

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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SQUARE short, medium & long term

SEVEN DAYS AHEAD

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ABOUT SEVEN DAYS AHEAD

Seven Days Ahead publishes a variety of trading guides suitable for experienced market operators.

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 29 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.

Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.

The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 30 years.

He left the Stock Exchange and joined Standard Chartered Bank London in 1976 trading the Sterling money markets.

He then trained as a floor trader with Holco Trading on the London Commodity Exchange specialising in cocoa and oil futures.

He began to trade off the floor with Drexel Burnham Lambert becoming Deputy Manager of their Money Desk in Europe responsible for all funding, money market trading and FX hedging for the European operation.

He rose to become Deputy Global Head of Proprietary Trading with Skandinaviska Enskilda Banken and thence Head of Proprietary trading Svenska Handelsbanken London.

After 1998 he moved into the hedge fund business as a senior fund manager of Weavering Capital UK. Now in association with Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

GLOBAL CALENDAR

WHAT HAPPENED LAST WEEK?

	Week of 20 th November
Monday	UK PSNCR -8.4B BETTER UK PSNB -1.6B BETTER UK M4 STRLG Lndg 17.0B WORSE UK Mrtge Indg 30.3B MORE DM PPI 0.3m, 4.6y HIGHER THAN EXPECTED
Tuesday	UK CBI Industrial trends +3 STRONGER FR GDP 0.0q, 1.9y AS IT Ind orders 8.8y WEAKER IT Ind sales 4.4y WEAKER THAN EXPECTED
Wednesday	US Jobless claims 321k HIGHER U. of Michigan conf 92.1 WEAKER US EIA Oil inventories HIGHER UK B of E MPC Minutes 7/2 FR Consumer spndg 0.9m, 4.2y AS IT Cons conf 109.2 STRONGER EZ Ind new orders -1.3m, 7.6y BETTER THAN EXPECTED
Thursday	US MARKETS CLOSED DM Q3 GDP 0.6q, 2.8y AS IT Business conf 96.8 AS DM IFO 106.8 STRONGER IT Trade bal non-EU -1.057B WORSE EZ C/A -0.3B BETTER IT Retail sales 0.1m, 1.8y STRONGER THAN EXPECTED
Friday	UK Q3 GDP 0.7q, 2.7y AS FR Business conf 107.0 AS DM Import prices -0.3m, 3.0y AS DM CPI -0.1m, 1.5y HIGHER THAN EXPECTED

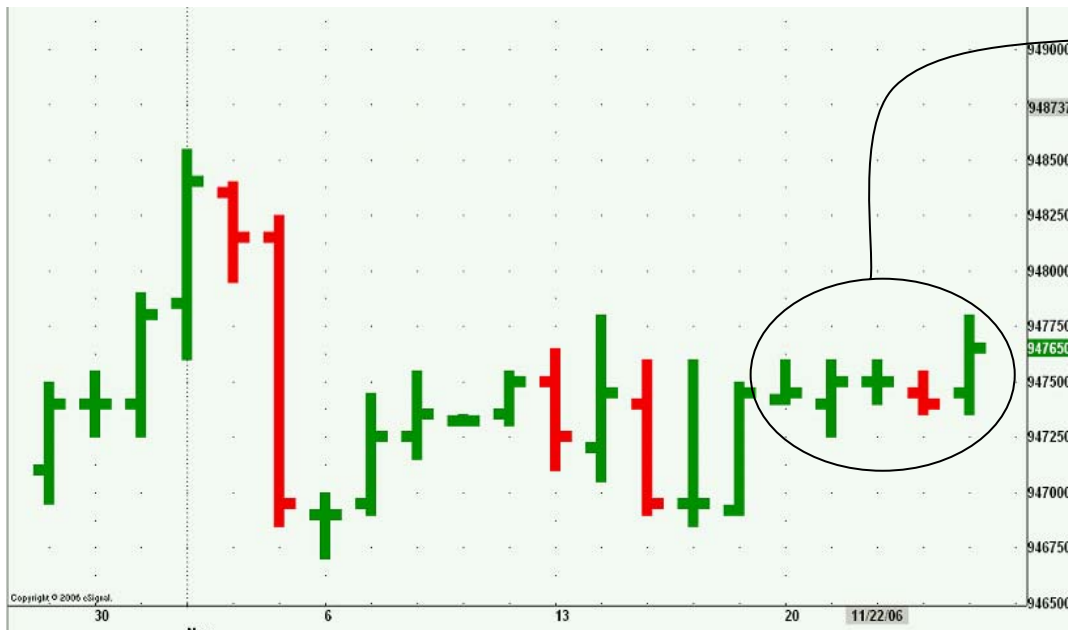
WHATS HAPPENING THIS WEEK?

	Week of 27 th November
Monday	UK Mrtge Indg n/f
Tuesday	US Durable goods -5.0 US Ex-Transport 0.2 US Cons confidence 106.0 US Existing home sales 6.15M DM GFK Cons conf 9.4 EZ M3 8.53mth, 8.7y
Wednesday	US Q3 GDP 1.8 A US Q3 GDP Prices 1.8 US Q3 Personal consump 2.8 US Q3 Core PCE 2.3 US New Home sales 1.050M US Feds beige BK UK M4 Strlg Indg n/f UK Net Indg on dwellings 9.0B UK Mrtge approvals 124k FR Unemploy'm't Rate 8.8 FR Change -20k
Thursday	US Personal income 0.5 US Personal spending 0.1 US PCE Deflator 1.4y US PCE Core 0.1m, 2.3y US Jobless claims 317k US Chicago PMI 54.5 UK Nationwide hse prices 0.7m, 8.4y UK GFK Cons conf -5 UK Distributive trades srvy 2 FR Cons conf -20 FR PPI -0.2m, 2.2y DM Unemploy'm't -30k DM Rate 10.3 IT PPI -0.1m, 4.4y IT CPI 0.2m, 1.9y EZ Cons conf -8 EZ CPI 1.8y EZ Q3 GDP 0.5q, 2.6y
Friday	US Construction spndg -0.3m, US ISM Mfg 51.8 US ISM Prcs paid 49.8 UK PMI Mfg survey 54.0 IT PMI Mfg survey 56.0 FR PMI Mfg survey 56.1 DM PMI Mfg survey 57.0 EZ PMI Mfg survey 57.0 EZ Unemploy'm't rate 7.8

INTEREST RATE FUTURES

EURO DOLLARS

MARCH 07 EURO DOLLARS



See how Eurodollars inched higher last week in response to the White House downgrading their economic forecast.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were square of March 07.
This week we remain square of March 07.

Last week we remained square of March 07 Eurodollars, in a week with very little data due and the market closed on Thursday for thanksgiving, we judged activity would be subdued.

In the event it was, with the only noteworthy activity taking place on Friday. This was likely a delayed response to the news the White House has downgraded its forecast for economic activity over 2007.

Looking ahead there is much more in the calendar this week for traders to ponder:

- on Tuesday; Durable goods, consumer confidence and existing home sales,
- on Wednesday; Q3 GDP, Core PCE, New Home sales and the Feds beige book,
- on Thursday; personal income & spending, PCE data and the Chicago PMI, and
- On Friday; the ISM Manufacturing survey.

Of this we are most interested in the two home sales report, as the economy is cooling as a result of slower activity in the residential real estate market.

Fridays ISM manufacturing survey will also be important; although manufacturing is a small part of the US economy, in an economy of this size it is still very important.

The Macro Trader's view is: while we remain square, we continue to view this market as long term bullish, but await an appropriate opportunity to go long.

This may come this week if the two housing reports due continue to show weakness. With an FOMC meeting not too far away, traders will be anxious to see data which reassures them that the Fed will remain on hold.

The Fed continues to flag inflation as the greater concern, but we have seen significant improvement recently in both the PPI and CPI measures, but since the Feds preferred measure

is the PCE index that too needs to show similar improvement and unless the Oil market rallies back towards the previous highs we think it will. Then the Fed will be free to turn its attention to helping the flagging growth performance.

However all may not be plain sailing as several commentators, ex-Fed Chairman Greenspan included, think the worst of the housing market correction may now be behind us, if that is so than maybe the Fed will get away with staying on hold for a prolonged period, if these sages are

wrong and housing experiences further difficulties; the Fed will ease.

This largely explains the current psychology of the market and or hesitancy in opening a long position just now.

Traders should remain square of this market for now, but watch closely the housing market data for clues on timing their entry into the market.

SHORT STERLING

MARCH 07 SHORT STERLING



See how the market moved higher over the week as the MPC minutes on Wednesday underlined the message from the previous week's inflation report and Friday's GDP report was more or less in line.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were square of March 07.
This week we remain square of March 07

Last week we remained square of March 07 Short Sterling after the previous week's release of an un-expectedly dovish Bank of England inflation report left traders seeking direction.

As the most in depth exposition of the MPC'S thinking there is, we judged last week's data would be unlikely to materially alter the current mood in the market, but never the less, we advised traders to focus on the following releases:

- on Monday; the PSNCR and PSNB surpluses were larger than expected,
- on Tuesday; the CBI Industrial trends survey was more upbeat than expected,
- on Wednesday; the MPC minutes for November's meeting revealed deputy Governor Lomax joined David Blanchflower to give a 7/2 vote, and
- On Friday; a second look at Q3 GDP confirmed the q/q rate as unchanged but the annual rate was slightly weaker.

The market reacted by trading sideways as traders continued to digest the implications of

the Bank's latest forecasts and analysis of both growth and inflation.

Looking ahead there are several reports due this week and we advice focusing on the following releases:

- on Monday; Mortgage lending,
- on Wednesday; net lending secured on dwellings and mortgage approvals,
- on Thursday; the Nationwide house price survey and CBI distributive trades survey, and
- On Friday; the CIPS PMI Manufacturing survey.

Of these the PMI Manufacturing survey is the most important, but traders will more eagerly await the services survey due the following week.

The Macro Trader's view is: over recent week's the combination of:

- the Bank of England's quarterly inflation report, and
- the November MPC minutes,

Have altered the outlook for UK interest rates; previously traders expected a further hike in February with varying expectations for additional policy tightening throughout 2007, now though, traders are questioning if November's move represents the end of the "cycle".

With Deputy Governor Rachel Lomax joining David Blanchflower in a no vote for the November rate hike, traders' sense there is less of a consensus for tighter policy than expected. And with the most recent inflation forecast showing a return to target more quickly than previously thought; based on current market expectations for interest rates, they are right to square short positions.

However that isn't a green light for a general rally. There is still the possibility of a February

rate hike and when this is priced into the market, March 07 futures aren't too far off the mark.

But given the current degree of uncertainty surrounding the MPC'S next move the range looks set to be 94.60 – 94.80 over the coming weeks.

Although, if inflation does drop below target more quickly than expected rendering further tightening un-necessary, 94.90 would then become a realistic target.

For now traders should remain un-involved with this market. There is no clear objective for either the Bulls or the Bears, and range trading can prove costly.

EURIBOR

MARCH 07 EURIBOR



THE MARKET EXPLAINED

OUR TRADING STANCE: BULLISH.

Last week we were bullish of March 07.
This week we remain bullish of March 07.

Last week we were bullish of March 07 Euribor as we judged short term Euro zone rates were about to peak after the ECB raises rates at its up coming December meeting.

Data over recent weeks has been a little softer than expected and inflation has been lower than previously forecast, this has led Trichet on more than one occasion to avoid giving any guidance for Euro zone interest rates during 2007.

With this in mind we advised traders to consider the following releases last week;

- Monday; German PPI was higher than expected,
- On Tuesday; French GDP was as expected, and Italian Industrial orders and sales were weaker than forecast,
- On Wednesday; Euro zone industrial new orders were less negative than forecast,
- On Thursday; the German IFO report surprised the market and hit a new high, and

- On Friday; French business confidence was as expected.

The surprise was clearly the IFO report, but is this now becoming out of step with real economy developments.

Not so long ago it was the ZEW survey that was written off as out of step, but data has softened recently, where as the IFO report has continued to flag strong growth even though Germany will suffer a large VAT hike early next year.

Additionally, in the early days of this recovery, the IFO report continued to flag deteriorating conditions; clearly it failed to spot the turning point then; maybe the same is true now.

Looking ahead there are several key data releases due this week:

- on Tuesday; EZ M3 money supply,
- on Wednesday; French unemployment data,

- on Thursday; French PPI, German unemployment, Italian CPI, EZ CPI and EZ Q3 GDP, and
- On Friday; all the Euro zone PMI Manufacturing surveys.

The Macro Trader's view is: last week we advised running either a small long futures position or a small call spread in March 07 Euribor.

We said

“It is hard to ignore the fact that some key Euro zone reports have turned soft lately and inflation is materially below target”.

We also said

“We think any rate hike in December will be the last, leaving March 07 Euribor oversold. While it is way too soon to even consider a rate cut, there is the potential for the market to rally 25 ticks to eliminate the excessive pessimism that is currently in the market”.

And we advised Traders to go long offering a suggested target over the medium term of 96.30, but we stress this is not a short term trade. Our suggested stop is 96.10.

We still think that advice is valid and if you consider the German IFO report as the one which is now moving out of step, it makes sense.

GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the 10yr Note.

US 10yr NOTE DECEMBER 06



See how the market rallied further last week as traders digested the implications of the White House downgrading its economic growth forecast.

This week we remain bullish of the 10yr Note.

Last week we remained bullish of this market but expected little action in a week bereft of fresh data and containing the thanksgiving holiday on Thursday.

However traders took the market higher after the White House issued a down ward revision to its forecast for the US economy for next year.

This led many to conclude that the Fed will soon have to begin easing interest rates to help support growth and the market hit our target of 108.20. But since we think the market can go higher we held our position.

Looking ahead there are several key data releases this week and we advise traders to focus on the following:

- on Tuesday; Existing home sales,
- on Wednesday; the 2nd look at Q3 GDP and New home sales,
- on Thursday; the PCE data, and
- On Friday; the ISM manufacturing survey.

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Of these we are most interested in the Home sales and PCE data. If the housing market reveals ongoing weakness and the Feds preferred inflation measure shows improvement this market will rally further.

But traders need to keep an eye on Q3 GDP. The trade deficit, although still close to record levels, did improve a little towards the end of the 3rd quarter and an upward revision to Q3 GDP is expected. To what extent growth is revised higher, will also be important for the outlook of this market shorter term

The Macro Trader's view is: we remain bullish of this market as we judge the US economy will remain sluggish for long enough to prompt a Fed ease.

Our target over the next 7 days is 109.00, but as always run a stop at 108.00 as protection.

THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

GILT DECEMBER 06



See how the Gilt drew little enduring benefit from the better than expected Government borrowing data released on Monday.

This week we remain square of the Gilt.

Last week we were square of the Gilt and we advise traders to pay attention to:

- On Monday: the PSNCR and PSNB measures of Government borrowing which recorded larger than expected surpluses, and
- On Friday: the second look at Q3 GDP which was broadly as expected.

The market initially rallied on the borrowing data but was unable to hold the gains, eventually trading lower as the week progressed.

A small recovery materialised on Friday as the Gilt tried to re-align its self with the US Treasury market and Euro Bund.

Looking ahead there is little for Gilt traders to focus on this week, but we advise paying attention to the following:

- On Wednesday; net lending on dwellings and mortgage approvals,
- On Thursday; the Nationwide House price index and CBI distributive trades survey, and
- On Friday; the CIPS PMI Manufacturing survey.

The Macro Trader's view is: again last week we remained square of the Gilt as it continued to look vulnerable to the downside.

We said last week ... "we are bullish of the US Treasuries and the Euro Bund and these markets are likely to support the Gilt". And indeed upon closer inspection of the price action that certainly seems the case.

For this reason we are again square and advise others to adopt the same stance; the US Treasury market continues to look the best for the Bulls.

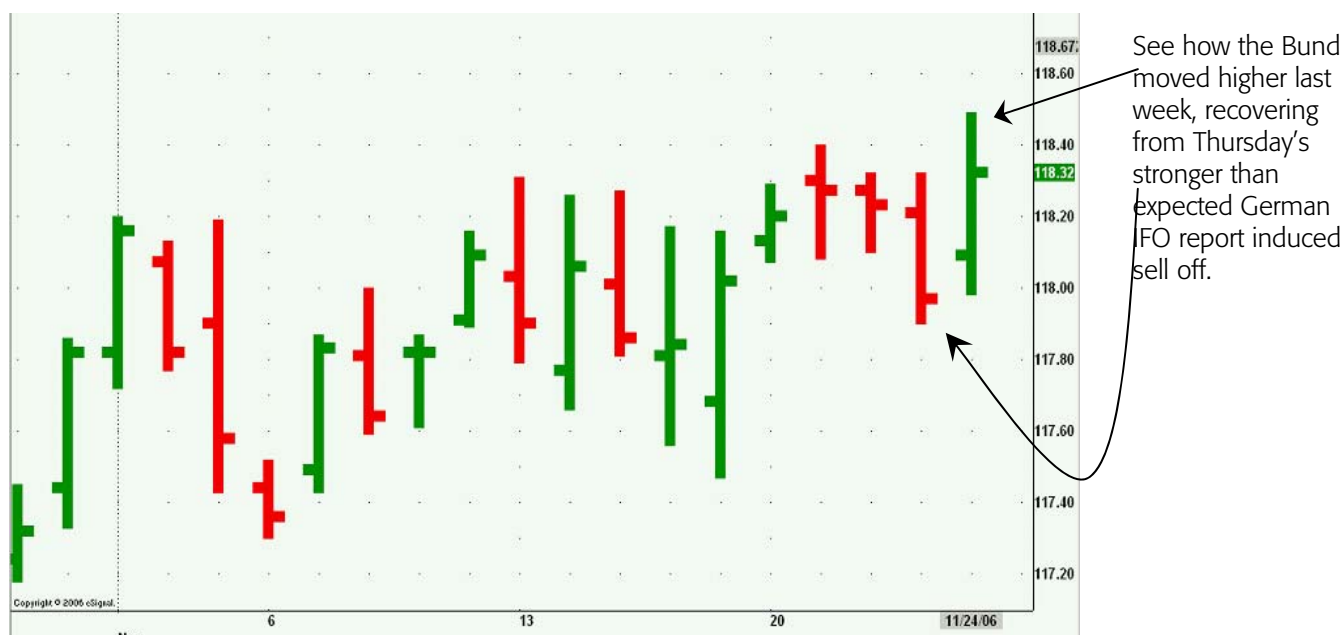
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THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the bund.

THE BUND DECEMBER 06



This week we remain bullish of the Bund.

Last week we were long of the Bund as we judged the market looked set to make further upside gains and of all the Euro zone data listed on the Global Calendar last week, our prime focus was the German IFO report due on Thursday, this surprised traders with its strength and the initial reaction was a sell off.

But by Friday the Bund was in recovery mode as the US Dollar sold off heavily in response to new US Government forecast showing weaker growth next year.

Given the slower data coming from the Euro zone recently, is the IFO report becoming unreliable?

Looking ahead the focus this week will be:

- On Tuesday: EZ M3 money supply,
- On Wednesday: French unemployment,
- On Thursday: French PPI, German unemployment, Italian PPI and CPI, EZ CPI and EZ Q3 GDP.

However we sense the Bund will be led by the US Treasury market as traders continue to evaluate the likely timing of any Fed rate cut next year.

The Macro Trader's view is: the cooling economic outlook in the US has prompted speculation for easier US interest rates for much of the autumn, but now data in the Euro zone too seems for now, to have peaked at the same time as Euro zone inflation has move decisively below target.

We expect the ECB will hike rates at their December meeting, and this could be their last and prompt a further rally in the Bund as traders then perceive inflation to be well and truly under control. Additionally the renewed strength of the Euro will be a factor for policy makers to consider

Traders should remain long of this market; our new target for the next 7 days is 118.70 with a stop at 117.50 to reflect the weight of data due this week.

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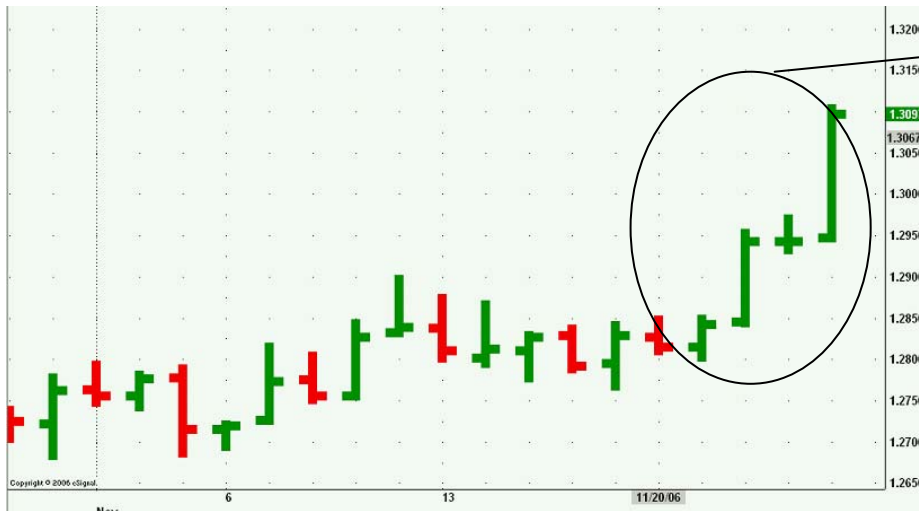
CURRENCIES

THE DOLLAR

OUR TRADING STANCE: BEARISH.

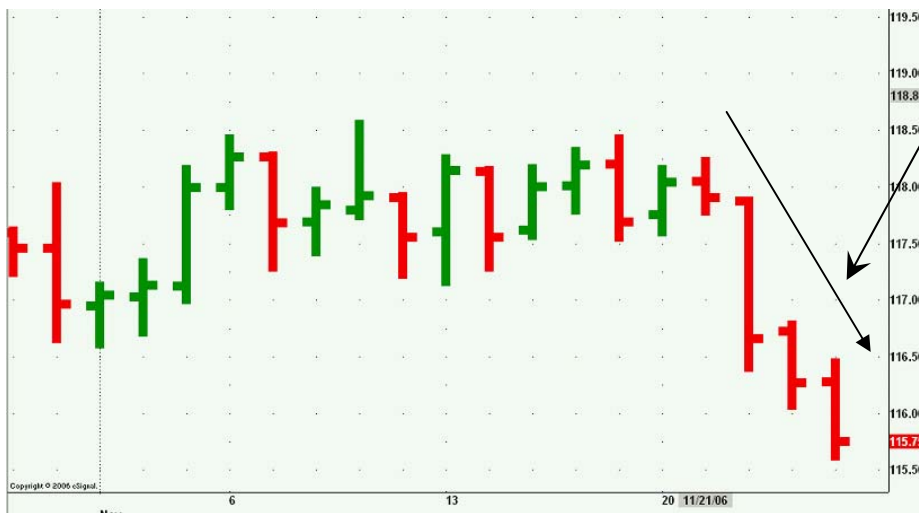
Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar immediately weakened after the White House downgraded its growth forecast.

DOLLAR/YEN CHART



See how the Yen too benefited from the Dollars weakness driven by reduced outlook for economic growth.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar as we expected the prospect of ongoing economic weakness and an eventual Fed rate cut to force the Dollar lower against the other major currencies, but in a week with very little data due and Thursday a US market holiday for

thanksgiving we though any rally would be limited.

In the event, the Dollar sold off driven by the White House publishing its latest economic forecast for 2007 which showed a weaker growth profile.

Looking ahead we now expect the Dollar to weaken further over the coming weeks and months.

This week, unlike last, there are several important data releases for traders to monitor and we judge the following to be the most significant:

- on Tuesday; Durable goods and Existing home sales,
- on Wednesday; Q3 GDP, Q3 Core PCE and New Home sales,
- on Thursday; Personal income & spending and the PCE data, and
- On Friday; the ISM manufacturing survey.

Clearly the housing market data and the PCE data will be of greatest importance.

The Macro Trader's view is: last week we advised remaining short and offered targets which we judged if hit would lead to further Dollar weakness and that certainly proved to be the case.

Although the trigger for the sell off was the weaker economic assessment from the White House, evidence has accumulated steadily over recent months which all point to a weaker Dollar, although what was needed was a tipping point; that came last week.

While we expect the Dollar to weaken further we are mindful that markets never move in straight lines and after last week's price action traders shouldn't be surprised by a period of consolidation or mild profit taking.

Some have even discounted last week's move as a product of thin holiday markets; we do not agree.

As said there is enough evidence to support the Dollar bears and the bulls are now clutching at straws and if this week's home sales data shows continued weakness and the expected upward revision to Q3 GDP disappoints; traders will once again sell the Dollar.

Traders should remain short of the Dollar against either the Pound or Euro:

- Against the Pound Sterling our target over the next 7 - 10 days remains 1.9500 with a stop at 1.9150, and
- Against the Euro our target over the same period is 1.3200, with a longer term target of 1.3400, but as always run a stop at 1.2934 as protection.

The currency markets have been frustrating, but as we said last week "we believe there is potential for significant Dollar weakness once the current ranges finally break". They have now broken.

THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound finally broke away on Monday, from the range which has held it for so long and added powerfully to the rally on Friday.

THE STERLING/EURO CHART



See how the Pound traded sideways against the Euro as both the Euro and Sterling rallied against the Dollar.

This week we remain bullish of Sterling.

Last week we remained bullish of Sterling after the previous Friday's rally driven by very weak US Housing starts and Building permits data.

Our analysis remained that the Dollar was on the brink of the long awaited sell off and although

the range was yet to break, we remained long in anticipation of the long expected move.

Although Wednesday's release of the November MPC minutes underscored the message from the previous week's Bank of England quarterly inflation report, traders bought the Pound as the

outlook for UK growth remained solid where as the US growth outlook remained weak; with the White House down grading its own forecast for the rest of 2006 and more crucially 2007.

When Friday's UK Q3 GDP report confirmed the preliminary estimate, the Pound surged against the Dollar to levels not seen since March 2005.

Looking ahead there are few heavy weight UK data releases due this week with most focusing on housing market activity as detailed in the Global Calendar, with the exception of Friday's CIPS PMI Manufacturing report, but there are several very important US releases; of these we flag for currency traders:

- Tuesday's existing home sales,
- Wednesday's Q3 GDP update, New home sales and the Fed's beige book,
- Thursday's PCE data, and
- Friday's ISM manufacturing survey.

The Macro Trader's view is: after sticking our neck out and anticipating the breakout; despite several previous failed attempts, the market

rewarded the Bulls with a powerful rally which is set to go further.

Our target of 1.9200 was decisively hit and subsequently passed and we advise traders to stick with this move and avoid any temptation to take profit.

The US economy is slowing; driven by the housing market, and inflation has begun to recede, which should see the Fed begin to ease policy from March next year.

Although we judge that easing cycle may only include three cuts; taking Fed funds down to 4.5%, during its course the Dollar would have weakened further against the major currencies.

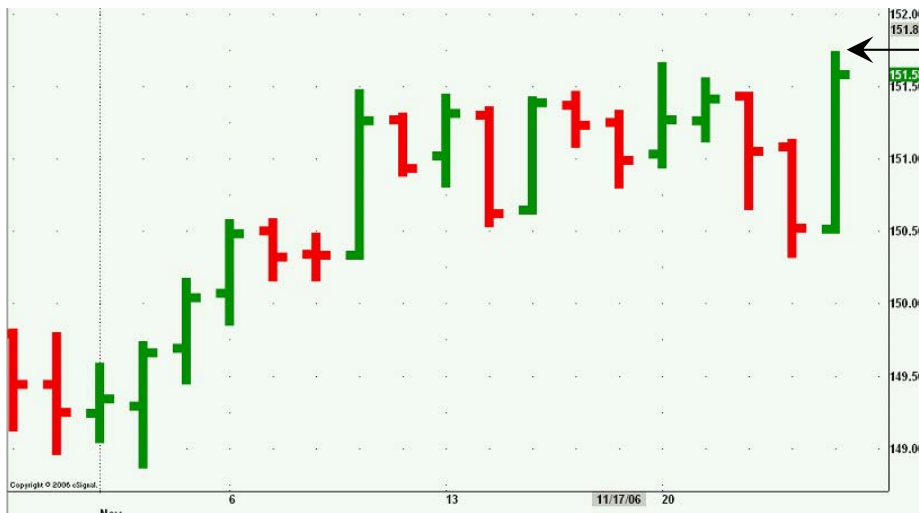
Our medium term target for Cable is 2.0500, but we stress this is a medium term target, over the short term our target is 1.9500. Traders should run a stop at 1.9150 as protection.

THE EURO

OUR TRADING STANCE: BULLISH.

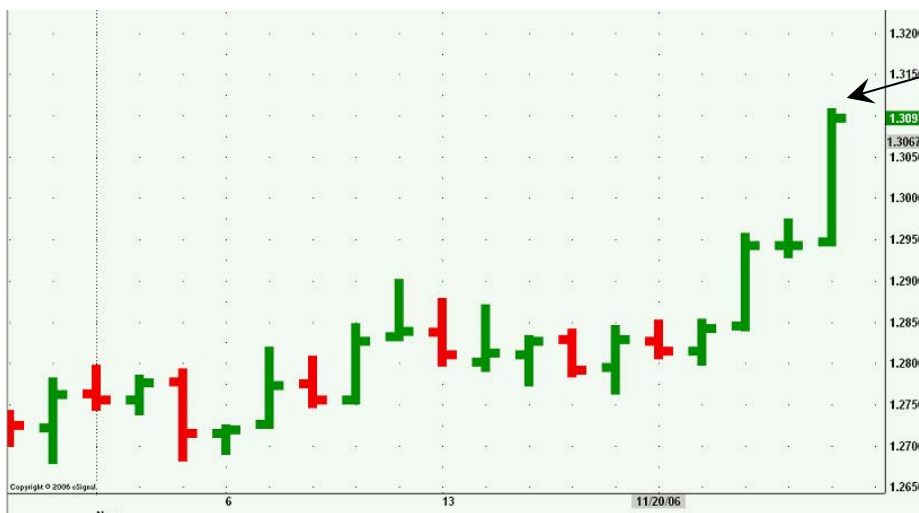
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen weakened further against the Euro as Dollar weakness most benefited the Euro.

THE EURO/DOLLAR CHART



See how the Euro surged against the Dollar as the White House announced a weaker forecast for US economic growth in 2007.

This week we remain bullish of the Euro.

Last week we remained bullish of the Euro after an indifferent performance the previous week, but after weak US housing data at the end of that week we were encouraged to stay with our view.

But in a week with only Euro zone data to watch and the US closed on Thursday for their

thanksgiving holiday, we thought currencies could drift last week.

In the event the Euro enjoyed a strong rally against the Dollar and made gains against other major currencies too.

We had advised traders to watch the following Euro zone reports:

- on Monday; German PPI was stronger than expected,
- on Tuesday; French Q3 GDP was as expected,
- on Wednesday; French consumer spending was as expected,
- on Thursday; German IFO was stronger than expected, and
- On Friday; French business confidence was as expected.

But the rally was fuelled by the White House reducing their forecast for US economic growth during 2007 and supported by the stronger than expected German IFO report.

Looking ahead there are important data releases due in both the Euro zone and US and we advice traders to check the Global calendar for details, but the key releases in the Euro zone are:

- on Tuesday; EZ M3 money supply,
- on Wednesday; French unemployment,
- on Thursday; EZ CPI and Q3 GDP, and
- On Friday; all the Euro zone PMI manufacturing reports.

And in the US:

- On Tuesday; Existing home sales,
- On Wednesday; New Home sales and Q3 GDP,
- On Thursday; the PCE data, and
- On Friday; the ISM Manufacturing survey.

The Macro Trader's view is: the long period of range trading has finally broken, with the catalyst the weaker economic forecast from the US Government, but evidence for a weaker Dollar had been building for a long time, hence the frustration of the Dollar Bears.

Now the range has gone we expect the Euro to make further progress. While we are becoming a little sceptical of the reliability of the IFO survey in the light of other data's weaker readings, for now traders will likely use that report as a supporting reason to continue buying the Euro.

If key US reports remain weak this week the Euro will make further advances and we advice traders to remain long.

Our target against the Dollar over the next 7 days is 1.3200 with a protective stop at 1.2934.

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STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

Last time we were bullish of the S&P 500.

S&P 500 DECEMBER 06



See how the market pushed ahead into Wednesday on increased optimism for lower interest rates, but suffered a set back on Friday as traders fretted over the outlook for the economy after the Fed's weaker economic forecast.

This week we remain bullish of the S&P 500.

Last week we remained long of this market, and in a week with very little data due we said

“The market will likely suffer some profit taking and receive its lead from events overseas”.

And broadly speaking that is what occurred.

The S&P continued to rally into Wednesday only suffering a bout of profit taking on Friday, when by contrast, the UK'S FTSE and Dow Jones EUROSTOXX50 both suffered significant downward corrections for much of last week.

Looking ahead we expect traders to be a little nervous after the steep fall of the Dollar last week against the other major currencies and with several key data releases this week, traders will have one eye firmly on the housing market data,

Which we believe will further underscore the need for easier policy early next year.

The Macro Trader's view is: last week we offered a target of 1420.0 which wasn't hit, but because we think the market can go higher we are holding our long position.

With US inflation showing some promising signs of improvement recently, and traders expecting to see further evidence of housing market weakness this week, we expect the Fed to gradually turn its attention from inflation to growth and eventually ease policy around the end of the 1st quarter next year.

With this in mind we repeat last week's target and over the next 10 days expect to see 1420.0 trade. But we have raised our stop to 1386.00 to protect profits.

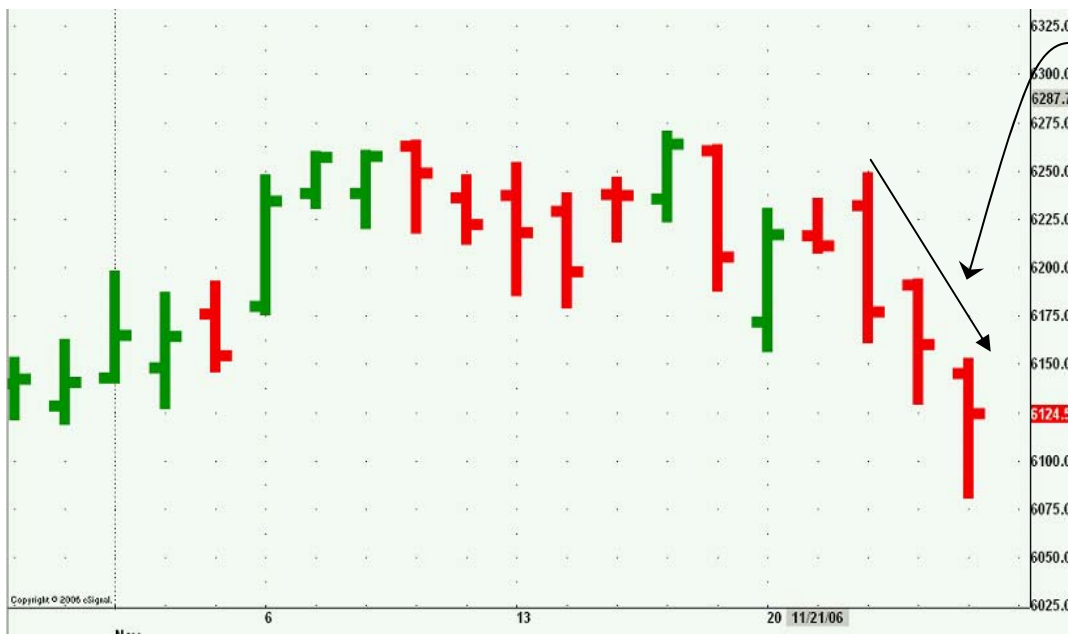
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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100.

FTSE 100 DECEMBER 06



This week we remain square of the FTSE 100.

Last week we remained square of the FTSE after its un-inspiring performance the previous week. While the S&P continued to rally, the FTSE had been left in the doldrums as traders reacted negatively to weaker oil prices that week.

This led us to conclude that the FTSE continues to look hesitant and although it slowly crawls higher, we don't favour it as other markets appear more dynamic.

Indeed again last week the FTSE suffered a frustrating selloff even though the MPC minutes on Wednesday seemed to cement the current view that UK interest rates haven't very much further to go on the upside and on Friday, Q3 GDP was broadly in line with preliminary estimates.

The lack of dynamism in this market does surprise us as the volume of M&A activity

remains strong and should provide significant support.

Looking ahead we see little in the data due this week likely to affect the FTSE'S performance. As this market is heavy with oil stocks and foreign company listings it is clear the performance of the domestic UK economy is but one factor in determining the direction of the market.

The Macro Trader's view is: we continue to view the FTSE as fundamentally a Bull market and have little doubt that it will rally further.

But the nature of the rally when compared to the US S&P leads us to conclude that resources would be better deployed there.

For this reason we advise traders to remain square of this market.

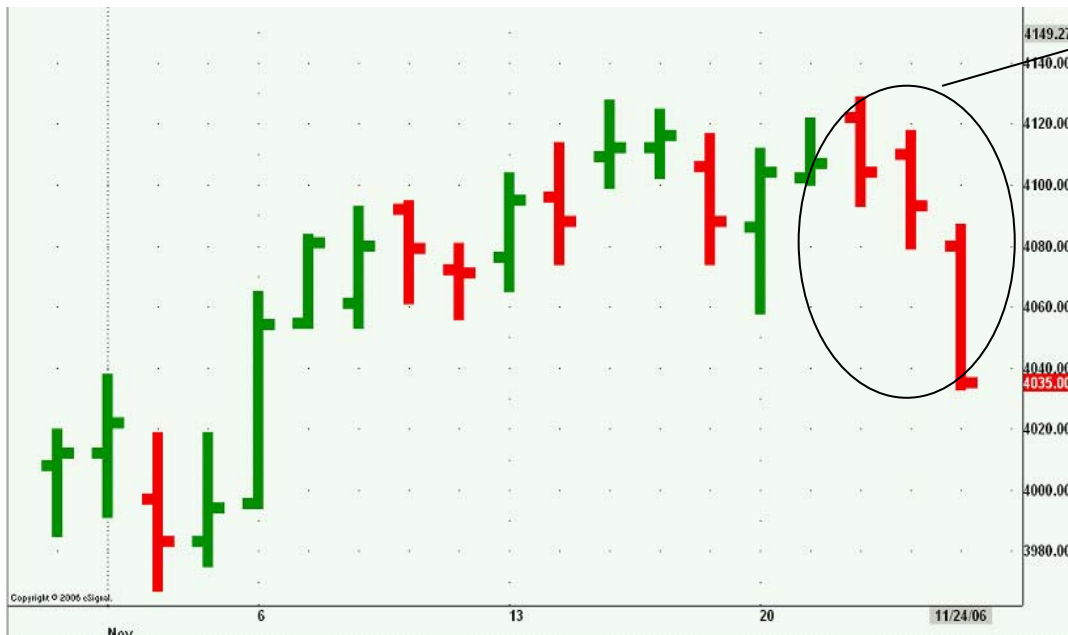
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DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

Last week we were bullish of the DJ EURO STOXX 50.

DJ EURO STOXX 50 DECEMBER 06



See how the market sold off last week along with the FTSE, but the S&P managed a much better performance.

This week we are square of the DJ EURO STOXX 50.

Last week we remained bullish of this market as we focused on last week's release of German IFO which has clung to its strong readings over recent months.

But given the weakness seen recently in some Euro zone data we wondered if the IFO report might show similar traits. This being so we mused that this market could suffer a set back.

In the event the IFO report was stronger than expected, but the market sold off as a weaker outlook for the US economy made traders ponder the growth outlook for the Euro zone economy.

Looking ahead, although this move might have further to run, and we are stopped out, we think over all the market remains fundamentally bullish.

Traders are clearly un-nerved by the official confirmation from the White House that the US economy will under perform previous assumptions.

The Macro Trader's view is: we are now square and given the price action last week we are content to remain sidelined a while longer.

The correction has been blamed by some, on the thin holiday markets last week with most US traders away from their desks. But take a look at the S&P; it fared much better than European market?

Traders should for now, be square of this market, it could correct further to the downside before staging a recovery.

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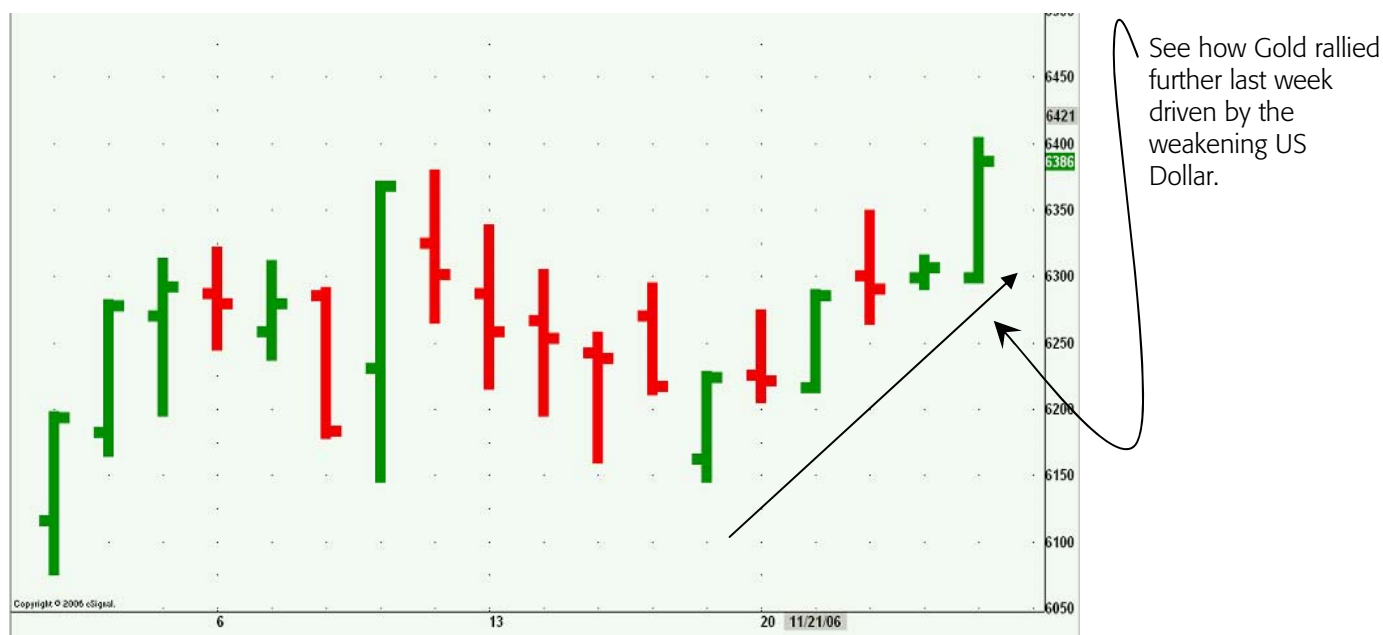
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were bearish of gold.

THE GOLD CHART



This week we are square of Gold.

Last week we remained bearish of Gold as we continued to expect the market to trade lower.

We saw the weakness of the US Dollar as insufficient reason to buy this market. This had been the rationale for the original move higher by Gold, but then Oil prices were going through the roof, threatening to unleash a round of inflation that could eventually destabilise the advanced economies.

But Central Banks acted early to contain inflation and as the US economy continued to cool the Oil price sank, despite OPEC'S efforts to cut production as a means of support for the market.

With inflation now coming back to target in most countries, we see the weak Dollar as a flimsy reason to buy Gold.

The Macro Trader's view is: last week we were stopped out as the market traded US\$640.00. Although we remain bearish, others seem intent on testing the upside, so we will remain sidelined and observe the price action.

However with inflation now receding as the US economy continues to slow and the UK and Euro zone economies may be about to peak, and geopolitical tensions appear no worse than they have been at any time over the last few months, we fail to see the current attraction of Gold and advice others to remain square.

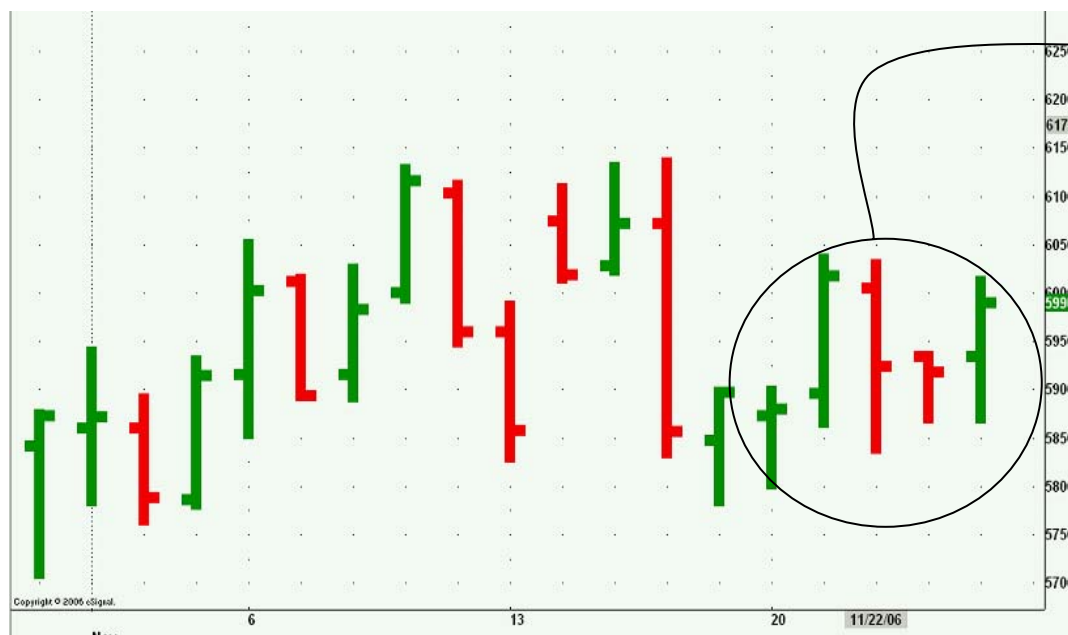
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OIL

OUR TRADING STANCE: SQUARE.

Last week we were bearish of oil.

THE CRUDE OIL CHART



See how the Oil rallied a little last week, but broadly speaking the market isn't going any where.

This week we are square of oil.

Last week we were bearish of Oil as we continued to believe the slowdown in the US and the resultant reduction in demand for Oil would see this market lower.

Even the news last week that the US economy is expected to slow further accompanied by a strong build of US energy supplies, failed to move this market lower.

However, the market doesn't want to rally either. The recent output cuts by OPEC have been followed by calls for further reductions to help shore up the price, but the market remains moribund.

The Macro Trader's view is: we have decided to square our position because the market seems stuck at these current levels.

Intra week we see small deviations either up or down but nothing to justify a position.

Clearly the production cuts are balanced by the continuing US economic slowdown.

For now we advice traders to square up, unless something of a geopolitical nature occurs which produces an air of crisis; there currently seems little in this market to aim for.

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