WEEK 37 13th -19th September 2005

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS

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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 5th September
Monday	Markets Close US Labour Day
Tuesday	ISM non-Mfg 65.0 STRONGER THAN EXPECTED
Wednesday	Non-farm productivity Q2F 1.8 LESS THAN EXPECTED Feds beige book for Sept 20th PRE-KATRINA ANALYSIS
Thursday	Jobless claims 319K HIGHER Wholesale inventories -0.1 WEAKER THAN EXPECTED
Friday	Export prices -0.1 HIGHER Import prices 1.3 HIGHER THAN EXPECTED

Last week's calendar.

Last week's calendar revealed stronger pre-Katrina data.
On Tuesday; the ISM non-manufacturing survey was stronger than consensus, on Wednesday; non-farm productivity was weaker than expected and the Feds beige book reported the economy in good shape, higher energy prices, but not feeding through, with some softening in the housing market(but this is all pre-Katrina), on Thursday jobless claims were higher than expected and may be revised higher this week, wholesale inventories were weaker than forecast, then on Friday; both Export and Import prices were higher than consensus.
The market reacted to all of this by retracing half of the rally which occurred in the week Katrina hit the US Gulf coast.

MARCH 06 EURO DOLLARS

See how the market traded lower off of the stronger ISM data on Tuesday and the beige book on Wednesday, ignoring the fact the reports would have looked very different if drafted post Katrina.

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EURO DOLLARS

THE WEEK AHEAD

	Week of 12th September
Monday	
Tuesday	PPI 0.8 PPI Ex- F & E 0.1 Trade Bal -59.7B Monthly budget stat -49.0b
Wednesday	Retail sales -1.4 Less Autos 0.5 Ind production 0.3 Capacity utilization 79.9
Thursday	Business inv -0.5 CPI 0.6 Ex- CPI 0.2 Empire state Indx 15 Jobless claims 345K Philly Fed 13.0
Friday	Current A/C Q2 -193.0B Net foreign Sec's Purchased n/f U. of Michigan Conf 86.0

This week's calendar.

This week the calendar again contains much pre-Katrina data, so the market remains in the dark as to its impact on the economy.
On Tuesday; PPI, the headline will likely look messy after the rally in the Oil market recently, the trade balance and the monthly budget statement, on Wednesday; retail sales, industrial production and capacity utilization, on Thursday; business inventories, CPI, Empire state index, jobless claims and the Philly Fed, then on Friday; Q2 Current account, net foreign securities purchased and University of Michigan confidence.

OUR TRADING STANCE: BULLISH.

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

Last week we remained bullish of March 06 Eurodollars, but cautioned to expect profit taking. That is precisely what occurred. We did advise that in our opinion this would be a buying opportunity. The economic data released during the Katrina week and previously had thrown out some surprisingly soft data which would have allowed the market to build on the nascent rally; Katrina caused that, and more, to occur all at once so naturally traders took their windfall gains. Additionally as the US, EU and IEA authorities announced the release over a one month period of 2MBD of Oil from their strategic reserves, the market developed the view that Oil prices might just have been capped meaning any further damage to the economy could be avoided. This is nothing more than wishful thinking. Oil prices have been rising in a volatile manner for some time, like the Eurodollar rally, Katrina only Caused the spike, Oil prices are likely to move higher again soon for all the reasons which existed before the hurricane hit. The rally when it resumes will be driven further by buying, in addition to usual demand, aimed at replenishing the draw downs made from the strategic reserves already mentioned. Looking ahead this week's data has the potential to re-ignite the rally; the trade balance and budget statement, although pre-hurricane, if much worse than consensus, will ring alarm bells about what to expect moving forward, industrial production and capacity utilization had a surprise drop last month and subsequent releases of both the Chicago PMI and ISM manufacturing survey underscored the fact of a weaker performance in manufacturing, another weak report will add weight to the argument the Fed should pause. Friday's Q2 current a/c data and net foreign securities purchased data will also be important, especially for the Dollar. On balance we see this week's data as being supportive of a resumption of the gradual upward correction to the market we had previously forecast in the weeks before the hurricane hit.

The Macro Trader's view is; the market retraced just over 50% of the rally last week and we feel that March 06 Eurodollars offers an excellent buying opportunity. We expect the Fed to pause at its September 20th meeting and eagerly await the accompanying statement. Although New Orleans has grabbed the head lines, vast areas around the Mississippi have been devastated and with that river blocked a major artery of commerce and trade is seriously restricted. We know that although the initial affect of a natural disaster such as this is to slow economic activity, some analysts and the CBO have estimated 0.5% - 1.0% deduction from GDP in the second half of this year, the longer term effects will see an add to activity as the rebuilding gets underway. The important thing to remember there is no script as to when the change over occurs. The devastation if coupled with yet higher Oil prices could actually reduce Q4 GDP to zero, so there is plenty of uncertainty. In this environment the Fed will play for safety so they will likely remain on hold not just at their September meeting but potentially through to year end. Our target for March 06 Eurodollars in this scenario is initially back up to 96.10.

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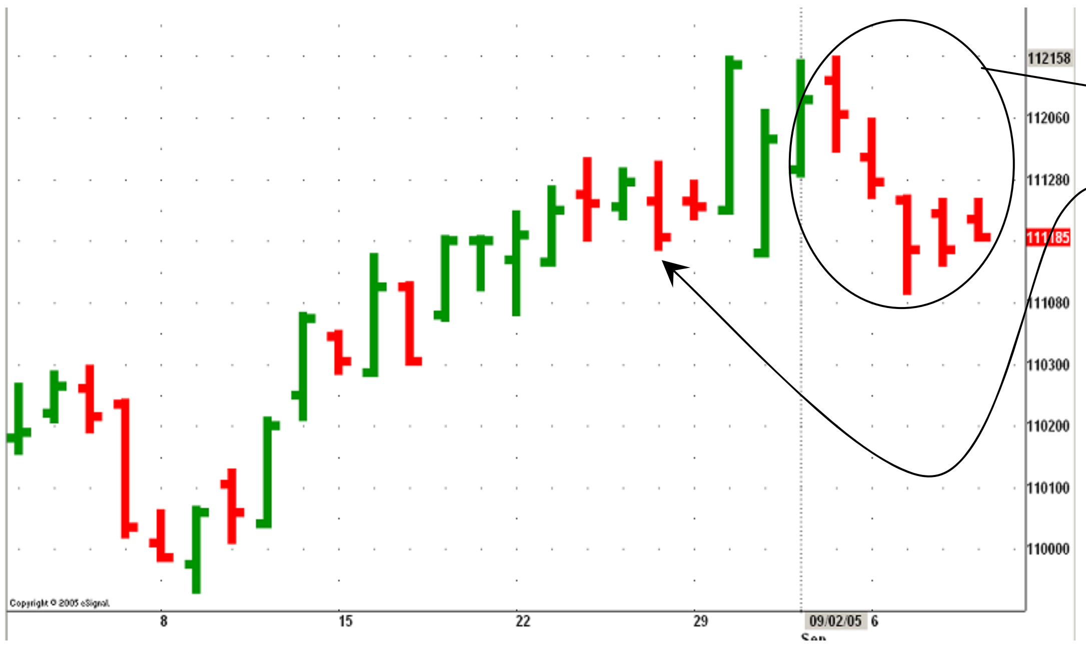
THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were bullish.

US 10yr NOTE DECEMBER 05



See how the market gave up all its Katrina gains, returning to where the market was before the hurricane began to threaten, as traders became concerned over the inflationary impact of the storm's damage.

This week we remain bullish.

Last week we turned bullish of this market as we felt in the aftermath of the storm, traders would continue to progress the rally which had its roots set before Katrina was even a concern, born out of a steady trickle of weakening data. In the event as the Bush administration announced a massive aide program aimed at rebuilding New Orleans and its surrounding areas, traders focussed away from the growth hit the economy would take, onto the possibility of higher inflation. With several refineries knocked out by the storm and at least four expected to remain off line for a considerable time, the worry was Gas prices could become much more expensive. The release of Oil reserves could do little to alleviate the problem since it was down to the availability of refining capacity and refined products. The combination of a budget deficit set to resume expanding together with worries of higher inflation meant some traders began to question whether the Fed would indeed pause at all. The judgement is quite fine, but, increasing interest rates in the aftermath of such a shock will only add to the trauma the economy is experiencing, even the Feds Yellen, when speaking on Thursday, said "the path of monetary policy is no longer obvious". For her the worry was if higher Oil/energy prices feed into general inflation. Even the Feds Moskow, was unclear about the impact on the national economy and wouldn't speculate on upcoming Fed meetings. Separately the Congressional budget office said "Katrina effects significant but not overwhelming……September payrolls could decline by 500,000 – 1,000,000…..GDP could be shaved by 0.5 – 1.0% in 2nd half of 2005……pick up later in 2006". So it seems the market has been too quick in drawing its conclusions.

The Macro Trader's view is; there is much uncertainty over how the economy and inflation will evolve moving forward, but most policy makers expect a drop in GDP, the real question is over the speed of the eventual recovery. We see the hit to growth as a superior concern to inflation for the short/medium term and expect the Fed to pause.

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THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART

See how the Dollar recovered some lost ground as Oil prices moderated during the week and the Pre-Katrina ISM non-manufacturing survey released on Tuesday, showed the service sector of the economy was strong prior to the storm.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar expecting an already unfavourable set of fundamentals, which in the aftermath of Katrina looked set to deteriorate further, compounding the Dollars woes and lead it lower. In the event, the easing of Oil prices, talk of higher inflation and questions as to whether the Fed would indeed pause, lent the Dollar support and it retraced some of the previous week's move. The stronger ISM non-manufacturing data helped, even though it was pre-storm. Looking ahead we see several key reports this week which have the potential to set the Dollars direction over the coming weeks, these being; the Trade balance and monthly budget statement on Tuesday, further deterioration here would augur badly for the numbers post Katrina, retail sales, industrial production and capacity utilization on Wednesday and on Friday; Q2 Current A/C balance and net foreign securities purchased.

Traders will want to see that these numbers were showing some improvement before the storm hit, if the trade and C/A data are seen to be deteriorating now, the outlook will definitely be even worse post storm and once all the extra aide is taken into account, at least as far as the budget deficit is concerned, that number is going to expand to new records.

The Macro Trader's view is; we remain bearish of the Dollar and advise staying short. Although the Dollar rebounded a little last week, we see this as a short lived phenomenon and advise remaining long of either Cable or the Euro. The market could become volatile until next week's Fed meeting as traders will be anxious about how they will respond to the situation; a pause is most likely, removing one of the few supports the Dollar has had during its protracted downward journey.

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UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK?

	Week of 5th September
Monday	CIPS PMI Services 55.2 WEAKER BRC Retail Sales -1.0 WEAKER THAN EXPECTED
Tuesday	HBOS House prices 1.6m, 2.5y HIGHER THAN EXPECTED Ind production -0.3m, -1.6y LESS Mfg output 0.1m, 0.2y HIGHER NIESR GDP Estimate 0.5 HIGHER THAN EXPECTED
Wednesday	BRC Shop prices 0.19m, -0.48y LOWER THAN EXPECTED
Thursday	MPC Interest rate decision 4.5% AS EXPECTED
Friday	Trade Bal -5.076B WORSE Trade Bal non-EU -2.521B WORSE THAN EXPECTED

Last week's calendar.

Last week's calendar showed continued weakness in retailing, but a bounce in housing after the August rate cut.
On Monday; CIPS PMI services was weaker than expected and BRC retail sales was also weaker than expected, on Tuesday; the HBOS house price survey was stronger than consensus and showed a strong monthly bounce, Industrial production was weaker than expected but manufacturing output was above consensus, later in the day, a GDP estimate from NIESR, was stronger than expected, on Wednesday; the BRC Shop price monitor was weaker than expected, on Thursday; the MPC left interest rates unchanged, as expected and on Friday; the Trade and non-EU trade balances were worse than expected.
The market reacted to all of this by drifting lower throughout the week. This was largely profit taking after the gains the previous week on the back of weaker data and the effects in the US of hurricane Katrina.

MARCH 06 SHORT STERLING

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SHORT STERLING

THE WEEK AHEAD

	Week of 12th September
Monday	PPI core NSA 2.1y ODPM House prices 4.0y
Tuesday	CPI 0.4m, 2.4y RPI EX 2.5y
Wednesday	Unemployment rate 2.8 Change 5.0k Avge earnings inc B 4.1 Avge earnings ex B 4.0
Thursday	Retail sales 0.3m, 1.3y
Friday	

This week's calendar.

This week's calendar sees key releases throughout the week.
On Monday; PPI and the ODPM house price survey, on Tuesday; CPI, not expected to give any positive surprises after the recent rally in Oil prices, on Wednesday; the Unemployment rate and change to unemployment, together with average earnings, then on Thursday; retail sales; for me the most important number of the week. If this throws out a surprisingly weak number the market will renew speculation on the timing of the next MPC rate cut.

OUR TRADING STANCE: BULLISH.

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

Last week we remained bullish of Short Sterling, and it suffered a bout of mild profit taking; after the rally over the previous two to three weeks, nothing exceptional. The data continued mainly weak, with the notable exception of the HBOS house price survey posting its strongest monthly increase for some while, driven by the August rate cut and speculation after the release of that meeting's minutes that it may prove a one off. As the US and EU announced they would release supplies from their respective strategic Oil reserves, to ease the disruption caused by Katrina, traders stepped back to re-assess the likely economic implications, with Oil prices moderating, albeit not by very much, the debate was about the degree of disruption and the Feds likely response. Looking ahead, there are several key data releases in the UK this week and we cannot expect any pleasant surprises from the CPI report on Tuesday. However, retail sales, as reported by both the CBI and BRC remain weak and if this is fully reflected by the official data release on Thursday, the MPC will be under renewed pressure to ease policy further. Rising Oil prices are beyond their control, it is senseless weakening the economy further over an input which through its own rapid price acceleration will act as a tax on consumption.

The Macro Trader's view is; although the market corrected lower, driven by factors already discussed, we remain bullish and expect it to trade higher as the data releases reveal continued softness, necessitating further policy eases from the MPC; the key release is retail sales and it will be the path this series follows over the next couple of months which will determine the policy outlook. We expect March 06 to regain the levels seen earlier the week before last at the height of the Katrina crisis.

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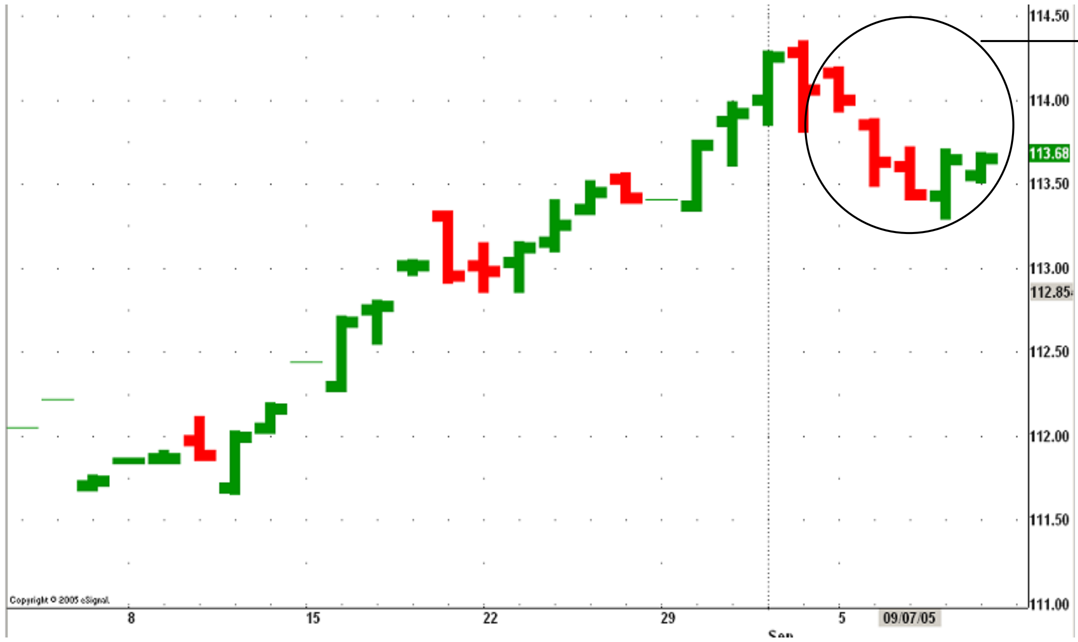
THE GILT

OUR TRADING STANCE: BULLISH.

Last week we were bullish.

GILT DECEMBER 05



See how the Gilt, like Short Sterling, suffered from profit taking early in the week, but rejected the lows as Friday's trade data worsened.

This week we remain bullish.

Last week we were bullish of the market after the Gilt continued its rally the previous week. Last week though was one of consolidation as traders took some of their profits after the immediate Katrina effect began to wane. Looking ahead we see the market dominated by two key themes; the expected deterioration of the Governments finances caused by the soft economy coupled with rising inflation caused by higher oil prices on the one hand against the weakening economic outlook, caused by a soft housing market, weak domestic demand; as evidenced by the poor retail sales data and rising Oil prices on the other. In our view, for the foreseeable future at least, it is the later set of concerns which will hold sway and drive the market higher. Although higher Oil prices will push up inflation, the bigger concern will be the effect on growth, especially since the economy is already cooling for home grown reasons.

The Macro Trader's view is; traders took the market higher during August on weakening economic data, a further push was added by the devastation caused by Katrina in the US. When Oil prices threatened to move higher yet on the disruption caused to US Oil production in the Gulf of Mexico, the gap was plugged with Oil from various national strategic reserves, this will prove short term relief and as the Oil price again rally's traders will fret about the resultant cost to growth in the US, UK and wider World economy. Friday's UK trade data worsened further and this too will deduct from GDP. Traders should remain long; our interim target for Dec Gilts is 114.50 over the coming weeks.

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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 remained bullish of Sterling expecting further gains against both the US Dollar and the Euro over the coming weeks and months. Last week traders booked some profit as the Pound entered a continuation/consolidation phase, which we don't expect to last too much longer. Against the Euro the Pound did rather better and rallied to test the levels suggested here last week. The drift against the Dollar was entirely in line with a market move such as we saw the week previously; driven by uncertainty concerning the US economy after Katrina, once the initial shock had passed traders stepped back to re-assess. The disaster initially looked like a cue for Oil prices to push even higher, which would progressively slow the US and world economies, but the mood changed quickly after the US, EU and IEA quickly announced the release of 2MBD of crude over the next month. This led the market to ponder the resultant impact and thus the Dollar might not be so badly affected; wrong. The reserves released will need to be replaced and in any case the US is short of refined products, hence the Presidents call to those unaffected US refineries to delay any maintenance and keep working, as four of the nine refineries knocked out by the storm are expected to be off line for a considerable time. Looking ahead we see the same cocktail of fundamentals, which initially conspired to weaken the Dollar back in 2002 remaining in play; the budget deficit which only a month or so ago was forecast to improve, will now worsen as billions of Dollars of aid are sent to rebuild the region, the current account deficit will also worsen as Oil prices eventually move to new highs and the US has to initially import more foreign Oil to make up for lost domestic production and then replenish its strategic reserve.

The Macro Trader's view is; we expect the Pound to rally further against both the Dollar and the Euro, although the UK economy is its self cooling, US fundamentals look set to deteriorate further and with UK interest rates falling and Euro zone rates stuck fast, the UK economy looks like recovering before the Euro zone economy ever gets going. We look for Cable to test 1.9000 in the coming weeks and after consolidating last week's move to 0.6750 against the Euro moving higher to 0.6700. Remain long of Sterling and continue to use any pull back as a buying opportunity.

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EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK?

	Week of 5th September
Monday	IT PMI Services 48.5 WEAKER FR PMI Services 55.2 WEAKER DM PMI Services 53.3 AS THAN EXPECTED
Tuesday	DM Factory orders 3.7m STRONGER THAN EXPECTED
Wednesday	IT Cons confidence 100.8 WEAKER IT Trade Bal non-EU 502M BETTER DM Ind prod 1.2m STRONGER THAN EXPECTED
Thursday	DM C/A 7.3B HIGHER DM Trade Bal 14.1B AS IT Business conf 87.5 HIGHER THAN EXPECTED
Friday	DM WPI 0.0m, 1.9y LESS FR Ind production -0.9m WEAKER FR Mfg output -1.2m WEAKER IT Q2 F GDP 0.7q, 0.1y AS IT Ind orders 2.0m STRONGER IT Ind sales 0.4m, 1.2y STRONGER THAN EXPECTED

Last week's calendar.

Last week's calendar the German industrial sector improving while France's weakened. On Monday; Italian and French PMI services reports were weaker than expected while Germany's was in line, on Tuesday; German factory orders were stronger than expected, on Wednesday; Italian consumer confidence was weaker, but the trade balance improved and Germany's industrial production was stronger than consensus, on Thursday; German current a/c surplus was larger than expected with the trade surplus as expected, also that day, Italian business confidence was higher than forecast, then on Friday; German WPI was below expectations, French industrial production and manufacturing output were both weaker than expected and Italy reported Q2 GDP in line, and industrial sales and orders both stronger than forecast.
The market reacted to all of this by following the lead of other interest rate markets and traded lower as signs of stronger activity in the Euro zone economy became evident.

MARCH 06 EURIBOR

See how the market initially moved higher on Monday after the weak PMI data, but traded lower over the rest of the week.

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EURIBOR

THE WEEK AHEAD

	Week of 12th September
Monday	DM CPI 0.1m,1.9y
Tuesday	FR CPI 0.3m, 1.7y FR Trade bal -975M
Wednesday	IT CPI 0.2m, 2.0y IT C/A -2.707B
Thursday	FR non-farm payroll 0.0
Friday	FR C/A -750M IT Ind production -0.3m, 2.5y

This week's calendar.

This week's calendar is mainly about inflation. On Monday; German CPI, on Tuesday French CPI and trade balance, on Wednesday; Italian CPI and Current Account balance, on Thursday; French employment report and on Friday; French Current Account data and Italian industrial production data.

OUR TRADING STANCE: BULLISH.

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

Last week we held to our bullish outlook for March 06 Euribor expecting the strength of the currency to quieten some of the ECB'S worries over inflation. In the event some stronger domestic data together with a general market correction, after the Katrina rally the week before, led the market lower. This week as we anticipate the release of inflation data from the Euro zones three largest economies, we expect Euribor to consolidate before resuming its gradual move higher to our target of 98.00, unless the data shows a uniform deterioration away from the ECB'S inflation target.

The Macro Trader's view is; although some Euro zone data has shown improvement recently, the over all performance remains weak. Last week one Bundesbank official said higher Oil prices would push up inflation and damage growth, for now interest rates are appropriate. In our opinion, the hit to growth is a more serious concern than the short term effects on inflation, and we expect the market to drift higher.

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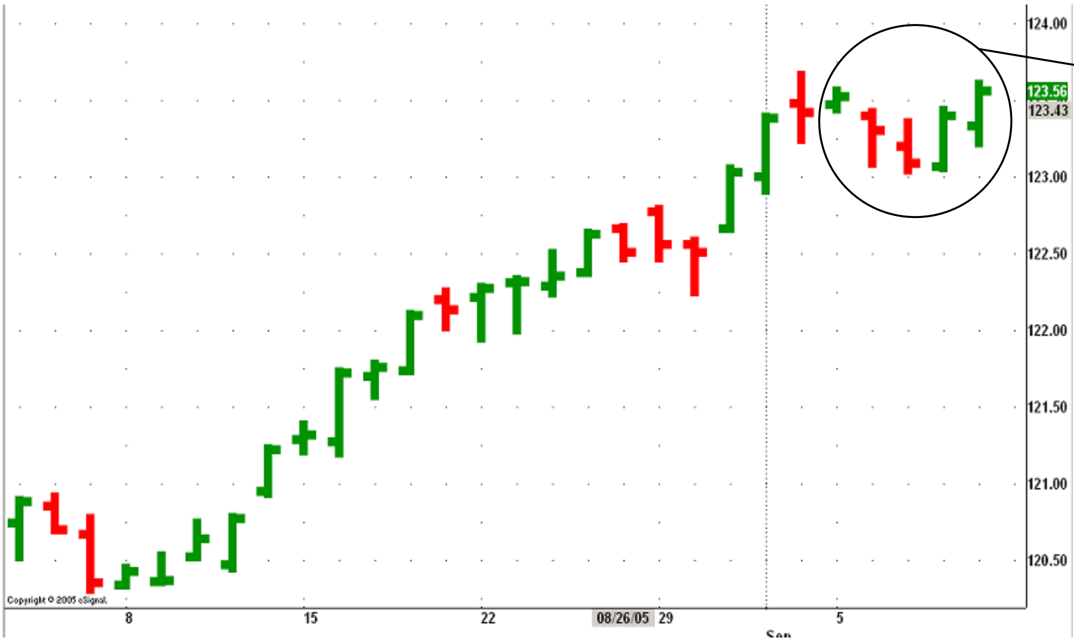
THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the bund.

THE BUND DECEMBER 05



See how the Bund recovered from a brief dip and alone among the major markets remained focussed on the core issues affecting its domestic economy.

This week we remain bullish of the Bund.

Last week we remained bullish of the bund and after a brief dip it bounced back. Other markets gave up much of their Storm week rallies, how ever the Bund proved more resilient and recovered quickly after a brief correction. Looking ahead, although some data releases were stronger last week; notably those from Germany, the French equivalent remained weak and deteriorated further. The service sector of the Euro zone economy also continued to disappoint, so the prospect of interest rates moving higher in the Euro zone remains remote. As Oil prices eventually resume their rally, once other geopolitical factors affecting that market again move centre stage, markets in general will again focus on the hit growth world wide will suffer.

The Macro Trader's view is; last week we noted that although the Katrina disaster had proved a bullish influence in world markets, albeit for now temporary, we said the Bund was already a long run Bull market trading on the basis of domestic Euro zone concerns. As other markets corrected lower last week, as traders minds shifted from loss of growth to pickup in inflation, the Bund bucked the trend and clung to its higher levels. We continue to expect the Bund to behave this way and remain bullish of the market with our interim target being 124.00(we are now tracking Dec05 bunds).

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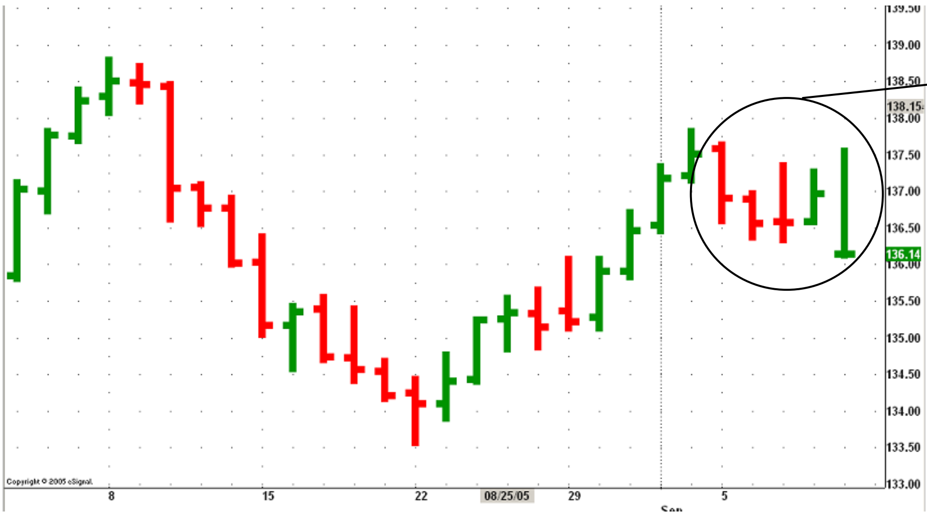
THE EURO

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen traded sideways against the Euro as the outcome of the Japanese general election was awaited.

THE EURO/DOLLAR CHART

See how the Euro lost some ground to the Dollar as traders began to question whether weaker US growth, post Katrina or higher US inflation was the bigger concern.

This week we remain bullish of the Euro.

Last week we remained bullish of the Euro anticipating further gains against the Dollar as traders were expected to dismiss much of last week's US data for being pre-Katrina. With the Fed in the initial aftermath of the disaster, almost unanimously expected to pause for at least one meeting and possibly through to year end, the Dollar was expected to come under mounting pressure. However, time passed, Oil was released from strategic reserves and the Oil price eased back to pre-Katrina levels, taking some of the growth worries out of trader's equations. The fact that part of the supply problem pre-Katrina was insufficient refining capacity in the US and post Katrina with 9 refineries initially knocked out with at least 4 of those expected to remain unusable for some considerable time; the market appeared to have lost sight of the continuing threat to US growth from a shortage of refined products. Some sources expected energy costs to rise 30% in the US during the coming winter, a development which would divert consumer spending away from other discretionary purchases into energy purchases. This in addition to the actual loss of production, consumption and transport links in the devastated areas is where the risk to US growth over the next 6 months lies. The market has been too quick in making its assumptions; amazingly the Fed has had very little to say and with an FOMC meeting next week that is unusual. They know the next couple of quarters are going to be tricky for the US economy and a wrong move now on monetary policy could make a difficult situation a whole lot worse.

The Macro Trader's view is; the Euro, pre-Katrina had weathered a series of tests at the Dollars hand and had survived them before the storm hit, the US Current Account and Budget deficits look set to grow from here to yet new records, the Fed looks set to pause and the Dollar is set to decline, as always timing is the key. As on many occasions here in the past the key to Dollar/Euro is what is happening in the US not the Euro zone economy and given the current set of circumstances and the way we expect them to evolve, as stated here earlier, the Dollar remains a long term sell. This week's data should help it on its way.

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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, driven by worries of slower US growth and higher Oil prices. The Dollar regained some composure and with the release of emergency Oil supplies, the Oil price eased back, as traders began worrying over higher inflation, Gold broke free from the Dollars shadow and continued the rally. During the Dollars recent decline, Gold has benefited most when the Dollar has traded lower, at times of Dollar strength Gold has retreated smartly. This has been because the market has viewed the Fed as doing enough to ensure inflation remains under control; which so far it has. Now as traders begin to turn their attention to the prospect of higher US inflation; which may not materialise if the economy slows enough, Gold becomes attractive as a hedge against inflation, so the Dollars moves, at least while these worries persist, are less important to Gold traders.

The Macro Trader's view is; Gold is a bull market and traders should remain long. In addition to all the other reasons quoted here recently for buying Gold, the main one is further future Dollar weakness, caused by an economy that was already experiencing a tepid expansion but which will now see that expansion cool as it struggles to recover from the worst natural disaster to hit the US in its modern history. Our interim target is US$452.00 an ounce, and was nearly achieved last week. Remain long and if US data forces the Dollar lower as we move through the week, add on to long positions.

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OIL

OUR TRADING STANCE: BULLISH.

Last week we were bullish of oil.

THE CRUDE OIL CHART

See how the Oil price declined as Oil was released by the US, EU and IEA from their strategic reserves.

This week we remain bullish of oil.

Last week we remained bullish of Oil, and although it corrected lower as strategic reserves began to be released into the system and Saudi Arabia tried to engineer a price drop, the decline has been less than dramatic. News of a larger draw down in US supplies was largely ignored by the market; usually it would have provoked a rally. The release of strategic reserves is set to last for one month; those reserves WILL BE REPLACED, there are too many factors at play internationally for the authorities that hold them not to do so. When they are replaced, the market will have to cope with those purchases and regular demand. Part of the problem affecting prices has been a shortage of US refining capacity, that has been aggravated by the storm damage and no amount of emergency Oil being released can alter that fact. Additionally, the only US port capable of handling Super tankers has been closed by the storm. No doubt it will reopen soon, but while closed, emergency supplies from Europe will struggle to get ashore.

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, the crisis with Iran over its nuclear ambitions which has hit the headlines again this weekend and now the massive natural disaster in the US caused by Katrina. Traders should stay long and use any pull back as a buying opportunity, especially as prices ease on the back of the US, EU and IEA releasing some of their strategic reserve. The Oil market will rebound as those reserves are replaced.

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