



Week 49
6th – 12th December 2016

Summary

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

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- + 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

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- SQUARE
- BEARISH
- BULLISH v the Euro
- BULLISH

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+ SHORT STERLING
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- SQUARE
- BEARISH
- SQUARE
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- SQUARE
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- SQUARE
- SQUARE

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+ OIL

- BEARISH
- SQUARE

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This week's global calendar

	Week of 5 th December
Monday	US ISM Non-mfg survey 55.2 UK PMI Services 54.0 UK Court hearing BREXIT appeal UK BRC Sales n/f IT PMI Services 51.9 FR PMI Services 52.6 DM PMI Services 55.0 EZ PMI Services 54.1 EZ Retail sales 0.8m, 1.7y JP Loans discount corp n/f JP PMI Services n/f JP Cons confidence 43.8
Tuesday	US Trade bal -\$39.4B US Non-farm productvty 3.2% US Unit labour costs 0.3% US Factory orders 1.9% UK CBI Trnds orders n/f UK CBI Shop prices n/f DM Factory orders 0.6m, EZ Q3 GDP 0.3q, 1.6y
Wednesday	US Consumer Credit \$15.000B UK Halifax hse prce indx 0.2m, 5.9y UK Ind production 0.2m, 0.5y UK Mfg output 0.2m, 0.8y UK NIESR GDP Estimate n/f UK RICS Hse price survey 26 DM Ind production 0.8m, JP C/A 1,577.0B JP Trade bal n/f JP Q3 GDP 0.6q, 2.4 (A) JP Bank Indg 2.4% JP Bankruptcies n/f JP ECO Watchers survey n/f

	Week of 5 th December
Thursday	US Jobless claims 272k EZ ECB Rate decision 0.0% EZ ECB AP 80.0B JP BSI Lrge all industry 3.4 JP Machine tool orders n/f
Friday	US Wholesale invntry -0.4% US U. of Michigan confidence 94.2 UK Trade bal -11.80B UK Trade non-EU n/f UK Construction output 0.2m, -0.1y DM Trade bal 21.5B DM C/A n/f

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Last week's releases

	Week of 28 th November
Monday	DM Import prices 0.3m, -0.1y MORE DM Retail sales 2.4m, -1.0y STRONGER EZ M3 4.4y WEAKER JP Jobless rate 3.0% AS JP Househld spndg 0.1m, -0.4y BETTER JP retail sales 1.0y AS THAN EXPECTED
Tuesday	US Q3 GDP (A) 3.2% STRONGER US Q3 GDP Price index 1.4q, LESS US Q3 Core PCE 1.7% AS US Q3 persnl consmptn 2.8 BETTER US Case/shiller comp-20 5.08% WEAKER US Cons confidence 107 STRONGER UK Net consumer CR 1.62B STRONGER UK Net Indg on dwellings 3.30B STRONGER UK Mrtge aprvls 67.52K STRONGER UK GFK Cons confidence -8 WEAKER FR Q3 GDP 0.2q, 1.1y AS EZ Services confidence 12.1 LESS EZ consumer confidence -6.1 LESS EZ Ind confidence -1.1 LESS DM CPI 0.1m, 0.8y AS JP Ind production 0.1m, -1.3y AS JP Vehicle production -3.9 WORSE THAN EXPECTED
Wednesday	US MBA Mrtge apps -9.4% WEAKER US ADP Employ'm't chge 216k STRONGER US Persnl income 0.6% STRONGER US Persnl spndg 0.3% WEAKER US Core PCE 0.1m, 1.7y AS US Chicago PMI 57.6 STRONGER US Pndg home sales 0.1m, 0.2y LESS US Fed's Beige book UK Nat'nwide hse prices 0.1m, 4.4y LESS DM Unemploy'm't chge -5k AS DM Unemploy'm't rate 6.0% AS EZ CPI Estimate 0.6y AS JP Construct'n orders 15.2% LESS JP PMI Mfg 51.3 MORE THAN EXPECTED

	Week of 28 th November
Thursday	US Jobless claims 268k WORSE US Construct'n spndg 0.5m, AS US ISM Mfg 53.2 BETTER US ISM Prices paid 54.5 LESS UK PMI Mfg 53.4 WEAKER IT PMI Mfg 52.2 MORE FR PMI Mfg 51.7 MORE DM PMI Mfg 54.3 LESS EZ PMI Mfg 53.7 AS EZ Unemploy'm't rate 9.8% BETTER IT Q3 GDP 0.3q, 1.0y BETTER JP Vehicle sales 13.9% STRONGER THAN EXPECTED
Friday	US Avenge hrly earngs 0.1m, 2.5y WEAKER US Avenge wrk week 34.4 AS US Unemploy'm't rate 4.6% BETTER US Non-farm payroll 178k MORE US ISM NYK 52.8 STRONGER UK PMI Construction 52.8 STRONGER EZ PPI 0.8m, -0.4y STRONGER THAN EXPECTED

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US MARKETS: economic background

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Last week's focus was the Q3 GDP report with an eye trained on Friday's non-farm payroll.

In the event the GDP report was stronger than expected and at an upwardly revised 3.2% represents the strongest quarterly growth rate for some time.

On Friday non-farm payroll was stronger than expected but the surprise was the big drop in the unemployment rate.

On balance we see little preventing the Fed from delivering its much delayed second rate hike at next week's FOMC meeting.

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; **ISM Non-manufacturing survey**,
- On Tuesday; **Trade balance, Q3 non-farm productivity, Q3 Unit labour costs and factory orders**,
- On Wednesday; **consumer credit**,
- On Thursday; **Jobless claims**, and
- On Friday; **wholesale inventories and University of Michigan confidence**.

The key report this week is the ISM non-manufacturing survey.

Traders will be watching for evidence that the economic rebound is continuing steadily.

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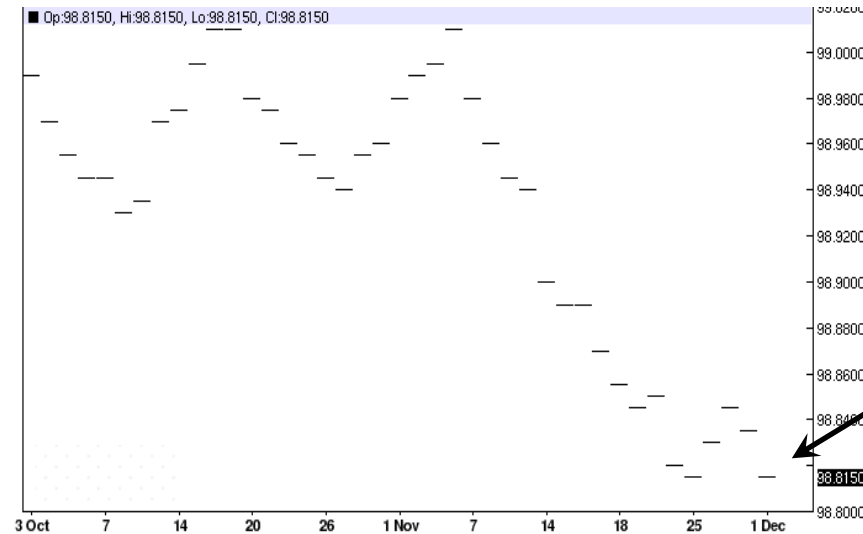
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars are pricing in more than just one rate hike.

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

...“Looking ahead the two key reports this week are Q3 GDP; upward revision expected, and non-farm payroll. A strong GDP report and in line payroll report will all but guarantee a rate at the next FOMC”...

In the event a strong Q3 GDP report was delivered and

non-farm payroll beat consensus; a December rate hike it must surely be.

Looking ahead the ISM non-manufacturing survey is due, but unless much weaker than expected; not our expectation, the Fed's mind is already made up.

We are remaining square. Future rate hikes already look priced in.

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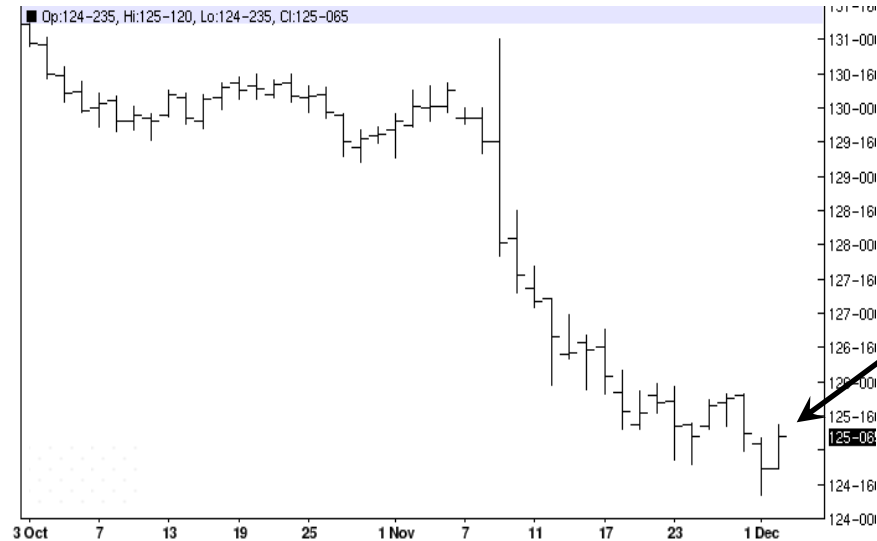
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US MARKETS: 10 Year Note

OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish** of the 10 year note.



The 10 year note remains under pressure.

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

...“Looking ahead the Q3 GDP report stands out this week when an upward revision to 3.0% is expected. If that is the result the Fed will surely move”...

In the event the reading was stronger at 3.2% and the unemployment rate unexpectedly dropped to 4.6%.

Looking ahead the ISM non-manufacturing survey is due, but we judge all eyes are already focussed on

next week's FOMC meeting.

We are bearish of Bonds. The policies Trump has articulated will be pro-growth, but at the expense of a bigger budget deficit and a likely burst of inflation.

Traders should be short.

Our suggested target remains 124.00 and our suggested stop continues at 128.90 for protection.

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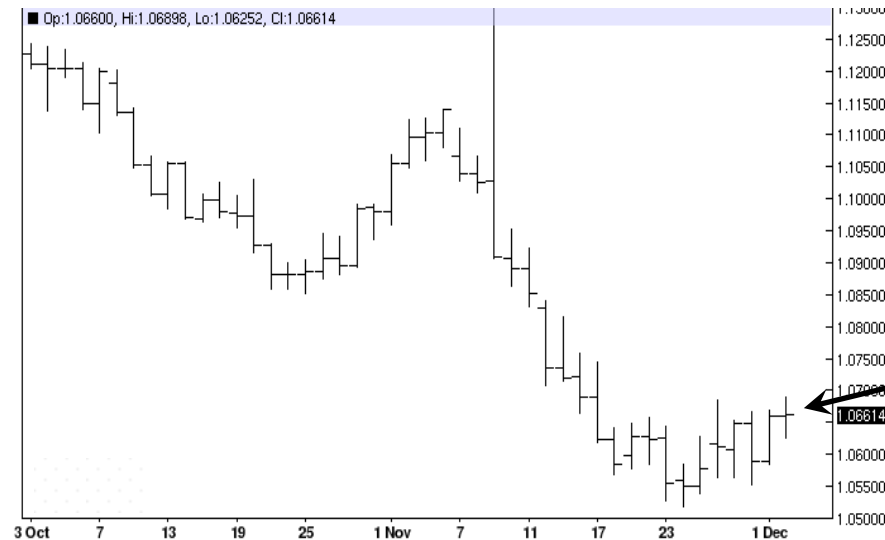
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US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the EURO.

Last week we were Bullish v the Euro



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

...“Looking ahead the Q3 GDP report and non-farm payroll are the stand out releases this week. If they meet consensus we judge the Dollar will extend the rally”...

In the event both exceeded expectations but the Dollar failed to capitalise.

Looking ahead the ISM non-manufacturing survey is

due, a strong reading will guaranty a rate hike at next week's FOMC meeting.

We remain long the Dollar/Short the Euro as we judge the Dollar can rally much further, despite the current correction and today's volatility.

Our suggested target remains 1.0415 and our suggested stop continues at 1.0860 for closer protection.

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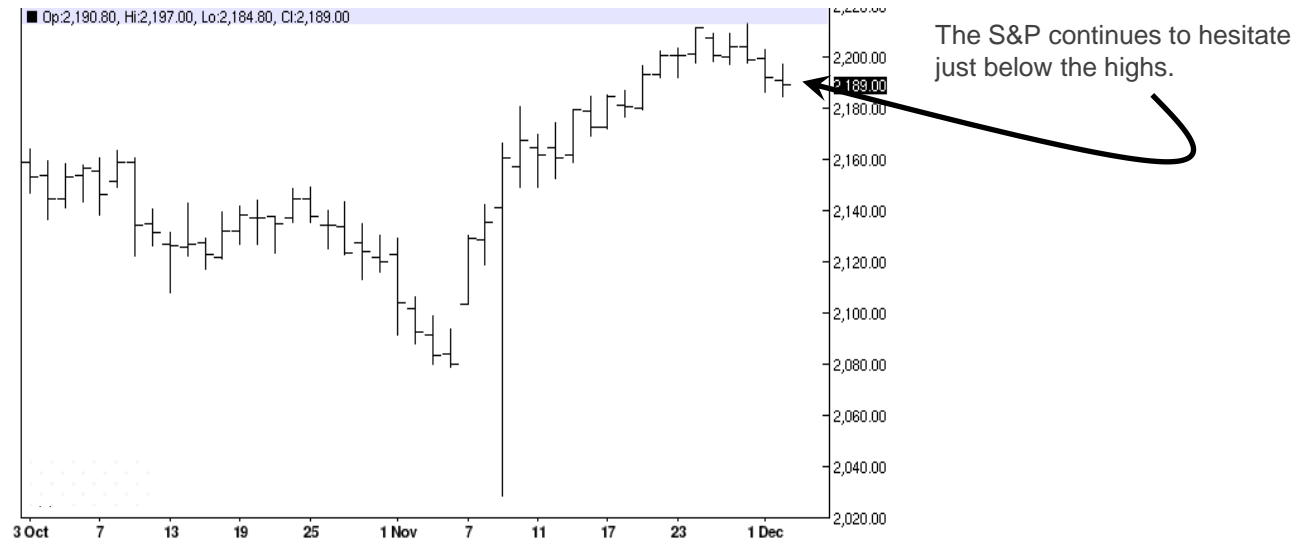
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US MARKETS: S&P500

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 we said...

...“Looking ahead the market could well get another push higher this week on the back of Q3 GDP and non-farm payroll”...

In the event both Q3 GDP and non-farm payroll and the unemployment rate all exceeded expectations, but stocks hesitated just below the highs as events in the EU delivered some unwelcome uncertainty.

Looking ahead the ISM non-manufacturing survey is due, but unless materially different to consensus we sense stocks are focused on other events; the fresh uncertainty in the EU!

We remain Bullish of this market.

Our suggested target remains 2240.0 and our suggested stop continues at 2175.0 for protection.

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Commodities

- + GOLD
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Disclaimer

UK MARKETS: economic background

Last week's focus was the PMI manufacturing survey, could it extend the recent strong set of releases into a firm trend?

In the event the report fell short of consensus, but at 53.4 still points to solid if unspectacular growth.

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 Services, Supreme court BREXIT hearing and BRC sales,**

- On Tuesday; **CBI Trends total orders and CBI Shop prices,**
- On Wednesday; **Industrial production, manufacturing output, NIESR GDP estimate and RICS house price survey, and**
- On Friday; **Trade data, Non-EU Trade data and construction output.**

The main event this week is the PMI Services survey.

A strong report will point to a solid Q4 GDP performance.



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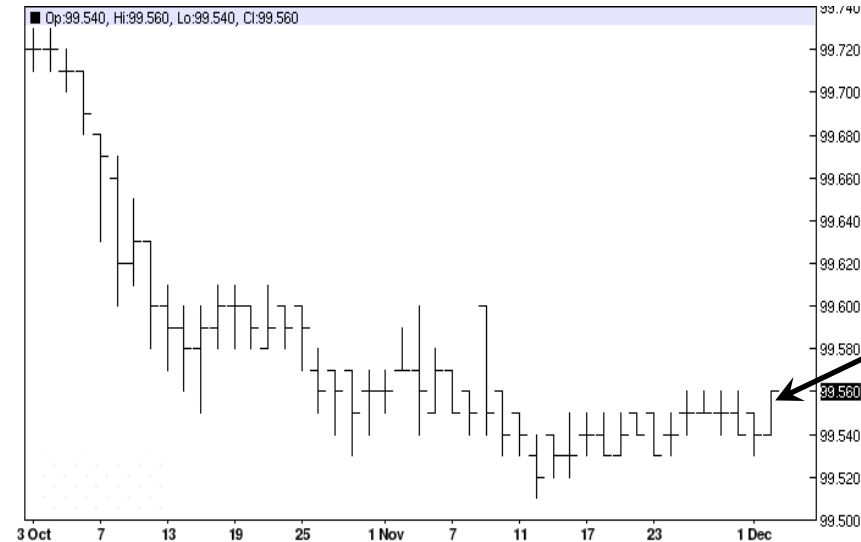
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UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling remains trapped in a tight trading range.

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

...“Looking ahead the key release this week is the PMI Manufacturing survey, but we doubt it will have a significant impact on this market”...

In the event the report fell just short of consensus and as suggested it had little measurable impact on the market.

Looking ahead the PMI Services survey is the key release this week, and although the Supreme Court BREXIT hearing will generate interest we will not know the ruling until next year.

We are square of Short Sterling, we continue to see more mileage in the Gilt market.

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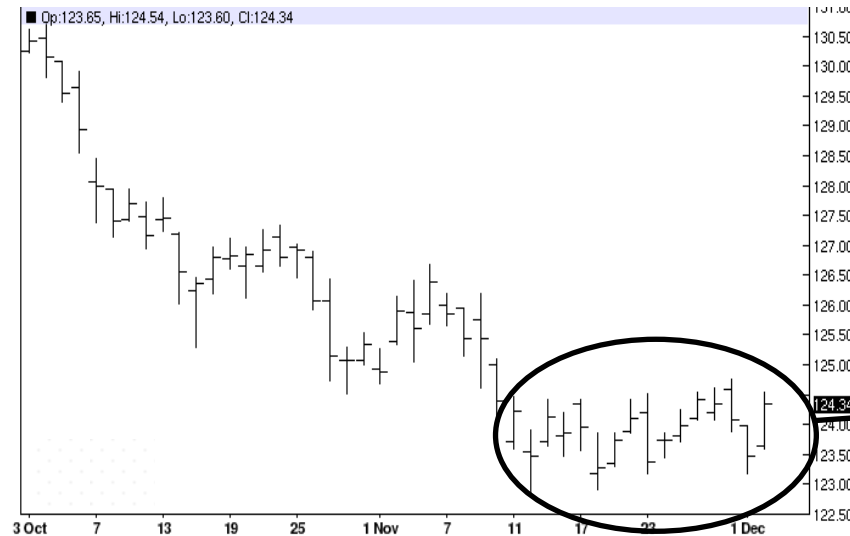
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UK MARKETS: Gilt

OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish.**



See how the Gilt has fallen into a trading range around the lows.

The Macro Trader's view of the Gilt is; last week's price action was one of consolidation with the market trapped close to the recent lows, but unable to push lower as stocks suffered a correction.

Looking ahead the key event this week is the PMI Services survey. A solid report would add to evidence already suggesting a solid Q4 GDP report is likely.

We remain Bearish the Gilt. The government faces a period of tough negotiations with the EU and sentiment will likely become more volatile as the process evolves.

Our suggested target remains 121.800 and our suggested stop continues at 124.75 for protection.

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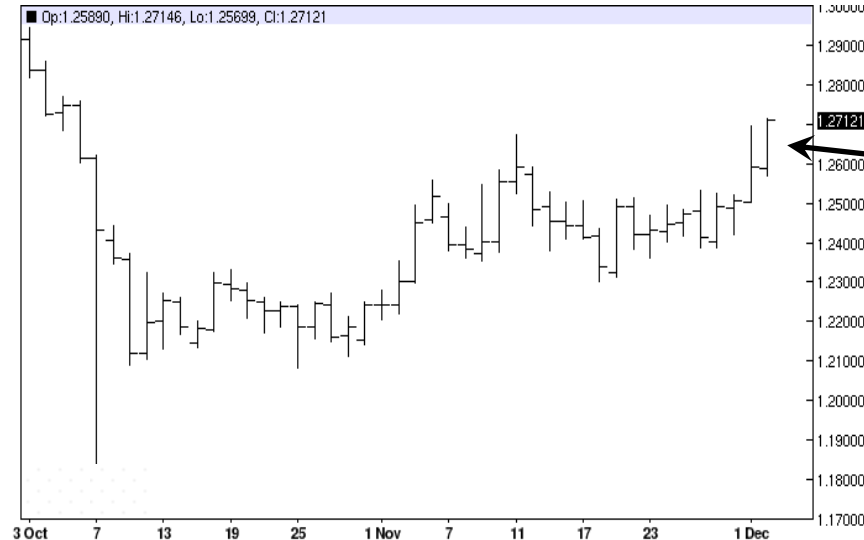
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UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were Square



See how the Pound remains supported, but by non-UK events.

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

...“Looking ahead PMI Manufacturing is due, but unless much different to consensus we doubt it will have much impact on Sterling”...

In the event that proved the case as the decision of French President Hollande not to seek re-election and the looming Italian referendum grabbed market attention.

Looking ahead the key release this week is the PMI Services survey, but as the French Presidential race begins to warm up and Italy voted no in the referendum, we judge foreign sentiment is likely to play a key roll in Sterling's movements.

We are staying square here.

The Pound has corrected but we don't currently think it is a trend change.

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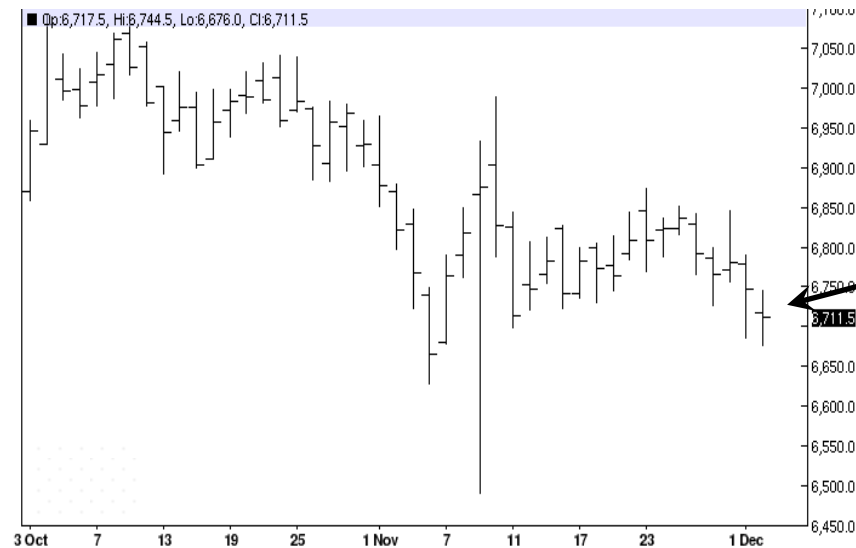
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UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.



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

...“Looking ahead the PMI manufacturing survey is due, but we don't expect it to move this market, a more likely source of dynamism will come from the US, should a strong Q3 GDP report send equity markets higher”...

In the event the PMI Manufacturing survey fell short of sentiment and US Q3 GDP came in stronger than

expected, but a wave of uncertainty coming from the EU/Euro zone weighed on stocks last week.

Looking ahead the PMI Services survey is due, will it continue the recent run of solid data?

Traders should remain long the FTSE.

Our suggested target continues at 7105.0 and our suggested stop remains at 6610.0 for protection, but patience is needed!

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EURO ZONE MARKETS: economic background

Last week's focus was split between the various Euro zone PMI Manufacturing surveys, French and Italian Q3 GDP and the Italian referendum.

In the event the PMI Surveys were broadly in line, French GDP was as expected, Italian GDP a little better, but the Italian's voted against the reform referendum prompting the Prime minister to resign.

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; **Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales,**

- On Tuesday; **German factory orders and Euro zone Q3 GDP,**
- On Wednesday; **German industrial production,**
- On Thursday; **ECB Policy decision, and**
- On Friday; **German trade and C/A data.**

There is a packed calendar this week but we judge the main event is Thursday's ECB policy decision.

Once markets get over the Italian referendum result, traders will focus on the ECB. Will they extend their QE, as some expect, reduce it as others expect or leave as is?



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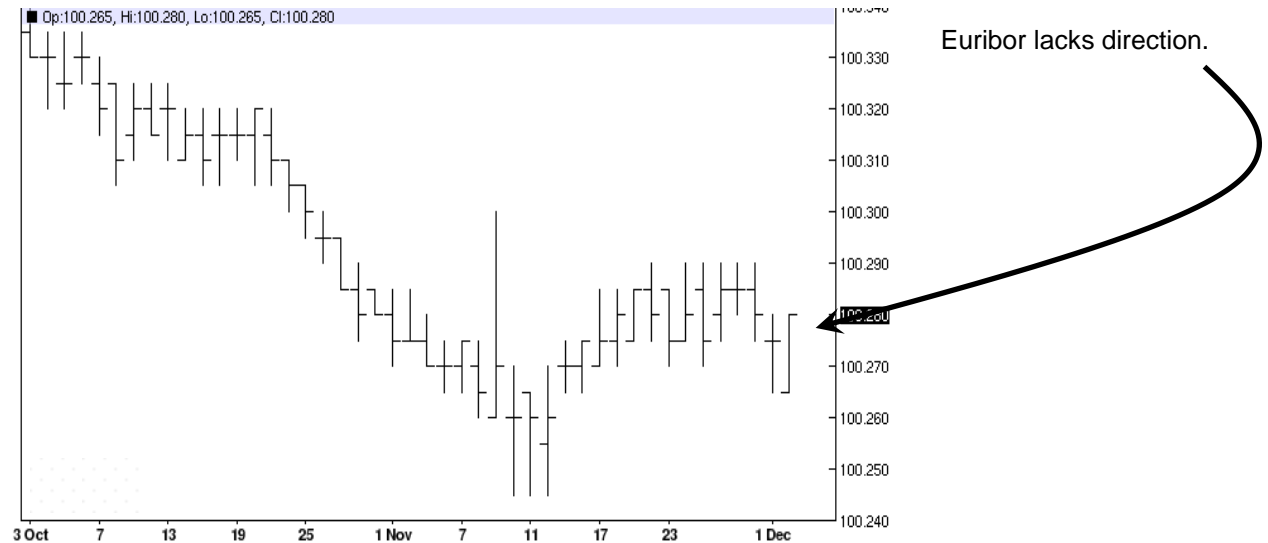
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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



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

...“Looking ahead the key reports this week are the various PMI surveys and Q3 GDP reports, but once again minimal impact on this market is anticipated”...

In the event data threw out few if any surprises, but Hollande's decision not to seek re-election and the

looming Italian referendum, not to mention the election in Austria grabbed investors attention.

Looking ahead the key event this week is the ECB policy decision. There are various expectations in the markets, what will policy makers decide?

We remain square here.

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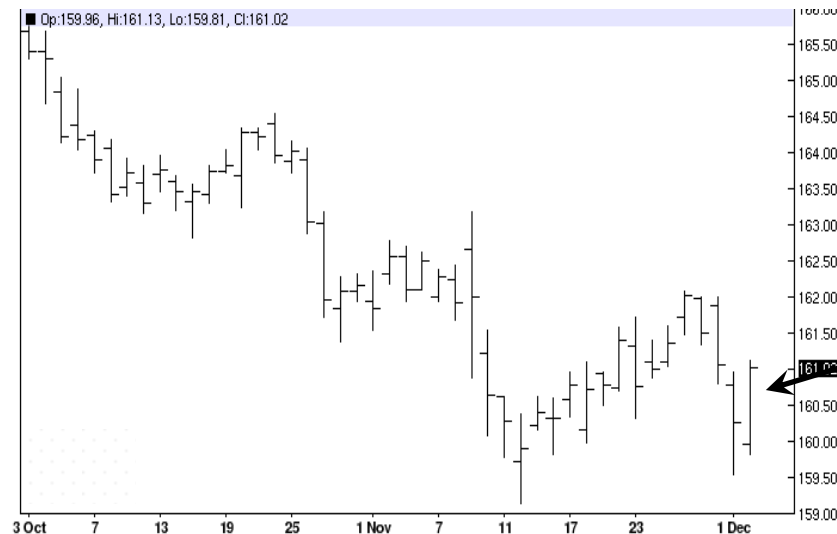
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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund remains under pressure together with other Government bond markets.

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

...“Looking ahead the various Euro zone PMI manufacturing surveys are due, together with French and Italian Q3 GDP. They are unlikely to flag a pick up in the pace of growth, but this market looks vulnerable never the less as bond markets react to President elect Trump's policies”...

In the event data was broadly in line, in fact Italian Q3 GDP was slightly better than expected, but bonds are

nervous due to the global implications of Trump's proposed policy stance.

Looking ahead the various Euro zone PMI Services surveys are due, but after the no vote in the Italian referendum on Sunday and Hollande's decision not to seek re-election, uncertainty reigns in markets once more.

We are square of the Bund, preferring to be short of the US Bond and UK Gilt, since that is where the risks still mainly lay.

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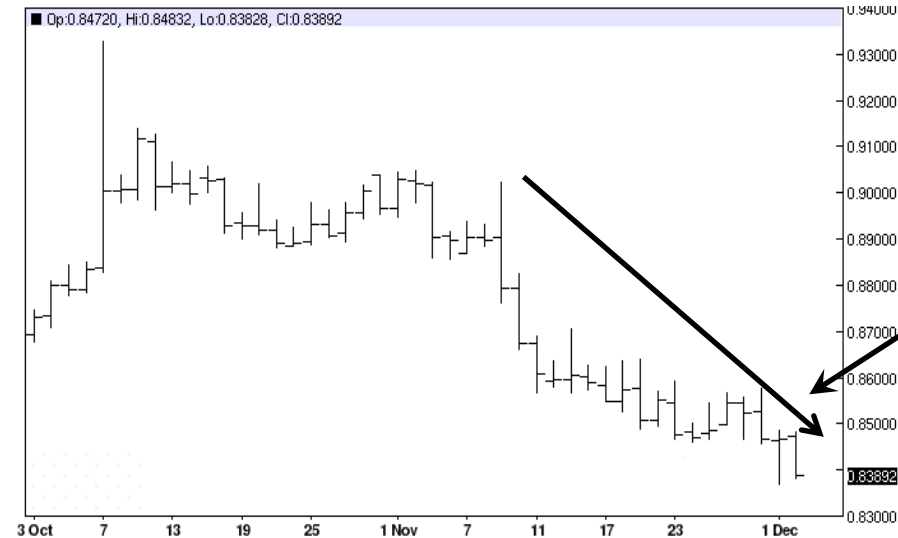
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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH V THE DOLLAR

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



The Euro continued to weaken against Sterling last week.

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

...“Looking ahead the various PMI manufacturing surveys are due, but the Euro looks weak when one considers the spending spree on infrastructure proposed by Donald Trump”...

That said the Dollar failed to make new gains against the Euro despite strong US data, which all but guaranty's a Fed rate hike next week. Against Sterling the Euro has softened as the UK Government sends out various signals about potentially being prepared to

contribute to the EU budget for single market access.

Looking ahead the various PMI Services reports are due together with the ECB policy decision later in the week, but we sense politics and political uncertainty look set to drive the Euro a little longer.

We are long the Dollar/Short the Euro.

Our suggested target remains 1.0415 and our suggested stop continues at 1.0860 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

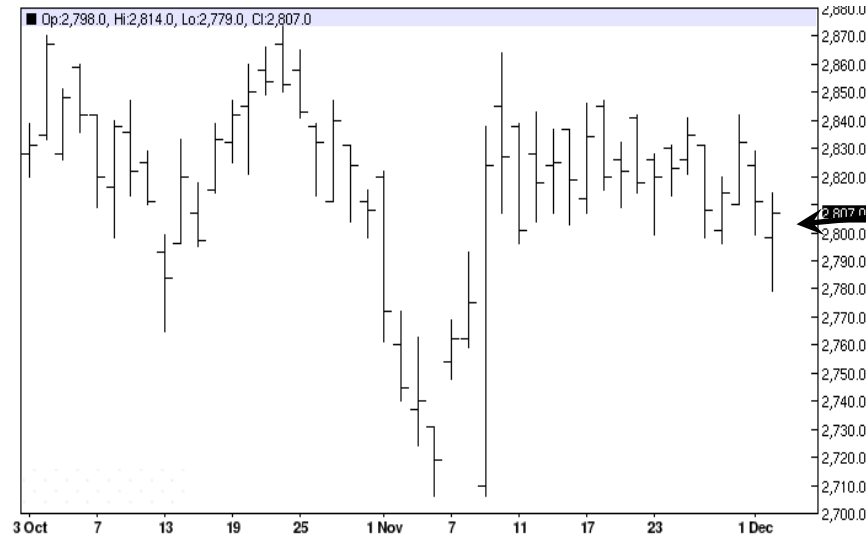
- + GOLD
- + OIL

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 we said...

...“Looking ahead the key releases this week are the various Euro zone PMI manufacturing surveys and French and Italian Q3 GDP. On balance we doubt they will have a major impact on this market, stocks continue to be driven by events and sentiment from the US”...

In the event neither data or US sentiment drove the

market last week, it was mainly political uncertainty within the EU/Euro zone as French President Hollande made a surprise announcement that he would not seek re-election.

Looking ahead several important data releases due but we judge politics and political uncertainty will remain a key dynamic in this market.

We are staying square.

More



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Disclaimer

JAPANESE MARKETS: economic background

Last week's focus was split between Industrial production and the PMI Manufacturing survey.

Of the two we focussed mainly on industrial production; actual data rather than a survey! In the event the Industrial production report was as expected offering no new clues.

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 and consumer**

confidence,

- On Wednesday; **C/A, Trade data, Q3 GDP, Bank lending, Bankruptcies and Eco watchers survey, and**
- On Thursday; **BSI Large all industry survey and Machine tool orders.**

The key event this week is Q3 GDP. When last released the report was much stronger than expected, will there be revisions?



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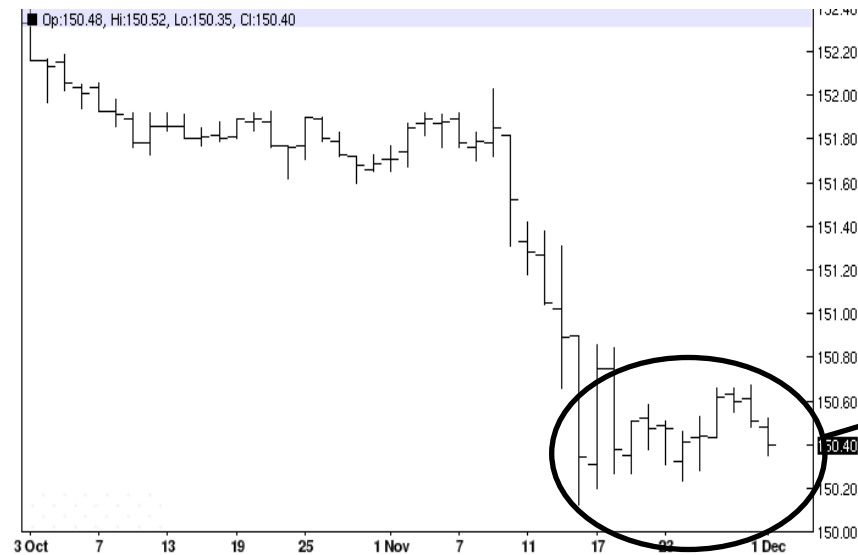
- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB consolidated around the lows.

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

...“Looking ahead the key release this week is Industrial production, but the PMI Manufacturing survey is due too”...

In the event industrial production was as expected, but the PMI Manufacturing survey was a little better, but Bonds globally look under pressure.

Looking ahead there are several key reports due, but we judge the main event is the release of Q3 GDP. The earlier release was stronger than expected, will there be revisions?

We are square here, government bonds generally look vulnerable, but the JGB had been protected to a degree by deflation.

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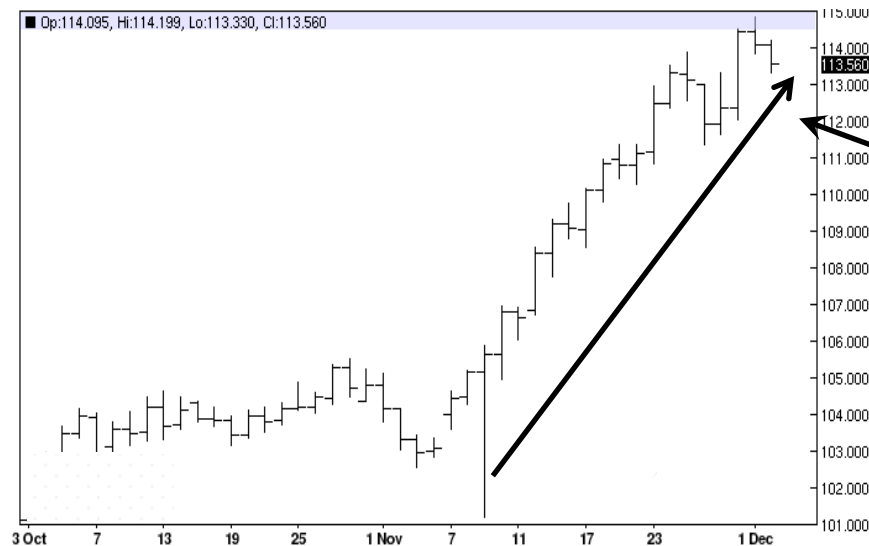
- + GOLD
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Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen made new recent lows against the Dollar.

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

...“Looking ahead the key release this week is Industrial production, but we judge Dollar/Yen will be led by events in the US where Q3 GDP and non-farm payroll take centre stage”...

In the event US data was better than expected and Japanese in line, but the expectation of the Trump presidency and his policies continue to be a dynamic in

Dollar/Yen.

Looking ahead the key event is Q3 GDP; will there be revisions, but as next week's FOMC meeting comes into sharper focus the question in the market is; Will the Fed finally hike?

We are square here preferring for now to focus on Dollar/Euro.

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Commodities

- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei remains driven by Yen weakness.

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

...“Looking ahead several reports due as detailed on the calendar, but we judge stocks will be further led by events in the US which for the Nikkei means a weaker Yen means Equity market rally”...

In the event that remained the narrative; a weak Yen

extended the Nikkei rally.

Looking ahead Q3 GDP is due, but more to the point will the Yen weaken further, because that is what is driving this market.

We are square here preferring for now the S&P.

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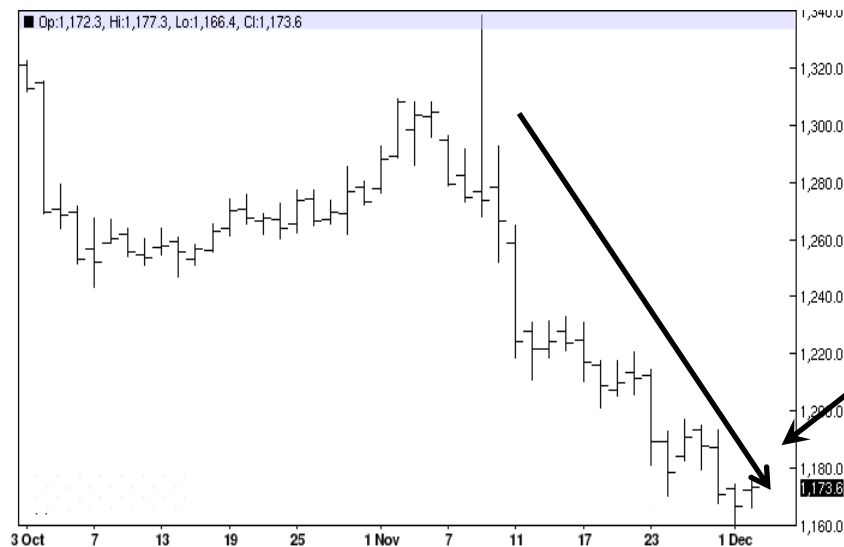
- + GOLD
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Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: **BEARISH**

Last week we were **Bearish** of Gold.



See how Gold extended the sell off.

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

...“Looking ahead there are several key reports due in the US this week and although non-farm payroll is due on Friday we are interested in the US Q3 GDP report. An upward revision is expected and consensus is focused on 3.0%, the strongest level for quite some time and would surely give the Fed all the evidence it needs to hike rates”...

In the event an OK non-farm payroll, unexpected drop

in the unemployment rate and an even stronger than expected Q3 GDP report at 3.2%. The Fed will surely hike!

We remain Bearish of gold on expectations of an extended Dollar rally.

Our suggested target of 1160.0 was hit.

Our suggested target is now set at 1140.0 and our suggested stop reduced to 1210.0 for closer protection.

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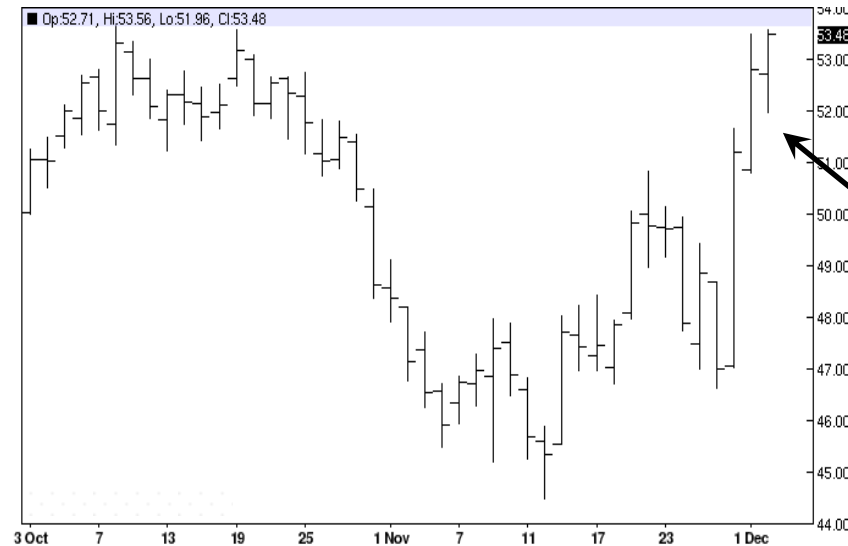
- + GOLD
- + OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE; SQUARE.

Last week we were Square of Oil.



See how oil rallied on an OPEC production cut agreement.

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

...“Looking ahead we judge unless OPEC can cut production this market will continue to drift, and even if they do cut how high can the market rally when shale producers in the US would get a green light to up production”...

In the event OPEC announced the long awaited production cut and the market rallied, but is this a gift to US Shale producers?

Looking ahead the detail of the cut is still unknown, and the rally looks feeble, not even breaking above previous recent highs. As we have said previously, the higher the oil price goes the more profitable shale production becomes and the more oil and gas comes to market meaning the price is surely capped below US\$60.00 and then reverses.

For now stay square. The dynamics in this market are not pure economics or straight forward supply and demand, but politics; nothing new there then!

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Commodities

- + GOLD
- + OIL

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