Week 35

16th – 22nd July 2013

the macro trader's guide to major markets

John Lewis

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SUMMARY

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+ S&P 500	BULLISH

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+ GILT	BEARISH
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This week's global calendar – macro trader

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	Week of 15th July
Monday	US Retail sales 0.7% US RS Ex- Autos 0.4% US Empire mfg 5 US Bus invntry 0.2%
Tuesday	US CPI 0.3m, 1.6y US CPI Ex – f&e 0.2m,1.6y US Total net lg term TIC flows n/f US Ind production 0.3% US Capacity utilisation 77.7 US NAHB Housing mkt indx 51.0 UK PPI Input -0.2m, 4.2y UK PPI Output 0.1m, 1.9y UK PPI Core 0.1m, 1.1y UK CPI -0.1m, 3.0y UK RPI 0.0m, 3.4y UK RPI-X 3.4Y UK DCLG House prices2.8y EZ CPI 0.1m, 1.6y EZ Trade bal 12.0B DM ZEW Survey 40 JP Tokyo Condo sales n/f JP BOJ June minutes
Wednesday	US MBA Mrtge apps n/f US Housing starts 950k US Building permits 1000k US Bernanke @ the House US Fed's Beige UK MPC/BOE Minutes UK Unemploym't rate 4.5% UK Unemploym't chge -8.0k UK Avrge earngs 1.4% UK AE Ex-Bonus 1.1% UK ILO 7.8% EZ Construction output n/f JP Machine tool ordersn/f

	Week of 15th July
Thursday	US Jobless claims 355k US Bernanke @ the Senate US Philly Fed 6.8 UK Retail sales 0.2m, 1.6y EZ C/A n/f JP Nat'nwide dept store sales n/f JP Tokyo dept store sales n/f
Friday	UK PSNB 9.3B UK PSNCR n/f DM PPI -0.1m, 0.6y JP All Ind actvty index 1.2%

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	Week of 8th July
Monday	US Consumer Cr $19.615B **STRONGER** UK BRC Sales 1.4% **WEAKER** UK RICS Hse prces 21% **STRONGER** DM Trade bal 13.1B **WEAKER** DM C/A 11.2B **WEAKER** DM Ind production -1.0m,-1.0y **WEAKER** JP BK Lndg + trusts 1.9% **AS** JP Trade bal –Y906.7B **WEAKER** JP C/A Y623.3B **BETTER** JP Bankruptcies -8.0% **WORSE** JP ECO Watchers 53.0 **WEAKER** **THAN EXPECTED**
Tuesday	US NFIB Sml bus optimism 93.5 **LESS** UK Ind production 0.0m, -2.3y **WORSE** UKMfg output -0.8m, -2.9y **WEAKER** UK Trade bal -£8.491B **WORSE** UK Trade non-EU -£4.093B **WORSE** UK NIESR GDP Est 0.6% **AS** JP Machine toolorders -12.4% **WORSE** JP Domestic corp gds prces 0.1m,1.2y **MORE** JP Tertiary indx 1.2% **BETTER** **THAN EXPECTED**
Wednesday	US MBA Mtge apps -4.0% **BETTER** US Wholesale invntry -0.5% **WEAKER** US Wholesale sales 1.6%, **STRONGER** US FOMC Minutes Jun 18-19 meeting DM CPI 0.1m,1.8y **AS** JP Cons conf 44.3 **WEAKER** JP Machine orders 10.5m, 16.5y **STRONGER** JP BOJ Policy decision 0.10% **AS** **THAN EXPECTED**

	Week of 8st July
Thursday	US Jobless claims 360k **WORSE** US Import prces -0.2m, 0.2y **WEAKER** US Monthly budget statm't $116.5B **BETTER** DM WPI -0.4m, 0.7y **STRONGER** **THAN EXPECTED**
Friday	US PPI 0.8m, 2.5y **STRONGER** US PPI Ex – f & e 0.2m, 1.7y **STRONGER** US U. of Michigan conf 83.9 **WEAKER** UK Construction output -3.4% **WORSE** EZ Ind production -0.3m, -1.3y **BETTER** JP Ind production 1.9m, -1.1y **LESS** JP Capacity utilisation 2.3% **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week we focussed on the FOMC minutes as we sought to identify any market sensitive comments not apparent from the original policy statement.

In the event the minutes seemed to offer something of a contradiction as it appears fewer policy makers are ready to start tapering and the Labour market remains a concern with Bernanke wanting to see stronger signs of improvement.

As ever other data releases seemed to offer a more mixed message with jobless claims higher than expected and a weaker University of Michigan confidence 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; **Retail sales, Empire manufacturing survey and business inventories,**
- On Tuesday; **CPI, Industrial production and capacity utilisation,**
- On Wednesday; **Housing starts, building permits, Bernanke testifies at the House and the Fed's Beige book, and**
- On Thursday; **Jobless claims and Bernanke testifies at the Senate.**

The main event this week is Bernanke's testimony in Congress.

This is an opportunity for the Fed Chairman to set out his view of the economy and policy and for politicians to question him.

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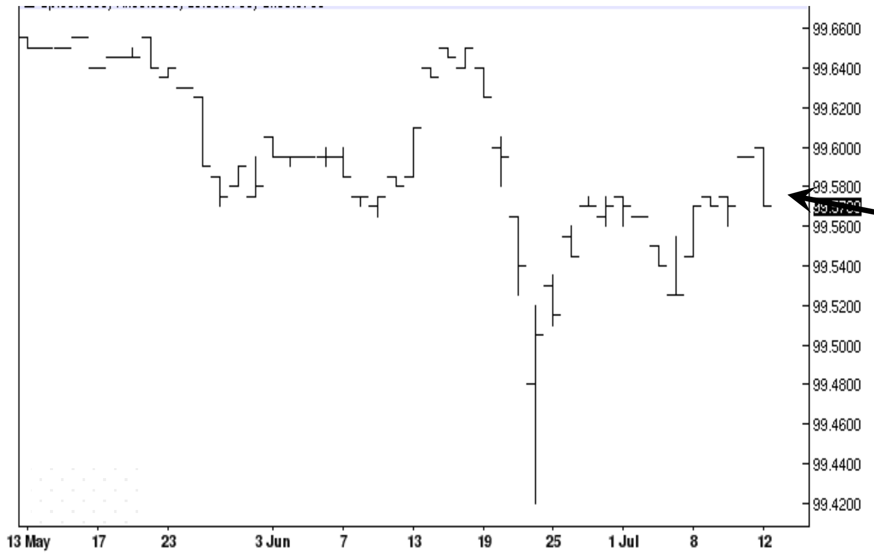
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



See how the market has eased into a trading range.

The Macro Trader's view of Eurodollars is; last week's price action largely met our expectation of an increasingly range bound market.

We highlighted the FOMC minutes as the week's main event and so it proved. The surprise though was the apparent lack of haste towards starting tapering.

Indeed it appears Bernanke requires more evidence from the labour market that it is truly on the mend.

Looking ahead Bernanke takes centre stage this week with his two appearances before Congress when he testifies on the economy and policy.

We see little that will force this market to break new ground this week.

So stay square.

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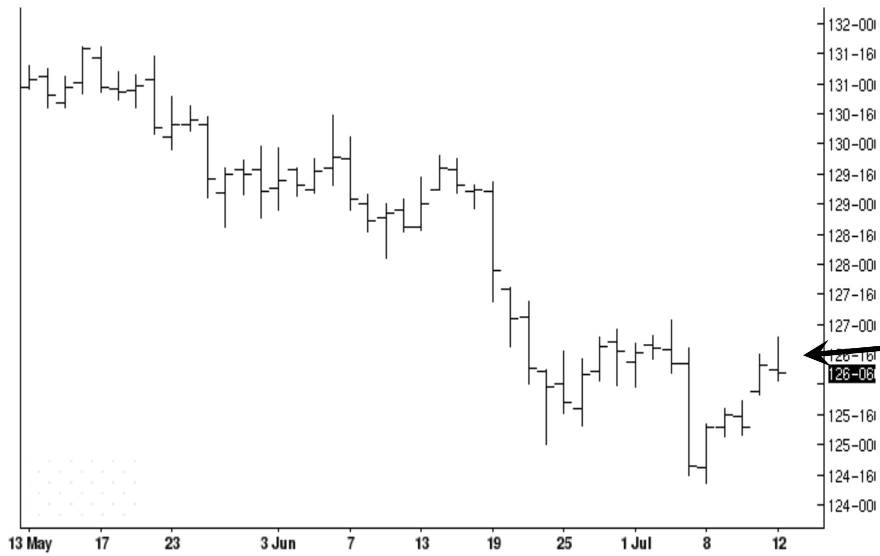
US MARKETS: 10 Year Note

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the 10 year note.



See how the 10 year note rallied on the unexpectedly benign tone of last week's FOMC minutes.

The Macro Trader's view of the 10 year note is: last week we said...

…"Looking ahead the FOMC minutes are due but we judge they will confirm the content of the policy statement rather than convey anything new"…

In the event they offered something of a contradiction, as it was clear that policy makers were not itching to begin tapering but were still concerned to see further evidence of a strengthening recovery, which we judge isn't evident currently.

Looking ahead watch Bernanke's twin addresses in Congress this week, we are almost certain to get greater clarification of the Fed's policy stance.

Traders should remain short of this market as we judge stocks will look increasingly more attractive.

Our suggested target remains 122.00 and our suggested stop continues at 128.0 for close protection.

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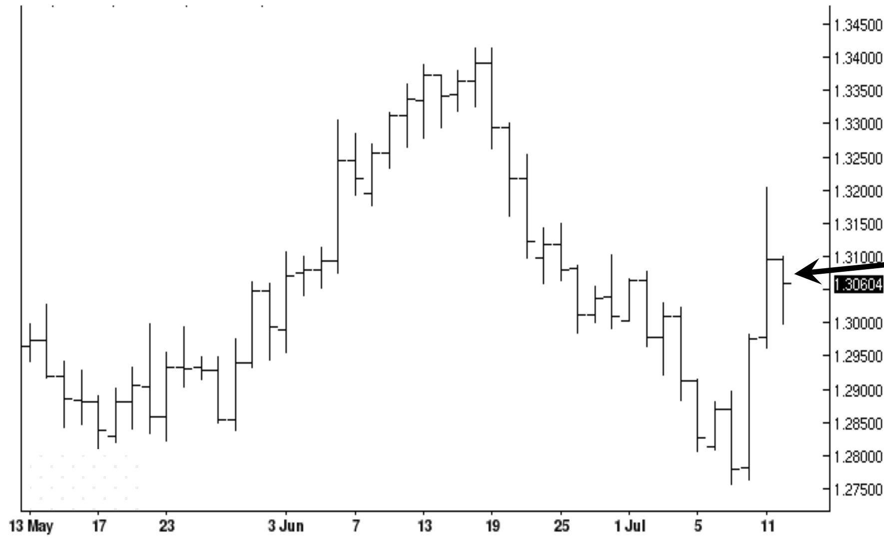
US MARKETS: US Dollar

OUR TRADING STANCE; BULLISH v the YEN.

Last week we were Bullish v the Yen.



The Dollar suffered an abrupt reversal on the FOMC minutes.

The Macro Trader's view of the Dollar is; last week the Dollar suffered a reversal against the other major currencies, especially the Euro after the FOMC minutes revealed policy makers were still some way off starting tapering.

And with jobless claims drifting higher, and Bernanke continuing his focus on the labour market, tapering could still be many months away.

Looking ahead the key event this week is Bernanke's twin testimony in Congress. He will have an opportunity to spell out how he views the economic recovery and the Fed's current policy stance which we think is still accommodative with tapering a longer rather than short term prospect.

Our favoured trade remains Long Dollar/Short Yen.

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

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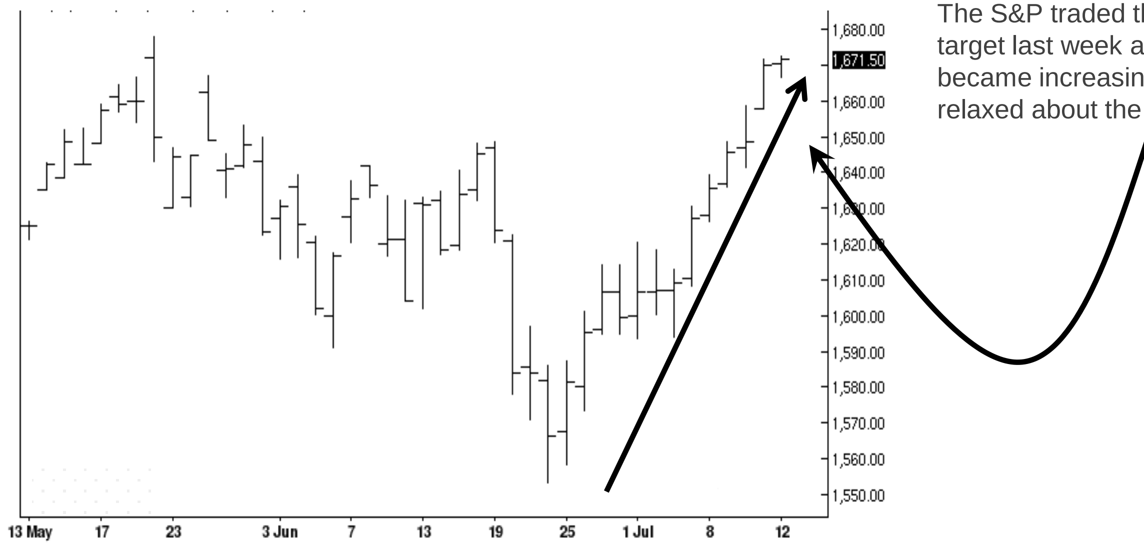
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P traded through our target last week as traders became increasingly more relaxed about the Fed.

The Macro Trader's view of the S&P 500 is: last week we said...

…"We advise going long the S&P. We judge the sell off was overdone. The Fed wont reduce the stimulus it adds unless the economy is strong enough and if the economy strengthens, stocks will rally since the Fed isn't talking about tightening, just not adding any more stimulus"…

Last week's FOMC minutes conveyed to us a message that tapering isn't imminent.

Looking ahead The reporting season is now well under way and has delivered some positive news, if retail sales, due today are better than expected and Bernanke expands on the benign tone of the FOMC minutes, this market will rally further.

Traders should remain long of this market.

Our suggested target is 1700.0 and our suggested stop raised to 1620.0 for closer protection.

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SEVEN DAYS AHEAD

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UK MARKETS: economic background

Last week we focussed on the Industrial production, manufacturing output reports, but these were both disappointing, coming in weaker than expected.

The one bright spot was the RICS house price survey which reported a strengthening market driven by strong demand from first time buyers.

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 Tuesday; **PPI, CPI and DCLG house price survey,**
- On Wednesday; **MPC/BOE minutes and unemployment report,**
- On Thursday; **retail sales, and**
- On Friday; **PSNB and PSNCR.**

There are several key releases this week. The MPC minutes; the first with Carney in charge, the retail sales report, CPI report and unemployment report.

We judge they are all potentially market moving events.

Traders will be focussed on the MPC minutes to gain a first insight into the new governors approach, but then retail sales gives a good feel for the strength of the recovery.

In all an interesting week..

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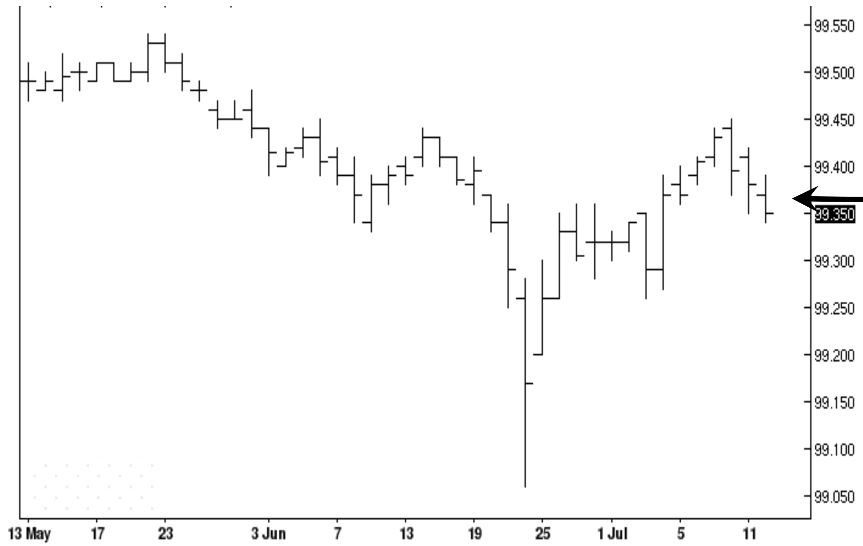
UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



See how Short Sterling sold off despite weak industrial production and manufacturing output.

The Macro Trader's view of Short Sterling is: last week's price action once again revealed the lack of long term direction in this market.

The industrial production data was poor, but the RICS house price survey was stronger than expected and given the importance attached to a healthy housing market, it rightly eclipsed the poor manufacturing number, since a strengthening housing market will ultimately feed through into consumer demand.

Looking ahead several important releases to monitor this week as detailed on the calendar, but for Short Sterling we judge the BOE/MPC stand out.

But for now we think this market range bound so stay square.

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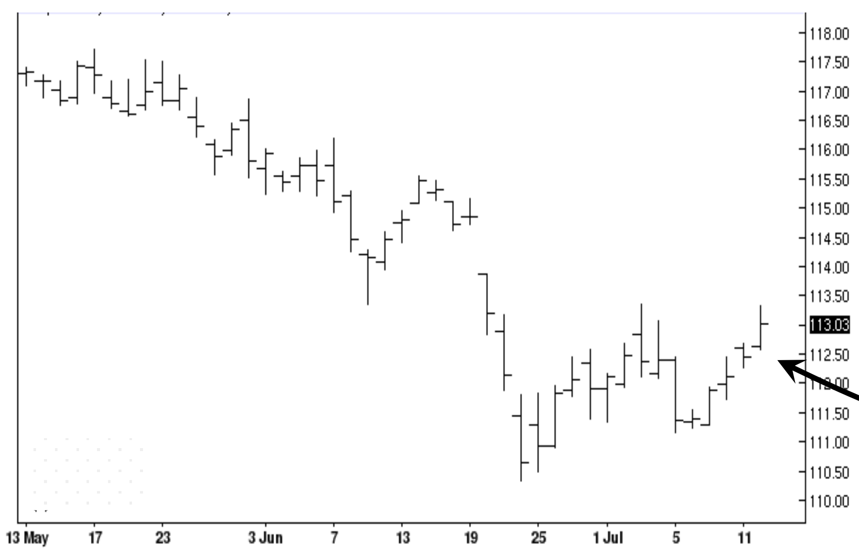
UK MARKETS: Gilt

OUR TRADING STANCE; BEARISH.

Last week we were Bearish of the Gilt.



See how the Gilt joined other bond markets and rallied after the US FOMC minutes.

The Macro Trader's view of the Gilt is; last week the gilt enjoyed yet another short covering rally, fuelled by the US FOMC minutes which revealed US policy makers were further away from tapering than thought.

Additionally the market was disappointed by the weak industrial production/manufacturing output reports here in the UK.

Looking ahead several key UK releases due this week. The MPC minutes and retail sales stand out. Carney has already broken with tradition and offered some forward guidance on UK interest rates, what will the minutes reveal.

On balance we judge stocks will receive a further boost from the data releases, both home and away, BOE minutes and Bernanke's appearance in Congress, to the detriment of Bonds.

Traders should remain short of the gilt.

Our suggested target remains 110.00 and our suggested stop continues at 113.60 for closer protection.

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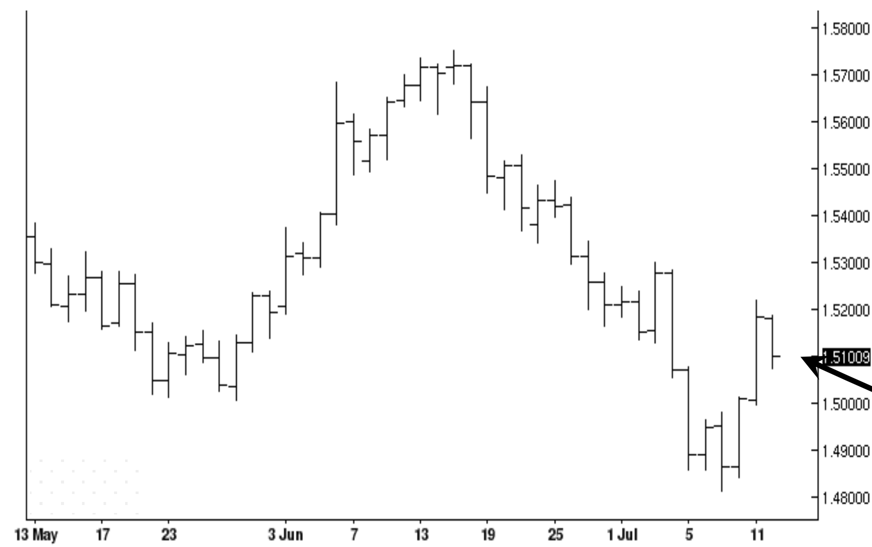
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling bounced against the Dollar after the release of the FOMC minutes.

The Macro Trader's view of the Pound is; last week we anticipated a Sterling correction and it occurred, driven by a weakened Dollar caused by the more benign tone of last week's US FOMC minutes.

Looking ahead anther important week.

In the UK, CPI, retail sales and BOE/MPC minutes stand out.

In the US Bernanke delivers his twin testimony before the US house and Senate. All of these events will impact the major currencies and we suspect the Dollar could correct a little further against Sterling as well as the Euro so now doesn't look like a good time to go short of the Pound, at least not against the Dollar.

For now remain square.

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UK MARKETS: FTSE

OUR TRADING STANCE; BULLISH.

Last week we were Bullish.

See how the FTSE extended the rally helped by strengthening international sentiment.

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

…"Looking ahead we sense stocks have recovered from the shock of the Fed's tapering announcement. With the major Central Banks, including the Fed intent on maintaining the level of accommodation, we judge traders will drive equity markets higher as data continues to improve"...

Data disappointed last week, but the US FOMC minutes certainly calmed traders nerves and equity markets rallied.

Looking ahead the Fed Chairman testifies in Congress and we believe that will be positive for this market.

Also UK retail sales are due and the BOE/MPC minutes and we believe these events will prove bullish for equity markets too.

Traders should remain long of this market

Our suggested target is now 6690.00 and our suggested stop is raised to 6340.0 for closer protection.

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EURO ZONE MARKETS: economic background

The focus last week was the industrial production reports released first by Germany and then the Euro zone. The German version fell short of consensus.

The Euro zone version was a little better than expected, but not by much, leaving an impression of a Euro zone economy still very much in recession with the debt crisis still hanging over like a black cloud.

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 Tuesday; **German ZEW, Euro zone CPI and trade balance,**
- On Wednesday; **Euro zone construction output,**
- On Thursday; **Euro zone current account data, and**
- On Friday; **German PPI.**

A relatively quiet week for Euro zone data, but we judge the German ZEW survey the domestic release to watch.

However we sense markets will react to international sentiment and with Bernanke delivering his twin testimony to Congress this week, all eyes are likely on him.

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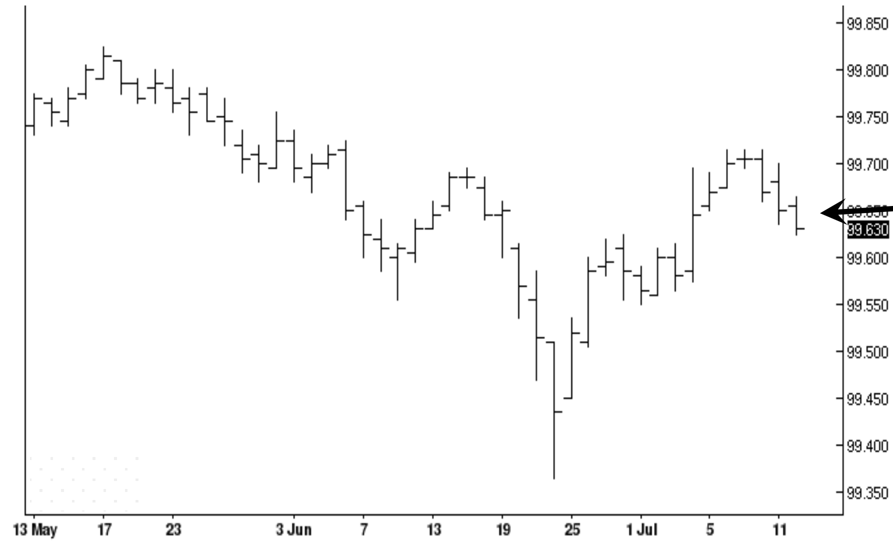
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor is beginning to look range bound.

The Macro Trader's view of Euribor is; last week's price action lacked direction. The short end of the interest rate curve in the Euro zone, much like the UK and US has lacked direction for a very long time.

With economic weakness still dominating the thinking of policy makers, this market is well supported, but with interest rates already almost as low as they can go; 0.50%, the upside is limited, hence the long periods of trading within relatively well defined trading ranges.

Given recent ECB comments and data releases, we see little prospect of a decisive break in either direction.

Even in the US the Fed's FOMC minutes released last week, were more cautious than the policy statement suggested.

We judge the period of range bound trading is likely to persist for a considerable period of time yet.

So for now stay square.

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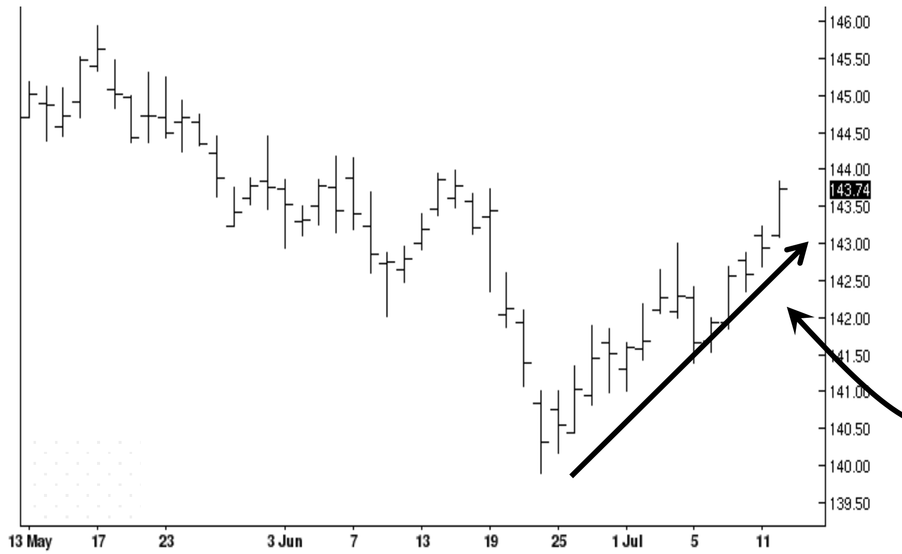
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of The Bund.



The Bund's continues to buck our expectation with an extended correction.

The Macro Trader's view of the Bund is: the Bund extended the rally throughout much of the week as Greece and Portugal continued to stir anxiety.

And with data remaining mixed, and the US FOMC minutes showing the Fed not quite so eager to start tapering as the recent policy statement suggested, bonds have enjoyed something of a reprieve.

The question to answer is; how much further can this retracement go?

In a sense we judge Bernanke's testimony in Congress this week will answer that question. If the Fed still has concerns about the pace of recovery, and we believe it does, tapering will look more like an aspiration rather than an imminent policy objective and bonds including the Bund could rally further.

However there are some important data releases due in the US this week and they, rather than Bernanke could set the tone in markets; we shall see.

In the mean time…

Traders should remain short of the Bund; we judge the correction will fade.

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

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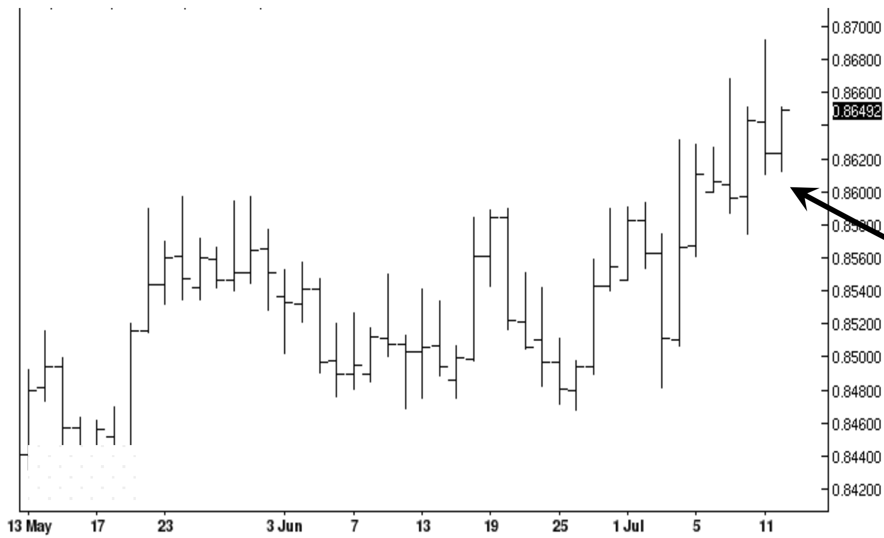
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



See how the Euro emerged as the main beneficiary of the FOMC minutes.

The Macro Trader's view of the Euro; the US FOMC minutes revealed the Fed wasn't as close to starting tapering as traders assumed.

And as the Dollar corrected against the other major currencies, the Euro performed well against the Dollar and Sterling.

The Pound remains broadly weaker after the Bank of England governor gave official forward guidance on interest rates and although the ECB President did too, the UK has higher inflation with a growing economy that could force inflation higher, fuelled by rising energy costs.

We judge the currency markets do not offer a good trading opportunity as we sense they remain largely range bound with the exception of Dollar/Yen.

For now though, stay square.

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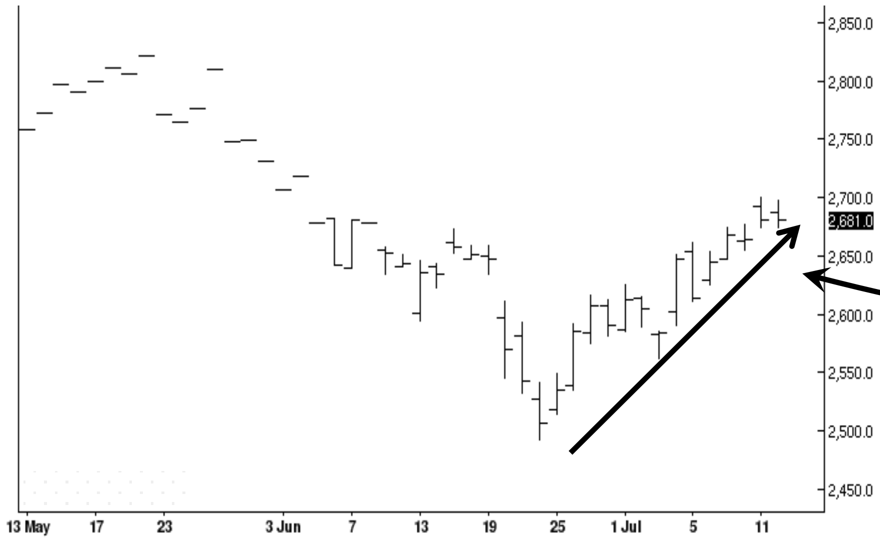
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market extended the rally on supportive Central Bank comments.

The Macro Trader's view of DJ Euro Stoxx 50 is: last week's price action showed that equity markets are supported by the recent supportive comments made by leading Central Banks.

And although the Euro zone economic recovery is currently more a desire than reality and the debt crisis remains unresolved, the promise of on going Central Bank support has proven to be a powerful means of support for equity markets.

Looking ahead few key data releases are due in the Euro zone, but traders will be focussed on Ben Bernanke when he testifies on the economy and policy at the House and Senate later this week.

We judge a positive response from stocks is highly likely.

But since sentiment driving stocks is US generated we prefer to go long the S&P and remain square here.

More

JAPANESE MARKETS: economic background

Last week we focussed on the Industrial production report as we sought yet more evidence of the sustainability of Japan's economic recovery.

However the report failed to meet consensus, as did many of the other data releases last week, offering pause for thought.

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 Tuesday; **Tokyo Condo sales and BOJ minutes,**
- On Wednesday; **Machine tool orders,**
- Thursday; **National and Tokyo department store sales, and**
- On Friday; **All industry activity index.**

The main event this week is the National and Tokyo department store sales.

If Japan's recovery is to truly take hold, consumer demand must begin to shoulder it's share of the burden of fuelling growth.

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Summary

Global Calendar

US Markets
+ EURODOLLARS
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+ US DOLLAR
+ S&P 500

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+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

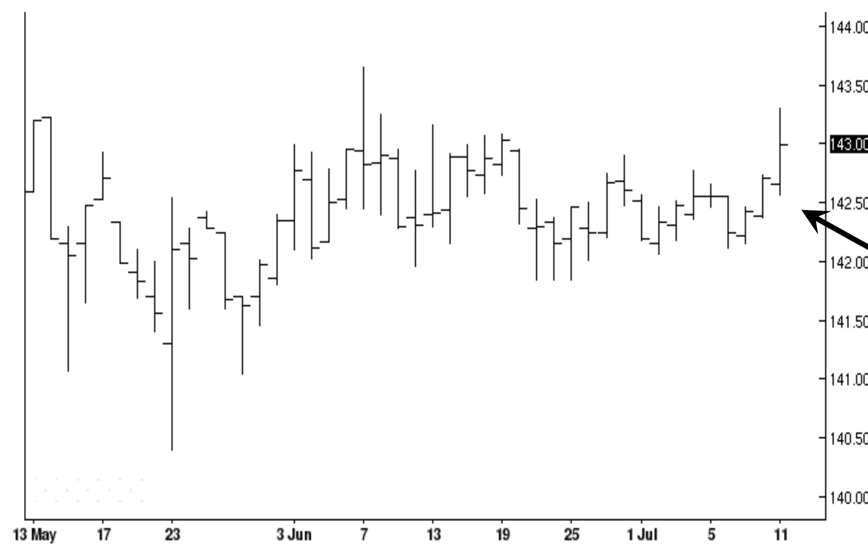
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied after a week of disappointing data releases.

The Macro Trader's view of the JGB is: in a week when data fell short of consensus, and the FOMC minutes played down tapering in the US, bonds generally rallied and the JGB tested the top of the recent trading range, but can it break out?

We judge Japan's recovery remains on track, and the Nikkei is likely to prove to be more in demand than JGB's.

Looking ahead the department store sales stand out this week, but a number that beats consensus is more likely to prove equity positive.

In summary we judge this market is likely to remain range bound.

So stay square.

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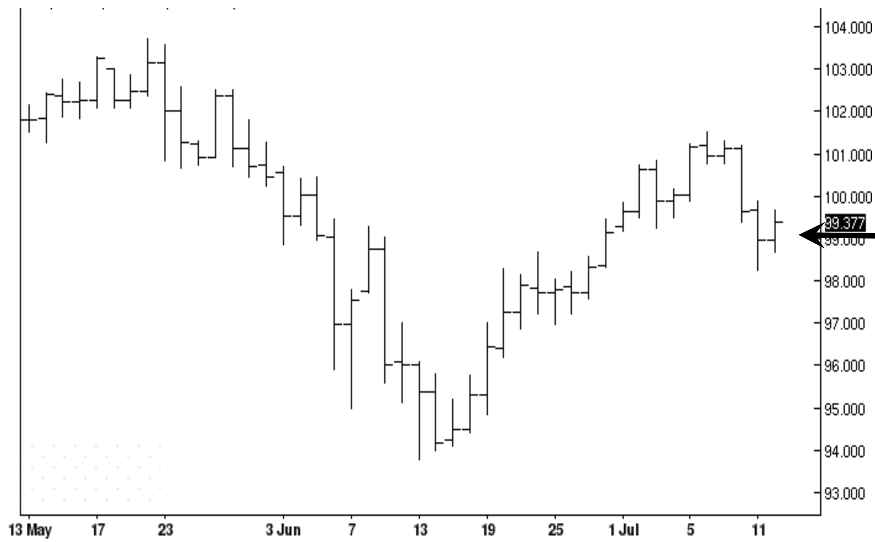
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BEARISH v the DOLLAR.

Last week we were Bearish v the Dollar



The Yen's recent weakness reversed last week, but it was due to Dollar weakness rather than Yen strength.

The Macro Trader's view of the Yen is; the Yen suffered a correction last week, which was driven by Dollar weakness; Japanese data largely fell short of expectations.

But with the FOMC minutes released in the US last Wednesday indicating a Fed less in a hurry to start tapering than expected, the Dollar eased lower against the other major currencies.

Looking ahead we judge events in the US rather than Japan will dominate this week, as Bernanke is due to testify on the economy and policy in both houses of Congress.

However we remain bearish of the Yen and expect the broader policy priorities of Japan to re-assert.

Traders should be Short the Yen/Long the Dollar.

Our suggested target remains 106.00 and our suggested stop remains set at 96.00 for protection.

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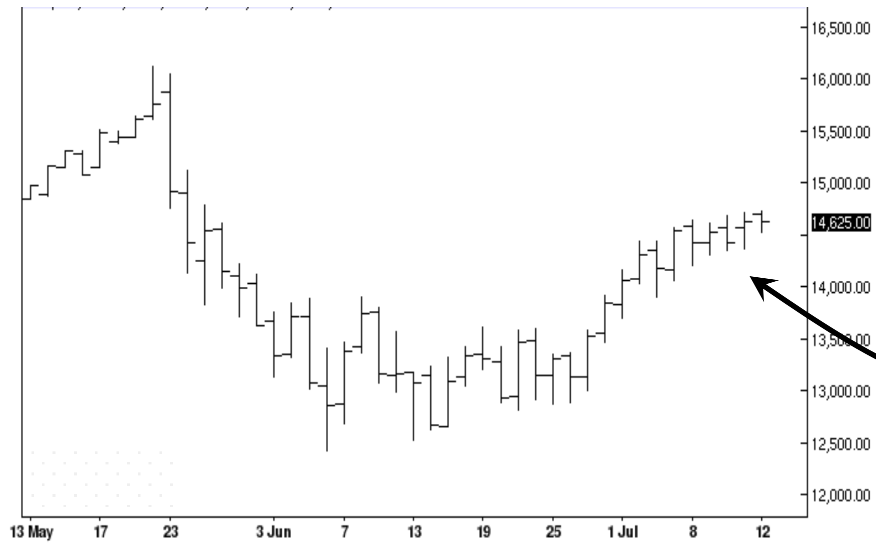
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Nikkei.



See how the Nikkei extended the recent rally despite a recovery in the Yen and weaker data.

The Macro Trader's view of the Nikkei is; the Nikkei continued to recover last week, but at a slower pace as data came in weaker than expected.

The rallying Yen offered little help either as currency traders reacted to the benign tone of last week's FOMC minutes.

But that was what supported most equity markets last week, as traders latched onto the recently more supportive tone of several leading Central Banks.

Looking ahead department store sales are the main domestic event this week, but traders will again look towards the US and the Fed Chairman for guidance.

Traders should be long of this market. Our suggested target remains 15,500.0 and our suggested stop continues at 13450.0 for protection

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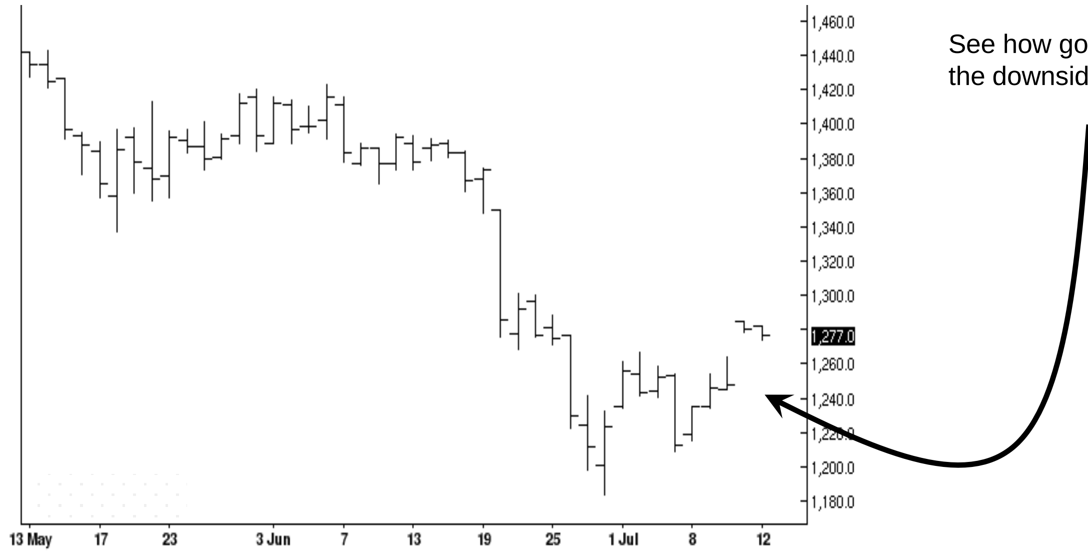
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Bearish of Gold.



See how gold continues to defy the downside.

The Macro Trader's view of the Gold is: last week's price action was once again frustrating for the bears and we have gone square.

In an environment where inflation remains low, the Chinese economy seems to have permanently shifted down a gear and with the blessing of policy makers, and western Central Banks, including the Fed still seem some way off from abandoning their easy money policy, Gold seems to have been forgotten as an asset.

The limited corrective rally is likely driven by the benign tone of last week's FOMC minutes which indicated the Fed isn't after all in a hurry to start tapering.

But is the market likely to either sell off or indeed stage a significant rally from here?

Increasingly we think not, in any event holding non performing assets is a waste of resources.

So go square.

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Commodities
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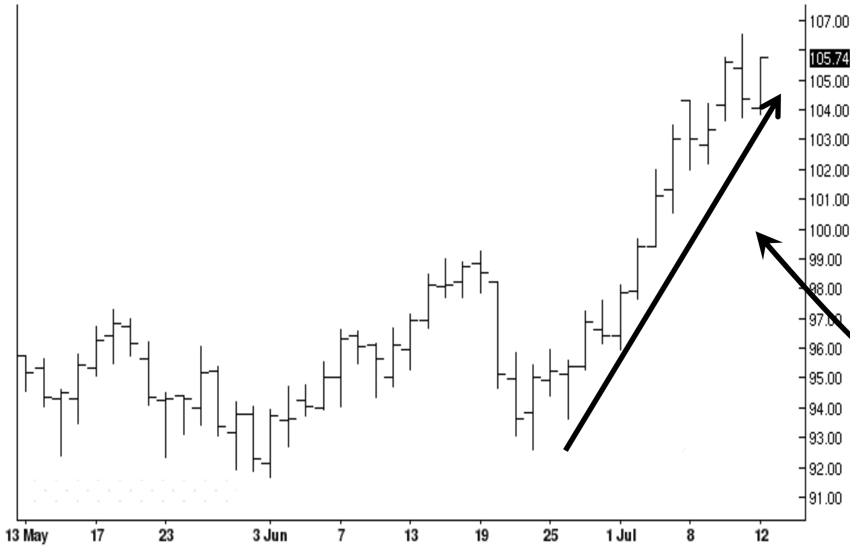
COMMODITIES: Oil

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Oil.



See how oil extended the rally last week on supply concerns in Nigeria and elsewhere.

The Macro Trader's view of oil is: the oil market further extended the rally last week as tensions in and around the all important Middle East oil producing region continued.

Egypt remains in a state of crisis, Syria at war and violence seems to be increasing in Iraq, fuelled no doubt by Iran.

Add in the recent disruptions in Nigeria and elsewhere and fears over the security of oil supply are driving this market higher.

And to be frank, while these tensions continue to exist the market is likely to further test the upside..

Traders should remain long of Oil.

Our suggested target is 110.00 and our suggested stop is 98.00 for protection..

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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