WEEK 45 31st October – 6th November 2006

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS

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SEVEN DAYS AHEAD
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ABOUT SEVEN DAYS AHEAD

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

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 29 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.
Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.
The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

ABOUT JOHN LEWIS

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

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

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

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

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

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

GLOBAL CALENDAR

WHAT HAPPENED LAST WEEK?

	Week of 23rd October
Monday	
Tuesday	UK CBI Ind trends srvy -20 WEAKER UK CBI Export orders -11 WEAKER FR Cons spndg -2.7m, 2.9y LESS IT Cons conf 108.6 WEAKER EU12 C/A -6.9B WORSE EU12 Ind ordts 3.7m, 14.3y MORE THAN EXPECTED
Wednesday	US EIA Crude oil stocks WEAKER US FOMC Rate decision 5.25 UNCH DM Import prices -1.3m, 3.7y LESS FR Bus conf 108.0 STRONGER DM IFO 105.3 STRONGER THAN EXPECTED
Thursday	US Durable goods 7.8 STRONGER US Ex-transport 0.1 WEAKER US Jobless claims 308k AS US New home sales 1.075M STRONGER UK BBA Sept mrtge approvl 72,155 HIGHER DM GFK Cons conf 9.2 STRONGER THAN EXPECTED
Friday	US Q3 GDP 1.6% WEAKER US Q3 Personal consumptn 3.1 MORE US Q3 Core PCE 2.3 LESS US U. of Michigan 93.6 STRONGER EU12 M3 8.2 3m, STRONGER EU12 M3 8.5y STRONGER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 30th October
Monday	US Persnl income 0.4 US Persnl spending 0.3 US PCE Deflator 3.0% US PCE Core 0.2m, 2.4y UK M4 Strlg lndg 5.1B UK Net lndg on dwllgs 9.0B UK Mrtge apprvals 119k FR Unemploym't -20k FR Rate 8.9
Tuesday	US Q3 Emplymnt cst Indx 0.9 US Cons conf 107.8 US Chicago PMI 58.0 UK Nat'nwide hse prce 0.7m, 7.9y UK GFK Cons conf -6 UK CBI Bus survey n/ DM Retail sales 0.6m, 1.9y FR Cons conf -20 FR PPI -0.3m, 3.0y IT PPI -0.3m, 6.1y IT CPI 0.1m, 2.0y EU12 CPI 1.7y EU12 Bus conf 1.43 EU12 Cons conf -8
Wednesday	US ISM Mfg 53.0 US ISM Prices paid 58.0 UK CIPS PMI Mfg 53.8
Thursday	US Q3 non-farm prod 1.5 US Jobless claims 308k US Factory orders 2.0 UK CIPS PMI Constrct'n 53.0 DM Unemploym't -23k DM Rate 10.5 IT PMI Mfg 54.9 FR PMI Mfg 56.3 DM PMI Mfg 58.6 EU12 PMI Mfg 56.8 ECB Rate decision 3.2
Friday	US Non-farm payroll 125k US Unemploym't rate 4.6 US Avge hrly earngs 0.3m, US Avge wrk week 33.8 US ISM non-mfg 54.0 UK CIPS PMI Services 56.7 IT PMI Mfg 54.2 FR PMI Mfg 51.4 DM PMI Mfg 54.3 EU12 PMI 56.6 EU12 Retail sales 0.6m

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INTEREST RATE FUTURES

EURO DOLLARS

MARCH 07 EURO DOLLARS

See how Eurodollars rejected the lows after the Fed held policy steady on Wednesday, rallied after the decline in house prices on Thursday and pushed up further after Friday's weak Q3 GDP report.

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 with a target of 94.75 and a stop of 94.63 to reflect the set back the market had recently suffered.

We said we expected the market to recover and advise traders to monitor the following data releases:

- on Wednesday; the FOMC rate decision which as expected was **unchanged**,
- on Thursday; durable goods; stronger than expected due to aircraft sales and New Home sales; slightly stronger than expected, but house prices suffered their sharpest decline in 35 years, and
- On Friday; Q3 GDP data was even weaker than expected.

But before the data was known the market sold off further and stopped us out before rejecting the lows, but since we hadn't even seen the Feds decision we bought back in and enjoyed the subsequent rally to our suggested target of 94.75.

Looking ahead we remain bullish of this market and advise traders to focus on the following releases:

- on Monday; personal income, personal spending and the PCE reports,
- on Tuesday; Q3 employment cost index, Consumer confidence and Chicago PMI,
- on Wednesday; ISM Manufacturing survey, and
- On Friday; Non-farm payroll and ISM Services survey.

All of these reports are important; the Fed is concerned about inflation, but has also acknowledged the slowdown in the economy induced by a week housing market.

The non-farm payroll report released at the start of October was responsible for ending the previous rally. Though the headline change was weaker than expected; the surprise drop in the unemployment rate un-nerved traders.

The Macro Trader's view is: we remain bullish of March 07 Eurodollars and do not expect any further rate hikes from the Fed. Given the data released last week we retain our view that they are likely to ease by March/April 07 to prevent the economy from weakening further.

Although New Home sales were stronger than expected, the rise was small and would have seemed smaller without the downward correction to the previous month's data.

The key piece of information from that report though was the drop in house prices; the sharpest in 35 years and this correction is acting to cool the wider economy.

With GDP now only growing at a weak 1.6% the Fed could be closer to easing policy than traders currently think; the holiday season during this 4th quarter will likely be a deciding factor.

If this week's data remains weak, and we have no reason to suppose it wont be, the market will rally further.

Traders should be long of this market, our target over the next 7 days is 94.90, but as always run a stop at 94.63 as protection.

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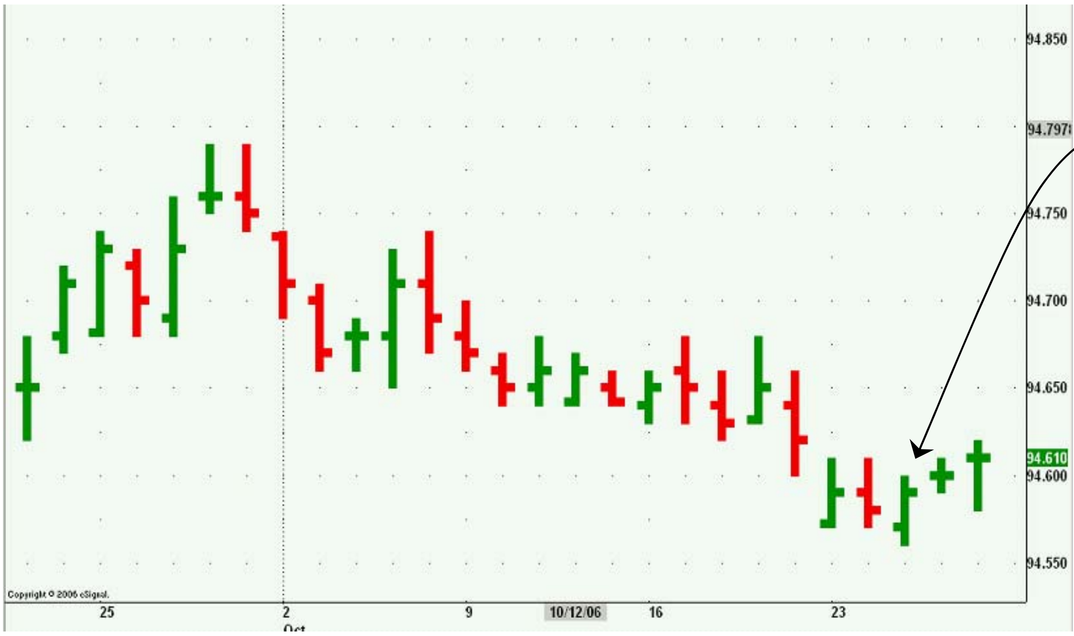
SHORT STERLING

MARCH 07 SHORT STERLING



See how the market bounced on Wednesday after a weaker than expected CBI industrial trends survey.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we were square of March 07 Short Sterling after our long standing target was hit and we took our profit.

In a week with very little data due we judged the market would drift side ways, and after trading lower on Tuesday, as most markets awaited the US Feds interest rate decision on Wednesday, Short Sterling recovered from the lows after the release of a weaker than expected CBI Industrial trends

Although Thursday's mortgage approvals data was stronger than expected, market sentiment was led by events in the US and closed the week off the lows.

Looking ahead we remain square and advise traders to focus on the following data releases:

- on Monday; M4 Sterling lending, net lending secured on dwellings and mortgage approvals,
- on Tuesday; Nationwide house price survey ,
- on Wednesday; PMI Manufacturing survey, and
- On Friday; PMI Services survey.

With the MPC widely expected to increase rates at their November meeting, traders will pay close attention to this week's data.

However, unless the reports are weaker than expected policy will be tightened, but it is already priced into the market.

The Macro Trader's view is: although the economy remains buoyant and inflation above target, we are remaining square.

The March 07 contract currently prices in nearly three rate hikes by expiry and we judge that to be too pessimistic.

Our current analysis is for a rate hike in November and perhaps another around February/March, but that's it, so we consider the market has moved as low as it should.

With the US economy continuing to cool we 5.25% as being the peak in this interest rate cycle, leaving very little for traders to aim for on the downside.

However, with sentiment in the market still bearish, a bull trade is out of the question, which leads us to our current stance; Square.

We recommend others adopt the same position unless economic growth accelerates strongly from here.

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EURIBOR

MARCH 07 EURIBOR

See how the Euribor traded down to our target, driven by Wednesday's stronger than expected German IFO report, although the market ignored Friday's stronger than expected M3 data and rallied along with other interest rate markets after weak US Q3 GDP.

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

With this in mind, we advised traders to focus on the following key releases:

- on Wednesday; the German IFO report was stronger than expected and completely contradicted the weaker German ZEW report released recently, and
- On Friday; Euro zone M3 was stronger than expected and will likely lead to another near term ECB rate hike as they are known to view the money supply as a key reason for tightening.

As a result of the IFO report, the market hit our target, baring ½ a tick and we took profit.

Although other data was generally stronger than expected, most notably Euro zone M3 the market rallied away from the lows on Friday, together with other interest rate futures markets, after the release of weaker than expected US Q3 GDP.

This supported our current analysis that the market has fully priced in all future ECB rate hikes in this cycle.

Looking ahead there are several key releases due this week:

- On Tuesday; French consumer confidence and PPI, Italian PPI and CPI,
- On Thursday; Italian, French, German and Euro zone PMI Manufacturing reports and the ECB interest rate decision, and
- On Friday; Italian, French, German and Euro zone PMI Services reports together with Euro zone retail sales.

Clearly the market will be closely watching the ECB on Thursday. There is an outside chance of a rate hike as Trichet has said several times recently that he didn't want to alter the markets expectation for further rate hikes before year end; after this meeting there is only Decembers meeting so they are likely to move at one of them.

The Macro Trader's view is: although data remained strong last week and Trichet continues to talk about further rate hikes, we do not believe they will hike above 4%.

That is still a further three rate hikes; by our reckoning that is one more this year and two in the first half of next year.

Although data currently paints a very positive picture of the Euro zone economy, if the US economy continues to crawl along, we judge the Euro zone will eventually be affected leading the ECB to pause in the 2nd quarter of next year.

Now we are square and we advise traders to remain sidelined, assuming they followed our take profit advice.

For now we judge there is little to aim for in this market and will closely monitor the up coming data for new trading opportunities.

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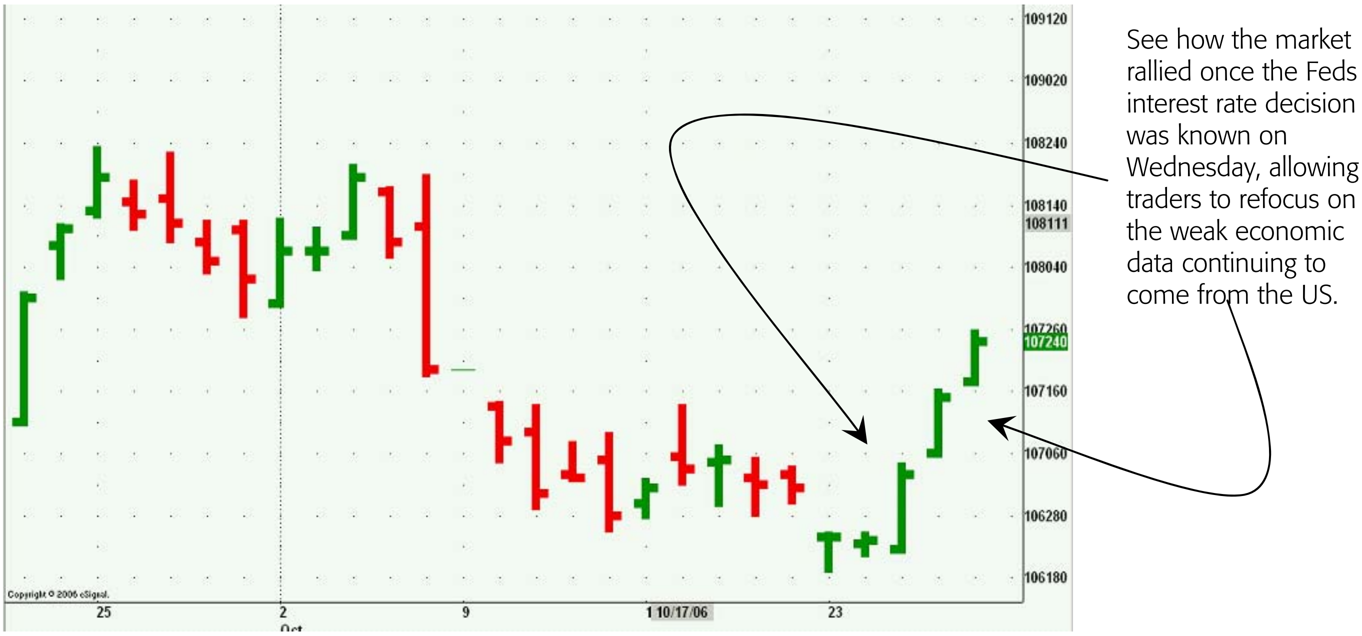
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were square of the 10yr Note.

US 10yr NOTE DECEMBER 06



This week we are bullish of the 10yr Note.

Last week we remained square of this market ahead of the Feds FOMC meeting. While we expected rates to be held steady, the market was nervous and a surprise hike or unexpected form of words in the policy statement could have sent the market much lower.

We advised traders to watch the following key data releases last week, as these would set the market's course over the coming weeks:

- on Wednesday; the FOMC kept rates unchanged,
- on Thursday; durable goods were stronger than expected but this was due to aircraft sales, New Home sales were a little stronger than expected but traders focused on the sharp price drop, and
- On Friday; Q3 GDP was even weaker than consensus.

Looking ahead there is plenty of potential for the rally to progress if this week's data remains soft and traders should watch the following releases:

- on Monday; personal income, personal spending and the PCE reports,
- on Tuesday; Q3 employment cost index, Consumer confidence and Chicago PMI,
- on Wednesday; ISM Manufacturing survey, and
- On Friday; Non-farm payroll and ISM Services survey.

…Clearly if this Friday's payroll report is as weak as October's, but without the unemployment rate surprise; this market will push much higher.

The Macro Trader's view is: we said "we expect the Fed to announce unchanged on Wednesday and for this market to rally higher", and it did, we now expect it to rally further from here. The US economy is experiencing a significant growth pause that will trim inflation and force the Fed to ease.

Traders should be long of this market, our target over the next 7 days is 108.07, but run a stop at 107.07 as protection.

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THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.

GILT DECEMBER 06

See how the Gilt rallied with other Government Bond markets after Friday's release of weaker than expected US Q3 GDP.

This week we remain bearish of the Gilt.

Last week we remained bearish of the Gilt, although there was very little data due, we expected the market to remain under pressure after the raft of bearish releases the previous week.

The week began as we expected with the Gilt testing new lows, but sentiment changed on Thursday after the Fed held policy steady on Wednesday evening. Then on Friday all Government Bond markets followed US Treasuries higher after the release of a much weaker than expected US Q3 GDP report.

Following on the heals of news earlier in the week that US house prices suffered their largest decline in 35 years, traders sensed the Fed was more likely to cut interest rates early in the New Year.

Looking ahead there are several key reports due this week and traders should pay attention to:

- Monday's lending data,
- Tuesday's house price data,
- Wednesday's PMI Manufacturing survey, and
- Friday's PMI Services survey

Clearly if data remains strong, traders will begin to speculate on what the MPC will do after its widely expected November rate hike.

The Macro Trader's view is: until Friday's weak US data, the Gilt looked vulnerable to further bearish price action, and although we were stopped out at 109.00, our level prevented a material loss.

This week we remain bearish and look for an opportunity to re-establish our short position. The data will dictate the timing.

However we are aware that any addition surprises from US data may temporarily support this market, but we would use such moves as a selling opportunity.

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THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were square of the bund.

THE BUND DECEMBER 06

See how the Bund followed other Government Bond markets and rallied on Friday after weaker US Q3 GDP, once again underlining our view that the Bund takes its lead from US Treasuries rather than ECB short term interest rate expectations.

This week we are bullish of the Bund.

Last week we were square of the Bund advising traders to watch the following key data releases:

- on Wednesday; the German IFO report which was stronger than expected, and
- On Friday; Euro zone M3 which was also above consensus,

As expected the Bund made a new low after the IFO report but later rejected it after the US Fed left interest rates on hold.

The Bund spent the remainder of the week shadowing the US Treasury market after further weak US data releases on Thursday and Friday, despite a strong Euro zone M3 report on Friday and comments from ECB President Trichet which supported the outlook for further ECB rate hikes.

Looking ahead there are several key releases this week, as detailed in the calendar, but we expect the Bund to continue taking its lead from the US.

With this in mind traders should be aware there are key data releases from the US this week and we judge Friday's US non-farm payroll will be key for all Government bond markets.

The Macro Trader's view is: we said last week "For now stay square, we are not bearish of this market but it isn't currently a good time to buy", the market now looks more promising and we are long.

We judge Government bond markets will be led by the prospect for future economic activity and inflation rather than the near term outlook and that is why this market follows the US Treasury market; the US economy is slowing sharply and unless it corrects soon, other economies will eventually follow.

Traders should be long of this market our target over the next 7 days is 117.85, but as always run a stop at 116.85 as protection.

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CURRENCIES

THE DOLLAR

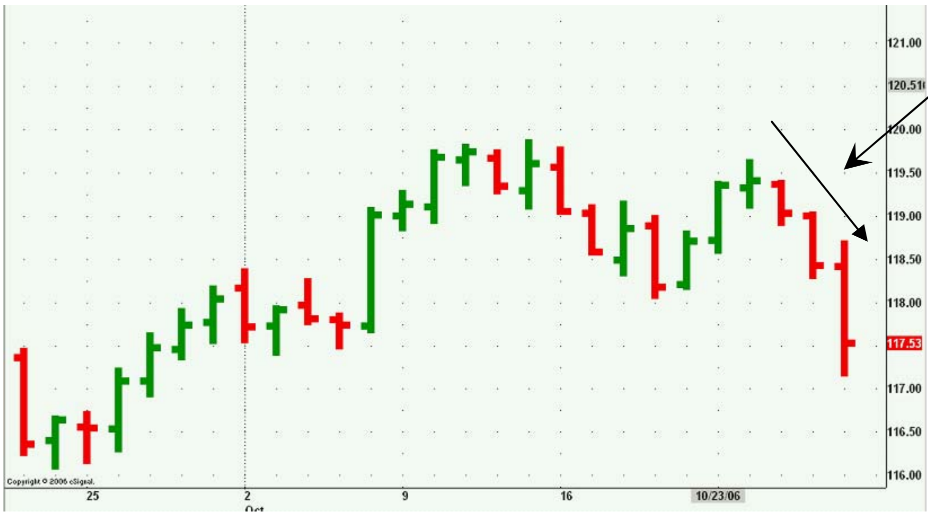
OUR TRADING STANCE: SQUARE.

Last week we were square of the Dollar.

EURO/DOLLAR CHART

See how the Dollar's recent rally immediately began to unravel once the Fed announced on Wednesday policy remained on hold. Other weak data during the week saw the Dollar weaken further.

DOLLAR/YEN CHART



See how the Yen also gained on the Dollar as traders expect the Fed to eventually ease and the Bank of Japan to tighten Japanese interest rates further.

This week we remain square of the Dollar.

Last week we were square of the Dollar, as we judged the market remained trapped by another period of choppy range trading.

With the Fed due to announce its decision on interest rates on Wednesday evening, traders remained nervous. The recent unexpected drop in the unemployment rate and an elevated reading of core PPI had traders fearing a premature end to the Feds pause.

In the event rates were left unchanged with almost an identical policy statement, and the Dollar began to weaken.

As if to remind traders of the dynamics currently driving the US economy, last week's data was mainly weak and we had advised traders to focus on the following releases:

- on Wednesday; as already noted the FOMC left interest rates unchanged,
- on Thursday; durable goods were stronger but this was due to aircraft sales which are a very erratic item and although New Home sales were a little stronger prices dropped at their sharpest rate for 35 years and that is what took the market's attention, and
- On Friday; Q3 GDP was very weak at only 1.6% annualized.

Looking ahead there are several key data releases due this week and we judge these as the most important for the Dollar:

- on Wednesday; ISM Manufacturing survey, and
- on Friday; Non-farm payroll and ISM Services survey

Both of the ISM reports were weak last time and so was the non-farm payroll report. The market only sold off due to the surprise drop in the unemployment rate which was likely caused by the bench mark revisions.

We expect this week's data to offer unequivocal evidence of further weakness.

The Macro Trader's view is: after last week's price action we are closer to taking a new short position in the Dollar, but we want to see the range break before doing so.

Too many times promising moves have evaporated when the Dollar has come up against support.

Although we suspect this time is different, it is crucial for this week's data to provide the follow through, other wise this move too will end in another Dollar correction.

However, given our expectation for this week's key data releases to be weak, we anticipate selling the Dollar against the Pound and probably the Euro towards the end of the week; once the non-farm payroll report is known.

Our expectation is for the Dollar to weaken down to 2.000 against the Pound with a similar move against the Euro, but wait for this week's data before taking a position.

After last Friday's Q3 GDP report it can now only be a mater of time before the Dollars gravity defying act finally comes to a close.

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THE POUND STERLING

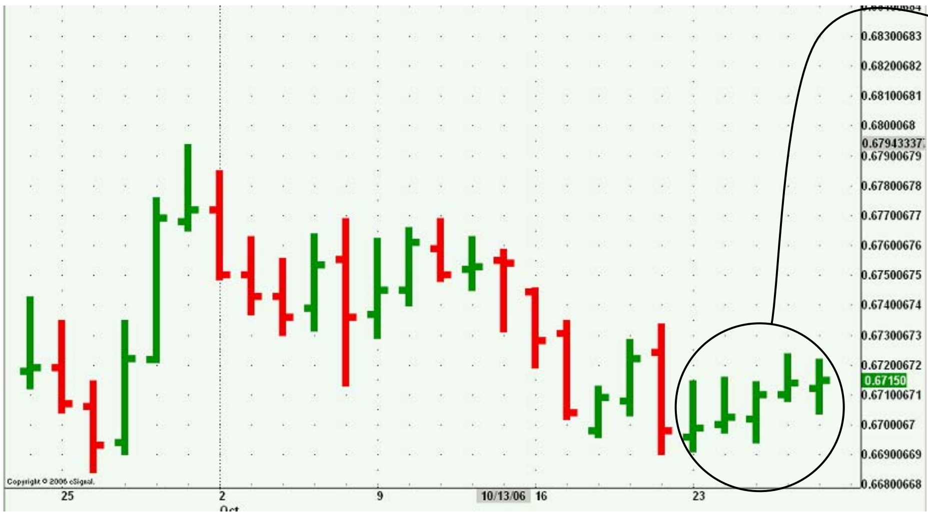
OUR TRADING STANCE: SQUARE.

Last week we were square of Sterling.

THE CABLE CHART

See how the Pound rallied strongly against the Dollar after the Fed held rates and Friday's US Q3 GDP was well below consensus.

THE STERLING/EURO CHART



See how the Pound drifted higher against the Euro after Trichet made various comments alluding to more ECB rate hikes.

This week we remain square of Sterling.

Last week we remained square of Sterling ahead of the Feds FOMC rate decision. In a week with very little UK data, US data was always going to dominate; it did.

The Fed held policy steady on Wednesday and then traders refocused their attention to the economic data.

Although Durable goods released on Thursday were stronger than expected, the market largely ignored it as it was distorted by aircraft orders, also traders looked through the slightly firmer New Home sales report and focused on the sharp decline in house prices; the largest in 35years.

When Fridays US Q3 GDP report fell well short of expectations, the Pound tested the 1.9000 level against the Dollar before profit taking set in.

Looking ahead we start this week square; Cable remains within its range, but if this week's data follows what is now becoming a trend, we sense a breakout may be in the offing; if so we will go long of Sterling against the Dollar.

There are several key releases due this week:

- on Monday; M4 Sterling lending, net lending secured on dwellings and mortgage approvals,
- on Tuesday; Nationwide house price survey ,
- on Wednesday; PMI Manufacturing survey, and
- on Friday; PMI Services survey

And we judge they are all important, but clearly US data will need to disappoint as much as UK data will need to impress.

The Macro Trader's view is: although we have missed a decent bull move, we decided to remain square in order to avoid being buffeted by further range trading.

Remaining sidelined during periods of uncertainty allows for a clearer head and clarity of analysis.

As well as timing, all are crucial when attempting to profit from a market that has long been prone to sharp reversal, just when a break out seemed most likely.

If this week's data follows recent patterns;

- UK data should continue to beat consensus, while
- US data continues to undershoot it.

This is what will provide the greatest trading opportunity. We believe when the Dollar finally succumbs, Cable should target 2.0000.

So although we may have missed the preliminaries, our intention is to compete in the finals.

Traders should be alert to the potential for a break out this week; the Fed is out of the way so no longer distracts and the UK economy remains strong while the US continues to weaken.

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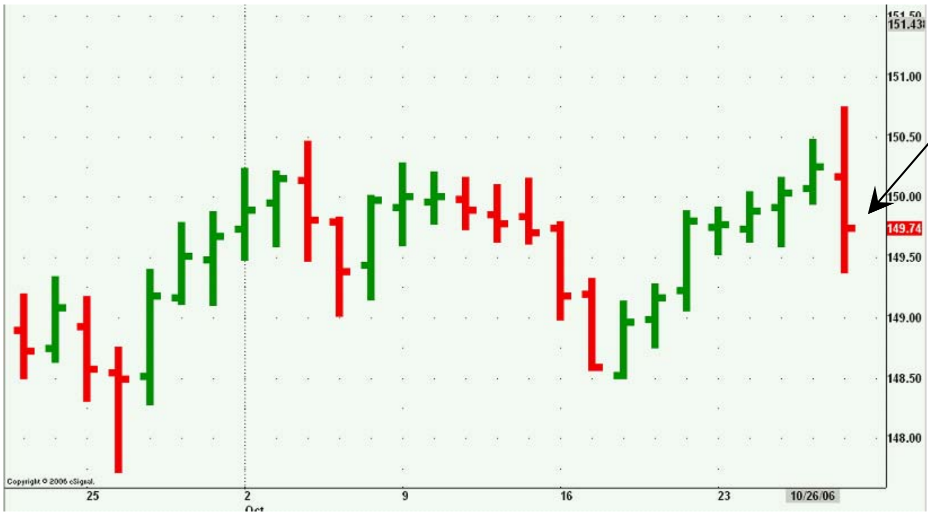
THE EURO

OUR TRADING STANCE: SQUARE.

Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen out performed the Euro on Friday after the Dollar weakened in the wake of disappointing US Q3 GDP.

THE EURO/DOLLAR CHART

See how the Euro rallied after the Fed left US interest rates on hold and Euro zone data was stronger than expected.

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 in focus ahead of last week's FOMC rate decision which resulted in US interest rates remaining on hold for a third straight meeting.

Never the less there were several key Euro zone data releases last week which we advised traders to monitor:

- on Wednesday; the German IFO report was stronger than expected and very much stronger than the totally out of sink German ZEW survey , and

- On Friday; Euro zone M3 was much stronger than expected.

The ECB have said on several occasions that if the recovery continues more rate hikes will be warranted; on last week's evidence the recovery is well set so we expect the ECB to hike again soon, maybe at this week's meeting.

The combination of last week's stronger data and the Feds interest rate decision weakened the Dollar against the other major currencies including the Euro which enjoyed a strong recovery.

Looking ahead traders need to watch data in the Euro zone and the US as follows:
In the Euro zone:

- On Tuesday; French consumer confidence and PPI, Italian PPI and CPI,
- On Thursday; Italian, French, German and Euro zone PMI Manufacturing reports and the ECB interest rate decision, and
- On Friday; Italian, French, German and Euro zone PMI Services reports together with Euro zone retail sales.

…and in the US:

- on Monday; personal income, personal spending and the PCE reports,
- on Tuesday; Q3 employment cost index, Consumer confidence and Chicago PMI,
- on Wednesday; ISM Manufacturing survey, and
- On Friday; Non-farm payroll and ISM Services survey.

All of this data is important because it should re-enforce the view of a strong Euro zone economy in contrast to a weak US economy, but the two most important events are likely to be Thursday's ECB rate decision and Friday's US non-farm payroll.

The Macro Trader's view is: we are remaining square of the Euro even though the market currently looks well set.

However we expect to be a buyer of the Euro against the Dollar by the week's end if data follows recent patterns.

We are unwilling to commit ahead of time because we want confirmation that the current restrictive range has broken and we think this week's data should provide that.

But there is always the risk of surprise and a strong US payroll number on Friday would provoke another Dollar correction.

Traders, including ourselves have been frustrated too many times in recent months, hence our reluctance to commit ahead of the expected evidence.

We advise others to hold fire but stand ready to act.

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STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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

S&P 500 DECEMBER 06

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

Last week we remained bullish of this market as it continued to rally, but we judged the market looked ripe for a profit take and we halved our position.

With the FOMC meeting due last week the market seemed to us, set for a period of sideways price action.

In the event traders took the market higher:

- they reasoned a surprise rate hike would surely be the last and would be fully explained by the Fed, where as
- If the pause was maintained the outlook for easier policy next year would improve.

Additionally other data due last week proved a mixed blessing for the market;

- the New home sales report, despite the small increase in sales, helped the market higher, but
- Friday's weak Q3 GDP report brought the profit taking we had expected, albeit from a higher level.

Looking ahead we expect this week's data to be weak, but traders should read it as heralding easier policy next year and so we remain bullish of the market.

The Macro Trader's view is: last week our target of 1380.00 was met as the Fed looks more likely to ease than hike as data continues to weaken.

We remain bullish of this market; we do not currently expect a recession because we judge the Fed will act in time to support the economy.

Traders should remain long, our target over the next 7 days is 1400, but run a stop at 1367.0 as protection.

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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100.

FTSE 100 DECEMBER 06

See how the market rallied until Friday's weak US Q3 GDP report.

This week we remain square of the FTSE 100.

Last week we were square of the FTSE, after being stopped out the previous week. In a week with very little UK data due and a Fed interest rate decision scheduled, we elected to remain sidelined.

In the event our choice proved sound; the market faired better early in the week, but after a very weak US Q3 GDP report on Friday, Bonds rallied and Stocks slipped on profit taking.

This week we remain square, we expect UK data to remain strong, but with a heightened sense of tension in the Oil market as intelligence reports suspected an Al Qaeda attack on Saudi Arabia's giant Oil refinery, stocks, especially the FTSE could remain hesitant.

The Macro Trader's view is: our dilemma is we are fundamentally bullish of stocks due to the performance of the UK economy, corporate profitability and mergers and acquisition activity.

But given the ever increasing international composition of this market one cannot base analysis purely on domestic issues.

A key determinant of this markets direction over recent months has been the rise and more recently; fall of the oil price, this has shaped investors expectations of profitability among the oil majors, which has been further tempered by fears of terrorist activity and tension between the major powers and Iran.

Once again those fears and tensions re-surfaced towards the end of last week and the market exhibited further hesitancy.

We expect this struggle for dominance to continue and so remain square. The S&P on the other hand looks a more straight forward bull trade.

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DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

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

DJ EURO STOXX 50 DECEMBER 06

See how the market tried to go better but closed the week little changed.

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

Last week we were square of this market after our stop was hit the previous week. With the US FOMC interest rate decision due we decided to remain sidelined.

In the event our decision was sound; the market attempted a rally earlier in the week, but virtually gave back all the gains after Friday's stronger than expected Euro zone M3 report and a weaker than expected US Q3 GDP report which prompted a round of profit taking in all the major stock markets.

Looking ahead we remain side lined this week, although this market has rallied over recent months we continue to judge the US S&P as the best performer and have elected to concentrate our resources there.

The Macro Trader's view is: the best way to describe this market is as a reluctant bull. It has rallied but more slowly than the S&P. Part of the reason has been the continued expectation for further rate hikes where as the debate in the US is now increasingly; when will the Fed ease?

For now we remain sidelined, the ECB meets this week and there is a chance of a rate hike. Including this meeting there are just two left this year and ECB President Trichet has said on several occasions, most recently last week; he doesn't want to change the markets expectation of another rate hike before year end.

Well he has generally been true to his word and with two meetings left there is a realistic chance they could hike this Thursday.

That would likely unsettle the market short term so we are remaining square.

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COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were bearish of gold.

THE GOLD CHART

This week we are square 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.

We reasoned, 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 medium term.

In the event the market attempted another rally driven by news Iran was starting up a second uranium enrichment network, which heightened tension as the US stepped up pressure to apply sanctions, and reports later in the week of a terrorist plot to attack by sea, the giant Saudi oil terminal, resulting in the despatch of Royal Navy units to protect it.

Looking ahead we see this as a false rally that will likely peter out, but our stop was hit today so we will use the event to re-assess the market.

The Macro Trader's view is: with the US economy cooling and President Bush running the real risk of becoming a lame duck after Novembers mid term elections, the US currently is in no position to embark on any fresh military adventures.

When the market remembers this, the current Gold rally will likely fail, but while tension remains heightened and the Dollar is under pressure, traders will short term buy Gold as a safe haven trade.

As said we think the move will soon run out of steam and we advise others to remain square for now.

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OIL

OUR TRADING STANCE: BEARISH.

Last week we were bearish of oil.

THE CRUDE OIL CHART

See how the Oil price bounced last week as Iran started a second enrichment facility and a terror plot was suspected against the giant Saudi oil refinery.

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 <u>was the market leader rather than OPEC'S decision to cut output in response to that fact</u>.

And we continue to hold that view. US Q3 GDP was released on Friday and it was much weaker than expected, also house prices in the US were reported to have fallen at their sharpest rate for over 35 years.

With the US economy showing such weakness any oil rally will fail as demand continues to contract.

We were stopped out last week by the increase in geopolitical tension but quickly re-established a short position.

While the US lacks the domestic support and political will to confront Iran with the threat of force if they fail to halt their nuclear program, any jawboning will have very little effect towards solving the crisis.

The Macro Trader's view is: although we were stopped out, we continue to expect the market to trade lower, we see US$55.00 a barrel as the first realistic target with a later attempt on US$50.00 a barrel; this would likely provoke another response from OPEC but the market is reacting to two themes:

- the reduction of demand brought about by the US economic slowdown, and
- Geopolitical tension which has revealed the current impotence of this US administration.

Traders should still be short of oil, our targets are as above, but run a wider stop at US$62.50 a barrel.

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