Week 24

14th – 20th June 2016

Multi-asset fundamental strategies

John Lewis

SEVEN DAYS AHEAD

SUMMARY

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Global Calendar

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+ S&P 500	BULLISH

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+ GILT	BULLISH
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+ FTSE	SQUARE

Euro Zone Markets

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+ DJ EURO STOXX 50	SQUARE

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This week's global calendar

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	Week of 13th June
Monday	JP BSI Lrge All industry n/f JP BSI Lrge Mfg n/f
Tuesday	US NFIB Sml Bus optimism 93.6 US Retail sales 0.3% US RS Ex-Autos 0.4% US Import prices 0.8m, US Business invntry 0.2% UK CPI 0.3m, 0.4y UK RPI 0.3m, 1.4y UK RPI-X 1.4y UK PPI Input 0.9m, -5.0y UK PPI Output 0.3m, -0.4y UK PPI Core 0.1m, 0.6y UK DCLG Hse prices n/f EZ Ind production 0.7m, 1.3y EZ Q1 Employm't n/f JP Industrial product'n n/f JP Capacity utilisation n/f
Wednesday	US MBA Mrtge apps n/f US PPI 0.4m, -0.1y US PPI Ex –f&e 0.1m, 1.0y US Empire mfg -4.95 US Industrial product'n -0.2% US Capacity utilisation 75.2% US FOMC Rate decision 0.50% UK Unemploym't rate 2.1% UK Unemploym't chge n/f UK ILO Rate 5.1% UK Averge earnings 1.7% UK Averge earnings Ex-bonus 2.1% EZ Trade Bal n/f JP Tokyo Condo sales n/f JP Machine tool orders n/f JP BOJ Policy decision

	Week of 13th June
Thursday	US Jobless claims 268k US CPI 0.3m, 1.1y US CPI Ex –f&e 0.2m, 2.2y US Q1 C/A Bal -$125.0B US Philly Fed 2 US NAHB Housing mkt indx 59 UK Retail sales 0.3m, 4.0y UK BOE Rate decision 0.50% UK BOE AP Target 375B EZ CPI 0.3m, -0.1y JP Tokyo dept stre sales n/f JP Nat'nal dept stre sales n/f
Friday	US Housing strts 1160k US Building permits 1150k EZ C/A n/f EZ Labour costs n/f

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Last week's releases

	Week of 6th June
Monday	US Yellen speaks in Philadelphia UK BRC Sales 0.5% **BETTER** DM Factory orders -2.0m, -0.5y **WEAKER** **THAN EXPECTED**
Tuesday	US Q1 Non-farm prductvty -0.6% **AS** US Q1 Unit labour costs 4.5% **STRONGER** US Consumer CR $13.416B **WEAKER** UK Halifax hse prces 0.6m, 9.2(3m/y) **BETTER** DM Ind production 0.8m, 1.2y **STRONGER** EZ Q1 GDP 0.6q, 1.7y **STRONGER** JP C/A 1878.5B **WEAKER** JP Trade Bal 697.1B **WEAKER** JP Q1 GDP 0.5q, 1.9(A) **LESS** JP Bank Indg 2.2% **AS** JP Eco watchers survey 43.0 **LESS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 9.3% **STRONGER** UK Ind production 2.0m, 1.6y **STRONGER** UK Mfg output 2.3m, 0.8y **STRONGER** UK NIESR GDP Estimate 0.5% **BETTER** UK RICS Hse prices 19 **WEAKER** JP Bankruptcies -7.32% **BETTER** JP Machine orders -11.0m, -8.2y **WORSE** JP Tokyo office vacancies 4.05 **LESS** **THAN EXPECTED**

	Week of 6th June
Thursday	US Jobless claims 264K **BETTER** US Wholesale inventories 0.6% **STRONGER** UK Trade Bal -10.526B **BETTER** UK Trade Non EU -2.602B **BETTER** DM Trade bal 25.6B **STRONGER** DM C/A 28.8B **STRONGER** JP Machine tool orders -25.0%y **BETTER** JP Dmstic corp gds prices 0.2m, -4.2y **AS** JP PPI 0.2m, -4.2y **MORE** **THAN EXPECTED**
Friday	US U. of Michigan confidence 94.3 **BETTER** US Mthly bdgt statement -$52.5B **BETTER** UK Construct'n output 2.5m, -3.7y **BETTER** DM CPI 0.3m, 0.1y **AS** DM WPI 0.9m, -2.3y **STRONGER** JP Tertiary industry indx 1.4% **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was Janet Yellen and her speech in Philadelphia when we asked the question…. "Will she talk monetary policy and will she address the surprise slowdown of job growth, meaning she should re-adopt the Fed's more dovish tones of a few weeks earlier"…

In the event that was the outcome, she said monetary policy is currently appropriate, meaning no rate hike 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 Tuesday; **Retail sales, NFIB small business optimism, import prices and business inventories,**
- On Wednesday; **PPI, Empire manufacturing, industrial production, capacity utilisation and FOMC policy decision,**
- On Thursday; **Jobless claims, CPI, Q1 C/A, Philly Fed and NAHB Housing market index, and**
- on Friday; **Housing starts and building permits.**

The key event this week is The FOMC policy decision. Although there are several other key data releases, we judge the FOMC decision will drive markets going forward.

After Yellen's remarks last week we expect a similar dovish tone.

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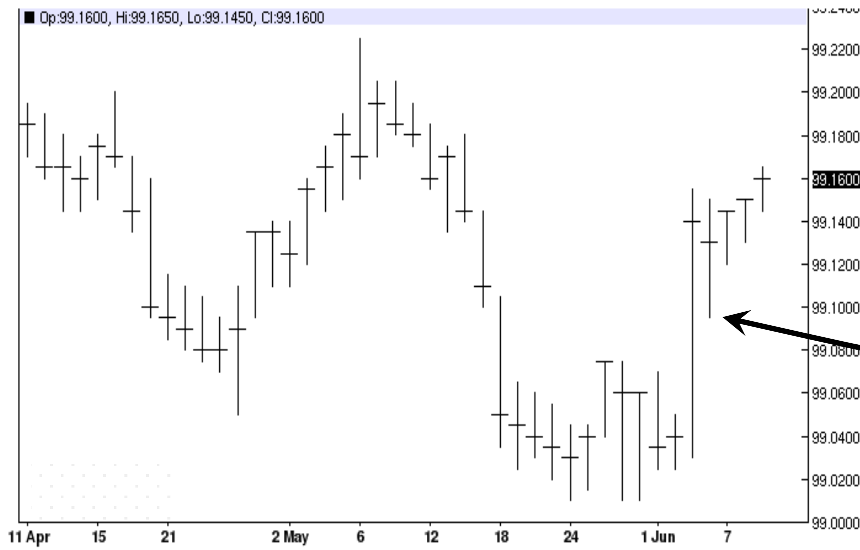
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars rallied after Yellen said policy was appropriate.

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

…"Looking ahead the key event this week is Yellen's speech in Philadelphia. Traders will be seeking guidance on where the Fed goes from here; hopefully no where fast!"…

In the event that was the message when Yellen declared policy is appropriate.

Looking ahead the main event this week is the FOMC policy decision, we judge the Fed will adopt the tone displayed last week by Janet Yellen.

For now we are square.

The Fed has adopted a wait and see stance.

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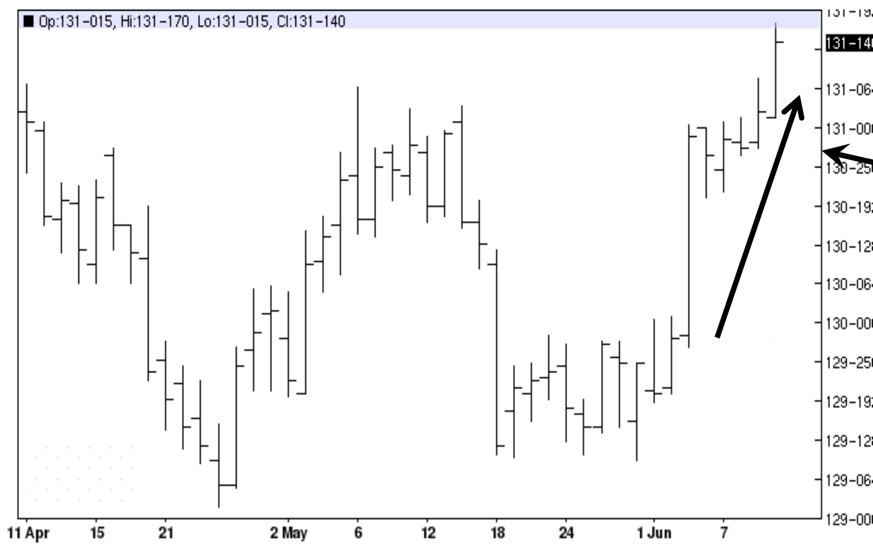
US MARKETS: 10 Year Note

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the 10 year note.



The 10 year note rallied hard last week on economic concerns.

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

…"Looking ahead the key event this week is today's speech in Philadelphia from Fed Chair Yellen, will she offer a more dovish tone? She should!"…

In the event she did and the market rallied, helped by growing angst about the health of the US and global economy.

Looking ahead the main event this week is the FOMC policy decision and given that data hasn't picked up during the last week, the Fed's tone looks set to mirror that of Janet Yellen's speech delivered last Monday in Philadelphia; namely dovish!

We are Bullish of this market. Clearly the economy is more fragile than the Fed was prepared to accept until just recently.

Traders should be long this market.

Our suggested target remains 132.10 and our suggested stop continues at 129.05 for protection.

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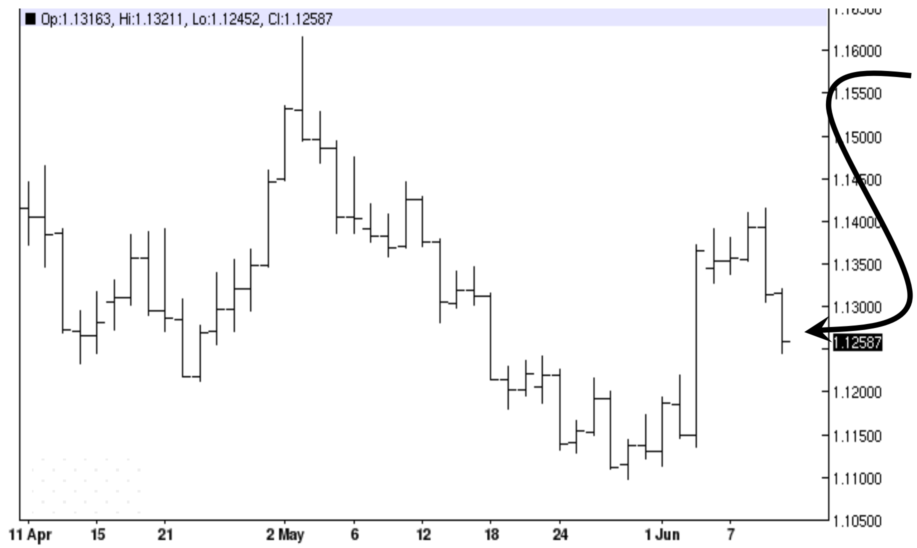
US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v the YEN.

Last week we were Bearish v the Yen



The Dollar remains range bound against the Euro but weaker against the Yen.

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

…"Looking ahead we judge what Janet Yellen has to say today in Philadelphia could prove important for the Dollar short/medium term"…

In the event her tone was one of renewed dovishness as she said policy was appropriate.

Looking ahead the stand out event this week is the FOMC policy decision, unchanged is now universally expected, but the policy statement will be important to see the Fed's take on the current state of the economy.

We are Bearish Dollar/Yen.

Traders should be Long the Yen short the Dollar.

Our suggested target is 105.25 and our suggested stop is placed at 109.50 for protection.

There is a risk of Bank of Japan intervention but we think it a risk worth taking.

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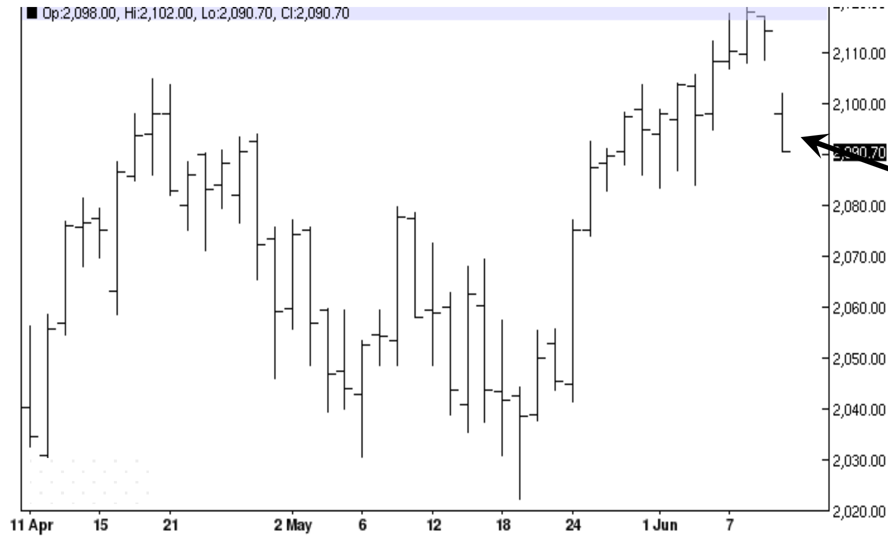
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P sold off on Friday as anxiety swept through markets.

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

…"Looking ahead the market will likely get a steer from Yellen's speech in Philadelphia later today"…

In the event Yellen made it clear policy was appropriate and traders seemed happy to move the market higher, but the tone changed on Friday when traders became much more anxious about the economic outlook both globally and in the US, a loss of confidence that coincided with an opinion poll showing the UK moving towards the EU exit which only adds yet more uncertainty to the economic outlook globally.

Looking ahead the stand out event this week is the FOMC policy decision. We know the Fed, through Yellen's speech last week sees policy as appropriate, but what we want to know is how the Fed sees the economy moving forward.

We are still bullish of this market, as we think the Fed's policy statement could very well calm nerves.

Our suggested target remains 2150.0 and our suggested stop continues at 2058.0 for protection..

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UK MARKETS: economic background

Last week's focus was the NIESR GDP estimate. The economy has been cooling throughout the year and traders were keen to see if the situation had further deteriorated.

In the event NIESR estimate GDP at 0.5% over the last three month period, better than expected, additionally industrial production came in much stronger than expected, so too did manufacturing out put, there was an improvement in construction and the weaker Pound helped the trade data improve, in all a better than expected week for data.

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 Tuesday; **CPI, RPI, PPI and DCLG House prices,**
- On Wednesday; **unemployment and average earnings, and**
- On Thursday; **Retail sales and Ban of England policy decisions.**

There are three key events this week; CPI, Retail sales and the BOE policy decision.

The Bank will not alter policy this side of the referendum vote, inflation remains benign, so all eyes on retail sales.

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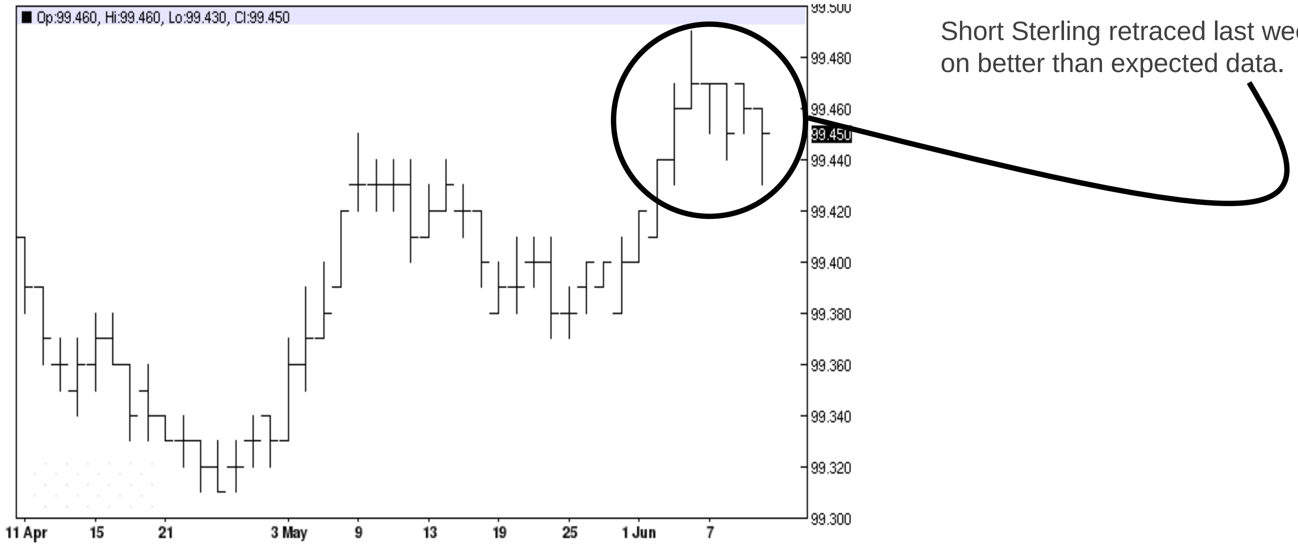
UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Short Sterling.



Short Sterling retraced last week on better than expected data.

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

…"Looking ahead Wednesday's data releases stand out espicially the NIESR GDP estimate"…

In the event pleasant surprises all round for a change as most data releases, including the NIESR GDP estimate beat consensus.

Looking ahead CPI, Retail sales and the BOE policy decisions are all due with retail sales the main event.

The market retraced last week on better than expected data, but next week's referendum vote eclipses all else and a vote to leave the EU will likely prompt a rate cut.

Traders should remain long DEC16 Short Sterling. We judge a rate cut remains a possibility even if the vote is to remain in the EU and that isn't a certainty. But either way, should the economy weaken too much further it will need a lift from policy.

Our suggested target continues at 99.51 and our suggested stop remains set at 99.32 for protection.

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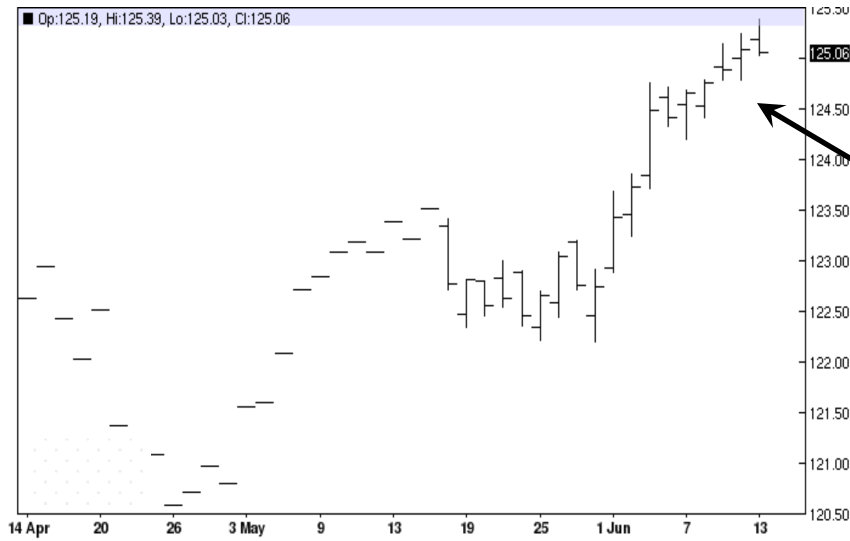
UK MARKETS: Gilt

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Gilt.



See how the Gilt extended the rally as traders bought bonds on fears of a UK exit from the EU.

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

…"Looking ahead all eyes on Wednesday's data, As the referendum vote draws ever closer the gap between leave and stay is narrowing and a period of economic weakness could be just around the corner"…

In the event last week's data was better than expected, but the leave campaign has consolidated a lead in the opinion polls.

Looking ahead retail sale is the key release this week, but traders will remain driven by the growing possibility the UK may leave the EU.

We are bullish the Gilt. If the vote is to leave the EU, the Bank will have to act and a small rate cut will likely prove insufficient, meaning an increase in the AP target might be required.

Traders should be long the Gilt. Our suggested target is now 126.05 and our suggested stop is set at 123.60 for protection in the Sept 16 contract.

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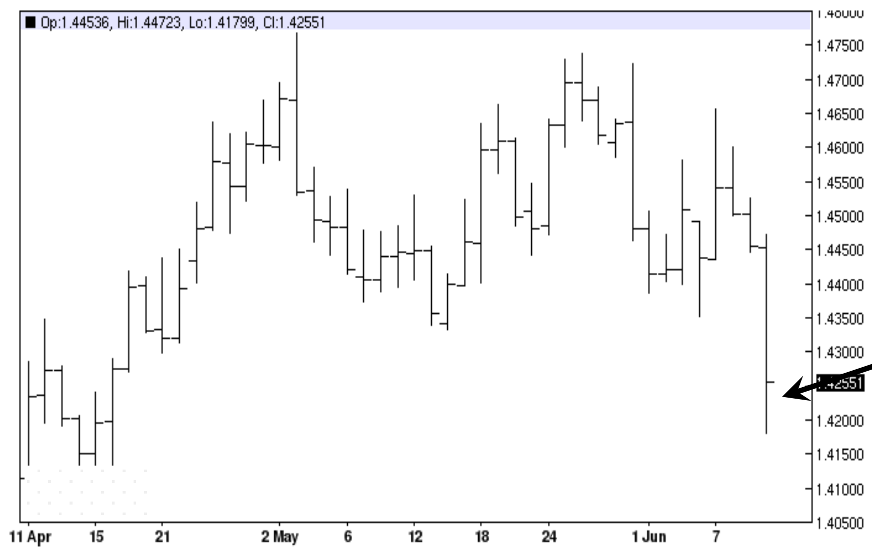
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling see how the Pound sold off as a poll showed a lead for the leave campaign.

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

…"Looking ahead several key data releases due on Wednesday, but as the time to decide on the UK's place in or out of the EU draws ever closer, the Pound will trade off swings in opinion polls"…

In the event that was the case. Last week's data was generally better than expected which ordinarily would be currency bullish, but these are not ordinary times and a growing lead in opinion polls for the leave campaign sent Sterling sharply lower.

Looking ahead several important data releases due this week as detailed on the calendar, but the Pound will be driven by swings in opinion polls as they predict the outcome of the looming "BREXIT" vote, which currently has the leave campaign in the lead.

We are remaining square of Sterling amid the current level of uncertainty. But if the vote on June 23rd results in a win for the remain camp, Sterling should rally, but the outcome could go either way and a vote to leave would see a very steep sell off.

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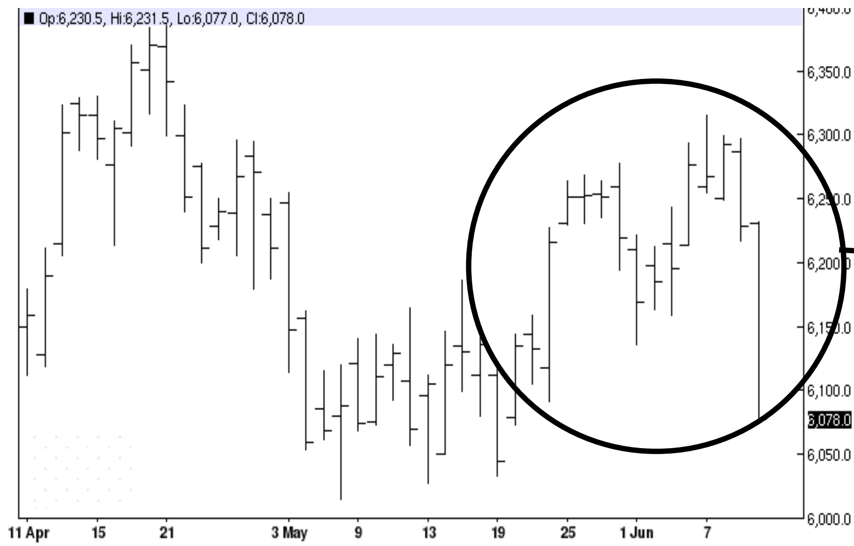
UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE gave back all of its recent gains on fears the UK will vote to leave the EU.

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

…"Looking ahead several important data releases due, but ahead of the referendum vote on 23rd June, this market is moving in concert with other global equity markets, driven by US sentiment and traders seem relaxed about weak US data as it means no rate hike in the short/medium term"…

That analysis held good until Thursday, after Monday's speech from Yellen set the scene for a further period of unchanged US policy, but an opinion poll released on Friday changed all of that as it showed the leave campaign with a solid lead and made traders nervous the UK might actually vote to leave the EU after all!

Looking ahead several important data releases due; CPI, PPI, Unemployment and Retail sales, but with just over a week to go until the referendum vote the market will trade on any news that points to one side or other gaining ground.

For now we are staying square.

The referendum is too close to call. Currently the leave campaign has a lead, but with many still undecided it could go either way and as a result so too could the FTSE.

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EURO ZONE MARKETS: economic background

Last week's focus was the German industrial production report.

In the event it was stronger than expected, even though factory orders were weaker than forecast.

Looking ahead there are several key reports due which are detailed on the global calendar, but we judge these are the week's **key** releases:

- On Tuesday; **Euro zone industrial production,**
- On Wednesday; **Euro zone trade balance,**
- On Thursday; **Euro zone CPI, and**
- On Friday; **Euro zone C/A and labour costs.**

The key release this week is Euro zone industrial production.

After last week's stronger German report a solid Euro zone report is anticipated, but markets are likely to be nervous in the run in to next week's UK referendum.

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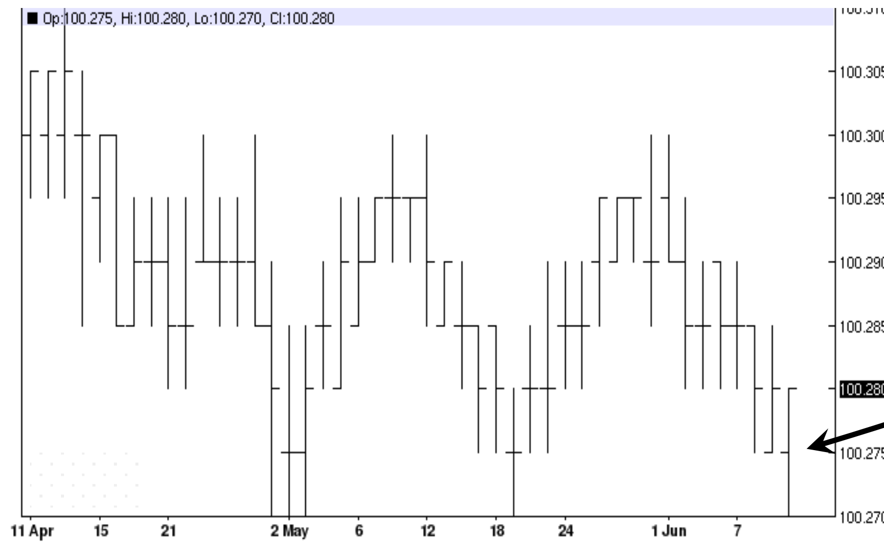
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor remains in a clear trading range.

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

…"Looking ahead German industrial production and Euro zone Q1 GDP are due, but this market is stuck in a trading range"…

In the event stronger data, but the market remains range bound.

Looking ahead Euro zone industrial production is due, but unlikely to jolt this market out of the trading range.

We are staying square.

We see little for either the Bulls or Bears right now as evidenced by the markets price action. The ECB will not move policy for some while yet, if at all.

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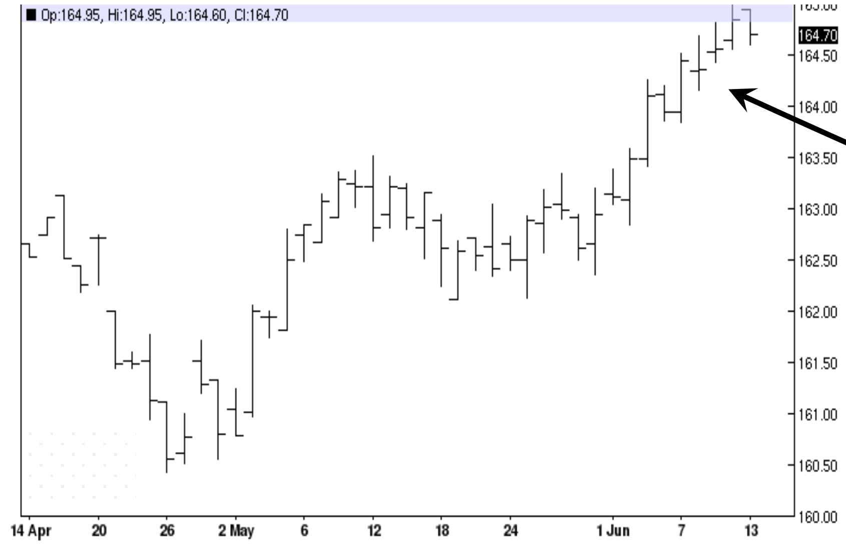
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of The Bund.



The Bund extended the rally as anxiety about global economic health and the UK referendum intensified.

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

…"Looking ahead German industrial production is due, and although a good indicator of German economic health, the rest of the Euro zone isn't keeping up with the German economy"…

In the event German data was better than expected and Euro zone Q1 GDP was revised a little higher, but the Bund extended the rally on global as well as domestic anxieties.

Looking ahead the UK EU membership referendum increasingly dominates trading and as the leave campaign consolidates a recent lead traders are growing ever more anxious and moving into government bonds.

We are staying square here.

The outcome of the UK referendum remains too close to call and a vote to remain would see a big sigh of relief that would benefit stocks over bonds.

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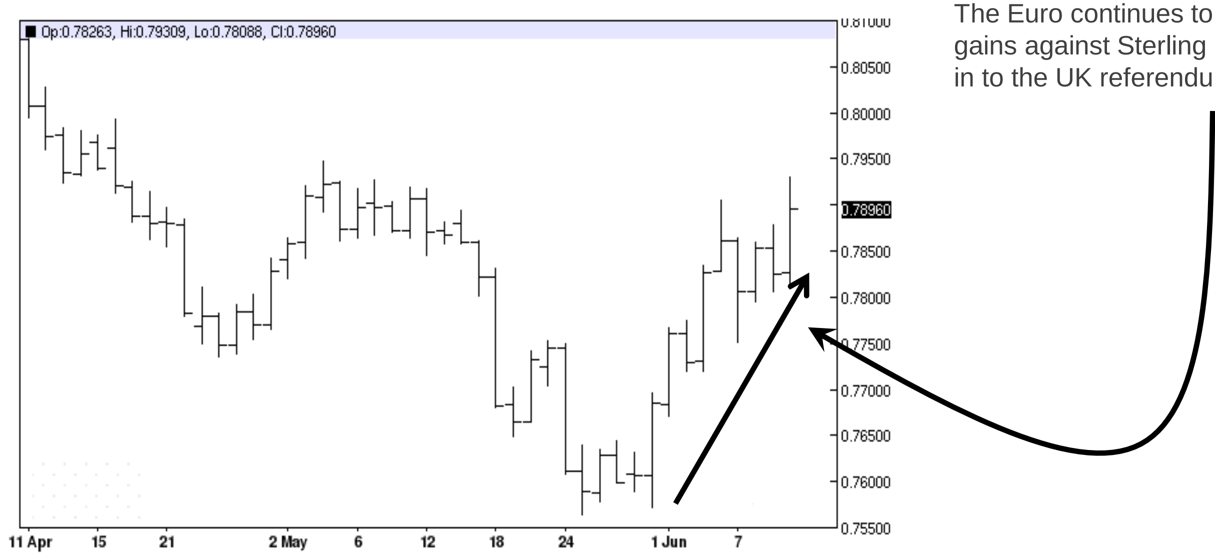
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



The Euro continues to make gains against Sterling in the run in to the UK referendum.

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

…"Looking ahead the German Industrial production report is due, but we judge the Euro will be driven by the economic outlook in the US which seems to have weakened and the prospect of the UK actually leaving the EU if the leave campaign continue to gain ground"…

In the event German Industrial production beat consensus, Yellen adopted a more dovish tone and in the UK alarm bells rang and the Pound slid as the leave campaign consolidated a lead in recent opinion polls that only two weeks ago pointed to a solid vote for the UK to remain an EU member.

Looking ahead Euro zone industrial production is due, but the US FOMC policy decision on Wednesday and anxiety about the outcome of next week UK EU referendum will dominate currency trading.

We are staying square. Opinion polls have been shown to be unreliable after they failed to predict the outcome in last years UK General election, but for now they are all traders have to base their decisions on and currently the leave campaign has a lead, will that be the outcome though?

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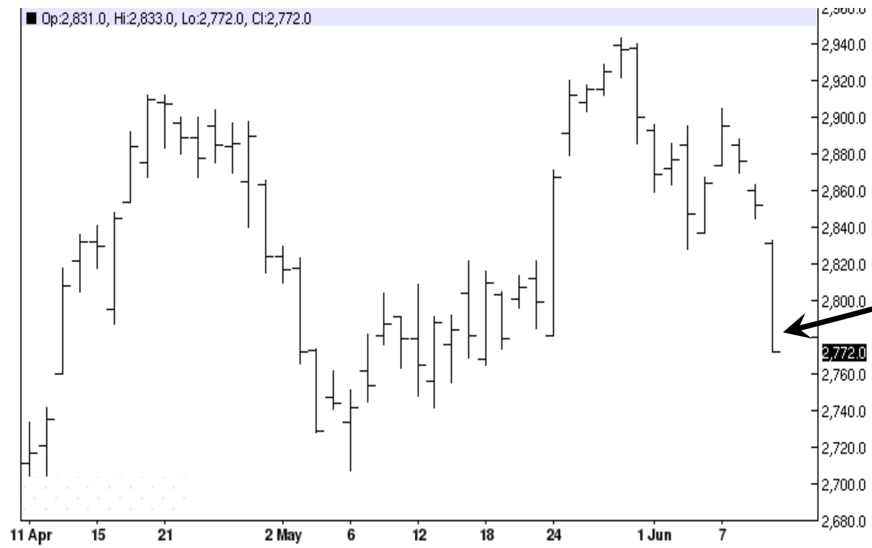
Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market sold off with other global equity markets on Friday.

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

…"Looking ahead the key release this week is German Industrial production and Euro zone Q1 GDP, but the market looks none too well supported"…

In the event data was better than expected, but external concerns hit the market and together with other global stock markets sold off.

Looking ahead several important events due, both domestic and abroad that will weigh on stocks. In the Euro zone industrial production is due, in the US the FOMC policy decision is due, but we judge anxiety and uncertainty around the outcome of next week's UK EU referendum will weigh further on equity markets.

For now we are square of this market, we judge if the UK votes to leave the EU it will have negative consequences for not just the UK economy but the EU/Euro zone too.

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JAPANESE MARKETS: economic background

Last week's focus was split between several key data releases with Q1 GDP the main event.

In the event the number was just under consensus and other data was mainly mixed giving the continued impression of an economy still struggling for traction.

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; **BSI Large all industry and manufacturing surveys,**
- On Tuesday; **industrial production and capacity utilisation,**
- On Wednesday; **Machine tool orders and BOJ policy decision, and**
- On Thursday; **National and Tokyo department store sales.**

Several key data releases due, but all eyes on the Bank of Japan.

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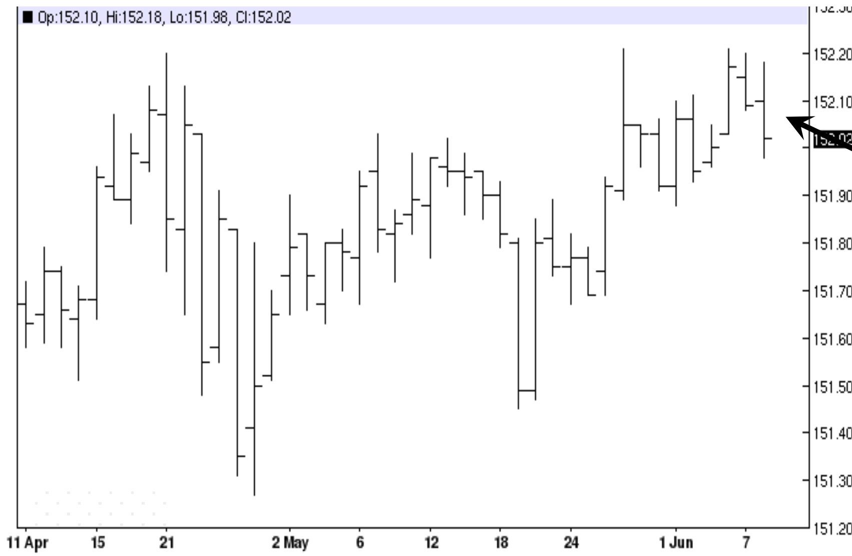
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB tested the upside but remains range bound.

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

…"Looking ahead there are several important data releases due, we are curious to see Q1 GDP; will it be revised down?"…

In the event annualised Q1 GDP fell just short of consensus, but at 1.9% still looking ok.

Looking ahead the Bank of Japan is due to talk policy, what will they say about the under lying health of the economy?

We are staying square.

The market remains range bound.

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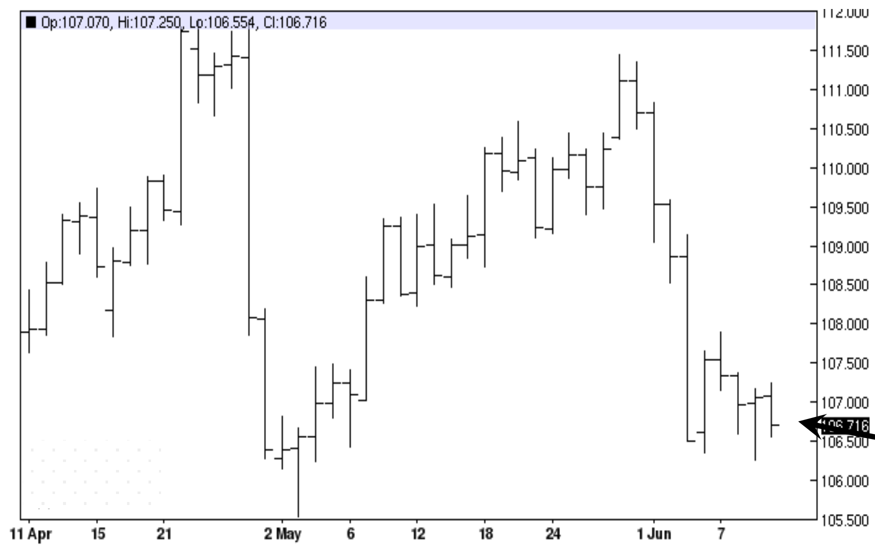
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v the DOLLAR

Last week we were Bullish v the Dollar



The Yen remains bid on concerns about the US economy and the Fed's admission that it cannot raise rates.

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

…"Looking ahead several key data releases due, but we judge Dollar/Yen will move on the back of US news and sentiment, especially after the weak payroll report"…

In the event the Yen continues to benefit from the cool US economy and the Fed's acceptance via Janet Yellen's speech last week that policy is currently appropriate.

Looking ahead the key event for currencies this week is the US FOMC meeting and decision and the Bank of Japan policy meeting.

Traders should be Long the Yen short the Dollar. The Dollar is currently hobbled by weak US growth and a side lined Fed.

Our suggested target remains 105.25 and our suggested stop continues at 109.50 for protection.

There is a risk of Bank of Japan intervention but we think it a risk worth taking.

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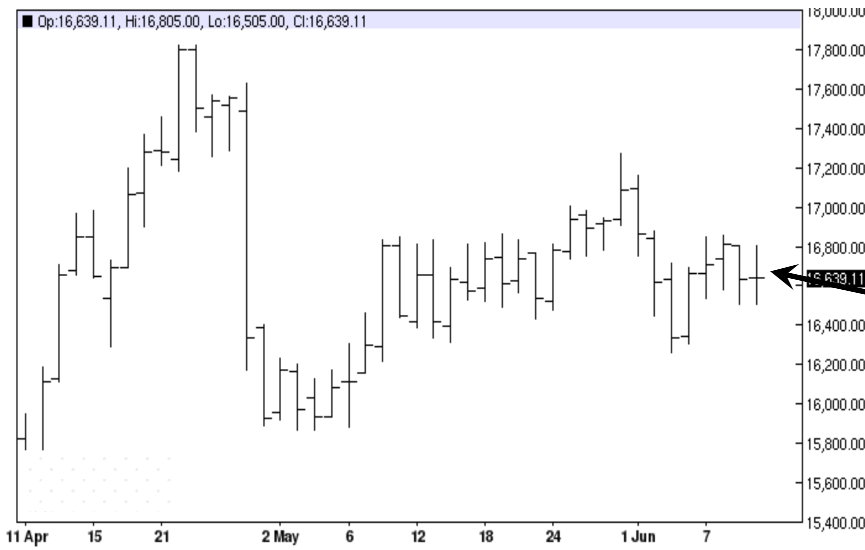
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei held up better than other global equity markets, but then it hadn't enjoyed similar gains previously!

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

…"Looking ahead several key data releases due, but we sense Fed Chair Yellen's remarks today will have the biggest impact on markets"…

In the event that was the outcome, but this market held up better than most, especially given Yen strength, but then it hasn't made the gains enjoyed by other major markets recently.

Looking ahead the Bank of Japan's policy statement and that of the FOMC are due this week, what those two have to say will have an impact on stocks.

For now we are square.

We see the Nikkei struggling under the weight of a stronger Yen unless the BOJ intervenes.

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SEVEN DAYS AHEAD

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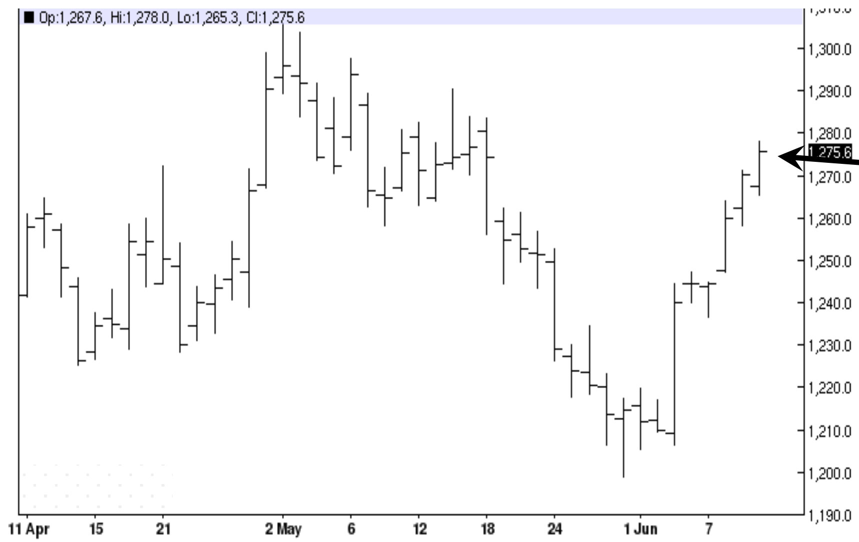
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold bounced on Dollar weakness.

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

Looking ahead Yellen speaks in Philadelphia today, we judge her remarks on policy and the economy will further feed into a weakening Dollar and add some support to Gold"…

In the event that was the outcome. But given the degree of disappointment over weaker US data, the Fed having to alter its stance and the retracing Dollar, a stronger performance from Gold could have been expected if it was a Bull market!

Looking ahead the FOMC policy statement is due Wednesday and we expect it to echo and expand on Yellen's remarks last week, meaning no rate hikes any time soon, but will Gold get a wiggle on?

We remain square.

The market staged what to us looks an unconvincing lac lustre recovery that is unlikely to progress through the upper boundary of what has become a long lasting trading range.

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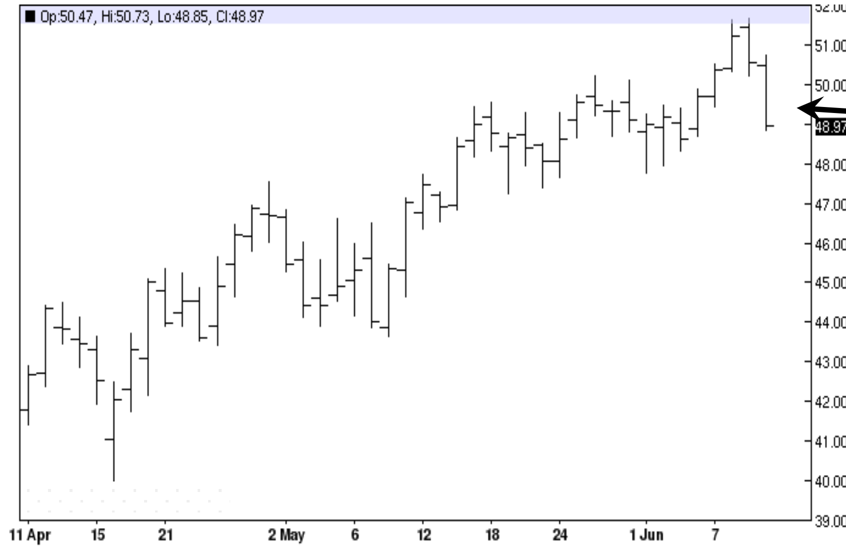
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil remains glued, for now, close to the highs.

The Macro Trader's view of oil is: last week's price action showed oil retains good support around current levels despite the lack of agreement in OPEC to reduce production and the ongoing supply glut.

We retain the view that the price of oil will again test the downside, but when is the question that begs an answer!

The Euro zone economy is still struggling, so too Japan and China isn't firing on all cylinders.

Then there is the US. After the recent weak non-farm payroll report, a second consecutive display of weakness and not forgetting the weak Q1 GDP report of just 0.8% annualised, where in the world is the level of demand needed to drive the oil price higher or even maintain current price levels? We don't see it.

For now we are staying square, but still looking for a selling opportunity.

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