

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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SQUARE short, medium & long term

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 4 th December
Monday	UK PMI Construction 54.8 WEAKER EZ PPI 0.0m, 4.0y LESS THAN EXPECTED
Tuesday	US Challenger job cuts +11% WORSE US Q3 non-farm productivity 0.2 WEAKER US Q3 Unit labour cost 2.3% BETTER US Factory orders -4.7 WEAKER US ISM non-mfg 58.9 STRONGER UK BRC Retail sales 0.5y LESS UK PMI Services 59.8 STRONGER IT PMI Services 56.2 STRONGER FR PMI Services 58.8 WEAKER DM PMI Services 56.8 STRONGER EZ PMI Services 57.6 STRONGER EZ Retail sales 0.3m, 1.1y WEAKER THAN EXPECTED
Wednesday	UK Industrial prod -0.8m, 0.6y WEAKER UK Mfg output -0.4m, 2.5y WEAKER UK BRC Shop prices 1.8 STRONGER UK Pre-Budget report TAX UP SPNDG UP DM Factory orders -1.1m, 10.0y WEAKER THAN EXPECTED
Thursday	US Jobless claims 324K MORE UK Halifax Hse prices 1.7m, 9.6y STRONGER UK MPC Interest rate decision 5.0% AS UK NIESR GDP Estimate 0.6 LESS EZ ECB Rate decision 3.5% AS DM WPI 0.1m, 3.7y MORE IT Q3 GDP 0.3q, 1.7y AS THAN EXPECTED
Friday	US Non-farm payroll 132K HIGHER US Unemployment rate 4.5% AS US Ave hrly earnings 0.2m, LESS US Ave weekly hrs 33.9 AS US U. of Michigan Conf 90.2 WEAKER DM Trade bal 17.3B MORE DM C/A 11.6B MORE DM Industrial prod -1.4m, 6.7y LESS THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 11 th December
Monday	US Wholesale inventories 0.8 HIGHER US Wholesale sales -0.5 WEAKER UK PPI Input 0.9m, 2.8y WORSE UK PPI Output 0.3m, 1.8y BETTER UK PPI Core 0.2m, 2.4y BETTER UK DCLG Hse prices 8.6y LESS UK Trade -6.3B BETTER UK Non-EU -3.9B AS FR Ind production -0.1m, WORSE FR Mfg output -0.2m, WORSE THAN EXPECTED
Tuesday	US Trade deficit -\$63.3B US Mthly budget atatem't -\$73.0B US FOMC Rate decision 5.25 UK CPI 0.3m, 2.7y WORSE UK Core CPI 1.6y WORSE UK RPI 0.3m, 3.9y WORSE UK RPI-X 3.4y WORSE UK CBI Ind trnds survey n/f FR Trade Bal -1.8B IT Ind production 0.6m 6.5y BETTER DM ZEW survey -25.0 EZ C/A n/f
Wednesday	US Retail sales 0.2m, US RS Ex-Autos 0.3 US Business inventories 0.4 UK Unemploym't rate 3.0 UK Change 4.0K UK AVGE Earnings 4.0 UK Ave less bonus 3.7 DM CPI -0.1m, 1.5y FR CPI 0.0m, 1.3y
Thursday	US Import prices 0.0m, US Jobless claims 320k UK Retail sales 0.0m, 3.0y IT CPI 0.1m, 1.8y EZ Employment n/f EZ Q3 C/A n/f
Friday	US CPI 0.2 US CPI Ex- F & E 0.2m, US Empire mfg 18.3 US Net frgn secs prchsd \$64.9B US Ind production 0.1 US Capacity utilization 82.2 FR C/A n/f IT Trade Bal -1.6B IT Trade Ex-EU -100.0M EZ CPI 0.0m, 1.8y EZ Core CPI 1.6y EZ Ind production 0.4m, 4.4y IT C/A n/f

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INTEREST RATE FUTURES

EURO DOLLARS

MARCH 07 EURO DOLLARS



See how Eurodollars sold off last week after a stronger than expected ISM non-manufacturing report on Tuesday and better than expected non-farm payroll report on Friday.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were bullish of March 07.
This week we are square of March 07.

Last week we were bullish of March 07 Eurodollars after we concluded data had remained soft enough, for long enough, to validate our optimism that the Fed should loosen policy next year.

Although the previous week's data had painted what looked like a clear picture of the economy's weakness, we felt that last week's data was potentially more important and we advised traders to monitor the following:

- on Tuesday; the ISM non-manufacturing report surprised traders by being much stronger than expected and totally at odds with the equivalent manufacturing survey, and
- On Friday; non-farm payroll once again sent the market into a sharp sell off as the detail of the report was stronger than expected although the U. of Michigan confidence survey was below consensus.

The markets reaction was a sell off which extended further than we had considered probable.

The stronger than expected ISM non-manufacturing survey started the move; so much in contrast to the manufacturing survey was it that traders were wrong footed and since the US economy is predominantly service orientated this report took precedence.

The release of non-farm payroll on Friday had the bigger impact; the headline number was only a little stronger than expected, but net revisions over the last two months once again made the report look strong, and although the market declined less than after the release of the two previous reports, we were stopped out. As the market continued lower we opted to remain square.

Looking ahead there are several events this week to keep traders busy:

- on Tuesday; the Trade deficit, monthly budget statement and FOMC meeting,
- on Wednesday; retail sales, and

- On Friday; CPI, net foreign securities purchased, Industrial production and capacity utilization.

Clearly the main event is the Fed on Tuesday, and traders will remain nervous until the decision and statement are known.

After Bernanke's speech the previous week reminding the market that the Fed's prime concern is inflation, traders will be apprehensive about how committed the Fed is to remaining on hold, although that is the most likely outcome.

The Macro Trader's view is: last week we were emboldened to go long and advised buying cheap if Friday's number moved the market lower.

While we still want to buy this market and expect the Fed to ease next year, market sentiment took a big knock last week and although we expect a recovery; it will take time and need yet more data to underscore the view that the economy remains fragile.

We expect to see data over the coming weeks which will paint just that picture, but ahead of the Fed, we prefer to bide our time.

Once the decision is known we will seek an appropriate opportunity to re-enter the market and others stopped out by Friday's price action should do likewise.

SHORT STERLING

MARCH 07 SHORT STERLING



See how the market traded lower over the week after the release on Tuesday of a stronger than expected PMI Services report and Thursday's Halifax house price survey.

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 as we judged the market will remain trapped in a trading range for the foreseeable future.

Although the market rallied towards the end of the previous week, we judged this was for non-domestic reasons and we advised traders to focus on the following data releases:

- on Tuesday; the BRC Retail sales monitor was weaker than expected, but the PMI Services survey was stronger than forecast,
- on Wednesday; Industrial production and manufacturing output were surprisingly weaker than expected, the BRC shop prices survey was stronger and the pre-budget report was a classic brown show of smoke and mirrors, and
- On Thursday; the MPC left interest rates unchanged, the Halifax house price survey was stronger than expected; with annual price increases approaching 10% and the NIESR estimate of GDP was weaker than consensus.

The markets response to the PMI Services report was as expected, as traders took the market lower, but although other data showed some weakness, Thursday's strong Halifax house price report gave rise to further bearish sentiment and sent the market even lower; wiping out the previous week's gains.

Looking ahead there are several key data releases due:

- on Monday; PPI, DCLG House price survey and trade a/c data,
- on Tuesday; CPI and CBI industrial trends survey,
- on Wednesday; the unemployment report, and
- On Thursday; Retail sales.

We regard all of the above as equally important; PPI and CPI are directly responsible for the outlook for monetary policy, but given the MPC'S often reported concerns for the upcoming wage bargaining round so is Wednesday's average earnings, which so far have remained very benign.

And since retail sales is an important motor for the economy with the Christmas spending season now in full swing, traders will be watching this number closely for clues on the likely strength of Q4 GDP.

The Macro Trader's view is: last week's data and market price action explained better than we could here in words, why this market offers little to excite traders.

With some reports showing unexpected strength, while others are surprisingly weak, traders would, if involved, find they are likely buying at the top and selling at the bottom as the market swings around within its range, which we currently judge to be 94.60 – 94.80.

In this environment with markets likely to lose further liquidity in the run up to Christmas and New Year holidays, we advice remaining square.

EURIBOR

MARCH 07 EURIBOR



See how Euribor sold off last week especially after Trichet's comments on Thursday.

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 remained bullish of March 07 Euribor as we held to our judgement that short term Euro zone rates were close to peaking. We shared the expectation the ECB would hike rates in December, but then go on hold for several months.

In the event Euro zone interest rates were increased, but where as over recent weeks Trichet has avoided commenting on the outlook for policy in 2007, last week he left the door open for further rate hikes.

However the tone of his language was far less strident than used on previous occasions when preparing the market for higher rates.

This leads us to believe that they will be in no hurry to hike and we should at least see out the 1st quarter of 2007 before the ECB acts again.

But if inflation remains below target and oil prices fail to rally significantly from here, we may

actually be at or very close to the peak in Euro zone interest rates already.

In addition to the ECB there were several other important releases last week as follows:

- on Tuesday; French, German, Italian and Euro zone PMI Services surveys all of which were stronger with the exception of the French report, and EZ Retail sales which were weaker,
- on Wednesday; German factory orders were weaker than expected,
- on Thursday; the ECB rate decision +25bp, German WPI was higher than expected and Italian Q3 GDP was in line with consensus, and
- On Friday; German trade data revealed much larger surpluses than expected, but industrial production was weaker.

As a result of the comments made by Trichet last Thursday Euribor gave up nearly all of its gains, but because another hike isn't a certainty, we

remain bullish and there are several interesting data releases for traders to ponder this week:

- On Monday; French industrial production and manufacturing output, which we already know was weak,
- On Tuesday; the French trade a/c, Italian industrial production, German ZEW survey and Euro zone C/A data,
- On Wednesday; French and German CPI,
- On Thursday; Italian CPI, and
- On Friday; Euro zone CPI and Industrial production.

Clearly after last week's rate hike and hints of the possibility of tighter policy to come, the inflation data releases are the most important events this week.

If inflation remains below target over the coming months the ECB will hold policy steady, and all the more so if the recent patchy weakness evident in data persists or worsens.

The Macro Trader's view is: Having called the market correctly we held on a little too long and missed the profit.

However we are still bullish of this market and expect it to recover over the coming weeks.

Another rate hike is possible but not certain; incoming data will shape the decision.

Traders should remain long, our long term target remains 96.30, but over the next 7 – 10 days our target is 96.21, but our stop remains at 96.10.

GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the 10yr Note.

US 10yr NOTE MARCH 07



This week we remain bullish of the 10yr Note.

Last week we remained bullish of this market expecting it to rally further after the week's key releases were out of the way.

In the event the market sold off in reaction to:

- on Tuesday; the ISM non-manufacturing survey which was much stronger than expected, and
- On Friday; non-farm payroll surprised with a report that looked strong after revisions were taken into account.

However we have seen this reaction after each of the previous two non-farm payroll reports and each time the market has recovered. So although we were stopped out, albeit with a profit, we have since bought back in.

Looking ahead this week's calendar offers several key reports:

- on Tuesday; the Trade deficit, monthly budget statement and FOMC meeting,
- on Wednesday; retail sales, and
- On Friday; CPI, net foreign securities purchased, Industrial production and capacity utilization.

We view Tuesday's FOMC meeting as the key event, but since we currently expect them to remain on hold; we think the market will stage a recovery.

The Macro Trader's view is: the pattern for now seems to be a sell off after the payroll data, followed by a recovery over the rest of the month as other data remains weak, and we sense that will occur this time.

Traders should still be long of this market and our target over the next 7 days is 109.04 with a stop loss at 108.16 as protection.

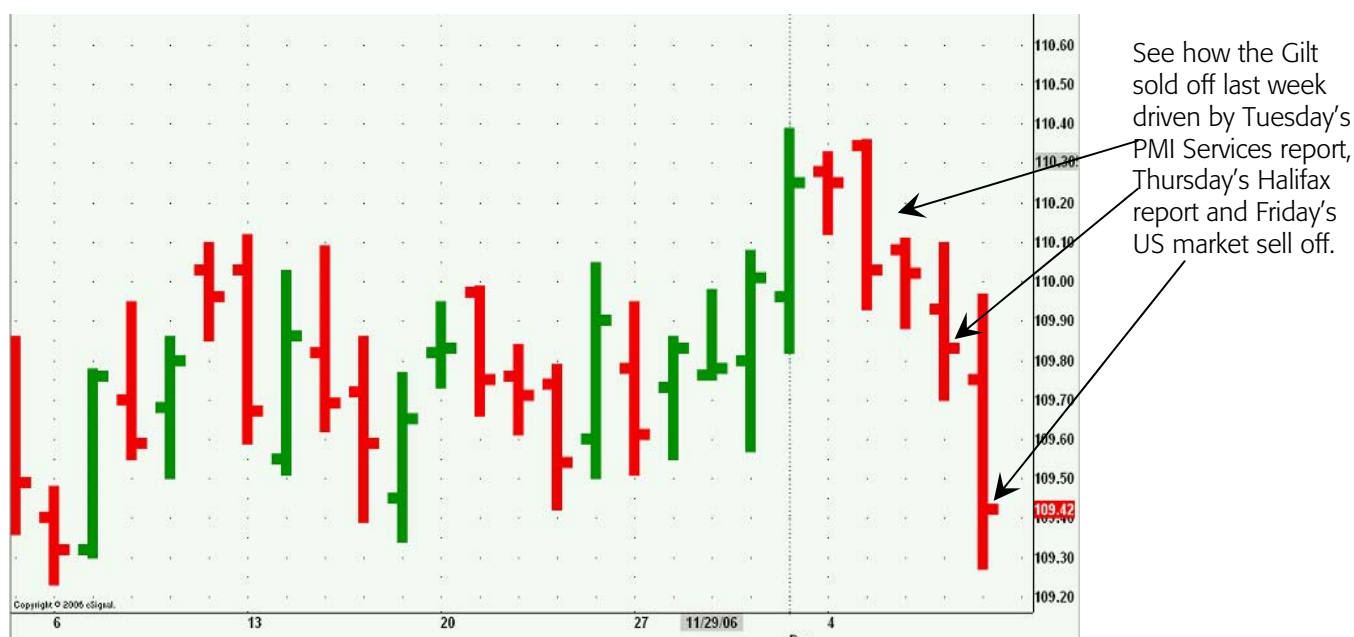
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THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

GILT MARCH 07



This week we remain square of the Gilt.

Last week we remained square of the Gilt as we judged it continued to look vulnerable to the down side, with the only obvious support coming from the hitherto bullish US Treasury and Euro Bund markets.

But the combination of:

- bearish price action in the Bund and the US 10 Year Note last week, together with
- a stronger than expected UK PMI Services survey and Halifax house price survey,

Saw the Gilt relinquish all the gains made over recent weeks.

However we remain square as we view last week's sell off in overseas Government bond markets as a correction.

Looking ahead there are several key releases due in the UK this week with Tuesday's inflation data and Thursday's retail sales, likely to be the most important for the market.

The Macro Trader's view is: much like Short Sterling, last week's price action amply demonstrated why we have remained sidelined for so long; there simply isn't any compelling reason to trade as the market is range bound.

And unless last week's selloff in the US is able to follow through, the Gilt will remain range bound.

But with data in the US sending some mixed signals, while the underlying message remains an economy continuing to cool, we judge US Treasury's should soon find support and begin to recover, leaving the Gilt stuck with no where to go.

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THE BUND

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the bund.

THE BUND MARCH 07



This week we remain bullish of the Bund.

Last week we remained long of the Bund as we judged the market looked set to add to recent gains if data remained supportive.

In the event it wasn't and the Bund retraced giving up all of the previous week's gains and we were stopped out.

Mindful of the influence exerted on the Bund by the US Treasury market over recent months, we advised traders to monitor the releases detailed on the Global calendar, but pay specially attention to the US ISM non-manufacturing survey and US non-farm payroll.

These were both stronger than expected and exerted a strong negative influence on all markets, but stronger than expected Euro zone PMI services reports, with the exception of France, and hints from Trichet last Thursday that Euro zone rates may rise further, also had a major bearish influence on this market.

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Looking ahead these are the reports we judge will be most important this week:

- on Wednesday; French and German CPI,
- On Thursday; Italian CPI, and
- On Friday; Euro zone CPI.

Clearly the ECB remains nervous over inflation, so inflation data will shape the outlook for rates moving forward.

The Macro Trader's view is: although we were stopped out last week, albeit with a small profit, we remain bullish and have just this AM re-established a long position.

Although all markets will be hesitant ahead of the FOMC meeting this evening, we expect them to remain on hold. This combined with supportive domestic Euro zone data should see the Bund recover.

Traders should remain long of this market, we have suffered a set back, but our target over the next 7-10 days is 118.40 with a stop at 117.70.

CURRENCIES

THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar retreated against the Euro after Friday's report but with the ECB hinting at another rate hike next year, the move was less dramatic than against Sterling.

DOLLAR/YEN CHART



See how the Yen behaved similarly to the Euro, as traders continue to ponder a possible Japanese rate hike.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar expecting it to weaken further and although we suffered a set back as the Dollar corrected, we remain bearish of its prospects over the short/medium and long term after the important breakout which developed over recent weeks.

Last week we advised traders to monitor the following two key reports for further guidance:

- on Tuesday; the ISM non-mfg survey which was stronger than consensus, and
- On Friday; non-farm payroll which with the help of revisions also appeared stronger than expected.

As already noted the Dollar corrected higher, but we don't think this move will persist. The employment data is holding up well, possibly because employers are unwilling to shed labour until they fully comprehend the full extent of the current slowdown.

Additionally the ISM services report remains well supported and chimes with the Fed's view that apart from Housing, some sectors of the economy continue to hold up well.

Looking ahead traders have more data to ponder this week and we judge the following the most influential:

- on Tuesday; the Trade deficit, monthly budget statement and FOMC meeting,
- on Wednesday; retail sales, and
- On Friday; CPI, net foreign securities purchased, Industrial production and capacity utilization.

Assuming the Fed remain on hold and say little to spook the market, traders will be led by Wednesday and Friday's data which will give a

broad view of the economy as it covers both manufacturing and services (retail sales).

The Macro Trader's view is: as we said last week, non-farm payroll can result in sharp reversals; the market reversed but it could have been worse.

But because most key data releases before last week were weak and we expect to see further weakness moving forward, we are still bearish of 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 is 1.9680 with our stop remaining at 1.9350, and
- Against the Euro our target over the same period is 1.3325, and our stop remains at 1.3100 to protect profits.

The Dollar has corrected a little, but we believe there is potential for further significant weakness since the long established ranges recently broke.

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THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound corrected lower last week; although UK data was supportive, some US data was unexpectedly stronger.

THE STERLING/EURO CHART



See how the Pound remains range bound against the Euro after the MPC held policy steady and the ECB tightened further, but left the door open to further moves.

This week we remain bullish of Sterling.

Last week we remained bullish of Sterling expecting further gains against the Dollar, but aware the market might spend a brief period consolidating after such a significant move.

And we advised traders to focus on the following key releases from both the UK and US:

- on Tuesday; the US ISM non-manufacturing survey and UK PMI Services survey were both stronger than expected,
- on Thursday; the MPC interest rate decision left policy unchanged and the

- Halifax house price survey showed the housing market remains robust, and
- On Friday; US non-farm payroll which was stronger than expected after upward revisions to previous months.

As a result traders took profit as they judged the US economy might be stronger than recently feared, and with a Fed meeting due this week no one wanted to be over exposed.

Additionally last week's UK Industrial production and manufacturing output data was surprisingly weak and this also undermined the Pound.

Looking ahead this week sees several heavy weight releases from the UK:

- on Monday; PPI, the Trade data and DCLG house price measure,
- on Tuesday; CPI and CBI industrial trends survey,
- on Wednesday; the unemployment data, and
- On Thursday; Retail sales.

Perversely traders will be looking for any bad news on inflation which would make another MPC rate hike more likely and support the Pound, additionally retail sales will be important as a gauge of the economies strength.

But the market is likely to be led by events in the US, especially with an FOMC meeting due on Tuesday.

However now the Dollar has clearly broken down we judge something special would be needed to reverse the move.

The Macro Trader's view is: although the market suffered a set back last week we remain long.

The last three months have seen sharp reversals in most markets after stronger than expected US non-farm payroll reports, but these moves although sharp and significant, have not endured as other data has continued to paint a picture of relative US economic weakness.

We judge the same pattern is likely to repeat this month, although hesitancy ahead of Tuesday's FOMC meeting might delay the recovery a few days.

For now we advice traders to stay long, our target over the next 7 days is 1.9680, but our stop remains at 1.9350 as protection.

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THE EURO

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen remains week against the Euro as the possibility of a further ECB rate hike adds support where as lack of clarity in Japan works the other way.

THE EURO/DOLLAR CHART



See how the Euro sold off on Friday but the move was driven by stronger US data, as Euro zone data was supportive.

This week we remain bullish of the Euro.

Last week we remained bullish of the Euro and advised traders to watch the following releases:

- on Tuesday; the US ISM non-manufacturing report was surprisingly stronger than expected as were all the Euro zone PMI Services reports with the exception of France,
- on Thursday; the ECB interest rate decision which saw a 25bp rate hike as widely expected but heard Trichet warn a further hike may yet be needed, and
- On Friday; US non-farm payroll which after revisions to previous months was stronger than expected, German trade

data which revealed larger than expected surpluses and German industrial production which was weaker than consensus.

However the Dollar was able to gain some short term support from the stronger than expected US data and halt its decline.

But we view this as only a temporary reprieve as other US data clearly points to a cooling US economy and with the ECB leaving the door ajar for another Euro zone rate hike; we think the Euro will soon resume its rally.

Looking ahead this week sees several key releases both in the Euro zone and US and we advice traders to monitor tonight's FOMC decision and the various CPI reports due this week from both sides of the Atlantic.

The Macro Trader's view is: apart from Friday, the Euro held its own well against the Dollar and

every rally is peppered with periods of consolidation; some last a long while, others are brief.

We believe the current interruption will prove brief. There remains enough strength in Euro zone data to support the Euro and enough weakness in US data to maintain the downward pressure on the US currency.

The non-farm payroll report, like all employment reports is a lagging indicator and employers in the US may be reluctant to shed labour until they know the full extent of the US economy's weakness, which until last week, was beginning to look worse than previously thought.

Traders should remain long of the Euro; our target against the Dollar over the next 7 days is 1.3325 and our stop stays at 1.3100 to protect profits.

STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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

S&P 500



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

Last week we were square of this market after being stopped out the previous week as stocks sold off in the wake of some quite weak data and a very weak Dollar.

And ahead of two very important data releases we opted to remain sidelined as the market appeared vulnerable to further losses.

In the event last week's data was strong:

- On Tuesday; the ISM non-manufacturing report surprised when it contrasted starkly with its manufacturing cousin and showed increased strength, and
- On Friday; non-farm payroll too surprised to the upside but the strength was in back month revisions.

The result was a recovery, which although fragile, managed to record a new high before slipping back.

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The key event this week is the Feds FOMC meeting on Tuesday. We expect them to remain on hold as they continue to assess the outlook for the economy into 2007.

The Macro Trader's view is: after extolling the virtue of a square position last week, especially at this time of year, we have been seduced into going long by the market's recovery which included a new high.

Even though the economy has slowed, the weakness doesn't affect the whole economy, but is sufficient to ensure sub-trend growth. If we are right, in our judgement that should persist long enough to correct inflation and allow the Fed to ease and that should support stocks as we move through 2007.

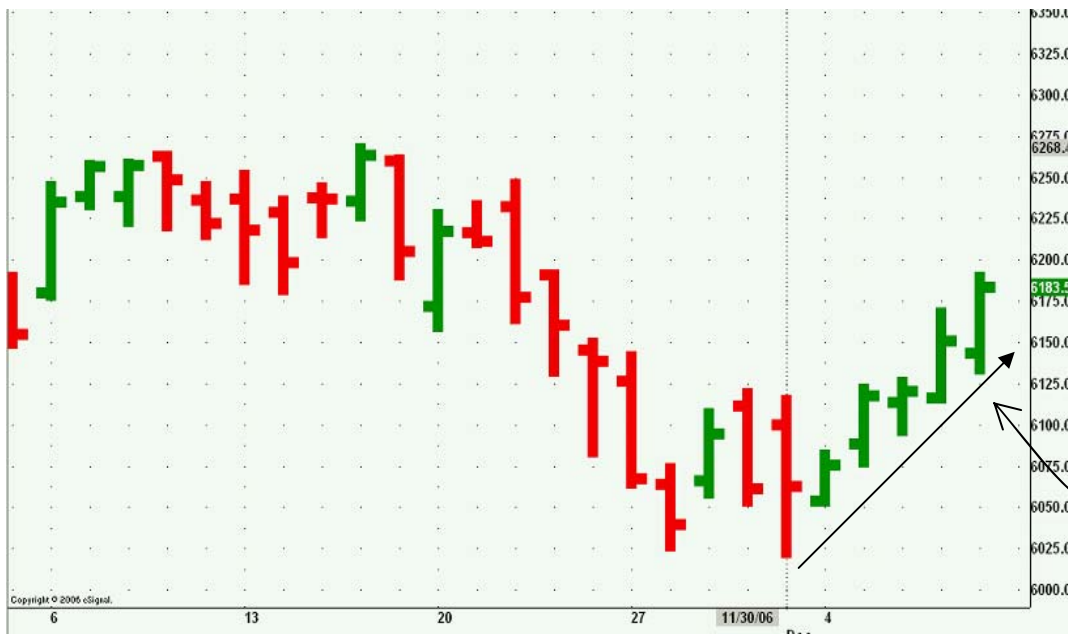
Traders, who are still active, should be long of this market and our target over the next 7 days is 1425.00 with a stop at 1387.00.

FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100.

FTSE 100



This week we remain square of the FTSE 100.

Last week we remained square of the FTSE after two weeks of negative price action. Traders had sold stocks generally over recent weeks in response to the Dollar sell off as they reasoned the US economic slowdown would spill over into the other major economies.

But last week after the release of a stronger than expected UK PMI Services report on Tuesday and Thursday's robust Halifax house price survey, the market recovered.

This was further aided by a recovery in both US stocks and the Dollar, driven by a better than expected US ISM non-manufacturing survey and stronger than forecast US non-farm payroll report.

Looking ahead there are several key releases due this week, but we judge the most important to be:

- on Tuesday; CPI,

- On Wednesday; the unemployment report, and
- On Thursday; retail sales.

The Macro Trader's view is: last week we repeated our view that stocks were fundamentally bullish and our surprise at the recent bearish price action.

And although the market rallied last week, we are unhappy that the main reason appears to be the recovery of the US Dollar. Since we remain Dollar bears we see this as a dangerous reason to re-establish a long position.

Further more the FTSE has rallied several times over recent weeks and failed just as the market seemed set to make further progress.

For these reasons and the increasingly illiquid nature of the market in the run up to Christmas and the year end, we are staying square and advice others to do the same.

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DJ EURO STOXX 50

OUR TRADING STANCE: BULLISH.

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

DJ EURO STOXX 50



See how the market rejected the lows last week driven by Tuesday's stronger than expected Euro zone PMI services reports.

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

Last week we remained square of this market as we saw the recent sell off as out of step with:

- the outlook for Euro zone growth, and
- the possibility of easier US monetary policy next year acting to support US growth,

However, as a result of better than expected Euro zone PMI services surveys last week, the market staged a recovery.

This was helped by a better performance in US stock markets as stronger data there helped the Dollar win a temporary reprieve from its recent sell off.

Looking forward we are once again long of this market. Although the outlook for the Dollar remains negative and when it resumes its slide against the other major currencies, traders may once again, initially, step back from equities.

We judge the general environment remains supportive over the medium/long term.

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The Macro Trader's view is: although stocks have enjoyed a rally for much of this year, the move has sometimes proved quite laboured and the impetus has undoubtedly come from the US S&P500.

But as already noted the environment is supportive;

- Inflation in the Euro zone has been reduced,
- Interest rates seem close to their peak in the Euro zone, with maybe one more hike next year, and
- US interest rates increasingly appear to have hit their peak with cuts expected by most analysts in 2007.

Traders who remain involved as the Christmas holidays loom ever larger, should be long of this market, but we would advocate only a small position to reflect the thinner liquidity.

Our target over the next 7 days is 4100.00 with a stop at 4000.00.

COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were square of gold.

THE GOLD CHART



This week we remain square of Gold.

Last week we were square of Gold as we failed to see the logic behind the recent rally, although the reason was clear; a weaker Dollar.

This was firmly underlined last week as Gold gave up a good part of its recent gains in the face of a temporary Dollar correction.

Looking forward we remain sidelined. Although we think the Dollar will resume its slide, it is highly likely that Gold would respond with a mirror recovery.

But as said before, with the Euro zone now offering a viable alternative as its economy continues to expand, the Euro or even the Pound Sterling, are more logically alternatives; these two pay interest while holding the position, Gold does not.

The Macro Trader's view is: we remain square of Gold short term, with a medium term expectation that it will trade lower.

Longer term if the geopolitical tensions that first focused investors attention on Gold reach the same fever pitch as earlier this year, then we would be eager buyers of this market.

But we do not see that situation evolving anytime soon. We acknowledge Iran and the Middle East remain as serious problems, but in the case of Iran there is no possibility of US military intervention at this juncture, to prevent a nuclear armed Iran, and the Middle East is a problem almost without peaceful solution.

For now we judge a square position remains the best option.

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OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART



See how the oil price moved sideways last week after the previous week's rally.

This week we remain square of oil.

Last week we were square of Oil as we saw little prospect of the previous week's recovery advancing further.

The situation remains broadly unchanged both economically and geopolitically:

- the US economy continues to grow but below its long term sustainable potential rate, and
- There seems little prospect of the crisis with Iran, which has become less prominent, moving to an elevated level of urgency.

The slowdown in the US has cut demand and OPEC is still chasing it, where as President Bush has NO domestic support to tackle Iran other than by Diplomatic means.

The Macro Trader's view is: we remain square of this market, but if OPEC forces through a significant output cut and the US economy stabilises, of course it could rally further.

We see this market likely to trade a range on the wide of US\$56.00 – US\$64.00 over the foreseeable future and that doesn't excite us sufficiently to warrant putting our resources to work in this market.

For now we advise traders to remain sidelined and look at other asset classes, but with the year end almost here most trading houses have already squared their books until the New Year.

If it's good enough for them it should be sensible for us to leave these increasingly illiquid markets alone until Christmas has passed.

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