

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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Buy short, medium and long term

Buy short, medium and long term

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Buy short, medium and long term long

Buy short, medium and long term

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 Handelsbanken 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 15 th August
Monday	Empire Mfg 23 STRONGER THAN EXPECTED Net foreign sec's purchased \$71.2B STRONGER THAN EXPECTED
Tuesday	CPI 0.5% HIGHER Ex- F & E 0.1% LOWER Housing starts 2.042M STRONGER Ind production 0.1% WEAKER Capacity utilization 79.7% WEAKER THAN EXPECTED
Wednesday	PPI 1.0% HIGHER PPI Ex- F & E 0.4% HIGHER THAN EXPECTED
Thursday	Jobless claims 316k HIGHER Philly Fed 17.5 STRONGER THAN EXPECTED
Friday	

Last week's calendar.

Last week's calendar was dominated by inflation data.

On Monday; the Empire manufacturing survey was stronger and net foreign securities purchased was also stronger than consensus, on Tuesday; CPI showed a stronger headline read but the core was below consensus, housing starts were stronger than consensus, but surprisingly industrial production and capacity utilization were both weaker than consensus, on Wednesday; PPI was stronger on both the headline and core measures; driven by higher energy costs and seasonal factors, then on Thursday; Jobless claims were higher than expected and the Philly Fed was stronger than forecast.

The market reacted to all of this by trading sideways. Small sell offs after the inflation data were largely recouped and the market closed a tick higher on the week.

MARCH 06 EURO DOLLARS



See how the market remained positive all week even after some disappointing inflation data.

EURO DOLLARS

THE WEEK AHEAD

	Week of 22 nd August
Monday	
Tuesday	Existing home sales 7.25M
Wednesday	Durable goods -1.2% Ex-transport -0.6% New home sales
Thursday	Jobless claims 314K
Friday	

This week's calendar.

This week the calendar is very light with durable goods as the main interest. On Tuesday; Existing home sales, on Wednesday; Durable goods and new home sales, then on Thursday; Jobless claims. The market will likely drift this week as traders begin to anticipate next week's heavy weight data.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of December 05.
This week we remain bullish of March 06.

Last week we remained bullish of December Eurodollars, expecting the market to correct higher, given the surprise strength of inflation we were impressed by how the market rejected any notion of trading lower. The CPI data really told the story; headline up, core down. This was due to the effects of higher Oil prices and the market clearly understood this. PPI was a little different, both measures were above consensus, again Oil prices were the main reason behind the increase in the headline number, but the core data also disappointed. This couldn't be blamed on Oil, but was apparently due to seasonal factors and a rise in car prices. There are many heavily discounted deals to be had in US car showrooms currently, so this up tick appears to be a blip. In any case the market took it in its stride and drew support from weaker industrial production and

capacity utilization data which eclipsed the higher readings on the Empire manufacturing survey and the Philly Fed. Looking ahead, unless durable goods are much different to consensus, we expect the market to trade without any sense of direction this week, as traders begin to focus on next week's heavy weight data.

The Macro Trader's view is; The market held up well last week and lower Oil prices driven by profit taking clearly helped. However, with weaker readings on industrial production and capacity utilization the market should remain supported, as traders seek guidance from next week's ISM and non-farm payroll data. In this environment hold current positions unless durable goods released on Wednesday deliver a surprise.

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THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: NEUTRAL.

Last week we were neutral.

US 10yr NOTE SEPTEMBER 05



See how the market ignored the inflation data and traded higher on lower Oil prices; driven by profit taking and a small Dollar rally.

This week we remain neutral.

Last week we remained neutral of this market although we expressed the view the sell off over recent weeks was over done and indeed the market did correct higher, driven by lower Oil prices which helped to offset some of the negative news from CPI and PPI. Traders looked through the basic inflation story and realized that persistently higher Oil prices will have negative consequences for growth in the US and the wider World economy. The rebound in the Dollar's fortunes also driven by Oil market profit taking and news that foreigners invested more of their capital in the US last month than anticipated, also helped fuel last weeks short covering rally. Looking ahead, in the absence of any real heavy weight data this week, the market will likely trade sideways, taking a lead from any non consensus readings of durable goods.

The Macro Trader's view is; although the US economy continues to enjoy moderate growth, we expect this to change over the next few quarters as Oil prices will again begin to move high driven by the nuclear crisis with Iran and general supply/demand worries, which will eventually sap the economy's strength. Treasuries will periodically assume a safe haven status as the market becomes more concerned over how the West, especially the US will achieve their stated aim of preventing Iran from acquiring nuclear weapons and the means to build them; for now these worries have slipped to the back burner, but will re-emerge. Short term we remain neutral as we watch the drama with Iran unfold and await the first clear signs of the expected impact persistently higher Oil prices will have on growth.

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THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar as we expected it to labour further against the other major currencies: Sterling, Yen and Euro, however a bout of profit taking occurred in the Oil market as traders there fretted persistently high Oil prices may damage World growth; foreign exchange dealers covered short Dollar positions. The short covering rally was aided by news of higher than expected US inflation and stronger foreign capital inflows last month into the US economy, as foreigners continued to place their excess capital in US assets, notably corporate bonds. Looking ahead we view the Dollar's bounce as short lived, the Oil market had already begun to erase some of its losses by last Friday on concerns over interruptions to

Ecuador's Oil exports, and an attempted terrorist attack on two US warships in a Jordanian port. With little data due this week we expect the Dollar to resume its decline, as traders begin to anticipate next week's heavy weight US data.

The Macro Trader's view is; we remain bearish of the Dollar and advise staying short. The recent short lived recovery was profit taking in response to the rapid nature of the previous week's decline aided by events already noted here. With the fundamentals in the US economy remaining Dollar negative e.g. the Current account deficit, and a resumption of the rally in the Oil market; the Dollar can only go one way and that's lower.

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UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK?

	Week of 15 th August
Monday	RICS House price Index -36 BETTER THAN EXPECTED
Tuesday	CPI 0.1m, 2.3y HIGHER RPI Ex 0.0m, 2.4y HIGHER THAN EXPECTED
Wednesday	B of E minutes 5/4 CLOSER Unemployment rate 2.8% AS Change 2.8k LESS Avge earnings 4.2% AS Avge earnings ex-bonus 4.0% AS THAN EXPECTED
Thursday	Retail sales -0.3m, 1.8y WEAKER PSNB -2.9B BETTER PSNCR -8.2B BETTER BBA net mortgage Indg 3.7B LESS BSA mortgage approvals 4.385 AS M4 Sterling Indg 17.1B STRONGER THAN EXPECTED
Friday	

Last week's calendar.

Last week's calendar yet again focussed on the Bank of England, this time August's MPC minutes.

On Monday; RICS house price survey was less negative than feared, on Tuesday; CPI and RPI-Ex were both above consensus, on Wednesday; the MPC minutes delivered a shock 5/4 vote, and unemployment rose for the sixth month running; albeit less than consensus and average earnings were in line with expectations. On Thursday; retail sales were less negative on the monthly read, but softer on the yearly and 3 month against 3 months comparison with downward revisions to last months data. Government borrowing data showed a larger surplus than forecast, mortgage data was weaker than expectations, but M4 Sterling lending was higher than consensus.

The market reacted to all of this by selling off after each key piece of data released throughout the week, only to rally back; closing the week unchanged.

MARCH 06 SHORT STERLING



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SHORT STERLING

THE WEEK AHEAD

	Week of 22 nd August
Monday	
Tuesday	
Wednesday	CBI Ind trends monthly n/f
Thursday	Nationwide house prices 0.0m, 2.6y BBA Mortgage approvals n/f
Friday	Q2 2 GDP 0.5q, 1.8y Private consumption 0.3%

This week's calendar.

This week's calendar is very light with Friday's GDP data the centre of attention. On Wednesday; the CBI industrial trends survey; a look at total and export orders, on Thursday; the Nationwide house price index and BBA mortgage approvals data, then on Friday; Q2 2 GDP and private consumption. After the drama of the Bank of England quarterly inflation report the week before last and last week's MPC minutes, the market needs no new negative surprises. GDP needs to be in line or weaker to help the market steady.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of December 05.
This week we are bullish of March 06

Last week we remained bullish of Short Sterling expecting retail sales to rebalance the argument back in favour of the bulls. However, on Tuesday CPI was higher than the market expected, driven by accelerating oil prices, although the initial reaction was a sell off, the market recovered well, even after the MPC minutes were released on Wednesday the market recovered from its initial sell off. On Thursday an early expectant rally was crushed after better than expected monthly Retail sales data, but the year on year and three month against three month a year ago comparisons, were weaker than expected, which together with downward revisions to last month's data eventually supported the market. Looking ahead we remain bullish of this market. The economy has weakened. Retail sales at 1.8%/y are much softer than at the end of last year and the housing market remains weak, albeit no longer deteriorating further for the time being, unemployment continues to rise and

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there is no inflation from average earnings. The Hawks on the MPC are concerned the economy will rebound much like the US, of its own accord invalidating the need for rate reductions. However the US had the benefit of tax cuts during its recession, when the UK suffered tax increases and more are expected; the council tax revaluation for one due next year. With Oil prices remaining well bid consumer demand is likely to remain soft causing the MPC to cut rates again.

The Macro Trader's view is; the market has been wrong footed by the Bank of England for two weeks running, fortunately a majority on the MPC saw the need for lower rates including the Bank's chief economist. The "doves" are unlikely to recant if future data remains weak as we believe it will and the Hawks will have to reconsider; we continue to expect a further reduction at the November MPC meeting following the release of Q3 GDP in October.

THE GILT

OUR TRADING STANCE: NEUTRAL.

Last week we were bullish.

GILT SEPTEMBER 05



This week we are neutral.

Last week we were bullish of the market after we detected a turn in sentiment the week previous born from worries over developments in Iran and the strength of Sterling. In the event the market rallied decisively. However after trading up to 113.66, a gain of 1 point on the week, the market settled back after profit taking set in. Looking ahead, we see little fresh news this week, capable of pushing the market higher, except for a surprise downward revision to Q2 GDP on Friday, which we don't anticipate, so we have taken profit. While we remain bullish of the Gilt longer term, given the growth profile we expect, we sense the market will be unable to add to the gains achieved last week; much like the Pound the week before, a strong rally followed by a bout of profit taking.

The Macro Trader's view is; the Gilt rallied a long way last week, especially as the Pound was under pressure for most of the time and Short Sterling suffered three distinct set backs to the bull scenario. However Government finances showed a timely surprise improvement and unemployment continues to drift higher, even Matalan laid off 300 workers last week, keeping the trickle going. The market will likely consolidate this week in the absence of any fresh data. So it makes sense to Bank some profit, but if GDP should be revised lower on Friday; go long. Additionally any renewed bull activity in the Oil market will remind traders that growth in the World economy is likely to suffer as that market moves higher, adding support to Government bond markets generally.

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THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART



THE STERLING/EURO CHART



This week we remain bullish of Sterling.

Last week we were again bullish of Sterling expecting further gains against both the Dollar and the Euro, however traders took profit in cable as the Dollar gained a fresh lease of life on the back of profit taking in the Oil market and

news of higher US inflation, this hit the Euro harder and the Pound came close to our interim target of 0.6750 against the Euro. Looking ahead we remain bullish of both Cable and Sterling/Euro. Higher inflation data in both the

US and UK was driven by surging Oil prices and higher transportation costs, also fuelled by rising Oil prices, these largely cancel each other out. By contrast, recent UK trade data showed a narrower deficit where as the most recent US trade data showed the deficit widening again. The Pound will be further supported short/medium term, by traders' expectations that August's cut maybe a one off, thereby seemingly changing the dynamics in the foreign exchange market. While we understand the thought process, we expect it to unravel over time. However, the fundamentals of the US economy will continue to undermine the Dollar over the medium/long term; the Current account deficit is a major factor in our thinking and will only correct with a lower currency. While we see yet higher Oil prices hitting growth moving

forward, this of its self will have limited impact on the US current account deficit as rising Oil prices will ensure the deficit remains an intractable problem requiring a weak Dollar as its mechanism for eventual cure.

The Macro Trader's view is; although the Pound suffered a bout of profit taking against the Dollar, it fared well against the Euro. We expect the Pound to renew the rally against the Dollar and remain well supported against the Euro as traders continue to fret over the MPC'S future intentions concerning interest rate policy. The Feds are well known and understood. Stay long of Sterling and use this correction as an opportunity to add onto long positions for an eventual move up to our interim target of 1.8400 against the Dollar.

EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK?

	Week of 15 th August
Monday	Assumption Day French and Italian markets closed.
Tuesday	
Wednesday	
Thursday	DM PPI 0.5m, 4.6y HIGHER THAN EXPECTED
Friday	FR GDP Q2 0.1q, 1.2y AS EXPECTED

Last week's calendar.

Last week's calendar was very light. On Thursday; German PPI higher than expected, like most other countries, PPI here was driven by higher Oil prices, on Friday; French GDP; no surprises here as it was in line with last week's preliminary estimate.

MARCH 06 EURIBOR



See how the market continued to trade on the previous week's disappointing GDP data and added to the rally.

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EURIBOR

THE WEEK AHEAD

	Week of 22 nd August
Monday	
Tuesday	DM Q2 2 GDP 0.0q, 1.5y DM Import prices 0.7m, 4.8y DM ZEW Survey 39.0
Wednesday	DM CPI 0.2m, 2.0y
Thursday	DM IFO 95.2
Friday	FR Consumer spending n/f

This week's calendar.

This week's calendar is a little plumper, but dominated by German data, mainly the IFO survey.
On Tuesday; another look at German Q2 GDP, import prices and the ZEW survey, on Wednesday; CPI, on Thursday; another industry survey, this time IFO, then on Friday; French consumer spending; retail sales everywhere else.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of December 05.
This week we are bullish of March 06.

Last week we were bullish of December 05 Euribor, expecting the market to bounce after the recent correction, driven by strong signs of continued economic weakness in the Euro zone area, and that is what happened. In the absence of fresh data, the market continued to move higher after data the previous week was mainly below consensus, especially Q2 GDP. Given the excitement in the Short Sterling market and to a lesser degree in the Eurodollar market, last week, the move was all the more encouraging as traders remained focussed on domestic issues. Looking ahead, we expect March 06 (note the change of contract) to consolidate the move, before edging up further towards our target of 97.90. The last couple of months have seen slightly more

positive news from IFO concerning the German economy, it still remains to be seen whether that optimism will materialise in the real economy. With IFO due again this week, another relatively strong showing may undo the rally short term, but if there remains no follow through, any set back will be a buying opportunity. Similarly, any weakness in that data will send the market higher.

The Macro Trader's view is; the market did what we expected last week and moved towards our interim target of 97.90. Assuming no big surprises from this week's data, we expect the market to continue the gentle move higher.

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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 reverted back to our long standing bull position in the Bund market. The correction which had lasted several weeks seemed to us over and we anticipated a move back up towards the previous highs; driven on by data from the previous week which showed the extent of the Euro zone economy's weakness and was aided by a general bullish tone from other Government Bond markets. This was brought about by various factors; the Gilt was helped by much better UK Government borrowing data and the US Treasury market by news of continuing strong foreign interest in US assets, but they all benefited from profit taking which hit the Oil market last week. This was brought about by Oil traders fretting over the impact persistently high Oil prices would have on World growth, Bond market traders shared that view and saw last

weeks higher inflation in both the US and UK as advance warning of the impact Oil will likely have on growth in their own respective economies.

The Macro Trader's view is; the Bund remains bullish and has broken away from the correction which had endured for several weeks looking set to regain the previous highs. This week in the absence of any major US data releases, the market can focus on domestic issues; unless IFO is much stronger than consensus, the Bund will, after some consolidation, continue the move higher. Our interim target is 123.60 and we expect the market to find support at around 122.78 on any pull back, which with the Euro once again rallying against the Dollar, should be used as a buying opportunity.

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THE EURO

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro.

EURO/YEN CHART



THE EURO/DOLLAR CHART



This week we remain bullish of the Euro.

Last week we remained bullish of the Euro against the Dollar expecting it to advance to our interim target of 125.50. In the event the Dollar bounced back. In the absence of any domestic Euro zone data, traders were left to reflect on the disappointing nature of the previous week's data, that coupled with stronger inflation data from the US, driven by high Oil prices, helped the

Dollar snap back from the previous week's rapid sell off. Traders had other reasons to square up long positions; these were also connected to the Oil market as traders there took profits on concerns that persistently high Oil prices would eventually hit world growth, thus cooling demand for Oil. Looking ahead we see the Dollar's recovery as a short lived phenomenon,

US industrial production and capacity utilization, were both weaker than consensus and contradicted two manufacturing surveys released last week, further the most recent release of US trade data showed the deficit there continues to be fixed close to record levels, where as the most recent German trade data showed increased surpluses on the Trade and Current account. Further, the Oil market had already begun to rally again towards the end of last week on concerns Ecuador would cease Oil exports, which taken together with on going tensions with Iran and news Iraq would suspend some Oil exports, was enough to remind traders of the delicate nature of the current supply/demand equation. With German IFO

released this week, traders will be keen to see if recent more positive readings continue, providing further support to the Euro.

The Macro Trader's view is; we are bullish of the Euro against the Dollar and are advising readers to remain long. However it is important to note that we see the dynamics affecting this pair as primarily Dollar led. We do not advocate buying the Euro because we feel its economy is stronger or performs better than the US, obviously not; the motive is the need for a lower Dollar driven by a persistently large US current account deficit and the absence of any other mechanism for effecting a correction.

COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH.

Last week we were bullish of gold.

THE GOLD CHART



This week we remain bullish of Gold.

Last week we remained bullish of Gold as we expected the Dollar's sell off to continue. In the event the Dollar was carried higher by a short covering rally driven by several factors; higher US CPI and PPI, profit taking in the Oil market on fears higher Oil prices would bring about an economic slowdown, driving down the price of Oil and increased demand from foreign investors for US assets. As an asset without anything other than capital appreciation to offer, as soon as it stops appreciating, traders take profit. Looking ahead we see the Dollar resuming its fall, this will spark another round of buying in the Gold market. Further, the Iranian question remains unresolved and when that bursts back to centre stage, it will be Dollar negative adding further support to Gold.

The Macro Trader's view is; Gold is a bull market and traders should remain long. While the international tension with Iran continues, and while the US continues to run such a large trade deficit, the Dollar will remain weak and traders will invest in Gold as an alternative. There remains a large group of international investors who are uncomfortable about selling the Dollar for other currencies representing underperforming economies and they turn to Gold as an unencumbered alternative. Our view in the Gold market is long term and short term traders may well find it difficult to stay involved on a weekly basis; that's OK, but keep the long term view squarely in sight.

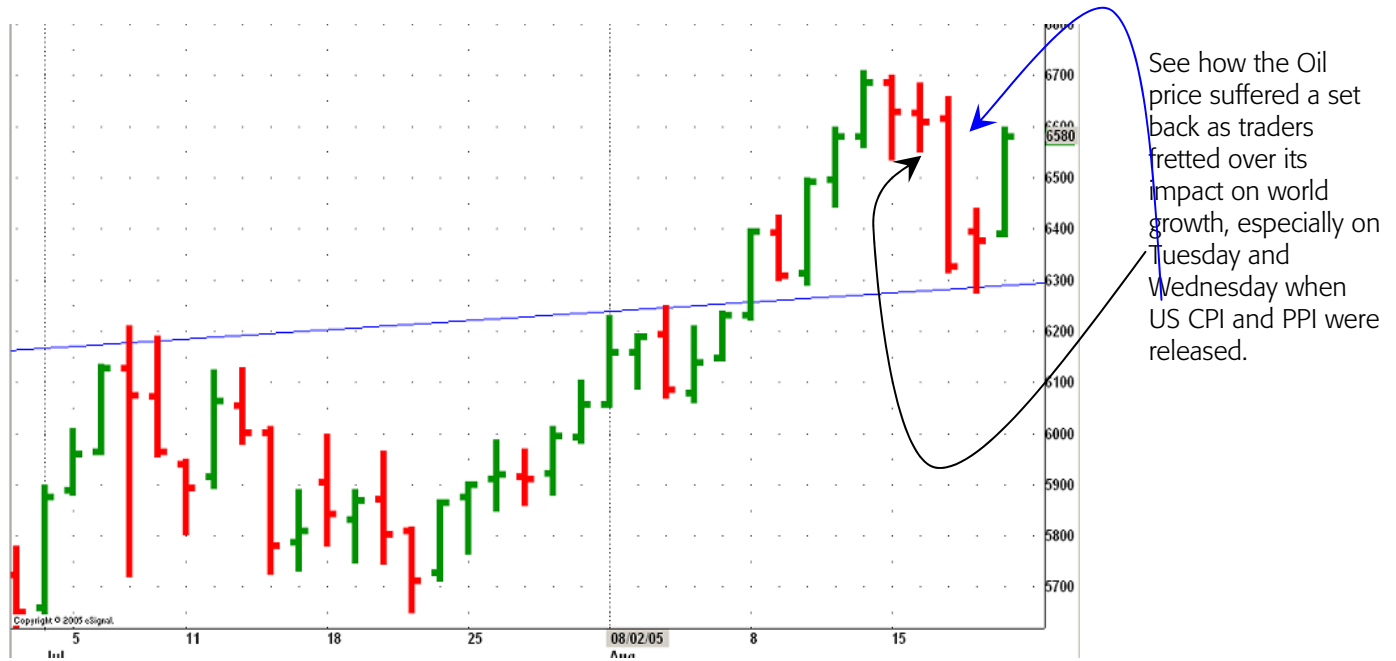
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OIL

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 remained bullish of Oil, but it suffered a correction due to concerns of how persistently high oil prices may eventually hit the World economy. These fears were ignited by the sudden jump in headline CPI and PPI released by the US and CPI released by the UK last week. News of increased levels of US stocks also added to the correction. However as the Northern hemispheres summer moves towards autumn traders will begin assessing whether there are sufficient stocks for the winter. As Ecuador announced it will suspend Oil exports and terrorists tried, last week to attack two US war ships, there are many reasons for this market to remain volatile. Supply remains tight, as does refining capacity, news of any interruption or potential interruption has an amplified affect on

Oil prices. This environment will persist for some while yet.

The Macro Trader's view is; as stated here before, Oil remains a long term bull market and we believe it will rally to a level significantly higher; US\$90.00 a barrel. We see several factors at work driving the market; the short term inability of OPEC to produce very much more Oil, Chinese demand, ongoing problems in the Middle East keeping politics in that region very much in the forefront of traders minds and the crisis with Iran over its nuclear ambitions. Traders should stay long and use any pull back as a buying opportunity. Not all of these factors will be in play at the same time, but they will never be far below the surface.

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