WEEK 37 5th – 11th September 2006

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS

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SEVEN DAYS AHEAD
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ABOUT SEVEN DAYS AHEAD

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

ABOUT THIS GUIDE

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

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

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

ABOUT JOHN LEWIS

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

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

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

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

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

After 1998 he moved into the hedge fund business as a senior fund manager of Weavering Capital UK.

Now in association with Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

US MARKETS

EURO DOLLARS

WHAT HAPPENED LAST WEEK?

	Week of 28th August
Monday	
Tuesday	Cons conf 99.6 WEAKER Minutes August 8th FOMC NEUTRAL THAN EXPECTED
Wednesday	Q2 GDP 2.9 LESS Q2 Final sales 2.3 BETTER Q2 Core PCE 2.8q LESS THAN EXPECTED
Thursday	Personal inc 0.5 AS Personal spndg 0.8 AS PCE Core 0.1m, 2.4y LESS Jobless claims 316k MORE Chicago PMI 57.1 AS Factory orders -0.6 BETTER THAN EXPECTED
Friday	Non-farm payroll 128k BETTER Unemploym't rate 4.7 AS Avge hrly earngs 0.1m LESS U. of Michigan conf 82.0 STRONGER ISM Mfg 54.5 WEAKER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 4th September
Monday	
Tuesday	
Wednesday	Non-farm productivity Q2 1.5 Unit labour cost Q2 3.8 ISM Non-mfg 55.0 Feds Beige book
Thursday	Jobless claims 312k Wholesale inventories 0.7
Friday	

DECEMBER 06 EURO DOLLARS

See how Eurodollars rallied after the release of the FOMC minutes on Tuesday and received a further boost on Friday after a lack lustre non-farm payroll report and weak ISM manufacturing survey.

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EURO DOLLARS

THE MARKET EXPLAINED

OUR TRADING STANCE: BULLISH.

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

Last week we were bullish of December 06 expecting the market to trade higher after the release on Tuesday of the August 8th FOMC minutes.

We advised traders to read these minutes carefully as we judged they would likely hold important clues of how the Fed may act at its September meeting.

Indeed the market was left with the clear impression that the Fed is in no hurry to hike again but didn't rule out a future rate hike if data made one necessary.

The reason for the pause was clearly a fear among committee members of harming the economy by over tightening, and although they all still regards inflation as a future threat, the down grading of the economy's growth outlook over the next six quarters by their in house economists, made them inclined to pause.

Their analysis was a slowing economy and lagged policy effects will combine to lower inflation moving forward.

Other data released last week added to the sense that the economy continues to cool:

- on Wednesday; Q2 GDP was less than expected,
- on Thursday; PCE Core inflation data was less than expected, and
- On Friday; non-farm payroll was close to consensus, confirming the recent run of soft data and the ISM manufacturing survey was weaker than expected.

On balance enough evidence to justify our recent bullish stance.

Looking ahead this week sees the release of the ISM non-manufacturing survey on Wednesday and unless it shows renewed vigour, we expect the market to maintain its current bullish tone.

The Macro Trader's view is: last week our target of 94.65 was amply met and data reinforced the view of a cooling economy.

While we advise remaining bullish, we see progress from here as gradual. If this week's ISM survey is weaker than expected the market will push ahead but we expect trading to remain hesitant until after the September FOMC meeting.

Assuming our analysis is correct and the Fed confirms the pause, the market should then be able to react more assertively to ongoing economic weakness.

Traders should remain long; our target over the next 7 – 10 days is 94.75 with a stop at 94.55.

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THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the 10yr Note.

US 10yr NOTE SEPTEMBER 06

See how the market pushed through our target at 107.10 driven by the FOMC minutes on Tuesday and soft data throughout the week, especial Friday's non-farm payroll and ISM Mfg survey.

This week we remain bullish of the 10yr Note.

Last week we remained bullish of this market in response to the ongoing softness of economic data, which we expected to continue, and we looked to the Fed minutes to offer some guidance on the likely outcome of their September meeting.

In the event data continued weak:

- on Wednesday; Q2 GDP was less than expected,
- on Thursday; PCE Core inflation data was less than expected, and
- On Friday; non-farm payroll was close to consensus, confirming the recent run of disappointing employment reports and the ISM manufacturing survey was weaker than expected.

But what set the market up for last week's move was Tuesday's FOMC minutes. These revealed members were anxious not to harm the economy after their growth forecast was revised lower.

Additionally past growth was also revised down and this cemented their view that slower growth and lagged policy effects will reduce inflation.

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Looking ahead this Wednesday's ISM non-manufacturing survey is the key event and any softness here will see this market rally further.

The Macro Trader's view is: now we have a clearer sense of Fed thinking we see this market making further gains.

Additionally the recent softness of Oil prices, now some US$10.00 below the highs, will reduce inflationary pressure, even if they fall no further from here.

While the major powers are unable to agree a strategy for tackling Iran, Oil will remain sidelined until agreement on the UN is reached or the West loses patience and acts alone. This is unlikely in the short/medium term.

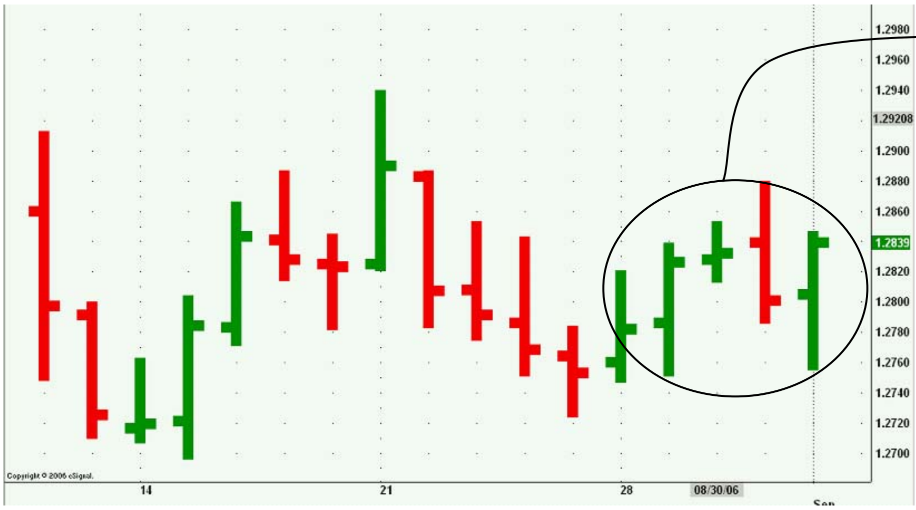
Traders should remain long of this market; our target over the next 10 days is 107.26, with a stop at 106.23.

THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar lost ground to the Euro but the move was muted as the ECB held policy steady at its Thursday meeting.

DOLLAR/YEN CHART

See how against the Yen the Dollar moved sideways as concerns lingered over the BOJ'S interest rate policy in the light of weaker than expected inflation the previous week.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar as we entered a week which we saw as setting the tone for the market up to the September FOMC meeting.

We were particularly keen to see the minutes for the August 8th FOMC meeting released on Tuesday as we thought these may give clues to the Feds future thinking, and indeed they did.

Although the committee remained worried about inflation, they were also anxious not to over tighten and harm the economy. It seems they decided to pause as a result of their own growth forecast offering a weaker assessment over the coming 6 quarters, than the one they used at their June meeting.

Additionally earlier growth data was revised lower and although some earlier inflation data was revised up, they judged the combination of slower growth and lagged policy effects would act to moderate the pace of inflation.

So although they remained ready to hike again if necessary, the over all tone of the minutes left the impression they were ready to allow some time to pass in order to gain a better picture of the economy, before making any further policy moves.

We believe this will evolve into the end of the current hiking cycle and the Dollar will decline as a result.

The other data released last week fuelled that view and the Dollar came under varying degrees of pressure against the major currencies; most notably the Pound Sterling.

Looking ahead we see this week's data continuing the recent trend, albeit at a gradual pace given the shortened US work week and the up coming Fed meeting and we retain our bearish stance.

The Macro Trader's view is: as we anticipated, last week's data took the Dollar a little lower, most noticeably against the Pound, but as we said last week, it wont make a decisive move until the September FOMC meeting confirms the Fed pause.

But even then there will be those who immediately start to speculate about the Feds actions at their next meeting.

A confirmation of the pause in September will put the Dollar bulls on the back foot as they will require data to begin to strengthen in order to see any gains.

We don't think that will happen. Data is likely to remain weak, in line with current Fed thinking.

The next important milestone will then be the thanksgiving holiday season which is usually a very active time for retailers.

A lack lustre performance would then begin to strengthen calls for policy easing next year, but for us that remains a little premature.

Traders should remain short of the Dollar against the Pound and Euro. Our targets are:

- against the Pound 1.9150, stop at 1.8600, and
- Against the Euro 1.3000, stop at 1.2696.

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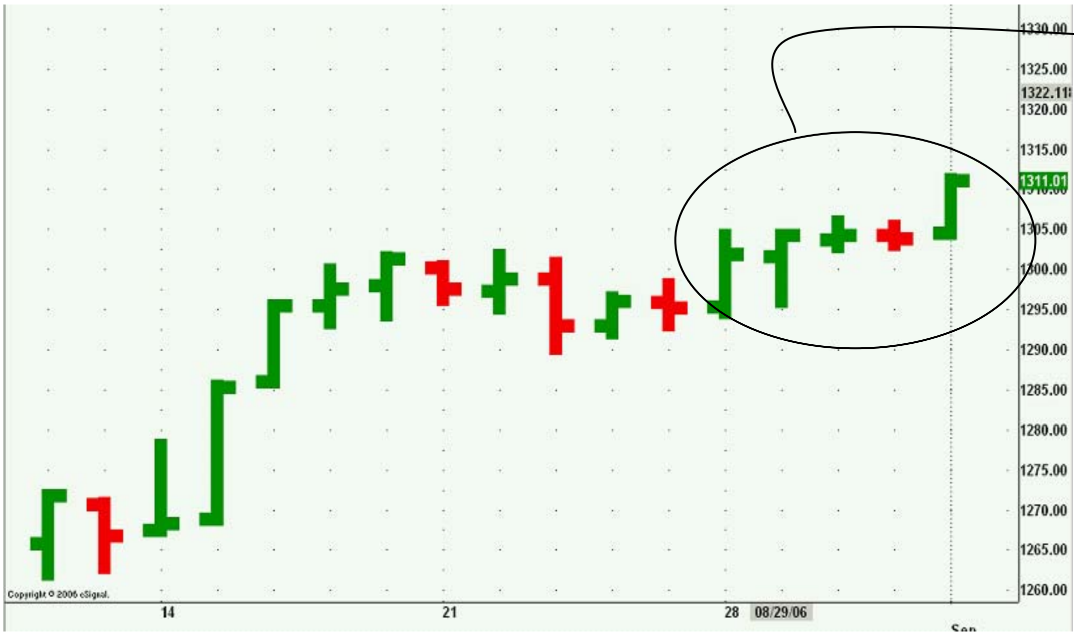
S&P 500

OUR TRADING STANCE: SQUARE.

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

S&P 500 SEPTEMBER 06



See how the market rallied as oil prices eased further, leading traders to expect a moderation in inflation.

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

Last time we were square of this market as we saw a period of weaker growth fuelling a drop in corporate profitability. This together with the on going crisis centred on Iran, which we thought would lead to increased uncertainty as geopolitical tension rose, as the UN deadline passed unfulfilled, made us unwilling to hold long equity positions.

However the outlook changed somewhat last week for several reasons:
1/ The Fed minutes released on Tuesday solidified the view that the current pause would turn into something more enduring,
2/ Last week's data remained soft further encouraging the view that US interest rates had likely peaked, and
3/ As a result of public disagreement between the major powers on how to deal with Iran, the threat of higher Oil prices receded. If UN sanctions were for now a non-starter, Iran would feel able to continue its nuclear program and oil supplies would remain un-interrupted.

With the US economy cooling this would tilt the markets concerns away from demand stretching supply, towards a relatively over supplied market.

Longer term the west, mainly the US and UK will be unwilling to allow Iran to develop a nuclear weapon and they will act in some unilateral way to prevent that happening, that's when Oil will hit new highs and equities will take fright.

The Macro Trader's view is: we see the S&P as the least attractive of the equity markets and although it may rally on easier Oil prices, other markets:

- the FTSE, and
- DJ EUROSTOXX 50

will likely outperform it. Traders should remain square and buy US Treasuries instead, which we believe will benefit more from the short/medium term improvement to the inflation outlook caused by the current soft oil market.

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UK MARKETS

SHORT STERLING

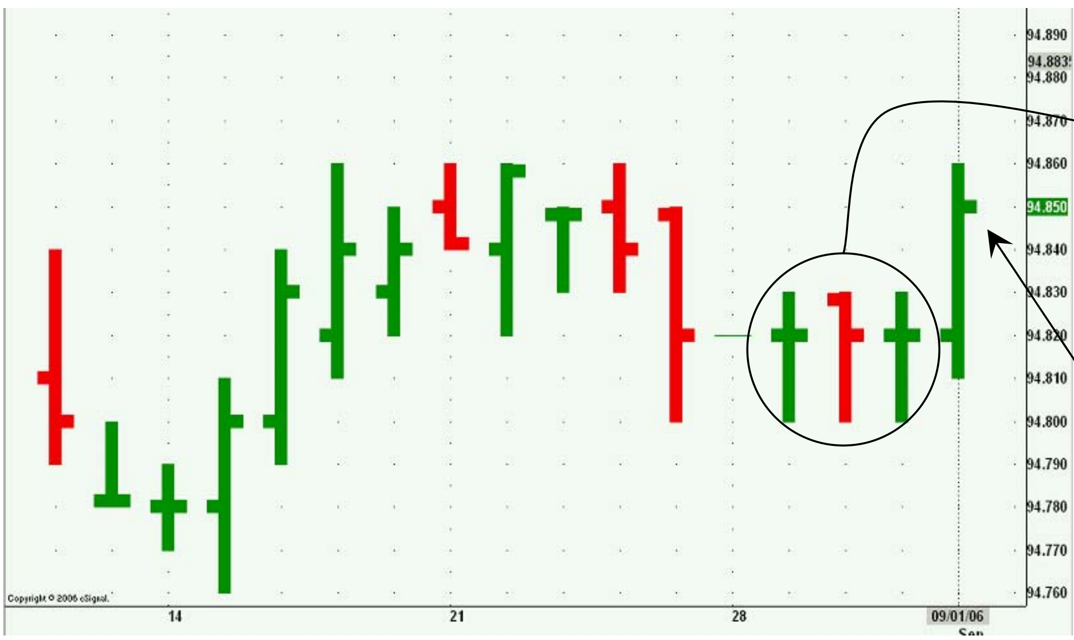
WHAT HAPPENED LAST WEEK?

	Week of 28th August
Monday	August Bank Holiday
Tuesday	
Wednesday	M4 Strlg lndg 21.B LESS Net lndg on dwellings 9.8B HIGHER Mrtge approvals 120k STRONGER CBI distributive trades 12 STRONGER THAN EXPECTED
Thursday	Nationwide Hse prices 0.6m, 6.6y STRONGER THAN EXPECTED GFK Cons conf -8 WORSE THAN EXPECTED
Friday	PMI Mfg 53.1 WEAKER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 4th September
Monday	
Tuesday	CIPS PMI Services 57.5 BRC Retail sales 3.1
Wednesday	Industrial prod 0.2m, -0.4y Mfg output 0.2m, 0.7y BRC Shop prices n/f NIESR GDP n/f
Thursday	MPC Interest rate decision 4.75
Friday	

DECEMBER 06 SHORT STERLING



See how the market drifted sideways on Tuesday, Wednesday & Thursday even though housing data on Wednesday and Thursday was stronger than expected, but a weaker PMI Mfg report on Friday lead the market higher.

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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 were bearish of December 06 after the previous week's hesitant price action. With some key housing market data due last week together with the PMI manufacturing survey, we were encouraged to go short.

We judged any further signs of strength from the housing market would lead Short Sterling lower as the MPC are already very anxious about inflation testing the upper limit of their inflation target band of 3.0%

In the event most of the data was stronger with above consensus readings:

- On Wednesday; net lending secured on dwellings, mortgage approvals and the CBI distributive trades survey, then
- On Thursday; Nationwide house price survey.

But the market traded sideways, this was due in part to a weaker than expected GFK consumer confidence report also released on Thursday, together with a weaker than expected CIPS PMI manufacturing survey on Friday which sparked a minor rally as traders followed the US markets higher after more evidence showing the US economy continues to cool.

Looking ahead the key events this week are:

- On Tuesday; CIPS PMI Services report, and
- On Thursday; the MPC interest rate decision.

The expectation for the PMI Services report is for a slight deceleration followed by an unchanged decision from the MPC on Thursday.

But with the housing market continuing to pick up speed many analysts are on alert for another rate hike from the MPC, which we currently expect in November.

The Macro Trader's view is: Friday's rally after the weaker PMI report looks to us unconvincing. Manufacturing is too small a component of GDP to stay the MPC'S hand on a slight easing of a survey, albeit as high profile as the PMI manufacturing report.

The MPC will remain focused on the outlook for inflation as disclosed in the recent Bank of England quarterly inflation report and if their fears look like materialising they will nudge policy higher.

The stronger CBI distributive trades survey last week, will likely embolden the more hawkish element of the committee as will the resilience of the housing market.

But we don't see back to back rate hikes as the recent easing of Oil prices will short term; ease the upward pressure on inflation.

The snag though is; oil is driven as much by geopolitical events as by supply and demand and the crisis with Iran looks set to move into a new and potentially more dangerous phase, so we don't expect the current lull in Oil prices to last too much longer.

We still favour a short position and advice traders to look for selling opportunities.

Our target over the next 7 – 10 days is a retest of 94.80 leading to a move down to 94.75, but as always run a stop; we suggest at 94.92.

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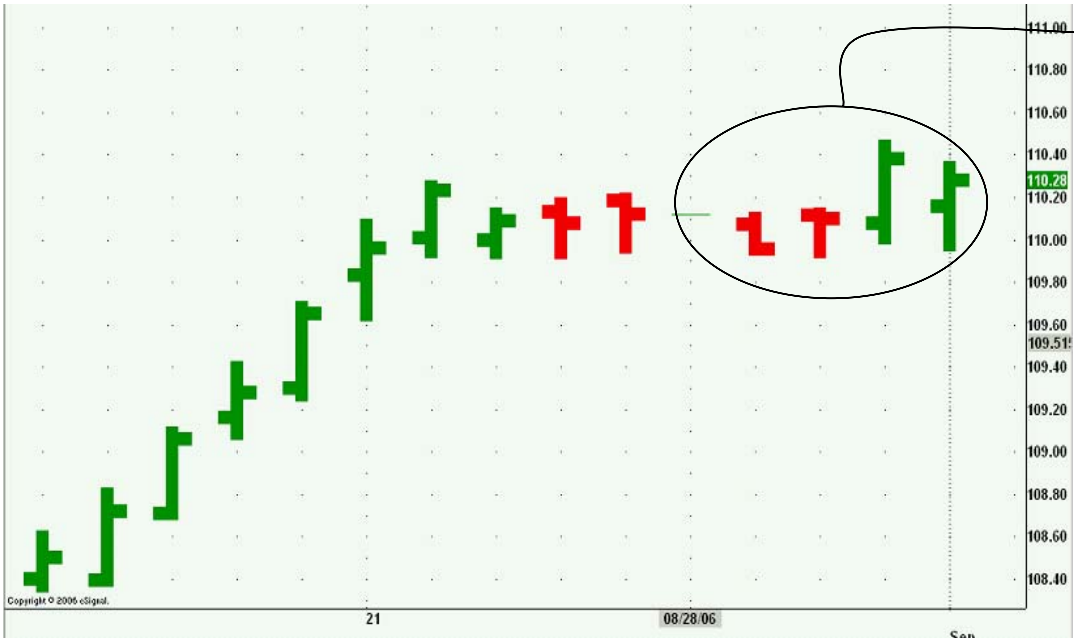
THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

GILT SEPTEMBER 06



See how the Gilt largely traded sideways as last week's data failed to inspire neither the bulls nor bears.

This week we remain square of the Gilt.

Last week we remained square of the Gilt as we expected the combination of stronger housing market data and the MPC'S fears of higher inflation to be off set over the short term by softer Oil prices, causing the Gilt to drift sideways and in the event that is what occurred.

Looking ahead, even though we eventually expect Oil prices to retest the highs as the crisis centred on Iran moves into a potentially more dangerous phase, that may not happen for several weeks due to a lack of agreement among the major powers, leaving the Oil market bumping along support at current levels.

With the MPC set to leave policy unchanged at this Thursday's meeting, the Gilt will take its lead from sentiment in foreign Government Bond markets.

But a look at the Bund and US 10 year note shows these two markets have rallied over recent week's while the Gilt has performed much less convincingly and we expect that pattern to continue.

The Macro Trader's view is: compared to other Government Bond markets the Gilt continues to look an unattractive proposition and we advise remaining square of it.

While the Bund managed to extend its rally, even though the ECB voice strong concerns over inflation and the US 10 year note continued its own move higher in the futures market as the Fed looks set to hold policy steady at its September FOMC meeting, even though inflationary concerns remain. The Gilt only managed a sideways drift.

But if we see yet more evidence of worsening inflation the Gilt will sell off, so for now stay square.

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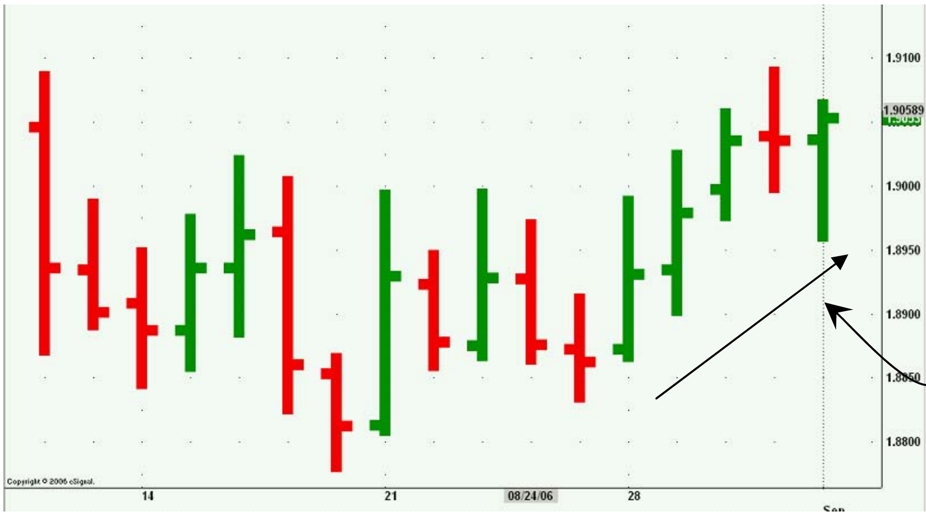
THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound rallied against the Dollar as most key UK data releases last week were above consensus.

THE STERLING/EURO CHART

See how the Pound continued to strengthen against the Euro as the UK economy looks set to maintain its growth lead over the Euro zone and with the MPC likely to hike again over the coming months, interest rate differentials will remain supportive of the Pound.

This week we remain bullish of Sterling.

Last week we remained bullish of the Pound as we judged last week's data would largely play to the MPC'S fears and on balance they did.

We also highlighted the release in the US of the August 8th FOMC minutes as an important event for the currency markets and that proved the case.

Although the Fed remained concerned about inflation, they were also anxious not to harm the US economy by over tightening and with their own analysis of future growth showing a weaker profile over the next 6 quarters, they were persuaded to pause.

Further the general tone of the minutes sounded as though they weren't in any hurry to resume their rate hiking cycle, although they didn't rule another move higher out.

This together with weak US data on Friday against stronger UK data during the week helped the Pound retest the recent highs.

Looking ahead we expect currency markets to largely consolidate their resent moves as the US is on holiday Monday for Labour Day.

In the UK we see this week's data offering little direction:

- Tuesday's PMI Services report is expected to be just below last months read but still showing solid growth,
- Wednesday's manufacturing data could act as a counter weight though, if it comes in lower than expected, and
- Thursday's MPC meeting is expected to leave policy on hold this time.

So unless the other minor UK releases or US data contain a surprise, we expect Cable to consolidate before making the next move higher.

The Macro Trader's view is: the US FOMC minutes last week confirmed our view that the August pause in US interest rates, will prove to be something more enduring.

Further with another lacklustre US non-farm payroll report and a weaker than expected ISM manufacturing survey on Friday, we see momentum building for the long expected sell off in the Dollar, which will likely come after the Feds September FOMC meeting.

Additionally, UK data, especially the housing market and on survey evidence, retail sales, remain strong. This together with the MPC'S known fears of higher inflation will lead to further interest rate hikes here which will close the interest rate differential currently in the Dollars favour.

Traders should remain long of Sterling as we see it well supported. Recent Central Bank buying also acts as good support, both physical and psychologically, as the Pound enjoys a new lease of life as a "reserve" currency.

Our target over the short/medium term is 1.9150 which we see as a stepping stone to yet higher levels. We suggest a stop at last week's level of 1.8600 as protection but far enough away to avoid being removed from a clearly trending market.

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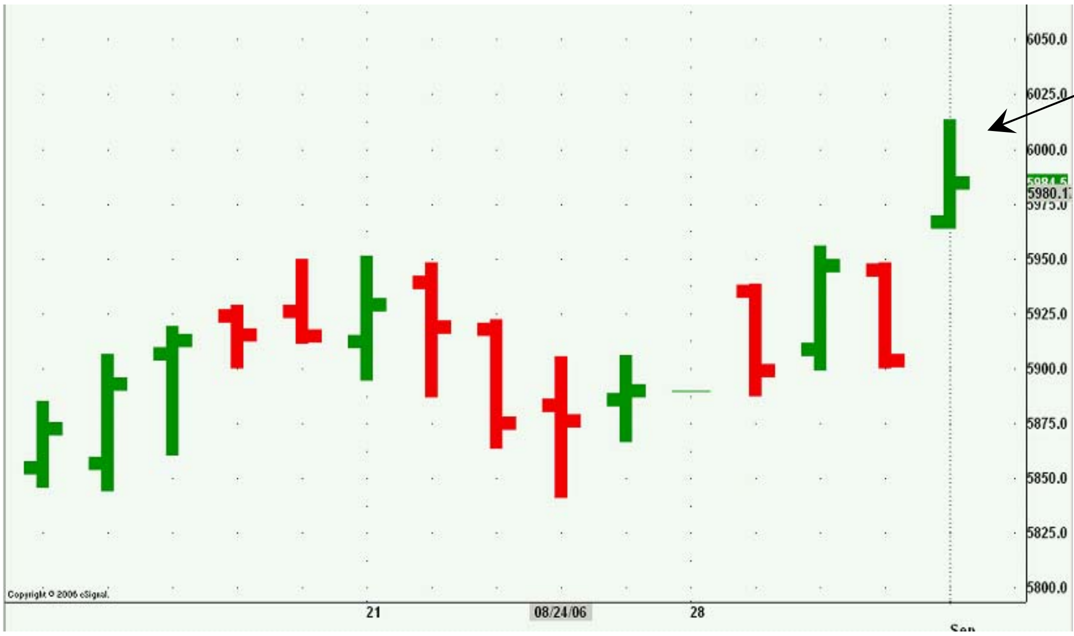
FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were square of the FTSE 100.

FTSE 100 SEPTEMBER 06



See how the market rallied on Friday on the combination of soft UK and US data and declining Oil prices.

This week we are bullish of the FTSE 100.

Last week we remained square of the FTSE as we awaited last week's key data releases. We judged the market would likely struggle to rally with the MPC on high alert for higher inflation, which would lead them to tighten policy further.

On balance UK data supported the view of another rate hike from the MPC over the coming months, while US data confirmed the recent softness in the US economy, indicating the Fed will remain on hold at its September meeting.

However we also indicated last week that the current softness of oil prices may allow a short term rally in stocks before the Iran question returned to the UN Security council for deliberations over possible sanctions.

In the event that proved to be the case, as the Oil market continued to test the downside. But with the major powers unable to agree on how to tackle Iran with Russia ruling out sanctions, the prospect of another leg to the rally in Oil prices receded further.

Although ultimately the western powers will devise a way to tackle Iran, with out without Russia's help, a period of impotence is now in play, where Iran feels it can proceed unhindered, Oil prices weaken and the major economies get a rest bite from oil inflation.

The Macro Trader's view is: for now equities can rally on the prospect of an easing of inflationary, as a result of the current weakness in the oil market.

As volatility and uncertainty subside traders will focus on the fundamentals governing the UK economy and as inflation recedes the MPC will be in less of a hurry to tighten policy.

Traders should now be long of this market, our target over the next 10 days is 6086.0 but run a stop at 5920.0 as protection.

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EURO 12 MARKETS

EURIBOR

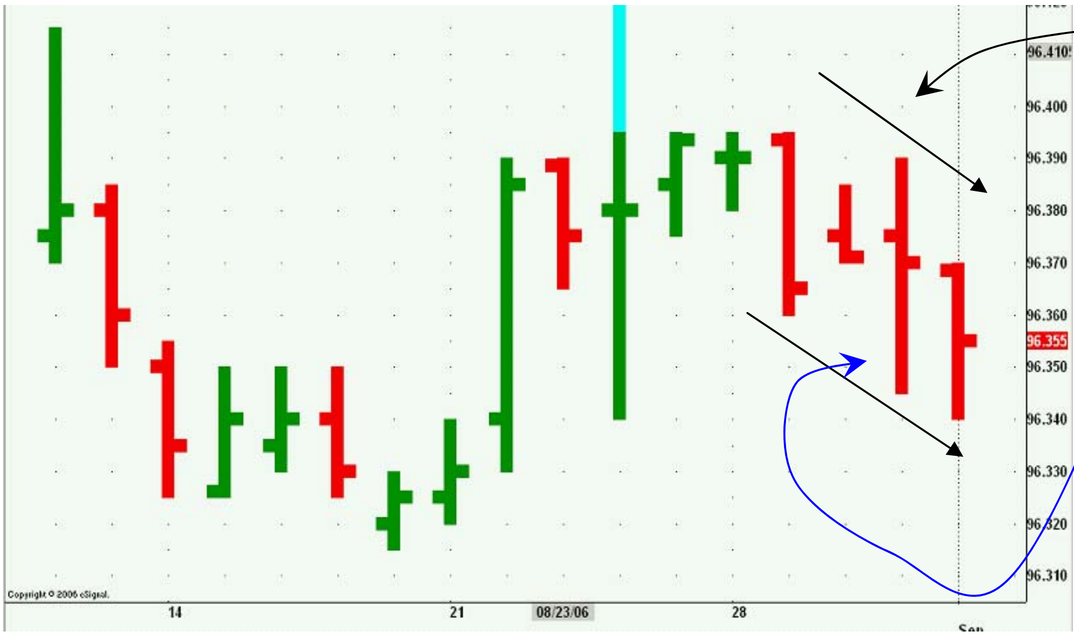
WHAT HAPPENED LAST WEEK?

	Week of 28th August
Monday	EU12 M3 8.3% (3MA) WEAKER EU12 M3 7.8y/y WEAKER THAN EXPECTED
Tuesday	DM GFK Cons conf 8.6 STRONGER THAN EXPECTED
Wednesday	
Thursday	DM Retail sales -1.5m, 0.0y WORSE DM Unemploymnt +5k BETTER DM Rate 10.6% AS IT PPI 0.9m, 6.9y HIGHER EU12 CPI 2.3y AS EU12 Economic conf 106.7 WEAKER ECB Rate decision 3.0% AS THAN EXPECTED
Friday	IT Mfg PMI 54.8 WEAKER FR Mfg PMI 56.2 WEAKER DM Mfg PMI 58.2 AS EU12 PMI Mfg 56.5 WEAKER EU12 Q2 GDP 0.9q, 2.4y AS THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 4th September
Monday	EU12 PPI 0.5m, 5.8y
Tuesday	IT PMI Services 58.2 FR PMI Services 60.5 DM PMI Services 56.0 EU 12 PMI Services 57.5 EU 12 Retail sales -0.3m, 1.2y
Wednesday	DM Factory orders 1.0m, 4.9y
Thursday	DM Industrial Prod 0.5m, 4.0y
Friday	DM Trade bal 12.7B DM C/A Bal 8.1B IT GDP Q2 0.5q, 1.5y

DECEMBER 06 EURIBOR



See how Euribor traded lower ahead of the ECB despite some softer dated, and continued the move after the ECB left policy on hold as traders anticipated a rate hike next time.

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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 we expected data to continue to paint a picture of a strengthening economy guaranteed to keep the ECB on a heightened state of alert.

In the event the data was at best mixed with some reports softer than expected. The ECB left policy unchanged at its meeting on Thursday but the language used at the press conference left a clear understanding that a hike will be voted through at their next meeting.

The use of language deployed before the last few hikes was again trotted out:

- policy remains accommodative,
- Euro zone rates historically low,
- The ECB remains extremely vigilant of inflation, and
- Further rate hike may be warranted.

Additionally forecasts for inflation through the rest of 2006 and 2007 were revised higher, and the Trichet declared growth in the first half of this year was stronger than expected.

Looking ahead there are several releases this week but we are most interested in Tuesday's PMI Services reports for the Euro zone as a whole and the individual reports for, France, Germany and Italy.

Additionally, given the make up of Euro zone GDP, German data on Wednesday and Thursday will also be important. But we retain our bearish outlook as we expect the market to decline further.

The Macro Trader's view is: last week we said we viewed the previous week's rally as no more than a correction and in a week when Eurodollars rallied; Euribor gave up its gains.

We expect more of this and unlike the Fed, we expect the ECB to be unmoved by the current softness in the Oil market.

They will see this as an opportunity to get inflation better under control. If inflationary pressures ease and they tighten further, they will judge their chances of bringing inflation in the Euro zone back to target will improve.

Additionally I am sure like us, they will view the current softness in the Oil market as a brief rest bite as the crisis with Iran is far from resolved and although Russia's current stance will make a diplomatic solution virtually impossible, the west wont sit back and allow Iran to acquire nuclear weapons just because Russia currently sees short term advantage from its non co-operation with the other major powers.

Traders should remain short; our target remains 96.30, not far off but we want to see it hit. Run a stop at 96.40 as protection.

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THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the bund.

THE BUND SEPTEMBER 06

This week we remain bullish of the Bund.

Last week we remained bullish of this market offering a target of 118.40 which was almost hit. We advised last week that this level would likely cause us to take some profit, and we did reduce our position a little to lock in some profit.

As we expected the market initially moved higher along with the US Treasury market, helped by soft US data and dovish Fed minutes and some surprisingly softer Euro zone data.

But, whereas we expected the rally to receive a boost on Friday if US data was below consensus, the Bund gave up some of its gains as traders pondered the language used at the ECB press conference the previous day.

Although Euro zone rates remained unchanged, the expectation is now clearly for a rate hike in October.

We expect this negativity to be short lived as easier oil prices over the short/medium term take some of the upward pressure off of inflation allowing Bonds generally to rally.

Looking ahead this week sees the release of the PMI Services surveys for the Euro zone and individual economies and we expect them to show growth remains solid.

The Macro Trader's view is: we expect the Bund to receive support from the current softness in the Oil market and the expected bullishness in the US Treasury market driven by the cooling US economy.

As said previously, although we still expect the ECB to tighten further, bond traders will be lead by fears a sustained US slowdown combined with tighter Euro zone policy will eventually infect the EU12 economy.

Traders should remain long and use the current pull back to add on. Our target is again 118.40 and our stop is 117.08.

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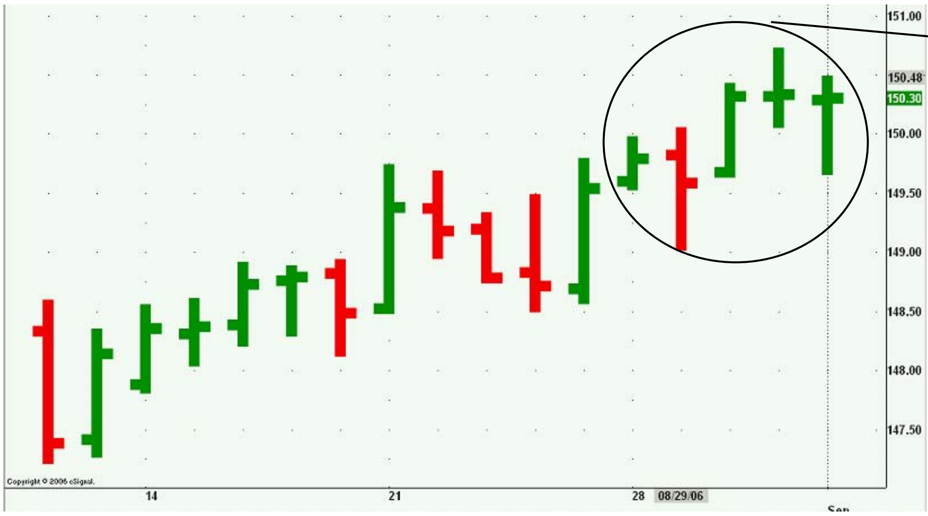
THE EURO

OUR TRADING STANCE: BULLISH.

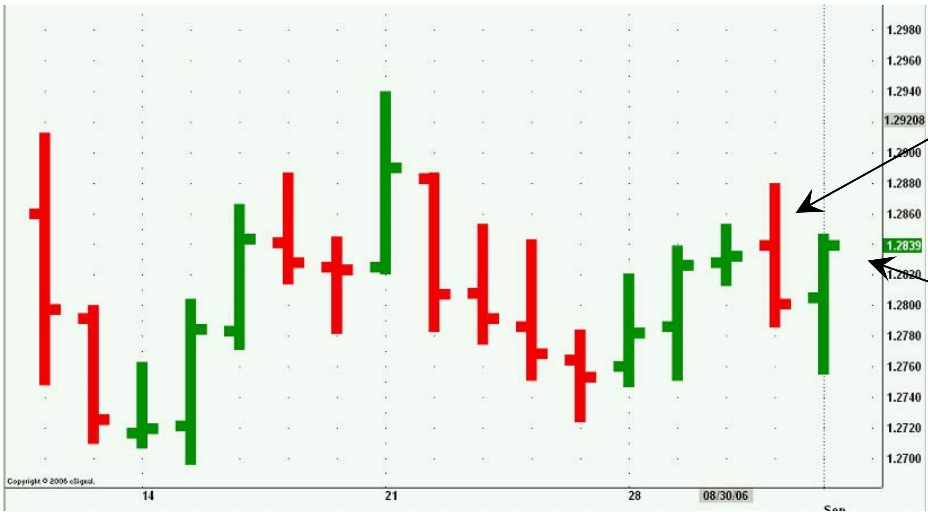
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen lost yet more ground to the Euro as the BOJ is currently expected to take a much softer stance on Japanese monetary policy.

THE EURO/DOLLAR CHART



See how the Euro gave back some of its gains on Thursday after the ECB held policy steady but rallied on Friday after disappointing US non-farm payroll and weaker ISM Mfg.

This week we remain bullish of the Euro.

Last week we were bullish of the Euro ahead of some key events in both the Euro zone and US.

Although Euro zone data was on balance weaker than expected the Euro found support in the text of the FOMC minutes released in the US on Tuesday.

These gave the clear impression the Fed was on hold for more than just one month, but the Euro gave back some gains on Thursday after the ECB left policy on hold, even though the language used at the post meeting press conference lead us and others to conclude a rate hike would be delivered at the ECB'S October meeting.

Looking ahead traders will look to the release of PMI Services surveys in the Euro zone on Wednesday and the ISM non-manufacturing survey in the US also on Wednesday for short term direction.

Longer term we still view the Euro as a buy against the Dollar as we see Euro zone interest rates moving up several more times yet.

The current lull in the Oil market will not endure in our opinion, even though it could take two or three weeks to play out.

When Russia voiced its refusal to consider sanctions against Iran the sense of a crisis coming to a head was removed, even though Iran failed to halt Uranium enrichment work in line with the UN Security Council deadline.

In the longer term this disagreement between the major powers makes crisis resolution harder and military action more likely.

The western democracies did every thing they could to avoid war with Hitler's Germany, but eventually it was the only way to stop him.

That may prove the case with Iran, no matter how much they try to avoid it, if Iran is as western Governments say, on course to acquire Nuclear weapons and the US and her allies are so against that happening, how else can they prevent a dangerous regime having so powerful a weapon?

The Macro Trader's view is: as we have often said this currency pair will be driven mainly by events on the other side of the Atlantic. And since the US economy is cooling and the Fed on hold, we expect the Dollar to decline further, but repeat, this will likely become urgent once the September FOMC meeting confirms the US interest rate pause.

Traders should stay long, our target remains 1.3000 and our stop is still at 1.2696.

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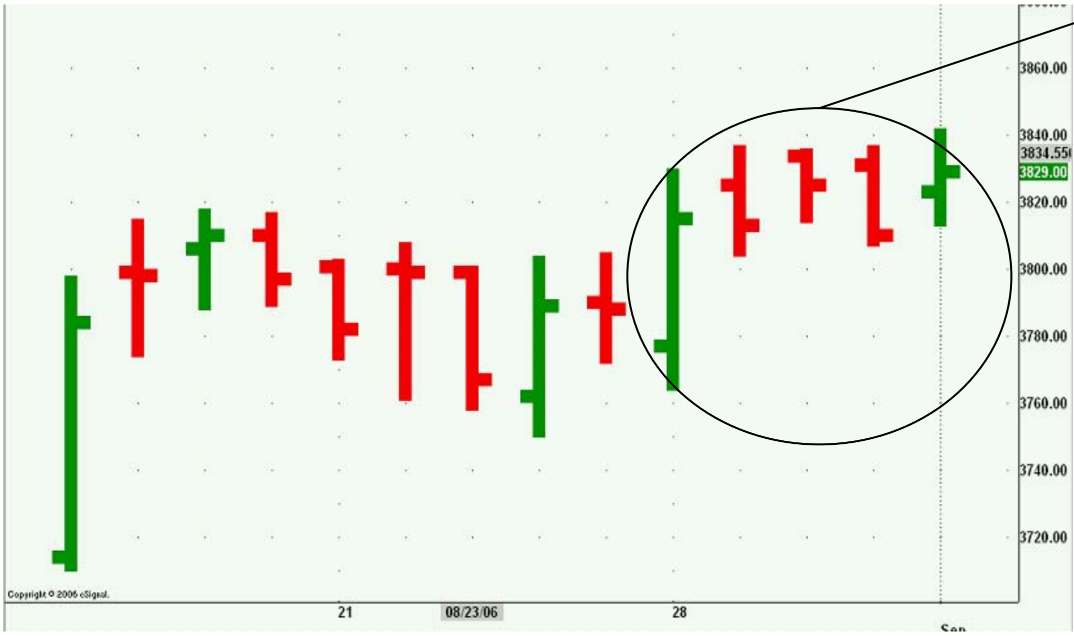
DJ EURO STOXX 50

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 consolidated its earlier gains as softer oil prices reduced inflationary fears and a lack of agreement among the major powers removed the immediate sting from the Iran crisis.

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

Last week we were square of this market and are this week too. Euro zone data was mixed last week and although the ECB held policy steady they took no notice of the short term implications as they warned the market of further rate hikes due to the outlook for inflation for the rest of this year and 2007.

So although the softer oil price will likely support equities over the next couple of week's we don't see current conditions warranting a rally to new highs and expect the market to labour at around these levels.

Although the market has pushed ahead today we see this as a delayed reaction to Friday's weaker US data.

The current dilemma for traders is deciding how much lower Oil prices can go and over what time frame. Clearly lower Oil prices if sustained will be a huge boost to equities as the need for further rate hikes will be greatly reduced, but we see this current situation as a lull.

When the US and its allies decide how to proceed, Oil prices will likely begin rising again; the ECB knows this and is likely to use this period in conjunction with tighter policy, to bear down on inflation.

The Macro Trader's view is: given our comments above, traders should remain square. The crisis with Iran has been on the back burner lately but due to the current lack of agreement, will fail to reignite even though the Security Council deadline has passed with the Iranians ignoring it.

Traders could chance a long position; we prefer to remain square, registering our short term bullish intent in the FTSE.

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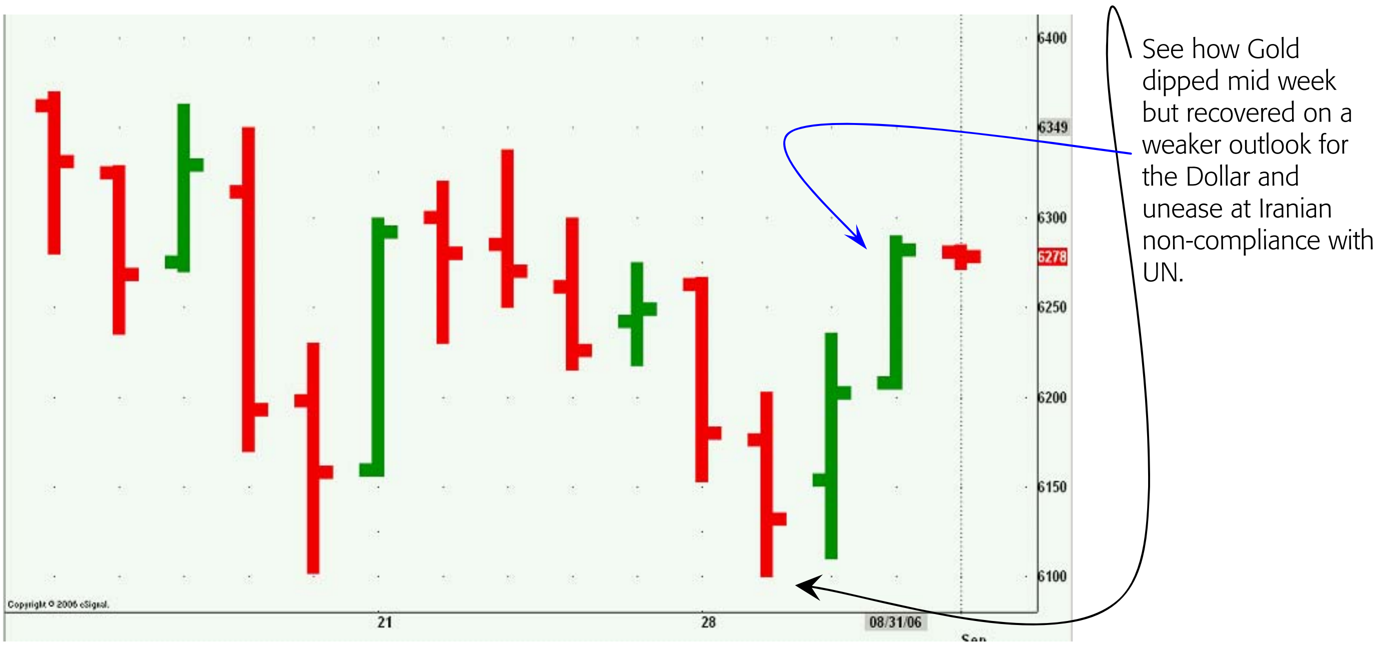
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were square of gold.

THE GOLD CHART



This week we remain square of Gold.

Last week we were square of Gold as we struggled to find a good reason to buy it. The Feds comments in their August 8th FOMC minutes indicating slower growth and the lagged effects from previous policy moves will combine to reduce inflation have removed, at least for now, a major reason for buying Gold.

The other reason; geopolitical tension, is still in play, but Russia and France are against imposing sanctions and although the US has said all options remain on the table, they haven't, at the moment, the stomach for military intervention.

The result is a crisis that burns on with Iran in open defiance of world opinion which is united in its fear of a nuclear armed Iran but still divided over how to deal with the problem.

This plays into the hands of the fanatics that run that country allowing them more precious time to further their ambitions.

But if the West genuinely believes Iran is trying to obtain nuclear weapons something will eventually have to be done to prevent it.

The Macro Trader's view is: for now stay square, the events that led Gold higher have evolved and although we expect a new twist in the drama involving Iran and its nuclear program, it maybe several more weeks before events conspires to push Gold back up towards the highs.

Until the major powers can agree a strategy to bring this crisis to conclusion or the west finds the political will to go it alone Gold looks set to drift further.

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OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART

See how Oil continues to drift lower as the threat of action against Iran looks well into the future.

This week we remain square of oil.

Last week we were square of Oil as the market continued to exhibit a listless air. Although the UN Security Council deadline came and went, with the Iranians in open defiance, any hope of action in the short/medium term looks unlikely as Russia refuses to countenance sanctions.

Why you may ask when they have their own sizeable and restive Moslem populations desirous of independence and looking to events in Iraq and Iran as they try to gauge how best to achieve their own statehood.

Unfortunately Russia's stance has nothing to do with principle but everything to do with commercial advantage, albeit short term.

The current level of oil prices is a bonanza for Russia as she tries to rebuild her economy. While it remains small it is much healthier than it was only a few years ago. Much of the external debt is being rapidly paid off and as the Worlds second largest Oil exporter, Russia is eager to maintain the environment that has brought about its improved fortunes.

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Although it believes foolishly co-operation with Iran will likely play well with its Moslem peoples at home and Iran will continue to favour it with lucrative contracts. If Iran builds its own nuclear weapon the game would soon conclude in Russia finding it can no more manage the fanatics than the rest of us.

Unfortunately if the major powers are unable to unite, the US and its allies will go it alone and the implications for Oil prices, growth and inflation will be more profound.

The Macro Trader's view is: we are currently square of this market but expect it to remain supported around current levels, demand from the US may cool but any deterioration in the crisis with Iran will see this market rally again, with this in mind traders should maintain a square position, since it is currently impossible to put a time frame in place around expected events.