



Week 20
20th – 26th May 2014

Summary

Global Calendar

US Markets

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

UK Markets

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

Euro Zone Markets

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

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer



the macro trader's guide to major markets

John Lewis

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SUMMARY

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US Markets

+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

- SQUARE
- SQUARE
- BEARISH v the Pound
- BULLISH

UK Markets

+ SHORT STERLING
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+ STERLING
+ FTSE

- BEARISH
- SQUARE
- BULLISH v the Dollar and Euro
- SQUARE

Euro Zone Markets

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- BULLISH
- BULLISH
- BEARISH v the Pound
- SQUARE

Japanese Markets

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- SQUARE
- SQUARE
- SQUARE

Commodities

+ GOLD
+ OIL

- SQUARE
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Week of 19 th May	
Monday	EZ Construct'n output n/f JP Machine orders 5.8m, 4.3y JP Condo sales n/f
Tuesday	UK CPI 0.3m, 1.7y UK RPI 0.5m, 2.6y UK RPI-X 2.7y UK PPI Input -0.2m, -4.9y UK PPI Output 0.2m, 0.7y UK PPI Core 0.1m, 1.0y UK DCLG Hse prces 9.6% DM PPI 0.0m, -0.9y JP All ind actvty indx 1.6m, JP Nat'nwide dept stre sales n/f JP Tokyo dept store sales n/f JP Machine tool orders n/f JP Convenience stre sales n/f JP Trade bal -Y646.3B
Wednesday	US MBA Mrtge apps n/f US FOMC Minutes April 29-30 UK MPC/BOE Minutes UK Retail sales 0.5m, 5.4y EZ C/A Bal n/f EZ Cons conf -8.6% JP Supermkt sales n/f

Week of 19 th May	
Thursday	US Jobless claims 310k US Existing home sales 4.68M UK PSNCR n/f UK PSNB 3.4B UK INDX of services 0.3m, 0.9(3m/3m) UK Tot bus invstmnt 2.2q UK Q1 GDP 0.8q, 3.1y UK CBI Trnds orders 3 EZ PMI Composite 53.9
Friday	US New Home Sales 425k DM Q1 GDP 0.8q, 2.5y DM IFO 110.9



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	Week of 12 th May
Monday	US Mnthly bdgt statm't \$106.9B BETTER UK BRC Sales 4.2% STRONGER JP C/A Y116.4B WEAKER JP Trade Bal -Y1133.6B WEAKER JP Bankruptcies 1.66% WORSE JP ECO watchers 41.6 WEAKER THAN EXPECTED
Tuesday	US Retail sales 0.1% WEAKER US RS Ex-Autos -0.1% WEAKER US Import prices -0.4m, -0.3y WEAKER US Bus invntry 0.4% AS DM WPI 0.2m, -1.3y MORE DM ZEW 33.1 WEAKER JP Loans & discount 1.88% LESS JP Domestic corp gds prces 2.8m, 4.1y AS THAN EXPECTED
Wednesday	US MBA Mrtge apps 3.6% LESS US PPI 0.6m, 2.1y STRONGER US PPI Ex – f&e 0.5m, 1.9y STRONGER UK Unemploy'm't rate 3.3% AS UK Unemploy'm't chge -25k LESS UK Avrge wkly earngs 1.7% WEAKER UK AE Ex-Bonus 1.3% WEAKER UK ILO 6.8% AS UK BOE Qrtly inflation report DM CPI -0.2m, 1.3y AS FR CPI 0.0m, 0.7y WEAKER EZ Ind production -0.3m, -0.1y WEAKER JP Machine tool orders 48.8 STRONGER JP Tertiary ind indx 2.4m, AS JP Q1 GDP 1.5q, 5.9% A STRONGER THAN EXPECTED

	Week of 12 th May
Thursday	US CPI 0.3m, 2.0y AS US CPI Ex-f&e 0.2m, 1.8y STRONGER US Empire mfg 19 STRONGER US Jobless claims 297k LESS US Net lg trm TIC flows \$4.0B WEAKER US Ind production -0.6% WEAKER US Capacity utilisation 78.6% WEAKER US Philly Fed 15.4 STRONGER US NAHB Hse mkt indx 45 WEAKER FR Q1 GDP 0.0q, 0.8y WEAKER DM Q1 GDP 0.8q, 2.5y STRONGER IT Q1 GDP -0.1q, -0.5y WEAKER EZ Q1 GDP 0.2q, 0.9y WEAKER EZ CPI 0.2m, 0.7y AS JP Cons conf 37.0 MORE THAN EXPECTED
Friday	US Housing starts 1080k STRONGER US Building permits 1072k STRONGER US U. of Michigan conf 81.8 WEAKER EZ Trade bal 17.1B STRONGER JP Ind production 0.4m, 7.4y STRONGER JP Capacity utilisation 0.4% STRONGER THAN EXPECTED



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US MARKETS: economic background

Last week's key release was the Retail sales report, which came in weaker than expected, raising a fresh question mark over the economy's resilience.

But, the housing market data; building permits and housing starts, came in stronger than expected, which so soon after Janet Yellen expressed concern over the housing market, places a question mark over the Fed's reading of the economy!

Looking ahead there are several reports due this week, as detailed on the global calendar, but we judge these are the week's **key** releases:

- On Wednesday; **FOMC minutes**,
- On Thursday; **Jobless claims, Existing home**

sales, and

On Friday; **New Home Sales.**

The main event this week is Wednesday's release of the FOMC minutes, but with Existing and New home sales also due, the housing market and the Fed's comments about it look like taking centre stage this week.



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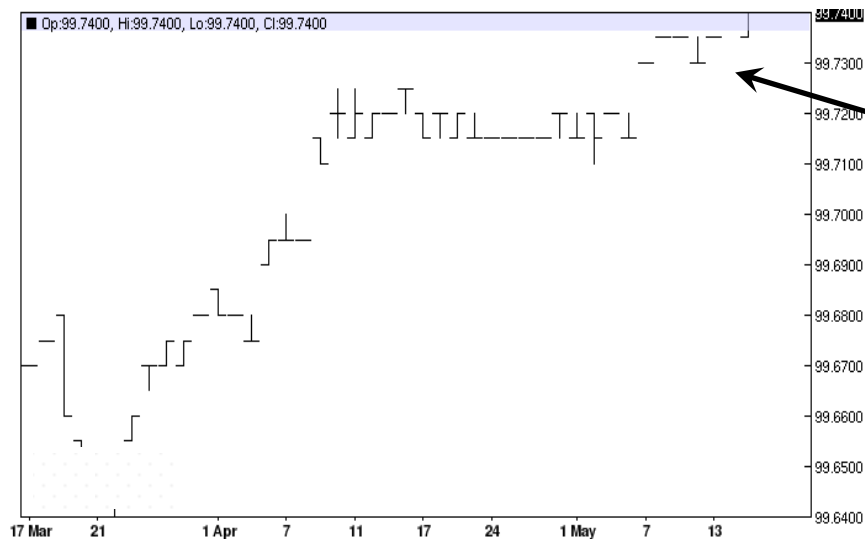
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars drew support from weaker Retail Sales.

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

...“Looking ahead the retail sales report is due Tuesday, perhaps a stronger than expected performance will provoke yet another rethink among policy makers”...

In the event the number was weaker than expected and helped lift the market towards the highs.

Looking ahead the FOMC minutes are due and traders will be focussed on comments about the housing

market and the implications for policy and just to under line that Existing and New home sales are due later in the week.

The Fed appears to be sending out mixed messages. Talking of rates needing to stay low and at the same time pressing on with the taper policy.

Then there is the stronger inflation data released last week.

We see little to recommend a trade and advise remaining square.



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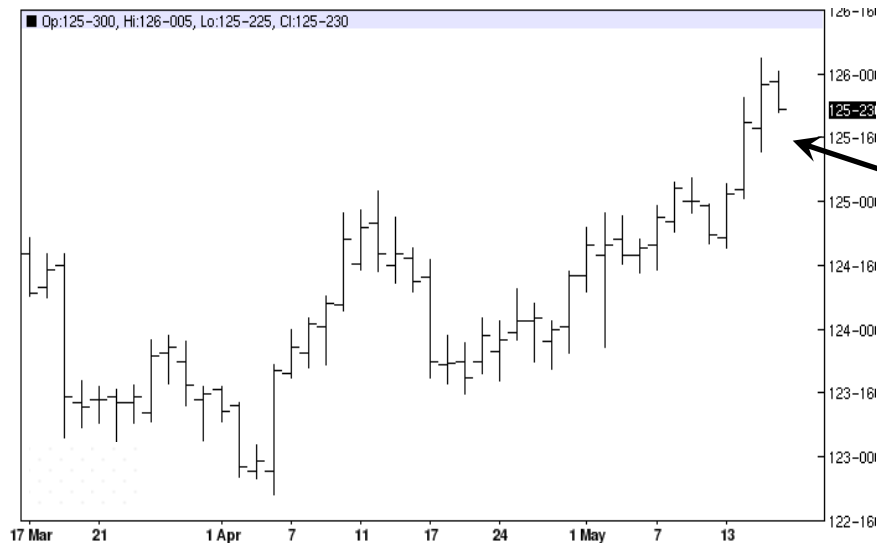
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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note is supported by concerns about the economy's health under lined by weak retail sales.

The Macro Trader's view of the 10 year note is: the market ignored the worse than expected PPI and CPI and focussed instead on weak retail sales which seemed to fit with Yellen's recent comments about keeping interest rates low.

So although the Fed continues to wind down it's QE3 policy, policy makers are still a long way from thoughts of tightening.

Looking ahead the FOMC minutes for the April 29-30 meeting are due, the point of interest will be the Fed's concerns over the housing market and their discussions about policy.

However, inflation clearly isn't dead and bond markets will at some point wake up to this latent threat and correct.

For now stay square.



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Japanese Markets

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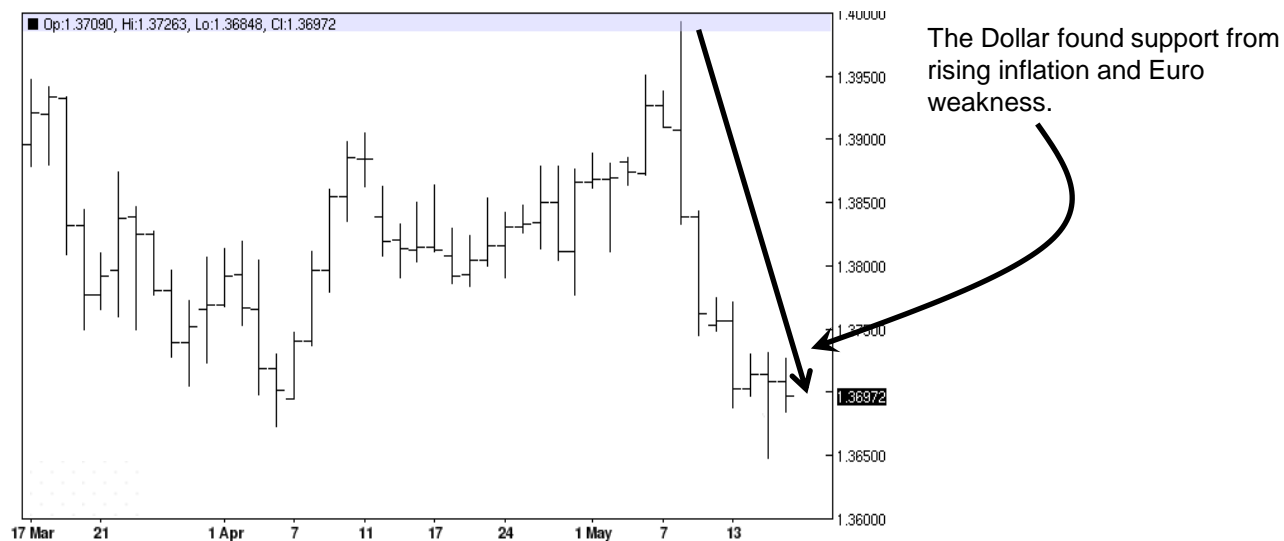
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US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v STERLING.

Last week we were [Bearish v Sterling](#).



The Macro Trader's view of the Dollar is; the Dollar continued to make gains against a Euro dogged by further ECB talk of Easing and steadied against a Pound reigned back by the Bank of England playing down expectations of a near term rate rise.

However, US retail sales were weak and the Fed looks concerned.

Looking ahead the FOMC minutes are due and offer an opportunity to gauge just how concerned policy makers are.

In summary we advise traders should remain Short Dollar/Long Sterling. The UK economy is growing strongly and a rate hike may come sooner than expected, despite last week's inflation report.

The Bank of England is getting uneasy about the strength of the UK housing market and growth is constantly being revised higher.

Our suggested target remains 1.7190 and our suggested stop is reset at 1.6725 for close protection.



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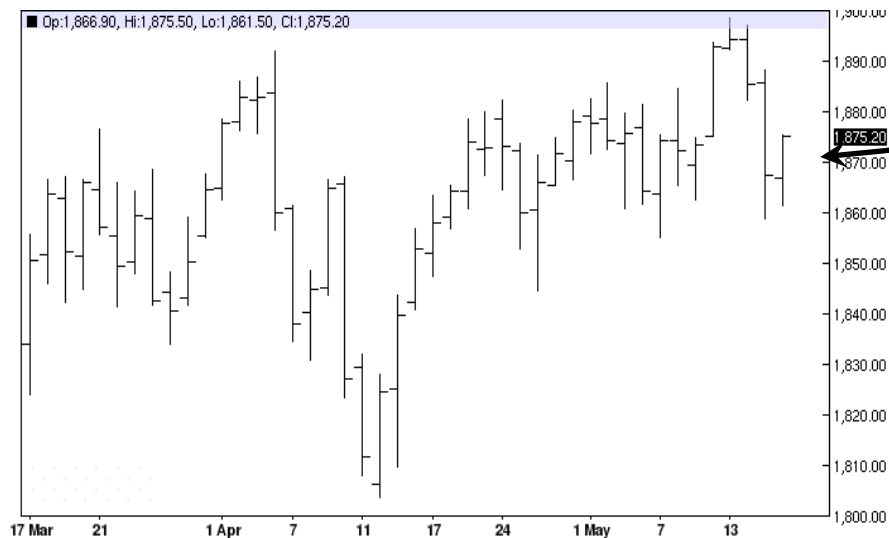
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US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P continues to labour under the weight of disappointing data.

The Macro Trader's view of the S&P 500 is: the market continues to labour under the weight of disappointing data.

However with a Fed that remains committed to keeping policy low for an extended period due to concerns over the health of the housing market, we judge the market remains supported.

Looking ahead the FOMC minutes are due. Traders

will be looking for further clarification of the Fed's commitment to keeping rates low beyond next year.

In summary we remain long term equity bulls and advise traders to remain long of this market.

Our suggested target is 1920.00 and our suggested stop continues at 1840.00 for protection.



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Japanese Markets

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Commodities

+ GOLD
+ OIL

Disclaimer

UK MARKETS: economic background

Last week's key data release was the quarterly inflation report. The Bank sought to play down expectations of an early rate rise by saying the economic recovery has just begun to stand on its own feet, there are still hurdles ahead before rates need to rise.

Moreover the Governor sought to play down future fears over a bounce in inflation by claiming the stronger Pound should help off set any inflationary pressures, but Sterling slipped on disappoint that there would be no early rate hike!

Looking ahead there are several key data releases due which are detailed on the global calendar, but we judge these are the week's key releases:

- On Tuesday; **CPI, RPI, RPI-X, PPI and DCLG House prices,**

- On Wednesday; **MPC/BOE minutes and retail sales, and**
- On Thursday; **PSNCR, PSNB, Index of services, Total business investment and Q1 GDP.**

There are several key releases due this week and traders will be focussed on the MPC minutes to see just how united policy makers are on the timing of interest rate hikes.

Additionally retail sales are due, so too CPI and then Q1 GDP. By the end of this week traders will have a much clearer idea of just how tenable the Bank's current interest rate policy is.



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Japanese Markets

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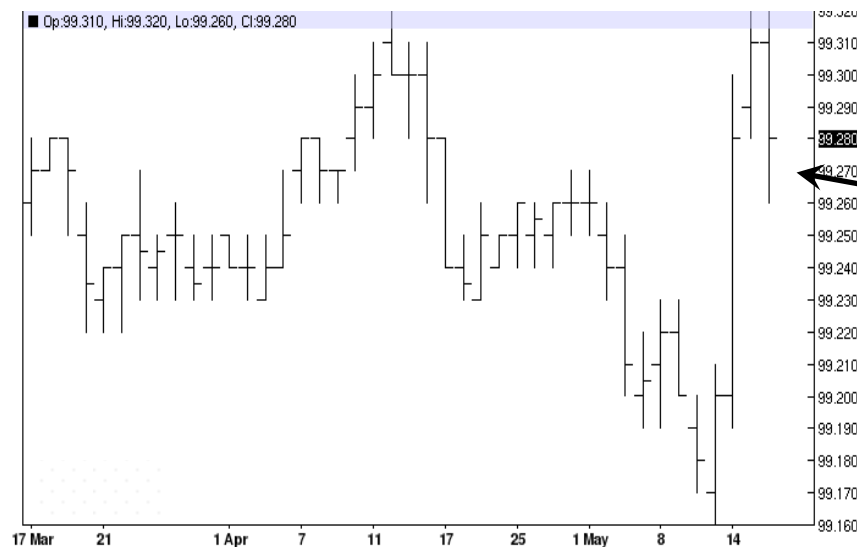
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UK MARKETS: Short Sterling

OUR TRADING STANCE; **BEARISH**.

Last week we were **Bearish** of Short Sterling.



Short Sterling rallied but it's a dead cat bounce.

The Macro Trader's view of Short Sterling is: the quarterly inflation report and the press conference that followed sought to remove market expectation of a rate hike this year.

The Governor acknowledged the economy's strength, but said there was still much catching up to do. Also The governor sought to play down any fears over inflation by saying the stronger Pound would contain these.

Naturally the market rallied. But the Bank is very concerned about the red hot housing market. With the economic recovery rattling along at a pace with house price inflation in double figures can the Bank really delay raising rates until Q2 2015, we don't think so and still expect rates to rise later this year.

Traders should be short of this market.

Our target remains 99.05 and our stop continues at 99.34 for protection.



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UK Markets

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Euro Zone Markets

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Japanese Markets

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Commodities

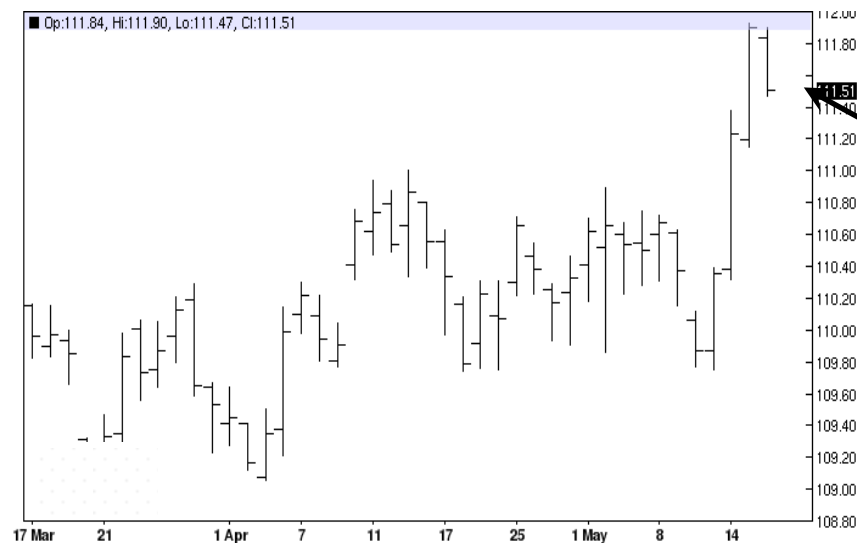
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UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt rallied on the BOE Governors interest rate comments.

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

...“Looking forward the Bank of England quarterly inflation report is due this week and we expect the Bank to lay the ground work for rate hikes”...

In the event the Governor did the exact opposite and this market rallied, but just how credible is the Bank's current policy stance?

The economic recovery is robust, the housing market hot and delaying a turn of the policy cycle could lay the

groundwork for higher inflation. Only the Ukraine crisis and its restrictive influence on equity markets is preventing this market from starting to test the downside.

The Bank of England's track record of forecasting inflation is poor and it is highly probable they will get it wrong this time.

Bonds look over bought, but the timing isn't in favour of the Bears so for now stay square..



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- + **STERLING**
- + FTSE

Euro Zone Markets

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Japanese Markets

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Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: Sterling

OUR TRADING STANCE; **BULLISH** v the DOLLAR and EURO

Last week we were **Bullish** v the Dollar and the Euro



See how Sterling continued to correct after the Bank's quarterly inflation report.

The Macro Trader's view of the Pound is; the Bank of England used the occasion of the quarterly inflation report to down play expectations of an early rate hike.

Although they acknowledged the growing strength of the economy, Carney said the economy has only just recovered from the crisis. There is, he said, still slack in the economy and the stronger Pound would keep a lid on inflation.

We judge the Bank will have to change its stance as the year rolls on. The economic recovery is strong and the housing market is red hot with prices rising in double digits.

They have made it clear the housing market is a risk to the economy, at some point soon they will need to act.

Traders should be Long Sterling against the Dollar and the Euro.

Our suggested target in Cable remains 1.7190 and our suggested stop is reset at 1.6725 for closer protection.

Against the Euro, our suggested target is 0.7800 and our stop is set at 0.8280 for protection.

More



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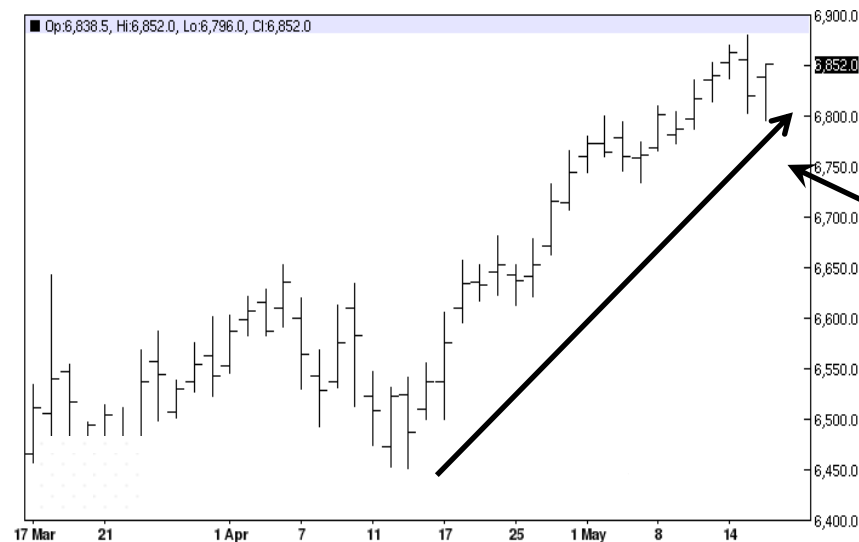
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UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

Last week we were Square.



The Macro Trader's view of the FTSE is; once again the FTSE extended the rally last week on three key factors:

1. The Bank's commitment to maintaining low interest rates into next year,
2. continued strong data, and
3. Pfizer's bid for Astra Zeneca.

Looking ahead there are several key data releases due. Strong retail sales will renew pressure on the Bank of England over interest rates and so too would

any upward revision to Q1 GDP.

While stronger data would be bullish for this market, any thoughts of rates going up sooner than the Bank indicated last week, could temporarily take the steam out of this rally.

For now we are staying square of this market. The FTSE has yet to regain its earlier all time highs and despite the robustness of the recovery we still favour the S&P.



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EURO ZONE MARKETS: economic background

Last week's focus was the various Euro zone Q1 GDP reports. In the event they served to highlight the disparity of strength between Germany and the rest.

The German report came in stronger than expected, but France was weaker; recording no growth and Italy contracted.

The result was the ECB has again said it is preparing new easing measures.

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Monday; **Euro zone construction output,**

- On Tuesday; **German PPI,**
- On Wednesday; **Euro zone current account data and consumer confidence,**
- On Thursday; **Euro zone PMI Composite, and**
- On Friday; **German Q1 GDP and IFO Survey.**

The main event this week is the Euro zone PMI Composite survey.

Following the mixed Q1 GDP reports traders will be seeking evidence that the Euro zone recovery isn't faltering.



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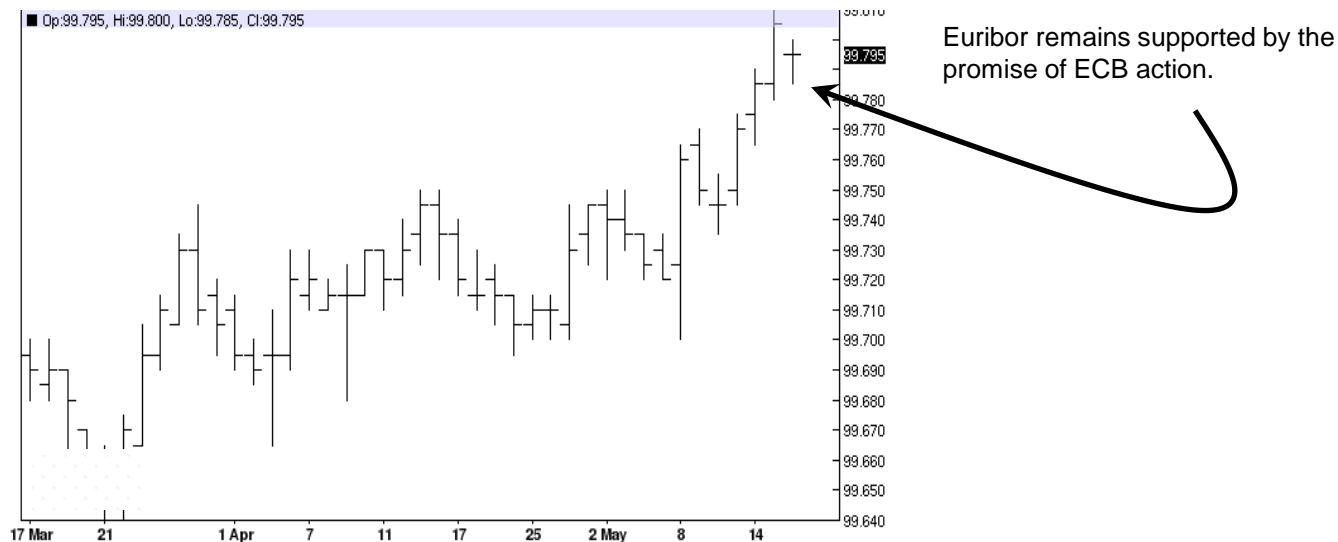
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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: BULLISH.

Last week we were Square of Euribor.



The Macro Trader's view of Euribor is; the market rallied further after the release of weaker than expected Q1 GDP data, with only Germany standing out as an economy in economic recovery.

The ECB has responded by claiming to be preparing a range of measures designed to support growth and stem the drift lower of inflation towards deflation.

Looking ahead the Euro zone PMI Composite survey is due. Traders will be watching this report for

evidence the recovery has stabilised during the current second quarter.

Traders should be long of this market. Although the rally looks mature, it has only covered approximately 5 tics. If the ECB does cut rates further the market could rally all the way to 100.00.

Our suggested target is 99.95 and our suggested stop is set at 99.72 for protection.



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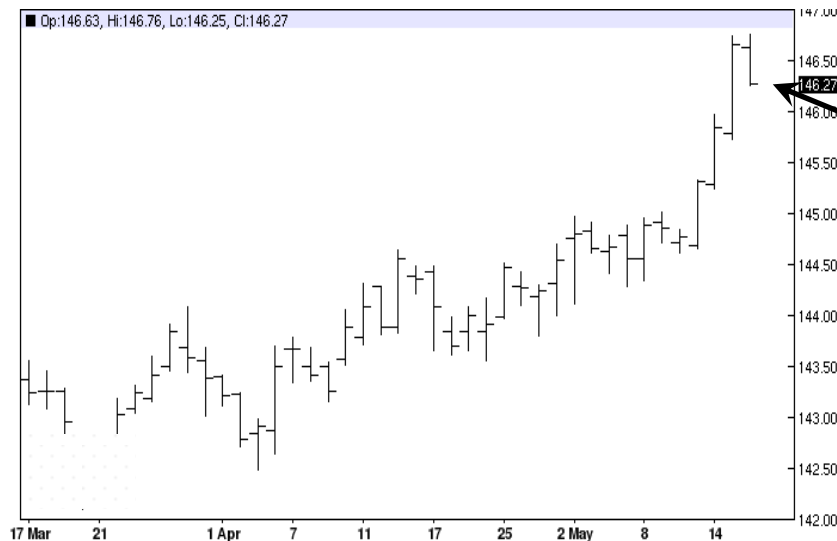
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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

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



The Bund hit our target and carried on!

The Macro Trader's view of the Bund is: last week we said...

...“Looking ahead the Q1 GDP reports are due, but we doubt they will reveal anything that will alter the debate about the need for the ECB to act”...

In the event our analysis was right. Q1 GDP in the Euro zone minus Germany was weak. Only German GDP registered what could be described as a solid recovery.

Looking ahead the Euro zone PMI Composite survey is due, but our expectations are not high.

Traders should remain long and patient, this market benefits from the prospect of renewed ECB easing at some point, the sluggish recovery and safe haven buying.

Our target is now 147.80, our stop raised to 144.70 for closer protection of profits.



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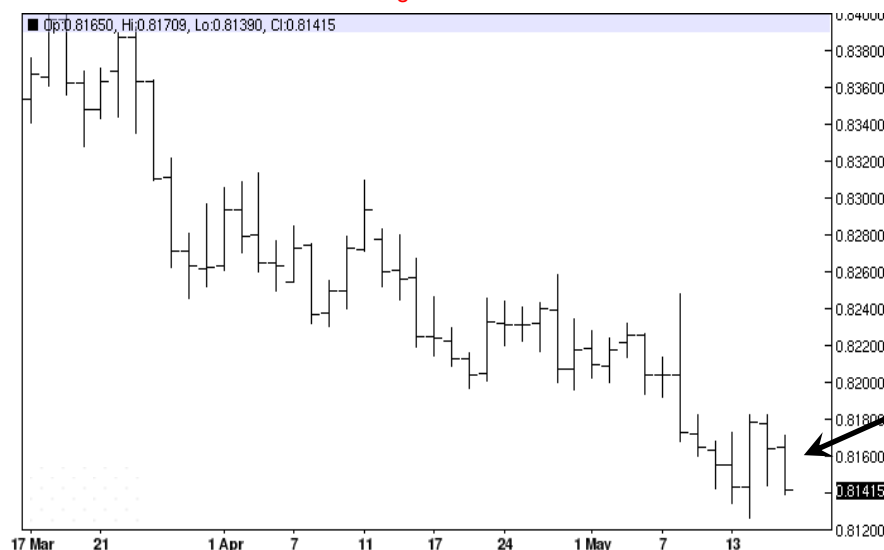
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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v STERLING

Last week we were **Bearish v Sterling**



See how the Euro remains under pressure against Sterling.

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

...“Looking ahead the key release for Sterling/Euro this week is the Bank of England's quarterly inflation report. With a recovery going from strength to strength and a red hot housing market, the Bank is under growing pressure to act”...

In the event the Bank of England played down the need for a rate hike this year which checked Sterling's

rally. However we believe this will prove temporary. The ECB has said it is preparing a range of policy measures including rate cuts which will only weaken the Euro further.

Traders should be Long Sterling/Short the Euro.

Our suggested target is 0.7800 and our stop is set at 0.8280 for protection.



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- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

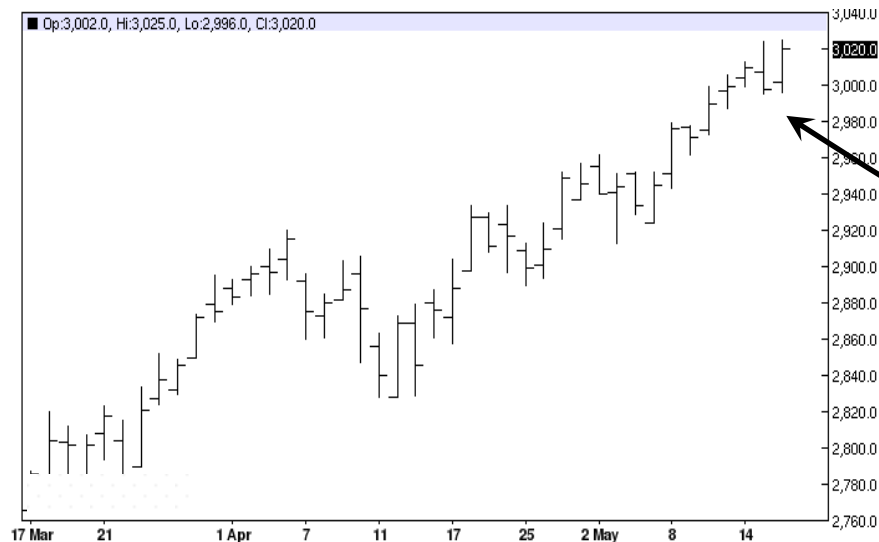
- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market rallies on the expectation of action from the ECB.

The Macro Trader's view of DJ Euro Stoxx 50 is: the market rallied further last week despite a clutch of weak Q1 GDP reports which apart from Germany showed the Euro zone economy in need of new stimulus.

The ECB pledged to act with new measures including rate cuts and that is what supports this market.

Looking ahead the Euro zone PMI Composite survey is due, paradoxically a weak report could offer the market support as traders will conclude the ECB has no alternative but to deliver.

For now we are remaining square and continuing to focus on the S&P.



Summary

Global Calendar

US Markets

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

UK Markets

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

Euro Zone Markets

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Commodities

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Disclaimer

JAPANESE MARKETS: economic background

Last week's focus was industrial production and Q1 GDP.

The industrial production report was stronger than expected, but was eclipsed to a degree by the strong Q1 GDP report.

But is this an indicator of a strengthening recovery or something else?

We judge the report was bolstered by the introduction of a sales tax in April, the Q2 GDP report will make far more interesting reading and the Industrial production report also released last week offers a positive start.

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

On Monday; **Machine orders and Condominium sales,**

On Tuesday; **All industry activity index, nationwide and Tokyo department store sales, Machine tool orders, convenience store sales and trade balance, and**

On Wednesday; **Supermarket sales.**

The two key events this week are Machine orders and Machine tool orders.

These are solid indicators of the strength of industrial production.



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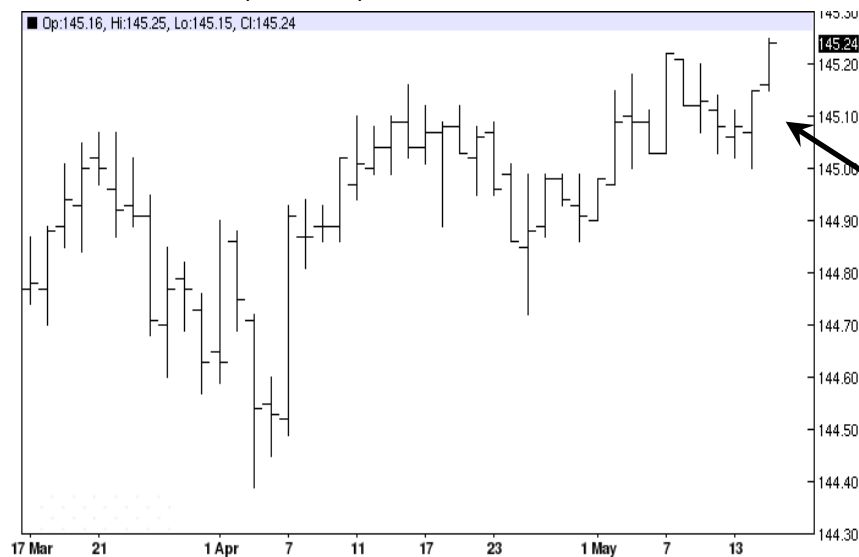
+ GOLD
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Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied as traders reacted to data which looked strong but was inflated by attempts to pre-empt April's sales tax.

The Macro Trader's view of the JGB is: last week's data was stronger than expected. Q1 GDP beat consensus at 5.9% annualised and Industrial production too was better than expected.

But, the introduction of a sales tax in April had a hand in boosting these numbers as consumers sought to "beat" the tax.

Looking ahead this market could rally further as

expectations of further Bank of Japan intervention builds.

A distorted number in one quarter does not bode well moving forward.

For now we remain square of this market. Japan's economy is in a pickle the Government has sought to begin tackling the fiscal side before the economy is repaired.



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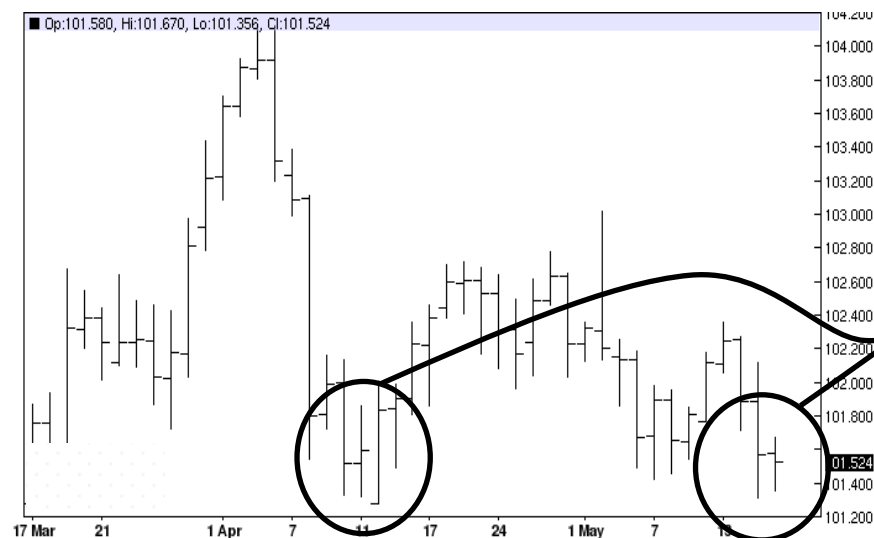
- + GOLD
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Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen rallied on last week's data, we've seen these levels before.

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

...“Looking ahead the Q1 GDP and Industrial production reports stand out. Will they offer anything capable of forcing a break out from the well defined trading range?”...

In the event the data was stronger, but so far the trading range has held?

Traders clearly saw through the strong Q1 GDP report

and realised it was distorted by the introduction of a sales tax in April.

For now the Yen is still within a trading range, but a break through 101.00 would encourage us to go long the Yen against the Dollar, but is that likely to happen soon?

We still don't think so.

For now watch and wait.



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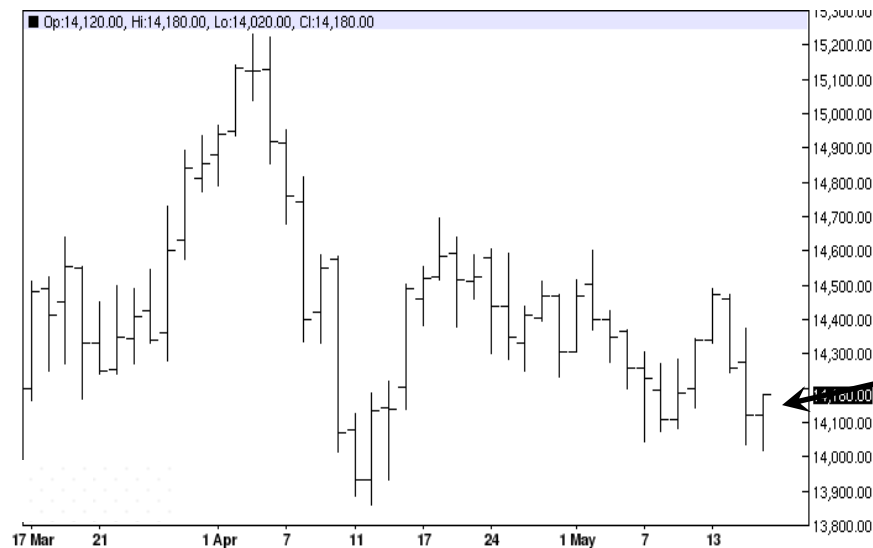
- + GOLD
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Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei failed to rally on the strong Q1 GDP report.

The Macro Trader's view of the Nikkei is; the Nikkei wasn't fooled by the strong Q1 GDP report as it is widely acknowledged it was inflated by consumers trying to avoid the introduction of a sales tax in April.

Looking ahead a large question mark still hangs over Japan's economy and expectations remain that the Bank of Japan will need to ease again.

The two key releases this week are Machine orders

and Machine tool orders; both offer an insight into the health of Japan's industrial heart.

We judge this market remains trapped in a trading range and apart from domestic uncertainty, China's economy remains sub-optimal.

For now stay square.



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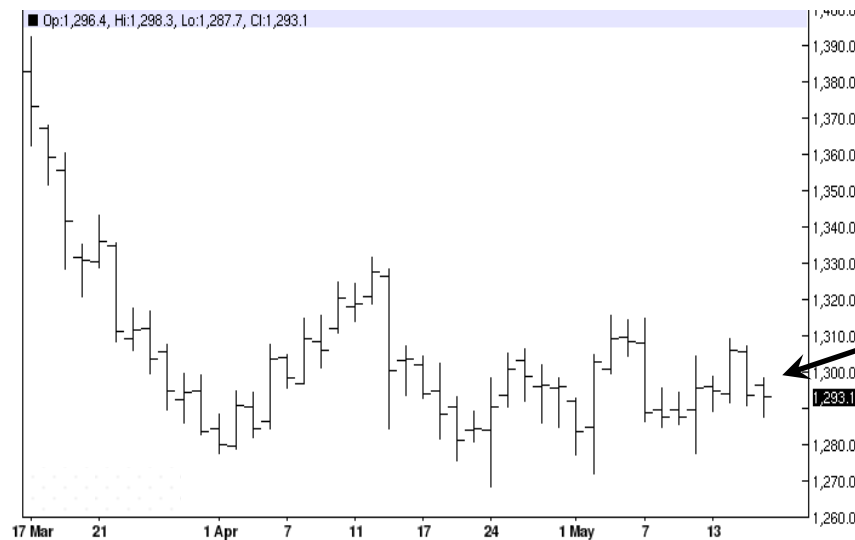
- + GOLD
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Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how gold remains range bound, but vulnerable.

The Macro Trader's view of the Gold is: gold remains range bound, but vulnerable.

The crisis in Ukraine goes on, but so far Russia has held back.

The US economic recovery has yet to fully fire up after the winter freeze, but inflation surprisingly spiked.

In the UK the Bank of England is voicing concerns about the red hot housing market, but isn't close to raising rates.

In the Euro zone the recovery is so anaemic that the

ECB is preparing fresh policy measures to stave off deflation and boost growth.

Japan remains in a pickle and China still in the slow lane.

Where then for gold?

We judge the next major move in this market is down, but not just yet.

For now we are square.



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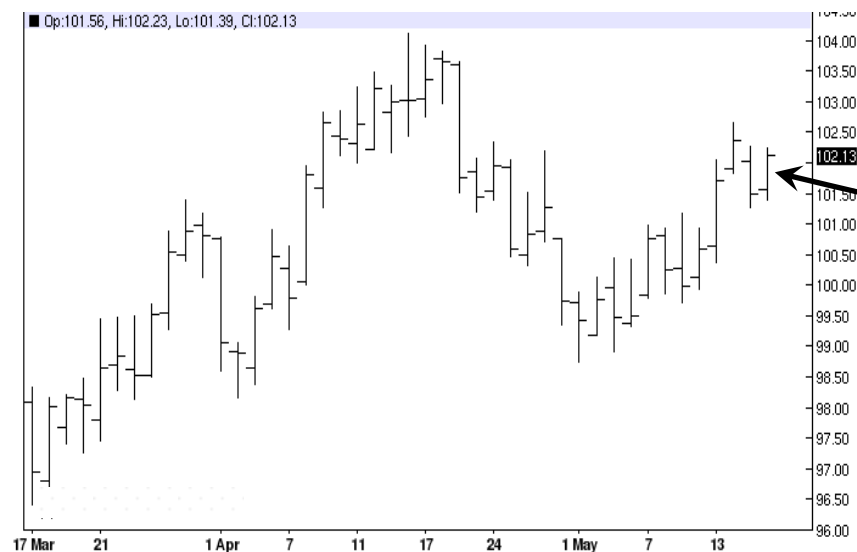
- + GOLD
- + OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil continues with the trading pattern.

The Macro Trader's view of oil is: the oil price remains directionless, experiencing bouts of weakness followed by limited correction as above.

What comes next?

There are reports of an energy short fall later this year requiring OPEC to increase production, until their response is known oil will derive some support from the uncertainty.

We expect OPEC to increase output. The global economic recovery is still in the balance and the oil producers will not want to risk derailing it with an oil price spiral due to insufficient supply.

For now stay square..



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Commodities

- + GOLD
- + OIL

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