

WEEK 4 23rd – 29th January 2007

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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SQUARE short, medium & long term

SEVEN DAYS AHEAD

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ABOUT SEVEN DAYS AHEAD

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

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 30 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?

WHAT'S HAPPENING THIS WEEK?

	Week of 15 th January
Monday	UK PPI Input 0.1m, 2.0y WORSE UK PPI Output 0.2m, 2.2y AS UK PPI Core 0.1m, 2.3y LESS UK DCLG House prcs 8..9 AS IT Ind production -0.3m, 2.1y WEAKER EZ Ind production 2.5y WEAKER THAN EXPECTED
Tuesday	US Empire mfg 9.1 WEAKER UK RICS Hse prcs 37% WEAKER UK CPI 0.6m, 3.0y WORSE UK RPI 0.8m, 4.4y WORSE UK RPI-X 0.6m, 3.8y WORSE IT CPI 0.1m, 1.9y AS DM ZEW -3.6 BETTER THAN EXPECTED
Wednesday	US PPI 0.9m, WORSE US PPI Ex-F & E 0.2m, WORSE US Ind production 0.4 STRONGER US Capacity utilization 81.8 STRONGER US Feds beige book INFLATION UK Unemploy'm't -5.5k BETTER UK rate 3.0 AS UK Ave earngs 4.1 LESS UK Ex-bonus 3.7 LESS DM CPI 0.8m, 1.4y AS EZ CPI 0.4m, 1.9y AS EZ CPI Core 1.6y AS EZ Trade bal 3.1B LESS THAN EXPECTED
Thursday	US CPI 0.5m, AS US CPI Ex-F & E 0.2m, AS US Jobless claims 290k BETTER US Housing starts 1.642M STRONGER US Building permits 1.596M STRONGER US Bernanke @ the Senate DEFICIT US Philly Fed 8.3 STRONGER THAN EXPECTED
Friday	US U. of Michigan cons conf 98.1 MORE UK Retail sales 1.1m, 3.7y STRONGER UK PSNCR 13.4B WORSE UK PSNB 7.2B AS UK M4 STRLG Lndg 11.0B LESS IT Ind orders 9.2y BETTER IT Ind sales 8.4 WEAKER THAN EXPECTED

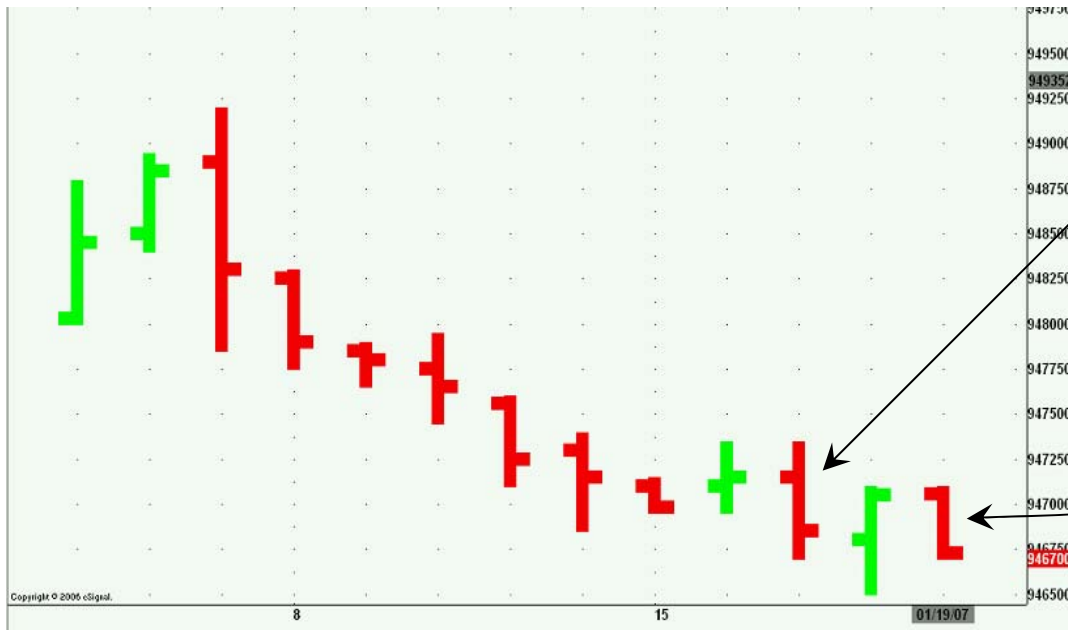
	Week of 22 nd January
Monday	DM PPI 0.1m, 4.6y
Tuesday	UK CBI Ind trends srvy -5 FR Cond spndg 0.3m, 4.7y EZ Ind new orders 1.1m, 5.7y
Wednesday	UK MPC Minutes Jan meeting 7/2 UK Q4 GDP 0.7q, 2.9y IT Cons conf 113.5
Thursday	US Jobless claims 310k US Existing home sales 6.25M DM GFK Cons conf 8.4 FR Business conf INDX 106.0 DM IFO 109.0 EZ C/A 1.0B IT Retail sales 0.1m, 0.8y
Friday	US Durable goods 3.5% US Durables Ex-Transport 0.5 US New home sales 1.050M UK BBA Mrtge approvals 68.0K DM Import prices -0.1m, 2.4y IT Trade bal -295.0M EZ M3 3mth ave 9.0% EZ M3 Y/Y 9.2%

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INTEREST RATE FUTURES

EURO DOLLARS

JUNE 07 EURO DOLLARS



THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

Last week we were bearish of June 07.
This week we remain bearish of June 07.

Last week we were bearish of June 07 Eurodollars after a run of stronger data releases led us to revise our outlook for easier monetary policy during the 1st half of 2007.

With several key data releases due we advised traders to monitor the following:

- On Tuesday; the Empire Mfg survey was weaker than expected,
- On Wednesday; PPI was stronger on both headline and core measures, industrial production was stronger than expected so too was capacity utilization and the Feds Beige book noted a tight labour market,
- On Thursday; CPI was as expected, Housing starts were stronger than expected, Building permits were stronger than forecast and the Philly Fed survey was above consensus, and
- On Friday; the U. of Michigan consumer confidence report was stronger than expected.

The market reacted to the data by drifting lower, the shock of the higher than expected PPI report was compounded by stronger than forecast

Industrial production and capacity utilization which added to the emerging body of evidence pointing to a slowly recovering economy.

Looking ahead traders should focus on the following releases:

- on Thursday; existing home sales, and
- On Friday; Durable goods and New home sales.

After last week's improved housing starts this week's home sales reports will be keenly watched by traders.

Any further improvement here will harden the view in the market that the Fed will avoid the need to ease policy; at least in the 1st half of the year.

The Macro Trader's view is: last week's data once again surprised by being stronger than expected.

For now the period of weak growth seems to be coming to an end as a whole raft of reports all seem to be pointing in the same direction.

Crucial for monetary policy is the state of the housing market, and we are eager to see if improvements to both Existing and New home sales last month, repeat this time.

If so, coming hot on the heels of:

- stronger Housing Starts and Building permits,
- Stubbornly high inflation,
- Strong retail sales, and
- A tightening labour market,

Traders will increasingly seek to build into the market an expectation of tighter policy.

Although the current spell of stronger data may yet prove transitory, the US economy has a history of experiencing temporary soft spots during an otherwise solid expansion.

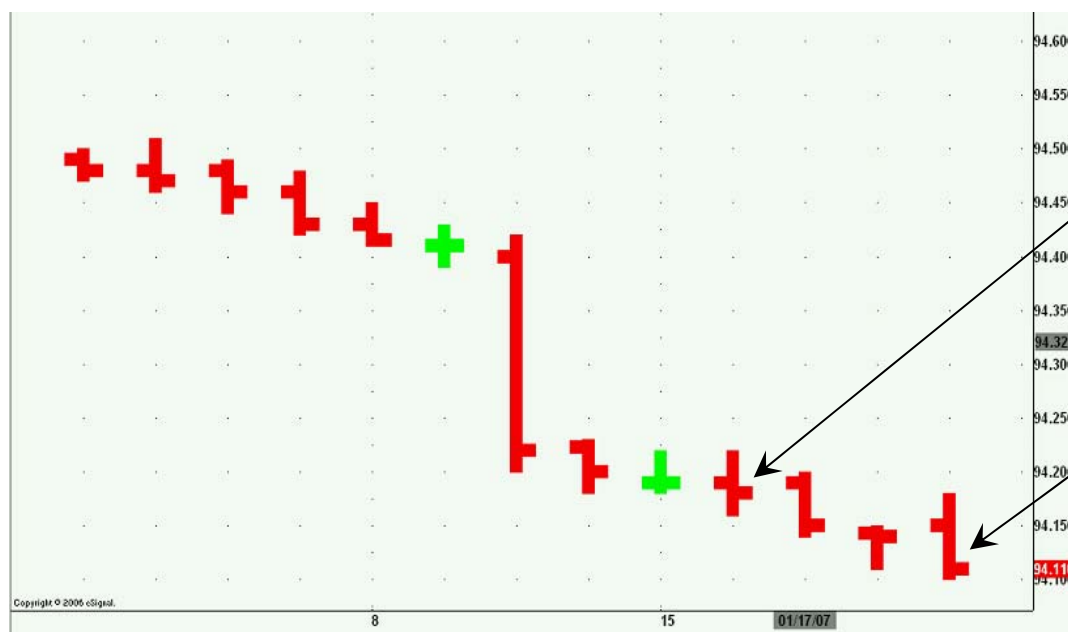
Increasingly the recent slowdown is starting to look like just one more temporary dip in activity.

Traders should be short of this market. Our target last week was hit and over the next 7 days we now suggest 94.60, but as always run a protective stop which we have reduced to 94.75.

As we said last week, we are not currently expecting the Fed to resume tightening policy, but the odds are slowly shifting away from any chance of an ease, towards the possibility of further hikes if data continues to out perform both the market's and the Feds expectations.

SHORT STERLING

JUNE 07 SHORT STERLING



THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of June 07 Short Sterling as we judged we had missed the big move in the market.

Our expectation for future rate hikes had been more benign based on our outlook for oil prices and the effect we expected that to have on UK inflation moving forward.

However after the MPC wrong footed the market with its surprise hike, we advised traders to closely monitor the following releases:

- on Monday; PPI was a mixed bag but the core was less than expected and the DCLG house price report was as expected,
- on Tuesday; the RICS house price survey was weaker than expected but CPI; indeed all the published inflation reports, were worse than expected and fully vindicated the surprise rate hike,
- on Wednesday; the unemployment report was better than expected but average earnings remained benign, and
- On Friday; retail sales were strong and the Governments borrowing data disappointed.

After seeing last week's inflation data it is now clear why the Bank sprung its surprise. The report was worse than expected sent the market to new lows as the Governor only narrowly escaped writing an open letter to the Chancellor explaining why the inflation target had been missed, and what action would be taken to correct the mistake.

Looking ahead this week's calendar is light, with the key events on Wednesday:

- the MPC minutes, and
- Q4 GDP,

It will be interesting to see the MPC vote; 7/2 is expected, anything else will add further fuel to already rampant market speculation over the extent and timing of any additional policy moves.

Additionally if GDP is stronger than expected, especially after the retail sales report on Friday, the market will look vulnerable to further negative price action.

The Macro Trader's view is: although we have revised our outlook for UK monetary policy over

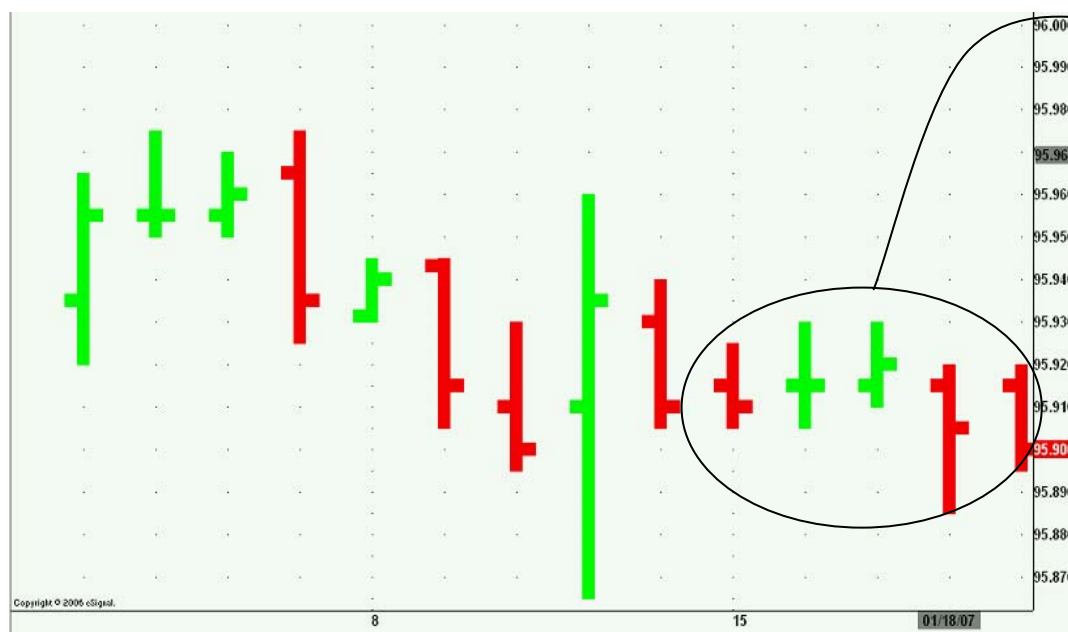
recent days and now expect two more hikes with one possibly coming as early as next month. We are remaining square of this market. A worse case scenario currently looks like 6.0%, with 5.75% the likely top.

Either way there is little left not already priced into the market.

At 94.11 in June 07 Short Sterling, the market sits neatly between the two outcomes mentioned, and if rates do go to 6.0% later this year, taking a position for 10 ticks over such a long time horizon, isn't a very attractive trade.

We advise staying square if not already involved, and even if involved; take profit at these levels.

JUNE 07 EURIBOR



See how Euribor mainly drifted last week as data lacked any of the warning signals recently seen in both US and UK data.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of June 07 Euribor as we judged the market had already priced in everything the ECB is likely to deliver in the 1st half of this year and there still seemed very little to go for in the short/medium term.

But with several important releases due we advised traders to focus on the following:

- on Monday; Euro zone industrial production was weaker than expected,
- on Tuesday; Italian CPI was as expected and German ZEW survey continued to show a recovery,
- on Wednesday; German and Euro zone CPI were both as expected, and
- On Friday; Italian industrial orders were better than expected and sales were weaker.

The market reacted to last week's data by drifting a little lower, as there was nothing in the data which is likely to rattle the ECB.

Looking ahead this week sees one or two important releases and we advise traders to monitor the following:

- on Monday; German PPI,
- on Tuesday; French consumer spending and Euro zone new Industrial orders,
- on Thursday; French business confidence and German IFO, and
- On Friday; Euro zone M3 money supply.

Clearly the ones to watch are German IFO and the M3 data.

The ECB is still uncomfortable with the rate of credit growth and the strength of the money supply.

The Macro Trader's view is: after a week of little excitement in the Euro zone, this week could prove different.

The German IFO report has been strong for many months and continues to flag strong economic expansion.

Also M3 is closely monitored by the ECB and further strength here could increase the possibility of a near term rate hike.

But inflation remains under control and with oil prices threatening to go lower, especially after Iran's supreme leader openly rebuked the Iranian President over his handling of the crisis with the UN etc, over Iran's nuclear program, we could see lower oil prices this week.

The ECB would then have to balance the effects of domestic monetary expansion, with the

benign effects of a strong currency and weak oil prices.

For now we see little to go for in this market and continue to advise traders to remain square.

However, if oil prices do behave as we expect, this market could correct a little higher over the short term.

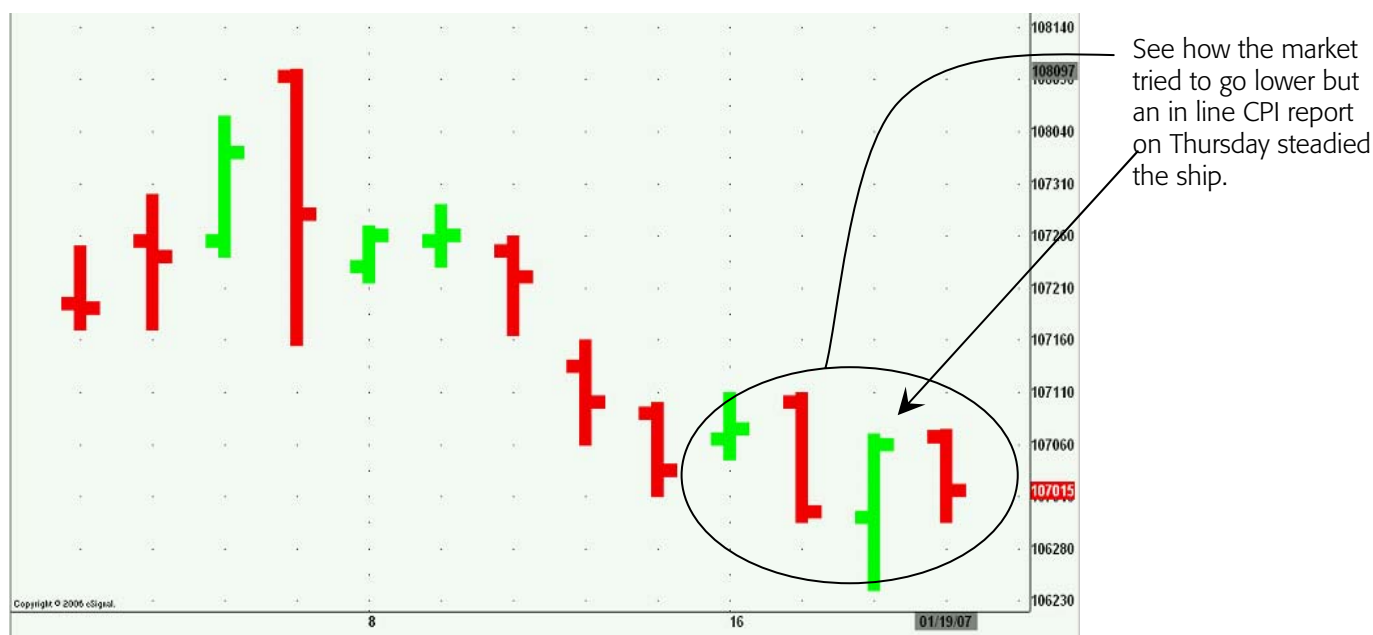
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the 10yr Note.

US 10yr NOTE MARCH 07



This week we remain bearish of the 10yr Note.

Last week we turned bearish of this market after a run of stronger than expected data releases caused us to drop our expectation for easier monetary policy from the Fed; at least during the 1st half of this year.

In a week with key inflation data due we advised traders to monitor the following:

- On Tuesday; the Empire Mfg survey was weaker than expected,
- On Wednesday; PPI was stronger on both headline and core measures, industrial production was stronger than expected so too was capacity utilization and the Feds Beige book noted a tight labour market,
- On Thursday; CPI was as expected, Housing starts were stronger than expected, Building permits were stronger than forecast and the Philly Fed survey was above consensus, and
- On Friday; the U. of Michigan consumer confidence report was stronger than expected.

Clearly PPI sent the market lower but CPI offered a stabilizing effect.

Looking ahead there are two key housing market reports due:

- on Thursday; existing home sales, and
- On Friday; new home sales.

Renewed strength here will send the market lower as traders focus on the upcoming FOMC meeting later this month.

The Macro Trader's view is: although our target wasn't hit, the market did test fresh lows, and although CPI offered support, we were more interested in the stronger housing starts and building permits data, which were stronger than expected.

We advise traders to remain short of this market as stronger home sales is a negative risk for Bonds. Our target over the next 7 days remains 106.20 and we repeat our stop at 107.16.

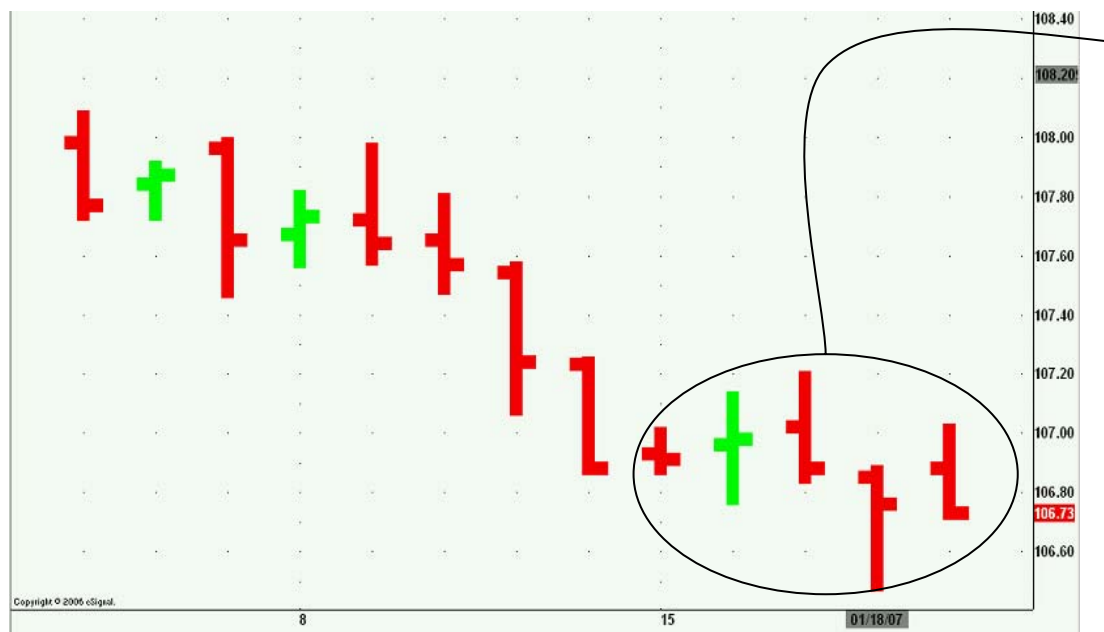
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THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.

GILT MARCH 07



See how the Gilt remained under pressure throughout the week testing new lows on Thursday, after worse than expected inflation data on Tuesday and strong retail sales on Friday.

This week we remain bearish of the Gilt.

Last week we remained bearish of the Gilt as we judged it remained vulnerable to the down side ahead of Tuesday's CPI report.

With this in mind we advise traders to focus on the following data releases:

- on Monday; PPI was mixed, but core was less than expected and the DCLG house price report was as expected,
- on Tuesday; the RICS house price survey was weaker than expected and CPI was worse than expected,
- on Wednesday; the unemployment report was better than expected and average earnings remained benign, and
- On Friday; retail sales were strong and the Governments borrowing data disappointed.

The market reacted by trading lower although the market did recover on Friday, but retained a bearish tone.

Looking ahead the key data releases this week are on Wednesday:

- The MPC minutes, and
- Q4 GDP

If either the minutes are more hawkish and or GDP is stronger than expected, the Gilt will sell off further.

The Macro Trader's view is: the Gilt remains vulnerable to the downside and after last week's inflation and retail sales reports, we are more in line with current market thinking on short term interest rates.

Traders should remain short of this market; last week's target was met before Friday's bounce. Our target over the next 7 days remains 106.50 and we repeat our stop at 107.48 to protect profits.

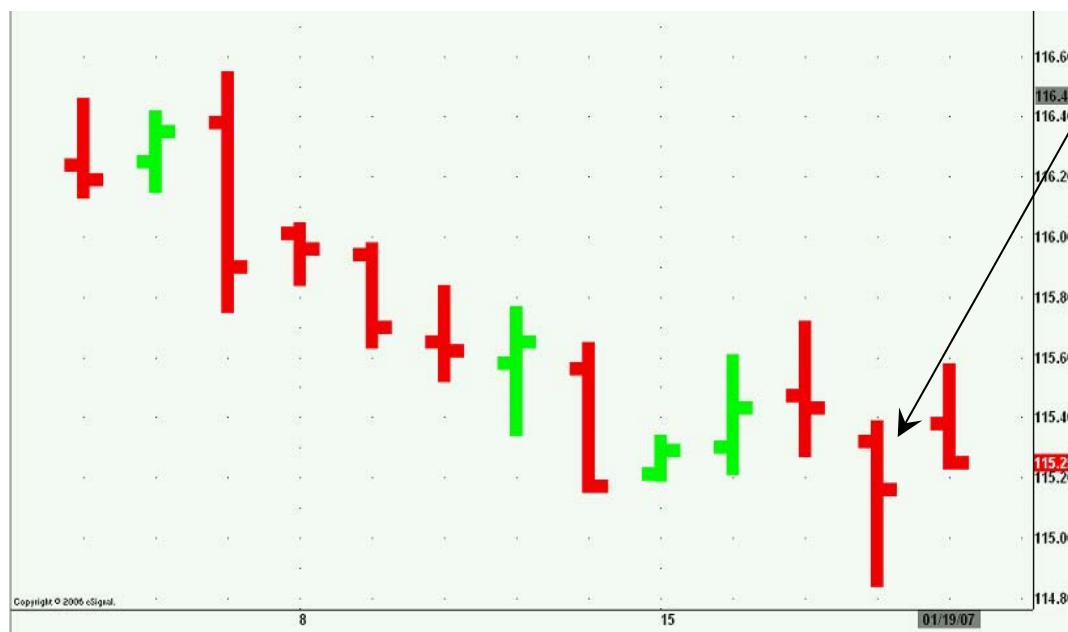
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THE BUND

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the bund.

THE BUND MARCH 07



This week we remain bearish of the Bund.

Last week we remained bearish of the Bund offering a target of 115.00 which the market traded through before staging a small rally.

With several key data releases due we advise traders to monitor the following:

- on Monday; Euro zone industrial production was weaker than expected,
- on Tuesday; Italian CPI was as expected and German ZEW survey continued to show a recovery,
- on Wednesday; German and Euro zone CPI were both as expected, and
- On Friday; Italian industrial orders were better than expected and sales were weaker.

Apart from the German ZEW survey, data was in line or weaker and the market only sold off on Thursday on bearish sentiment from the US where stronger data pushed US Treasuries lower, before an in line US CPI report later in the day sparked a short covering rally.

Looking ahead there are several reports due this week and we advise traders to monitor:

- on Monday; German PPI,
- on Tuesday; French consumer spending and Euro zone new Industrial orders,
- on Thursday; French business confidence and German IFO, and
- On Friday; Euro zone M3 money supply.

For us the key reports are the IFO survey and money supply. If either is above consensus the market will trade lower.

The Macro Trader's view is: with most Euro zone releases weaker to inline there was very little for traders to focus on last week, but with IFO and M3 due later this week we see the potential for the market to retest the lows.

Traders should remain short of this market, and our target over the next 7 days is now 114.80, but our stop remains 115.85 to protect profits.

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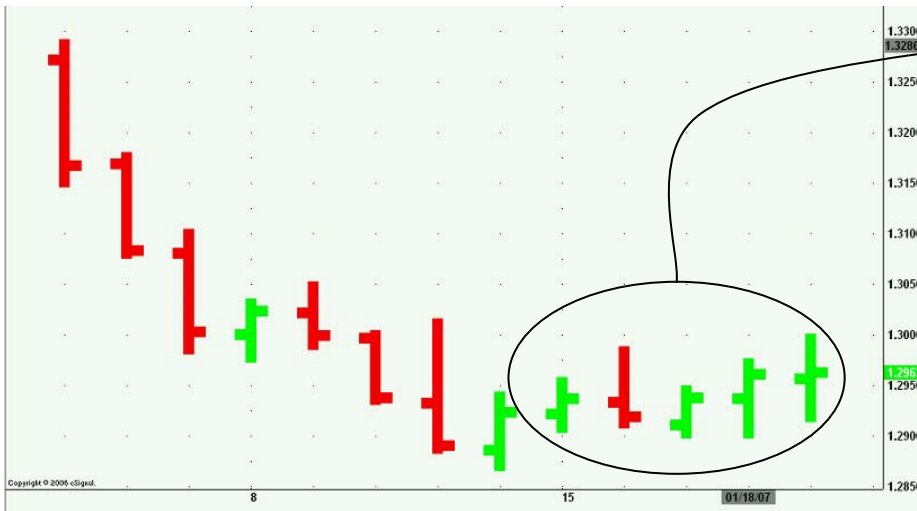
CURRENCIES

THE DOLLAR

OUR TRADING STANCE: BEARISH v THE POUND.

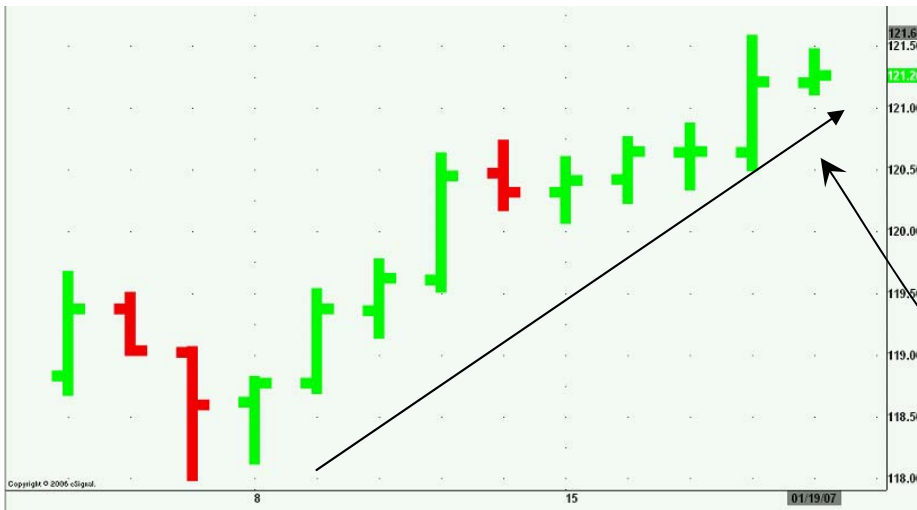
Last week we were bearish of the Dollar v the Pound.

EURO/DOLLAR CHART



See how the Dollar mainly traded sideways against the Euro as US data surprised to the upside, but German data remained strong pointing to further ECB rate hikes in the coming months.

DOLLAR/YEN CHART



See how the Yen continued to weaken against the Dollar as the Bank of Japan held policy steady when the market was expecting a rate hike.

This week we remain bearish of the Dollar v the Pound.

Last week we were bearish of the Dollar against the Pound but square against the Euro. The surprise recent hike from the MPC and strong UK data lent the Pound much support, even as US data continued to improve, but with the ECB holding back recently from hiking rates, Dollar/Euro looks like it currently has no where to go.

With this in mind we advised traders to monitor the following releases:

- On Tuesday; the Empire Mfg survey was weaker than expected,
- On Wednesday; PPI was stronger on both headline and core measures, industrial production was stronger than expected

so too was capacity utilization and the Feds Beige book noted a tight labour market,

- On Thursday; CPI was as expected, Housing starts were stronger than expected, Building permits were stronger than forecast and the Philly Fed survey was above consensus, and
- On Friday; the U. of Michigan consumer confidence report was stronger than expected.

We said last week “We expect the most impact to come from the PPI and CPI data”. And although they were the most eye catching reports, the Dollar reacted little against the Euro and retested the recent lows against the Pound.

Looking ahead the key releases this week are:

- on Thursday; Existing home sales, and
- On Friday; Durable goods and New home sales.

Since a cooling housing market was responsible for the general economic slowdown, traders will watch these two data series closely, as they have improved a little recently.

The Macro Trader's view is: we stayed out of Dollar/Euro last week as we judged the strength of data from the US and Euro zone largely cancelled each other out.

But against the Pound, the Dollar did and continues to look vulnerable. With UK inflation coming worse than expected last week, the Bank of England looks set to hike rates further as we move through the year, where as the Fed is expected to remain on hold.

Although the housing data is important for the US, the UK MPC minutes will be important for the Pound and we expect them to confirm the markets current thinking.

Traders should remain long of Cable. Our target over the next 7 days is 1.9925 and our protective stop is now 1.9550; necessary in a market that we think could still prove volatile.

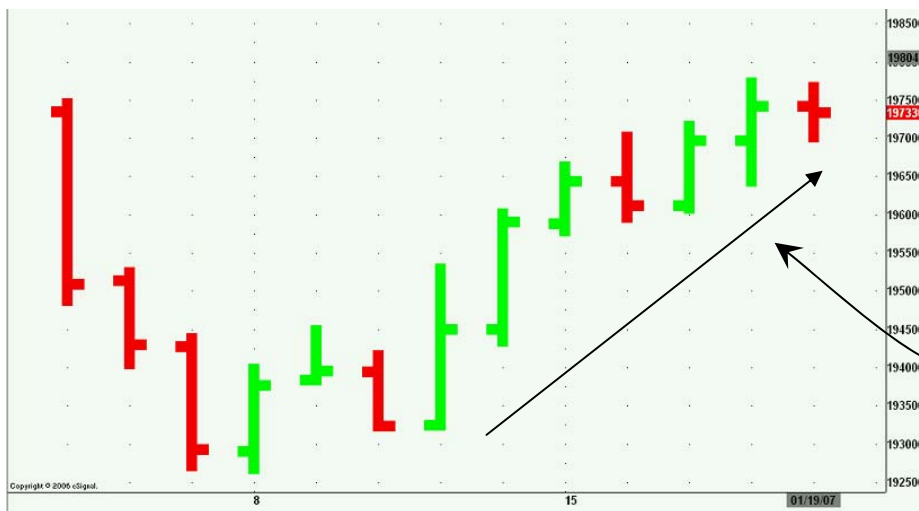
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THE POUND STERLING

OUR TRADING STANCE: BULLISH.

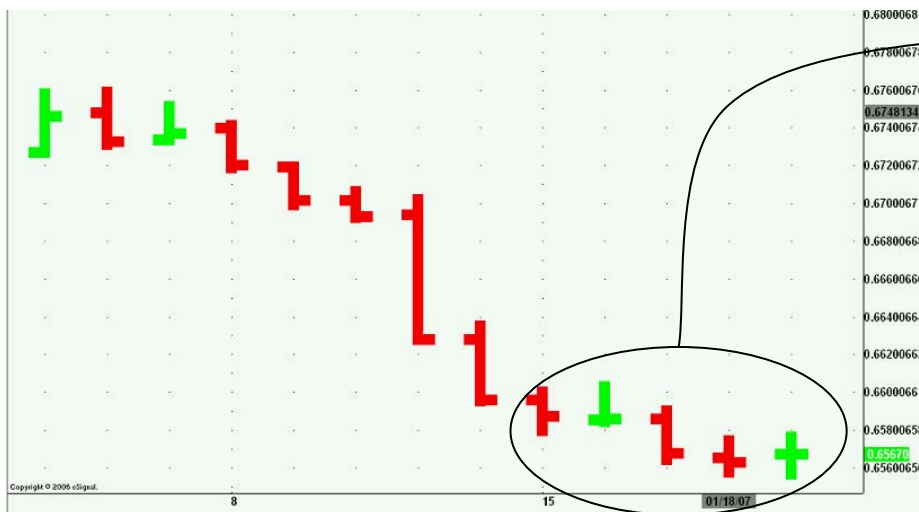
Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound continues to rally against the Dollar as data supports the view that UK rates will have to rise again, and soon.

THE STERLING/EURO CHART



See how the Pound held its gains against the Euro, but failed to make any significant new progress as German data remained strong.

This week we remain bullish of Sterling.

Last week we were bullish of Sterling after the MPC sprang a surprise rate hike which sparked a strong rally against the Dollar, and with key inflation data due, which looked likely to be on the high side, we expected the Pound to remain strong.

With this in mind we advised traders to monitor the following releases:

- on Monday; PPI was a mixed bag but the core was less than expected and the DCLG house price report was as expected,
- on Tuesday; the RICS house price survey was weaker than expected but CPI; indeed all the published inflation reports, were worse than expected and fully vindicated the surprise rate hike,

- on Wednesday; the unemployment report was better than expected but average earnings remained benign, and
- On Friday; retail sales were strong and the Governments borrowing data disappointed.

As we said last week, the CPI report was the centre of attention and it was worse than expected, with retail sales also showing strength, the MPC will hike again in the near future.

Looking ahead there are just two key releases in the UK this week, both on Wednesday:

- the MPC minutes, and
- Q4 GDP.

Both of which have the potential to add further to the current rally.

The Macro Trader's view is: last week our target was hit and the Pound looks capable of going further, indeed as we write it is already making new highs.

With the MPC minutes and Q4 GDP data due tomorrow traders are clearly expecting the MPC to hint at further interest rate hikes and after a strong set of retail sales for December, they expect GDP to remain strong.

With interest rate differentials against the Dollar, set to move in the Pounds favour we can only see the Sterling making further gains against the other major currencies.

But for now we prefer to focus on Cable and advise traders to remain long. Our target over the next 7 days is 1.9925 and our stop is 1.9550.

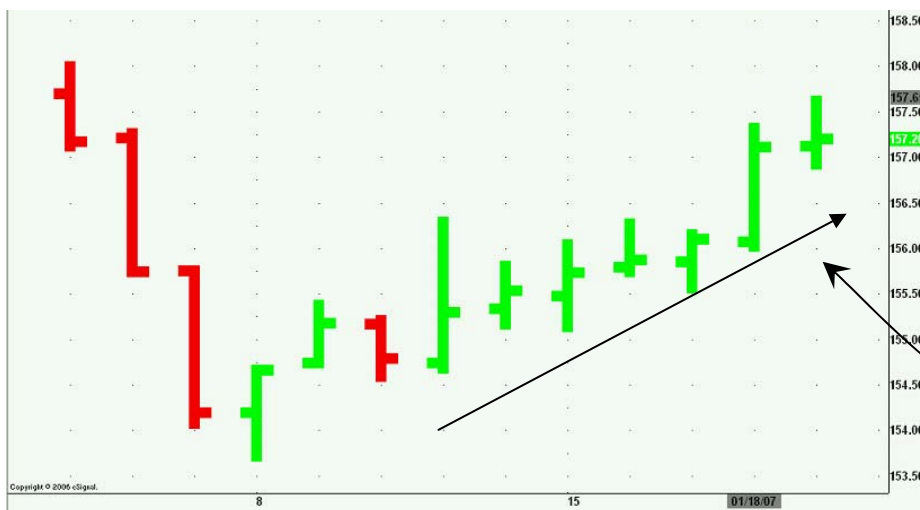
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THE EURO

OUR TRADING STANCE: SQUARE.

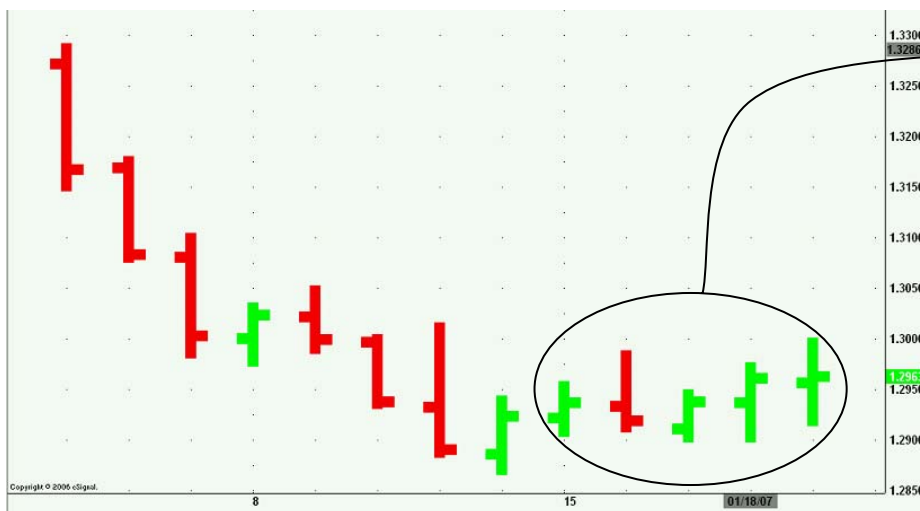
Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen weakened against the Euro as the Bank of Japan held rates steady at last week's meeting.

THE EURO/DOLLAR CHART



See how the Euro, unlike Sterling, is unable to make any significant progress against the Dollar even though Euro zone data still points to further rate increases from the ECB.

This week we remain square of the Euro.

Last week we remained square of the Euro as we judged the pair would continue to drift sideways.

Although US data has shown improvement over recent weeks, Euro zone data has continued to paint a healthy picture of the Euro zone economy, with German data especially continuing to look strong.

With this in mind we advised traders to monitor the global calendar, but we regarded the US and Euro zone inflation reports as the most important together with the German ZEW survey.

The US inflation reports showed a worse than expected PPI, but an inline CPI, which will sit uneasily with the Fed, especially since Housing starts and industrial production were also stronger.

In the Euro zone the various inflation reports were in line with consensus and showed inflation remaining below the ECB'S target.

The markets reaction to the data was as we expected; sideways drift.

Looking ahead this week sees the release of several key reports:

- on Monday; German PPI,
- on Tuesday; French consumer spending and Euro zone new Industrial orders,
- on Thursday; French business confidence and German IFO, and
- On Friday; Euro zone M3 money supply.

But the most important of these are clearly the German IFO report which remains at very elevated levels and the Euro zone M3 report which is causing the ECB some concern.

The Macro Trader's view is: we remain sidelined from this market as we see economic data from the US and Euro zone still likely to balance each other out for the time being.

Both the Fed and the ECB remain concerned about inflation, but in the Euro zone it is below the ECB'S target where as in the US it isn't.

Last week's US inflation reports did disappoint but the Dollar took nothing from it against the Euro.

In short we advise remaining square of Dollar/Euro and focussing on either Cable or Dollar/Yen.

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STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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

S&P 500



See how the market tried to go better before US PPI undermined the market, only on Friday did the S&P steady after traders digested the week's other data releases.

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

Last week we remained bullish of this market and the week started promisingly enough, but a bad set of PPI data sent the market away from the highs.

With US housing starts, building permits, industrial production and capacity utilization all above consensus, traders were worried a bad CPI report would increase the risk of more rate hikes from the Fed in the coming months.

In the event CPI was as expected and traders took the S&P away from the lows.

Looking ahead with both existing and new home sales data due this week, the market sits on a knife edge.

Last month these two data series showed some improvement and a similar result this time will

hold out the possibility of a stronger recovery, but also maybe, another one or two rate hikes.

The Macro Trader's view is: in the end stocks don't sell off when interest rates rise, because the Central Bank is usually acting at a time of economic strength. And that means strong corporate profitability.

If the economy is indeed beginning to recover, the current nervousness in the market should resolve to a further leg to the rally.

Although our target wasn't hit our stop wasn't either and we remain long of the market

We advise traders to remain long of this market and our target over the next 7 days is remains 1445.0, and our stop stays at 1400.0 as protection.

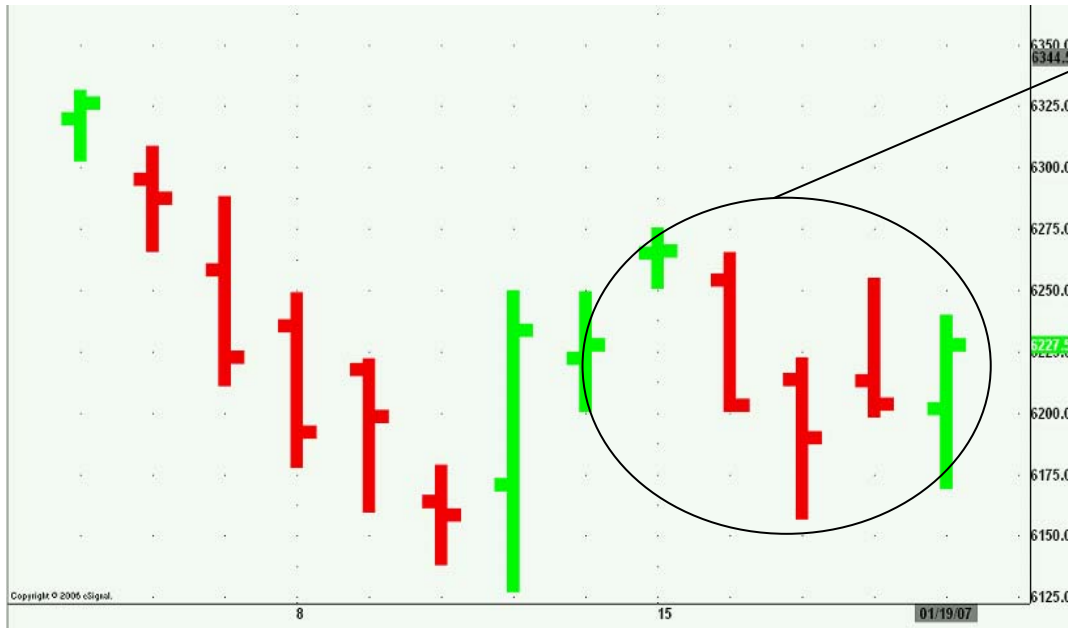
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FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the FTSE 100.

FTSE 100



See how the market remains volatile. Traders are obviously unhappier about the outlook for inflation than they are excited by the strength of the economy.

This week we remain bullish of the FTSE 100.

Last week we were bullish of the FTSE as we judged it looked well set to rally further, but noted the erratic nature of the market over recent months as the bull trend has experienced several corrections, but felt the underlying trend would reassert.

In the event the market was choppy as traders reacted to last week's CPI report which revealed inflation was worse than thought and with retail sales showing demand remains firm, more rate hikes can be expected.

Looking ahead the market will focus on the MPC minutes and Q4 GDP, both due on Wednesday, but they are unlikely to offer anything that changes the current outlook for the economy and interest rates.

The Macro Trader's view is: the market failed to make our target, but our wide stop kept us involved.

With the MPC recently hiking interest rates, markets generally now seem to be pausing ahead of the Fed. As US data continues to improve, traders are looking for guidance from the forthcoming FOMC meeting before taking any of the major stock markets any higher.

Although we think this week could yield more short term frustration, we expect this market to rally longer term.

Our target over the next 7 days remains 6300.00 and our stop is still set at 6150.00 to allow enough room for short term swings.

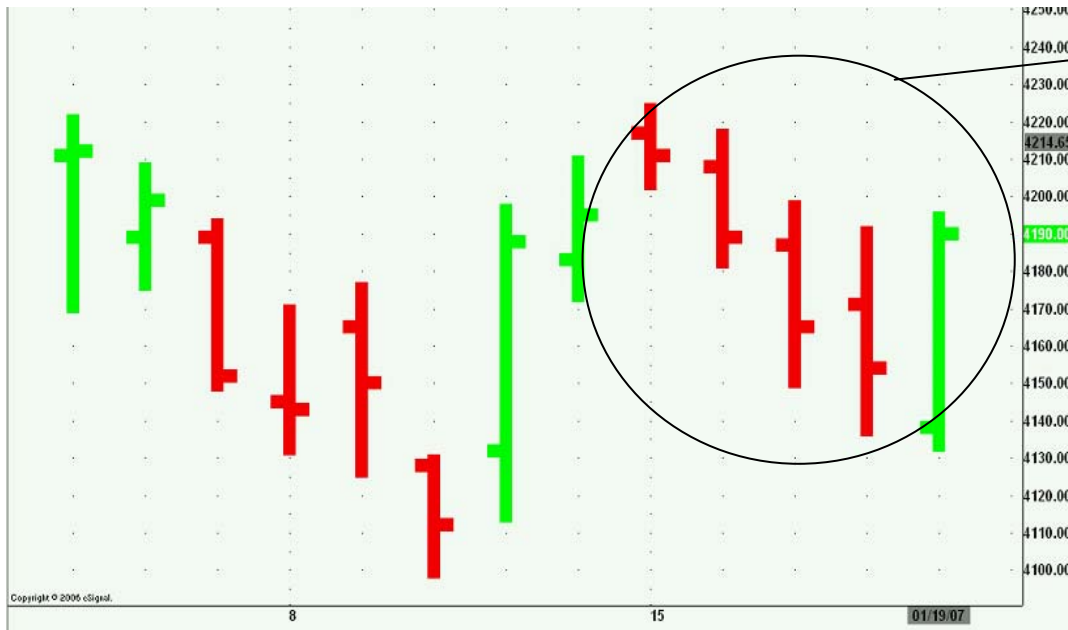
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DJ EURO STOXX 50

OUR TRADING STANCE: BULLISH.

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

DJ EURO STOXX 50



See how the market tested and rejected the lows only to end the week largely unchanged.

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

Last week we remained long of this market, as we judged it well supported by the Euro zone economic expansion, and especially economic activity in Germany.

But the market suffered a set back as stocks generally have failed to add to the recent rally.

With the US and UK reporting bad inflation data last week, traders have elected to book profits.

However once next week's FOMC meeting is out of the way; assuming unchanged rates, traders will be able to forget about Central Banks and focus on the up coming corporate reporting season.

With the major economies, especially the Euro zone performing well, this should make pleasant reading and help this market higher.

The Macro Trader's view is: after another good set of data releases in the Euro zone we remain long of this market.

We think once this spell of consolidation is over, the market should move higher.

Although our stop has come close to being hit, we remain long and repeat last week's target for the next 7 days, which is 4250.00. Our stop remains set at 4130.00 for protection.

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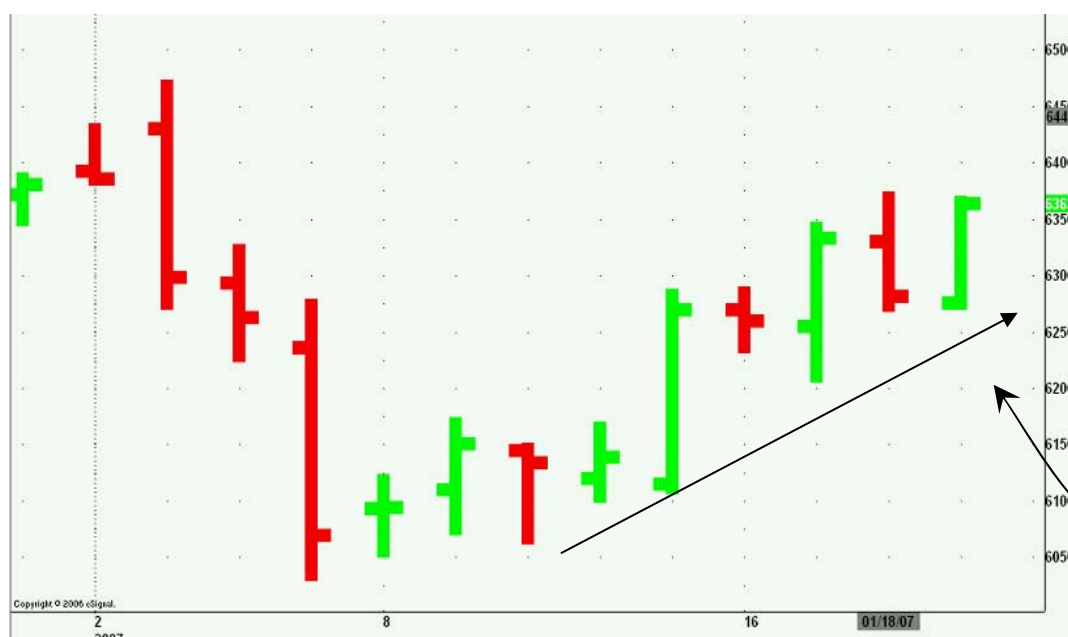
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were square of gold.

THE GOLD CHART



See how Gold remains within a wide range, and last week's rally was driven by the underperforming Dollar. Although heightened inflation fears are again beginning to be a supporting factor.

This week we remain square of Gold.

Last week we were square of Gold after previously being short of the market. But where as we have recently argued Gold should weaken, we are now less firm in our view, as inflation is becoming more of an issue in several economies.

And last week Gold rallied as both US and UK inflation were higher than expected. As the Dollar remains under pressure, traders still see Gold as an alternative.

But the Euro zone economy is in good shape with low inflation and the source of inflation in the UK and US; Oil, remains close to the lows.

This leaves us sidelined from this market as we judge the range which has existed for several months, looks likely to last a while longer.

The Macro Trader's view is: we remain, for now, un-involved in this market as we see it largely range bound.

The geopolitical tension between the west and Iran may be about to ease as the Iranian supreme leader openly rebuked that country's president for his handling of the nuclear issue with the US and UN.

But since Iran remains committed to developing its own nuclear technology, and the US remains convinced it is a cover for developing nuclear weapons. That issue isn't going away just yet.

For now we advise traders to remain square of this market, until there is greater clarity concerning the markets direction longer term.

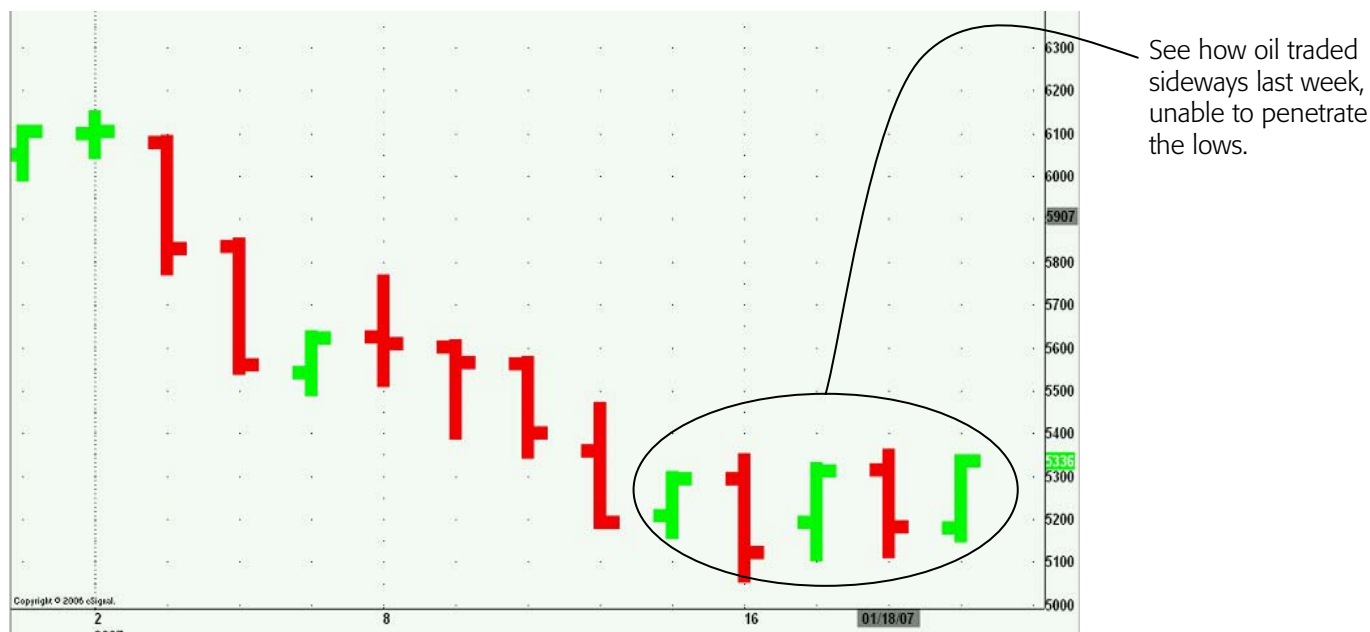
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OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART



This week we are square of oil.

Last week we were square of Oil although we were tempted to go short earlier in the week as the market looked set to go lower.

But after our recent brief, albeit profitable foray, we decided to wait for the market to break before committing; it didn't happen.

But we are still expecting Oil to trade lower over the medium term; it is just the timing which remains unclear.

The supreme leader of Iran voiced his displeasure over the Iranian presidents handling of the whole nuclear issue with the west last week. And although he didn't sack him, his frustration was clear.

The Macro Trader's view is: this market, much like Gold, looks range bound, but we think it likely to go lower over the medium term.

The US winter has been mild, and that together with a sluggish economy has kept demand down. Although the US economy is showing signs of improvement, it isn't likely to return to the growth rates seen 1 or 2 years ago.

This together with rising interest rates in other economies should peg demand back, and as the nuclear crisis with Iran has cooled considerably, oil prices look high at even these levels.

For now we advise remaining square, but we are seeking an opportunity to go short, a confirmed break of US\$50.50 a barrel would be our trigger.

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