



Week 27
5th – 11th July 2016

Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer



Multi-asset fundamental strategies

John Lewis

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SUMMARY

Summary

Global Calendar

US Markets

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

- SQUARE
- SQUARE
- BEARISH v the YEN
- BULLISH

UK Markets

+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

- BULLISH
- BULLISH
- SQUARE
- BULLISH

Euro Zone Markets

+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

- SQUARE
- SQUARE
- SQUARE
- SQUARE

Japanese Markets

+ JAPANESE BONDS
+ YEN
+ NIKKEI

- SQUARE
- BULLISH v the DOLLAR
- SQUARE

Commodities

+ GOLD
+ OIL

- SQUARE
- SQUARE

Disclaimer

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

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This week's global calendar

	Week of 4 th July
Monday	UK PMI Construct'n 50.5 EZ PPI 0.3m, -4.1y JP PMI Services n/f
Tuesday	US ISM NYK n/f US Factory orders -1.0% UK BRC Shop prices n/f UK PMI Services 52.7 IT PMI Services 50.2 FR PMI Services 49.9 DM PMI Services 53.2 EZ PMI Services 52.4 EZ Retail sales 0.4m, 1.6y
Wednesday	US MBA Mrtge apps n/f US Trade Bal -\$39.5B US ISM Non-mfg 53.5 US FOMC Minutes June 14-15 DM Factory orders 1.0m,

	Week of 4 th July
Thursday	US ADP Employm't chge 150k US Jobless claims 272k UK Halifax Hse prices 0.4m, 7.7y UK Industrial product'n -1.0m, 0.5y UK Mfg output -1.0m, 0.7y UK NIESR GDP Estimate 0.4% DM Ind production -0.1m, EZ ECB Minutes JP C/A 1,750B JP Trade bal n/f JP Bank lending 2.2% JP Eco watchers 42.9
Friday	US Unemploym't rate 4.8% US Non-farm payroll 180k US Average hourly earnings 0.2m, US Average wrk week 34.4 US Consumer CR \$16,000B UK Trade bal -10.65B UK Trade non-EU -2.90B DM Trade bal 23.8B DM C/A n/f JP Bankruptcies n/f

More



Summary

Global Calendar

US Markets

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

UK Markets

+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets

+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets

+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities

+ GOLD
+ OIL

Disclaimer

Last week's releases

	Week of 27 th June		Week of 27 th June
Monday	US Advnce gds trade -\$60.6B WORSE EZ M3 4.9%/y MORE THAN EXPECTED	Thursday	US Jobless claims 268k MORE US Chicago PMI 56.8 STRONGER UK GFK Consumer confidence -1 BETTER UK Q1 GDP 0.4q, 2.0y AS UK Q1 C/A -£32.6B WORSE UK Q1 Indx of srvc 0.6m, 0.5(3m/3m) MORE UK Q1 Bus investmnt -0.6q, -0.8y WEAKER DM Retail sales 0.9m, 2.6y STRONGER DM Unemploy'm't chge -6k BETTER DM Unemploy'm't rate 6.1% AS EZ CPI Estimate 0.1y MORE JP Loans discount corp 2.58y WEAKER JP Ind production -2.3m, -0.1y WORSE JP Vehicle production 1.7y STRONGER THAN EXPECTED
Tuesday	US Q1 GDP 1.1%(A) BETTER US Q1 Persnl consmptn 1.5% WEAKER US Q1 GDP Price indx 0.4% WEAKER US Q1 Core PCE 2.0% LESS US Case/shiller comp-20 5.44% BETTER US Cons confidence 98.0 STRONGER UK CBI distributive trade 14 LESS DM Import prices 0.9m, -5.5y STRONGER THAN EXPECTED	Friday	US ISM Mfg 53.2 STRONGER US ISM Prices paid 60.5 WEAKER US Construct'n spndg -0.8% WEAKER UK PMI Mfg 52.1 STRONGER IT PMI Mfg 53.5 STRONGER FR PMI Mfg 48.3 WEAKER DM PMI Mfg 54.5 MORE EZ PMI Mfg 52.8 MORE EZ Unemploy'm't rate 10.1% AS JP Jobless rate 3.2% AS JP Household spndg -1.1y AS JP National CPI -0.4y BETTER JP Tokyo CPI -0.5y WORSE JP Tankan lrg mfg 6 MORE JP Tankan non-mfg 19 AS JP Tankan lrg all ind CAPEX 6.2% STRONGER JP PMI Mfg 48.1 MORE JP Vehicle sales 3.0y WEAKER JP Cons conf 41.8 BETTER THAN EXPECTED
Wednesday	US MBA Mrtge apps -2.6% WEAKER US Persnl income 0.2% WEAKER US Persnl spndg 0.4% AS US Core PCE 0.2m, 1.6y AS US Pndg home sales -3.7m, 2.4y WEAKER UK Nat'nwide hse prices 0.2m, 5.1y BETTER UK Net cons cr 1.503B AS UK Net Indg on dwellings 2.8B STRONGER UK Mrtge aprvls 67.04K STRONGER DM GFK Cons confidence 10.1 STRONGER EZ Industrial confidence -2.8 BETTER EZ Services confidence 10.8 LESS EZ Consumer confidence -7.3 AS DM CPI 0.1m, 0.3y LESS JP Retail trade 0.0m, -1.9y LESS JP Lrg retail sales -2.2% WORSE JP Sml bus confidence 46.5 BETTER THAN EXPECTED		

More



US MARKETS: economic background

Summary

Global Calendar

US Markets

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

UK Markets

+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets

+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets

+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities

+ GOLD
+ OIL

Disclaimer

Last week's focus was divided between domestic data and the fall out from the UK/EU membership referendum.

On the domestic front Q1 GDP was revised a little higher and the ISM manufacturing survey was stronger, but markets were hit by uncertainty following the UK vote to leave the EU.

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; **Factory orders,**
- On Wednesday; **Trade data, ISM Non-manufacturing survey and June 14-15 FOMC minutes,**

- On Thursday; **Jobless claims and ADP Employment change, and**
- on Friday; **non-farm payroll, unemployment rate, average hourly earnings, average work week and consumer credit.**

The key event this week is non-farm payroll.

Two months of weak payroll reports undermined the Fed's time table for hiking rates, an in line report will re-open that debate, where as another weak report will pose serious questions about the US economy.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

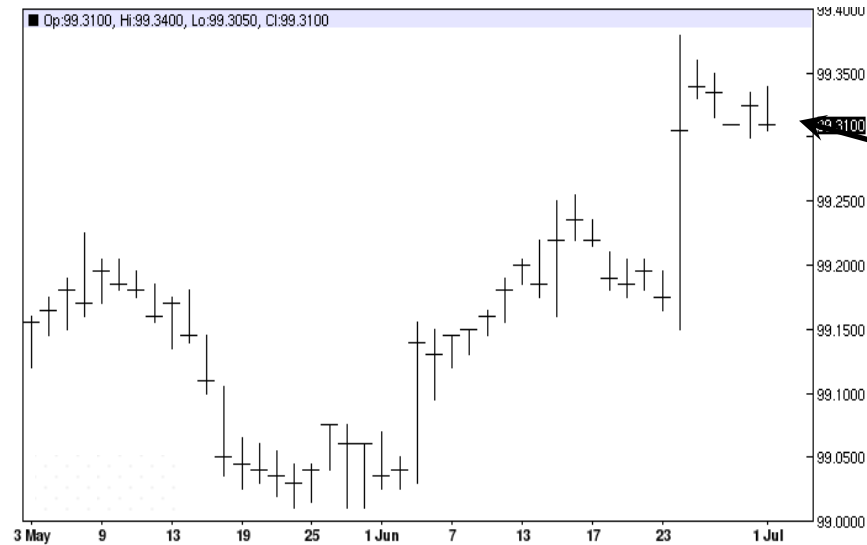
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars consolidated around the highs on uncertainty.

The Macro Trader's view of Eurodollars is; last week's price action was one of consolidation, after the shock of the UK voting to leave the EU saw markets convulse.

Looking ahead all eyes are turned towards domestic US data this week. The ISM non-manufacturing survey is due and non-farm payroll.

Clearly if ever one report could offer either yet more

uncertainty or calm markets, the non-farm payroll report can and a report of 180k is the consensus.

For now we are square.

The Fed has adopted a wait and see stance, but a strong payroll report could re-open the debate.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

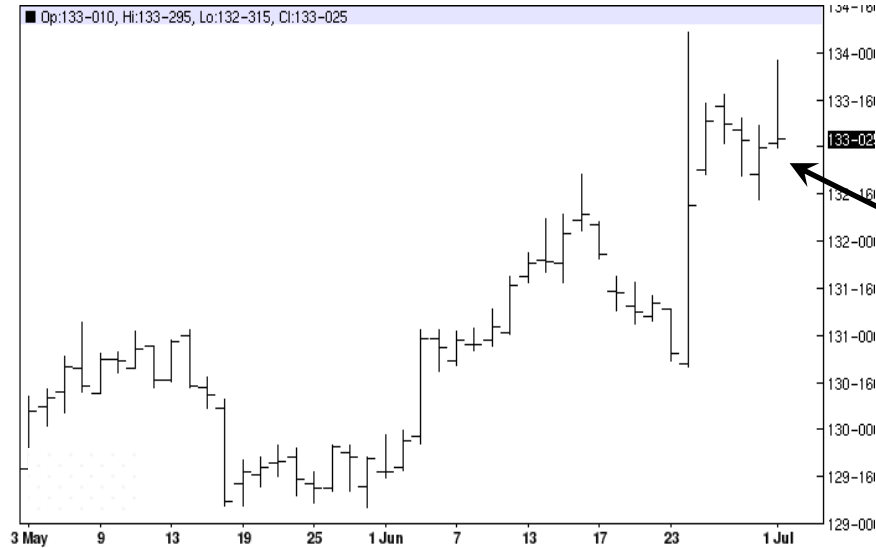
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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.



The 10 year note much like Eurodollars spiked then consolidated after the "BREXIT" result.

The Macro Trader's view of the 10 year note is: last week's price action was similar to that of Eurodollars and for the same reason.

The UK's vote to leave the EU saw stocks sell off globally and bonds rally as traders/investors sought safe haven trades.

Looking ahead the wave of panic has subsided and the focus is again returning to data and the real economy.

This week non-farm payroll is the main event and a report that meets or even exceeds consensus will offer a sense of calm to global markets. Where as yet another weak report will see bonds rally further.

We are now square.

Friday's non-farm payroll report has a flip of a coin sense about it since the market will react strongly in either direction and given the two recent completely unexpectedly weak reports the number could go either way.



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

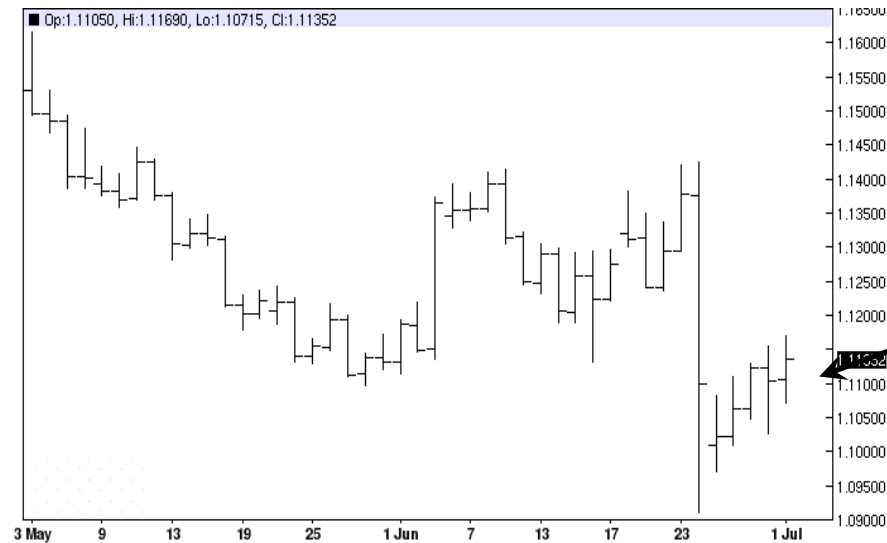
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US MARKETS: US Dollar

OUR TRADING STANCE: **BEARISH v the YEN.**

Last week we were **Bearish v the Yen**



The Dollar sold off against the Yen but strengthened against Sterling and the Euro.

The Macro Trader's view of the Dollar is; last week's price action saw traders buy the Dollar against the Euro and the Pound, especially as a safe haven trade after the "BREXIT" vote.

But against the Yen the Dollar weakened as traders sought a "neutral" safe haven asset.

Looking ahead the key release is non-farm payroll. The consensus is 180k which if met would see a return to the long run average, but will that be the result? Is the US economy in worse shape than realised?.

We are Bearish Dollar/Yen.

Traders should be Long the Yen short the Dollar.

Our suggested target of 103.35 is met.

Our target is now 101.20 and our suggested stop is lowered to 104.10 for closer protection.

The risk of Bank of Japan intervention is diminished in the current environment unless part of concerted Central Bank intervention but that doesn't look likely right now.

More



Summary

Global Calendar

US Markets

- + EURO DOLLARS
- + 10 YEAR NOTE
- + US DOLLAR
- + S&P 500

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

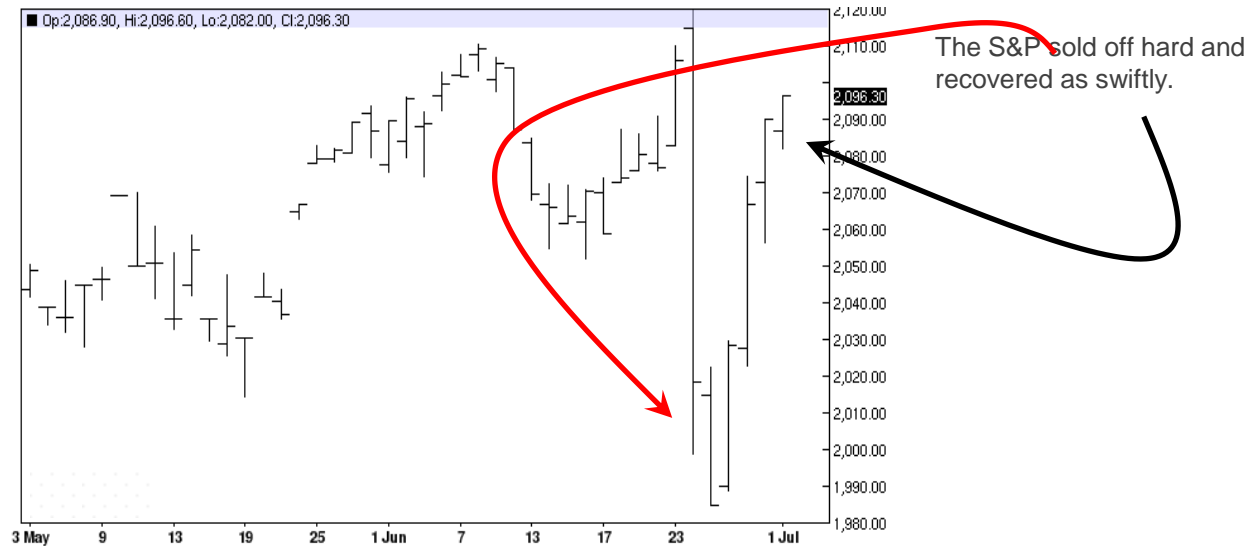
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US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The Macro Trader's view of the S&P 500 is: last week's price action was one of recovery following the steep sell off of the previous Friday.

As traders came to terms with the UK EU exit result and governments and Central Banks lined up to sooth the markets, traders regained their composure. Although the UK has voted to leave the EU until it does in about two years time the same trading agreements remain in place.

Looking ahead all eyes on the FOMC minutes and

non-farm payroll. These two reports have the potential to sooth nerves further and help stocks consolidate recent gains.

We are still bullish of this market despite our stop being hit. The sky is still in place and so too the UK in the EU until it leaves in two years time.

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

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: economic background

Last week's focus was again the EU referendum result and what it actually means for the UK economy, additionally with a leadership election campaign under way in the ruling Conservative party and serious efforts underway to oust the Labour party leader, it was left to the Governor of the Bank of England to talk soothing words to markets.

In the event he succeeded with promises to do all the Bank could to keep markets and the economy stable.

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; **BRC Shop prices and PMI Services survey**,
- On Thursday; **Industrial production**,

manufacturing output and NIESR GDP estimate, and

- On Friday; **trade data**.

There are several key reports to watch this week. The PMI Services survey is an important look at how the all important service sector of the economy is performing, but the NIESR GDP estimate is important too as traders and politicians seek clues on the health of the economy after the referendum vote.

Then there is the trade data. This has been a minor report for many years in terms of its impact on markets, but as the UK moves to leave the EU, it will become an important data release once more, especially if capital flows into the UK begin to dry up.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

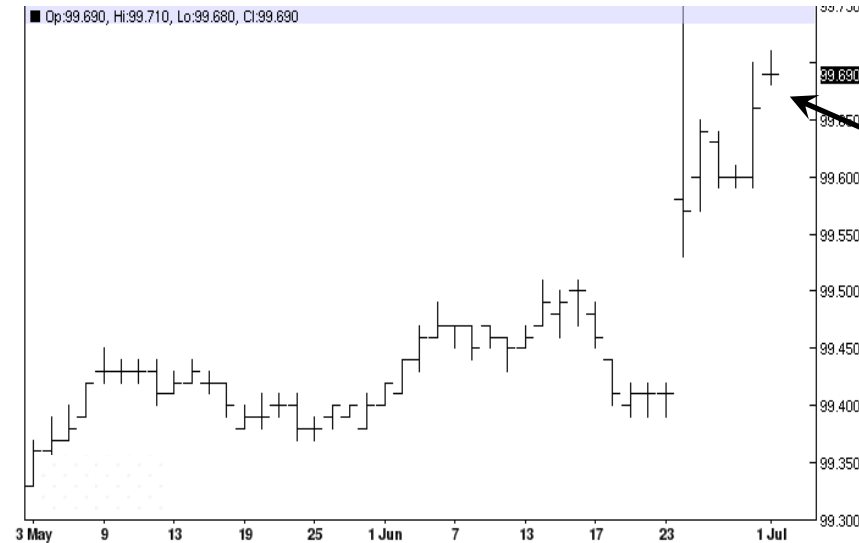
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UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were [Bullish](#) of Short Sterling.



Short Sterling rallied on expectations of lower UK interest rates.

The Macro Trader's view of Short Sterling is: last week's price action was one of consolidation around the post "BREXIT" vote highs.

In the aftermath of the UK vote to leave the EU the Bank was expected to cut rates and potentially extend QE. Last week the Bank Governor gave a speech confirming those moves were on the table.

Looking ahead the main event this week is the PMI services survey. A solid report would calm nerves but

not change the outlook for lower interest rates.

Traders should remain long DEC16 Short Sterling. We judge a rate cut is likely during the summer.

Our suggested target of 99.51 is more than met.

Our target is now set at 99.90 and our suggested stop raised to 99.59 for closer protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

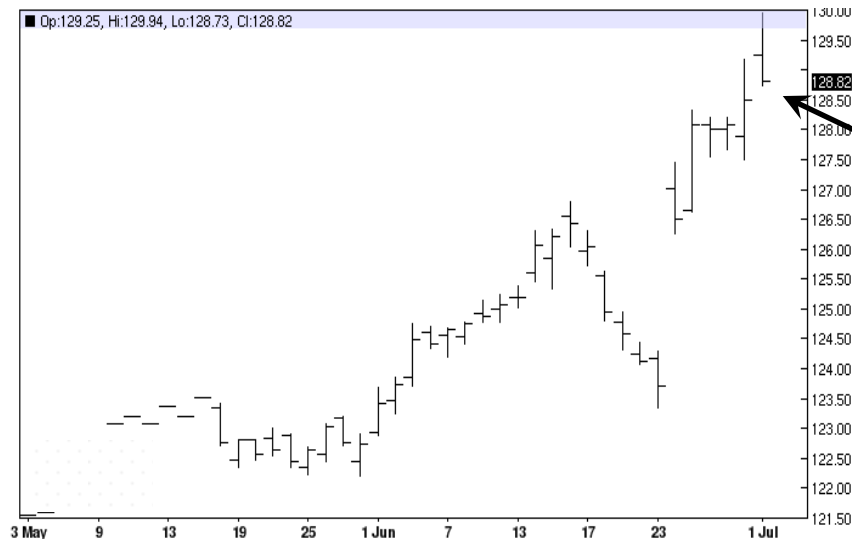
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UK MARKETS: Gilt

OUR TRADING STANCE: BULLISH.

Last week we were Square of the Gilt.



See how the Gilt rallied after the UK/EU leave vote.

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

...“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”...

In the event we got the margin right but the result wrong, but the fall out was dramatic as stocks initially sold off hard and bonds, including the Gilt rallied just as hard.

Looking ahead there are several data releases to watch; NIESR, PMI Services and the trade report, but with the Bank of England expected to lower interest rates and extend QE during the summer the Gilt remains bullish.

Traders should be long the Gilt, if not already!

Our suggested target is 132.05 and our suggested stop is placed at 125.80 for protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + **STERLING**
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

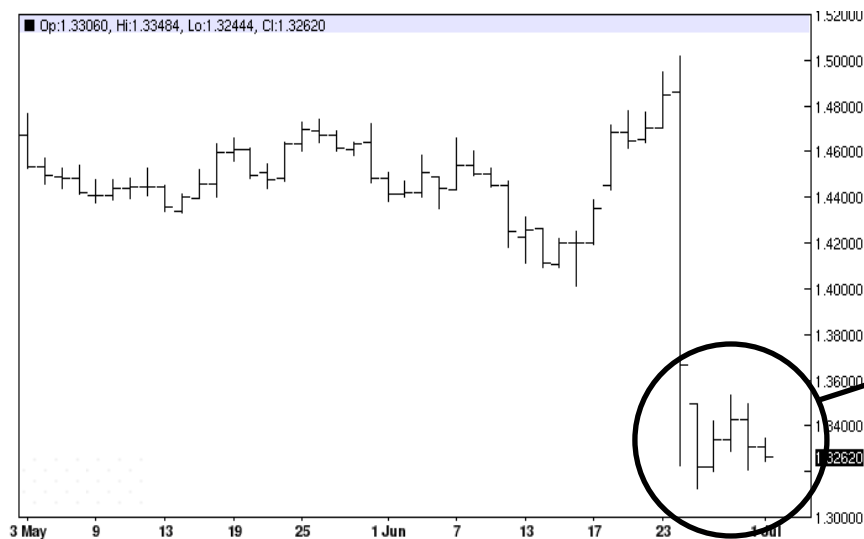
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UK MARKETS: Sterling

OUR TRADING STANCE; SQUARE

Last week we were Square



See how Sterling consolidated around the lows.

The Macro Trader's view of the Pound is: last week's price action was very interesting. Yes the Pound sold off hard on the day after the referendum vote, but last week was one of consolidation.

Those with long memories will remember the price action in 1993 when the Pound was forced out of the ERM was far more dramatic. In the months before the Pound left the ERM the Cable rate had been around 2.00, before pressure built and ultimately saw a collapse down to the low 1.40's, this time the drop is much less; mid 1.40's to low 1.30's.

But where from here. We judge that depends on how the politics works out and the policies pursued by the new Prime Minister and the nature of the relationship

the UK forges with the other 27 members of the EU.

For now all the bad news is in the market and that includes the Bank of England's intention to ease policy.

We judge the Pound is likely to bounce around current levels until the new PM takes over and negotiations begin, but already a candidate for the French presidency made some conciliatory noises over the weekend and we sense when negotiations start, business interests will win out over pure politics and the UK has been a major market for the rest of the EU.

For now we are staying square we think the worst of Sterling weakness has occurred.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

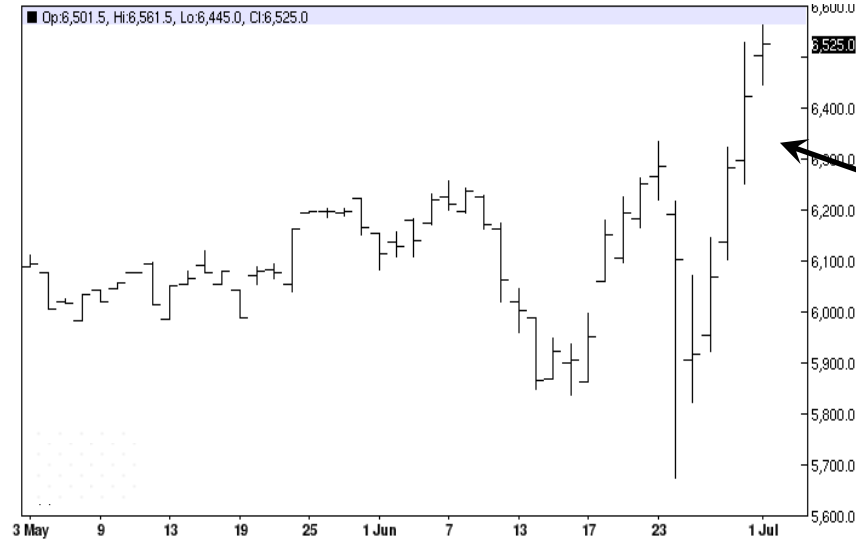
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UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were **Bullish**.



See how the FTSE dumped then staged a solid recovery.

The Macro Trader's view of the FTSE is; last week's price action was far more than a short covering rally.

The market made new highs and closed around them as traders took on board the Bank of England's comments about easing policy. And the Chancellor's comments about no longer seeking a budget surplus by 2020.

Looking ahead the market can consolidate this recovery and advance. The UK is still in the EU and the single market until it actually leaves and that is some 2 years hence. Additionally the Bank is set to ease over

the summer, so if the economy holds up better than feared, the FTSE will be supported.

The key data this week is the PMI Services, NIESR GDP Estimate and in the US, non-farm payroll, a combination that could settle nerves further.

We are bullish of this market despite the stop being hit.

Our suggested target is 6600.0 and our suggested stop placed at 6200.0 for protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

Euro Zone Markets

+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

Japanese Markets

+ JAPANESE BONDS
+ YEN
+ NIKKEI

Commodities

+ GOLD
+ OIL

Disclaimer

EURO ZONE MARKETS: economic background

Last week's focus was the fall out from the UK/EU referendum as politicians, traders and investors tried to make sense of what the vote meant for not only the UK but also the EU and for EU leaders how best to handle the UK exit negotiations that will soon follow.

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**,
- On Tuesday; **German, Italian, French and Euro zone PMI Service surveys and Euro**

zone retail sales,

- On Wednesday; **German factory orders**,
- On Thursday; **German industrial production and ECB minutes**, and
- On Friday; **German trade and C/A data**.

The key releases this week are the various PMI Service surveys and German industrial production.



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



The Macro Trader's view of Euribor is; last week's price action remained around the close of the previous Friday when the referendum result was declared, but will the ECB ease further as the market expects?

As with the UK, nothing has changed in terms of trading arrangements until the day the UK leaves the EU in roughly two years time.

What is driving markets then is uncertainty. That uncertainty is centred on the new trading relationship

between the now EU 27 and the UK and if any other country will face strong irresistible demands to hold a membership referendum.

Looking ahead we doubt the ECB will ease, so the focus is data and the key releases this week are the various Euro zone PMI Services surveys.

For now we are square, no rate cut is expected, but the market looks supported; for now!

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

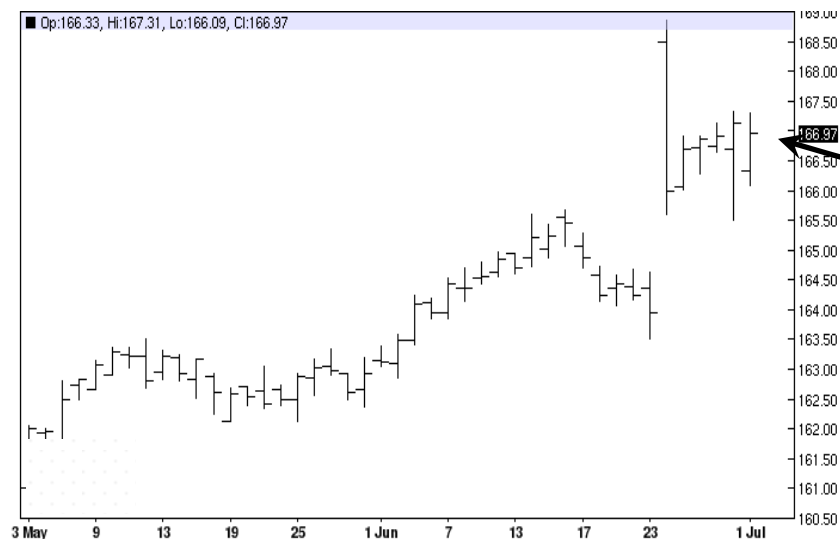
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- + OIL

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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of The Bund.



The Bund reacted in line with other Bond markets with a strong rally.

The Macro Trader's view of the Bund is: last week's price action mirrored that of the US Bond and UK Gilt with a strong rally followed by consolidation, but where from here?

That depends on data this week. In the Euro zone the various PMI Service surveys are due and in the US non-farm payroll.

We judge markets will be driven by the payroll report. The last two have been very weak, a stronger report in line with the under lying trend is forecast, if it falls short

the market will rally further, but an in line report will have little or no impact as Bonds are still supported by the uncertainty caused by the UK's decision to leave the EU.

For now we are square of the Bund.

The Gilt looks a better bet given the anticipated ease from the Bank of England which will likely include an expansion of QE.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

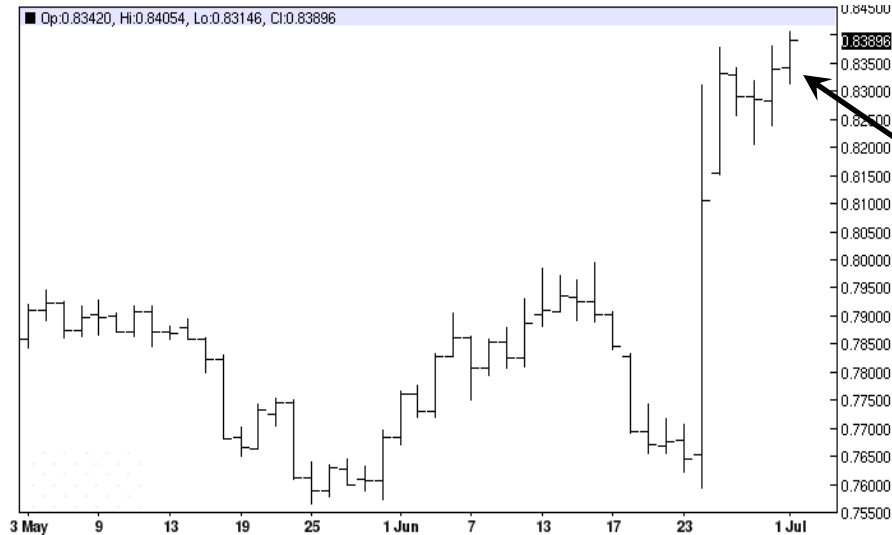
- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were Square



The Euro predictably rallied against the Pound, but only back to the levels seen during the financial crisis.

The Macro Trader's view of the Euro; last week's price action consolidated the previous Friday's sell off, but the magnitude of the move only takes Sterling back to those levels seen during the financial crisis of 2008/09/10.

Clearly the UK's decision to leave the EU has asked questions of the remaining 27. There are calls in several countries for a similar referendum that the leaders will vigorously resist, but it cannot be business

as usual the EU has failed on growth and jobs.

Looking ahead the PMI service sector surveys are due but we judge the Euro will continue to respond to developments in the UK where politics is in something of a turmoil. Plus Friday's US non-farm payroll report.

We are staying square, we judge the violent post "BREXIT" currency moves are done.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

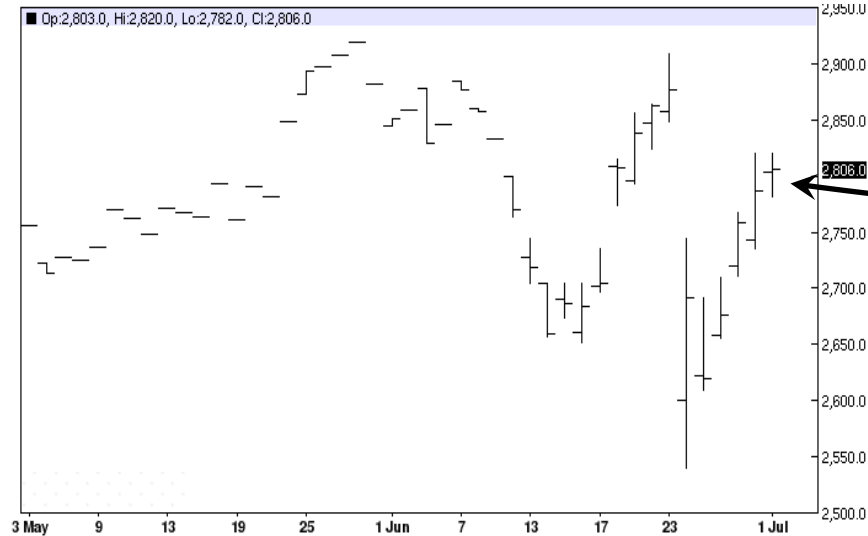
- + GOLD
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Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



The Macro Trader's view of DJ Euro Stoxx 50 is:

last week's price action fell short of that seen in the S&P and even the FTSE.

After steep sell offs in global equity markets the previous Friday, following the UK vote to leave the EU, last week saw equity markets bounce back, but the EUROSTOXX market visibly under performed the FTSE?

Looking ahead the key releases are German industrial

production, the various Euro zone PMI service surveys and Friday's US non-farm payroll report, but what ever the outcome of those releases we judge this market will continue to under perform as traders wonder what access big European companies will have to the UK market once the UK leaves the EU.

For now we are square here the S&P and FTSE look more interesting.

More



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Disclaimer

JAPANESE MARKETS: economic background

Last week's focus was industrial production and the Tankan survey.

In the event industrial production was worse than expected and the Tankan was broadly better than expected, but with CPI still in negative territory the authorities are not off the hook with the economy.

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

- On Monday; **PMI Services survey**,

- On Thursday; **C/A, Trade data and Eco watchers survey, and**
- On Friday; **Bankruptcies.**

The main event this week is the PMI Services survey.

A solid read would provide some optimism.



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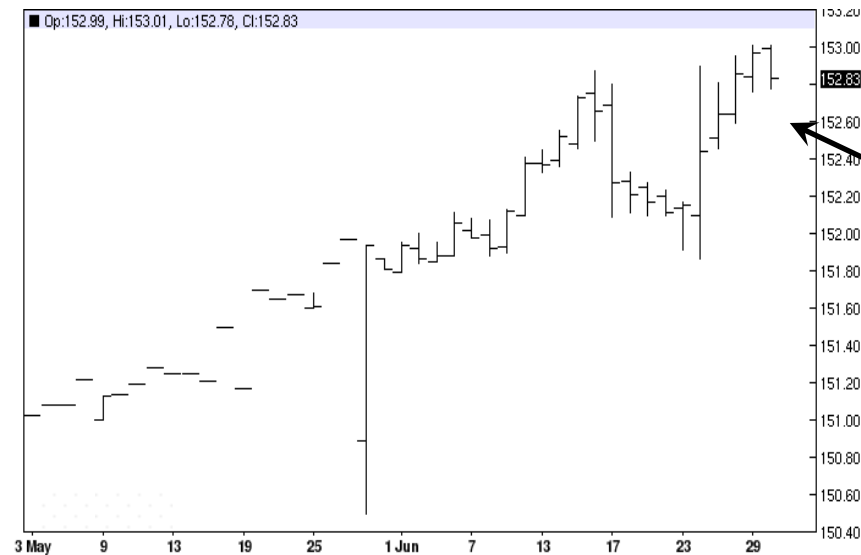
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JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB extended the gentle rally as the Yen rallied.

The Macro Trader's view of the JGB is: Last week's price action was driven by a combination of Yen strength, Nikkei weakness and safe haven buying in the aftermath of the UK's decision to leave the EU.

Looking ahead the key release this week is the PMI Service sector survey, but with much uncertainty in the

UK persisting and US non-farm payroll due, Yen strength could continue to feed this market's rally.

For now we are square here preferring to focus on the UK Gilt as our primary interest in Bonds.

More



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- + SHORT STERLING
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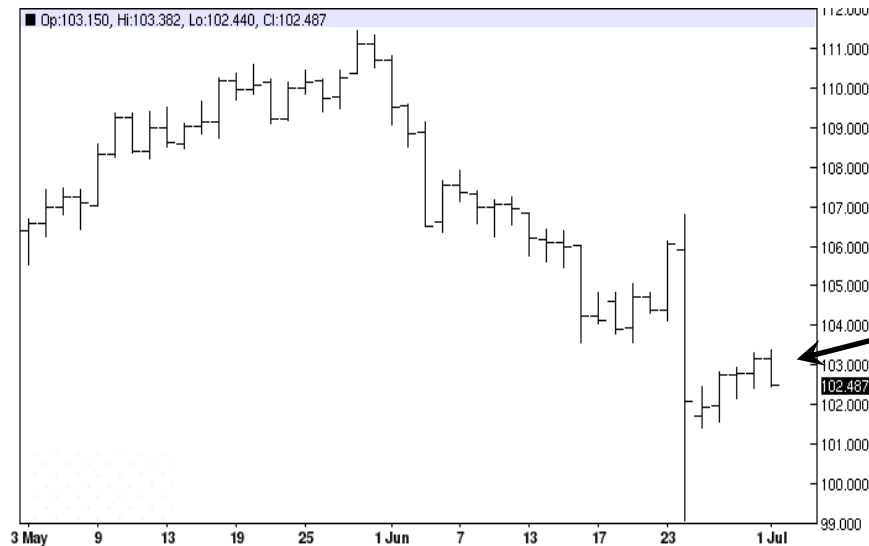
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JAPANESE MARKETS: Yen

OUR TRADING STANCE: BULLISH v the DOLLAR

Last week we were **Bullish v the Dollar**



The Yen stood out as the clear favourite safe haven trade, even against the Dollar.

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

...“We expect the Yen to remain supported on the receding chances of a US rate hike any time soon”...

Add in the unexpected UK decision to leave the EU which has made the Fed even more cautious about hiking and the Yen was in strong demand.

Looking ahead several reports due with the PMI service survey in Japan and US non-farm payroll on Friday, but the Yen looks very well supported.

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 103.35 is met.

Our target is now 101.20 and our suggested stop is lowered to 104.10 for closer protection.

The risk of Bank of Japan intervention is diminished in the current environment unless part of concerted Central Bank intervention but that doesn't look likely right now.

More



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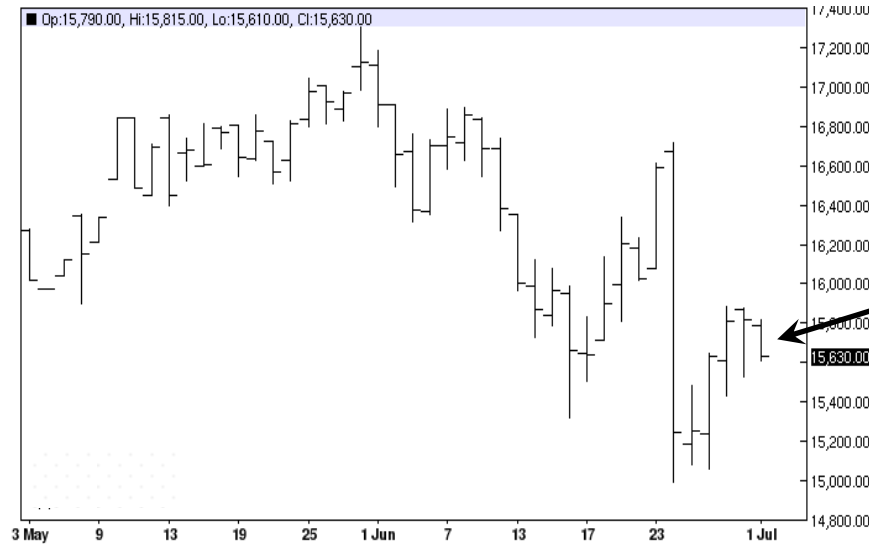
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JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei under performed last week, weighted down by the strong Yen.

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

...“we judge the Nikkei's fate is currently dictated by the Yen”...

And that definitely proved the case last week and remains so going forward.

Looking ahead the PMI Services survey is due, but we judge the Nikkei will continue to under perform. Although markets have calmed down, there remains

much uncertainty around the UK's next move. Who will be the new Prime minister and what policies will she or he pursue. Additionally will the opposition Labour party implode as in fighting rages and where next for the Fed as it tries to juggle domestic and foreign needs and risks?

For now we are square.

We see the Nikkei continuing to struggle under the weight of a stronger Yen, driven by safe haven buying.

More



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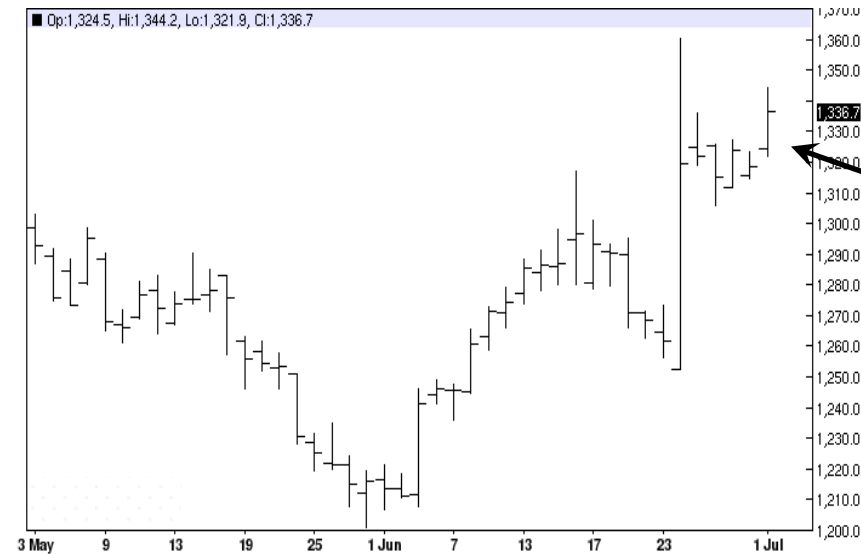
- + GOLD
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COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



The Macro Trader's view of the Gold is: last week's price action following the UK's decision to leave the EU and the fresh uncertainty that generated, was for us disappointing.

Ok the market rallied, but add in the fact the Fed has had to step back from its clearly stated intention to hike rates twice this year, Gold could have been a stronger buy.

The tepid performance indicates to us that despite the

initial market sell off in equities and the Pound on Friday June 24, the sky is still in place and business will continue as usual until the UK actually departs from the EU some 2 years hence and given calls for referendum in other EU countries who knows what the EU will look like by then and the terms of the UK divorce.

We are staying square here, we see limited appeal in gold and judge the US Bond and UK Gilt offers better rewards and even US and UK stocks look interesting.



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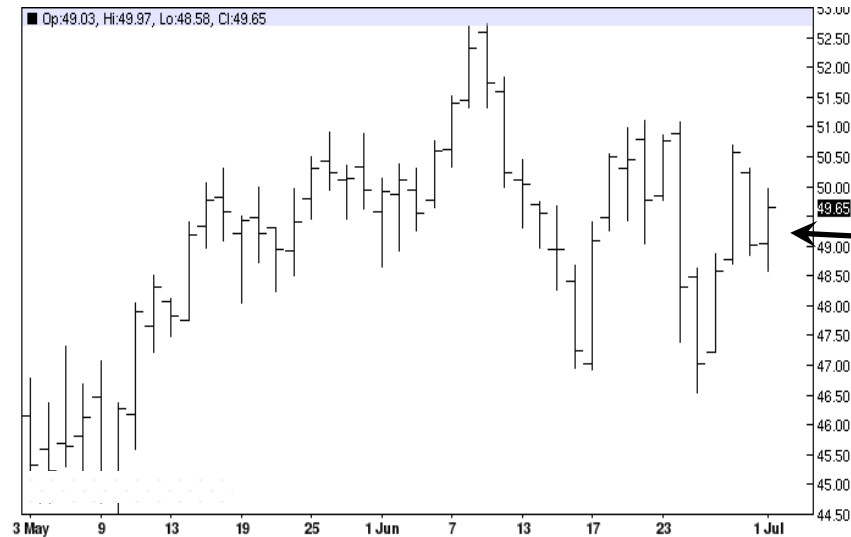
- + GOLD
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COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil sunk along with stocks as traders feared lower demand for oil on the back of weaker economic activity.

The Macro Trader's view of oil is: last week's price action showed oil isn't completely divorced from reality as it traded lower in the wake of the UK's decision to leave the EU and the fresh uncertainty that was thrown up as a result.

Looking ahead there are fears that not only the UK but also the global economy will suffer at least a chill from the UK's decision to exit the EU, but until she does leave in some two years time, the trading arrangements for goods and services remain unchanged, but what unsettles markets is they don't currently know what arrangements will be in place once

the UK has actually left.

But the "BREXIT" vote aside, the global economy was already in a soft spot and the US economy was flashing amber, so a strong rally now in oil would seem a little out of step with current realities, but is the market set for a sell off?

We judge that continues to rest on what Saudi Arabia/OPEC and Iran agree on output. No agreement in the near term should see oil trade lower.



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Commodities

- + GOLD
- + OIL

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