Week 01

3rd – 9th January 2017

Multi-asset fundamental strategies

John Lewis

Authorised and regulated by the FSA

SUMMARY

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This week's global calendar

	Week of 2nd January
Monday	IT PMI Mfg 52.3 FR PMI Mfg 53.5 DM PMI Mfg 55.5 EZ PMI Mfg 54.9 JP PMI Mfg 51.9
Tuesday	US ISM Mfg 53.5 US ISM Prices paid 55.5 US Construct'n spndg 0.5m, UK PMI Mfg 53.2 DM Unemploym't chge -5k DM Unemploym't rate 6.0% DM CPI 0.6m, 1.4y
Wednesday	US MBA Mrtge apps n/f US FOMC Minutes December 13-14 UK Net Indg on dwellings 3.3B UK PMI Construction 52.4 UK Net consumer CR 1.6B UK Mrtge aprvls 68.9k IT PMI Services 52.5 FR PMI Services 52.6 DM PMI Services 53.8 EZ PMI Services 53.1 EZ CPI Estimate 1.0y EZ ECB Minutes JP Loans & discount corp n/f JP PMI Services n/f

	Week of 2nd January
Thursday	US Jobless claims 267k US ADP Employ't chge 170k US ISM Non-mfg 56.5 UK PMI Services 54.7 EZ PPI 0.1m, -0.1y JP Vehicle sales n/f
Friday	US Trade bal -$42.0B US Non-farm payroll 175k US Unemploym't rate 4.7% US Averge hourly earngs 0.3m, 2.8y US Averge wrk week 34.4 US Factory orders -2.0% UK Unit labour costs 1.5% DM Factory orders -1.9m, 3.6y EZ Ind confidence -0.5 EZ Cons confidence -5.8 EZ Services confidence 12 EZ Retail sales -0.4m, 1.9y

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Last week's releases

	Week of 26th December
Monday	JP PPI 0.3y **LESS** JP BOJ Minutes 31 November meeting JP Househld spndg -1.5y **WEAKER** JP Jobless rate 3.1% **WORSE** JP CPI National -0.4y **WEAKER** JP CPI Tokyo -0.6y **WEAKER** **THAN EXPECTED**
Tuesday	US Case/Shiller comp-20 5.1y **MORE** US Consumer confidence 113.7 **STRONGER** UK Nat'nwide hse prices 0.8m, 4.5y **MORE** JP Construction orders -6.0% **WORSE** JP Sml bus confidence 48.8 **BETTER** JP Ind production 1.5m, 4.6y **LESS** JP Retail trade 1.7y **STRONGER** JP Vehicle production 6.6y **STRONGER** **THAN EXPECTED**
Wednesday	US Pendg home sales -2.5m, 1.4y **WEAKER** UK BBA mrtge aprvls 40.659K **WEAKER** **THAN EXPECTED**

	Week of 26th December
Thursday	US Wholesale invntry 0.9% **STRONGER** US Jobless claims 265k **BETTER** US Advanced gds trade -$65.3B **WORSE** EZ M3 y/y 4.8% **STRONGER** **THAN EXPECTED**
Friday	US Chicago PMI 54.6 **WEAKER** **THAN EXPECTED**

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US MARKETS: economic background

Last time we focused on Q3 GDP and asked if there would be revisions.

In the event there were and the number was revised stronger.

Last week there was little heavy weight data and markets continued to react to the GDP number the previous week and the fast approaching Trump Presidency.

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; **ISM Manufacturing survey, ISM prices paid and construction spending,**
- On Wednesday; **FOMC Minutes December 13 – 14 meeting,**
- On Thursday; **Jobless claims, ADP Employment change and ISM non-manufacturing survey, and**
- On Friday; **non-farm payroll, unemployment rate, average hourly earnings, average work week and factory orders.**

There are several key data releases due this week, including the ISM surveys, FOMC minutes and non-farm payroll.

We advise monitoring them all closely.

The minutes are from the rate hike meeting; did the Fed have more to say on future rate hikes?

The ISM surveys are a current look at the health of the economy and as always the Payroll report is an important gauge of the labour market.

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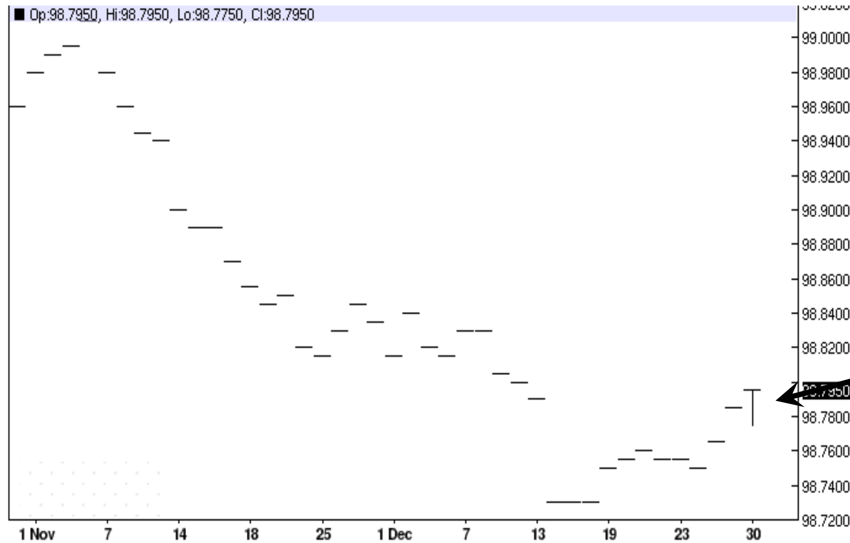
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars are pricing in three rate hikes.

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

…"Looking ahead the key release is the Q3 GDP report, but unless very much different to consensus we judge the market has already adjusted"…

In the event Q3 GDP was stronger than expected, but the Fed previously indicated three rate hikes for 2017, which already look priced in.

Looking ahead a whole raft of data due, but unless materially different from consensus we judge the market will offer little reaction.

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

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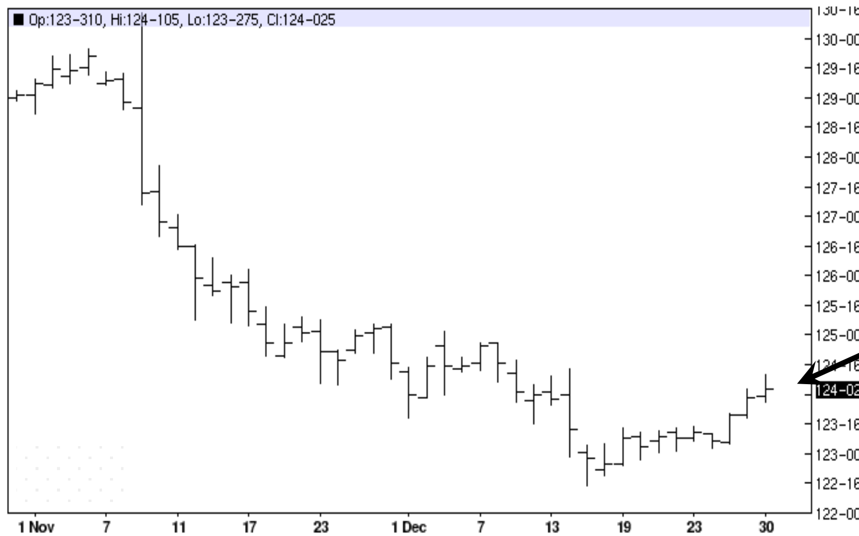
US MARKETS: 10 Year Note

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the 10 year note.



The 10 year note corrected on profit taking in stocks.

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

…"Looking ahead the main event is the Q3 GDP report, but in the last week of trading before Christmas holiday's we judge markets will need a number wide of consensus to get excited"…

In the event the number was revised a little stronger but not enough to sent Bonds lower.

Looking ahead there are several key releases due including the FOMC minutes and non-farm payroll. We advise monitoring them closely. Any hint of a hawkish tone at the Fed and or strong non-farm payroll will send this market lower.

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 121.30 and our suggested stop set at 124.50 for protection.

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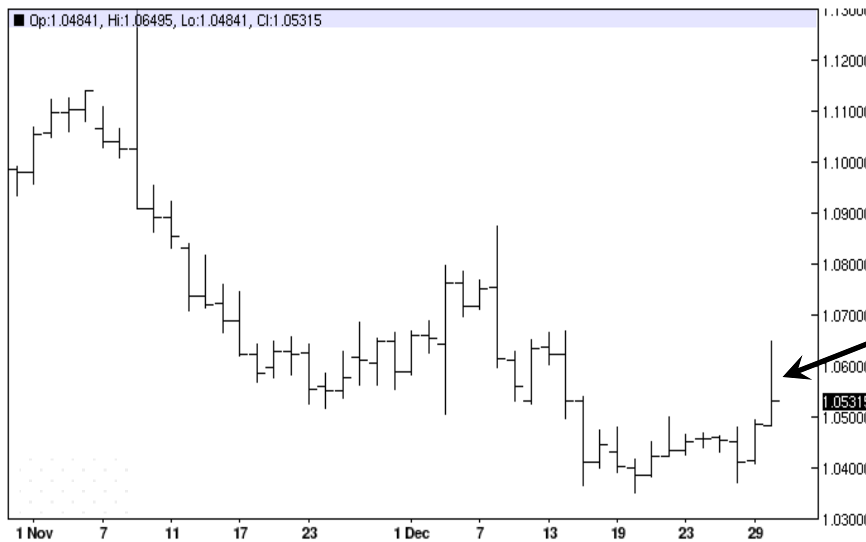
US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the EURO.

Last week we were Bullish v the Euro



The Dollar suffered a correction but remains bullish.

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

…"Looking ahead the Q3 GDP report is the main event, but unless revised lower, we expect the Dollar to ad to its recent gains"…

In the event the number was revised up, but a diplomatic spat between the US and Russia briefly hit the Dollar.

Looking ahead four key reports due and we expect them all to be Dollar positive.

We remain long the Dollar/Short the Euro despite our stop being hit.

Our suggested target remains 1.0230 and our suggested stop reset to 1.0695 for protection.

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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 Q3 GDP stands out, an inline number will see this market make further gains"…

In the event an upward revision was released and the market retested the resent highs before year end profit taking set in.

Looking ahead the FOMC minute, ISM surveys and non-farm payroll stand out. We expected then to be supportive of this market. The minutes are unlikely to say any more than we already know; the Fed wants to hike three time this year. The ISM surveys and the payroll number are likely to confirm the economy remains on a solid footing, but not overheating.

We remain Bullish of this market.

Our suggested target remains 2290.0 and our suggested stop continues at 2205.0 for protection.

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UK MARKETS: economic background

Last time we focused on Q3 GDP. The original release was a a solid 0.6q/q would there be revisions?

In the event the Q/Q number was revised up to 0.6 confirming the economy remains in good health, despite the fears driven by “BREXIT”.

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; **PMI Manufacturing survey,**
- On Wednesday; **Net lending on dwellings, PMI Construction, net consumer credit and mortgage approvals,**
- On Thursday; **PMI Services survey, and**
- On Friday; **Labour costs.**

The key events this week are the PMI surveys.

Has manufacturing begun to benefit from the weaker Pound via increased exports and has the Service sector retained its strong momentum despite the reality of “BREXIT”?

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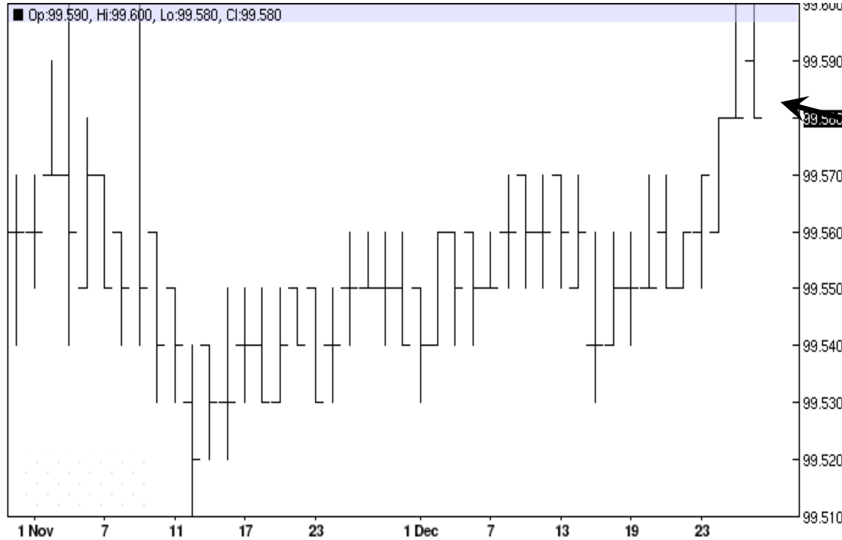
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling remains supported as traders await the negative economic impact of "BREXIT".

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

…"Looking ahead Q3 GDP stands out. Will there be any revisions; we don't think so"…

In the event the Q/Q number was revised up, the year on year number down.

Looking ahead the PMI Surveys stand out this week. As the dead line for triggering article 50 which starts the formal EU exit talks looms larger traders are still awaiting the negative economic hit expected from "BREXIT".

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

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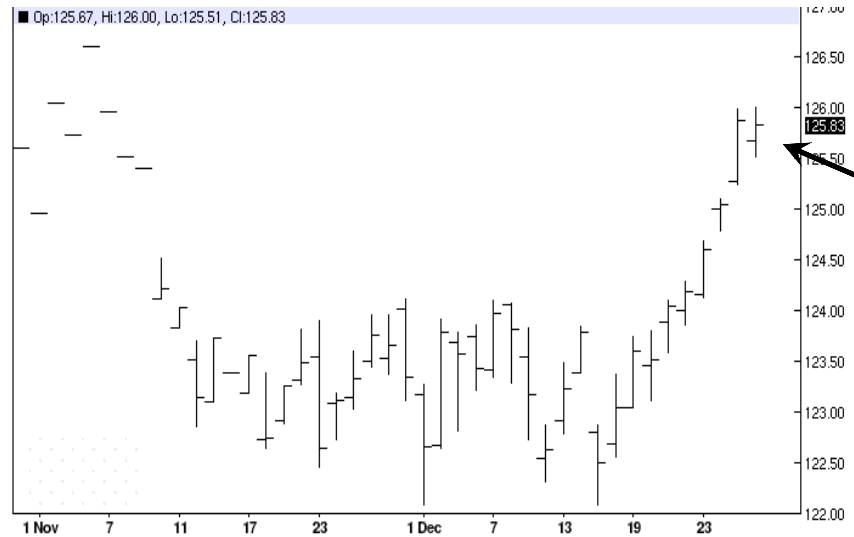
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Bearish.



See how the Gilt staged an impressive recovery as the negative fall out from “BREXIT” is still yet to materialise!

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

…“Looking ahead the Q3 GDP report and PSNB report are due. We expect no revisions to GDP, but Government borrowing is proving tricky, a bad number would pressure this market”…

In the event Q/Q GDP was better than expected and government borrowing offered better news too helping the Gilt recover.

Looking ahead the PMI surveys are due, we expect them to show the economy continues to frustrate the doom Sayers!

We remain Bearish the Gilt, but after our stop was hit we are standing aside briefly to re-asses and seek a fresh selling opportunity.

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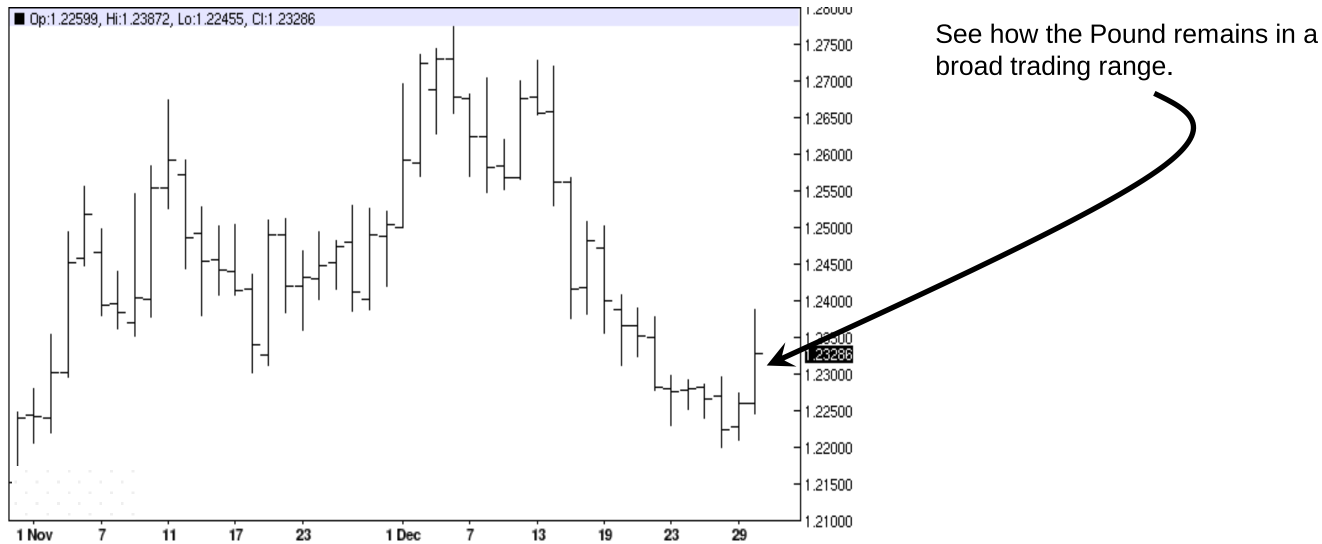
UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE

Last week we were Square



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

…"Looking ahead Q3 GDP and PSNB stand out this week, but unless much worse than expected, the Pound seems to have found a trading range"…

In the event both reports were broadly ok, but the Pound experienced a period of weakness before staging a limited recovery that indicates the trading range continues to hold.

Looking ahead the three PMI surveys are due, we expect them all to show the economy remains resilient in the face of "BREXIT".

We are staying square here, but seeking a selling opportunity.

The Pound remains within a broad trading range, for now, but we are becoming increasingly bearish as the March deadline for triggering article 50 looms and the tough negotiations begin.

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UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.

See how the FTSE remains supported by the combination of continued economic strength and Sterling weakness.

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

…"Looking ahead the key event this week is Q3 GDP, an inline number will support the market"…

In the event the Q/Q number was revised up, but the Y/Y number revised down, however the message remains unchanged; the economy is holding up well.

Looking ahead all eyes on the three PMI numbers as traders look for fresh clues about the economy's health.

Traders should remain long the FTSE.

Our suggested target of 7105.0 is hit.

Our suggested target is now 7195.0 and our suggested stop raised to 6975.0 for closer protection.

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EURO ZONE MARKETS: economic background

Last week’s main event was the Euro zone M3 report.

After a robust QE program with record low interest rates the ECB is looking for signs inflation is beginning to move closer to target.

In the event the M3 year on year report was stronger than expected and ECB officials have said they expect inflation to begin rising in recent comments.

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, Italian, French and Euro zone PMI Manufacturing surveys,**
- On Tuesday; **German CPI and unemployment report,**
- On Wednesday; **Italian, French, German and Euro zone PMI Services surveys, Euro zone CPI estimate and ECB minutes,**
- On Thursday; **Euro zone PPI, and**
- On Friday; **German factory orders, Euro zone industrial confidence, services confidence, consumer confidence and retail sales.**

The main event this week is the batch of Euro zone PMI surveys.

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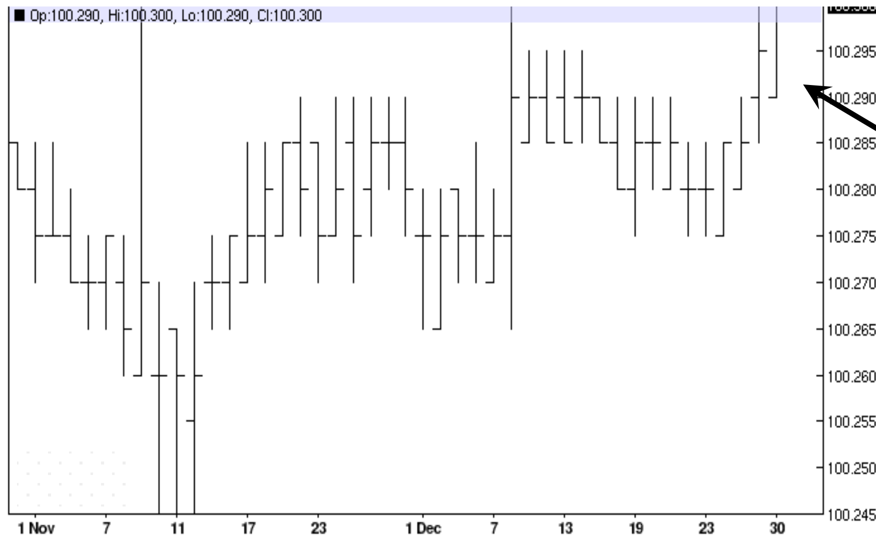
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor remains supported despite forecasts of higher inflation.

The Macro Trader's view of Euribor is; last week's focus was the Euro zone M3 report.

In the event the report was stronger than expected but as yet inflation remains tame.

Looking ahead the PMI surveys are due, but so too are German and Euro zone CPI. Will they flag higher inflation.

We remain square here.

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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.

The Bund continues to confound the bears with the latest rejection of the lows.

The Macro Trader's view of the Bund is: last weeks price action and that of the previous week was remarkable in that it poses serious questions for bond market bears.

After several weeks of flirting with the downside, the market has enjoyed a significant recovery, but why?

Although data continues to improve, it still flags a slow recovery and although inflation is forecast to tick up, it remains subdued.

We judge the Bund is supported by the fact that apart from the German economy the other big economies of France and Italy still need nursing back to health.

For now we are square here, stocks look very much more interesting.

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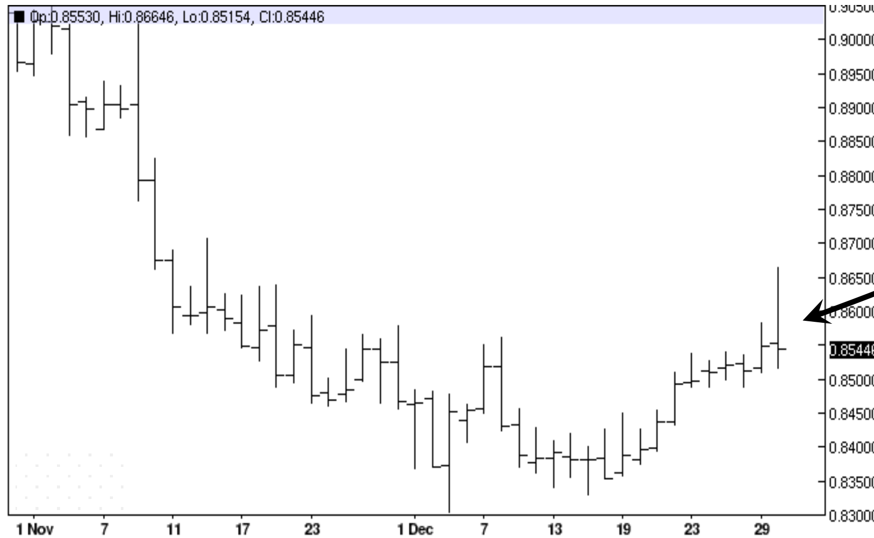
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BEARISH V THE DOLLAR

Last week we were Bearish v the Dollar



The Euro staged a limited recovery against the Dollar and Sterling..

The Macro Trader's view of the Euro; last time we said…

…"Looking ahead the Key release in the Euro zone is the ECB economic Bulletin, in the US Q3 GDP is due, but unless there are big surprises the Dollar looks set to make further gains against the Euro and Sterling seems comfortable around current levels; for now!"…

In the event the US Q3 GDP report was better than expected, but diplomatic tension between the US and Russia over Russian cyber attacks and the US expelling 35 Russian "diplomats" caused the Dollar to correct.

Looking ahead the PMI surveys are due in the Euro zone, in the US the ISM surveys, FOMC minutes and non-farm payroll. We judge the Dollar will resume its rally with Sterling caught in the cross current.

We remain long the Dollar/Short the Euro despite our stop being hit.

Our suggested target remains 1.0230 and our suggested stop reset to 1.0695 for protection.

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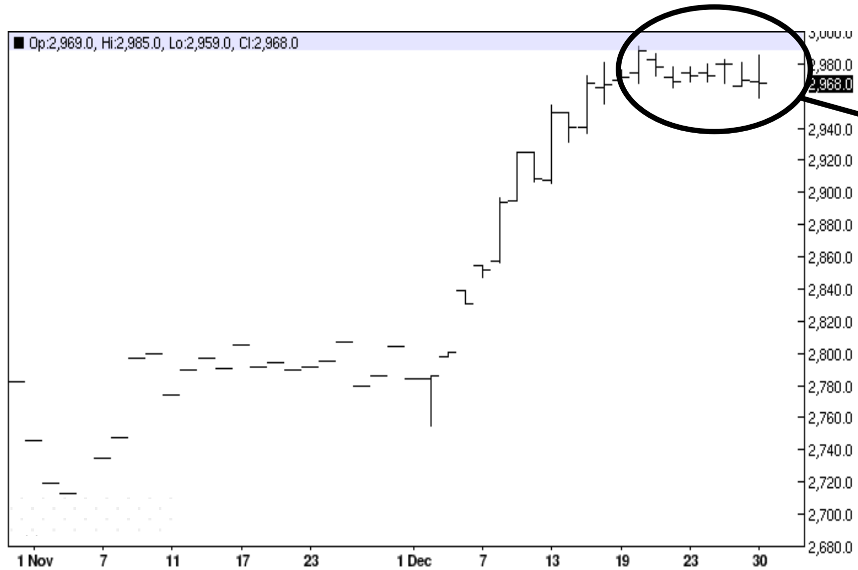
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: BULLISH.

Last week we were Square of DJ EUROSTOXX50.



See how the market held its significant recent gains.

The Macro Trader's view of DJ Euro Stoxx 50 is: last time we noted how sentiment in equity markets had turned clearly bullish.

The election in the US of Donald Trump as President with pro-growth policies has not only created a wave of optimism in the US but also in the Euro zone where traders sense a stronger US economy will prove positive for the as yet lack lustre Euro zone.

Looking ahead several key releases due both in the Euro zone and in the US all of which have the potential to drive equities higher.

We are bullish of this market.

The German economy is forecast to perform better in 2017 and if Trump fires up the US the benefits will trickle down to other economies.

Traders should be long, our suggested target is 3105.0 and our suggested stop is placed at 2920.0 for protection.

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JAPANESE MARKETS: economic background

Last week's focus was the core CPI report, would it show the Bank of Japan's QE policy succeeding or not?

In the event Core CPI was weaker than expected and other data was mixed. Household spending and the jobless rate were worse than expected, and although retail sales beat consensus, industrial production fell short.

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 Manufacturing survey,**
- On Wednesday; **PMI Services survey, and**
- On Thursday; **Vehicle sale.**

The main events this week are the PMI Surveys, will they flag a quickening in the pace of growth?

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+ JAPANESE BONDS
+ YEN
+ NIKKEI

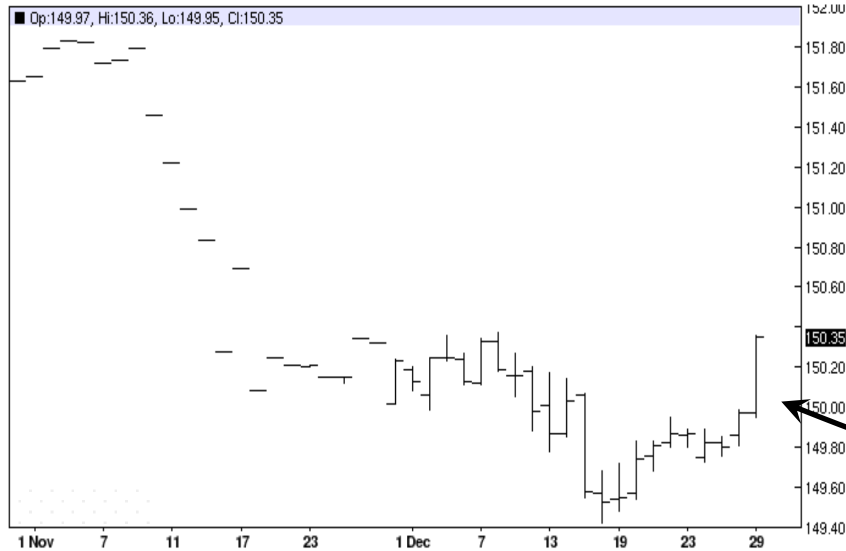
Commodities
+ GOLD
+ OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB rallied into year end in line with other government bond markets.

The Macro Trader's view of the JGB is: Last week's price action was driven in part by a correction in other government bond markets and a pause in the rally in equity markets as 2016 drew to a close.

Looking ahead the main events this week are the PMI surveys, will they show an up tick in the pace of growth or just more of the same familiar tepid recovery?

We are remaining square.

The action will in coming weeks and months most likely be in the US as a new pro-growth President takes over.

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+ 10 YEAR NOTE
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+ S&P 500

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+ STERLING
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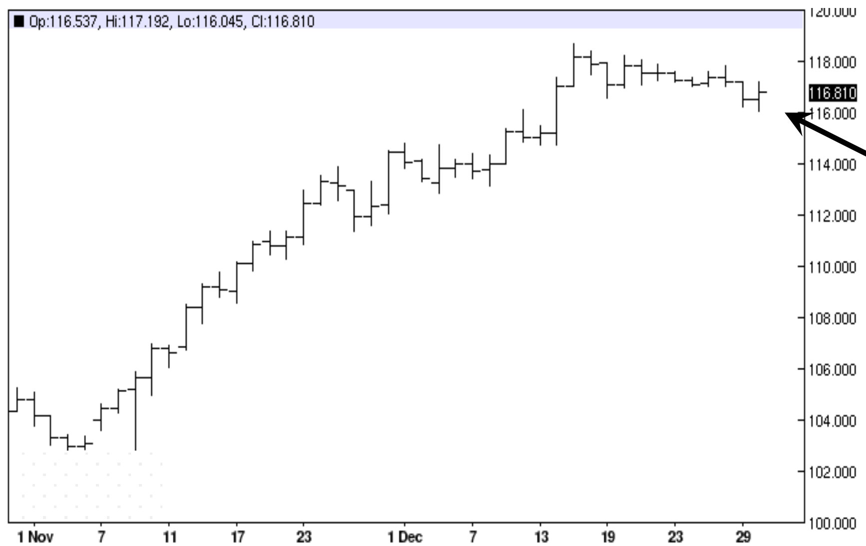
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen's year end correction was more to do with the Dollar taking a pause.

The Macro Trader's view of the Yen is; last week's key releases were CPI and industrial production.

In the event the Core CPI reports were weaker than expected and so too was industrial production.

Looking ahead the key domestic reports are the two PMI Surveys, will they show improvement.

But we judge currency markets will be paying greater attention to events in the US where the FOMC minutes, ISM surveys and non-farm payroll are due.

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

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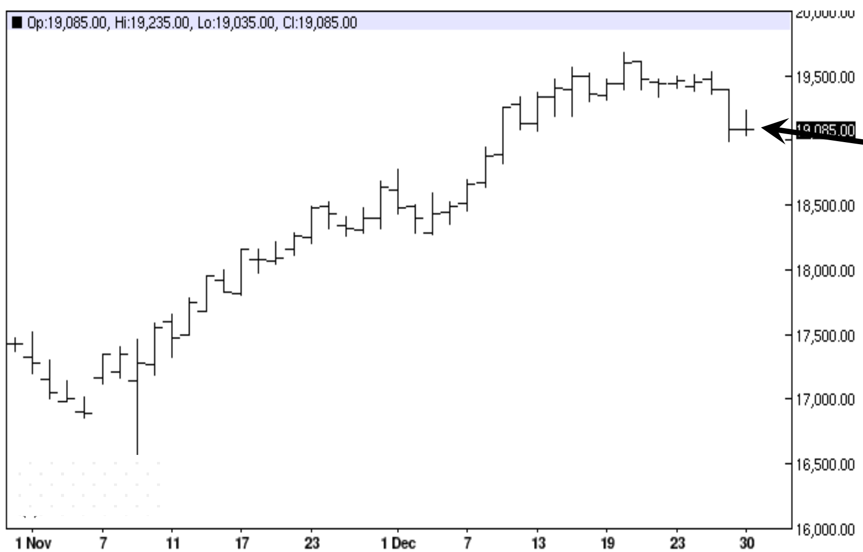
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei paused in tandem with the minor correction in Dollar/Yen.

The Macro Trader's view of the Nikkei is; last week's price action once again showed the link between the Yen and Nikkei remains in place.

The Yen enjoyed a minor correction against the Dollar and surprise, surprise, the rally here paused.

Looking ahead the PMI surveys are due, but better watch events in the US. Several key data releases are due and strength will re-ignite the Dollar rally against the major currencies and likely set this market moving higher once more.

For now we are focussed on the primary cause of market bullishness; the US and the upcoming inauguration of Trump as US President.

For now we are staying square here.

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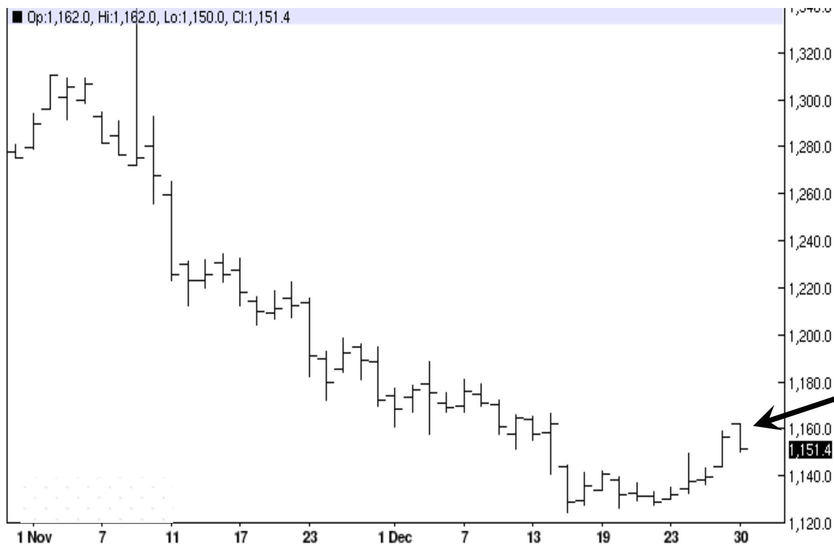
COMMODITIES: Gold

OUR TRADING STANCE: BEARISH

Last week we were Bearish of Gold.



See how Gold remains under downward pressure despite the minor correction.

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

…"Looking ahead the main event for this market this week is the US Q3 GDP report. An inline report will underline the fact that the Dollar is on the threshold of a new Bull run and why hold Gold?"…

In the event US Q3 GDP was stronger than expected, but the Dollar rally suffered a minor correction over the Diplomatic spat with Russia over cyber attacks linked to the US election giving this market a short reprieve.

Looking ahead four key events due in the US this week as detailed on the global calendar, all of which should prove bullish for the Dollar and negative for gold and then there is President trump due to take office in just over two weeks time.

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

Our suggested target remains 1080.0 and our suggested stop continues at 1180.0 for protection.

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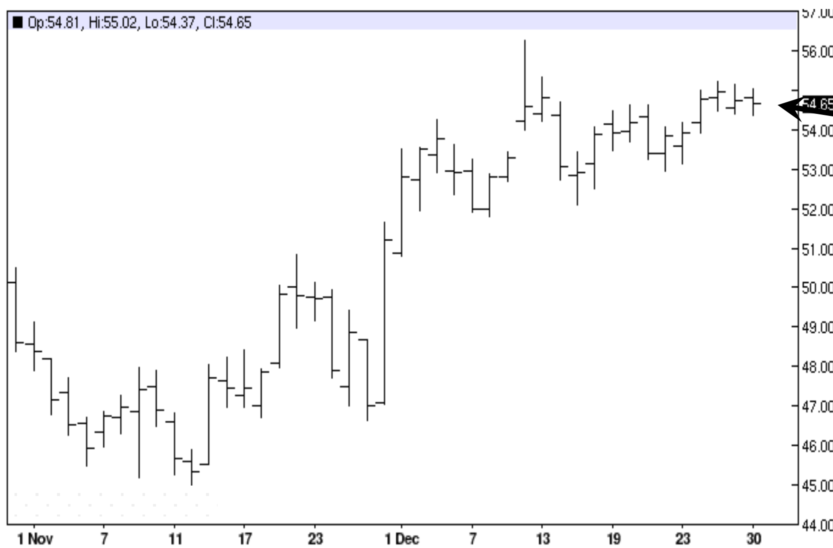
COMMODITIES: Oil

OUR TRADING STANCE; SQUARE.

Last week we were Square of Oil.



See how oil remains supported near the recent highs.

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

…"Looking ahead we judge the OPEC/non-OPEC deal will struggle to force the price very much higher. For every Dollar the price goes up that is a new incentive for Shale producers to up production"…

In the event the oil price clung onto its gains but detail of the production cuts is still awaited.

Looking ahead we judge the oil price is likely capped at or just below US$60.00 as every dollar the oil price rallies draws shale producers back into action, and encourages the resumption of oil exploration which in turn will weigh on the oil price.

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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