Week 10

8th – 14th March 2016

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

Multi-asset fundamental strategies

John Lewis

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SUMMARY

Summary

Global Calendar

US Markets
+ EURODOLLARS — SQUARE
+ 10 YEAR NOTE — SQUARE
+ US DOLLAR — BULLISH v STERLING
+ S&P 500 — SQUARE

UK Markets
+ SHORT STERLING — SQUARE
+ GILT — SQUARE
+ STERLING — BEARISH v the DOLLAR
+ FTSE — SQUARE

Euro Zone Markets
+ EURIBOR — SQUARE
+ BUND — BULLISH
+ EURO — SQUARE
+ DJ EURO STOXX 50 — SQUARE

Japanese Markets
+ JAPANESE BONDS — BULLISH
+ YEN — SQUARE
+ NIKKEI — SQUARE

Commodities
+ GOLD — SQUARE
+ OIL — SQUARE

Disclaimer

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

This week's global calendar

	Week of 7th March
Monday	US Cons credit $15.000B UK BRC Sales 1.0% DM Factory orders -0.3m, JP Trade Bal n/f JP Q4 GDP -0.4q, -1.5(A) JP C/A 719.0B JP Bank lndg n/f JP Eco watchers survey 47.5 JP Bankruptcies n/f
Tuesday	US NFIB Sml bus optimism 94.5 UK BRC Shop prices n/f DM Ind production 0.5m, EZ Q4 GDP 0.3q, 1.5y JP Cons confidence 42.3
Wednesday	US MBA Mrtge apps n/f US Wholesale invntry -0.2 UK Ind production 0.5m, 0.1y UK Mfg output 0.2m, -0.7y UK NIESR GDP Estimate 0.55 UK RICS House prices 51% JP Machine tool orders n/f JP Domstic corp gds indx -0.3m, -3.4y

	Week of 7th March
Thursday	US Jobless claims 272k US Mthly budgt statement -200.0B DM C/A n/f DM Trade Bal 19.5B EZ ECB Policy decision JP BSI Lrge all industry n/f JP BSI Lrge all mfg 4.2
Friday	US Import prices -0.7m, UK Trade bal -10.30B UK Trade non-EU -2.90B UK Construction output n/f DM CPI 0.4m, 0.0y DM WPI n/f

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

Last week's releases

	Week of 29th February
Monday	US Chicago PMI 47.6 **WEAKER** US Pndg home sales -2.5m, -0.9y **WEAKER** UK Net lndg on dwllgs 3.7B **AS** UK Net cons credit 1.6B **STRONGER** UK Mrtge aprvls 74.6K **STRONGER** EZ CPI Est -0.2y **WEAKER** DM Import prices -1.5m, -3.8y **WEAKER** DM Retail sales 0.7m, -0.8y **BETTER** JP Ind production 3.7m, -3.8y **BETTER** JP Retail trade -1,1m, -0.1y **WORSE** JP Lrge retatail sales 1.0% **STRONGER** JP Vehicle production -5.8% **WORSE** JP Construct'n orders -13.8% **BETTER** JP Jobless rate 3.2% **BETTER** JP Househld spndg -3.4y **WORSE** JP PMI Mfg 50.1 **WEAKER** **THAN EXPECTED**
Tuesday	US ISM Mfg 49.5 **BETTER** US ISM prices paid 38.5 **STRONGER** US Construct'n spndg 1.5% **STRONGER** UK PMI Mfg 50.8 **WEAKER** IT PMI Mfg 52.2 **WEAKER** FR PMI Mfg 50.2 **WEAKER** DM PMI Mfg 50.5 **STRONGER** DM Unemploym't rate 6.2% **AS** DM Unemplym't chge -10k **AS** EZ PMI Mfg 51.2 **STRONGER** EZ Unemploym't rate 10.3 **BETTER** JP Vehicle sales -4.6% **WORSE** JP Loans & discount corp 3.1% **STRONGER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -4.8% **WEAKER** US ADP emplym't chge 214k **STRONGER** US ISM NYK 53.6 **LESS** US Fed's Beige Book UK PMI Construction 54.2 **WEAKER** UK BRC Shop prices -2.0% **WEAKER** EZ PPI -1.0m, -2.9y **WEAKER** JP PMI Services 51.2 **LESS** **THAN EXPECTED**

	Week of 29th February
Thursday	US Jobless claims 278k **WORSE** US Q4 non-farm productvty -2.2% **BETTER** US Q4 Unit labour costs 3.3% **BETTER** US ISM Non-mfg survey 53.4 **WEAKER** US Factory orders 1.6% **STRONGER** UK Nat'nwide hse prices 0.3m, 4.8y **WEAKER** UK Halifax hse prces -1.4m, 9.7y **WEAKER** UK PMI Services 52.7 **WEAKER** IT PMI Services 53.7 **STRONGER** FR PMI Services 49.3 **WEAKER** DM PMI Services 55.3 **STRONGER** EZ PMI Services 53.3 **STRONGER** EZ Retail sales 0.4m, 2.0y **STRONGER** JP Labour cash earnings 0.4% **AS** **THAN EXPECTED**
Friday	US Unemploym't rate 4.9% **AS** US Non-farm payrolls 242k **STRONGER** US Averge hourly earngs -0.1m, 2.2y **WEAKER** US Averge wrk week 34.4 **WEAKER** US Trade Bal -$45.68B **WORSE** IT Q4 GDP 0.1q, 1.0y **AS** **THAN EXPECTED**

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: economic background

Last week's focus was split between the two ISM surveys and non-farm payroll.

The ISM surveys delivered mixed signals; the manufacturing version was stronger, but the non-manufacturing was weaker, then non-farm payroll!

A strong headline report which was materially better than consensus, but average earnings and hours worked were weaker, how will the Fed receive the report?

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,**
- On Tuesday; **NFIB small business optimism,**
- On Wednesday; **wholesale inventories,**
- On Thursday; **Jobless claims and monthly budget statement, and**
- On Friday; **import prices.**

A fairly light calendar data wise this week, but we judge the key release is jobless claims.

Following last Friday's non-farm payroll report, the labour market is back in the spot light, but with an FOMC meeting due next week, we judge markets will be increasingly focussing their attention there.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

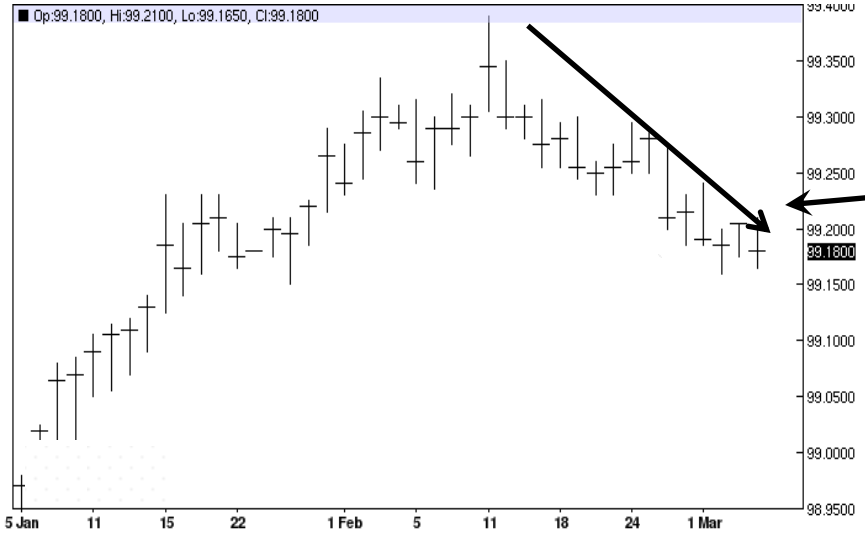
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars continued to drift lower on last week's better than expected data.

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

…"Looking ahead the two ISM surveys and non-farm payroll are due, will they point to a stronger performance or flag something more worrying?"…

In the event the data was mixed but probably just strong enough to allay fears of a looming recession, after several moths of weaker data.

Looking ahead several reports due but non-likely to have a significant influence on the market.

For now we are staying square, data continues to flash amber, and the Fed has taken note and an FOMC meeting is due next week.

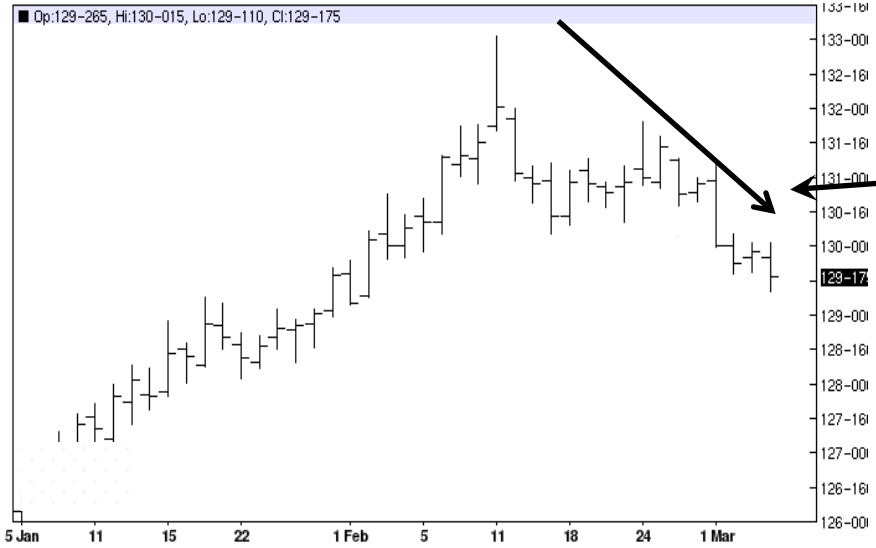
More

Summary
Global Calendar
US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500
UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE
Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50
Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI
Commodities
+ GOLD
+ OIL
Disclaimer

US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The 10 year note sold off on last week's data.

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

…"Looking ahead several key releases due with the two ISM surveys and non-farm payroll standing out. We judge these three reports will offer important guidance on the current state of the economy"…

In the event the two ISM reports on balance still record weakness, but the manufacturing version improved enough to allay concerns of recession even though it remains below 50.

The non-farm payroll report was a mixed bag; strong head line report, upward revisions to the previous month, but weak earnings and hours worked reports took the shine off to a degree, but on balance the Fed will probably be relieved the economy is still creating jobs.

Looking ahead this week's data is unlikely to have a major impact on the market, traders will have one eye on equities and the other on next week's FOMC meeting.

We are square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

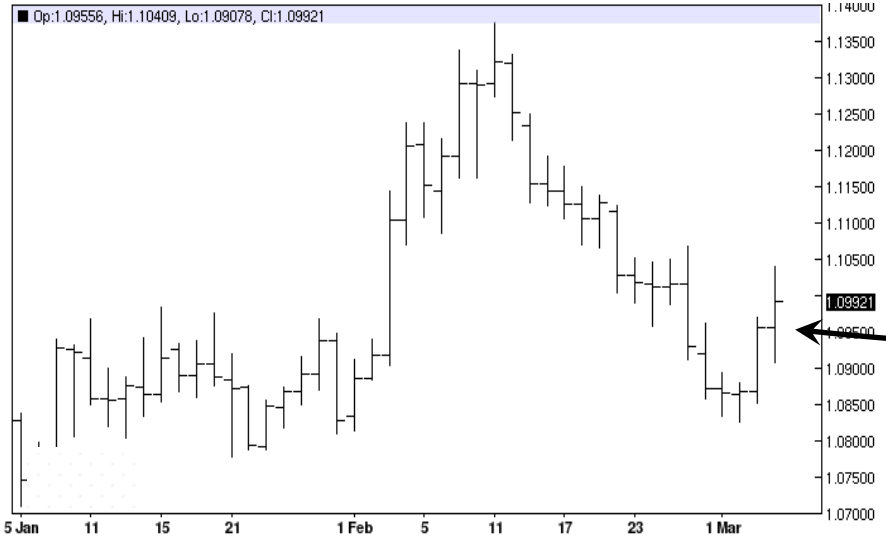
Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v STERLING.

Last week we were Bullish v Sterling



The Dollar looks increasingly volatile.

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

…"Looking ahead there are several key reports due this week with Friday's non-farm payroll report the main event"…

In the event the Dollar reversed as the data delivered a mixed message.

Looking ahead this week's data is league 2 and unlikely to have a material impact on the markets; traders will be increasingly focused on next week's FOMC meeting.

We are staying square here against the Euro.

But against the Pound traders should be long Dollar/Short Sterling on "BREXIT" fears despite Sterling's recent limited recovery.

Our suggested target is 1.3615 and our suggested stop is set at 1.4650 for protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

US MARKETS: S&P500

OUR TRADING STANCE: SQUARE.

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

The S&P extended the rally as traders focused on the positives from last week's data.

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

…"Looking ahead three key reports are due this week; the two ISM surveys and non-farm payroll, weakness will surely weigh on this market"...

In the event the market extended the rally despite the mixed run of data. But traders chose to focus on the better than expected ISM manufacturing survey and ignore the weaker non-manufacturing version, additionally traders reacted to the strong headline non-farm payroll report, but conveniently ignored the weak earnings and hours worked reports and instead took the market higher on the presumption the Fed would want to leave rates on hold for a period to gauge the underlying strength of the economy.

Looking ahead this week's data is unlikely to impact the markets and traders will increasingly focus on next week's FOMC meeting and the policy statement.

We are now square our stop having been hit.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: economic background

Last week's focus was the two PMI surveys, would they show a pickup in economic activity or was there an underlying slowdown in progress.

In the event the data was disappointing. Both the manufacturing and services surveys came in weaker than expected with the manufacturing version just above the 50 level which divides expansion from contraction.

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; **BRC Sales,**
- On Tuesday; **BRC Shop prices,**
- On Wednesday; **industrial production, manufacturing output, NIESR GDP estimate and RICS House price survey, and**
- On Friday; **trade data.**

The key releases this week are industrial production and manufacturing output.

But watch the NIESR GDP estimate for clues on the economy's under lying strength.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

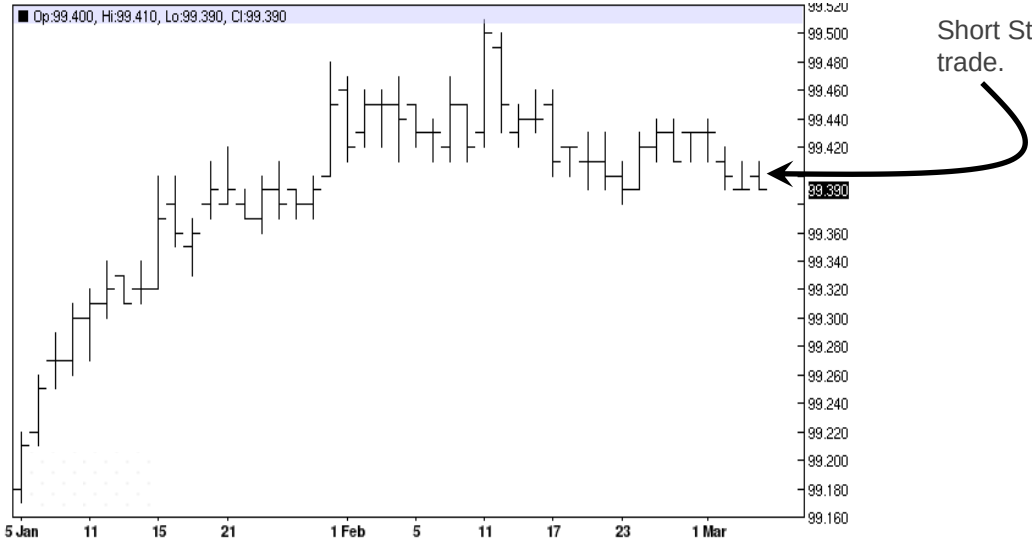
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



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

…"Looking ahead the PMI surveys are due, will they show activity picking up, or more of the same?"…

In the event they pointed to a further cooling of activity.

Looking ahead industrial production and manufacturing output are due, will they flash further warning signals; several MPC members have hinted rates could fall.

For now stay square, UK interest rates are static for now.

But it is interesting that several policy makers are talking of a cut if the economy cools further.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

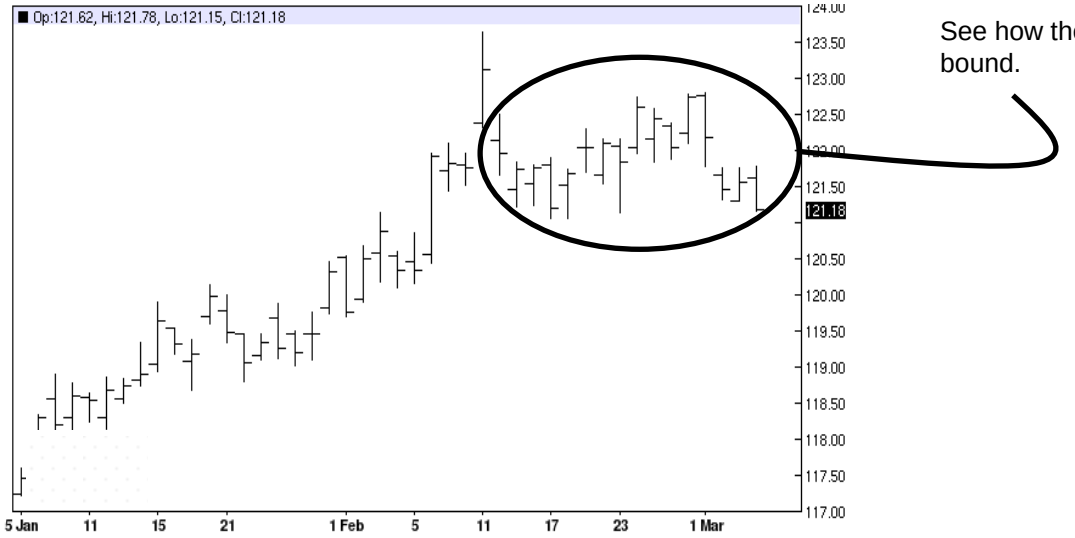
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt looks range bound.

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

…"Looking ahead the two PMI surveys are due this week. Stronger data would weigh on this market, but will they report more of the same moderate growth? If so the Gilt will remain supported"…

In the event data was weaker, but the gilt could only mange to hold the trading range as the focus was on equity markets.

Looking ahead the industrial production report stands out, but we expect it to add to the growing sense of gloom concerning UK economic growth.

We judge the gilt retains support from the low inflation environment, but we are remaining square, our medium term expectations for this market were recently met.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

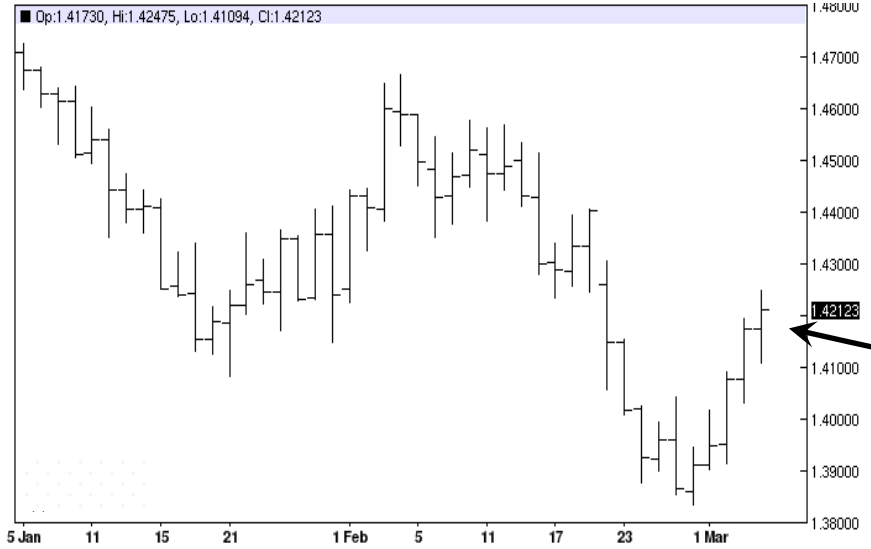
Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: Sterling

OUR TRADING STANCE; BEARISH v the DOLLAR

Last week we were Bearish



See how Sterling recovered against the Dollar as traders increasingly doubt the UK will vote to leave the EU.

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

…"Looking ahead the two main PMI Surveys are due, but we judge trading in Sterling will continue to be dominated by the debate over "BREXIT" especially after a weekend opinion poll gave the out campaign a lead"…

In the event the PMI surveys were weaker, but the Pound corrected as traders trimmed bets on the UK voting to leave the EU, but with over three months to go until the referendum vote, the issue is hardly resolved and the Pound still looks vulnerable.

Traders should be short Sterling/Long the Dollar.

Our target is 1.3615 and our suggested stop is lowered to 1.4175 for closer protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.

See how the FTSE extended the rally despite weaker data as traders begin to expect yet more Central Bank largess.

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

…"Looking ahead a big week for data releases with heavy weight data due in the US and UK. Strong ISM/PMI surveys would likely support equity markets and a solid US non-farm payroll report calm nerves about economic weakness further; lets see!"…

In the event we judge US data was mixed and UK data weaker, but equity markets rallied? Obviously traders are focussed on the Fed holding steady for several months yet, the Bank of England moving towards a fresh ease and the ECB delivering on its promise to ease at this week's policy meeting.

Looking ahead the key domestic releases are industrial production and manufacturing output, but we judge the market will be driven by sentiment from abroad.

For now we are remaining square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: economic background

Last week's focus was the various Euro zone PMI surveys.

In the event another mixed bag and to cap it off the Euro zone CPI estimate was -0.2%, back to deflation, will the ECB act decisively or will it be yet more salami slice easing which doesn't have the required impact?

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 factory orders,**
- On Tuesday: **German industrial production and Euro zone Q4 GDP,**
- On Thursday; **German C/A, Trade a/c and ECB policy decision, and**
- On Friday; **German CPI.**

The main event this week is the ECB policy meeting, President Draghi has promised action, will he deliver?.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

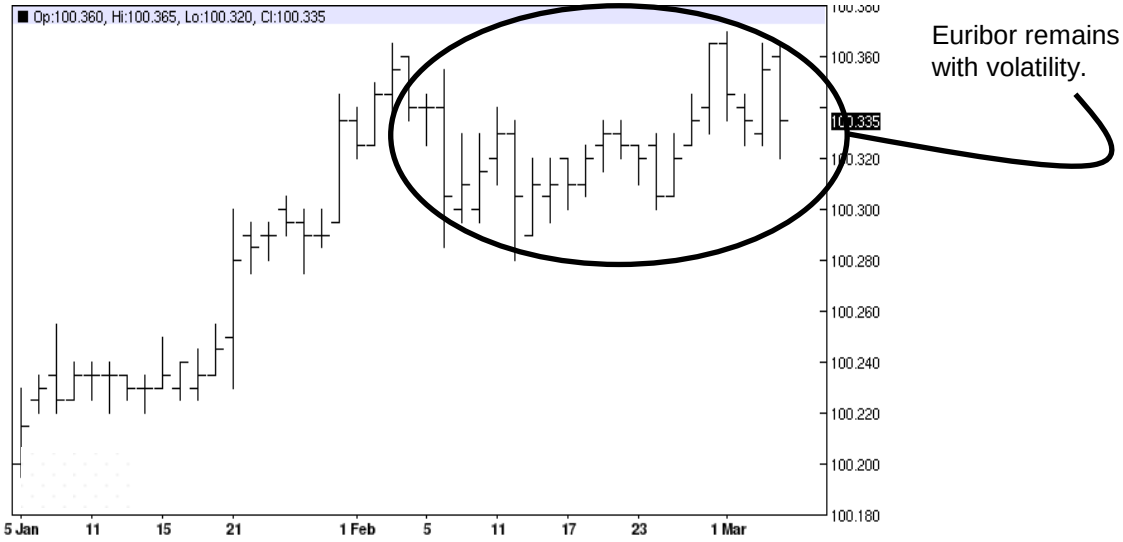
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



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

…"Looking ahead the key releases this week are the various PMI Surveys, but unless very much different to consensus we judge this market will mark time ahead of the March ECB meeting"…

In the event we judge that was the outcome!

Looking ahead the main event is the ECB policy meeting, markets expect a meaningful ease after repeated comments over recent weeks from Draghi.

We are square, an easing is priced in and the ECB has an amazing ability to disappoint.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

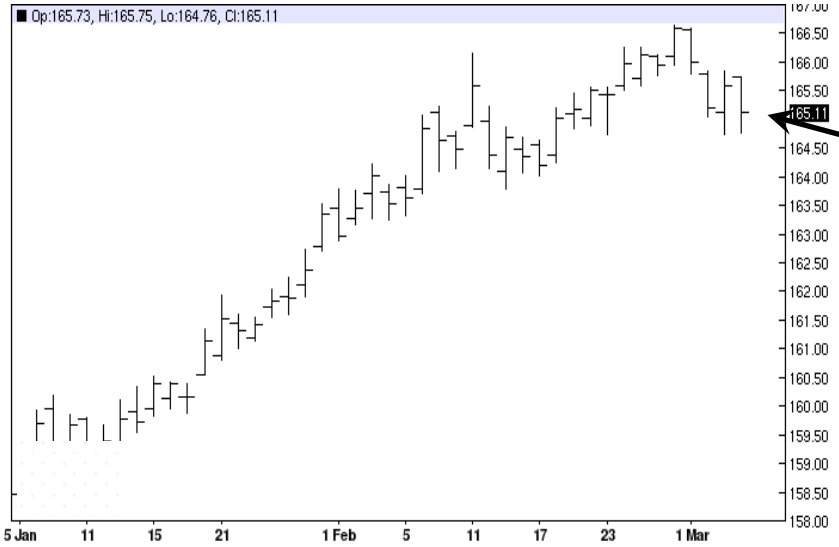
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of The Bund.



The Bund remains supported but capped temporarily by the rally in equity markets.

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

…"Looking ahead the key releases this week are the various PMI surveys, but we judge traders already have at least one eye set on the Upcoming March ECB meeting when a fresh easing package is expected"...

In the event that proved the case, but the Bund was held back by the rally in equity markets driven by… yes expectations of fresh easing.

Looking ahead the key release this week is the ECB policy decision, a significant ease is expected, if the usual half hearted effort is delivered markets will likely react negatively.

Traders should be long the Bund, it remains a Bull market.

Our suggested target is 168.05 and our suggested stop is set at 164.75 for protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

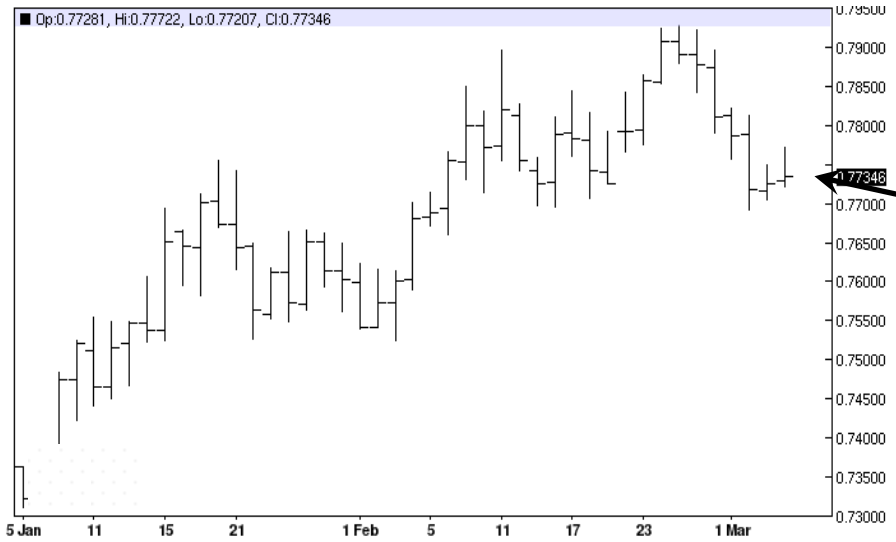
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



The Euro has corrected lower against both the Dollar and Sterling as the "BREXIT" threat has implications for the rest of the EU and Euro zone too.

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

…"Looking ahead the domestic releases of the various PMI surveys are due this week, but currencies will be driven by data due in the US with non-farm payroll set for release on Friday and the on going campaign in the run up to the June 23rd UK EU in/out referendum"…

In the event the various ISM/PMI/non-far, payroll reports delivered mixed signals, and traders are starting to think that a UK exit from the EU is not just negative for the UK!

Looking ahead the key event this week is the ECB policy meeting when a fresh package of easing is expected.

We are staying square here.

We judge Sterling/Dollar could be the trade to be in as the referendum debate heats up and traders fret about the possible UK exit from the EU, which could if the UK votes to leave, have implications for the wider EU and Euro zone not yet priced in.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

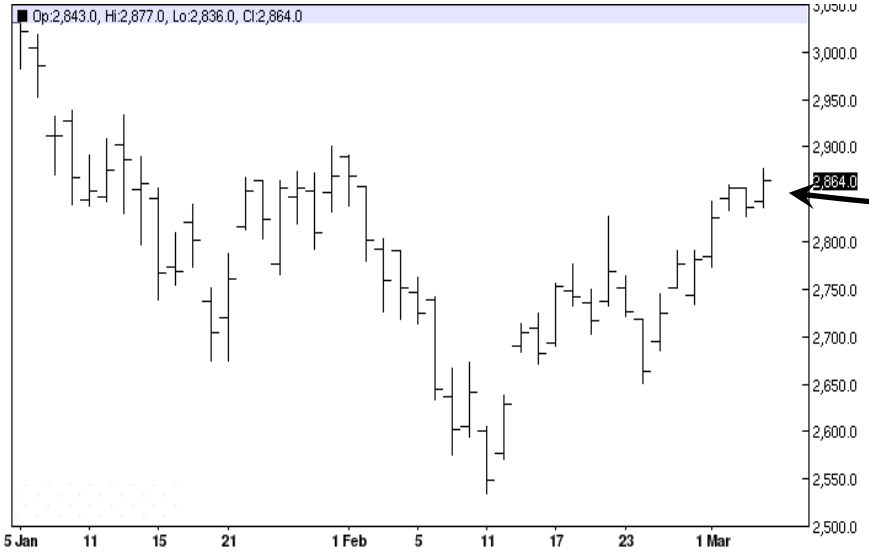
Commodities
+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market rallied on expectations of Central Bank help.

The Macro Trader's view of DJ Euro Stoxx 50 is:
last week we said...

…"Looking ahead several key data release due both in the Euro zone, UK and US but we judge US data will be the dominant force in equity markets this week and we are not so sure it will be bullish!"…

In the event US data was the main event and it was a little more mixed than expected and although the headline payroll report was much stronger earnings and hours worked were weaker leading to expectations of the Fed staying pat for several months which traders found bullish.

Looking ahead the ECB policy meeting is due this week and a substantial ease is expected then the FOMC meeting is due next week, in all the Central Banks remain the key focus in equity markets rather than data.

We are staying square here.

Despite the recent rally we judge stocks remain volatile.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: economic background

Last week's focus was split between the PMI surveys and industrial production.

In the event the PMI surveys were weaker than expected, but industrial production unexpectedly beat consensus, but the Bank of Japan remains under pressure to do more to revive the economy.

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; **Trade data, C/A, Q4 GDP and ECO watchers survey,**
- On Tuesday; **consumer confidence,**
- On Wednesday; **machine tool orders and domestic corporate goods index, and**
- On Thursday; **BSI Large all manufacturing survey.**

There are several key releases due this week but we judge the Q4 GDP report is the main event.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

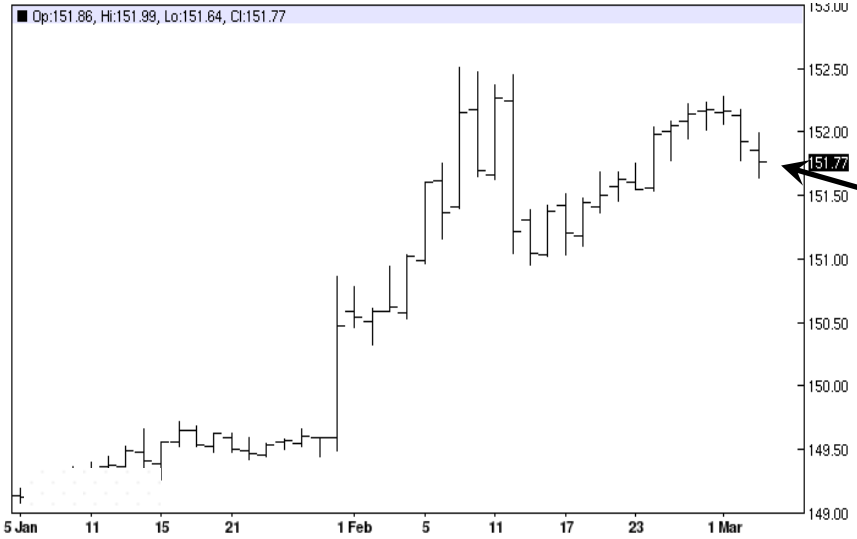
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Japanese Bonds.



The JGB suffered from profit taking as Equity markets rallied.

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

…"Looking ahead the two PMI surveys and industrial production are due, but we doubt they will show anything other than the authorities policies aren't working!"…

In the event a mixed bag of data, both PMI surveys fell short of consensus, but Industrial production was stronger than expected; which is right?

Looking ahead Q4 GDP stands out, the previous release was weak, are there revisions?

Traders should be long the JGB despite the mini correction.

Our target is 152.75. Our suggested stop is set at 151.25 for protection.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

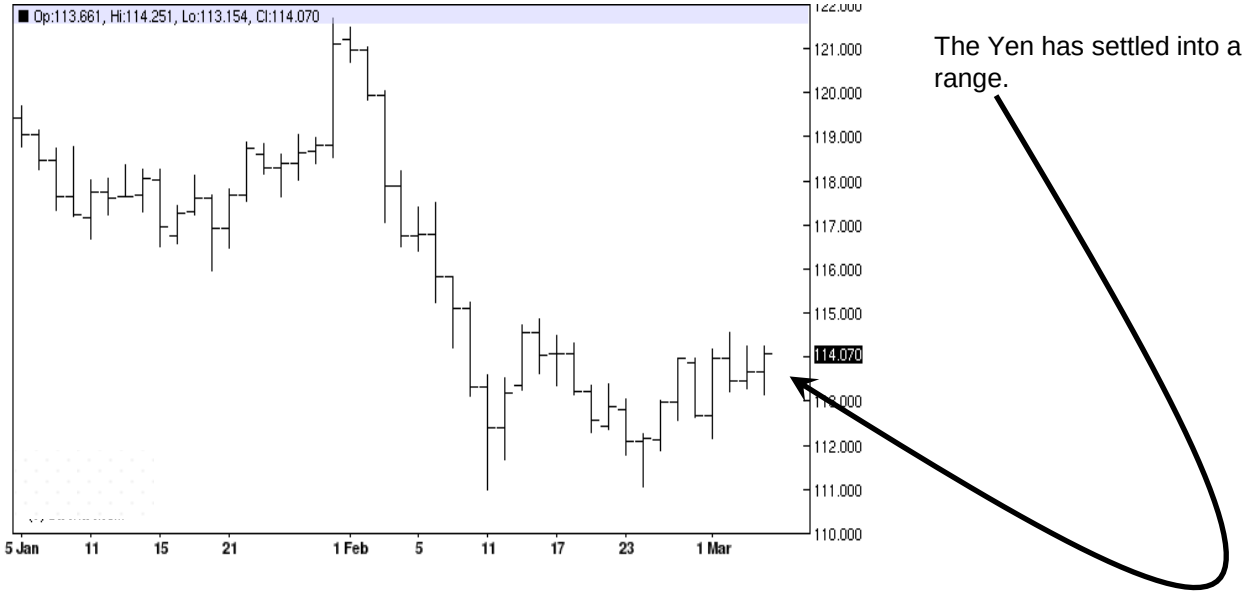
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



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

…"Looking ahead several domestic data releases due this week as detailed on the calendar, but we judge US data will be the dynamic in markets again this week"…

In the event data from both Japan and the US were mixed resulting in Dollar/Yen settling into a trading range; but for how long?

Looking ahead the Q4 GDP report and trade data stand out, one historic, the other more current, but will they tell the same story? probably.

For now we are square. The Yen looks range bound.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

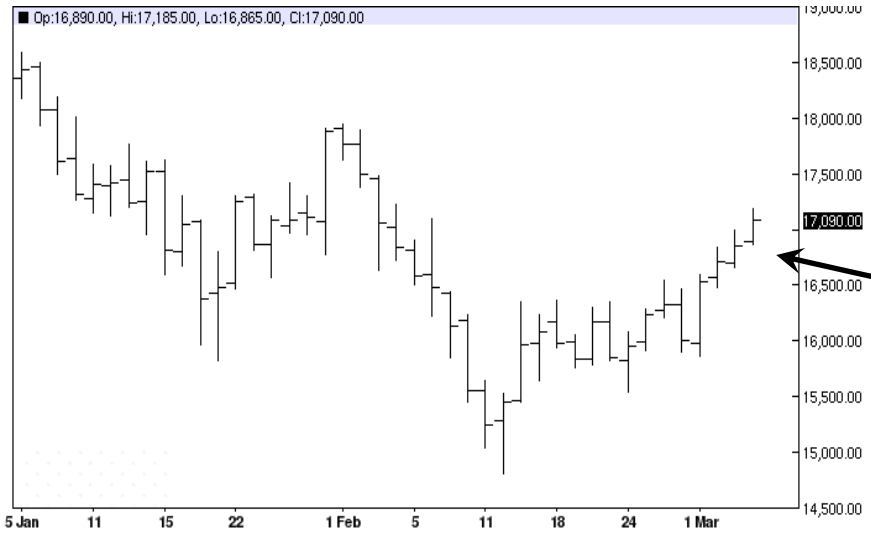
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei rallied on foreign sentiment and the becalmed Yen.

The Macro Trader's view of the Nikkei is; last week's price action had little to do with domestic data. Although industrial production beat consensus, the two PMI surveys were weaker and other data released during the week had little to get excited about.

Looking ahead the key releases this week are Q4 GDP and the trade data. But we judge equity markets are trading on the Fed! Will they hike, will they remain on hold for several months?

Current thinking is they will remain on hold due to too much lack of clarity about the health of the US economy and that is supporting stocks.

But what about equity markets trading on economic news and corporate profits? Currently seems out of fashion!

For now we are staying square.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

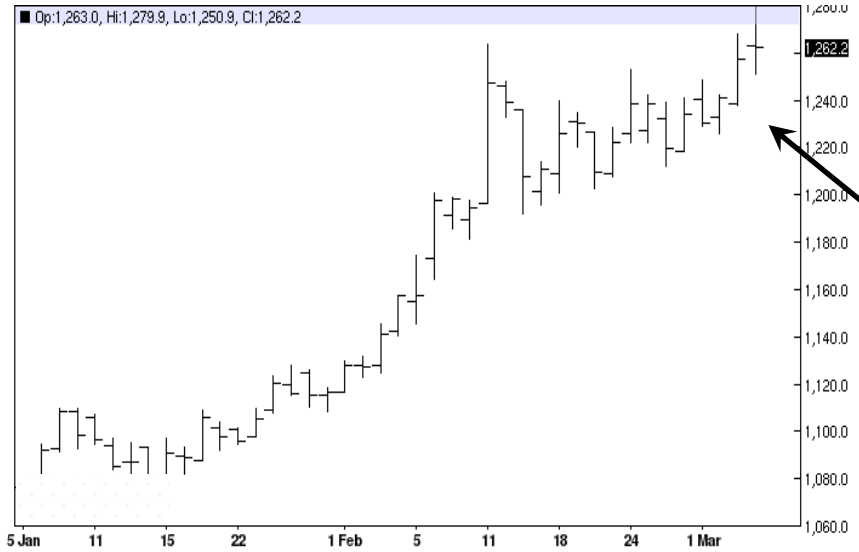
Commodities
+ GOLD
+ OIL

Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold remains supported as global economic data send mixed signals.

The Macro Trader's view of the Gold is: last week's key global data releases continued to send out mixed signals last week.

In Japan PMI surveys were weaker, but industrial production stronger, in the Euro zone the various PMI surveys offered the usual mix with Germany the one beacon of hope, in the UK both PMI surveys fell short of consensus raising concerns about a deeper slow down and even in the US there was a lack of clarity.

The ISM manufacturing picked up, but non-manufacturing cooled off, the non-farm payroll! The headline report strong, earnings and hours worked weak; no real clarity.

The Dollar gyrated on the news and Gold advanced further as traders remained concerned that there was a growing risk of recession; albeit still small.

How much further the gold rally goes from here remains unclear, since there is no imminent economic crisis, but then its slow steady rally perhaps mirrors the slow incremental risk of a global slowdown.

For now we are staying square, but we are no longer bearish of this market and are on the look out for a clear signal to buy.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

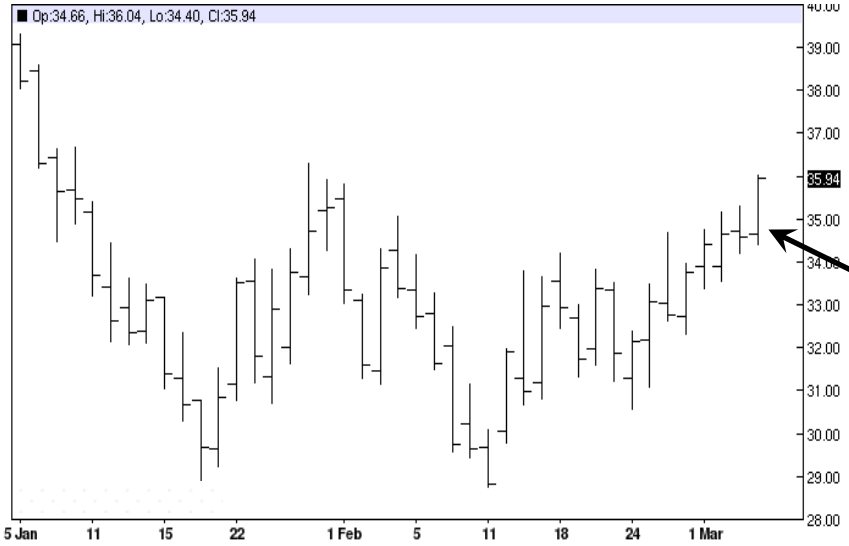
Commodities
+ GOLD
+ OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil remains supported by hopes of a deal to cap of even reduce production.

The Macro Trader's view of oil is: last week's price action was driven by talk of a meeting this month between the major oil producers with a view to capping or cutting production; will it happen, the market seems to think so.

We remain unconvinced of Saudi Arabia's willingness to cut her own out put without verifiable commitments from the other major producers, including Iran to do the same.

Since Iran has just escaped a sanctions regime that capped her ability to export her vast oil reserves we think it unlikely she will forego the opportunity to export as much as she can with a view of generating much needed revenue to rebuild infrastructure and the economy.

However until the meeting is held and the outcome known oil will likely edge higher as traders continue to cut short positions just in case.

For now stay square, we remain oil bears but timing is wrong.

More

Summary

Global Calendar

US Markets
+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

UK Markets
+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets
+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets
+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities
+ GOLD
+ OIL

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