Week 14

5th – 11th April 2016

Multi-asset fundamental strategies

John Lewis

SUMMARY

US Markets

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

UK Markets

+ SHORT STERLING	SQUARE
+ GILT	SQUARE
+ STERLING	SQUARE
+ FTSE	SQUARE

Euro Zone Markets

+ EURIBOR	SQUARE
+ BUND	BULLISH
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+ GOLD	SQUARE
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This week's global calendar

	Week of 4th April
Monday	US ISM NYK n/f US Factory orders -1.7% UK PMI Construction 54 EZ PPI -0.6m, -4.0y EZ Unemploym't rate 10.3% JP Labour cash earngs 0.2% JP PMI Services n/f
Tuesday	US Trade bal -%46.30B US ISM Non-mfg 54 UK PMI Services 53.8 UK BRC Shopprices n/f DM Factory orders 0.4m, 2.2y IT PMI Services 54.1 FR PMI Services 51.2 DM PMI Services 55.5 EZ PMI Services 54 EZ Retail sales 0.0m, 1.9y
Wednesday	US MBA Mrtge apps n/f US FOMC Minutes March 15-16 meeting DM Ind production -2.0m, 0.3y JP Tokyo office vacancies n/f

	Week of 4th April
Thursday	US Jobless claims 271k US Cons credit $15.00B US Yellen, Greenspan, Bernanke & Volker UK Halifax hse prces 0.9m, 9.4y UK Unit labour costs n/f EZ C/A n/f EZ ECB Minutes JP C/A Y2011.4B JP Trade Bal Y398.0B
Friday	US Wholesale trade invntry -0.3% UK Ind production 0.1m, -0.1y UK Mfg output -0.2m, -0.7y UK Trade bal -£10.100B UK Trade non-EU -£2.550B UK NIESR GDP Est 0.4 DM Trade Bal 18.0B DM C/A 16.5B JP Bankruptcies n/f JP Cons confidence 40.4 JP Eco watchers survey 48.5

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Last week's releases

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	Week of 28th March
Monday	US Persnl income 0.2% **STRONGER** US Persnl spndg 0.1% **AS** US Core PCE 0.1m, 1.75y **LESS** US Advce gds trade bal -$62.88B **WORSE** US Pndg home sales 3.5m, **STRONGER** JP Hosehld spndg 1.7m, 1.2y **STRONGER** JP Jobless rate 3.3% **MORE** JP Retail trade 0.5y **WEAKER** **THAN EXPECTED**
Tuesday	US Case/shiller comp-20 5.7y **LESS** US Cons confidence 96.2 **STRONGER** EZ M3 (y/y) 5.0% **AS** JP Sml bus confidence n/f JP Ind production -6.2m, **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -1.0% **BETTER** US ADP Employment chge 200K **STRONGER** UK GFK Cons confidence 0 **BETTER** EZ Ind confidence -4 **AS** EZ Services confidence 10 **LESS** EZ Cons confidence -10 **AS** DM CPI 0.8m, 0.3y **STRONGER** JP Vehicle production n/f **THAN EXPECTED**

	Week of 28th March
Thursday	US Jobless claims 276k **WORSE** US Chicago PMI 53.6 **STRONGER** UK Index of services 0.2m, 0.9(3m/3m) **MORE** UK Tot bus invstmnt -2.0q/q, 2.4y **AS** UK Mrtge approvals 73.1K **WEAKER** UK Net cons credit 1.3B **WEAKER** UK Net lndg on dwellings £3.60B **AS** UK Q4 GDP 0.6q, 2.1y **STRONGER** UK Q4 C/A -£32.7B **WORSE** DM Unemplym't rate 6.2% **AS** DM Unemploym't chge 0k **WORSE** DM Retail sales -0.4m, 5.4y **BETTER** EZ CPI Estimate -0.1y **AS** JP Construct'n orders -12.4% **BETTER** **THAN EXPECTED**
Friday	US Unemployment rate 5.0% **WORSE** US Non-farm payrolls 215k **STRONGER** US Avrge hourly earngs 0.3m, 2.3y **STRONGER** US Avrge wrk week 34.4 **WEAKER** US ISM Mfg 51.8 **STRONGER** US ISM Prices paid 51.5 **STRONGER** US Construct'n spndg -0.5m, **WEAKER** US U. of Michigan conf 91.0 **BETTER** UK Nat'nwide hse prces 0.8m, 5.7y **STRONGER** UK PMI Mfg 51.0 **LESS** IT PMI Mfg 53.5 **STRONGER** FR PMI Mfg 49.6 **AS** DM PMI Mfg 50.7 **MORE** EZ PMI Mfg 51.6 **MORE** JP Tankan Lge mfg 3 **WEAKER** JP Tankan non-mfg 17 **WEAKER** JP Tankan lrge all ind CAPEX -0.9 **WEAKER** JP PMI Mfg 49.1 **AS** JP Vehicle sales -3.2% **BETTER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's key release was non-farm payroll, would the strong job creation trend continue or was the economy cooling?

In the event the economy created a better than expected 215k of new jobs, but the unemployment rate edged up; perhaps workers re-entering the work force.

The other big number was the ISM Manufacturing report and after several months of flagging a potential slide into recession, this has now moved back above the crucial 50 mark, the economy is alive after all, but the Fed is cautious as evidenced by recent comments from Fed Chair Janet Yellen.

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; **Factory orders,**
- On Tuesday; **Trade balance and ISM non-manufacturing,**
- On Wednesday; **FOMC Minutes,**
- On Thursday; **Jobless claims and consumer credit, and**
- On Friday; **Wholesale inventories.**

The two key events this week are the ISM non-manufacturing survey and the FOMC minutes from the March meeting.

The FOMC minutes will grab the markets collective attention as traders are still eager to glean any clues about the Feds rate hiking intentions, but the ISM survey is a reliable measure of the economy's health, in all an interesting week ahead.

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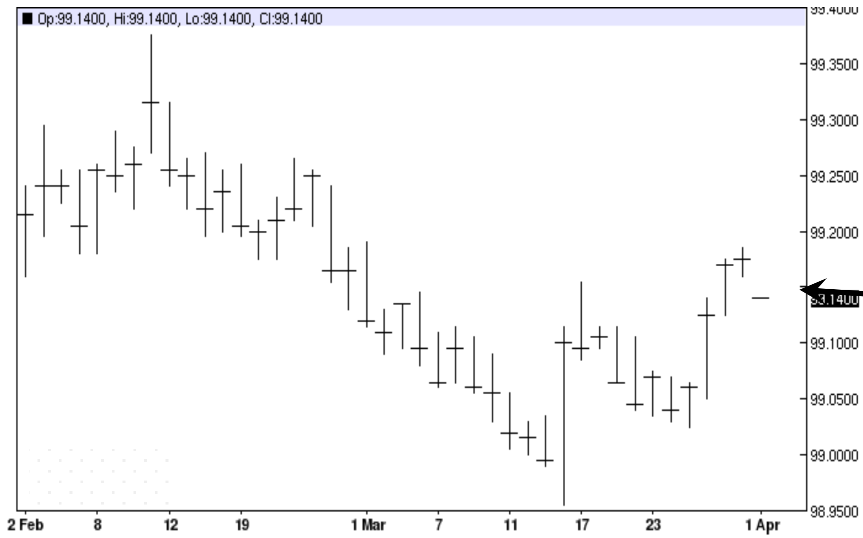
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars remains supported by recent dovish remarks from Fed officials.

The Macro Trader's view of Eurodollars is; last time our focus was Q4 GDP and like others were eager to see if there were further revisions, in the event the report was revised up further and then last week saw a stronger non-farm payroll and improved ISM manufacturing survey which all together pointed to an economy on a moderately firmer footing than previously feared.

Looking ahead the two key events this week are the ISM non-manufacturing survey and FOMC minutes.

Recent comments from Fed officials suggest the minutes will be dovish in tone so all eyes on the ISM survey.

A solid report would focus attention squarely on the Fed and its policy intentions.

We are staying square. After the Fed hiked in December data went sour, the Fed will likely want to see a trend of improving numbers before acting again and while that supports the market the next move will be up so a trading range for this market is the likely outcome.

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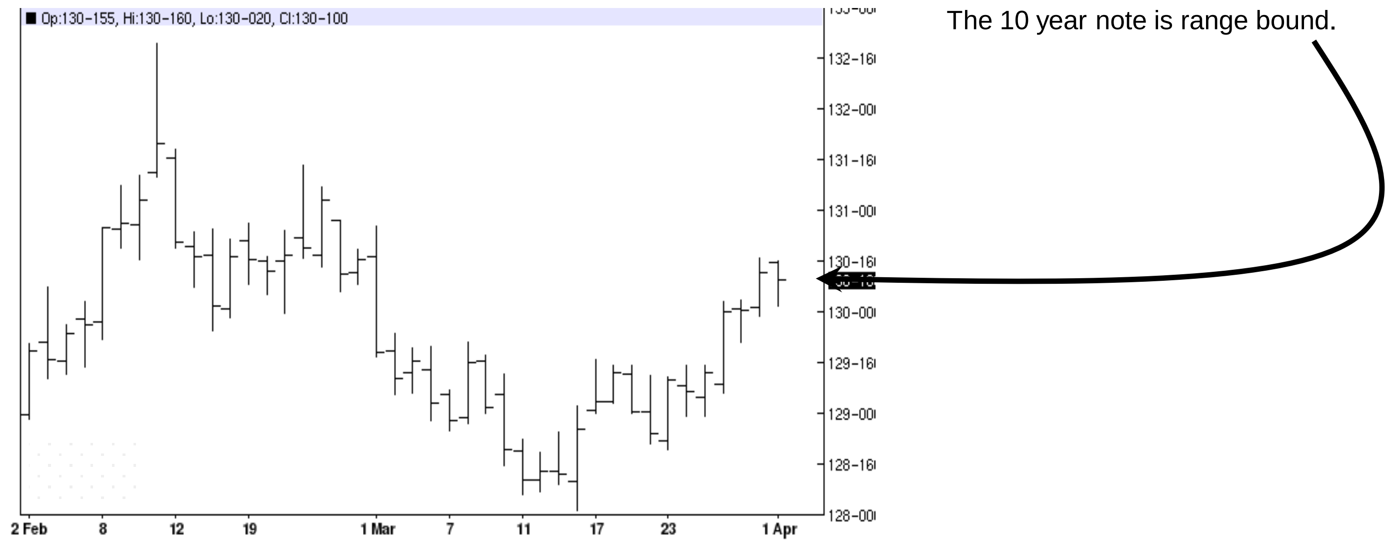
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The Macro Trader's view of the 10 year note is: recent data has indicated the economy was stronger than it appeared around the turn of the year, but with GDP at just 1.4% in the fourth quarter it is hardly a time for celebration and with inflation still tame and the global economy still fragile, bonds do not currently present as a sell.

Looking ahead the FOMC minutes are due, but recent Fed comments have most likely revealed their tone that leaves the ISM non-manufacturing survey.

A solid report would fuel speculation about when the Fed will hike, but the likely result is a moderate reading that confirms the economy is growing but at a slower pace than policy makers would like.

We are square.

Bonds do not strike us as either a strong sell or a buy.

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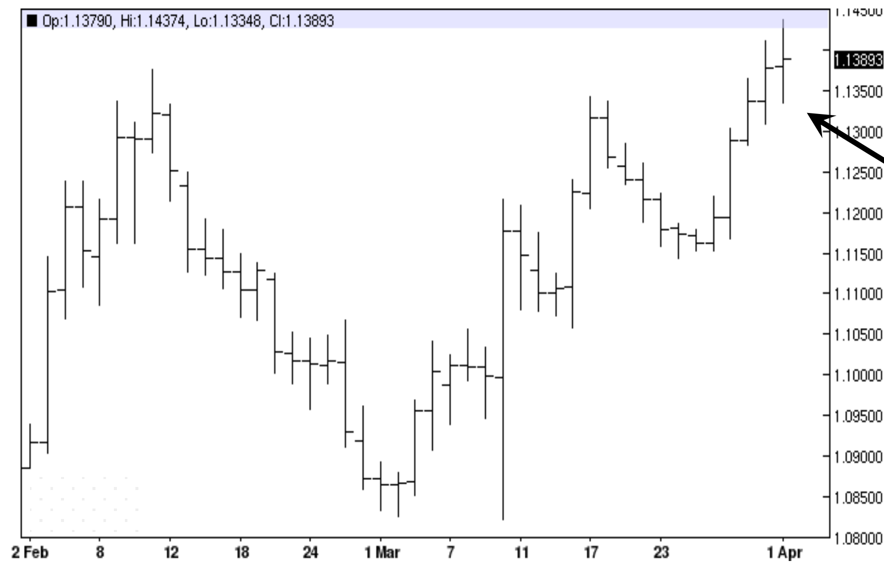
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square



The Dollar continues to suffer from the impact of dovish Fed comments.

The Macro Trader's view of the Dollar is; last week's price action was driven once again by dovish Fed comments that appear to have pushed the next rate hike somewhere into the depths of Q3.

And although the Euro zone doesn't stand out as an economic success story the lack of new bad news from there has placed the focus squarely on the US.

Last week's non-farm payroll report showed the economy still strong enough to create a respectable number of new jobs even though Q4 GDP was a modest 1.4%.

Looking ahead the ISM non-manufacturing survey is due and a solid number would help support the Dollar, but then there is the release of the March FOMC minutes! These are likely to be dovish in tone so more short term Dollar weakness looks likely.

We are staying square.

Although the Dollar is currently under pressure, if US data suddenly picks up that would quickly change.

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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 remains supported by the Fed's current dovish stance.

The Macro Trader's view of the S&P 500 is: last time we flagged Q4 GDP and an upward revision combined with a dovish Fed added support to this market.

Last week the combination of a solid non-farm payroll report and yet more dovish remarks from Yellen did the same.

Looking ahead can the event repeat; the FOMC minutes are due and a dovish tone will be supportive, additionally the ISM non-manufacturing survey is due, a solid report would also prove positive and then there are Q1 earnings reports.

We judge this market remains supported.

Traders should be long this market.

Our suggested target of 2045.0 was met.

Our current target is 2095.0 and our suggested stop is set at 2025.0 for closer protection.

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UK MARKETS: economic background

Last week's focus was Q4 GDP, were there any further revisions?

In the event there were, but unexpectedly the number was revised higher when there were fears of a downward revision, so at 2.1% the economic growth rate still looks in reasonable shape.

Add in the still low inflation rate as evidenced by the previous week's CPI report and the economic mix remains benign.

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; **PMI Construction survey,**
- On Tuesday; **PMI Services survey and BRC Shop prices,**
- On Thursday; **Halifax house prices, and**
- On Friday; **Industrial production, manufacturing output, trade balance and NIESR GDP estimate.**

There are several key releases due this week with the PMI Services report the main event, but with the future of the UK Steel industry hanging in the balance, the industrial production report will attract greater attention than usual.

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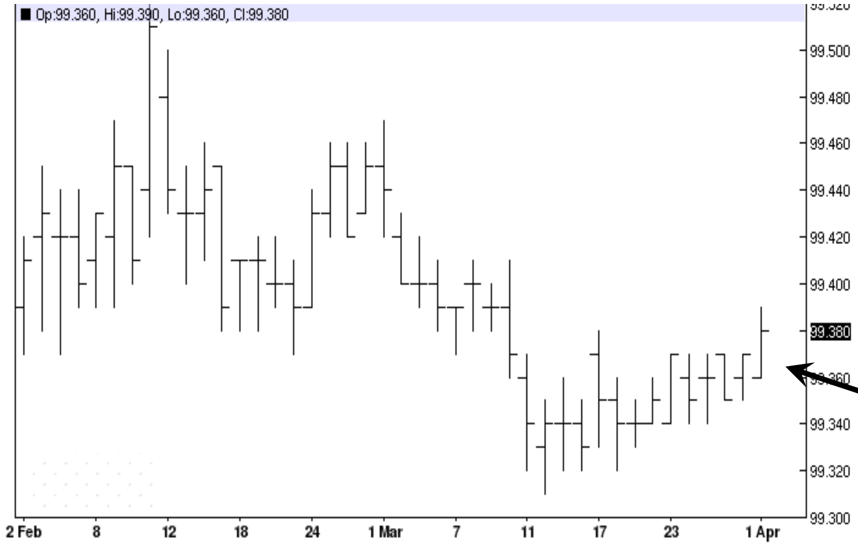
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling continues to reflect the reality of a further period of unchanged interest rates.

The Macro Trader's view of Short Sterling is: last week's price action further reflected the reality that UK interest rates would not be moving in either direction any time soon.

After much angst about the recent cooling of the economy the recent Q4 GDP report was revised up from 1.9% to a more healthy 2.1% and with inflation still exceptionally low the benign mix argues for rates to be left where they are.

Looking ahead the PMI Services survey is due, the number has been weakening over recent months, will it buck the trend?

We are staying square here we see little to argue in favour of either a Bull or Bear trade.

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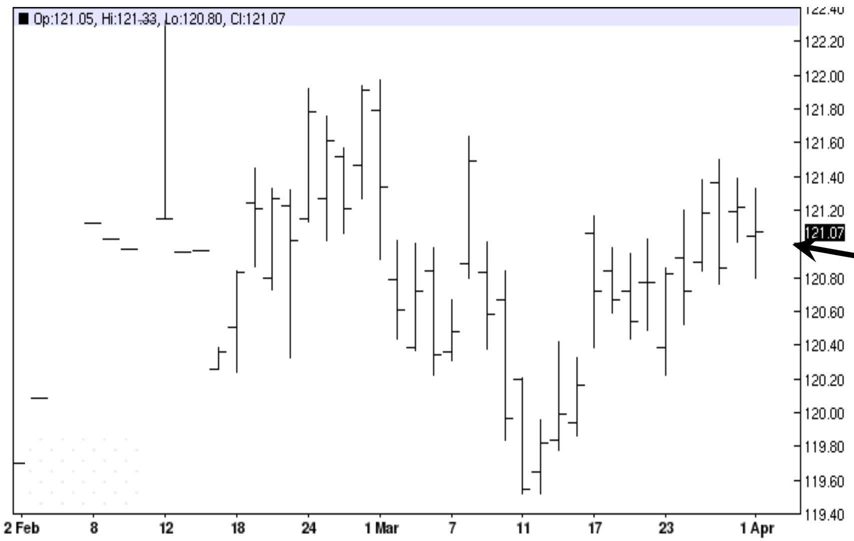
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Gilt.



See how the Gilt is range bound.

The looming BREXIT vote weighs on Sterling but not the Gilt.

The Macro Trader's view of the Gilt is; last time we focussed on retail sales and CPI. Retail sales was better than expected and CPI slightly weaker than expected add in last week's upwardly revised Q4 GDP report and the economic fundamentals look benign to say the least.

Looking ahead the key release this week is the PMI Services survey. This number has been cooling over recent month's will that trend continue or will there be a gradual improvement.

In any event the current mix of data does not present a case for selling the Gilt. But as the BREXIT vote moves ever closer investors might get a little nervous.

We are remaining square. Our target for the Gilt was recently met and further range trading is the most likely outcome short/medium term.

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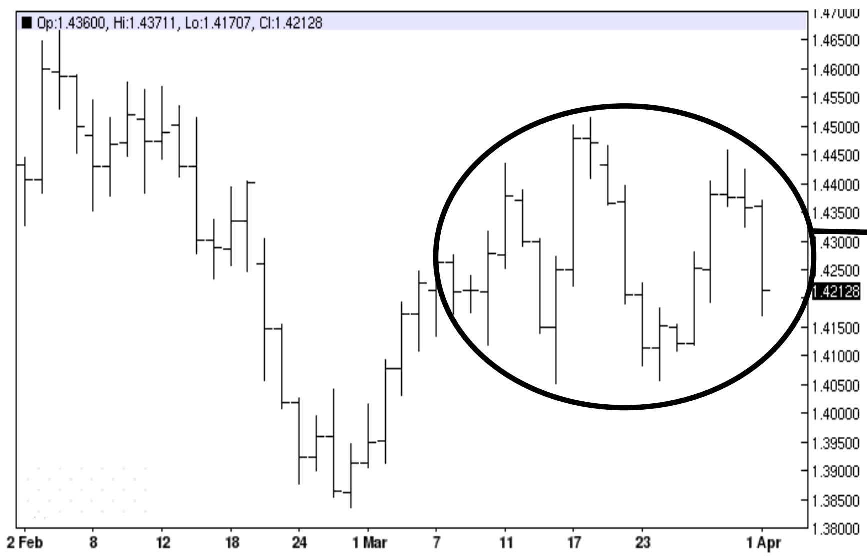
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling continues to range trade against an enfeebled Dollar.

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

…"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?"…

In the event retail sales was stronger than expected, the CPI report was weaker, IDS's resignation is now history and last week saw the Q4 GDP report revised higher, but BREXIT still weighs and if it wasn't for the fact that the Fed continues to make dovish noises the Pound might be lower against the Dollar.

Looking ahead the PMI Services survey is due, but unless materially different to consensus we judge the looming BREXIT vote will be the main dynamic affecting the Pound.

We are square of Sterling.

Brexit aside there is no case for a weaker Pound and we do not expect the UK to vote to leave the EU.

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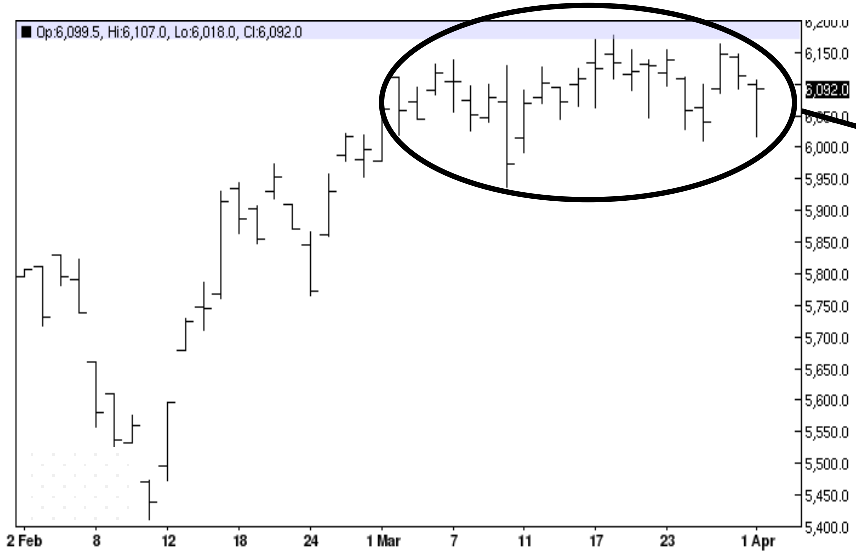
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE looks capped around the highs.

The Macro Trader's view of the FTSE is; unlike S&P the FTSE seems to have run up against a brick wall.

In the US a growth rate inferior to the UK's combined with a dovish Fed seems enough to keep a rally in the S&P alive, not so in the UK where Q4 GDP was revised up to a respectable 2.1% last week and inflation remains low at just 0.3%y/y.

But then there is the "BREXIT" vote. Traders and investors are concerned about the impact a vote to leave the EU will have on the UK even though the most likely result still looks like a vote to remain.

Looking ahead the PMI Services report is due and an in line or slightly firmer report would help Sterling. Add in the release on Wednesday in the US of the FOMC minutes which are expected to be Dovish and equity markets should respond well, but we are cautious about the drag BREXIT will likely exert on the FTSE meaning the market will likely struggle to break above the current highs.

For now we are staying square.

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EURO ZONE MARKETS: economic background

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

In the event they were broadly better than expected, in line with the previous week's better than expected Euro zone PMI Composite survey.

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 PPI and unemployment rate,**
- On Tuesday; **German factory orders, PMI Services, Italian, French and Euro zone PMI Services and Euro zone retail sales,**
- On Wednesday; **German Industrial production,**
- On Thursday; **Euro zone C/A and ECB minutes, and**
- On Friday; **German trade and C/A balances.**

The main event this week is the various Euro zone PMI Services surveys, but German factory orders and Industrial production are due too, giving traders plenty to consider.

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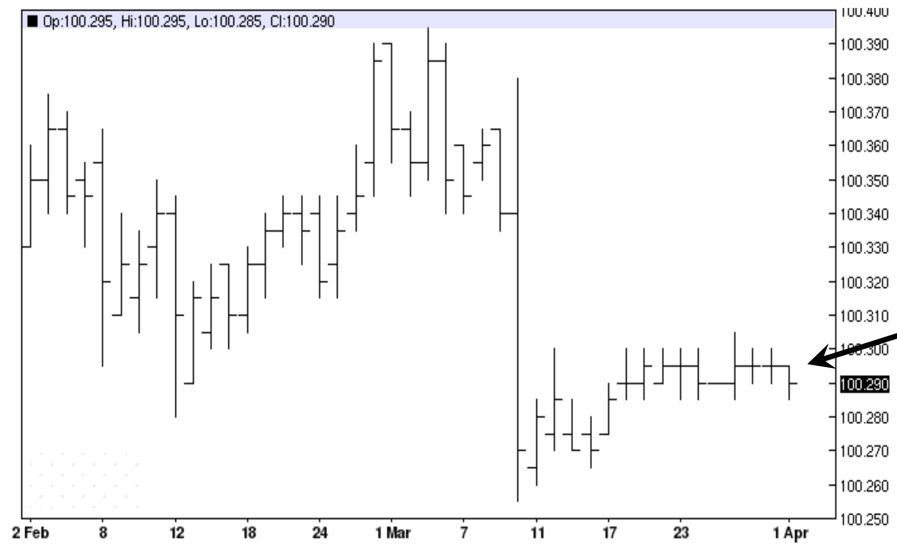
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor looks marooned at the bottom of a trading range.

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

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

In the event the survey was slightly better than expected supporting the view of a slowly building recovery, and last week's various Euro zone PMI Manufacturing surveys underscored that view.

Looking ahead the PMI Services reports are due, will they show the recovery solidifying or will German industrial production data tell a different story?

We are staying square.

We see little for either the Bulls or Bears right now since the ECB will sit back and evaluate its recent additional ease.

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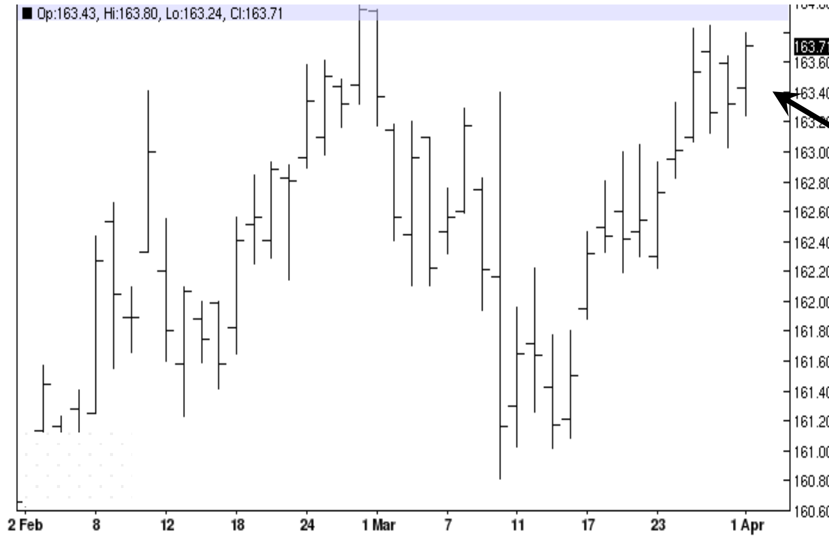
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BULLISH.

Last week we were Square of The Bund.



The Bund for all of its recent volatility still presents as a Bull market.

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

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

In the event the number was better than expected but only slightly and although last week's PMI Manufacturing surveys were broadly better than expected, the Euro zone economy is still struggling for traction and when viewed along side Japan, the US and China, no wonder the Fed has become more dovish and the Bund resuming the rally.

Looking ahead the PMI Services surveys for the major Euro zone economies are due, they are likely to confirm the tepid nature of the recovery and if as we expected the US FOMC minutes due on Wednesday echo recent dovish Fed remarks, the Bund should rally further.

Traders should be long the Bund.

Our target is 165.25 and our suggested stop set at 162.15 for protection.

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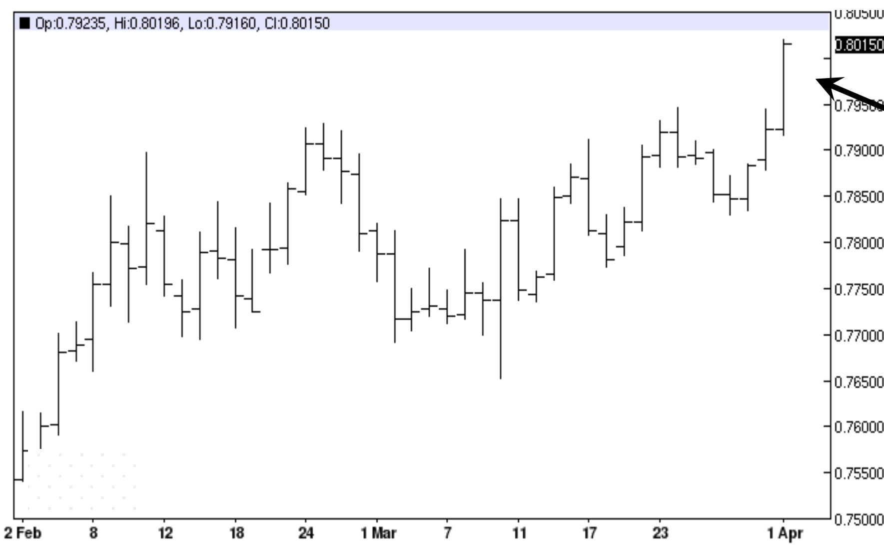
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



The Euro remains supported against both the Dollar and Sterling for different reasons.

The Macro Trader's view of the Euro; recent price action has clearly favoured the Euro against both the Dollar and the Pound, but for different reasons.

Against the Dollar the recently Dovish tones from the Fed has led traders to re-evaluate the likely path of future US rate hikes and that has weakened the Dollar.

Against the Pound the story is based on the unknown; "BREXIT" is starting to loom large and an out vote has implications not just for the UK but the EU too but traders feel safer in the Euro hence Sterling's decline.

We expect the UK to vote to stay in the EU, resulting in a Sterling rally and while the vote is still just over two months away, sentiment could change if opinion polls showed a solid lead holding for the remain camp.

Looking ahead PMI Services surveys due, but we doubt they will have too much impact on the Euro until traders fret less about the caution of the Fed and fears about "BREXIT".

For now stay square. The Euro zone's own fundamentals are not Bullish for the Euro when external factors are stripped away.

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+ YEN
+ NIKKEI

Commodities
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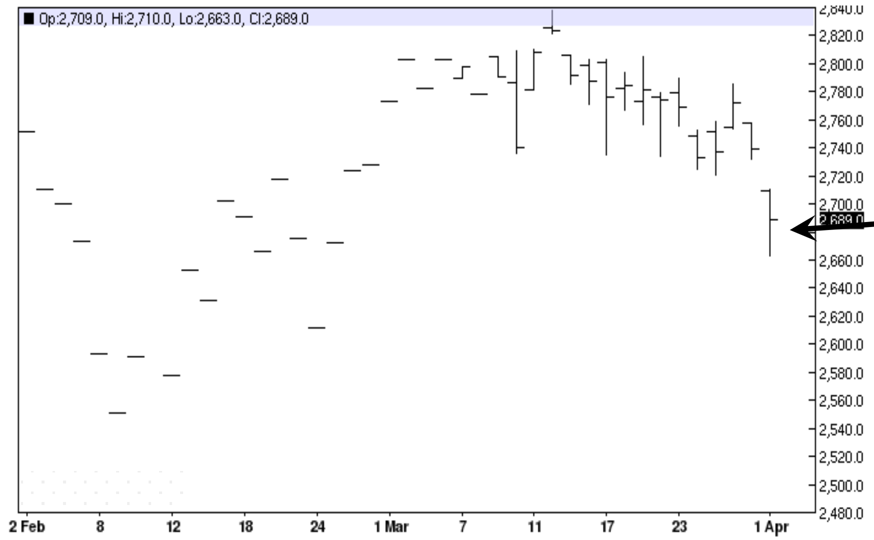
Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market has failed to keep pace with the S&P or even the FTSE!

The Macro Trader's view of DJ Euro Stoxx 50 is:
recent price action has shown this market struggling to match the pace of the S&P or even the FTSE.

In the US growth is an anaemic 1.4% annualised, but the Fed has turned dovish, in the UK growth is a little more robust at 2.1%, but there are concerns about the looming BREXIT vote.

In the Euro zone activity has improved, but not a lot and the ECB is still actively pursuing a QE program that hasn't yet born sufficient fruit.

Looking ahead the key release this week is the various Euro zone PMI Services surveys, will they send this market higher? Only if materially better than expected and the FOMC minutes echo recent dovish remarks from Fed policy makers.

For now we are staying square here the S&P remains a better bet.

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JAPANESE MARKETS: economic background

Last week's focus was divided between the TANKAN report and industrial production.

Sadly both fell short of consensus, and with the PMI Manufacturing survey stuck at 49.1 the outlook for Japan's economy shows few signs of improvement.

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 Services survey,**
- On Wednesday; **Tokyo office vacancies,**
- On Thursday; **Trade data and C/A, and**
- On Friday; **Consumer confidence and Eco watchers survey.**

The key release this week is the PMI Services survey, will it show improvement; we are not hopeful!

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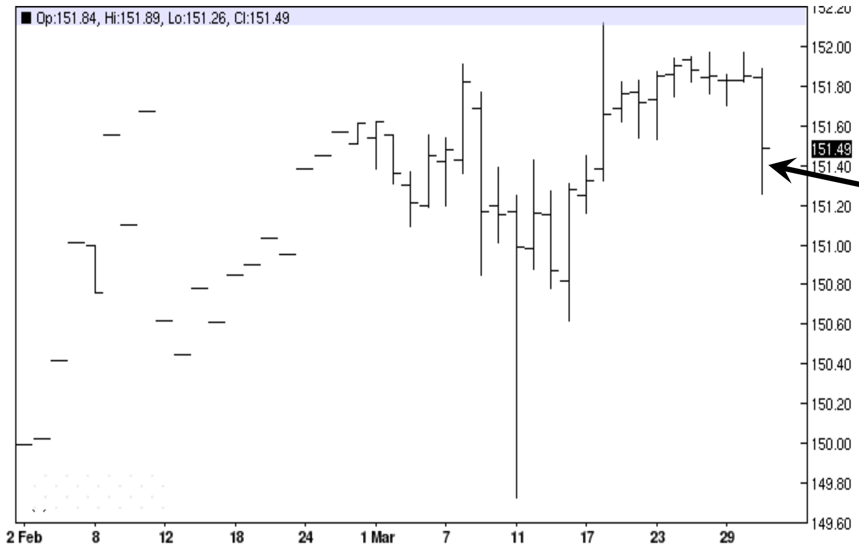
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of Japanese Bonds.



The JGB stumbled under the weight of disappointing data.

The Macro Trader's view of the JGB is: Last week's price action saw a sell off despite weaker data?

Looking ahead the key release this week is the PMI Services survey can it show signs of improvement; probably not.

After several years of the current economic and monetary policy mix the authorities are yet to find a policy formulae that can turn Japan's once dynamic economy around.

We are staying square.

The JGB seems burdened by the weight of disappointing data.

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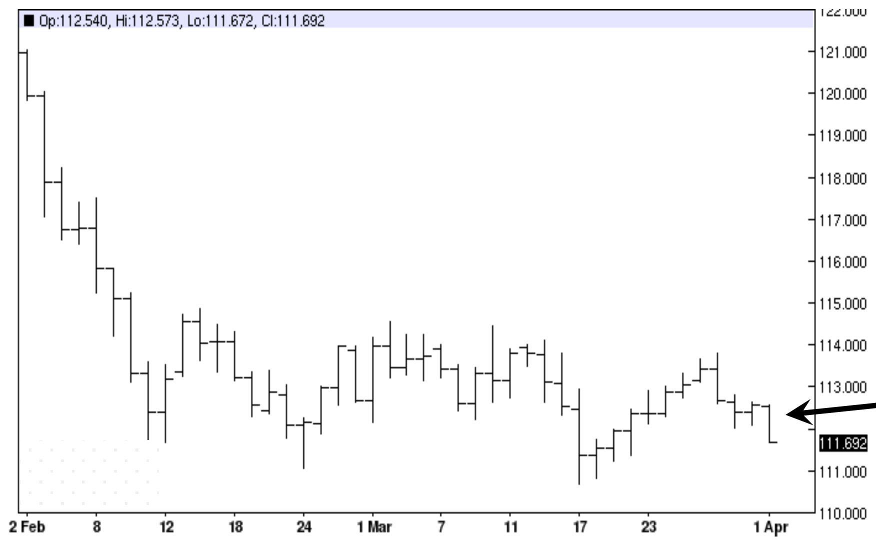
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen is in a trading range despite recent Dollar weakness.

The Macro Trader's view of the Yen is; last week's price action showed Dollar Yen remains in a clearly defined trading range.

And although Japan has her own problems so too does the Euro zone, but that hasn't stopped the Euro rallying against the Dollar, why not the Yen given the recent Dovish tones of the Fed?

The likely answer is traders see the ECB in the middle of a policy response that hasn't yet run its course but showing some slim results, where as Japan has thrown almost every policy tool it has at the economy and still it struggles.

Looking ahead PMI services are due in Japan, ISM non-manufacturing due in the US together with FOMC March minutes, but we judge the Dollar/Yen pair will react little. The authorities do not want the Yen to strengthen further.

For now we are square.

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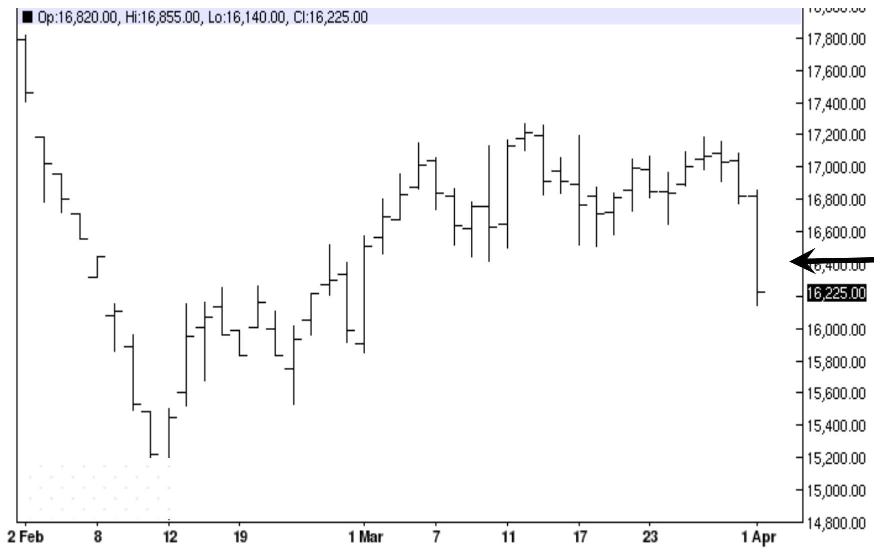
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei much like the DJEUROSTOXX50 fails to follow the S&P and so it shouldn't on domestic fundamentals.

The Macro Trader's view of the Nikkei is; last week's price action showed this market together with the DJEUROSTOXX50 are the laggards of the equity market world when compared to the S&P and even the FTSE.

Although US GDP is a cool 1.4%, the Fed has retreated from its intention of raising rates 4 times this year and said it will hike twice, but given on going concerns about the global economy and the current tepid US growth rate that might prove too ambitious, compare then to the Bank of Japan! It has eased and eased again, the government has invested in infrastructure etc. but still the economy and inflation doesn't respond; could demographics be the underlying problem in Japan?

For now we are staying square here the economy is struggling and the BOJ is dragging its heals.

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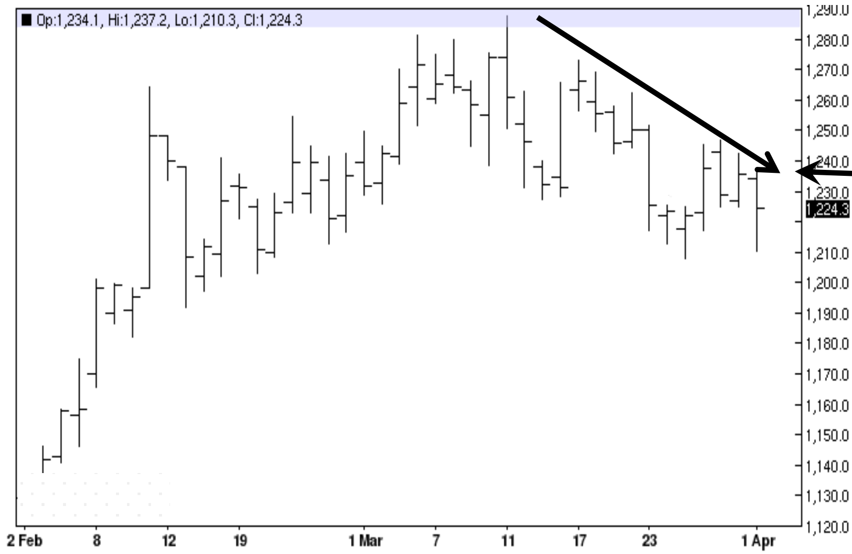
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold has retreated from the highs even as the Dollar has weakened.

The Macro Trader's view of the Gold is: despite a weakening Dollar, Gold has traded lower?

The Global economy has made little or no improvement in recent weeks, save for a slightly more Bullish tone about Chinas economy, but Gold has failed to build on a rally that initially showed some promise for the Bulls.

The problem for Gold is it needs a crisis to justify a long position. As the ultimate hedge it is beyond the policy reach of any Central Bank or Government, but it offers no dividend, interest payment of other income, it only rewards when in a solid bull market, meaning, no sustained rally makes holding a long position expensive.

Has the rally in Gold failed?

That depends on economic developments in the coming weeks and months in the US, China and the Euro zone.

Should the US economy fail to regain traction over the summer forcing the Fed into a reversal, the Euro zone economy fail to respond to ECB medicine and China discover that over investment is no replacement for real demand, then perhaps Gold will rally, but that combination isn't currently the most likely outcome, at least as far as market sentiment is concerned.

For now stay square.

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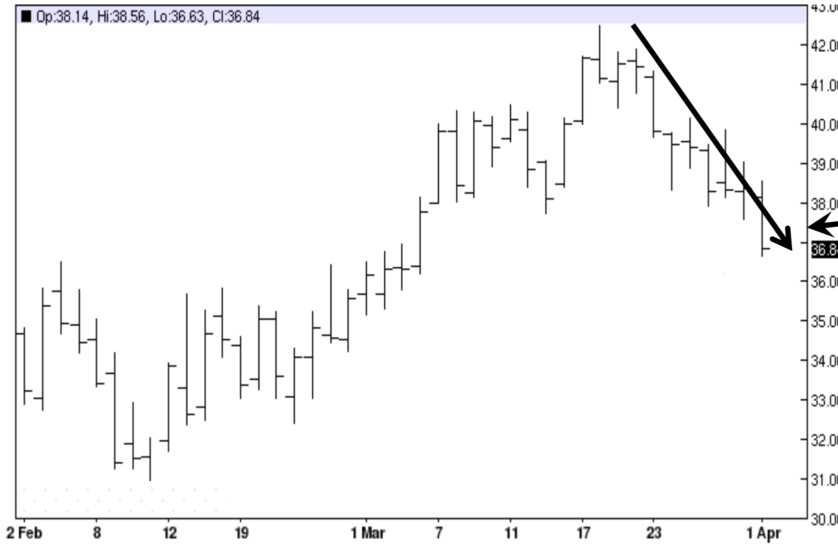
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil has succumbed once more to the global glut.

The Macro Trader's view of oil is: the market rally has faltered over recent weeks despite a looming meeting when it is expected that the major oil producers, both OPEC and non-OPEC will agree to cut production, but one very important player wont be cutting and that is Iran.

In fact she is intent on a significant production increase, will the others be prepared to not only cut below current output levels, but act to off set Iran's production increase?

We judge probably not.

Add in the significant oil glut and the fact that if oil prices did rise US shale drops back into the equation and a sustained rally looks like wishful thinking.

But will the market revisit the lows or even go lower?

We think it can, but we want to see the results of the producers meeting first, so for now say square..

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