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Week 22

3rd – 9th June 2014

the macro trader's guide to major markets

John Lewis

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This week's global calendar – macro trader

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	Week of 2nd June
Monday	US ISM Mfg 55.5 US ISM Prices paid 56.9 US Construct'n spndg 0.7% UK Net lndg on dwllgs 1.7B UK PMI Mfg 57.0 UK Net cons CR 0.8B UK Mrtge aprvls 64.5B IT PMI Mfg 53.6 FR PMI Mfg 49.3 DM PMI Mfg 52.9 EZ PMI Mfg 52.5 DM CPI 0.1m, 1.1y JP Vehicle sales n/f JP Labour cash earngs n/f JP PMI Mfg n/f
Tuesday	US Factory orders 0.5% UK Nat'nwide Hse prices 0.6m, 10.9y UK PMI Construction 61.0 UK BRC Shop prices -1.3% EZ Unemploym't rate 11.8% EZ CPI Estimate 0.6y JP PMI Services n/f
Wednesday	US MBA Mrtge apps n/f US ADP Employm't chge 208k US Trade Bal -$40.6B US Q1 Non-farm prodctvty -2.6% US Q1 Unit labour cost 4.8% US ISM Non-mfg 55.5 US Feds Beige book UK PMI Services 58.2 IT PMI Services 51.4 FR PMI Services 49.2 DM PMI Services 56.4 EZ PMI Services 53.5 EZ PPI -0.1m, -1.2y EZ Q1 GDP 0.2q, 0.9y

	Week of 2nd June
Thursday	US Jobless claims 313k UK BOE/MPC Rate decision 0.50% UK BOE AP Decision £375B DM Factory orders 1.4m, 4.6y EZ Retail sales 0.0m, 1.2y EZ ECB Rate decision 0.10%
Friday	US Non-farm payroll 219k US Unemploym't rate 6.4% US Avrge wrk week 34.5 US Avrge hrly earngs 0.2m, 2.0y US Cons CR $16.00B UK Trade bal -£8.650B UK Trade non-EU -£3.150B DM Trade bal 15.1B DM C/A bal 15.6B DM Ind prodcution 0.4m, 2.7y

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	Week of 26th May
Monday	DM GFK Cons conf 8.5 **AS** JP Corp services prces 3.4% **STRONGER** **THAN EXPECTED**
Tuesday	US Durable goods 0.8% **STRONGER** US DG Ex- Transportation 0.1% **BETTER** US House price indx 0.7m, **STRONGER** US Case/shiller comp-20 12.37y **STRONGER** US Cons conf 83.0 **AS** UK BBA Home purchse loans 42.173k **LESS** JP Sml bus conf 46.6% **BETTER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -1.2% **LESS** UK CBI Sales 16 **WEAKER** DM Import prices -0.3m, -2.4y **WEAKER** DM Unemplym't chge 24k **WORSE** DM Unemplym't rate 6.7% **AS** EZ M3 (3m/3m) 1.0% **WEAKER** EZ M3 (y/y) 0.8% **WEAKER** EZ Cons conf -7.1 **AS** EZ Ind conf -3.0 **BETTER** EZ Services conf 3.8 **BETTER** EZ Bus climate indx 0.37 **BETTER** JP Retail trade -13.7m, -4.4y **WEAKER** JP Lrge retailers -6.8% **BETTER** **THAN EXPECTED**

	Week of 26th May
Thursday	US Q1 GDP (A) -1.0% **WORSE** US Q1 Persnl consumpt'n 3.1% **AS** US Q1 Core PCE 1.2% **LESS** US Q1 GDP Price indx 1.3% **AS** US Jobless claims 300k **BETTER** US Pndg home sales 0.4m, -9.4y **WEAKER** UK GFK Cons conf 0 **BETTER** JP Jobless rate 3.6% **AS** JP Househld spndg -4.6% **WEAKER** JP National CPI 3.4y **AS** JP Tokyo CPI 3.1y **STRONGER** JP Ind production -2.5m, 4.1y **WORSE** JP Loans & discount corp 2.29% **MORE** **THAN EXPECTED**
Friday	US Persnl spndg -0.1% **WEAKER** US Persnl income 0.3% **AS** US Core PCE 0.2m, 1.4y **AS** US Chicago PMI 65.5 **STRONGER** US U. of Michigan conf 81.9 **LESS** DM Retail sales -0.9m, 3.4y **WEAKER** IT CPI -0.1m, 0.5y **WEAKER** JP Vehicle product'n 3.4% **WEAKER** JP Construct'n orders 104.9$ **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's key release was the Q1 GDP report as traders eyed an expected revision into negative territory.

In the event the downward revision was larger than expected with the annualised Q1 growth rate a feeble -1.0%. But markets were largely relaxed since it is well understood the long spell of severe winter weather was largely responsible. Moreover personal consumption held up well with inventories etc., largely responsible, meaning a strong Q2 is expected.

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 Monday; **ISM Manufacturing survey and construction spending,**
- On Tuesday; **Factory orders,**
- On Wednesday; **ADP Employment change, trade balance, Q1 non-farm productivity, Q1 Unit labour costs, ISM non-manufacturing suervey and Fed's Beige book,**
- On Thursday; **Jobless claims, and**
- On Friday; **Non-farm payroll, unemployment rate, average work week, average hourly earnings and consumer credit.**

The calendar is full of heavy weight data this week and the two ISM surveys are important given last week's release of weak Q1 GDP.

But as ever we judge Friday's non-farm payroll is the main event as aside from the housing market recovery the Fed is anxious to see the economy begin to create many more new jobs.

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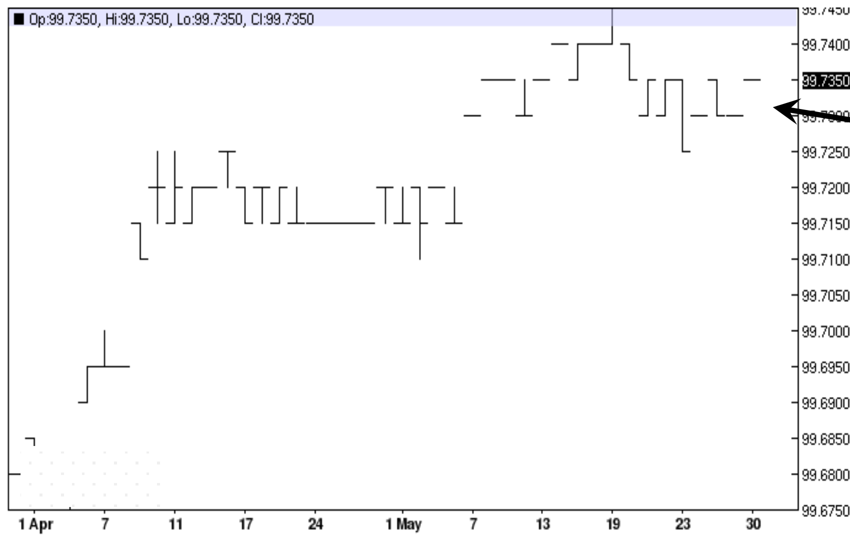
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars remains supported by the Fed's commitment to low interest rates.

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

…"Looking ahead a downwardly revised Q1 GDP report is the key event this week, a weak report is expected, if it comes in even weaker it will build pressure on the Fed over its taper policy"...

In the event the report was weaker, but personal consumption held up well meaning the factors weighing on Q1 GDP are unlikely to cause the Fed to have a rethink over Taper.

Looking ahead several key reports due which should support the view that Q2 GDP should show a strong rebound.

We see little to recommend a trade, in this market. Rates aren't going anywhere fast in the US, the upside is likely to prove caped by a stronger Q2 and the downside limited by the Fed's policy stance.

We advise remaining square here.

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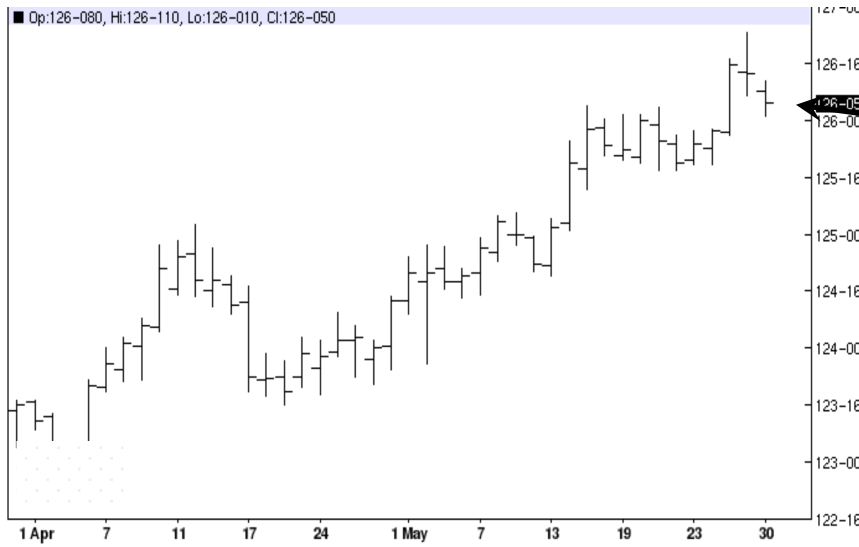
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note remains supported by the sluggish growth rate and Fed.

The Macro Trader's view of the 10 year note is: last week's data was a mix between the past and present. The Q1 GDP report highlighted the economy's winter weakness, but other data pointed to a stronger performance moving forward.

Looking ahead the two ISM surveys are due and we judge these should flag the economy's expected recovery is under way.

Additionally non-farm payroll is due and a solid report could give bond traders pause for thought, but until inflation becomes an issue and the Fed starts to tighten, this market will retain support.

Our favoured trade is long equities and stay clear of Bonds.

The market looks bullish for now, but if the economic recovery re-asserts as we expect, Bonds will ultimately struggle.

For now stay square.

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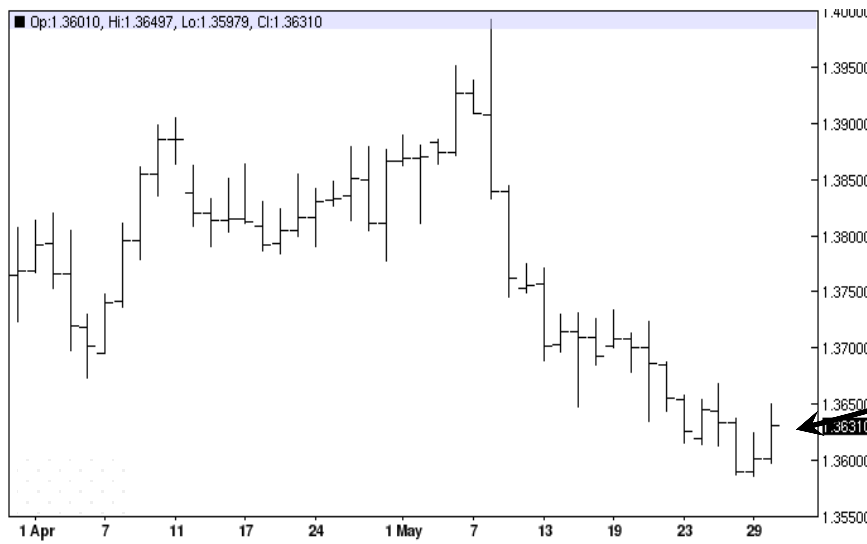
US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v STERLING.

Last week we were Bearish v Sterling.



The Dollar retained support last week despite the weak Q1 GDP report.

The Macro Trader's view of the Dollar is; the Dollar held much of it's gains last week despite a weak Q1 GDP report.

Apart from expectations of a US economic rebound, the prospect of a comprehensive easing by the ECB is weighing on the Euro, and together with the political uncertainty creeping into the UK, the Pound too.

Looking ahead there are heavy weight data releases due in the US, UK and Euro zone this week and while we expect the outlook for the US to improve, the story for the Euro zone is likely to remain unchanged and the growth outlook for the UK strong.

In summary we advise traders should remain Short Dollar/Long Sterling. The UK economy is growing strongly and we expect a rate hike to come sooner than many expect.

Our suggested target remains 1.7190 and our suggested stop is reset at 1.6695 for protection.

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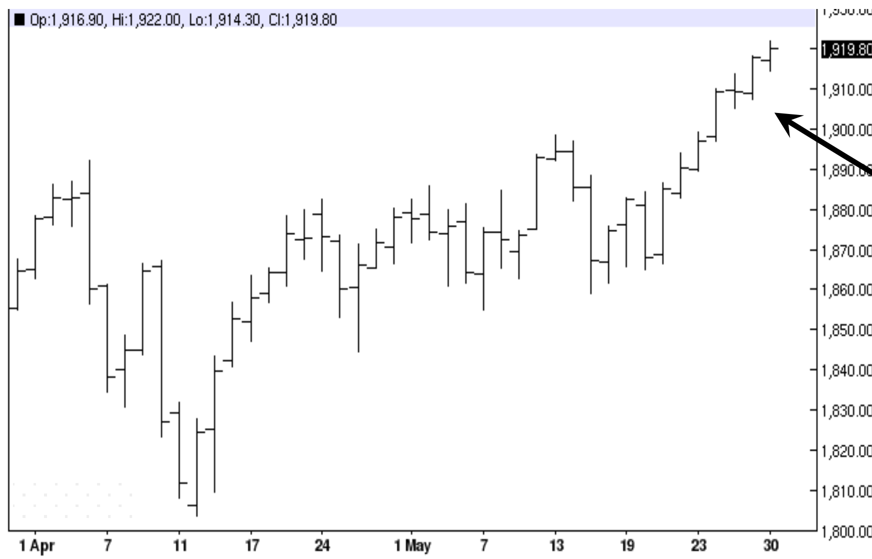
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P is a bull market driven by Fed support and the expectation of an economic rebound.

The Macro Trader's view of the S&P 500 is: the market remains well supported by the Fed's policy stance and the expectation of an economic rebound, meaning last week's weak Q1 GDP report has been largely discounted.

Looking ahead the two ISM surveys and non-farm payroll are due. By Friday afternoon the outlook for the economy should become clearer and confirm expectations of a strong Q2.

In summary we remain long term equity bulls as we judge the weakness was weather related and short term and advise traders to remain long of this market.

Our suggested target of 1920.00 was met.

Our target is now set at 1945.00 and our suggested stop raised to 1890.00 for closer protection.

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UK MARKETS: economic background

Last week's calendar was very sparse with only minor releases with comments from MPC members about interest rates taking the headlines.

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 Monday; **Net lending on dwellings, mortgage approvals, consumer credit and PMI manufacturing,**
- On Tuesday; **Nationwide house prices, PMI Construction and BRC Shop prices,**
- On Wednesday; **PMI Services,**
- On Thursday; **BOE/MPC Policy decisions, and**
- On Friday; **Trade data.**

The main events this week are the three PMI Surveys as traders look for clues on when the Bank might decide the time is right to begin raising rates and although policy makers meet on Thursday to decide, no move is expected this time.

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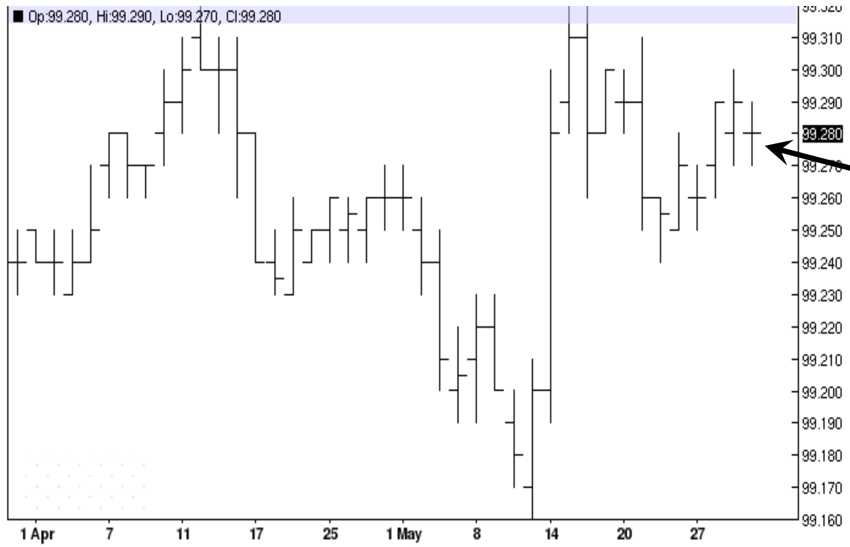
UK MARKETS: Short Sterling

OUR TRADING STANCE; BEARISH.

Last week we were Bearish of Short Sterling.



Short Sterling retained its support last week on a lack of heavy weight data.

The Macro Trader's view of Short Sterling is: the market moved very little last week in the absence of fresh data.

Looking ahead the two key PMI surveys are due and our expectation is for those reports to continue flagging a strong recovery.

MPC committee members have already begun openly voicing opinions about the merits of starting to raise interest rates sooner rather than later.

If as we expect data continues to show a strong recovery over the summer months, come the Autumn policy makers will be contemplating a move late Q3, early Q4.

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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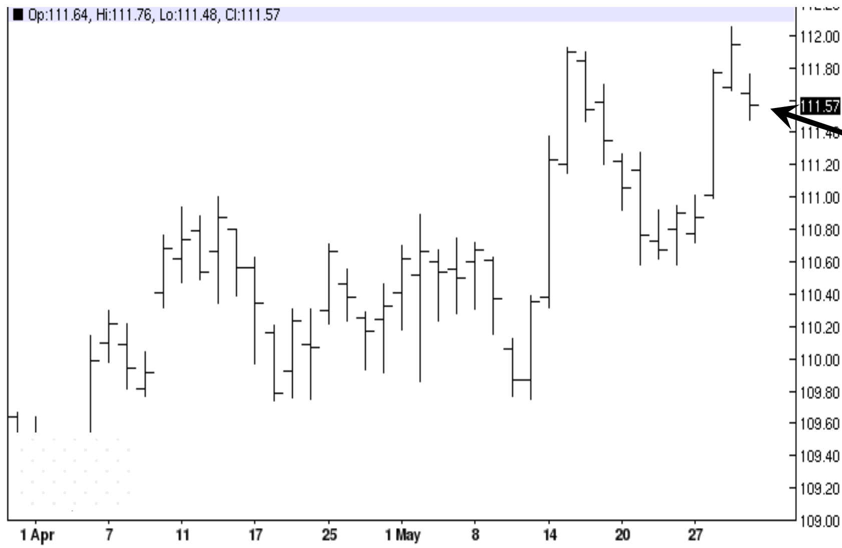
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt remains supported by bullish international sentiment.

The Macro Trader's view of the Gilt is; last week's price action failed to reflect the reality of the UK's economic recovery and owed more to international sentiment which is driven by the question mark still just visible over the US economy, the weakness of the Euro zone economy and the conundrum which remains the Japanese economy.

Looking ahead there are heavy weight data releases due in the US, UK and Euro zone.

The US data could at last lay to rest fears of weakness that arose during Q1, the UK data should show the strength of UK growth remains solid, meaning the only Bond market still supported by economic weakness and fresh easing would be the Bund, opening up the possibility of the US and UK bond markets starting to take a different direction to the Bund.

We judge the Gilt is trading on borrowed time and expect the accumulation of strong data to begin weighing on the market in the not to distant future.

We judge it too soon to go short, but think a long position is a risk not worth taking in the current environment.

For now stay square.

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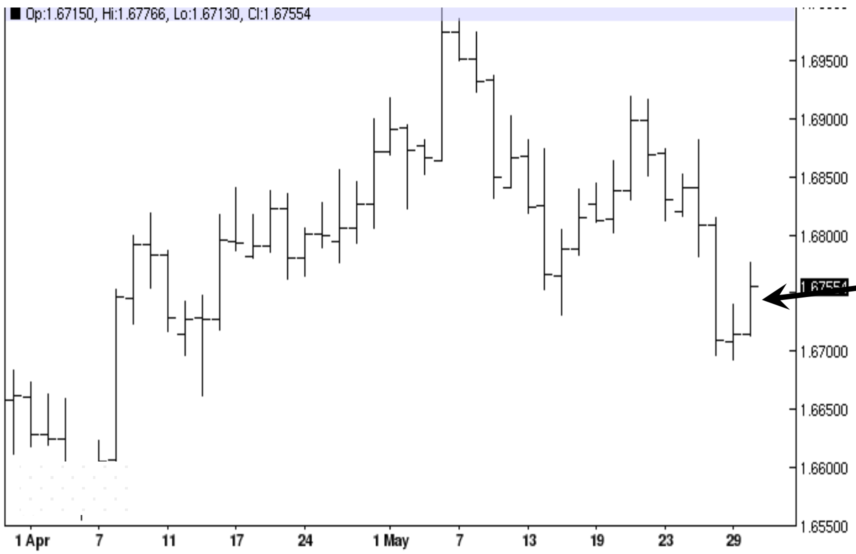
UK MARKETS: Sterling

OUR TRADING STANCE; BULLISH v the DOLLAR and EURO

Last week we were Bullish v the Dollar and the Euro



See how Sterling continues to correct against the Dollar.

The Macro Trader's view of the Pound is; the main feature for Sterling last week was the continuing correction against the Dollar.

Although there was an absence of UK data and US Q1 GDP came in much weaker than expected, the Dollar benefited for the view that US growth would quickly rebound and the Pound was restrained by a degree of political uncertainty generated by the EU votes that favoured anti-EU parties.

Looking ahead a whole raft of data is due in the major economies and will likely remind traders of the strength of UK growth

We judge the political uncertainty will give way to economic certainty and see Sterling rebound.

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

Our suggested target in Cable remains 1.7190 and our suggested stop continues at 1.6695 for protection.

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

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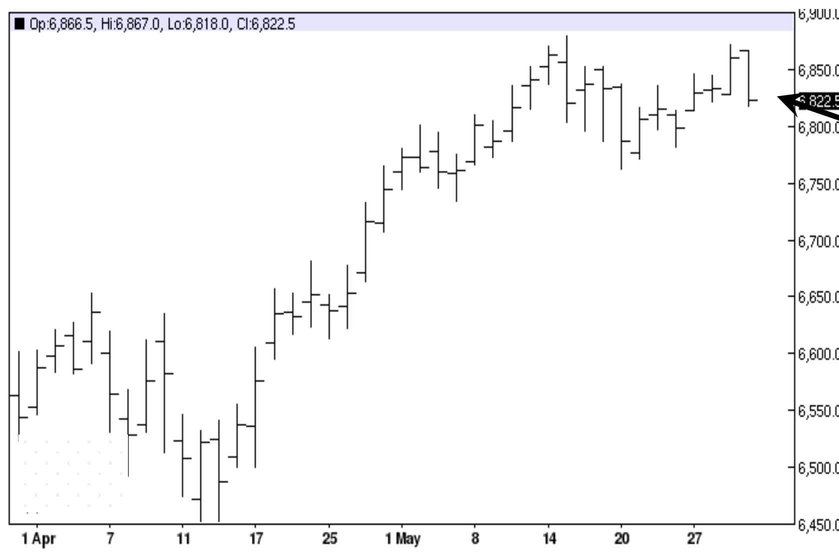
UK MARKETS: FTSE

OUR TRADING STANCE; SQUARE.

Last week we were Square.



See how the FTSE failed to make new highs.

The Macro Trader's view of the FTSE is; equity markets are currently supported by the easy monetary policies of the Leading Central Banks.

And although the debate about raising UK interest rates has begun, the Bank of England's official line is still rates on hold.

Add this to the strength of the UK economic recovery and the FTSE she be enjoying a far more rigorous rally.

Looking ahead the PMI surveys are due this week; they are expected to continue the run of strength.

For now we are staying square here, preferring to concentrate on the US but others may wish to go long.

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EURO ZONE MARKETS: economic background

Last week's focus was the German unemployment report, as the only Euro zone economy enjoying a sold recovery all eyes are glued to German data.

In the event the report recorded a surprise increase in the number of unemployed and retail sales came in weaker too, placing the focus acutely on this week's up coming ECB meeting.

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; **German, French, Italian and Euro zone PMI manufacturing surveys and German CPI,**
- On Tuesday; **Euro zone unemployment and CPI Estimate,**
- On Wednesday; **German, French, Italian and Euro zone PMI Services surveys, Euro zone PPI and Q1 GDP,**
- On Thursday; **German factory orders, retail sales and ECB interest rate decision, and**
- On Friday; **German trade balance, C/A and industrial production.**

There is a whole raft of data due this week and they all largely report on the state of the Euro zone economy going forward, but the main event this week is the ECB policy announcement.

After months of watching and waiting the ECB is expected to come off the fence and materially ease policy.

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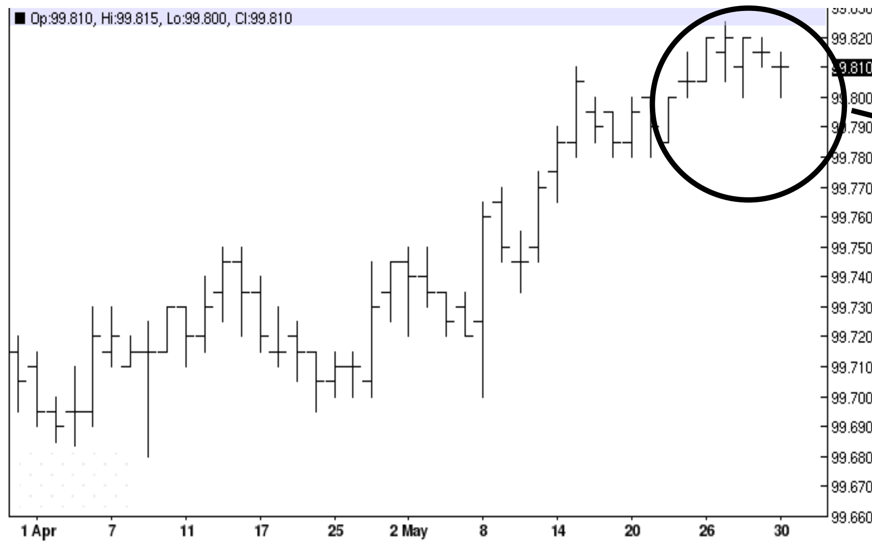
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Euribor.



Euribor marks time but remains well supported.

The Macro Trader's view of Euribor is; last week we said…

…"Looking ahead German unemployment report is due but this market remains focused on expectations of an ECB rate cut and other policy moves"…

In the event the unemployment report was worse than expected and together with expectations of a policy ease from the ECB Euribor held near the highs.

Looking ahead all eyes on this Thursday's ECB policy decision when a rate cut and other measures are expected..

Traders should be long of this market. If the ECB does cut rates further and they say they will, 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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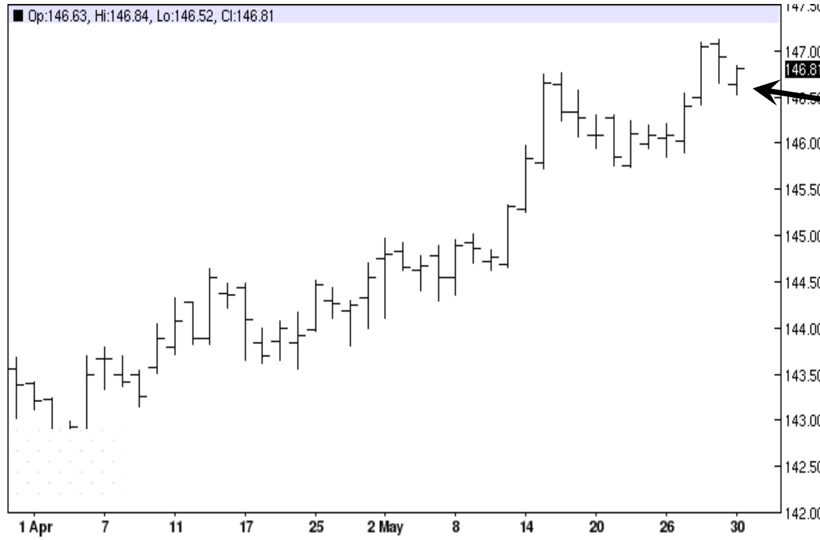
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund remains well supported and looks set to rally further.

The Macro Trader's view of the Bund is: last week's price action saw the Bund push higher, supported a combination of weak growth and the promise of the ECB delivering on its promise of an easing package.

Looking ahead a whole raft of data is due but the key event will be the ECB on Thursday.

If they fail to deliver on the expectation they have built up over recent weeks markets will be disappointed, but we judge the Bund would rally in any event as the economic out look would remain weak, however we judge the ECB will deliver.

Traders should remain long and patient, this market benefits from the prospect of renewed ECB easing, the sluggish recovery and safe haven buying as the new leadership in Ukraine finally gets tough with the rebels in the East.

Our target remains 147.80, our stop continues at 144.70 for closer protection of profits.

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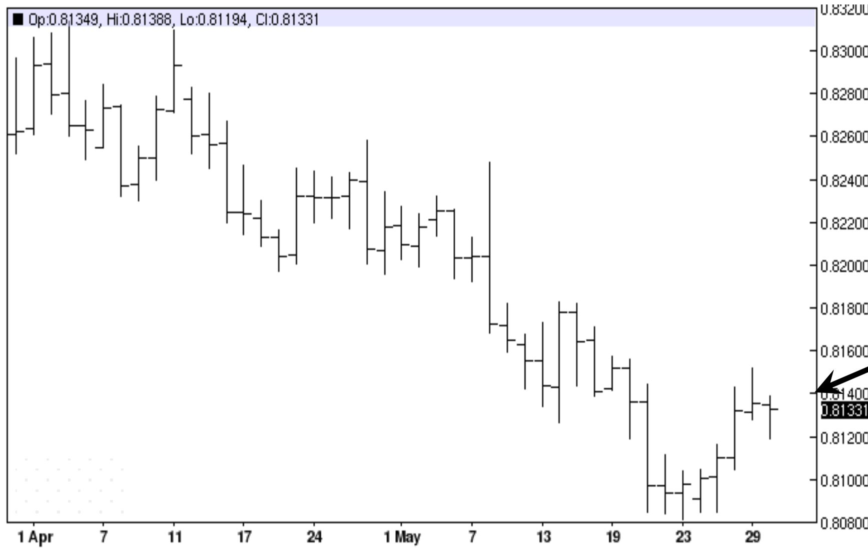
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v STERLING

Last week we were Bearish v Sterling



See how the Euro continues to correct against the Pound.

The Macro Trader's view of the Euro; last week's price action saw the Euro extend it's correction against the Pound, despite the contrast of economic performance:

- Strong UK data, against
- Weaker Euro zone data.

But we judge part of the explanation is down to the degree of political uncertainty creeping into the UK, regarding Scotland's looming independence vote, the rise of the Eurosceptic party UKIP and calls within the Lib-Dem junior coalition partner for their leader and deputy Prime Minister Nick Clegg to resign.

On balance we judge the UK will endure and Clegg will resist the pressure to go and with the UK economic recovery rattling along provoking a wider debate about UK monetary policy the Pound should resume the rally against the Euro.

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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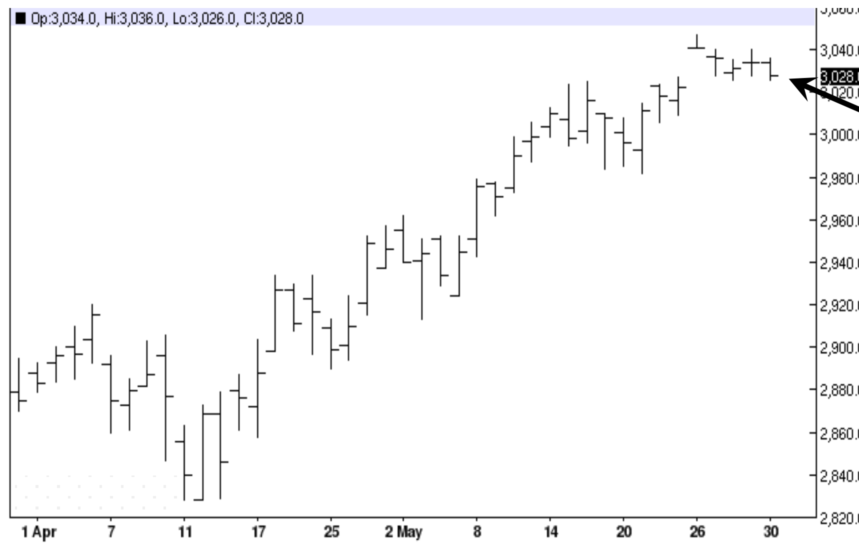
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market remains supported by hopes of an ECB policy ease.

The Macro Trader's view of DJ Euro Stoxx 50 is:

this market much like the S&P is supported by Central Bank policy, but unlike the US where economic growth is expected to accelerate during the current 2nd quarter, the Euro zone recovery will need much care and attention.

Looking ahead the key event this week is the ECB policy decision and an easing package is expected.

The package is expected to include rate cuts and crucially a QE program, anything less will disappoint.

We remain square of this market focussing on the S&P but others may choose to go long.

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JAPANESE MARKETS: economic background

Last week's focus was CPI and industrial production.

In the event CPI was broadly as expected, but industrial production was weaker. Other data released last week that also fell short of consensus was retail sales.

But the benefit of the doubt is given here since the weakness is largely attributed to the introduction of a sales tax in April that saw a very strong Q1 as consumers sought to avoid the tax.

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; **vehicle sales, labour cash earnings and PMI Manufacturing, and**
On Tuesday; **PMI Services.**

The key events this week are the PMI surveys.

Traders will be looking for underlying evidence that a sustainable recovery might begin to emerge.

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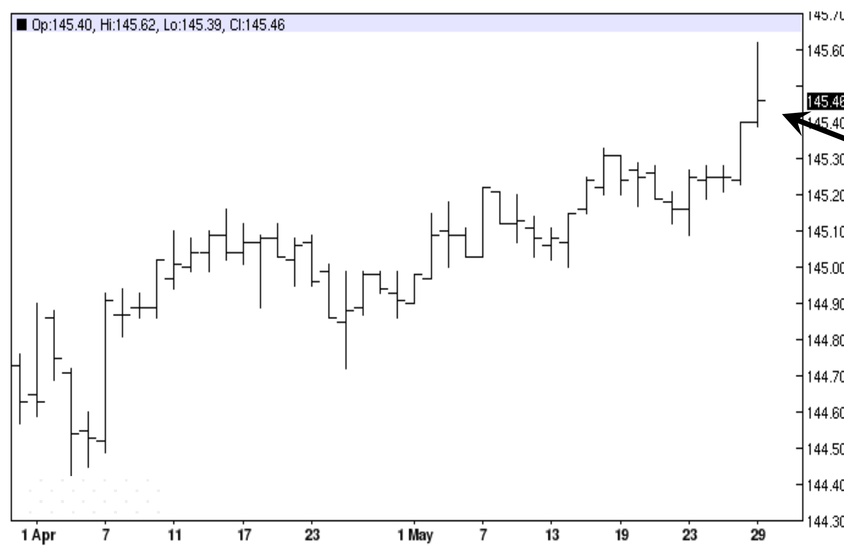
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB was again supported by weak data.

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

…"Looking ahead the key release is industrial production. Traders will want to see a better than expected performance otherwise this market looks set to continue its agonisingly slow crawl higher"…

In the event industrial production fell short of expectations and the market spiked.

Together with weak retail sales which were the hangover from the Q1 rush to beat a sales tax, the economic outlook again looks questionable.

However Japan's economy is like trying to light a fire in the rain; all the ingredients are there but it wont ignite..

For now we are staying square.

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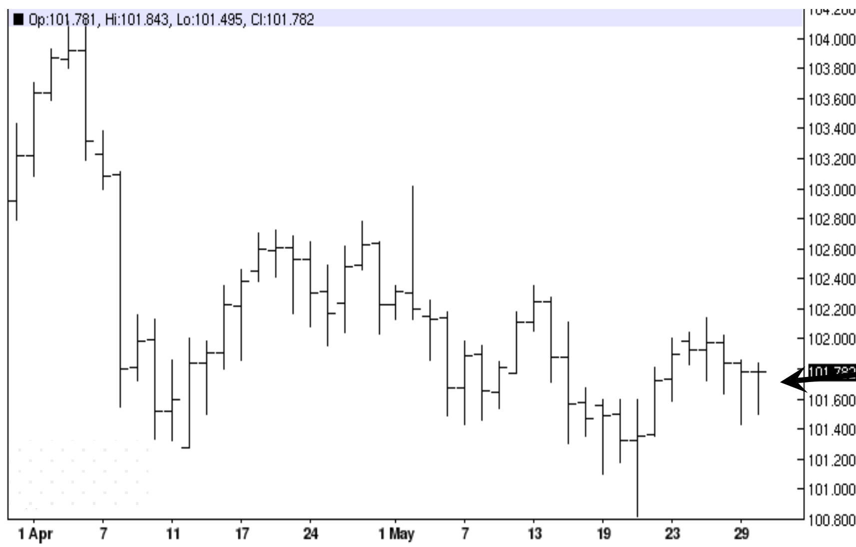
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen is range bound.

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

…"Looking ahead this week's CPI and industrial production are due and both serve as a measure of the success or otherwise of current policy"….

In the event CPI hit 3.4%; above target, so a success for policy, but industrial production and retail sales were weaker; a negative for policy.

Looking ahead the PMI Surveys are due; will they point to a brighter outlook for the economy. We don't think anything new will emerge.

The Yen is back within its trading range, we judge it continues to lack direction and advise remaining square.

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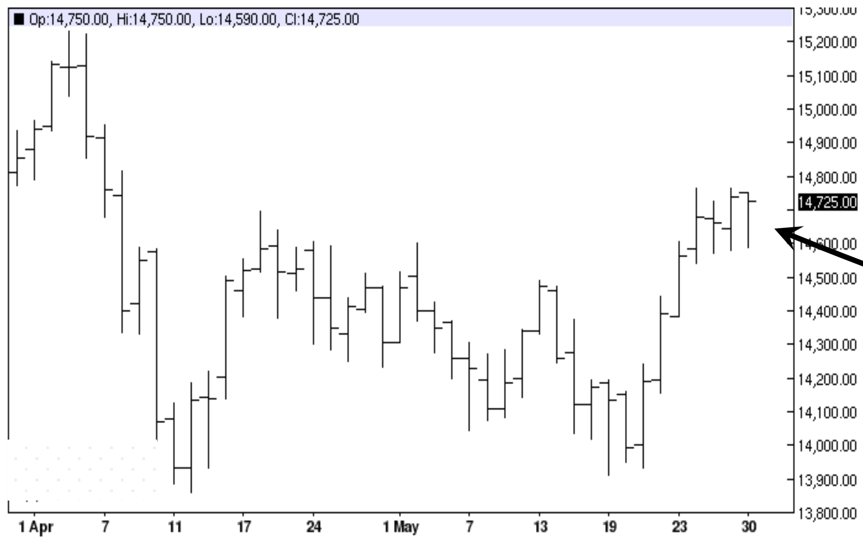
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei drew some support from the minor correction in Dollar/Yen.

The Macro Trader's view of the Nikkei is; the Nikkei is in a clearly defined trading range linked directly to Dollar/Yen.

And indeed the Yen's minor correction has helped the Nikkei advance further into the established trading range.

Looking ahead the PMI surveys stand out, but we judge data and sentiment from abroad will likely move this market over the coming week.

For now we are staying square. We judge the outlook is very much clearer in the US S&P where the market enjoys the twin supports of the Fed's commitment to keep rates low and the promise of a strong Q2 GDP report.

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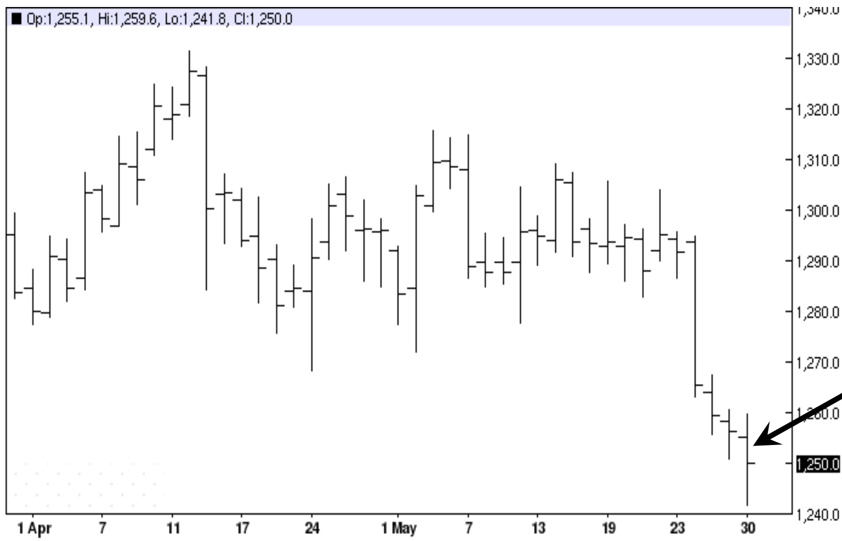
COMMODITIES: Gold

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Gold.



See how gold sold off last week, as the Russians apparently withdrew their forces from Ukraine's boarder and the lack of economic crisis.

The Macro Trader's view of the Gold is: for week's if not months we have declared our underlying bearishness of this market, but acutely aware of getting the timing right before going short.

Last week the market sold off as traders increasingly struggle to justify holding an asset that is tailor made for a crisis, but inflicts an opportunity cost when the market is becalmed as in recent weeks and months.

Looking ahead the US economy is expected to bounce back hard in the current quarter.

China has recent data has been a little more up beat and the Russians continue to resist the urge to invade Ukraine.

We judge this market can and will fall further.

Traders should be short of this market. Our suggested target is initially 1220.00 with a proposed stop at 1325.00 for protection.

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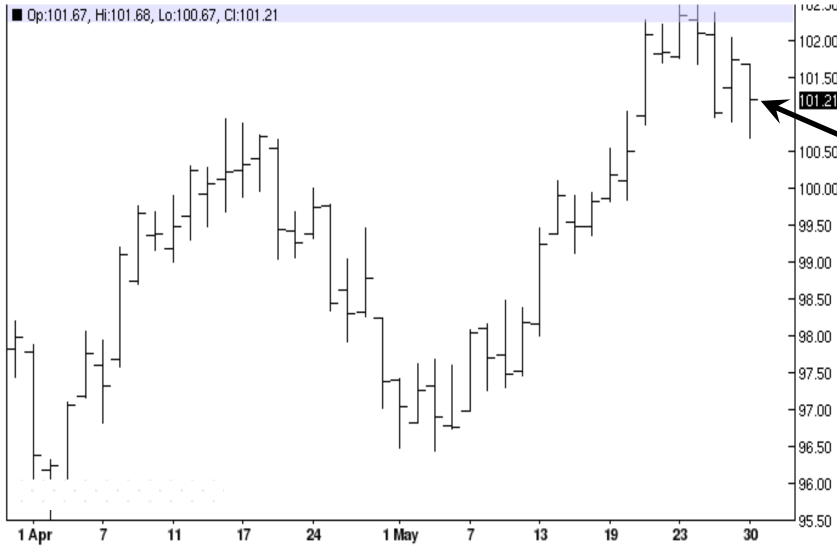
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil eased lower as BP announced its plans to help develop Russian energy resources.

The Macro Trader's view of oil is: last week's price action involved a small correction, which could develop into something more meaningful.

BP announced that in spite of US/EU sanctions it was planning to work with Russian companies to develop energy resources, placing a question mark over the west's willingness to suffer economic pain in order to deliver a strong message of disapproval to Russia over her manoeuvres in Ukraine.

Looking ahead much still depends on OPEC's willingness to increase production in order to meet expected increase demand later this year, but with the global economy still in a fragile state expectations are that they will.

We sense this market will slip back into the lower trading range.

For now stay square.

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SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL jlewis@sevendaysahead.com, msturdy@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM

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