Week 35

2nd – 8th September 2014

the macro trader's guide to major markets

John Lewis

SUMMARY

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Global Calendar

US Markets

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

UK Markets

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+ GILT	SQUARE
+ STERLING	BULLISH v the Euro
+ FTSE	BULLISH

Euro Zone Markets

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+ BUND	BULLISH
+ EURO	BEARISH v the Pound
+ DJ EURO STOXX 50	SQUARE

Japanese Markets

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	Week of 1st September
Monday	UK Bus invstmnt 2.05 UK Net Cons CR 0.55B UK Net Indg on dwllgs 2.0B UK Mrtge aprvals 67.0k UK PMI Mfg survey 55.0 DM Q2 GDP -0.2q, 0.8y IT PMI Mfg 50.8 FR PMI Mfg 48.5 DM PMI Mfg 52.0 EZ PMI Mfg 50.8 JP PMI Mfg n/f JP Vehicle sales n/f
Tuesday	US ISM Mfg survey 56.8 US ISM Prices paid 58.0 US Construct’n spndg 0.9% UK PMI Construction 67.4 UK BRC Shopprices -1.9% EZ PPI -0.1m, -1.1y JP PMI Services n/f
Wednesday	US MBA Mrtge apps n/f US Factory orders 11.0% US Fed’s Beige book UK PMI Services 58.5 IT PMI Services 52.0 FR PMI Services 51.1 DM PMI Services 56.4 EZ PMI Services 53.5 EZ Retail sales -0.4m, 0.9y

	Week of 1st September
Thursday	US ADP Employm’t chnge 210k US Q2 Non-farm prodctvty 2.5% US Q2 Unit labour costs 0.60% US Trade bal -$42.5B US Jobless claims 300k US ISM Non-mfg survey 57.0 UK BOE/MPC Rate decision 0.50% UK BOE AP Target £375B DM Factory orders 1.5m, EZ ECB Rate decision 0.15%
Friday	US Non-farm payrolls 216k US Unemploym’t rate 6.1% US Avrge hrly earngs 0.2m, US Avrge wrk wk 34.5 DM Ind production 0.3m, EZ Q2 GDP n/fq, 0.7y

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	Week of 25th August
Monday	US New home sales 412k **WEAKER** DM IFO 106.3 **WEAKER** JP Corp service prces 3.7% **AS** **THAN EXPECTED**
Tuesday	US Durable goods 22.6% **STRONGER** US DG Ex-transport -0.8% **WEAKER** US Hse price indx 0.4m, **MORE** US S&P Comp-20 8.10% **WEAKER** US Cons conf 92.4 **STRONGER** UK BBA home buyer loans 42.792k **WEAKER** JP Sml bus conf 47.7 **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 2.8% **BETTER** DM Import prices -0.4m, -1.7y **WEAKER** DM GFK Cons conf 8.6 **WEAKER** **THAN EXPECTED**

	Week of 25th August
Thursday	US Jobless claims 298k **BETTER** US Q2 GDP (A) 4.2% **STRONGER** US Q2 Prsnl consmptn 2.5% **STRONGER** US Q2 GDP Price indx 2.1% **STRONGER** US Q2 Core PCE 2.0% **AS** US Pndg home sales 3.3m, -2.7y **STRONGER** UK CBI Sales 37 **STRONGER** UK GFK Cons conf 1% **stronger** DM Unemplym't rate 6.7% **AS** DM Unemploym't chge 2k **WORSE** EZ M3 (3M) 1.5% **STRONGER** EZ M3 (y/y) 1.8% **STRONGER** EZ Ind conf -5.3 **WEAKER** EZ Cons conf -10 **AS** EZ Economic conf 100.6 **WEAKER** EZ Services conf 3.1 **WEAKER** DM CPI 0.0m, 0.8y **AS** JP CPI National 3.4% **AS** JP CPI Tokyo 2.8% **STRONGER** JP Jobless rate 3.8% **WORSE** JP Househld spndg -5.9% **WORSE** JP Lrge retail sales -0.6% **AS** JP Retail trade -0.5m, -0.5y **WORSE** JP Ind production 0.2m, -0.9y **WEAKER** **THAN EXPECTED**
Friday	US Persnl income 0.2 **WEAKER** US Persnl spnding -0.1 **WEAKER** US Core PCE 0.1m, 1.5y **AS** US Chicago PMI 56.5 **BETTER** US U. of Michigan conf 82.5 **STRONGER** UK Nat'nwde hse prces 0.8m, 11.0y **STRONGER** DM Retail sales -1.4m, 0.7y **WEAKER** IT Unemploym't rate 12.6% **WORSE** EZ Unemploym't rate 11.5% **AS** EZ CPI Est 0.3y **AS** IT Q2 GDP -0.2q, -0.2y **BETTER** JP Vehicle production -1.7% **WEAKER** JP Construction orders 24.4% **STRONGER** **THAN EXPECTED**

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SEVEN DAYS AHEAD

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US MARKETS: economic background

Last week's focus was the latest release of the Q2 GDP report.

The main concern among traders was that the report was revised down, diluting the bounce back from the weak Q1 and further muddying the waters around the Fed's policy stance.

In the event the report was revised up and although this means the debate about when the Fed is likely to begin tightening, at least the economy appears to be strengthening.

Other data released last week saw a stronger than expected Durable goods report, but strip out transport, more specifically aircraft and the report was weaker than 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 Tuesday; **ISM Manufacturing survey and construction spending,**
- On Wednesday; **factory orders and the Fed's Beige book,**
- On Thursday; **Jobless claims, ADP Employment change, Q2 non-farm productivity, Q2 Unit labour costs, Trade data and ISM non-manufacturing survey, and**
- On Friday; **non-farm payroll, unemployment rate, average hourly earnings and average work week.**

There are three key reports this week; the two ISM surveys and non-farm payroll, watch then all closely but we judge the ISM non-manufacturing and payroll reports are key to the economic outlook and market performance moving into the next week or so.

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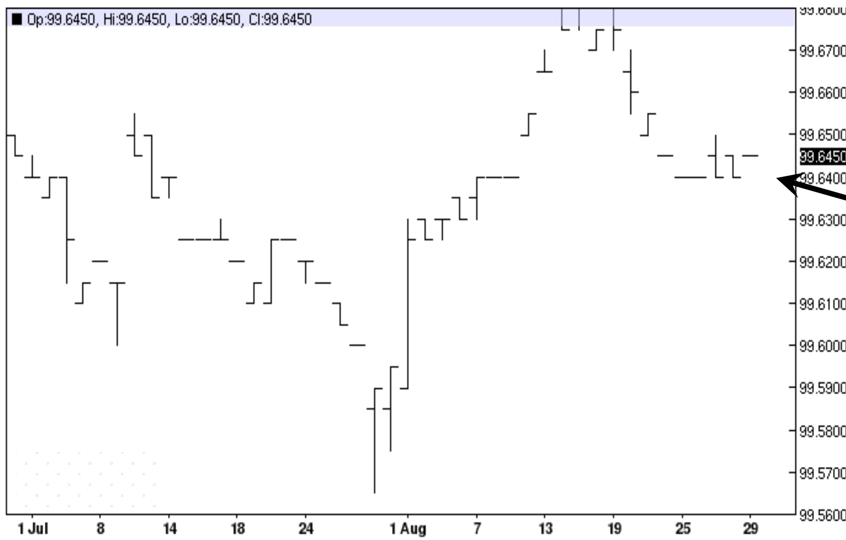
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Note how Eurodollars traded sideways on some mixed data.

The Macro Trader's view of Eurodollars is; last week's resulted in sideways trading.

The Q2 GDP report was bearish for this market but it was tempered by other data released throughout the week that was less positive.

Looking ahead three key reports due, which if all at or better than expected will start to weigh on this market, but with the Fed still postured for unchanged rates until at least the middle of next year the downside looks limited.

This market offers little to excite us and advise remaining square.

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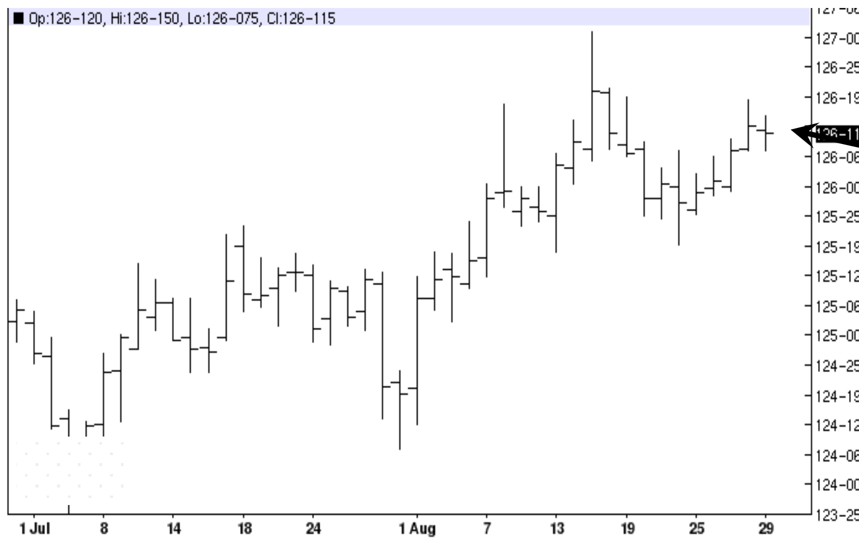
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



See how the 10 year note looks to be moving towards a period of range trading.

The Macro Trader's view of the 10 year note is: last week we said…

…"Looking ahead new home sales, durable goods and Q2 GDP are all due"....

…"Strength in these will weigh on this market, but we expect data to be more or less in line offering this market little to excite"...

In the even data was mixed, but we judge the key report; Q2 GDP coming in stronger than expected, had the greatest impact.

Looking ahead the ISM surveys and non-farm payroll are due. A strong non-manufacturing survey and non-farm payroll report will ease this market lower.

For now stay square the market is vulnerable to stronger data but supported by the Fed's policy stance, low inflation and the Ukraine/Russia crisis.

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US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square.

The Dollar look's poised for further gains but has yet to break 1.3100.

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

…"Looking ahead another look at Q2 GDP is due this week, a small downward revision is expected, anything more would unsettle the Dollar, conversely an in line or better report will see the Dollar gain strength"…

In the event the report was better than expected and the Dollar extended its rally, but with New home sales falling short of expectations and personal income and spending weaker, the rally was muted.

Looking ahead ISM surveys and non-farm payroll are due and strength here could push the Dollar through the 1.3100 level which is our trigger to go long.

For now we are staying square, but a convincing break below 1.3100 would encourage us to go long in anticipation of further gains.

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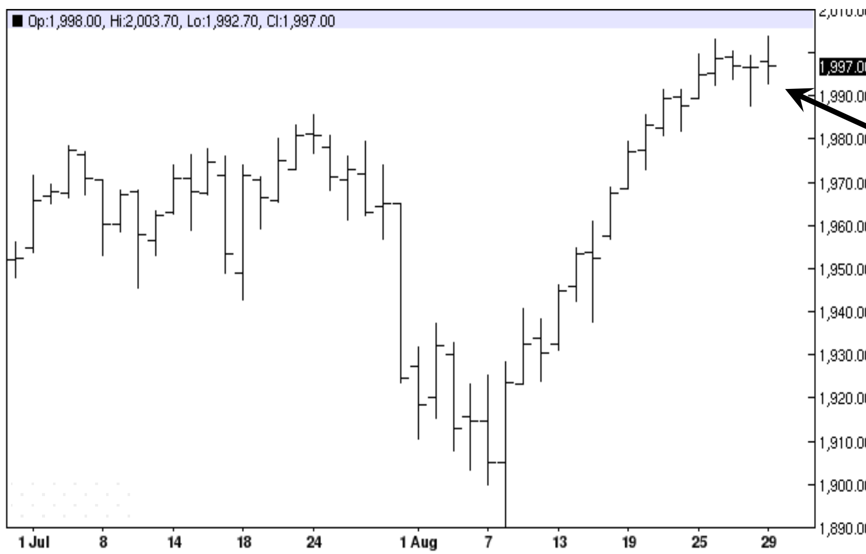
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P made new highs despite the conflict in Ukraine.

The Macro Trader's view of the S&P 500 is: last week we said...

…"Looking ahead Q2 GDP is out later this week and barring any unexpected negative surprises we expect this market to remain well supported by the mix of economic recovery and low interest rates"…

In the event the key report; Q2 GDP was stronger than expected and although other reports were a little weaker than forecast, traders remained bullish and the market hit new highs.

Looking ahead the Bulls should remain in control this week as the two ISM surveys and non-farm payroll are due.

Traders should be long of this market.

Our suggested target is 2020.00 and our suggested stop is close at 1980.00 for protection against geopolitical risk.

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UK MARKETS: economic background

Last week's key release was the Nationwide house price index which showed another stronger than expected rise in house prices.

Additionally GFK consumer confidence edged up further and CBI sales came in strong.

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; **Business investment, Net consumer credit, net lending on dwellings, mortgage approvals and PMI Manufacturing survey,**
- On Tuesday; **PMI Construction survey and BRC Shop prices,**
- On Wednesday; **PMI Services survey, and**
- On Thursday; **BOE/MPC policy/rate decision.**

The key releases this week are the PMI Surveys.

As ever traders will be monitoring these releases for further clues on both the strength of the economic recovery and the out look for monetary policy.

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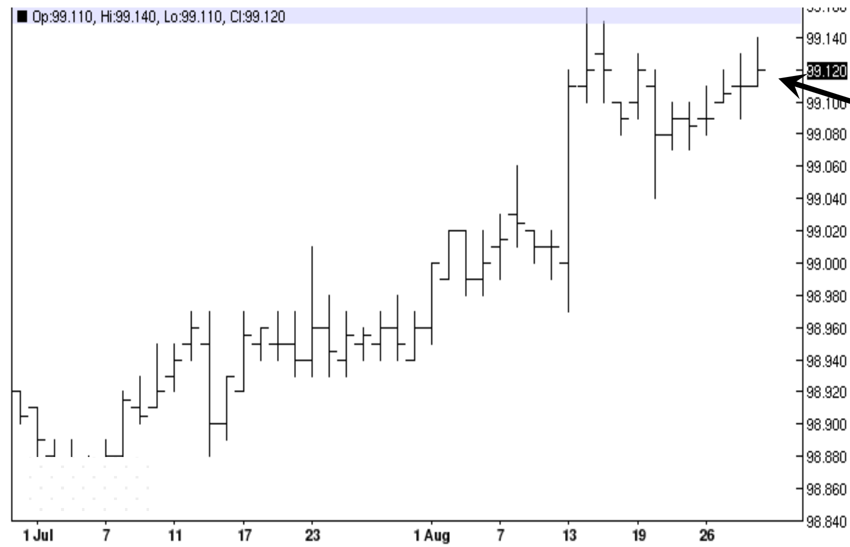
UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



Short Sterling continues to expect interest to remain on hold for several months yet.

The Macro Trader's view of Short Sterling is: last week's price action clearly indicated that traders were expecting policy to remain on hold into next year.

But what data there was out last week continued to report a strong economy so there is still time yet for the Bank to move before year end.

Looking ahead the PMI surveys and BOE/MPC rate decision are due.

Rates are set to remain unchanged, but we judge the PMI surveys will continue to flag a robust economic expansion remains in place.

For now we see no case for either a Bull or Bear trade, so stay square, but we are seeking an opportunity to go short.

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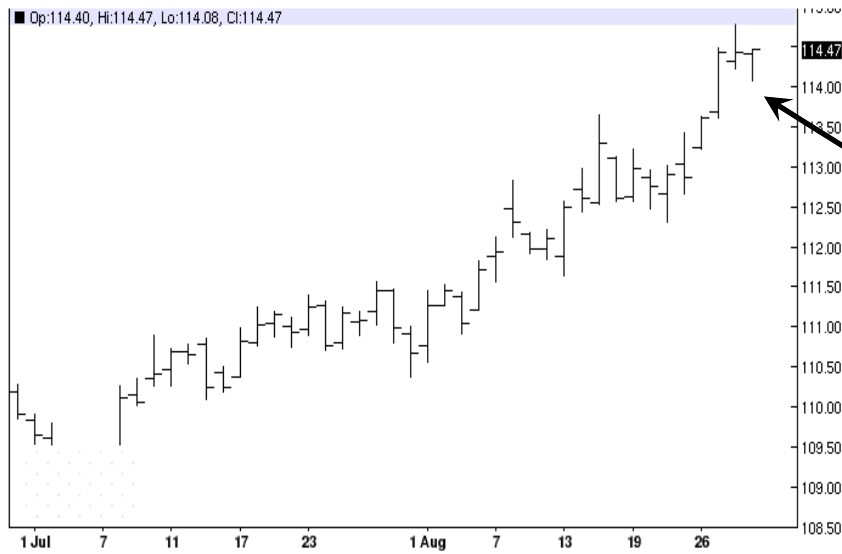
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt remains well supported by the Bank's policy stance.

The Macro Trader's view of the Gilt is; the Gilt continues to look well supported by the Bank's policy stance which in turn is supported by a year on year CPI rate of 1.6% and anxiety about the still evolving crisis in Ukraine which could become something of a more wide spread regional problem if Russia miscalculates.

Looking ahead the PMI surveys are due and although we expect them to continue pointing to strong economic expansion, this market currently seems driven by inflation levels and geopolitical tension.

The Bank of England announces its policy decision on Thursday, but unchanged is the market consensus..

For now stay square. The market is currently supported, but we prefer to focus on stocks rather than an asset class that is mainly supported by geopolitical tensions.

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UK MARKETS: Sterling

OUR TRADING STANCE; BULLISH v the EURO

Last week we were Bullish v the Euro

See how Sterling remains under pressure against the Dollar.

The Macro Trader's view of the Pound is: the Pound remains under pressure against the Dollar as the interest rate debate in the US and UK continues to evolve.

Against the Euro the Pound continues to perform better. The Euro zone economic recovery remains in intensive care and CPI is around 0.3%.

Last week's Euro zone data on balance was weaker than expected and the calls for the ECB to start a QE program have grown ever louder, but we doubt it will materialise any time soon, where as in the UK data continues to build a case for the Bank to begin hiking rates.

Looking ahead several key data releases due in both the UK, US and Euro zone. In a nut shell we expect them to support the Pound to the detriment of the Euro.

Traders should remain Long Sterling against the Euro.

Our suggested target remains 0.7800 and our stop continues at 0.8280 for protection.

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UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.

See how the FTSE extended the rally despite the on going turmoil in Ukraine.

The Macro Trader's view of the FTSE is; last week's price action further supported our bullish stance on this market and although there were few heavy weight data release, those that were released pointed to continued economic strength.

Moreover US market sentiment was boosted by a strong US Q2 GDP report and that also fed into the FTSE.

Looking ahead several key reports due this week including the PMI surveys which we expect to point to continued strong growth which can only be bullish for this market.

Traders should be long the FTSE.

Our suggested interim target is raised to 6840.00 but our suggested stop continues at 6560.00 for protection.

Although the fighting in Ukraine continues and the US/EU threatens more sanctions on Russia as evidence builds of direct Russian intervention, no one is suggesting N.A.T.O intervenes militarily in this conflict, which clearly they should not and that expectation allows traders to look beyond Ukraine and focus on the economic data.

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EURO ZONE MARKETS: economic background

Last week's focus was the Euro zone CPI estimate where a reading of just 0.3% was forecast.

In the event the report came in as expected pilling more pressure on the ECB to do more to support the Euro zone economy and prevent what increasingly looks like a relentless slide into deflation.

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 Q2 GDP, Italian, French, German and Euro zone PMI Manufacturing surveys,**
- On Tuesday; **Euro zone PPI,**
- On Wednesday; **Italian, French, German & Euro zone PMI Services surveys and Euro zone retail sales,**
- On Thursday; **German factory orders and ECB policy decision, and**
- On Friday; **Euro zone Q2 GDP and German industrial production.**

The calendar is packed this week with important data releases but we judge the main event is the ECB policy announcement and later press conference.

The Euro zone economy is on the brink of a Japanese style lost decade with deflation at it's core, will the ECB step up and start a QE program or will the Germans continue to thwart that policy being adopted?

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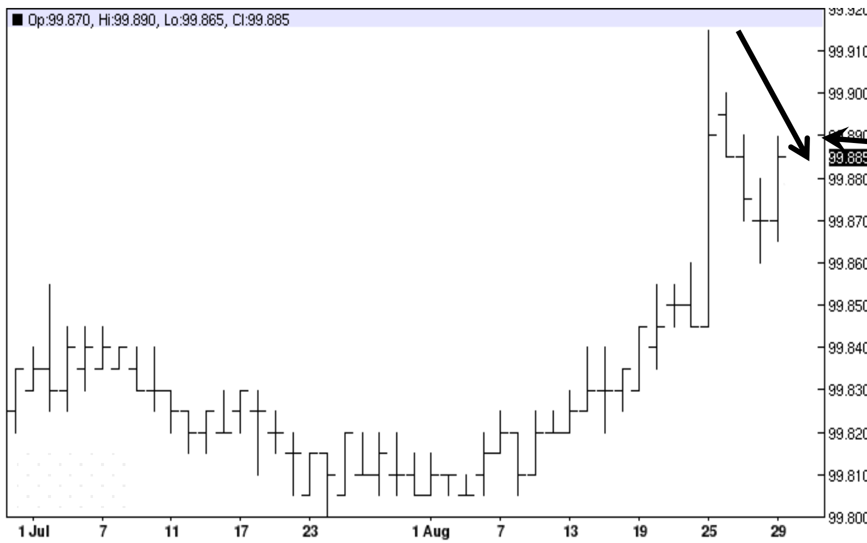
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor slipped from the highs despite more soft data.

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

…"Looking ahead Euro zone CPI estimate is due, a rate of 0.3%y/y is expected, if so deflation is but a heart beat away, the ECB needs to act decisively"…

In the event CPI was estimated at 0.3%y/y, but the noises coming from the ECB suggest those hoping for the ECB to adopt QE are going to be disappointed.

Looking ahead the PMI surveys are due, Euro zone Q2 GDP is due, German factory orders and industrial production are also due and the ECB policy decision is due.

The story is likely to remain a weak and struggling economy and an ECB statement that is long on words, short on doing what is necessary.

We are remaining square of all short term interest rate contracts. We judge resources can be deployed more profitably elsewhere..

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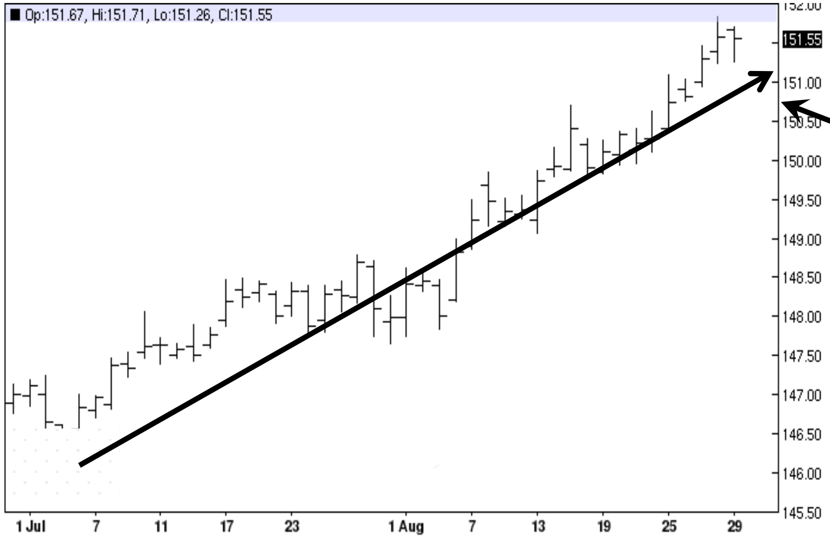
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund remains a clear cut Bull market.

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

…"Looking ahead the Euro zone CPI estimate is due and expected to show another decline in year on year CPI"...

…"The weakness of growth, the slide towards deflation and the expectation the ECB will ultimately adopt a QE policy makes the Bund a Bull market"…

In the event CPI estimate was 0.3% making deflation look ever more likely and despite expectations the ECB will at some point adopt a QE policy, currently their language doesn't sound as if that is imminent.

Looking ahead the key event this week is the ECB policy decision and press conference. We do not expect Draghi to announce the start of QE, but what he does say will impact markets.

Traders should be long this market.

Our suggested target remains 152.0 and our suggested stop is raised to 150.00 for closer protection.

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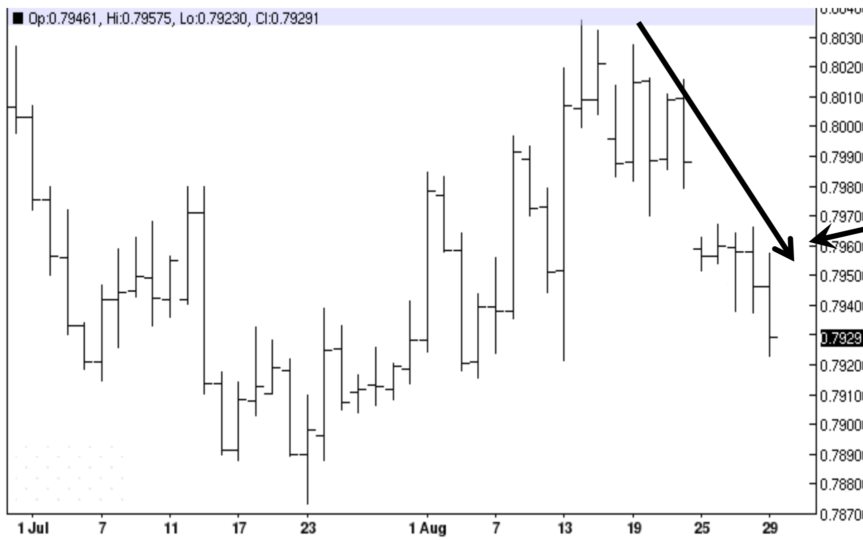
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v STERLING

Last week we were Bearish v Sterling



See how the Euro reversed against Sterling.

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

…"For the currency markets the differences are clear, the UK economy is strong and a rate hike is around the corner, in the Euro zone economic activity is week, inflation is close to zero, the ECB says it can do more but when it does it is too little too late"...

And the CPI estimate came in at 0.3%; deflation looks inevitable but still the ECB procrastinates.

Looking ahead there are several PMI surveys due but we judge the ECB policy decision and press conference is the main event; with or without a QE announcement.

Traders should remain Long Sterling/Short the Euro.

Our suggested target remains 0.7800 and our stop continues at 0.8280 for protection.

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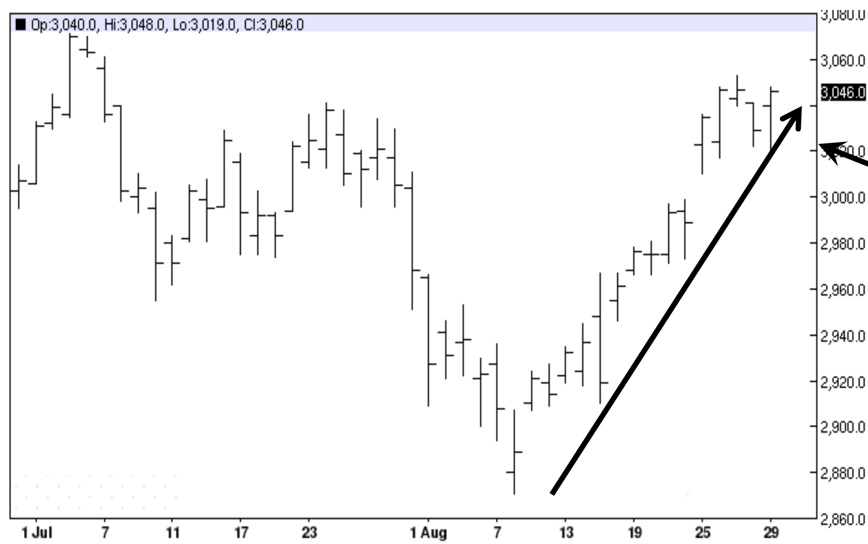
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market rallied, but on what… not the Euro zone economy?

The Macro Trader's view of DJ Euro Stoxx 50 is: once again the market extended the recovery helped by international sentiment, because data remains weak.

And last week's CPI estimate at just 0.3% year on year confirmed the real risk of deflation will soon become a reality.

Looking ahead the Euro zone data is likely to be yet another disappointment and the ECB policy decision likely to further frustrate those seeking the adoption by the ECB of a QE policy.

But this market could still rally driven by international sentiment. If US and UK data remains strong and the S&P and FTSE rally this market will be dragged better by default.

We are staying square of this market based on the local fundamentals; they do not support a rally.

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JAPANESE MARKETS: economic background

Last week's key release was the Industrial production report and yet another weak and disappointing reading.

The CPI reports came in broadly as expected at a national rate of 3.4%. The Bank of Japan and government have succeeded in driving up inflation but growth hasn't followed as promised; the sales tax seems like the authorities have shot themselves in both feet!

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; **PMI Manufacturing survey and vehicle production, and**
- On Tuesday; **PMI Services survey.**

The key release this week are the two PMI surveys.

Will they flag better times ahead or just more of the same, if so what else can the authorities do?

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SEVEN DAYS AHEAD

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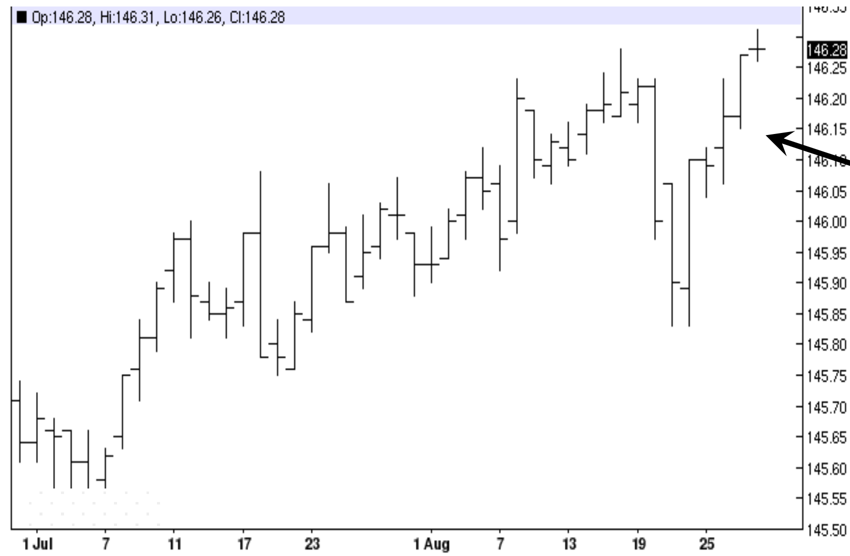
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB bounced back on disappointing data.

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

…"Looking ahead the key release this week is industrial production, but the message is likely more of the same"…

In the event yet another weaker than expected report made worse by the CPI reports that show inflation is back but not growth.

Looking ahead the PMI surveys are due, but don't hold your breath.

The authorities economic plan was that by driving up inflation, growth would strengthen too. In reality that hasn't happened and last week's data highlighted that yet again.

We are staying square.

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JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square

The Yen, like the other majors remains under pressure against the Dollar.

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

…"the combination of US economic recovery, Japanese economic weakness and geopolitical tension further strengthened the Dollar last week against all the majors including Japan"...

And after a weak industrial production report in Japan contrasted to a stronger than expected US Q2 GDP report the outlook for the Yen looks little better.

Looking ahead the key releases in Japan this week are the PMI surveys, but in a week that sees both PMI surveys and non-farm payroll released in the US, traders are likely to see the contrast between the weak Japanese economy and Stronger US economy thrown into sharp relief.

On the face of it the Yen looks vulnerable, but the Yen does retain an attraction as a safe haven currency and given the current geopolitical hotspots globally we prefer to remain square.

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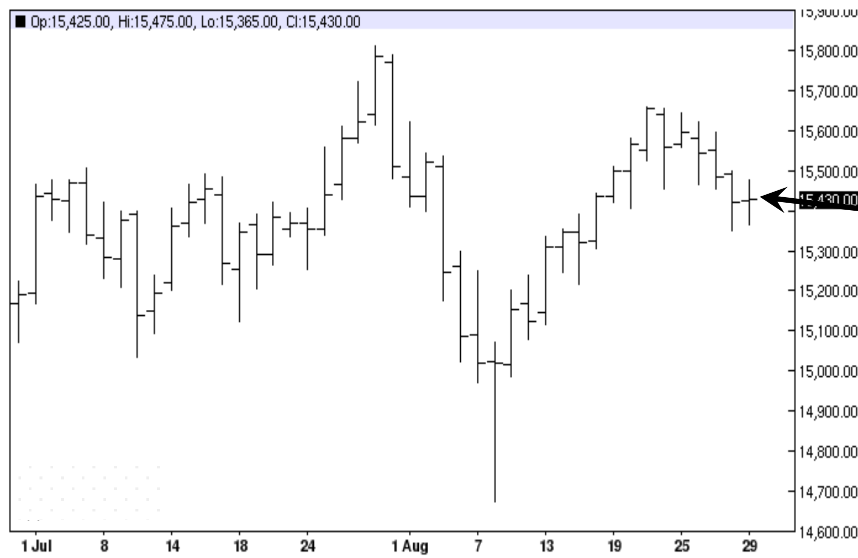
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



See how the Nikkei looks range bound.

The Macro Trader's view of the Nikkei is; equity markets globally rallied further last week as US Q2 GDP came in much better than expected.

But in Japan industrial production was weak, inflation above 3% the governments policy so far doesn't seem to be working; what is there new for Japan to do?

She has tried kick starting her economy by:

1. Cutting interest rates almost to zero,
2. Throwing countless fiscal stimuli at the problem,
3. Adopting a QE policy, and
4. Aggressively pursuing a policy designed to drive up inflation in the belief growth would follow.

So far none have had the anticipated success.

Looking ahead this week's key releases are the PMI surveys, but we doubt the message will be much different.

For this market international sentiment has helped off set domestic disappointment, but only just.

We advise staying square.

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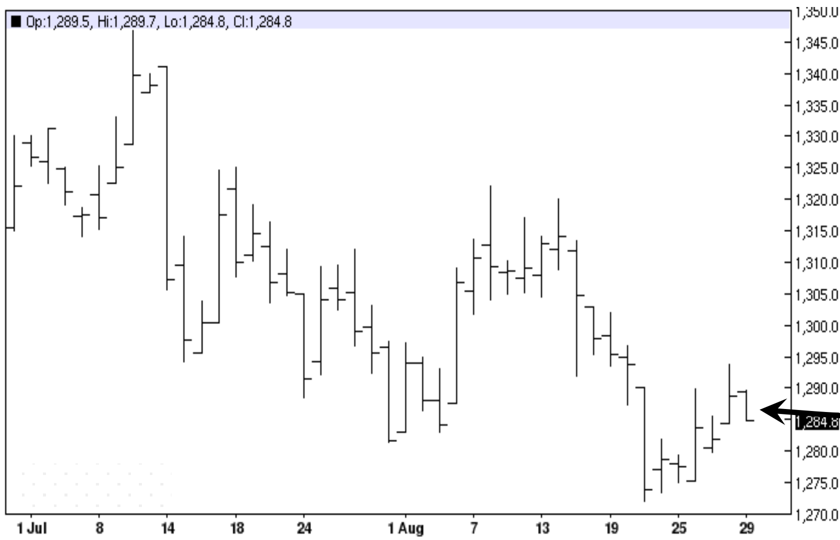
COMMODITIES: Gold

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Gold.



See how gold staged a recovery, but we suspect it a limited correction.

The Macro Trader's view of the Gold is: gold staged a limited recovery last week, but we think it only a minor correction.

In a world where there is unrest on a large scale in the oil producing Middle East, a deadly virus ragging in Africa, friction over territorial rights between China and many of her neighbours and a dangerous war ragging in Ukraine sponsored by and now most likely directly involving Russia, this market is a disappointment for any lingering Gold Bulls.

The west in the form of N.A.T.O is unlikely to get involved militarily in Ukraine, but so serious do they view the threat of a clearly expansionist Russia that defences in East European N.A.T.O members are being bolstered and Russia's president found it necessary to remind the world of Russia's nuclear weapons.

Moreover how sure can the West be that Russia doesn't have similar ambitions in other former Soviet Bloc countries, some of which are now N.A.T.O members.

Gold is clearly at the end of a Bull market and is in the process of unravelling that long Bull run and we advise staying short.

Our suggested target is 1200.00 and our suggested stop is placed close at 1310 for protection.

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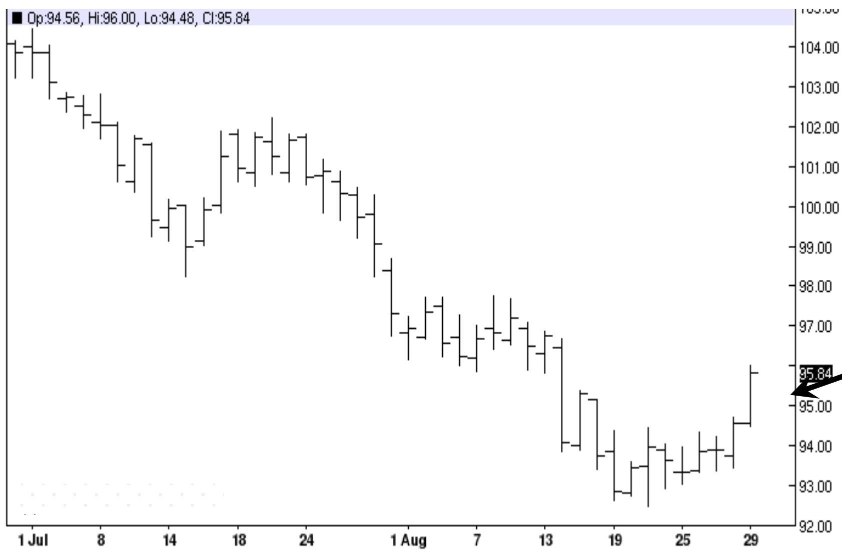
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil staged a recovery as energy security suddenly seems a concern again at least in much of Europe.

The Macro Trader's view of oil is: despite fighting in oil producing areas which includes Iraq and Libya, the Oil price could only manage a minor correction last week.

Moreover with relations between the west and Russia still at the worst in 20 years, with implications for western Europe's reliance on Russian energy imports, a stronger rally might have been expected.

But as the US is set to assume the position of world number one energy producer with expectations she will be a net exporter, as evidenced in already improving trade data, the current crisis is not having the same impact as would have occurred a few years earlier; at least not yet.

Moreover even as the extremist group ISIS threatens to further split Iraq and grab land in Syria with implications for the oil reserves of Iraq, it is apparent that the extremists are selling the oil from the wells they have captured, so is supply really at risk.

For now we are remaining square. Any natural resource as important as oil that is located in war torn areas presents a security of supply dilemma not to be taken lightly.

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