Week 14

4th – 10th April 2017


# Multi-asset fundamental strategies


John Lewis

# SUMMARY

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Global Calendar

## US Markets

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

## UK Markets

| | |
|---|---|
| + SHORT STERLING | SQUARE |
| + GILT | SQUARE |
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| + FTSE | SQUARE |

## Euro Zone Markets

| | |
|---|---|
| + EURIBOR | SQUARE |
| + BUND | SQUARE |
| + EURO | SQUARE |
| + DJ EURO STOXX 50 | BULLISH |

## Japanese Markets

| | |
|---|---|
| + JAPANESE BONDS | BULLISH |
| + YEN | SQUARE |
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# This week's global calendar

| | Week of 3rd April |
|---|---|
| Monday | US ISM Mfg 57.1<br>US ISM Prices paid 66<br>US Construction spndg 1.0%<br>UK PMI Mfg 55<br>IT PMI Mfg 55.1<br>FR PMI Mfg 53.4<br>DM PMI Mfg 58.3<br>EZ PMI Mfg 56.2<br>EZ PPI 0.1m, 4.3y<br>EZ Unemploym't rate 9.5%<br>JP Tankan Lrge mfg 13<br>JP Tankan lrge all ind capex -0.3%<br>JP Vehicle sales n/f |
| Tuesday | US Trade bal -$44.7B<br>US Factory orders 0.9%<br>UK PMI Construction 52.5<br>UK BRC Shop prices -0.8y<br>EZ Retail sales 0.5m, 1.0y<br>JP PMI Services n/f |
| Wednesday | US MBA Mrtge apps n/f<br>US ADP Employm't chge 189k<br>US ISM non-mfg 57<br>US FOMC Minutes<br>UK PMI Services 53.5<br>UK Unit labour costs 2.0%<br>IT PMI Services 54.3<br>FR PMI Services 58.5<br>DM PMI Services 55.6<br>EZ PMI Services 56.5 |

| | Week of 3rd April |
|---|---|
| Thursday | US Jobless claims 250k<br>DM factory orders 3.5m, 3.6y<br>EZ ECB Policy meeting minutes<br>JP Consumer conf 43.4<br>JP Labour cash earngs 0.5y |
| Friday | US Averge wrk week 34.4<br>US Non-farm payrolls 177k<br>US Unemploym't rate 4.7%<br>US Averge hourly earngs 0.3m, 2.7y<br>US Wholesale invntry 0.4%<br>US Consumer credit $12.500B<br>UK Halifax hse prices 0.2m, 4.0y<br>UK Mfg output 0.3m, 3.9y<br>UK Ind production 0.2m, 3.7y<br>UK Construction output 0.0m, 1.9y<br>UK Trade bal -£10.900B<br>UK Trade non-EU -£2.500B<br>UK NIESR GDP Estimate 0.6%<br>DM Trade bal 17.4B<br>DM C/A 19.8B<br>DM Ind production -0.2m, 0.6y |

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# Last week's releases



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| | Week of 27th March |
|---|---|
| Monday | DM IFO 112.3 **STRONGER**<br>EZ M3 4.7y **WEAKER**<br>JP Corp service prices 0.8y **STRONGER**<br>**THAN EXPECTED** |
| Tuesday | US Advance gds trade -$64.8B **BETTER**<br>US wholesale invntry 0.4% **STRONGER**<br>US Case shiller comp-20 5.73y **STRONGER**<br>US Cons confidence 125.6 **STRONGER**<br>JP Retail trade 0.2m, 0.1y **WEAKER**<br>JP Lrge retailers sales -2.7% **WEAKER**<br>**THAN EXPECTED** |
| Wednesday | US MBA Mrtge apps -0.8% **BETTER**<br>US Pndg home sales 5.5m, -2.4y **STRONGER**<br>UK Net lndg on dwellings 3.5B **AS**<br>UK Net cons credit 1.4B **BETTER**<br>UK Mrtge aprvls 68.3K **WEAKER**<br>UK Government Triggers Article 50<br>DM Import price indx 0.7m, 7.4y **STRONGER**<br>JP Sml business conf 50.5 **STRONGER**<br>**THAN EXPECTED** |

| | Week of 27th March |
|---|---|
| Thursday | US Q4 GDP (A) 2.1% **MORE**<br>US Q4 Persnl consumption 3.5% **STRONGER**<br>US Q4 GDP Price index 2.1% **STRONGER**<br>US Jobless claims 258k **WORSE**<br>US Q4 Core PCE 1.3% **MORE**<br>UK GFK Cons conf -6 **BETTER**<br>EZ Cons conf -5 **AS**<br>EZ Ind confidence 1.2 **WEAKER**<br>EZ Services confidence 12.7 **WEAKER**<br>DM CPI 0.2m, 1.6y **WEAKER**<br>JP Jobless rate 2.8% **BETTER**<br>JP National CPI 0.3y **AS**<br>JP Tokyo CPI -0.4y **WEAKER**<br>JP Household spndg -3.8y **WEAKER**<br>JP Ind production 2.0m, 4.8y **STRONGER**<br>JP Loans discount corp 3.4y **STRONGER**<br>**THAN EXPECTED** |
| Friday | US Persnl spndg 0.1% **WEAKER**<br>US Persnl income 0.4% **AS**<br>US Core PCE 0.2m, 1.8y **MORE**<br>US Chicago PMI 57.7 **MORE**<br>US U. of Michigan confidence 96.9 **LESS**<br>UK Nat'nwide hse prces -0.3m, 3.5y **WEAKER**<br>UK Q4 Indx of srvcs -0.1m, 0.6(3m/3m) **LESS**<br>UK Q4 Business invstmnt -0.9q, -0.9y **BETTER**<br>UK Q4 C/A -12.1B **BETTER**<br>UK Q4 GDP 0.7q, 1.9y **LESS**<br>DM Retail sales 1.8m, -2.1y **WEAKER**<br>DM Unemplym't rate 5.8% **BETTER**<br>DM Unemploym't chge -30k **BETTER**<br>EZ CPI Est 1.5y **WEAKER**<br>JP Vehicle production 11.2y **STRONGER**<br>JP Construct'n orders 5.7y **STRONGER**<br>**THAN EXPECTED** |

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## US MARKETS: economic background

Last week’s focus was the final release of Q4 GDP, and we posed the question; would it be revised up?

In the event there was a small upward revision and within the report the personal consumption report was revised up from 3.1% to 3.5% indicating demand remains solid.

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 Manufacturing survey, prices paid and construction spending,**
- On Tuesday; **Trade data and factory orders,**
- On Wednesday; **ADP Employment change, ISM non-manufacturing and FOMC minutes,**
- On Thursday; **Jobless claims, and**
- On Friday; **non-farm payroll, unemployment rate, average hourly earnings, average work week, wholesale inventories and consumer credit.**

The calendar is packed with heavy weight data this week with the non-farm payroll report due on Friday and although we judge this will be the main event of the week, the FOMC minutes are due.

If there are any nods or hints towards a more hawkish stance markets will react, but we do not expect anything different to the policy statement release.

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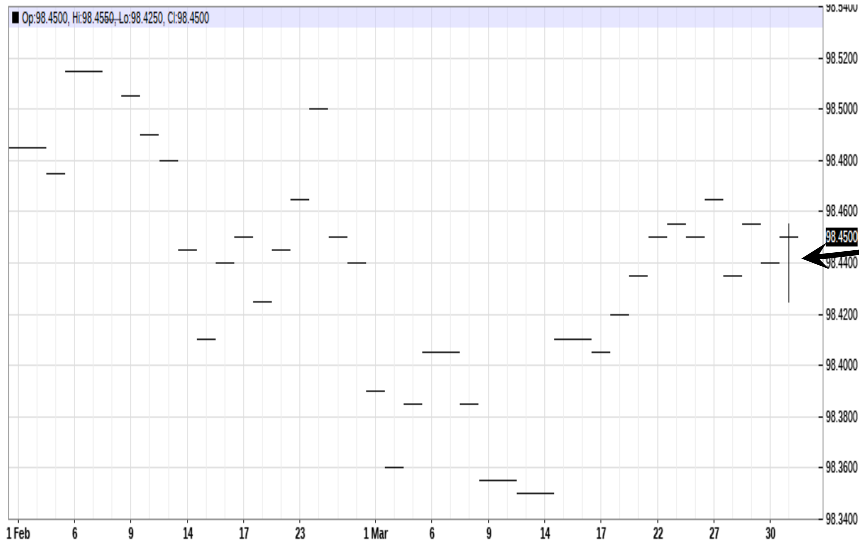
# US MARKETS: Eurodollars

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Eurodollars.




Eurodollars remains in a clear trading range.

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

…"Looking ahead Q4 GDP is due, but we judge traders will continue to re-evaluate the so called Trump trade after last week's health bill being withdrawn due to lack of support"…

In the event the disappointment of the health bill failure wore off, but had little impact here and neither did the GDP report.

Looking ahead, several key releases due, with non-farm payroll out on Friday the main event, but unless very much stronger than expected, we don't expect it to have much impact here.

We are remaining square.

The Fed intends to hike again this year, but if Trump cannot get his agenda through Congress, the Fed wont need to adopt a more hawkish tone, but it is still early days in the Trump Presidency!

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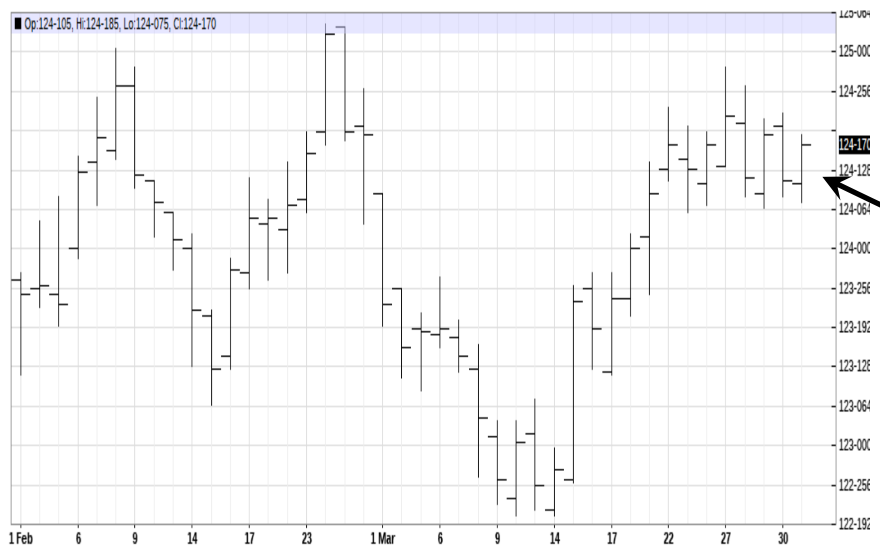
# US MARKETS: 10 Year Note

**OUR TRADING STANCE: SQUARE.**

Last week we were Bearish of the 10 year note.




The 10 year note held close to the recent highs despite the better than expected Q4 GDP report.

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

…"Looking ahead the key release this week is Q4 GDP, will it be revised higher?"…

In the event yes, but there was little impact here as stocks remained subdued and traders were still re-evaluating the "Trump" trade.

Looking ahead the main event this week in a packed calendar is Friday's non-farm payroll report and although the FOMC minutes are due, we doubt they will differ they will offer much that wasn't already in the policy statement.

We are square.

Until the President starts seriously rolling out his economic agenda and gets it through Congress we see little new downward pressure on this market short term.

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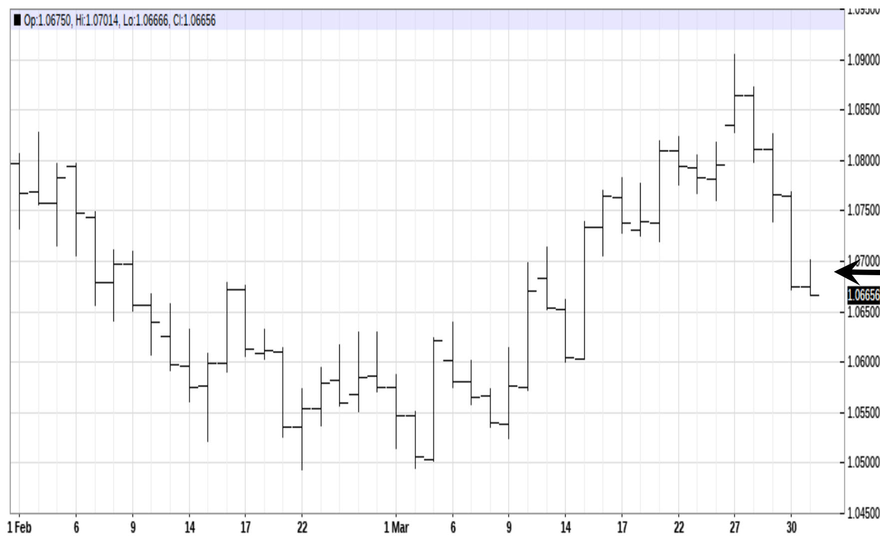
# US MARKETS: US Dollar

**OUR TRADING STANCE: SQUARE.**

Last week we were Bearish v the Euro




The Dollar recovered much lost ground last week as traders refocused after the Health bill saga.

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

…"Looking ahead Q4 GDP is due, but we judge the Dollar will remain driven by concerns over Trump's ability to get his agenda through Congress"…

In the event the Dollar recovered as concerns about Trump's ability to deliver his economic agenda eased.

Looking ahead a packed calendar, but we judge the main event is Friday's non-farm payroll report, but keep one eye on Wednesday's release of the FOMC minutes.

We are now square after the stop was triggered on Friday. The Dollar held up better than we thought last week and will likely remain in the trading range.

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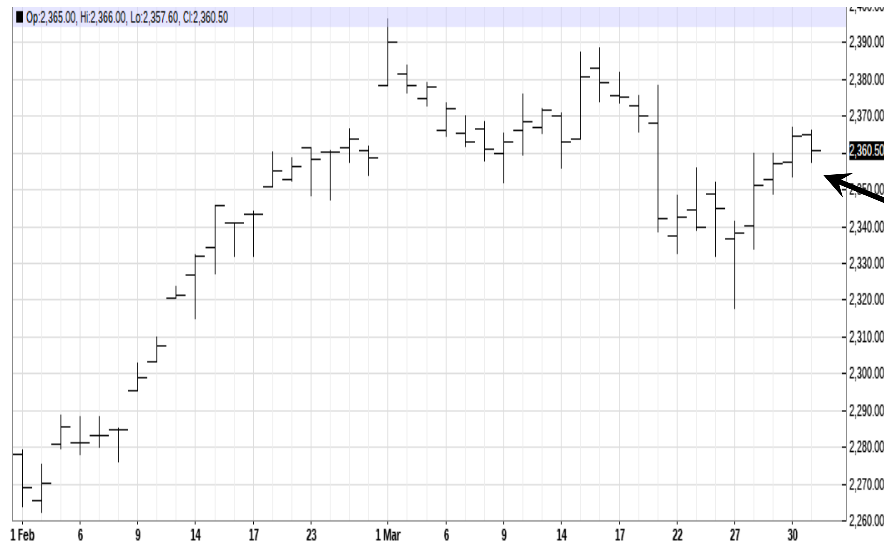
# US MARKETS: S&P500

**OUR TRADING STANCE: BULLISH.**

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




The S&P recovered from the lows as anxiety over Trump and his agenda eased.

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

…"Looking ahead the key release this week is Q4 GDP, but this market along with others will be focussed on Trump, his economic agenda and if he will be able to get it through Congress"…

In the event the Q4 GDP report was revised marginally higher, but the market recovered as anxiety over Trump and his economic agenda eased.

Looking ahead a packed calendar with the two ISM surveys, FOMC minutes and non-farm payroll. If data, especially non-farm payroll, exceeds consensus we judge this market will rally further.

We are bullish of this market and suggest going long.

Our suggested target is 2385.0 and our suggested stop is set at 2315.00 for protection.

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## UK MARKETS: economic background

Last week our focus was the run of data releases on Friday with Q4 GDP the key release.

In the event Quarter on Quarter GDP was as expected, but the year on year reading was reduced to 1.9%, mainly due to previous data being revised down.

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 Manufacturing survey,**
- on Tuesday; **PMI Construction survey and BRC Shop prices,**
- On Wednesday; **PMI Services survey and unit labour costs, and**
- On Friday; **Manufacturing output, industrial production, construction output, trade data and NIESR GDP estimate.**

The calendar is packed with heavy weight data this week.

The main event is Wednesday's PMI Services survey, but Friday's industrial production and manufacturing out put will draw attention too as will the trade report.

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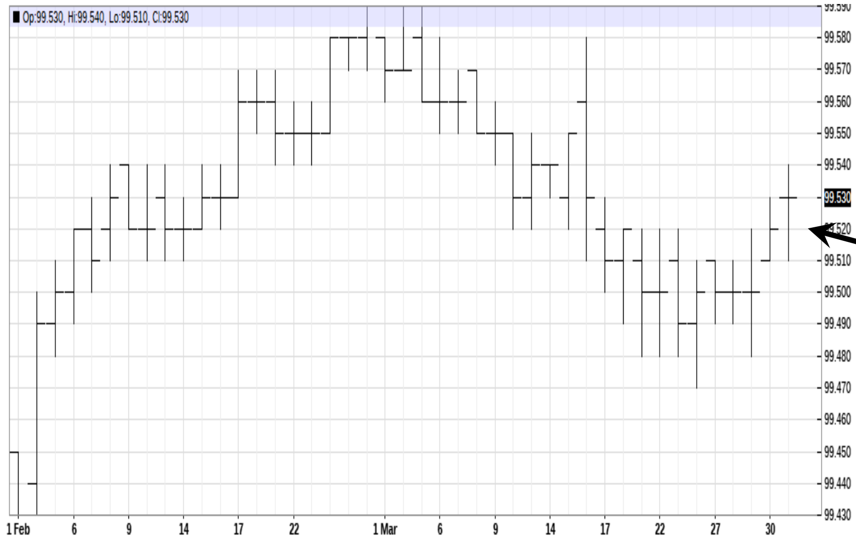
# UK MARKETS: Short Sterling

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Short Sterling.




Short Sterling recovered as the government triggered article 50.

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

…"Looking ahead the key release this week is Q4 GDP, but we are not expecting any revisions"…

In the event the year on year number was revised slightly lower, but this was likely due to earlier GDP reports being revised down.

Looking ahead the PMI services survey is due, together with industrial production, traders will be eager to see if the economy has retained momentum.

We are square, a rate hike still seems some way off especially now article 50 has been triggered with all the uncertainty that means.

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# UK MARKETS: Gilt

**OUR TRADING STANCE: SQUARE.**

Last week we were Square.


See how the Gilt looks well supported.

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

…"Looking ahead the main event this week is Q4 GDP, but we think the market will remain supported as traders re-asses Trump's ability to get his agenda through Congress"…

In the event woes fuelled by Trump subsided and Q4 GDP was mixed with the q/q report as expected, but year on year revised lower.

Looking ahead the key release this week is the PMI Services survey and industrial production; has the economy maintained its momentum?

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 now article 50 is triggered?

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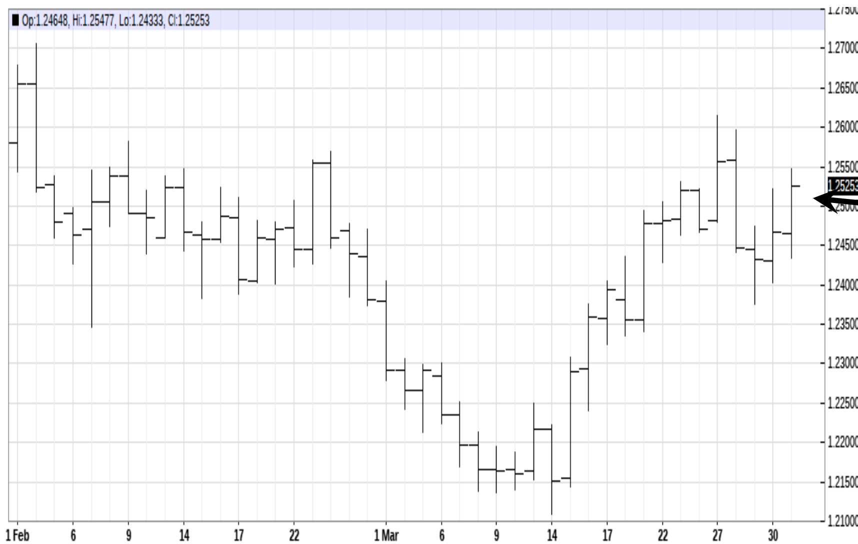
# UK MARKETS: Sterling

**OUR TRADING STANCE: SQUARE.**

Last week we were Square




The Pound recovered from the Article 50 sell off.

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

…"Looking ahead the Q4 GDP report is due, but all eyes will be on Wednesday when the Government triggers Article 50 beginning the UK/EU divorce process"…

In the event the Q4 GDP report was slightly mixed, but no real drama and the Pound recovered from the mini sell off caused when article 50 was triggered on Wednesday.

Looking ahead the main event this week is the PMI Services survey, but we judge currencies will be watching key data releases in the US with non-farm payroll due on Friday.

We are square.

The Pound is still vulnerable.

We judge the EU exit negotiations will not be without drama and that will be manifested in the value of Sterling.

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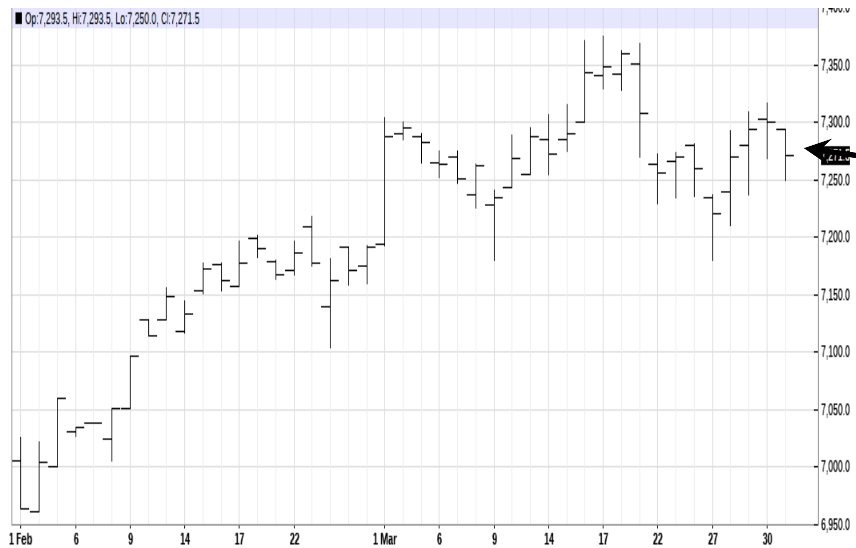
# UK MARKETS: FTSE

**OUR TRADING STANCE: SQUARE.**

Last week we were Square.




See how the FTSE remains well supported.

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

…"Looking ahead the Q4 GDP report is due, but we judge Trump and his chances of getting his economic policies through Congress will again dominate trading"...

In the event Q4 GDP was mixed; q/q as expected, y/y small downward revision and the Trump angst was replaced by the UK triggering article 50 on Wednesday.

Looking ahead several key data releases due this week, both here and in the US. We judge the UK PMI Services survey and US non-farm payroll report are the ones to watch.

We are square.

The market seems to have steadied, but still looks fragile.

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## EURO ZONE MARKETS: economic background

Last week's focus was the German CPI report. A stronger than expected reading would have led to renewed calls from Germany for the ECB to change policy direction.

In the event German CPI came in lower than expected at 1.6% relieving some pressure on the ECB.

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, Euro zone, Italian and French PMI Manufacturing surveys, Euro zone PPI and unemployment rate,**
- On Tuesday; **Euro zone retail sales,**
- On Wednesday; **Euro zone, French, Italian and German PMI Services surveys,**
- On Thursday; **ECB meeting minutes and German factory orders, and**
- On Friday; **German Trade balance, C/A and industrial production.**

There are many key releases due this week, both home and abroad, but we judge the key releases in the Euro zone are the various PMI Surveys, and abroad the US non-farm payroll report.

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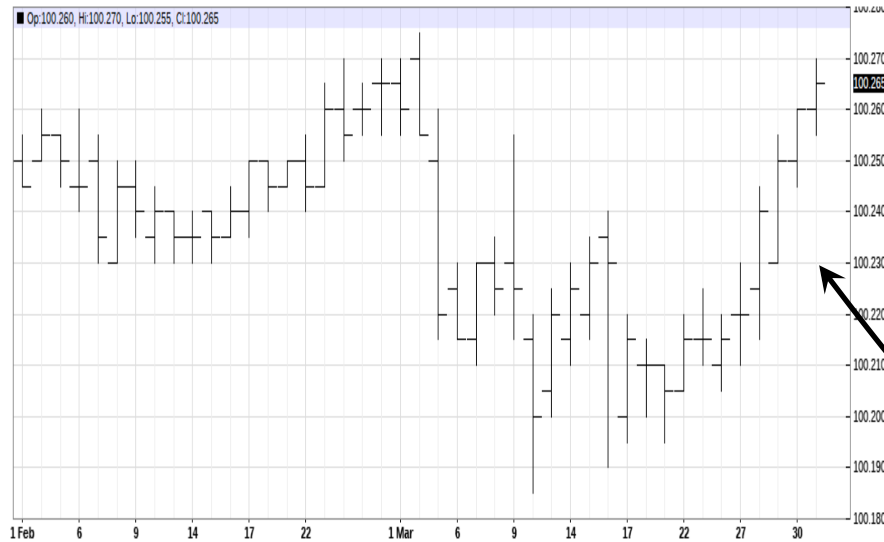
## EURO ZONE MARKETS: Euribor

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of Euribor.




Euribor rallied on weaker than expected German and Euro zone CPI.

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

…"Looking ahead the German and Euro zone CPI reports are due. A worse than expected German report will put further downward pressure on this market"…

In the event both reports came in weaker than expected taking the pressure off the ECB.

Looking ahead the PMI surveys are due and we expect them to show further steady improvement.

The ECB has a policy to drive inflation up to 2.0% and keep it there. Last week's Euro zone and German CPI reports showed they need to maintain current policy settings to keep it there.

For now we are staying square.

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SEVEN DAYS AHEAD

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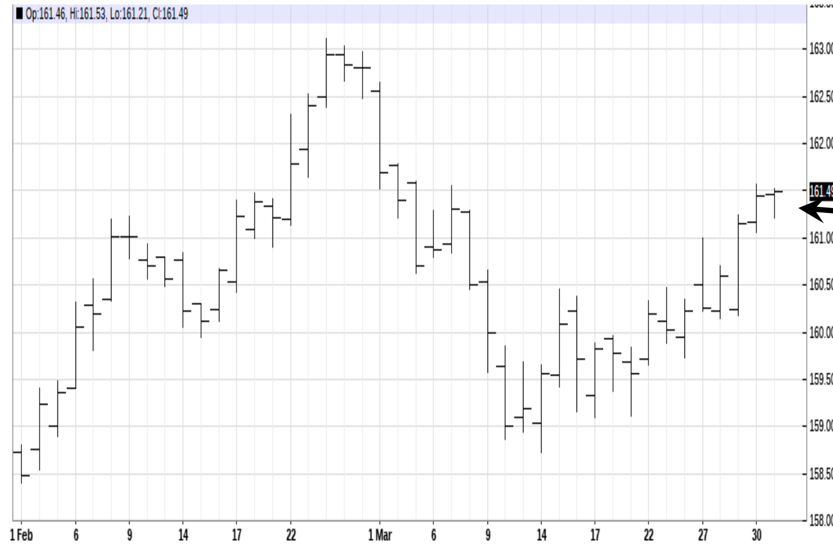
# EURO ZONE MARKETS: The Bund

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of The Bund.




The Bund continue to correct higher as stocks remain subdued.

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

…" Looking ahead the main event this week is German CPI, but we judge traders will remain focussed on political events in the US"…

In the event German CPI came in weaker than expected and at 1.6% much weaker than the previous month's 2.2%, helping this market correct further.

Looking ahead several key releases due with the various PMI Surveys the main event which we expect to show the Euro zone economy continuing to make steady improvement.

We are remaining square of the Bund.

The CPI reports came in weaker, but if as we expect, stocks recover, the upside here is likely capped.

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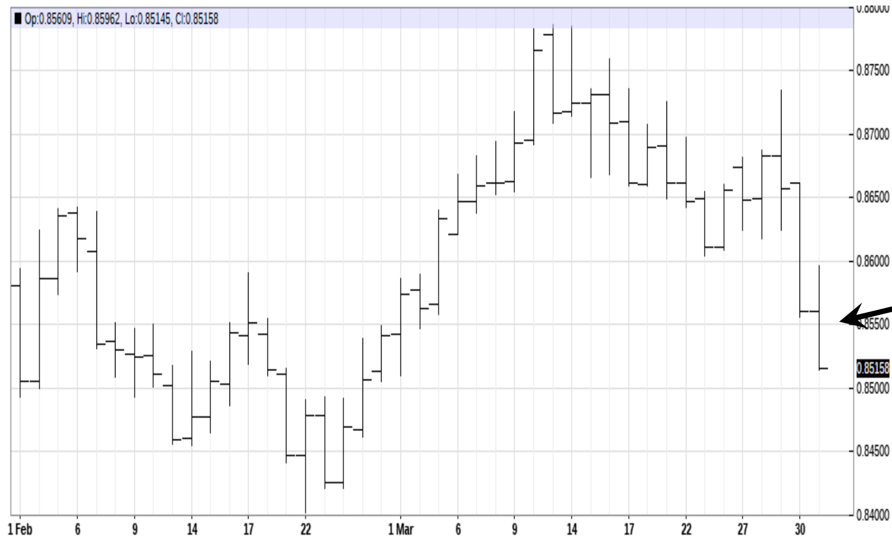
# EURO ZONE MARKETS: The Euro

**OUR TRADING STANCE: SQUARE**

Last week we were Bullish v the Dollar




The Euro failed to extend its gains against either the Dollar or Sterling.

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

…"Looking ahead the German CPI report is due and a stronger than expected report would offer the Euro additional support against the Dollar. But domestic data isn't the dynamic it is concerns about Trump getting his key economic policies through Congress"…

In the event both German and Euro zone CPI came in below consensus and significantly below the previous month's reading. Add in the reduction in concern about Trump achieving his policy goals and the Euro gave back gains against both the Dollar and Sterling.

Looking ahead a whole raft of key data releases due in the US, UK and Euro zone, but we judge the main event for currency traders will be the US non-farm payroll report.

We are now square the Euro after the stop was hit and now judge the Euro will likely settle back into the established trading range against both the Dollar and Sterling.

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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 continued to out perform its peers.

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

last week we said...

…"Looking ahead the German and Euro zone CPI reports are due, but we judge Trump will be the focus of global equity markets this week after he failed to secure Republican support in Congress for his flag ship Health care reforms"…

In the event concerns about Trump waned and Euro zone and German CPI came in below market consensus, helping this market to rally further.

Looking ahead the various Euro zone PMI surveys are due. We anticipate they will likely show the Euro zone economy continuing to steadily improve meaning this market remains bullish.

We remain bullish of this market.

Our suggested target is reset at 3210.0 due to change of contract and our suggested stop reset to 3040.0 for close protection and for the same reason.

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## JAPANESE MARKETS: economic background

Last week's focus was the CPI reports. Following the Bank of Japan's minutes and their remarks concerning inflation, we judge CPI remains a key economic indicator.

In the event National CPI came in as expected but below last month's reading and Tokyo CPI was weaker too at -0.4% confirming the Bank of Japan still has a long way to go before meeting its target of 2.0%.

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: **Tankan surveys and vehicle sales,**
- On Tuesday; **PMI Services survey, and**
- On Thursday; **Consumer confidence and labour cash earnings.**

There are two important releases this week. The main event is the Tankan survey, followed by the PMI Services survey.

The Tankan survey is a highly regarded survey that covers much of the economy and can move the markets.

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## JAPANESE MARKETS: Japanese Bonds

**OUR TRADING STANCE: BULLISH.**

Last week we were Bullish of Japanese Bonds.


The JGB made further gains on weak CPI.

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

…"Looking ahead the key release this week is CPI, both national and Tokyo. We doubt they will show much progress towards the BOJ's 2.0% target"…

In the event they didn't in fact both were weaker than the previous month's readings.

Looking ahead the key release this week is the Tankan survey, will it be up beat?.

Traders should be long the JGB. CPI remains well below the Bank of Japan's target of 2.0%.

Our suggested target remains 151.05 and our suggested stop continues at 150.10 for protection.

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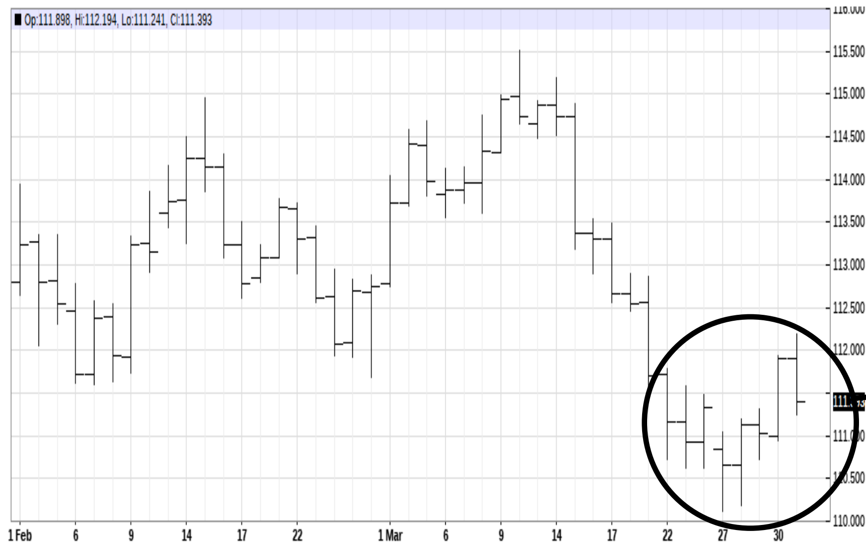
## JAPANESE MARKETS: Yen

**OUR TRADING STANCE: SQUARE**

Last week we were Square




The Yen bounced last week, but remains close to the lows.

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

…"Looking ahead CPI is due and we judge it will serve to high light the task facing the BOJ as it continues to aim for a CPI rate of 2.0%"…

In the event that was the out come. Both National and Tokyo CPI reports remain well below the Bank of Japan's target of 2.0%.

Looking ahead the Tankan and PMI services surveys are due and the Tankan is an important report. But we judge currencies will be led by US data this week as the FOMC minutes are out on Wednesday and non-farm payroll released on Friday.

We are square here.

The Dollar recovered some loses against the Euro but gave back ground against the Yen. In summary we judge currency markets lack clarity.

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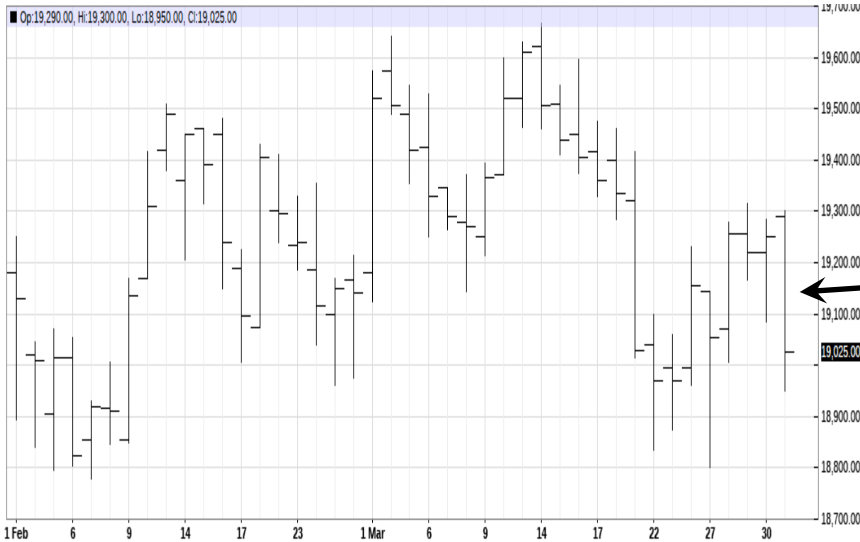
## JAPANESE MARKETS: Nikkei

**OUR TRADING STANCE: SQUARE.**

Last week we were Square of the Nikkei.




The Nikkei is a range bound market bereft of direction.

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

…"Looking ahead the National and Tokyo CPI reports are due, we judge they will under line the size of the task the Bank of Japan faces in getting inflation up to their target of 2.0%"…

In the event both reports were weaker than the previous month's reading and remain a long way from hitting 2.0% any time soon!

Looking ahead the Tankan report is due, but will it deliver an up beat assessment of the economy or just offer more of the same?

We are staying square.

The Nikkei is stuck in a trading range.

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SEVEN DAYS AHEAD

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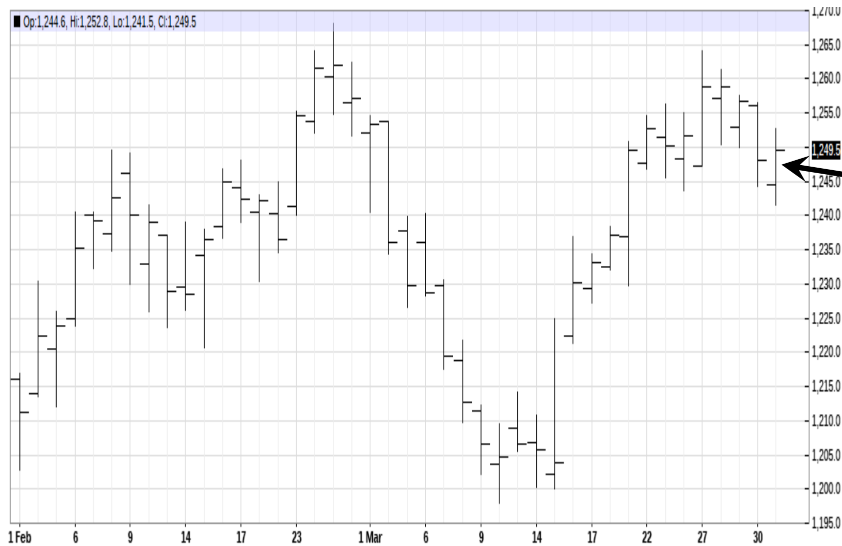
## COMMODITIES: Gold

**OUR TRADING STANCE: SQUARE**

Last week we were Square of Gold.




See how Gold cannot break through the highs made in February.

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

…"Looking ahead the US Q4 GDP report is due but unless there are significant revisions we judge traders will remain driven by the political machinations in the US."…

In the event the Q4 GDP report was revised marginally higher, but Trump's set back over his health care reforms soon faded from the attention of traders and as the Dollar recovered, so Gold eased lower.

Looking ahead a whole raft of US data is due this week and if better than expected holds the potential to drive the markets higher including the Dollar and force Gold lower back into the trading range.

For now we are staying square the market is still in a trading range, al be it wide.

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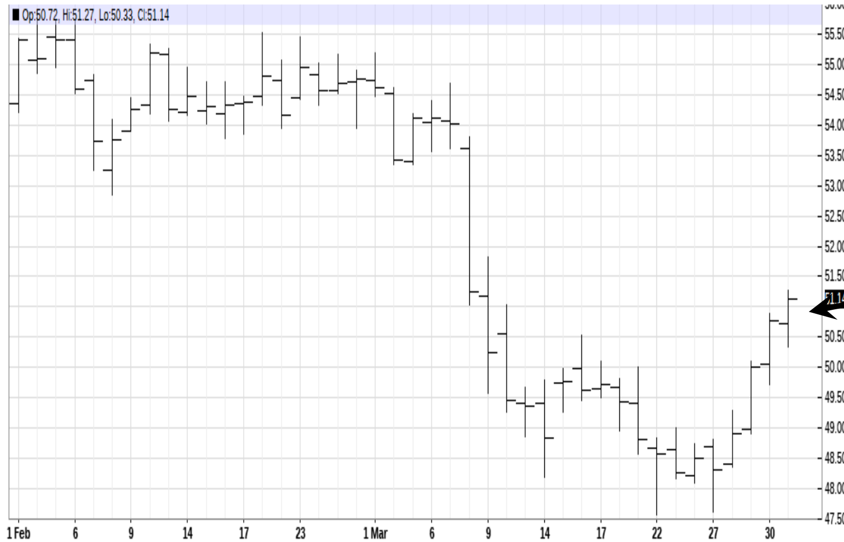
# COMMODITIES: Oil

**OUR TRADING STANCE: BEARISH.**

Last week we were Bearish of Oil.




See how oil bounced off the lows despite increased drilling in the US.

**The Macro Trader's view of oil is:** the oil market staged a recovery last week as OPEC and non-OPEC countries spoke further of reducing production.

But with US oil inventories building further and production in Libya coming back on line, we doubt the market can advance much further from here.

Despite our stop being hit last week, we remain bearish of this market as we judge further production cuts could remain elusive and increased production in the US will add to the weight bearing down on the market.

We remain Bearish of oil.

Our suggested target continues at $37.00 and our suggested stop is reset at $51.90 for protection.

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