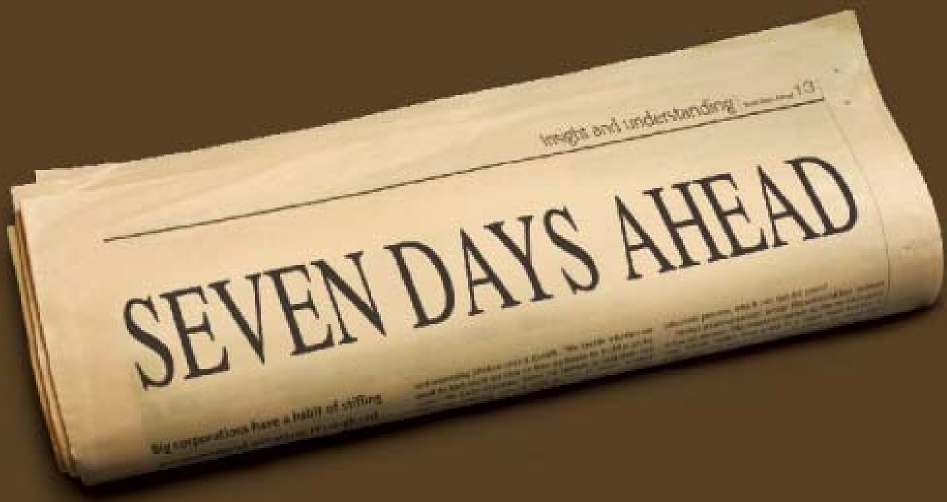
Short Sterling remains confused.

Dollar set for further weakness.

Oil remains a long term buy, as is Gold.



WEEK 9 1st – 7th MARCH 2005

THE MACRO TRADERS GUIDE TO MAJOR MARKETS

JOHN LEWIS

SEVEN DAYS AHEAD
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ABOUT SEVEN DAYS AHEAD

A week is a long time in the markets.

And getting a true picture of what's going to happen is something of an art. You need to look both a long way back and up close too. Then you must to be able to integrate these two into a coherent narrative.

That's why we've created **Seven Days Ahead**.

Seven Days Ahead provides trading information to give active traders real insight for the next week and beyond.

ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 28 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

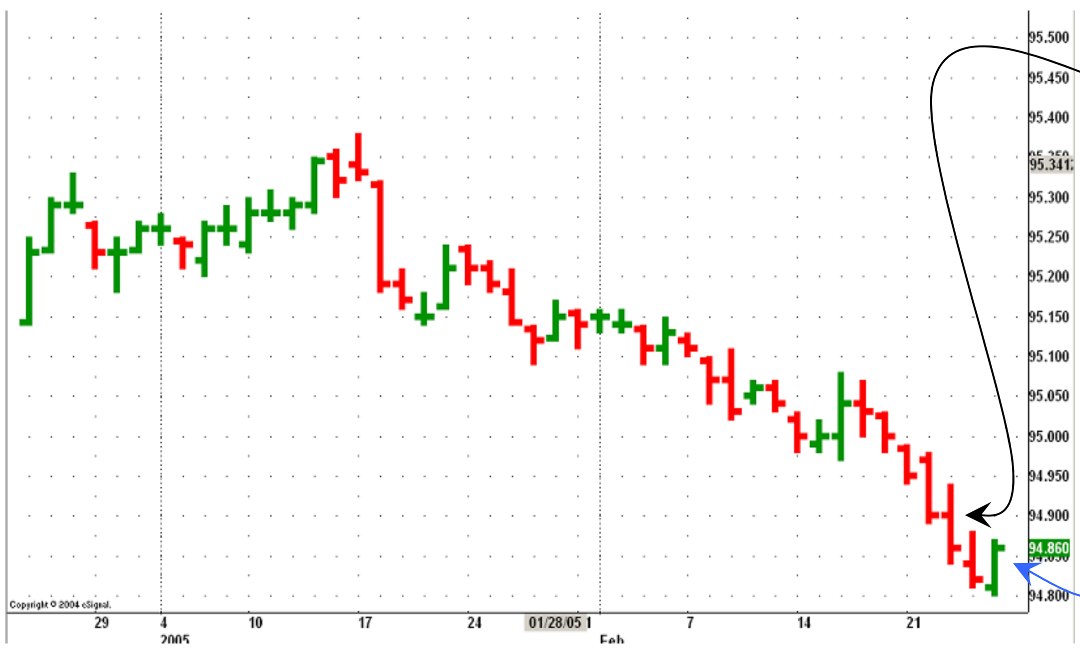
WHAT HAPPENED LAST WEEK?

	Week of 21st February
Monday	
Tuesday	
Wednesday	MPC Minutes 8/1 MORE HAWKISH THAN EXP CBI Trends survey -10 STRONGER THAN EXPECTED
Thursday	
Friday	GDP Q4 2 0.7q, 2.9y LESS THAN EXPECTED BBA Mortgage lndg £10.3B WEAKER THAN EXPECTED

Last week's calendar.

Last week's calendar was thinly populated but the market was no less eventful. On Wednesday; MPC minutes for the February meeting were released and caused a stir in the market when it was revealed the vote was 8/1. The dissenter felt an increase in interest rates was needed because Q4 growth was faster than assumed; other members, not disclosed, said they too would vote for higher rates if the forthcoming data was stronger than anticipated; curious because the minutes also revealed that most members saw the risks to inflation to the downside! The CBI survey was slightly less negative than consensus and on Friday, Q4 q/q GDP was just under consensus while the y/y rate was revised 0.1% higher. Also out on Friday was the BBA Mortgage lending data, which was weaker than expected. Naturally the market was spooked by the unexpected split vote and continued the recent move lower as traders' expectations moved from one more hike to possibly two.

SEPTEMBER 05 SHORT STERLING



See how the market sold off on Wednesday after the minutes added to the negative tone which has persisted since mid January. The bounce on Friday was due to softer GDP and Mortgage lending data.

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SHORT STERLING

THE WEEK AHEAD

	Week of 28th February
Monday 9.30am	GFK consumer confidence 0
Tuesday 9.30am	Nationwide house prices 0.2m, 10.0y M4 Sterl'g lndg n/f Net lndg on dwellings 6.9B Mortgage approvals 79k PMI Mfg 52.4
Wednesday 9.30am	
Thursday 9.30am	HBOS House prices n/f PMI Services 56.0
Friday 9.30am	

This week's calendar.

This week the market has a little more to get its teeth into; on Tuesday there is a whole raft of data relating to the housing market; the Nationwide house price survey, net lending on dwellings and mortgage approvals, together with the PMI Manufacturing survey. I expect to see a continuation of the softening in the housing data which should remind the market that a key pillar of the economy is currently under performing, I also expect the PMI survey to show further softness in manufacturing. On Thursday; there is the Halifax house prise report together with the PMI Services survey; the later will be keenly watched. If it continues to show stable growth the market will consolidate the recent bearish move, however any signs of weakness will begin to undermine the recent bear case.

MY TRADING STANCE: BULLISH.

Last time I was bullish of September 05.
This week I remain bullish of September 05

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Last week I remained bullish of the market and to my chagrin it again moved lower after the surprises of the MPC minutes, how ever I am certain the market has over reacted. The main message from both the minutes and the previous weeks Bank of England Quarterly inflation report is that there is an awful lot of uncertainty surrounding the economy at the present time, the housing market has slowed, but not collapsed, the consumer still spends when there are bargains but the year on year rate of retail sales is much lower than it was only four or five months ago; albeit still healthy at 3.9%. The key issue is will house prices decline much further; judging by the increase in the supply of large desirable houses coming onto the market in my own locality and observing how even after their prices have been reduced they remain unsold, I would say they will; the knock on effect will be a further slow down in consumer spending. Since all of this appears to be playing out in slow motion I would expect the MPC to remain on hold for several months more; the price of Oil is again on the increase which will divert resources away from other spending and the Pound is again strong on the foreign exchange market which will help keep inflation subdued. I don't expect the MPC to tighten again but neither will they rush to ease, but I still expect that to be their next act.

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BULLS have had a rough ride of late but shouldn't give up now; go long through options, it is less tiring; when the murk clears then go long through futures

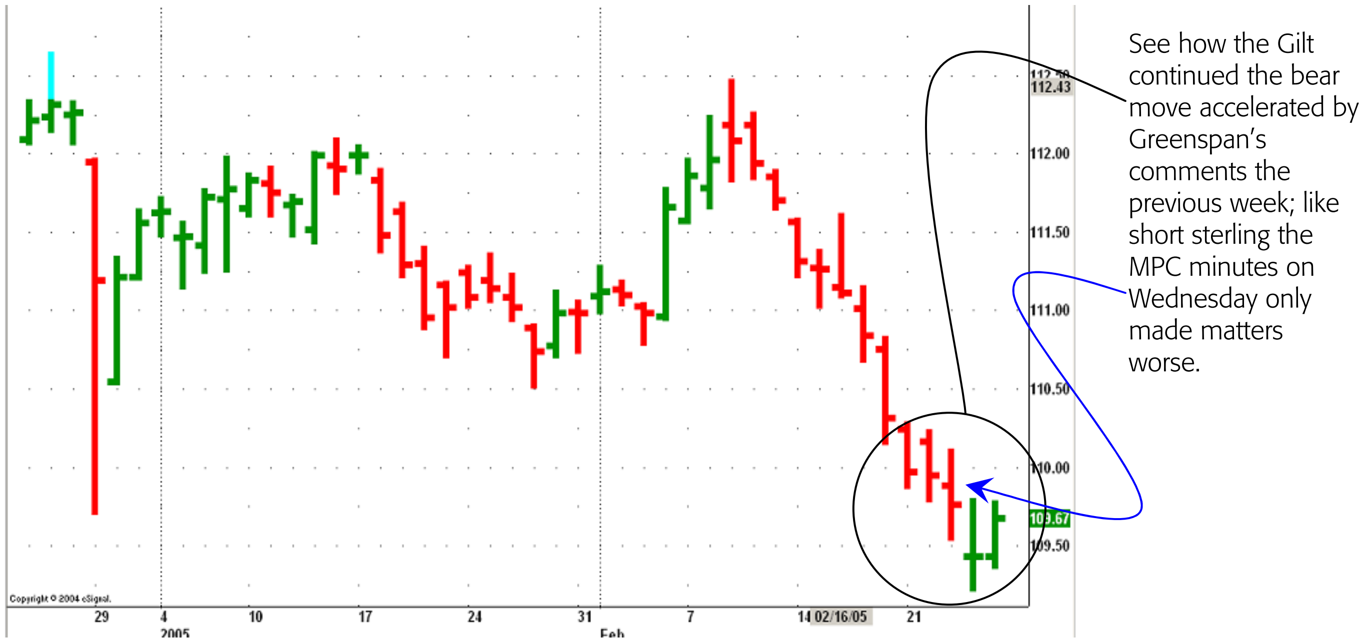
BEARS remain square, the bear case is not proven and the market had previously gotten a head of any realistic schedule for an easing cycle.

THE GILT

MY TRADING STANCE: NEUTRAL.

Last time I was bearish.

GILT MARCH 05



This week I am neutral.

Last week the Gilt added to the losses racked up over the last few weeks, however there is much data out this week relating to the housing market and I expect this to show further softness, also the Pound remains bid on the foreign exchange market and the Gilt may attract some of that cash as yields are now much higher than of late. The last batch of Government borrowing data was supportive of the market and with US non-farm payroll data due on Friday; any disappointment there will spark a short term rally as traders rush to cover short positions. The main case for a bear market in the UK bond market was always the worsening fiscal position but the deterioration has been arrested, maybe only temporarily, but the other fundamentals, inflation and growth, offer no compelling case to sell Gilts further at the present time; the market will be led by events in the US for the time being and although that country's Treasury market remains bearish, because of the still record budget deficit, the payroll report may offer a respite since I think analysts are over optimistic in their expectation for that number which I expect to be sub 200K.

BULLS remain square until after the payroll report; if weak then go long short term.
BEARS square up, the market has moved a long way, but inflation remains tame and growth is expected, by me, to cool.

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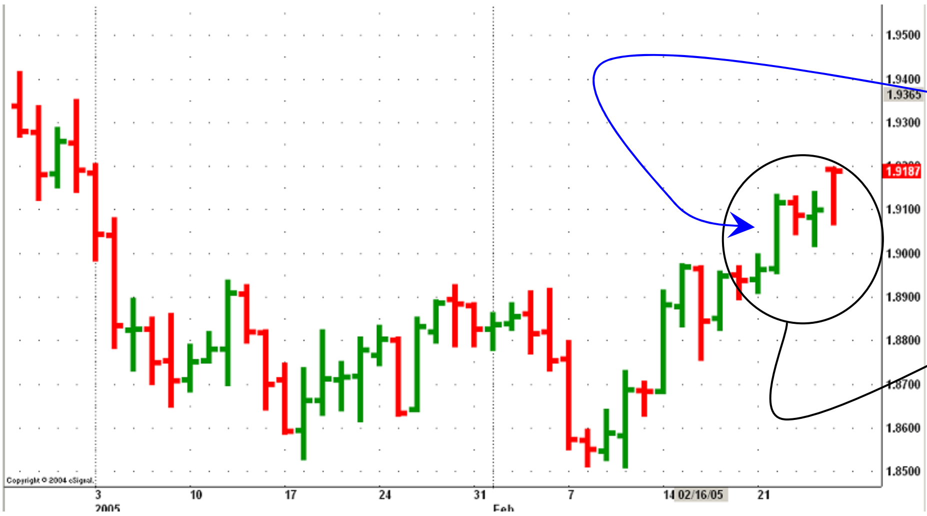
THE POUND STERLING

MY TRADING STANCE: BULLISH.

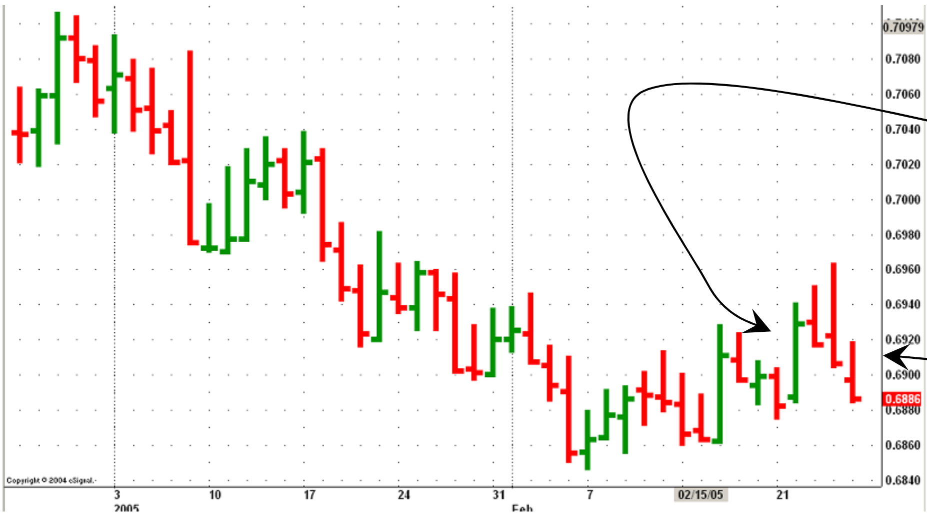
Last time I was bullish the currency.

THE CABLE CHART



See how the Pound held onto the gains made on Tuesday, after the stories surrounding reallocation of Asian Central Bank forex reserves; even though they were eventually heavily clarified. The thought of higher rates in the UK as communicated by the MPC minutes on Wednesday, kept the Pound well supported.

THE STERLING/EURO CHART



Against the Euro the pound continued to consolidate as it initially lost ground on the Asian Central Bank story, but as the Euro faded on its own economy's continued underperformance, the Pound recovered all that it had lost.

This week I remain bullish of Sterling.

Last week I continued to anticipate further gains for Sterling and the currency indeed made a strong bull move, the reason was two fold; the Pound rallied strongly on Tuesday after comments from various Asian Central Banks indicating they would diversify some of their Foreign currency reserves out of US Dollars, and although the comments were later clarified, the damage was done and the Dollar only recovered a fraction of the ground lost. The other influence on the market was the MPC minutes released on Wednesday; news that some members thought a further tightening of policy may be needed and one actually voted for an immediate increase, kept the pound supported all week and although it initially lost ground against the Euro on the earlier Central Bank story, that ground was recovered after the MPC minutes. Looking ahead; the Pound remains a buy, investors are unwilling to hold US Dollars as that country's C/A deficit still needs to correct and although there is much heavy weight data out of the US this week; not least non-farm payrolls on Friday, the Dollar is still set to weaken, even strong payroll data will be negative medium term as this would lead to stronger consumer demand and increase the import bill which is obviously negative for the Dollar.

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BULLS stay long, my interim target of 1.9300 is in sight; my long term target remains 2.1500.
BEARS stay square.

US MARKETS

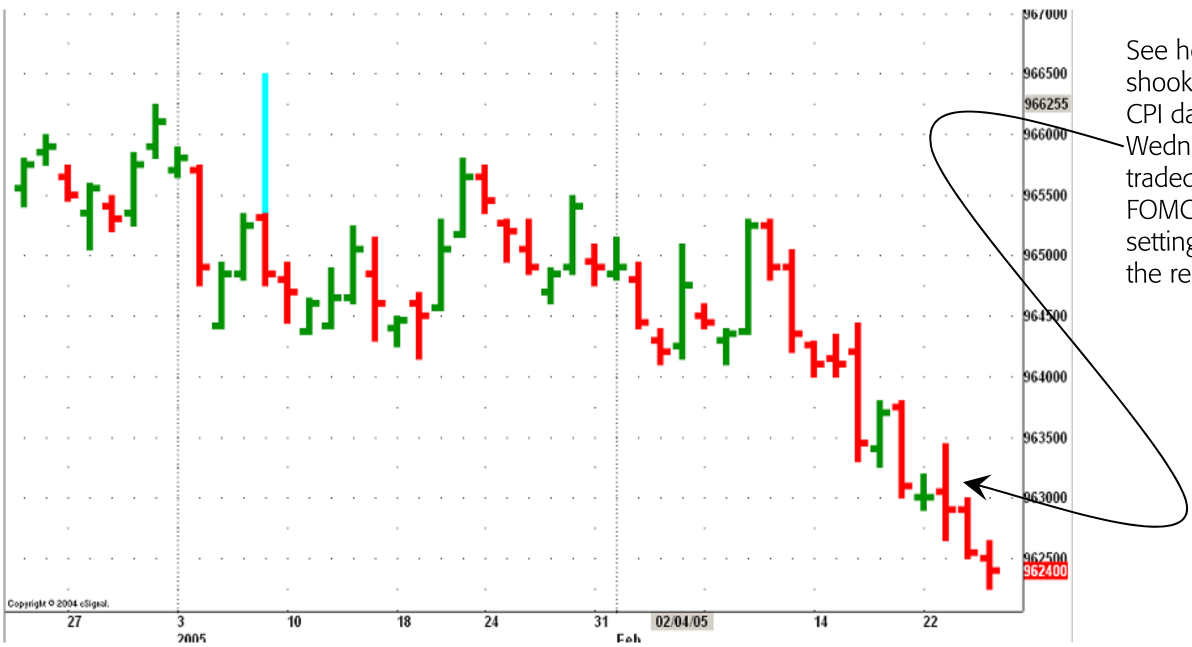
EURO DOLLARS

WHAT HAPPENED LAST WEEK?

	Week of 21st February
Monday	MARKET HOLIDAY Presidents Day
Tuesday	Consumer Confidence 104.0 STRONGER THAN EXPECTED
Wednesday	CPI 0.1 LESS CPI Ex F&E 0.2 AS THAN EXPECTED FOMC Minutes Feb 2 meeting. MORE HAWKISH THAN EXPECTED
Thursday	Durable goods -0.9 WEAKER Less Transport 0.8. STRONGER Jobless claims 312k HIGHER THAN EXPECTED
Friday	GDP Q4 2 3.8 HIGHER Pers consump 4.2 LOWER Core PCE Deflator 1.6 AS Existing home sales 6.80M WEAKER THAN EXPECTED

Last week's calendar.
Last week the market had much to ponder with the key event being the February FOMC minutes; these showed the Fed gradually moving away from the established policy of measured tightening; they said the pace of future moves would depend on how new data evolved with some seeing risks of higher inflation. This meant that if the pace of the recovery moved up a gear they would increase the magnitude of the policy response to 50bp. Of the other data out Consumer spending on Tuesday was higher than expected, on Wednesday; CPI was below consensus, on Thursday; durable goods was weaker and on Friday; GDP was revised higher, as I anticipated last week when I explained that because the trade data had been revised to be less negative this would increase the growth rate. The market responded by trading lower as the Feds more aggressive stance was factored in.

SEPTEMBER 05 EURO DOLLARS



See how the market shook off the benign CPI data released on Wednesday and traded lower on the FOMC minutes; setting the tone for the rest of the week.

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EURO DOLLARS

THE WEEK AHEAD

	Week of 28th February
Monday	Personal inc -2.6 Personal spndg 0.1 New home sales 1119k Chicago PMI 60.2
Tuesday	ISM Mfg 57.0 ISM Prices paid 67.5
Wednesday	Greenspan testifies on economy
Thursday	Non farm Prod 1.4 Jobless claims 313k ISM Non-Mfg 60.0
Friday	Unemployment rate 5.2 Avge hourly earnings 0.2 Non-farm payrolls 225k Avge weekly hours 33.8 U. of Michigan conf 94.5 Factory orders 0.2

This week's calendar.
This week the calendar is heavy with all the turn of the month data; of this, on Tuesday; the ISM manufacturing survey will be watched to see if there is a rebound from last months weaker reading, on Wednesday; Greenspan testifies again; what more can he say? On Thursday; the ISM non-manufacturing survey will shed light on the pace of the economic recovery and shed light on whether or not to expect an increase in the Feds policy response, then on Friday; non-farm payroll will be keenly watched as this indicator has been patchy during the entire course of the current expansion. Last month it undershot expectations and previous reports were revised lower, this time analysts expect those disappointments to be made back. If they are right, the market will sell off as traders fret the Fed will have the evidence it needs to up the tempo of policy. I think the number will again disappoint by coming in sub 200K, but continue to show moderate steady job creation. Although the market would initially rally on such an out come, the move would be short lived.

MY TRADING STANCE: BEARISH.

Last week I was bearish of September 05.
This week I remain bearish of September 05.

This week I remain bearish even though I expect a moderate non-farm payroll report; this is because the Fed has clearly stated that given current performance it feels the recovery is now well established and progressing strongly enough for it to remove the entire monetary stimulus, thus returning policy to at least neutral. Although the labour market has failed to produce the headline grabbing numbers we know it to be capable off, all those jobs lost during the brief recession have been made back, although not all of the new entrants to the labour market during that period have been absorbed into employment, this has helped keep inflation benign, should the pace of job growth accelerate the impact on demand would be significant; drawing in ever larger quantities of imports which would necessitate either, yet tighter monetary policy and or a lower Dollar. Therefore if we do begin to see much larger increases in non-farm payrolls over a sustained period, the Fed would move policy beyond neutrality. The current policy cycle has much further to go and will not remain at the current speed indefinitely.

BULLS remain square.
BEARS add to already profitable positions as the market will move lower as we move through the year.

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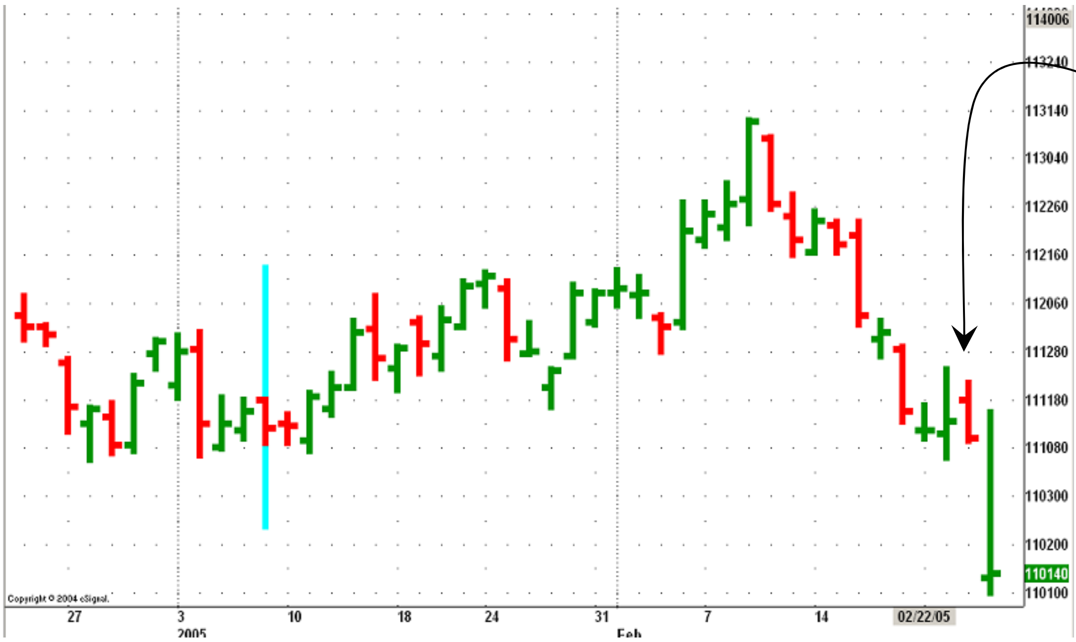
THE US TREASURY NOTE (10 yr)

MY TRADING STANCE: BEARISH.

Last week I was bearish.

US 10yr NOTE JUNE 05



See how the market moved lower on the FOMC Minutes.
The move on Friday is exaggerated by the chart switching from March to June.

This week I remain bearish.

Last week I was bearish of US Treasuries and the market moved side ways over the week, although intra week activity was volatile as the market reacted to the Asian central Bank story regarding reserve allocation and then February's FOMC minutes. If the world's central banks do indeed diversify their holdings away from the US it matters not that this would only relate to new future reserve allocation since the US relies heavily on strong capital inflows to finance its huge twin deficits, if the flow of capital were to be significantly reduced, the Treasury market would suffer a huge negative correction, however this is for the medium term, more immediately I expect the market to remain under pressure for most of the week as data continues to show the economy performing to the Feds version of events, relief may come, temporarily, on Friday if as I suspect, non-farm payrolls is reported below consensus. Bears should proceed with caution and run close stops over the Friday number. Any rally though will be short lived and the overall tone in the market will remain bearish.

BULLS remain square unless non-farm payroll due on Friday significantly undershoots consensus.
BEARS remain short but run a stop over the payrolls on Friday; if they are materially weaker than expectations, the market will rally strongly. I expect a mild undershoot which would have little over all impact on the bearish tone.

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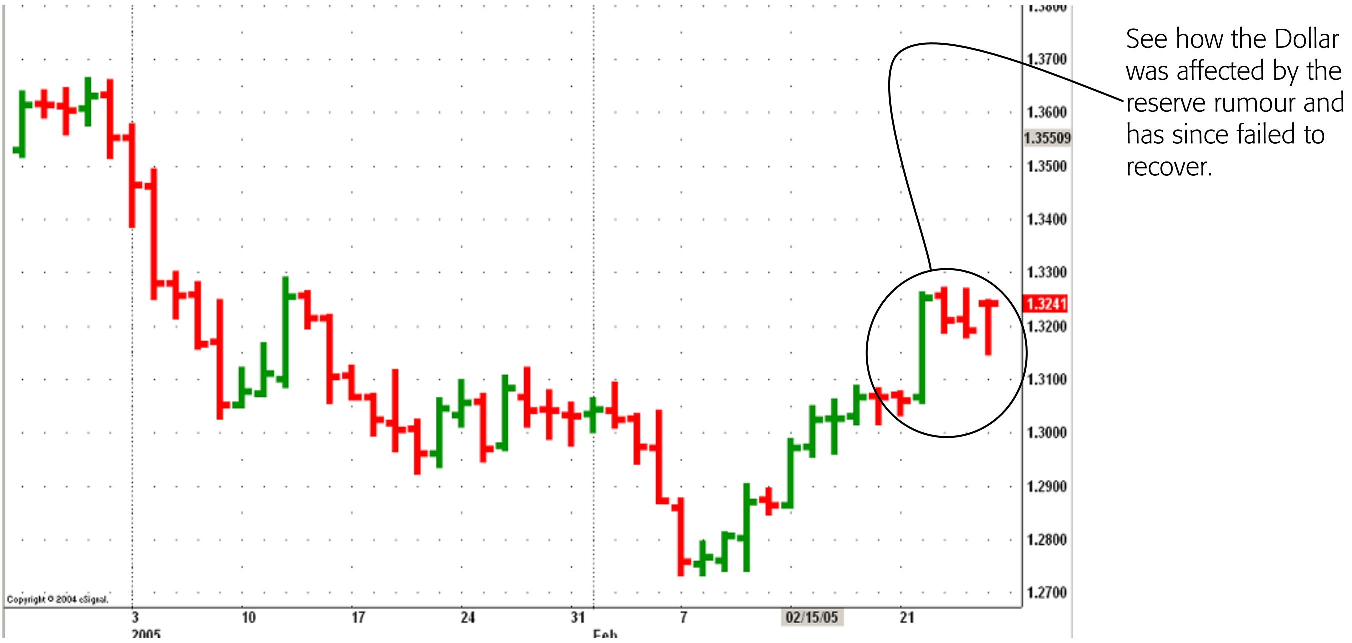
THE DOLLAR

MY TRADING STANCE: BEARISH.

Last week I was bearish of the Dollar.

EURO/DOLLAR CHART



This week I remain bearish of the Dollar.

Last week I advised selling the Dollar and the market moved smartly our way. The move began on Monday as little more than follow through as traders further digested Fed Chairman Greenspan's comments of the previous week, powerful further impetus was added when several Asian Central Banks including those of Japan and South Korea were reported as saying they were going to diversify their massive foreign exchange reserves away from the US. The response from the Dollar was immediate, selling off against all the Worlds major Currencies. Although the Central Banks later clarified what had been said by advising they would not be selling any current Dollar holdings and their thinking only applied to future reserve allocations, the market failed to significantly recover. The very thought that the Dollar could lose out as the Worlds preferred reserve currency was a major development. The US requires huge capital inflows to finance the record Budget and Current Account deficits, which although in percentage terms of US GDP, look to be just manageable, due to the size of the US economy, in cash terms, are huge and require all those countries which currently invest in Dollar denominated assets to carry on doing so; if any of their surpluses find their way elsewhere the US Dollar and the US treasury market will suffer an enormous correction lower; which would not be in the best interests of those very same Central Banks. However I can understand their anxiety since at the moment the way in which these excess reserves are currently being recycled resembles something of a child's merry go round. The answer lies with the US, it should regain control over its budget deficit by cutting spending and of its C/A deficit by returning policy to neutral more quickly. At the current pace policy will more likely have to move beyond neutrality.

BULLS stay square
BEARS stay short, my initial target of 1.9300 against the pound is in sight. Any help that may come from non-farm payroll this Friday should that number be above consensus, will prove short lived as anything that adds to demand will end up further bloating the C/A deficit resulting in further downward pressure on the Dollar.

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EURO 12 MARKETS

EURIBOR

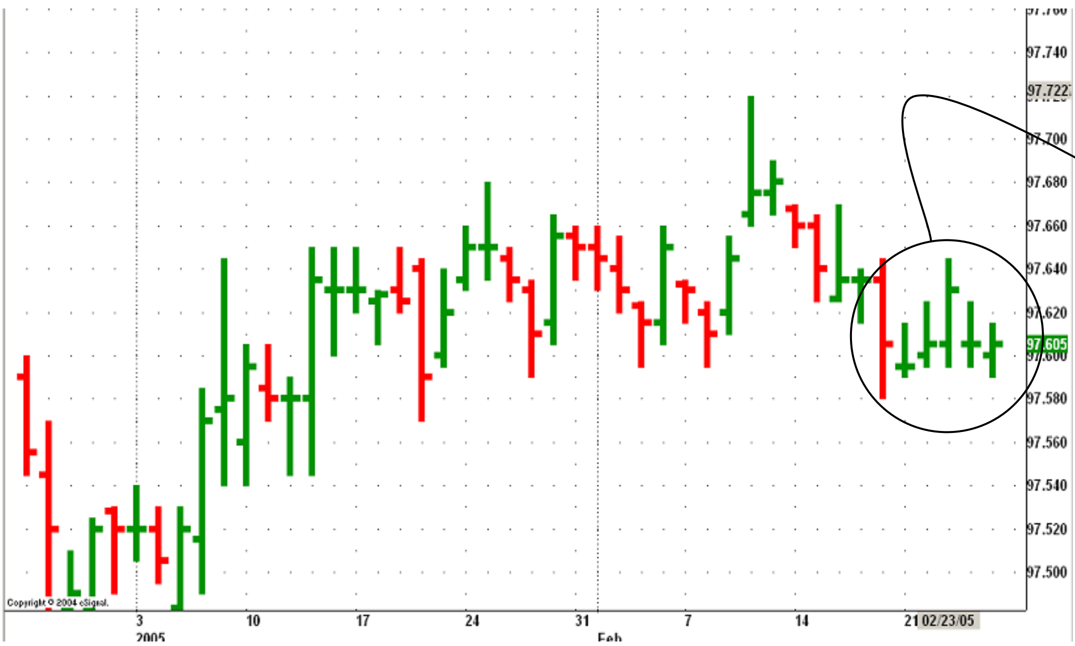
WHAT HAPPENED LAST WEEK?

	Week of 21st February
Monday	IT CPI 0.0m, 1.9y. AS EXPECTED
Tuesday	DM GDP Q4 2 -0.2m, 1.5y AS FR CPI -0.5m, 1.6y LESS FR Consumer spndg 1.5m, 3.8y STRONGER THAN EXPECTED IT Consumer conf 104.4 HIGHER THAN EXPECTED
Wednesday	DM IFO 95.5 WEAKER IT Business conf 86.8 WEAKER IT Retail sales -0.5y/y STRONGER THAN EXPECTED
Thursday	DM Import prices 0.8m, 2.9y AS DM CPI 0.4m, 1.8y HIGHER THAN EXPECTED
Friday	DM Consumer conf 4.2 AS FR Business conf 104.0 WEAKER FR Unemploym't rate 10.0 HIGHER FR PPI 0.3m, 2.8y HIGHER THAN EXPECTED

Last week's calendar.

Last week the market had much to wade through with a packed calendar, the high lights of which were on Tuesday; French consumer spending was much stronger than consensus whilst reporting lower CPI, on Wednesday; German IFO was below consensus and fitted the picture of a continuing weak German economy, Italian retail sales were stronger than consensus, but at -0.5y/y are still very weak, on Thursday; German CPI was a little higher, but still below the ECB'S target of 2%, then on Friday French business confidence was weaker than expected, Unemployment was worse than expected and PPI nudged a little higher. The market reacted to all of this by moving side ways; after the ECB recently let it be known it was more likely to tighten than ease and with the other interest rate markets all moving lower, at least Euribor wasn't sucked down with the rest.

SEPTEMBER 05 EURIBOR



See how in spite of a couple of attempts to go higher, the market closed the week broadly unchanged.

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EURIBOR

THE WEEK AHEAD

	Week of 28th February
Monday	FR Consumer conf -25 IT PPI 0.3m, 4.2y. IT CPI 0.3m, 1.9y
Tuesday	IT PMI Mfg 49.6 IT GDP Annual 1.2 FR PMI Mfg 52.7 DM PMI Mfg 52. DM Unemploym't 80k DM Rate 11.6
Wednesday	DM Retail sales 1.0m, -1.6y
Thursday	IT PMI Services 52.3 FR PMI Services 56.3 DM PMI Services 51.5 ECB Rate Decision UNCH.
Friday	DM Factory orders -4.5m, 4.0y

This week's calendar.

This week the calendar is again heavily laden with data, on Monday; Italian PPI and CPI, on Tuesday; all three countries PMI manufacturing surveys, together with German unemployment data, on Wednesday; German retail sales; never a pretty picture, on Thursday; all three countries PMI services surveys plus the ECB'S interest rate decision, then on Friday; German factory orders. Usually the high light of a calendar would be a Central Bank policy setting meeting, however here it's a yawn, the ECB will leave policy unchanged. The limelight will be taken by the various PMI surveys released on Tuesday and Thursday. Of the three main Euro zone economies, France alone appears to be performing the best; any loss of pace here will no doubt send the market higher. Of the other data; unless it starts to show much stronger economic activity there will be little market impact.

MY TRADING STANCE: NEUTRAL.

Last week I was neutral of September 05.
This week I remain neutral September 05.

Last week the market tried to move higher but the international back drop was bearish so Euribor did well to mark time, especially since the ECB thinks rates are already low enough. The truth is politics rather than economics seems to dictate decisions within the ECB other wise they would have reduced interest rates before now. With the Euro looking set to rally further against an ailing US Dollar the Euro zone economy is firmly stuck in its rut of economic under performance and will remain there until, presumably, the politicians either embark on necessary reforms or they change the composition and mandate of the ECB,; neither of which is likely; at least not in my lifetime

BULLS stay square, the fundamentals argue in favour of a rally, but the ECB has the market capped.
BEARS remain square; there is no bear case to trade off of.

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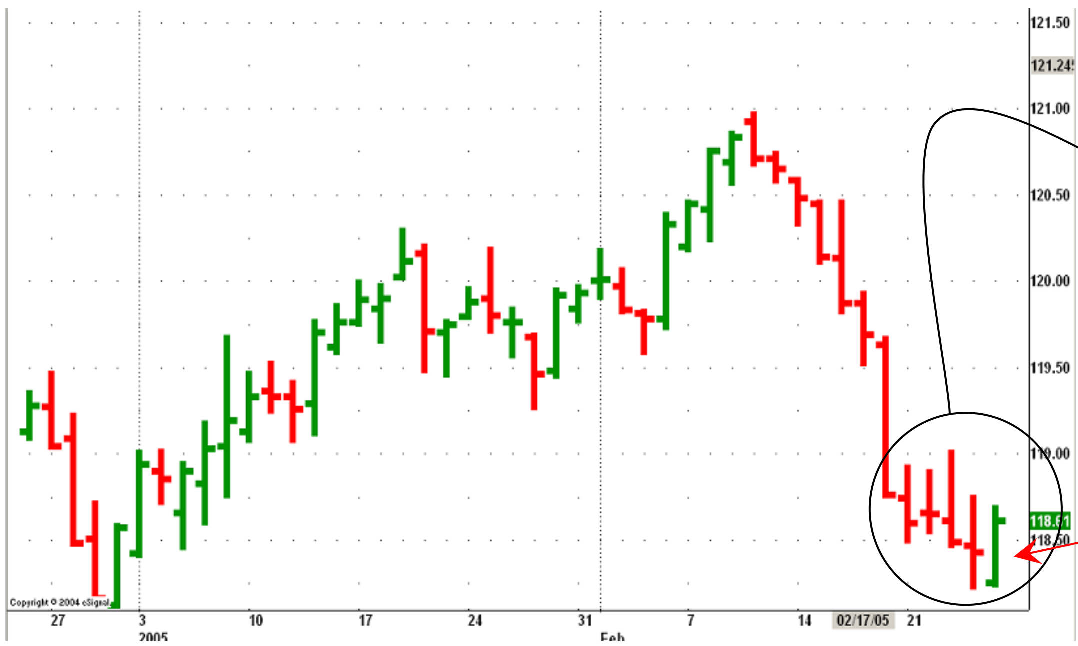
THE BUND

MY TRADING STANCE: BULLISH.

Last week I was bullish of the bund.

THE BUND MARCH 05



See how the Bund inexplicably sold off with the US treasury market on news some Asian Central Banks could reallocate part of their foreign currency reserves away from the Dollar; hard to understand since the Euro would benefit from such a move. The market bounced on Friday as the Euro held its gains against the Dollar and the Yen.

This week I remain bullish of the Bund.

Last week, having felt the correction in the Bund market had gone far enough, I again went long and spent much of the week watching the market trade lower; thankfully the market bounced on Friday and closed almost unchanged on the week. If the Bund does trade lower from here it will be because other Government bond markets are dragging it lower, of its self the fundamentals continue to argue for lower yields, especially since the Euro zones largest economy only just avoided recession last year. With the Euro looking like it is about to renew its march higher, the Euro zone economy will experience a de facto monetary tightening and with the ECB implacably set against easing policy, yields at the longer end will continue to move lower. Unlike the US the Euro zone does not run a current account deficit which needs financing externally. What it does need is a dose of realism from its politicians whereby they earnestly embark on necessary economic reforms; in the mean while buy Bunds as they are currently the only mechanism of delivering cheaper rates to the EU 12, more specifically, the German economy.

BULLS should build positions from here, the market feels like it has bottomed and could trade back to 120.0
BEARS remain square, the correction looks to be over.

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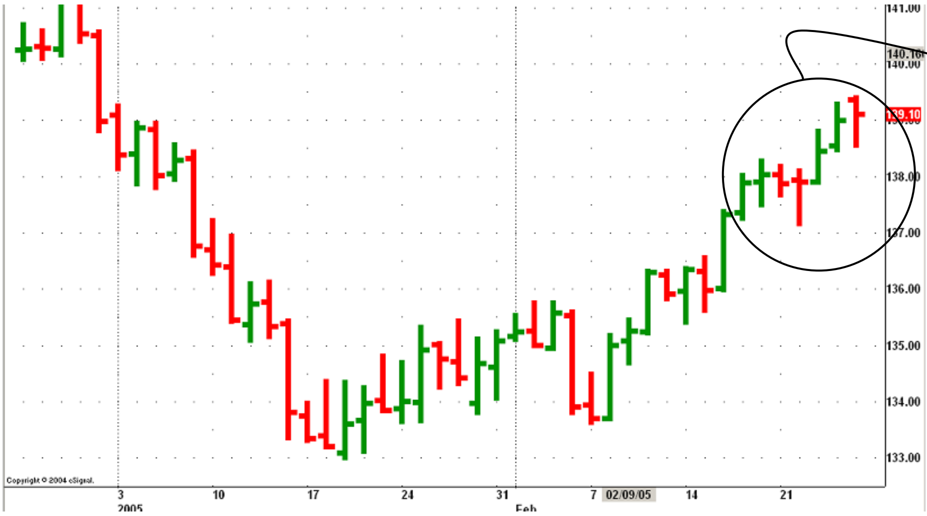
THE EURO

MY TRADING STANCE: BULLISH.

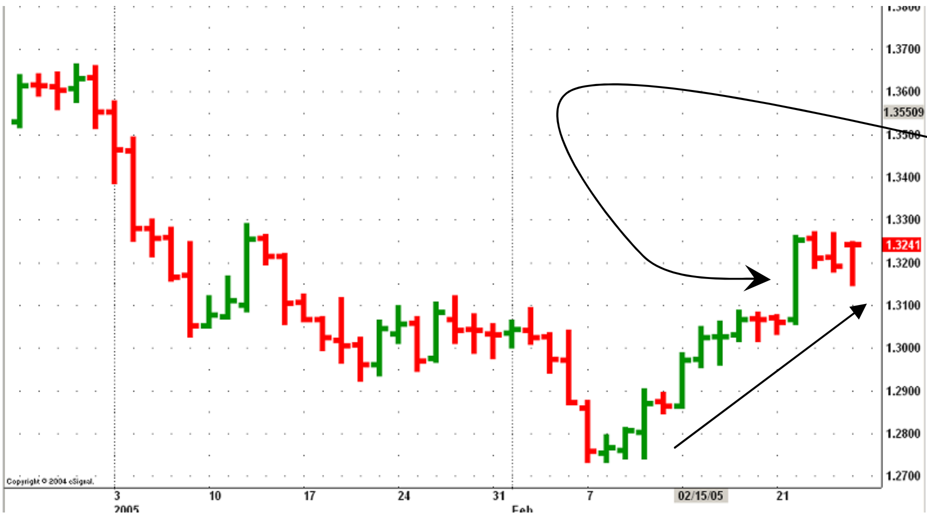
Last time I was bullish the Euro.

EURO/YEN CHART



See how the Euro continues to benefit from a weak Yen as the Japanese economy continues to struggle.

THE EURO/DOLLAR CHART



See how the Euro has recovered much ground against the Dollar and notice how it reacted on Tuesday to the Asian Central Bank story.

This week I remain bullish.

Last week I adopted a bullish stance as I interpreted comments the previous week, from the Feds Greenspan as meaning the Dollar would have to go lower to bring about the higher import prices he saw as the mechanism for correcting the US C/A deficit. In the event it paid off with the Euro rallying smartly, the move was helped on its way by the now well reported Asian Central Bank rumour regarding their foreign currency reserves and how they were interested in diversifying those holdings away from the Dollar, but into what? The Euro would be a likely candidate, but are they thinking of buying more of each others Currencies in an effort to create an alternative to the US. With China and to a lesser extent, India both growing strongly, these two economies will be giants in the next 20-30 years and will offer genuine alternatives to the US, indeed India is already an exciting place for technology and software development so it isn't hard to imagine investors queuing up to place their money there. For now with the Yen struggling in the face of continued Japanese economic difficulty, the Euro will be the main beneficiary.

BULLS remain long against the US Dollar and Japanese yen, but short against the Pound Sterling.
BEARS stay square.

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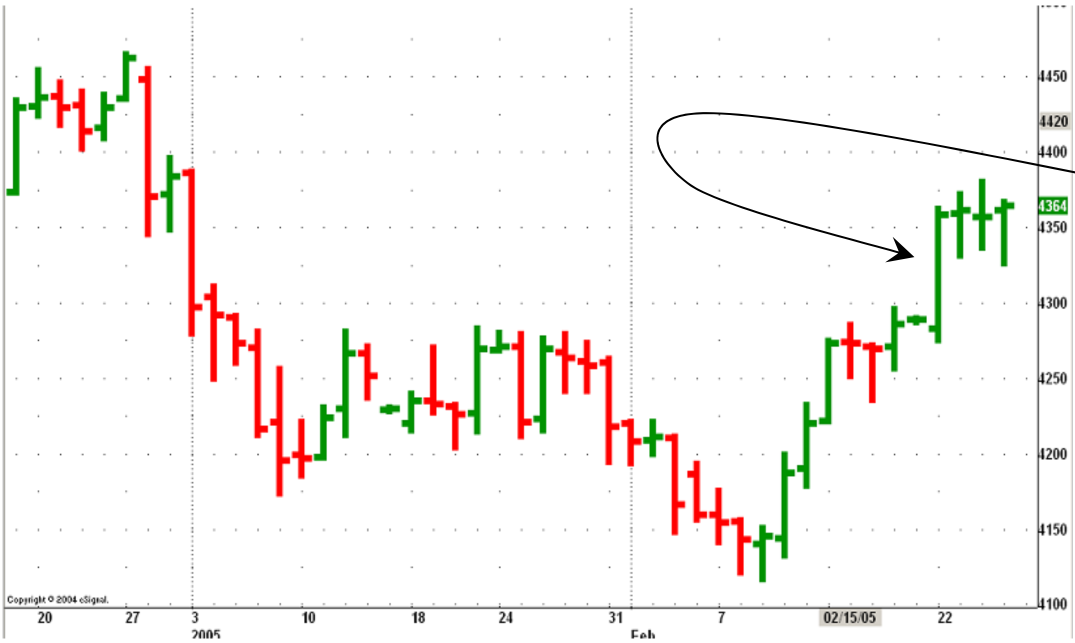
COMMODITIES

GOLD

MY TRADING STANCE: BULLISH.

Last week I was bullish of gold.

THE GOLD CHART



See how the market, much like the foreign exchanges, reacted to the Dollar sell off on Tuesday.

This week I remain bullish.

Last week I advocated staying long of Gold and it rallied strongly, especially on Tuesday as the US Dollar sold off after key Asian Central Banks said they wanted to diversify away from Dollar reserve holdings. This is potentially very damaging news for the US as these Central Banks have vast holdings of Dollars and Dollar assets and they need to keep adding to them for the US to be able to fund its massive twin deficits, if they restrict or divert the flow the gap will have to be plugged from elsewhere or eradicated. Even though this shift will not happen over night and may not occur immediately the fact it is on the agenda is enough to affect the Dollar and it will move lower. As it does over the coming weeks and months I expect to see Gold rally to an initial level of US$445.00 an ounce and then well beyond. Now we know the Central Bank of South Korea and others are feeling uncomfortable about accumulating ever more US IOU'S the days of the US economy riding high on the tab are numbered, how it is brought to a close is a question every one will want an answer to. It would be in the American's best interests if they acted now and undertook a correction which they themselves can manage, rather than wait for the plug to be pulled; by then the damaged that would be caused would be frightening, but by then the US would no longer be the only act in town as it still just about is. In the interim investors need more than one alternative to the Dollar and at the moment that is Gold.

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

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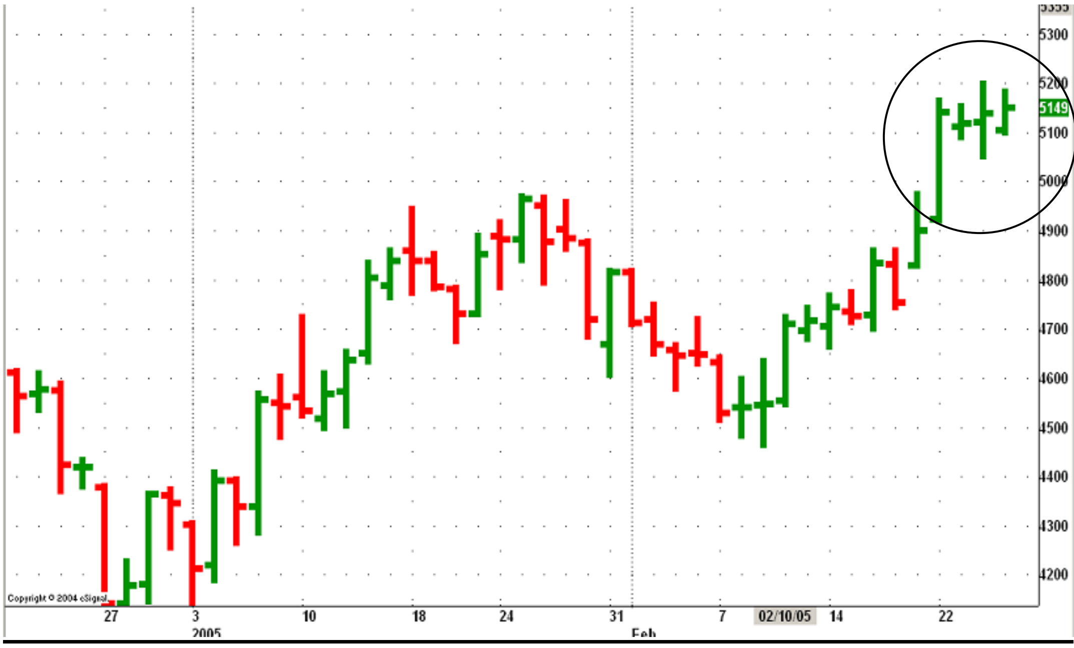
OIL

MY TRADING STANCE: BULLISH.

Last time I was bullish of oil.

THE CRUDE OIL CHART



See how the oil price continues to rally on worries of supply. China increasingly consumes vast quantities of energy and that looks set to continue indefinitely as their economy expands, other emerging economies such as India will only make the situation worse and the price of Oil higher.

This week I remain bullish of oil.

Last week the market added powerfully to the rally, as tensions continued between the US and Syria and Iran, first; over Syria's continued involvement in the Lebanon and its suspected assistance to the Iraqi insurgents and second; Iran's continuing nuclear programme. The market was further occupied by lingering fears that OPEC was still contemplating cutting production as the northern winter was coming to an end; this wasn't helped by the Saudi Oil minister saying he saw prices staying between US$40-50.00 a barrel which is well over OPEC'S stated price band. Additionally, the market continued to digest reports that said due to increases in China's demand for Oil, OPEC would have to pump at maximum capacity just to meet expected demand for next winter, leaving little room for emergencies, together with continuing cold weather in the US which is depleting already low stocks of heating Oil, the market looks set to rally further, but the main factor in the Oil market over the medium to longer term will be the continued growth of the two Asian giants which together account for two fifths of the worlds population, unless new energy reserves are found or an alternative developed, the price of Oil is set to get more expensive.

BULLS stay long, the market looks set to resume its rally; a price of US$60.00 per barrel doesn't seem unattainable.
BEARS stay square.

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