WEEK 30 26th July – 1st August 2005

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS

LINKS

SEVEN DAYS AHEAD
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ABOUT SEVEN DAYS AHEAD

Seven Days Ahead publishes a variety of trading guides suitable for experienced market operators.

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 29 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.

Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.

The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 29 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 Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

US MARKETS

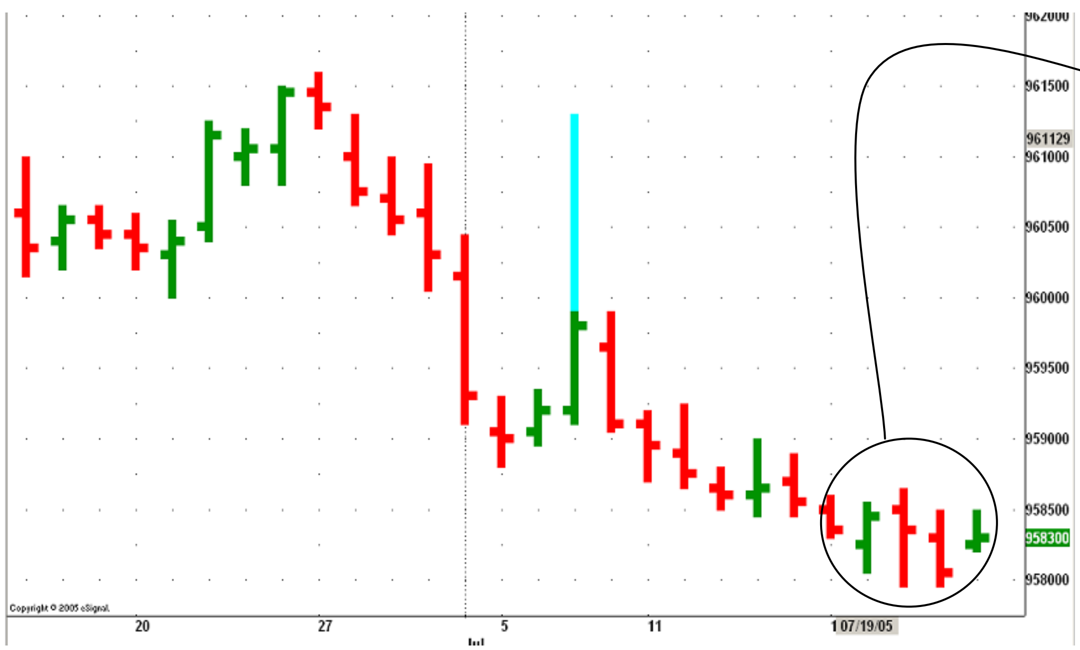
EURO DOLLARS

WHAT HAPPENED LAST WEEK?

	Week of 18th July
Monday	Net foreign sec's purchased $60.0B STRONGER THAN EXPECTED
Tuesday	Housing starts 2.004M WEAKER Building permits 2.111M STRONGER
Wednesday	Fed's Greenspan testifies ECONOMY SOUND, INFLATION CONTAINED, MORE RATE HIKES.
Thursday	Jobless claims 303K LOWER Fed's Greenspan testifies part 2 DITTO Philly Fed index 9.6 AS THAN EXPECTED Minutes June 30 FOMC MORE HIKES TO COME
Friday	

Last week's calendar.
Last week's calendar was dominated by Alan Greenspan and the FOMC minutes, although China's currency revaluation grabbed some headlines of its own.
On Monday; net foreign securities purchased was higher than consensus, showing foreigners maintained their appetite; good news after the White House recently reduced its estimate for the 2005 deficit, on Tuesday; housing starts, weaker than consensus and building permits, stronger than consensus, on Wednesday; Greenspan testified to Congress giving his take on the economy and the Feds view on the application of monetary policy, on Thursday; Jobless claims; lower, Philly Fed; as expected, Greenspan again testified to congress repeating Wednesday's text and later in the day the FOMC minutes from June 30th which underlined Greenspan's theme of a steady recovery with contained inflation which the Fed was closely monitoring but currently required further hikes.
The market reacted to all of this by pushing lower, but by Friday the market began to trade as if it had now moved low enough.

DECEMBER 05 EURO DOLLARS



See how the market traded lower Wednesday and Thursday, but settled away from the lows on Friday.

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EURO DOLLARS

THE WEEK AHEAD

	Week of 25th July
Monday	Existing home sales 7.13M
Tuesday	Conference board cons conf 106
Wednesday	Durable goods -1.0% Ex-transport 1.0% New home sales 1.300m Feds beige book
Thursday	Jobless claims 325k
Friday	Q2 GDP Annualised 3.5% Personal consump 3.4% Employment cost Index 0.8% U. of Michigan 96.3 Chicago PMI 55

This week's calendar.

This week the calendar focuses on the Feds beige book and Q2 GDP.
On Monday; existing home sales, on Tuesday; the conference board's measure of consumer confidence, on Wednesday; Durable goods, new home sales and the Feds beige book, on Thursday; Jobless claims and on Friday; Q2 GDP, expected at 3.5, but will it be more in line with the last two quarters, employment cost index, University of Michigan sentiment and Chicago PMI; a sometimes unreliable forerunner of the national survey.

OUR TRADING STANCE: BULLISH.

Last week we were neutral of December 05.
This week we are bullish of December 05.

Last week we were neutral of December 05 Eurodollars and after several weeks of negative price action and testimony by Fed Chairman Greenspan due; the posture felt right. The market slipped a little lower but rejected the lows. Greenspan said the economy would continue to enjoy sustained **MODERATE** growth with inflation well contained and the Fed would continue increasing interest rates further at a measured pace to **remove the accommodation**. He also conceded there was still slack in the labour market and the FOMC minutes released Thursday late afternoon echoed those sentiments. Some members apparently differed on how much more tightening lay ahead, while agreeing they needed to remain alert over future inflation, but they also thought long term inflation prospects were well contained. Looking ahead the Fed will increase rates, as they have said, further, but by no more than 3 x 25bp. Inflation has eased lower as evidenced by both PPI and CPI and other core measures, growth is at best running at 3.8% and is expected to have slipped a little to 3.5% this quarter. The Labour market is producing insufficient numbers of new jobs; usually non-farm payroll would be throwing out numbers of between 300k – 400k a month by this stage in a recovery, maybe not every month but frequently. Further, if the deficit is at last correcting, the economy will notice the difference and although benefit later, not immediately. On balance we view the market as ripe for a correction higher.

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BULLS go long; the market prices in rates at 4.25% and more; we believe 4.0% represents neutrality and that is where the Fed will rest. Friday's GDP if much stronger than consensus will cause a short term sell off so build position gradually until then.
BEARS stay square; although Greenspan said more hikes are coming, we knew that; he wont tell us how many but given the nature of this expansion; less than the market has priced in.

THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: NEUTRAL.

Last week we were neutral.

US 10yr NOTE SEPTEMBER 05

See how the market traded lower after Greenspan noted the current low yields at the longer end need not signal economic problems ahead but may be related to other factors involving the need for China to revalue.

This week we remain neutral.

Last week we were again neutral of the market as we awaited Fed Chairman Greenspan's dual testimony to Congress. In the event he said little we didn't already know; the Fed would continue with the measured pace of tightening designed to <u>REMOVE THE POLICY ACCOMMODATION</u> which to us signals neutrality and no more. He also said the economy would continue to enjoy <u>MODERATE</u> growth, an acknowledgement of the tepid nature of this expansion. He also said there was still slack in the labour market; drawing on the Boston Feds recent work. On balance he didn't sound like a Central Banker intent on stepping on the accelerator. If the Fed takes policy to 4.0% that will be 12 hikes which is a long tightening cycle and given his use of words; moderate, for growth and slack for the labour market at the same time as saying the Fed will continue removing the accommodation, his words point to policy moving to neutrality and no more. Further he acknowledged the bubble in the US housing market and although he noted consumers could live with its deflation, he wont want to collapse that market which has helped provide the finance to keep the consumer going. Looking ahead yields in the Treasury market are low, but with inflation well contained, as evidenced recently by PPI and CPI, and growth so moderate, there is little need for them to back up, but neither is there a case for them to fall. The market is in a wide range, where it will likely remain.

BULLS stay square; there is no clear direction for this market at present. When traders realise the Fed will stop at 4.0% that may change.
BEARS remain square unless Q2 GDP is much stronger than consensus, if so; sell.

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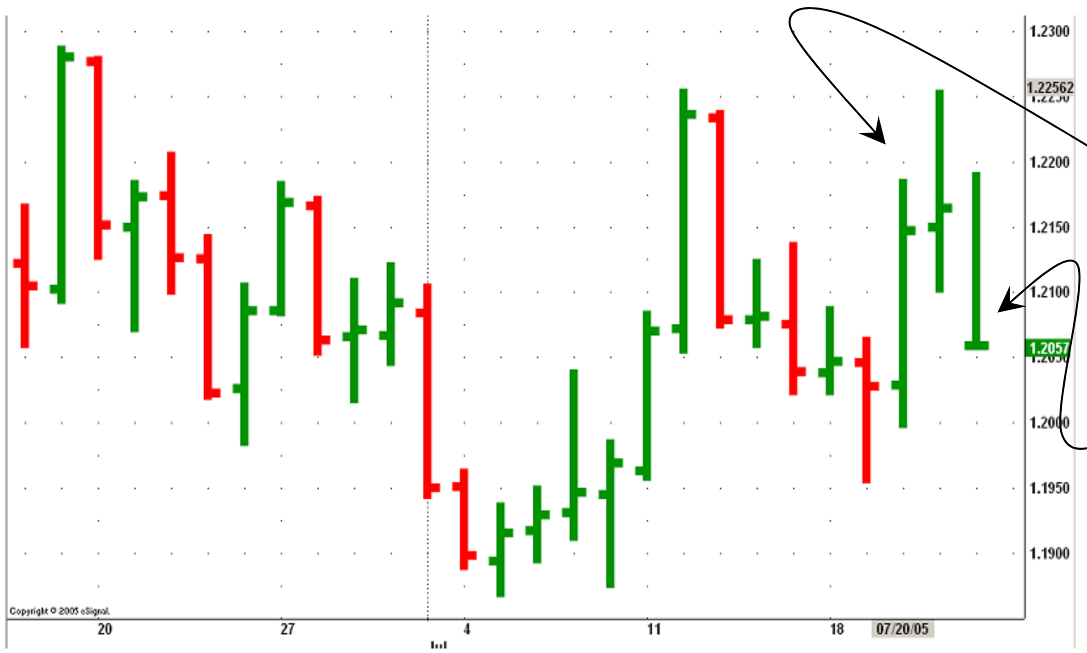
THE DOLLAR

OUR TRADING STANCE: CAUTIOUSLY BEARISH.

Last week we were cautiously bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar traded higher on comments from Greenspan on Wednesday and Thursday, but after China re-valued its currency and removed the Dollar peg, replacing it with a currency basket, the Dollar then traded lower on Friday, as traders realised more could follow.

This week we remain cautiously bearish of the Dollar.

Last week we were cautiously bearish of the Dollar and after last week's price action our view was broadly correct. The Dollar continued to give ground against the Euro as traders wondered what Greenspan may say in his dual testimony to Congress. In the event he said nothing new, repeating the Feds view that moderate growth would continue with inflation remaining contained while at the same time slack remained in the labour market. These words reassured traders as they came with the assertion that the Fed will carry on increasing interest rates to remove the policy accommodation. The FOMC minutes released Thursday evening echoed the same theme. However news that China had re-valued its currency and moved from a Dollar peg to a currency basket sapped the Dollars strength. The move was originally portrayed by the Chinese as full and final, but over the weekend officials from the Chinese Central Bank indicated more could follow. Looking a head the main events likely to affect the Dollar are; the Feds beige book, Q2 GDP and the Chicago PMI. The one likely to have the greatest impact is Q2 GDP. Growth of 3.5% is expected after 2 quarters of 3.8%, if the number is materially stronger than consensus the Dollar will rally, in line or weaker will cause the Dollar to drift lower as traders refocus on Greenspan's words and realise that although the Fed intents nudging rates higher from here, neutrality is all they have in mind.

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BULLS remain square; Greenspan said nothing new and he correctly described the expansion as moderate. With few worries over inflation the Fed wants to nurture the expansion and they see their gradual policy adjustments as the best way of achieving a sustained recovery. To move on to a restrictive policy would damage the recovery.
BEARS continue building a short position against the Euro. Against the Pound, if already short at lower levels hold until Friday's Q2 GDP; if strong square up. If square of Cable stay sidelined for now, the Pound is affected by terrorism and remains volatile.

UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK?

	Week of 18th July
Monday	RICS House prices -42 BETTER THAN EXPECTED
Tuesday	
Wednesday	MPC Minutes 5/4 MORE BULLISH PSNB 5.9B AS PSNCR 12.3B WORSE Mortgage lend'g 11.9B STRONGER M4 Sterling lending 6.5B WEAKER THAN EXPECTED
Thursday	Retail sales 1.3m, 1.6y STRONGER THAN EXPECTED
Friday	Q2 GDP 0.4q, 1.7y AS EXPECTED

Last week's calendar.

Last week's calendar was supportive for the bulls despite a stronger reading of retail sales. On Monday; the RICS house price survey was less negative than expected, on Wednesday; MPC minutes revealed a tight vote; 5/4, with the four who supporting a rate cut sighting weak growth and retail sales, the Governments borrowing figures were worse than consensus, as was M4 Sterling lending, but mortgage lending was stronger. On Thursday; retail sales was stronger than consensus on a monthly and annual read, but when comparing 3 months against 3 months a year ago they were the weakest in 6 years. Then on Friday; GDP was as expected. Had it not been for the stronger retail sales, it would have looked much worse.
The market responded to all of this by moving sideways until Wednesday's MPC minutes when it rallied strongly, on Thursday the market was pulled around by first; retail sales and then the botched terrorist attack. Friday saw the bull tack resume after the GDP data.

DECEMBER 05 SHORT STERLING

See how the market rallied after the bullish MPC minutes on Wednesday and then swung around wildly after retail sales and terrorist bombs at lunch time on Thursday.

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SHORT STERLING

THE WEEK AHEAD

	Week of 25th July
Monday	
Tuesday	CBI Ind trends n/f
Wednesday	BBA UK Mortgage lending n/f
Thursday	Nationwide house prices 0.2m, 2.6y
Friday	M4 Stlg lending n/f Net lending on dwellings 7.7B Mortgage approvals 98k GFK cons conf -4

This week's calendar.

This week's calendar is much lighter with the focus on lending and the housing market. On Tuesday; CBI Industrial trends survey; interesting since Friday's GDP data confirmed the industrial sector is in recession, on Wednesday; BBA Mortgage lending; a chance to see if that market is picking up, on Thursday; Nationwide house prices; another look at the housing market, on Friday; a final look at M4 Sterling lending, net lending on dwellings, mortgage approvals; a good guide to future market strength and the GFK consumer confidence measure.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of December 05.
This week we remain bullish of December 05

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Last week we remained bullish of December O5 expecting last week's data to make an unequivocal case for lower rates. Most of the data was as expected, but retail sales showed a surprisingly strong bounce. On closer inspection this was mainly a result of shops bringing forward their sales after a disastrous first half of the year. The warm weather earlier in the month helped too, however the corollary of this will likely mean weaker trading for July so the MPC will not be fooled by this number. When viewed on a 3 monthly basis against the same three months last year, the picture is very weak. The MPC noted this in their minutes with 4 members wanting an immediate cut; it seems the other 5 didn't want to appear panicked, voting on the same day as the terror attacks 7/7. However GDP was as expected; weak with manufacturing back in recession. We still fully expect the MPC to cut rates at their next meeting for a couple of reasons; GDP is at its weakest level for over 10 years, retail sales are weak and June's retail sales will likely prove a blip and after another round of terror attacks we are clearly in the midst of an on going campaign. If the Police are able to make significant arrests soon that include the organisers of the attacks, the economic impact will remain negligible. However if they are unable to achieve a significant break through and more attacks ensue; perhaps similar in effect to the ones on 7/7, public resolve may waver, people will increasingly avoid public transport and drive into London with all the travel chaos that will bring. This will impact the Capitals economy and as the county's main economic engine; the UK'S wider economy. Additionally more attacks will hit the tourist industry affecting not just Hotels, but theatres shops, bars etc, leading to job losses.

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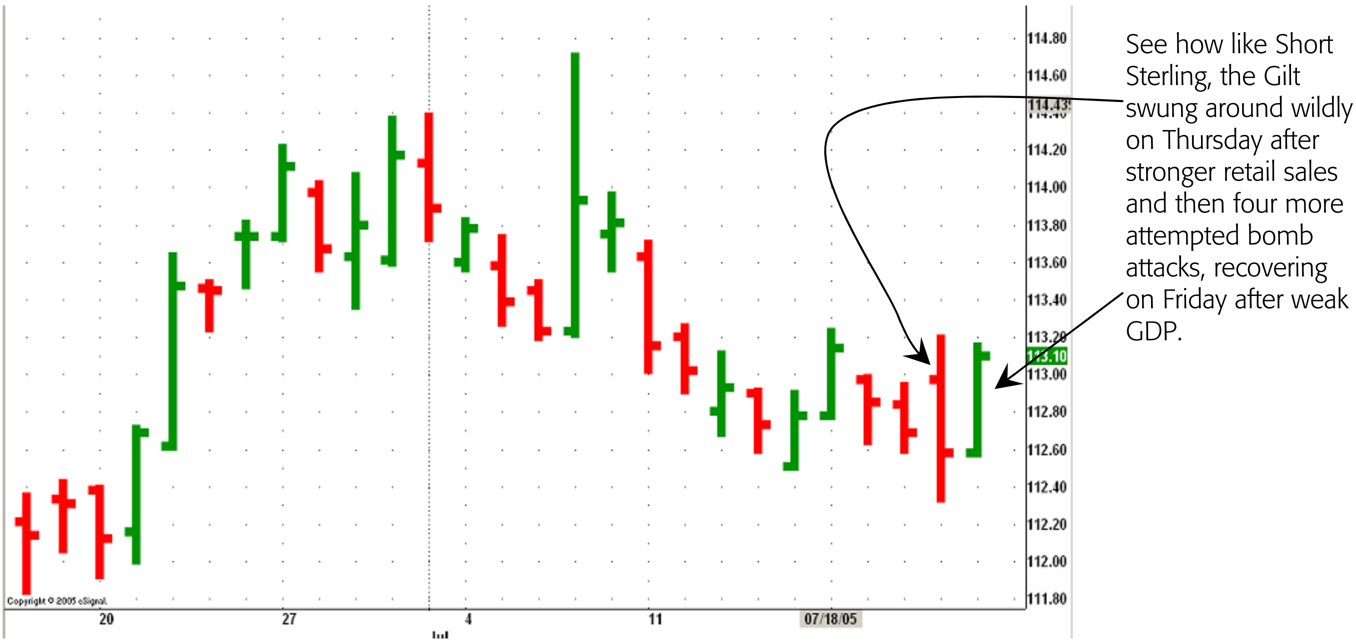
BULLS stay long; the MPC will cut rates and if we suffer many more attacks the cycle may see rates taken back to where they started; 3.0%, to soon to be sure just yet.
BEARS stay square; a slowing economy and an on going suicide bombing campaign will lead this market higher.

THE GILT

OUR TRADING STANCE: BULLISH.

Last week we were bullish.

GILT SEPTEMBER 05



This week we remain bullish.

Last week we remained bullish of the Gilt and after a choppy week, the view proved correct. The market was affected by several forces; bullish MPC minutes, deteriorating Government borrowing data, surprisingly stronger retail sales, weak GDP and another round of terrorist attacks; albeit they failed. In the end there were more bullish than bearish forces at work and one of them quite profound. In an environment where the economy is already slowing any shocks which are seen as adding to or quickening the scope of the slowdown will be bullish for the market; by this I mean the on going bombing campaign currently being waged against the Capital's transport system. The British public are a stoic and determined bread, but the psychological effect of seeing commuters being blown up on trains travelling deep below ground will have an impact and unless the Police can soon catch the organisers, people will increasingly avoid the tube and buses. They will have to resort to their own cars and that will be a disaster. The impact on London's economy will be pronounced with people spending much of their day trying to get to and from work. Additionally tourists will stop coming and that will have a big impact; one Italian football team have already cancelled their pre-season tour and I don't think they were even playing in London.

BULLS stay long; the economy was already slowing before the bombs started going off, if many more attacks occur, with large scale loss of life, the slowdown will become more serious. BEARS stay square; this environment lends no support to the bear case.

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THE POUND STERLING

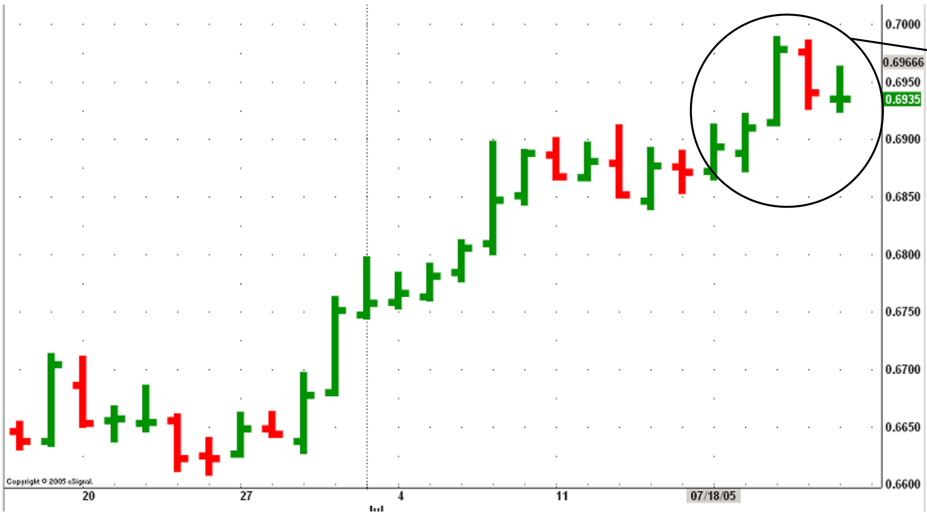
OUR TRADING STANCE: NEUTRAL.

Last week we were cautiously bullish of Sterling.

THE CABLE CHART

See how Pound recovered from Wednesday's MPC minutes with the release of Thursday's stronger retail sales. However, Friday's GDP and the realization of the true consequences for the economy of an ongoing suicide terror campaign brought Sterling back toward the lows.

THE STERLING/EURO CHART



Against the Euro the Pound look's to have recovered some of its poise after the Chinese re-valued their currency; albeit by a small percentage. The Chinese authorities have indicated more could follow. The move mainly benefits other Asian currencies.

This week we are neutral of Sterling.

Last week we were cautiously bullish of the Pound and even though we anticipated weak retail sales; in the event they were stronger, and weak GDP data, we felt last week the Pound would absorb this news as it had been in the market for some time. Initially as the data became known the Pound responded as expected; the MPC minutes showing a rate cut is very close, pushed the Pound lower, stronger than expected retail sales gave the Pound a boost. Even early news of the second round of terrorist attacks last Thursday, initially had little impact. But by Friday the mood changed; GDP was as expected; weak, even after the stronger retail sales; indicating greater weakness in the economy earlier in the 2nd quarter, but the Pound lost Ground to the Dollar as traders began to realise that the bombing's in London were part of an on going campaign, rather than one off incidents. Unless the authorities catch those responsible for organising the attacks quickly, more will likely follow. The fact no one was seriously hurt or killed this time was good luck, next time we may not be so lucky. If the terrorist's maintain their attacks on the transit system, people WILL inevitably become increasingly concerned and look for other methods of transport. For many there will be no real alternative and staying home isn't an option. A significant number will use their own cars making already congested roads worse. These people will spend more of their day travelling to and from work rather than being at their desks. Tourists will stop coming and go else where. All these factors will hit the Capital's and ultimately the UK'S economy hard and result in a worse slowdown than other wise would have occurred, resulting in job losses and lower interest rates. This analysis up until the end of last week was clearly not in the market; as traders increasingly factor it in, the Pound will come under greater pressure. For now it is best to stand aside and watch. If already long at the lower levels recently seen, then hold and watch developments closely; if square remain uninvolved until there is greater clarity with regard to the terror attacks and the authority's success in apprehending the perpetrators. We will not have to wait long; maybe only a matter of weeks because with the leads given the Police after Thursday's bombs failed to explode they should be able to make rapid progress; if not, more bombs more angst as already described.

BULLS if already long from lower levels stay long and watch developments closely; square if Cable breaks 1.7000. If currently uninvolved then remain square; the market will be volatile over the coming weeks until the situation either becomes clearer or the attackers are arrested. BEARS should remain square unless the Pound breaks 1.7000, then clearly the currency is going to suffer a major set back and bears should go short.

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EURO 12 MARKETS

EURIBOR

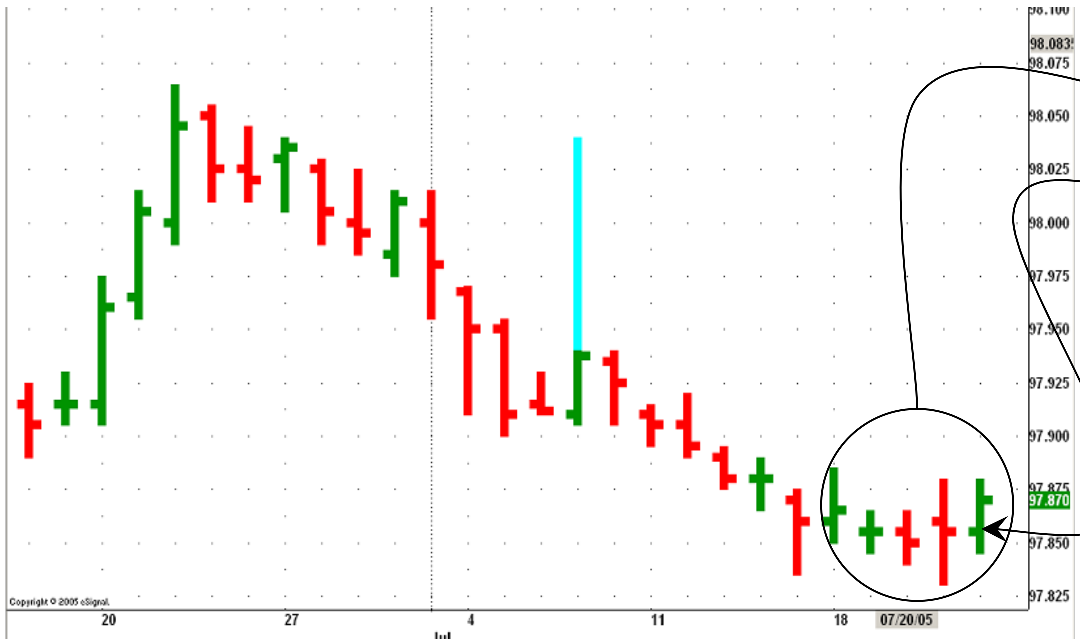
WHAT HAPPENED LAST WEEK?

	Week of 18th July
Monday	
Tuesday	DM PPI 0.5m, 4.6y AS FR C/A -2.9B WORSE DM ZEW Survey 37 STRONGER THAN EXPECTED
Wednesday	IT Trade bal -366M LESS IT Ind orders +7.2y STRONGER IT Ind sales +5.2y STRONGER
Thursday	FR Cons spend'g 0.5m, WEAKER IT Cons confidence 100.9 WEAKER IT Retail sales 0.7m, 0.9y HIGHER THAN EXPECTED
Friday	IT Trade Bal non-EU -150M BETTER THAN EXPECTED

Last week's calendar.

Last week's calendar showed an improvement to Italy's trade account, but deterioration to Frances.
On Tuesday; German PPI was as expected, ZEW survey was stronger than expected and the French Current Account was worse than consensus, on Wednesday; Italian trade data showed a smaller deficit and industrial orders and industrial sales were stronger than forecast, on Thursday; French consumer spending was weaker, as was Italian consumer confidence, but Italian retail sales were higher than consensus, but at 0.9% year on year hardly depicting a boom. On Friday; Italian non-EU trade recorded a smaller deficit.
The market reacted to all of this by largely trading sideways, picking up on Friday as US and UK markets rallied on jitters over the on going Terrorist investigation in the UK and news that UK police had shot dead a suspect as he entered a tube train; fearing he was another suicide bomber.

DECEMBER 05 EURIBOR



See how the market traded sideways most of the week; rallying on Friday as the latest terror strikes in London and their consequences reverberated around international markets.

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EURIBOR

THE WEEK AHEAD

	Week of 25th July
Monday	DM Import prices 0.6m, 3.3y
Tuesday	DM CPI 0.3m, 1.9y IT business conf 84.8 DM IFO 93.9
Wednesday	FR Business conf 100 FR Production outlook -21 IT Retailers conf n/f
Thursday	DM Unemployment rate 11.7 DM Change -10k IT PPI 0.3m, 3.2y
Friday	FR Qtly Mfg survey n/f FR Unemployment rate 10.2 FR Change 0k FR Cons Conf -28 IT CPI 0.2m, 1.9y

This week's calendar.

This week's calendar gives a full picture of confidence and the current employment situation.
On Monday; German import prices, on Tuesday; German CPI and IFO, and Italian Business confidence, on Wednesday; French business confidence and production outlook indicator together with Italian retailers confidence. On Thursday; German unemployment data and Italian PPI, then on Friday; French quarterly manufacturing survey, unemployment data and consumer confidence plus Italian CPI.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of December 05.
This week we remain bullish December 05.

Last week we were bullish of December 05 Euribor as data continued to support the bulls despite the ECB'S best efforts to stifle any expectation of easier policy. This weak after weak French retail sales and weak Italian consumer confidence, we remain bullish. Although Italian retail sales strengthened last month, they are still at very weak levels and along with retail sales in the Euro zone generally, need to move along way before justifying any thoughts of tightening from the ECB. This week with the IFO report due from Germany, traders will look for clues to see if that economy is showing any signs of recovery. The IFO survey has signalled better times on a few occasions over recent months but the improvement never translates into the real economy. Most analysts agree that the Euro zone economy is still in intensive care and further rate cuts cannot be ruled out. If one or more major EU capital cities are struck by terrorist attacks as in London, the ECB will have to act to shore up what little confidence there is, indeed if the MPC cut in August that may provide the cover the ECB needs to move rates its self.

BULLS stay long; the market can rally back up to 98.00. With more terrorist attacks likely in the UK, short term interest rate markets will remain supported.
BEARS stay square; there are no reasons to short this market. In the current environment all the major short term interest rate markets are a buy.

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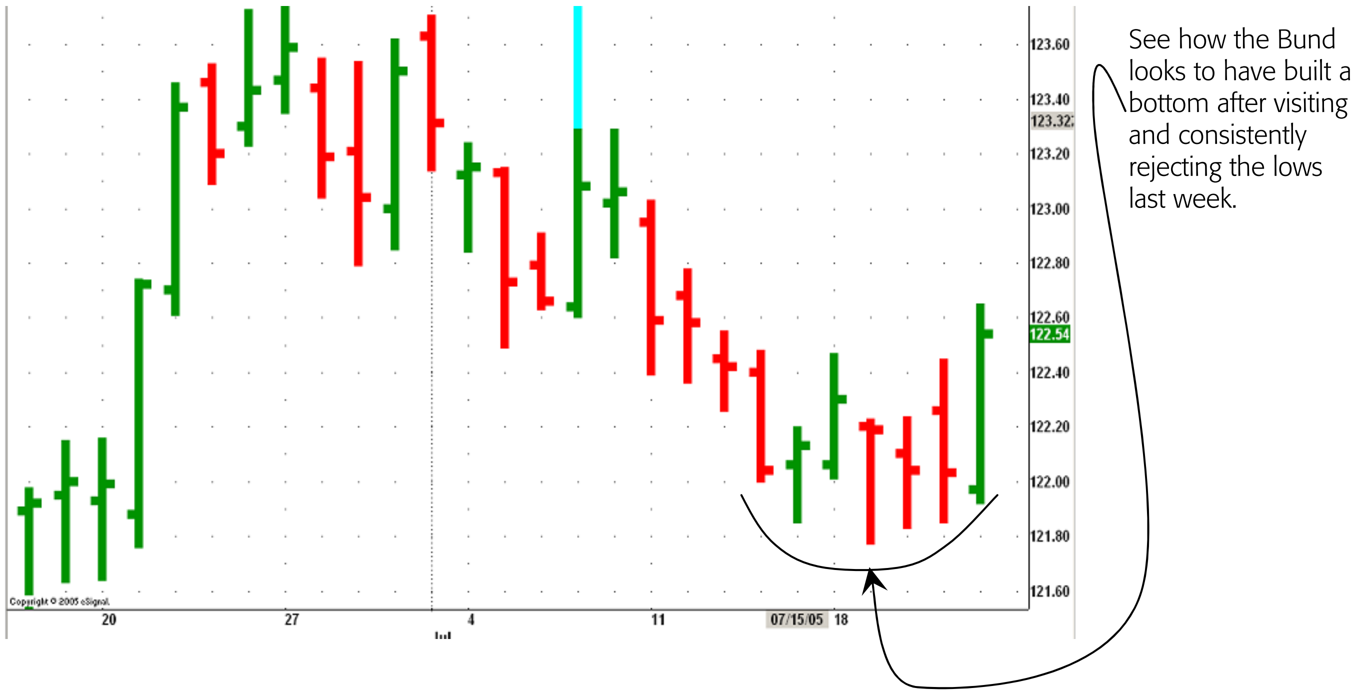
THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the bund.

THE BUND SEPTEMBER 05



This week we remain bullish of the Bund.

Last week we remained bullish of the Bund expecting it to trade higher on further Euro zone weakness; the weakness materialised as French retail sales and Italian consumer confidence were weaker than consensus, although Italian retail sales were stronger at +0.9% year on year, it is self evident that they remain weak as does retailing in the Euro zone in general. With the Euro stabilizing and beginning to build a rally against the Dollar, the Bund consolidated its position and moved away from the lows ending the week higher. While other Government Bond markets; the US and UK, spent most of last week seeking direction, the Bund remained focussed on the EU 12 fundamentals and pushed higher. Looking ahead we expect the Bund to trade back up to 123.00 and beyond as the Euro zone economy continues to stagnate and the ECB remains determined to resist calls for lower interest rates. With elections due in Germany this autumn the ECB will wait to see if a change in leadership in Germany coupled with the current British EU presidency will produce a blueprint for much needed structural reforms. The period in between will see the Bund move higher.

BULLS stay long; the market has finished the correction and resumed the rally; our level of 122.00 held (continue to use it) with the market rejecting the lows. Our interim target is 123.00, but we eventually expect it to move much higher. BEARS square up the market remains bullish and both economic and political events support the long established rally.

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THE EURO

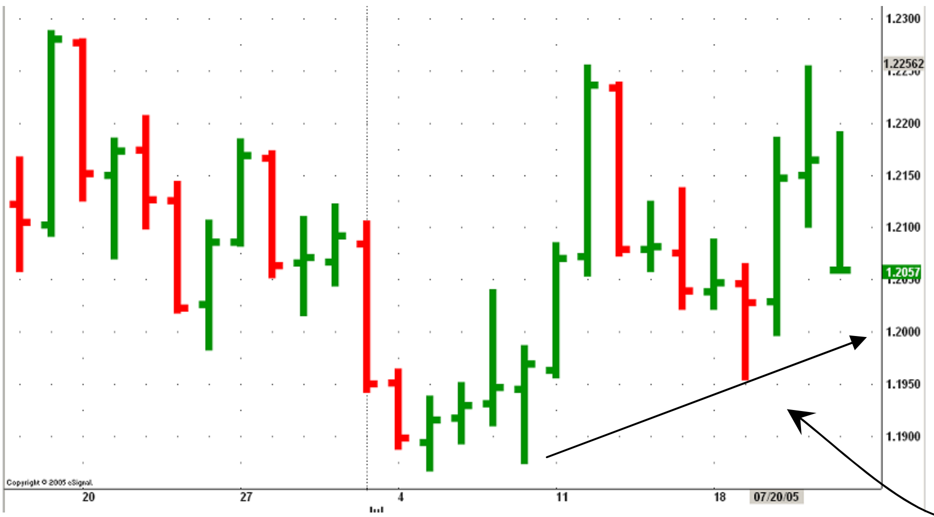
OUR TRADING STANCE: CAUTIOUSLY BULLISH.

Last week we were cautiously bullish of the Euro.

EURO/YEN CHART

See how the Euro lost ground to the Yen in the wake of the Chinese re-valuation.

THE EURO/DOLLAR CHART



See how Euro is slowly building a rally; even Fed Chairman Greenspan's comments were insufficient to re-energise the Dollar.

This week we remain cautiously bullish of the Euro.

Last week we were cautiously bullish of the Euro as we awaited Alan Greenspan's dual testimony before the US Congress. Although he tried to sound up beat about the US economy he successfully explained how unremarkable the current expansion is when compared to other recent post 2nd World War recoveries. He described growth as moderate, inflation as contained and the labour market as slack. Given his choice of words the top of this monetary policy cycle looks close. Last week we said 4.0% would be the peak, after last week's testimony and the US FOMC minutes from the June meeting, we still firmly hold that view. The Fed rightly believes that in order to keep the moderate expansion going, they need to remove the policy accommodation to insure inflation remains contained, thus removing any need for the Fed to engineer a restrictive policy stance later, to correct any inflation that would likely emerge were they to keep policy lose, which in turn would choke off the recovery. Their current policy is to act slowly and in small steps to keep the expansion moving, return policy to neutral and arrive with inflation close to current low levels. The beginning of the move lent support to the Dollar as traders reasoned interest rate differentials would firmly favour the Dollar and early on before the current nature of the expansion was obvious; traders thought that may become substantial. However it is now obvious rates will settle at a moderate 4.0%. Now the Chinese have finally re-valued their currency albeit by a small amount, but with the prospect of more to follow, the likes of Japan will benefit as their own competitiveness is improved. The Euro is likely to advance further against the Dollar but likewise the Yen should appreciate against the Euro. Looking ahead any news which indicates better prospects for the Euro zone economy will support the Euro and a better read on the IFO survey will achieve that. Similarly another tepid GDP report from the US would also help the Dollar decline further. The market has weathered several choppy sessions over the last week with the Euro appearing to have held up well, this leads us to conclude our expectation for a renewal of its rally against the Dollar is imminent.

BULLS continue building small long Euro/Dollar positions, we expect the Euro to move back towards 1.2300 against the Dollar; Greenspan's comments provided no obstacle.
BEARS remain square; with little prospect of a near term cut from the ECB all the news concerning the Euro zone has long been in the market. Once again it is developments in the US which drive the market and Greenspan's comments have shown the US economy is its self underperforming its own long term growth potential.

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COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH.

Last week we were bullish of gold.

THE GOLD CHART

See how Gold rallied away from the lows as more terrorist attacks in London sent shock waves around other western countries. The failure of Greenspan's comments to galvanise the Dollar on the Foreign exchanges led investors back into Gold.

This week we remain bullish of Gold.

Last week we were bullish of Gold expecting the market to rally away from the lows towards our interim target of US$425.00 an ounce; this it did. Traders had taken gold lower the week before after better news on the trade and budget deficits, but with Fed Chairman Greenspan scheduled to make dual appearances before both houses of Congress, traders were understandably nervous about the effect his comments may have on the market. In the event they were short term in their impact on the currency market and bullish for the Gold market. Traders quickly realised that his description of the US expansion to date and the Feds reaction to it via monetary policy was less than fully complementary. His description of moderate for growth and slack for the labour market led investors to conclude the Fed was close to finishing its current tightening cycle, even though he said explicitly, there are more hikes to come; fine Fed funds are at 3.25%, the top is 4.0%, that's three more moves; we knew that already. The Dollar traded lower on Friday as the Chinese finally re-valued their currency and Gold continued to move higher. As we view the current Dollar rally as likely over, we expect Gold to consolidate its recent move before edging higher. US Q2 GDP is released on Friday and unless it is above consensus and stronger than 3.8%, the Dollar will slip lower allowing Gold to continue with its rally. Our interim target is currently US$430.00 an ounce, maybe not all this week, but over the short/medium term.

BULLS stay long for a move up to US$430.00 an ounce
BEARS remain square, but if US Q2 GDP is very much stronger than consensus, the Dollar will bounce but any sell off in Gold will be short lived.

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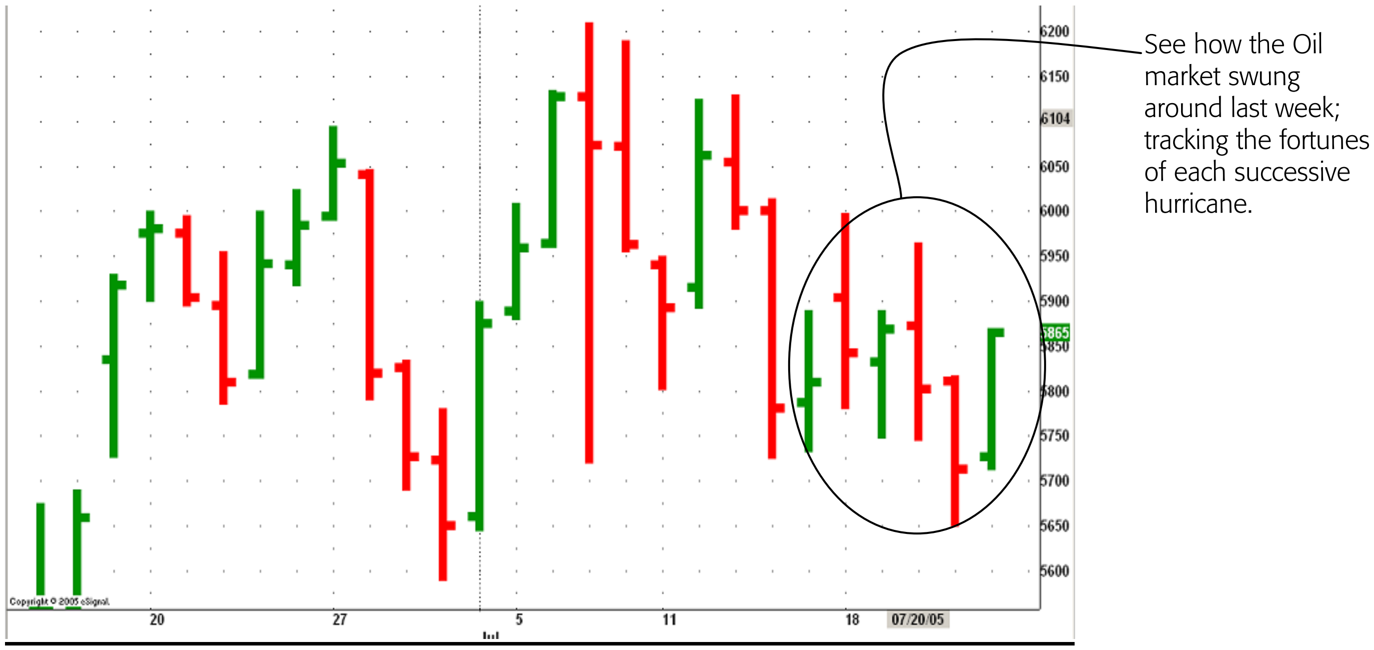
OIL

OUR TRADING STANCE: BULLISH.

Last week we were bullish of oil.

THE CRUDE OIL CHART



This week we remain bullish of oil.

Last week we were bullish of Oil as a series of hurricanes continued to batter the southern coast of the US threatening to halt, or worse, damage US Oil production in the Mexican Gulf. In the event little damage to Oil production resulted, however in addition to the weather news, news from China that its first half growth rate hit 9.5% lent Oil short term support as this was viewed as keeping demand well supported in the future, although the news failed to produce a follow through, medium term strong Chinese growth will keep the price of Oil well supported, as happened in the copper market. Later in the week as China re-valued its currency that move too was seen as supportive of Oil as it will help make other Asian economies, especially Japan's more competitive and thus support prices through higher demand. Looking ahead as the market wrestles with strong Chinese growth and demand and worries over terrorist attacks in the western countries and continuing supply and refining constraints, the market will resolve its self higher. For the terrorist attacks to have a clear and identifiable impact on world growth and demand they would have to begin attacking several western countries together; this they haven't as yet attempted, while they rotate their target countries, demand in those that are unaffected remains intact; for now the price of Oil remains well supported.

BULLS stay long; the market is still bullish although continue to run a stop at US$54.00 a barrel.
BEARS stay square; the market is bullish, any news which puts a question mark over adequacy of supply immediately sends the market higher and any sell off remains a buying opportunity.

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