Week 25

21st – 27th June 2016

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Multi-asset fundamental strategies

John Lewis

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This week's global calendar

	Week of 20th June
Monday	UK Rght mve hse prces n/f DM PPI 0.3m, -2.8y EZ Construct'n outpt n/f JP Trade bal 40.0B
Tuesday	US Yellen testifies @ Senate on policy UK PSNB 9.50B UK PSNCR n/f UK BOE 2nd ITLR OP Re EU Vote UK CBI Total orders n/f DM ZEW current 53.0 JP All Ind actvty indx n/f JP Super mkt sales n/f
Wednesday	MBA Mrtge apps n/f US House price indx n/f US Existing home sales 5.50M EZ Consumer confidence -7.1 JP PMI Mfg 48.2

	Week of 20th June
Thursday	US Jobless claims 270k US New Home sales 560k **UK EU Referendum vote** EZ PMI Composite survey 53.0 DM Import prices n/f JP Small bus confidence n/f
Friday	US Durable goods -0.8% US DG Ex- Transport 0.3% US U. of Michigan conf 94.0 **UK EU REFERENDUM RESULT** UK BBA Home buyer loans n/f FR Q1 GDP 0.6q, 1.4y DM IFO Survey 107.5

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Last week's releases

	Week of 13th June
Monday	JP BSI Lrge All industry -7.9 **WORSE** JP BSI Lrge Mfg -11.1 **WORSE** **THAN EXPECTED**
Tuesday	US NFIB Sml Bus optimism 93.8 **BETTER** US Retail sales 0.5% **STRONGER** US RS Ex-Autos 0.4% **AS** US Import prices 1.4m, -5.0y **MORE** US Business invntry 0.1% **LESS** UK CPI 0.2m, 0.3y **WEAKER** UK RPI 0.3m, 1.4y **AS** UK RPI-X 1.5y **MORE** UK PPI Input 2.6m, -3.9y **STRONGER** UK PPI Output 0.1m, -0.7y **WEAKER** UK PPI Core 0.0m, 0.5y **WEAKER** UK DCLG Hse prices 8.2& **LESS** EZ Ind production 1.1m, 2.0y **STRONGER** EZ Q1 Employm't 0.3q, 1.4y **BETTER** JP Industrial product'n 0.5m, -3.3y **BETTER** JP Capacity utilisation -1.0% **WEAKER** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -2.4% **WEAKER** US PPI 0.4m, -0.1y **AS** US PPI Ex –f&e 0.3m, 1.2y **MORE** US Empire mfg 6.01 **STRONGER** US Industrial product'n -0.4% **WEAKER** US Capacity utilisation 74.9% **WEAKER** US FOMC Rate decision 0.50% **AS** UK Unemploym't rate 2.2% **MORE** UK Unemploym't chge -0.4K **BETTER** UK ILO Rate 5.0% **LESS** UK Averge earnings 2.0% **STRONGER** UK Averge earnings Ex-bonus 2.3% **MORE** EZ Trade Bal 27.5B **BETTER** JP Tokyo Condo sales -14.1 **WEAKER** JP Machine tool orders -24.7% **BETTER** JP BOJ Policy decision **UNCHANGED** **THAN EXPECTED**

	Week of 13th June
Thursday	US Jobless claims 277k **WORSE** US CPI 0.2m, 1.0y **WEAKER** US CPI Ex –f&e 0.2m, 2.2y **AS** US Q1 C/A Bal -$124.7B **BETTER** US Philly Fed 4.7 **STRONGER** US NAHB Housing mkt indx 60 **STRONGER** UK Retail sales 1.0m, 5.7y **STRONGER** UK BOE Rate decision 0.50% **AS** UK BOE AP Target 375B **AS** EZ CPI 0.4m, -0.1y **MORE** **THAN EXPECTED**
Friday	US Housing strts 1164k **MORE** US Building permits 1138k **WEAKER** EZ C/A 36.2B **STRONGER** EZ Labour costs 1.7% **MORE** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was the FOMC policy decision.

In the event little different from the tone of Yellen's speech the previous week; rates on hold. Moreover expectations for rate hikes in 2017 and 2018 were scaled back too.

However policy makers continued to indicate they were seeking to hike rates twice in 2016 despite concerns over recent economic weakness and unexpectedly weak jobs creation.

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; **Janet Yellen testifies in the senate on monetary policy,**
- On Wednesday; **House price index and existing home sales,**
- On Thursday; **Jobless claims and New Home sales, and**
- on Friday; **Durable goods and University of Michigan consumer confidence.**

The key event this week is Yellen's appearance at the Senate Banking committee to testify on monetary policy. Another opportunity to gain insight to current Fed thinking.

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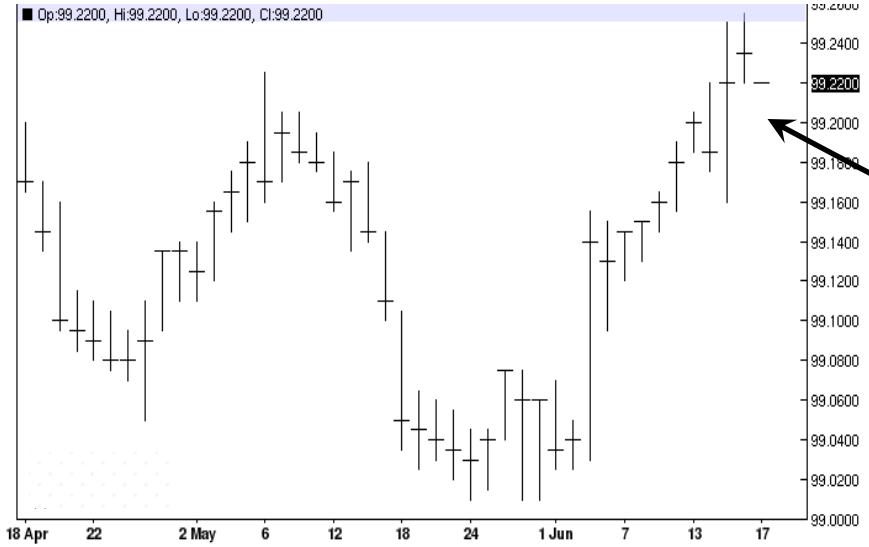
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars rallied last week despite several better than expected data releases.

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

…"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"…

In the event that was the outcome. The Fed noted recent weakness in the economy and job creation and scaled back rate hiking intentions for 2017 and 2018, but still hopes to hike this year if conditions improve.

Looking ahead the key event this week is Yellen's testimony in the Senate, but what more can she say without sounding to gloomy about the economy?

For now we are square.

The Fed has adopted a wait and see stance.

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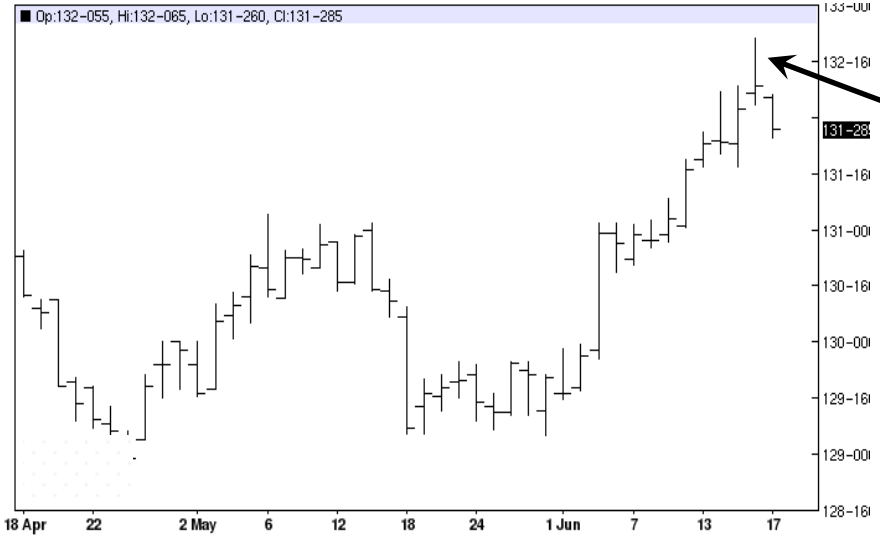
US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of the 10 year note.



The 10 year note hit our target as stocks sold off.

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

…"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!"…

In the event the policy statement was one of caution and this market rallied on the combination of an equity market sell off and the Fed.

Looking ahead more from Janet Yellen on Tuesday when she testifies at the Senate, but we think the market has made it's highs for now.

We are now square.

The market met our target as anxiety ran through equity markets last week, driven in part by fears the UK was looking likely to leave the EU.

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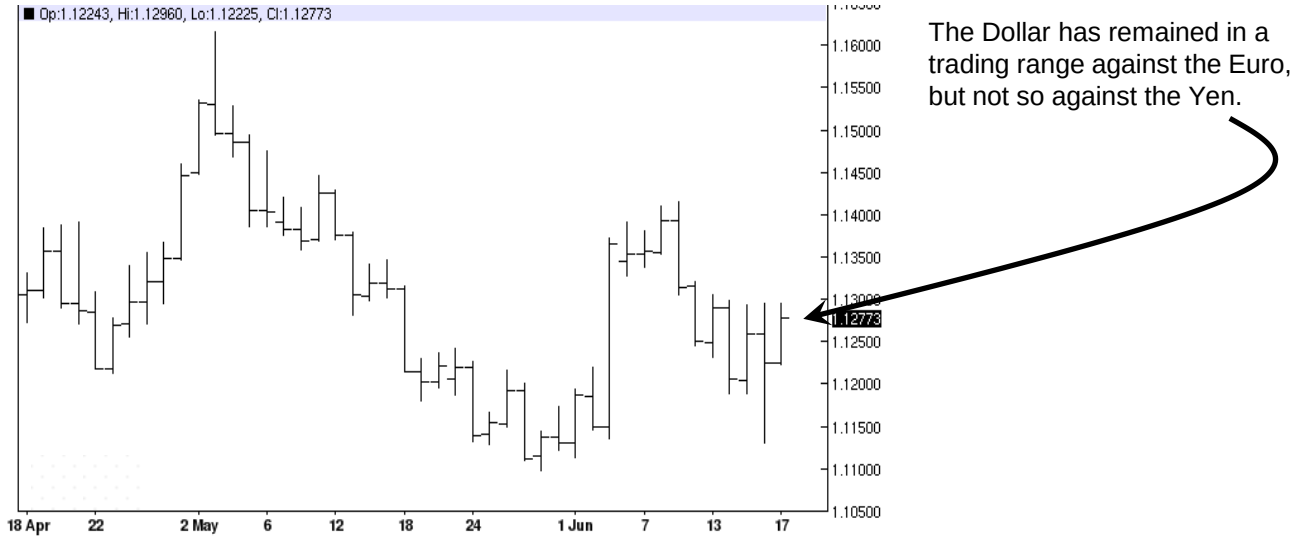
US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v the YEN.

Last week we were Bearish v the Yen



The Dollar has remained in a trading range against the Euro, but not so against the Yen.

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

…"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"…

As anticipated, the policy statement was cautious acknowledging the sudden weakness shown in the last two releases of non-farm payroll.

Looking ahead the main event in the US is Yellen's testimony in the senate on monetary policy, but the UK EU vote on Thursday will be felt generally in foreign exchange markets what ever the outcome.

We are Bearish Dollar/Yen.

Traders should be Long the Yen short the Dollar.

Our suggested target of 105.25 is met.

Our target is now 103.35 and our suggested stop is lowered to 106.50 for closer protection.

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

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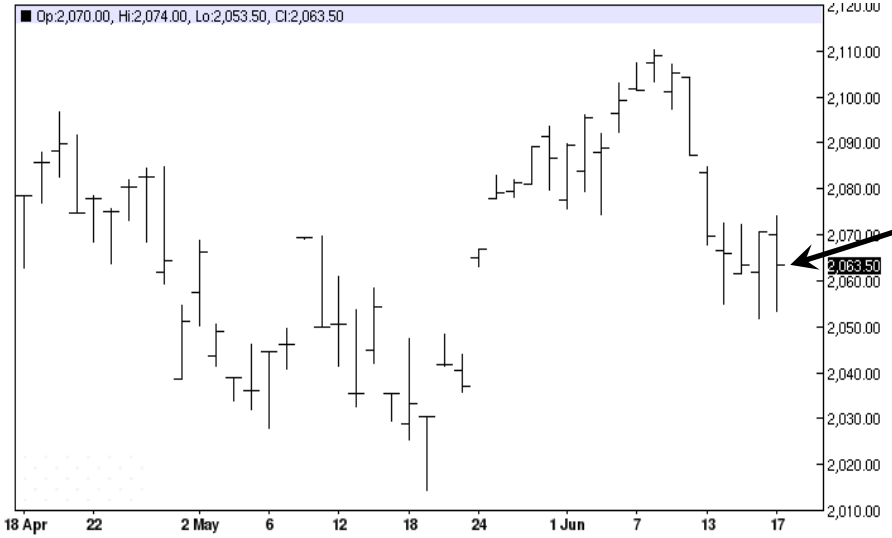
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P sold off with other equity markets on fears of a UK EU Exit.

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

…"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"…

In the event the Fed sounded a cautious note, scaling back future rate hiking intentions, but this and other global equity markets sold off on "BREXIT" fears.

Looking ahead the key event is Yellen's testimony at the Senate on Tuesday. Additionally traders will be watching the outcome of this week's UK EU referendum, a vote to remain will remove a degree of anxiety even in this market.

We are still bullish of this market despite our stop being hit. The Fed's policy statement was dovish and if the UK stays in the EU as we expect stocks will recover.

Our suggested target remains 2150.0 and our suggested stop is set at 2038.0 for close protection..

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UK MARKETS: economic background

Last week's focus was CPI, Retail sales and the BOE policy decision.

In the event the Bank as expected left policy on hold, CPI came in better than expected at an unchanged 0.3% on the year, but retail sales were much stronger than expected, meaning a vote to remain in the EU this week could see a rebound in UK economic activity, quite quickly.

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; **PSNB, PSNCR and CBI Total orders,**
- On Thursday; **EU Referendum voting day, and**
- On Friday; **BBA Home buyer loans and EU Referendum result.**

The main event this week is obviously the UK's EU membership referendum.

The result will be known on Friday and will impact markets what ever the outcome.

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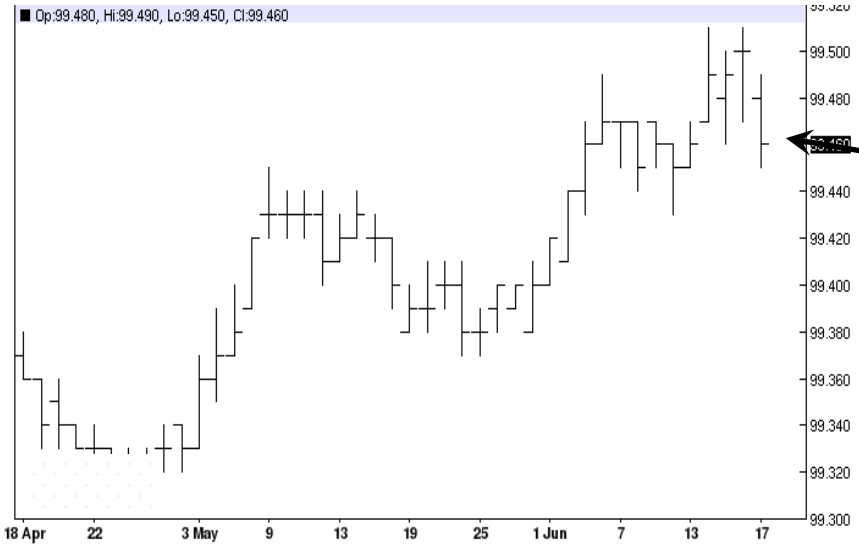
UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Short Sterling.



Short Sterling remains supported ahead of this week's EU vote.

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

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

In the event Retail sales stole the data spot light with a stronger than expected release.

Looking ahead all eyes this week on Thursday's UK EU referendum and Friday's result; will it be a leave or stay? Either way markets will be affected, we think it will be a vote to stay.

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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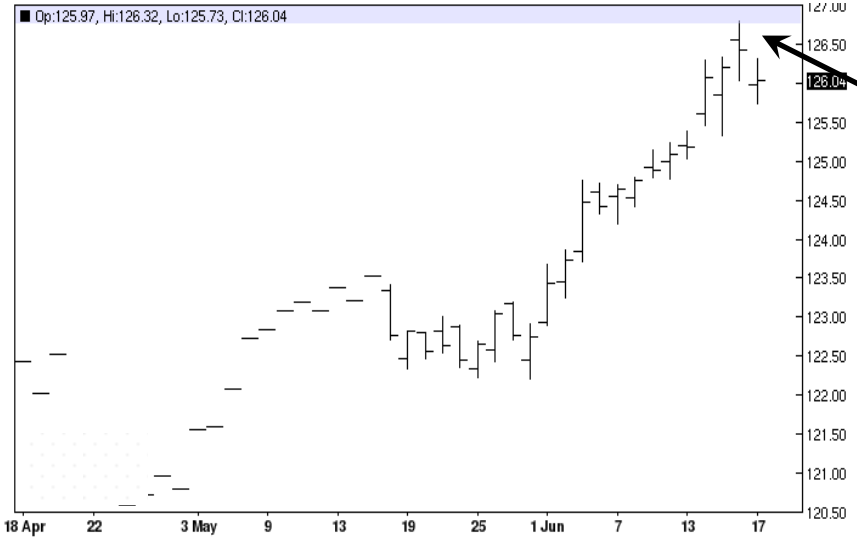
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Bullish of the Gilt.



See how the Gilt more than met our target last week as equity markets sold off.

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

…"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"…

In the event retail sales was stronger than expected, but stocks sold off as opinion polls pointed to a solid leave for the leave campaign sending the Gilt higher.

Looking ahead the referendum is due Thursday, the result is due Friday. The outcome is for many too close to call, we believe the UK will vote to remain, but the margin will be close; say 52/48.

We are now square the Gilt. Our target was more than met.

Sadly last week's shooting of a young Female MP has shifted the ground in the final days of the referendum with some seeing her killing representing an extremism that reflects on the out campaign.

A vote to stay in the EU will see equities rally and bonds ease lower.

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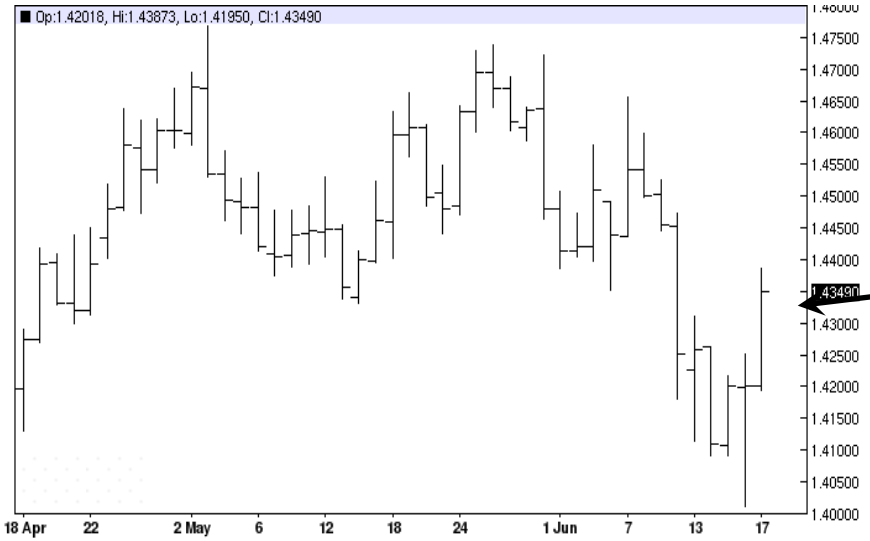
UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling swings as the polls swing from an in to out and back towards an in vote again.

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

…"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"…

In the event that analysis was correct, but the sad events of late last week when a young female MP was murdered by someone who appears an extremist purporting to be a supporter of the leave campaign has had an impact on sentiment with the remain camp gaining ground.

Looking ahead the referendum is clearly the main event.

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.

We expect a close vote in favour of staying in the EU, in which case Sterling would be a buy against both the Dollar and Euro.

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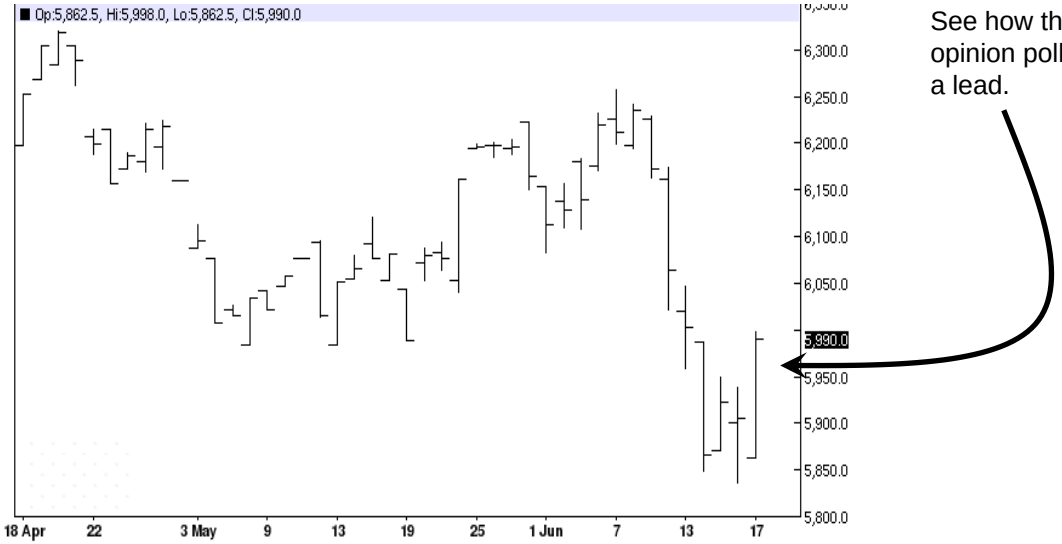
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Square.



See how the FTSE sold off as opinion polls gave the leave vote a lead.

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

…"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"…

In the event that proved the case as stocks sold off on news the leave campaign was consolidating a lead. But that started to change towards the end of the week after a young female MP was brutally murdered by someone apparently motivated by a desire to see the UK leave the EU.

Looking ahead the main event is Thursday's referendum and Friday's result. This market has rallied today as a result of a new opinion poll showing a small lead for the remain in the EU campaign and sadly the MP's murder has shifted sentiment towards the remain camp with one high profile conservative moving across from supporting leave to remain.

We are now bullish of this market. CPI remains benign, Retail sales was strong last week, and if the vote goes in favour of remaining in the EU as we expect, this market will **rally hard**.

Our suggested target is 6475.0 and our suggested stop placed at 5825.0 for protection.

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EURO ZONE MARKETS: economic background

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

In the event the report was indeed stronger than expected, seeded by the previous week's strong German report.

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 PPI,**
- On Tuesday; **German ZEW,**
- On Wednesday; **Euro zone consumer confidence,**
- On Thursday; **Euro zone PMI Composite survey, and**
- On Friday; **German IFO and French Q1 GDP.**

The key domestic release this week is Euro zone PMI Composite survey.

But we judge this week's main event for Euro zone/EU as well as UK markets will be the result of the UK's referendum on EU membership.

This is not only important for the UK but will surely have repercussions for the entire EU.

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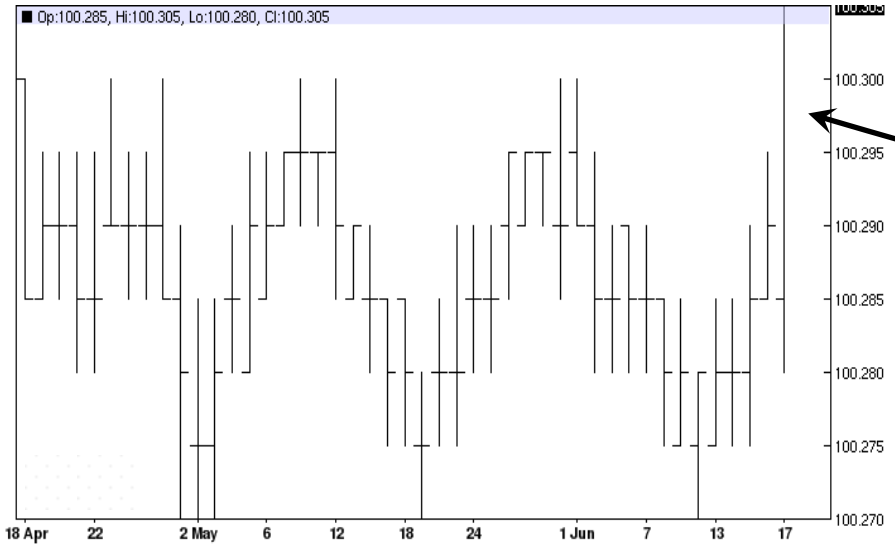
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor rallied on equity market weakness.

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

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

In the event the market rallied, but not on industrial production which was strong; no on equity markets selling off.

Looking ahead the main event this week is the Euro zone PMI Composite survey.

We are staying square.

We see little for either the Bulls or Bears right now despite the spike last week due to equity market weakness, but the ECB is unlikely to move policy on the UK referendum result.

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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 on renewed equity market weakness.

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

…"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"…

That was clearly the result last week as several opinion polls showed the leave campaign consolidating a lead which sent stocks much lower.

Looking ahead the key domestic release is the Euro zone PMI Composite survey, but we judge the Bund will react to price action in equity markets driven by the UK EU referendum vote.

We are staying square here.

The outcome of the UK referendum remains close, but we judge sentiment is swinging back to the remain camp after last week's brutal murder of a British MP, meaning a vote to stay in the EU will see equity markets recover further and the Bund fall prey to profit taking.

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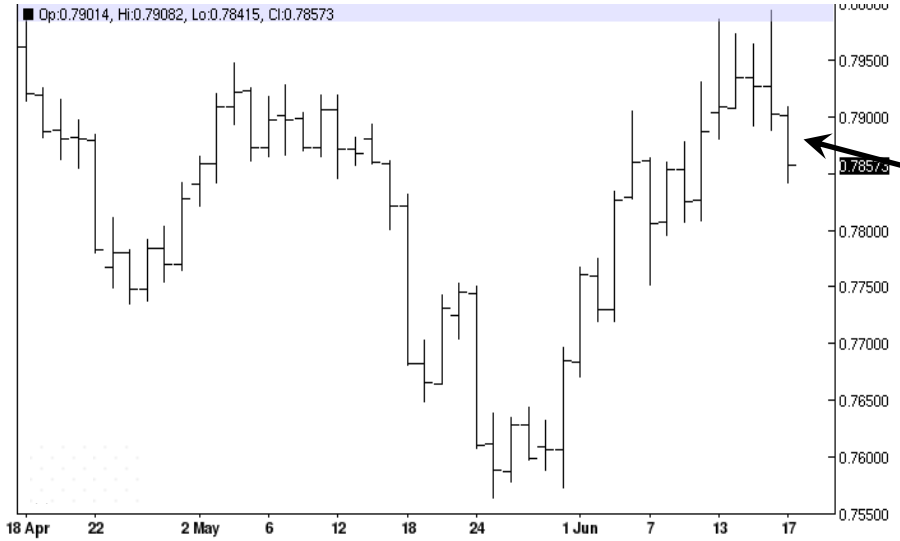
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



The Euro for now looks bullish against Sterling and the Dollar, but a remain vote in the UK on Thursday could change that.

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

…"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"…

Last week the FOMC policy decision confirmed the tone of Yellen's remarks from the previous week. The Euro zone industrial production report beat consensus, but as expected the UK EU membership referendum campaign dominated markets.

Looking ahead the Euro zone PMI composite survey is due, but currencies will be driven by the outcome of the UK's EU referendum.

A vote to leave will see the Pound sell off against most currencies including the Euro. A vote to remain will likely refocus the attention of foreign exchange traders globally.

The Pound will rally on a remain vote against the Dollar but especially the Euro and the Euro could weaken against the Dollar.

We are staying square. The outcome remains very tight, but we think the UK will vote to remain an EU member, but by a narrow margin.

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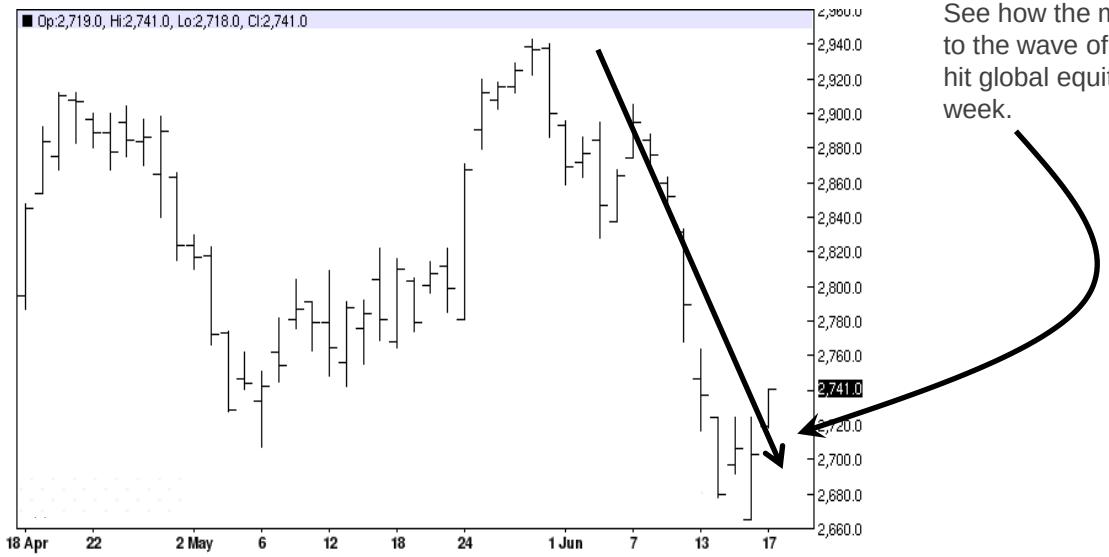
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market succumbed to the wave of risk aversion that hit global equity markets last week.

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

…"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"…

In the event that was clearly the outcome, as opinion polls showed a solid lead for the outers, that is until the brutal murder of a British MP began to move sentiment towards remaining.

Looking ahead stocks are this week focussed on the UK referendum. If the UK leaves it will have implications for the UK, but also the EU as others may seek their own vote on continued membership, but a vote to remain will see a strong relief rally in equity markets both here and abroad.

For now we are square of this market, but have suggested going long the FTSE.

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JAPANESE MARKETS: economic background

Last week's focus was the Bank of Japan's policy decision.

In the event no movement on policy or the strength of the Yen.

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,**
- On Tuesday; **All industry activity index,**
- On Wednesday; **PMI Manufacturing survey, and**
- On Thursday; **Small business confidence.**

The main event this week is the PMI manufacturing survey.

Has the economy improved?

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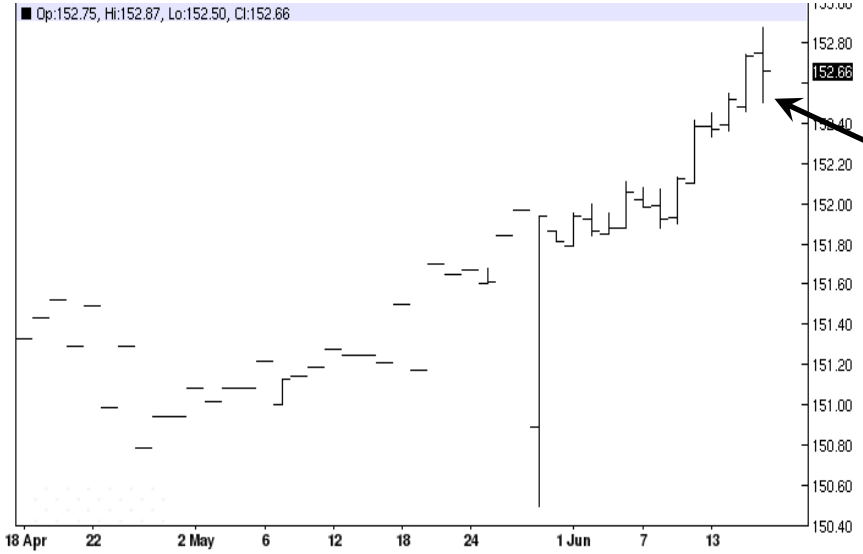
JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied on unchanged from the BOJ.

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

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

In the event they declined to act and the market rallied as stocks sold off and the Yen rallied.

Looking ahead the PMI Manufacturing survey is due; will it offer optimism or yet more gloom, we are not optimistic.

We are staying square.

The market rallied on Yen strength and Nikkei weakness, but if equity markets rally on a UK remain vote the JGB will suffer profit taking.

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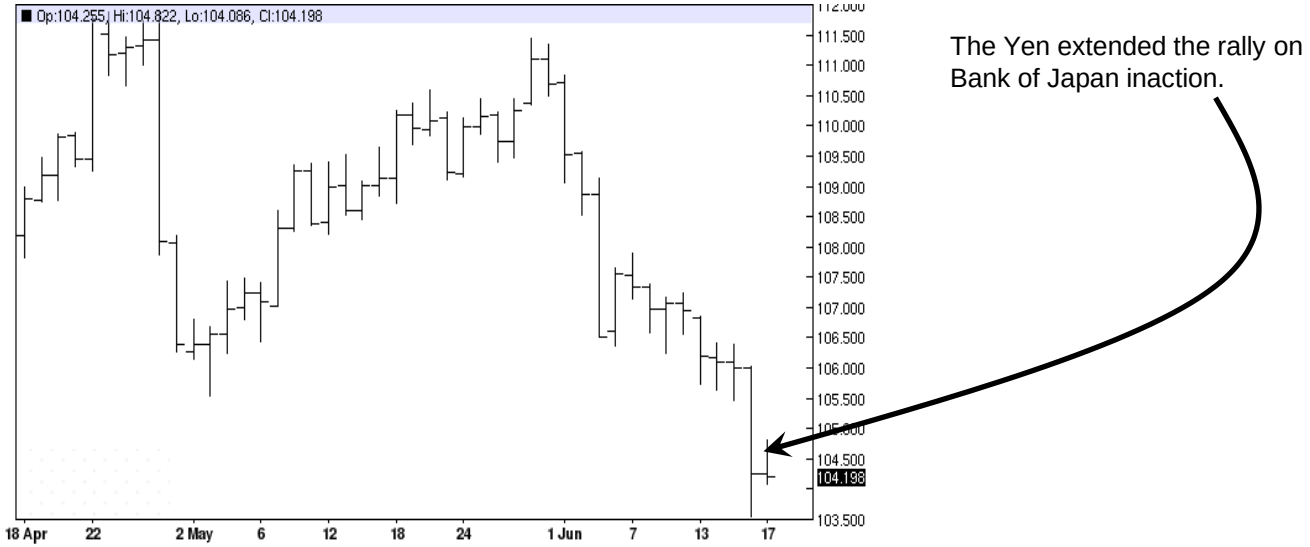
JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v the DOLLAR

Last week we were Bullish v the Dollar



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

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

In the event the FOMC policy statement confirmed Yellen's take on the US economy and policy communicated in a speech the previous week and the BOJ chose inaction.

Looking ahead the Yen looks well supported and although the PMI Manufacturing survey is due, we doubt it will materially alter the Yen, the PMI is already weak. We expect the Yen to remain supported on the receding chances of a US rate hike any time soon.

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 of 105.25 was hit.

Our target is now 103.35 and our suggested stop is lowered to 106.50 for closer protection.

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

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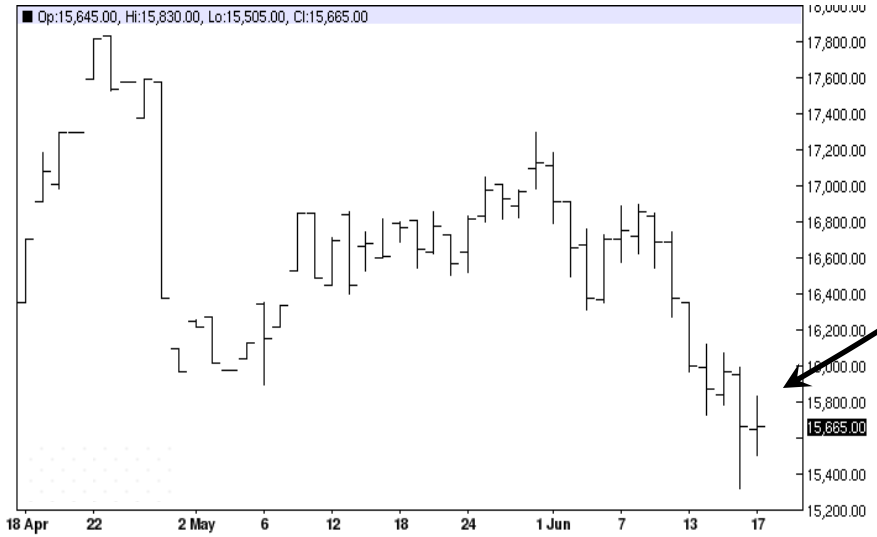
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei came under additional pressure as the Yen extended its rally.

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

…"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"…

In the event there statements proved negative for stocks due to the bullish impact on the Yen.

Looking ahead the PMI composite survey is due this week, but we judge the Nikkei's fate is currently dictated by the Yen.

For now we are square.

We see the Nikkei struggling under the weight of a stronger Yen, although the Nikkei might get some short term relief from foreign sentiment if the UK votes to remain in the EU at this week's referendum on continued EU membership; a remain vote will send equity markets higher and will percolate through to this market too.

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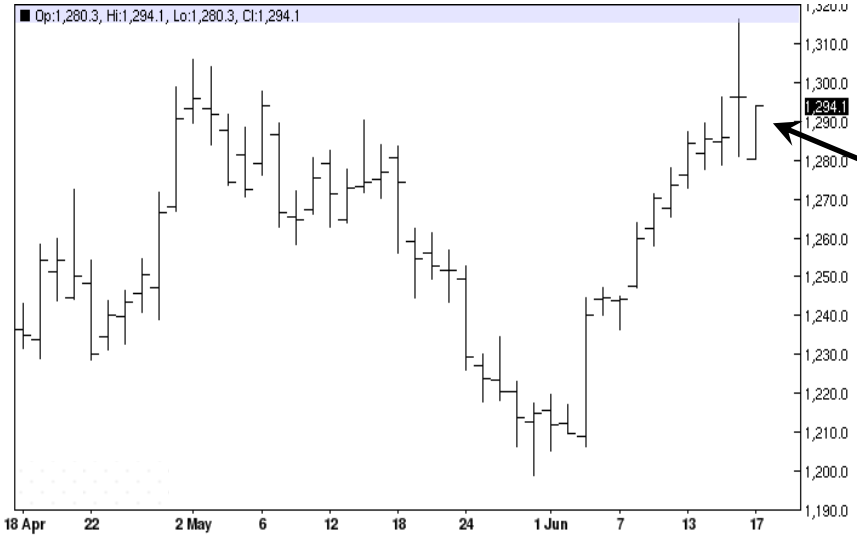
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold extended the rally to the top of the trading range on Dollar jitters.

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

…"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?"…

In the event both the FOMC and the BOJ delivered as expected. The Dollar weakened on no US rate hike short/medium term and gold did indeed benefit, but only as far as the top of the established trading range.

Looking ahead the Fed Chair Janet Yellen testifies at the Senate on Tuesday, she is likely to expand on her recent comments and FOMC policy statement, but without sounding too gloomy about the US economy's prospects.

If she pulls that off the Dollar will likely recover a little, if she leaves a sense of a weaker economy than currently perceived by traders, the Dollar could weaken further feeding into gold.

We remain square.

The market rallied but is still within the trading range and we doubt Yellen will want to strike too sombre a tone.

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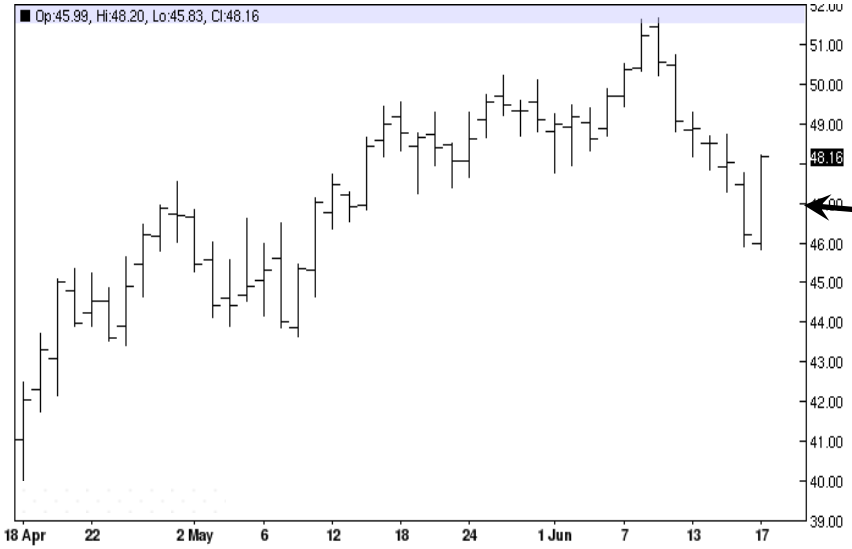
COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil sold off with equity markets last week, but not too far!

The Macro Trader's view of oil is: last week's price action showed oil is indeed vulnerable to perceptions of global economic health and this was demonstrated as oil sold off in tandem with global equity markets last week.

The FOMC policy statement confirmed the Fed is again holding back from hiking rates after two weak non-farm payroll reports raised serious question marks over the strength of the US economy.

Additionally traders began to worry that a UK vote to leave the EU could be damaging globally tp trading arrangements.

If the UK votes to remain in the EU as we think it will, stocks will recover and this market will likely do too, but what of the outlook going forward?

The US economy is still experiencing what at best is a soft patch, the Euro zone is still struggling for traction, China continues to under perform and Japan has yet to gain traction in its own attempts at economic recovery, why then the allure of oil?

We are staying square but seeking a selling opportunity.

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