The Macro Trader's guide
To
Major Markets

9th – 15th November 2004

Short end trades lower on strong US jobs report.

Dollar makes new lows against the Euro.

Gold makes new highs.

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.

CONTENTS **Page**

1

UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK

	Week beginning 1st November
Monday	PMI Manufacturing 53 **STRONGER THAN EXPECTED**
Tuesday	CBI Distributive trades report +11 **WEAKER THAN EXPECTED**
Wednesday	PMI Services 56.3 **STRONGER THAN EXPECTED**
Thursday	BOE announces rates 4.75 UNCH. **AS EXPECTED**
Friday	Ind Production -0.4m, -0.9y **WEAKER THAN EXP** Mfg output 0.1m, 0.3y **WEAKER THAN EXP**

Last weeks calendar, as above.

Last week’s numbers showed the PMI surveys stronger than expected, while Industrial production and manufacturing output were weaker. Surveys are fine but it is actual economic numbers which contribute to GDP. The MPC, as expected, left policy unchanged and we await the next inflation report. The markets reaction over the week was bearish; initially influenced by the stronger PMI’s and then on Friday, although UK numbers were weaker, the much stronger US non-farm payroll data dragged Short Sterling lower still.

JUNE 05 SHORT STERLING

See how the market traded lower; first because of the PMI data and then Friday’s US non-farm payroll.

Back to contents

THE WEEK AHEAD IN SHORT STERLING

	Week beginning 8th November
Monday 9.30am	PPI Output s.a (ex. FBTP) 2.4%y
Tuesday 9.30am	Trade bal GBP -5100M Trade bal non-EU GBP -2900M
Wednesday 9.30am	Bank of England qtrly inflation report
Thursday 9.30am	
Friday 9.30am	

This week's calendar, as above.

This week the key event is the B of E quarterly inflation report. With CPI so far below target and growth slower than the MPC previously anticipated it will be very interesting to see how they explain the discrepancy and forecast the future. PPI will be of interest because it has been firming for several months and the trade data have a direct impact on GDP performance, so the bigger the deficit the greater the subtraction.

MY TRADING STANCE: BULLISH.

Last time I was bullish of June 05.

This week I remain bullish of June 05. Although the market again traded lower last week I remain cautiously bullish. The UK economy has definitely slowed over the last quarter and manufacturing data suggests that is continuing. The housing market has cooled and consumers remain extremely price sensitive as evidenced by recent data showing retail sales pick up when there are large discounts. Had US non-farm payroll data not been as strong as it was, Short Sterling would have built on Thursdays rally. The market will have a chance to recover when the Bank of England releases its inflation report this Wednesday. They will have to acknowledge the persistent material undershoot of the inflation target and adjust their forecast accordingly. Further they will need to acknowledge growth has now slowed as they desired meaning rates may have all but peaked.

BULLS hold positions until Wednesday's inflation report and if as expected; add on.
BEARS who went short last week should take profit. The influence of the US data will wane and the market will refocus on domestic data, which is still soft.

Back to contents

THE GILT

MY TRADING STANCE: NEUTRAL.

Last time I was neutral.

DECEMBER 04 GILT

See how the Gilt was dragged around by conflicting domestic and international data.

This week I remain neutral.

The Gilt is not a market I want to trade right now; the UK government finances are not completely under control and the Chancellor is probably going to break his own golden rule necessitating a fresh round of tax increases after the General Election, probably May/June next year. However with the UK economy slowing prices will remain supported to a degree short term. If Friday's US non farm payroll data proves to be the start of the long awaited hiring cycle then all Government bond markets will move lower. However if it proves a one off, inflated by the after effects of the recent hurricane season then the Gilt will benefit from continued bullishness in US bond markets.

BULLS remain square for now.
BEARS stay square.

Back to contents

4

THE POUND STERLING

MY TRADING STANCE: BULLISH.

Last time I was bullish the currency.

THE CABLE CHART

See how Sterling had rallied against the Dollar all week, then after Friday's non-farm payroll it burst much higher.

THE STERLING/EURO CHART

Against the Euro Sterling weakened further as the Euro is perceived as the alternative reserve currency to the Dollar.

This week I remain bullish of Sterling/Dollar.
The Pound rallied further against the Dollar, pausing only when the MPC left policy unchanged. The re-election of President Bush gave Sterling a lift as the Dollar weakened across the board. Then on Friday the market first traded lower on the release of weaker UK data, lower still when non-farm payroll became known but once the full impact of the data became apparent the Pound rallied strongly as traders realized that if this was the start of a new trend the resultant pickup in growth would only serve to further bloat the already record US trade deficit.

BULLS stay long of Cable we will see US$2.00 against the pound over the coming months.
BEARS should stay square.

Back to contents

US MARKETS

EURO DOLLARS

WHAT HAPPENED LAST WEEK

	Week beginning 1st November
Monday	PCE y/y 1.5% **HIGHER THAN EXPECTED** Personal inc 0.2. **WEAKER THAN** Personal spend'g 0.6 **AS EXP** ISM Mfg 56.8 **WEAKER THAN EXPECTED**
Tuesday	**US PRESIDENTIAL ELECTION** **2nd TERM FOR BUSH.**
Wednesday	Factory orders -0.3%m. **WEAKER THAN EXPECTED** ISM Non-Mfg 59.8 **STRONGER THAN EXPECTED**
Thursday	Jobless claims 332k **LOWER THAN EXPECTED**
Friday	Unemploym't rate 5.5 **HIGHER THAN EXPECTED** Non-farm payroll 337k **MUCH STRONGER THAN EXP**

Last weeks calendar as above.
Last weeks data was bullish for the economy; the ISM services survey was stronger and non-farm payroll was much stronger, not only the current release but previous data was revised stronger. Many felt that the payroll report finally marked the start of the hiring cycle in this recovery and it has been a long time coming. However other economists cautioned that it may be nothing more than a short lived positive reaction after the unusually severe hurricane season as has happened on other such occasions. What ever the reason, this number had an immediate impact on the market as traders factored back in a succession of rate increases from the Fed. Also with a decisive victory for Bush the market was able to refocus immediately on the economic fundamentals and not be side tracked with a protracted legal wrangle to decide who the next President would be.

JUNE 05 EURO DOLLARS

See how the market flipped around most of the week until the release on Friday of non-farm payroll.

Back to contents

THE WEEK AHEAD IN EURO DOLLARS

	Week beginning 8th November
Monday	
Tuesday pm	Wholesale inventories 0.7% Wholesale sales 0.7%
Wednesday pm	Trade bal -$53.9B Import price index 0.7% Jobless claims 337k **FOMC** Rate decision 2.00%
Thursday pm	Market closed Veterans Day
Friday	Retail sales 0.1%, less autos 0.5% Uni of Michigan conf 93.0

This week's calendar as above.

This week its business as usual; the election is over; the result known and the market has weathered another non-farm payroll report. The main event this week is the FOMC rate decision on Wednesday. The Fed is unanimously expected to tighten policy by 25 bp which will place Fed funds at 2%. On Friday retail sales will give an insight into the 4th quarter; the Fed will have advanced knowledge of this number although it will have minimal impact on their decision. The Fed will want to see more than one month's payroll data before they conclude the recovery is ready to move back up through the gears, even though prior data was revised stronger.

MY TRADING STANCE: NEUTRAL.

Last week I was bullish of June 05.

This week I am neutral, I hadn't anticipated such a strong payroll number as this and the market will be dominated by it for most of the month. In fact not until we see next months payroll number and see whether it is a trend or one off will the market settle. For now the market is still digesting the surprise and taken together with a second term for President Bush the out look for Eurodollars is not bullish; Bush will undoubtedly press on with tax reform and his defence posture will ensure the economy enjoys a boost from federal spending. Eventually, higher government spending will crowd out private investment, slow productivity and lead to higher inflation; but we are some way from that set of circumstances at present.

BULLS who followed my advice last week are already square.
BEARS may wish to short the market, but several Fed officials have recently made comments alluding to continued gradualism and flexibility in their conduct of policy. So proceed with caution; we have had a big move already.

Back to contents

THE US TREASURY NOTE (10 yr)

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

US 10yr NOTE DECEMBER 04

The market was already drifting lower for most of last week but see how non-farm payroll on Friday sent the market into virtual freefall.

This week I remain neutral.

For now I will maintain my neutrality since the market has already moved a long way down and I would expect it to try and claw back some of the losses seen on Friday. However that being the case if the market fails to penetrate back through 112.22 I will be a seller of this market and I anticipate that to happen later this week. Although I should like to see next months non-farm payroll number exhibit similar strength before concluding the hiring cycle had truly begun in earnest, I have long had strong reservations concerning the viability of the recent rally in bonds. The US Government is running a very large deficit and we know Bush is in no hurry to reduce it so if we are now seeing a typical round of job creation, the US bond market has to be a sell.

BULLS stay square, if not already.
BEARS who didn't short the market after the number on Friday; wait until the expected bounce fails or fails to materialise. Existing bears should wait for this to happen before adding on.

Back to contents

THE DOLLAR

MY TRADING STANCE: BEARISH.

Last week I was bearish the Dollar.

EURO/DOLLAR CHART

See how the Dollar weakened and even as the Oil price declined significantly from Wednesday onwards; could find no support.

This week I remain bearish of the Dollar.

Last week I highlighted a lack of a clear cut result in the Presidential election as being bearish for the currency, with others saying a clear cut Bush win would be short term bullish. In the event we got a clear result for Bush but the market sold off as investors realized there would be little change to the Presidents policies which had seen the current account deficit grow to record levels and a budget surplus vanish into the largest deficit on record with no plans to introduce policies to reverse the trend. Given the Presidents record on tax cuts with no reason to assume he will change tack, the only way for the Dollar is lower and very much lower. Against the Pound Sterling I expect to see US$2.00 to the pound in the near term and 1.35-1.40 Dollar/Euro.

BULLS stay square.
BEARS stay short and use any pull back to add on.

Back to contents

EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK

Week beginning 1st November	German	French	Italian
Monday	PMI Mfg 52.8 **WEAKER THAN EXP**	PMI Mfg 53.5 **WEAKER THAN EXP**	PMI Mfg 51.4 **WEAKER THAN EXP**
Tuesday	Retail sales -0.4m, -1.4y **WEAKER THAN EXP**		
Wednesday	PMI Services 52.2 **AS** Unemploym't 10.7 **AS EXPECTED**	PMI Services 54.8 **STRONGER THAN EXP**	PMI Services 54.4 **WEAKER THAN EXP**
Thursday	Factory orders -0.2m, 3.5y **WEAKER THAN EXP**	ECB Rate decision. UNCH **AS EXPECTED**	
Friday	Ind Prod -1.2m, 2.4y **WEAKER THAN EXP**		

Last week's calendar; as above.

Last weeks data was mainly weak with only French services PMI coming in above consensus. The impact of higher oil prices have been offset to a small degree by the weaker Dollar but the strength of the Euro against most major currencies will cause the Euro 12 economy serious trouble. The market was dominated by news from abroad as it trended lower being hit particularly hard on Friday with the release of US non-farm payroll.

JUNE 05 EURIBOR

See how despite a weak economy with few real prospects of improvement, the market sold off on foreign data.

Back to contents

THE WEEK AHEAD IN EURIBOR

Week beginning 8th November	German	French	Italian
Monday			
Tuesday	CPI n/fm, n/fy. ZEW Survey 30.		
Wednesday	WPI 0.4m, 3.8y Trade bal 127B	Trade bal -800M Ind prod 1.5m, 1.5y Mfg prod 1.5m, 1.4y	
Thursday	GDP 3Qtr 0.3q, 1.6y	Market closed Armistice Day	
Friday		CPI 0.3m, 2.2y GDP 3Qtr 0.4q	Production 0.6m, 0.2y GDP 3Qtr 0.3q, 1.1y.

This week's calendar as above.

This week's calendar is heavy on inflation data and first release of 3rd quarter GDP. Inflation, although above target, is not really a problem when set against the anaemic levels of growth expected to be reported by the EU 12's biggest three economies. Germany continues to massively under perform its own long run growth potential and is doomed to that fate unless and until it reforms its labour market practises and levels of social support payments the old, sick and unemployed currently receive; the country cannot afford it. The same need to reform affects both France and Italy; France is trying Italy wants to, but since Germany is by far the EU 12's largest economy there can be no real progress until it resolves its own domestic problems.

MY TRADING STANCE: NEUTRAL.

Last week I was neutral.

This week I remain neutral.

There is very little mileage in being long this market but you don't wont to be short. The ECB will not cut rates but neither will they raise them on inflation worries. They have started to speak out against the current rally of the Euro against the Dollar etc, as they know only too well the damage that is already being done to the Euro zone economy and the further negative impact a much weaker Dollar will have.

BULLS stay square and watch
BEARS do likewise.

Back to contents

THE BUND

MY TRADING STANCE: BULLISH.

Last week I was bullish of the bund.

THE BUND DECEMBER 04

This week I remain bullish of the Bund.

The Bund ended the week lower, induced by strong US data. Until the release of US non-farm payroll on Friday the Bund was pushing up against the highs as the Euro rallied against the Dollar. In spite of the sell off which took place on Friday, the main event in the market is the much stronger Euro. The Euro will rally much further against the Dollar and Sterling and as this will have a very negative impact on the Euro zone economy the logical development is lower Euro zone bond yields. This will be a volatile development since I expect US bond yields to move higher; it maybe less traumatic to sell the US 10 year note against the Bund, but bund yields will move lower over the medium term.

BULLS stay long and run a stop at 116.00.
BEARS stay square while the market trades above 115.90.

Back to contents

THE EURO

MY TRADING STANCE: BULLISH.

Last time I was bullish the Euro.

EURO/YEN CHART

Although the Euro has moved towards the top of the range it is still range bound. Freedom maybe obtained through Bank of Japan intervention in Dollar/Yen.

THE EURO/DOLLAR CHART

Here the Euro is making new highs and looks like it wants to move much higher. See how the Euro broke to the upside again on Thursday and Friday.

This week I remain bullish.
It is worth remembering that the dynamic here is a weak Dollar. The US is running two very large deficits; one fiscal the other trade and the situation is reminiscent of the Reganomics. If the US economy comes out of its soft patch it will immediately start pulling in even more imports since the rest of the world, especially the Euro zone, are waiting for the US to speed up so they can step up their own export drives. The weaker dollar will help offset this to an extent but the Americans are rich and voracious consumers and the Dollar will need to go down a long way to curb their appetite. That is fine so long as the rest of the world is prepared to accumulate ever more US IOU's. India hinted a few weeks ago it wasn't.

BULLS hold positions. The rally has much further to go 1.35-1.40 medium term.
BEARS stay square.
Back to contents

COMMODITIES

GOLD

MY TRADING STANCE: BULLISH

Last week I was bullish of gold.

THE GOLD CHART

Yet again note the relationship between the US Dollar and Gold; almost like a currency pair. When the Dollar sank on Thursday and Friday Gold made new highs.

This week I remain bullish.

Gold pushed on strongly last week and closed on the highs. Paradoxically it was strong US data that proved the Dollars undoing as the market finally realized that a pick up in US growth would result in an even larger trade deficit and an even greater need for a weaker Dollar. Although the main beneficiary of the current bout of Dollar weakness is the Euro, it strengthens by default; not because of any thing positive happening in that economic area. The Euro is the only other liquid, large and freely convertible currency not prone to central bank intervention, unlike the Yen. Because the current currency moves are driven by Dollar weakness and not Euro economic strength many investors are turning to Gold as an alternative to modern currencies as a hedge against Dollar depreciation. This represents a broad devaluation against Gold, The traditional measure and store of wealth.

BULLS stay long but run a stop at US$430.00 an ounce. I expect Gold to move up to US$450.00 an ounce as the Dollar eventually moves through 1.30 and on up to 1.40 against the Euro.
BEARS Stay square until the market breaks US$390.00 an ounce. Which isn't likely for the moment?

Back to contents

OIL

MY TRADING STANCE: BULLISH.

Last time I was bullish of oil.

THE CRUDE OIL CHART

The Oil market appears, for now, to have peaked. Another increase last week in US oil inventories took the steam out of the bulls, although Friday's US data provided a floor.

This week I remain bullish of oil.

The market retreated further from the highs last week as another increase in US inventories was announced. Although the situation in the Middle East is no better investors have taken profit and in some cases turned longs to shorts in anticipation of slower US growth dampening demand. The tightening of monetary policy in China recently also prompted many to call a top on the market, at least for now. I remain bullish and so long as the market remains above US$48.38 a barrel will stay long. The strong US non-farm payroll report on Friday put a floor under the Oil market since stronger US growth will mean not only higher demand for Oil from the US but also from China, which makes just about everything the US imports these days. Additionally the US has just embarked upon a major campaign against the terrorists and foreign fighters hold up in the Iraqi city of Falluja; you can be sure the terrorist will try to divert attention by carrying out atrocities elsewhere. Especially against the country's Oil instillations.

BULLS stay long and run a stop of US$48.38 a barrel.
BEARS don't go short.

Back to contents