WEEK 5 31st January – 6th February 2006

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 30 years.

He left the Stock Exchange and 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 23rd January
Monday	
Tuesday	Richmond Fed -4 WEAKER THAN EXPECTED
Wednesday	Existing home sales 6.6M WEAKER THAN EXPECTED
Thursday	Durable goods 1.3 STRONGER Ex-transport 0.9 AS Jobless claims 283K LESS THAN EXPECTED
Friday	Q4 GDP A 1.1% WEAKER Personal consump 1.1 STRONGER GDP Price index Q4 A 3.0 HIGHER New home sales 1.269M STRONGER THAN EXPECTED

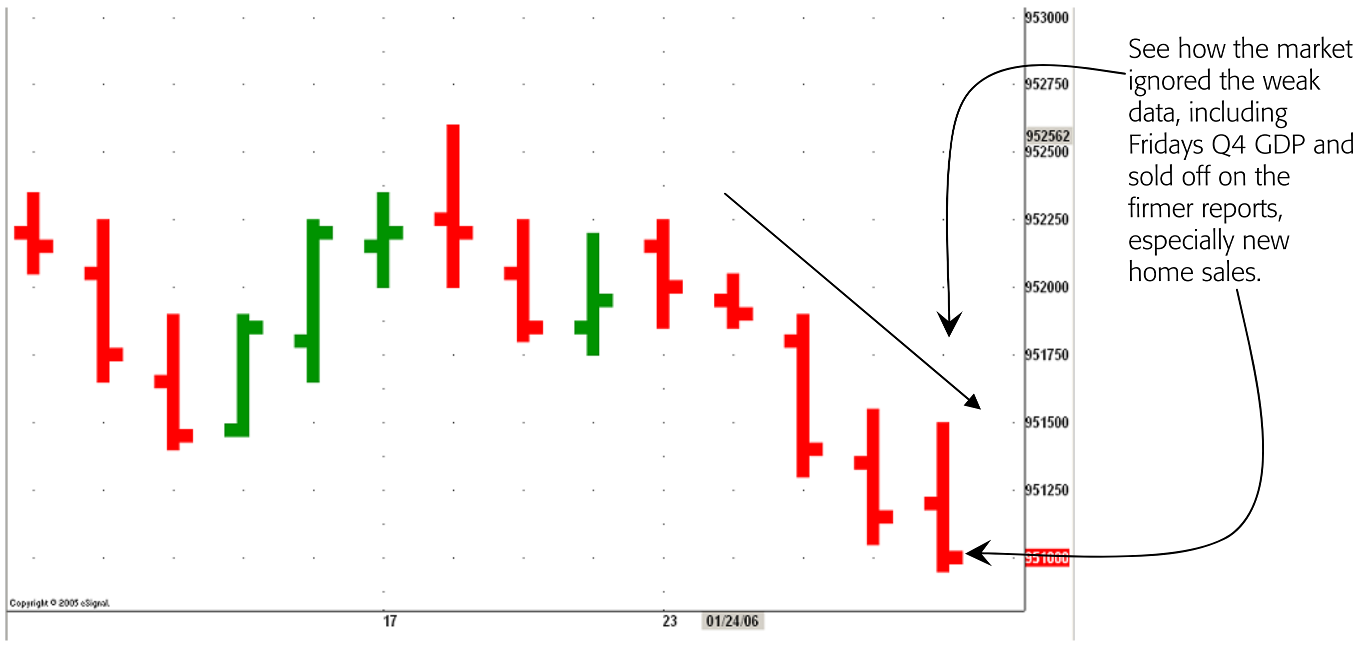
Last week's calendar.

Last week's calendar delivered mixed news but culminated with a surprise drop in Q4 GDP.

On Tuesday; Richmond Fed, weaker than expected, on Wednesday; existing home sales, weaker than expected, on Thursday; durable goods, stronger than expected plus upward revision to last months data and jobless claims, less than expected and staying below the key 300k mark, then on Friday; Q4 GDP, weaker than expected, GDP price index, higher than expected and new home sales, stronger than expected.

The market reacted to all of this by ignoring the weaker data and trading back down to the lows, driven by another low jobless claims report and a pick up in new home sales.

JUNE 06 EURO DOLLARS



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EURO DOLLARS

THE WEEK AHEAD

	Week of 30th January
Monday	Personal Inc 0.4 Personal Spdg 0.7 PCE deflator n/f PCE Core 0.2m,
Tuesday	Emplym't cost IDX 0.9 Cons conf 105 Chicago PMI 59.9 FOMC rate decision 4.50
Wednesday	ISM Mfg 55.2 ISM Prices paid 62.5
Thursday	Jobless claims 293K
Friday	Non-farm payroll 240K Unemploym't rate 4.9 Avge hourly earnings 0.3 Avge weekly hours 33.8 U. of Michigan 93.4 ISM Non-Mfg 59

This week's calendar.

This week's calendar contains all the turn of the month heavy weight data plus an FOMC meeting on Tuesday; Greenspan's last.

On Monday; personal income and spending, PCE deflator and PCE Core deflator, on Tuesday; employment cost index, consumer confidence, Chicago PMI and FOMC rate decision, on Wednesday; ISM manufacturing survey, on Thursday; jobless claims, then on Friday; non-farm payroll, University of Michigan sentiment and ISM non-manufacturing survey.

This week watch the Fed and non-farm payroll.

OUR TRADING STANCE: BULLISH.

Last week we were square of June 06.
This week we are bullish of June 06.

Last week we remained square of June 06 Eurodollars, assessing the market was likely to remain within the range we suggested previously; 95.05 – 95.30, and again it did.

However there were a few surprises in last week's releases. The most important being the sudden collapse of Q4 GDP to 1.1% annualises which if converted to the UK method would give a 0.275q/q reading; very weak.

Surprisingly the market chose to pay more attention to other data which was generally above consensus.

This could be because the economy was expected to cool in the 4th quarter as a result of the twin hurricanes in late summer 05. The main impediment to growth was high energy prices. Although these remain high, the froth caused locally in the US by the hurricane damage has been blown off so analysts reasoned the weak Q4 data may be a one off, but what about the cooling housing market and the current leg to the rally in the Oil market and the on going drag caused by the ballooning trade deficit?

Ok new home sales were above consensus, but not by much. Durable goods did remain strong and jobless claims remain below 300k.

While we are not forecasting a recession, all is clearly not as well as it once seemed within the US economy. If home sales are cooling, so will the consumer and a drop in consumer spending could have the same instant impact on economic activity as throwing a light switch.

For this reason we now think the rate increase expected on Tuesday, will be the last in this cycle. Greenspan is stepping down, a new man is taking up the reins and policy is no longer accommodative. Most likely Friday's GDP gave policy makers a jolt and they will want to see how activity pans out in the 1st half of this year.

Looking ahead, this week sees a whole raft of data and the slowdown theory could end up trashed before it ever got going.

Traders will look closely at both ISM surveys for clues, but they didn't reveal Friday's surprise drop in Q4 GDP? Non-farm payroll, as always will be key. Jobless claims have dropped below 300k and stayed there, maybe this Friday's number will be above consensus. But non-farm payrolls and jobless claims tell different stories about the labour market.

One is about new jobs created; the other is only about jobs lost. It is possible for fewer jobs to be lost without any measurable pick up in new job creation.

The Macro Trader's view is: although there are still signs the economy is growing, Friday's GDP report was weaker than any ones worst expectation, and wasn't flagged by any of the surveys released real time during the 4th quarter.

We judge the Fed will move policy on Tuesday for the last time in this cycle and then sit back and watch what happens over the rest of this quarter and Q2.

For now, with June 06 Eurodollars pricing in almost 5.0%, we think the market can rally towards 95.40 over the coming weeks. But much depends on this week's data.

Traders should go long but run a stop at 95.02, the previous lows back in November 05. If non-farm payroll is much stronger than consensus, a close stop will help, where as a weaker number, so close to last Friday's Q4 GDP report will send this market sharply higher.

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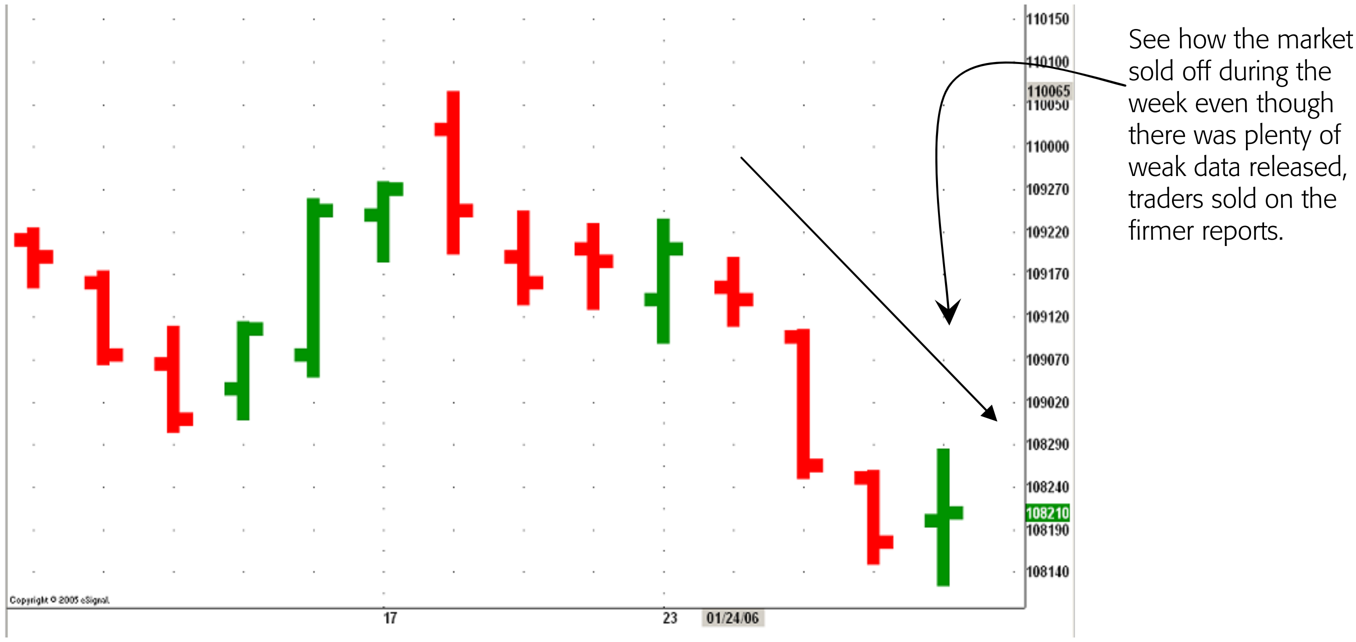
THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the 10yr Note.

US 10yr NOTE MARCH 06



This week we are square of the 10yr Note.

Last week we were bearish of this market, expecting geopolitical events to occupy traders thinking, and over the week, the price action supported our view.

This week the waters are less clear. If both ISM and non-farm payroll releases remain strong, traders will view Friday's weak Q4 GDP as an anomaly, created by the effects of last years hurricanes; maybe!

Although high local energy prices are cited as causing the slow down, US gasoline prices dropped back to levels consistent with international prices quite quickly last year.

Now Oil prices are once again being bought up on geopolitical concerns, which have heightened after the Palestinians elected Hamas as their Government and weekend press reports that Iran is trying to obtain Plutonium from North Korea, energy prices will continue to be a factor shaping the evolution of growth world wide.

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Looking ahead, although this week's data will be important for short term price action, we see other factors, mainly geopolitical together with the twin deficits and their on going need to be financed by international capital inflows, as exerting a greater medium/long term influence on the market.

The Macro Trader's view is: given current geopolitical concerns, the expectation for the budget deficit to grow further this year and worries that other countries together with China and Iran, albeit for different reasons, could soon begin finding other homes for their foreign reserves, coupled with the impact higher Oil prices will eventually have on the US economy, we see this market remaining vulnerable but short term; unclear.

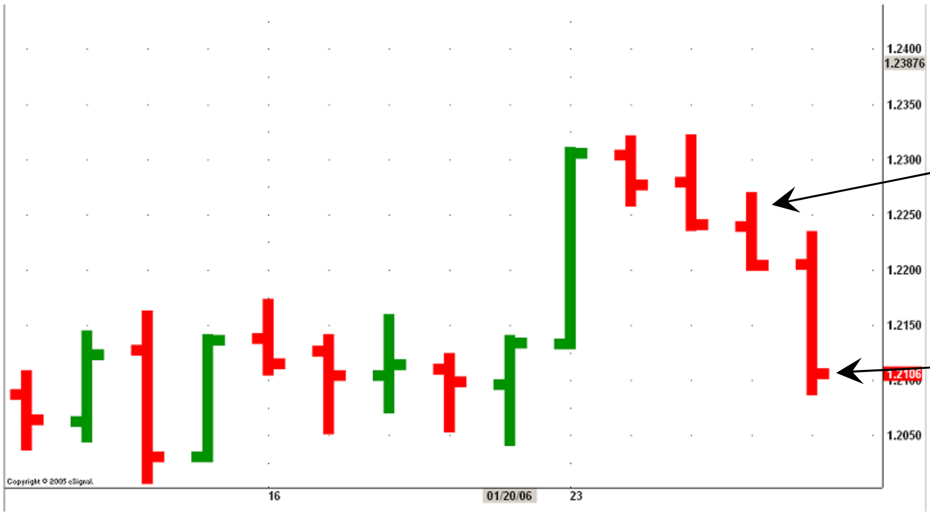
If Friday's non-farm payroll is strong we will take a fresh short position, but are square ahead of it.

THE DOLLAR

OUR TRADING STANCE: BEARISH.

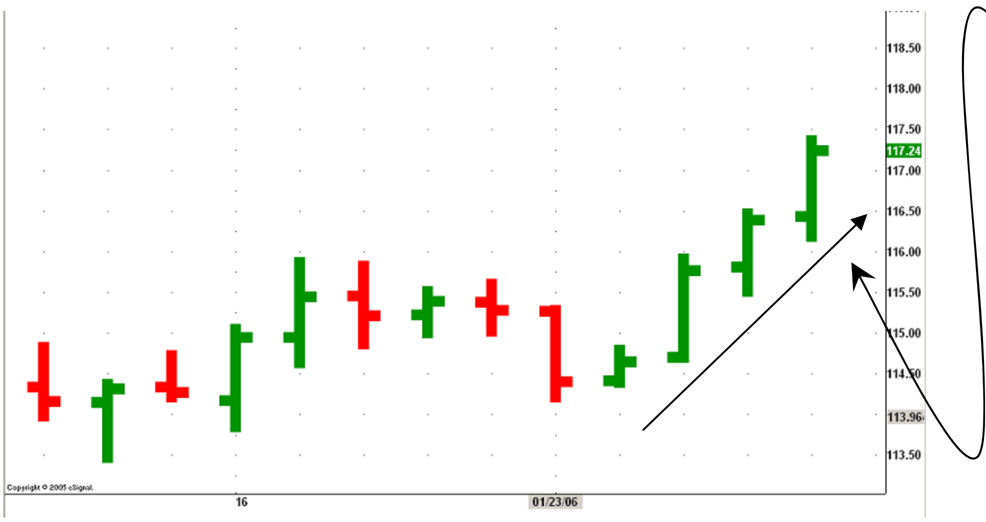
Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar recovered the previous week's loss against the Euro after stronger durable goods data on Thursday and a small improvement to new home sales on Friday.

DOLLAR/YEN CHART



See how the Yen slipped against the Dollar last week, even though Japanese CPI showed an increase in inflation.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar expecting it to decline further, in the event it recovered its poise.

Although Q4 GDP was much weaker than even the most pessimistic forecasts circulating last week, the Dollar clung to its gains. Indeed it added to the rally throughout Friday afternoon.

The main reasons behind the move were: -
1/ last week's other data: durable goods, new home sales and jobless claims, were all better than expected,
2/ a slowdown in Q4 was expected due to the hurricane disruption, and although greater than forecast, traders viewed it as history since last week's other data was stronger; especially the weekly employment data,

3/ the Fed is still expected to increase interest rates this Tuesday at its FOMC meeting and traders remain unsure whether or not any more will follow.

Looking ahead we remain bearish of the Dollar. It remains to be seen just how much of a one off Q4's slow down really is. Rebuilding work after the hurricane is slow and world Oil prices remain high and are pushing close to the highs seen last August.

The slump in Q4 GDP was driven by a sharp fall in consumer spending, a drop in purchases of durables, a fall in corporate outlays and the negative impact of the ballooning trade deficit. These factors do not seem transitory.

The surprise was the greater because during the 4th quarter the Fed released beige books for their November and December meetings which failed to catch the slowdown in activity and the twin ISM surveys mostly missed it as well.

This week we expect the Fed to tighten policy again, but for the last time in this cycle, and we don't expect any big surprises from the data due this week.

The Macro Trader's view is: we expect geopolitical concerns to regain the spot light later this week and drive the Dollar lower. Unless we see a non-farm payroll above consensus and ISM surveys showing a reacceleration of activity, the Dollar should weaken.

The Feds policy statement will make interesting reading when released Tuesday for further clues on future policy moves.

Traders should remain short of the Dollar however run the following stops: - Cable; 1.7600 and Dollar/Euro; 1.2000.

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UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK?

	Week of 23rd January
Monday	
Tuesday	CBI Ind trends -28 WEAKER THAN EXPECTED
Wednesday	MPC Minutes 8/1 NO NEAR TERM CUT Q4 GDP 0.6q, 1.7y STRONGER THAN EXPECTED
Thursday	
Friday	BBA Dec mortgage Approvals 51.2k LESS THAN EXPECTED

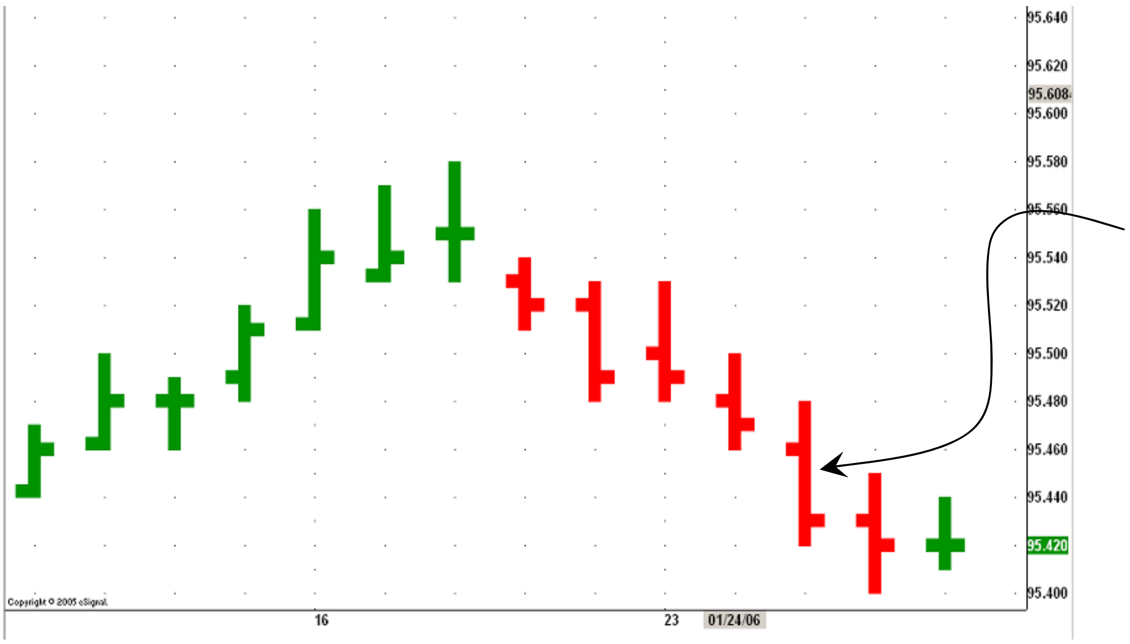
Last week's calendar.

Last week's calendar revealed Manufacturing deeper in trouble, but GDP growth on a monthly read returned to trend.

On Tuesday; CBI industrial trends, much weaker than consensus, on Wednesday; MPC minutes for January's meeting, revealed a lack of consensus for a rate cut any time soon and Q4 GDP, was stronger than expected, then on Friday; BBA December mortgage approvals, weaker than expected.

The market reacted to all of this by continuing the sell off which began the previous week, driven on by Wednesday's MPC minutes and Q4 GDP.

JUNE 06 SHORT STERLING



See how the market continued to remove any remaining expectation of a near term rate cut, especially after Wednesday's GDP data.

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SHORT STERLING

THE WEEK AHEAD

	Week of 30th January
Monday	
Tuesday	M4 Stlg Lndg F n/f Net lndg secur'd on dwell'g 8.8B GFK Cons conf -7 CBI Distributive trades n/f
Wednesday	CIPS PMI Mfg 51.3
Thursday	CIPS PMI Constrct'n 53
Friday	CIPS PMI Services 57.5

This week's calendar.

This week's calendar will focus on the CIPS PMI surveys due on Wednesday and Friday.

On Tuesday; M4 Sterling lending, net lending secured on dwellings, GFK consumer confidence and CBI distributive trades survey, on Wednesday; CIPS PMI Manufacturing, on Thursday; CIPS PMI construction, then on Friday; CIPS PMI Services survey.

OUR TRADING STANCE: SQUARE.

Last week we were square of June 06.
This week we remain square of June 06

Last week we were square of Short Sterling as we assessed the previous week's retail sales data had seriously dented all remaining hopes of a near term rate cut from the MPC.

Last week's data mainly supported that view, which we retain. The MPC minutes showed the vast majority on the committee expected Q4 GDP to have moved closer to trend; the official data revealed it had. This together with the pick up in retail sales will keep rates on hold at next week's February MPC meeting.

Although the manufacturing side of the economy continues to struggle and the bounce in retail sales could prove short lived, traders now assess the MPC will be guided by that improvement plus the stronger mortgage lending data and leave policy on hold for a further period.

Looking ahead, this week's CBI Distributive trades survey will give some early clues on the longevity of the consumer revival and the PMI surveys will be as closely watched as ever.

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The Macro Trader's view is: with inflation back on target and the twin motors of the economy; the housing market and retail sales, showing some improvement, the MPC will be in no hurry to ease policy.

However, with unemployment continuing to rise on both published measures and the manufacturing side of the economy still struggling to recover, rates definitely do not need to rise.

The MPC will consider their careful approach has helped nurture the economy through a difficult patch, but with Oil prices likely to rally further from current levels; their choices aren't going to get any easier.

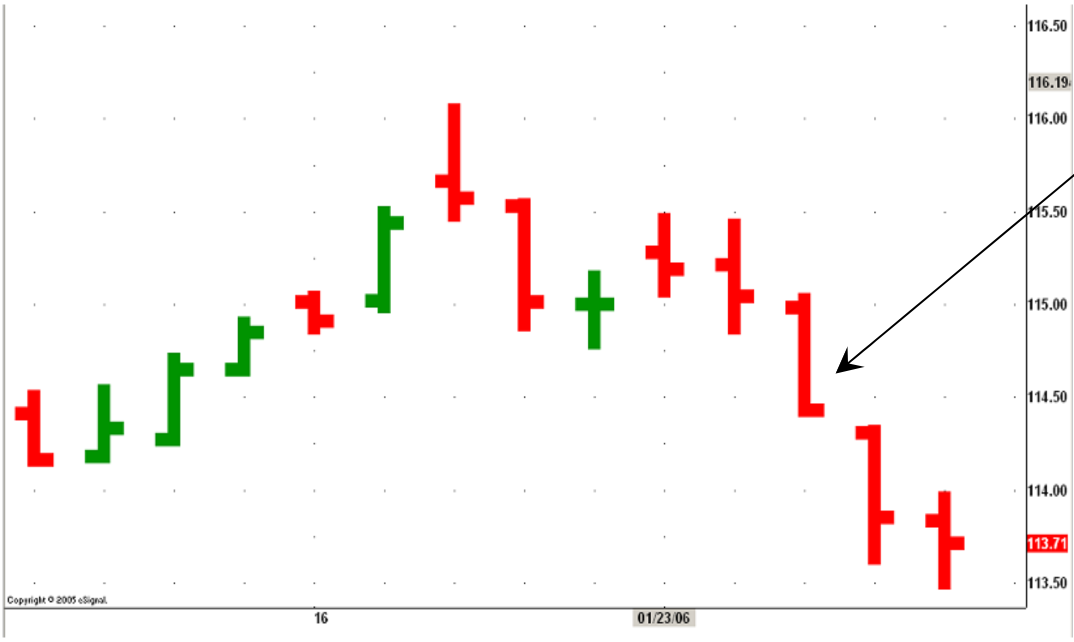
Higher inflation driven by rising energy costs will remain a worry, but look what happened to Q4 US GDP as a result of rising fuel bills; growth collapsed. That would happen here if Oil prices continue to move towards yet higher levels. For now traders should remain square.

THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were square of the Gilt.

GILT MARCH 06



See how the Gilt mirrored Short Sterling especially after Wednesdays Q4 GDP report, even while very long Gilts were being aggressively bought by pension funds to match the maturity dates of their liabilities.

This week we are bearish of the Gilt.

Last week we remained square of the Gilt as we viewed the market as lacking the fundamentals to further pursue its recent rally, but there seemed a lack of a clear cut reason to sell.

This week, after stronger than expected Q4 GDP, which on an annualized basis stands at 2.4% (the economy's trend rate), a recent stronger than expected retail sales report and further deterioration of the Governments fiscal stance, we are bearish of the Gilt.

With Oil prices threatening to rally to new highs on the back of the crisis with Iran, inflation will remain at the forefront of policy maker's minds. While CPI is now back on target and expected to fall further. That rosy scenario could be in jeopardy.

Even if inflation does remain contained in the event of Oil hitting US$80.00 a barrel in the coming months, growth will be a victim, but if the MPC remains reluctant to relax policy and the Government refuses to trim its spending plans, borrowing will balloon and the Gilt will fall heavily.

The Macro Trader's view is: with little prospect of any short/medium term reduction in interest rates remaining, since the MPC would want to see at least two fresh reports of weak retail sales before concluding December's improvement was a blip, all eyes will be turned to any data which shows further improvement, especially the housing market.

Additionally, as Oil prices rally further, traders will initially be nervous of any feed through to inflation. We advise being short of this market, our interim target is 113.00.

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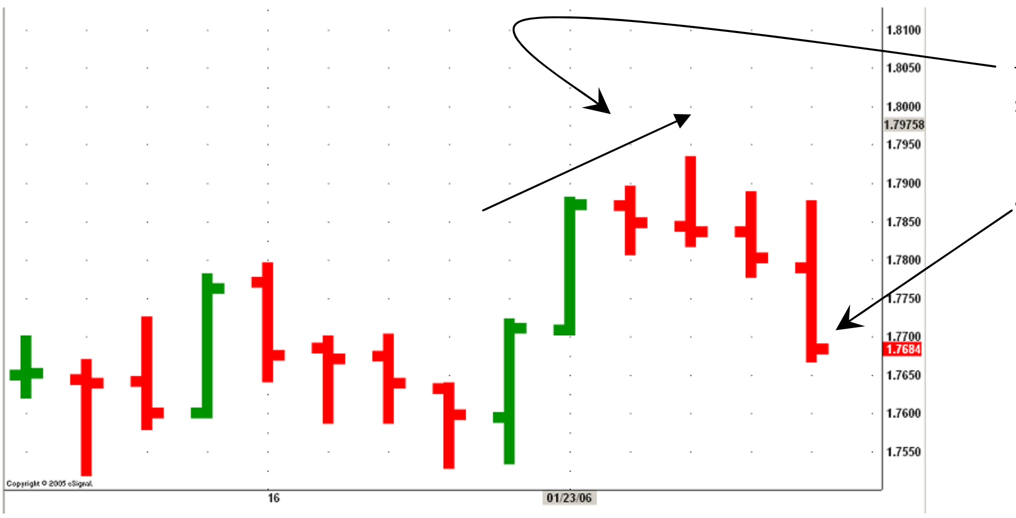
THE POUND STERLING

OUR TRADING STANCE: BULLISH.

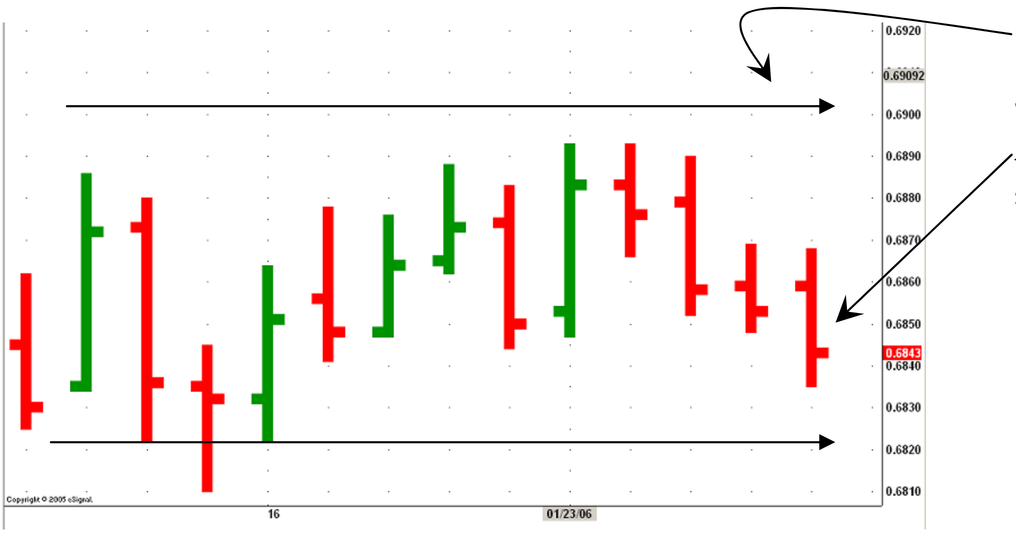
Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound rallied further into mid week before succumbing to a round of profit taking on Friday, driven by a large drop in mortgage approvals in the UK and an unexpectedly stronger US new home sales report, also on Friday.

THE STERLING/EURO CHART



See how the Pound largely maintained the recent range against the Euro, as the Dollar received a boost late on Friday from stronger US new home sales.

This week we remain bullish of Sterling.

Last week we remained bullish of Sterling expecting the Dollar to remain under pressure and by mid week the Pound's course seemed set fair after a weak Richmond Fed report and below consensus existing home sales from the US, led the Pound higher against the Dollar.

However the Dollar received a boost from stronger Durable goods, jobless claims and new home sales on Thursday and Friday. New home sales contribute to GDP, existing home sales don't, but after a very weak US Q4 GDP report the Dollar's vigour was something of a surprise, which can only be attributed to jobless claims remaining sub 300K.

Looking ahead, we expect the Fed to tighten policy at Tuesday's FOMC meeting pushing the Fed funds rate to 4.5%. After the Q4 GDP data released by the US on Friday, this could very well mark the end of the current interest rate cycle.

By contrast UK Q4 GDP on an annualised read was back at trend and at 2.4% over double that of the US report.

This week sees the release of a whole host of heavy weight US data, which may temporarily swing the pendulum back in the Dollars favour. The focus of the week will be the FOMC statement on Tuesday and non-farm payroll on Friday, which traders expect to be strong after recent jobless claims data.

The Macro Trader's view is: we said last week we expect traders to shift their attention back to the other side of the Atlantic, and after the price action on the foreign exchange market; that is exactly what they did.

While we remain bullish of Sterling as both US and UK interest rates are likely to remain at 4.5% over the coming months, US fundamentals look none too supportive of the Dollar, and although UK trade data and budget deficit data are less than optimal, the market's focus is the US economy.

Traders should remain long of Sterling, our target remains1.8000. However were non-farm payroll to be much stronger than consensus, the Dollar would strengthen and traders should square up. We suggest a stop on a confirmed close below 1.7600.

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EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK?

	Week of 23rd January
Monday	
Tuesday	EU 12 Ind new orders 4.9m, 9.2y STRONGER THAN EXPECTED
Wednesday	DM CPI -0.5m, 2.1y LESS DM Imprt prices 0.3m, 6.8y HIGHER FR Business conf 103 AS FR Prod outlok indicator +1 HIGHER IT Retail sales 0.0m, 1.7y HIGHER DM IFO 102.0 STRONGER THAN EXPECTED
Thursday	
Friday	Euro zone M3 7.3y/y LESS DM GFK 4.6 HIGHER THAN EXPECTED

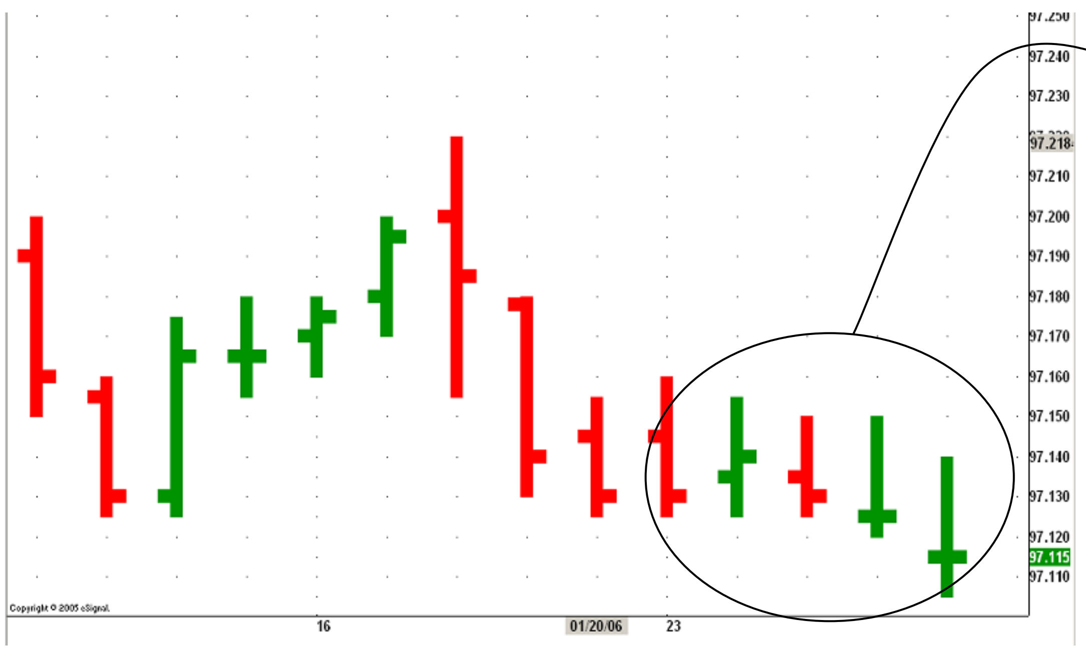
Last week's calendar.

Last week's calendar revealed a surge in the Euro zones industrial orders and a sharp rise in the German IFO report.

On Tuesday; Euro zone industrial new orders, stronger than expected, on Wednesday; German CPI, less than forecast, import prices, higher than expected and IFO stronger than consensus, French business confidence, as expected and production outlook indicator, higher than expected and Italian retail sales, higher than expected, then on Friday; Euro zone M3, less than expected and German GFK consumer confidence, higher than expected.

The market reacted to all of this by trading lower over the week on the improved prospects for the Euro zone economy.

JUNE 06 EURIBOR



See how Euribor drifted lower as improving Euro zone data hardened traders expectations for further ECB rate increases.

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EURIBOR

THE WEEK AHEAD

	Week of 30th January
Monday	FR Qtly Mfg survey n/f FR Cons conf -29
Tuesday	FR Unemploym't rate 9.6 FR Change -20K FR PPI 0.2m, 3.3y DM Unemploym't change -30 DM Change 11.2 IT PPI 0.1m, 4.0y
Wednesday	IT PMI Mfg 54.3 FR PMI Mfg 52.5 DM PMI Mfg 54.6 EU 12 PMI Mfg 54
Thursday	EU 12 PPI 0.2m, 4.5y ECB Rate decision 2.25
Friday	IT PMI Services 55.8 FR PMI Services 58 DM PMI Services 56.4 EU 12 PMI Services 57 EU 12 Retail sales -0.2m, 0.3y EU 12 CPI 2.4y IT CPI 0.2m, 2.2y

This week's calendar.

This week's calendar is packed with data, including an ECB rate announcement on Thursday.

On Monday; French Qtly Mfg survey and consumer confidence, on Tuesday; French unemployment data and PPI, Italian PPI and German unemployment data, on Wednesday; PMI Manufacturing reports from Germany, France Italy and the Euro zone, on Thursday; Euro zone PPI and the ECB interest rate decision, then on Friday; PMI Services surveys from France, Germany, Italy and the Euro zone, Italian CPI and Euro zone CPI and retail sales.

OUR TRADING STANCE: BEARISH.

Last week we were bearish of June 06.
This week we remain bearish of June 06.

Last week we remained bearish of Euribor and it traded lower on further signs of improvement to the Euro zone economy. This week we remain bearish.

This week's data is likely to continue the theme of gradual steady improvement to the Euro zones economic prospects.

While we don't expect a rate hike from the ECB this week, they will have plenty of opportunity at the post meeting press conference to issue further bearish rhetoric, thereby maintaining expectations for tighter policy going forward.

The Macro Trader's view is: with recent improvements to Euro zone data, especially the German IFO report last week, the ECB remains ready to tighten further and traders should remain short.

As the current crisis with Iran continues to develop Oil prices are nudging ever higher, back towards last Augusts' highs and eventually beyond.

Since fears of energy induced inflation produced the first ECB rate hike, a renewed round of those fears together with firmer data will heighten ECB policy makers sense of alarm.

Traders should use any rally as a selling opportunity, our interim target for now remains 97.06; the previous low.

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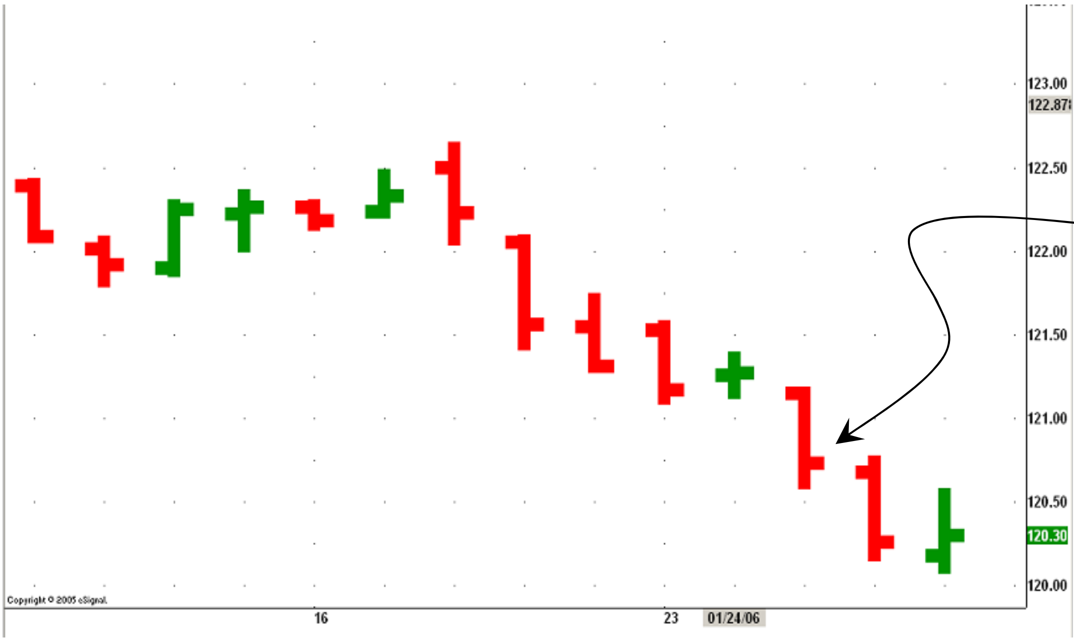
THE BUND

OUR TRADING STANCE: SQUARE.

Last week we were square of the bund.

THE BUND MARCH 06



See how the Bund, continued its slide as Euro zone data continued to show improvement, especially Wednesday's IFO report.

This week we remain square of the Bund.

Last week we were square of the Bund as economic data continued to improve, adding a sense of prescience to December's ECB rate hike.

This week with a whole raft of data due and an ECB interest rate decision, we remain square. If this week's data shows yet further improvement to the Euro zone economy traders will sell the Bund lower, but with Oil prices pushing higher and expected, by us, to rally further, the ECB will eventually elect to tighten policy again, but not at this week's meeting.

This together with higher Oil prices and a stronger Euro will eventually choke the economic recovery. With this in mind we are currently sidelined as we watch developments in the Oil market.

The Macro Trader's view is: although the Euro zone economy looks like extending its recovery, the growth rate remains low and depending on how far and how fast the ECB tightens policy, this may be as good as it gets.

However with Geopolitical concerns weighing heavily on markets, investors will remain wary of bonds.

For now traders should remain square and listen carefully to the tone and content of future speeches made by ECB council member's and what Trichet says at this Thursday's lunch time press conference for clues on the timing of their future policy intentions.

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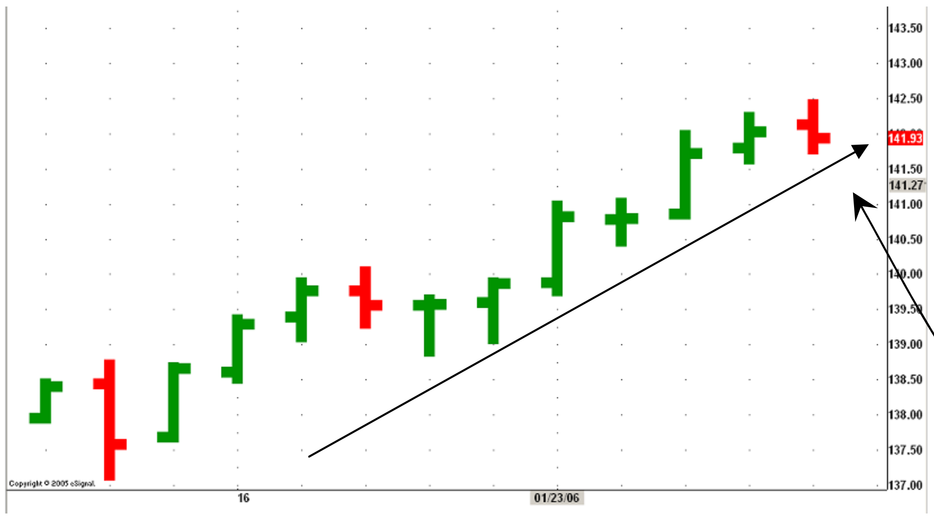
THE EURO

OUR TRADING STANCE: BULLISH.

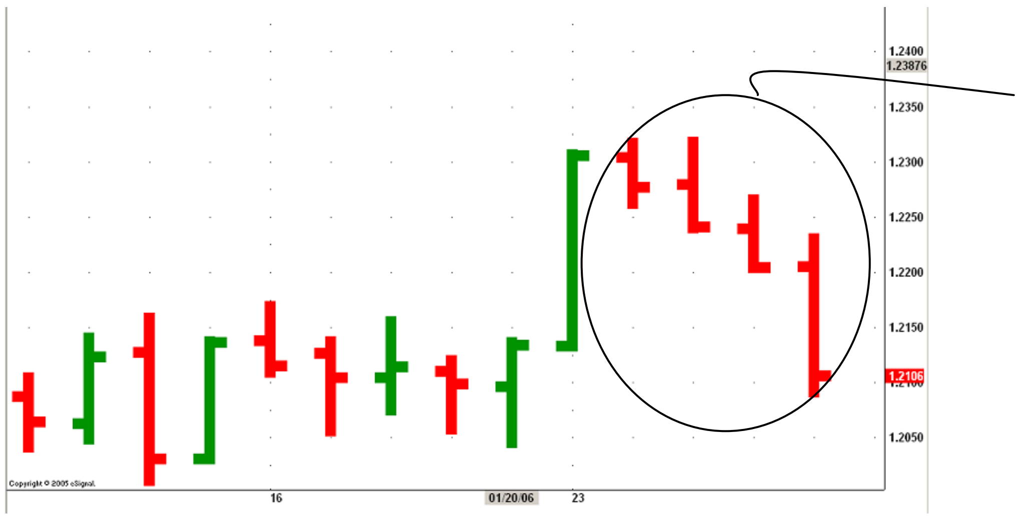
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Euro strengthened further against the Yen last week as the prospect of future Euro zone rate hikes supported the single currency, out weighing a pick up in Japan's own CPI.

THE EURO/DOLLAR CHART



See how the Euro suffered a set back against the Dollar as traders focussed on this weeks FOMC meeting and another Fed rate hike.

This week we remain bullish of the Euro.

Last week we were bullish of the Euro expecting it to add to the previous week's bounce, especially as most analysts were down beat about the prospects for US Q4 GDP.

In the event the Dollar rallied, regaining most of the previous Friday's losses. Some US data was stronger than consensus, but Q4 GDP was half of the markets worst expectation at 1.1%; however the market shrugged this off.

Given the detail of the GDP report the reaction in the market was surprising, especially as Euro zone data showed further improvement.

Apart from a sharp drop in consumer spending, (from 4.1% in Q3 to 1.1% in Q4), falls in corporate outlays and durable purchases, the ballooning of the trade deficit also hit growth.

This component will remain in play for some while yet, at least until a Dollar correction lower brings about a correction to the US trade deficit.

Looking ahead, unless the trade deficit improves some how? And the ISM surveys strengthen further, coupled with an above consensus read of non-farm payroll on Friday, we expect the Euro to resume its rally against the Dollar.

The Macro Trader's view is: we expect the Dollar to resume its slide once the distraction of this week's data is out of the way.

The combination of; -

1/ growing Trade and budget deficits,
2/ an imminent end to the Feds rate cycle (this Tuesday's hike is probably the last) and further ECB rate hikes,
3/ fears of US economic slowdown, now confirmed by Q4 GDP,
4/ foreign Governments threatening to reallocate their reserves away from the US, and
5/ growing geopolitical concerns,

Will all serve to send the Dollar lower!

Traders should stay long of the Euro, but run a stop against the Dollar at 1.2000 over this week's numbers to protect against any unpleasant surprises.

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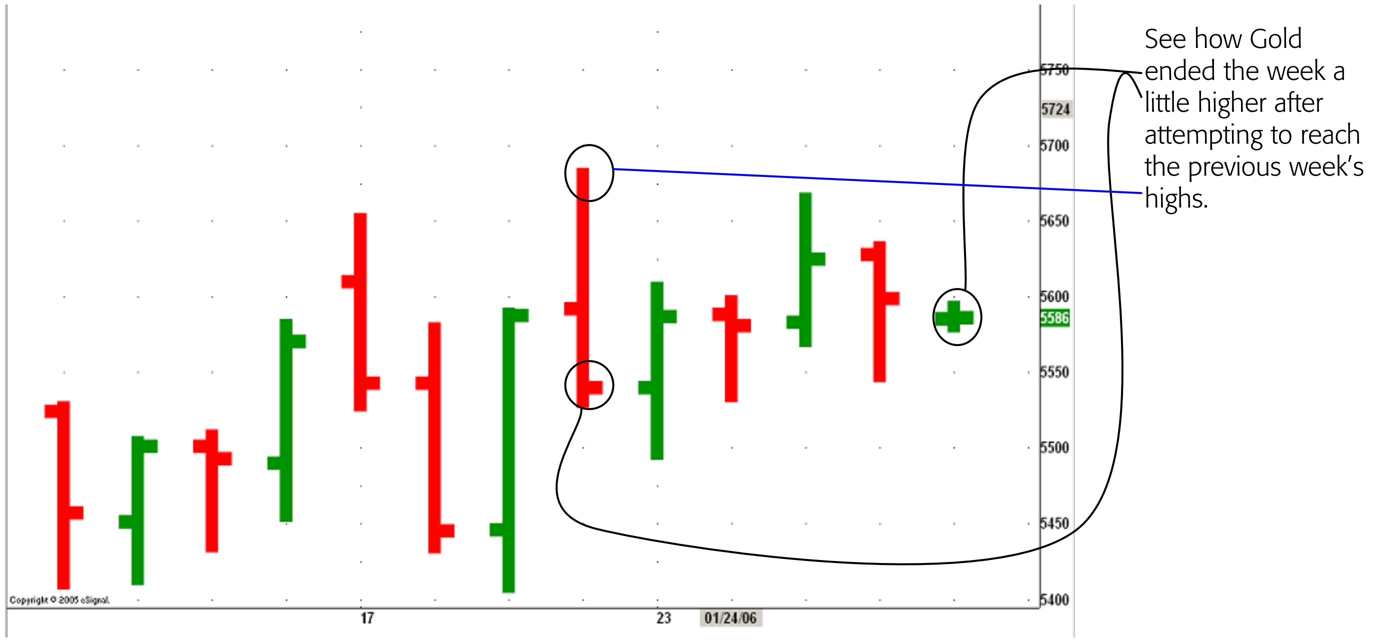
COMMODITIES

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 suggesting it could trade up to US$565.00 an ounce over the coming weeks as our latest interim target, which it did before again easing back on profit taking.

The market traded higher, driven by the deepening crisis with Iran over its determination to acquire a nuclear capability, the west's intention to refer Iran to the UN Security Council, and Iran's threat to use Oil as a weapon for retaliation.

This week we remain bullish and expect the market to consolidate before moving to new highs, supported by the following enduring factors; -

1/ The Dollar remains dogged by the twin deficits, and now slow growth,

2/ The Euro by slow growth and a Central Bank pre-occupied with inflation potentially driven by rising Oil prices and

3/ The Yen by an economy still mired in the grip of deflation, although further signs are emerging it may be slowly coming to an end, after a rise in Japan's CPI last week.

The Macro Trader's view is: we continue to view Gold as a long term Bull market offering traders a solid alternative to the major currencies.

The deepening crisis with Iran is now firmly centre stage with the west's determination to some how prevent Iran from acquiring the technology to produce nuclear weapons, matched only by Iran's determination to acquire them.

Reports over the weekend described Iran offering North Korea Oil and Gas supplies in exchange for Plutonium, a development, if true, that alarms the West and moves Iran that much closer to acquiring nuclear weapons; a truly frightening prospect.

Additionally the election of Hamas as the new Palestinian Government worsens an already difficult position in the Middle East, as Hamas are a terrorist organisation pledged to destroy the state of Israel and showing no inclination to ditch that position now they have gained a platform on the world stage.

Most hitherto donors of financial assistance have pledged to cut their support to the Palestinian authority unless Hamas recognises Israel and halts its suicide bombings.

While these factors remain in play, and they will for the foreseeable future, traders should remain long of Gold.

Our interim target remains US$565.00 an ounce since the market is yet to trade through and close above it.

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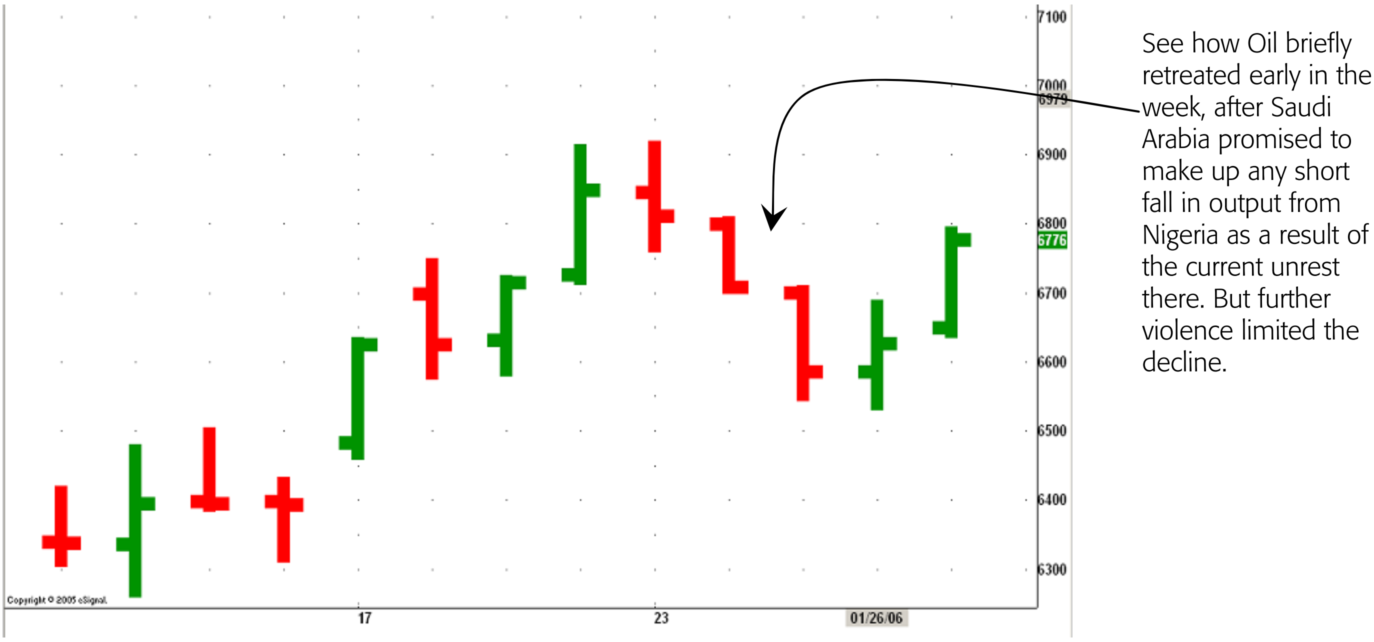
OIL

OUR TRADING STANCE: BULLISH.

Last week we were bullish of oil.

THE CRUDE OIL CHART



This week we remain bullish of oil.

Last week we remained bullish of Oil but the market slipped on assurances from Saudi Arabia, they would pump more Oil to cover any short fall in Nigerian output resulting from militant unrest in that country. The move proved short lived after further fresh attacks.

This week we remain bullish, as the situation in the Middle East took a fresh turn after the election of Hamas as the new Palestinian Government. A development which can only mean another set back for the already damaged peace initiative between the Palestinians and Israel.

Additionally, the West continues trying to secure the support of China and Russia with the intention of referring Iran to the UN Security Council over its plans to develop nuclear technologies. Iran has repeated its threat to use Oil as a weapon to retaliate. If that happens the Oil price will move much higher.

Although the US economy slowed in the 4th quarter of last year, the out look for the wider world economy is for strong growth this year. That will insure oil demand remains firm with any interruption to supply caused by Iran, sending the price significantly higher.

The Macro Trader's view is: the Oil price remains driven by the current tight supply/demand relationship, which is aggravated by the long running dispute with Iran.

Traders should stay long, the market continues to hover just below the highs seen last year and we expect it to rally further; towards US$80.00 a barrel over the coming weeks.

At the same time we expect an increase in volatility and traders should run a stop at US$64.00 a barrel to protect profits.

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