

WEEK 28 4th – 10th July 2006

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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BULLISH short, medium & long term

SEVEN DAYS AHEAD

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ABOUT SEVEN DAYS AHEAD

Seven Days Ahead publishes a variety of trading guides suitable for experienced market operators.

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 29 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.

Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.

The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 30 years.

He left the Stock Exchange and joined Standard Chartered Bank London in 1976 trading the Sterling money markets.

He then trained as a floor trader with Holco Trading on the London Commodity Exchange specialising in cocoa and oil futures.

He began to trade off the floor with Drexel Burnham Lambert becoming Deputy Manager of their Money Desk in Europe responsible for all funding, money market trading and FX hedging for the European operation.

He rose to become Deputy Global Head of Proprietary Trading with Skandinaviska Enskilda Banken and thence Head of Proprietary trading Svenska Handelsbanken 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

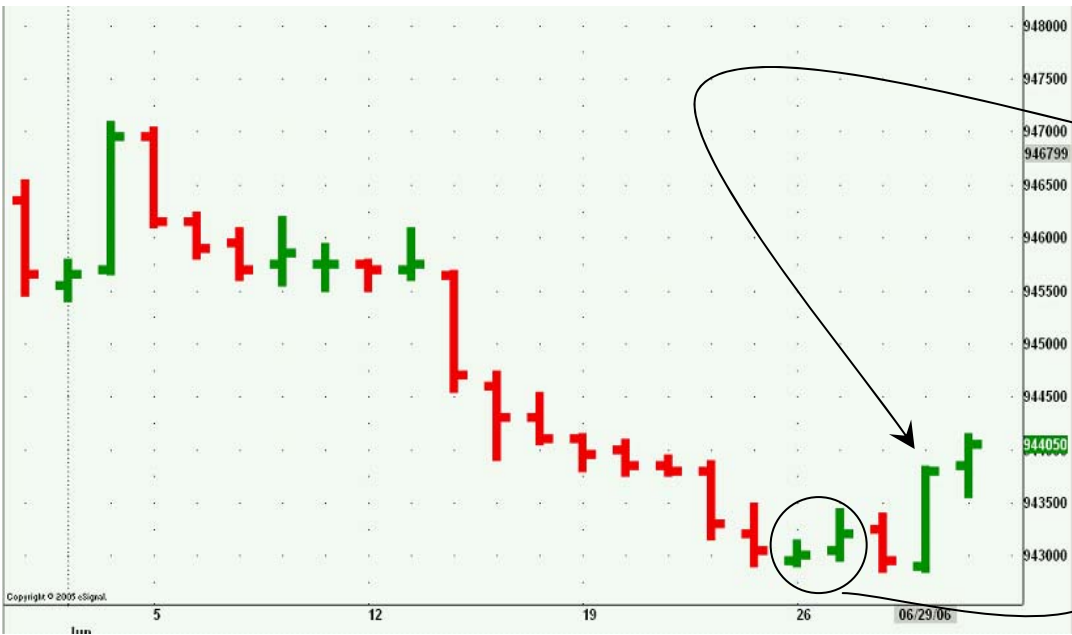
WHAT HAPPENED LAST WEEK?

	Week of 26 th June
Monday	New home sales 1.234M STRONGER THAN EXPECTED
Tuesday	Exist'g home sales 6.67M HIGHER Consumer conf 105.7 STRONGER THAN EXPECTED
Wednesday	
Thursday	Q1 F GDP 5.6% AS Q1 Final sales 5.9 STRONGER Jobless claims 313k HIGHER FOMC Rate decision 5.25 AS THAN EXPECTED
Friday	Personal inc 0.4 STRONGER Personal spdg 0.4 AS PCE 0.4 HIGHER PCE Core 0.1m, 2.1y LESS Chicago PMI 56.5 WEAKER U. of Michigan Sentim'T 84.9 HIGHER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 3 rd July
Monday	Construction spndg 0.2 ISM Mfg 55 ISM prices paid 74.8
Tuesday	Independence Day Holiday
Wednesday	Factory orders 0.0 Factory inventories 0.4
Thursday	Jobless claims 315k ISM Non-Mfg 59.0 Prices paid 70.0
Friday	Non-farm payroll 155k Unemploy'm't rate 4.6 Avge hourly earnings 0.3m, Avge wkly hrs 33.8

DECEMBER 06 EURO DOLLARS



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EURO DOLLARS

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were bearish of December 06.
This week we are square of December 06.

Last week we were bearish of December 06 as we awaited the outcome of Thursday's FOMC meeting, but were stopped out in the rally.

After recent market volatility caused mainly by conflicting communications from the Fed, we assumed the policy statement would largely reflect recent speeches from Fed members and their concerns over inflation.

In the event energy driven inflation together with resource utilization were their prime concerns as they noted the cooling housing market and the lagged effects of previous policy actions had slowed growth.

Additionally they noted how productivity improvements had helped contain inflation. And as if on cue Friday's release of the Core PCE measure showed inflation had eased.

The housing market contradicted their view, as Monday's release of new home sales and Tuesday's existing home sales were both stronger than expected, and aside from the Fed we suspect some of Friday's move was to do with traders squaring up ahead of the 4th July weekend.

Looking ahead traders now expect less from the Fed than before last week's FOMC, but although the guidance in the policy statement adopted a softer tone, incoming data was highlighted as the

key to the Feds future moves, and with this in mind there are key data releases this week:

- Monday's release of the ISM Mfg survey,
- Thursday's ISM non-manufacturing survey, and
- Friday's non-farm payroll.

The key report for us is Friday's non-farm payroll; last month's data was very weak with downward revisions to previous months, if that trend continues this time traders will take this market higher as very few further hikes, if any will be expected, but if the data bounces back and shows renewed strength, the market will revisit the lows.

The Macro Trader's view is: we know a little bit more about the way the Fed has balanced the risks it sees to the economy and the way it expects to react to them, but non-farm payroll is a notoriously difficult number to forecast with complicated seasonal weightings etc,

With this in mind we are square until its release, when we see the data it will, given the Fed last week, be possible to make a medium term assessment of the direction for Eurodollars.

For now we suggest traders remain square; today will be quiet because of Tuesdays 4th July holiday and even Wednesday won't be that exciting in the absence of any key releases that day, as ever at this time of the month Friday's data will be crucial for the markets direction.

THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the 10yr Note.

US 10yr NOTE SEPTEMBER 06



See how the market rallied after the release of the FOMC policy statement on Thursday as Q1 GDP was exactly in line.

This week we are square of the 10yr Note.

Last week we remained bearish of this market awaiting the Fed and several important data releases:

- new home sales on Monday, an important component of GDP were surprisingly stronger than expected,
- existing home sales on Tuesday, not a GDP component, was also stronger than consensus and
- Friday's PCE Core, a key indicator for the Fed, was softer than expected.

With the final read of Q1 GDP on Thursday as expected, the market rallied on the back of the Fed's amended policy statement wording. This continued to highlight resource utilization and energy driven inflation as risks, but noted how the cooling housing market, last week's data notwithstanding, and the lagged effects of previous policy actions had slowed the economy.

What most excited the market though was the guidance phrase "...the committee judges that some inflation risks remain. The extent and timing of any additional firming that **may be needed** to address these risks will depend on the evolution of the outlook for both inflation and

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economic growth, as implied by incoming information."

That phraseology represented a softening of the Fed's tone and the market rallied, stopping us out albeit with a profit of almost $\frac{3}{4}$ of a point, but we regard some of the move on Friday was probably traders covering positions ahead of the 4th July holiday weekend.

Looking ahead the most important piece of data due this week is non-farm payroll and after last month's surprisingly soft report there exists plenty of room for surprise in both directions.

The Macro Trader's view is: although now square our instincts remain bearish and with Oil prices moving up on renewed geopolitical tension it remains to be seen how durable this rally is.

But if Friday's payroll report is again soft; 105.15 will be the first target in any rally, our old trigger for selling. For now stay square in a fragmented holiday week Friday's data and the Oil market hold the key short/medium term.

THE DOLLAR

OUR TRADING STANCE: SQUARE.

Last week we were square of the Dollar.

EURO/DOLLAR CHART



See how the Dollar sold off on Thursday and Friday after the Fed, but some of Friday's move was likely position squaring ahead of the US 4th July Holiday.

DOLLAR/YEN CHART



See how the Yen rallied against the Dollar along with other major currencies as traders took the Fed's message on Thursday as a signal that the end was nigh for this US interest rate cycle.

This week we remain square of the Dollar.

Last week we remained square of the Dollar as the US currency continued to recover on future Fed rate expectations.

While we agreed with the markets assessment that a hike was due in June and another likely in August as the Fed continued to react to inflation data, we retained our view that longer term the Dollar is ultimately a sell.

We based this on the need for the Current Account deficit to shrink and the only tool available capable of achieving this is a weaker Dollar.

It was obvious to us that the only prop supporting the Dollar was the Fed's ongoing rate hikes; however after last week's FOMC meeting that support can no longer be taken for granted.

While the Fed didn't announce a pause, it did place a question mark over future hikes, this made holding the Dollar less of a one way bet and traders immediately liquidated long Dollar positions.

However we are not yet ready to sell the Dollar. Some key data was stronger last week:

- New home sales, and
- Existing home sales,

And there are some important data releases due this week. But clearly if Friday's non-farm payroll report repeats last month's weakness then the Dollar will be a sell and our trigger level is 1.8600 against cable.

For Dollar/Euro the market has already made up its mind as the ECB is still only at the beginning of a tightening cycle, and the Bank of Japan seems to be setting the market up for a rate hike there too.

The only fly in the ointment is potentially the Oil market. After several weeks of inactivity that market came back to life last week as tension mounted over Israel's military moves in Gaza

and the frustration of the G8 over the inexplicable delay in Iran replying to a package of measures designed to resolve the crisis centred on Iran's nuclear program.

We think ultimately Iran will reject the terms, sending oil prices to new highs. This will raise awareness of inflation once again and lead Central Banks including the Fed to review their monetary policy.

The Macro Trader's view is: last week we explained the Dollar's future direction is married to the path of US interest rates and after a slightly less hawkish policy statement the Dollar sold off.

Some of that move, especially on Friday was likely traders squaring up ahead of the US 4th July holiday and since that creates a fragmented working week it won't be completely clear until Friday's payroll report is released.

For that reason we are square until then, but a weak report will lead us to sell Dollars against both the Pound and Euro.

S&P 500

OUR TRADING STANCE: SQUARE.

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

S&P 500 SEPTEMBER 06



See how the market responded to the Fed; a sharp rally, nothing else moved the market last week.

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

Last week we were square of this market as it remained unclear exactly what the Fed's message would be. Recent Fed speakers had highlighted inflation as their prime concern, but most analysts acknowledged the US economy was cooling and if the housing market really cooled off the effect on the wider economy would be pronounced.

In the event the policy statement was a little different to what we anticipated in that they placed a question mark over future rate hikes because of the lagged effect of previous policy moves on growth and the effect of productivity growth on inflation.

But in the final analysis they continued to highlight the high levels of resource utilization and energy inflation as risks. With oil prices pushing up on renewed geopolitical tension, that phrase may prove the most import for future rate hikes.

But with a new round of corporate profit reporting almost upon us, traders will have several; possibly conflicting inputs to balance when deciding the medium term outlook for this market, but a slowing economy will ultimately mean weaker profits.

The Macro Trader's view is: given the holiday nature of this week and the key data releases due we remain square.

Another poor set of non-farm payroll will add to the view the economy is set for a cooling off period and if Oil prices do rally further from here, which we suspect they will, stocks could remain volatile.

Until this week is out of the way we are staying square with one eye firmly on Oil and the Middle East.

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UK MARKETS

SHORT STERLING

WHAT HAPPENED LAST WEEK?

	Week of 26 th June
Monday	
Tuesday	BBA Net mrtge Indg 5.7B STRONGER THAN EXPECTED
Wednesday	CBI Distributive trades +9 STRONGER THAN EXPECTED
Thursday	Nationwide hse prcs 0.3m, 5.5y LESS M4 Strlg Indg 17.4B STRONGER Net Indg on dwellings 9.3B HIGHER THAN EXPECTED
Friday	Q1 F GDP 0.7q, 2.3y STRONGER Q1 C/A -8.3B BETTER GFK Cons conf -4 AS THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 3 rd July
Monday	PMI Mfg 53.2
Tuesday	
Wednesday	PMI Services 59.0 BRC Shop prices n/f
Thursday	Industrial prod 0.4m, -0.5y Mfg output 0.3m, 0.7y MPC Interest rate decision 4.5
Friday	HBOS Hse prcs 0.2m, 9.8y

DECEMBER 06 SHORT STERLING



See how the market rallied last week despite some quite strong data releases, the main impact on the market though were comments from the B of E Governor King, and Kate Barker which sparked a strong rally on Thursday.

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SHORT STERLING

THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

Last week we were bearish of December 06.

This week we remain bearish of December 06

Last week we remained bearish of December 06 even though the market had recovered somewhat the previous week. We highlighted two data releases as having the potential to see the market trade lower:

- the CBI distributive trades survey; recent reports have been firm and we reasoned another firm release would help the bears, the data was stronger, but the CBI cautioned the effect could wane after the world cup, the other report was
- Friday's release of the final estimate of Q1 GDP; although unchanged was expected, this series is prone to frequent revision and indeed it was revised up, along with data from several previous years.

Ordinarily the market would have traded lower on this news but comments from Mervin King which indicated the Bank still expects the UK economy to rebalance away from retail sales and more towards stronger exports and business investment helped Short Sterling recover.

His view was further supported by much better than expected Q1 C/A data on Friday, which underlined King's remarks, as the deficit was reduced by a better export performance.

Looking ahead there are several key releases out this week, but with the Pound enjoying a strong recovery on Thursday and Friday after the US FOMC meeting eased concerns over how much higher US interest rates would go, and interest rate futures markets generally enjoyed a strong relief rally. Data will need to be above consensus next week to reverse the rally.

With the MPC expected to keep rates unchanged for an eleventh month on Thursday, traders will seek greater guidance from:

- Monday's PMI Mfg survey,
- Wednesday's PMI Services survey, and
- Friday's HBOS House price report.

For clues on where UK policy will move next, but again the MPC minutes from the previous week

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highlighted stronger Sterling as a counterweight to inflationary pressures from abroad, if the rally begun late last week endures, the MPC could hold policy steady for several more months yet, but foreign exchange markets have been volatile over recent months.

The Macro Trader's view is: last week we cautioned that the recent weakness of the Pound since the end of May had largely neutralized the MPC'S view that a strong Pound would inhibit both growth and inflation.

But now the Pound has staged something of a recovery as the Dollar sold off last week due to the markets interpretation of the FOMC policy statement. The Dollar's key support has been diluted for now, to the degree that traders now think the Fed is closer to ending its interest rate cycle than previously thought, but this view has changed several times over recent weeks.

The reality is that with market sentiment swinging so frequently as both the Bank of England, and more importantly, the Fed try to tune their policy responses into the machinations of incoming economic data, it is essential to remain focused on the big picture for the UK economy.

That reveals a broad based recovery with:

- retail sales,
- the housing market, and
- manufacturing all playing their part,

While the MPC acknowledges domestic inflation remains contained with inflation expectations easing over recent months, the real threat to inflation comes from over seas via the cost of energy. With the Oil price once again pushing higher last week on renewed geopolitical tension, the out look for inflation could soon take a negative turn.

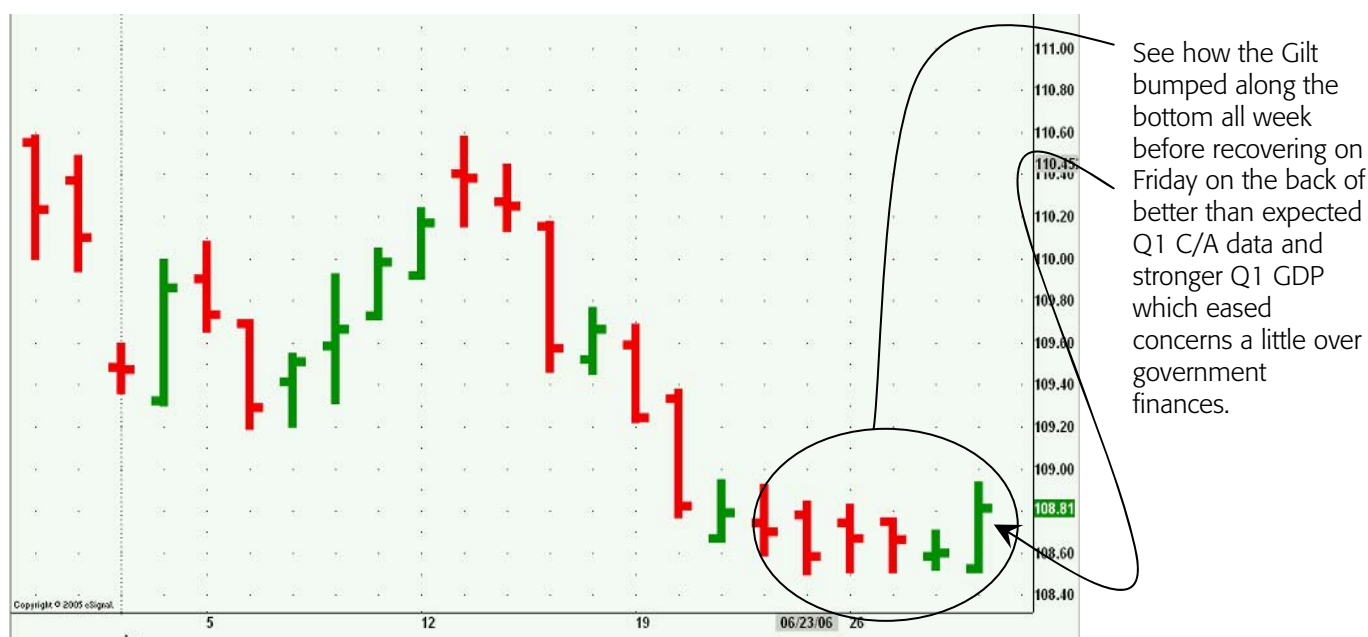
Traders should remain short; our target remains 94.90 continue to use the stop at 95.08.

THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.

GILT SEPTEMBER 06



This week we remain bearish of the Gilt.

Last week we were bearish of this market, offering a target of 108.00 which wasn't hit, but the market remained below our original objective of 109.00.

The Gilt gained support from Friday's better than expected Q1 C/A data and upward revisions to a whole series of GDP data releases including the recent Q1 report.

Clearly a better C/A performance supports the Pound and helps inflation and stronger GDP means less pressure on Government finances.

Looking ahead we retain our bearish outlook, although we expect the MPC to hold policy steady at this week's meeting and probably for a further period after that, traders will closely scrutinize this week's data for further clues, especially Thursday's release of Industrial production and Manufacturing output.

These have gained greater prominence after King's comment that exports and business

investment could begin to shoulder more of the burden of economic growth.

The Macro Trader's view is: we remain bearish of the Gilt and expect a retest of the lows around 108.60. The Pound may not be able to sustain last week's rally, especially since it was driven by Dollar weakness.

With several high profile US reports due this week, with non-farm payroll on Friday, the current market assessment of US interest rates etc is definitely not set in stone.

We are wary of the US data, particularly non-farm payroll, but also the recent rally in the Oil market. Last month's payroll number was weak and revisions made previous months look soft also, clearly more than usual that piece of data has the potential to shape the market's outlook both here and in the US, so for now stay short, but bring the stop closer to 109.20, this will offer practical protection and lock in some of the original profit. But if the Oil price rallies further Bonds will come under renewed selling pressure.

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THE POUND STERLING

OUR TRADING STANCE: SQUARE.

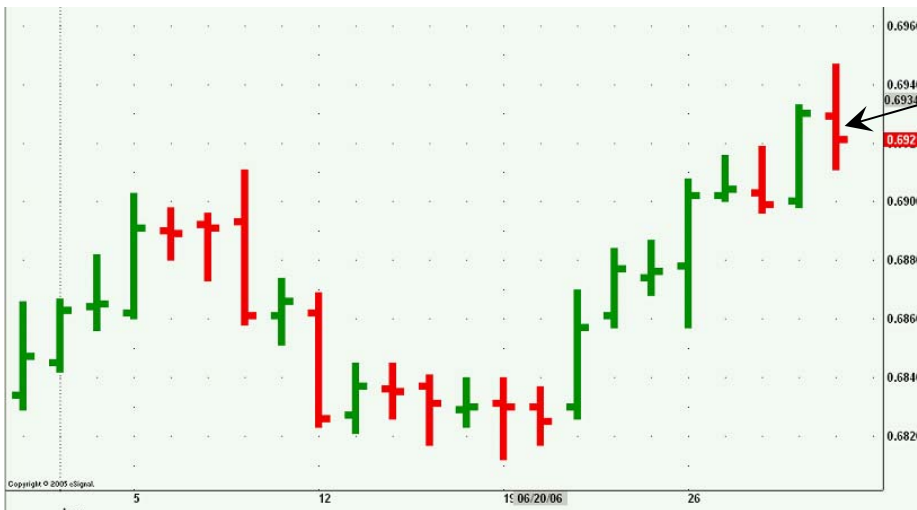
Last week we were square of Sterling.

THE CABLE CHART



See how the Pound made a sharp recovery on Thursday and Friday after the Fed's rate decision on Thursday evening, the subtle change to the policy statement's wording weakened the Dollar against all the major currencies.

THE STERLING/EURO CHART



See how the Pound halted its losses against the Euro on Friday after upward revisions to Q1 GDP and a narrower than expected Q1 C/A deficit.

This week we remain square of Sterling.

Last week we remained square of Sterling ahead of the FOMC meeting on Wednesday and Thursday. Although we retained our long term bearish view of the US Dollar we were aware that data could possibly contrive to see the Pound weaken a little further.

After so much confusion in markets recently we wanted to study the Fed's policy statement before committing to a position.

In the event the Fed did alter its statement and acknowledged a slowing in US economic activity and how that should ultimately restrain inflation,

but they remained alert to energy driven inflation and promised to act appropriately as data came in to contain it.

With Oil prices moving higher last week as the G8 pressed Iran for a response to the package put to it by the major powers several week's earlier and Israel embarked on military moves against the Gaza strip, Central Banks, especially the Fed, may find they have to continue tightening policy further.

Looking ahead, although we were tempted to buy the Pound last week, we were restrained by the rally in Oil, which is the single most important threat to the outlook for inflation.

Further, with several key US reports due this week together with the resilience of the US economy and its ability to absorb shocks and remain on track, the recent currency moves could prove short lived.

The markets will focus on a mixture of UK and US data this week for guidance:

- On Monday: US ISM and UK PMI Mfg reports,
- On Wednesday: UK PMI Services report,

- On Thursday: UK MPC rate decision and US ISM non-mfg report, and
- On Friday: US non-farm payroll.

All of these have the potential to move the market, but we are especially wary of Friday's non-farm payroll report; more weakness and the Dollar will drop further, a surprise strong recovery and the Dollar will recoup all of last week's losses.

The Macro Trader's view is: after last week's FOMC policy statement, UK Q1 GDP and C/A data we are very close to buying the Pound, but for the reasons already given want to see this Friday's US payroll report.

If that is again weak and the Pound can break above 1.8600 we will go long of Cable and advise traders to do likewise.

The target would under those circumstances be a retest of the recent highs around 1.9000, but patience is required the foreign exchange markets have changed direction abruptly several times in recent months and the moves have been large; Friday's data will provide a key signal.

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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the FTSE 100.

FTSE 100 SEPTEMBER 06



See how the market recovered from Wednesday after the CBI distributive trades survey and followed through on Thursday buoyed by comments from Mervin King and the Feds policy statement wording.

This week we are square of the FTSE 100.

Last week we remained bearish of this market ahead of several important data releases. We judged another firm CBI report due Wednesday and any upward revision to Q1 GDP released on Friday, although not forecast, would combine with our expectation of an inflation oriented policy statement from the Fed and keep equity markets under pressure.

In the event the data was firmer, but a better than expected UK Q1 C/A deficit bolstered the outlook for growth and corporate profitability, and B of E Governor Mervin King struck a relaxed cord about the UK economy in his comments on Thursday.

But what helped equities recover the most was the easier tone of the Feds policy statement. They acknowledged slower growth caused by the cooling US housing market and the lagged effects of previous policy actions, further their assessment of inflation was more balanced than expected and with a less forthright tone to their future policy guidance, most world markets rallied.

Whether or not the rally can be maintained though is an open question, the two main concerns of all the main Central Banks are: the high levels of resource utilization and Energy driven inflation. Oil prices began to rally last week driven by the combination of:

- the G8'S frustration with Iran over the length of time they are taking to reply to the package offered by the major powers, and
- The Israeli military activity in Gaza against Hamas in response to the abduction of an Israeli soldier.

These two events have the potential to send oil prices soaring and policy makers hiking rates.

The Macro Trader's view is: the market rallied through our stop last week and we are now square, this week's data together with pressure from the G8 on Iran to respond this week will have a clear bearing on stocks, but with a new round of corporate profit reporting not far off we remain sidelined. We suggest others do likewise, since we currently regard the direction of the Oil market as key to future policy moves in the UK, US and Euro zone despite anything that has been recently said.

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EURO 12 MARKETS

EURIBOR

WHAT HAPPENED LAST WEEK?

	Week of 26 th June
Monday	DM CPI 0.2m, 2.0y AS FR Business conf 107.0 LESS EU12 C/A 0.0B BETTER THAN EXPECTED
Tuesday	DM Imprt prices 0.2m, 7.6y AS IT Business conf 98.9 HIGHER DM IFO 106.8 STRONGER THAN EXPECTED
Wednesday	DM GFK 7.8 HIGHER IT PPI 0.7m, 6.6y HIGHER THAN EXPECTED
Thursday	FR GDP Q1 0.5q, 1.5y AS DM Unemploym.t -49k MORE DM Rate 10.9 LOWER EU12 M3 8.7 3m, 8.9y HIGHER FR Unemploy't 9.1 LESS THAN EXPECTED
Friday	DM Retail sales -2.2m, 1.9y LESS FR Cons indx -28 AS FR PPI 0.2m, 4.1y AS IT CPI 0.1m, 2.3y AS EU12 CPI 2.5 HIGHER THAN EXPECTED

WHAT'S HAPPENING THIS WEEK?

	Week of 3 rd July
Monday	IT PMI Mfg 56.9 FR PMI Mfg 56.2 DM PMI Mfg 59.0 Euro zone PMI Mfg 57.5 EU12 Unemploy'm't rate 8.0
Tuesday	Euro zone PPI 0.3m, 6.0y
Wednesday	IT PMI Services 61.5 FR PMI Services 60.8 DM PMI Services 57.3 Euro zone PMI Services 59.0 EU12 Retail sales 0.2m, 2.0
Thursday	DM Factory orders 0.0m, 12.4y ECB Rate decision 2.75
Friday	DM Industrial prod 0.6m, 5.4y

DECEMBER 06 EURIBOR



See how Euribor rallied on Thursday with other interest rate futures market but gave back half the move on Friday as traders remain alert to ECB rate hikes.

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EURIBOR

THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

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

Last week we remained bearish of December 06 as the market looked set to decline further, which it did trading to our target of 96.35 on Tuesday before recovering a little later in the week on the back of the Fed induced rally.

But again last week ECB President Trichet reminded the world that rates could be increased at any time to control inflation when he said "ECB permanently alert, will act to stop inflation". This limited the rally and by Friday Euribor was moving back towards the lows.

The key data release was Tuesday's German IFO report and it hit another high, supporting the view that the current recovery is soundly based.

Looking ahead this week's key events are:

- On Monday; all the PMI Manufacturing surveys,
- Tuesday; Euro zone PPI,
- Wednesday; all the PMI Service sector surveys and EU12 retail sales, and
- On Thursday; the ECB rate decision.

Clearly the main event this week is the ECB, but with unchanged policy expected it will be the post meeting news conference that will most interest the market.

With oil prices coming back to life on renewed geopolitical tension in the Middle East, there is bound to be renewed rhetoric about energy induced inflation and we expect the market to be left with the clear impression that rates are going up again quite soon.

The Macro Trader's view is: although the market rallied briefly on Thursday, it is quite clear a different agenda drives this market.

With oil prices threatening to resume their rally provoking another round of energy induced inflation we expect Euro zone interest rates to eventually rise to 4.0%.

With this in mind traders should remain short of this market, our short term target remains a breach of 96.35, but run a stop at 96.48 as protection.

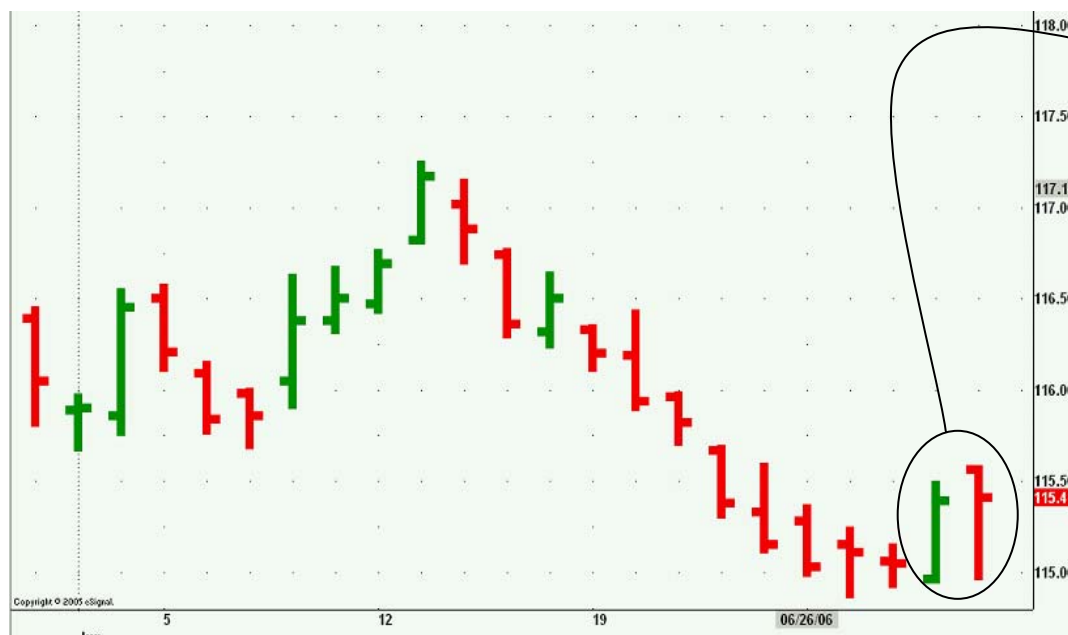
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THE BUND

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the bund.

THE BUND SEPTEMBER 06



See how the Bund's rally was completely unconvincing when compared to the US 10Yr Note.

This week we remain bearish of the Bund.

Last week we were bearish of this market as we awaited the release of the German IFO report and the result of the US FOMC meeting on Thursday.

The IFO report was again strong and flagged more solid growth ahead for the German and Euro zone economy, the Fed was a slight surprise in that it placed a question mark over future US rate hikes.

But with oil prices pushing up last week, ECB President Trichet once again reminded the market that the ECB is permanently alert and will act to stop inflation at any time.

Although we do not expect an ECB rate hike at this Thursday's meeting, we do expect more

rhetoric aimed at keeping tighter policy very much at the forefront of traders' minds.

And with all the Euro zone PMI surveys due this week, which have steadily strengthened over recent months, we remain bears of this market.

The Macro Trader's view is: although our target wasn't met last week we repeat it this time and advise traders to remain short for a test of 115.00 and soon after 114.50 over the next 10 days. Our suggested stop is 115.85 to guard against a move driven by weak US data on Friday, but we see Oil prices as a key element in the outlook for the Bund.

Since it was energy driven inflation that first galvanised the ECB to hike rates, a fresh round will ensure they hike them further.

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THE EURO

OUR TRADING STANCE: SQUARE.

Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen traded sideways last week, the prospect of a near term hike in Japanese rates discouraged selling.

THE EURO/DOLLAR CHART



See how the Euro put in a strong rally after the Fed removed the certainty of further rate hikes.

This week we remain square of the Euro.

Last week we were square of the Euro as it appeared to us that the Dollar's only source of strength was the Fed's rate hikes.

When on Thursday the FOMC placed a question mark over the certainty of future moves the Dollar immediately weakened against the Euro and other major currencies.

Stronger Euro zone data also supported the Euro with German IFO strengthening further and firmer than expected reads for both Euro zone M3 and CPI.

Looking ahead we expect this rally to consolidate and if this week's Euro zone data is stronger and

US data displays further weakness, eventually to revisit the highs made in May.

In the Euro zone the key events are:

- Monday's PMI Manufacturing,
- Wednesday's PMI Services, and
- Thursdays ECB rate decision.

While we expect unchanged this time from the ECB we suggest monitoring the post meeting press conference very closely.

In the US although both ISM surveys are due, we judge the market will be driven by the result of the non-farm payroll report which last month was surprisingly weak.

If it is weak on Friday the Dollar will fall further and that will be the time to buy the Euro.

The Macro Trader's view is: last week we said if the Dollar were to strengthen as a result of the Feds policy statement we would seek levels to sell it.

In the event the Dollar weakened on the softer tone of the statement, but with several key reports due this week we were unwilling to buy into a market that might correct aggressively once this week's data is known.

We now know the certainty of further US rate hikes can now no longer be relied upon, if US data is sub-consensus, flagging further soft growth, we will sell Dollars and buy the Euro.

But in a fragmented holiday week for US markets, traders should remain sidelined until this Friday's data release.

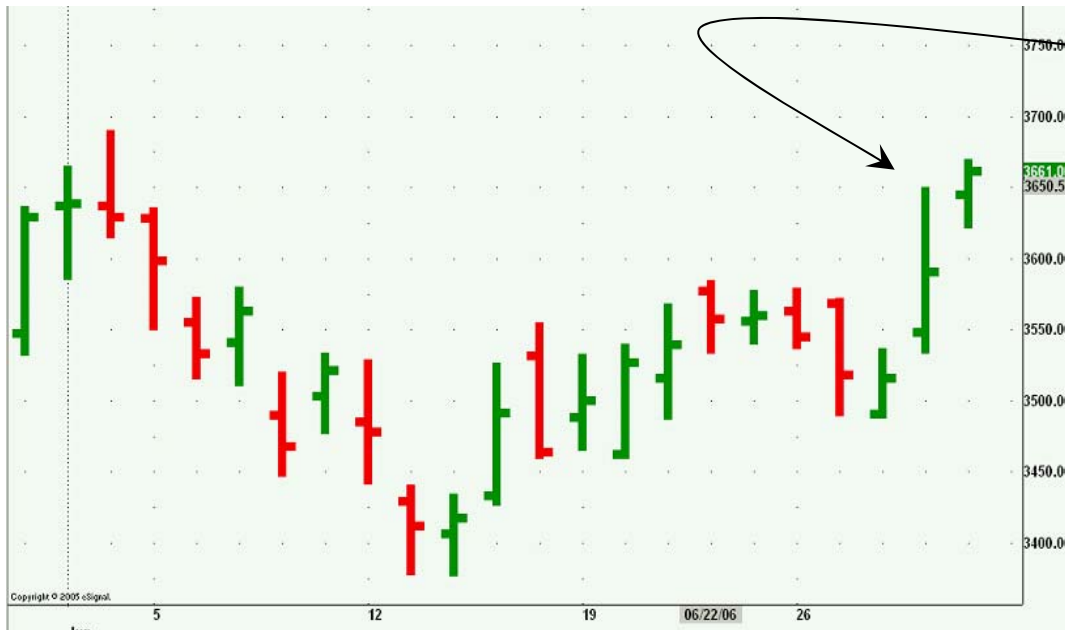
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DJ EURO STOXX 50

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 rallied along with US stocks after the Fed announcement.

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

Last week we were square of this market and are this week too. Although the Fed helped most markets higher at the end of last week, we are unwilling to join the bull party, remaining nervous bears.

Last week's Euro zone data was again supportive of the ongoing economic expansion with German IFO in particular underscoring that view.

But with much talk of a US economic slowdown we question the durability of the Euro zones export led recovery.

Additionally with the ECB remaining alert to further energy induced, or anything induced inflation, Euro zone interest rates look set to reach 4.0% in this current cycle.

Oil prices are once again on the increase as Israel launches an assault into Palestinian held Gaza

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and the G8 loses patience with Iran over the lack of a formal reply to the package of measures designed to resolve the crisis over Iran's nuclear program.

Looking ahead we expect this week's Euro zone data to remain strong, but expect US data to reveal further weakness thus clouding the outlook for equities generally.

The Macro Trader's view is: although we remain bearish medium term, we remain unwilling to recommit ahead of several key US data releases in a week distorted by the US 4th July holiday.

In a week when the ECB is due to decide on interest rates we judge it best to remain square. Once the jigsaw is a little more complete we will judge better where the other pieces fit.

COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH

Last week we were square of gold.

THE GOLD CHART



See how Gold added powerfully on Friday to the recent gradual drift higher after the Dollar weakened in the wake of the FOMC meeting.

This week we are bullish of Gold.

Last week we remained square of Gold, as we waited for the Dollars recent correction to end. After the FOMC policy statement on Thursday that may have occurred.

The Fed removed the certainty of further interest rate hikes. It didn't rule them out, but they can no longer be taken as a given.

In our view this has all that has supported the Dollar and with geopolitical tension rising as Israel drives further into Gaza in search of a kidnapped soldier and Iran refuses to be pushed into delivering a response to the proposal offered it by the major powers, suspicion is on the increase that Iran will reject the offer.

This would deepen the crisis with the major powers seeking help from UN Security Council

resolutions aimed at forcing Iran to give up its nuclear work.

Given the nature of that "religious" regime we do not expect them to comply.

The Macro Trader's view is: although we have been square for several weeks the market has rallied in response to the kind of developments we have suggested it would.

We are now long and advise traders to build long positions, but given the volatility of the currency market in recent weeks run a close stop as protection which we suggest should be US\$590.00 an ounce, our target over the next 10 days is US\$630.00 an ounce but this could change very quickly as the situation in the Middle East evolves.

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OIL

OUR TRADING STANCE: BULLISH.

Last week we were square of oil.

THE CRUDE OIL CHART



This week we are bullish of oil.

Last week we were square of oil but after Israel launched a major drive into Gaza in search of its abducted soldier, rounding up many members of the Hamas Government and “parliament” we see the potential for the always tense Middle East to erupt.

The G8 placed pressure on Iran last week to deliver a response no later than this week to the package of measures offered it by the major powers.

Iran said it will not reply so soon, but why? Whether they refuse to give an answer or deliver a negative response, it seems the west’s patience is running out. But with US, UK and other allies embroiled in conflict with terrorists in Iraq and Afghanistan, the Iranian regime likely calculates the west hasn’t either the will or the means to back up its words with actions.

Resolutions from the UN calling Iran to book are unlikely to have any impact; they consider they answer to a higher authority. The result is more tension and higher Oil prices.

The Macro Trader’s view is: maybe we don’t get a formal answer from Iran; maybe their refusal to reply is taken as a rejection.

If so the crisis will deepen and Oil prices will ultimately rally as traders and indeed consumers worry Iran will use its position as the World’s 4th largest exporter as a weapon. It is worth noting Iran has already introduced Petrol rationing; curious in an Oil rich nation.

Traders should be long of this market our target over the next 10 days is US\$75.00 a barrel, if it reaches this target and rallies above the previous high; add on to positions. Our suggested stop is US\$72.15 a barrel.

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