Week 32

8th – 14th August 2017

Multi-asset fundamental strategies

John Lewis

SUMMARY

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Global Calendar

US Markets

+ EURODOLLARS	SQUARE
+ 10 YEAR NOTE	SQUARE
+ US DOLLAR	BREARISH v the EURO and STERLING
+ S&P 500	BULLISH

UK Markets

+ SHORT STERLING	BULLISH
+ GILT	SQUARE
+ STERLING	BULLISH v the DOLLAR BEARISH v the EURO
+ FTSE	BULLISH

Euro Zone Markets

+ EURIBOR	SQUARE
+ BUND	SQUARE
+ EURO	BULLISH v the DOLLAR and STERLING
+ DJ EURO STOXX 50	SQUARE

Japanese Markets

+ JAPANESE BONDS	SQUARE
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This week's global calendar

	Week of 7th August
Monday	US Consumer CR $15.500B UK Halifax hse prces 0.3m, 2.13m/y UK BRC Sales 0.6y DM Ind production 0.2m, 3.7y JP C/A Y860.5B JP Trade Bal Y549.0B JP Banl lndg ex-Trusts 3.3% JP Eco watchers 49.7
Tuesday	US NFIB Sml bus optmsm 103.5 DM Trade bal 23.0B DM C/A 24.5B JP Bankruptcies n/f
Wednesday	US MBA Mrtge apps n/f US Q2 Non-farm prdctvty 0.8% US Q2 Unit labour costs 1.1% US Wholesale invntry 0.6% UK RICS House prices 9% JP Machine tool orders n/f JP Machine orders 3.7m, -1.1y JP Dmstc corp gds prices 0.2m, 2.3y JP Tokyo office vacancies n/f

	Week of 7th August
Thursday	US Jobless claims 240k US PPI 0.1m, 2.2y US PPI Ex- F&E 0.2m, 2.1y US Mthly bdget statement -$55.5B UK Ind production 0.1m, -0.1y UK Mfg output 0.0m, 0.7y UK Construct'n output 1.2m, 1.8y UK Trade bal -£11.000B UK Trade non-EU -£3.000B UK NIESR GDP Estimate 0.3% JP Tertiary ind indx 0.2%
Friday	US CPI 0.2m, 1.8y US CPI Ex- F&E 0.2m, 1.7y DM WPI n/f DM CPI 0.4m, 1.7y

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Last week's releases

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	Week of 31st July
Monday	US Chicago PMI 58.9 **WEAKER** US Pending home sales 1.5m, 0.7y **MORE** UK Net cons credit 1.5B **AS** UK Net lndg on dwllgs 4.1B **STRONGER** UK Mrtge applications 64.7B **WEAKER** DM Retail sales 1.1m, 1.5y **MORE** EZ Unemploym't rate 9.1% **BETTER** EZ CPI Estimate 1.3% **AS** JP Ind production 1.6m, 4.9y **MORE** JP Loans & discount corp 4.10% **STRONGER** JP Construct'n orders 2.3% **STRONGER** JP PMI Mfg 52.1 **LESS** **THAN EXPECTED**
Tuesday	US Persnl income 0.0% **WEAKER** US Persnl spndg 0.1% **AS** US Core PCE 0.1m, 1.5y **STRONGER** US ISM Mfg 56.3 **LESS** US ISM Prices paid 62 **STRONGER** US Construction spndg -1.3% **WEAKER** UK Nat'nwide hse prices 0.3m, 2.9y **BETTER** UK PMI Mfg 55.1 **STRONGER** UK BRC Shop prices -0.4% **WEAKER** IT PMI Mfg 55.1 **AS** FR PMI Mfg 55.9 **STRONGER** DM PMI Mfg 58.1 **WEAKER** EZ PMI Mfg 56.6 **WEAKER** DM Unemploym't chge -9k **BETTER** DM Unemplym't rate 5.7% **AS** EZ Q2 GDP 0.6q, 2.1y **AS** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps -2.8% **WEAKER** US ADP employm't chge 178k **WEAKER** UK PMI Construct'n 51.9 **WEAKER** EZ PPI -0.1m, 2.5y **MORE** JP Consumer confidence 43.8 **STRONGER** JP PMI Services 52.0 **WEAKER** **THAN EXPECTED**

	Week of 31st July
Thursday	US Jobless claims 240k **AS** US ISM Non-mfg 53.9 **WEAKER** US Factory orders 3.0% **STRONGER** UK PMI Services 53.8 **STRONGER** UK BOE/MPC Rate decision 0.25% **AS** UK BOE AP Target 435B **AS** UK BOE Quarterly inflation report IT PMI Services 56.3 **STRONGER** FR PMI Services 56.0 **BETTER** DM PMI Services 53.1 **WEAKER** EZ PMI Services 55.4 **AS** EZ Retail sales 0.1m, 3.1y **STRONGER** JP Labour cash earnings -0.4y **WEAKER** **STRONGER THAN EXPECTED**
Friday	US Non-farm payrolls 209k **STRONGER** US Unemploym't rate 4.3% **AS** US Average hourly earngs 0.3m, 2.5y **MORE** US Average work week 34.5 **AS** US Trade bal -$43.6B **BETTER** DM Factory orders 1.0m, 5.1y **STRONGER** **THAN EXPECTED**

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US MARKETS: economic background

Last week's focus was the non-farm payroll report, as ever a key release closely monitored by the Fed for any signs of nascent inflationary pressure.

In the event the report was stronger than expected and at 209k indicates the labour market continues to tighten, but what does it mean for the Fed?

We judge they will press on with their plans to begin reducing their balance sheet, probably starting at their September meeting.

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

- On Monday; **Consumer credit,**
- On Tuesday; **NFIB small business optimism,**
- On Wednesday; **Q2 Non-farm productivity, Q2 Unit labour costs and wholesale inventories,**
- On Thursday; **Jobless claims, PPI and monthly budget statement, and**
- On Friday; **CPI.**

There are several key releases due this week, but we judge the two to watch are PPI and CPI.

The Fed is very tuned in to inflation and any sign of it beginning to pick up will prompt them to revise their forecast for interest rates.

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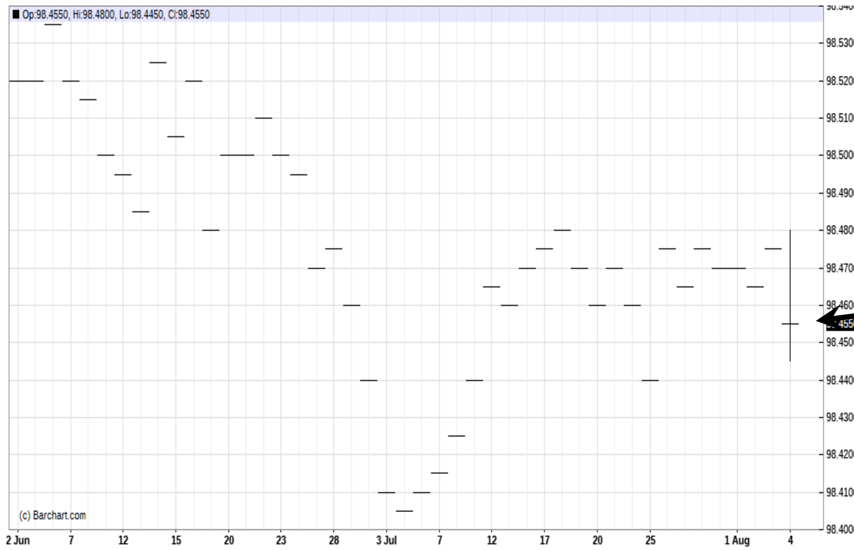
US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars remain range bound.

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

…"Looking ahead non-farm payrolls are due, a stronger than expected report will fuel expectations the Fed will begin reducing its balance sheet at its September meeting"…

In the event the non-farm payroll report was much stronger than expected and the odds on the Fed acting in September have shortened.

Looking ahead the key releases this week ate PPI and CPI, but as long as they remain around current levels, the Feds focus in the coming months will be the balance sheet.

We are remaining square. The Fed remains in tightening mode, but the pace is still set to be slow and gradual.

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US MARKETS: 10 Year Note

OUR TRADING STANCE: SQUARE.

Last week we were Square of the 10 year note.

The 10 year note looks well supported, non-farm payroll was stronger but not the ISM surveys.

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

…"Looking ahead the main event this week is the non-farm payroll report, a strong report will harden the Feds resolve to start reducing its balance sheet at its next meeting"…

In the event the report comfortably exceeded consensus, but the two ISM surveys were weaker, meaning no rate hikes medium term, but balance sheet reduction remains high on the agenda.

Looking ahead the PPI and CPI reports are due, any signs of inflation building will change the interest rate calculus!

We are square here.

The Fed wants to reduce its bond holdings, but we expect them to proceed with caution; inflation remains benign and we don't expect rates to rise again this year.

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US MARKETS: US Dollar

OUR TRADING STANCE: BEARISH v the EURO and the POUND.

Last week we were Bearish v the Euro and the Pound

The Dollar staged a limited recovery after the stronger non-farm payroll report.

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

…"Looking ahead the main event this week is non-farm payroll, the Fed has high lighted the Labour market as a potential future inflation risk"…

In the event the payroll report was stronger than expected, but the two ISM surveys were weaker than expected, meaning the Fed's focus remains balance sheet reduction.

Looking ahead PPI and CPI are the two key releases this week, will they flag a pick up in the pace of inflation? We don't expect that.

We remain bearish of the Dollar/ Bullish the Euro as political scandal continues to dog Trump and weighs on the US Dollar and the Euro zone continues to bask in a positive glow.

Traders should be Short the Dollar/Long the Euro.

Our suggested target is raised 1.2005, and our stop increased to 1.1575 for closer protection.

And we remain Bearish v Sterling for similar reasons.

Our suggested target in Cable continues at 1.3500 and our suggested stop remains set at 1.2865 for protection.

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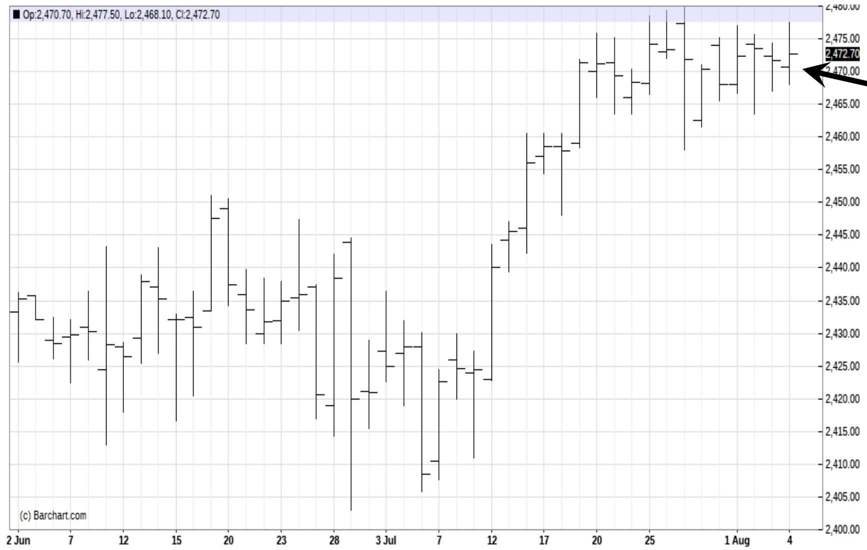
US MARKETS: S&P500

OUR TRADING STANCE: BULLISH.

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



The S&P remains a Bull market.

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

…"Looking ahead non-farm payroll is the key release and a stronger report would mean the Fed will see its September meeting as the time to begin reducing its balance sheet"…

In the event some mixed releases last week. The two ISM surveys fell short of consensus, but the non-farm payroll report beat consensus and made up for those two slightly disappointing surveys. We expect the Fed to begin reducing its balance sheet soon.

Looking ahead PPI and CPI are due, but inflation has remained largely benign.

We remain bullish of this market.

Our suggested target is remains set at 2495.0 and our suggested stop is raised to 2448.00 for closer protection.

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UK MARKETS: economic background

Last week's focus was the Bank of England and although the three PMI surveys were due, the Bank's quarterly inflation report was the key release.

In the event the PMI surveys were broadly better than expected with manufacturing and services better, with only the construction survey missing consensus.

The Bank's quarterly inflation report offered few real surprises; growth was revised down, and the peak of inflation is expected at 3.0%, but the implied trend growth rate is apparently now only 1.5%!

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; **Halifax house prices and BRC sales,**
- On Wednesday; **RICS house price survey, and**
- On Thursday; **Industrial production, manufacturing output, construction output, the trade data and NIESR GDP estimate.**

There are several key reports due this week, all on Thursday.

After last week's strong PMI manufacturing survey will official data show similar strength, and then there is the trade data, not to mention NIESR!

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UK MARKETS: Short Sterling

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of Short Sterling.

Short Sterling remains supported by the under performing economy.

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

…"Looking ahead the PMI surveys are due, but all eyes on the BOE for their latest inflation and growth forecasts"…

In the event few surprises from the Bank; growth revised down and inflation set to peak at 3.0%?

Looking ahead a whole raft of data due on Thursday, but we do not expect it to have much impact here; the Bank is set to keep rates on hold for a while yet.

We remain short term Bullish of MAR18 short Sterling, as we expect the Bank to keep policy steady throughout this year.

Traders should be long the market.

Our suggested target remains 99.59 and our suggested stop is raised to 99.52 for closer protection.

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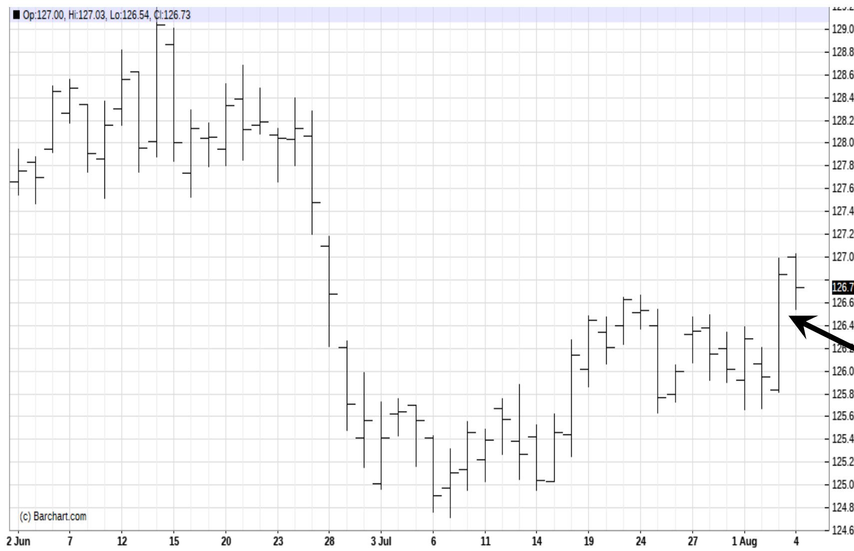
UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Gilt reacted to the Bank's quarterly inflation report.

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

…"Looking ahead the PMI surveys and Bank of England inflation report and policy decisions are due. The key event will be the inflation report; the forecasts for inflation and growth should prove interesting!"…

In the event the PMI surveys were positive and the Bank's quarterly inflation report sprung few surprises. Growth was revised down and due to the Pounds recent steady performance inflation is forecast to peak at 3.0%.

Looking ahead the industrial production and manufacturing output reports are due, will they back up the positive message delivered by last week's PMI Manufacturing survey?

We are staying square here.

The economy is entering a testing phase. Inflation hasn't yet peaked and growth could slow further.

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UK MARKETS: Sterling

OUR TRADING STANCE: BULLISH v the DOLLAR, BEARISH v the EURO.

Last week we were Bullish v the Dollar

The Pound suffered a round of profit taking after the Bank of England quarterly inflation report.

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

…"Looking ahead the main event this week is the Bank of England's quarterly inflation report. What will their new inflation and growth forecasts be, especially given the Pound's recovery"…

In the event growth was revised lower and inflation forecast to peak at 3.0% meaning the Bank will be in no rush to hike.

Looking ahead Thursday's data releases are the ones to watch especially industrial production and manufacturing output.

We remain bullish of Cable.

Traders should be Long Sterling/Short the Dollar.

Our suggested target remains 1.3500 and our suggested stop is continues at 1.2865 for protection.

Against the Euro we are bearish.

Traders should be Short the Pound/Long the Euro, our target is 0.9500 and our suggested stop is set at 0.8875 for protection.

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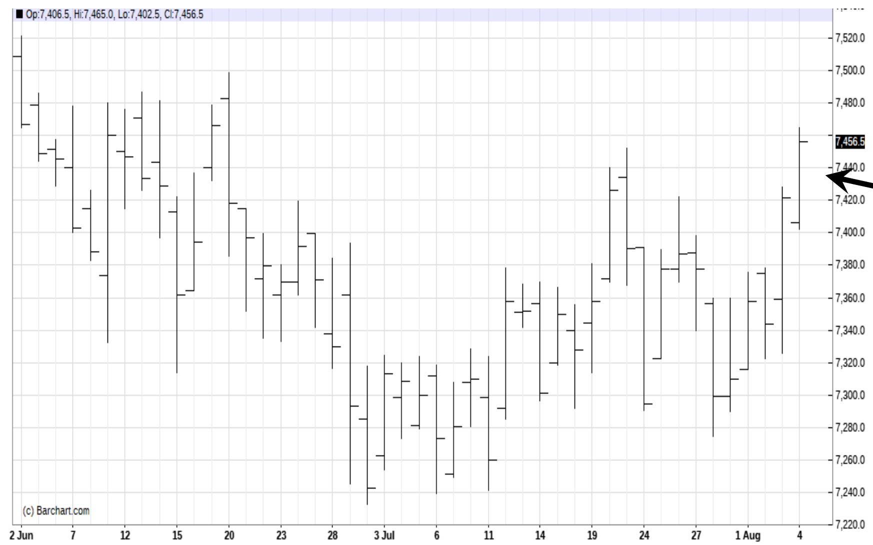
UK MARKETS: FTSE

OUR TRADING STANCE: BULLISH.

Last week we were Bullish.



See how the FTSE has found renewed support from the weaker Pound.

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

…"Looking ahead the main event this week is the Bank of England's policy decisions and inflation report."…

In the event growth was revised lower and inflation set to peak at 3.0% due to the Pounds recent solid performance.

Looking ahead Thursday's run of data stand out, but we judge this market is supported by last week's Quarterly inflation report which we judge means policy is set to remain on hold for at least the rest of this year.

We remain bullish of this market.

Our suggested target of 7450 is hit.

Our suggested target is now set at 7500.0, and our suggested stop raised to 7375.0 for closer protection in choppy conditions.

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EURO ZONE MARKETS: economic background

Last week's focus was the Euro zone Q2 GDP report, traders were seeking confirmation the economy was experiencing a solid recovery.

In the event the report was as expected and at 0.6q/q and 2.1y/y the recovery is finally gaining traction.

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 industrial production,**
- On Tuesday; **German trade and C/A data, and**
- On Friday; **German WPI and CPI.**

The key release this week is German industrial production, a strong report is expected.

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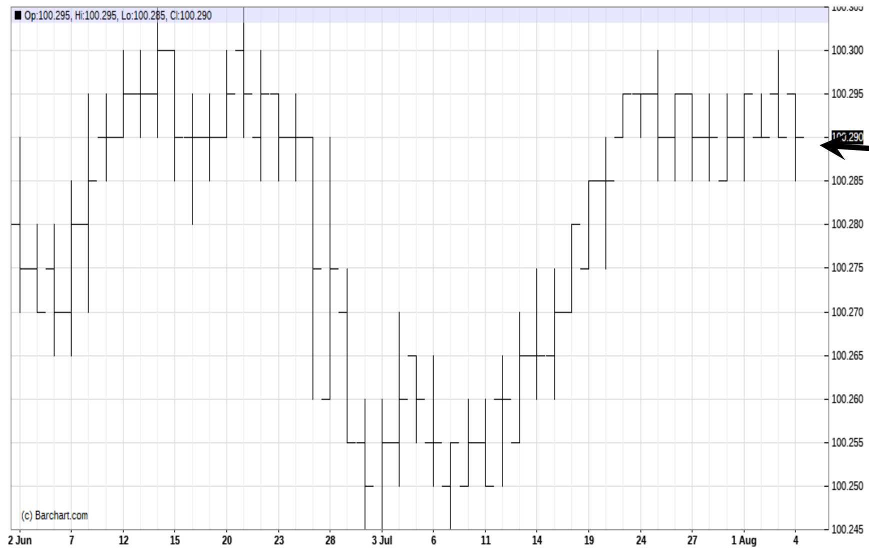
EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor looks well supported despite recent solid data.

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

…"Looking ahead the main event this week is the Euro zone Q2 GDP report. Will it confirm what the surveys have been indicating? We think it will"…

In the event a solid Q2 GDP report confirmed the Euro zone's economic recovery is progressing at a respectable pace.

Looking ahead the key release this week is the German industrial production report; a strong read is expected.

For now we are staying square.

The ECB may be about to review its Bond buying pledge but that isn't the same as deciding to reduce its holdings!

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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.

The Bund's resilience is amazing given the tone of recent data.

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

…"Looking ahead the Euro zone Q2 GDP report is due, we do not expect any negative surprises, meaning the report should confirm a solid recovery s definitely underway"…

In the event it did just that, but look at the Bunds resilience, strong data usually weighs heavily on Bonds, but inflation remains tame.

Looking ahead the key release this week is German industrial production, but keep a wary eye on German CPI.

We are square here, the recovery looks solid for now, but any hint of stronger inflation could cause a set back.

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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: BULLISH v the DOLLAR and The POUND

Last week we were Bullish v the Dollar

The Euro remains Bullish against both the Dollar and the Pound.

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

…"Looking ahead the Euro zone Q2 GDP report is due and a solid report is expected to confirm a recovery remains well under way"…

In the event no surprises the number was as expected even though the various PMI surveys were a little mixed.

Looking ahead the key release is German industrial production, in the US PPI and CPI are due, but we judge the Euro looks the stronger currency compared to the Dollar and Sterling.

We remain bearish of the Dollar/ Bullish the Euro.

Traders should be Short the Dollar/Long the Euro our target is raised to 1.2005 but our stop raised to 1.1575 for closer protection.

We are now Bullish the Euro/Bearish the Pound after last week's BOE Quarterly inflation report.

Our target in Sterling/Euro is 0.9500 and our suggested stop is set at 0.8875 for protection.

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EURO ZONE MARKETS: DJ Euro Stoxx 50

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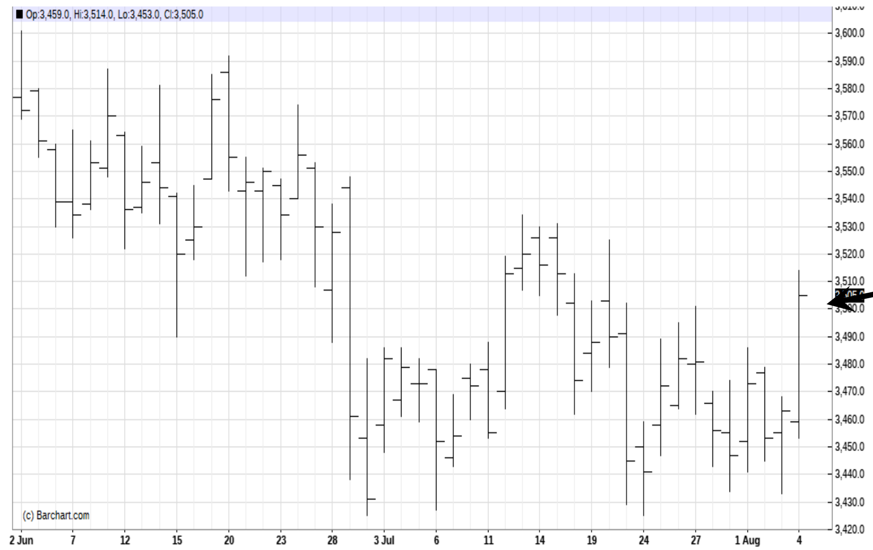

See how the market rallied on strong US market sentiment.

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

…"Looking ahead the main event is Euro zone Q2 GDP. A solid report is expected, but will it be enough to send this market higher? We are not sure. Traders seem nervous despite a strong performance from US equity markets"…

In the event the number was in line with consensus, but overseas event had a hand in helping this market higher; in the US a strong non-farm payroll report and in the UK the Bank of England quarterly inflation report, all of which either point to rates remaining close to current levels or in the US a solid economic performance, but not hot enough to cause the Fed to increase interest rates anytime soon.

Looking ahead the key release is the German industrial production report.

For now we are staying square. The market remains well off the highs and looks less bullish than the S&P or the FTSE, which is helped by the renewed weakness of Sterling.

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Commodities
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Disclaimer

JAPANESE MARKETS: economic background

Last week’s focus was split between the two PMI surveys and industrial production.

In the event the PMI surveys fell short of consensus, but industrial production exceeded expectations.

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; **C/A data, Trade balance, Bank lending and Eco watchers survey,**
- On Tuesday; **Bankruptcies,**
- On Wednesday; **Machine tool orders, Machine orders, domestic corporate goods prices and Tokyo office vacancies, and**
- On Thursday; **Tertiary Industry index.**

The key releases this week are the C/A and Trade data.

These give something of an insight to how the economy is performing, especially given the extended period of range trading of Dollar/Yen.

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JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.

The JGB's recovery seems to have stalled.

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

…"Looking ahead our focus is the two PMI surveys and industrial production. Can the recovery strengthen while inflation remains so low? We have doubts"…

In the event the two PMI surveys fell short of consensus, but industrial production was marginally stronger; net, net no real excitement.

Looking ahead the trade data is due, but unless very wide of expectations we doubt it will have much impact here.

We are square.

The Bank of Japan may need to rethink its taper policy.

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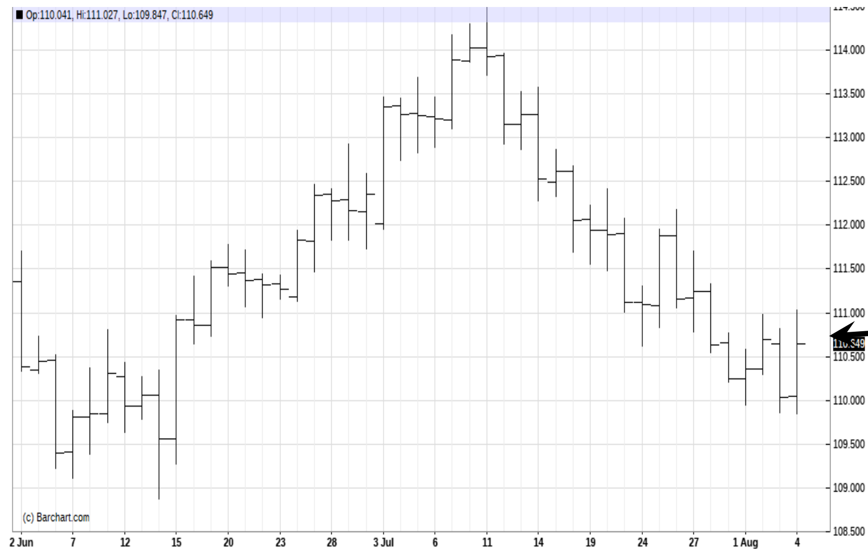
JAPANESE MARKETS: Yen

OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen has weakened, but in the big picture is in a long running trading range.

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

…"Looking ahead the two PMI surveys and industrial production are due, any signs of weakness will increase chatter around the Bank of Japan's tapper policy"…

In the event a run of mixed data. The two PMI surveys fell short of consensus, the industrial production report was slightly better.

Looking ahead the key release this week is the Trade data, will it show the economy benefitting from the Yen's renewed weakness.

We are square here.

If the Bank of Japan does even contemplate a revision of its taper policy, that would be seen as an ease and weaken the Yen, but with the Dollar currently weak we sense Dollar/Yen will remain within the long term trading range.

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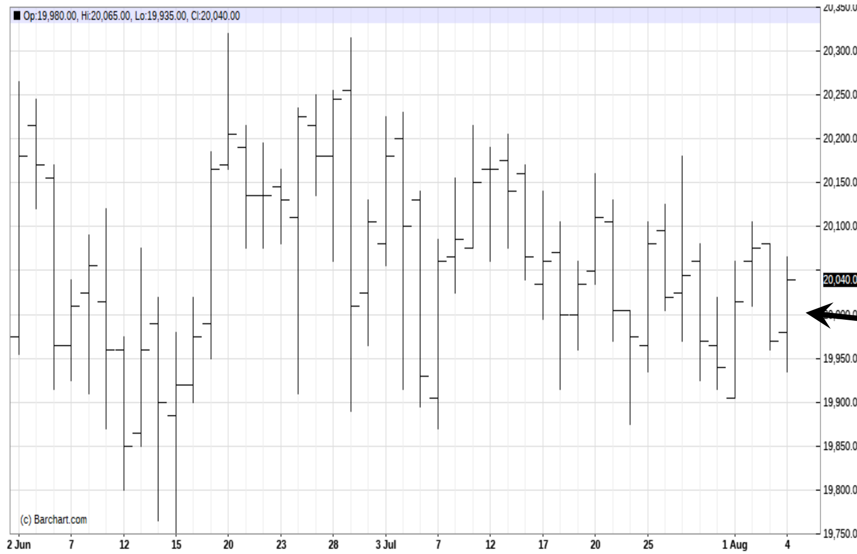
JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: SQUARE.

Last week we were Square of the Nikkei.



The Nikkei is range bound.

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

…"Looking ahead the two PMI surveys and industrial production are due, will they give this market a lift? Currently we don't think so, stocks globally, except in the US, look depressed"…

In the event the market remains range bound and failed to rally along with other leading equity markets late last week.

Looking ahead the trade data is due, but we judge this market is range bound.

We are square.

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COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.

See how Gold stalled as the Dollar staged a minor recovery on Friday.

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

…"Looking ahead a string of important data releases due with non-farm payroll the key release, but we judge this market will continue, to mirror the Dollar's weakness, but only up to a point"…

In the event non-farm payroll was stronger than expected, eclipsing the ISM surveys that fell short of consensus, offering the Dollar some temporary relief, and halting Golds rally.

Looking ahead all eyes on US PPI and CPI, stronger than expected reports will reopen the US interest rate debate, but US inflation has been reasonably benign todate.

We are staying square, as we suspect the market will correct further, but just remain within the trading range.

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SEVEN DAYS AHEAD

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COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.

See how oil paused at the recent highs, can it push on or is this the top?

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

…"Looking ahead the dynamics in the market remain the same, the question is which among them can have the greater influence?"…

In the event the market remains close to the highs but can it push on?

Looking ahead there are no new OPEC meetings planed, but the political unrest in Venezuela appears to be offering support.

In the US shale production is proceeding at a pace.

We are square, we think the market will struggle to go much higher, but we currently judge the time isn't right to go short.

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