Week 11

14th - 20th March 2017

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Multi-asset fundamental strategies

John Lewis

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This week's global calendar

	Week of 13th March
Monday	JP Dmstic corp gds prices 0.2m, 1.0y JP Machine orders 0.5m, -3.3y JP Tertiary ind indx n/f JP PPI n/f
Tuesday	US NFIB Sml Business optmsm n/f US PPI 0.1m, 1.9y US PPI Ex-F&E 0.2m, 1.5y DM CPI 0.6m, 2.2y DM ZEW 13 EZ Ind production 1.3m, 0.9y JP Tokyo Condo sales n/f
Wednesday	US MBA Mrtge apps n/f US Retail sales -0.1% US RS Ex-Autos -0.1% US CPI 0.0m, 2.6y US CPI Ex- F&E 0.2m, 2.2% US Empire mfg 15 US NAHB Housing mkt indx 65 US Bus invntry 0.3% US FOMC Rate decision 1.0% UK Averge earngs 2.4% UK AE Ex-Bonus 2.5% UK Unemploym't rate 2.1% UK Unemploym't chge -5.0k UK ILO Rate 4.8 JP Ind production n/f JP Capacity utilisation n/f JP BOJ Rate decision -0.10%

	Week of 13th March
Thursday	US Building permits 1250k US Housing starts 1250k US Jobless claims 242k US Philly Fed 25 UK BOE AP Target 435B UK BOE/MPC Rate decision 0.25% EZ CPI 0.4m, 2.0y JP Machine tool orders n/f JP Tokyo dept stre sales n/f JP National dept stre sales n/f
Friday	US Ind production 0.3% US Capacity utilisation 75.5% US U. of Michigan conf 97 EZ Trade bal n/f EZ C/A n/f EZ Construct'n output n/f

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Last week's releases

	Week of 6th March
Monday	US Factory orders 1.2% **STRONGER** UK BRC Sales -0.4% **BETTER** EZ Investor confidence 20.7 **STRONGER THAN EXPECTED**
Tuesday	US Trade bal -$48.5B **WORSE** US Consumer Cr $8.794B **WEAKER** UK Halifax hse prices 0.1m, 5.1y **WEAKER** EZ Q4 GDP 0.4q, 1.7y **AS** DM Factory orders -7.4m, -0.8y **WORSE** JP Bk lndg 2.8% **MORE** JP C/A Y65.5B **WORSE** JP Trade Bal –Y853.4B **WEAKER** JP Q4 GDP 0.3q, 1.2(A) **WEAKER** JP Eco watchers 50.6 **AS** JP Bankruptcies -4.8% **BETTER THAN EXPECTED**
Wednesday	US MBA Mrtge apps 3.3% **LESS** US ADP Employment chge 298k **STRONGER** US Q4 Non-farm productivity 1.3% **WEAKER** US Q4 Unit labour costs 1.7% **WORSE** US Wholesale invntry -0.2% **WEAKER** UK Budget UK RICS House prices 24 **MORE** DM Ind production 2.8m, 0.0y **BETTER** JP Labour cash earnings 0.5% **STRONGER THAN EXPECTED**

	Week of 6th March
Thursday	US Import prices 0.2m, 4.6y **STRONGER** US Jobless claims 243k **MORE** EZ ECB Rate decision 0.00% **AS** EZ ECB AP Target E80.0B **AS** JP Machine tool orders 9.1% **STRONGER** JP BSI Lrge all ind (q/q) Q1 1.3 **LESS THAN EXPECTED**
Friday	US Non-farm payrolls 235k **STRONGER** US Unemploym't rate 4.7% **AS** US Averge earngs 0.2m, 2.8y **LESS** US Averge wrk week 34.4 **AS** US Monthly bdgt statem't -$192.0B **WORSE** UK Construction output -0.4m, 2.0y **AS** UK Ind production -0.4m, 3.2y **BETTER** UK Mfg output -0.9m, 2.7y **WEAKER** UK Trade bal -£10.836B **BETTER** UK Trade non-EU -£2.450B **WORSE** UK NIESR GDP Estimate 0.6% **AS** DM WPI 0.5m, 5.0y **WORSE** DM C/A 12.8B **WEAKER** DM Trade bal 18.5B **MORE THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was the non-farm payroll report, which we saw as the final piece in the Feds policy jigsaw.

In the event the number was much stronger than expected, meaning we judge the Fed will hike at this 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 Tuesday; **PPI,**
- On Wednesday; **Retail sales, CPI, Empire manufacturing, NAHB House market index, business inventories and the FOMC policy decision,**
- On Thursday; **Jobless claims, building permits, housing starts and Philly Fed survey, and**
- On Friday; **industrial production, capacity utilisation and University of Michigan confidence.**

There are several key releases due this week which report on inflation, consumer demand and industrial production, but the main event this week is the FOMC meeting.

Fed officials have been dropping hints for weeks that a rate hike is imminent, we expect them to deliver this week, but of equal importance is the policy statement; will policy makers adopt a more hawkish tone?

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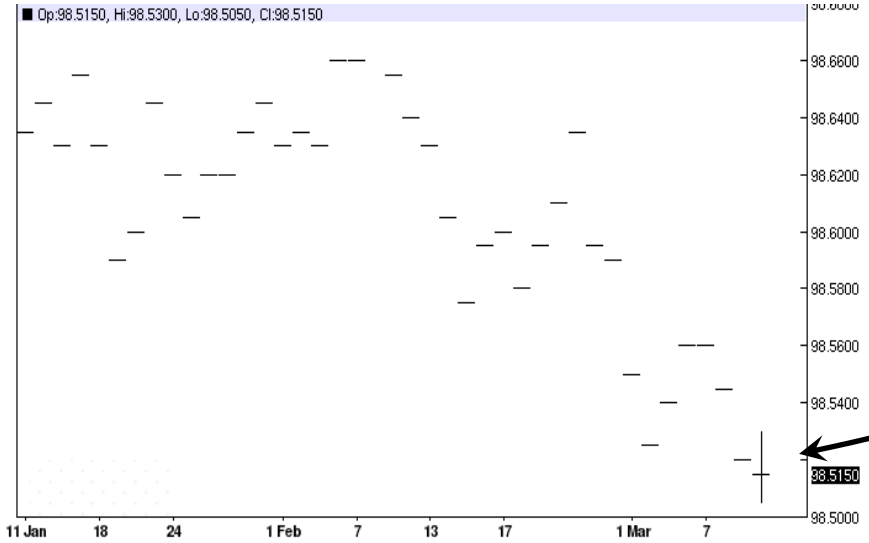
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars remains close to recent lows on rate hike expectation.

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

…"Looking ahead the main event this week is non-farm payroll. The Fed is all set to hike and a solid payroll report will give them the confidence to act"…

In the event the payroll report beat all forecasts leaving the Fed a clear field to act.

Looking ahead the FOMC policy decision is due and a rate hike is expected, but for this market we judge the policy statement will have the greater impact if the tone is more hawkish.

We are remaining square ahead of the FOMC, but a hawkish policy statement would weigh on the market.

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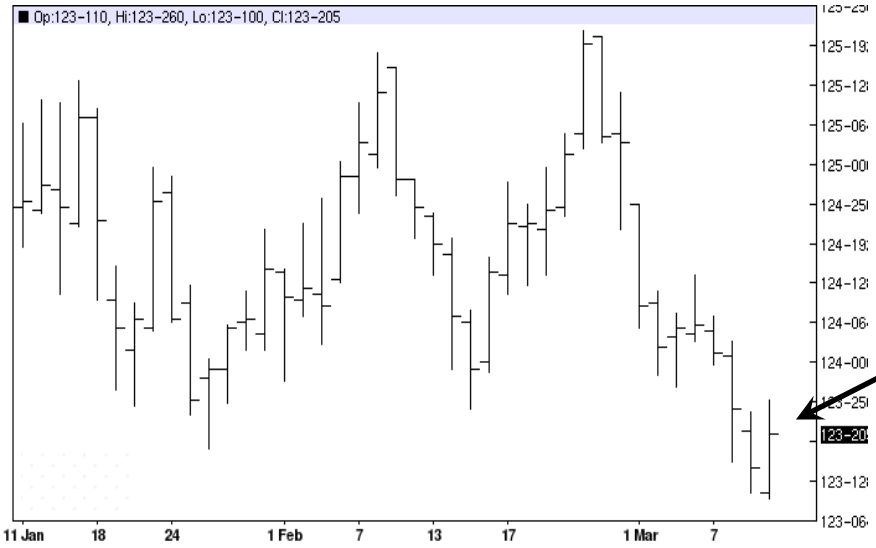
US MARKETS: 10 Year Note

OUR TRADING STANCE: BEARISH.

Last week we were Bearish of the 10 year note.



The 10 year note looks increasingly vulnerable to the down side.

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

…"Looking ahead the main event this week is the non-farm payroll report. This report is always a market mover and traders and the Fed will both watch it keenly, since a solid to strong report will be the trigger for the Fed to hike at it's up coming meeting"…

In the event the report was strong and we expect the Fed will act.

Looking ahead the FOMC policy decision and statement is due. A rate hike together with a more hawkish policy statement will send this market lower, but if the Fed maintains the current tone of the policy statement the market will likely correct.

We remain bearish of Bonds.

The policies Trump has articulated will be pro-growth, but at the expense of a bigger budget deficit yet to materialise, and a likely burst of inflation, and the economy is already picking up speed.

Traders should remain short and patient.

Our suggested target remains 121.30 and our suggested stop lowered to 124.15 for closer protection.

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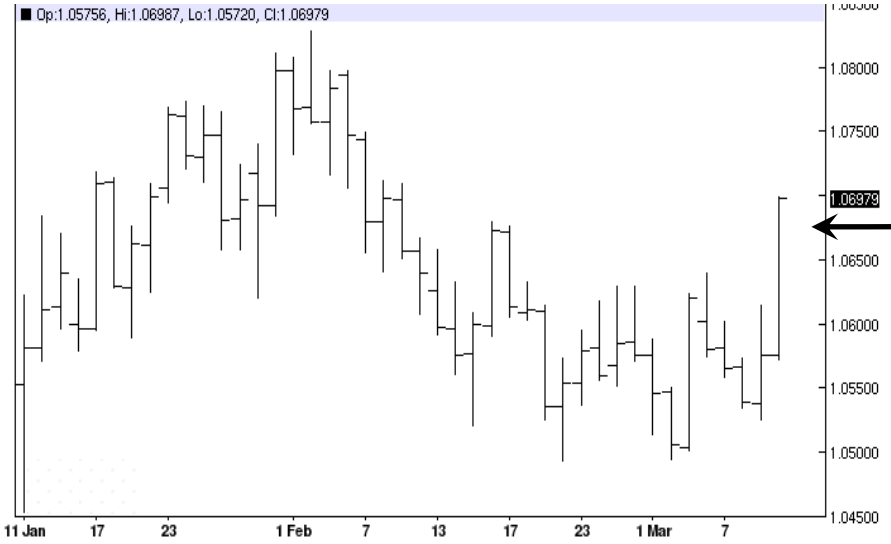
US MARKETS: US Dollar

OUR TRADING STANCE: SQUARE.

Last week we were Square



The Dollar suffered a correction last week as the ECB declared victory over deflation.

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

…"Looking ahead the key event this week is non-farm payroll. Recent jobless claims reports have been moving consistently lower indicating a strengthening labour market, a strong payroll report will guaranty a Fed hike and as Trump eventually rolls out his policies the Fed may need to do more than currently stated"…

In the event non-farm payroll was strong and the Fed will hike this Wednesday.

Looking ahead several key data releases due this week, but all eyes will be on the Fed. We expect them to hike and adopt a more hawkish tone in their policy statement.

We remain square of the Dollar.

Traders seem unable to decide if Trump is Bullish or Bearish for the Dollar.

His policies and their implication for monetary policy are Bullish, but his belligerent tone and frequent out bursts are still worrying markets and holding the Dollar back.

And now the ECB has declared victory over deflation speculation will slowly build about a change of policy at the ECB.

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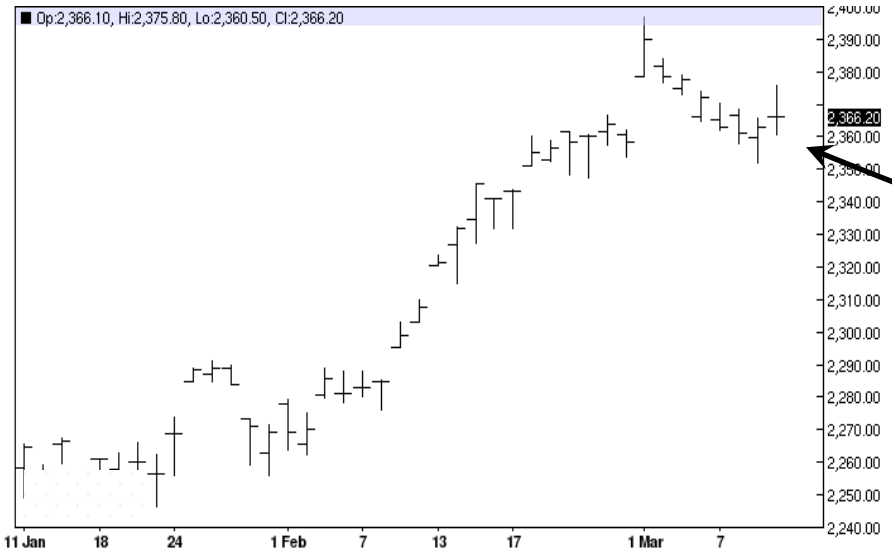
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P drifted last week as a strong payroll report swung open the door to a Fed rate hike.

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

…"Looking ahead non-farm payroll is due, we anticipate an inline to slightly stronger report and although that will mean the Fed will hike at it's upcoming meeting equity traders are unfazed"…

In the event the report was as we anticipated and although the S&P drifted last week, we remain confident a rate hike will have limited impact here.

Looking ahead the FOMC policy decision and statement are due. A rate hike is expected, and a more hawkish tone is partially priced in too, but if the tone is too hawkish the market could correct, but we judge the Fed will not want to rattle equity markets by being to strident in its tone.

We remain Bullish of this market data remains on a broad upward trend, and Trump's policies are looking pro-growth, when he eventually implements them and stops reacting to every comment in the media.

Our target remains 2405.00 and our suggested stop continues at 2350.0 for close protection.

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UK MARKETS: economic background

Last week our focus was the UK budget.

In the event it held very little for markets to get excited about. The head line grabber was a change to national insurance rates for the self employed, hardly something for markets to get excited about.

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 Wednesday; **unemployment report and average earnings, and**
- On Thursday; **Bank of England policy announcement.**

There are two key events scheduled this week, but we judge both could be eclipsed if the government evokes article 50 of the EU Lisbon treaty starting the clock ticking on the UK leaving the EU.

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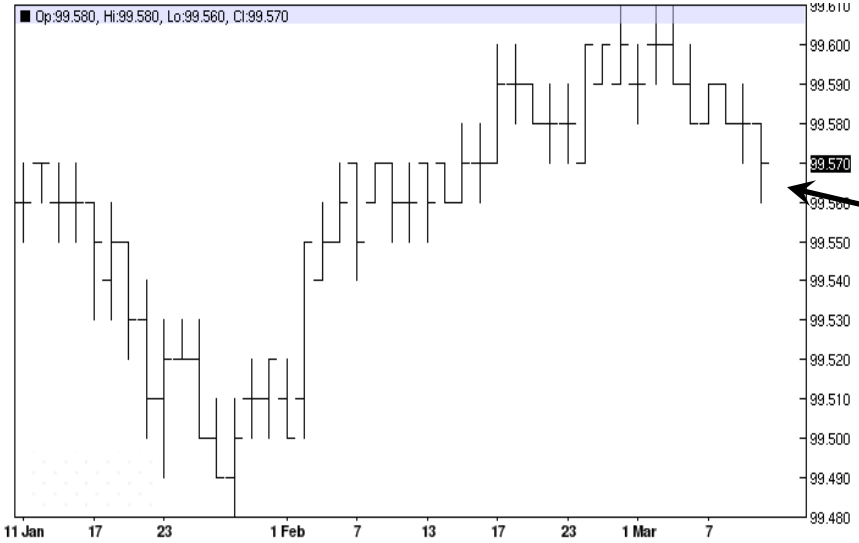
UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling traded away from the highs last week despite an unremarkable set of data releases.

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

…"Looking ahead the main event this week is the budget, and although it will be important for the wider economy, we sense it will have limited impact on this market"…

In the event that was the outcome and its impact on the economy? We judge it mainly a non-event.

Looking ahead the key event this week isn't on the calendar. If the government actually invokes article 50 this week we judge markets will react, but here the impact will be miniscule..

We are square.

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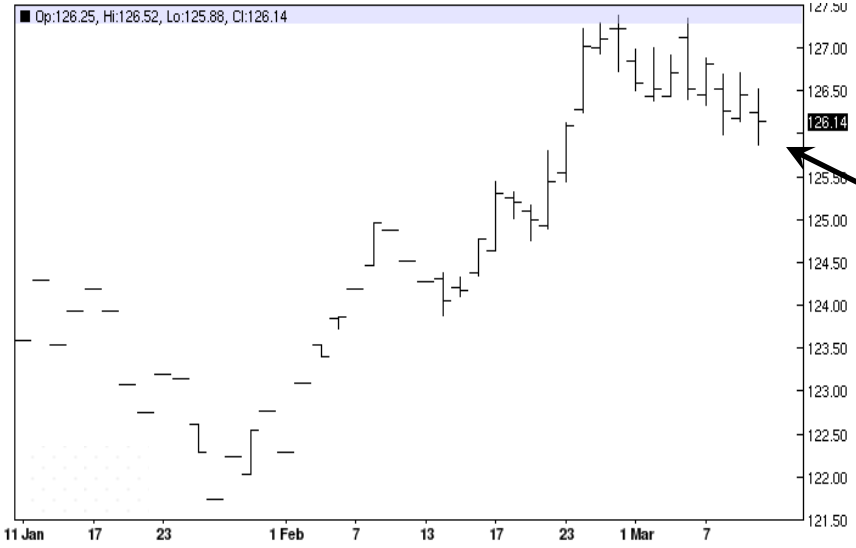
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Gilt drifted lower but remains well supported in contrast to both US Treasuries and the Bund.

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

…"Looking ahead the Budget is the main event this week. No tax giveaways are expected, in fact a tax hike is flagged as the government seeks to support the NHS and a crisis in social care, but what impact will it have on the Gilt?"…

In the event a fairly bland event, small tax hike on self employment and a tax grab on dividend income, but over all a steady as she goes budget.

Looking ahead the unemployment report is due, but no surprises expected, also the Bank announces its monetary policy decision on Thursday, but no changes expected their,

We are staying square here.

The government's commitment to maintaining a firm grip on spending helps support the Gilt as does the Bank of England's Bond buying, but what happens if inflation becomes a bigger problem resulting from a 2nd spell of Sterling weakness once article 50 is triggered? And that might very well happen this week!

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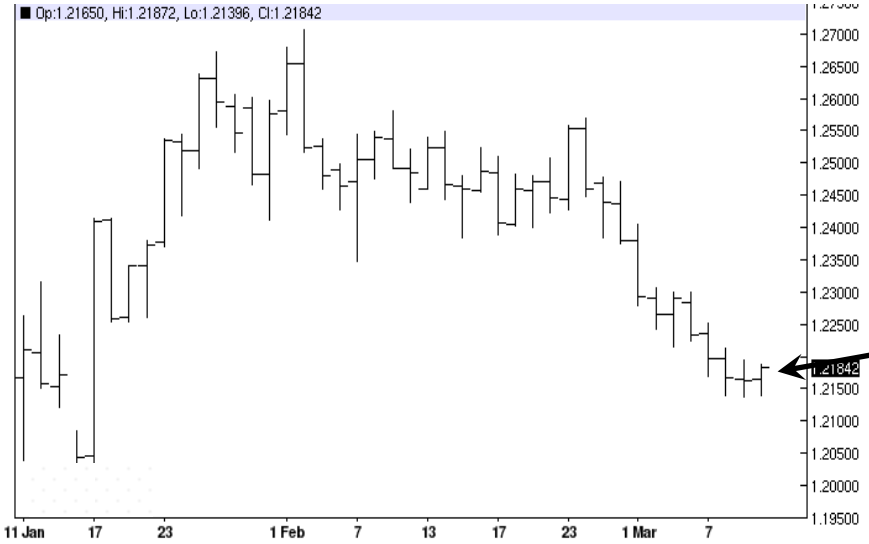
UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square



The Pound has come under renewed pressure as the government moves closer to triggering article 50.

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

…"Looking ahead the Budget is the stand out event and for currency traders a steady as she goes approach would be welcome, meaning no increase in borrowing, a tight grip on spending, yet help where needed to off set any expected "BREXIT" head winds"…

In the event a steady as she goes budget it was, but the Pound remained under pressure as speculation built that the Government is set to trigger article 50 in the very near future.

Looking ahead we judge the Pound will remain under pressure whether or not article 50 is invoked this week. The fact is it will happen before month end and once it is a two year period of difficult negotiations lay ahead.

We are square.

The Pound once again looks vulnerable, as the exit negotiations draw near, but will the Pound make fresh lows? We judge that depends on how willing the UK and EU are to find a settlement that not only doesn't damage either party but is in the best interests of both.

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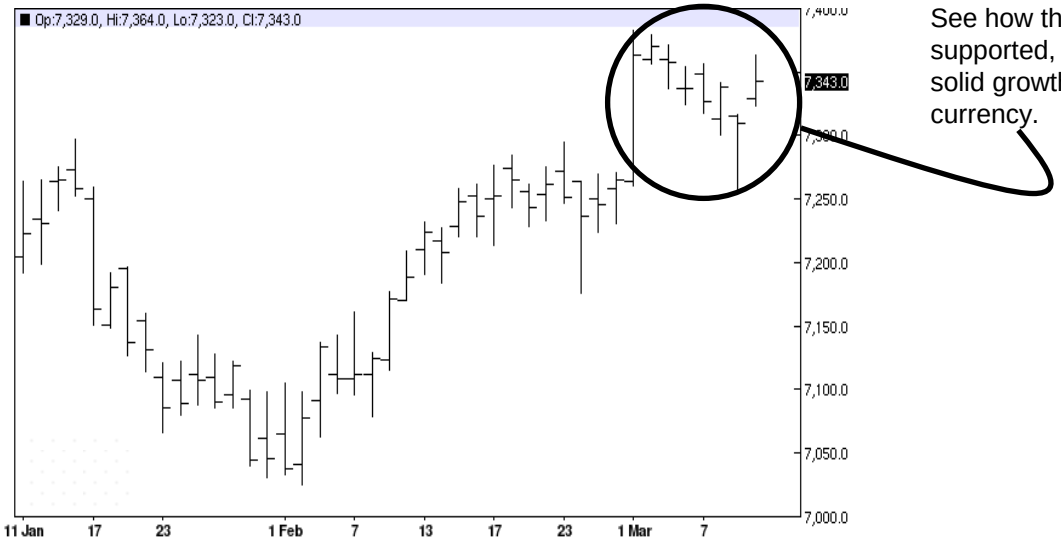
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.



See how the FTSE remains well supported, the combination of solid growth and a weak currency.

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

…"Looking ahead several key data releases are due on Friday, but we judge Wednesday's budget is the main event. In truth we doubt there will be any market moving announcements as the Governments seeks stability as it moves closer to triggering article 50"…

In the event there weren't any market moving announcements and all eyes are trained on the government and its trigger finger regarding article 50.

Looking ahead growth is solid, but for how much longer. The FTSE is increasingly reacting to movements in Sterling, and once article 50 is invoked, which could be this week, the Pound is likely to experience increased volatility which will impact this market, but that said we judge a weaker Pound will continue to mean a rally for the FTSE.

Traders should remain long the FTSE.

Our suggested target remains 7380.0 but our suggested stop is raised to 7245.0 for closer protection.

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EURO ZONE MARKETS: economic background

Last week's main event was the ECB policy decision, with inflation at 2.0% would policy makers judge a change of direction appropriate?

In the event Draghi declared victory over deflation, but said policy would remain unchanged until year end, but with German inflation above 2.0% and the Germans already uneasy, will the ECB be able to maintain their policy stance that long?

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

- On Tuesday; **Euro zone industrial production, German CPI and ZEW survey,**
- On Thursday; **Euro zone CPI, and**
- On Friday; **Euro zone Trade balance, C/A and construction out put.**

The main events this week are Euro zone industrial production and German CPI.

Of the two we judge German CPI stands out. If that measure moves much higher the Germans will become more vocal in calling for a policy change.

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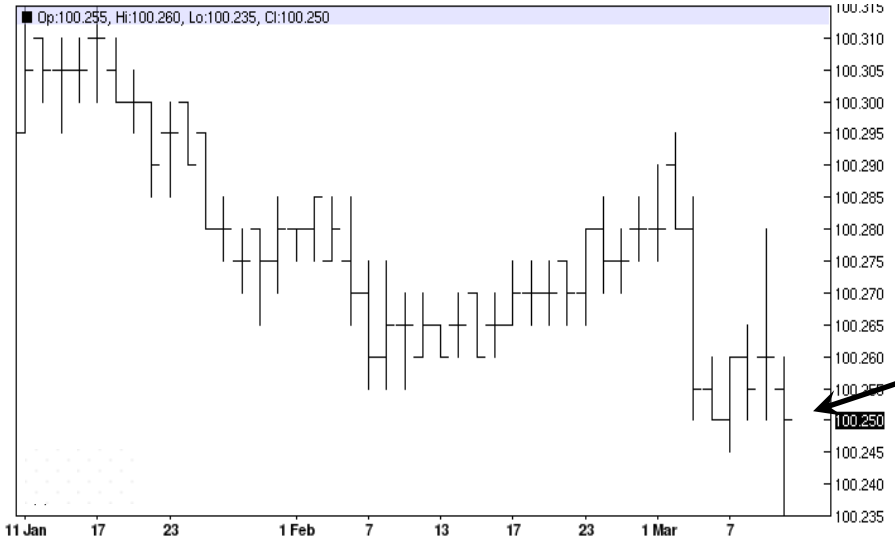
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor reacted to the ECB's declaration of victory over deflation.

The Macro Trader's view of Euribor is; last week's price action was a reaction to Draghi's declaration of victory over deflation.

Euro zone CPI now stands at 2.0% year on year and German CPI is at 2.2%. In the policy statement last week the ECB committed its self to holding policy unchanged until year end, but if German CPI continues to rise, will the ECB be able to resist what will undoubtedly be mounting German pressure for a sooner change of policy direction?

Looking ahead both German and Euro zone CPI reports are due this week and will increasingly dominate this market.

The ECB has a policy to drive inflation up to 2.0% and keep it there. They have achieved the first part of their policy objective, but is economic growth strong enough to keep it there?

For now we are staying square.

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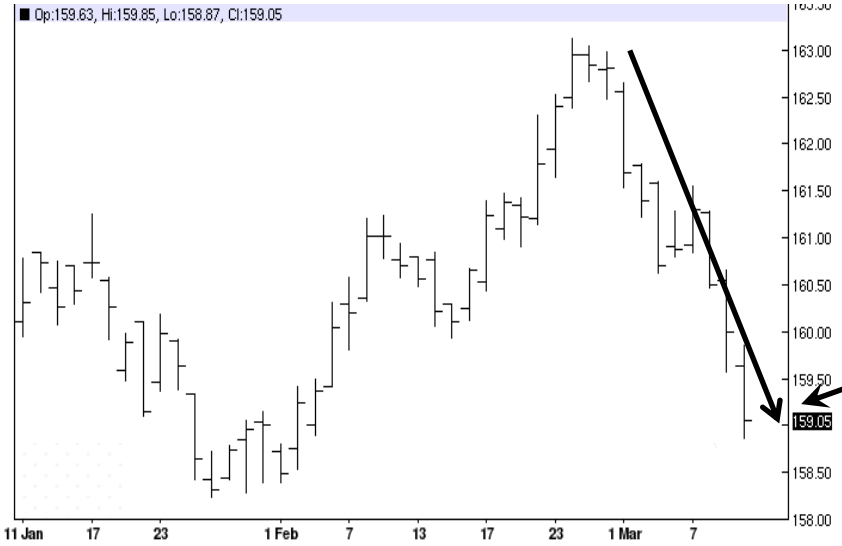
EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were Square of The Bund.



The Bund has sold off over recent weeks and like the US T Note looks vulnerable to the down side.

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

…"Looking ahead the ECB policy decision is due, but despite higher inflation we expect them to hold policy unchanged, but watch the press conference for any subtle hints of a near term shift of stance"…

In the event policy was left on hold, but as ever the press conference was the market mover as Draghi declared victory over deflation, and although he said policy will remain unchanged until year end that could change too if German inflation continues to push higher.

Looking ahead both German and Euro zone inflation are due and if worse than expected the Bund will sell off further, despite lingering political anxiety derived from up coming German and French elections.

We are bearish of the Bund. Our suggested target is set at 157.90 and our suggested stop set at 160.0 for protection..

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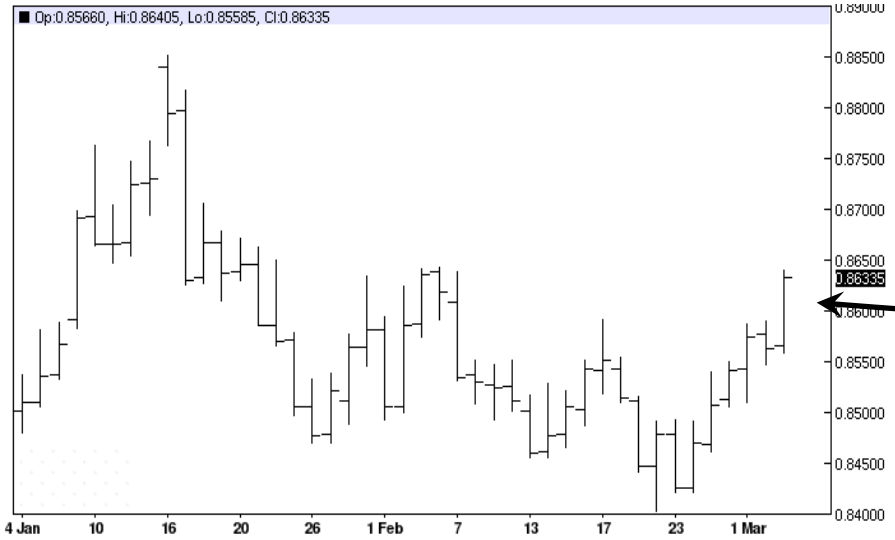
EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE
Last week we were Square



The Euro remains range bound against Sterling, but for how much longer?

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

…"Looking ahead the key event this week is the ECB policy decision, but currency traders will have one eye on next week's FOMC policy decision"…

The ECB surprised the market by declaring victory against deflation. Although it was obvious inflation was back with both the Euro zone and German CPI reports at or above 2.0%, such a forth right declaration wasn't anticipated.

Looking ahead the Euro zone and German CPI reports are due. Where will they peak and how much higher can they go before the ECB feels obliged to change course?

We are square of the Euro.

The Dollar looks inactive for now, but will that be the case after Wednesday's FOMC decision. As for the Pound, much uncertainty lays ahead as article 50 is set to be triggered.

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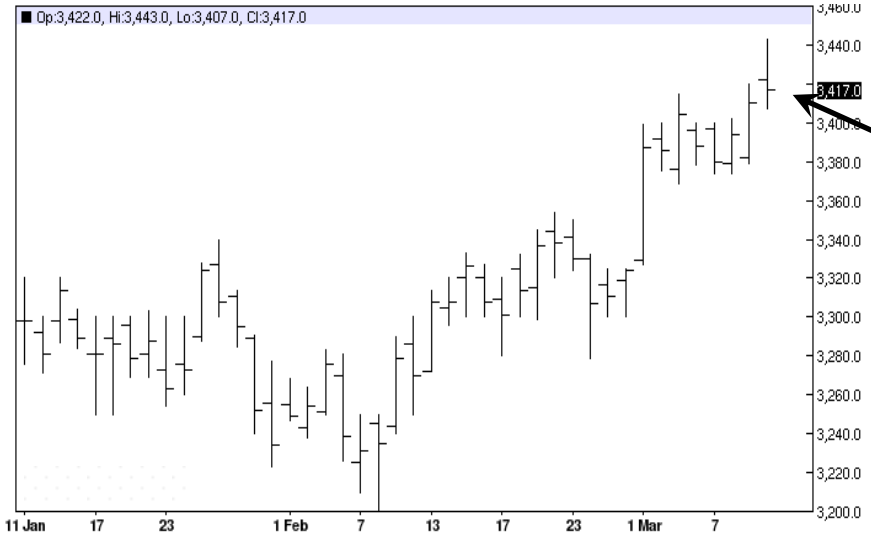
EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of DJ EUROSTOXX50.



See how the market remains bullish as traders focus on Trump and what he is likely to mean to US and global growth.

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

…"Looking ahead the ECB policy decision is due, but we expect policy makers to keep policy unchanged"…

In the event they did, even as they declared victory over deflation, but victory in creating a self sustaining recovery?

Looking ahead the key domestic events are the Euro zone and German CPI reports, then there is the US FOMC policy decision.

We remain bullish of this market as traders are still focussed on what Trump means for growth and we think it is bullish and although his frequent outbursts at the media are worrying the Dollar, equity markets seem unfazed.

Our suggested target of 343.0 was hit.

Our suggested target is now 3450.0 and our suggested stop raised to 3350.0 for closer protection.

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JAPANESE MARKETS: economic background

Last week's focus was the trade data and Q4 GDP, but our concern was it might be down graded.

In the event the trade report was weaker than expected and disappointingly, the GDP report was revised down.

Conclusion; Japan still has a way to go before her battle to truly defeat deflation and restore self sustaining growth is won.

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; **Domestic corporate goods prices, Machine orders, Tertiary industry index and PP,**
- On Tuesday; **Tokyo Condo sales,**
- On Wednesday; **industrial production, capacity utilisation and Bank of Japan rate decision, and**
- On Thursday; **Machine tool orders and department store sales.**

There are several key reports due this week, but our focus is the BOJ rate decision and what they have to say.

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JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.

The JGB like the Gilt looks in better shape than either the US T Note of Bund.

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

…"Looking ahead the Q4 GDP report is due, will it suffer another downward revision?"…

In the event yes it did and the trade report disappointed too.

Looking ahead all eyes on the Bank of Japan's policy decision. A change is unlikely but what will they have to say.

We are remaining square, CPI has turned positive if that holds will it begin to drive growth as the Bank of Japan and Government hope? Last week's data was disappointing.

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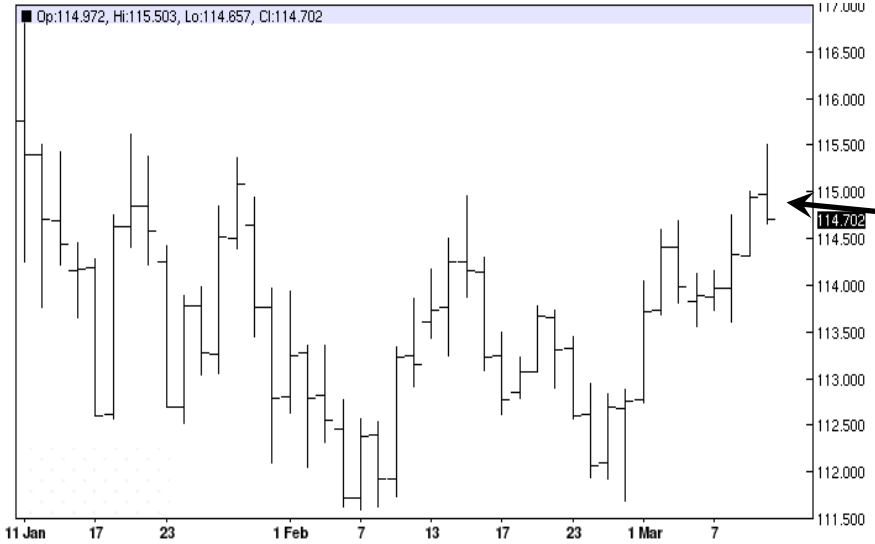
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen recovered against the Dollar, but it isn't Yen strength, more like Dollar listlessness.

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

…"Looking ahead the key release this week is the Q4 GDP report, will there be further revisions?"…

In the event there were, the Q4 GDP report was revised down, but that didn't impact the Yen.

Looking ahead the Bank of Japan's policy decision is due, unchanged is the expectation, but what will they say?

We are square here.

The Dollar still looks hobbled by Trump's erratic remarks and attacks on the media, but will the focus change after Wednesday's FOMC policy decision and statement?

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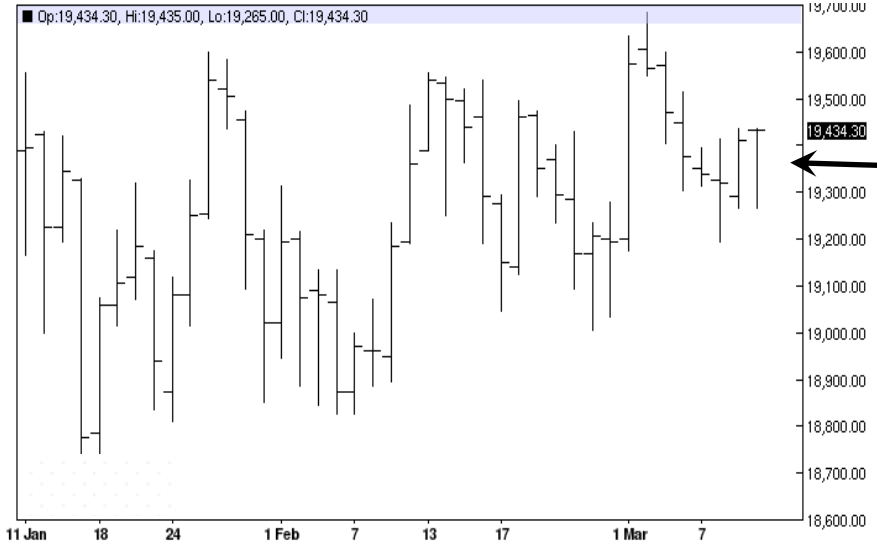
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei remains directionless.

The Macro Trader's view of the Nikkei is; last week's price action remained essentially directionless. Japanese data was disappointing with Q4 GDP revised down and the trade report weaker than expected and with the Dollar still a drift against the major currencies including the Yen the Nikkei was deprived of its recent propellant; a weak Yen.

Looking ahead two key events this week that could offer some direction. The US FOMC policy decision and the Bank of Japan's policy decision. Of the two we judge the FOMC has the greater potential to move markets. If they adopt a more hawkish tone the Dollar should strengthen and that could feed into this market.

For now we are staying square.

The Nikkei reflects the price action in Dollar/Yen and that too is going no where fast, for now.

The S&P especially, and FTSE have greater clarity.

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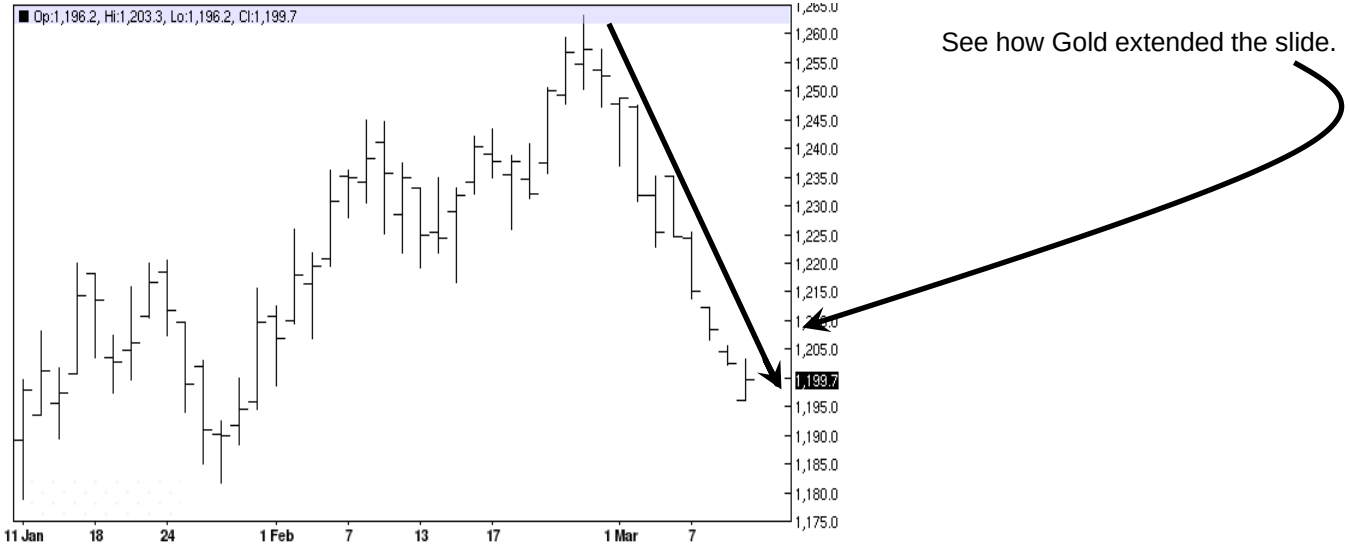
COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



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

…"There is just one more hurdle to negotiate; non-farm payroll, providing that is close to consensus the Fed will hike"...

…"And although the Dollar continues to struggle against the Euro and Yen with little sign of resuming the rally, we judge the Dollar retains under lying bullishness"...

…"The policies Trump says he will implement are pro growth, but are likely to result in a bigger deficit and higher inflation, meaning the Fed will likely need to be more aggressive than markets currently expect"...

On Wednesday the FOMC announces its policy decision and policy statement. If as we expect they hike and adopt a more hawkish tone in their statement, the Dollar should resume the stalled rally and Gold sell off further.

For now we are staying square, but if events unfold as indicated we will be seeking to sell gold.

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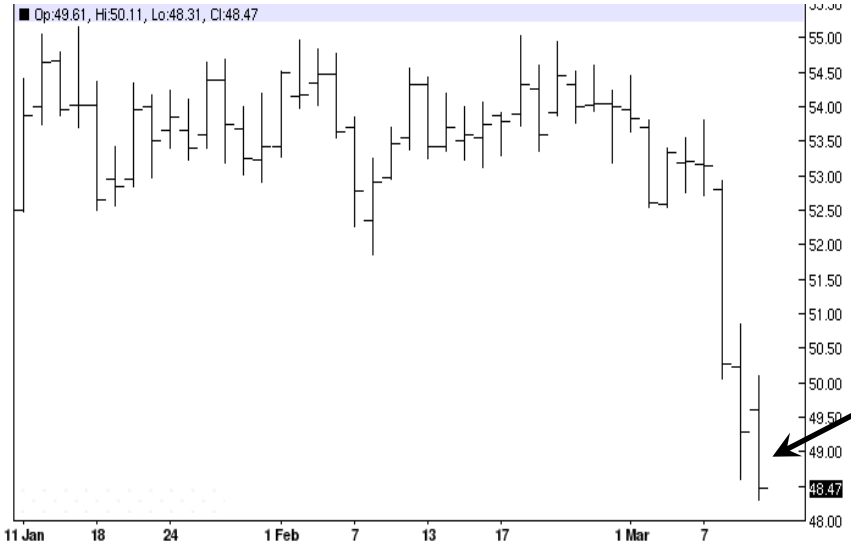
COMMODITIES: Oil

OUR TRADING STANCE; SQUARE.

Last week we were Square of Oil.



See how logic finally hit the oil price and it sold off.

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

…"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 rally remains stalled as the promised production cut remains vague on delivery and substance.

Looking ahead, once again, 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.

The big drama in oil for now seems over and a trading range of US45.00 – US$60.00 seems likely and at the moment even tighter than that!

For now we are square as the oil price remains within our long stated trading range, but if US$45,00 breaks we will want to go short.

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