Week 49

22nd – 28th October 2013

the macro trader's guide to major markets

John Lewis

SUMMARY

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Global Calendar

US Markets

+ EURODOLLARS	SQUARE
+ 10 YEAR NOTE	SQUARE
+ US DOLLAR	SQUARE
+ S&P 500	BULLISH

UK Markets

+ SHORT STERLING	SQUARE
+ GILT	BEARISH
+ STERLING	BULLISH v the EURO
+ FTSE	BULLISH

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	SQUARE
+ OIL	SQUARE

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This week's global calendar – macro trader

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	Week of 21st October
Monday	US Existing home sales 5.3M DM PPI 0.1m, -0.7y JP Trade bal –Y918.6B JP All Ind actvty indx 0.2m JP Supermkt sales n/f
Tuesday	US Non-farm payroll 180k US Unemploymnt rate 7.3% US Averge hrly earngs 0.2m, 2.1% US Averge wrk wk 34.5 UK PSNCR 9.0B UK PSNB 9.9B
Wednesday	MBA Mrtge apps n/f US Import prices 0.2m, -1.0y UK MPC/BOE Minutes UK BBA Home buyer loans 39.5k EZ Cons conf -14.5

	Week of 21st October
Thursday	US Jobless claims 350k US New homes sales 425k UK CBI Trends tot orders 10 UK BOE Carney speaks EZ PMI Composite 52.4 DM Import prices 0.2m, -3.1y JP National CPI 0.9% JP Tokyo CPI 0.5% JP Corporate service prces 0.8%
Friday	US Durable goods 2.0% US DG Ex- transport 0.5% US U. of Michigan conf 75 UK Q3 GDP 0.8q, 1.5y UK Indx of Services 0.4m, 0.5(3m/3m) DM IFO 108.0 EZ M3 2.3 (3M) EZ M3 2.4 (Y/Y)

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	Week of 14th October
Monday	EZ PPI 1.0m, -2.1y **STRONGER** DM Import prices 0.1m, -3.4y **STRONGER** **THAN EXPECTED**
Tuesday	US Empire mfg 1.52 **WEAKER** UK PPI input -1.2m, 1.1y **WEAKER** UK PPI Output -0.1m, 1.2y **WEAKER** UK PPI Core -0.1m, 0.7y **WEAKER** UK CPI 0.4m, 2.7y **STRONGER** UK RPI 0.4m, 3.2y **AS** UK RPI-X 3.2y **AS** UK DCLG House prices 3.8%y **STRONGER** DM ZEW 52.8 **STRONGER** JP Ind production -0.9m, -0.4y **WORSE** JP Capacity utilisation -2.1% **WORSE** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 0.3% **LESS** US NAHB House mrkt indx 55 **WEAKER** US Fed's Beige book UK Unemploym't rate 4.0% **LESS** UK Unemploym't chge -41.7k **BETTER** UK Avrge earngs 0.7% **WEAKER** UK AE Ex- Bonus 0.8% **WEAKER** UK ILO Rate 7.7% **AS** EZ CPI 0.5m, 1.1y **AS** EZ Trade bal 7.1B **WEAKER** JP Tokyo Condo sales 77.3% **STRONGER** **THAN EXPECTED**

	Week of 14th October
Thursday	US **DEADLINE ON DEBT CEILING** US Jobless claims 358k **WORSE** US Philly Fed 19.8 **STRONGER** UK Retail sales 0.7m, 2.8y **STRONGER** EZ C/A 12.0B **LESS** EZ Construction outpt 0.5m, -4.7y **WORSE** JP Machine tool orders -6.3% **AS** **THAN EXPECTED**
Friday	JP Tokyo dept stre sales 3.6% **LESS** JP National dept stre sales 2.8% **BETTER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was the negotiations centred on raising the debt ceiling and avoiding a damaging US Sovereign debt default.

In the event as we anticipated a last minute deal was agreed to raise the ceiling and keep the government running into early next year.

Data wise; not much to report, due to the shut down most heavy weight data releases were delayed, and those that were released such as Jobless claims were skewed by laid off government workers lodging claims so again not of too much use.

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

- On Monday; **Existing home sales,**
- On Tuesday; **Non-farm payroll, unemployment rate, average hourly earnings and average work week,**
- On Wednesday; **import prices,**
- On Thursday; **jobless claims and new home sales, and**
- On Friday; **Durable goods and University of Michigan confidence.**

The main event this week is the non-farm payroll report.

All though over two week's late it gives a picture of the labour market before the government shut down, but we judge it unlikely to have its usual impact since a new set of data is not long due.

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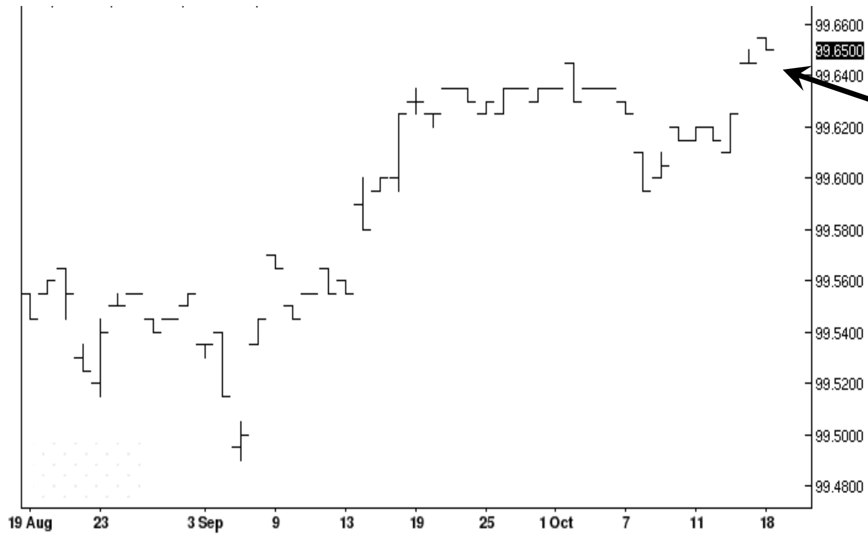
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



See how the market rallied on the debt ceiling deal.

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

…"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"…

In the event a deal was done, but the market rallied any way, but 4 tics isn't anything to get excited about!

Looking ahead the back log of data caused by the shut down starts to be released this week, but we expect little significant impact on this market.

So stay square.

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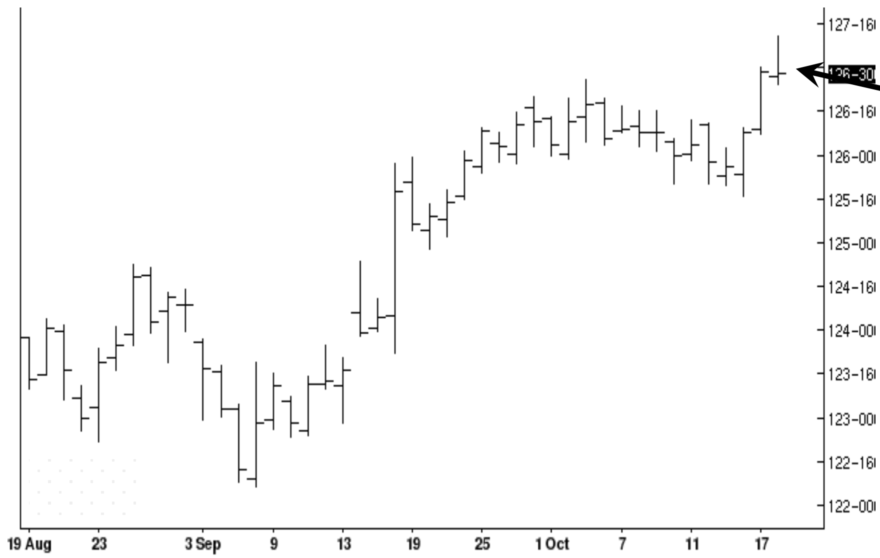
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note spiked on a relief rally.

The Macro Trader's view of the 10 year note is: the 10 year Note enjoyed a brief relief rally on Thursday and Friday, that wasn't maintained.

Looking ahead traders have a couple of weeks of sifting through a mix of delayed/out of date data and current releases which will be distorted by the impact of the government shut down, meaning some volatility is likely.

We judge the under lying trend in this market will ultimately re-assert, but for now advise remaining square until the fog has cleared..

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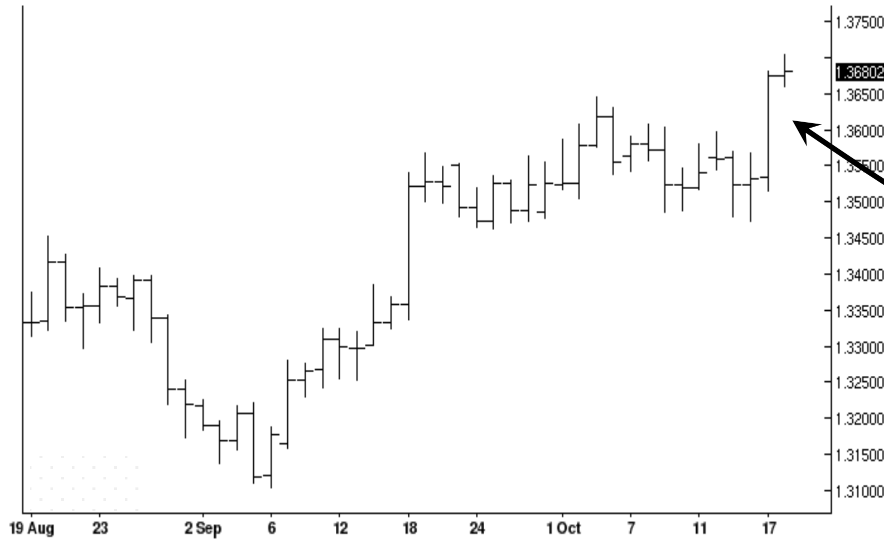
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Dollar.



The Dollar remains under pressure as traders seek riskier assets.

The Macro Trader's view of the Dollar is; the Dollar came under renewed selling pressure late last week following the agreement to raise the debt ceiling.

Although the risk of default was removed, the Dollar drew no benefit as traders turned to riskier assets; Stocks.

That pattern looks set to continue since the next couple of weeks worth of data will either be largely out of date or skewed by the shut down, meaning not until late November, early December will a clearer picture of the economy's true state emerge.

Moreover it is still unclear of how the Fed will respond. Most likely they will do nothing until early next year as they too wait for the fog to clear.

For now we are staying square..

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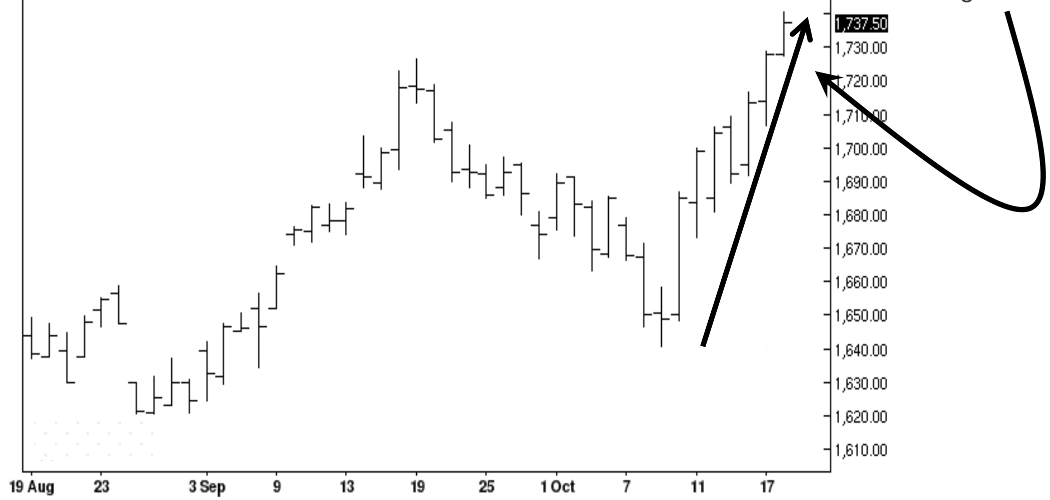
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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

The S&P looks set to make new highs.



The Macro Trader's view of the S&P 500 is: the S&P was already starting to rally last week before the debt ceiling deal was agreed as traders judge the Fed would have to step in in the event of default and if a deal was agreed the Fed would be on hold until clarity returned.

Once the deal was agreed the market extended the rally.

Looking ahead the long delayed non-farm payroll report is finally due out this Tuesday, but in truth we doubt it will have too big an impact.

We expect this market to rally further as traders continue to expect the Fed to maintain its policy stance into early next year as they too wait for the shut down generated fog to clear.

Traders should be long of this market.

Our target is 1760.0 and our stop is set at 1715.0 for protection.

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UK MARKETS: economic background

Last week's focus was retail sales. Following some disappointing industrial production data traders were seeking data that showed the recovery remains on track.

In the event that was exactly what they received as retail sales came in stronger than expected showing consumer demand holding up well.

Add in the better than expected unemployment report and the mildly disappointing CPI report and the debate about monetary policy in the UK is increasingly turning to when will the Bank of England judge it time to change policy direction.

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; **PSNCR and PSNB,**
- On Wednesday; **BOE/MPC minutes and BBA Home buyer loans,**
- On Thursday; **CBI Trends and Bank governor Carney speaks, and**
- On Friday; **Q3 GDP and index of Services.**

The key release this week is the first look at Q3 GDP.

A strong number is expected, if so the debate about monetary policy is likely to heat up.

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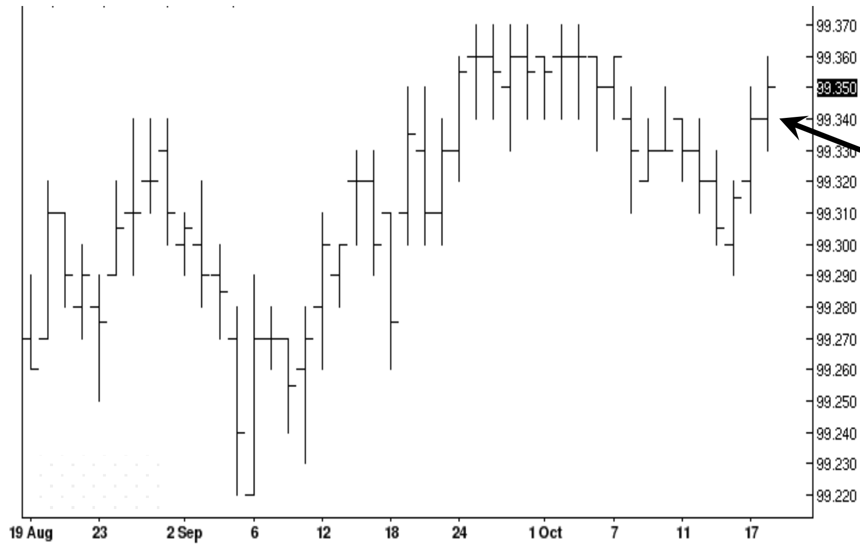
UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



See how Short Sterling rallied, but on what?

The Macro Trader's view of Short Sterling is: last week's data wasn't exactly bullish for this market.

The CPI report was a little worse than expected, the unemployment report was better than expected and retail sales were stronger than expected; ergo the rally was foreign sentiment driven.

Looking ahead the key release this week is Q3 GDP. A strong number isexpected meaning the upside in this market is surely capped and a retreat back into the established trading range is the most likely outcome.

Although we expect the debate to increasingly focus on when monetary policy might turn, the Bank of England isn't taking anything for granted regards the recovery and looks likely to give the economy more time before changing policy direction.

For now stay square.

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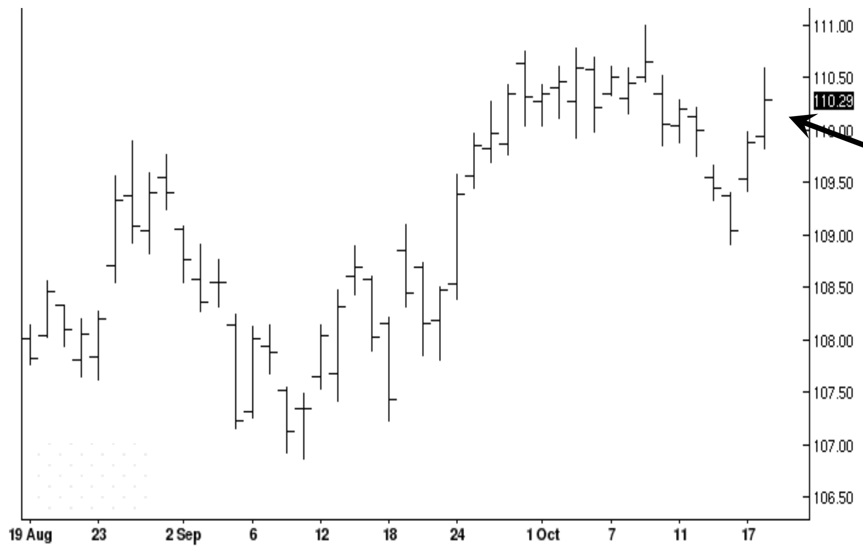
UK MARKETS: Gilt

OUR TRADING STANCE: BEARISH.

Last week we were Square of the Gilt.



See how the Gilt rallied on relief a US Debt ceiling deal was agreed.

The Macro Trader's view of the Gilt is; last week's price action, especially Thursday's and Friday's was driven mainly by the drama in Washington, now the risk of default is deferred for several months, we judge this market will focus more on domestic matters which are:

1. CPI persistently above target,
2. An improving employment market,
3. Strong consumer demand, and
4. Solid GDP growth.

Looking ahead Q3 GDP is due this week and if the number is as strong as expected why would you buy the gilt, rather go long the FTSE.

Traders should be short this market.

Our target is 108.50 and our stop is set at 111.20 for protection.

And although the market may even spend a couple of days around current levels we judge the next move is down.

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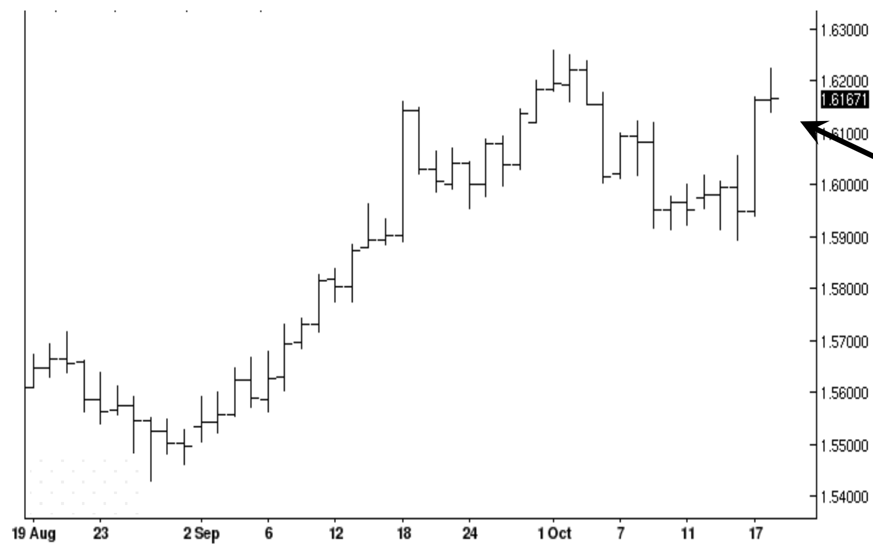
UK MARKETS: Sterling

OUR TRADING STANCE; BULLISH v the EURO

Last week we were Bullish v the Euro



See how Sterling remains supported against the Dollar but can it go much higher?

The Macro Trader's view of the Pound is; the Pound recovered against the Dollar late last week, but we are not convinced it has the legs to go much higher.

While US data is likely to be distorted by the government shut down for the next few weeks the UK's data gives a clear picture of an increasingly robust economic recovery, but with sticky inflation that may well require an earlier than currently anticipated policy response.

That means we continue to favour the Sterling/Euro trade where the comparisons are currently more transparent.

Traders should be Long Sterling/Short the Euro.

Our target remains 0.7800 and our stop continues at 0.8550 for protection.

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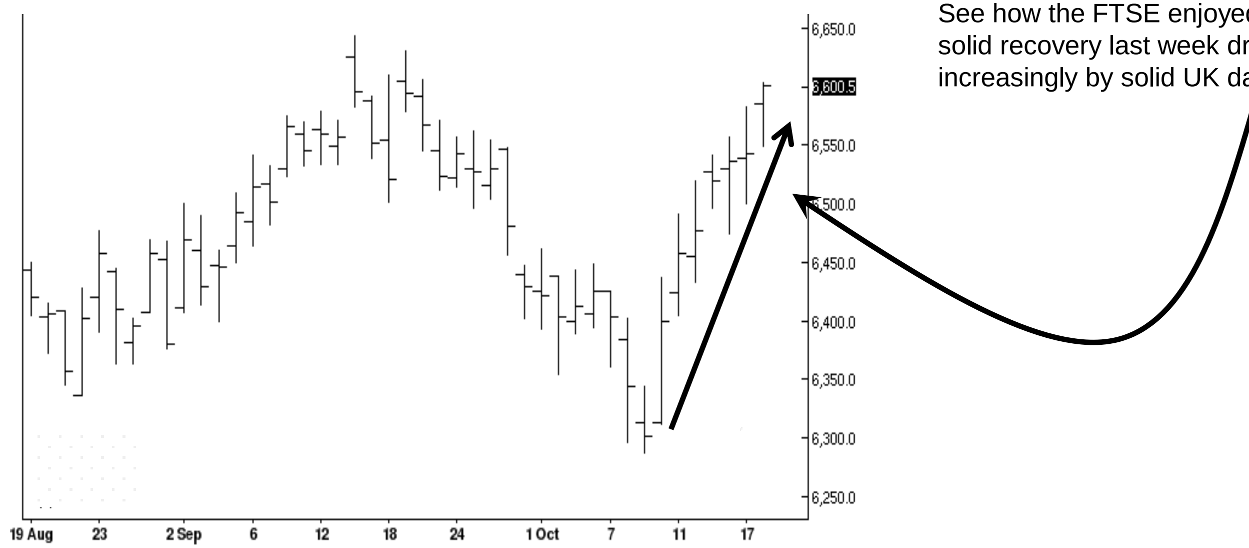
UK MARKETS: FTSE

OUR TRADING STANCE; BULLISH.

Last week we were Square.



See how the FTSE enjoyed a solid recovery last week driven increasingly by solid UK data.

The Macro Trader's view of the FTSE is; last week we advised remaining square since if the US had done the unimaginable and defaulted all hell would have let loose.

Now calm has returned after US politicians rediscovered their survival instincts and raised the debt ceiling.

Last week's UK data was supportive of this market especially the stronger than expected retail sales report.

Looking ahead Q3 GDP can send this market higher. If the Q/Q report is inline at 0,8% that equates to an annualised rate of 3.2%; that is good strong growth. OK the UK doesn't report that way but?

Traders should be long of this market.

Our suggested target is 6750.0 and our suggested stop is placed at 6525.0 for protection.

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EURO ZONE MARKETS: economic background

Last week our focus was centred on the German ZEW survey.

In a week where domestic data was sparse and attention was mainly focussed on the debt wrangle in Washington, the ZEW survey was unlikely to have a material impact but it was the best on offer.

In the event the number was better than expected, but the agreement in the US to raise the debt ceiling stole the markets attention.

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 PPI,**
- On Wednesday; **Euro zone Consumer confidence,**
- On Thursday; **Euro zone PMI Composite and German import prices, and**
- On Friday; **German IFO and Euro zone M3.**

The main event this week is the Euro zone PMI Composite survey.

This survey gives a good all round view of the health of the Euro zone economy and its progress out of recession.

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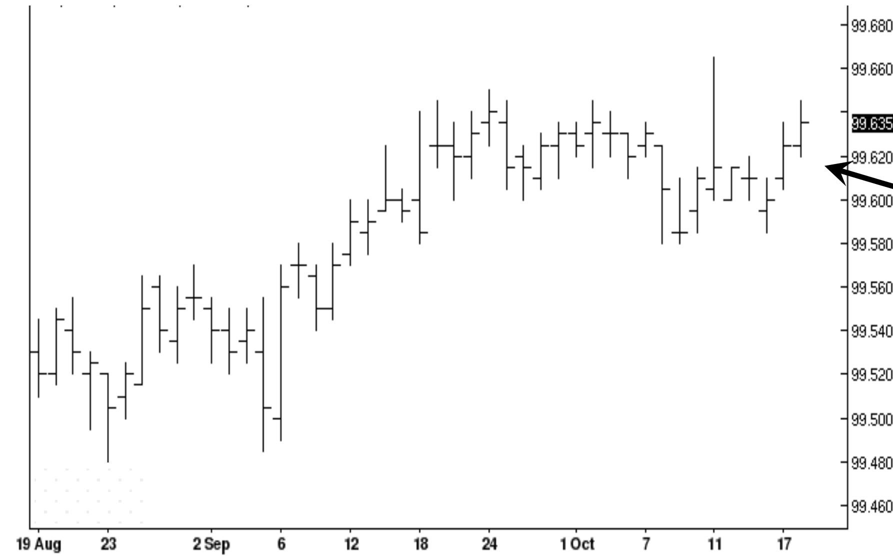
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



See how Euribor remains range bound..

The Macro Trader's view of Euribor is; last week's price action confirmed our analysis of this market and validated our continued decision to remain side lined from it.

Looking ahead the Euro zone PMI Composite survey is due this week, but we doubt it will do much to inspire traders in this market one way or another.

The expectation for the report is it will continue to point to a recovery, but at a slow rate of progress, meaning the ECB is on hold and this market has no where to go..

So stay square.

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SEVEN DAYS AHEAD

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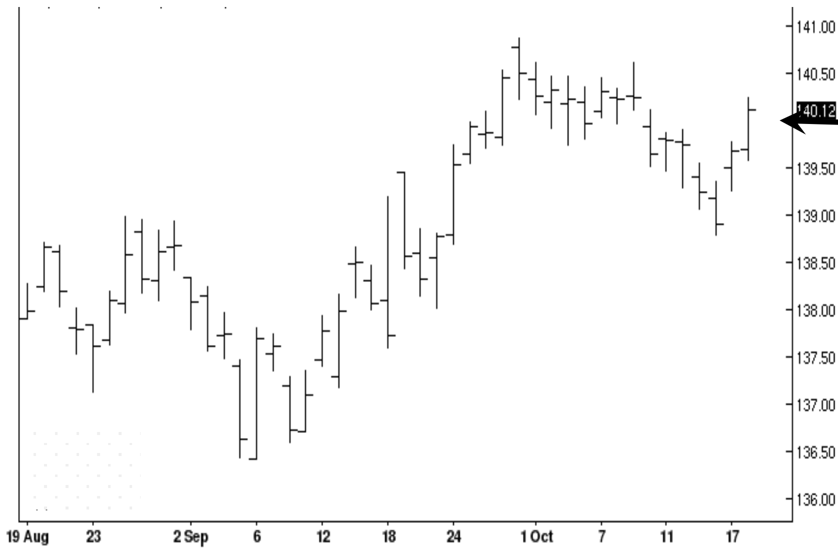
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund remains supported but looks vulnerable.

The Macro Trader's view of the Bund is: last week We said…

…"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 not so far or as fast, where as an agreement will begin a limited relief rally"…

In the event politicians raised the ceiling and this market enjoyed a limited rally.

Looking ahead the main event this week is the Euro zone PMI Composite survey. Although it is expected to show the economy continues to make slow progress, this market looks unclear.

For now it looks supported, but vulnerable. For now we advise remaining square.

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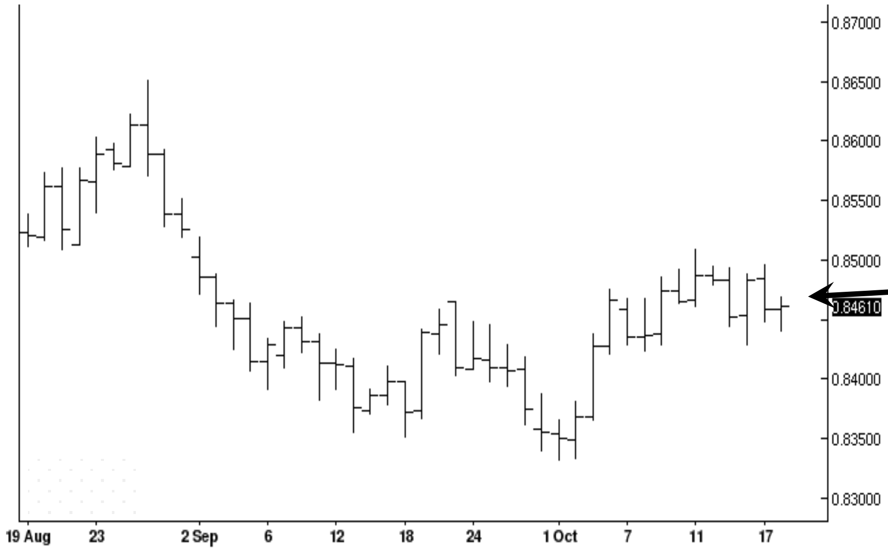
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the POUND

Last week we were Bearish v the POUND



See how the Euro seems to have run up against resistance against Sterling.

The Macro Trader's view of the Euro; the Euros recovery against Sterling seems to have come to a halt.

Last week's UK retail sales data was better than expected where as there was little data out of the Euro zone to compare.

With the debt troubles in Washington resolved for now, we judge economics will re-assert.

In the UK the Q3 GDP report is due, a strong report is expected, coupled with sticky inflation traders are likely to begin focussing on where UK monetary policy goes from here and that should support the Pound..

In the Euro zone traders have the Euro zone PMI composite to focus on but clearly the UK recovery is more advanced

Traders should remain long Sterling/Short the Euro.

Our target remains 0.7800 but our stop continues at 0.8550 to offer close protection.

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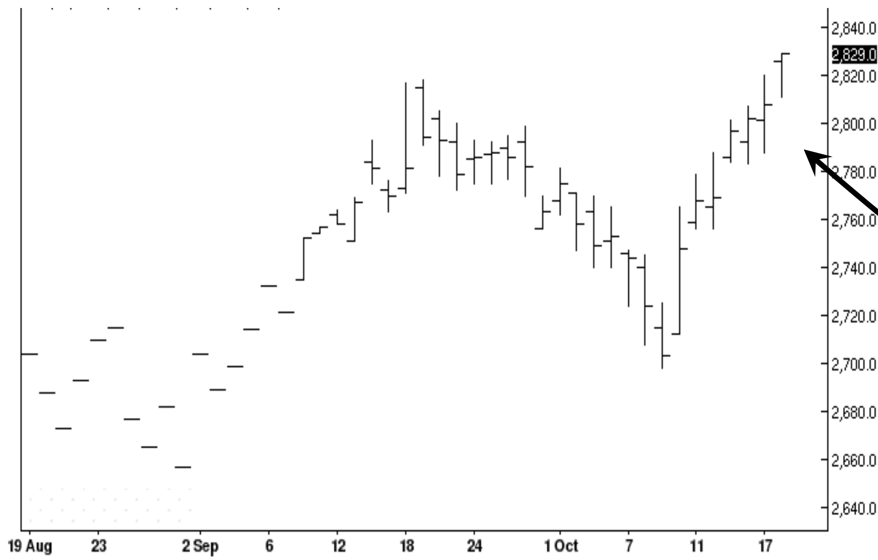
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market rallied on relief of a debt deal in Washington.

The Macro Trader's view of DJ Euro Stoxx 50 is: like other major equity markets this market extended the rally last week as politicians agreed to extend the US Government debt ceiling.

Data wise the German ZEW survey was released and was mildly stronger than expected, but with the Euro zone recovery still very much in its infancy this market is being fuelled by sentiment from abroad.

Looking ahead the key release this week is the Euro zone PMI Composite survey, which is expected to show a continuing move out of recession.

But we judge this market will benefit from the rally we expect to see in the S&P fuelled by expectations the Fed is on hold and more evidence of a strengthening UK economic recovery.

So for now stay square here and trade the S&P and FTSE.

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JAPANESE MARKETS: economic background

Last week we focussed on the Industrial production and capacity utilisation reports as a means of gauging the economy's progress.

In the event both reports fell short of consensus and highlight the challenges still facing Japan's economy.

Other data released during the week showed Tokyo condo sales strong but a mixed picture for department store sales.

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; **Trade data, all industry activity index and super market sales, and**
- On Thursday; **CPI and corporate service prices.**

The key releases this week is the CPI report.

The cornerstone of the current economic recovery plan is beating deflation and engineering a 2.0% annual inflation rate, CPI is a measure of how successful the plan is to date.

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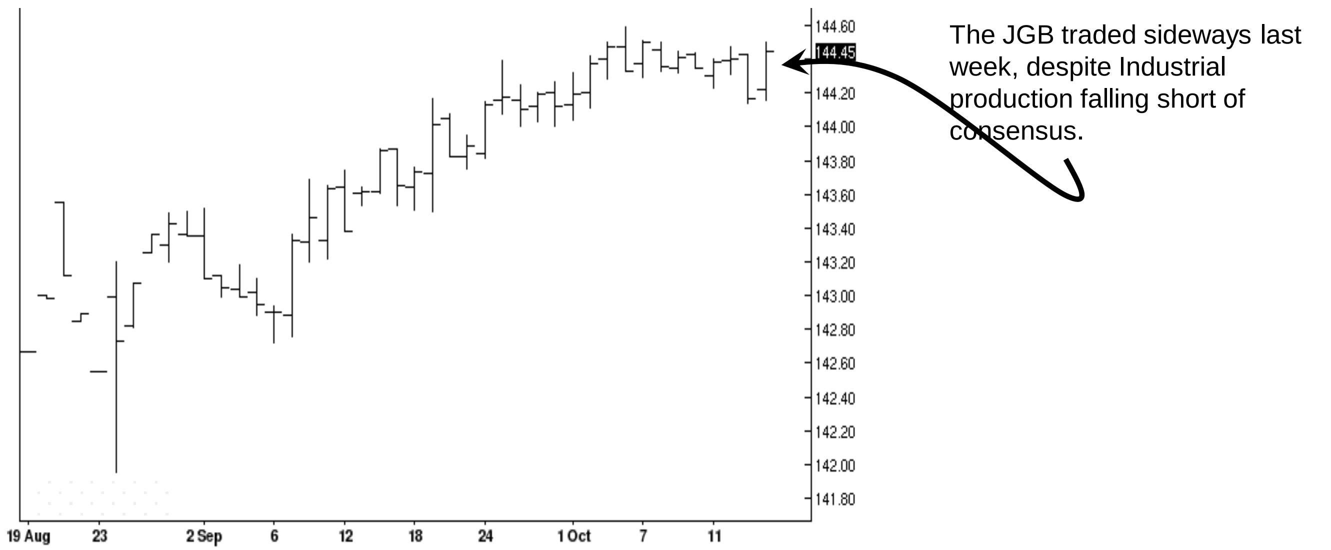
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The Macro Trader's view of the JGB is: the JGB traded sideways last week despite key data falling short of market consensus.

The industrial production and capacity utilisation reports were bot weaker than expected and department store sales week, suggesting the recovery continues to need assistance from monetary policy.

Looking ahead the key release this week is CPI. Since the cornerstone of policy is the defeat of deflation and return to annual inflation of 2%, CPI is an important indicator of that success.

We judge the Nikkei is likely to prove the most profitable of Japan's markets for the Bulls to trade, so advise remaining square here to focus on stocks..

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Summary

Global Calendar

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

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

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

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

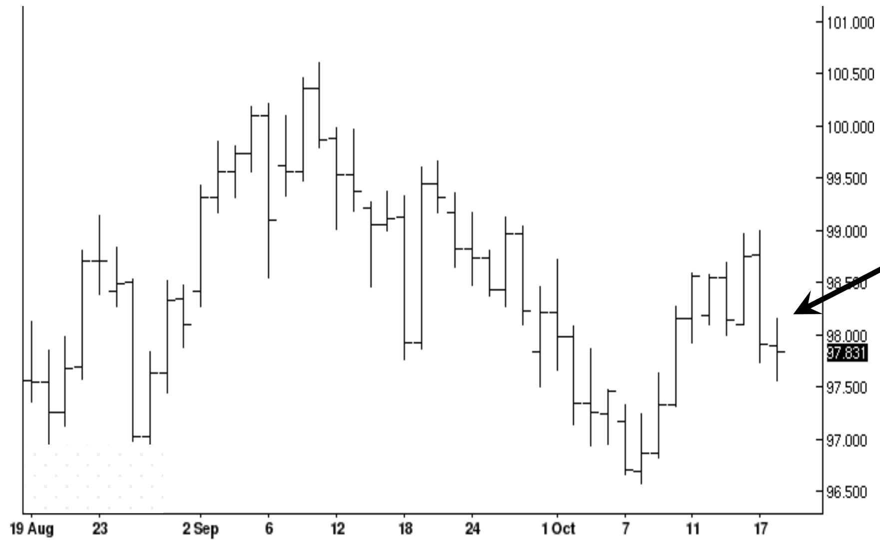
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen's brief period of weakness reversed after the US agreed a deal to raise the debt ceiling.

The Macro Trader's view of the Yen is; the Yen's brief period of weakness was brought to a close late last week after the US agreed a plan to raise the debt ceiling and avoid default.

With the Dollar weakening against all the other major currencies as traders moved into riskier assets, the Yen reversed its recent spell of weakness, despite some weak Japanese data.

Looking ahead the key release is CPI, but we doubt the number will be too far away from consensus, meaning the Yen has fallen into a clear trading range from which it seems unable to escape.

For now we advise remaining square.

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SEVEN DAYS AHEAD

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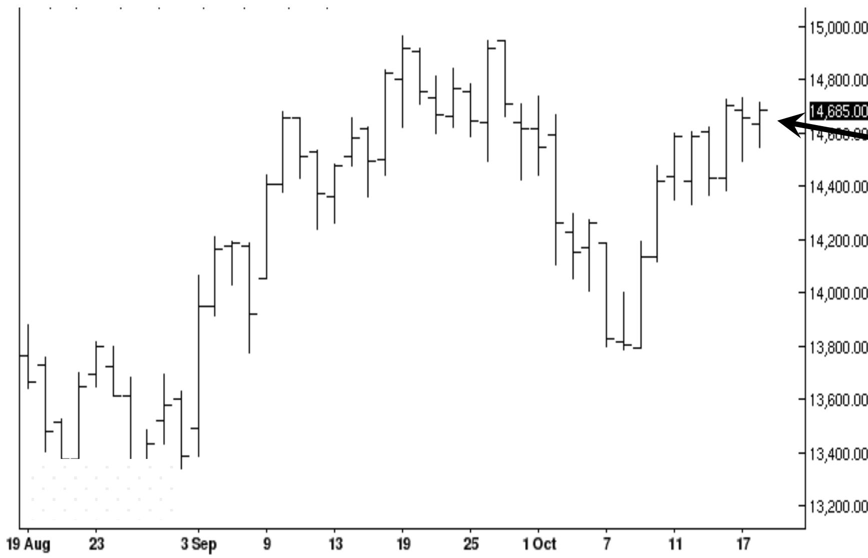
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Nikkei.



See how the Nikkei extended the recovery last week as the risk of a US default was removed.

The Macro Trader's view of the Nikkei is; last week we were quietly confident US politicians would come to their senses and agree a last minute deal that would raise the debt ceiling and avoid default, meaning equity markets would rally further.

In the event that is what happened here. As a result of the government shut down, US data releases have been delayed and the economy likely damaged short term.

This means the Fed will likely stay on hold until early next year, resulting in a solid year end rally for global equity markets.

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.

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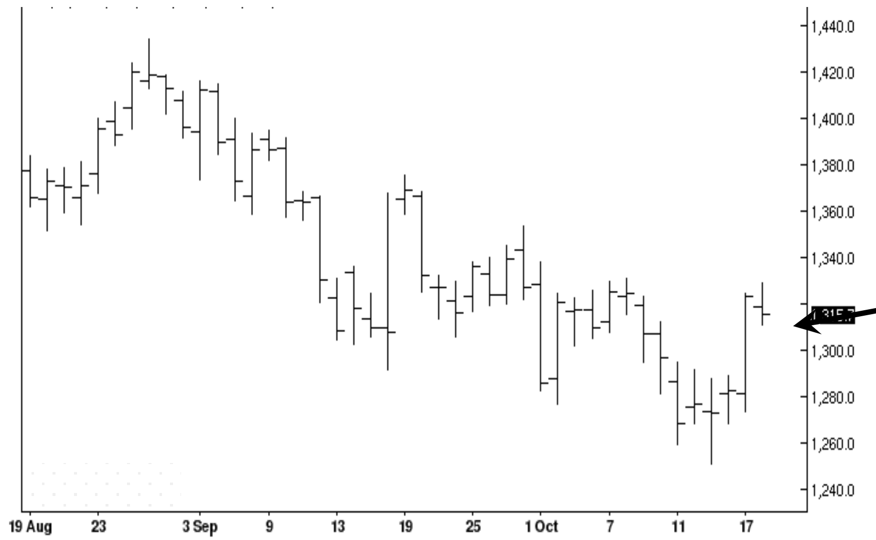
Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Bearish of Gold.



See how gold rallied after the debt ceiling deal.

The Macro Trader's view of the Gold is: The debt ceiling was raised last week just in time to avoid a US default, but gold rallied after that risk was removed?

There are two likely reasons:

1. The debt ceiling/budget problem is not solved just deferred a couple of months leaving a cloud hanging over the economy already damaged by the government shut down, and
2. Investors off all types began moving out of treasuries and into other assets including gold.

So while we still think the current rally is a correction/short covering rally which will eventually fade, there is a lot of uncertainty, which will not be cleared up by the release this week of delayed data, since even current releases are distorted by the government shut down.

Since our stop was hit we advise remaining square a little longer.

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Commodities
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+ OIL

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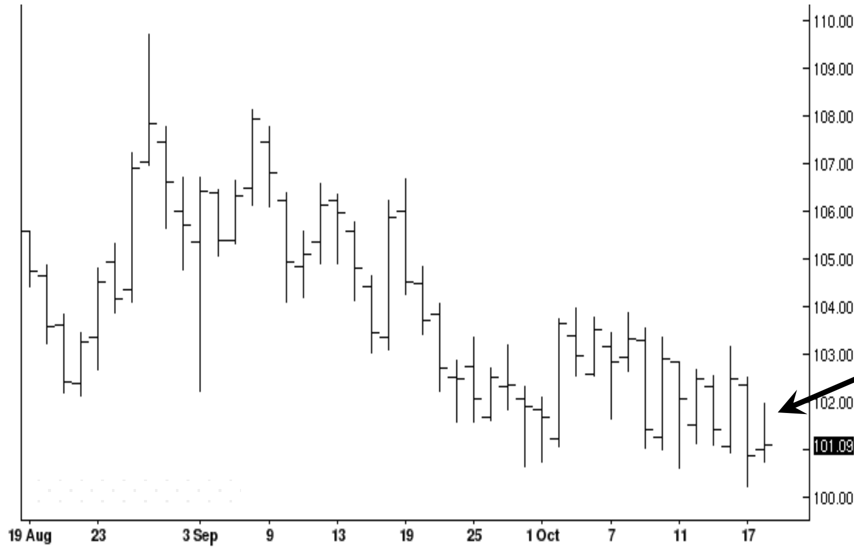
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how the oil price failed to rally after the US debt deal.

The Macro Trader's view of oil is: the oil price failed to rally last week on the news of a deal to raise the US debt ceiling.

The data releases coming out of the US over the coming weeks is likely to be distorted by the government shut down and it wont be until late November, early December before a clear picture begins to emerge, so no surprise oil took little from the news.

Additionally with nuclear talks between the west and Iran showing some promise, traders are likely beginning to consider the impact Iran would have on prices if it began exporting once more.

Clearly a great deal of uncertainty in this market and we advise remaining square.

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