Week 5

2nd – 8th February 2016

Multi-asset fundamental strategies

John Lewis

SEVEN DAYS AHEAD

SUMMARY

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This week's global calendar

	Week of 1st February
Monday	US Persnl income 0.2 US Persnl spndg 0.1 US Core PCE 0.1m, US Construct'n spndg 0.6 US ISM Mfg 48.0 US Prices paid 34.0 UK Net consumer CR 1.30B UK Net lndg on dwllings 4.8B UK Motge aprvls 69.60K UK PMI Mfg 51.8 IT PMI Mfg 55.0 FR PMI Mfg 50.0 DM PMI Mfg 52.1 EZ PMI Mfg 52.3 JP PMI Mfg 52.4 JP Vehicle sales n/f n/f
Tuesday	US NYK ISM n/f UK PMI Construct'n 57.6 UK BRC Shop prices DM Unemploym't rate 6.3% DM Unemploym't chge -7k EZ PPI -0.5m, -2.9y EZ Unemploym't rate 10.5% JP PMI Services n/f
Wednesday	US MBA Mrtge apps n/f US ADP Employm't chge 195k US ISM Non-mfg 55.1 UK PMI Services 55.4 IT PMI Services 54.2 FR PMI Services 50.6 DM PMI Services 55.4 EZ PMI Services 53.6 EZ Retail sales 0.3m, 1.5y JP Cons conf 43.8

	Week of 1st February
Thursday	US Q4 Unit labour costs 3.8% US Q4 non-farm productivity -1.6% US Jobless claims 279k US Factory orders -2.6% UK BOE/MPC Rate decision 0.50 UK BOE AP £375.0B UK BOE Quarterly inflation report UK Halifax buildg n/f
Friday	US US Non-farm payroll 190k US Unemploym't rate 5.0% US Averge hrly earngs 0.3m, US Average work week 34.5 US Trade Bal -$43.0B US Consumer CR 16.000B DM Factory orders -0.3m,

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Last week's releases

SEVEN DAYS AHEAD

	Week of 25th January
Monday	UK CBI Bus optimism -4 **BETTER** UK CBI Trnds tot orders -15 **WEAKER** DM Import prices -1.2m, -3.1y **LESS** DM IFO 107.3 **WEAKER** JP Trade bal 140.2B **BETTER** JP Corp sevice prices 0.4% **STRONGER** **THAN EXPECTED**
Tuesday	US S&P Comp-20 5.83 **STRONGER** US Cons conf 98.1 **STRONGER** US Hse price indx 0.5m **BETTER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 8.8% **LESS** US New home sales 544k **STRONGER** US FOMC Rate decision 0.50% **AS** UK Nat'nwide hse pces 0.3m, 4.4y **WEAKER** UK BBA mrtge aprvls 43.975k **WEAKER** DM GFK Cons conf 9.4 **BETTER** JP Sml bus confidence 47.2 **WEAKER** JP Retail sales -0.2m, -1.1y **WEAKER** JP Lrge retail sales 0.0% **WEAKER** **THAN EXPECTED**

	Week of 25th January
Thursday	US Durable goods -5.1% **WEAKER** US DG Ex-transport -1.2% **WEAKER** US Jobless claims 278k **BETTER** US Pndg home sales 0.1%m, 3.1y **WEAKER** UK Q4 GDP 0.5q, 1.9y **AS** UK Indx of services 0.2m, 0.6(3m/3m) **AS** UK CBI Sales 16 **LESS** UK GFK Cons conf 4 **STRONGER** EZ cons conf -6.3 **WEAKER** EZ Ind conf -3.2 **WEAKER** EZ Services conf 11.6 **WEAKER** DM CPI -0.8m, 0.5y **MORE** JP Tokyo CPI -0.3y **WEAKER** JP National CPI 0.2y **AS** JP Househld spndg -4.4y **WORSE** JP Jobless rate 3.3% **AS** JP Loans discount corp 2.57% **LESS** JP Ind production -1.4m, -1.6y **WEAKER** JP BOJ Policy statement JP Vehicle production -2.3y **WEAKER** **THAN EXPECTED**
Friday	US Q4 ECI 0.6% **AS** US Advanced gds trade -$61.51B **WORSE** US Q4 GDP (A) 0.7% **BETTER** US Q4 Core PCE 1.2% **AS** US Q4 Persnl consumpt'n 2.2% **STRONGER** US Q4 GDP Price indx 0.8% **AS** US Chicago PMI 55.6 **STRONGER** US U. of Michigan conf 92.0 **WEAKER** DM Retail sales -0.2m, 1.5y **WEAKER** FR Q4 GDP 0.2q, 1.3y **MORE** EZ M3 (y/y) 4.7% **WEAKER** EZ CPI Estimate 0.4y **AS** JP Construct'n orders 14.8% **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was divided between the FOMC policy meeting and Q4 GDP. Both had implications for policy going forward.

In the event the Q4 GDP report was mildly better than expected, but at 0.7% annualised still very weak.

The FOMC decision was unchanged as expected, but the crucial element was the policy statement; the Fed acknowledged the current risks to the global economy and the softer US data, giving the distinct impression that rates will not be rising again any time soon.

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; **Personal income, personal spending, Core PCE, Construction spending ISM Manufacturing and ISM Prices paid,**
- On Tuesday; **New York ISM survey,**
- On Wednesday; **ADP Employment change and ISM non-manufacturing survey,**
- On Thursday; **Jobless claims, Q4 Unit labour costs, Q4 non-farm productivity and Factory orders, and**
- On Friday; **non-farm payroll, unemployment rate, average hourly earnings, average work week Trade balance and consumer credit.**

The calendar is packed with heavy weight data releases this week, but we judge the three key releases are the two ISM surveys and the non-farm payroll report.

As ever we judge the payroll report is the main event. The Fed has long focussed on the labour market, but it has become increasingly out of step with other data, will that persist or will it re-align with other key economic reports?

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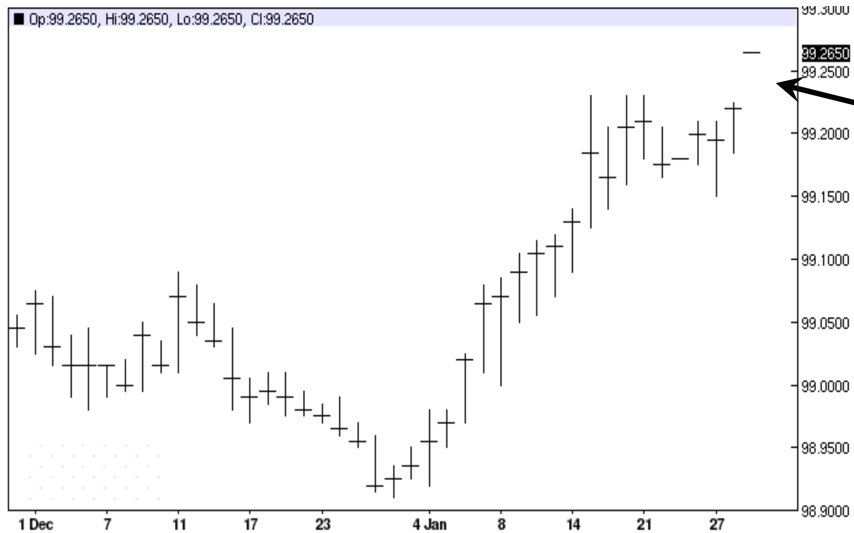
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollar found new support from the FOMC policy statement and the BOJ policy action.

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

…"Looking ahead the FOMC policy statement/decision is due on Wednesday, the Fed is expected to leave policy as is, but what they have to say about recent economic performance will be extremely important; the economy has cooled has the Fed acted to soon?"…

In the event the Fed walked a fine line with its wording but acknowledged the softer US data and wider global risks, implying rates will not move anytime soon.

Looking ahead several key releases due, but we judge non-farm payroll is the main event, a weak report would confirm policy is on hold, but another strong reading would raise questions about what is actually going on in the US economy.

For now we are staying square, data is flashing amber, this week could prove important for the outlook for policy, not just the pace, but has the Fed acted too soon?

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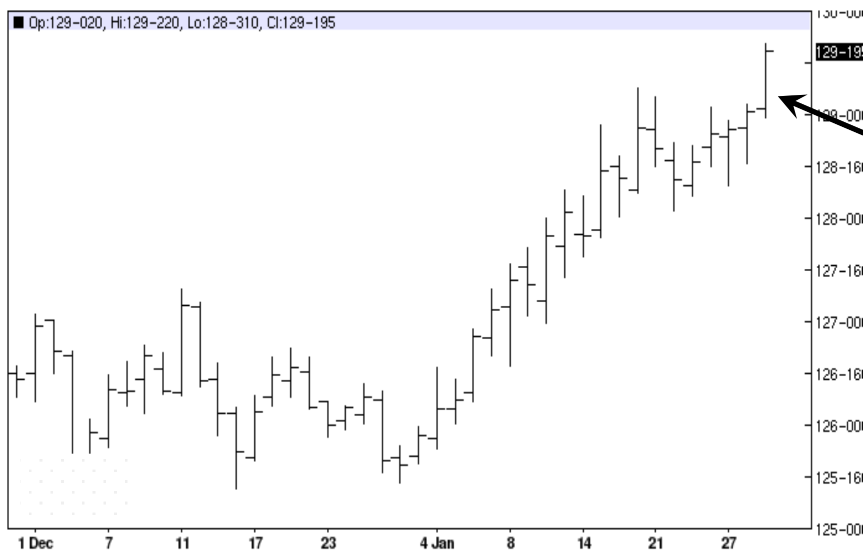
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The 10 year note extended the rally on Central Bank comments and action.

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

…"Looking ahead Q4 GDP and the FOMC policy decision are due. The GDP number is forecast to be weak, so all eyes on the Fed and what they have to say about recent economic weakness; the manufacturing side of the economy is in recession!"…

In the event a slightly better than expected Q4 GDP report, but still weak at 0.7%. The FOMC policy statement recognised the global risks, softer US data and rates don't look likely to move again anytime soon.

Looking ahead the two ISM surveys are key; manufacturing is already flagging recession, but what about non-manufacturing? It has been weakening but still points to reasonable growth. Then there is the non-farm payroll report. This is the main event, if this starts to cool market sentiment will coalesce around the view the Fed moved too soon when it hiked in December.

We are remaining square. This week is likely to prove decisive for market direction for several weeks and non-farm payroll can throw out some big surprises.

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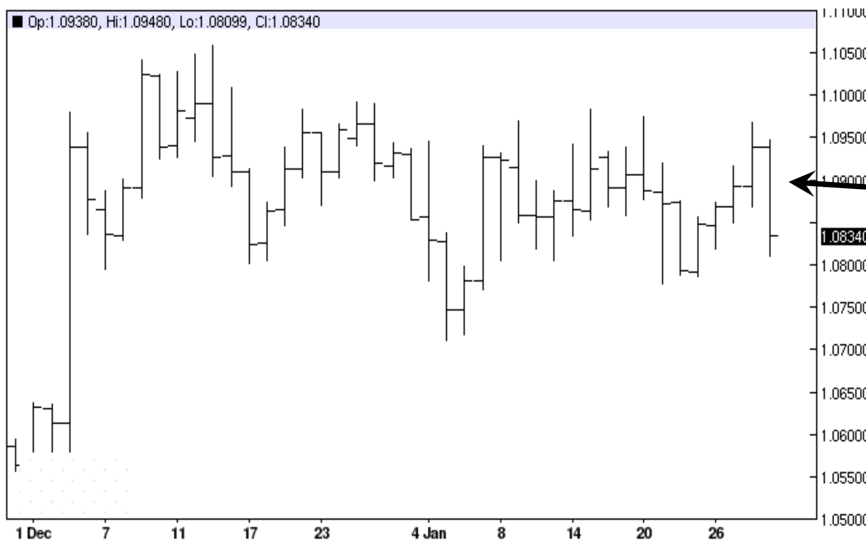
US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the EURO.

Last week we were Bullish v the Euro



The Dollar remains range after the FOMC statement acknowledged US and Global growth risks.

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

…"Looking ahead the Q4 GDP report and FOMC policy decision are due this week. A weak GDP report is forecast, but what will the Fed say? Dovish remarks might knock the Dollar"…

In the event GDP was weak, albeit a little better than consensus and although the Fed did indeed note global and US economic risks to growth, these were counter balanced by the prospect of the ECB easing again in March and the Bank of Japan delivering negative interest rates on Thursday leaving the Dollar in a clear trading range.

Looking ahead all eyes on Friday's non-farm payroll report, what ever the outcome it will be crucial for sentiment and the Dollar, not to mention Fed thinking going forward.

Traders should be long the Dollar/short the Euro.

Our suggested target against the Euro is 104.05 and our suggested stop remains set at 1.1075 for protection.

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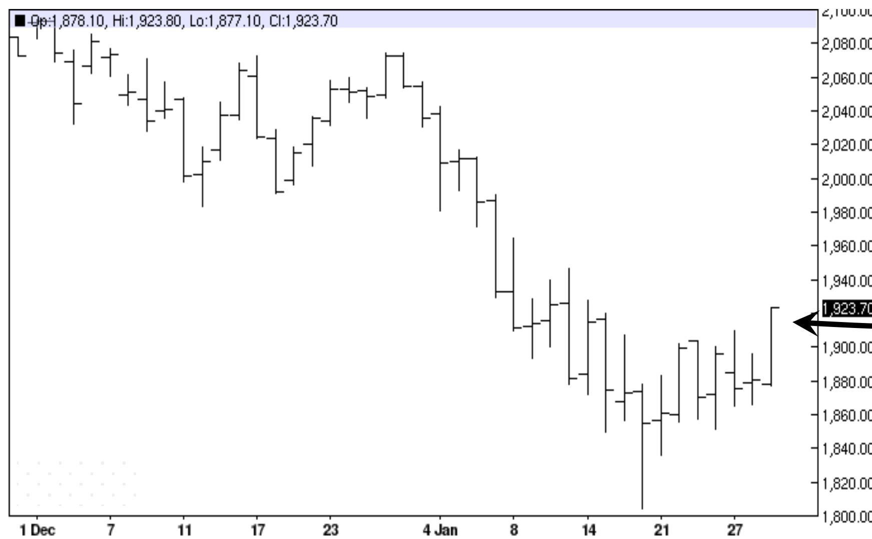
US MARKETS: S&P500

OUR TRADING STANCE: BEARISH.

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



The S&P rallied on the combination of the FOMC policy statement and Bank of Japan policy ease.

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

…"Looking ahead the Q4 GDP report is due and so too the FOMC policy statement. The GDP report is forecast to be weak at just 0.5%, what will the Fed have to say?"…

In the event GDP was weak, the Fed noted global risks and US softness and the Bank of Japan delivered negative interest rates, helping this market higher as traders were more focussed on the Fed holding steady for an extended period rather than worrying that the Fed may have got it wrong when it hiked rates in December, but that may yet come back to haunt the Fed and equity markets.

Looking ahead the ISM surveys and Non-farm payroll reports are due. Any further weakening that points to the US economy potentially heading towards recession will hit this market.

We remain bearish despite the stop being hit. We see some data potentially flagging a recession; the ISM manufacturing survey has been saying that for several months.

Our suggested target remains 1805.0 and our suggested stop is reset to 1960.0 for protection.

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UK MARKETS: economic background

Last week's focus was the Q4 GDP report. There has been much talk about the UK economy cooling towards the end of 2015, Q4 GDP would reveal by how much.

In the event the report was in line with consensus, but at 1.9% year on year growth has cooled, is it a blip that will correct or has the economy lost momentum?

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; **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; **Bank of England policy decision on interest rates and Asset purchase program and quarterly inflation report.**

This week sees the release of several important reports.

The PMI Surveys on Monday and Wednesday will give clear clues on the direction and speed of the economy, but we judge Thursday's BOE/MPC policy decision and quarterly inflation report will prove the main event for markets.

The Bank isn't going to adjust policy, but what it says about growth and its inflation forecast will inform on their policy thinking and the Governor will explain the report in the usual press conference.

We expect him to indicate rates are on hold for the foreseeable future due to weak CPI and cooling growth to name but two.

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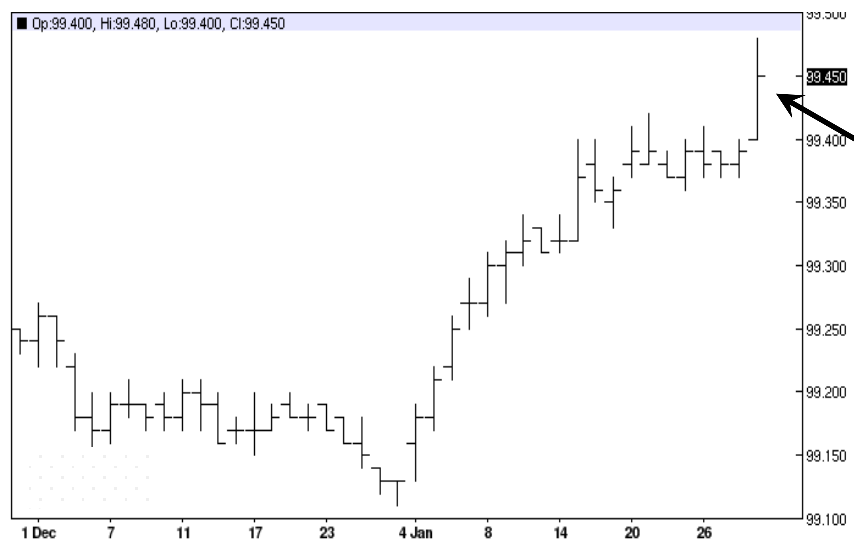
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling rallied as the Central Banks increasingly acknowledge the growing risks to global growth.

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

…"Looking ahead Q4 GDP is due, a soft number is expected, likely keeping this market near the highs"…

In the event GDP was as expected, but the pace has slowed, from around 2.3% in the 1st half of 2015 to 1.9% year on year giving the Bank of England reason to be cautious about policy moving forward.

Looking ahead the PMI surveys are due, but the main event this week is the Bank of England on Thursday. The Bank isn't expected to alter policy, but the quarterly inflation report with it's updated growth and inflation forecasts should confirm the growing perception in the market that rates are on hold throughout 2016.

For now we advise remaining square, a rate hike is definitely off the agenda, but the Bank isn't going to ease unless growth begins to materially slow from here.

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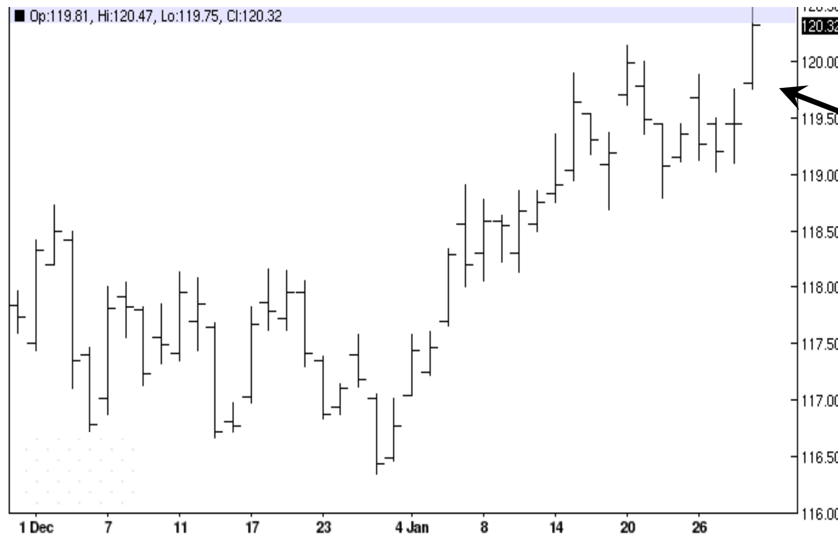
UK MARKETS: Gilt

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Gilt.



See how the Gilt rallied the Fed, Bank of Japan, ECB and Bank of England are either on hold or are looking to ease further.

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

…"Looking ahead Q4 GDP is due and a soft report is expected, which equity market swings aside should provide this market with underlying support"...

In the event GDP was as expected, but the economy has stepped down a gear giving the Gilt support.

Looking ahead the PMI surveys are due, but the main event is the Bank of England quarterly inflation report.

We judge it will confirm rates are on hold throughout 2016.

We are bullish of the Gilt. The mix of data remains benign with only the UK's place in the EU causing doubt, but those anxieties are being registered in Sterling.

Traders should be long the Gilt.

Our suggested target remains 121.50 and our suggested stop continues at 117.50 for protection.

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UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square

See how Sterling corrected away from the lows after the FOMC policy statement.

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

…"Looking ahead Q4 GDP due in both the UK and US with the FOMC policy announcement also due meaning UK and US data is likely to prove neutral for Cable"…

In the event that was broadly true as Sterling pushed away from the lows, but remains vulnerable until the "Brexit" issue resolved.

Looking ahead the Bank of England quarterly inflation report is the main event. The growth forecast together with the inflation forecast take centre stage and Carney delivers his take on them and what they mean for policy; we judge he will indicate the Bank is in no hurry to raise rates confirming what traders are already pricing in; rates on hold.

We are remaining square since although cooling growth is a concern globally, including in the US and not just the UK, the UK is plagued by the uncertainty caused by the UK's relationship with the EU.

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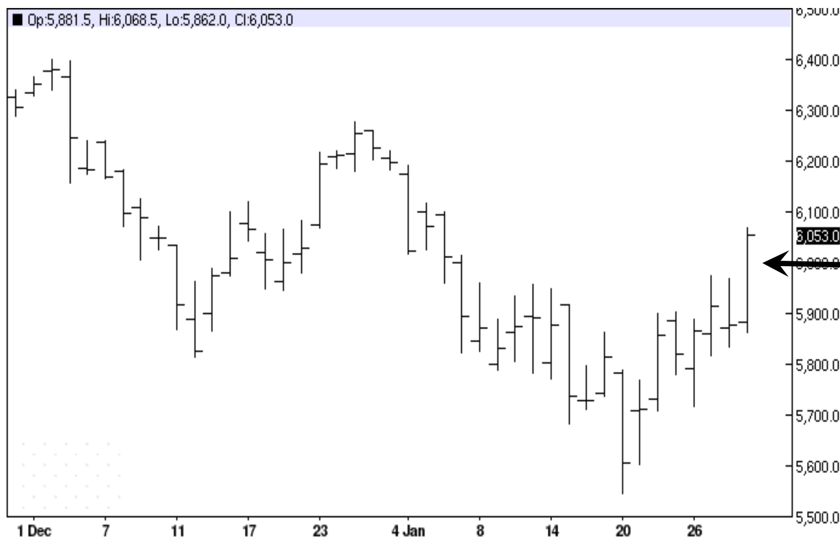
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE extended the rally as traders focussed on Central Bank action.

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

…"Looking ahead the Q4 GDP report is due this week, a soft report is expected, and we judge this market will struggle to maintain its recent upward momentum"…

In the event GDP was as expected, and showed the economy has cooled, but the market rallied as a result of a dovish policy statement from the Fed, weak US Q4 GDP and the Bank of Japan adopting negative interest rates.

Looking ahead there are several important data releases globally and they will all combine to impact equity markets globally.

In the UK the main event is the Bank of England's quarterly inflation report. We judge it will confirm rates are set to remain unchanged throughout 2016, and although we are bearish of stocks, equity markets are currently responding to the actions and utterances of global Central Banks but that wont last.

For now stay square and await a selling opportunity.

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EURO ZONE MARKETS: economic background

Last week's focus was the German IFO report, but we advised taking note of French Q4 GDP.

In the event the German IFO report fell short of consensus indicating a slight cooling, but French Q4 GDP was surprisingly better than expected; a welcome development as the Euro zones 2nd largest economy.

Other data releases; the various Euro zone confidence measures retail sales and M3 were weaker indicating the Euro zone economy remains fragile.

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; **Italian, French, German and Euro zone PMI Manufacturing surveys,**
- On Tuesday: **German unemployment report, Euro zone PPI and unemployment rate,**
- On Wednesday; **Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales, and**
- On Friday; **German factory orders.**

The key events this week are the various PMI Surveys, but we judge the whole raft of US heavy weight data will likely be the key driver of markets this week.

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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.

Euribor extended the rally as the BOJ set negative interest rates.

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

…"Looking ahead the key event this week is German IFO but we judge this market will remain supported on hopes of ECB easing"…

In the event German IFO was weaker, and the market extended the rally helped by news of a Bank of Japan ease and the Fed's policy statement.

Looking ahead the various Euro zone PMI surveys are due, but we judge this market looks set to remain supported by the promise of further ECB easing.

We are remaining square here, we see more potential in the Bund.

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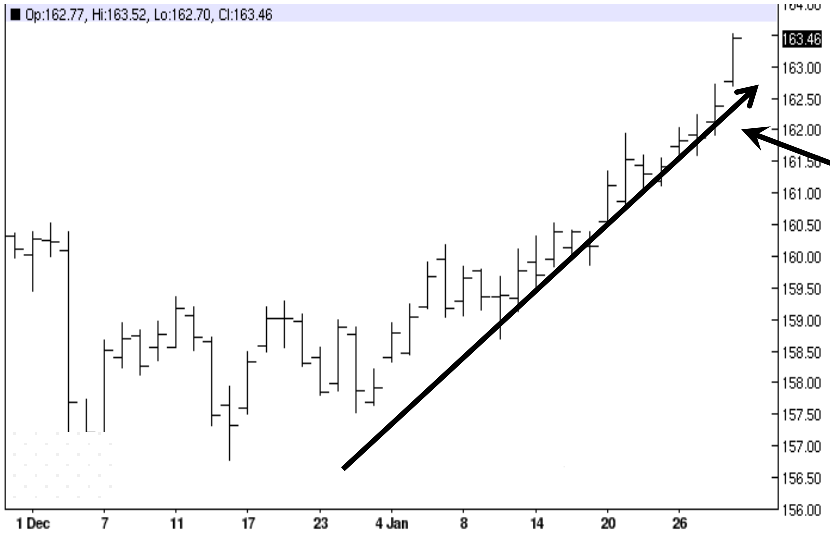
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Square of The Bund.



The Bund rallied further despite the rally in stocks as traders focussed on the Central Banks.

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

…"Looking ahead the German IFO survey is due, but we judge this markets short term direction is tied to the performance of equity markets; how much longer can Draghi's remarks sustain the correction in equity markets?"…

In the event the IFO report was weaker, but the Fed's comments on Wednesday and the BOJ's ease on Thursday added to the sense that global monetary policy will stay very low for sometime yet given the continued risk to global growth.

Looking ahead the various Euro zone PMI surveys are due, but we judge the raft of US data culminating on Friday with US non-farm payroll will be the driving force behind this and other global markets.

Traders should be long the Bund. Our target is 164.75 and our suggested stop is set at 161,40 for protection.

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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH the DOLLAR

Last week we were Bearish v the Dollar

The Euro remains supported against Sterling and the Dollar.

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

…"Looking ahead, the Euro gave back some gains against Sterling, but BOE Governor Carney all but ruled out any UK rate hikes this year, negating any boost sterling may have received longer term from Draghi's remarks. However this week all eyes on the FOMC policy decision and statement"…

In the event the FOMC policy statement showed the Fed was indeed taking note of the risks to both the global and US economies and gave the impression it was in no hurry to hike further in the foreseeable future.

Looking ahead the PMI/ISM surveys are due in the US, UK and Euro zone, but we judge currencies will be focussed on Friday's US non-farm payroll payrolls.

We remain medium/long term Dollar bulls.

Traders should be Long the Dollar/Short the Euro.

Our longer term target in Dollar/Euro is 104.05 and our suggested stop is set at 1.1075 for protection.

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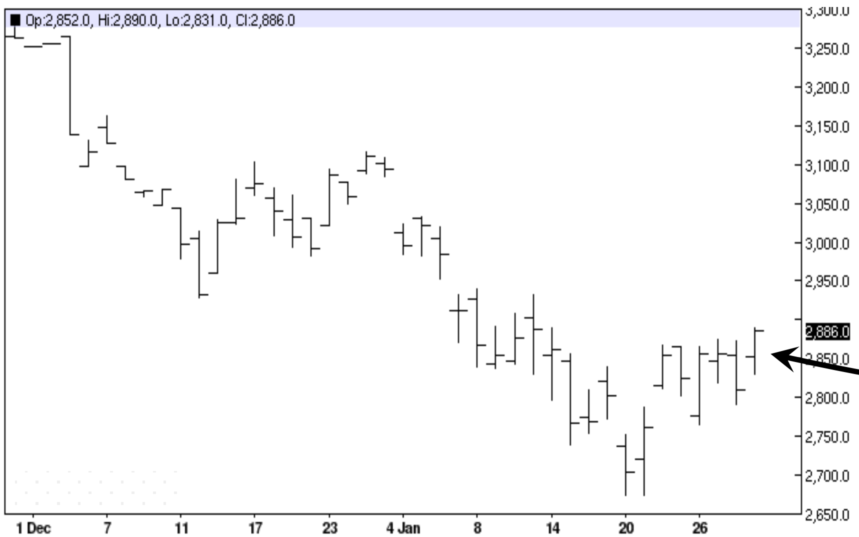
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market recovered on weak domestic and foreign data.

The Macro Trader's view of DJ Euro Stoxx 50 is: last week's price action reflected the continuing risks to the global economy as acknowledged by the Fed in last Wednesday's FOMC policy statement.

Add in the Bank of Japan's ease where the deployed negative interest rates and equity markets extended the relief rally begun by the ECB the previous week.

Looking ahead a whole raft of data releases due globally with all eyes on Friday's US non-farm payroll report. The Fed has consistently sighted the labour market as the key indicator in its decision making, if that now turns soft along with other key US data releases where next for the Fed and global equity markets.

For now we are remaining square here. This week's data will likely set the market's course for the next period, so be patient and watch the data.

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SEVEN DAYS AHEAD

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JAPANESE MARKETS: economic background

Last week’s focus was split between CPI and the Bank of Japan’s policy statement.

In the event National CPI was as expected, but Tokyo CPI was weaker and the Bank of Japan surprised markets by deploying negative interest rates despite its on going QE program.

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 sales,**
- On Tuesday; **PMI Services survey, and**
- On Wednesday; **Consumer confidence.**

The key events this week are the two PMI surveys.

Has the economy picked up or is it just more of the same?

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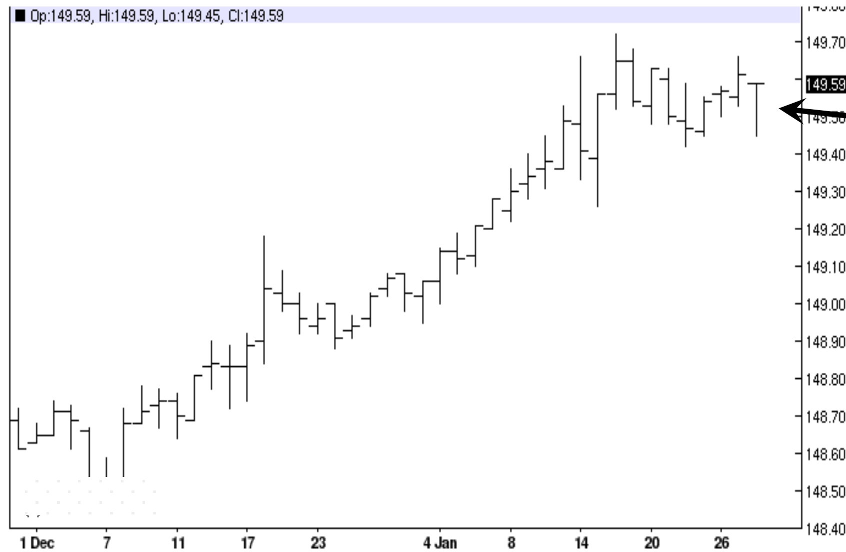
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB traded sideways as stocks made a recovery.

The Macro Trader's view of the JGB is: the JGB continues to enjoy support derived from economic weakness and persistently low inflation.

Last week we said…

…"Looking ahead CPI and the BOJ policy statement stand out, but will policy makers announce any new measures?"…

In the event CPI was mixed but the surprise was the BOJ's ease which lifted equities.

Looking ahead the two PMI Surveys are due, don't expect too much or else the BOJ wouldn't have resorted to negative rates.

We are square here, once again our view is; buying bonds and selling equities is essentially the same trade, just take your pick, ours is selling equities..

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JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square

The Yen's recent rally came to an abrupt end last week as the BOJ set negative interest rates.

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

…"Looking ahead the Bank of Japan's policy statement stands out. Policy makers cannot have been too pleased at the Yen's recent show of strength especially when the economy remains fragile"…

In the event the Bank of Japan sprung a surprise when it set negative rates sending the Yen into a sharp reversal.

Looking ahead there is a whole raft of global economic data releases due, but from a currency market perspective we judge Friday's US non-farm payroll report will be the key release.

For now we are remaining square, a weak US payroll report could halt the Yen's slide.

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JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the Nikkei.

The Nikkei's rally much like other global equity markets is based on Central Bank intervention, not solid economic fundamentals.

The Macro Trader's view of the Nikkei is; last week's price action was an extension of the rally started by the ECB's comments about easing again in March.

The Fed added to the move on Wednesday when it acknowledged the risks to be US and global growth and the Bank of Japan's ease added further fuel.

But can the rally be sustained?

Looking ahead the key domestic releases are the two PMI surveys, but overseas data will play a key part in the movement of global equity markets two; China for one, but especially Friday's US non-farm payroll report.

We remain bearish the Nikkei and advise remaining short despite our stop being hit.

Our target is 15950.0 and our suggested stop is reset to 18250.0 for protection.

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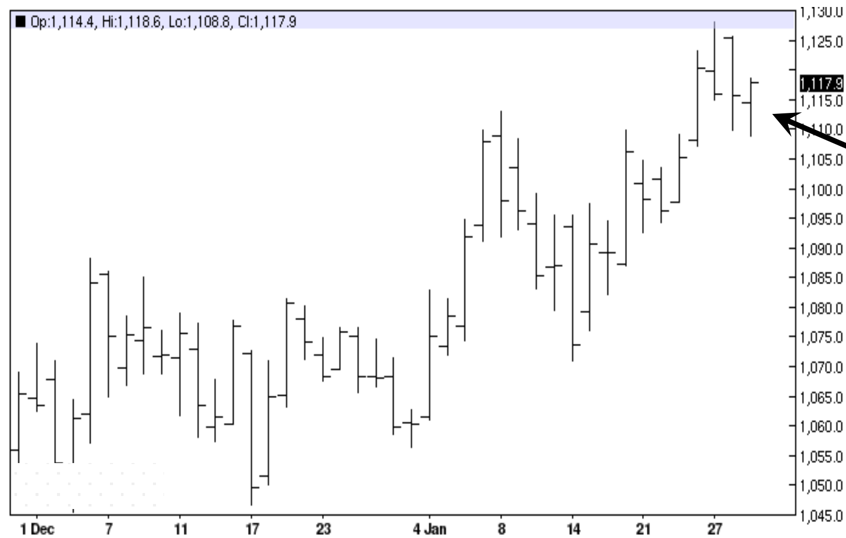
COMMODITIES: Gold

OUR TRADING STANCE: BEARISH

Last week we were Square of Bearish.



See how Gold continues to correct higher on fears of renewed weakness.

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

…"Looking ahead the US Fed and BOJ are active this week. Will they offer anything to prolong the stock market rally; dovish comments and thereby offer gold support?"…

In the event they did and the BOJ went further with negative interest rates.

Looking ahead a big week data wise globally but all eyes are surely on US data and in particular US non-farm payroll. A weak report would surely weigh on the Dollar and extend the rally in Gold, but we are not convinced of such an outcome so for now we are still bearish of Gold.

Traders should be short this market.

Our long term target is $400.00 and our suggested stop continues at 1195.00 for protection.

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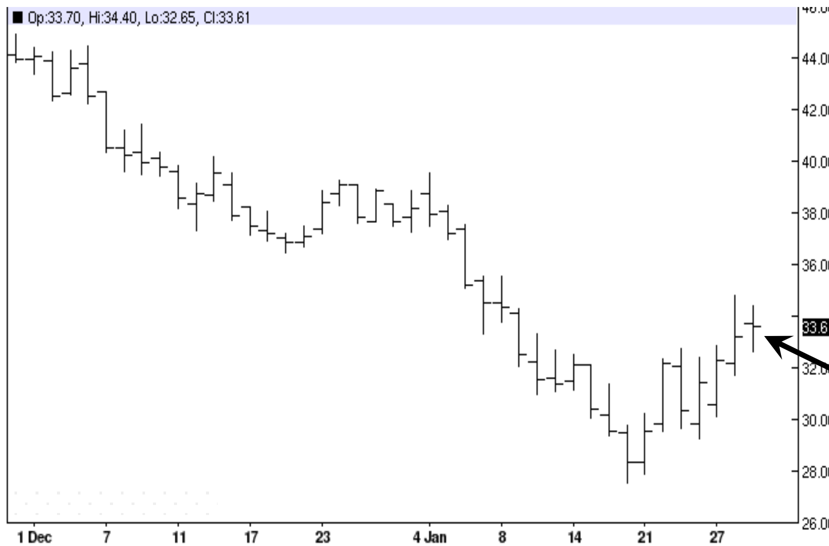
COMMODITIES: Oil

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of Oil.



See how oil extended the rally after Russia offered to cooperate with OPEC to reduce the global oil glut.

The Macro Trader's view of oil is: last week's price action was fuelled by the combination of Central Bank intervention; verbal and actual; the BOJ ease and Russia's offer to cooperate with OPEC in an effort to reduce the global oil supply glut.

But will Saudi Arabia take up the offer, if she doesn't the idea is dead in the water and in any event Iraq and Iran are set to increase their own oil exports.

We remain bearish of oil prices the glut continues, and Saudi Arabia is pursuing a policy of driving competitor energy supplies; US Shale, out of business at any cost and it wont want to cede any control to Russia a country that is backing the opposite side to Saudi Arabia in the Syria conflict.

Traders should be short of oil, our long term target is US$25.00 and our suggested stop is reset to $38.20 for protection, after our previous stop was hit.

The current correction is a short covering rally that will resolve to more selling.

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