Week 48

15th – 21st October 2013

the macro trader's guide to major markets

John Lewis

SEVEN DAYS AHEAD

SUMMARY

Summary
Global Calendar

Market	View
US Markets	
+ EURODOLLARS	SQUARE
+ 10 YEAR NOTE	SQUARE
+ US DOLLAR	SQUARE
+ S&P 500	SQUARE
UK Markets	
+ SHORT STERLING	SQUARE
+ GILT	SQUARE
+ STERLING	BULLISH v the EURO
+ FTSE	SQUARE
Euro Zone Markets	
+ EURIBOR	SQUARE
+ BUND	SQUARE
+ EURO	BEARISH v the POUND STERLING
+ DJ EURO STOXX 50	SQUARE
Japanese Markets	
+ JAPANESE BONDS	SQUARE
+ YEN	SQUARE
+ NIKKEI	BULLISH
Commodities	
+ GOLD	BEARISH
+ OIL	SQUARE

Disclaimer

More

This week's global calendar – macro trader

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

	Week of 14th October
Monday	EZ PPI 0.5m, -2.4y DM Import prices -0.1m, -3.9y
Tuesday	US Empire mfg 8 UK PPI input -0.6m, 2.2y UK PPI Output 0.1m, 1.3y UK PPI Core 0.1m, 0.9y UK CPI 0.3m, 2.6y UK RPI 0.4m, 3.2y UK RPI-X 3.2y UK DCLG House prices 3.4%y DM ZEW 51 JP Ind production n/f JP Capacity utilisation n/f
Wednesday	US MBA Mrtge apps n/f US Net lg term TIC flows n/f US NAHB House mrkt indx 57 US Fed's Beige book UK Unemploym't rate 4.2% UK Unemploym't chge -21.0k UK Avrge earngs 1.1% UK AE Ex- Bonus 1.0% UK ILO Rate 7.7% EZ CPI 0.5m, 1.1y EZ Trade bal 10.B JP Tokyo Condo sales n/f

	Week of 14th October
Thursday	US **DEADLINE ON DEBT CEILING** US Jobless claims 335k US Housing starts 913k US Buildg permits 935k US Philly Fed 16 UK Retail sales 0.3m, 2.2y EZ C/A n/f EZ Construction outpt n/f JP Machine tool orders n/f
Friday	JP Tokyo dept stre sales n/f JP National dept stre sales n/f

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

	Week of 7th October
Monday	US Cons CR $13.625B **STRONGER** UK BRC Sales 0.7% **WEAKER** UK RICS Hse prce bal 54% **STRONGER** JP C/A Y161.5B **WEAKER** JP Trade bal -Y885.9B **WEAKER** JP ECO Watchers 52.8 **BETTER** **THAN EXPECTED**
Tuesday	UK BRC Shop prices -0.2% **STRONGER** DM Trade bal 13.1B **WEAKER** DM C/A 9.4B **WEAKER** DM Factory orders -0.3m, 3.1y **WEAKER** JP Bankruptcies -11.92% **LESS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 1.3% **BETTER** US FOMC Minutes Sept 17-18 meeting UK Ind production -1.1m, -1.5y **WEAKER** UK Mfg output -1.2m, -0.2y **WEAKER** UK Trade bal -£9.625B **WORSE** UK Trade non-EU -£4.35B **WORSE** UK NIESR GDP Est 0.8% **AS** DM Ind production 1.4m, 0.3y **STRONGER** JP Machine tool orders -6.3% **WEAKER** JP Tertary ind indx 0.7m **STRONGER** JP Machine orders 10.3y **STRONGER** JP BK Lndg Ex-trusts 2.3% **AS** JP BK Lndg incl trusts 2.0% **AS** **THAN EXPECTED**

	Week of 7th October
Thursday	US Jobless claims 374k **WORSE** UK BOE Rate decision 0.50% **AS** UK BOE AP Decision £375.0B **AS** JP Cons conf 45.4 **STRONGER** JP Domestic corp gds prces 0.3m, 2.3y **MORE** **THAN EXPECTED**
Friday	US U. of Michigan conf 75.2 **WEAKER** UK Construct’n outpt -0.1m, 4.0y **WEAKER** DM WPI 0.7m, -2.2y **MORE** DM CPI 0.0m, 1.4y **AS** **THAN EXPECTED**

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: economic background

Last week's calendar was thrown into disarray by the on going Federal Government shut down.

The data that was released really tells us little about the economy's health. The increase in consumer credit could have been driven by laid off workings borrowing to cover their lack of pay cheque, the FOMC minutes seem largely irrelevant given the government shut down and the jump in jobless claims is clearly a temporary phenomenon caused by the government shut down.

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

- On Tuesday; **Empire manufacturing,**
- On Wednesday; **Net long term tic flows, NAHB House market index and the Fed's Beige book, and**
- On Thursday; **Debt ceiling deadline, jobless claims, building permits and housing starts.**

The main event this week is the looming debt ceiling deadline and the negotiations aimed at raising it.

If the deadline passes without congress and the President reaching some kind of deal on raising it then the US will be in default and it will likely prove a game changer for the US and global economy.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

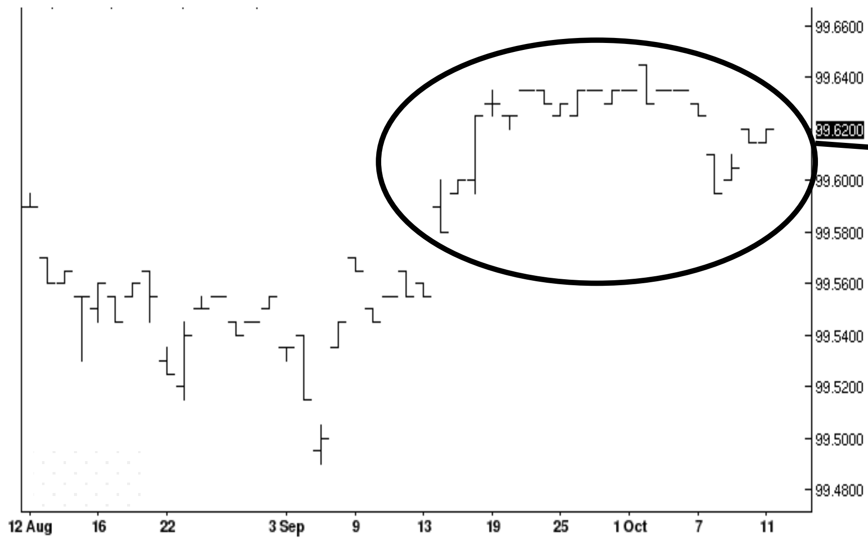
Disclaimer

US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.

See how the market lacks any sense of direction.



The Macro Trader's view of Eurodollars is; nothing new to say about this market, it remains moribund.

The Fed has made it clear tapering isn't imminent and interest rates wont change for a long time and has also acknowledged the clumsy way it has communicated with markets over recent months.

The government shut down continues to deprive traders of key data releases, but we doubt they would have made too much difference to this market.

Looking ahead this week's key event is the debt ceiling deadline, a default would likely see the market rally, but since we expect a deal to be done, we see little point in trading this market.

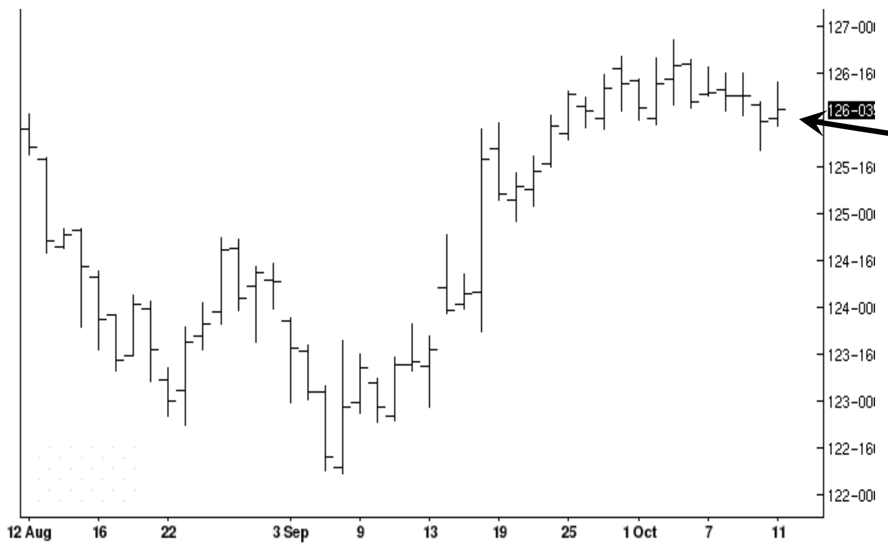
So stay square.

More

US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note's rally has run out of steam as the growing threat of default begins to sink in.

The Macro Trader's view of the 10 year note is: the rally ran out of steam last week as traders began to think the unthinkable; default.

While we still expect a deal will be done, a default would send this market crashing. A deal might see a limited relief rally before profit taking swiftly griped the market and traders refocused to the other pressing issues of:

1. The Fed's policy stance,
2. The economic recovery, and
3. The current corporate earnings season.

However none of these matter until the debt ceiling issue is resolved, because if it isn't the recovery is over.

For now we advise staying square.

The outcome of the debt ceiling negotiations is a gamble with serious consequences and predicting what politicians will do in a situation such as this, is not the same as trading on the balance of economic risks.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

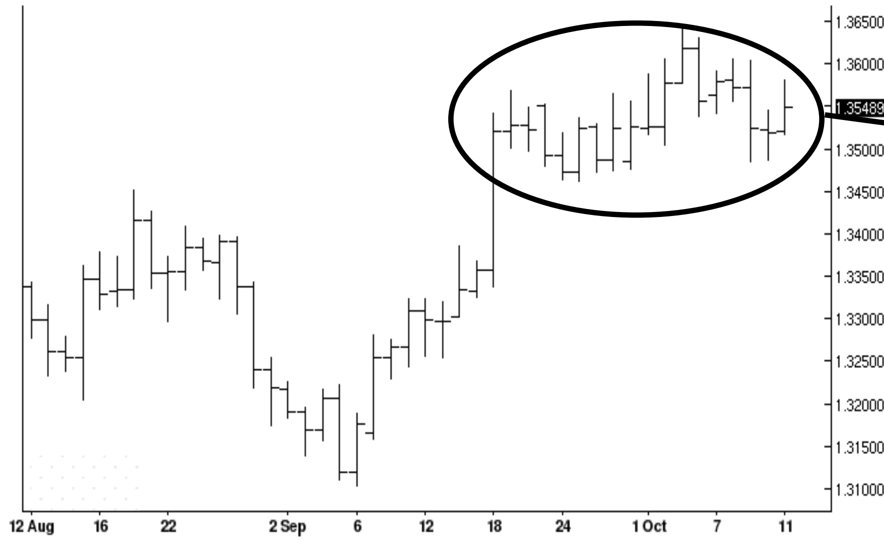
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Dollar.



The Dollar looks calm given what is potentially at stake.

The Macro Trader's view of the Dollar is; the Dollar looks amazingly calm given what is potentially at stake should the debt ceiling not be raised.

Clearly traders are expecting the authorities to reach a last minute compromise that provides a breathing space for broader budget discussions to take place.

Assuming the debt ceiling is raised, which is our expectation, the Dollar should stage a recovery against the Euro to around the 1.3250 – 1.3300 level initially.

However, the situation is completely unpredictable. The House Republicans seem unwilling to acknowledge that Obama recently won re-election to pursue his current policy stance.

Taking the House, Senate and Presidency all together, the Republicans are in the minority, failed to convince the electorate of their policies, but are determined to hold the country to ransom any way.

If this goes wrong and the US moves into default, we judge the Republicans will be doing their future electoral prospects much harm.

For now stay square, but be ready to buy the Dollar if the debt ceiling is raised this week.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

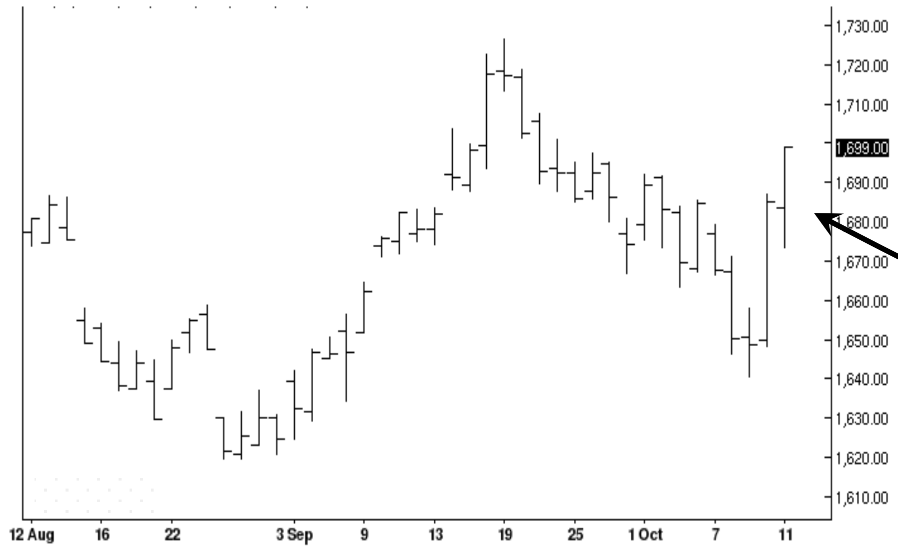
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: S&P500

OUR TRADING STANCE: SQUARE.

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



The S&P snapped out of its correction late last week as traders positioned for the possibility of a weekend deal on the debt ceiling.

The Macro Trader's view of the S&P 500 is: the S&P snapped out of its correction late last week as traders began to sniff a possible weekend deal to raise the debt ceiling, albeit for say only 6 weeks.

Unfortunately those hopes were dashed and time is running out for the US to avoid default.

But what Thursday's and Friday's price action did tell us is, that if the politicians can find a formulae to raise the debt ceiling, this market wants to rally.

The Federal Reserve looks set to leave policy unchanged for some time yet as they are still concerned about the strength of the recovery.

This will help settle nerves and traders will rediscover their risk appetite and go long stocks.

But stay square for now.

If a deal is agreed ahead of the debt ceiling deadline then go long. If the deadline passes with no deal then sell hard.

More

SEVEN DAYS AHEAD

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: economic background

Last week we focussed on the Industrial production/manufacturing output and NIESR GDP estimate.

The first disappointed, coming in weaker than expected, but the NIESR report hit consensus and with the IMF revising up its estimates for UK growth this year and next, the economy looks to be on the mend.

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

- On Tuesday; **PPI, CPI, RPI and DCLG House prices,**
- On Wednesday; **unemployment report and average earnings, and**
- On Thursday; **Retail sales.**

The key release this week is retail sales.

After last week's disappointing industrial production data traders will be looking for re-assurance the recovery hasn't stalled.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

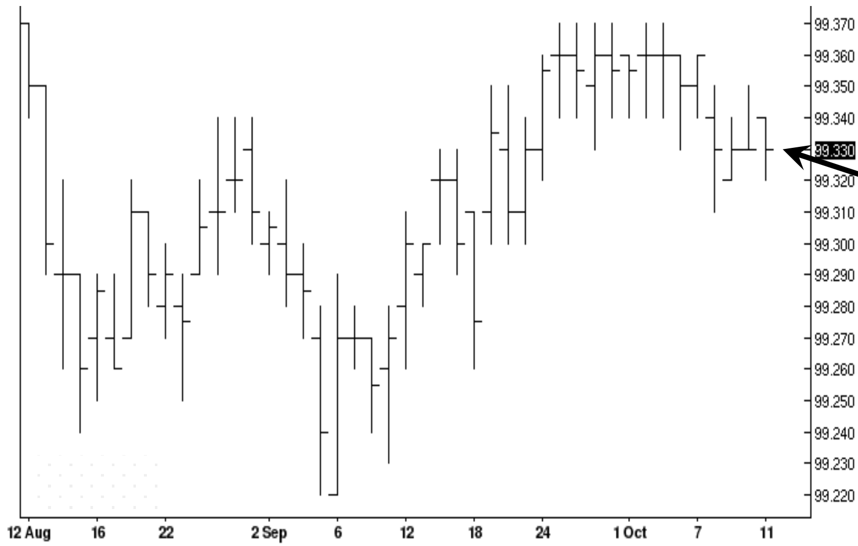
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



See how Short Sterling's price action confirmed it remains range bound.

The Macro Trader's view of Short Sterling is: last week's industrial production and manufacturing output data reminded everyone that the road to recovery isn't straight as both reports fell short of consensus.

Looking ahead this week sees the release of three key reports:

1. CPI,
2. Unemployment, and
3. Retail sales.

We judge retail sales is the one to watch. After last week's disappointment, traders will want re-assurance that consumer demand remains fundamentally solid.

However, interest rates in the UK are stuck at their current level for the foreseeable future, so where is the reward in taking risk here?

For now we continue to advise staying square.

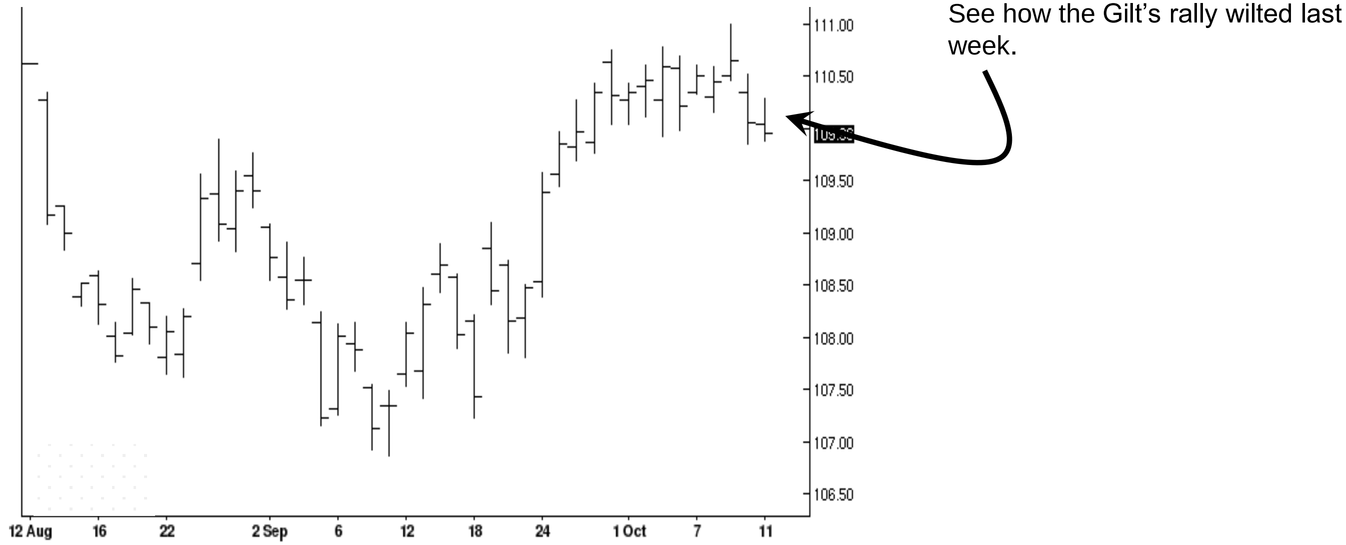
More

Summary
Global Calendar
US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500
UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE
Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50
Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI
Commodities
+ GOLD
+ OIL
Disclaimer

UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



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

…"the rally in the Gilt looks close to exhaustion as economic reality kicked in last week."…

And on balance we think that comment proved true as the correction clearly ran out of energy towards the week's end.

Although Industrial production fell short of expectations, the Housing market is looking increasingly strong and if this week's retail sales report can show consumer demand holding up, this market should sell off.

But there is the matter of the US Debt ceiling deadline which is offering the Gilt a degree of support.

While we are tempted to sell the Gilt now, we judge it prudent to await the outcome of the US debt ceiling negotiations so for now remain square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

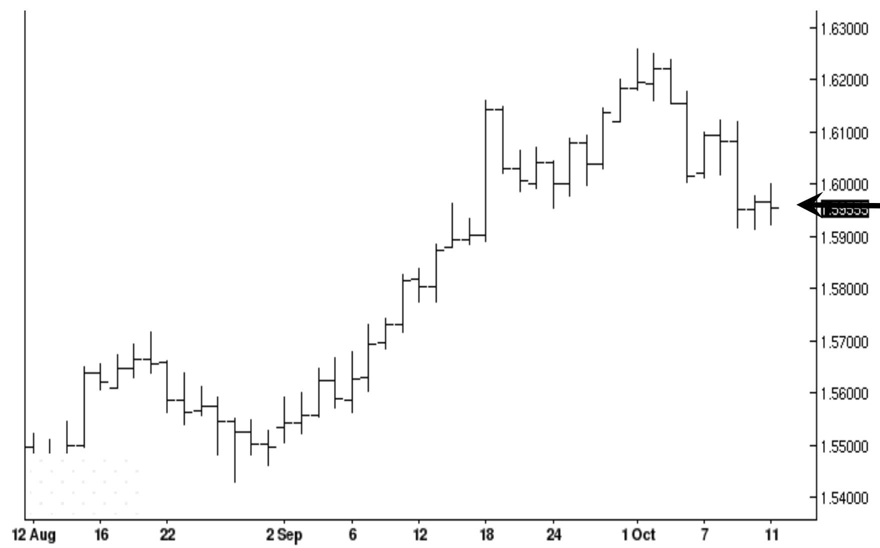
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Sterling

OUR TRADING STANCE; BULLISH v the EURO

Last week we were Bullish v the Euro



See how Sterling looks vulnerable to the US agreeing a debt ceiling deal.

The Macro Trader's view of the Pound is; the Pound looks increasingly vulnerable against the Dollar as traders expect US Political leaders to come to their senses and agree a deal that raises the Debt ceiling.

Add in last week's disappointing UK data and profit taking saw the Pound slide away from the recent highs against both the Dollar and the Euro.

Looking ahead we remain square against the Dollar as the US currency will surely stage a relief rally on the back of a debt ceiling deal.

Against the Euro we remain Long. The Euro zone has released some data showing improvement, but the UK recovery is more advanced.

If this week's UK CPI hits consensus and there are no negative surprises from retail sales, the Pound should steady.

Traders should be Long Sterling/Short the Euro.

Our target remains 0.7800 and our stop continues at 0.8670 for protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

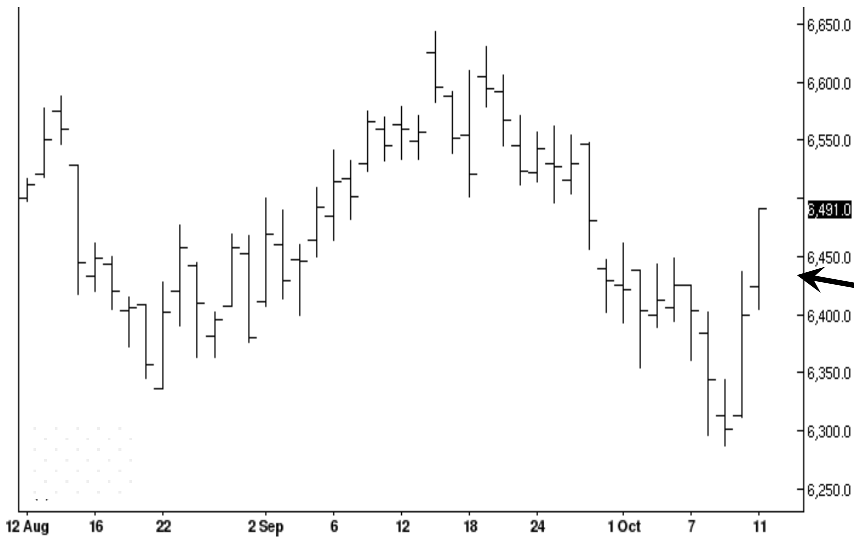
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

Last week we were Square.



See how the FTSE staged a recovery late last week on hopes the US would agree a deal on the debt ceiling over the weekend.

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

…"Looking ahead there are several key reports due and we are focused on industrial production and the NIESR GDP estimate"...

…"But until the budget impasse in the US is resolved we doubt this market and stocks generally will be able to break out of the current correction"…

Well no deal was agreed, UK data disappointed, but the market rallied; why?

The signals coming out of the US late last week suggested a deal to raise the US debt ceiling and avoid a US default could be done over the weekend.

In the event those hopes were over optimistic.

For now we advise remaining square. Our underlying view of equity markets remains bullish, but now isn't the right time to buy.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: economic background

Last week our focus was centred on German Industrial production.

As the Largest and hitherto strongest economy in the Euro zone, German data is of great interest as the German economy has been the anchor during the Debt crisis and recession and is now the locomotive to drag the Euro zone economy back to growth.

In the event the report was stronger than expected.

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

- On Monday; **German import prices,**
- On Tuesday; **German ZEW Survey,**
- On Wednesday; **Euro zone CPI and trade balance, and**
- On Thursday; **Euro zone construction output and C/A.**

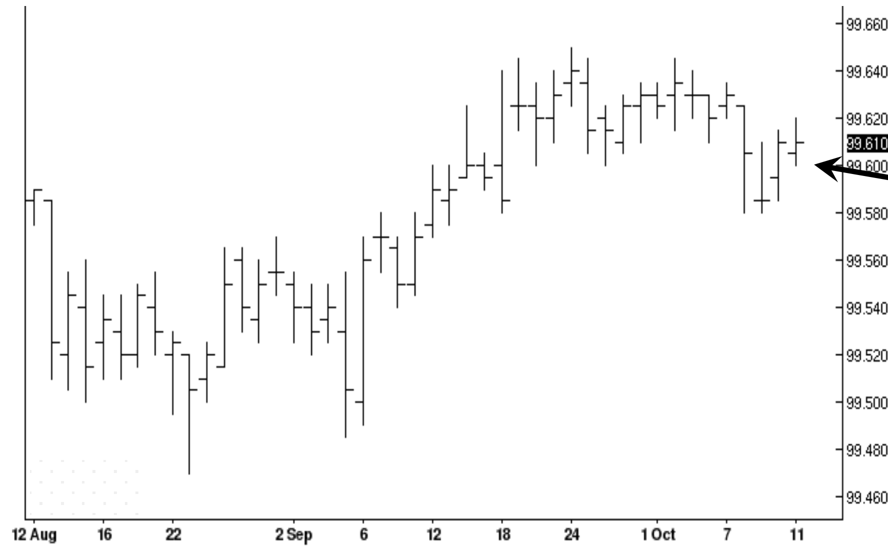
The main event this week is the German ZEW Survey, but with the US Debt ceiling deadline fast approaching domestic data will take second place this week.

More

EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor lacks direction.

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

…"Looking ahead German Industrial production stands out, but. as with the other short date interest rate futures markets we follow, we judge this market offers little risk reward. The trading range over the last two months has been no more than 10 tics, there are better opportunities else where"…

And on the evidence of last week's price action, we see no reason to change that view.

Looking ahead German ZEW Survey is due but the debt ceiling wrangle in Washington will dominate this week, as the risks of a US default grow.

So stay square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

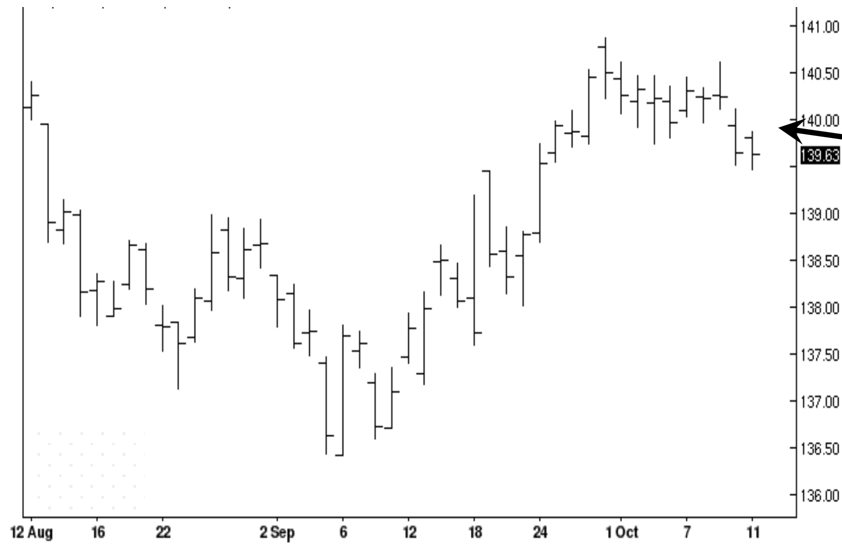
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund had two reasons to move lower last week, one domestic and one international.

The Macro Trader's view of the Bund is: the Bund had two reasons to move lower last week, one domestic; stronger German Industrial production, the other foreign, rising optimism of a deal between congress and the President to raise the US debt ceiling.

Looking ahead the German ZEW survey is the main event this week, but all eyes will be on Washington as the debt ceiling wrangle looks set to go to the wire, set as Thursday.

As with other debt markets we judge a US default will send this market lower, albeit it no so far or as fast, where as an agreement will begin a limited relief rally.

With the stakes so high and uncertainty so great, for now stay square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

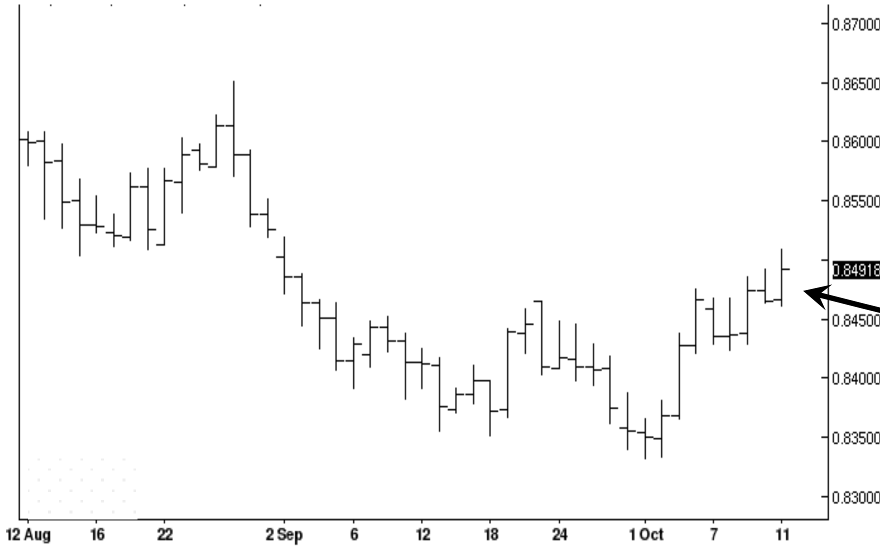
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the POUND

Last week we were Bearish v the POUND



See how the Euro has staged a recovery against the Pound, but is it just a correction?

The Macro Trader's view of the Euro; the Euro extended the recovery against the Pound despite the run of recent data releases falling in the UK's favour.

But it seems traders remain risk averse as the US Government shut down dragged on making its presence felt in markets beyond the shores of the US.

Looking ahead the main Euro zone data release this week is the German ZEW Survey, but the debt wrangle in Washington will dominate.

We judge the Pound can recover against the Euro and advise traders to stay long Sterling/Short the Euro, since should US politicians come to their senses this week under lying market trends should re-assert.

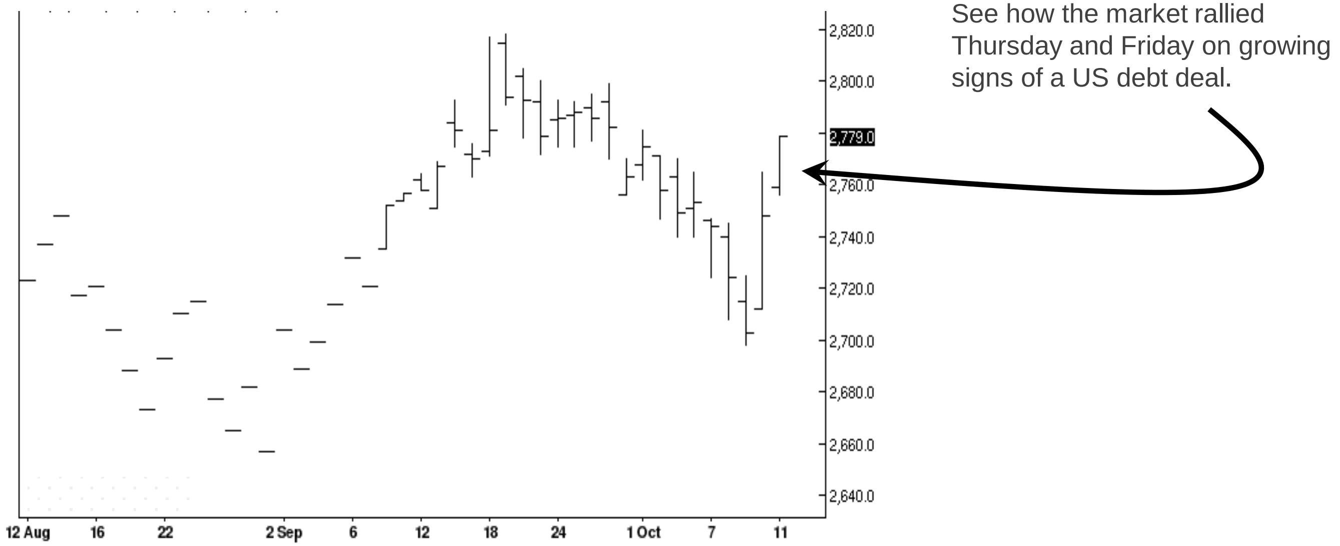
Our target remains 0.7800 but our stop is brought closer to 0.8550 to offer close protection.

More

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



The Macro Trader's view of DJ Euro Stoxx 50 is: like other major equity markets this market broke the down trend late in the week and staged a solid recovery on growing hopes of a debt ceiling deal being agreed in Washington over the weekend.

Those hopes so far proved miss-placed as a deal still seems out of reach, but with the debt ceiling deadline fast approaching, the US runs the risk of default.

Clearly markets expect common sense and self preservation to prevail, meaning a deal is expected to be agreed before Thursday's deadline is reached.

The outcomes are clear cut:

1. Agreement to raise the debt ceiling; market extends recovery, but
2. No agreement; default and sell off.

So for now stay square.

More

SEVEN DAYS AHEAD

JAPANESE MARKETS: economic background

Last week we focussed on the trade data, but once again the number was worse than expected.

The other data release we highlighted; machine tool orders was weaker than expected and with other data mixed, the recovery continues, but needs to move up a gear or two.

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

- On Tuesday; **industrial production and capacity utilisation,**
- On Wednesday; **Tokyo condominium sales,**
- On Thursday; **machine tool orders, and**
- On Friday; **Tokyo and National department store sales.**

The key releases this week is the Industrial production and capacity utilisation report.

The trade data is affected by the on going problems with Fukushima and what that means for energy imports, but the industrial production report should give a clearer picture of how the economy is recovering.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

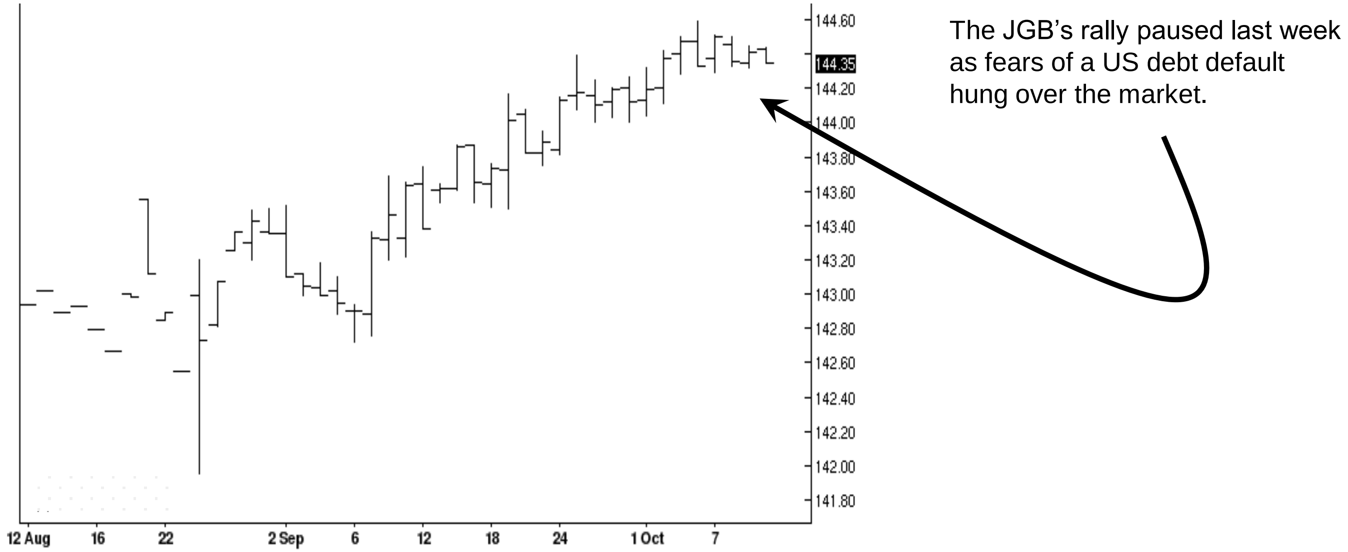
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The Macro Trader's view of the JGB is: the JGB began to feel the tension of the looming US debt default deadline last week as the rally paused.

Despite some at best mixed domestic data, the market was unable to extend the rally as traders began to think the unthinkable; the US defaulting on her obligations.

Japan has a significant holding of US Treasury bonds and a default would hurt. And although it is assumed the US would honour all her obligations once the budget impasse and debt ceiling wrangle was resolved, the quality of those assets would still be devalued.

Moreover Japan has a very high debt to GDP ratio of her own, well over 100% and although there is no thought of Japan defaulting, a US default would turn the spot light more critically on other highly indebted nations.

For now we advise staying square during what is a very unpredictable and high stakes period.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

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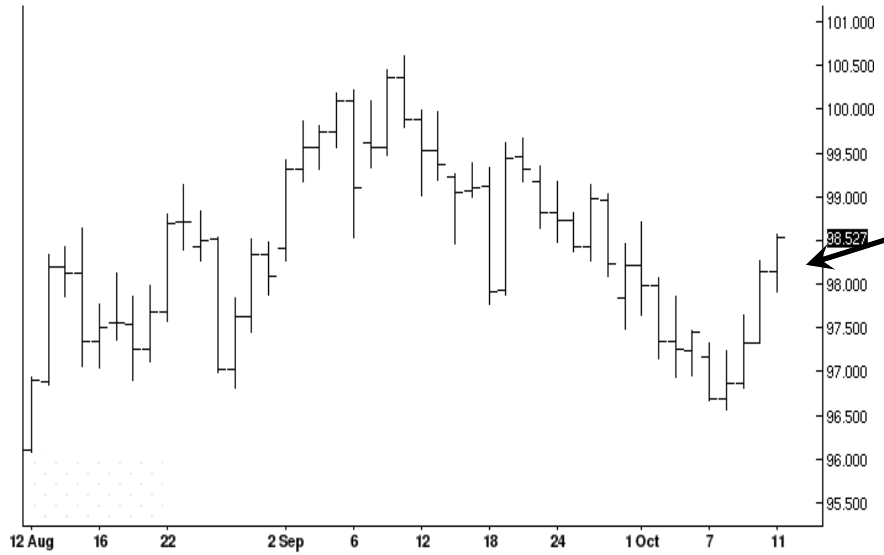
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen suffered a reversal last week on hopes of a US debt ceiling deal.

The Macro Trader's view of the Yen is; the budget talks and debt ceiling wrangle in the US has infected markets globally and none less than Dollar/Yen.

Has expectations of a deal being agreed of the weekend grew late last week the Dollar staged a recovery against the major currencies including the Yen.

Aided by some patchy data releases, the weaker Yen will likely please Japan's authorities as they seek further measures to boost the economic recovery.

Looking ahead the industrial production and capacity utilisation report is due, but the looming debt ceiling deadline in the US is set to dominate.

Our expectation is the US will step back from the brink and agree a last minute deal meaning default avoided and limited US Dollar rally against the other majors including the Yen.

But nothing can be taken for granted so for now stay square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

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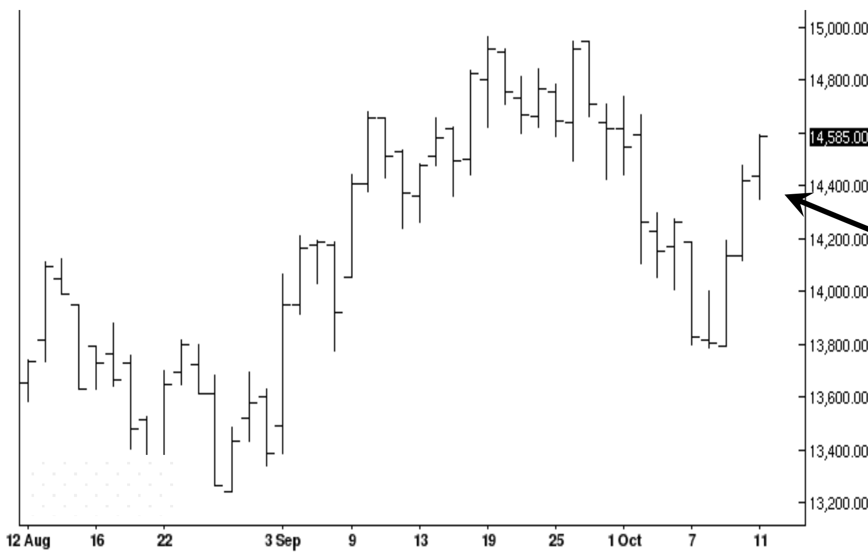
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Nikkei.



See how the Nikkei tells the same story as the S&P and FTSE.

The Macro Trader's view of the Nikkei is; everything we have said about the S&P, FTSE and DJEUROSTOXX, holds true here.

Domestic data was indifferent last week, but the market rallied as it seemed a deal would be done in Washington over the weekend to raise the US debt ceiling and avoid a damaging US debt default.

And although those hopes proved miss-placed, the most likely outcome is a deal will be done before the debt ceiling deadline is reached on Thursday.

That being the case, this market should rally further.

Traders should remain long of this market.

Our suggested target remains 15,500.0 and our suggested stop is reset at 13,700.0 for close protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

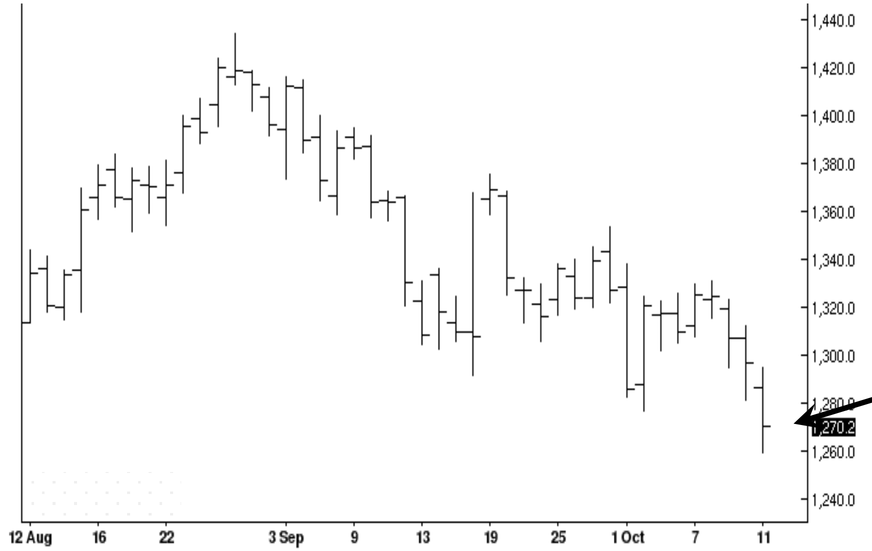
Commodities
+ GOLD
+ OIL

Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Gold.



See how gold sold off last week.

The Macro Trader’s view of the Gold is: last week’s price action once again confirmed to us that Gold is increasingly bearish.

Although a US default is not what we expect, if the debt ceiling isn’t raised, the Federal government will ultimately run out of cash and start to miss coupon payments and will not be able to meet maturities; default.

As the debt ceiling deadline draws closer that fear/risk ought to offer gold greater support, the fact it hasn’t reveals the bearish nature of gold.

Traders should be Short of Gold.

Our target is 1240.00 and our suggested stop is reset at 1325.00 for protection against unforeseen geopolitical events and to offer protection in the event the US fails to raise the debt ceiling and defaults which although not our expectation, would send gold higher.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

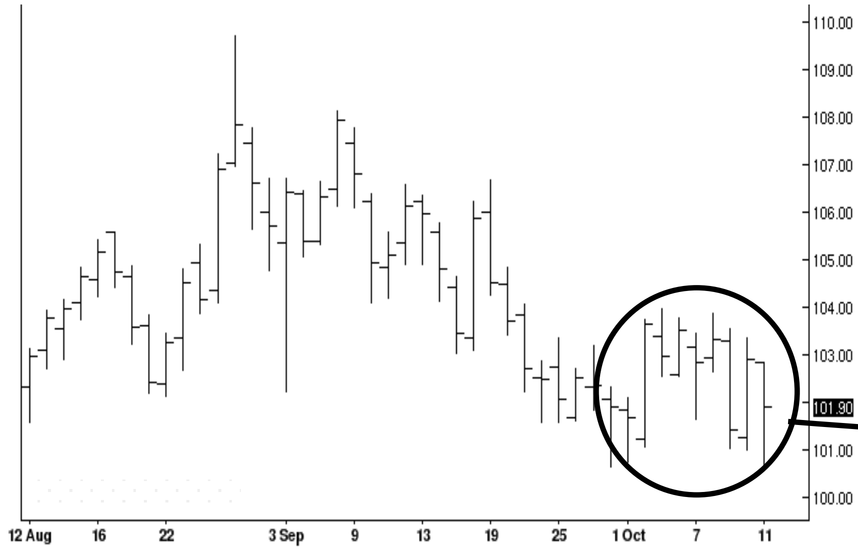
Commodities
+ GOLD
+ OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how the price looks increasingly volatile.

The Macro Trader's view of oil is: the outlook in this market is little changed and the oil price increasingly lacks direction and is clearly range bound; the lower boundary is currently being tested.

With geopolitical tension greatly reduced over recent week's helped by:

1. Iran showing what appears to be a genuine willingness to negotiate a way out of the nuclear crisis that has persisted over several years, and
2. the decommissioning of Syria's chemical weapons arsenal already under way,

Oil has lost a key support.

And although global economic activity is expanding, but hardly at a breakneck speed, this market has attracted few buyers, but is it a sell?

Not until a break below 99.00, otherwise the market is still within a clear trading range as demonstrated by last week's price action.

But if the US fails to agree a new debt ceiling limit before Thursday's deadline, this market could sell off on fears of a new US and Global recession

For now we advise remaining square, but alert!

More

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