WEEK 21 16th – 22nd May 2006

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS

CONTENTS

SEVEN DAYS AHEAD
Authorized and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7776181843 E-MAIL JLEWIS@SEVEVDAYSAHEAD.COM
WWW.SEVENDAYSAHEAD.CO.UK

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

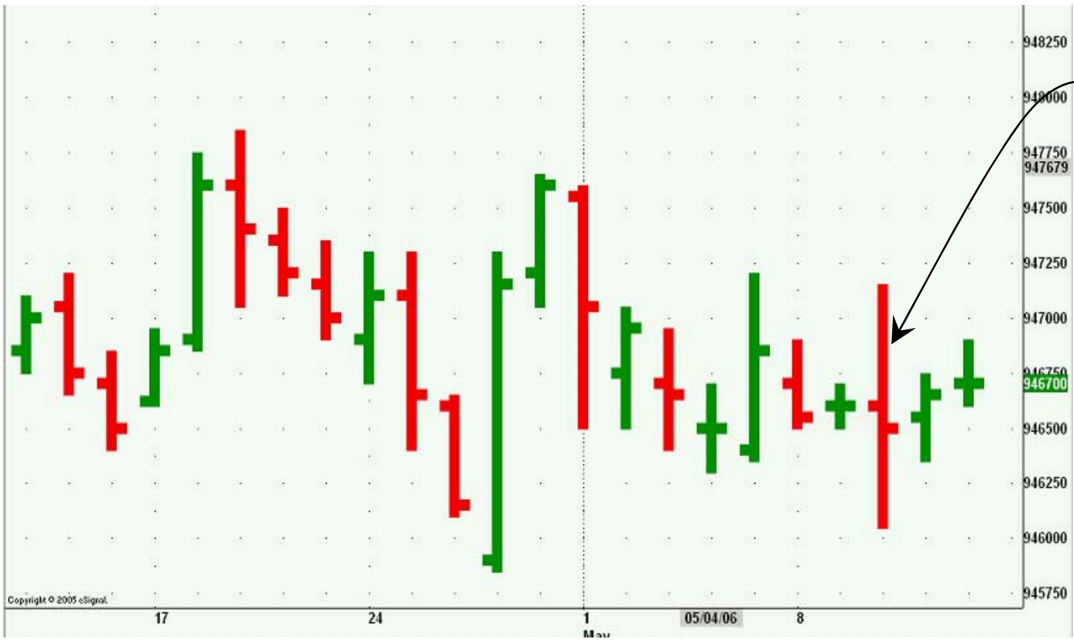
WHAT HAPPENED LAST WEEK?

	Week of 8th May
Monday	
Tuesday	Wholesale inventories 0.2 LESS THAN EXPECTED
Wednesday	Monthly budget S $118.9B BETTER THAN EXPECTED FOMC Rate decision 5.0% HIKE AS EXPECTED, STATEMENT MORE VAGUE THAN EXPECTED
Thursday	Retail sales 0.5 WEAKER Ex-Autos 0.7 WEAKER Business invntry 0.4 AS Jobless claims 324K HIGHER THAN EXPECTED
Friday	Trade Bal -$62.0B BETTER U. of Michigan conf 79.0 WEAKER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 15th May
Monday	Empire Mfg 15.0 Net frgn secs purchased $80.0B
Tuesday	PPI 0.7m, 4.2y Ex-F & E 0.2m, 1.6y Housing strts 1.950M Buldg permits 2.045M Ind production 0.4 Cap Utilization 81.5
Wednesday	CPI 0.5m, 3.5y Ex F & E 0.2m, 2.2y
Thursday	Jobless claims 315K Fed speakers Philly Fed 12.0 Greenspan speaks
Friday	

SEPTEMBER 06 EURO DOLLARS



See how the market swung wildly on Wednesday after the FOMC decision, not knowing quite how to take the Feds policy statement.

[Back to contents](#)

EURO DOLLARS

THE MARKET EXPLAINED

OUR TRADING STANCE: BULLISH.

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

Last week we remained bullish of September 06 as we continued to expect the market to correct higher. Last week's FOMC meeting and policy statement were judged by us as central to assessing the market's future direction.

In the event traders didn't know quite how to interpret the statement and the market swung around wildly.

Our analysis is the Fed has left the door open should they need to hike rates again, but haven't ruled out a pause.

In our view, providing growth and or inflation doesn't accelerate from here we still expect the Fed to pause which we believe will evolve into the end of the current cycle.

Other data released last week was generally supportive of the market:

- Wednesdays budget statement recorded a larger than expected surplus, which should have supported the Dollar, but didn't,
- Thursday's retail sales were weaker than expected, and
- Friday's trade deficit was narrower than expected with the U. of Michigan confidence surprisingly weak.

Looking ahead the market will be closely watching several key data release for further clues on future Fed action, these being:

- On Tuesday; PPI, Industrial production and capacity utilization,
- On Wednesday; CPI, and
- On Thursday; speeches from various Fed members and ex-Chairman Greenspan.

On balance we remain bullish of this market, but like everyone else continue to closely scrutinise incoming data releases.

The Macro Trader's view is: although we said we expected clear direction from the Fed regarding a pause in Wednesday's policy statement, which wasn't forthcoming, they didn't rule one out and did change the wording of the statement concerning future rate hikes.

The introduction of "yet" further signals a pause has moved closer than at the time of the last meeting. We still judge this recent hike to be the last, but understandably they have retained a tightening bias which keeps all their options open.

We continue to advise being long of this market and our target for September 06 Eurodollars remains 94.90 over the coming weeks.

It is never a precise science calling the end of an interest rate cycle, because the Central Bank its self wont even know until the event actually occurs; so nebulous is the "science" of monetary policy.

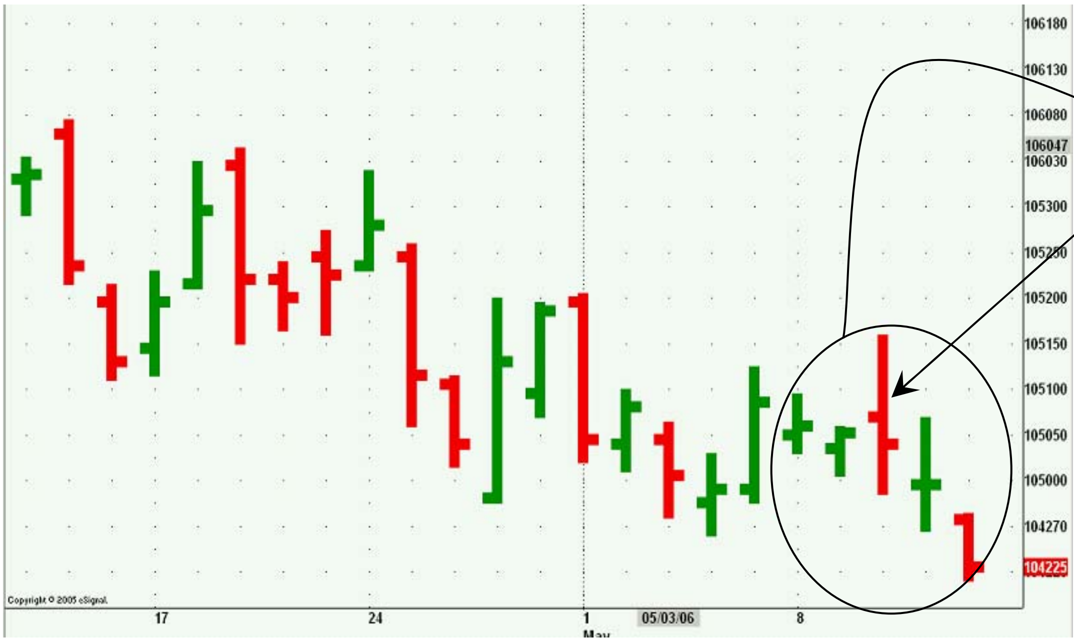
Back to contents

THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the 10yr Note.

US 10yr NOTE JUNE 06



See how the market remained under pressure last week, with an unclear FOMC statement on Wednesday and a worsening geopolitical situation weighing on Bonds.

This week we remain bearish of the 10yr Note.

Last week we remained bearish of the 10year note, as we do this, judging the prospect of a Fed pause would have little impact on this market.

In the event, the vague policy statement helped the market slide further. Even a wider than expected monthly budget surplus and a narrower than forecast trade deficit failed to offer this market any support as traders remained concerned that higher energy prices may yet lead to higher inflation.

The crisis with Iran over its nuclear ambitions continued to grow last week as a letter sent to US President Bush by the Iranian President was judged as offering nothing upon which to base negotiations and was rejected by the US. This brought to an end a brief profit taking correction in the Oil market which sent bonds lower.

Further threats from Iran concerning Israel's continued existence and a complete failure by the UN 5 to reach any agreement on how to deal with Iran, left bonds and stocks very vulnerable to the down side.

Looking a head, traders will watch this week's PPI and CPI for any hint inflation may be worsening and listen attentively to the many Fed officials speaking this week.

The Macro Trader's view is: we remain bearish of this market and continue to expect the uncertainty and negativity generated by the ongoing Iran crisis to weigh on all bond markets.

As traders remain uncertain of the eventual outcome of the Iran crisis, they will continue to sell bonds.

Last week's interim target of 104.22 was hit and we continue to expect the lows made in early 2002 to eventually be revisited. Stops should be adjusted lower to protect profits and we suggest 105.13.

Back to contents

THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART

See how the Dollar continued to weaken even after the release on Wednesday of a larger than expected budget surplus and a narrower than expected trade deficit on Friday.

DOLLAR/YEN CHART

See how the Yen continued to appreciate against the Dollar as traders looked for alternatives to the US Dollar. The Yen remains supported by an improving economy and expectations for higher Japanese rates.

This week we remain bearish of the Dollar.

Last week we were bearish of the Dollar against all of the major currencies and it again traded through the interim targets we highlighted.

This week we continue to expect further bearish price action as traders continue the necessary downward adjustment of the Dollar against the other major currencies.

However after such a large move we suggest traders consider halving their positions in order to lock in profit.

Last week's data in normal circumstances should have offered the Dollar support:

- Wednesday's vague policy statement from the Fed and larger than expected monthly budget surplus, plus

- Friday's narrower than expected trade deficit were all Dollar positive.

The exception was:

- Thursday's weaker than expected retail sales, and
- Friday's sub-consensus University of Michigan confidence survey.

Looking ahead there are several key reports this week:

- PPI, Industrial production and capacity utilization on Tuesday,
- CPI on Wednesday, and
- On Thursday a whole group of Fed members speak together with ex-Fed Chairman Alan Greenspan.

In reality though, the Dollar is now clearly on a downward trend and any Dollar rally should be viewed as a selling opportunity.

The Macro Trader's view is: the Dollar has now fallen a long way over a relatively short period of time. This has been on the combination of expectations for a Fed pause; now diluted, but still expected by us, and the need for a weaker Dollar to correct the massive trade deficit.

As the Fed were less than clear last week and the twin deficits enjoyed a period of improvement, traders will likely book some profits which we think is right.

However, the deficits are still too large and the Fed didn't rule out a pause. We judge data will re-ignite the markets expectation of a pause and the Dollar will fall further.

Traders, as said, should halve their positions and raise stops. We suggest:

- For Cable a stop at 1.8650 on the remaining position,
- For Dollar/Euro a stop of 1.2700, and
- Dollar/Yen a stop at 112.60.

These are designed to protect profits and traders should be prepared for a **brief period** of consolidation this week.

Back to contents

S&P 500

OUR TRADING STANCE: SQUARE.

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

S&P 500 JUNE 06

See how the market sold off after the Feds policy statement failed to deliver a clear signal on a rate pause and foreign oil workers were kidnapped in Nigeria.

This week we are square of the S&P 500.

Last week we remained bullish of this market as we judged the combination of strong corporate earnings and the prospect of a Fed pause would lead the market higher.

In the event traders were un-nerved by the Feds less than clear policy statement released by the FOMC on Wednesday. In it they said further tightening may **yet** be needed.

Although the wording was milder than in previous statements, there was no clear intent to pause. Initially markets generally took the statement negatively before interest rate markets recovered.

Stocks failed to recover as the combination of **maybe** more rate hikes and a rebound in the Oil market driven by:

- foreign Oil workers kidnapped in Nigeria,
- US President Bush rejecting a letter sent by the President of Iran,
- More threats made by Iran against Israel, and
- Israel's warning that any attack from Iran would cause Iran's own destruction(a veiled threat of nuclear retaliation),

…had traders worrying about the impact of sky high Oil and commodity prices on inflation and the implications for global interest rates.

Looking a head we see stocks remaining volatile, as we have warned over recent weeks. Stock markets hate uncertainty and with the current crisis with Iran far from resolution, indeed more likely to worsen further, traders will remain nervous of holding positions in this market.

The Macro Trader's view is: after last week's steep fall, driven by factors already discussed, we are now square after the market traded through our stop at 1308.00.

Until Iran is resolved and the Fed shows its hand, volatility will reign; these are very difficult conditions for traders.

Back to contents

UK MARKETS

SHORT STERLING

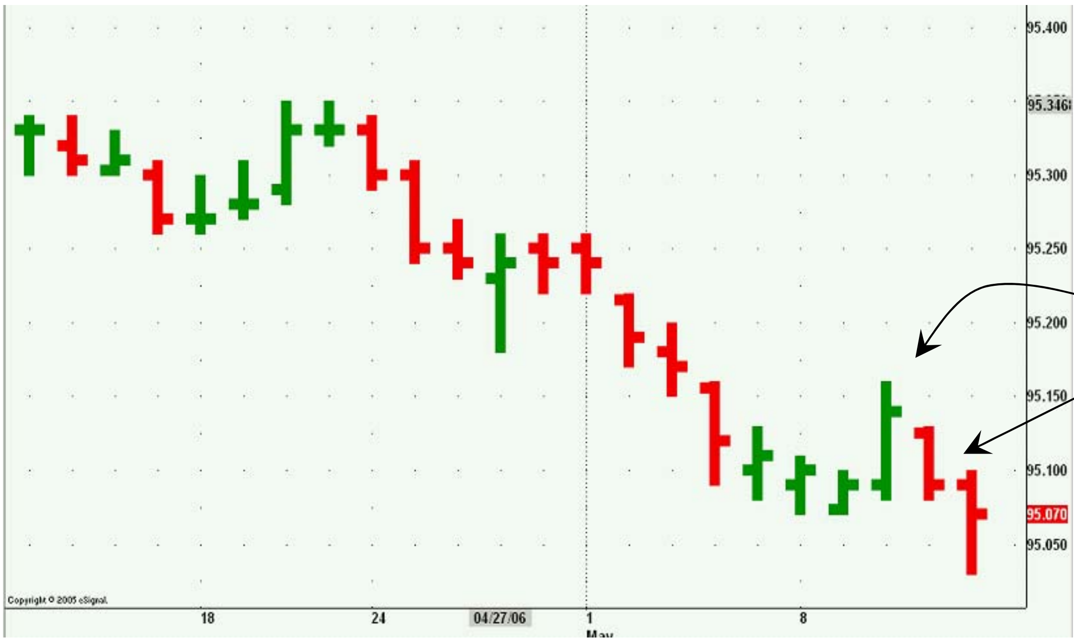
WHAT HAPPENED LAST WEEK?

	Week of 8th May
Monday	PPI input 2.5m, 15.7y WORSE PPI Output 0.6m, 2.4y WORSE PPI Core 0.4m, 2.3y WORSE BRC Retail sales 9.8 STRONGER THAN EXPECTED
Tuesday	
Wednesday	Trade Bal -5.46B BETTER Non-EU -2.6B BETTER B of E Qrtly infltn report HAWKISH THAN EXPECTED
Thursday	Ind prod 0.7m, -0.7y STRONGER Mfg output 0.7m, 0.7y STRONGER NIESR GDP estimate 0.6 AS THAN EXPECTED
Friday	

WHATS HAPPENING THIS WEEK?

	Week of 15th May
Monday	ODPM Hse prces 4.0y RICS House price bal 14.0
Tuesday	CPI 0.6m, 2.0y Core 1.3y RPI 0.7m, 2.5y RPI-X 2.3y
Wednesday	B of E MPC Minutes 7/1 Unempoym't 3.0% Change 7.3K Avge earngs 4.4 Ex-bonus 3.9
Thursday	Retail sales 0.5m, 2.6y
Friday	PSNCR -0.7B PSNB 0.6B M4 Strlg lndg 16.0B

SEPTEMBER 06 SHORT STERLING



See how the market bounced after the release of better than expected trade data and a less hawkish than expected inflation report on Wednesday, but Thursday's stronger than expected manufacturing output and industrial production data, sent the market to fresh lows.

Back to contents

SHORT STERLING

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we maintained our square position as we held to our analysis that UK interest rates remain firmly on hold over the medium term.

And again, last week's data releases further supported that view:

- Monday's PPI data was uniformly worse than expected and the BRC'S retail sales monitor was stronger than expected,
- Wednesday's trade data for March was much better than expected and will reduce the drag on GDP, and
- Thursday's Industrial production and manufacturing out put were also stronger than expected, showing a recover in a sector of the economy that accounts for 20% of GDP.

But as we said last week, the main event was the Bank of England quarterly inflation report. Based on current market assumptions for interest rates, the Bank's central projection for growth was around trend and for inflation; above target near term due to energy prices, before dropping back to target over the remainder of the forecast period.

The market rallied on this news, albeit briefly, as the reports tone was less hawkish than expected, as traders had increasingly convinced themselves that interest rates are about to enter a new upward cycle.

Our view remains that although we no longer expect any further interest rate cuts, we think rates will remain on hold a little while longer.

The Bank its self noted that although the risks to their forecasts are broadly balanced, there are a whole array of events that could upset their scenario in either direction. Not least among these is the possibility of even higher energy prices.

While the Bank is concerned that if this occurred inflation could spike, they were also aware that consumers may rein back their spending which would slow growth to below their forecast.

Looking ahead there is a whole raft of key releases this week; the Bank has indicated it expects CPI to move above target and that retail sales should be supported by the recent rally in the stock market and further signs of strength in housing, but traders will be watching Wednesday's MPC minutes very closely for any shift in the recent voting pattern.

The Macro Trader's view is: the Bank has further distanced its self and moved the market, away from expecting any more rate cuts.

With its latest outlook for growth and inflation, it has laid the ground work for future interest rate increases if growth should turn out stronger, and or inflation moves higher than currently expected.

But on balance we expect rates to be held over the next few months as the MPC gauges the impact on demand from a prolonged period of Oil at US$70.00 + or worse, if as we expect, US$80.00 a barrel and rising.

We still judge the market as over sold but note market sentiment supports the current trend. For now we remain sidelined and advise others to do likewise.

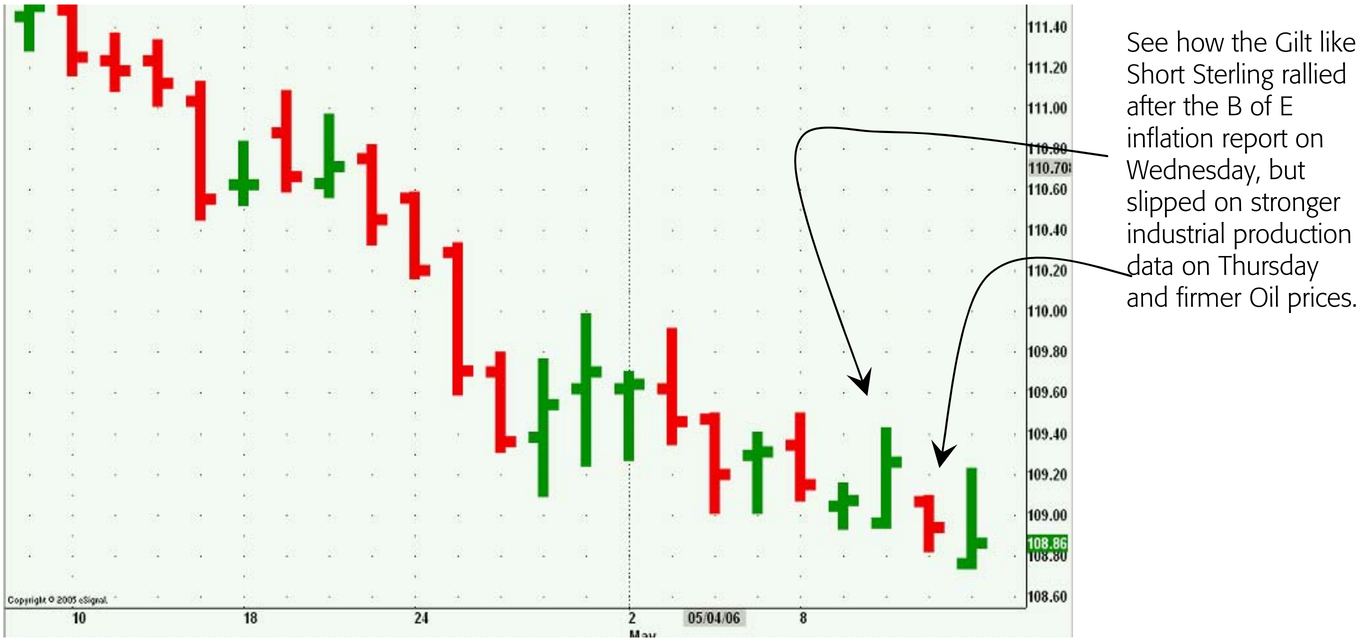
Back to contents

THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.

GILT JUNE 06



This week we remain bearish of the Gilt.

Last week we remained bearish of the Gilt and the market traded lower on stronger data and the perception, re-enforced by Wednesday's B of E inflation report that the next move in UK rates will be UP.

The market was also undermined by bearish sentiment in international Bond markets with the US 10yr note and Euro Bund both under pressure.

The current political uncertainty surrounding Tony Blair's Government and when he will make way for his Chancellor also weighed on the market, with more opinion polls giving the Conservatives a clear lead over Labour.

Further more the ongoing tension generated by Iran and its nuclear program cut short a brief retracement in the Oil market and once again had traders fretting over the out look for inflation and the likely response from the MPC.

Back to contents

Looking ahead we remain bearish and view this week's MPC minutes as the key event for the market. We suspect the committee held to the recent voting pattern, but if someone did break and vote for a hike the market would move lower.

The Macro Trader's view is: we judge the Gilt like other Government Bond markets, to be vulnerable to further bearish price action.

The current spell of solid growth together with ever louder calls from within Blair's own party for him to quit, together with uncertainty generated by the Iran crisis will lead this market lower.

Our interim target of 109.00 was hit with our medium term target of 108.50 now in range. Traders should remain short and bring their stops closer, to 109.60.

THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART

THE STERLING/EURO CHART

This week we remain bullish of Sterling.

Last week we remained long of Cable expecting the Pound to find support from the B of E inflation report and benefit from the FOMC policy statement both released on Wednesday.

In the event the inflation report wasn't as bearish as some had thought, but it did lay the ground work for higher rates if growth proved stronger than forecast and if inflation turned out worse than expect on the back of high energy costs.

The FOMC statement was initially more helpful to the Dollar as the statement failed to give clear guidance on a pause. However it didn't rule one out and the subtle change to the wording was later interpreted as no more than keeping all of the Feds policy options open; just in case!

On balance we still regard a US rate pause as very much on the cards and a UK rate hike a remote possibility.

But the market has moved on and the Dollar continued to weaken, even though the US released some Dollar supportive data last week:

- the US budget deficit posted a larger surplus than expected, and
- The US trade deficit was less than expected.

But with sentiment now set towards a Fed pause and the need for further significant improvement to both US deficits the Dollar looks set to weaken further. Added to this, last week's UK data was stronger than expected

Looking ahead, we judge this week's data will be supportive for the Pound. We don't expect any major surprises from the data and think most of this week's excitement will emanate from Wednesday's MPC minutes.

The Macro Trader's view is: the Pound has enjoyed a strong rally against the Dollar and strengthened against the Euro and we expect that to continue.

Last week's target of 1.8800 was met and 1.9000 almost traded. Our longer term target of 1.9300 has come into view a little swifter than we assumed, but we judge the rally should continue; even if the pace slows.

Traders should think about halving their positions to lock in some profit, but keep a core position. **Stops should be raised to 1.8650** to protect the other half.

Since advising a long position the market has rallied around **11 big figures**; that is a great move to catch and some of it should be booked, as we have done.

While we expect the rally to go further, it has extended so far over a relatively short period to make it vulnerable to profit taking.
So a degree of caution is now advisable.

Back to contents

FTSE 100

OUR TRADING STANCE: BEARISH.

Last week we were square of the FTSE 100.

FTSE 100 JUNE 06

This week we are bearish of the FTSE 100.

Last week we were square of this market as we judged it would be influenced by the ever growing uncertainty emanating from the crisis with Iran and we retain that view this week but are now bearish of the market.

As the UN Security Council powers failed to find a form of words which would satisfy all positions, Iran remained defiant and traders bailed out of the market.

The market was further un-nerved by the Feds less than clear endorsement of a pause and the Bank of England's moves to cut any further hope of another rate cut this year.

The brief correction in the Oil market earlier in the week, lent the market some support, but when Oil rallied on more bellicose statements from Iran, with their president making further threats to Israel and its continued existence, the market together with other key stock markets, sold off heavily.

The Macro Trader's view is: although data was again supportive of the view trend growth could continue this year and next, PPI inflation was much higher and the Bank sounded as though it sees higher rates on the horizon, driven by higher energy costs.

This left the market, for once, unable to rally on higher oil prices. The usual formula of higher oil prices means higher profits for the Oil majors, failed to hold and the market suffered a steep sell off as tension with Iran over its nuclear program continues to build.

We advised in previous reports the market was likely to become more volatile and that has occurred.

For now we advise index traders to seek selling opportunities in this market, but run a stop which we currently suggest should be 5950.0 after today's further sell off.

Back to contents

EURO 12 MARKETS

EURIBOR

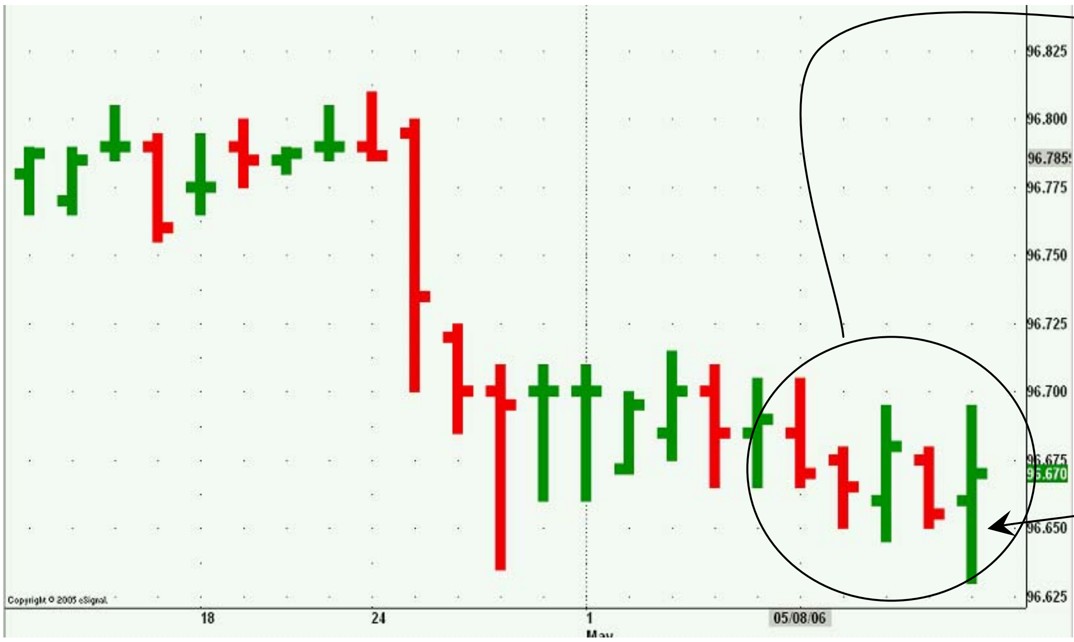
WHAT HAPPENED LAST WEEK?

	Week of 8th May
Monday	DM Factory orders 15.0m, STRONGER THAN EXPECTED
Tuesday	DM Ind prod -2.4m, WEAKER THAN EXPECTED
Wednesday	DM Trade bal 14.3B STRONGER DM C/A 9.0B LESS FR Ind prod 1.6m, STRONGER FR Mfg 1.6m, STRONGER THAN EXPECTED
Thursday	DM GDP nsa 0.4q, 2.9y BETTER IT Ind prod -0.1m, 6.8y BETTER IT GDP 0.6q, 1.5y BETTER EU12 GDP 0.6q, 2.0y AS
Friday	DM CPI 0.4m, 2.0y AS FR CPI 0.4m, 1.7y AS FR Trade bal -1.957B BETTER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 15th May
Monday	
Tuesday	IT CPI 0.3m, 2.2y DM ZEW 60.0 EU12 ZEW 55.5
Wednesday	EU12 CPI 0.6m, 2.4y EU12 Ind prod -0.3m, 3.1y FR Non-farm payrolls 0.1q
Thursday	IT Trade bal -1.765B IT Trade bal EU 0.220B
Friday	DM PPI 0.7m, 5.8y FR C/A -3.600B FR GDP 0.6q, 1.8y IT Cons conf 106.2 IT Ind orders -0.8 IT Ind sales 0.2

SEPTEMBER 06 EURIBOR



See how Euribor declined over the week but rejected the lows made on Friday.

[Back to contents](#)

EURIBOR

THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

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

Last week we remained bearish of September 06 expecting the week's data releases to remain supportive of the bear case, and again it did.

All of last week's key releases showed the Euro zone economy continues to expand with data releases above consensus:

- On Monday German factory orders,
- On Tuesday German Industrial production,
- On Wednesday French Industrial production and manufacturing output,
- On Thursday GDP reports from Germany, Italy and the EU 12, and
- On Friday CPI from Germany and France were as expected.

Added to this, ECB officials continued to echo Trichet's words from last week, that the ECB is exercising extreme vigilance of inflation.

With not only Oil prices clinging to elevated levels but most key commodity markets also recently making multi year highs, policy makers are extremely nervous of higher inflation and their rhetoric suggest they will tighten policy again in **June.**

Looking ahead the market will focus on two events this week:

- Tuesday's release of the German ZEW survey, and
- Wednesday's release of the Euro zones CPI data.

The ZEW report has been weaker lately, even though the IFO report has made new highs. Any rebound in this series will send this market lower, as will any deterioration to the CPI data.

The Macro Trader's view is: although the market has briefly revisited the recent lows, it seems content to mark time. This may be because the Euro has enjoyed an exceptionally strong rally against the Dollar which will, to an extent, mitigate the higher Oil and other commodity costs soon to be passed on to manufactures.

However, a strong currency will not mask these increased costs for long and should the Dollar enjoy a short covering rally, traders will fret that the full impact of the higher commodity prices will be noticed in Euro zone inflation.

We continue to advise traders to remain short of this market, our interim target remains 96.60 and we repeat last week's stop at 96.80.

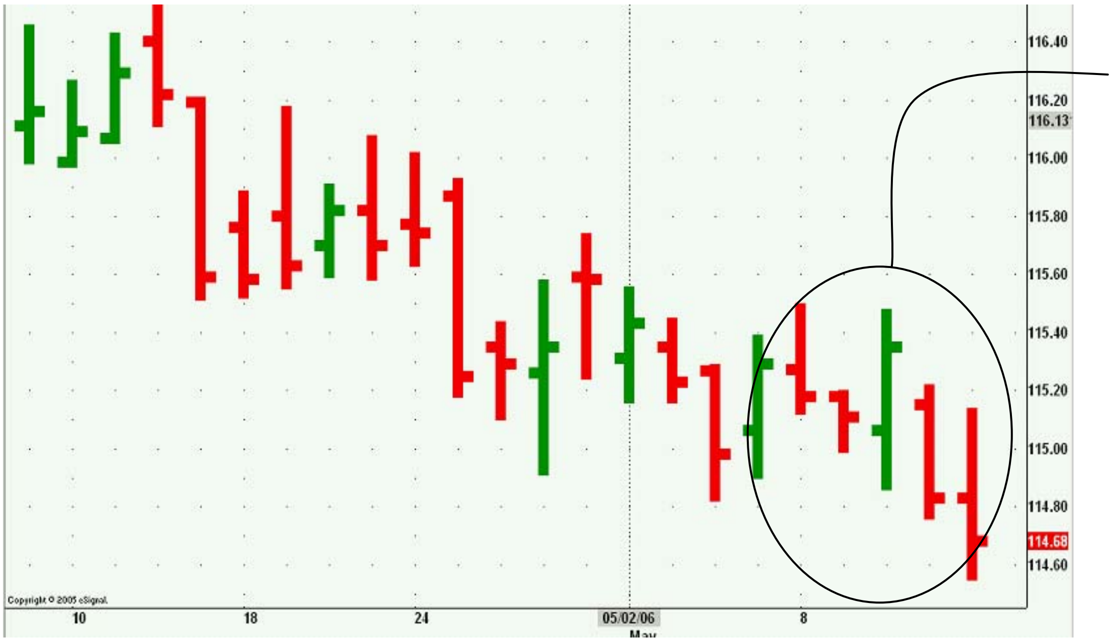
Back to contents

THE BUND

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the bund.

THE BUND JUNE 06



See how the Bund made fresh lows last week as the world's commodity markets continue to enjoy strong rallies which together with high oil prices threatens to unleash a new round of inflation. Also strong data releases kept the market under pressure.

This week we remain bearish of the Bund.

Last week we stayed short of the Bund and keep that position going into this week. The market traded closer to our longer term target of 114.00 as most of last week's Euro zone data releases were stronger than consensus.

Additionally the market had expected clearer guidance from the Fed over the much discussed pause, but failed to get it. The policy statement was vague and mentioned further tightening may yet be needed.

On balance the fed is unwilling to box its self in. The statement issued keeps all of its options open and while it retained a tightening bias it didn't rule out a pause.

They will be guided, as ever by incoming data, which if it eases as they expect, will allow them to pause.

Back to contents

Looking ahead this week sees more key releases, and traders will focus on Tuesday's German ZEW report and Wednesday's EU12 inflation data.

The other major driving force in this market is the rally in world commodity markets, including Oil.

While the Oil rally has grabbed most of the attention other key commodities are also at multi year highs and this too threatens higher inflation.

The Macro Trader's view is: Euro zone data was again strong last week and commodities threaten higher inflation. The ECB continues to poor out a stream of anti inflation rhetoric and the Iran crisis continues to deepen, in this environment traders should remain short.

Our target remains 114.00, but we are suggesting a closer stop at 115.50 to protect profits.

THE EURO

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro.

EURO/YEN CHART

See how the Euro and Yen regained some ground against the Euro as both currencies enjoy a strong rally against the Dollar with European and Japanese domestic data vying for attention.

THE EURO/DOLLAR CHART

See how the Euro continued its powerful rally against the Dollar last week, supported by strong Euro zone data.

This week we remain bullish of the Euro.

Last week we were bullish of the Euro as the recent rally moved powerfully through our interim target of 1.2900. This week we remain bullish although we expect a brief correction after the Dollar has weakened so far.

Last week's move was supported by above consensus Euro zone data and by further rhetoric from the ECB concerning the need for extreme vigilance of inflation.

The markets disappointment that the Fed was unable to openly hint at a pause in their policy statement should have supported the Dollar, but didn't. The wording they used didn't rule a pause out but neither did it rule out the possibility of another rate hike.

Additionally, other US data was stronger than expected:

- Wednesdays larger than expected monthly budget surplus, and
- Friday's narrower than expected trade deficit,

But traders continued to sell Dollars in the belief that a significant correction is needed to correct what remains, a very large trade deficit. Also technical indicators added weight to the rally as pent up energy caused by the long period of range trading continued to hit the market.

Looking ahead we expect the market to briefly correct. Traders will be watching both this week's Euro zone and US data releases and with so many US Fed officials speaking this week, a spell of profit taking seems logical.

The Macro Trader's view is: last week's target of 1.2900 was taken out and we now advise traders to halve their positions and lock in some profit.

The rally over the last few weeks has been very dynamic, but it would be unusual if, after such a powerful move, the market didn't correct on profit taking.

We advise traders to remain long, but bring stops much closer to protect profits. We suggest in Dollar/Euro 1.2700.

However, ultimately any Dollar rally is another selling opportunity and traders should be ready to pounce, when the correction currently occurring in the market has run its course.

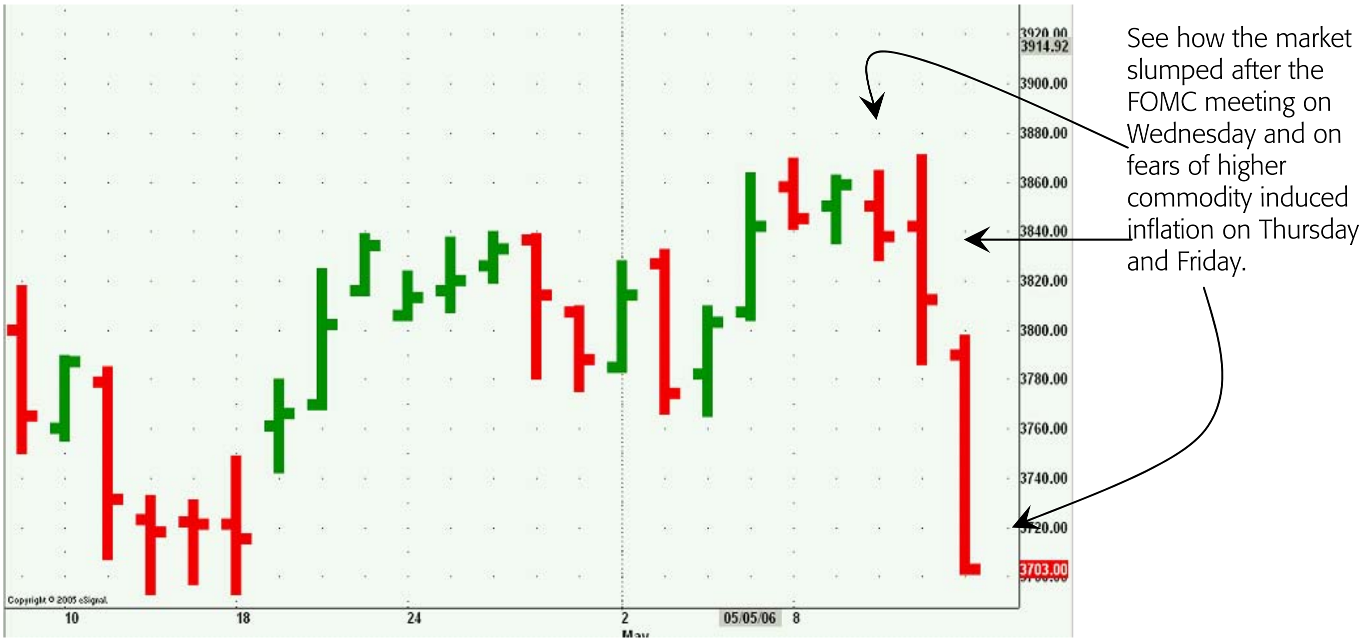
Back to contents

DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ EURO STOXX 50.

DJ EURO STOXX 50 JUNE 06



This week we remain square of the DJ EURO STOXX 50.

Last week we were square of this market as we judged it remained vulnerable and hold that view this week after the market sold off heavily at the end of last week.

Traders became un-nerved when the Fed failed to openly endorse the market expectation of a pause. This coupled with strong rallies in all the key commodity markets and a brief rally in Oil had traders worrying about higher inflation and its impact on global interest rates.

Although US fuel supplies recorded an increase last week, the Oil market bounced after the US rejected a letter from Iran offering to negotiate. The US said it offered nothing new and was little more than religious waffle.

International tension continued to build as the UN 5 failed to agree over a course of action towards Iran and more threatening remarks from the Iranian President concerning Israel's future existence.

The uncertainty generated by these factors was behind last week's sell off.

Looking ahead, we see no break in the current sentiment gripping this market and although a spell of profit taking has hit commodity markets, we view it as only a brief correction, holding the potential for further declines in stock markets.

The Macro Trader's view is: the combination of the crisis with Iran and sky high commodity prices has hit confidence in this market.

Some analysts had predicted a market correction, we warned of increased volatility. For now we advise standing aside, although this maybe as far as the sell off goes, the market has traded sideways for a long time, if it now breaks to the down side it could move a long way.

Back to contents

COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were bullish of gold.

THE GOLD CHART

See how Gold rallied powerfully as the Dollar sold off against all the major currencies.

This week we are square of Gold.

Last week we remained long of Gold as the crisis with Iran continued to boil, keeping Oil prices close to the highs and investors buying Gold as a hedge against future inflation and uncertainty.

The rally extended to US$730.00 an ounce at one stage last week, driven by the powerful sell off afflicting the Dollar against the world's major currencies.

This together with a further deepening of the crisis with Iran and the kidnap of foreign oil workers in Nigeria gave Gold a further boost.

The Iranian President gave the market a further leg up when he remarket that "**one day Israel will vanish**". This provoked a thinly veiled response from Israel that any Iranian attack would result in Iran's own destruction; obviously hinting at Israeli nuclear retaliation, which was underlined when Israel said that "**an Iran nuclear bomb would result in a Middle East nuclear arms race**".

However with all rallies of this type, a sudden bout of profit taking is never far away and we closed our position today at US$710.00 an ounce, as we felt the market would **struggle for the time being to push on much further**.

Looking ahead while the crisis with Iran remains un- resolved we remain long term bulls of this market and will watch for an opportunity to re-establish a long position.

The Macro Trader's view is: with the Dollar now embarked on a major bear trend, which is now **briefly correcting** and the Iran question far from being resolved, we remain long term bulls of this market.

We continue to expect Gold to reach its previous all time high, but given the nature of the recent rally, we felt it right to book profits. A move in excess of US$100.00 an ounce in our favour had to be booked.

We advise traders to do likewise or run a close stop. But medium/long term we see this market moving higher and look for fresh buying opportunities.

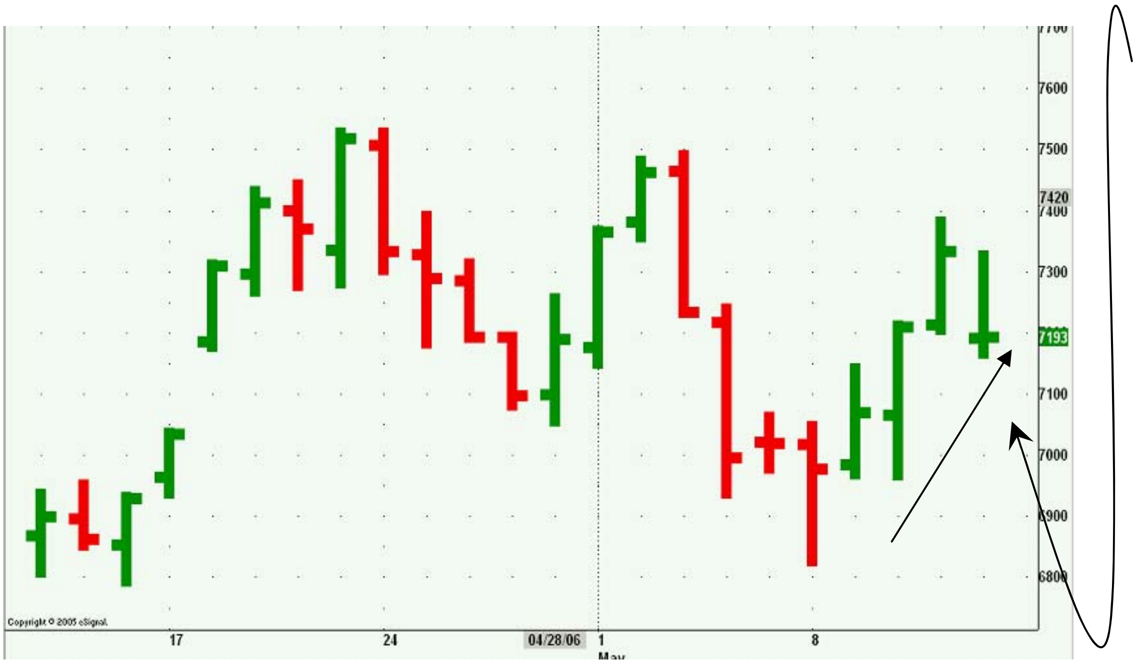
Back to contents

OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART



See how Oil rallied on news of kidnappings in Nigeria and more threatening rhetoric from Iran.

This week we remain square of oil.

Last week we were square of Oil after being stopped out the previous week. Although we remain long term bulls and the market did briefly rally last week, we didn't re-enter, awaiting either lower levels or the recent high to be passed. Since neither of these happened we remain square.

The market made an attempt to go higher when Bush rejected the letter from Iran's President, more bellicose rhetoric from Iran threatening Israel, further supported the market as did the kidnapping in Nigeria of foreign Oil workers.

But with US energy inventories increasing further last week and the IEA revising down its estimate for the growth of world demand for oil, the rally eased back.

Looking ahead we remain medium/long term bulls of this market, but for now remain sidelined as it continues to correct. But with the Iran crisis far from being resolved and the UN permanent 5 unable to agree on how to tackle Iran, we expect the Oil price to eventually hit US$80.00 a barrel.

The EU3 are currently formulating a proposal to put to Iran, and until it is revealed and Iran's response known, the market will likely mark time.

The Macro Trader's view is: we remain long term bulls of this market and expect to see US$80.00 a barrel leading to US$100.00 a barrel over the course of the summer **if this crisis remains unresolved**.

Although traders using our previous stop will now be out of the market they should look for fresh buying opportunities as we judge the market to be in a short term consolidation phase.

However we judge the exercising of patience right now will likely save losses and lead to fresh profits later.

Back to contents