Week 33

2nd – 8th July 2013

the macro trader's guide to major markets

John Lewis

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SUMMARY

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	Week of 1st July
Monday	US Construct'n spndg 0.6% US ISM Mfg survey 50.5 US ISM prces paid 50.5 UK PMI Mfg 51.4 UK Net lndg on dwllgs 0.8B UK Mrtge aprvls 55.8k UK 3mth Cons CR 0.6B IT PMI Mfg 47.8 FR PMI Mfg 48.3 DM PMI Mfg 48.7 EZ PMI Mfg 48.7 EZ CPI Est 1.6%y EZ Unemploym't rate 12.3% JP Tankan lrge mfg 3 JP Tankan CAPEX 3.4% JP Vehicle sales -15.8 JP Labor cash earngs n/f
Tuesday	US Factory orders 2.0% UK PMI Construction 51.2 UK BRC Shop prices n/f EZ PPI -0.2m, 0.0y
Wednesday	US MBA Mrtge apps n/f US ADP Employm't chge 160k US Trade bal -$40.2B US Jobless claims 345k US ISM Non-mfg 54.0 UK PMI Services54.5 IT PMI Services 47.0 FR PMI Services 46.5 DM PMI Services 51.3 EZ PMI Services 48.6 EZ Retail sales 0.3m, -1.9y

	Week of 1st July
Thursday	UK BOE AP Decision £375B UK MPC Rate decision 0.5% EZ ECB Rate decision 0.50%
Friday	US Non-farm payrolls 165k US Unemployment rate 7.5% US Avrge hrly earngs 0.2m, 2.0y US Avrge wrk week 34.5 DM Factory orders1.2m,0.1y

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	Week of 24th June
Monday	DM IFO Survey 105.9 **AS** JP Corp service prices 0.3%y **STRONGER** **THAN EXPECTED**
Tuesday	US Durable goods 3.6% **STRONGER** US DG Ex- Transport 0.7% **STRONGER** US Case/shiller comp20 12.05y **STRONGER** US House price indx 0.7m **STRONGER** US Cons conf 81.4 **STRONGER** US New home sales 476k **STRONGER** UK BBA Home buyer loans 36.102k **BETTER** JP Sml bus conf 49.6 **STRONGER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -3.0% **BETTER** US Q1 GDP (A) 1.8% **WEAKER** US Q1 Core PCE 1.3q, **AS** US Q1 GDP Price indx 1.2% **STRONGER** US Q1 Persnl consmpt'n 2.6% **WEAKER** UK CBI Sales 1 **WEAKER** DM GFK Cons conf 6.8 **STRONGER** FR Q1 GDP -0.2q, -0.4y **AS** **THAN EXPECTED**

	Week of 24th June
Thursday	US Persnl income 0.5% **STRONGER** US Persnl spndg 0.3% **AS** US Core PCE 0.1m, 1.1y **AS** US Joblessclaims 346k **LESS** US Pndg home sales 7.7m, 12.7y **STRONGER** UK Q1 Tot bus invstmnt -1.9 3m, -16.5y **WORSE** UK Q1 C/A -14.5B **WORSE** UK Q1 GDP 0.3q, 0.3y **WEAKER** UK GFK Cons conf -21 **AS** DM Import prces -0.4m, -2.9y **WEAKER** DM Unemploym't chge -12k **BETTER** DM Unemploym't rate 6.8% **BETTER** EZ M3 2.9 (3m) **STRONGER** EZ M3 2.9 (y/y) **AS** EZ Ind conf -11.2 **BETTER** EZ Cons conf -18.8 **AS** JP All ind actvty indx 0.4m **AS** JP National CPI -0.3y **STRONGER** JP Tokyo CPI 0.0% **WEAKER** JP Househld spndg -1.6y **WEAKER** JP Joblessrate 4.1% **MORE** JP LRGE Retail sales -0.4% **WEAKER** JP Ind production 2.0m,-1.0y **WEAKER** JP Retail trade 1.5m, 0.8y **STRONGER** **THAN EXPECTED**
Friday	US Chicago PMI 51.6 **WEAKER** US U. of Michigan conf 84.1 **STRONGER** UK Nat'nwide house prces 0.3m, 1.9y **LESS** UK Indx of services0.2m, 0.8(3m/3m) **LESS** DM Retail sales 0.8m, 0.4y **STRONGER** DM CPI 0.1m,1.8y **MORE** JP Vehicle production -6.2% **BETTER** JP Construction orders 26.0% **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week we focused on the Q1 GDP report, which although the 3rd release of this number, still possessed the ability to move the market, especially following the FOMC statement the previous week which laid out the route towards tapering and ultimately ending QE3 monthly bond purchases.

In the event the number was significantly revised lower, but instead of the markets reacting to the weaker economic environment, they rallied on the hope the Fed wouldn't need to reduce it's support so soon; somewhat perverse!

However, other data released last week was generally up beat with further reductions in jobless claims, stronger durable goods and a better than expected personal income report.

Looking ahead there are several reports due this week, as detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Construction spending and ISM Manufacturing survey,**
- On Tuesday: **factory orders,**
- On Wednesday; **ADP employment change, Trade balance, jobless claims and ISM Non-manufacturing survey,**
- On Thursday; **Independence Day Holiday, and**
- On Friday; **non-farm payrolls, average earnings and average work week.**

This week offers the first real chance to assess the Feds changed policy stance. The ISM surveys and non-farm payroll provide a good assessment of the economy's health, but we judge the non-farm payroll report is the main event.

The Fed is still focussed on the Labour market so a strong report on Friday would validate the Fed's stance.

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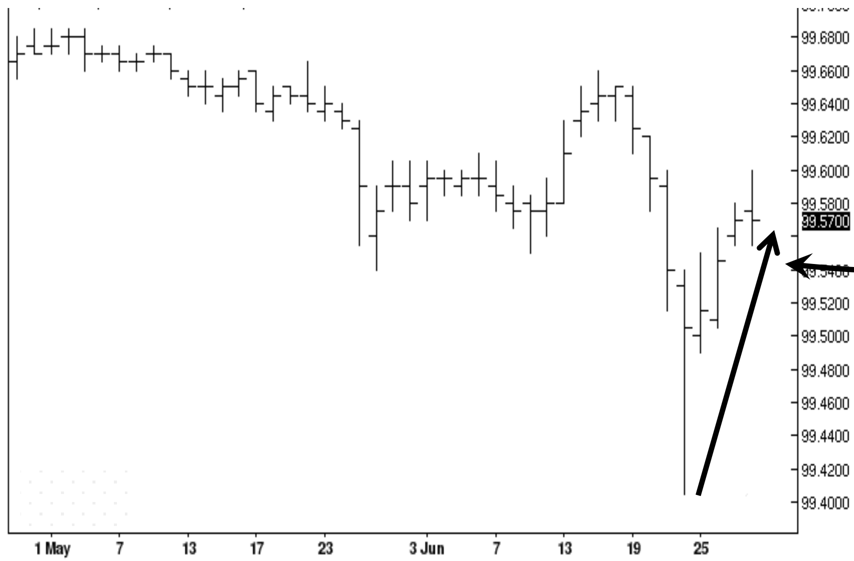
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



See how the market recovered as Fed policy makers rushed to reassure.

The Macro Trader's view of Eurodollars is; last week we said...

…"Looking ahead the Q1 GDP report is due and although a 3rd look at this data, traders will never the less scrutinise it to see if it fits with the Fed's evolving stance"…

In the event the report was revised down, and traders took it as a signal the Fed would likely need to delay the start of tapering.

Add in the clutch of policy makers trying to allay the markets fears about the perceived change of Fed policy and this market rallied.

Looking ahead there are several key data releases due this week with the ISM non-manufacturing survey due Wednesday and the non-farm payroll report on Friday.

Paradoxically strong reports are likely to re-awaken fears of a Fed policy exit, meaning volatility is a likely feature.

For now stay square.

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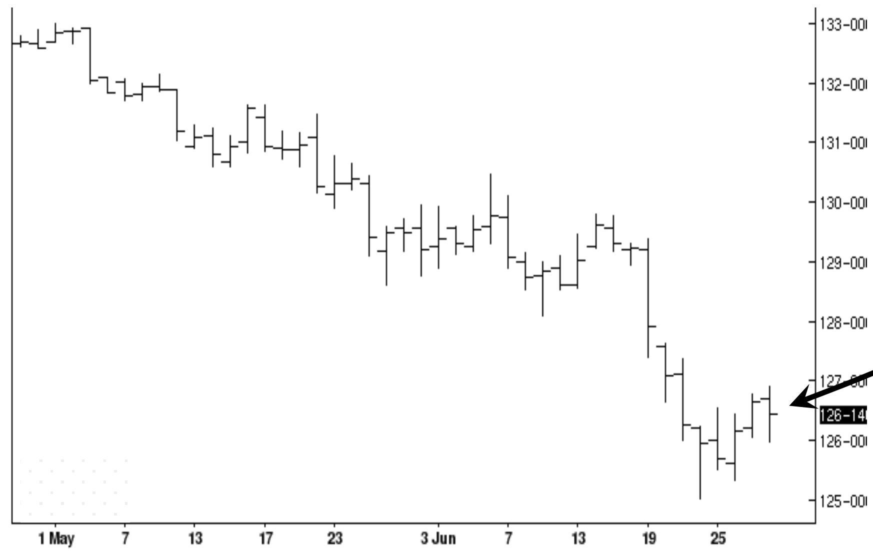
US MARKETS: 10 Year Note

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the 10 year note.



See how the 10 year note corrected as fears about the Fed eased.

The Macro Trader's view of the 10 year note is: last week the Fed rolled out several high level policy makers to talk down the prospect of an imminent tapering.

Combined with a downward revision to Q1 GDP, a small correction ensued.

But we judge this week's data will offer a better guide to how the economy is evolving and the likely response from the Fed and as ever we judge Friday's non-farm payroll report will prove the market mover.

A stronger than expected report is likely to weigh on bonds and we advise remaining short.

Our suggested target remains 122.00 and our suggested stop continues at 128.25 for protection.

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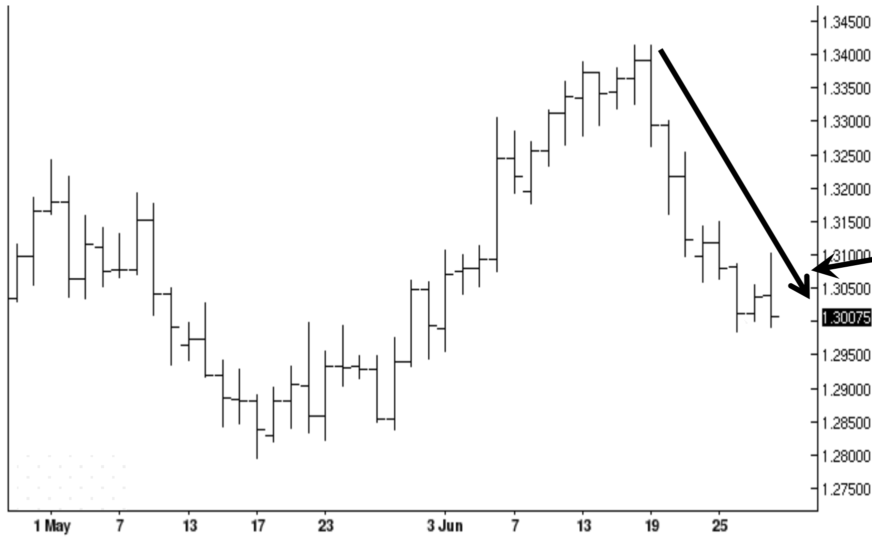
US MARKETS: US Dollar

OUR TRADING STANCE; BULLISH v the YEN.

Last week we were Square



The Dollar continues to claw back ground lost to the Euro, but we judge it remains range bound.

The Macro Trader's view of the Dollar is; last week we said…

…"For now we sense the Dollar is still range bound against the Euro, Sterling and Yen"...

…"However we are most interested in Dollar/Yen where we think the Dollar has the greatest scope to rally"...

In the event we think that analysis proved correct. The Dollar did recover against Sterling and the Euro, but more so against the Yen.

Looking ahead several important data releases are due as detailed on the calendar, but we sense the Dollar is likely to remain range bound against the Euro, especially if Euro zone data continues to show more of the recent gradual improvement.

For now remain square against the Euro and Sterling. But traders should be Short the Yen/Long the Dollar.

Our suggested target is106.00 and our suggested stop is set at 96.00 for protection.

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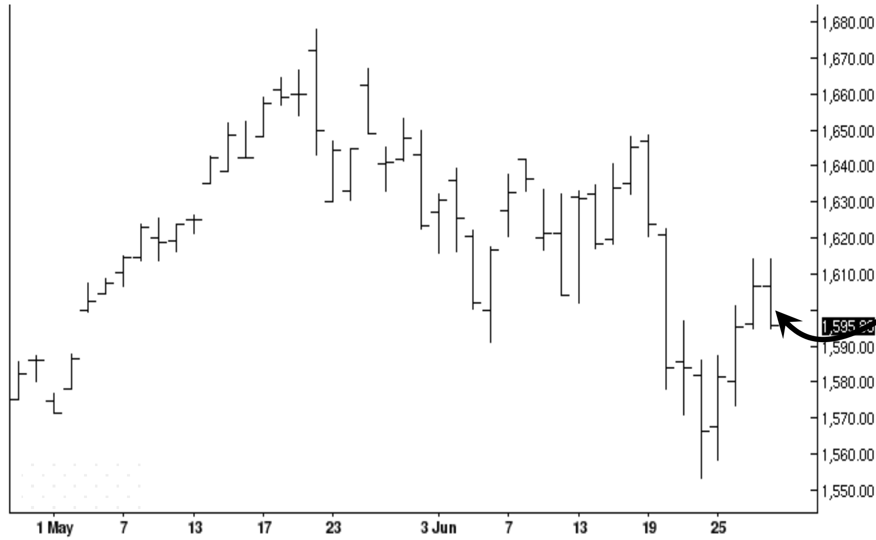
US MARKETS: S&P500

OUR TRADING STANCE: SQUARE.

Last week we were Square of the S&P 500.



The S&P recovered, but the reasons were convoluted.

The Macro Trader's view of the S&P 500 is: last week's price action confirmed we are into a difficult period.

The market rallied, but on weaker rather than stronger data; why?

Quite simply the weaker Q1 GDP report suggests the Fed will have to hold off from implementing its recently announced tapering policy and that seems more important to trades right now than stronger data.

Looking ahead this market is likely to react to this week's data in a similar way:

- Strong data market sells off on Fed fears, but
- Weak data; market rallies on relief the Fed maintains the status quo.

Clearly this convoluted reaction will not persist for ever, but how long it endures means trading the market became a game of 2nd guess.

For now stay square.

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UK MARKETS: economic background

Last week we focussed on the 3rd look at the Q1 GDP report. After several recent data releases appeared to show the economic recovery gathering strength, traders would be unsettled if this report was revised lower.

In the event the quarter on quarter data was unrevised, but the year on year rate was revised lower, but this was a technical issue.

Earlier reports were revised up, erasing the earlier reported double dip recession, but this had the effect of dampening the year on year data as the base line was effectively raised.

Of the other data released, the BBA home buyer loans report was much stronger than expected and supported other evidence suggesting the housing market was recovering.

Looking ahead there are several key data releases due which are detailed on the global calendar, but we judge these are the week's key releases:

- On Monday; **PMI Manufacturing survey, net lending on dwellings and mortgage approvals,**
- On Tuesday; **PMI Construction survey and BRC Shop prices,**
- On Wednesday; **PMI Services survey, and**
- On Thursday; **BOE/MPC policy decision.**

The main event this week is the PMI services survey.

This report will give an insight into the health of the largest component of GDP.

The other interesting event is the BOE/MPC meeting chaired by the new Bank of England governor, but no policy changes are expected.

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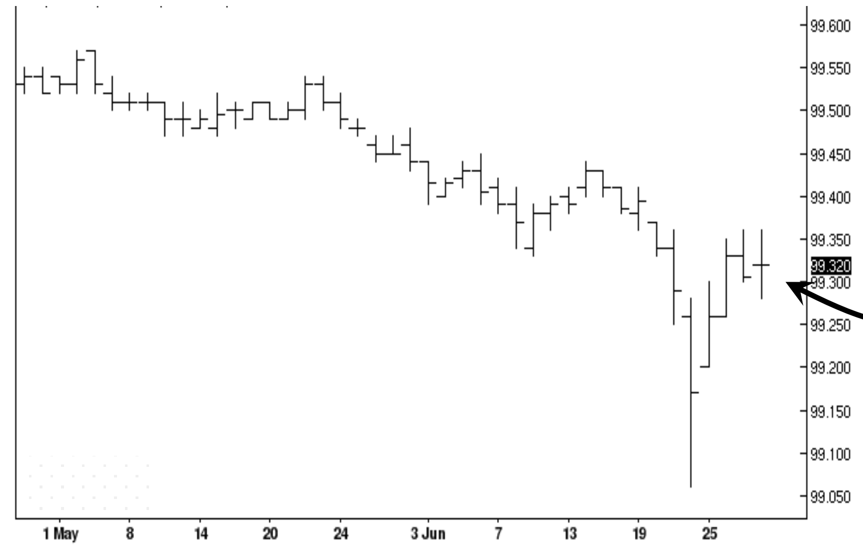
UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



See how Short Sterling rallied on back month revisions to Q1 GDP that suggested no change of policy soon.

The Macro Trader's view of Short Sterling is: last week we said...

…"For now we think we have missed the short term sell off so for now are staying square"…

In the event last week's price action proved us correct as the market reacted to Q1 GDP which saw the year on year report revised lower due to revisions to historical data that erased the double dip recession.

Looking ahead we sense this week's PMI Service report will be the main domestic report to watch, but with traders still keeping a wary eye on the Fed, Friday's US non-farm payroll is likely to have the last word.

We judge UK rates are still along way from any chance of a tightening, meaning this market is likely to settle into a trading range once more.

For now stay square..

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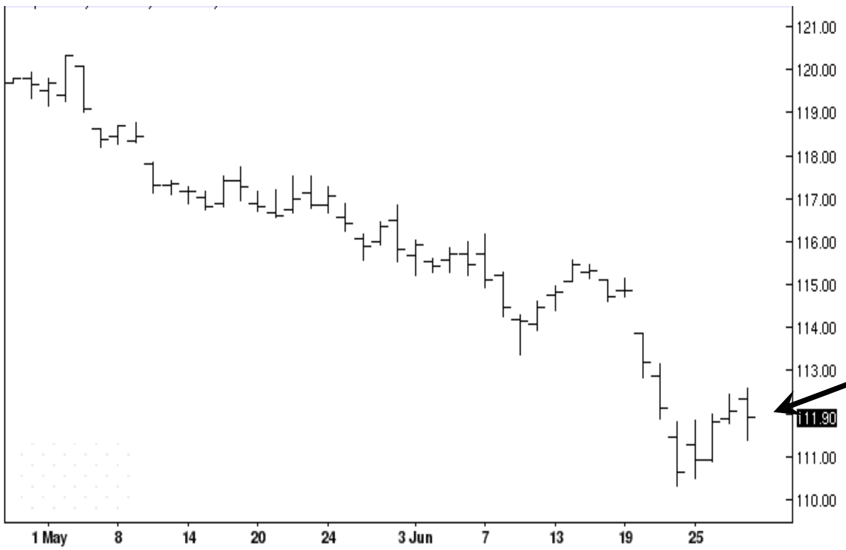
UK MARKETS: Gilt

OUR TRADING STANCE; BEARISH.

Last week we were Square of the Gilt.



See how the Gilt recovered, but with UK data pointing to recovery, it looks vulnerable still..

The Macro Trader's view of the Gilt is; last week the Gilt staged a limited recovery as markets globally sighed a relief after weaker US Q1 GDP indicated the Fed's tapering might be delayed.

But with UK economic data continuing to point to a building economic recovery, yet dogged by persistently above target inflation, fuelled in part by a weak currency, we judge the Gilt remains vulnerable.

Looking ahead important data releases both here and abroad. Traders will only persist with the convoluted trading pattern for so long. Eventually the data will grab their attention and markets react in a more logical manner.

We sense the Gilt remains vulnerable to the downside.

Traders should be short of the gilt.

Our suggested target remains 110.00 and our suggested stop continues at 114.35 for protection.

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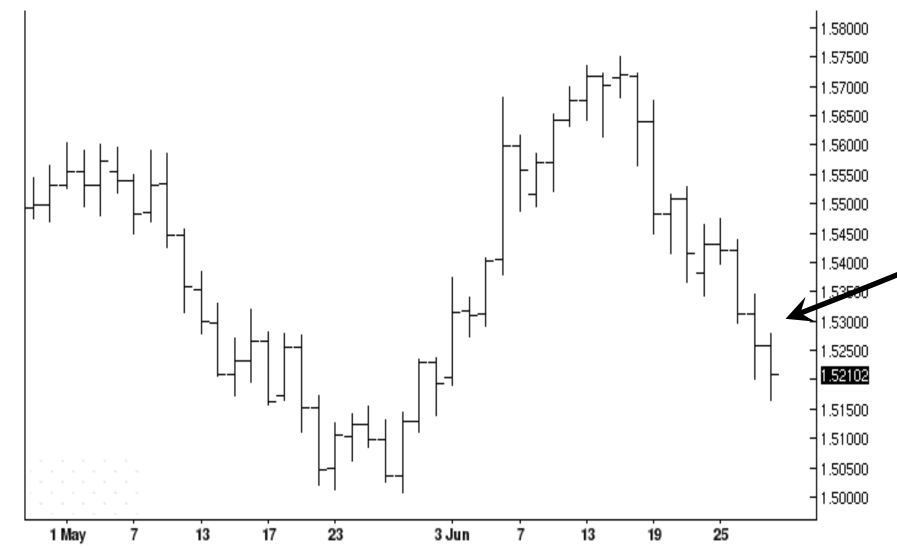
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling weakened as traders factor in the arrival of a new governor at the Bank of England.

The Macro Trader's view of the Pound is; last week's price action confirmed the Pound remains weak, but so far within a trading range.

We judge the Pound traded lower, despite stronger data, on the arrival of a new Governor at the Bank of England.

It is widely expected that he will be keen on more QE and will favour a weaker Pound as a means of supporting the economy. But is that view out of date?

We believe it may well be. The economic data over recent weeks has pointed quite clearly to a strengthening recovery.

Moreover, the economy has not only avoided the much talked about tipple dip recession, but the previously reported double dip recession has been revised away.

So instead of seeking a weaker Pound, the new governor might have to turn his attention to persistently above target inflation.

While that may not mean a rate hike any time soon, it may mean talk of a weak Pound is completely miss placed.

For now remain square.

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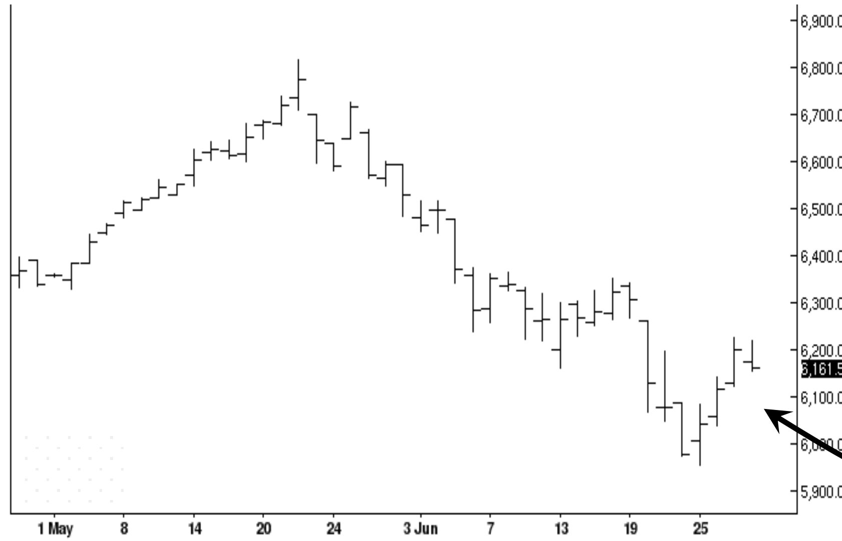
UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

Last week we were Square.



See how the FTSE perked up on better data.

The Macro Trader's view of the FTSE is; last week we said...

…"Looking ahead this week's Q1 GDP report stands out, but we judge international sentiment will continue to dominate and at best hold this market back or more likely drive it lower short term"…

If traders had reacted to data, the market would have drifted down, but the Fed was again the dominant influence in global equity markets, as weaker USQ1 GDP allayed trader's fears of a reduction of Fed support.

This week, traders might wean themselves off of the Fed. If data on both sides of the Atlantic can demonstrate the US and UK economies are on a clear road to recovery, what the Fed does might just become less significant and data more so.

However we judge it wise to wait until sentiment has turned or else what should have been a good trading decision could be made to look nonsense!

For now stay square.

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EURO ZONE MARKETS: economic background

The focus last week was the German IFO survey. In the event it was as expected, but other data releases sprang one or two positive surprises.

The German unemployment report saw 12 thousand fewer unemployed as apposed to the expected 8 thousand increase, with a small drop in the unemployment rate.

Additionally, German retail sales were also better than expected.

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Italian, French, German and Euro zone PMI Manufacturing surveys, Euro zone CPI Estimate and unemployment rate,**
- On Tuesday; **Euro zone PPI,**
- On Wednesday; **Italian, French, German and Euro zone PMI Services survey and retail sales,**
- On Thursday; **ECB rate decision, and**
- On Friday; **German factory orders.**

The main event this week is the ECB policy decision. After the FOMC policy announcement, the ECB needs to consider its own policy stance.

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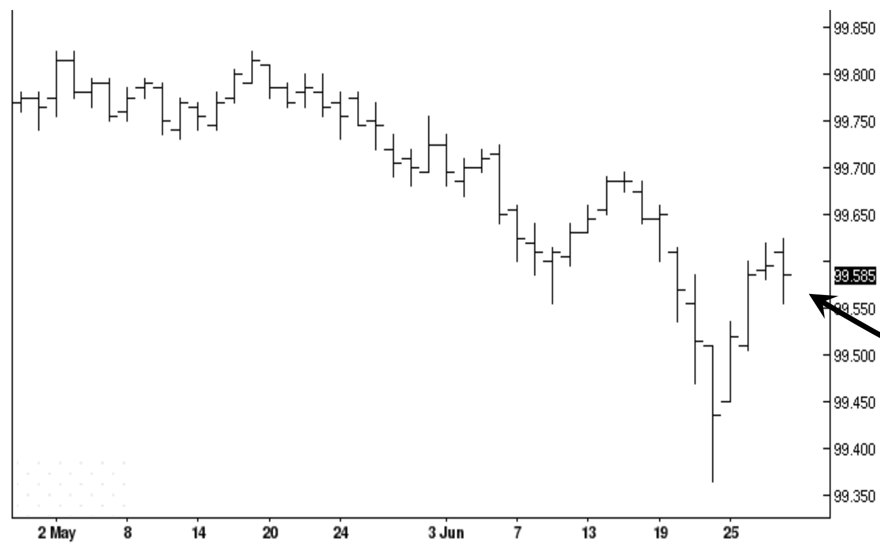
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor bounced last week despite better than expected German data.

The Macro Trader's view of Euribor is; last week we said...

…"Looking ahead the German IFO survey is due, but traders are nervous. The Euro zone economic recovery is behind those of the US, Japan and even the UK, but traders judge the ECB will use last week's FOMC as cover to leave Euro zone rates where they are"...

…"For now we judge any thought of higher Euro zone rates is very premature"…

In the event German data releases were better than expected, but this market still rallied as traders adjusted to the reality of rates on hold.

Looking ahead the ECB decides on policy this week, but unchanged is the most likely outcome, but with Euro zone data starting to indicate a recovery, rates are unlikely to go any lower, so a rally from here? Limited.

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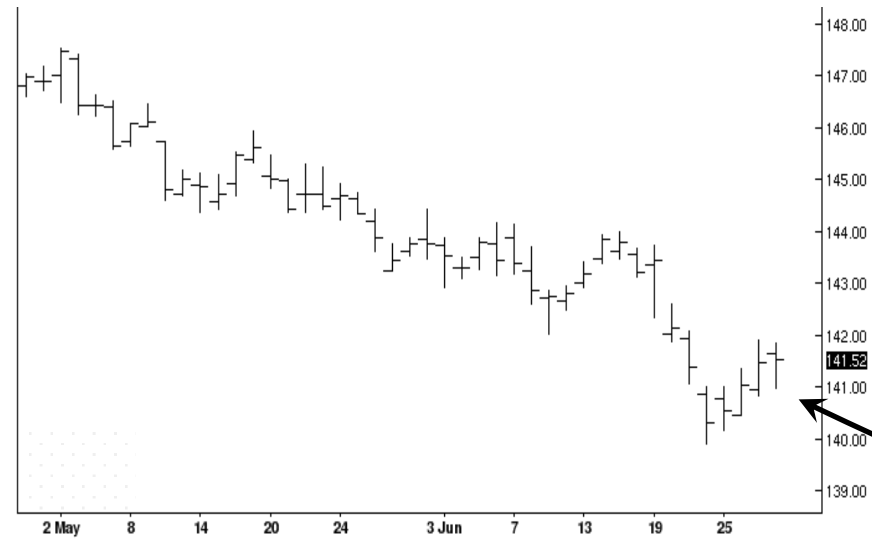
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of The Bund.



The Bund bounced last week, as the Fed soothed market nerves over "tapering".

The Macro Trader's view of the Bund is: the Bund was just one of many markets last week that responded to the Fed's attempt to counter market perceptions that a rush to remove policy accommodation was on the Fed's agenda.

But with Euro zone data starting to show the first flickers of recovery, can the Bund rally much further from here?

We doubt it. This week sees the release of key data in the Euro zone and US, and if the under lying trend remains in place and data continues to flag recovery, traders will increasingly opt for stocks over bonds.

We judge the cycle in bonds including the bund has turned and advise being short.

Our suggested target remains 133.00 and our suggested stop continues at 144.25 for protection.

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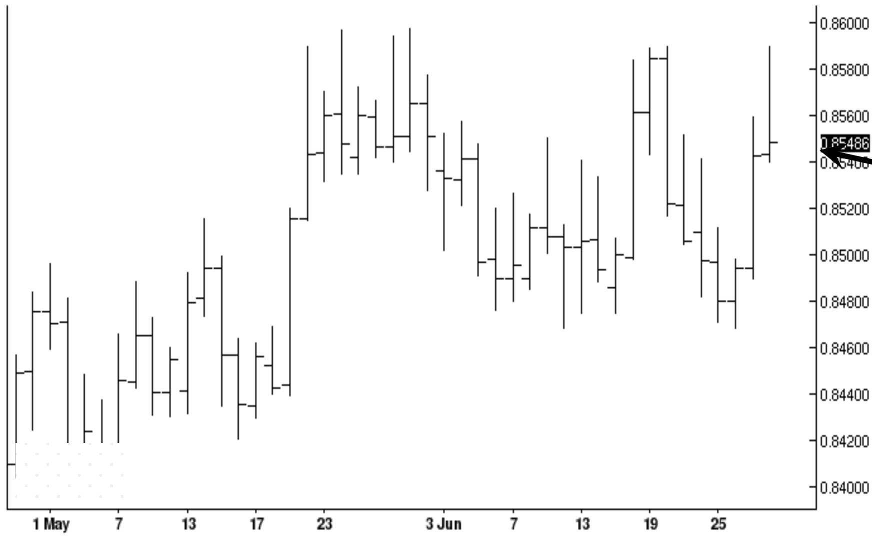
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



See how the Euro lacks direction against Sterling.

The Macro Trader's view of the Euro; against Sterling we repeat last week's view; there is no trade, the pair remain range bound.

Against the Dollar, the Euro gave back some of its gains, but range trading looks the more likely outcome.

Looking ahead we judge currencies will be driven primarily by US data and of that, Friday's release of non-farm payroll stands out.

With the Dollar torn between the data and the Fed and the Euro torn between slowly improving data and on going ripples from the debt crisis, the forex market seems to lack direction.

For now stay square.

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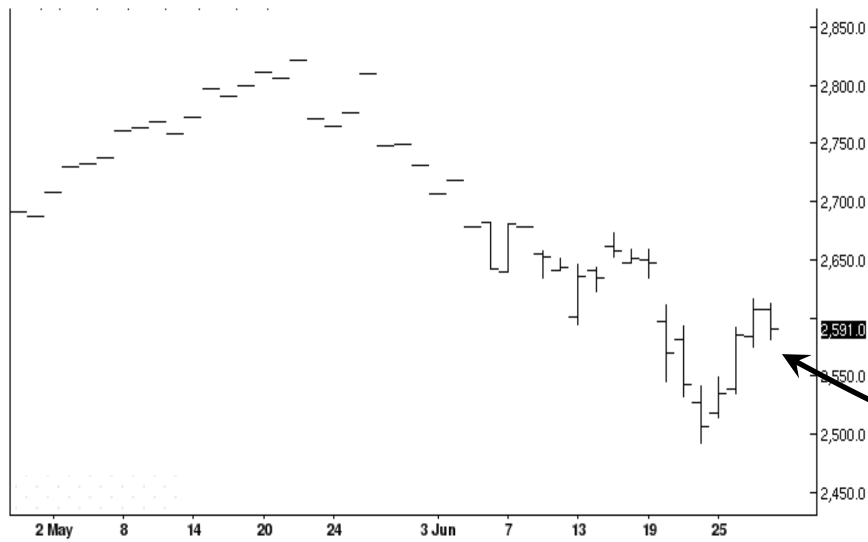
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market EUROSTOXX put in a corrective rally as data showed faint signs of recovery.

The Macro Trader's view of DJ Euro Stoxx 50 is: last week's price action again served as a reminder of how inter-linked the major global markets are.

The Fed bent over backwards last week to try and stabilise markets, especially stocks by playing down the inevitability of tapering and after a weaker Q1 GDP report markets breathed a sigh of relief.

Add in the small improvements recorded by Euro zone economic data and stocks enjoyed a relief rally.

Whether or not that can provide a base for a broader based recovery remains to be seen. At some point traders will have accept that Central Banks, especially the Fed are going to wind down and ultimately withdraw the policy stimulus and refocus onto data.

In fact it is only economic recovery that can provide the lasting dynamism for a bull trend in stocks not Central Bank support.

Are traders ready to refocus? We don't think so just yet, but they will soon. For now stay square.

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JAPANESE MARKETS: economic background

Last week we focussed on the industrial production report which we always judge to be a good indicator of the economy's health.

In the event the report was much stronger than expected, indicating the momentum generated in Q1 looks to have carried over into Q2, indeed this view was supported by the much better than expected retail sales report.

Is domestic demand about to provide the economy with a 2nd motor?

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases ;

- On Monday; **Tankan survey of large manufactures, Tankan Capex report, Vehicle sales and Labour cash earnings.**

The main event this week is BOJ Tankan survey.

This gives an all round look at the prospects for the economy over the next few months.

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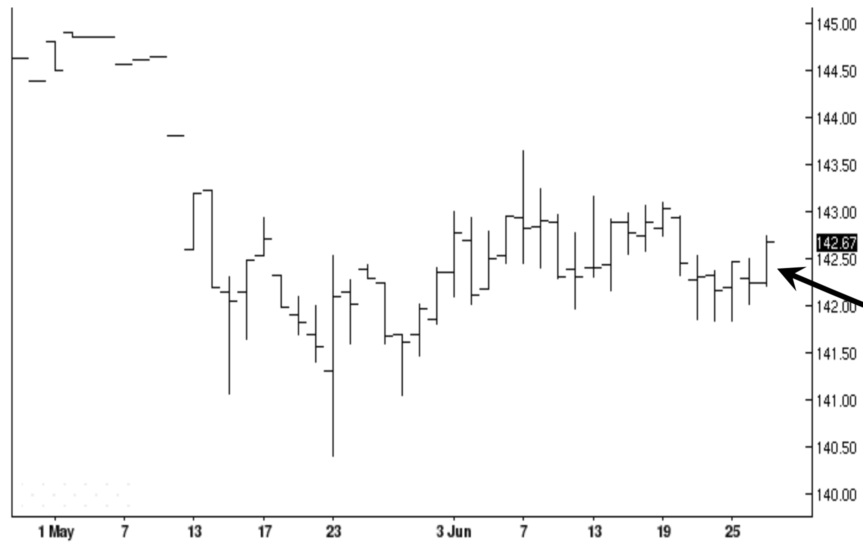
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB uniquely among government bond markets continues to trade sideways.

The Macro Trader's view of the JGB is: the JGB held up well last week even as the Yen began to weaken against the Dollar once more.

But with the Bank of Japan content to sit on the side lines as the economy continues to show signs of a strong recovery with inflation creeping back towards positive territory, we sense this market could trade side ways a while longer.

Looking ahead the key release this week was the Bank of Japan's Tankan .survey released on Monday and showing more signs of recovery.

For now we are square, the JGB is out of step with other government bond markets and for good reason, but we want to avoid the confusion of going short and long bonds at the same time.

So stay square.

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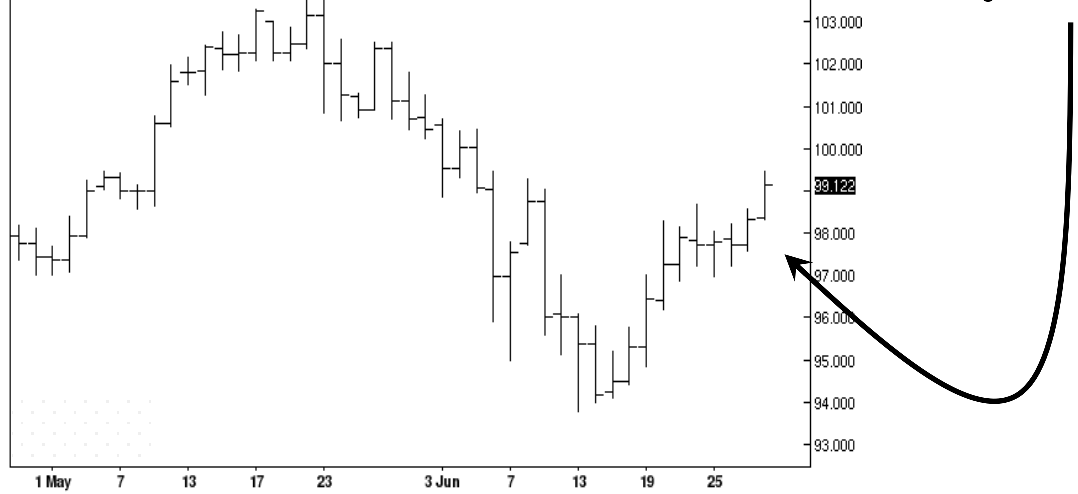
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BEARISH v the DOLLAR.

Last week we were Square

The Yen is again weakening and can go further.



The Macro Trader's view of the Yen is; the Yen weakened further last week as the Dollar drew support from the FOMC decision to announce the beginning of tapering set to start later this year.

And although Fed officials were rolled out to play the event down and Q1 GDP was revised lower, the Government of Japan wants a weaker Yen as part of its policy to get the economy moving again.

Looking ahead there are several reports due this week, but US non-farm payroll stands out. If the Labour market continues to improve; we think it will, the Dollar should make further gains against the Yen.

Traders should be Short the Yen/Long the Dollar.

Our suggested target is106.00 and our suggested stop is set at 96.00 for protection.

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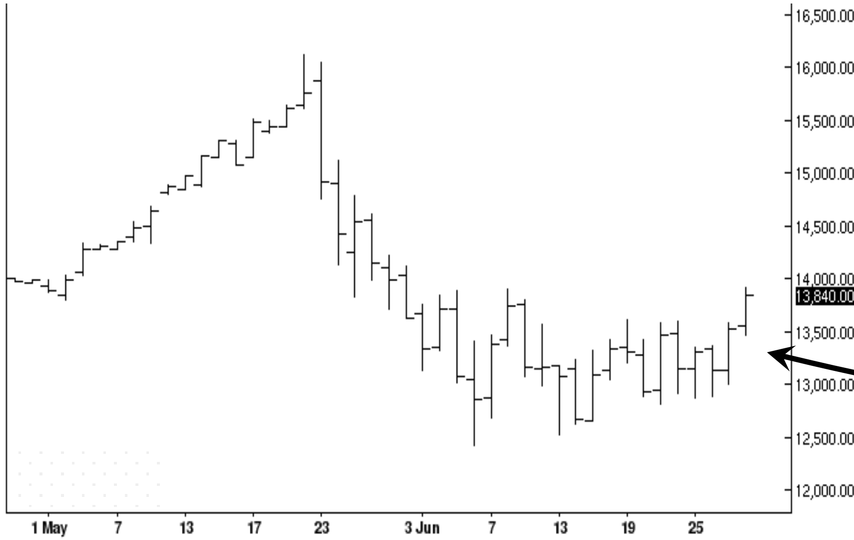
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei remains resilient to further downward pressure.

The Macro Trader's view of the Nikkei is; the Nikkei has performed well over recent weeks, arguably because it suffered a correction earlier than the other major equity markets.

But economic data has remained up beat and clearly demonstrated the benefits to the economy of the governments economic policy which includes a weak Yen.

Looking ahead all the data was released on Monday, so from here all eyes on the US and how data there might impact the Fed's decision to taper off its monthly Bond purchases.

In reality we judge the Nikkei will ultimately follow its own course. But positive overseas sentiment would help the bulls rediscover their nerve.

For now ahead of some important US data releases **stay square**, **but look for a buying opportunity.**

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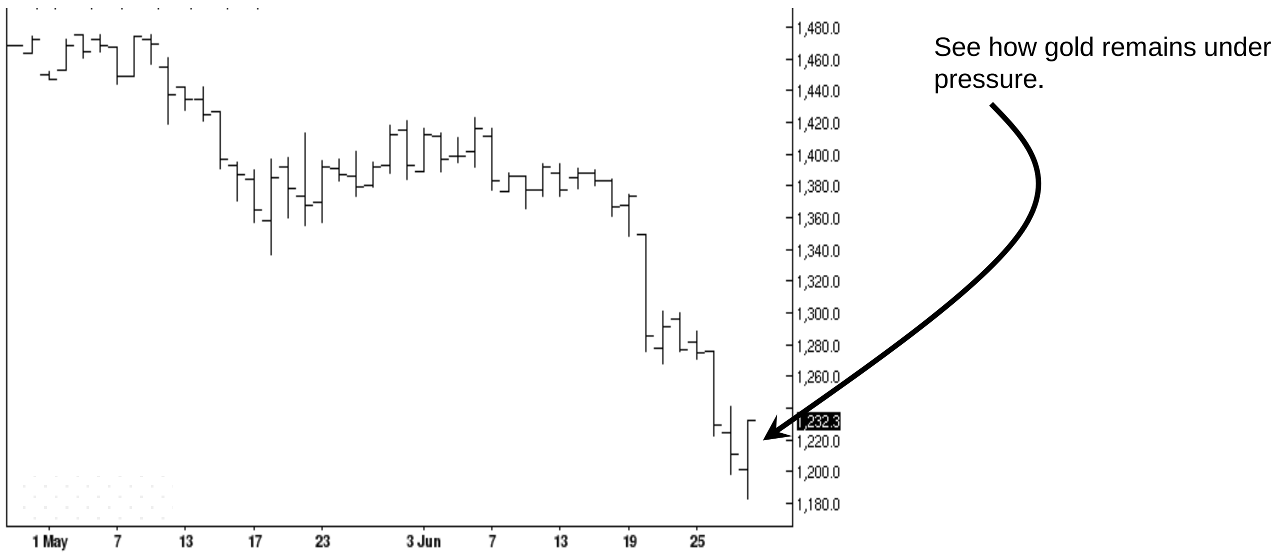
COMMODITIES: Gold

OUR TRADING STANCE; BEARISH.

Last week we were Bearish of Gold.



The Macro Trader's view of the Gold is: last week's price action again vindicated our persistence with this market.

And despite the Fed trying to play down the importance of its recent announcement to begin tapering later this year, gold looks a spent force.

With economic recovery increasingly rearing its head in various corners of the global economy, but with still benign inflation, the rational for holding gold continues to fade and we judge the urge to square long positions will only increase.

For now we continue to advise remaining short of this market.

Our suggested target remains 1175.0 and our stop reduced to 1290.0 for very close protection.

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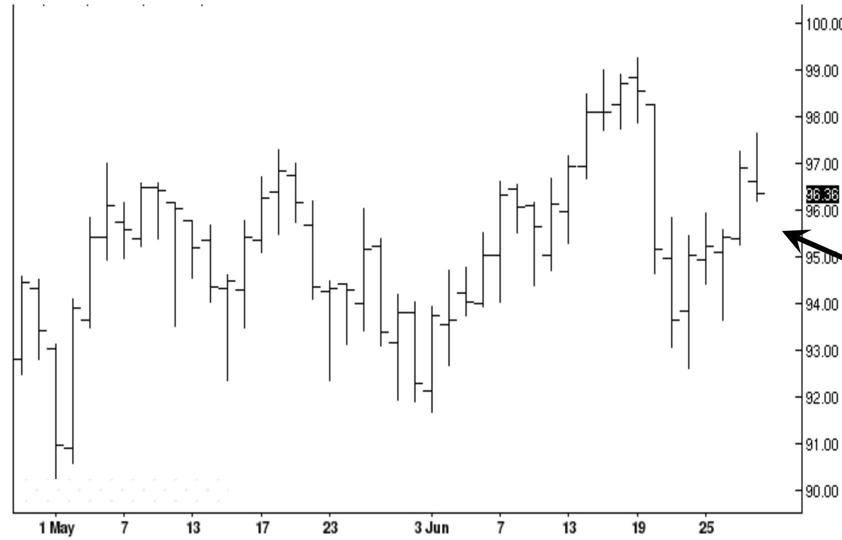
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil has become quite volatile.

The Macro Trader's view of oil is: the oil market has become increasingly volatile as sentiment elsewhere continues to swing between being positive about economic recovery and negative about the Fed opening the door to a long drawn out exit strategy.

Looking ahead, although we think this week's key economic data releases will continue to support the recovery theory, with the Euro zone at last showing some positive signs that recession might at last be coming to an end, we doubt oil has the support needed to break through the upper boundary of the trading range while maintaining enough support to keep it above the lower boundary.

For now oil continues to look like a range bound market and we advise remaining square..

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SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL jlewis@sevendaysahead.com, msturdy@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM

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