



Week 49
10th – 16th December 2013

Summary

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- + EURODOLLARS
- + 10 YEAR NOTE
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- + S&P 500

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- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
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- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
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- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer



the macro trader's guide to major markets

John Lewis

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SUMMARY

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- SQUARE
- SQUARE
- **BEARISH** v Sterling
- **BULLISH**

UK Markets

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- SQUARE
- SQUARE
- **BULLISH** v the EURO and DOLLAR
- SQUARE

Euro Zone Markets

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- SQUARE
- **BEARISH** v the **POUND STERLING**
- SQUARE

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- SQUARE

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- **BEARISH**
- SQUARE

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	Week of 9 nd December
Monday	DM Trade bal 18.3B DM C/A 17.1B DM Ind production 0.7m, 3.1y JP C/A Y148.9B JP Trade bal -Y1005.5B JP Q3 GDP 0.4q JP Q3 GDP (A) 1.6% JP Lndg Inc trsts 2.25 JP Bankruptcies -10.58% JP Eco watchers 53.5 JP Tertiary Ind Indx 0.1%
Tuesday	US Wholesale invntry 0.3% US Wholesale Trade 0.2% UK RICS Hse prces 60% UK Ind production 0.4m, 3.2y UK Mfg output 0.4m, 2.9y UK Trade -£9.2B UK Trade non-EU -£3.6B UK NIESR GDP Est 0.75 IT Q3 GDP -0.1q, -1.9y JP Cons conf 44 JP Machine tool orders n/f JP Machine orders 0.7m, 15.1y JP Domstc corp gds prces 0.1m, 2.7y
Wednesday	US MBA Mrtge apps n/f US Monthly bdgt stat -\$142.0B DM CPI 0.2m, 1.3y

	Week of 9 nd December
Thursday	US Retail sales 0.6% US RS Ex – Autos 0.2% US Jobless claims 320k US Import prces -0.7m, US Bus invntry 0.35 EZ Ind production 0.3m, 1.1y
Friday	US PPI 0.0M, 0.8Y US PPI Ex –F&E 0.1m, 1.4y UK Construction output 1.6m, 1.3y DM WPI n/f JP Ind production n/f JP Capacity utilisation n/f

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	Week of 2 nd December
Monday	US ISM Mfg survey 57.3 STRONGER US ISM Prices paid 52.5 WEAKER US Constrction spndg 0.8m, STRONGER UK PMI Mfg survey 58.4 STRONGER UK BRC Sales 0.6% WEAKER IT PMI Mfg Survey 51.4 STRONGER FR PMI Mfg survey 48.4 STRONGER DM PMI Mfg survey 52.7 BETTER EZ PMI Mfg survey 51.6 BETTER JP Vehicle sales 13.3% LESS JP Labour cash earnings 0.1% BETTER THAN EXPECTED
Tuesday	US Vehicle sales 12.62M MORE UK PMI Construct'n 62.6 STRONGER UK BRC Shop prices -0.3% MORE EZ PPI -0.5m, -1.4y WEAKER THAN EXPECTED
Wednesday	US MBA Mrtge apps -12.8% WEAKER US ADP Emplm't chge 215k STRONGER US Trade bal -\$40.6B WORSE US New home sales 444k STRONGER US ISM non-mfg survey 53.9 WEAKER US Fed's Beige book UK PMI Services survey 60.0 LESS IT PMI Services survey 47.2 WEAKER FR PMI Services survey 48.0 WEAKER DM PMI Services survey 55.7 STRONGER EZ PMI Services survey 51.2 STRONGER EZ Q3 GDP 0.1q, -0.4% AS EZ Retail sales -0.2m, -0.1y WEAKER THAN EXPECTED

	Week of 2 nd December
Thursday	US Jobless claims 298k BETTER US Q3 GDP (A) 3.6% STRONGER US Q3 GDP Price indx 2.0% MORE US Q3 Core PCE 1.5% MORE US Q3 Persnl consumption 1.4% LESS US Factory orders -0.9% BETTER UK BOE/MPC Rate decision 0.50% AS UK BOE AP Target £375B AS UK Chancellor's Autumn statement EZ ECB Rate decision 0.25% AS EZ ECB Press conference THAN EXPECTED
Friday	US non-farm payroll 203k STRONGER US Unemployment rate 7.0% BETTER US Avrge hrly earnings 0.2m, 2.0y AS US Avrge wrk week 34.5 AS US Persnl income -0.1% WEAKER US Persnl spndg 0.3% STRONGER US Core PCE 0.1m, 1.1y AS US U. of Michigan conf 82.5 STRONGER US Cons CR \$14.5B UK Halifax Hse prces 1.1m, 7.7y STRONGER UK BOE/GFK Inflat'n 12mnth 3.6% STRONGER DM Fctory orders -2.2m, 1.9y WEAKER THAN EXPECTED



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US MARKETS: economic background

Last week we focussed on Q3 GDP but there were several key reports due including non-farm payroll.

In the event the run of data was mainly positive with the ISM Manufacturing survey stronger, jobless claims dipping below 300k for the first time in an age, Q3 GDP revise higher than expected and the non-farm payroll report beating expectations.

The only negative was the ISM non-manufacturing survey which came in short of consensus, but still indicates a growing economy.

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; **Wholesale inventories and wholesale sales,**
- On Wednesday; **Monthly budget statement,**
- On Thursday; **Jobless claims, retail sales, import prices and business inventories, and**
- On Friday; **PPI.**

The main event this week is retail sales.

Last week's data put traders on higher alert for a possible early start to the Fed's taper policy, a strong retail sales report will cement that view further.



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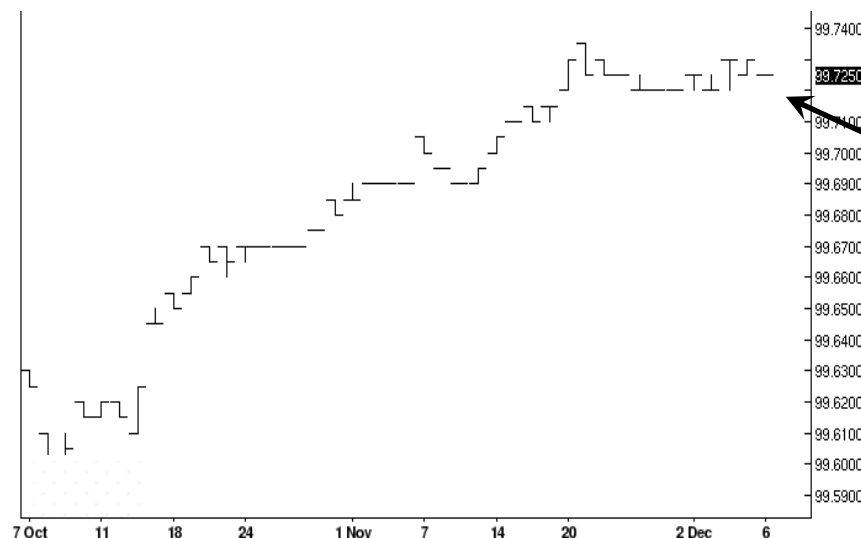
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



See how the market traded sideways last week despite stronger data.

The Macro Trader's view of Eurodollars is; last week's price action confirmed to us that this market is best left alone.

Data was stronger than expected but the market was well supported; why?

Because the Fed has no intention of changing interest rates for a long time, they are struggling to agree on when to start reducing their stimulus, rate hikes aren't

even on the agenda.

Looking ahead retail sales stands out as the main event this week, but we judge this market will show little reaction..

So stay square.



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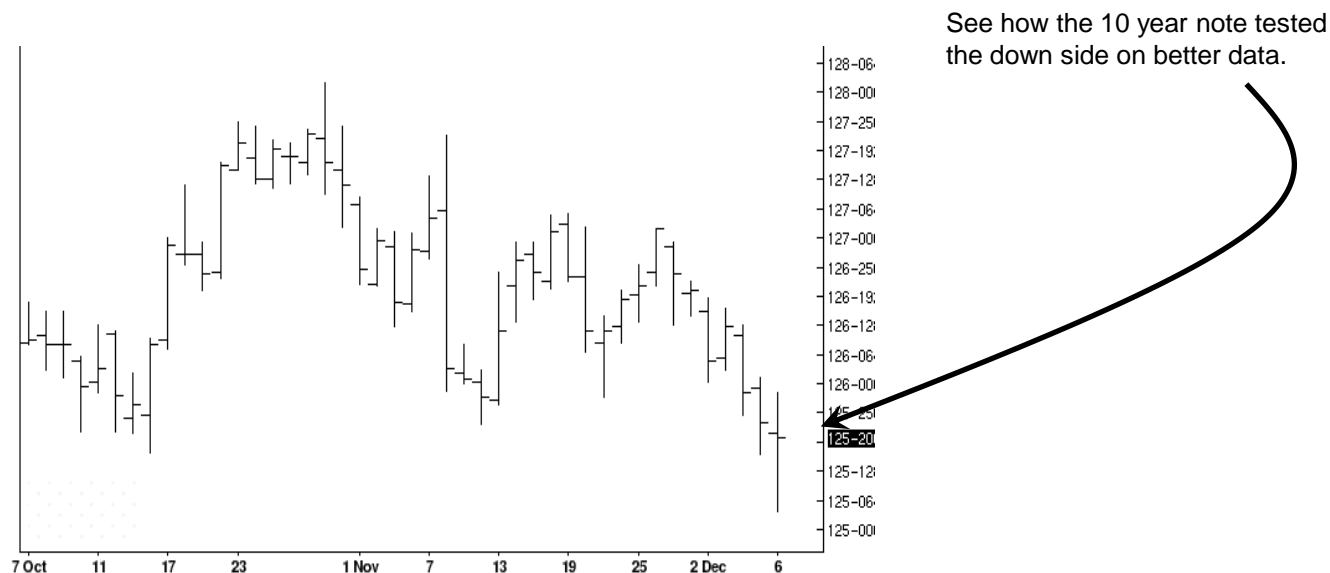
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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The Macro Trader's view of the 10 year note is: last week we said....

...“This week's Q3 GDP report is due with an upward revision expected, if it meets consensus we suggest Bonds will move lower, but then there is Friday's non-farm payroll report”...

In the event Q3 GDP was revised up by more than expected and non-farm payroll was stronger than

expected and this market did indeed test the lows before a profit take set in.

Looking ahead the retail sales report is due and the FOMC meeting is due next week, we don't think this market will break new ground ahead of the Fed.

But another choppy week looks in the offing.

We are staying square.



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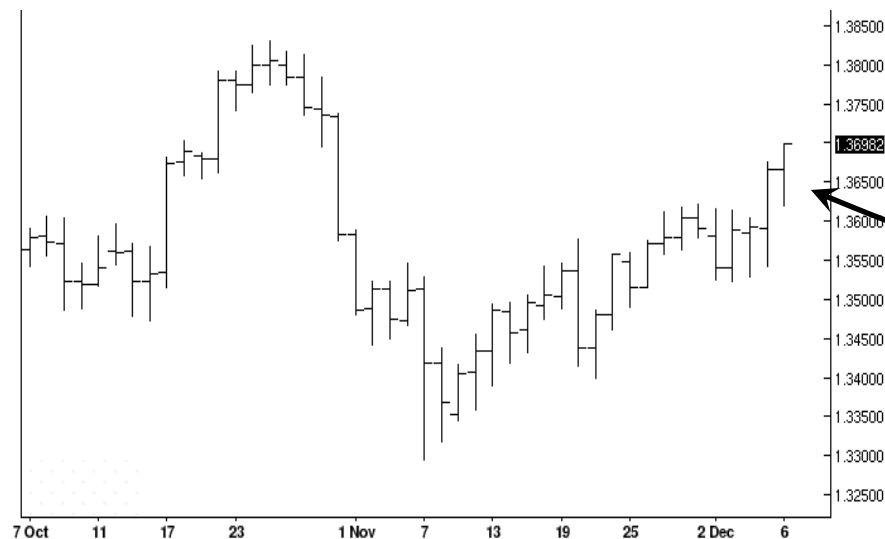
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US MARKETS: US Dollar

OUR TRADING STANCE: **BEARISH v the POUND.**

Last week we were **Bearish of the Dollar v the Pound.**



The Dollar remains out of favour despite better than expected data..

The Macro Trader's view of the Dollar is; the Dollar continues to draw little or no support from reasonably strong data.

Last week saw another stronger than expected non-farm payroll report and Q3 GDP revised up by more than expected.

But it seems the spectre of the Fed and tapering is undermining the Dollar.

Looking ahead retail sales are due this week, but we doubt the Dollar will benefit from even a strong report, rather the S&P would likely push higher.

Against the Euro we still advocate a square position, but against the Pound Sterling traders should be Long Sterling/Short the Dollar as the UK's growth outlook has clearly improved.

Our suggested target remains 1.6590 and our suggested stop continues at 1.6215 for protection.



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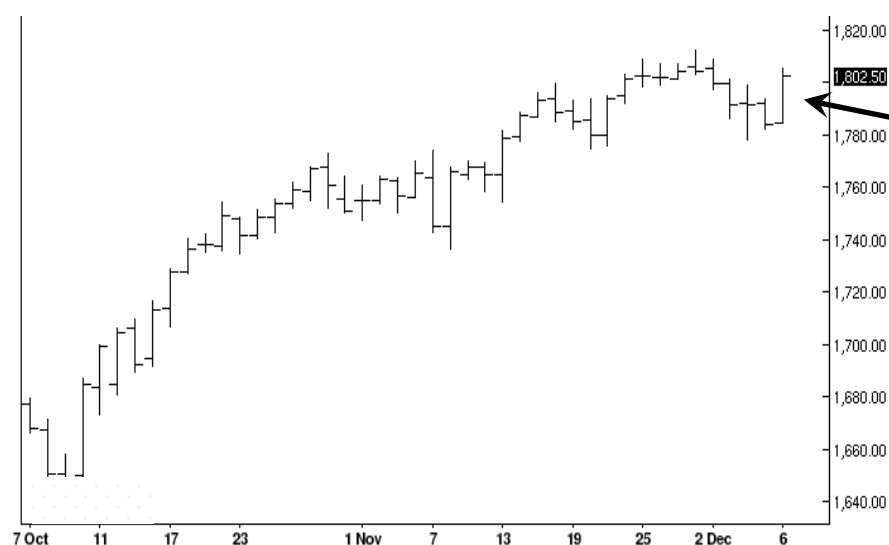
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US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

Last week we were **Bullish** of the S&P 500.



The S&P remains well supported by solid data.

The Macro Trader's view of the S&P 500 is: the S&P is mildly hobbled by the Fed's lack of decisiveness over tapering, but it is clearly bullish and last week's data was strong enough to keep the Bulls expecting further gains.

Looking ahead retail sales are due this week. A strong report will help this market push higher and although the FOMC meeting is due next week and traders are anxious about the Fed's intentions, surely will the run of data looking so positive; Q3 GDP at 3.6%, traders

have little to fear. In reality, this market can make further substantial gains driven by the combination of solid data and ongoing Fed stimulus, since tapering is only a reduction of the level of new stimulus not withdrawal!

We remain bullish of this market and advise traders to be long.

Our target continues at 1815.0 and our stop continues at 1760.0 for closer protection.



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Commodities

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UK MARKETS: economic background

Last week we focused on the three PMI surveys since we expected the Bank of England to keep policy steady and thought the Chancellor had nothing to tell that wasn't already obvious.

The Manufacturing and construction PMI surveys were both better than expected and although the Service sector survey fell short of consensus, at 60.0 it still flags strong growth.

The Chancellor underlined what data has been saying over recent quarters; the economic recovery is stronger than any one dared to predict and a surplus in government finances is expected by 2018/19.

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; **RICS House prices, Industrial production, manufacturing output, the trade data and NIESR GDP estimate, and**
- On Friday; **Construction output.**

The main event this week is the industrial production/manufacturing output report.

The PMI survey for manufacturing has over recent months reported strength and the official Industrial production reports are sometimes out of sync, will the official data series echo the PMI report?



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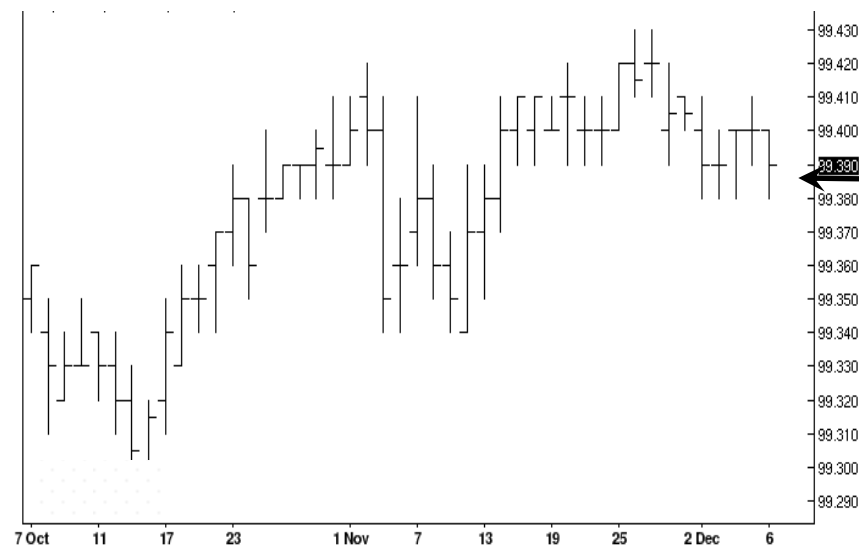
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UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



See how Short Sterling is begging to look a little vulnerable.

The Macro Trader's view of Short Sterling is: the Bank of England may have no intention of hiking UK interest rates any time soon, but the market is starting to look a little bit heavy.

The run of data over recent quarters has pointed to a strengthening recovery, but until last week's Autumn statement the government had remained cautious, now though caution is out and the Chancellor nailed his colours to the mast of a full blown recovery that should see a budget deficit turn into a surplus by 2018/19.

Looking ahead the key release this week is Industrial production. A strong report is expected, but this data series can sometimes throw out an unpleasant surprise.

In any event we judge the upside in this market is capped, but a sell off seems a little premature. But in the New Year we judge traders will be looking for reasons to sell this market.

So stay square.



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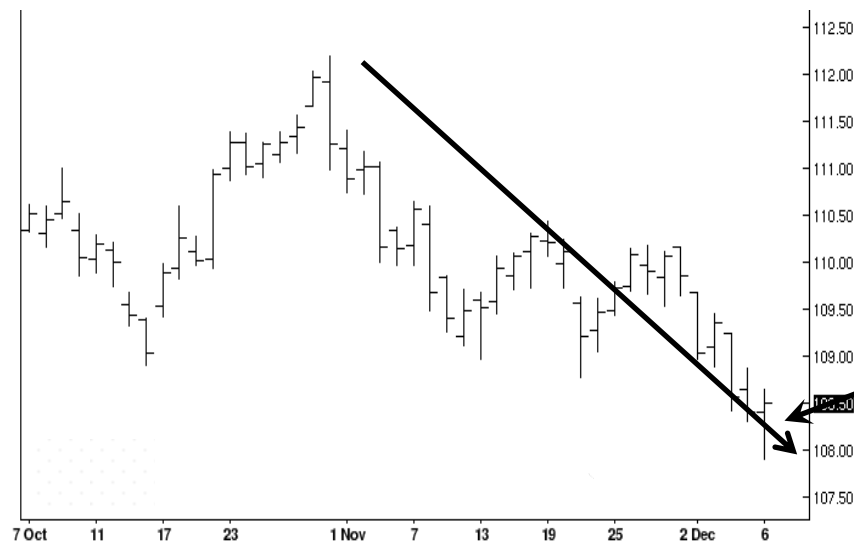
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UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt looks on the verge of a bear market after the recovery was heralded by last week's Autumn statement.

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

...“Looking ahead the PMI Services survey and Chancellors Autumn statement are due”...

...“For the Gilt the Autumn statement stands out. The Chancellor looks set to confirm what data has been saying; the recovery is moving up through the gears, what we need to hear is how he will spend the increased revenue flows; tax cuts wont help the Gilt, but if he intends to focus on achieving a fiscal surplus and paying down debt the Gilt will draw support”...

In the event a surplus was forecast, not until 2018/19 and by then he may not be in office with a Labour government in power and throwing away all the pain and hard work achieved over the last few years.

Looking ahead this week's main event is Industrial production and a strong report is expected.

For now though stay square as we sense the uncertainty over the Fed's taper intensions remains a key variable in bond markets globally.



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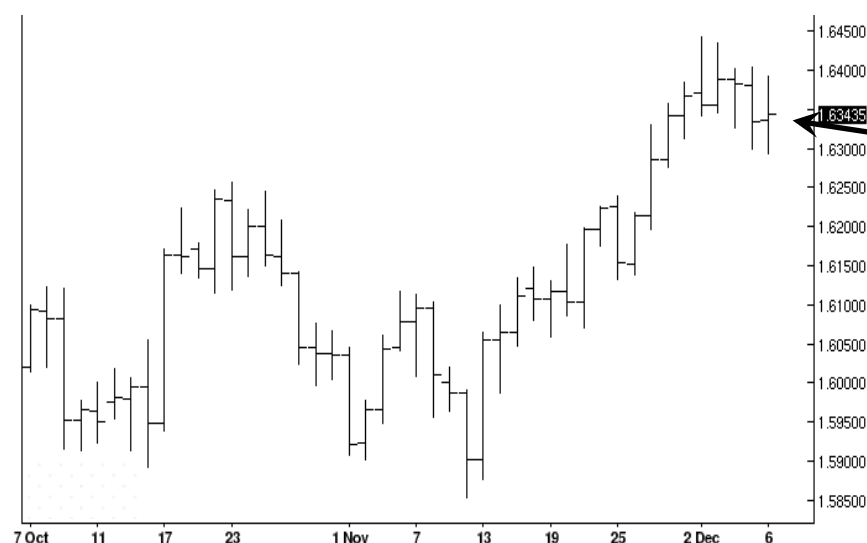
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UK MARKETS: Sterling

OUR TRADING STANCE; BULLISH v the DOLLAR & EURO

Last week we were Bullish v the Euro



The Macro Trader's view of the Pound is; the Pound experienced a round of profit taking last week, but based on the run of data seen and the Autumn statement we judge the Pound can and will make further gains.

Looking ahead the main event this week is Industrial production and manufacturing output, if this report echo's the PMI manufacturing survey, the Pound should retest the upside against the Dollar and the Euro..

Traders should be Long Sterling/Short the Euro.

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

Additionally traders should be Long Sterling/Short the Dollar. Our target continues at 1.6590 and our stop remains set at 1.6215 for protection.



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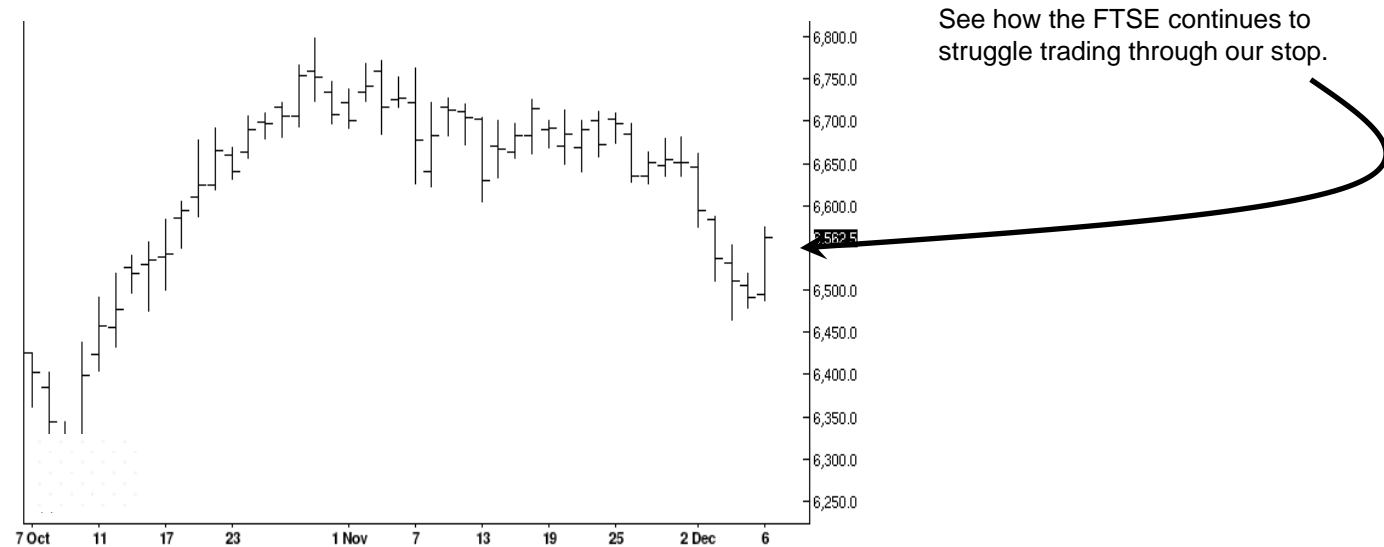
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UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

Last week we were **Bullish**.



The Macro Trader's view of the FTSE is; last week's price action was again disappointing.

Data held up very well and the Chancellors Autumn statement finally affirmed what traders have been seeing for months in the data; the economy is well and truly on the mend.

With public finances looking set to go into surplus in 2018/19 this market might have performed better.

But the implication of stronger growth is a turn in the monetary policy cycle and although the Bank of England keeps saying rates aren't going anywhere

any time soon, data might soon change their stance.

Add in the uncertainty caused by the Fed's indecision over tapering and the FTSE seems to be handling the current environment worse than some of its peers.

We are stopped out of this market and advise temporarily standing aside to allow for a period of reassessment.

But our underlying view of this market remains bullish.



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EURO ZONE MARKETS: economic background

Last week's focus was the ECB rate decision, but policy was left on hold.

Other data released last week showed better than expected PMI Manufacturing surveys, but the Euro zone service sector surveys were mixed.

But with German factory orders falling short of expectations, the Euro zone economy barely seems to have moved out of intensive care.

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 trade data, C/A and**

Industrial production,

- On Tuesday; **Italian Q3 GDP**,
- On Wednesday; **German CPI**,
- On Thursday; **Euro zone Industrial production, and**
- On Friday; **German WPI**.

The main events this week are German and Industrial production.

Since the German economy is the main driving force within the Euro zone, the German report due on Monday will be a good indicator of what to expect from the Euro zone report on Thursday.



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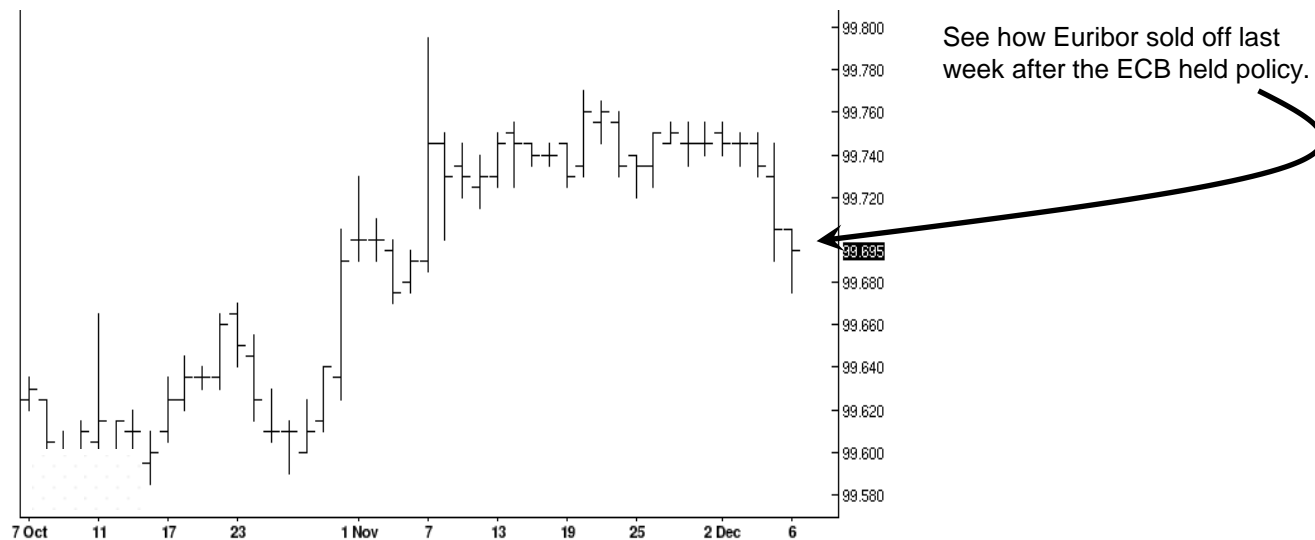
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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



The Macro Trader's view of Euribor is; Euribor sold off late last week after some better than expected Euro zone data and an ECB that left policy on hold.

But the economic recovery remain fragile, meaning the down side in this market is limited and likely means Euribor will remain range bound for some time to come.

Looking ahead the German and Euro zone Industrial

production reports are due this week and are likely to confirm the German economy is growing and dragging the rest of the Euro zone along behind.

The ECB may have held policy, but this market is supported by the weak economy, but the upside looks capped..

So once again; stay square.



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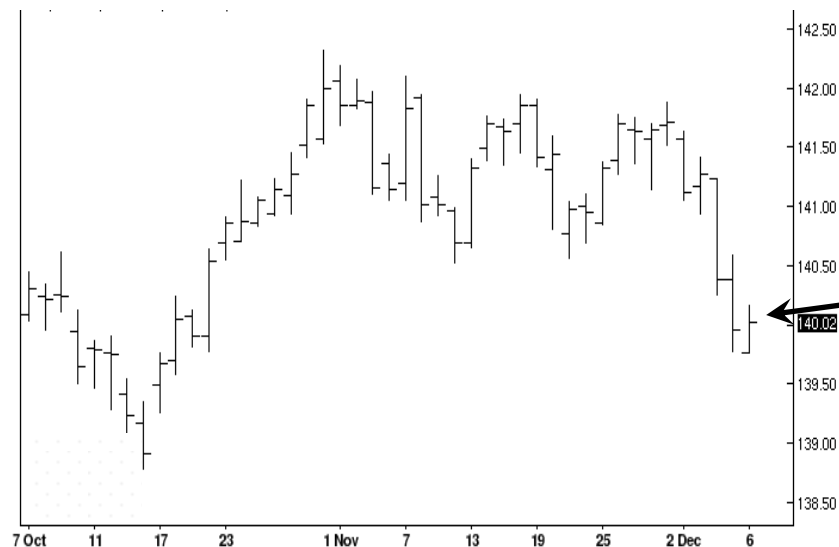
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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were **Bullish** of The Bund.



The Bund was unable to rally on underlying economic weakness, preferring to sell off on the limited good news seen during the week.

The Macro Trader's view of the Bund is: Our expectation for this market was another push higher based on the weakness of the recovery and the ECB's almost exhausted ammunition box.

In the event the market traded through our stop as traders focussed on the limited good news that was available. The main focal point appears to be the better than expected PMI Manufacturing surveys.

But with China publishing encouraging data and the

US too publishing some better than expected reports, especially Q3 GDP and non-farm payroll, Bonds were under pressure.

Looking ahead the main release this week is the German industrial production report, but with factory orders so weak last week, will that report disappoint?

Having been stopped out we are now square.



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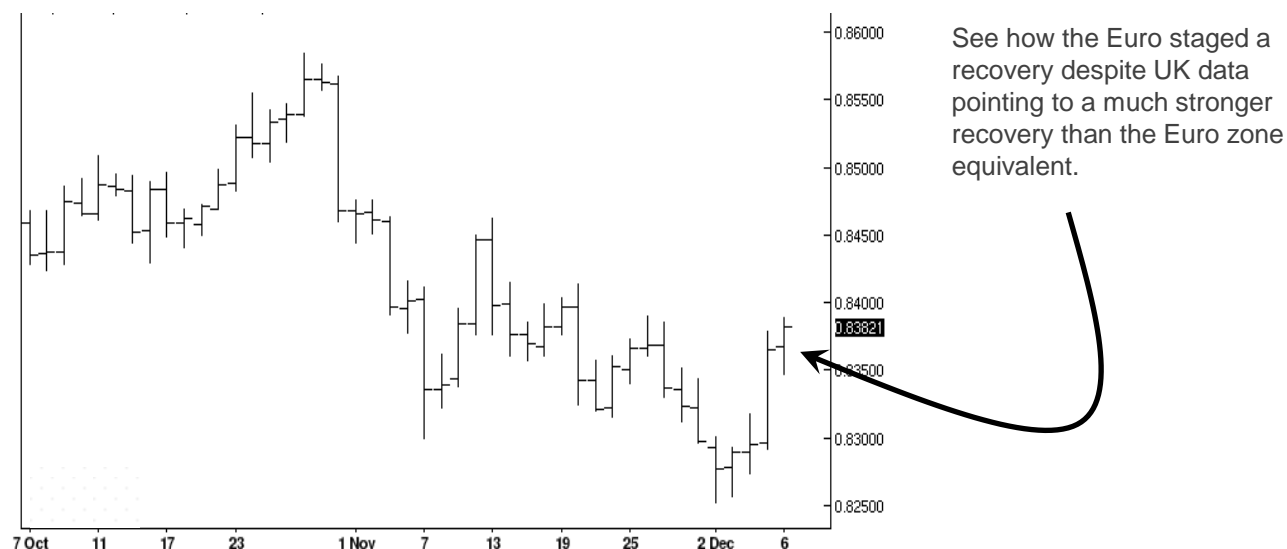
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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: **BEARISH v the POUND**

Last week we were **Bearish v the POUND**



The Macro Trader's view of the Euro; last week's price action was a little disappointing, but we judge the rally as yet another correction.

The UK economic outlook is currently much better than that of the Euro zone. UK GDP is set to accelerate next year to near trend levels where as more weakness and under performance looks likely in the Euro zone economy.

The only negative that can be attributed to Sterling is the Bank of England's insistence that policy remains

on hold even though the path of UK inflation could prove a rocky ride for policy makers.

Looking ahead German industrial production is due, but we remain bullish of Sterling against the Euro.

Traders should remain long Sterling/Short the Euro.

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



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- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

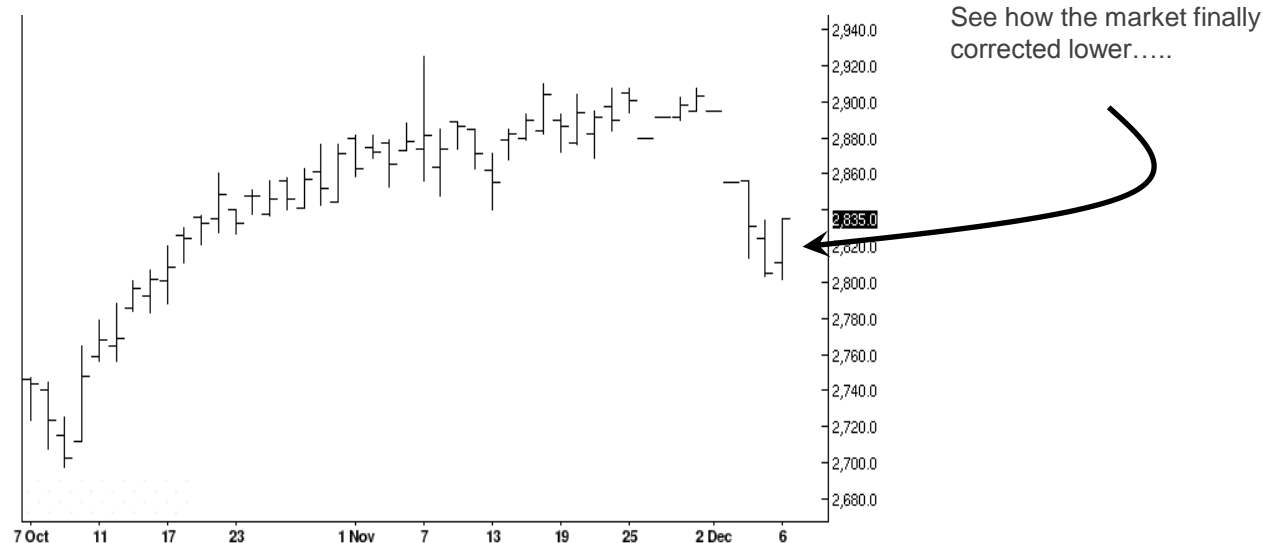
- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: 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:

We have repeatedly said...

...“the run of data coming from the Euro zone still does not in our opinion support a Bullish equity market”...

And finally the correction we expected materialised. The ECB left policy on hold. There was no sign of negative interest rates and apart from a better than

expected clutch of Euro zone PMI Manufacturing surveys, the economic recovery is still weak.

Looking ahead the German and Euro zone Industrial production reports are due this week, but we judge this market will be led as much by international sentiment as domestic data.

We advise staying square here.



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
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+ DJ EURO STOXX 50

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Commodities

+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: economic background

Last week we said...

...“The key release this week is vehicle sales, but it is unlikely to have much impact on markets”...

...“We judge in a week with no heavy weight domestic data, traders will be guided by events abroad; mainly the US and China”...

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; **C/A, Trade data, Q3 GDP, Eco watchers survey and Tertiary industry**

index,

- On Tuesday; **Consumer confidence, machine tool orders and machine orders, and**
- On Friday; **Industrial production and capacity utilisation.**

There are several reports to watch this week; the Q3 GDP report is released and was disappointingly revised lower.

That leaves industrial production due on Friday; Traders will be seeking evidence the economic recovery has picked up.



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Commodities

+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB came under pressure last week as the government announced another large stimulus package.

The Macro Trader's view of the JGB is: the JGB came under pressure last week as the government reacted to what is a rapidly cooling recovery by announcing yet another sizeable stimulus package.

Today Q3 GDP, already weaker than hoped for was revised lower to an annualised rate of just 1.1%, well down on the strength seen in Q1.

Looking ahead the Industrial production report is due

on Friday and traders will be seeking clues on where the recovery is now.

But with inflation easing and GDP cooling this market is supported, but the ever deteriorating debt to GDP ratio will weigh on the market meaning volatility could become more of a feature.

For now we are staying square.



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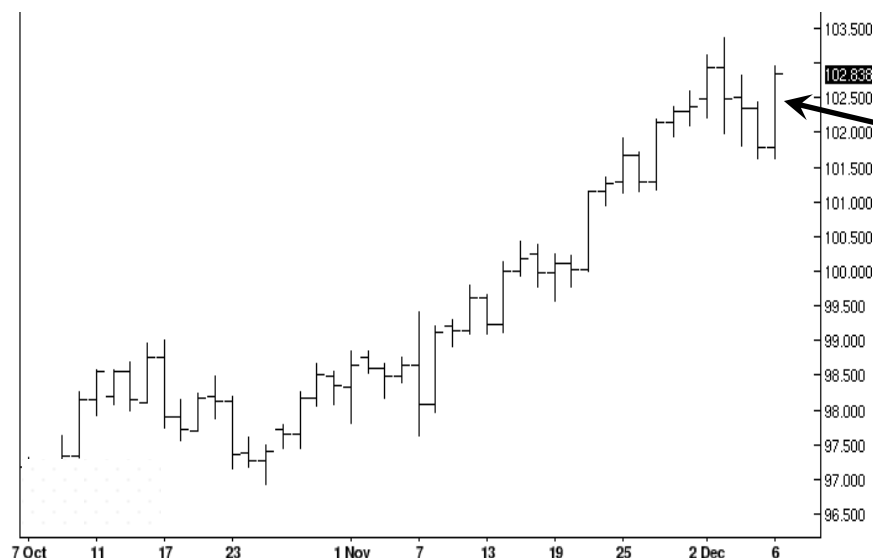
- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen corrected last week even as the Dollar remained under pressure elsewhere.

The Macro Trader's view of the Yen is; the Yen marked time last week, when the run of domestic data argues for more Yen weakness.

But with the Dollar under pressure its self despite better than expected US data releases, the Yen corrected.

Looking ahead the Japanese recovery is looking in doubt after the larger than expected downward revision to Q3 GDP.

So much so that the government announced a US\$182.0B stimulus package; what will it take to get Japan's economy into a self sustaining recovery.

We think the Yen could enter a consolidation phase and advise staying square..



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Commodities

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Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei's price action resembles that of the JGB and Yen!

The Macro Trader's view of the Nikkei is; the Nikkei's price action bore a striking resemblance to that of the JGB and Yen last week!

But with the government announcing yet another massive stimulus package as the economic recovery seems to be cooling, is it a surprise.

Today's release of Q3 GDP data confirmed the recovery is petering out as it was revised down by more than expected to just 1.1%.

Looking ahead industrial production is due, but don't hold your breath.

But with global equities taking some encouragement from a better performance from China, this market might just get a lift from international sentiment.

However that is not good enough to base a trade on so we are staying square.



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Commodities

- + GOLD
- + OIL

Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish** of Gold.



See how gold remains vulnerable to the downside.

The Macro Trader's view of the Gold is: last wee we said...

...“Gold continues to look vulnerable to the down side but is still frustrating the bears”...

...“But the Bulls have nothing to smile about either”....

And last week's price action illustrated those points yet again.

The US economic recovery is tepid/inflation benign.

The Euro zone recovery is weak/inflation benign. The Japanese economic recovery slowing/Inflation benign.

Where then is the sense of crisis? There isn't one just under performance meaning no compulsion to buy gold.

Traders should be short of this market.

Our suggested target remains 1190.0 and our suggested stop continues at 1265.0 for protection.



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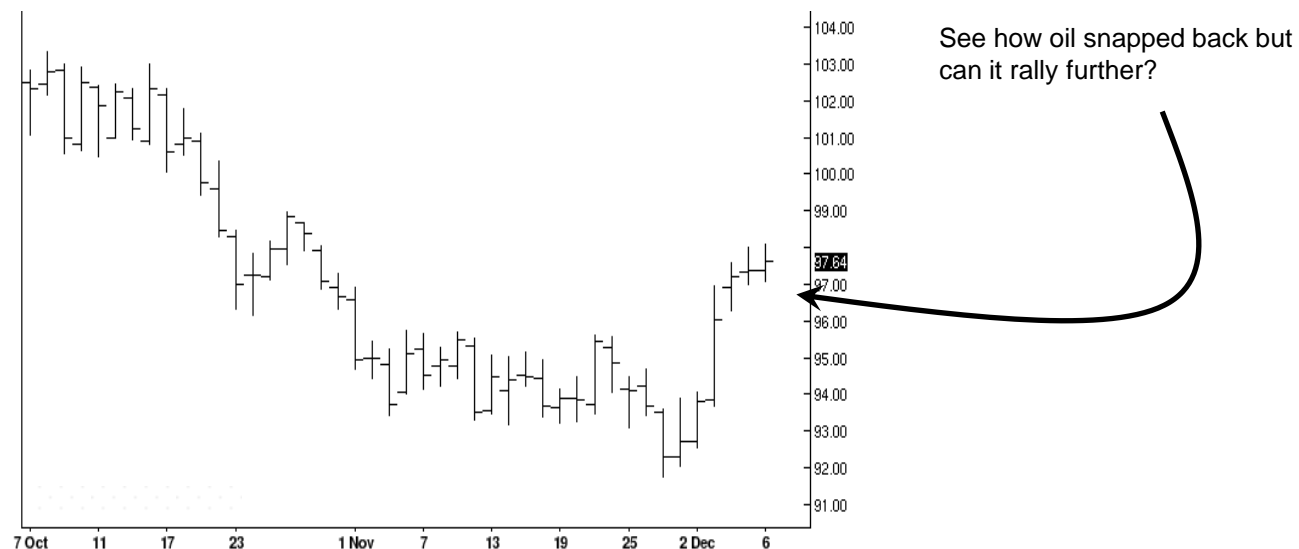
- + GOLD
- + OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were **Bearish** of Oil.



The Macro Trader's view of oil is: Oil has proved to be a frustrating market. With global growth below trend and Iran about to resume some limited imports the outlook for the oil price looked soft, especially when the shale boom in the US is factored in.

But the market has yet again confounded its detractors by staging a strong rally driven in part by better data from both the US and China.

Looking ahead we expect the rally to fail here and oil to

retest the lows.

And although our stop wasn't hit, we have squared up.

The year end/Christmas holidays are fast approaching and markets are traditionally thin at this time, if oil is set for a period of volatility we sense now is a good time to close the book and re-assess.

So for now stay square.



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- + NIKKEI

Commodities

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- + OIL

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