



Week 41
10th – 16th October 2017

Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer



Multi-asset fundamental strategies

John Lewis

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SUMMARY

Summary

Global Calendar

US Markets

+ EURODOLLARS
+ 10 YEAR NOTE
+ US DOLLAR
+ S&P 500

- SQUARE
- BEARISH
- BULLISH v the YEN
- BULLISH

UK Markets

+ SHORT STERLING
+ GILT
+ STERLING
+ FTSE

- SQUARE
- SQUARE
- SQUARE
- SQUARE

Euro Zone Markets

+ EURIBOR
+ BUND
+ EURO
+ DJ EURO STOXX 50

- SQUARE
- SQUARE
- SQUARE
- SQUARE

Japanese Markets

+ JAPANESE BONDS
+ YEN
+ NIKKEI

- SQUARE
- BEARISH v the DOLLAR
- BULLISH

Commodities

+ GOLD
+ OIL

- SQUARE
- SQUARE

Disclaimer

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

This week's global calendar

	Week of 9 th October		Week of 9 th October
Monday	UK BRC Sales n/f DM Ind production 0.7m, JP C/A 1980.0B JP Trade Bal N/F JP Eco watchers 49.9	Thursday	US PPI 0.4m, 2.6y US PPI –F&E 0.2m, 2.0y US Jobless claims 255k EZ Ind production 0.5m, 2.5y DM WPI n/f JP Tertiary industry indx 0.1m,
Tuesday	US NFIB Sml Bus optmsm UK Ind production 0.2m, 0.8y UK Mfg ouput 0.3m, 1.9y UK Construct'n output 0.1m, 0.2y UK Trade bal -11.200B UK Trade non-EU -3.600B UK NIESR GDP 0.3% DM Trade bal 20.3B DM C/A n/f JP Bankruptcies n/f JP Machine orders 1.1m, 0.8y	Friday	US CPI 0.5m, 2.2y US CPI Ex F&E 0.2m, 1.8y US Retail sales 1.1% US RS Ex-Autos 0.9% US U. of Michigan conf 95.1 US Bus invntry 0.4% DM CPI 0.1m, 1.8y
Wednesday	US MBA Mrtge apps n/f US FOMC Minutes UK RICS House prices 5% JP Machine tool orders n/f JP Domstic corp gds prices JP Bk Indg includg trusts 2.6y JP Tokyo office vacancies n/f JP PPI 0.2m, 3.0y		

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

Last week's releases

	Week of 2 nd October		Week of 2 nd October
Monday	US ISM Mfg 60.8 STRONGER US ISM Prices paid 71.5 STRONGER US Construction spndg 0.5% MORE UK PMI Mfg 55.9 LESS IT PMI Mfg 56.3 WEAKER FR PMI Mfg 56.1 MORE DM PMI Mfg 60.6 AS EZ PMI Mfg 58.1 LESS EZ Unemploy'm't rate 9.1% MORE JP Tankan Irge mfg outlk 19 STRONGER JP Tankan Irge non-mfg outlk 19 WEAKER JP Tankan all ind CAPEX 7.7% WEAKER JP PMI Mfg 52.9 MORE THAN EXPECTED	Thursday	US Jobless claims 260k LESS US Trade bal -\$42.4B BETTER US Factory orders 1.2% STRONGER EZ ECB Minutes JP Labour cash earnings 0.9y STRONGER THAN EXPECTED
Tuesday	UK PMI Construct'n 48.1 WEAKER UK BRC Shop prices -0.1% STRONGER EZ PPI 0.3m, 2.5y STRONGER JP Consumer confidence 43.9 STRONGER JP PMI Services 51.0 LESS THAN EXPECTED	Friday	US Non-farm payrolls -33k WEAKER US Unemploy'm't rate 4.2% BETTER US Average hrly earngs 0.5m, 2.9y STRONGER US Average wrk wk 34.4 AS US Wholesale invntry 0.9% LESS US Consumer CR \$13.065B LESS UK Halifax hse prces 0.8m, 4.0y STRONGER UK Q2 Unit labour costs 1.6% LESS DM Factory orders 3.6m, 7.8y STRONGER THAN EXPECTED
Wednesday	US MBA Mrtge apps -0.4% STRONGER US ADP Employ'm't chge 135k WEAKER US ISM Non-mfg 59.8 STRONGER UK PMI Services 53.6 STRONGER IT PMI Services 53.2 WEAKER FR PMI Services 57.0 LESS DM PMI Services 55.6 AS EZ PMI Services 55.8 STRONGER EZ Retail sales -0.5m, 1.2y WEAKER THAN EXPECTED		

More



US MARKETS: economic background

Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

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Last week's focus was split between the two ISM surveys and non-farm payroll, with the payroll report the main event.

In the event the two ISM surveys were stronger than expected, but the payrolls report was much weaker. We judge the unexpected weakness was likely due to the hurricanes that battered the US causing much damage, but on encouraging note the unemployment rate declined to 4.2%.

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

- On Tuesday; **NFIB Small business optimism**,

- On Wednesday; **FOMC Minutes**,
- On Thursday; **Jobless claims and PPI**, and
- On Friday; **CPI, Retail sales University of Michigan confidence and business inventories**.

There are several key releases due this week; CPI, PPI and the FOMC minutes.

We judge the FOMC minutes are the main event as they will throw more light on the Fed's policy intentions in the short/medium term.

More



Summary

Global Calendar

US Markets

+ EURODOLLARS

+ 10 YEAR NOTE

+ US DOLLAR

+ S&P 500

UK Markets

+ SHORT STERLING

+ GILT

+ STERLING

+ FTSE

Euro Zone Markets

+ EURIBOR

+ BUND

+ EURO

+ DJ EURO STOXX 50

Japanese Markets

+ JAPANESE BONDS

+ YEN

+ NIKKEI

Commodities

+ GOLD

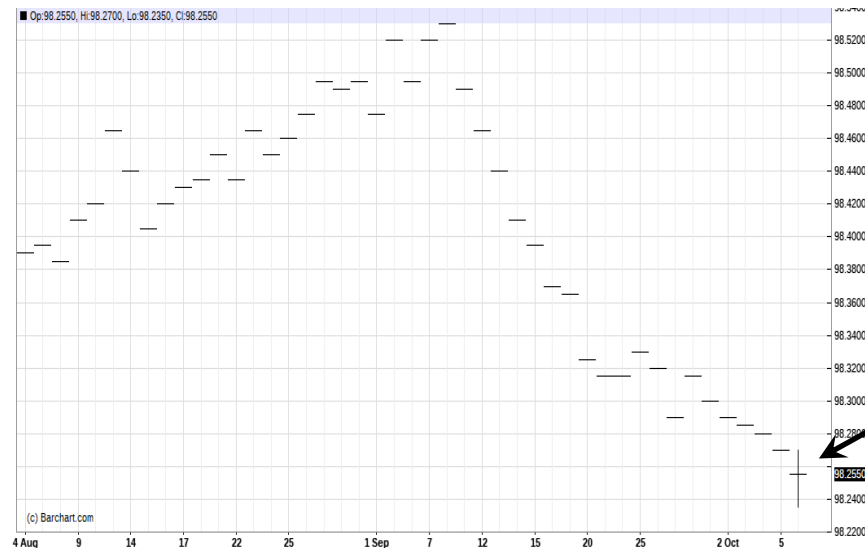
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US MARKETS: Eurodollars

OUR TRADING STANCE: SQUARE.

Last week we were Square of Eurodollars.



Eurodollars sold off despite the weak payroll number as traders focussed on the unemployment rate.

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

...“Looking ahead the key release this week is non-farm payroll. A relatively soft number is expected, a stronger report could see this market test the down side further, as traders recalibrate their expectations of future rate hikes”...

In the event the number was weak, but the market sold off as traders put the weakness down to the series of

Hurricanes that have hit the southern US states recently and focussed on the unemployment rate, which was lower than expected.

Looking ahead the FOMC minutes are due and traders will be looking for more detail on the Fed's policy agenda over the short/medium term.

We are remaining square.

A further tightening still looks priced in.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

US MARKETS: 10 Year Note

OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish** of the 10 year note.



The 10 year note sold off further last week as traders reacted to the unexpected drop in the unemployment rate.

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

...“Looking ahead the two ISM surveys and non-farm payroll are due, stronger than expected reports will weigh on this market”...

In the event the ISM surveys were stronger, payrolls were weaker. But likely distorted by the series of hurricanes, but the lower unemployment rate grabbed trader's attention.

Looking ahead the PPI, CPI and FOMC minutes are due, our focus is the minutes, will they flesh out the Fed's policy plans for the short/medium term?

We are bearish of this market. The Fed looks set to raise rates a quicker pace than earlier assumed and Trump is again talking corporate Tax cuts, with no spending off set.

Traders should be short, our suggested target remains 124.12 and our suggested stop continues at 126.20 for protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

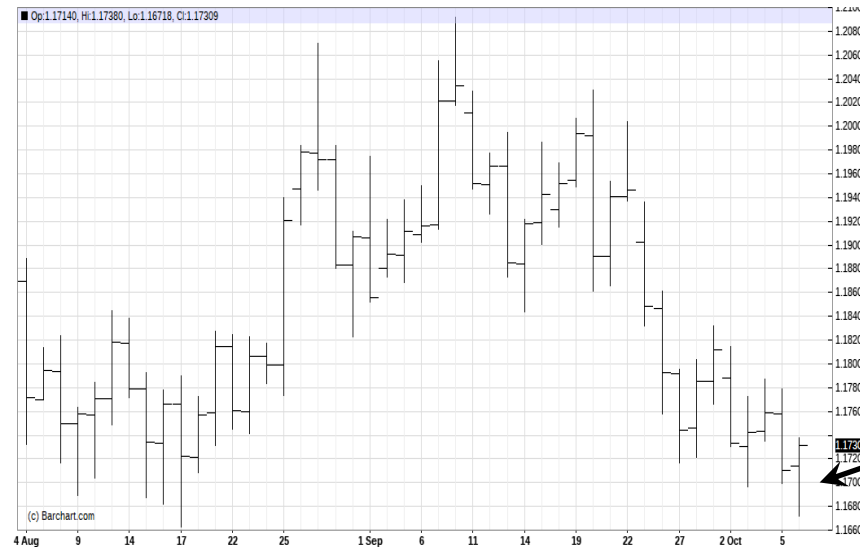
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- + OIL

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US MARKETS: US Dollar

OUR TRADING STANCE: BULLISH v the Yen.

Last week we were Bearish v the Euro, Bullish v the Yen



The Dollar extended its recovery on the run of last week's data.

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

...“Looking ahead there are three key reports this week, the two ISM surveys and non-farm payroll. We judge the payroll report is the main event but will it be enough to support the Dollar?”...

In the event although non-farm payroll was weaker, other data was better and the unemployment rate fell, and traders attributed the payroll report the impact of the run of damaging hurricanes that have battered the southern US.

Looking ahead the main event this week is the FOMC minutes, will they provide greater detail on the Fed's policy objectives?

We are now square of Dollar/Euro after our stop was hit, and will now await the FOMC minutes for further clarity.

However we remain Short/medium term bearish of the Yen against the Dollar.

Our suggested target is remains 113.90 and our suggested stop continues at 111.50 for closer protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

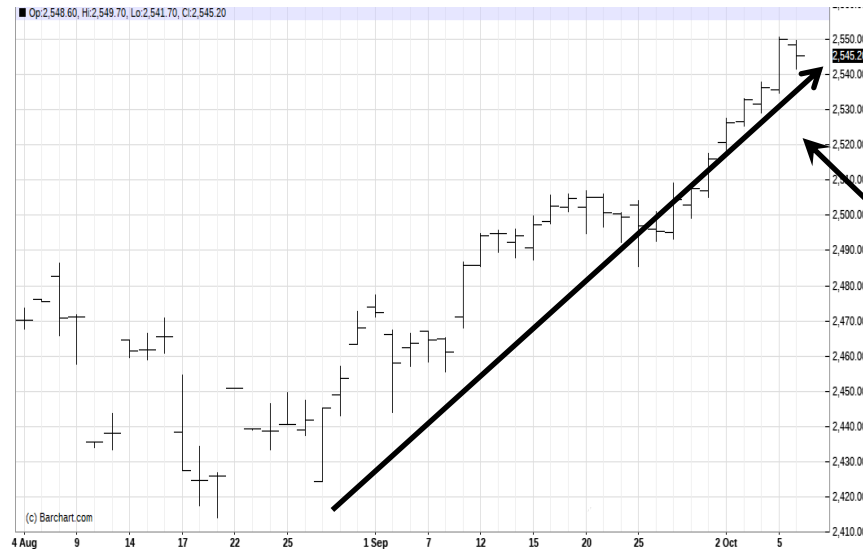
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- + OIL

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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 in a strong Bull up trend.

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

...“Looking ahead the key event this week is non-farm payroll, but we judge this market will be little affected by it as traders seem more interested in Trump's renewed talk of Tax cuts”...

In the event even a weaker than expected payroll report failed to weigh on this market as traders focussed on the stronger than expected ISM surveys, the fall in the unemployment rate and Trump's tax cut

talk.

Looking ahead we judge the FOMC minutes take centre stage this week, but can they reveal anything we don't already know?

We remain bullish of this market. Our target of 2550.0 is hit.

Our suggested target is reset at 2565.0 and our suggested stop raised to 2510.00 for closer protection.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: economic background

Last week's focus was the PMI surveys, would they show the economy stabilising or would it be more bad news?

In the event the manufacturing and especially the construction surveys were weaker than expected, and although the Services survey was a little stronger, the message is the economy continues to cool.

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; **BRC Sales**,

- On Tuesday; **industrial production, manufacturing output, construction output, trade data and NIESR GDP estimate, and**
- On Wednesday; **RICS House price survey.**

There are several key releases due, all on Tuesday, but will they confirm the view the economy is cooling or contradict last week's survey data?



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING

- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: Short Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling remains stuck near the lows.

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

...“Looking ahead the PMI surveys are due and we judge the Services version is the main event, a weaker than expected report should give policy makers at the Bank pause for thought”...

In the event although on balance data was weaker and the risk of a near term interest rate hike should have receded, the ONS popped up and said it had under

estimated inflation!

Looking ahead the main releases are due on Tuesday. Will they help the Bank decided whether to hike near term or wait a little longer?

We are square.

The Bank of England has indicated a rate hike is on its way, but economic activity is cooling, given “BREXIT” uncertainty is a hike any time soon wise?

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

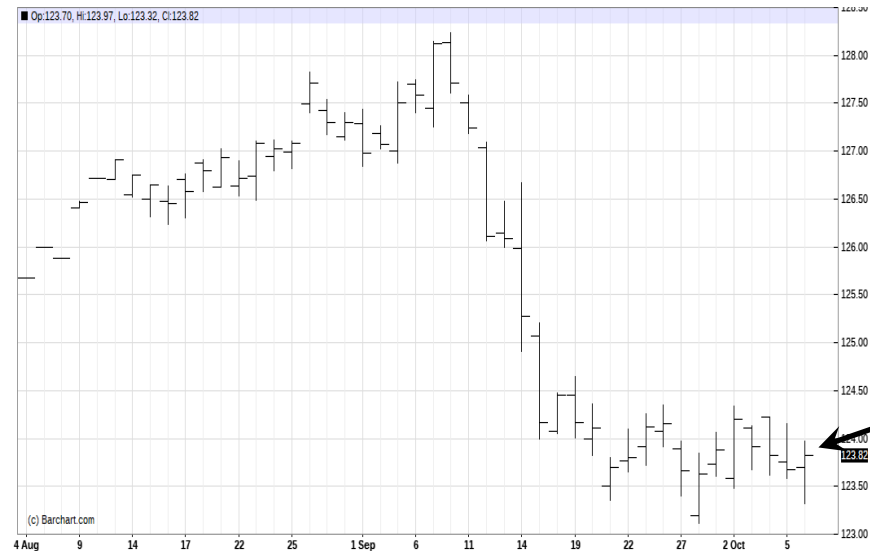
- + GOLD
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UK MARKETS: Gilt

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the Gilt remains close to the lows on rate hike talk and the ONS inflation error.

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

...“Looking ahead the three PMI surveys are due, our focus is the service sector survey due on Wednesday, a weaker than expected report should get policy makers thinking again about the timing of any rate hike”...

In the event the service sector report was a little firmer but manufacturing was weaker and construction indicates a recession in that sector, but given the recent ONS admission they made an error in under

estimating inflation, how will the Bank react; support cooling growth or act to dampen inflation and hurt the economy at a time of weakness?

Looking ahead Tuesday's data releases are the key events, especially industrial production and manufacturing output.

We are staying square here for now.

The economy still looks fragile and there is still too much uncertainty surrounding “BREXIT”.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + **STERLING**
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: Sterling

OUR TRADING STANCE: SQUARE.

Last week we were Square



The Pound remains under pressure as “BREXIT” talks make little progress and the economy slows.

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

...“Looking ahead the key release this week is the PMI Services survey, but watch the Conservative party's annual conference, if the Tories come away from it looking even less united and even less sure footed the Pound could suffer a major set back”...

In the event the PMI Surveys were disappointing and PM May's speech gave an impression of shambolic incompetence that sent Sterling lower.

Looking ahead several key releases due, but the Pound has found support from the ONS error under estimating inflation, which supports the view the Bank will soon hike rates; we will see!.

We are square.

It is still too soon to judge if Sterling's current correction will become a full blown sell off, but increasingly we think it will.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

UK MARKETS: FTSE

OUR TRADING STANCE: SQUARE.

Last week we were Square.



See how the FTSE's recovery mirrors Sterling weakness.

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

...“Looking ahead the three PMI Surveys are due, but the main focus is the services version due on Wednesday. A weaker than expected report will likely weigh further on the Pound and further support this market, but what of the Bank, would they still be talking rate hikes?”...

In the event none of those factors moved the market as traders reacted to the extended period of Sterling weakness and took the FTSE higher.

Looking ahead there are key data releases due, but we judge Sterling's performance remains key to the price action in this market. Will the Bank hike in a few weeks time? Has the revelation that the government is actually planning for a no deal exit from the EU been priced in?

We are square.

The FTSE has recovered, but the ONS error with inflation may just push the Bank to hike, that might support the Pound at the expense of this market; to many ifs and buts!

More



Summary

Global Calendar

US Markets

- + EUROS&POLLARS
- + 10 YEAR NOTE
- + US DOLLAR
- + S&P 500

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: economic background

Last week's focus was the batch of Euro zone PMI surveys, would they show the pace of recovery quickening?

In the event a mixed bag but the underlying tone remains one of a solid recovery is in play.

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**,
- On Thursday; **Euro zone industrial**

production, and

- On Friday; **German CPI**.

There are several releases due this week, mostly German plus Euro zone industrial production.

We judge the two reports to watch are the German and Euro zone industrial production reports.



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

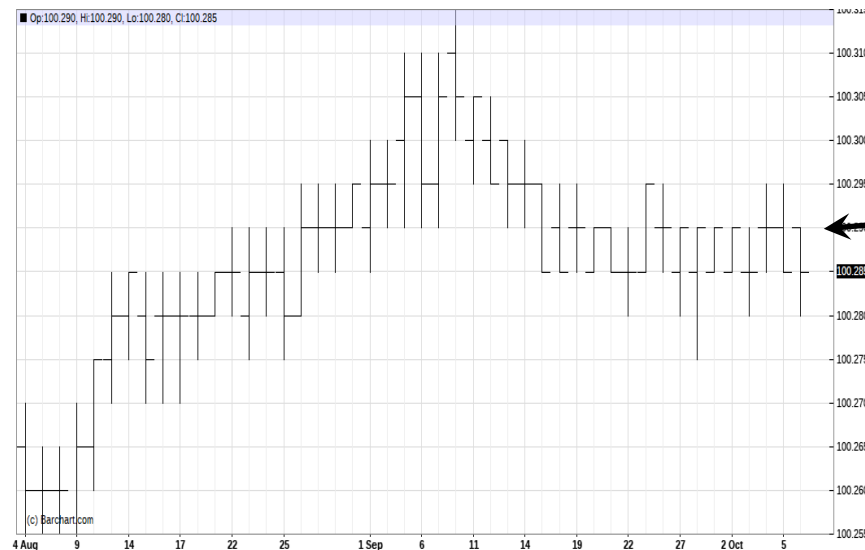
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EURO ZONE MARKETS: Euribor

OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor has settled into a trading range.

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

...“Looking ahead the various PMI Surveys are due, if on balance they are materially different from consensus; stronger, the market is likely to test the downside”...

In the event they offered mixed signals but broadly supported the view of a solid recovery.

Looking ahead the German and Euro zone Industrial production surveys are due, they are expected to show economic activity continues to firm.

For now we are staying square.

Rates and policy generally is on hold and the ECB is apparently set to keep QE unchanged well into 2018 to avoid further strengthening the Euro.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + **BUND**
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

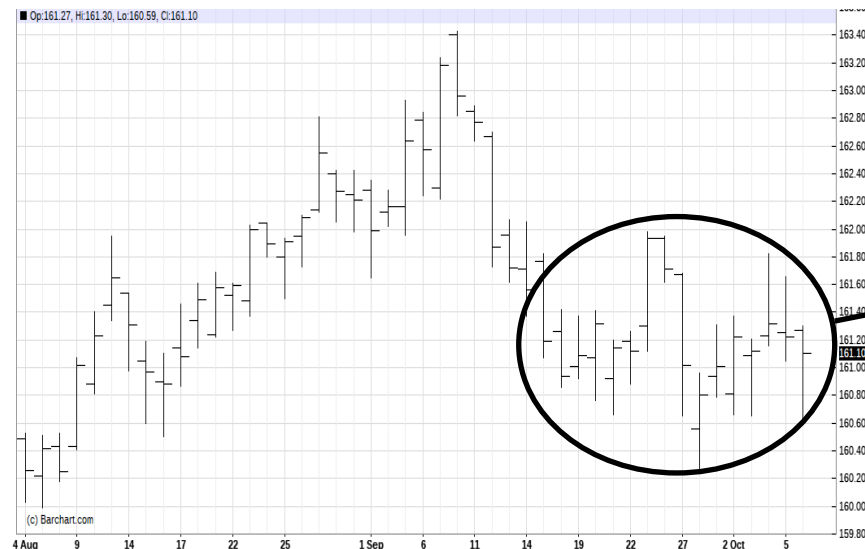
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EURO ZONE MARKETS: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were Square of The Bund.



The Bund looks volatile and a little vulnerable.

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

...“Looking ahead the various Euro zone PMI surveys are due, but barring any surprises we judge this market will extend the drift lower as investors prefer stocks”...

In the event the market remained volatile as stocks extended their rally.

Looking ahead two key industrial production reports due; German and Euro zone, we expect them to show economic activity continuing to strengthen.

We are square here, the recovery looks solid, and still moderate inflation keeps the ECB on hold, and the ECB remains worried about the strength of the Euro a combination of which acts to limit the downside here.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

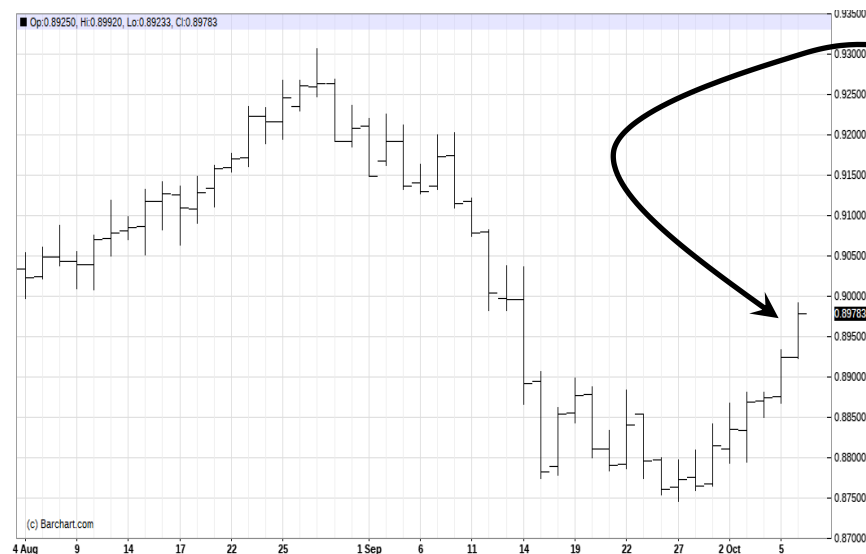
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EURO ZONE MARKETS: The Euro

OUR TRADING STANCE: SQUARE

Last week we were **Bullish v the Dollar**



The Euro staged a recovery against Sterling but a correction against the Dollar.

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

...“Looking ahead a whole raft of data due this week. In the Euro zone the various PMI surveys stand out, in the US the non-farm payroll report, but will traders focus further on the chances of Trump cutting tax?”...

In the event US Payrolls were weaker; Hurricane affect, US ISM's better, Euro zone PMI's mixed, but the ECB is now set to keep QE going into 2018 to

avoid further Euro strength; result Dollar correction, but limited.

Looking ahead the Euro zone and German Industrial production reports are due and in the US the FOMC minutes, all important for Dollar Euro, but on recent price action we sense the pair are in a trading range.

We are now square after our stop was hit, and await the outcome of the potential break up of Spain.

More



Summary

Global Calendar

US Markets

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

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

EURO ZONE MARKETS: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were Square of DJ EUROSTOXX50.



See how the market received a boost from the ECB's announcement that they will leave QE as is until into 2018.

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

...“Looking ahead the various Euro zone PMI Surveys are due, but will events in Spain halt the rally after the Catalan referendum went ahead amid violent scenes and resulted in a vote for independence from Spain?”...

In the event mixed signals from the PMI's and no the Spanish drama has so far had little impact as traders were focussed on ECB comments regarding the QE program.

Looking ahead the German and Euro zone industrial production reports are due, but the stand off between Spain and its break away province look set to come to a head this week, if its separation how will traders react and how will the Spanish authorities!

For now we are staying square.

The market enjoyed a strong rally, but politics is now in focus and that can cause unexpected upsets. “BEXIT” and a Spain break up might prove too much for the market.

More



Summary

Global Calendar

US Markets

- + EUROS DOLLARS
- + 10 YEAR NOTE
- + US DOLLAR
- + S&P 500

UK Markets

- + SHORT STERLING
- + GILT
- + STERLING
- + FTSE

Euro Zone Markets

- + EURIBOR
- + BUND
- + EURO
- + DJ EURO STOXX 50

Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

Commodities

- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: economic background

Last week's focus was the two PMI Surveys and the Tankan survey with our attention locked on the Tankan report.

In the event the PMI's offered mixed signals and so too frustratingly did the Tankan survey, meaning traders are back to watching other key data releases.

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, Trade data and Eco watchers survey,**
- On Tuesday; **Machine orders,**

- On Wednesday; **Machine tool orders, domestic corporate goods prices, Bank lending and PPI, and**
- On Thursday; **Tertiary industry index.**

There are several important reports due, but we are focussed on machine orders and machine tool orders since they are core activities.



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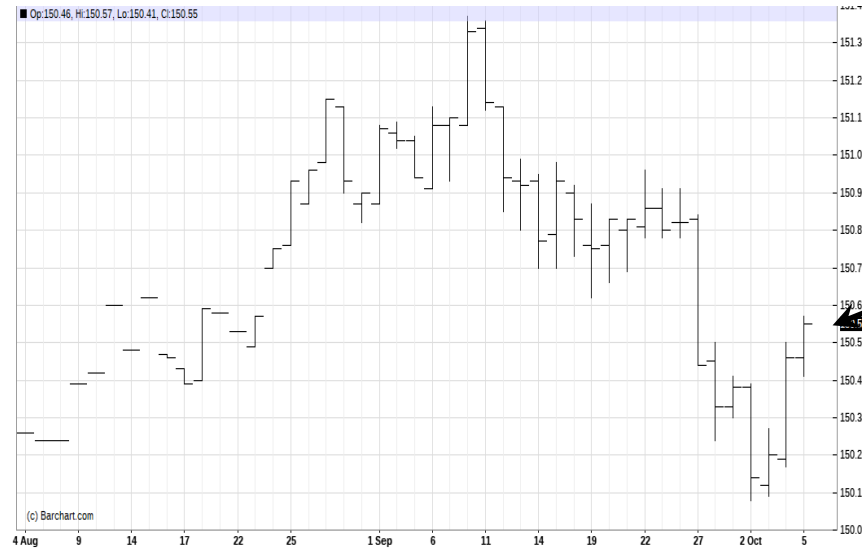
- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Japanese Bonds

OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB staged a correction on a mix of inconclusive data.

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

...“Looking ahead the Tankan survey and PMI surveys are due, between them we should get a broad assessment of Japan's economy”...

In the end more mixed signals, but the Bank of Japan is likely to react by keeping policy steady and that means bond buying which offered modest support

here.

Looking ahead our attention is taken by machine orders and machine tool orders, but we judge this market is experiencing only a limited recovery.

We remain square here.

More



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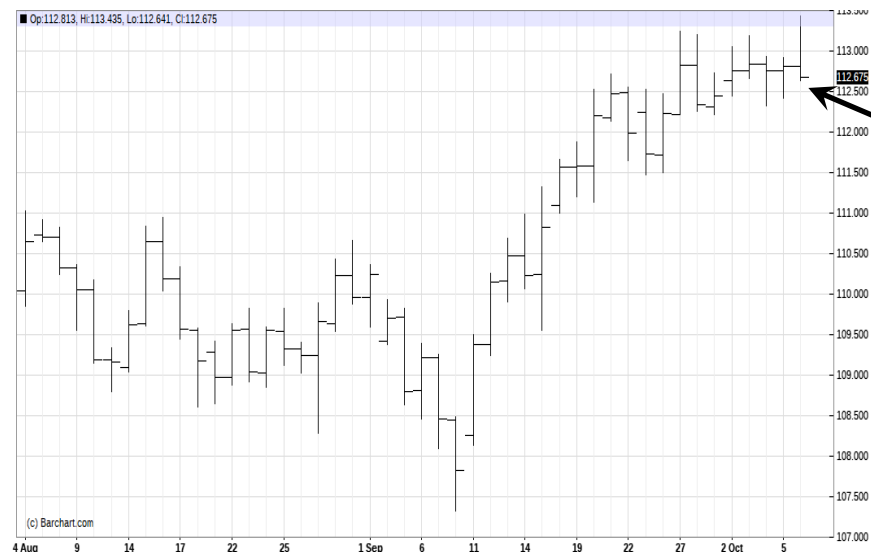
- + GOLD
- + OIL

Disclaimer

JAPANESE MARKETS: Yen

OUR TRADING STANCE: **BEARISH** v the **DOLLAR**

Last week we were **Bearish** v the Dollar



The Yen remains under pressure against the Dollar.

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

...“Looking ahead the key release this week is the Tankan report, will it show the economy gaining momentum or stuck around current levels of growth?”...

In the event mixed signals suggesting the pace of economic activity remains broadly as is.

Looking ahead there are several key releases due this

week, but Dollar/Yen is likely to react more to the US FOMC minutes released on Wednesday which are likely to confirm balance sheet reduction is imminent and a rate hike is expected in December.

We are Short/medium term bearish of the Yen and advice selling against the Dollar.

Our suggested target is remains set at 113.90 and our suggested stop continues at 111.50 for closer protection.

More



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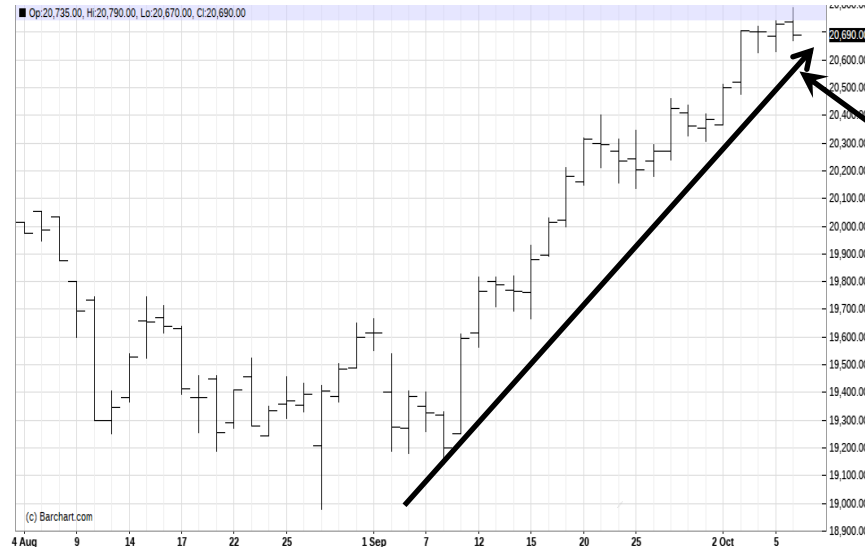
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Disclaimer

JAPANESE MARKETS: Nikkei

OUR TRADING STANCE: BULLISH.

Last week we were Bullish of the Nikkei.



The Nikkei remains in a strong bull trend.

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

...“Looking forward the Tankan report is due, but we sense this market can rally further on continued Yen weakness”...

In the event the Tankan was mixed, but the Yen remained pressured against the Dollar and together with bullish sentiment in US equity markets the Nikkei rallied further.

Looking ahead there are several key releases due, but

we judge the Yen remains key to this market and against the Dollar we expect it to struggle.

We are bullish the Nikkei.

Traders should stay long.

Our target of 20500.0 was hit.

Our target is reset at 20950.0 and our suggested stop reset at 20,500.0.0 for closer protection.

More



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Commodities

- + GOLD
- + OIL

Disclaimer

COMMODITIES: Gold

OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold sold off further as rallying equities and Trump tax cut talk led investors towards other assets.

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

...“Looking ahead the key data releases this week are the two US ISM surveys and non-farm payroll, but barring a very strong payroll report we doubt this market will reverse course anytime soon, unless the geopolitical situation deteriorates further to a point where the possibility of conflict between the US and North Korea looks more likely”...

In the event the two US ISM's were better, the payroll

report weaker and Trump hopes to enact tax cuts, in all the economic back drop looks better and risk aversion has eased meaning gold is out of favour.

Looking ahead the key event this week is the FOMC minutes, but since they are likely to confirm the Fed's intention to reduce its balance sheet and hike rates, the outlook for gold seems negative as the previous trading range looks set to reassert.

For now we are staying square, but seeking a selling opportunity.

More



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Commodities

- + GOLD
- + OIL

Disclaimer

COMMODITIES: Oil

OUR TRADING STANCE: SQUARE.

Last week we were Square of Oil.



See how oil has failed to hold the highs.

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

...“Looking ahead we judge the oil market is likely to remain focussed on events in Kurdistan. The Iraqi government wants its oil fields back; they are in the Kurdish area and Turkey has threatened to cut the pipeline the Kurds export through which would add to the previously agreed OPEC decision to cut out put”...

In the event no new dramas and oil drifted lower

despite Russia saying it was prepared to work with OPEC to extend the output cut.

Looking ahead we judge this market lacks the dynamism to make new highs, but has enough support to resist the lows.

For now we are square.

More



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