Week 12

22nd – 28th March 2016

Multi-asset fundamental strategies

John Lewis

SUMMARY

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Global Calendar

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

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+ GILT	SQUARE
+ STERLING	SQUARE
+ FTSE	SQUARE

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+ EURO	SQUARE
+ DJ EURO STOXX 50	SQUARE

Japanese Markets	
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This week's global calendar

	Week of 21st March
Monday	US Existing home sales 5.34M UK CBI Total orders -14 UK Rght mve hse prices n/f EZ C/A 26.3B JP Sml business conf n/f
Tuesday	US Hse price indx 0.5% UK CPI 0.4m, 0.4y UK RPI 0.5m, 1.3y UK RPI-X 1.4y UK PPI Output -0.1m, -1.2y UK PPI Input 0.6m, -7.3y UK PPI Core 0.1m, 0.1y UK DCLG Hse prces 6.9% UK PSNB 5.40B UK PSNCR n/f DM IFO n/f DM ZEW 53.0 JP All ind actvty indx 1.9% JP Supermkt sales n/f JP Covnience stre sales n/f
Wednesday	US MBA Mrtge apps n/f US New Home Sales 500k EZ Consumer confidence -8.5 JP PMI Mfg 50.6

	Week of 21st March
Thursday	US Jobless claims 267k US Durable goods -2.5% US DG Ex-Transport 0.0% UK Retail sales -0.5m, 3.8y UK BBA Home buyer loans n/f UK CBI Sales 15 DM GFK Cons conf 9.5 EZ PMI Composite 53.0 DM Import prices n/f JP National CPI 0.1y JP Tokyo CPI -0.2y JP Corp service prices n/f
Friday	US Q4 GDP (A) 1.0% US Q4 GDP Price indx 0.9% US Q4 Persnl consumption n/f US Q4 Core PCE 1.3%

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Last week's releases

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	Week of 14th March
Monday	EZ Ind production 2.1m, 2.8y **STRONGER** JP Machine orders 15.0m, 8.4y **STRONGER** JP BOJ Rate decision **UNCHANGED** **THAN EXPECTED**
Tuesday	US Retail sales -0.1% **AS** US RS Ex-Autos -0.1% **AS** US PPI -0.2m, 0.0y **WEAKER** US PPI Ex – F&E 0.0%, 1.2y **MORE** US Empire mfg 0.62 **BETTER** US NAHB Housing mkt indx 58 **LESS** US Bus invntry 0.1% **STRONGER** US Tot net lg trm TIC flws $118.4B **STRONGER** EZ Employm't 0.3q, 1.2y **BETTER** JP Tokyo condo sales -13.9% **WEAKER** JP Ind production 3.7m, -3.8y **AS** JP Capacity utilisation 2.6% **STRONGER** JP Tertiary indx 1.5% **STRONGER**
Wednesday	US MBA Mrtge apps -3.3% **WEAKER** US CPI -0.2m, 1.0y **MORE** US CPI Ex –F&E 0.3%, 2.3y **STRONGER** US Housing starts 1178k **STRONGER** US Building permits 1167k **WEAKER** US Ind production -0.5% **WEAKER** US Capacity utilisation 76.7% **LESS** US FOMC Policy decision 0.50% **AS** UK Unemploym't rate 2.1% **LOWER** UK Unemploym't chge -18.0k **BETTER** UK ILO Rate 5.1% **AS** UK Averge earngs 2.1% **STRONGER** UK Averge earngs ex-bonus 2.2% **STRONGER** UK Budget EZ Construct'n output 3.6m, 6.0y **STRONGER** JP Machine tool orders -22.5% **AS** JP Trade bal Y242.8B **WEAKER** JP Tokyo Dept stre sales 2.7% **BETTER** JP National dept stre sales 0.2% **BETTER** **THAN EXPECTED**

	Week of 14th March
Thursday	US Q4 C/A -$125.3B **WORSE** US Philly Fed 12.4 **STRONGER** US Jobless claims 265k **MORE** UK BOE/MPC Rate decision 0.50% **AS** UK BOE AP Target 375.0B **AS** EZ CPI 0.2m, -0.2y **MORE** EZ Trade bal 6.2B **WEAKER** **THAN EXPECTED**
Friday	US U. of Michigan conf 90.0 **WEAKER** DM PPI -0.5m, -3.0y **WEAKER** EZ Labour costs 1.3% **MORE** **THAN EXPECTED**

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US MARKETS: economic background

Last week's calendar was packed with yet more heavy weight data but the central focus was the FOMC meeting and the policy statement.

In the event the Fed proved more dovish than expected and although the expectation now is two hikes during the course of 2016, they may be unable to hike at all.

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; **Existing home sales,**
- On Tuesday; **House price index,**
- On Wednesday; **New Home sales,**
- On Thursday; **Jobless claims, and Durable goods, and**
- On Friday; **Q4 GDP, Q4 GDP price index, Q4 Personal consumption and Q4 Core PCE.**

Another busy week but Friday sees the key releases, but with Europe and the UK on holiday for Good Friday, may not move markets that much?.

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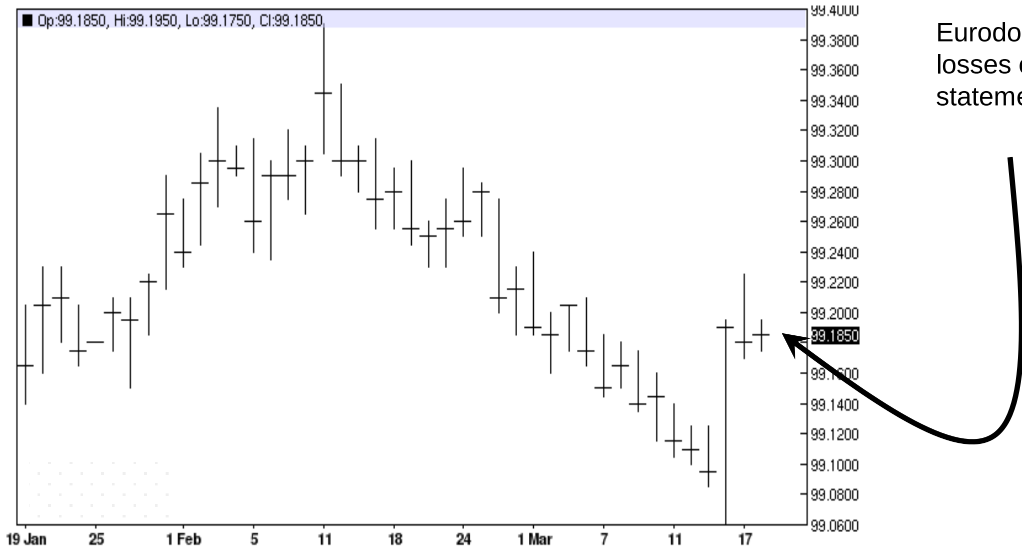
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars pared some of their losses on the dovish Fed policy statement.

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

…"Looking ahead the key event this week is the FOMC meeting. Unchanged is the expected outcome but what is said will be of interest to traders of this market"…

In the event the Fed back peddled and delivered a dovish statement acknowledging the risks to the economy and leaving a distinct impression of a maximum 2 hikes instead of the 4 indicated in December.

Looking ahead Q4 GDP stands out any upward revisions would weigh on this market.

For now we are staying square. The Fed said more or less what we expected.

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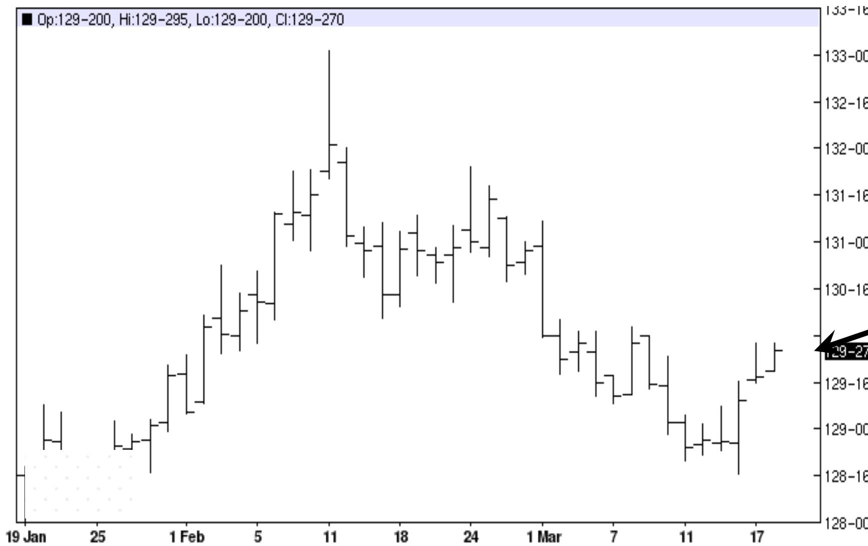
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.
Last week we were Square of the 10 year note.



The 10 year note is clearly in a wide trading range..

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

…"Looking ahead several key releases due, but the FOMC dominates as traders await the policy statement"…

In the event that proved the case; the Central Banks continue to dominate the markets as traders react to every nod and wink rather than economic data.

Looking ahead the Q4 GDP report is due, but the release is Good Friday most markets will be closed and US markets will be thin.

The Treasury market looks trapped in a trading range. Data isn't so strong, neither is inflation and the Fed is in no hurry, but stocks are benefitting from the environment created by the Central Banks meaning Bonds are currently out of favour, but are not a sell.

We are square.

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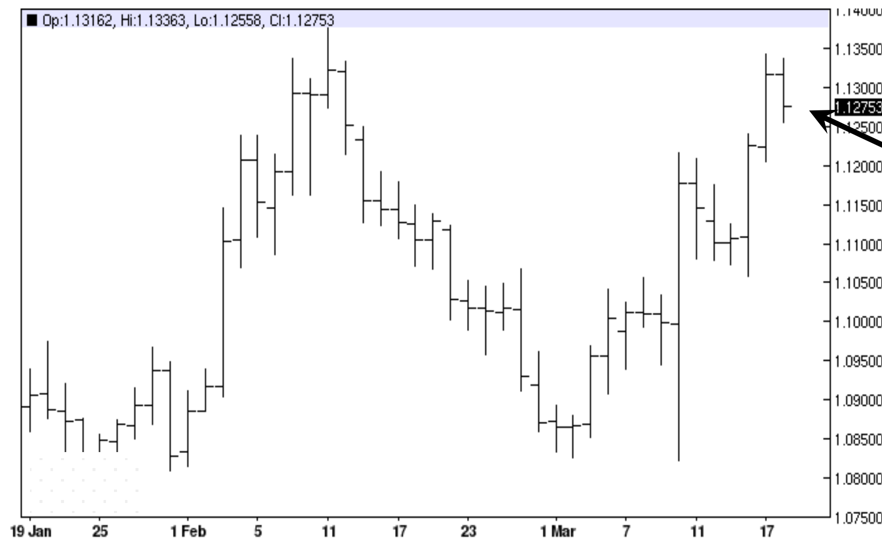
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square



The Dollar sold off on the Fed's dovish statement.

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

…"Looking ahead the FOMC meeting and policy statement is the main event this week, the Fed is not expected to hike, but what their take on the medium term is will be important for markets generally"…

In the event the Fed is clearly none too confident about the US economy's ability to ride out the risks posed by the current global economic weakness and the Dollar took the hit.

Looking ahead several important data releases due with Q4 GDP the main event but we doubt markets will react too much. The UK and Europe will be closed and US markets thin.

We are staying square.

There seems a lack of direction in currencies currently.

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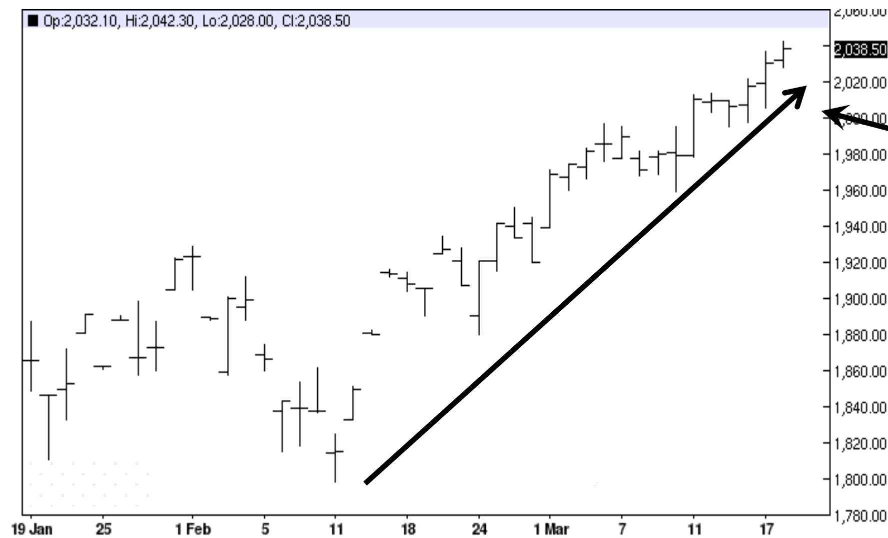
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P performed well last week, lifted by the Fed.

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

…"Looking ahead a packed calendar is due, but the FOMC policy decision and statement is due. The Fed isn't going to hike, that is universally expected, but what they have to say in the statement is just as important and they are likely to re-assure markets that any moves will be data led and gradual, there established message, but with economic activity still less than vigorous they are likely to remain on hold for several months yet and that supports the S&P"…

In the event that was there message which was more dovish than most expected with an indication of up to 2 hikes this year, down from the previously pencilled in 4, but will the economy prove strong enough for the Fed to deliver even 2?

Looking ahead Q4 GDP stands out, but the market looks bullish for now.

Traders should be long this market.

Our suggested target is 2045.0 and our suggested stop is set at 1965.0 for close protection.

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UK MARKETS: economic background

Last week's focus was split between the Bank of England policy meeting on Thursday and the Budget on Wednesday.

The Bank remained on hold; no surprise there, the Budget seemed routine until a senior minister resigned over disability payment cuts on Friday and rattled the government, causing further uncertainty on top of the looming "BREXIT" vote.

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; **CPI, RPI, PPI, DCLG, PSNCR and PSNB, and**
- On Thursday; **Retail sales.**

The focus this week is split between CPI and retail sales.

Of the two we judge retail sales of greater importance; inflation remains very low.

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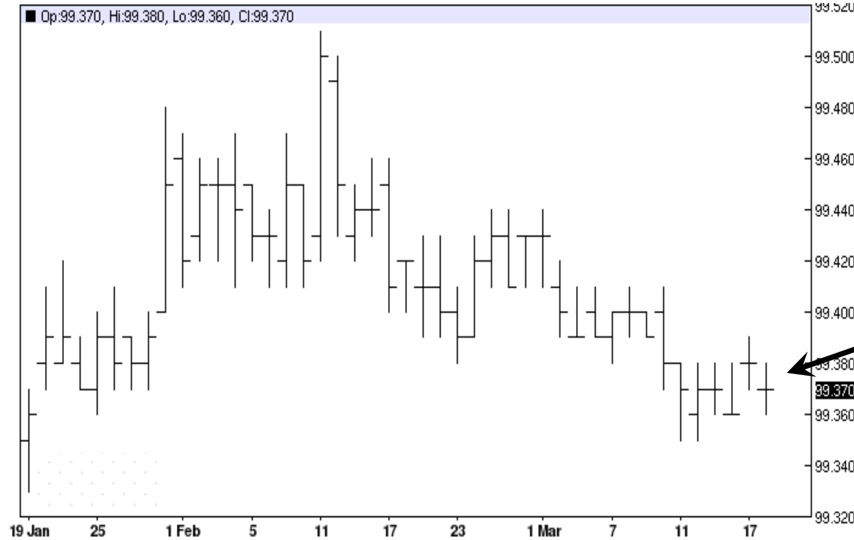
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.
Last week we were Square of Short Sterling.



Short Sterling continues its gentle drift lower.

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

…"Looking ahead the key event this week is Wednesday's budget; more belt tightening expected, but the government needs to act with caution in the run in to the EU in/out referendum"…

In the event caution wasn't much in evidence as it resulted in the resignation of a senior cabinet minister.

Looking ahead the main event this week is retail sales. The economy has cooled, consumer demand is a crucial engine of growth; has it held up?

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

But it if the recent NIESR GDP estimate proves correct the Bank might need to ease further!

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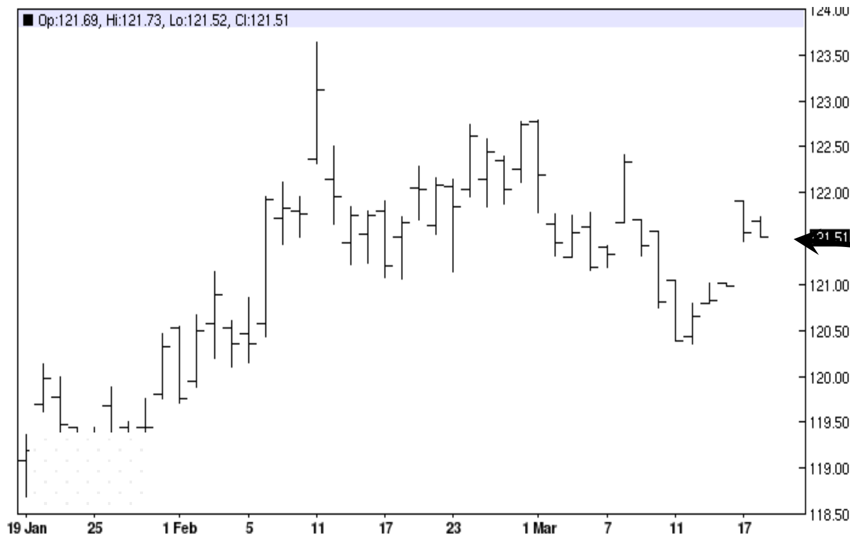
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt remains supported by slower growth and subdued inflation.

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

…"Looking ahead the Bank meets on Thursday; no action expected. The budget is due on Wednesday; more tinkering and spending cuts are expected"…

In the event a lot of tinkering and the cuts that were announced forced the resignation of a cabinet minister, but was that just a smoke screen for his desire to be free to campaign for "BREXIT"?

Looking ahead retail sales are due, but a soft number is expected. Unless materially different from consensus we doubt it will have too much impact as traders will be eager to get away for Easter holidays.

Despite the recent softness, 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.

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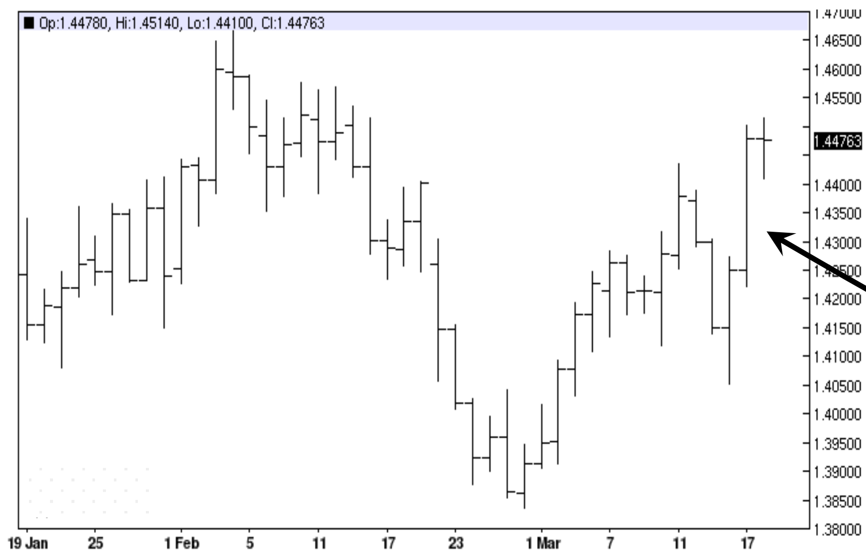
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling rallied against the Dollar after the FOMC policy statement.

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

…"Looking ahead the Bank of England's policy decision is due on Thursday, unchanged is expected this time, but if the economy has cooled they may be forced by events to ease further in the coming months"…

In the event the big impact came from the US FOMC policy statement. A more dovish statement than expected saw the Dollar weaken again other majors including Sterling.

Looking ahead the key release this week is the retail sales report. A weak report is expected, anything stronger will help prop up the Pound amid the current political tensions created by "BREXIT" and the resignation of IDS the so called quiet man of British politics; doesn't seem that quiet after all does he?.

We are now square of Sterling.

The Pound performed better than expected but we fear political risk will return to undo it.

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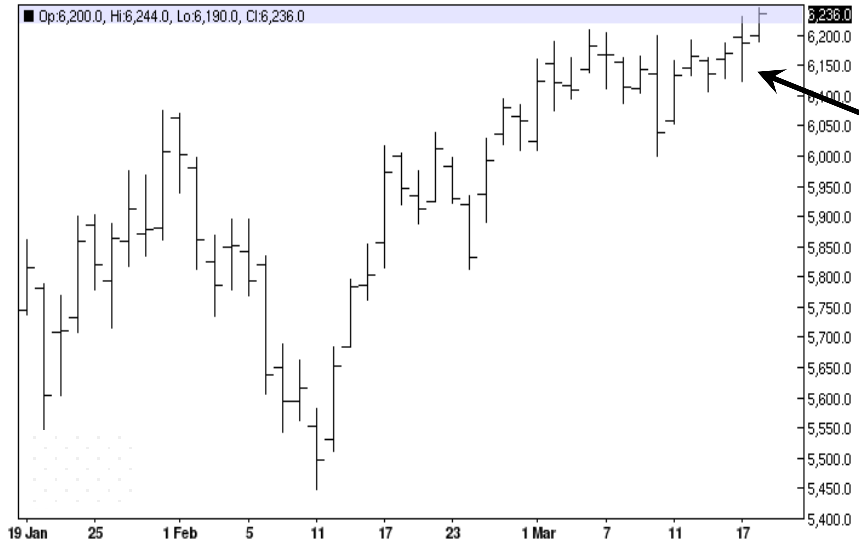
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE edged higher last week, but despite the recent recovery it looks vulnerable.

The Macro Trader's view of the FTSE is; last week's price action extended the recent rally a little further, but for all that the market looks vulnerable.

Although economic activity has cooled, at anything over 2% it is still respectable, but political risk looks like a growing factor.

Apart from the looming "BREXIT" vote the Conservative party looks hell bent on finding other reasons to tear its self apart.

Looking ahead the retail sales report is due and weakness is forecast. We judge the FTSE will be torn between Bullish sentiment mainly from the US after the dovish FOMC policy statement and domestic political risk.

For now we are remaining square.

Other equity markets; the S&P look a better bet, at least for now.

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EURO ZONE MARKETS: economic background

Last week's focus was the Euro zone Industrial production report.

In the event a stronger than expected reading was delivered, but is that surprising after the earlier release of a strong German report the previous week. The rest of the Euro zone needs to shape up!.

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; **Euro zone current account,**
- On Tuesday; **German IFO and ZEW surveys,**
- On Wednesday; **Euro zone Consumer confidence, and**
- On Thursday; **German GFK confidence, import prices and Euro zone PMI Composite survey.**

The main event this week is the Euro zone PMI Composite survey, traders will be looking for signs of a pick up in activity.

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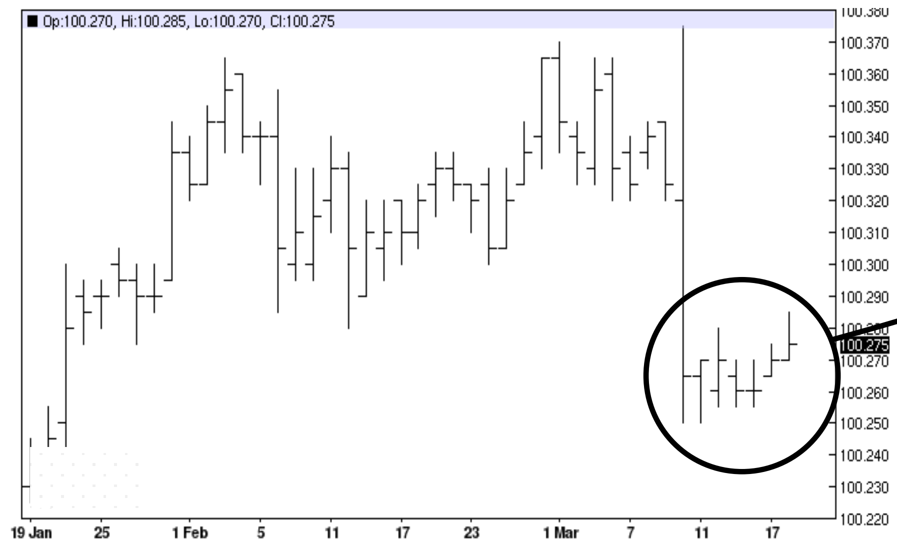
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor failed to recover from the ECB induced sell off the previous week.

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

…"Looking ahead the key release this week is Euro zone industrial production, but will this market continue to correct lower?"…

In the event a stronger than expected report leaving this market close to the lows.

Looking ahead the Euro zone PMI Composite survey stands out, will it show a building recovery or just more tepid growth?

We are staying square.

We see little for either the Bulls or Bears right now.

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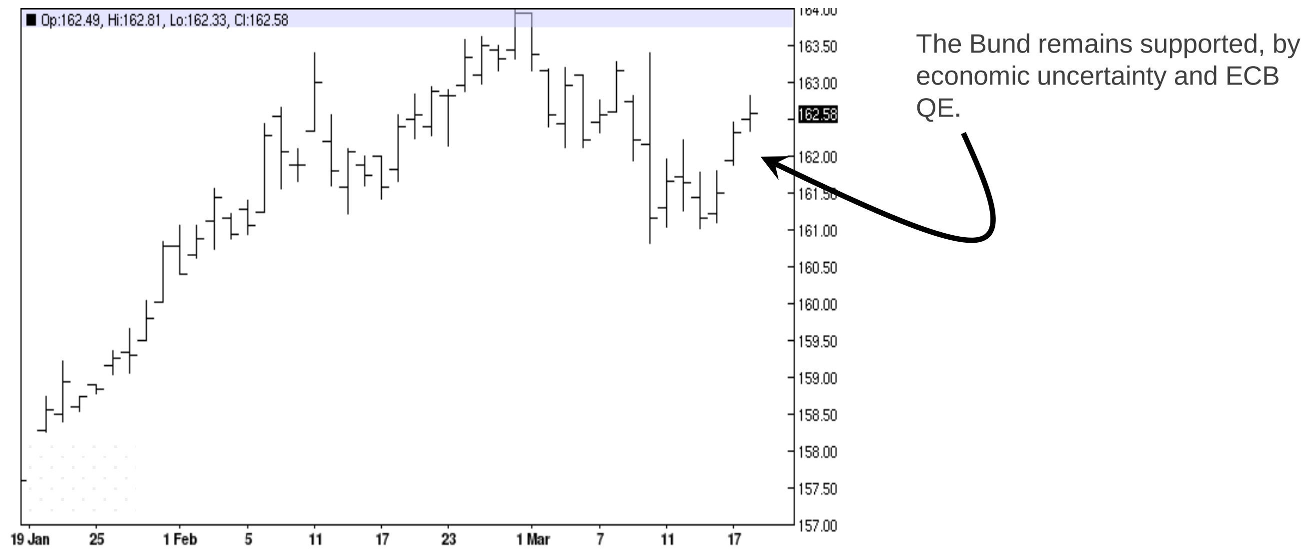
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



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

…"looking ahead the key release this week is Euro zone industrial production, a mirror of the stronger German version seen last week is likely"…

In the event that was the outcome, but as stocks rallied on the dovish US FOMC policy statement, bonds including the Bund, were side lined.

Looking ahead the key release this week is the Euro zone PMI Composite survey; will it record a quickening of activity?

We are square.

The Bund remains essentially a bull market, but sideways activity looks more likely short term.

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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

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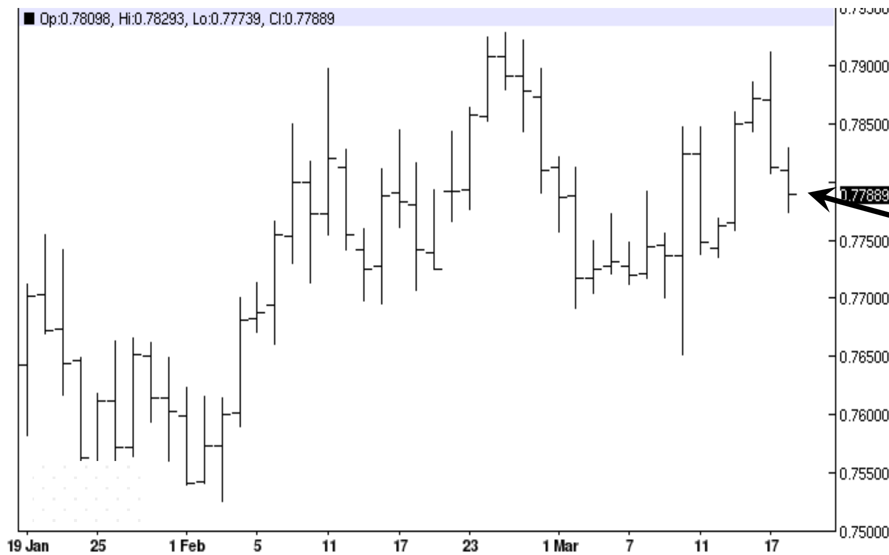

The Euro looks range bound against Sterling as "BREXIT" has implications not just for the UK but EU/Euro zone too.

The Macro Trader's view of the Euro; last week's price action was driven by a combination of Central Bank activity both in the Euro zone and US and the uncertainty created by "BREXIT.

The recent ease by the ECB has stalled the Euro's rally against the Pound, but traders are not only concerned about what "BREXIT", if it happens, means for the UK, but what it might mean for the EU too!.

Looking ahead the key release this week is the Euro zone PMI Composite survey, but we judge currencies are currently lacking direction. That includes Dollar/Euro, Cable and Sterling/Euro.

For now stay square.

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EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

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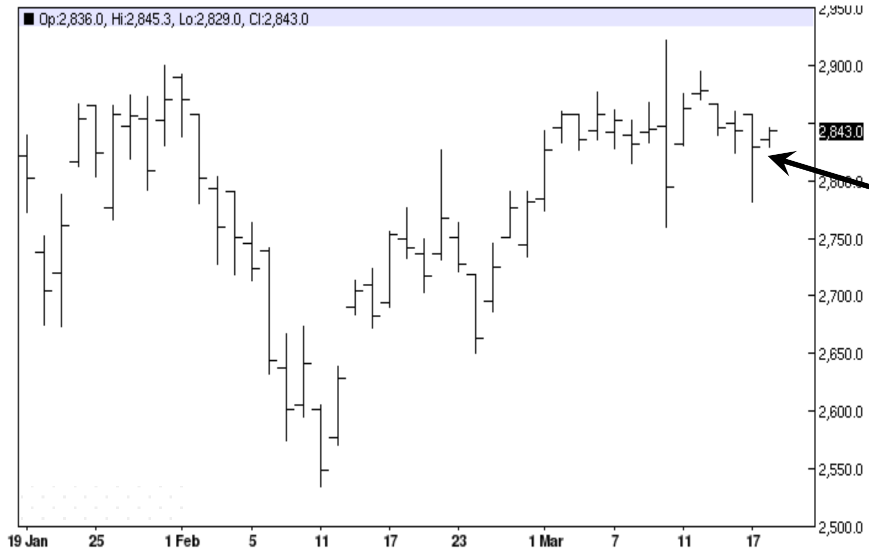

See how the market looks capped around the recent highs by uncertainty.

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

…"Looking ahead the Euro zone industrial production report is due, but we judge traders are still digesting the ECB move and if the Fed signals rates are on hold for a few more months yet, stocks will likely react positively"…

In the event the FOMC statement was indeed dovish and following on from the ECB ease a stronger performance might have been expected, especially when factoring in the stronger Euro zone industrial production report.

Looking ahead the key release this week is the Euro zone PMI Composite survey. Will the recent ECB ease feed into this survey or is it too soon or is the economy just too sclerotic?.

We are staying square here.

The price action still depends too much on Central Banks and not under lying economic health.

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JAPANESE MARKETS: economic background

Last week’s focus was divided between the Bank of Japan’s policy decision and industrial production.

In the event the BOJ held policy steady even though they noted consumer inflation expectations have fallen, sounds like deflation is on its way back, and industrial production was as expected.

The economy still looks vulnerable.

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; **small business confidence,**
- On Tuesday; **all industry activity index,**
- On Wednesday; **PMI Manufacturing survey, and**
- On Thursday; **CPI.**

The key release this week is CPI. A weak report will surely nudge the Bank of Japan closer to a fresh policy initiative.

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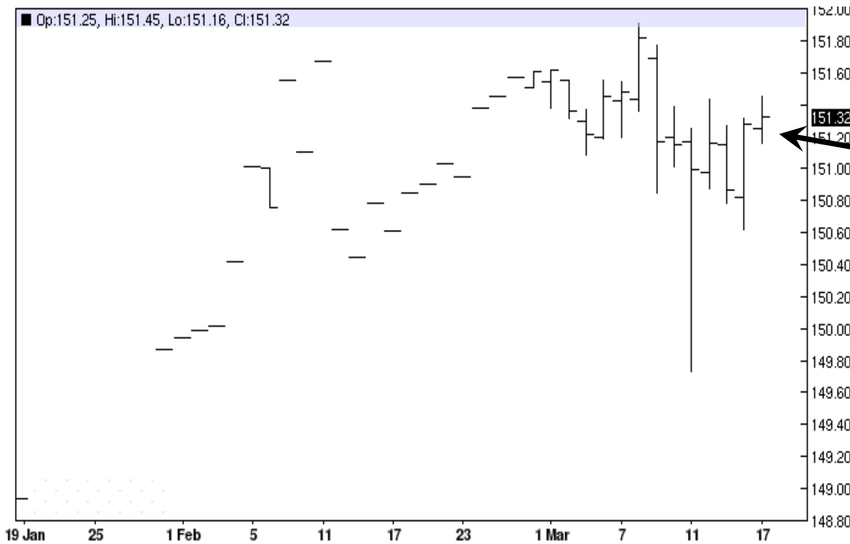
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Japanese Bonds.



The JGB looks range bound and increasingly volatile.

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

…"Looking ahead the key event this week is the Bank of Japan policy decision and statement. After continued weakness will policy makers act"…

In the event they didn't even though they said consumers inflation expectations have fallen. That sounds like bad news given the current level of inflation and a policy that is meant to have already pushed it up to 2.0%.

Looking ahead the key release is CPI, but what ever the out come we doubt the BOJ will rush to do anything new; just yet!

We are staying square.

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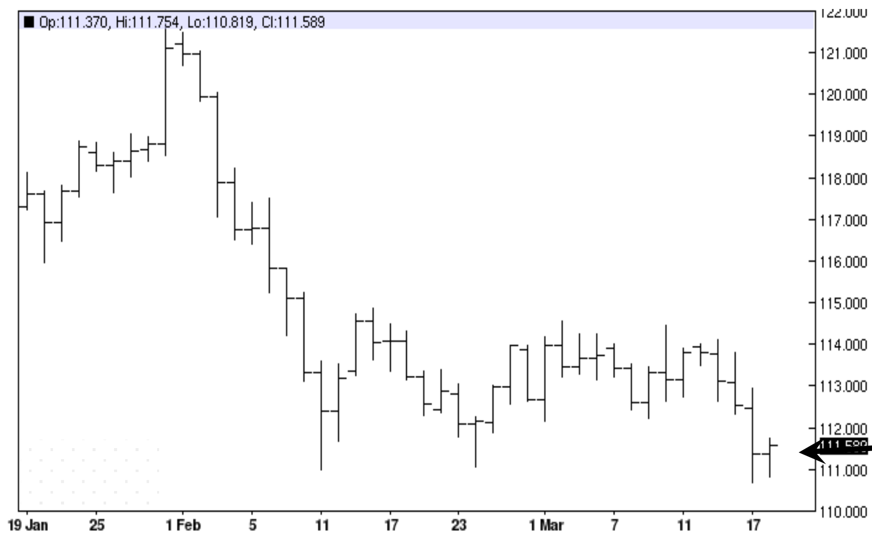
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen looks well supported especially after the release of a dovish FOMC policy statement.

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

…"Looking ahead the Bank of Japan policy statement stands out this week, but then there is the FOMC policy decision and statement due Wednesday"...

…"On balance we judge a further period of range trading is likely"…

On balance that seemed the outcome, but the Yen looks well supported, but do we buy? There were rumours of BOJ intervention. We judge the Japanese authorities are unhappy with a strong yen at a time when growth is weak and inflation looking to fall further, and it is already very low.

Looking ahead the CPI report is due, if weak will it prompt the BOJ to intervene to weaken the Yen?

For now we are square.

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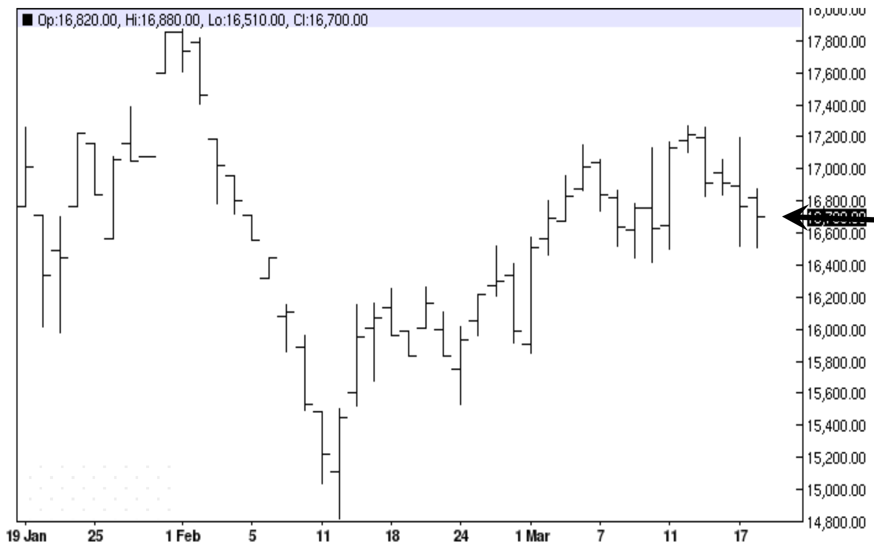
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei has recovered to a degree but we judge the rally could be capped by the strength of the Yen.

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

…"Looking ahead the Bank of Japan policy decision is due but so too the FOMC, we judge the Fed will have the bigger impact, that is unless the BOJ does something radical and unexpected; unlikely!"…

In the event that was the scenario, but although the Bank of Japan didn't ease there were rumours, unconfirmed, that the Bank of Japan had intervened in the currency market.

Looking ahead CPI is due this week and we judge it will further expose the failure of the current policy mix, but what are the alternatives?

For now we are staying square.

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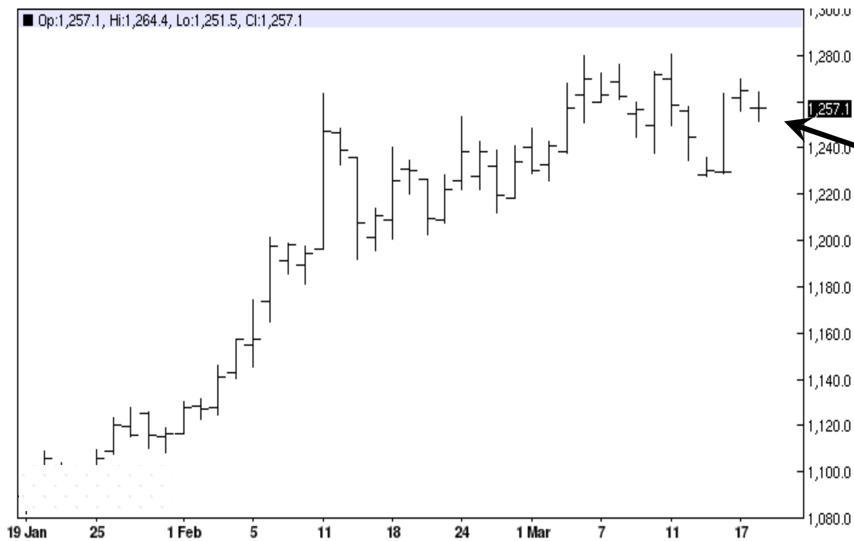
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold looks range bound, for now!

The Macro Trader's view of the Gold is: last week's key event was the FOMC policy statement.

The Fed issued a more dovish bulletin than expected and signalled only two rate hikes this year instead of the four it indicated at the time of the December rate hike.

The Dollar took a hit, but Gold did very little; why?

Perhaps traders take the view that a side lined Fed will help the US economy get back on its feet, an outcome that would be Dollar positive, or perhaps the current rally has run its course. The global economy is slowing but there isn't a crisis; yet!

We remain side lined from this market. In the absence of a fresh crisis/recession it looks a difficult buy, but with growth under performing globally a recession could be just around the corner?

For now stay square, the market looks a little range bound.

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COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.

See how oil continues to rally on hopes of a deal to cut production.

The Macro Trader's view of oil is: the market extended the rally last week, why?

The global economy continues to under perform, current estimate for global growth are just 2.9%; that is weak.

Add in the continued global oil glut, add to that Iran's intention to continuing upping her output until she reaches pre sanctions output and why would the oil price rise?

There is an Oil producers meeting apparently happening in March or early April and traders are worried they will agree a production cut. We shall see.

Saudi Arabia has already made its doubts about a production cut known and those doubts are derived from a history of other producers cheating on their quotas. And Saudi Arabia and Russia have been on opposite sides in the Syria conflict, perhaps the reason for the sudden Russia pull out in Syria, an act meant to win Saudi support for output cuts?

Now is not the time to sell, but we don't want to go long either. Production cuts have proved difficult in the past to verify and implement. Stay square.

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