Week 50

16th – 22nd December 2014

the macro trader’s guide to major markets

John Lewis

Authorised and regulated by the FSA

SUMMARY

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+ EURODOLLARS	SQUARE
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+ S&P 500	BULLISH

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+ DJ EURO STOXX 50	SQUARE

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This week's global calendar – macro trader

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	Week of 15th December
Monday	US Ind production 0.6% US Capacity utilisation 79.4% US Empire mf 12 US NAHB Housing mkt indx 58 US Net lg trm TIC flows $72.85B UK CBI Trnds orders 3 JP Tankan lrge mfg 13 JP Tankan lrge all in Capex -2 JP Tokyo conda sales -33.35
Tuesday	US Housing starts 1030k US Buildg permits 1055k UK RPI 0.0m, 2.2y UK RPI-X 2.3% UK CPI 0.0m, 1.2y UK PPI Input -1.5m, -9.2y UK PPI Output -0.3m, -0.5y UK PPI Core 0.0m, 1.0y UK DCLG House prices 11.4% EZ PMI Composite 51.5 DM ZEW Survey 20 EZ Trade bal 21.0B JP Trade bal –Y992.0B JP Nat'nwide dept stre sales n/f JP Tokyo dept stre sales n/f
Wednesday	US MBA Mrtge apps n/f US CPI -0.1m, 1.5y US CPI Ex –f&e 0.2m, 1.8y US Q3 C/A -$97.5B US FOMC rate decision 0.25% UK Unemploym't rate 2.8% UK Unemploym't chge -21.2k UK Average earngs 1.2% UK AE Ex-bonus 1.2% UK ILO Rate 5.9% UK BOE/MPC Minutes 7/2 EZ CPI 0.3y EZ Labour costs 1.1% JP Machine tool orders n/f

	Week of 15th December
Thursday	US Jobless claims 295k US Philly Fed 30 UK Retail sales 0.3m, 4.5y UK GFK Cons conf -1 DM IFO 105.5 EZ Construction output n/f JP BOJ Policy statement JP All ind actvty indx 0.0m,
Friday	UK PSNB 14.8B UK PSNCR n/f UK CBI Sales 30 DM PPI -0.2m, -1.1y DM GFK Cons conf 8.8 EZ C/A 27.4B

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	Week of 8th December
Monday	DM Ind production 0.2m, 0.8y **WEAKER** JP C/A Y833.4B **STRONGER** JP Trade bal –Y766.6B **WEAKER** JP Q3 GDP -0.5q, -1.9(A) **WORSE** JP Bank lndg Ex-trusts 2.8% **STRONGER** JP Bankruptcies -14.61% **WORSE** **THAN EXPECTED**
Tuesday	US Wholesale invntry 0.4% **STRONGER** US Wholesale sales 0.2% **STRONGER** UK BRC Sales 0.9% **STRONGER** UK Ind production -0.1m, 1.1y **WEAKER** UK Mfg output -0.7m, 1.7y **WEAKER** UK NIESR GDP 0.7% **AS** DM Labour costs 0.2q, 2.3y **STRONGER** DM Trade bal 21.9B **STRONGER** DM C/A 23.1B **STRONGER** JP Eco watchers 41.5 **WEAKER** JP Machine tool orders 36.6% **STRONGER** JP Dmestc corp gds prces -0.2m, 2.7y **BETTER** JP BSI Lrge ind survey 5.0 **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 7.3% **STRONGER** US Mnthly bdgt statmnt -$56.8B **BETTER** UK Trade bal -£9.620B **WORSE** UK Trade bal non-EU -£3.582B **BETTER** JP Cons conf 37.7 **WEAKER** JP Tertiary ind indx -0.2% **AS** JP Machine orders -6.4m, -4.9y **WORSE** **THAN EXPECTED**

	Week of 8th December
Thursday	US Retail sales 0.7% **STRONGER** US RS Ex-Autos 0.5% **STRONGER** US Import prices -1.5m, -2.3y **STRONGER** US Jobless claims 294k **LESS** US Business invntry 0.2% **AS** UK RICS House prices 13% **LESS** DM CPI 0.0m, 0.6y **AS** JP Tokyo office vacancies 5.55 **AS** **THAN EXPECTED**
Friday	US PPI -0.2m, 1.4y **WEAKER** US PPI Ex-f&e 0.0m, 1.8y **WEAKER** US U. of Michigan conf 93.8 **STRONGER** UK Construct'n output -0.7m, -2.2y **WEAKER** DM WPI -0.7m, -1.1y **WEAKER** EZ Ind production 0.1m, 0.7y **WEAKER** JP Ind production 0.4m, -0.8y **BETTER** JP Capacity utilisation 0.7% **LESS** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was the retail sales report released on Thursday.

In the event the report was stronger than expected with both the headline and Ex-Autos reports indicating strong demand in the economy, adding further fuel to the interest debate.

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; **industrial production, capacity utilisation, NAHB housing market index and Net long term TIC flows,**
- On Tuesday; **Housing starts and building permits,**
- On Wednesday; **CPI, Q3 C/A and FOMC policy decision, and**
- On Thursday; **Jobless claims and Philly Fed.**

The key event this week is the FOMC policy decision and statement.

Traders are eager for any new clues about the Fed's intentions concerning the timing of their first rate hike

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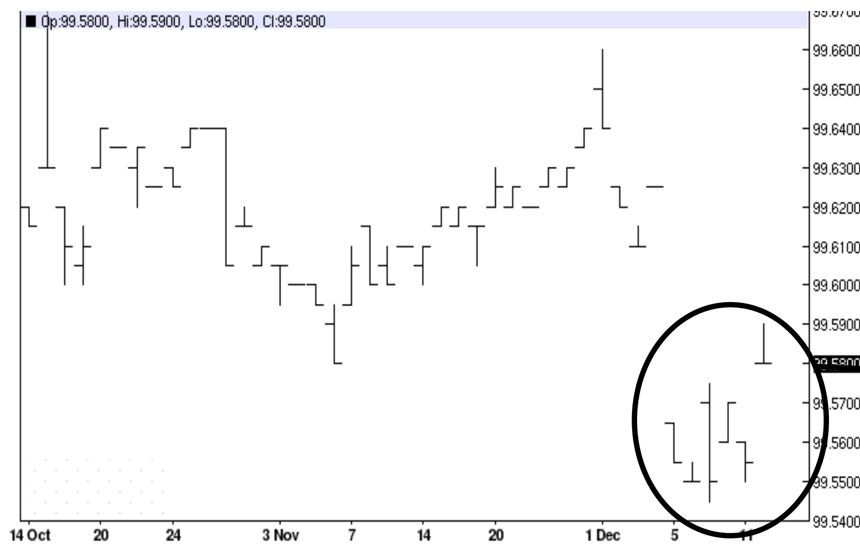
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars endured a volatile week, driven by weak equity markets and strong data.

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

…"Looking ahead retail sales are due and another strong report would certainly enliven the interest rate debate un the US"…

In the event retail sales were stronger than expected, but the market was torn between reacting to growing evidence of economic strength and weakness in equity markets caused by falling oil prices.

Looking ahead the FOMC policy decision and statement is due this week. They are unlikely to move interest rates until next year, but they may start preparing markets to expect rates to rise earlier than previously expected.

The market has become somewhat more volatile and we would expect that to continue as the rate debate rolls on, so for now stay square.

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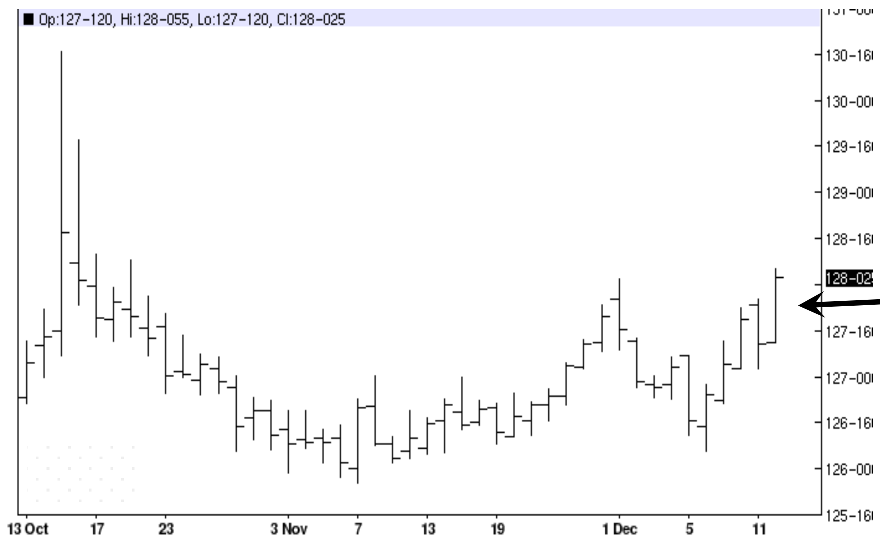
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The 10 year note looks supported by risk aversion in equities.

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

…"Looking ahead retail sales is due on Thursday. This is another important report series, strength here will see pressure on the Fed start to build".

The report was stronger than expected and indeed the interest rate debate has heated up.

Looking ahead the FOMC interest rate decision and policy statement are bot due this Wednesday. We expect the Fed to begin preparing markets for a rate hike sooner than previously expected.

However, the sell off in oil has hit equity markets as traders anticipate lower profits for oil industry related companies, especially those in the Shale energy industry, meaning this market is supported; for now.

For now stay square, lower oil prices are a plus for the wider economy and when that point hits home equities will rally and leave bonds exposed.

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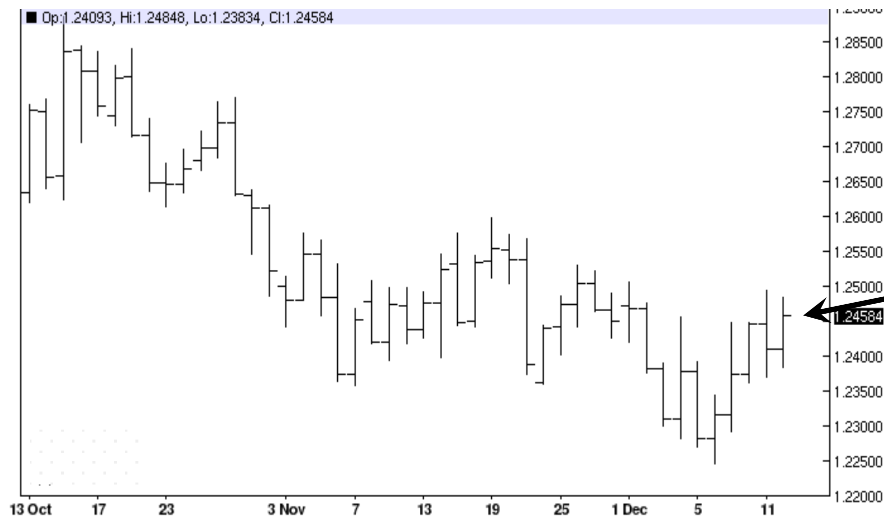
US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the EURO.

Last week we were Bullish v the Euro & Yen.



The Dollar retraced last week as oil prices weighed on stocks and dampened demand for the Dollar.

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

…"Looking ahead all eyes on retail sales as another strong report focussed on demand would further extend what we judge is a major Bull run for the Dollar"…

In the event retail sales were stronger than expected, but the Dollar drew little benefit as attention turned to the sell off in oil and what that could mean for domestic Shale oil production.

Looking ahead the FOMC policy decision and statement is due. We judge the Fed will begin preparing the markets for nearer term rate hike so depending on their wording the Dollar should draw some support.

Traders should be long the Dollar, short the Euro, we are stopped out of Dollar/Yen.

Our suggested target remains 1.1850, and our suggested stop continues at 1.2545 for close protection.

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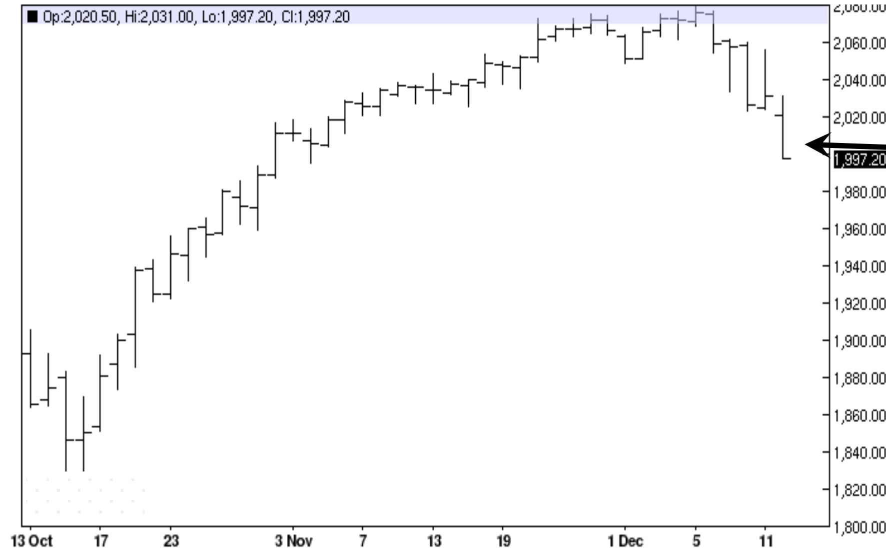
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P sold off in response to the sell off in oil.

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

…"Looking ahead retail sales is due on Thursday and will provide the next important measure of the economy's strength"...

…"We remain bullish of this market and expect to see the rally extend, but a brief correction could be possible on the latest bad news from the Euro zone, especially Italy's sovereign downgrade"…

In the event the retail sales report was better than expected, but the market sold off on oil market concerns. Traders feared a lower oil price would hit the profitability of Shale oil producers and potentially halt some production.

However, as unhelpful as that would be the over all benefit of cheaper oil to the wider economy is clear and that fact should ultimately drive stocks higher.

Traders should remain long this market, despite our stop being hit.

Our suggested target continues at 2100.00, but our suggested stop is now set at 1980.00 for protection.

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UK MARKETS: economic background

Last week's focus was the Industrial production and manufacturing output reports.

In the event they were both weaker than expected, however the NIESR GDP estimate released on the same day estimate growth over the last 3 months steady at 0.7%, meaning the economy continues to enjoy solid growth.

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; **CBI Total orders,**
- On Tuesday; **RPI, RPI-X, CPI, PPI and DCLG House prices,**
- On Wednesday; **unemployment report and MPC minutes,**
- On Thursday; **Retail sales and GFK consumer confidence, and**
- On Friday; **PSNB, PSNCR and CBI Sales.**

The key releases this week is retail sales.

Despite the authorities yearning for a rebalanced economy, the main driver of UK economic growth remains the Services sector and within that retail sales is the biggest component.

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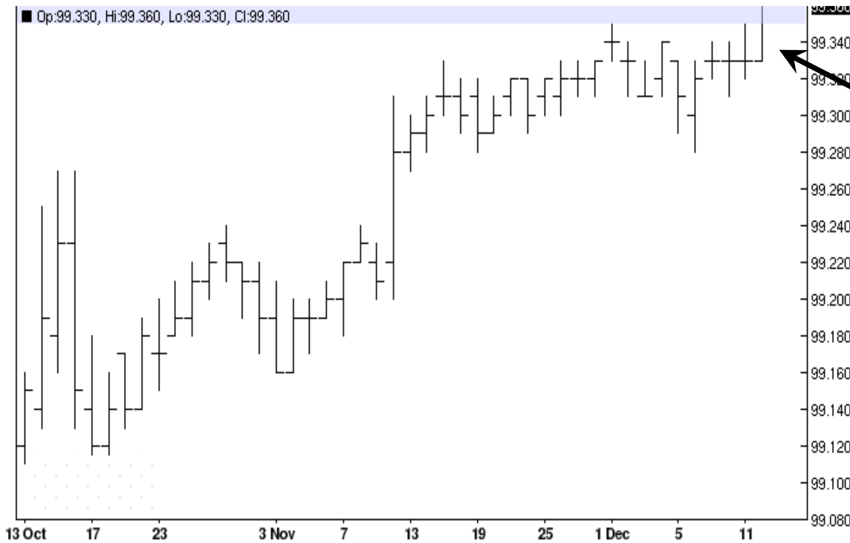
UK MARKETS: Short Sterling

OUR TRADING STANCE; SQUARE.

Last week we were Square of Short Sterling.



Short Sterling edged up as falling oil prices point towards yet lower inflation.

The Macro Trader's view of Short Sterling is: last week we said...

…"Looking ahead industrial production and manufacturing output are due, but unless very much stronger than expected unlikely to rattle this market"…

In the event the report came in weaker than expected, but the main dynamic in the market last week was falling oil prices and the impact they had on global equity markets and the prospect of yet lower inflation.

Looking ahead the MPC minutes are due, but no real surprises are anticipated. The other major event is retail sales and a strong report could weigh on this market..

We judge this market has no where to go short/medium term. Inflation is benign and falling oil prices will likely push it lower giving the Bank time to decide when to hike rates.

For now stay square.

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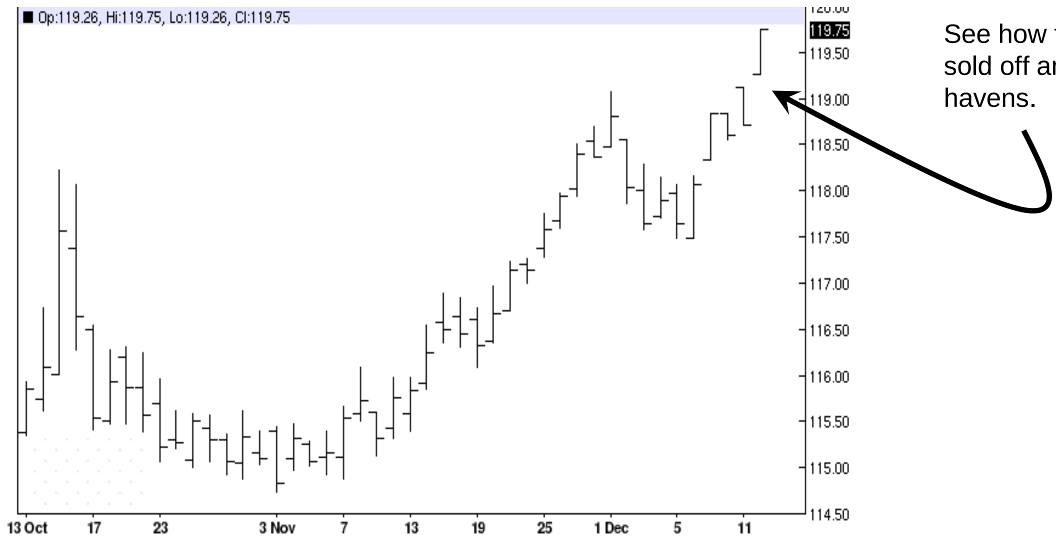
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt rallied as stocks sold off and traders turned to safe havens.

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

…"Looking ahead industrial production is due, and a strong report would underline last week's message that the economy is holding up well against the back drop of Euro zone weakness"…

In the event the reports were disappointingly weaker than expected, but the NIESR GDP estimate predicted growth remained stable at 0.7% over the previous three months.

Looking ahead the MPC minutes and retail sales are due.

Although the minutes may well throw some light on the Bank's interest rate intentions, we judge retail sales has the potential to shape the debate.

The gilt rallied last week as falling oil prices hit equities, especially those associated with the oil industry and specifically shale oil production, meaning a flight to safe havens occurred.

We judge lower oil prices will be a big plus for economic growth, by lowering inflation and production costs and by putting more money into consumers pockets.

We sense a gilt rally could well be brief and advise remaining square.

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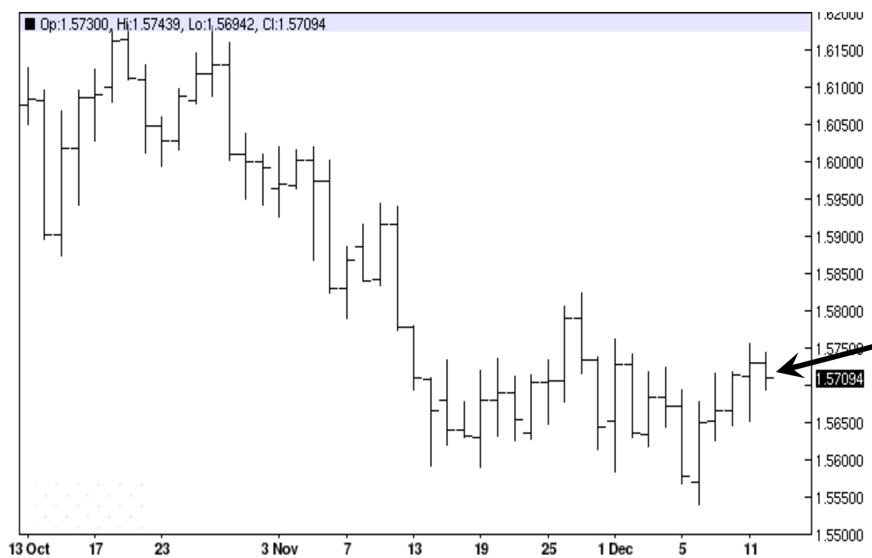
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling continued its range trading pattern last week.

The Macro Trader's view of the Pound is: last week's price action was an extension of the range trading pattern that has developed against the Dollar and Euro.

As the Dollar suffered a correction driven by falling oil prices and the impact that could have on US Shale production, the Pound marked time, even though key data releases; industrial production, disappointed.

Looking ahead we judge Cable will be driven by several factors this week, among them the Retail sales report, the BOE/MPC minutes and the US FOMC policy statement.

Our view of Sterling is that there is little justification on UK fundamentals for it to fall much further, but given the underlying strength of the US Dollar, it is difficult to make a Bullish case.

For now we advise remaining square.

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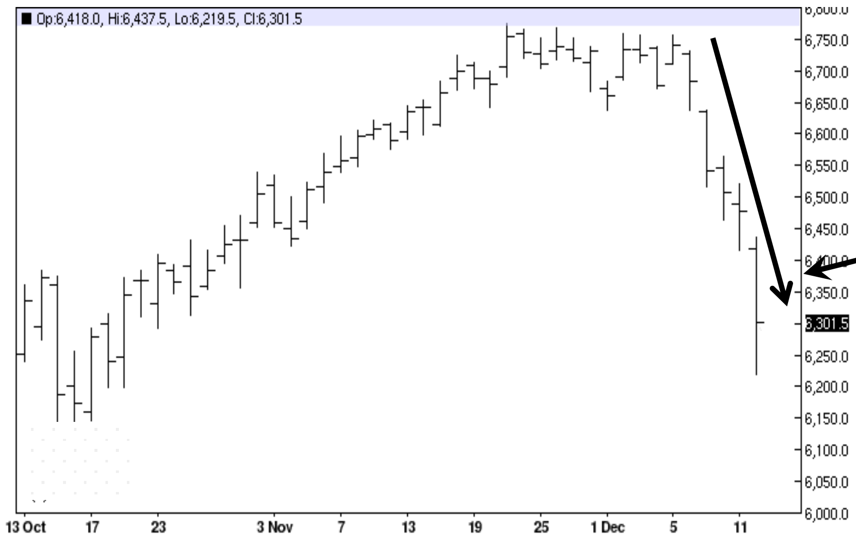
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE sold off hard last week as traders reacted to the sell off in oil.

The Macro Trader's view of the FTSE is; last week saw a broad based sell off in stocks as the FTSE reacted to the sell off in oil.

Stocks in oil and mining companies came under pressure and Bank shares were out of favour due to the on going Libor/Foreign exchange scandal.

However at some point traders will realise that cheaper oil is a benefit to the economy. Inflation will be lower, production costs cheaper meaning more job creating opportunities in manufacturing and consumers will have more money for discretionary spending raising the standard of living.

For now we judge the shock of the sharp sell off in oil hasn't fully played out in this market, so now is not the time to buy, but think long and hard if a Bear.

For now stay square.

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EURO ZONE MARKETS: economic background

Last week's focus was split between German and Euro zone Industrial production reports.

In the event the German report was weaker than expected and so too was the Euro zone version.

The outlook for the Euro zone economy remains depressing.

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 Tuesday; **Euro zone PMI Composite survey, German ZEW survey and Euro zone trade balance,**
- On Wednesday; **Euro zone CPI and Labour costs,**
- On Thursday; **German IFO and construction output, and**
- On Friday; **German PPI, GFK consumer confidence and Euro zone C/A balance.**

The key releases this week are Euro zone PMI Composite survey and CPI.

Another weak PMI report and weak CPI will heap more pressure onto the ECB to act early in the new year.

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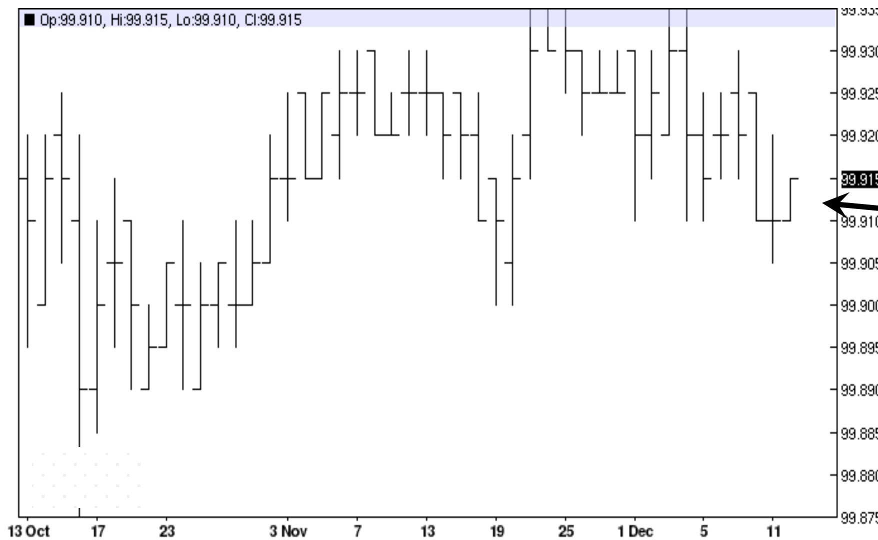
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor remains trapped in a trading range.

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

…" Looking ahead German and Euro zone industrial production due, but doubt the outlook for the economy will be changed"…

In the event both reports were weaker than expected, but Euribor remains trapped by the combination of weak economic activity and ECB inactivity.

Looking ahead the key releases this week are the Euro zone PMI Composite; more disappointment expected and Euro zone CPI; any lower and we're into deflation.

We are remaining square, range trading remains the most likely out come.

The market is supported by weak economic activity and a Central Bank that might still need to do more, even though rates are already almost at zero.

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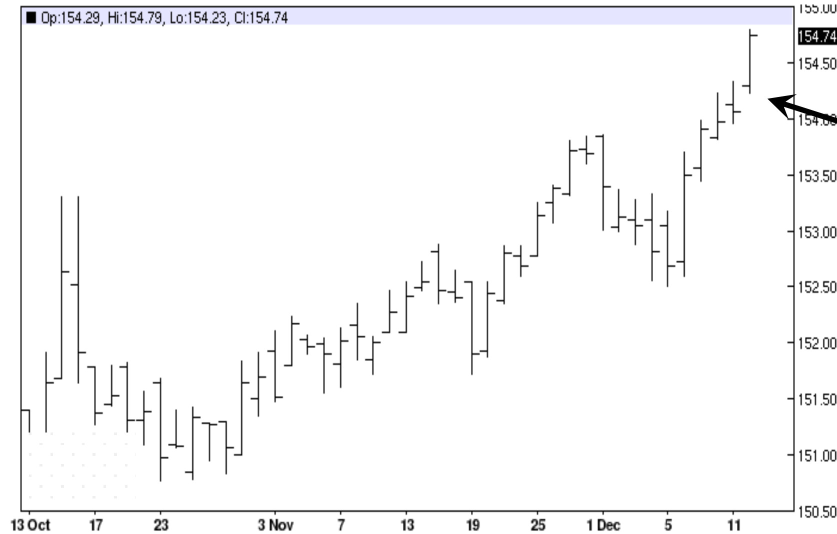
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund extended the rally fuelled by weak stocks and a weak economy.

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

…"Looking ahead the German and Euro zone industrial production reports are due, but we doubt they will change the outlook for the economy or do much to improve sentiment"…

In the event both reports were weak, but the Bund found strong support in the shape of weak equity markets that drove investors into safe haven assets; the Bund..

Looking ahead the Euro zone PMI Composite is due; more weakness? And CPI; deflation?

Traders should be long of this market.

Our suggested target of was hit 154.0

Our target is now 155.55 and our suggested stop raised to 152.50 for closer protection.

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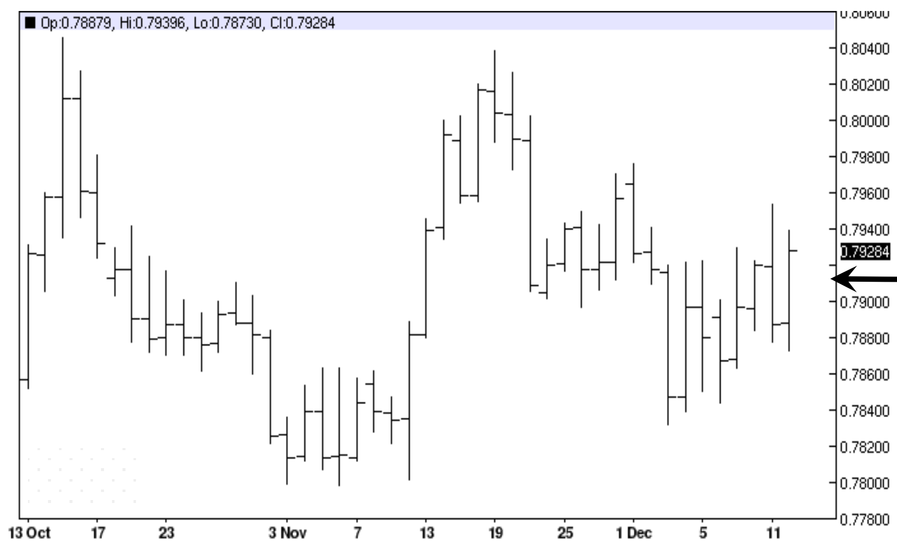
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH v the DOLLAR

Last week we were Bearish v the Dollar



See how the Euro recovered some lost ground against the Dollar, but range trading still against Sterling.

The Macro Trader's view of the Euro; last week the Dollar suffered a minor correction against the Euro and Yen, but the Euro remains range bound against Sterling.

The key releases this week are the Euro zone PMI Composite and CPI, but in the US the FOMC policy decision and statement is due, any changes to the wording that starts the count down to higher US interest rates will help the Dollar

We judge the Euro will continue to range trade against the Pound, but the weakness against the Dollar should soon re-assert.

Traders should remain long the Dollar/short the Euro.

Our suggested target remains 1.1850, and our suggested stop lowered to 1.2545 for closer 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 sold off as falling oil prices rattled global equity markets.

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

the sell off in Oil eclipsed domestic data last week as traders were rattled by the ramifications of a supply glut in Oil.

The fear is that lower oil prices will choke off shale oil extraction and hit profits of companies involved there. Also the strength of global growth remains a concern as the Euro zone, Japanese and Chinese economies continue to under perform.

Add in a recalcitrant ECB and this market looks weak.

Traders should remain square here, and although we are Bullish of the S&P if a broad based correction sets into global equities then go short here.

But for now remain side lined, as we judge low oil prices could ultimately act as a stimulus for growth.

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JAPANESE MARKETS: economic background

Last week's key releases were Q3 GDP and Industrial production.

The Q3 GDP report was weaker than expected, despite all the stimulus thrown at Japan's economy over recent years.

But industrial production was a little better than expected and Abe was re-elected with a strong majority giving him a mandate to continue with his "expansionary" policies.

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; **The Tankan surveys and Tokyo Condo sales,**
- On Tuesday; **trade balance, Nationwide and Tokyo department store sales, and**
- On Wednesday; **machine tool orders, and**
- On Thursday; **Bank of Japan policy statement and all industry activity index.**

There are several key reports due this week, but we judge the Bank of Japan policy statement is the one to watch.

Abe has just won a strong mandate to pursue his expansionary policies, will the Bank of Japan take the lead and announce further easing measures?

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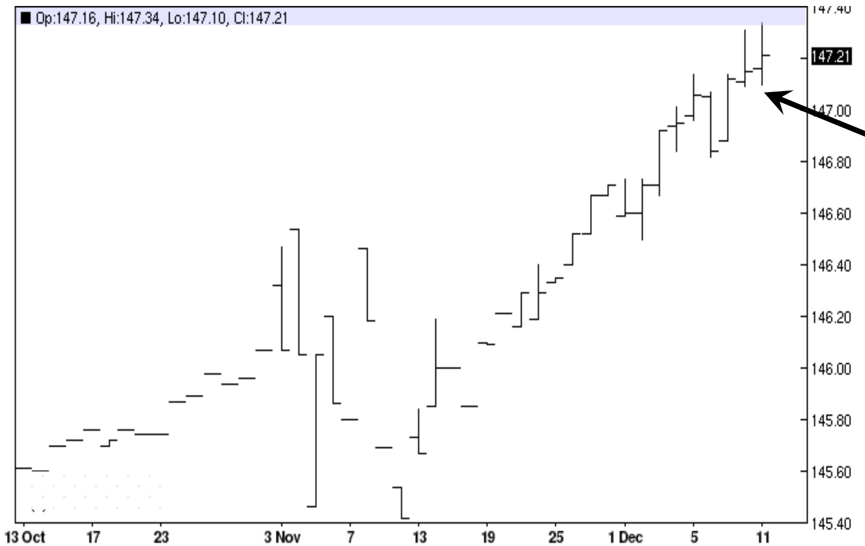
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied on yet more weak data and strong showing in opinion polls for PM Abe.

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

…"Looking ahead industrial production due on Friday"…

In the event industrial production was marginally better than expected, but Q3 GDP released earlier in the week was weaker than forecast, meaning the economy remains weak.

Looking ahead the key release, especially following on from Abe's re-election with a big majority, is the Bank of Japan's policy statement on Thursday.

The JGB enjoyed good support derived from both economic weakness and safe haven buying on the back of weak equity markets..

The big question this week is what will the BOJ do; we will find out on Thursday, for now stay square.

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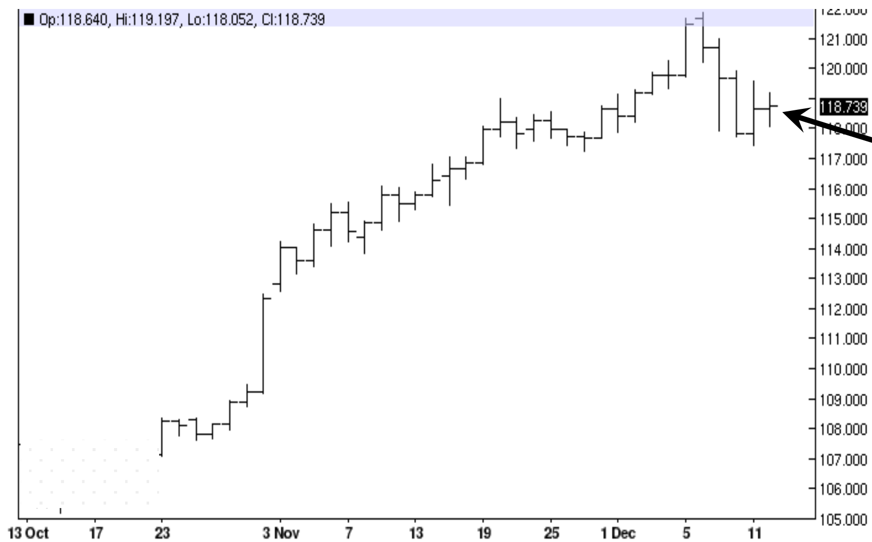
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Bearish v the Dollar



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

…"Looking ahead the US releases retail sales on Thursday and we judge a strong report will drive the Dollar against not just the Yen but other major currencies to"…

In the event US retail sales were stronger and Japan's Q3 GDP report was weaker than expected, but the Yen staged a corrective recovery.

The reason was mainly safe haven buying as the sell off in oil has temporarily taken the wind out of the Dollar's sails as traders evaluate the impact of lower oil prices on US Shale oil production.

Our stop was hit and although we expect the Yen to resume its sell off, safe haven buying could delay its fall, so for now stay square.

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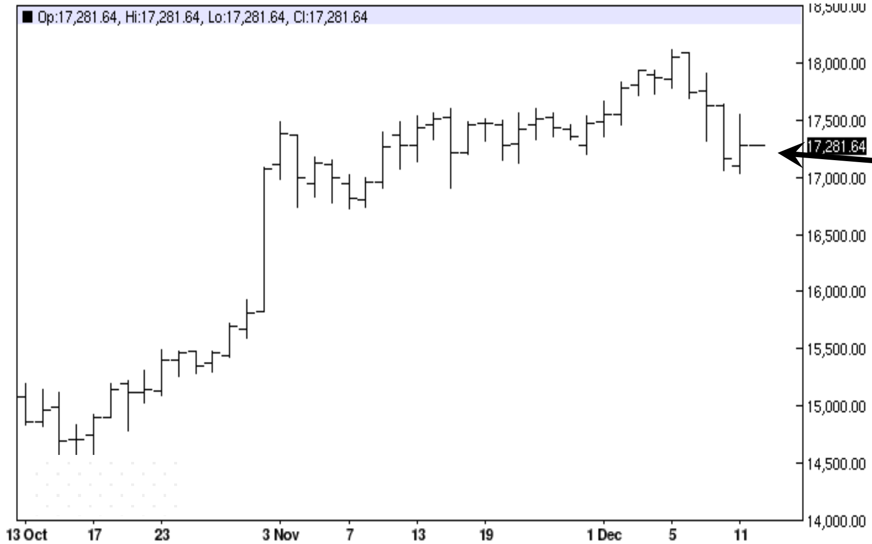
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei remains range bound.

The Macro Trader's view of the Nikkei is; since early November the Nikkei has traded mainly sideways as traders react to weak Japanese and Chinese growth.

Both are now struggling with low or falling inflation and as the world's 2nd and 3rd largest economies that presents a global growth concern.

The fact that low oil prices presents a de facto stimulus to the global economy seems not yet to have been grasped and traders seem more concerned about the impact on oil related stocks.

We judge this market is likely to remain range bound. However it might be cushioned against further selling in other global equity markets by the re-election of PM Abe over the weekend with a mandate to pursue his expansionary policies.

In summary though too many if's and buts for us so stay square.

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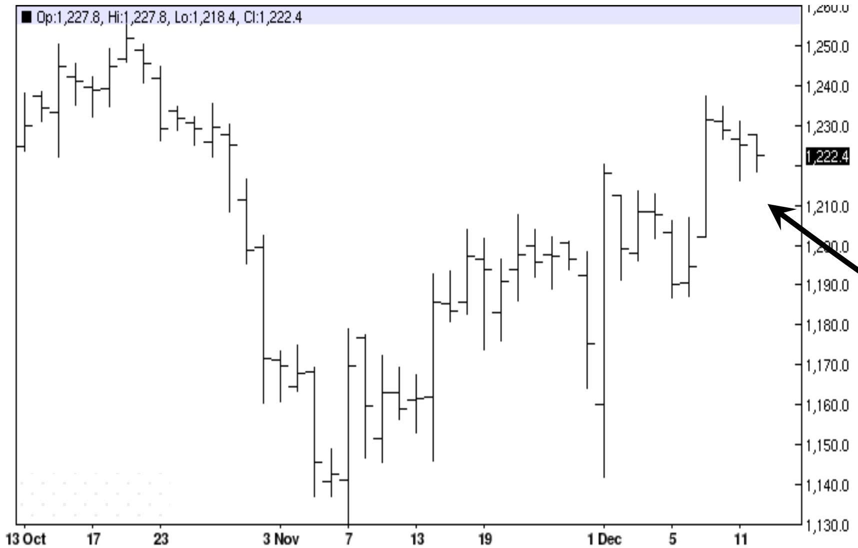
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE.

Last week we were Square of Gold.



See how gold extended its correction on continued east/west tension.

The Macro Trader's view of the Gold is: last week we said…
…"Russia continues to stir up trouble in a growing list of countries where it believes it has some ancient right of influence"...

…"On that basis the Greeks, Romans, Persians, Spanish and even the British would all still be trying to exert influence based on now long since passed Empires, no Russia under Putin is engaging in hostile activity aimed at nothing less than grabbing land Russia has no right to"...

…"That said why isn't gold higher?"…

We see no reason to add or detract from those comments.

Moreover we judge all this only serves to reveal the long term weakness of the Gold market. The current price action remains a correction and we expect the market to sell off once the correction has exhausted.

As ever timing is crucial and the time still isn't yet right so stay square a little longer.

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COMMODITIES: Oil

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Oil.

See how oil sold off hard last week.

The Macro Trader's view of oil is: last week's price action is the result of OPEC coming to realise that shale oil has fundamentally changed the dynamics of the oil market, but they still think, incorrectly, that they can retain influence through a price war, but as we said last week....

…"Clearly medium long term the days of sky high oil prices are over for now as OPEC has embarked on a price war to keep shale oil in the ground, but whether it is recovered or not the existence of vast resources of shale oil will keep prices down"...

Traders should be short of Oil.

Our suggested target is $46.00 and our suggested stop is reduced to $64.50 for closer protection.

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