

# SevendaysAhead

Authorized and regulated by the FSA

## The Macro Trader's guide To Major Markets

30<sup>th</sup> November - 6<sup>th</sup> December 2004

Short Sterling is very bullish.

Dollar remains under pressure.

Gold makes further highs as Oil rallies.

John Lewis

### SevendaysAhead

This information memorandum has been prepared solely for informational purposes for customers of **SevendaysAhead** and is based on publicly available information from sources believed to be reliable. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. No representation is made as to the completeness or accuracy of any statements or forecasts contained herein and no responsibility or liability is accepted for losses arising from transactions undertaken or investments purchased, sold or held on its recommendation. Consequently, any persons acting on information contained herein do so entirely at their own risk. Although the opinions contained herein were considered valid at the time of release, financial markets are subject to rapid and unexpected movements. **SevendaysAhead**, its associated companies, their directors, employees, other customers or connected persons may from time to time undertake transactions or deal in investments mentioned in this information memorandum or have a material interest, relationship or arrangement in relation to them.

# 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.

# CONTENTS

## Page

### UK MARKETS

SHORT STERLING,	1
GILTS	3
POUND STERLING	4

### US MARKETS

EURO DOLLARS	5
US TREASURY NOTE 10YRS	7
DOLLAR	8

### EURO 12 MARKETS

EURIBOR	9
BUNDS	11
EURO	12

### COMMODITIES

GOLD	13
<u>OIL</u>	14

# UK MARKETS

## SHORT STERLING

### WHAT HAPPENED LAST WEEK

	Week of 22 <sup>nd</sup> November
Monday	
Tuesday	
Wednesday	
Thursday	BBA Mortgage lending 15.1B <b>WEAKER THAN EXPECTED</b> CBI Monthly trends survey/Qtly forecast +5 <b>WEAKER THAN EXP</b>
Friday	GDP 3 <sup>rd</sup> Q 2 <sup>nd</sup> 0.4%m, 3.1%y. <b>STRONGER THAN EXPECTED</b>

**Last week's** calendar as above.

Last week there was very little data to sift through; mortgage lending continued the recent weaker trend, the CBI survey was weaker and GDP showed a 1/10<sup>th</sup> upward revision to the year on year rate. As I speculated last week, amid a quiet week for data the market rallied strongly revealing its true nature; Bullish. Admittedly help came

from the currency market where Sterling rallied strongly against the US Dollar but recent data from the housing market, MPC minutes and B of E inflation report have all led traders to conclude the top of the current monetary policy cycle has been reached with the next move an ease, sometime in the 2<sup>nd</sup> quarter of next year.

### JUNE 05 SHORT STERLING



See how in a week of little data of consequence the market rallied very strongly.

**THE WEEK AHEAD IN SHORT STERLING**

	<b>Week of 29th November</b>
<b>Monday</b> 9.30am	Net lending on dwellings 7.4B Consumer confidence -7
<b>Tuesday</b> 9.30am	Nationwide house prices -0.2m, 13.6y.
<b>Wednesday</b> 9.30am	CIPS Mfg PMI 52.0
<b>Thursday</b> 9.30am	HBOS House prices n/f Chancellor's pre-budget statement.
<b>Friday</b> 9.30am	CIPS Services PMI 56.3

**This week's** calendar, as above.

This week sees a much fuller calendar with data on the housing market, manufacturing and services. Additionally we have the Chancellor of the Exchequer's pre-budget statement which will probably be another act of denial as he tries to convince us, all is well with the economy in what is probably the run-up to a spring General election. Since we now know the housing market is well and truly off the

boil and manufacturing is again struggling, all eyes will be on the CIPS services survey and especially the Chancellor. If he does come clean and acknowledge the economy has slowed and down grade his growth forecast, traders will push the market higher; towards 95.45 over coming weeks; which is consistent with a rate cut by June 05.

**MY TRADING STANCE: BULLISH.**

**Last time I was bullish of June 05.**

**This week I remain bullish of June 05.**

The market rallied strongly throughout the week gaining some 22 ticks as traders became convinced the MPC are now on hold; anticipating the first ease. I expect the market to consolidate the move for much of this week with a further leg to the rally on Thursday

should the Chancellor confirm what we all already know. The party could be upset on Friday if US non-farm payroll data is again very strong. I advise going into that number running a very close stop.

**BULLS** should hold their positions, but run a close stop on Friday over the US data. Should the number be very strong

traders will be able to buy back the following week much cheaper.

**BEARS** stay square.

# THE GILT

## MY TRADING STANCE: NEUTRAL.

Last time I was neutral.

### DECEMBER 04 GILT



See how the Gilt has been in an upward trend for some while.

Because of the Fiscal fundamentals I have steered clear while traders have focussed on more short term issues.

This week I remain neutral.

Last week, in the absence of any heavy weight data from either the UK or the US the Gilt was led higher by the Pounds strong performance against the Dollar. Traders focused on the recent comments and reports from the B of E/MPC and the now commonly held view that the housing market in the UK will not only slow, but will actually decline over the next one to two years. This week the Chancellor of the Exchequer will make his annual pre-budget address to parliament and he will have to reconcile the economy's actual performance with the forecasts he made at the time of the last budget. Clearly activity has slowed and Government

borrowing is greater than expected, to the extent that his own golden rule is likely to be broken. Although in relative terms the UK's fiscal position is quite sound, in absolute terms it has been deteriorating; although far away from any thing like a crisis level. However this Chancellor has made much of being economically competent and prudent; breaking ones own rules looks at best reckless and at worst untrustworthy. Which ever it is the Government will want to get back on track, but not until after the next election, probably in six months time; thereafter taxes will increase assuming labour get back.

**BULLS** remain square until after the Chancellors address.

**BEARS** do likewise.

[Back to contents](#)

# THE POUND STERLING

## MY TRADING STANCE: BULLISH.

**Last time** I was bullish the currency.

**THE CABLE CHART**



See how the Pound continued it's upwards march against the US Dollar, powered by the perception the US authorities will accept a weaker currency.

**THE STERLING/EURO CHART**



Last week the Pound largely moved sideways as Euro land data exposed that economy's own short comings.

**This week** I remain bullish of Sterling/Dollar.

In the absence of any fresh data the Pound continued the recent rally pushed higher by the recognition by traders that the US authorities not only see the decline of the US Dollar as inevitable, given the size of the US twin deficits, but may actually welcome it as the economy will be given the chance to rebalance without the need of a Fed induced recession which would be a destructive remedy. Once again it is worth remembering that the dynamics

behind recent currency moves are about US Dollar weakness and not any inherent strength possessed by the others. I expect the current rally to continue with the Pound eventually reaching US\$2.00. Against the Euro the Pound fairs less well as the Euro is perceived as an alternative reserve currency, the Pound although an important trading currency is perceived as being too small to be a Dollar alternative.

**BULLS** stay long.

**BEARS** should stay square.

[Back to contents](#)

## US MARKETS

### EURO DOLLARS

#### WHAT HAPPENED LAST WEEK

	Week of 22 <sup>nd</sup> November
<b>Monday</b>	
<b>Tuesday</b>	Existing Home sales 6.75M. <b>AS EXPECTED</b>
<b>Wednesday</b>	Durable goods -0.4%, Ex-Transport -0.7% <b>WEAKER THAN EXP</b> Jobless claims 323k <b>LESS THAN EXPECTED</b> Uni of Michigan Confidence 92.8. <b>WEAKER THAN EXP</b> New home sales 1224k. <b>STRONGER THAN EXP</b>
<b>Thursday</b>	Thanks giving day; - US MARKET HOLIDAY.
<b>Friday</b>	

**Last weeks** calendar as above.

Last week saw a light calendar and of the data released both durable goods and the University of Michigan confidence survey were weaker than consensus. The durable goods report is prone to be volatile and the Fed has said on several occasions they are guided by

what consumers do not what they say. With very little else to follow the market consolidated the bear trend and eased lower as traders were reluctant to commit to new positions ahead of the thanksgiving holiday and with so much heavy weight data due out this week.

#### JUNE 05 EURO DOLLARS



See how the market drifted lower in the absence of new data.



## THE WEEK AHEAD IN EURO DOLLARS

	Week of 29 <sup>th</sup> November
<b>Monday</b>	
<b>Tuesday</b> pm	GDP Q3 3.7%, Personal consumption 4.7% Chicago PMI 82.0 Consumer Confidence 96.1
<b>Wednesday</b> pm	Personal income 0.5 PCE Core y/y 1.4, PCE Deflator y/y 2.4 ISM Mfg 57.0, Fed Beige book.
<b>Thursday</b> pm	Jobless claims 330k Factory orders 0.3, inventories 0.6.
<b>Friday</b>	Non-farm payrolls 200k, Unemployment rate 5.4% ISM Non-Mfg 55.5.

**This week's** calendar as above.

This week sees the release of all the usual turn of the month data. The GDP release on Tuesday is the second look at the 3<sup>rd</sup> quarter so unless much different nothing to get excited about, the two ISM surveys released Wednesday and Friday are always closely watched as they give a strong lead on how the economy is developing, then as always, Friday's non-farm payroll release will be keenly watched; if it is much stronger than consensus the market will

sell off abruptly as traders will conclude the economy is back on track and the Fed will continue increasing policy until neutrality is reached. Should the number be weak then all the old questions will be asked; has the economy stalled, are we still in the soft patch and what will the Fed's reaction be. This number is such a lottery it is pointless guessing what it will be, just be ready to trade accordingly

## MY TRADING STANCE: NEUTRAL.

**Last week I was neutral of June 05.**

**This week I remain neutral.**

This week I start with a neutral stance, since I said several weeks ago I wanted to see another non-farm payroll report before concluding either way on the state of the US economy. As said above, this number is such a lottery I am not going to try and predict it. What I do know is, if the number is much stronger than consensus, after last month's very strong reading, the market will sell off

and I shall be in there selling. Were the number to be surprisingly weak, and who knows anything is possible with this data series, I will be a cautious buyer as the Fed will be at pains once again, at its next meeting; to stress policy will proceed at a measured pace and traders will again scale back the scope of the tightening of policy.

**BULLS** remain square until Friday's payroll report; if weak be a cautious buyer.

**BEARS** who are short should proceed

with caution; if Friday's payroll report is weak the market will rally hard, if it is strong sell with alacrity

[Back to contents](#)

## THE US TREASURY NOTE (10 yr)

### MY TRADING STANCE: BEARISH.

Last week I was bearish.

#### US 10yr NOTE DECEMBER 04



See how amid a week with little data and a shortened trading session the market gapped lower as it pondered Alan Greenspan's comments at the start of the week.

**This week** I remain bearish.

Last week I highlighted Fed chairman Alan Greenspan's comments regarding the size and sustainability of the US budget and current account deficits. He expressed his concern over not only their sustainability but also the long term cost to the economy of trying to finance such very large numbers. He counselled that they should both be reduced by the Government putting its fiscal house in order. The market latched onto these comments and sold Treasuries as the realization dawned,

**BULLS** stay square, if not already and await the payroll report release due on Friday.

the US is living beyond its means. This week as we await the release of a whole raft of key data; especially non-farm payroll, traders will be anxious not to be long. Another strong number after last month's very strong data, taken together with Greenspan's comments will send treasury yields much higher, as indeed they should be. Should this set of circumstances come about I expect to see this futures contract trade down to 109.00 over the coming weeks.

**BEARS** run small short positions until Friday's non-farm payroll report; if strong then sell the market.

# THE DOLLAR

## MY TRADING STANCE: BEARISH.

**Last week** I was bearish the Dollar.

### EURO/DOLLAR CHART



See how the Dollar's weakness accelerated in a week with little data and only Greenspan's remarks to drive it.

**This week** I remain bearish of the Dollar.

Last week the Dollar came under strong selling pressure as traders further digested Fed chairman Alan Greenspan's comments concerning the US twin deficits. His remarks were brought into sharp focus when Russian officials said they might consider switching some of their foreign currency reserves out of US Dollars and into Euros. Were other central banks to take this action the Dollar would head very much lower than it currently is and even lower than most analysts projections? The reality of the situation is this is unlikely to happen to any great significance at the present time since the

US is by far the largest economy in the world and almost every other country trades with it in some way. It makes no sense therefore to open up an exchange risk by holding another currency in reserve, further such an action would only make the very exports most countries wish to send to the US more expensive and choke off their own source of revenue. However it opens a window on how world thinking could operate when countries like China and India are more fully developed and dare one dream it, should Europe ever get its act together.

**BULLS** stay square.

**BEARS** stay short and continue to use any pull back to add on. Even strong data on Friday will be bearish as more

people employed means more money spent, sucking in more imports thus needing a lower Dollar to correct the current account deficit.

[Back to contents](#)

# EURO 12 MARKETS

## EURIBOR

### WHAT HAPPENED LAST WEEK

Week of 22 <sup>nd</sup> November	German	French	Italian
Monday			
Tuesday	GDP 3Q 2 0.1%q, 1.3%y <b>AS EXPECTED</b>		Trade Bal 537M <b>LESS THAN EXPECTED</b>
Wednesday			Consumer Conf 103.9 Retail sales -0.2m, -2.0y. <b>WEAKER THAN EXP</b>
Thursday	Import prices 1.1m, 4.1y. <b>HIGHER THAN EXP</b> IFO 94.1 <b>LESS THAN EXP</b>		Business Conf 90.2 <b>LESS THAN EXP</b>
Friday	Consumer Conf 2.4 <b>AS EXPECTED</b>	PPI 0.6m, 3.5y. <b>AS EXPECTED</b>	

Last week's calendar; as above.

Last week's data was on balance weak; Italian numbers largely disappointed and Germany's IFO index was weaker than consensus. With a currency which is appreciating rapidly the outlook is rather worrying. In a week where

foreign data was scarce and with only domestic data to drive the market, traders took the market higher, as previously assumed rate rises were slowly factored out.

### JUNE 05 EURIBOR



See how the market is gradually rallying back to a position of unchanged rates with the ECB staying on hold for some while yet.

[Back to contents](#)

## THE WEEK AHEAD IN EURIBOR

Week Of 29 <sup>th</sup> November	German	French	Italian
Monday		Cons spdg 0.4m, 1.5y	PPI 0.6m, 4.3y CPI Cities 0.2m, 2.0y
Tuesday		Business conf 107.0 Unemploy rate 9.9% Cons conf -20	CPI 0.2m, 2.0y
Wednesday	PMI Mfg 52.0	PMI Mfg 53.2	PMI Mfg 51.0
Thursday	Unemploy rate 10.7%	ECB Rate announcem't UNCH	
Friday	PMI Services 52.0	PMI Services 54.5	PMI Services 54.0

**This week's** calendar as above.

This week we have a much heavier calendar with all three main economies releasing PMI surveys for both manufacturing and services. On Thursday the ECB announces interest rates after its usual meeting. The current run of data from the EU 12 has been patchy at best with the emphasis to weakness. With the Euro appreciating

as it is the ECB would do well to ignore any inflation worries it has; which are largely energy induced, and give the economy a badly needed shot in the arm by reducing interest rates. This would take some of the steam out of the Euro and offset the de-facto tightening of monetary conditions which the strengthening Euro has brought about.

## MY TRADING STANCE: NEUTRAL.

**Last week** I was neutral.

**This week I remain neutral.**

I still see little potential over all in this market apart from a further sedate rally towards removing more of the previously assumed tightening. With the ECB unlikely to reduce rates, as is obviously needed, traders will retain a bias in the market towards an eventual rate rise, how ever far away that may

be. While the Euro performs as it does; that could be a long time coming. Foolishly EU 12 officials see the recent rally of the Euro as endorsing their vision of monetary union and stand by back slapping each other as the economy is further retarded.

**BULLS** may wish to run small positions but be wary of Friday's US non-farm payroll data.

**BEARS** stay square while the Euro remains strong.

[Back to contents](#)

# THE BUND

## MY TRADING STANCE: BULLISH.

Last week I was bullish of the bund.

### THE BUND DECEMBER 04



See how the Bund continues to benefit from the rallying Euro.

This week I remain bullish of the Bund.

Last week the Bund rallied further as the Euro continued to make sizeable gains against the US Dollar and to a lesser extent the Pound Sterling. This is significant since the UK stands outside the Euro area and as the second largest economy in the EU is a major trading partner with the Euro zone economies. While the ECB remains reluctant to lower policy and the Euro zone economy continues to under-perform whilst the Euro over-performs; the Bund will continue its now familiar and well established rally. However with US non-farm payroll due to be released on

Friday traders may wish to protect themselves by either running closer stops or better, selling US 10 year notes as a hedge. If the data is strong bond markets will sell off, naturally the US market the most, but the Bund will recover over the following weeks. Should the data surprise and be weak then the Bund should out strip the US in the ensuing rally as the Euro zone economy is far weaker than the US and the US Dollar would weaken further against the Euro; paradoxical as that seems that is the dynamic driving the market.

**BULLS** stay long and run a stop at 117.17. With the economy under-performing and the currency over-

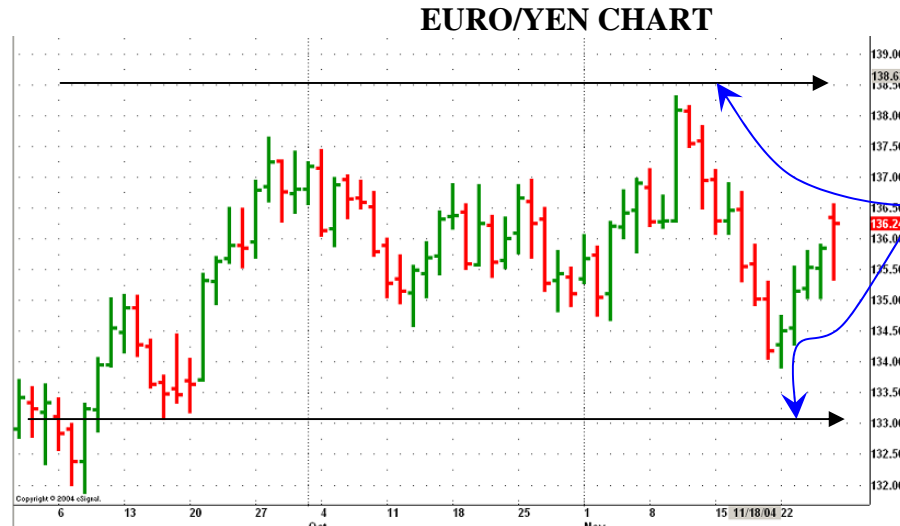
performing the Bund will move higher yet.

**BEARS** stay square while the market trades above 115.90.

# THE EURO

## MY TRADING STANCE: BULLISH.

Last time I was bullish the Euro.



The Euro/Yen is trapped in a range, both currencies exhibit varying degrees of strength against the US Dollar and both equally represent anaemic economies.



See how the Euro continues to prosper from the US Dollars decline. Note how the pace quickened last week as traders further pondered Greenspan.

**This week** I remain bullish.

Last week I said I expected the Euro to rally further against the US Dollar and indeed it did. The move was further hastened as apart from Fed chairman Alan Greenspan's comments at the start of the week traders had the additional input of Russian officials who were saying Russia may move some of its foreign reserves out of US Dollars into

Euros, a prospect that sent a shudder through the markets when one considers the size of foreign currency reserves held by the world's Central Banks. Even the vain Euro bureaucrats who relish the current Euro rally, recognise the damage further strength, thus induced, would do to the EU 12 economy; don't they?

**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



The dynamic here is very clear; the US Dollar sells off, Gold rallies. Just look at chart to the left.

This week I remain bullish.

Last week the market continued the now familiar upwards march hitting US\$450.00 an ounce. The market closed below but will eventually trade through as the US Dollar continues its decline. As said before; Gold's rally represents a general currency devaluation against the age old monetary base. Were the worlds

other economies showing any kind of dynamism Gold would be sidelined as investors would look to buy those currencies and further invest in their assets; as it is apart from Central Banks and traders employed to trade specific markets investors not tied to any asset class prefer to buy Gold.

**BULLS** stay long but run a stop at US\$440.00 an ounce. I expect Gold to move up to US\$450.00 an ounce and beyond as the Dollar eventually moves

through 1.35 and on up to 1.40 against the Euro.

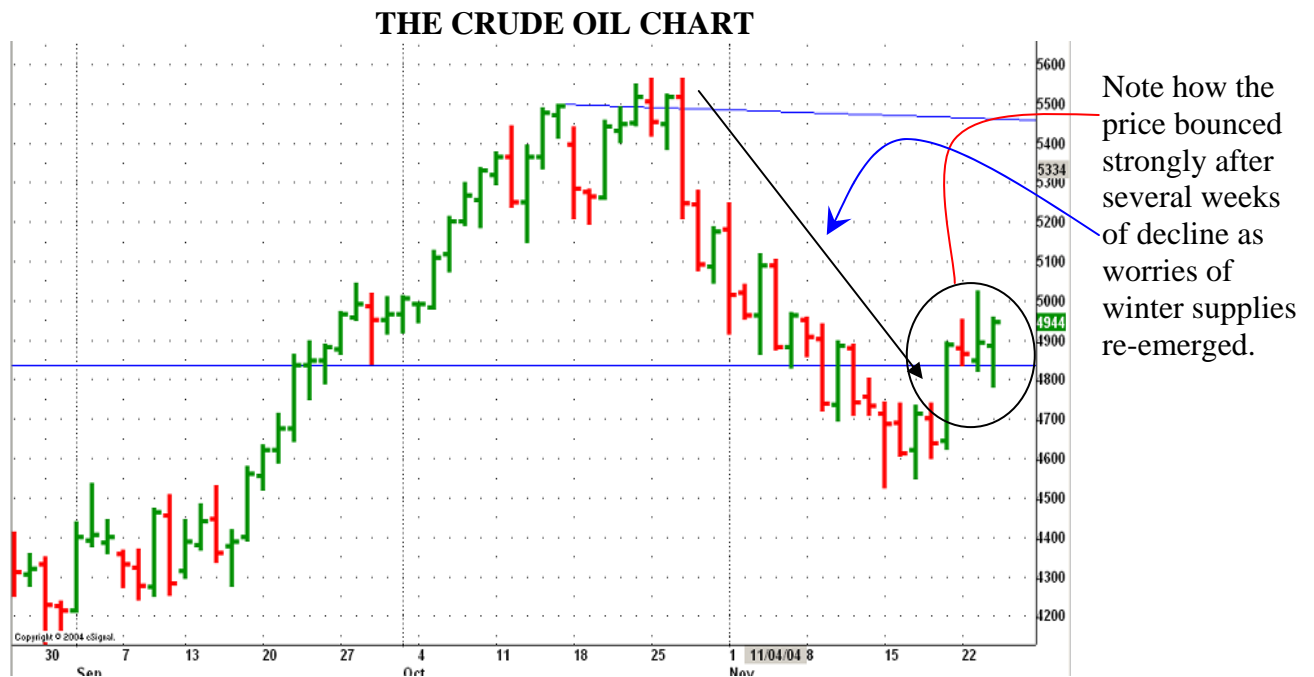
**BEARS** Stay square until the market breaks US\$390.00 an ounce; which isn't likely anytime soon.



## OIL

## MY TRADING STANCE: BULLISH.

Last time I was bullish of oil.



**This week I remain bullish** of oil.

Last week concerns of continuity and security of supply surfaced once again in the wake of Arafat's death which conspired to push the Oil price higher. Fresh worries over adequate supplies to meet demand through the northern hemisphere winter also nudged prices back up. With the demand supply equation so finely balanced, any disruption or disturbance to that balance in the current volatile environment which currently reigns in the Middle East, will disproportionately impact the Oil price. The ongoing dialog with Iran over nuclear "fuel" processing together with the ongoing terrorist activity in

Iraq, which in spite of a major assault against it in Falluja; a terrorist hideout, has simply surfaced elsewhere, all add to the uncertainty in the market. If we get further proof of the sustainability of US growth through a strong US non-farm payroll report this Friday, that will likely send the Oil price higher as traders conclude the extra economic activity that more people employed there will generate, will in turn feed through to China et al who supply the seemingly insatiable demand generated by the US and further increase demand for Oil and thereby the price. The price of Oil still has further to rally from here.

**BULLS** stay long but run a stop at US\$48.00 a barrel.

**BEARS** don't be short; stay square.