WEEK 23 30th May – 5th June 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

This information memorandum has been prepared solely for informational purposes for customers of SevendaysAhead and is based on publicly available information from sources believed to be reliable. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. No representation is made as to the completeness or accuracy of any statements or forecasts contained herein and no responsibility or liability is accepted for losses arising from transactions undertaken or investments purchased, sold or held on its recommendation. Consequently, any persons acting on information contained herein do so entirely at their own risk. Although the opinions contained herein were considered valid at the time of release, financial markets are subject to rapid and unexpected movements. SevenDaysAhead, its associated companies, their directors, employees, other customers or connected persons may from time to time undertake transactions or deal in investments mentioned in this information memorandum or have a material interest, relationship or arrangement in relation to them.

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

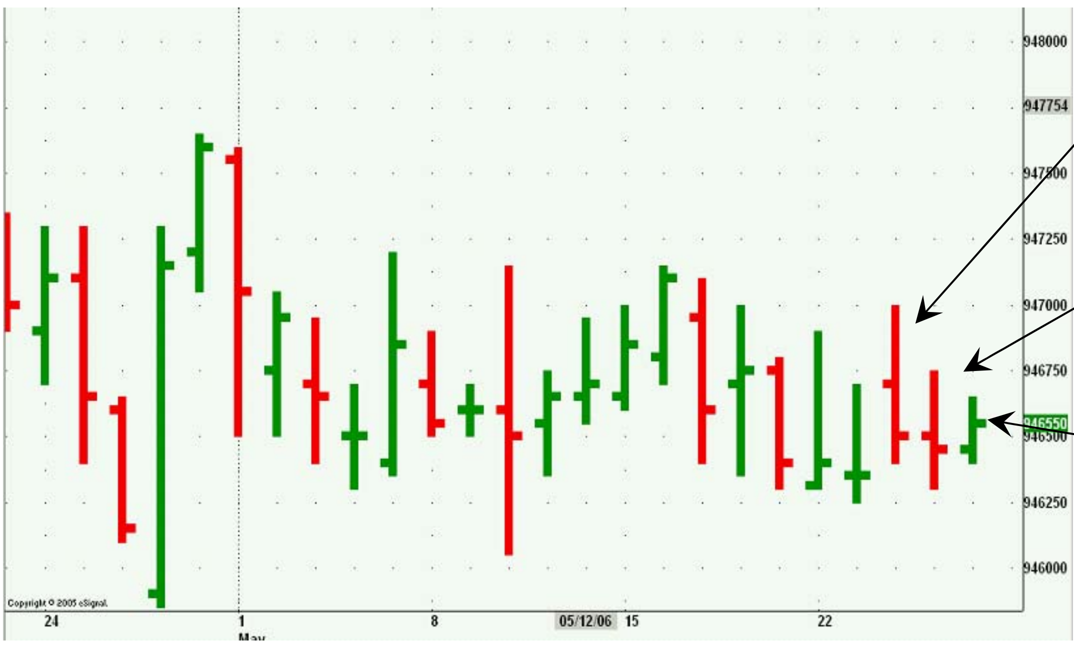
WHAT HAPPENED LAST WEEK?

	Week of 22nd May
Monday	
Tuesday	
Wednesday	Durable goods -4.8% WEAKER Ex-transport -1.1 WEAKER New home sales 1.20M STRONGER THAN EXPECTED
Thursday	GDP Q1 2 5.3q LESS Core PCE q/q 2.0% AS Jobless claims 329K STRONGER THAN EXPECTED
Friday	Persnl income 0.5 LESS Persnl Spending 0.6 AS PCE Core 0.2m, 2.1y AS U. of Michigan conf 79.1 LOWER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 28th May
Monday	
Tuesday	Cons conf 100.0
Wednesday	Chicago PMI 56.2 Minutes of May 10 FOMC
Thursday	Non-farm prod Q1 F 4.2 Unit labour costs Q1 F 1.9 Jobless claims 320K ISM Mfg 55.7 ISM Prices paid 74.3
Friday	Non-farm payroll 170K Unemploym't rate 4.7 Avge hrly earngs 0.3m Avge wkly hrs 33.8 Factory orders -1.5

SEPTEMBER 06 EURO DOLLARS



See how the market tried to bounce on Wednesday after weak durable goods, but reversed later on stronger new home sales, then on Thursday the market remained directionless after a sub-consensus Q1 GDP report. Friday wasn't much better even though data was soft.

Back to contents

EURO DOLLARS

THE MARKET EXPLAINED

OUR TRADING STANCE: BULLISH.

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

Last week we were square of this market after some firmer data the previous week led the market lower.

We cautioned traders to watch last week's data carefully since the Fed would feel a pause was impossible if data continued to be uniformly strong.

Our concerns for last week focussed on:

- Wednesday's new home sale; these were stronger, but durable goods released earlier in the day were much weaker than expected, driven by a drop in aircraft orders,
- On Thursday, Q1 GDP was indeed revised higher, but by much less than expected, so although growth was indeed strong at 5.3%, traders were positioned for a larger increase,
- Our other key data for the week; personal income and spending, also failed to roar, Personal income was below consensus and spending was in line.

The net result of all this data was to re-introduce the pause story to market chatter, after it had been almost completely discounted.

Looking ahead this week sees a whole raft of data releases, of which three are of particular interest:

- Wednesday sees the release of the May 10 FOMC minutes; it was that meeting's policy statement that turned sentiment against a pause, so the full account of what was said will be crucial to the market,
- The ISM Manufacturing report out on Thursday is also a key piece of data and will be closely watched by traders, then
- On Friday non-farm payroll; last month this was much softer than consensus, it is a very difficult number to predict, but if it were sub-consensus again, the Fed would have plenty to discuss at their June meeting.

We think the argument over a pause is finely balance and since the market is still pricing in almost two further rate hikes by September 06, we see the risk reward in favour of starting this week long.

The Macro Trader's view is: we have held the view for some while that Eurodollars are over sold and the Fed about to pause.

If this week's minutes put a different slant on the Feds thinking, the market has room to rally, and if this week's data isn't so strong our often quoted target of 94.90 for September 06 will be back in view.

Traders should be long of this market. Two rate hikes are priced in, if they don't come the market is over sold and will correct higher.

Further if the Fed does hike, the futures market will gradually move in line with Fed funds as the implied Libor spread erodes, so the down side in our opinion is **strictly limited**.

Back to contents

THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were square of the 10yr Note.

US 10yr NOTE JUNE 06

See how the recent market correction hit a brick wall last week. Even though data was generally benign, traders sold bonds as inflation fears persisted as stocks remained volatile and vulnerable to further negative price action.

This week we are bearish of the 10yr Note.

Last week we were square of this market, sensing it might want to correct further after we were stopped out.

In the event the correction fizzled out even though some key data releases were supportive:

- Wednesday's durable goods was very weak,
- Thursday's Q1 GDP disappointed, and
- Friday's personal income and spending was mixed with income softer than forecast.

However the market lost momentum and traded lower. The worry of possibly higher inflation in the future driven by still expensive commodities and a small rally in Oil as traders began to focus on this years US hurricane season, led yields higher.

Looking ahead although there are some key data releases due:

- The May 10 FOMC minutes on Wednesday,
- The ISM Manufacturing report on Thursday, and
- Non-farm payroll on Friday.

We judge the key for bond yields moving forward is the recovery in the wider world economy, which continues to strengthen. This removes surrogate spare capacity that the US had previously tapped and used to keep inflation under control.

Now Japan and the Euro zone are recovering and the expansion in China and India has produced a relatively wealthy middle class, resources are under pressure; higher inflation could result.

The Macro Trader's view is: we judge the recent correction to be all but over and traders should re-establish short positions.

Our interim target is 105.00, but run a stop at 106.06 as protection against a surprise bout of weakness from this week's data.

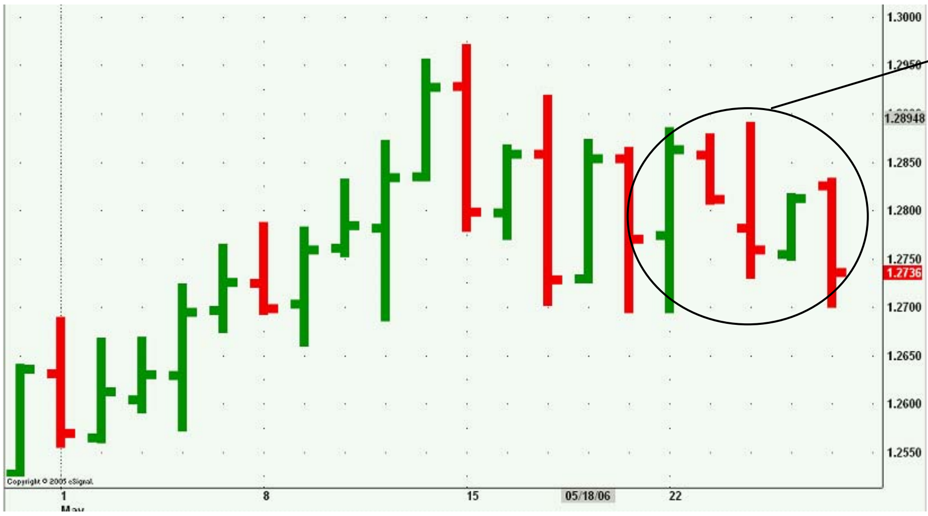
[Back to contents]

THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar lost momentum last week as the Euro tried to regain lost ground, however fears the Fed may hike in June and lingering worries over higher inflation kept the Dollar supported.

DOLLAR/YEN CHART

See how the Dollar faired a little better against the Yen as the BOJ again scotched hopes of any near term rate hike.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar but were stopped out in Cable; that's ok we took a big profit having previously halved our positions higher up, but remained short against the Euro.

Our advice to traders last week was to watch several key data series:

- Wednesday's New home sales, which turned out to be stronger, but were balanced by very weak durable goods,
- Thursday's Q1 GDP; a strong upward revision was expected but the reality undershot expectations, and
- Friday's personal income and spending; income softer, spending in line,

However the Dollar resisted several attempts to force it lower even though data was less than supportive, and ended the week on a high, the main reason being the continuing uncertainty in the market concerning the next move from the Fed.

Looking ahead we remain bearish of the Dollar and seek an appropriate level to go short against the Pound. With several key data releases this week and the minutes from the May 10 FOMC we sense an opportunity could emerge.

The market swung back behind the Dollar after the release of the policy statement at the last FOMC meeting. The Fed sounded less than enthusiastic about a pause which wrong footed traders after several communications had seemed almost like a pre-announcement.

With the minutes, subtleties may emerge which shifts sentiment back to expecting no rate hike at the June meeting.

In any event, if Friday's non-farm payroll is weak, the Fed will have to make a fine judgement, which we still think will result in a pause.

The Macro Trader's view is: all the factors which led the Dollar lower are still in play. The only piece missing from the jigsaw is knowledge of the Feds next move.

A pause would seal the Dollars fate and traders would go short as speculation continues about higher rates in Japan, although the BOJ have just flooded the market with liquidity to douse that fire, but in the Euro zone the ECB looks set to hike at its June meeting.

Traders should sit tight until the release on Wednesday of the FOMC minutes, if the tone is more accommodating to a pause than the earlier statement conveyed then sell the Dollar, if Friday's non-farm payroll is weak; sell the Dollar anyway.

Otherwise continue to rely on the stop in Dollar/Euro at 1.2700 to protect existing profits.

Back to contents

S&P 500

OUR TRADING STANCE: SQUARE.

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

S&P 500 JUNE 06

See how the market rejected the lows and edged higher as bargain hunters stepped in.

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

Last week we remained square of this market as our prediction of greater volatility materialised. Traders sold the market lower into Wednesday on a continuation of the previous week's fears and a further sell off in the commodity markets, but the market rejected the lows on Wednesday as traders bought Oil stocks in response to a limited rally in the Oil market.

This was driven by concern over forecasts for an active US Hurricane season. With reconstruction work still on going after last years storms and US refineries etc still struggling to get back up to full production, traders reasoned another destructive season would hit local oil installations, driving up oil imports and the Oil price.

Additionally Q1 GDP released last week, although below consensus, was still strong at 5.3% annualised, and although it is expected to cool throughout the rest of the year, the message was high energy prices haven't yet hurt US growth.

Further US inflation remains contained, so while the S&P continues to look vulnerable during this period of uncertainty and high anxiety, the outlook for now remains benign and the Bull market still looks in tact.

The Macro Trader's view is: although the market endured a choppy period last week, traders were willing to snap up bargains, especially in the oil sector.

If the FOMC minutes due this week give a better sense that the Fed is more open to a pause than the wording of the last policy statement conveyed, then this market will rally further.

But while commodity markets remain volatile and the geopolitical situation continues to give cause for concern, stocks generally will remain volatile and a further lurch lower can't be ruled out short/medium term.

In this environment we remain square, seeking greater clarity. There is nothing wrong with stepping back from a market; the idea is to take money out of the market not engage in a battle of wills when conditions are unclear.

Back to contents

UK MARKETS

SHORT STERLING

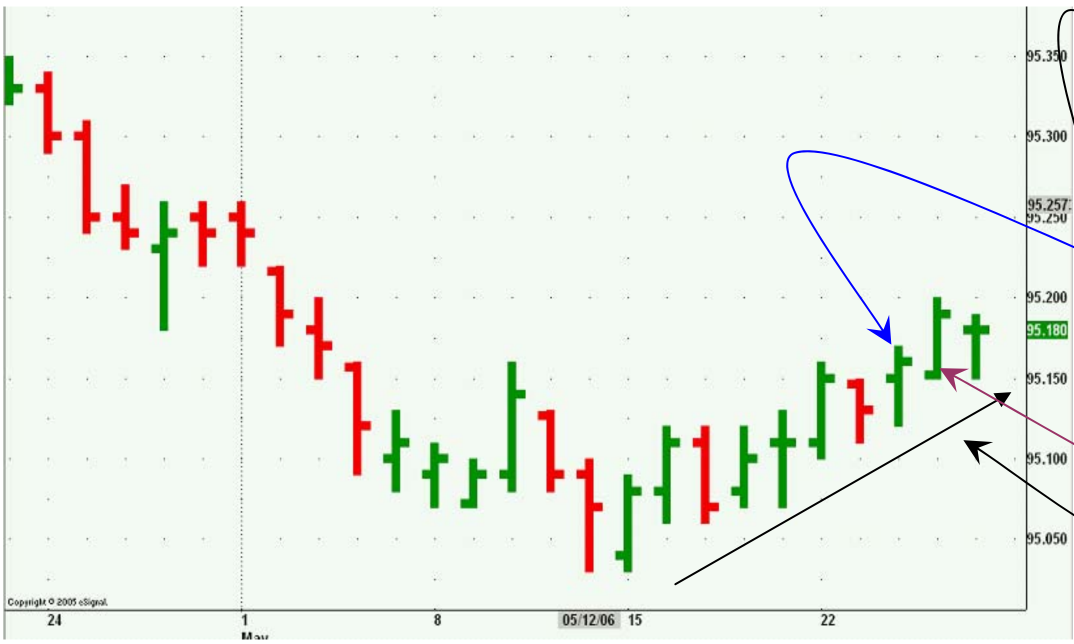
WHAT HAPPENED LAST WEEK?

	Week of 22nd May
Monday	
Tuesday	
Wednesday	CBI Ind trends tot ordrs -12 WORSE CBI Export orders 0 BETTER THAN EXPECTED
Thursday	Q1 2 GDP 0.6q, 2.2y AS EXPECTED
Friday	BBA UK Mrtge lndg aprvl 64.683K WEAKER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 28th May
Monday	BANK HOLIDAY
Tuesday	
Wednesday	Nationwide hse pcses 0.7m, 5.1y M4 Strlg lndg n/f Net lndg on dwellings 8.8B Mrtge appvrvls 115K GFK Cons conf -4 CBI Distributive trades 4
Thursday	CIPS PMI Mfg 53.5
Friday	CIPS PMI Construction 54.0

SEPTEMBER 06 SHORT STERLING



See how the market continued to move away from the lows last week helped by a nervous stock market and a mixed CBI report on Wednesday and an as expected Q1 GDP on Thursday.

[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.

Recent data has supported that view and indeed again last week's data offered nothing to shake our belief:

- Wednesday's CBI industrial trends survey was mixed; total orders fell while export orders rose. Clearly domestic demand has taken a knock,
- Thursday's Q1 GDP was as expected, so nothing to excite either the bulls or bears, and
- Friday's BBA mortgage lending approval's, was weaker than recent reports and acts as a counter weighed to other reports showing greater housing market strength.

Taken together with comments made recently by MPC members, traders are still playing this market very much with a rate hike in mind.

But, the stock market has suffered a serious correction over recent weeks and although it regained its poise somewhat towards the end of last week, volatility will remain a key feature of that market for some while yet.

Traders are uncertain about the direction in commodity markets after the recent correction, which started to unwind in the later half of last week.

Looking ahead this week traders will focus on Wednesday's data releases. A lot of emphasis has been placed on the recovery in the housing market and Wednesday gives a detailed look at what is happening there.

Thursday's PMI Manufacturing report will only excite traders if it is well off consensus, but it has gradually steadied over recent months.

The Macro Trader's view is: for now we continue to view September 06 as over sold, albeit a little less so now after last week's price action.

While we maintain our recently adopted position that there are unlikely to be any rate cuts this year and the next move is likely to be a hike, albeit still some way off, we advise traders to watch the stock market.

If the correction begun at the end of last week, fails and the sell off resumes, interest rate futures will begin to correct higher as the risk of a rate cut to calm market nerves will begin to register on traders radar screens.

While we judge the market would need to fall a lot further from here, before Central Banks took that route, after witnessing the extreme volatility in Gold and other commodity markets over recent weeks, that possibility cannot be ruled out.

More likely though, the MPC will stay its hand for a further prolonged period in the hope that steady policy will be sufficient to calm nerves.

For now we continue to be square of this market. We see little reason to sell it and small reason to buy. However if stocks do slide further, a rally up to 95.35 could become a realistic trading opportunity.

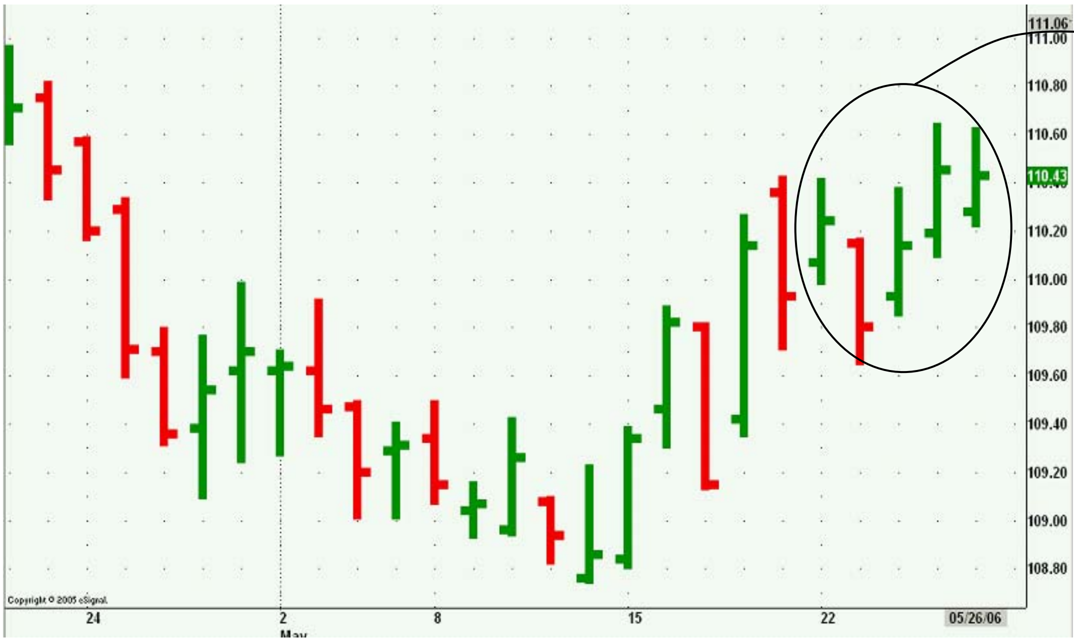
[Back to contents]

THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were square of the Gilt.

GILT JUNE 06



See how the Gilt continued the recent rally supported by weakness in the stock market.

This week we are bearish of the Gilt.

Last week we were square after being stopped out during the previous week. This week after a tentative rally in Stocks and some unwinding of the sell off in commodities we are again bearish of the Gilt.

Although the FTSE may indeed rally further from here, and our over all view of stocks for now remains bullish, we do expect volatility in that market to remain a key element of trading for some while yet.

Additionally we don't think the rally in commodities is over. Markets always correct eventually and the rally in commodities was no exception.

One true measure of a genuine bull market rather than a short term speculative bubble is traders use a correction as an opportunity to buy more cheaply, and we believe that will occur in commodities.

Back to contents

Bond yields had moved lower over a prolonged period because inflation remained contained and productivity, especially in the US grew strongly, also many key economies were, until recently, performing badly, with the focus on the US as the only place to do business. This allowed the US to use foreign excess capacity to satisfy its domestic demand without risk of inflation.

With a recovery under way in Japan and Europe and the emergence of China and India, that benign set of circumstances no longer exists, putting upward pressure on commodity prices and thus inflation.

The Macro Trader's view is: we judge the Gilt is a sell, we sense the rally in commodities will re-assert and stocks will remain volatile as traders fret over inflation and growth. We judge inflation will remain upper most in the minds of policy makers and traders alike.

Go short of the gilt, but run a stop at 111.16, our interim target is 109.80.

THE POUND STERLING

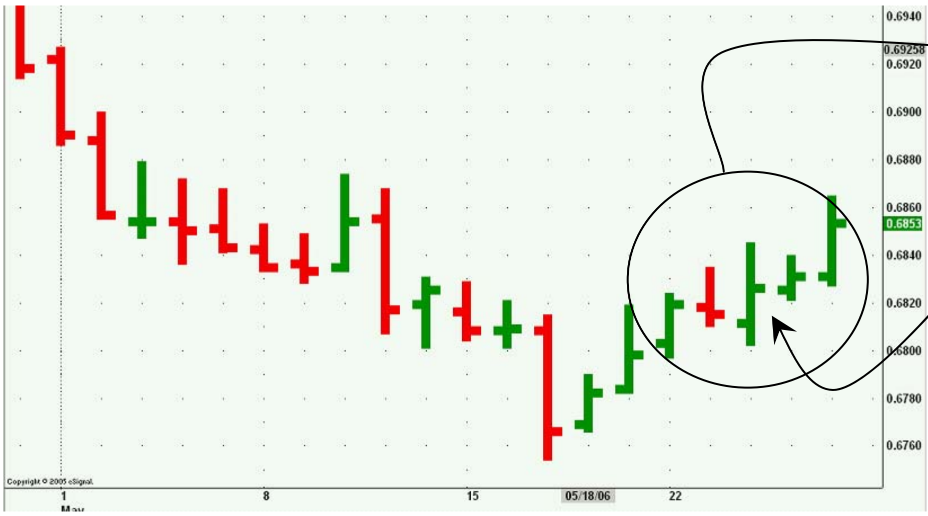
OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART

See how the Pound continued to correct lower after a disappointing CBI report on Wednesday and weaker mortgage approval data on Friday.

THE STERLING/EURO CHART



See how the Pound corrected further against the Euro as data in the UK re-enforced the view of unchanged rates over the medium term, but another firm German IFO report on Wednesday highlighted the prospect of a June ECB rate hike.

This week we remain bullish of Sterling.

Last week we remained bullish of Sterling as we viewed, and still do, recent Dollar strength as a correction. However, as we saw last year, these corrections can be quite long drawn out affairs. On balance though, we doubt this one will fit that mould. The Dollar has rallied recently for one over riding reason:

- A shift in expectation concerning a Fed pause.

Traders had assumed a pause was a racing certainty after various communications from Fed members, but were left decidedly uncertain after the last FOMC meeting.

The sense of uncertainty deepened after some recent economic data and traders are now repositioning for a June rate hike.

We remain unconvinced, but don't completely rule it out. Some inflation measures in the US are at the top of the Feds comfort range, but data isn't uniformly strong and after 16 hikes, the effects of most are yet to show up in the economy, so we judge they will pause.

Another factor depressing Sterling last week was the blandness of domestic data. The CBI industrial trends survey was mixed; total orders weaker, export orders stronger, and the only data release we judged as having the potential to move the market; GDP, came in as expected, consequently as we wrote last week, **the market did take its lead from the US.**

Looking ahead the focus this week will once again be on US data. Although some key UK housing market data is released on Wednesday, with the CIPS PMI Manufacturing survey out on Thursday, there is a raft of US data releases culminating with non-farm payroll on Friday.

Last month non-farm payroll seriously undershot expectations, if that repeats this time the Dollar will weaken as traders re-assess whether the Fed will sit on its thumbs in June to better judge the policy adjustments already made.

The Macro Trader's view is: although the Dollar added to the previous week's move, we still see it amid a bear market, currently enjoying a brief correction.

But while US Q1 GDP undershot expectations last week, at 5.3% it was still very strong, however most analysts, including the Fed, expect the pace to cool.

Additionally with another active hurricane storm season expected this summer in the US, oil prices have already firmed on memories of what happened last year.

On balance we see all the forces that argue for a weaker Dollar remaining in play, the only difference is sentiment has shifted from expecting a Fed pause to anticipating another rate hike.

For now our outlook for Cable is bullish but we are square, after our stop was hit, but seek an opportunity to re-enter the market. We may have to be patient until Friday, but if Friday's data is weaker, the wait would have been worth it.

Back to contents

FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the FTSE 100.

FTSE 100 JUNE 06

See how the market sank further on Monday after traders had the weekend to fret about what they were likely to experience when they returned to their desks, (black Monday 1987 revisited?) but the market steadied during the week as some soft US data caused traders to rethink the Feds next move.

This week we are square of the FTSE 100.

Last week we advised traders to stay short but bring their stops closer; to 5750.0, in the event that proved sound advice as the market rallied at the end of the week, and a decent profit was locked in.

The mood in the market oscillated wildly last week:

- selling off on Monday amid fears of a melt down similar to black Monday 1987, but when that didn't occur,
- traders went bargain hunting and the market bounced on Tuesday as traders sought cheap oil and mining stocks,
- Wednesday and Thursday saw the pattern repeat, until
- Friday when the market rallied on reduced concern for a Fed rate hike.

Traders took comfort from a benign read of US PCE data which brought a pause back to centre stage.

Looking ahead we repeat our comments of recent weeks; **Stock will remain highly volatile over the short and medium term.**

The Macro Trader's view is: although the market recovered towards the end of last week, trading through our stop, taking us out of the market, we judge stocks vulnerable to further negative price action.

However the market may rally a little further before once again selling off and we judge these levels as unattractive for traders to enter new bearish positions.

With commodity markets remaining choppy their influence will continue to infect stocks, but with some key UK data due Wednesday and a whole raft of US releases, including the May FOMC minutes, on Wednesday, the FTSE will take its lead from Wall street. If like us you are square, remain patient and wait for an opportunity to short the market.

[Back to contents](#)

EURO 12 MARKETS

EURIBOR

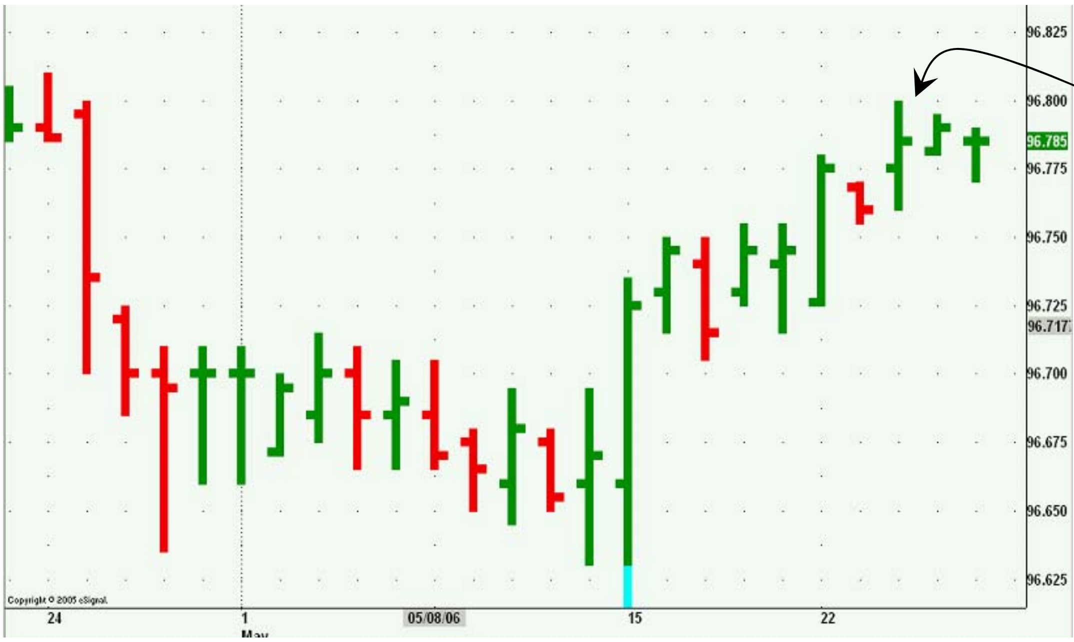
WHAT HAPPENED LAST WEEK?

	Week of 22nd May
Monday	EU12 Trade Bal 1.2B BETTER THAN EXPECTED
Tuesday	DM GDP Q1F 0.4q, 2.9y AS FR Bus conf 107 AS FR Cons spdg 0.7m, 4.3y HIGHER IT Cons conf 107.6 HIGHER EU12 Ind new orders -2.4m, LOWER THAN EXPECTED
Wednesday	DM Imprt prcs 1.3m, 6.9y HIGHER DM IFO 105.6 STRONGER THAN EXPECTED
Thursday	IT Bus conf 96.8 STRONGER IT Trade Bal -1.794B WORSE IT Retail sales -0.4m, -1.8y WORSE THAN EXPECTED
Friday	DM CPI 0.2m, 1.9y AS EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 28th May
Monday	DM GFK 5.3 EU12 C/A n/f
Tuesday	EU12 M3 8.3 3mth EU12 M3 8.5 y/y FR Unemploym't rate 9.5 FR Change -14K
Wednesday	DM Retail sales 1.5m, 0.7y DM Unemploym't rate 11.3 DM Change -20K FR Cons conf -26 FR PPI 0.7m, 3.6y IT PPI 0.7m, 5.2y IT CPI 0.3m, 2.2y
Thursday	IT PMI Mfg 56.9 FR PMI Mfg 55.0 DM PMI Mfg 57.7 EU12 PMI Mfg 56.4 EU12 GDP Q1 0.6q, 2.0y
Friday	EU12 PPI 0.7m, 5.3y

SEPTEMBER 06 EURIBOR



See how Euribor continued to rally up until Wednesday's IFO release which was better than expected, in complete contrast to the recent ZEW survey.

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 as recent data releases and ECB rhetoric have continued to support the view that Euro zone rates will move higher, in our opinion as early as the June ECB meeting.

This week we remain bearish even though the market continued to rally for part of last week. This was curious because Euro zone data was largely supportive of the need for higher rates, especially the German IFO report, which although a little lower than last month, was stronger than consensus and clearly flags a solid upturn in the German economy.

In our view the recent rally has had more to do with the sell off in stocks, which remained weak into the start of last week, but as the stock market steadied so Euribor eased back.

Looking ahead there are several key reports due this week, but we judge the most important to be:

- Tuesday's EU 12 M3 money supply; further deterioration will fuel the call for higher rates among the ECB hawks,
- Wednesday's French and Italian inflation data,
- Thursday's string of PMI Manufacturing reports, and
- Friday's Euro zone PPI report.

If inflation rings alarm bells and the money supply expands further, the ECB will hike at next week's meeting and likely lay the ground work for further hikes by reiterating the need for **extreme vigilance of inflation**.

The Macro Trader's view is: although our stop at 96.80 traded we weren't stopped out and happily remain short.

We remain firm in our view that the ECB will hike at next week's meeting since their fear of inflation over rides all other concerns, be it growth or a falling stock market.

Traders should remain short; retain the stop at 96.80, even though it remains close by. The market needs to fail here or it could rally further on technical trading, but on balance we judge the current correction is all but played out.

Our interim target is 96.70 with a medium term target of a return to the recent lows.

Back to contents

THE BUND

OUR TRADING STANCE: SQUARE.

Last week we were square of the bund.

THE BUND JUNE 06

See how the Bund hit a new recent high on Wednesday before easing back after a stronger than expected IFO report and a limited recovery in the stock market.

This week we remain square of the Bund.

Last week we were square of the Bund but retained our **bearish assessment over the medium/long term,** seeking a fresh opportunity to short the market, and that is where we are this week.

The market rallied early in the week into Wednesday on fears the IFO report might go the same way as the ZEW survey; weaker. But fears were unfounded, although it did ease back a little from the previous read, it remained very strong and above consensus.

Other data releases last week were also supportive of another ECB rate hike and consequently the Bund's rally waned over the rest of the week.

Looking ahead we remain square because it isn't yet clear to us that the correction in stocks is over. That being the case bonds will retain a residual allure as a safe haven trade.

However this week sees several key data releases and we expect them to continue the recent strong trend. For the Bund market we regard the following as of particular interest:

- Tuesday's Euro zone M3 data; further growth will strengthen our view of a rate hike next week,
- Wednesday's various inflation measures,
- Thursday's PMI reports and EU12 GDP report, and
- Friday's EU12 PPI.

In addition there are key data releases from the US so the picture should become clearer as the week progresses.

The Macro Trader's view is: the correction in the Bund is linked to inflation expectations and activity in the stock market, which is driven by volatility in commodities and uncertainty about the Fed.

Ultimately we expect the market to resolve its self to the down side but for now judge there is insufficient clarity to re-establish a short position. We judge it best to see this week's data first and then decide.

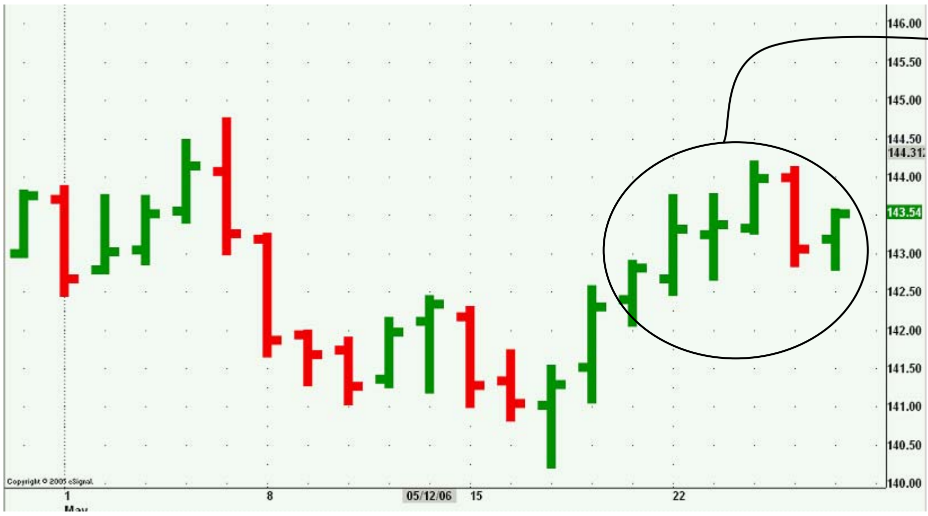
Back to contents

THE EURO

OUR TRADING STANCE: BULLISH.

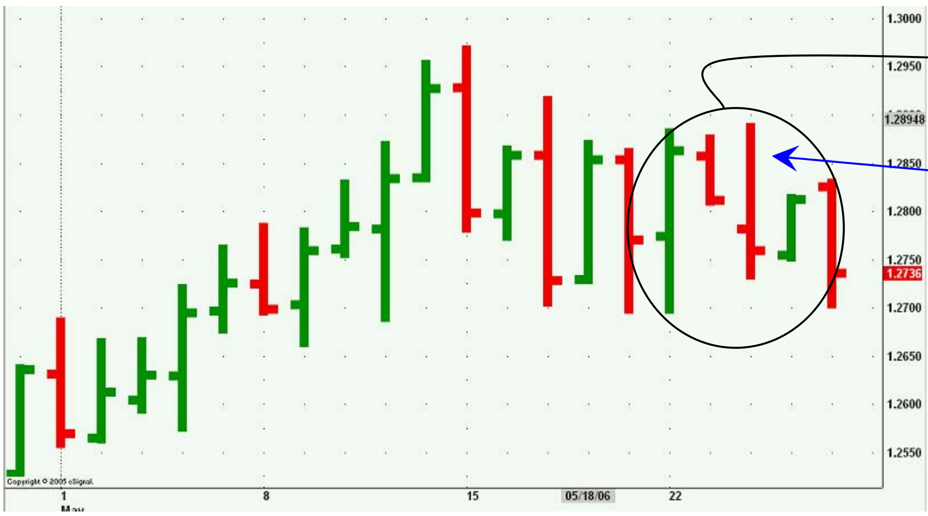
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Euro gained a little ground against the Yen but the tussle between the two continues. If the Dollar resumes its slide, as we expect though, the Euro should be the major beneficiary out of the two.

THE EURO/DOLLAR CHART



See how the Euro tried on several occasions to go better against the Dollar, especially after Wednesday's IFO report, but it just couldn't consolidate the move.

This week we remain bullish of the Euro.

Last week we remained bullish of the Euro, as we expected the recent Dollar correction to be short term in nature, and although our stop level briefly traded, not in sufficient volume to take us out of the market.

Traders continued to buy Dollars as they were much less certain about whether or not the Fed intends to pause. The last FOMC policy statement muddied, what had seemed, crystal clear waters.

But with the minutes of the May 10 FOMC meeting due this week traders will have a chance to re-assess, because other than uncertainty over the Fed little else has changed.

True the US twin deficits shrank recently, but by no where near enough, so a further weakening of the Dollar is required.

From a Euro perspective, just as the Euro seemed to be fulfilling its creator's dreams of being an alternative reserve currency, Euro zone politicians began complaining its strength could undermine the cherished economic recovery.

But with the ECB set to hike rates again next week and the Fed on the verge of ending its own interest rate cycle, we see the pendulum of market sentiment swinging back into the Euros favour.

Traders should watch this week's data releases from both the Euro zone and the US to get a better sense of when the current correction might end, but clearly if:

- Tuesdays Euro zone M3 has accelerated,
- Wednesday's French PPI, Italian PPI & CPI have increased,
- Thursday's key PMI Manufacturing surveys have strengthened, with EU12 GDP beating consensus, and
- Friday's EU12 PPI deteriorating further.

Then the Euro should find some solid support, but this needs to be balanced by:

- Wednesday's release of the May 10 FOMC minutes,
- Thursday's US ISM Manufacturing survey, and
- Friday's US non-farm payroll report.

Out of all of this we are seeking an opportunity to add onto our long position, which came close to being stopped out. An opportunity will present if the FOMC minutes place a different slant on the pause option, and or if Friday's non-farm payroll disappoints.

The Macro Trader's view is: last week's price action seemed to reveal that the Dollars progress is limited. Traders scaled back positions on uncertainty over the Feds next move, but given the way the market tried to probe for Dollar weakness last week, it will only take a little more clarity from the Fed, to send the Dollar back down.

If now out of the market monitor this week's data closely; we think it will knock the Dollar lower, if still long; seek an opportunity to add on.

We retain our stop at 1.2700 because we judge if the market does trade through this level convincingly, the correction has further to run.

We have no interim target as such this week, other than a longer term one which is a return to the recent highs.

In our view the crucial development this week will be a return of Dollar weakness.

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

See how the market spent most of the week testing the bottom before bouncing on hope a Fed rate pause may after all be on the cards.

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 to further negative price action, and over the course of the week it tested the downside further before rejecting the lows.

We advised traders over recent weeks that high volatility was likely to become a feature in these markets as uncertainty emanating from the crisis centred on Iran gripped traders thinking leading them to reduce their risk exposure.

In general terms that continues to be the case. The ongoing volatility in commodity markets last week added more confusion as traders in those markets continued to sell early in the week and then went long again as the week progressed.

Additionally, a weak German ZEW report recently had led to speculation that last week's IFO report may also weaken. In the event it beat consensus, although was a little lower than last months release, but it served to remind traders that the German, and by extension, the Euro zone recovery remains on track.

The Macro Trader's view is: the combination of the crisis with Iran, volatility in commodity markets and uncertainty surrounding the Fed has hit confidence in this market.

Last week's price action in commodities far from steadying nerves have only made the situation less clear as traders buy and sell on the ebb and flow of the profits outlook for Oil companies and miners etc.

While the market remains gripped by uncertainty like this, we will remain sidelined. Although we still consider stocks to be bullish, a prolonged spell of volatility resulting in sideways price action will sap the Bull's appetite.

Some clarity from the Fed will definitely help steady things down.

Back to contents

COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH

Last week we were bullish of gold.

THE GOLD CHART

See how Gold hit our target and then almost hit our stop; on the same day, driven by volatility in the Dollar but also uncertainty over Iran.

This week we remain bullish of Gold.

Last week we advised traders to begin building a small long position citing an interim target of US$670.00 an ounce with a stop at US$635.00 an ounce; the target price traded before the market smartly retreated and our stop came very close to trading.

Thankfully it didn't and we remain long, failing to use the opportunity to add on. However, the volatility in Gold last week was hardly unexpected as we have consistently warned of it over recent weeks.

Noticeably as the Dollar swung around last week, so did Gold, confirming once more the close relationship between these two monetary commodities.

This week we retain our bullish view, and if as we expect the Dollar's correction fades as a result of this week's US data, we expect Gold to recover, and repeat our previous advice that traders should **slowly and patiently build a long position.**

We expect this current correction in Gold to eventually resolve it's self to the upside with a further advance towards previous all time highs.

The Macro Trader's view is: we judge Gold, like most other commodity markets to be experiencing a correction. Exactly how long it will take to complete isn't clear, but this week's heavy weight US data should offer some clarity.

Traders should try and hold a position which allows them to ride out the current volatility, as we believe the market will make a strong bull move when it finally resumes the long and well established rally.

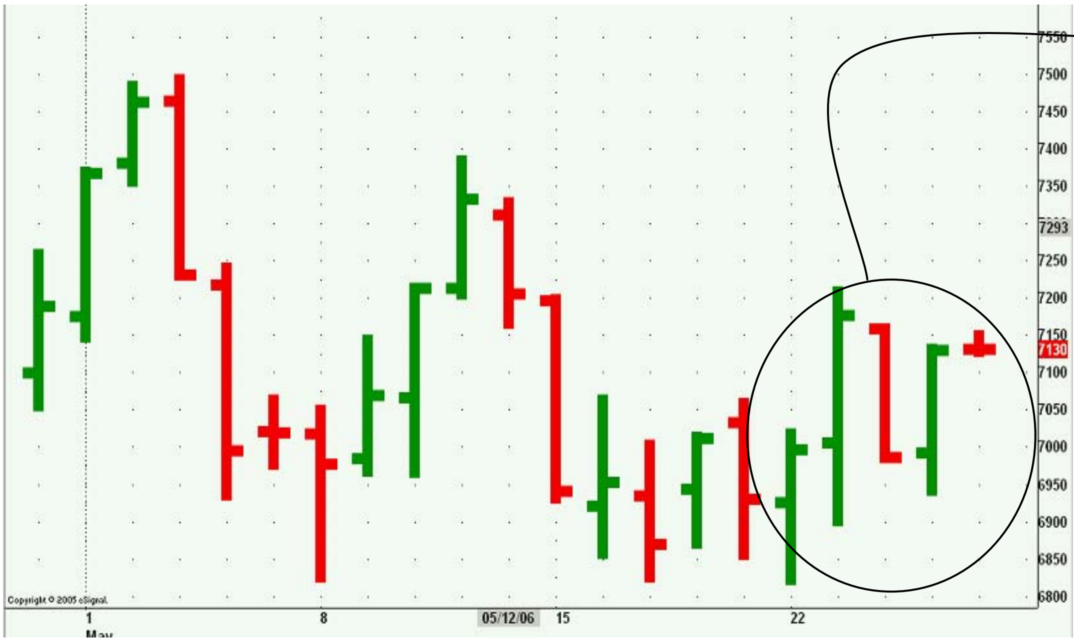
Back to contents

OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART



See how Oil recovered last week on concerns over the coming US hurricane season, which is expected to be very active.

This week we remain square of oil.

Last week we remained square of Oil and for now we maintain that position. The market recovered a little last week as traders turned their attention to the upcoming US hurricane season which is expected to be particularly active.

While that would have clear implications for US oil imports and ultimately oil prices, the US has been building its stocks recently. Further with few new developments in the crisis with Iran, which continues to vex western policy makers, the Oil price has become moribund.

The recent sell off in commodity markets have hit sentiment in Oil. Traders sold commodities because they fretted their sky high prices would weaken world demand and feed into lower prices for those same commodities. So traders took profit and those markets violently corrected, leaving world demand unaffected.

When investors realise nothing has changed and demand from China, especially, remains as before, they will begin rebuilding positions and take the markets higher. This to an extent will also move the Oil price.

Back to contents

Additionally, we expect the crisis with Iran to once again rear its ugly head and drive the Oil price higher.

For now the market is in no mans land. It could just as easily trade US$5.00 a barrel lower as rally by the same amount. Our response is to remain square.

The Macro Trader's view is: although the market has corrected lower, we remain long term bulls 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**.

While we are currently sidelined we are keenly seeking an opportunity to re-enter the market.

We advise traders to continue to exercise patience. Timing is the key.