

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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BEARISH short, medium & long term

SEVEN DAYS AHEAD

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ABOUT SEVEN DAYS AHEAD

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

ABOUT THIS GUIDE

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

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

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

ABOUT JOHN LEWIS

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

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

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

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

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

After 1998 he moved into the hedge fund business as a senior fund manager of Weavering Capital UK. Now in association with Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

US MARKETS

EURO DOLLARS

WHAT HAPPENED LAST WEEK?

	Week of 16 th October
Monday	Empire mfg 9.0 WEAKER THAN EXPECTED
Tuesday	PPI -1.3m, MUCH BETTER Ex- F&E 0.6m, WORSE Net frgn secs prchsd \$116.8B MORE Ind production -0.6 WEAKER Capacity utilization 81.9 LOWER THAN EXPECTED
Wednesday	CPI -0.5m, BETTER Ex- F&E 0.2m, AS Housing starts 1.772M STRONGER Building permits 1.619M WEAKER THAN EXPECTED
Thursday	Jobless claims 299k LESS Philly Fed -0.7 WEAKER THAN EXPECTED
Friday	

WHATS HAPPENING THIS WEEK?

	Week of 23 rd October
Monday	
Tuesday	
Wednesday	EIA Crude oil stocks FOMC Rate decision 5.25
Thursday	Durable goods 2.0 Ex-transport 1.0 Jobless claims 308k New home sales 1.050M
Friday	Q3 GDP 2.1% Q3 Personal consumptn 3.0 Q3 Core PCE 2.5 U. of Michigan 92.5

MARCH 07 EURO DOLLARS



See how Eurodollars bumped along the bottom last week as traders remained wary of this week's FOMC meeting.

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EURO DOLLARS

THE MARKET EXPLAINED

OUR TRADING STANCE: BULLISH.

Last week we were bullish of March 07.
This week we remain bullish of March 07.

Last week we remained bullish of March 07 reducing our target to 94.75 and lowering our stop to 94.63 to reflect the set back the market suffered the previous week.

Since we remain bullish of this market and view the recent price action as a correction induced by the non-farm payroll report at the beginning of this month and fears that bred concerning the longevity of the Feds pause we advised traders to focus on several key reports for clarification:

- on Tuesday; PPI was a mixed bag; the head line rate was very much lower at -1.3, but traders focused on the larger than expected rise in the core measure of 0.6, even the reaction to that data was muted as Industrial production came in weaker than expected as did capacity utilisation,
- on Wednesday; CPI also showed a larger than expected drop to the headline rate with the core measure as expected, housing starts surprised to the upside but building permits were weaker than forecast, and
- on Friday; the Philly Fed survey was again weaker than expected with a drop in the prices paid component.

However in spite of the obvious ongoing weakness of the US economy, traders focused on the Core PPI data keeping the market close to the recent lows.

Looking ahead we expect the market to recover and advise traders to monitor the following data releases:

- on Wednesday; the FOMC rate decision; **unchanged** is our expectation,
- on Thursday; durable goods and New Home sales; of these two; New home sales is the more important, and
- on Friday; Q3 GDP data which is expected to remain weak.

The Macro Trader's view is: the market remained nervous last week as traders remained anxious about this week's FOMC meeting.

Although core PPI was higher than expected we think there is enough weakness being displayed by other data to keep the Fed on hold.

The most obvious risk to that forecast though is Friday's GDP report. If this were to surprise to the upside the Fed may decide to move one last time as an insurance policy, but with the US trade deficit running at record levels over recent months, any surprise may actually be to the downside.

Clearly once the Feds decision is known traders can refocus on the core issue which is just how much weaker will the economy become.

Traders should be long of this market, our interim target is 94.75, but continue to run a close stop at 94.63.

If we are wrong and this level breaks because of an unexpected Fed rate hike, the market will trade lower, unless the policy statement is crafted to lead traders to expect no further action.

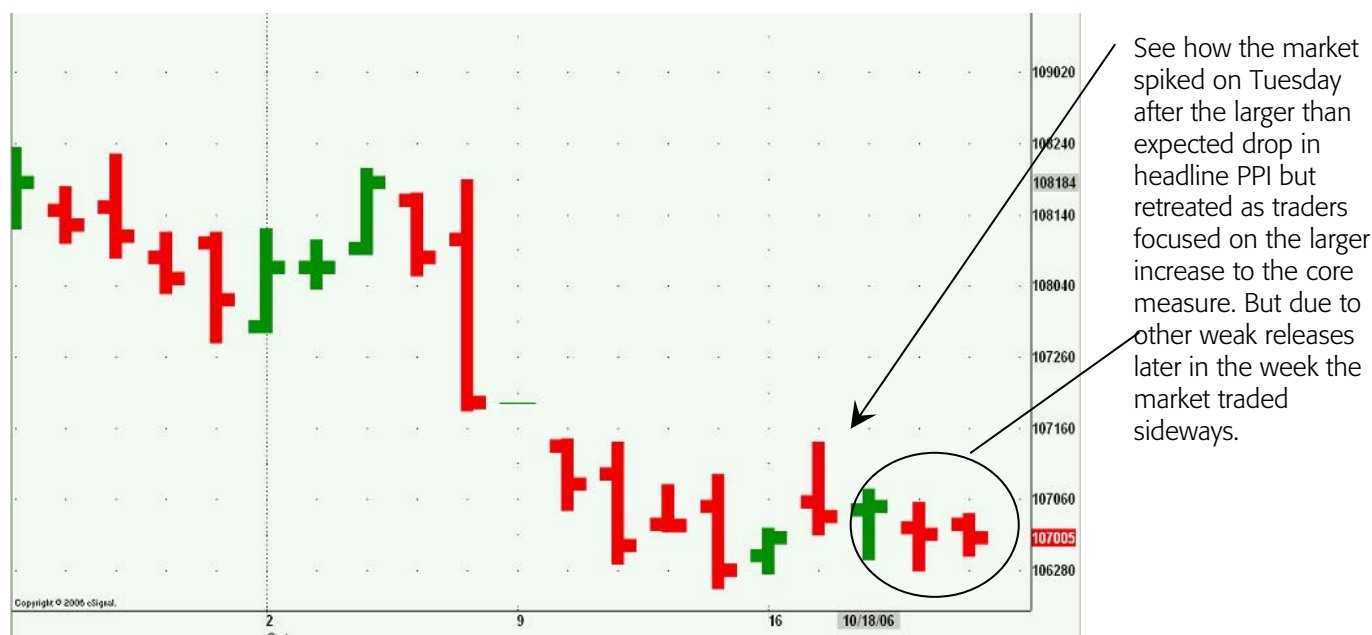
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THE US TREASURY NOTE (10 yr)

OUR TRADING STANCE: SQUARE.

Last week we were square of the 10yr Note.

US 10yr NOTE DECEMBER 06



This week we remain square of the 10yr Note.

Last week we remained square of this market after the recent payroll induced sell off, but with traders questioning whether the Fed would remain on hold at this week's FOMC meeting or push through another rate hike, the market clung to the recent lows.

With several key releases due last week we advised traders to watch the following:

- on Tuesday; PPI; this sent out mixed signals, a large drop in the headline rate and a larger than expected increase in the core rate, but Industrial production and capacity utilisation were both weaker than expected,
- on Wednesday; CPI; again a larger drop to the headline rate than expected, but unlike PPI the core rate was inline with consensus, housing starts were stronger than expected but the more forward looking building permits was weaker than expected, and
- on Friday; the Philly Fed survey was weaker than expected with a second consecutive negative reading.

On balance last week's data should have helped the market higher especially the strong capital inflow data also released on Tuesday, but the restraining influence of this week's FOMC meeting stifled any move.

Looking ahead there are several reports to watch this week:

- on Wednesday; the FOMC rate decision; **unchanged** is our expectation,
- on Thursday; durable goods and New Home sales; New home sales is the more important, and
- on Friday; Q3 GDP data which we expect to remain weak.

The Macro Trader's view is: we expect the Fed to announce unchanged on Wednesday and for this market to rally higher, but we remain square until the decision is announced.

We recommend others adopt the same course, we judge the Fed will maintain the pause, but nothing in life is certain and a surprise hike would upset this and other markets.

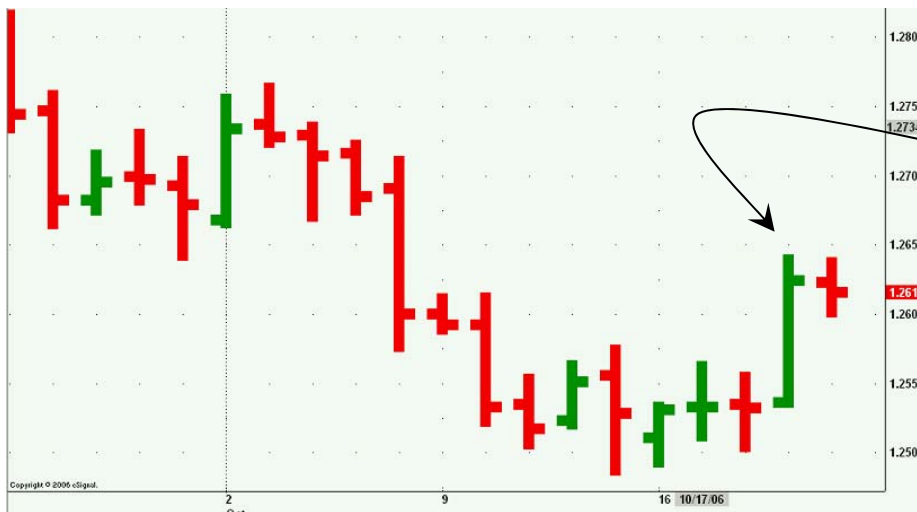
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THE DOLLAR

OUR TRADING STANCE: SQUARE.

Last week we were square of the Dollar.

EURO/DOLLAR CHART



See how the Dollar gave back much of its recent gains last week especially on Thursday after a weak Philly Fed survey.

DOLLAR/YEN CHART



See how the Yen followed the other major currencies higher against the Dollar, but given the news the Central Bank of Russia was moving some of its reserves into Yen, the recovery seems muted.

This week we remain square of the Dollar.

Last week we were square of the Dollar, as we judged the market seemed to have entered another period of choppy range trading.

And as if to confirm our analysis, the Dollar spent last week giving back much of its recent gains, much to the frustration of the Dollar bulls.

The reason for the reversal was a mix of weaker US data, and stronger foreign data; most notably from the UK.

Only a few week's ago the Dollar enjoyed a powerful short covering rally against the Pound, Euro and Yen as traders reacted to a surprise

drop in the US unemployment rate, but last weeks data painted a slightly different picture:

- Tuesday's PPI was a mix of a lower headline rate, but higher core rate, Industrial production and capacity utilisation were both significantly weaker than consensus, and
- Wednesday's CPI was generally benign with a lower headline read and the core rate as expected, housing starts were stronger but building permits were weaker, but
- Thursday's Philly Fed report was weaker than expected, with another negative read.

This saw the Dollar sell off as traders reasoned the Fed would continue to hold policy steady at this week's FOMC meeting as they have clearly stated at previous meetings, the cooling economy should help reduce inflation over the coming quarters.

Looking ahead there are several key reports due this week with the FOMC meeting the most important:

- on Wednesday; the FOMC rate decision; unchanged is our expectation,
- on Thursday; durable goods and New Home sales; New home sales is the more important, and
- on Friday; Q3 GDP data which we expect to remain weak.

The Macro Trader's view is: while we remain long term Dollar bears and last week's price action played to our expectations, we are acutely aware that currency markets remain within well defined ranges.

Each time a breakout in either direction has seemed likely traders have been frustrated by a sharp reversal.

While we expect the Fed to maintain their pause, not until the decision is out of the way and the text of the policy statement seen, will traders be able to focus fully on the economic fundamentals, rather than try second guessing the Fed.

The only risk we see is Friday's Q3 GDP report. If this were stronger than expected the Fed may be tempted to tighten policy one more time, but we consider any surprise is likely to be to the downside.

The US trade deficit has continued to widen and remains at record levels and this subtracts from GDP growth.

Recently traders latched onto a weak retail sales report as a sign of strength, because the ex-gasoline component rose. But this is a weak argument; the overall index contributes to GDP and statisticians don't cherry pick to get the best result.

For now traders should remain square. It is tempting to recommend selling the Dollar ahead of the rate decision, but too many times recently a promising move has failed to follow through.

Instead remain patient and act on the facts when they are known.

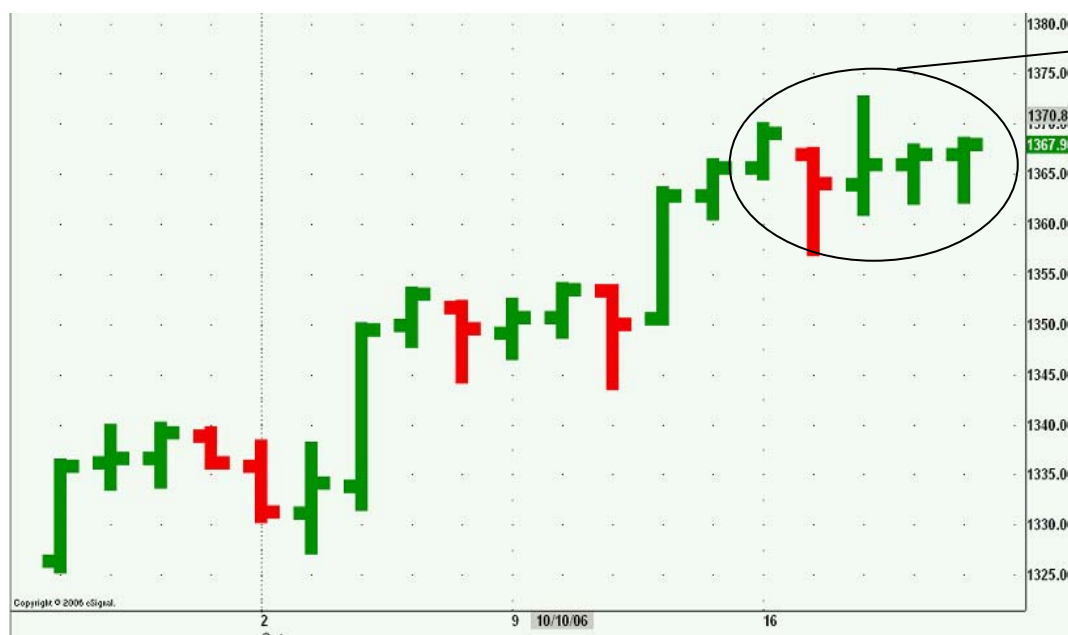
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S&P 500

OUR TRADING STANCE: BULLISH.

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

S&P 500 DECEMBER 06



See how the market made a new high on Wednesday but was unable to consolidate the move and progress.

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

Last week we were bullish of this market after it rallied the previous week on strong corporate profit news, ignoring the potentially unsettling North Korean nuclear test.

We advised traders to focus on the following key data releases for further guidance:

- Tuesday's PPI; a mixed bag, large drop in the headline rate, stronger than expected rise in the core rate, and
- Wednesday's CPI; slightly better news; larger than expected drop in the headline rate and as expected core rate.

However other data releases were less positive:

- Industrial production and capacity utilization were unexpectedly weak, and
- Thursday's Philly Fed index was again weak with a negative read.

As a result the market was unable to rally further even though a stream of corporate profit reports were either in line or better.

Looking ahead we have halved our position to lock in some profit, but if as we expect the Fed remains on hold at this Wednesday's meeting and Friday's Q3 GDP report confirms the weakening trend in the economy, traders will refocus on the prospect of a Fed ease next year.

The Macro Trader's view is: we remain bullish of this market but have reduced our position. Other equity markets, although bullish, have fared less well than this and realignment may be due; either the S&P drags the other laggards better or the others will hold the S&P back prompting a spell of profit taking.

Traders should retain a core bull position as corporate profits continue to please the market, Ford motor company's loss notwithstanding.

Our target over the next 7 days is again 1380.0 but we are raising our stop to 1350.0 as protection.

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UK MARKETS

SHORT STERLING

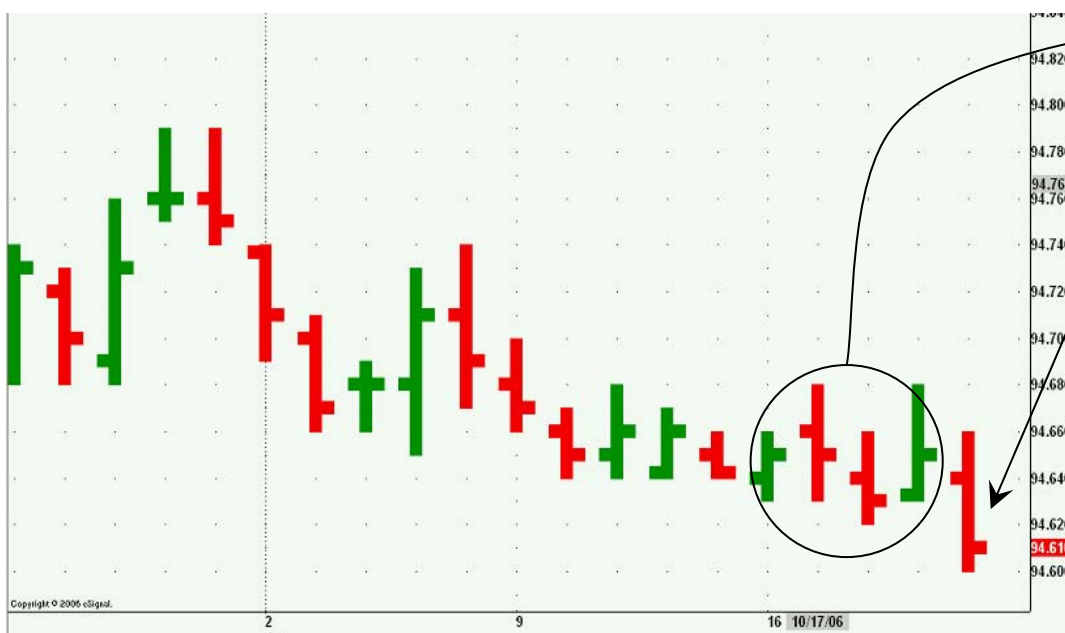
WHAT HAPPENED LAST WEEK?

	Week of 16 th October
Monday	
Tuesday	CPI 0.1m, 2.4y AS Core 1.4 HIGHER RPI 0.5m, 3.6y HIGHER RPI-X 3.2y HIGHER THAN EXPECTED
Wednesday	MPC Mnuts Oct mting 7/2 HAWKISH Unemploy'm't rate 3.0% AS Change 10,000k WORSE Avge earnings 4.2 LESS Ex-bonus 3.6 LESS THAN EXPECTED
Thursday	Retail sales -0.4m, 3.2y WEAKER PSNCR 12.3B WORSE PSNB 7.0B WORSE M4 Strlg Indg 5.1B LESS Mrtge Indg 29.5 LESS THAN EXPECTED
Friday	Q3 GDP 0.7q, 2.8y STRONGER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 23 rd October
Monday	
Tuesday	CBI Ind trends srvy -3 CBI Export orders -1
Wednesday	
Thursday	BBA Sept mrtge approval n/f
Friday	CBI Distributive trades 13

MARCH 07 SHORT STERLING



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SHORT STERLING

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were bearish of March 07.
This week we are square of March 07

Last week we remained bearish of March 07 and repeated our target of 94.60 which was hit, allowing us to take profit.

In a week with several heavy weight reports due, we advised traders to focus on these key releases:

- on Tuesday; CPI was as expected but the market had begun to expect a larger reduction and so traders were disappointed by the actual release,
- on Wednesday; the MPC minutes revealed the two new members voted for a rate hike; they were concerned about the outlook for wage inflation, but the employment data out at the same time showed a larger than expected increase in unemployment and a weaker than expected increase to average earnings,
- on Thursday; retail sales were much weaker than expected, and
- on Friday; Q3 GDP surprised traders by being stronger than forecast.

Last week we high lighted the MPC minutes as the key event and although it was Friday's GDP data that moved the market the most, the minutes were still very important.

The two MPC members who voted for higher rates were motivated by concerns over wage inflation, but clearly their fears are miss-placed.

Average earnings on both measures were weaker than expected and the increase in the ex-bonus number merely matched the increase in the RPI index which is used by wage negotiators; so, so

far there is no sign of a wage price spiral developing.

However the stronger GDP report will most likely move the MPC to hike rates in November. The housing market remains buoyant and this is another area which currently rings alarm bells with policy makers.

Looking ahead there is very little out this week, and we expect the market to mainly move sideways.

The Macro Trader's view is: although the market sold off on Friday after stronger than expected Q3 GDP, we were happy to take profit.

The labour market concerns of the MPC so far look miss placed and while we expect a rate hike in November, which is more than priced in, we remain to be convinced that policy will need to move much higher there after.

Much will depend on how inflation evolves over the ensuing months. Crucially, Oil prices failed to rally last week after OPEC agreed to cut production, and if that market continues to trade mainly to the downside; CPI should eventually ease lower, much like PPI over recent months.

For now traders should remain square. If the market bounces on profit taking we will re-establish a short position, but currently we see little immediate downside potential.

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THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.

GILT DECEMBER 06



This week we remain bearish of the Gilt.

Last week we were bearish of the Gilt as we expected the MPC minutes and Government Borrowing data to help the market trade lower.

The minutes showed two committee members eager to see higher interest rates and Government borrowing was much worse than expected.

This, together with a stronger than expected Q3 GDP report last Friday saw the Gilt trade down towards our target of 108.50.

Looking ahead we remain bearish, although there is very little data due this week, we expect the market to remain under pressure.

Despite stronger than expected GDP growth which would have yielded the Treasury a greater haul of revenue than expected, government

borrowing continues to deteriorate and the market's expectation remains for tighter policy moving into the New Year.

The Macro Trader's view is: over recent months we had remained square of the Gilt. Our judgement on the market was bearish but while other Government Bond markets rallied, the Gilt resisted the downside.

That support has now evaporated and domestic issues have begun to exert a greater influence on this market.

Traders should remain short, our interim target remains 108.50, but we expect to see the Gilt trade lower still over the medium term.

As always, run a stop, which we have reduced to 109.00.

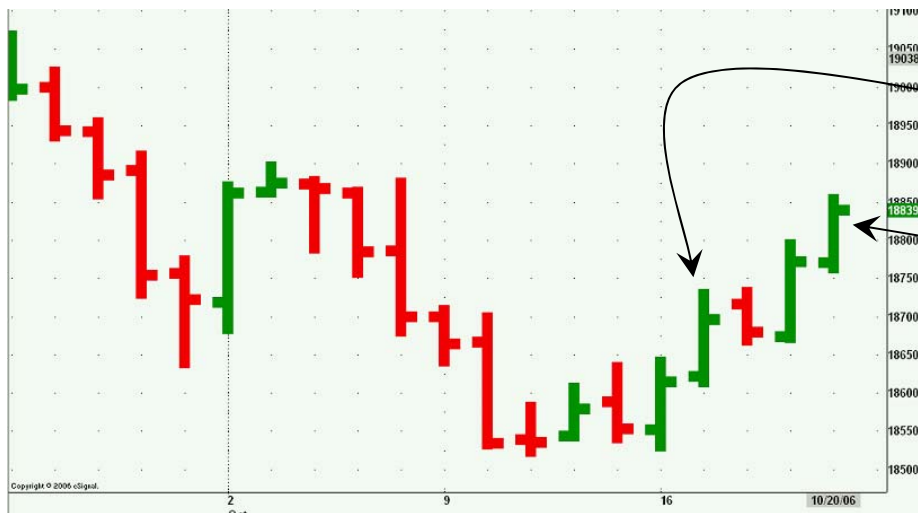
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THE POUND STERLING

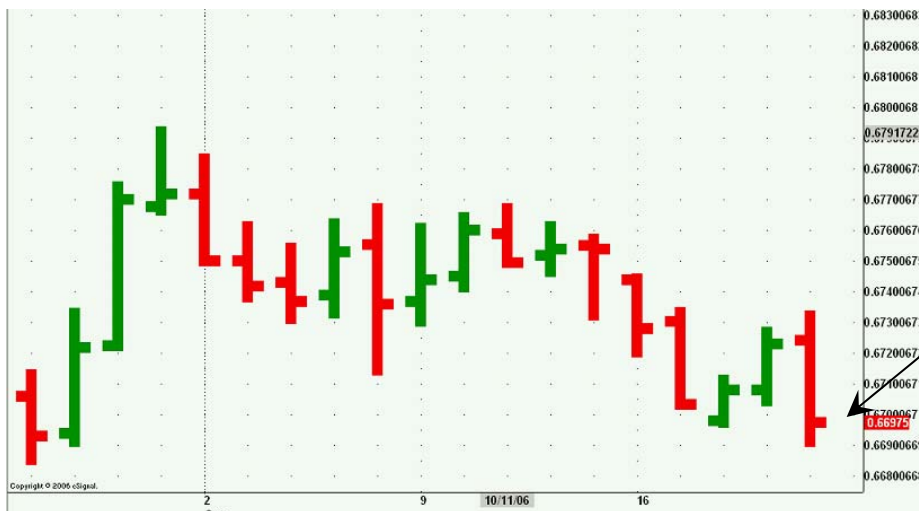
OUR TRADING STANCE: SQUARE.

Last week we were square of Sterling.

THE CABLE CHART



THE STERLING/EURO CHART



This week we remain square of Sterling.

Last week we remained square of Sterling even though there were several key data releases due from the UK which we thought would continue to support market expectations for a rate hike in November.

However our analysis of UK and US data led us to expect the Dollar to remain dominant as traders continued to focus on the up coming FOMC meeting and the elevated degree of uncertainty concerning the Fed's decision.

In the event traders received several surprises, from the UK:

- on Tuesday; UK CPI was weaker than last month but stronger than expected,
- on Wednesday; the MPC minutes revealed two members voted for a rate hike, and
- On Friday; Q3 GDP was stronger than expected.

...from the US:

- On Monday; the empire mfg index was weaker than expected,
- On Tuesday; although PPI was mixed, industrial production and capacity utilization were both weaker than expected,
- On Wednesday; CPI, on balance, was better than expected, and
- On Thursday; the Philly Fed index was much weaker than forecast.

The combined effect of all this data led to a Sterling rally, but with very little UK data due this week and the Fed due to announce its latest interest rate decision on Wednesday, we are remaining square.

We don't think the Fed will hike, but while the market remains nervous the Pound could easily give up its gains, as has happened several times recently.

The Macro Trader's view is: we have been bearish of the Dollar for a long time, and although there have been periods of weakness in line with our expectations; they have failed to follow through and this may yet prove another such case.

The main reason for the frustration of the Dollar bears during much of that period has been the Fed's rate hiking campaign. And although this is, in our judgement, now over, every time the market has had reason to raise a question mark over the Fed's intentions, the Dollar has enjoyed a strong recovery.

Without doubt anxiety among traders that the Fed may push through one more hike fuelled the recent rally, and until that decision is known we see Cable continuing to range trade. Last week's recovery notwithstanding.

For this reason we are again remaining square. When the FOMC decision is known, then we will reassess.

We advise others to do likewise, any other stance risks falling prey to sharp unexpected reversals.

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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were bullish of the FTSE 100.

FTSE 100 DECEMBER 06



See how the market sold off after Tuesday's CPI, recovered after Wednesday's more promising employment data, but failed to push ahead as Friday's stronger GDP all but guaranteed a November rate hike from the Bank of England.

This week we are square of the FTSE 100.

Last week we were bullish of the FTSE, expecting to see the market rally as corporate profit reports remained strong and bid activity seemed to underpin the market.

Additionally we expected:

- on Tuesday; CPI to show inflation beginning to reflect recent oil price falls, but the outcome was a little higher than expected and disappointed traders,
- on Wednesday; the MPC minutes did indeed make a November rate hike seem highly likely with a 7/2 vote, and
- on Friday; Q3 GDP confirmed expectations for higher rates when the data was stronger than expected.

As a result the market proved choppy and we were stopped out before the lows were rejected leaving the market almost unchanged on the week.

Looking ahead we will remain square, with very little UK data due this week, the market will likely draw its influence from overseas, but US markets look as though they could suffer a bout of profit taking this week after enjoying a strong rally.

The Macro Trader's view is: after being drawn in by the recent rally, the FTSE reverted to type and suffered a choppy period of sideways trading, even as the US S&P put in a better performance.

We thought our stop wide enough to allow for setbacks in the market, but with so much geopolitical tension remaining in the background volatility is never far away.

Last week's threat, later refuted, that North Korea was preparing a second nuclear test, likely had a hand in the market's nervousness, but we are now square and will re-assess the market's prospects.

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EURO 12 MARKETS

EURIBOR

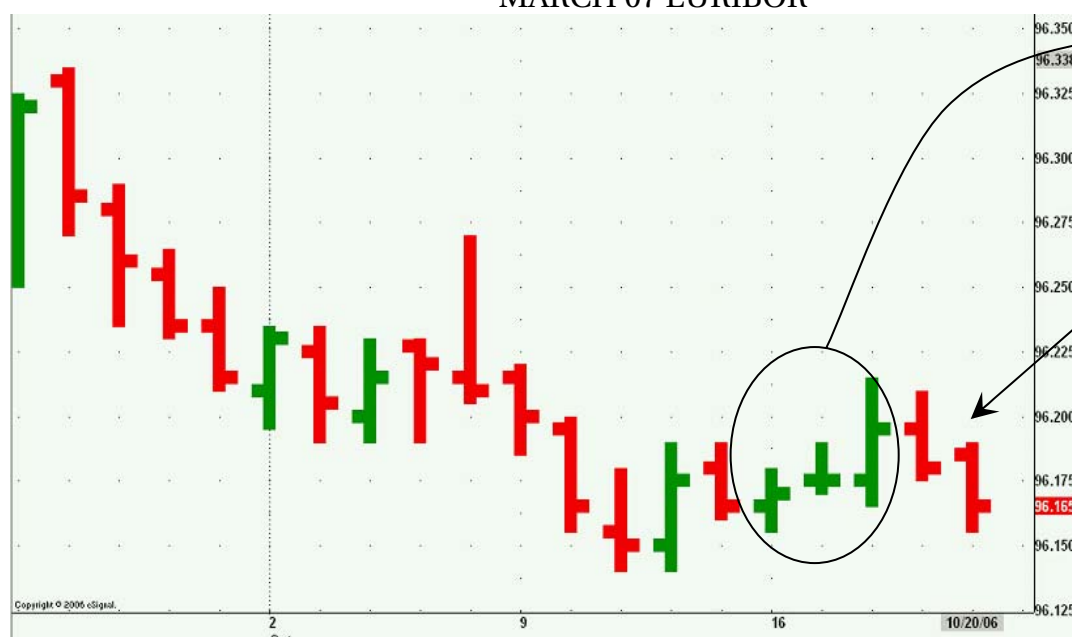
WHAT HAPPENED LAST WEEK?

	Week of 16 th October
Monday	IT CPI 0.0m, 2.1y LESS THAN EXPECTED
Tuesday	DM ZEW -27.4 WEAKER EU12 CPI 0.0m, 1.7y LESS EU12 Ind prod 1.8m, 5.4y STRONGER IT C/A -2.038B AS THAN EXPECTED
Wednesday	IT Trade bal -1.534B LESS EU12 Trade bal -5.8B WORSE THAN EXPECTED
Thursday	FR C/A -4.1B AS IT Ind orders 21.7%y HIGHER IT Ind sales 12.0%y HIGHER THAN EXPECTED
Friday	IT Trade bal non-EU -2.756B WORSE IT Retail sales 0.1m, 2.0y BETTER THAN EXPECTED

WHAT'S HAPPENING THIS WEEK?

	Week of 23 rd October
Monday	
Tuesday	FR Cons spndg -1.3m, 5.3y IT Cons conf 109.7 EU12 C/A -3.5B EU12 Ind new orders 2.3m
Wednesday	DM Import prices -0.7m, 4.3y FR Bus conf 107.0 DM IFO 104.5 DM CPI -0.1m, 0.9y
Thursday	DM GFK Cons conf 8.9
Friday	EU12 M3 8.0 3m, EU12 M3 7.9y

MARCH 07 EURIBOR



See how Euribor rallied on bullish news during the first part of the week, but reversed as Thursday's and Friday's data supported the outlook for further ECB rate hikes.

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EURIBOR

THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

Last week we were bearish of March 07.
This week we remain bearish of March 07.

Last week we remained bearish of March 07 repeating our target of 96.10, but advised traders to take profit if the level was hit, as we judged this would be consistent with a repo rate of 4.0% which is as high as we think the ECB will go.

Although the market closed the week virtually unchanged, there was an attempt at a mid week rally as several reports showed inflation continuing to ease back:

- On Monday: Italian CPI was better than expected, and
- On Tuesday; German and EU12 CPI were both less than expected and the German ZEW report deteriorated further,

...and there the bullish news ended as other reports flagged further rate hikes:

- on Thursday; Italian industrial orders and sales were much stronger than expected, and
- on Friday; Italian retail sales grew a relatively healthy 2.0% year on year,

As a result the market gave up its gains and looked vulnerable to further downside price action.

Looking ahead the key releases this week are:

- on Wednesday; the German IFO report, this has remained strong even as the ZEW report has collapsed over the summer and we expect it to remain close to its recent strong readings, and
- On Friday; Euro zone M3, which has been sighted many times by the ECB as sufficient reason to continue tightening policy.

The Macro Trader's view is: last week we advised traders to take profit if our target traded; it didn't but we expect Wednesday's IFO to be the catalyst for a further move down.

Although inflation has improved significantly, the ECB looks set to tighten policy further. It believes the current strength of credit growth and the money supply sufficient reason to act.

It has also said that if the current expansion continues they will tighten policy in order to return interest rates to a more appropriate level.

For now traders should remain short and we repeat our target of 96.10, and this remains a take profit level. Our stop is at 96.22.

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THE BUND

OUR TRADING STANCE: SQUARE.

Last week we were square of the bund.

THE BUND DECEMBER 06



See how the Bund continued to drift lower as the market continued to take its lead from the US. Even better Euro zone inflation data and a weak ZEW report failed to offer any support.

This week we remain square of the Bund.

Last week we were square of the Bund advising traders to watch Tuesday's two data releases:

- the German ZEW survey, and
- Euro zone CPI.

In the event the ZEW report weakened further, and the CPI report was less than expected, giving the market a temporary lift.

But traders were more concerned about what the US Fed may or may not do at this week's meeting and the Bund drifted back down towards the lows leaving vulnerable to further bearish price action.

This week there are several key data releases:

- on Wednesday; the German IFO report, and
- On Friday; Euro zone M3,

Both of these have remained strong over recent months and we expect that trend to continue.

Additionally all Government Bond market traders will have one eye on the Fed's interest rate decision on Wednesday, and the outcome is likely to drive markets over the next week to 10 days.

The Macro Trader's view is: the Euro zone seems to be moving towards the happy state of lower inflation and steady growth.

If the ECB can recognise that fact and not tighten policy excessively then the Euro zone will enjoy a decent recovery for the first time in years.

But like the Bundesbank they place a lot of weight on the money supply, so further rate hikes are expected. But as said before, we don't see the outlook for short term Euro zone rates as driving the Bund, we still believe what happens in the US Treasury market will shape the outlook here.

For now stay square, we are not bearish of this market but it isn't currently a good time to buy.

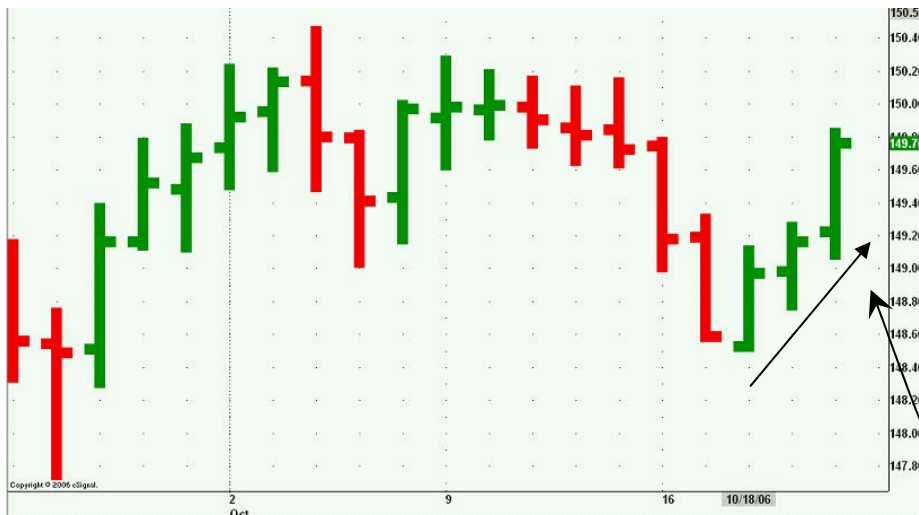
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THE EURO

OUR TRADING STANCE: SQUARE.

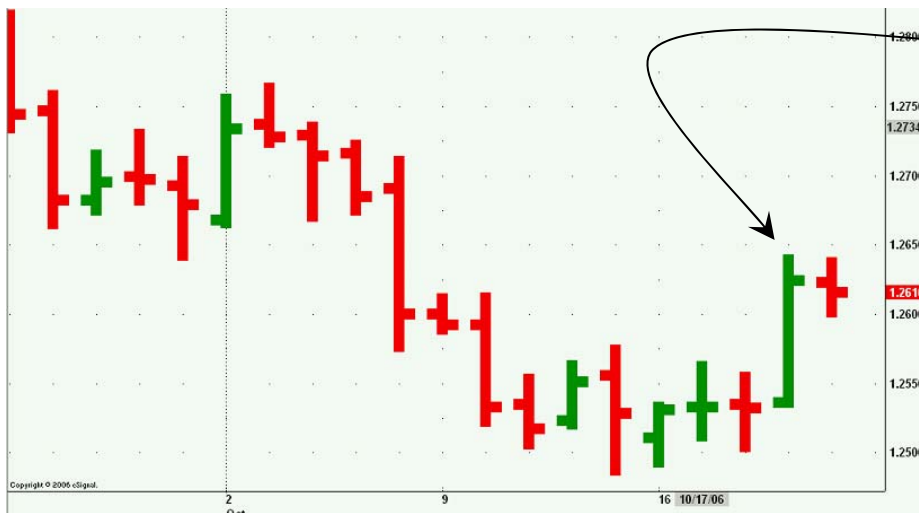
Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen lost out against the Euro as Euro zone data continues to outperform releases from Japan.

THE EURO/DOLLAR CHART



See how the Euro made strong gains against the Dollar on Thursday after stronger Euro zone data and a weak US Philly Fed survey.

This week we remain square of the Euro.

Last week we remained square of the Euro as we judged US events would continue to drive currency markets with the Dollar remaining firm ahead of this week's FOMC rate decision.

The week started promising for the Dollar but fortunes reversed as apart from US Core PPI the

other US data releases were weak where as the Euro zone showed on going strength.

The only weak spot was the German ZEW survey but that has been out of step with reality for many months and traders are now largely ignoring it.

Looking ahead this week sees the release of two key Euro zone releases:

- on Wednesday; the German IFO report, this has remained strong even as the ZEW report has collapsed over the summer and we expect it to remain close to its recent strong readings, and
- On Friday; Euro zone M3, which has been sighted many times by the ECB as sufficient reason to continue tightening policy.

Signs of continued strength from these reports will help the Euro, but Wednesday's US FOMC rate decision should have the greater influence. We expect unchanged and that should see the Dollar begin to weaken.

However not until the trading range is broken will we re-engage with this market.

Too many times, promising moves, backed by fundamental data have failed and traders have been frustrated by the sharp reversals.

The main reason behind this was initially the Fed's rate hiking cycle, but now it is the uncertainty of whether the Fed will continue with its pause or nudge policy a little higher.

Not until there is irrefutable evidence that the US economy is in a serious slowdown or signs inflation is starting to abate, will these anxieties go away.

Inflation will ease if the economy continues to decelerate; it will also ease if oil prices continue to slide.

The Macro Trader's view is: our decision to remain square of the Euro last week was a little frustrating as the Euro made a solid gain.

But that completely explains the recent activity in currency markets; frustrating.

We advise traders to remain patient, eventually the market will break one way or another, the odds continue to favour the upside for the Euro.

Trading is mainly about timing. Having the right view is no guaranty of making money if one fails to get the timing of when to enter and then exit a trade right.

Paradoxically this is something that is difficult to teach, but it can be learnt through experience.

DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

Last week we were bullish of the DJ EURO STOXX 50.

DJ EURO STOXX 50 DECEMBER 06



See how the market sold off after the ZEW survey, but recovered over the remainder of the week.

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

Last week we were bullish of this market as we anticipated more good news on Euro zone inflation.

Although the German ZEW survey was likely to remain weak, we judged traders would discount it. That report has been weakening for many months and we thought it would have limited impact as other data has remained strong.

In the event the report was weaker than expected, the market sold off and we were stopped out.

Subsequent data throughout the week proved supportive and the market recovered; we got our stop wrong!

Looking ahead this week sees the release of the German IFO report. It has over recent months

completely contradicted the ZEW survey and remained in step with actual economic activity.

We expect that pattern to continue. The other key release is Euro zone M3; again this continues to show solid expansion and prompts the ECB to use it as a reason for continuing to hike interest rates.

The Macro Trader's view is: after being stopped out we will remain square. The FOMC meeting is only a couple of days away and we see no sense in re-entering the market so close to it.

Once the decision is known we will re-asses and we advise others in a similar position to adopt our approach.

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COMMODITIES

GOLD

OUR TRADING STANCE: BEARISH

Last week we were bearish of gold.

THE GOLD CHART



See how Gold tried to recover as there were rumours of another North Korean nuclear test, which were later denied, albeit unconvincingly.

This week we remain bearish of Gold.

Last week we were bearish of Gold after the market failed to rally in the wake of the recent North Korean nuclear test.

If the Gold market couldn't rally after such a reasonably serious geopolitical development, it indicated to us the market was set to move lower.

In the event the market attempted another rally driven by rumours the North Koreans were preparing for a 2nd nuclear test.

This was subsequently denied by the North Koreans and the market again began probing the downside.

Looking ahead we remain bearish. We see little support for the market currently as the Chinese seem to have used their influence with the reclusive communist state.

The Macro Trader's view is: last week's price action has confirmed our earlier analysis about this market and we expect to see it trade lower.

The crisis with Iran over their nuclear program was one factor behind the long Gold rally because the world feared the possibility of military action by the US.

Although this hasn't been ruled out in practical terms the US would struggle at this point to mount a serious operation against Iran, but more important it would have any support from the American public.

Traders should remain short of this market; last week's target was nearly hit today. Our longer term target is US\$546.00 an ounce, but run a stop at US\$610.00 an ounce as protection.

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OIL

OUR TRADING STANCE: BEARISH.

Last week we were bearish of oil.

THE CRUDE OIL CHART



This week we remain bearish of oil.

Last week we were bearish of Oil as we judged the slow down in the US economy and the resultant reduction in demand for oil was the market leader rather than OPEC'S decision to cut output in response to that fact.

The market did however try to rally on the larger than expected cut in output and we were stopped out, but we re-established a short position with a wider stop.

The market proved unable to sustain the move as US economic data released last week continued to reveal a weakening economy.

Additionally traders were sceptical the cuts would stick as OPEC members have a history of cheating on their quotas in order to try maintaining their income.

Looking ahead we are bearish of this market medium term and expect it to continue the slide lower.

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The Macro Trader's view is: although the market did close up on the week, the price action revealed a weak market.

The crisis with Iran that drove the price up is still a concern but with the US economy now growing at a much slower rate, the world's largest consumer of energy has engineered a temporary surplus of supply.

Traders should stay short of this market short/medium term as we expect it to reach an interim target of US\$55.00 a barrel before moving down towards US\$50.00 a barrel. But run a stop at US\$62.00 a barrel.

Longer term the market is still bullish, when the US economy recovers and their demand once again increases the same problems of supply will re-emerge, furthermore the Chinese and Indian economies continue to develop and they have the potential to be huge energy consumers.