

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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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?

WHATS HAPPENING THIS WEEK?

	Week of 19 th March
Monday	
Tuesday	US Housing starts 1.525M STRONGER US Building permits 1.532M WEAKER UK CPI 0.4m, 2.8y STRONGER UK RPI 0.7m, 4.6y STRONGER UK RPI-X 3.7y STRONGER UK PSNB 1.0B BETTER UK PSNCR 1.9B BETTER UK BBA Mrtge Indg 5.2B LESS UK M4 Strlg Indg 20.7B WORSE DM PPI 0.3m, 2.8y AS IT Ind orders 8.3y WEAKER IT Ind sales 11.1y, BETTER THAN EXPECTED
Wednesday	US FOMC Rate decision 5.25% DOVISH UK MPC Minutes March 8 th 8/1 DOVISH UK Budget BALANCED IT Unemploy'm't rate 6.5% LESS THAN EXPECTED
Thursday	US Jobless claims 316k LESS UK Retail sales 1.4m, 4.9y STRONGER UK CBI Ind trends 8 STRONGER EZ Trade bal -7.8B WORSE EZ Ind new orders -0.2m, 12.0y BETTER THAN EXPECTED
Friday	US Existing home sales 6.69M STRONGER UK Car output -0.2m, -7.6y WEAKER DM Import prices 0.5m, 0.8y LESS FR Cons spndg -0.4m, 5.0y BETTER IT Retail sales -0.4m, 0.0y WEAKER EZ C/A 2.7B AS IT Trade bal non-EU -1.752B BETTER THAN EXPECTED

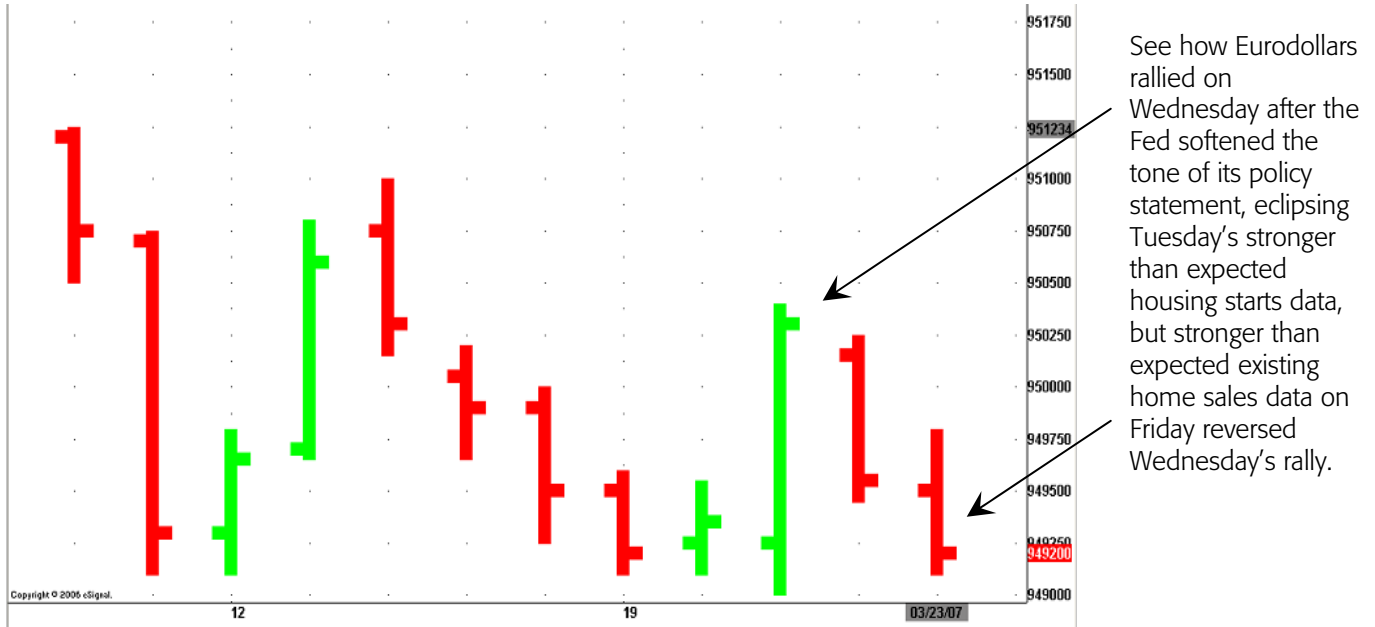
	Week of 26 th March
Monday	US New home sales 985k FR Business conf 107.0 FR Production indx -2
Tuesday	US Cons conf 109.0 UK Bus investm't 3.3m, 11.1y UK BBA Mrtge approvals 47.0k UK BOE King @ Parliament IT Bus conf 95.0 DM IFO 106.5
Wednesday	US Durable goods 3.5 US Ex-Transport 1.6 US Bernanke @joint economic committee UK Nationwide hse prcs 0.7m, 9.6y UK Q4 F GDP 0.8q, 3.0y UK Q4 C/A -9.0B DM CPI 0.2m, 1.8y DM GFK 4.5 EZ M3 9.8 3m, 9.8y
Thursday	US Q4 GDP 2.2 US Q4 Persnl consump 4.2 US Q4 Core PCE 1.9% US Jobless claims 316k UK M4 Strlg Indg n/f UK Cons CR 1.0B UK Net Indg on dwell'gs 9.4B UK Mrtge approvals 117k UK Indx of services 0.9 3m, UK CBI Distrib trades 18 DM ILO Unemploy'm't rate n/f DM Unemploy'm't change -46k DM Unemploy'm't rate 9.2 IT PPI 0.4m, 3.9y FR Unemploy'm't change -14k FR Unemploy'm't rate 8.5 JPY CPI -0.1m, -0.1y
Friday	US Personal income 0.3 US Personal spndg n/f US PCE 0.2m US Core PCE 0.2m, US Chicago PMI 50.5 US U. of Michigan cons sent n/f UK GFK Cons conf -7 DM Retail sales 0.7m, -1.0y FR Cons conf -22 FR Q4 GDP 0.6q, 2.2y FR PPI 0.2m, 1.9y EZ CPI 1.9y EZ Economic conf 109.7 EZ Unemploy'm't rate 7.3 IT CPI n/f

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INTEREST RATE FUTURES

EURO DOLLARS

SEPTEMBER 07 EURO DOLLARS



THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of September 07 Eurodollars, as we judged recent market gyrations were a result of stock market volatility.

But in a week with several key housing market reports and the Feds FOMC meeting, which we expected to dominate, we advised traders to monitor the following key data releases:

- on Tuesday; Housing starts were stronger than expected and building permits were weaker than forecast,
- on Wednesday; the FOMC rate decision left policy on hold as expected, but they eased the tone of the policy statement; adopting a more neutral stance,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Existing home sales were stronger than expected.

The market reacted to the data with a rally on Wednesday after the release of the Fed's policy statement, as traders judged further rate hikes were unlikely with rate cuts coming back into focus. But Friday's stronger than expected existing home sales data reversed the rally as the

primary reason for the economy's weakness showed unexpected strength.

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

- on Monday; New home sales,
- on Tuesday; consumer confidence,
- on Wednesday; durable goods and the Fed Chairman testifies before the joint economic committee,
- on Thursday; the final read of Q4 GDP & Q4 PCE and jobless claims, and
- on Friday; Personal income & spending, Core PCE, Chicago PMI and U. of Michigan consumer sentiment.

After last week's price action we advise paying close attention to New Home sales and the core PCE data.

Although existing home sales picked up last week, it is New Home sales that contribute to GDP. And the Core PCE data is important because the Fed retained a form of words that

clearly communicated its over riding concern is still inflation.

The Macro Trader's view is: the Fed softened the tone of its policy statement after last week's meeting, but we judge the motive was to calm nerves in the equity markets, rather than signal a willingness to cut.

With the Fed clearly still unhappy about the rate of inflation, we don't expect a rate cut in the next few months, especially if last week's better than expected housing market data is the beginning of a recovery.

If so this would fly in the face of all the concern voiced recently about the potential damage the Sub-prime mortgage drama could cause.

In reality, this represents a very small proportion of US lending which all along we doubted was capable of inflicting wide spread damage to the economy.

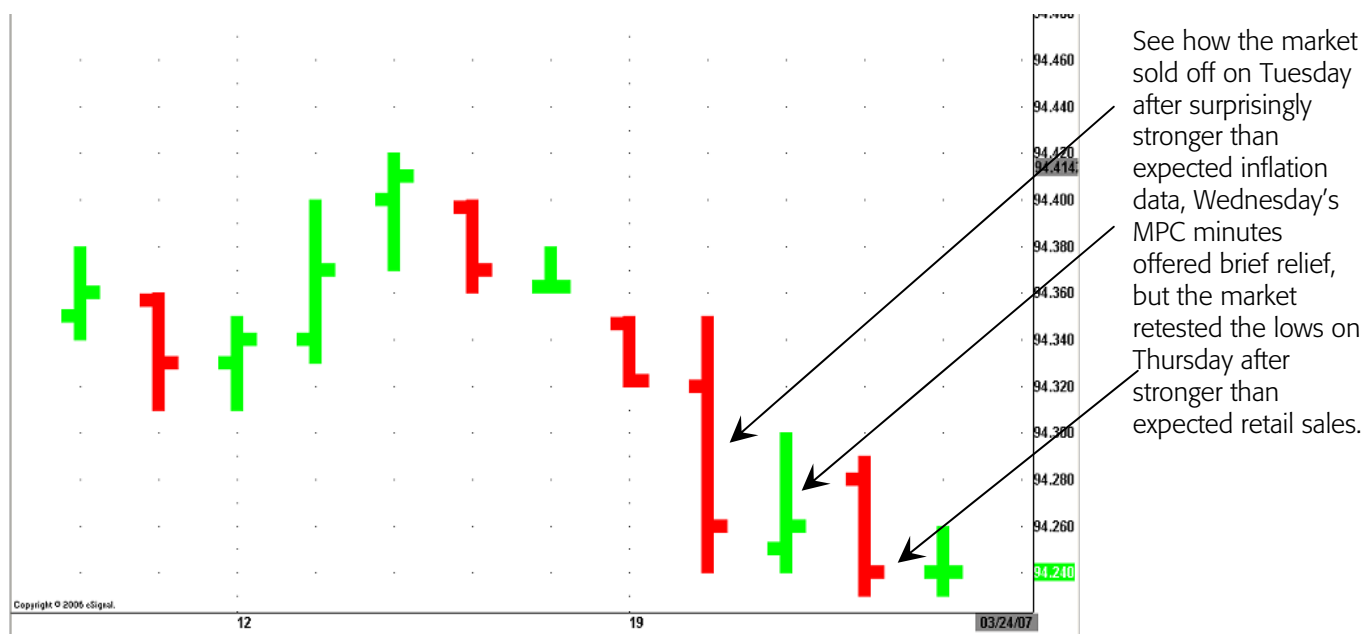
In fact we read last week's statement as validating our view that policy is likely to remain on hold for a prolonged period as the Fed allows the cumulative affects of its substantial tightening to bear down on inflation; the current slowdown was broadly what they intended.

Further more, we judge they are only likely to ease if growth remains at, or slips below 2.0 – 2.5% over the next few quarters.

In our opinion traders should continue to monitor all inflation data very closely and after CPI and PPI remained problematic when released the previous week, we are maintaining our square stance, which we advise others to copy.

SHORT STERLING

SEPTEMBER 07 SHORT STERLING



THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we were square of September 07 Short Sterling as we judged recent moves were a response to equity market volatility.

Although we had previously recommended a long position as we viewed the market oversold based on the premise of only one more MPC rate hike, the market offered us a profit taking opportunity the first time it hit 94.41.

That level has been revisited, but mildly bearish data, the previous week left us sidelined as we sought cheaper buying opportunities.

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

- on Tuesday; CPI was worse than expected, PSNB & PSNCR were better than expected, Mortgage lending was below consensus, but M4 Sterling lending was worse than expected,
- on Wednesday; the MPC minutes surprise with one member voting for a rate cut while the others voted for unchanged policy, and the Budget was an act of smoke and mirrors with income

Tax cuts, financed by hikes elsewhere and

- on Thursday; retail sales were stronger than expected and the CBI Industrial trends survey was better than forecast.

The market's reaction was prescribed by Tuesday's inflation report and apart from a brief reprieve on Wednesday, was cemented by Thursday's strong retail sales data.

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

- on Tuesday; Business investment, BBA mortgage approvals and testimony by Bank Governor King before the Treasury select committee,
- on Wednesday; the final read of Q4 GDP and Q4 C/A data,
- on Thursday; M4 Sterling lending, Consumer credit, net lending secured on dwellings and the CBI distributive trades survey, and
- on Friday; GFK consumer confidence.

We judge King's appearance in Parliament as the key event this week as he answers questions on the inflation report which could provide useful clues on the timing of the next rate hike.

The Macro Trader's view is: although we said we were buyers if September Short Sterling traded into the Mid 20's that was premised on no negative surprises from CPI.

In the event CPI moved higher and together with a strong retail sales report we elected to remain square.

Even though the minutes on Wednesday produced a surprise solitary vote for a rate cut, we judge this was a reaction to the weakness in equities that was at its worst during that MPC meeting.

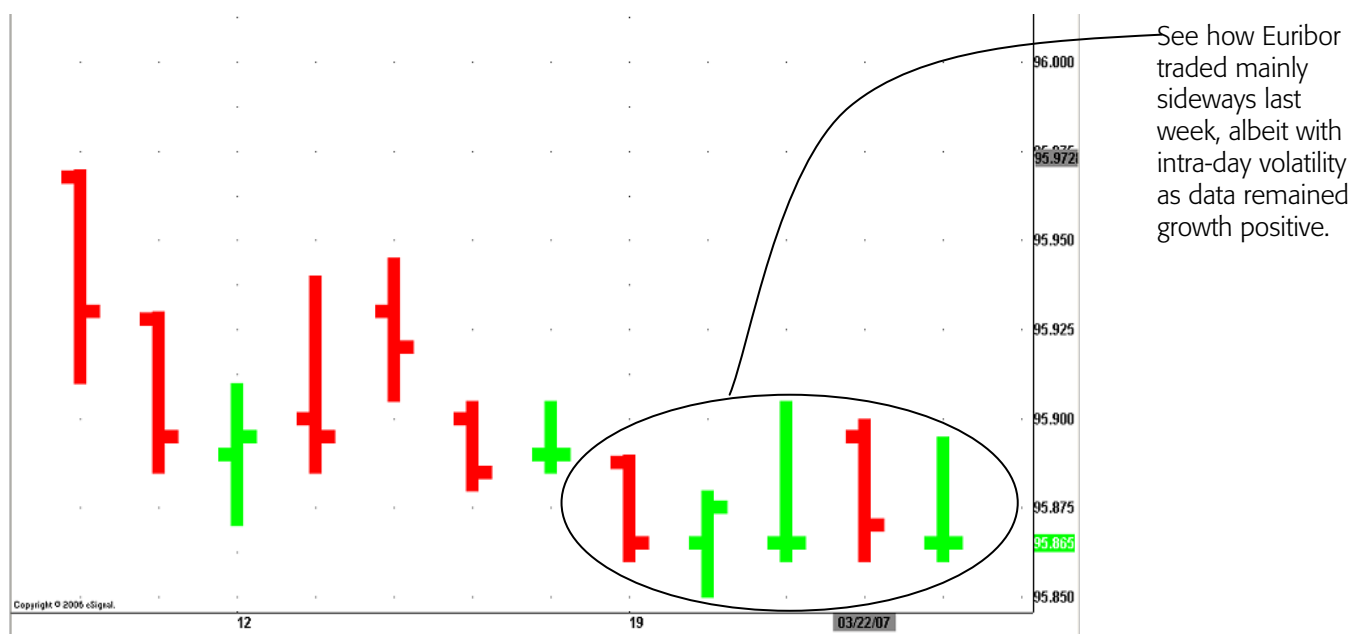
Had the MPC seen last week's inflation data, we judge the vote may well have been much tighter. And now that stocks have almost regained their loses as the market discounts the US sub-prime mortgage drama and refocuses on the solid economic fundamentals and high profile M&A activity in the UK economy, we think Short Sterling will struggle to rally from here.

With another rate hike highly likely in either April or May, and another remaining a possibility in the summer if inflation remains stubborn, we are staying square of this market and advise others to adopt the same stance.

At 94.26 two rate hikes are priced in and that for now seems a worse case scenario, leaving little to recommend a trade over the next 7 days.

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SEPTEMBER 07 EURIBOR



THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of June 07
Euribor, as we held to our view that the ECB had at least one and possibly two more hikes up its sleeve.

And in a week with several important data releases due we advised traders to monitor the following:

- on Tuesday; German PPI was as expected,
- on Thursday; Euro zone trade data was worse than expected and new industrial orders were better than expected, and
- on Friday; French consumer spending was above forecast, Italian retail sales were weak and the Euro zone C/A balance was as expected.

The market reacted by giving up the last of the gains made on the back of recent equity weakness.

Stocks made a solid recovery last week and data remained supportive of the view that the ECB would tighten policy further.

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

- on Monday; French business confidence,
- on Tuesday; the German IFO report,
- on Wednesday; German CPI and GfK consumer confidence and Euro zone M3 money supply,
- on Thursday; German and French unemployment data and Italian PPI, and
- on Friday; French Q4 GDP & PPI, Euro zone CPI & unemployment rate together with Italian CPI.

Without doubt the key data are German IFO and Euro zone M3. These two more than anything else are the stars by which the ECB currently steer by.

The Macro Trader's view is: we stated plainly over recent week's that we saw little to recommend a trade in a market where the Central Bank remains focused on delivering higher interest rates.

And although traders bought Euribor earlier when stocks first sold off, now equities have recovered, as we said they would, we see little to recommend a trade.

Policy is likely to rise to 4.0 or 4.25% over the coming months as the ECB tries to counter what it sees as a fresh round of inflation later in the year.

The market already prices in that view, so short of fresh developments:

- Faster growth than expected,
- Higher inflation than expected, or
- An abrupt reversal of prospects with growth dramatically slowing.

We judge the most profitable position in this market for now remains a square one.

However economics, markets and monetary policy are constantly changing so watch this week's key data releases for any surprises.

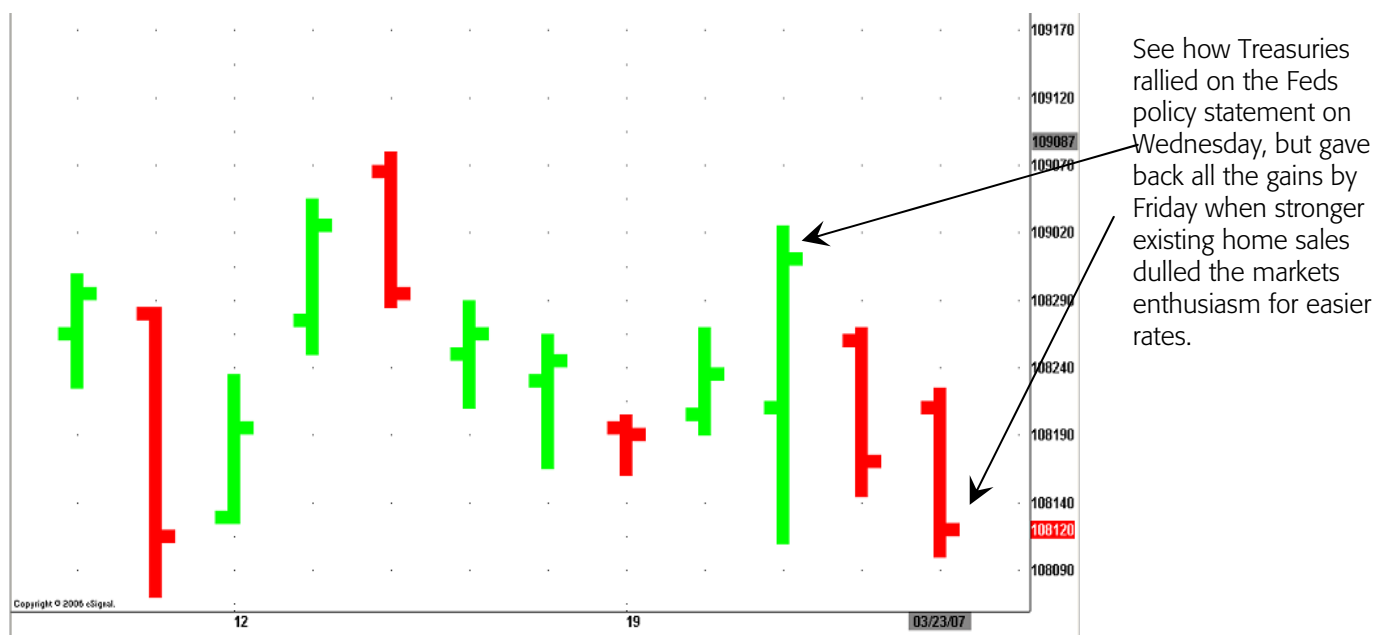
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were square of the 10yr Note.

US 10yr NOTE



This week we are bearish of the 10yr Note.

Last week we were square of this market after being stopped out the previous week, but our analysis remained bearish.

But with stocks still very nervous we elected to sit on the sidelines and monitor the housing data and the Fed.

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

- on Tuesday; Housing starts were stronger than expected and building permits were weaker than forecast,
- on Wednesday; the FOMC rate decision left policy on hold as expected, but they eased the tone of the policy statement; adopting a more neutral stance,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Existing home sales were stronger than expected.

The Market reacted on Wednesday with a relief rally after the Fed moderated the wording of its policy statement, which many took as a sign easier policy was now much more likely, but stronger existing home sales on Friday, saw a

return to sobriety as the market gave back all of its gains.

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

- on Monday; New home sales,
- on Tuesday; consumer confidence,
- on Wednesday; durable goods and the Fed Chairman testifies before the joint economic committee,
- on Thursday; the final read of Q4 GDP & Q4 PCE and jobless claims, and
- on Friday; Personal income & spending, Core PCE, Chicago PMI and U. of Michigan consumer sentiment.

We advise traders to monitor Bernanke's testimony on Wednesday very closely.

Equity markets have now recovered from the spectre of a sub-prime induced economic collapse and several Fed speakers have heavily played down the risks coming from that quarter for the wider economy. And though Wednesday's policy statement was more dovish, now stocks

have steadied, Bernanke may take the opportunity to qualify the content.

The Macro Trader's view is: unlike most in the market last week, we read Wednesday's Fed statement as an attempt to calm equities which seems to have worked.

The Fed moderated its language but still emphasised inflation as its prime concern.

After last week's better than expected housing market data, and solid rally in equities, we see little reason to hold bonds as recent CPI and PPI data were worse than expected.

If this week's New Home sales data is above consensus and the various PCE reports prove stubborn, we see Bonds moving lower.

Before the equity market correction, bonds were weak, as data was mixed but not uniformly weak, which to us indicated a prolonged period of Fed inactivity with an uncertain conclusion.

We see the situation the same as before and expect this market to trade lower as inflation remains stubbornly above the Fed's comfort zone.

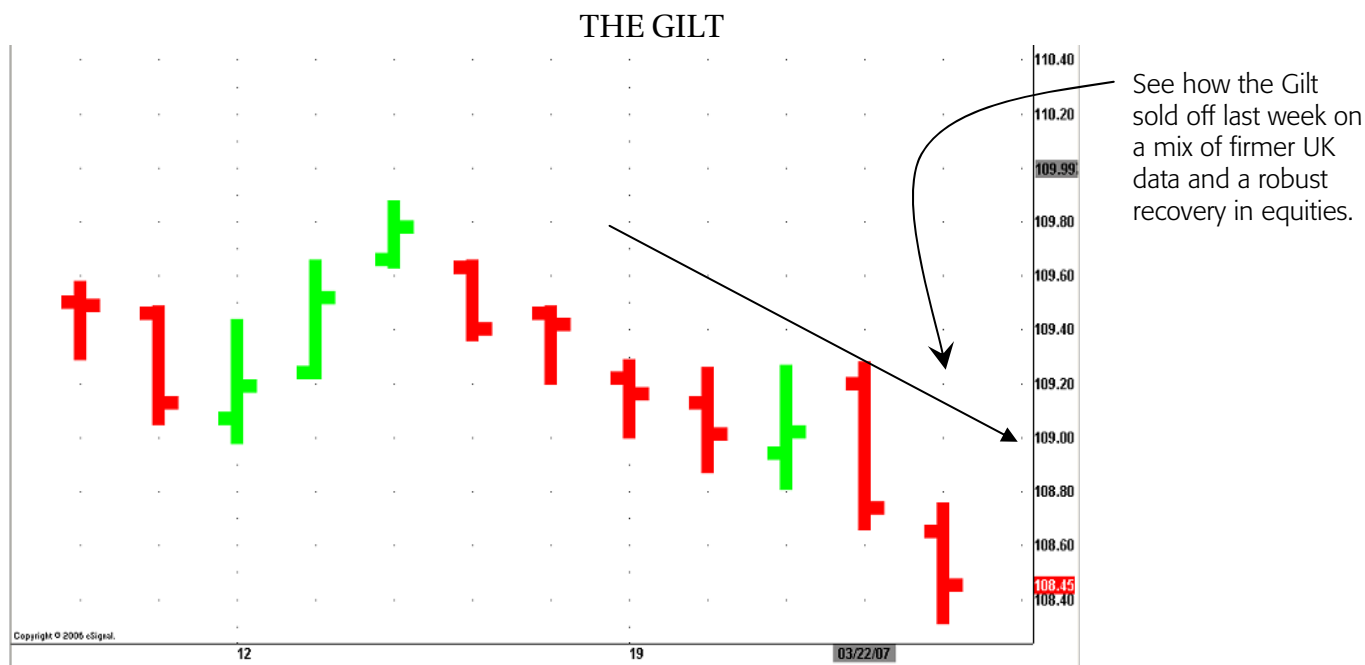
Traders should be short of this market and over the next 7 days our target is 108.00, but as always run a stop which we suggest as 108.28.

Although stocks have recovered from the sub-prime jitters, the heightened tension surrounding Iran may temporarily un-nerve equities, but any such move should be short lived with limited upward help for bonds.

THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.



This week we remain square of the Gilt.

Last week we were square of this market ahead of Wednesday's budget. There had been much speculation in the media concerning just how tough Brown would be on public spending, which together with the volatility still sweeping through equities, made us cautious.

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

- on Tuesday; CPI was worse than expected, PSNB & PSNCR were better than expected, Mortgage lending was below consensus, but M4 Sterling lending was worse than expected,
- on Wednesday; the MPC minutes surprise with one member voting for a rate cut while the others voted for unchanged policy, and the Budget was an act of smoke and mirrors with income Tax cuts, financed by hikes elsewhere and
- on Thursday; retail sales were stronger than expected and the CBI Industrial trends survey was better than forecast.

The market reacted with a sell off as the budget was more neutral than expected, and as equities staged a week long recovery, many Bond positions were squared or turned.

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

- on Tuesday; Business investment, BBA mortgage approvals and testimony by Bank Governor King before the Treasury select committee,
- on Wednesday; the final read of Q4 GDP and Q4 C/A data,
- on Thursday; M4 Sterling lending, Consumer credit, net lending secured on dwellings and the CBI distributive trades survey, and
- on Friday; GFK consumer confidence.

After last week's dovish MPC minutes, set amid some interest rate bearish data, we advise traders to focus on King's testimony on Tuesday, for an up to date insight into the Bank's current thinking.

The Macro Trader's view is: the budget wasn't as tight as expected, with one or two surprises, but after last week's recovery in stock's, worse than expected inflation and now the crisis over the kidnapped British Sailors, we are staying square or this market.

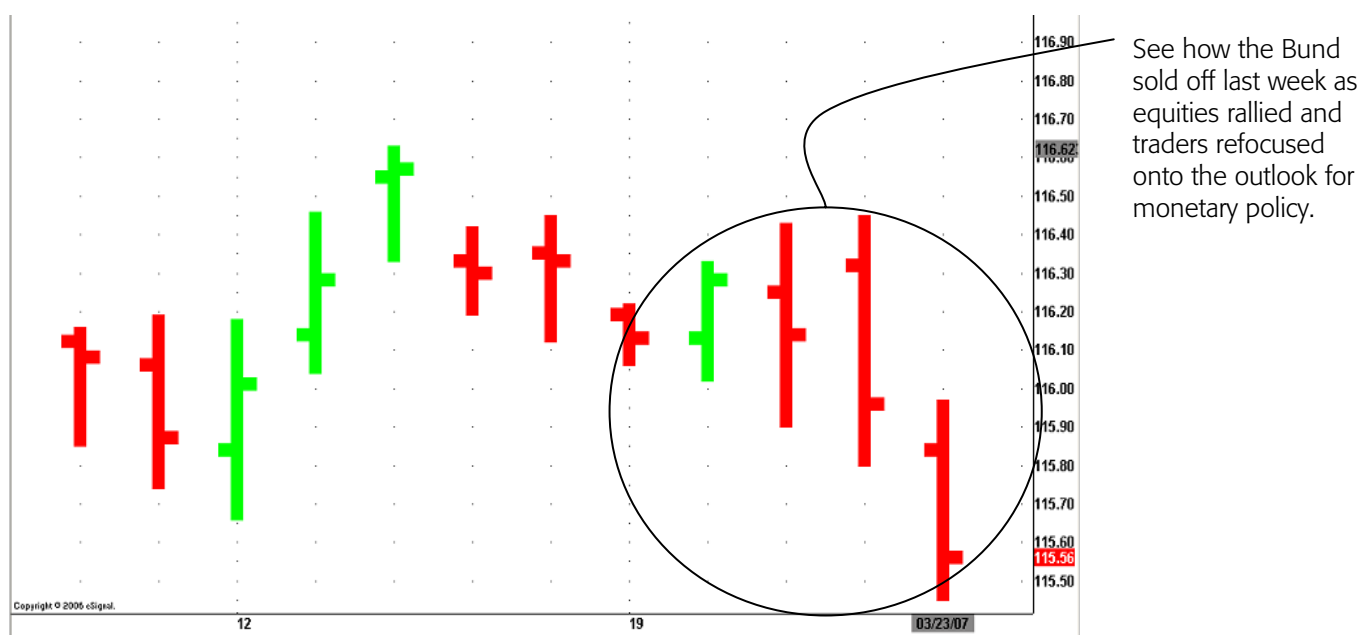
In an uncertain environment fewer not more positions are the logical response.

THE BUND

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the bund.

THE BUND



This week we remain bearish of the Bund.

Last week we were bearish of the Bund as we held to our view that the bearish price action in equities was a violent short term correction. And after last week's price action in Bonds and equities our view was proved correct.

In a week with several releases due we advised traders to monitor the following:

- on Tuesday; German PPI was as expected,
- on Thursday; Euro zone trade data was worse than expected and new industrial orders were better than expected, and
- on Friday; French consumer spending was above forecast, Italian retail sales were weak and the Euro zone C/A balance was as expected.

Once again the dominant force was the price action in equities, and as a robust rally continued throughout the week, the Bund relinquished its recent gains.

Looking ahead there are several reports due this week and we advise monitoring the following:

- on Monday; French business confidence,

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- on Tuesday; the German IFO report,
- on Wednesday; German CPI and GfK consumer confidence and Euro zone M3 money supply,
- on Thursday; German and French unemployment data and Italian PPI, and
- on Friday; French Q4 GDP & PPI, Euro zone CPI & unemployment rate together with Italian CPI.

Traders should monitor the German IFO report and the Euro zone M3 report. If these continue the well establish trend the ECB will want to tighten further, placing additional pressure on the Bund.

The Macro Trader's view is: we stuck to our analysis last week and it paid off as the Bund moved convincingly through our target.

With oil prices once again moving up on increased friction with Iran, traders should remain short of this market.

Our target over the next 7 days is 115.00 and our stop is reduced to 116.00, to protect profits.

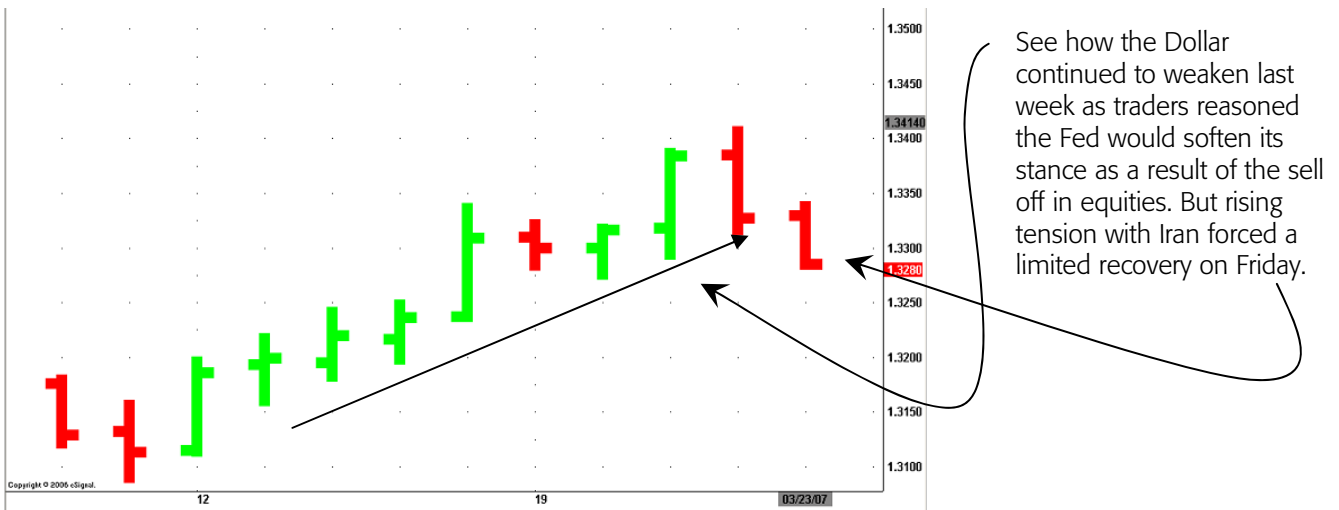
CURRENCIES

THE DOLLAR

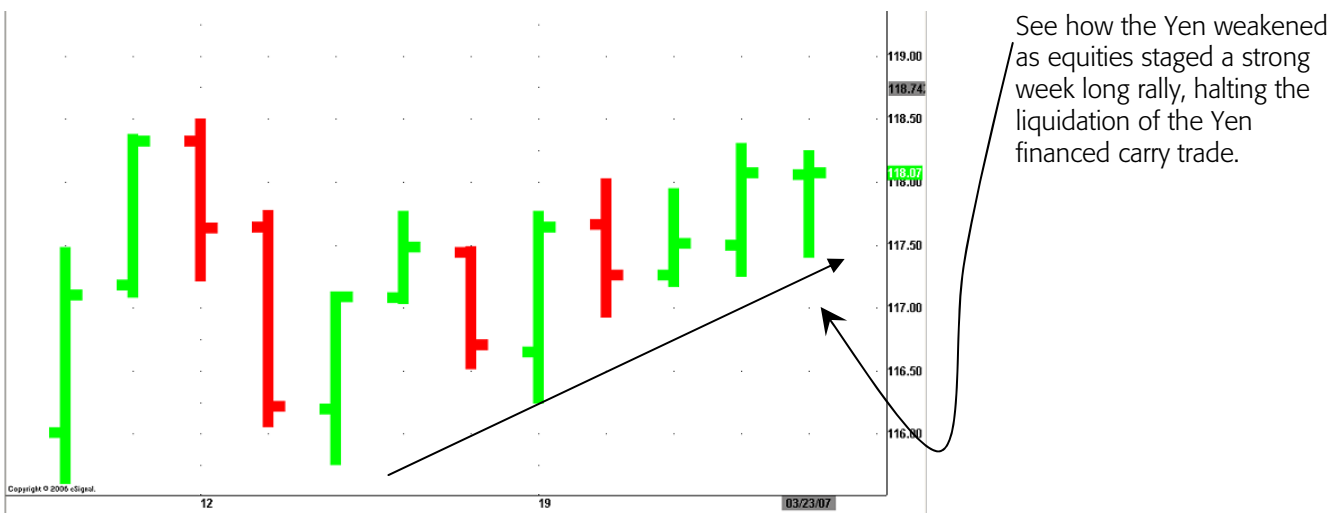
OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



DOLLAR/YEN CHART



This week we remain bearish of the Dollar.

Last week we were bearish of the Dollar as traders sold the US currency amid the ongoing uncertainty emanating from the sub-prime drama.

And as the Fed met to discuss monetary policy amid the uncertain outlook affecting stocks, traders speculated the Fed might soften its tone.

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

- on Tuesday; Housing starts were stronger than expected and building permits were weaker than forecast,
- on Wednesday; the FOMC rate decision left policy on hold as expected, but they

- eased the tone of the policy statement; adopting a more neutral stance,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Existing home sales were stronger than expected.

The Dollar continued to weaken into the close of business on Wednesday after the Fed dropped a hawkish phrase from its statement, leading many to anticipate an easing of rates later this year.

But by Thursday a re-evaluation in the light of a rally in equities and firm housing data lent the Dollar some support.

Looking ahead there are several key reports due this week and we advise traders to watch the following:

- on Monday; New home sales,
- on Tuesday; consumer confidence,
- on Wednesday; durable goods and the Fed Chairman testifies before the joint economic committee,
- on Thursday; the final read of Q4 GDP & Q4 PCE and jobless claims, and
- on Friday; Personal income & spending, Core PCE, Chicago PMI and U. of Michigan consumer sentiment.

After last week's stronger than expected housing data, New Home sales should be closely monitored. Additionally Bernanke's comments at on Wednesday when he testifies in Congress

will further illuminate last week's FOMC statement.

The Macro Trader's view is: the Dollar hit our target of 1.3400 to the Euro last week, before firmer housing data and heightened tension with Iran, helped the Dollar recover.

But amid the on going uncertainty of the sub-prime drama, which several Fed officials have tried to play down, we judge the Dollar should remain weak.

In any event, economic data remains very mixed and Q1 GDP when it is released in April will likely be little better than the weak effort of Q4.

The only hope we see this week, of the Dollar receiving any material support comes from:

- Today's New Home sales, and
- Bernanke's testimony on Wednesday.

But we judge that should be of a limited nature.

Traders should remain short of the Dollar, long the Euro. Our target over the next 7 days remains 1.3400 and our stop is still set at 1.3200 for protection.

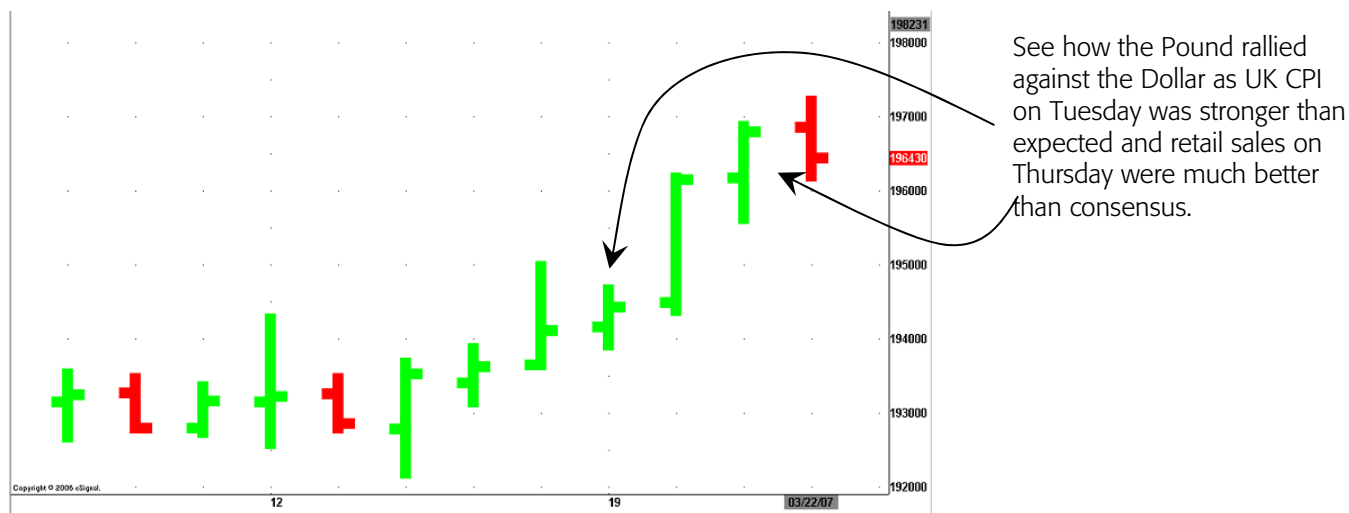
These parameters are close by, but that makes it a relatively cheap trade.

THE POUND STERLING

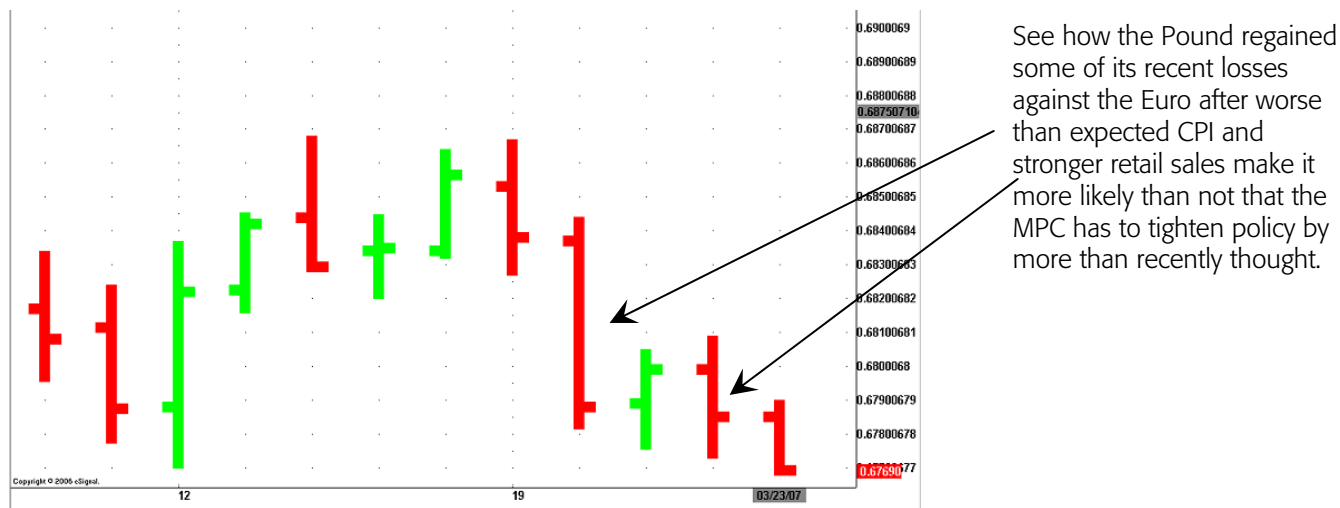
OUR TRADING STANCE: BULLISH.

Last week we were square of Sterling.

THE CABLE CHART



THE STERLING/EURO CHART



This week we are bullish of Sterling.

Last week we remained square of the Pound after it had been under pressure amid the recent selling in equities, as traders liquidated their Yen funding used to buy stocks.

This together with some recently improving inflation news giving rise to expectations that the MPC may not have to much more to do with

interest rates had contributed to the Pounds weakness.

But in a week with key data releases due for inflation and retail sales, and the Dollar under pressure from the Sub-prime mortgage drama, we remained bullish of its long term prospects.

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

- on Tuesday; CPI was worse than expected, PSNB & PSNCR were better than expected, Mortgage lending was below consensus, but M4 Sterling lending was worse than expected,
- on Wednesday; the MPC minutes surprise with one member voting for a rate cut while the others voted for unchanged policy, and the Budget was an act of smoke and mirrors with income Tax cuts, financed by hikes elsewhere and
- on Thursday; retail sales were stronger than expected and the CBI Industrial trends survey was better than forecast

The Pound reacted to the data with a solid rally as an unexpected rise in CPI re-kindled fears of additional policy tightening.

The MPC minutes briefly clouded the outlook as one member voted for a cut, but strong retail sales on Thursday eclipsed that news.

Looking ahead there are several releases due this week and we advise traders to monitor the following:

- on Tuesday; Business investment, BBA mortgage approvals and testimony by Bank Governor King before the Treasury select committee,
- on Wednesday; the final read of Q4 GDP and Q4 C/A data,
- on Thursday; M4 Sterling lending, Consumer credit, net lending secured on dwellings and the CBI distributive trades survey, and
- on Friday; GFK consumer confidence.

This week's calendar is lighter than last week, but we recommend monitoring King's appearance in Parliament on Tuesday. But we think US data is likely to dominate this week as traders continue to ponder the prospects for US monetary policy after last week's FOMC meeting.

The Macro Trader's view is: the Pound performed well last week helped by the coincidence of several factors:

- data remains strong, as evidenced by last weeks retail sales and recent reports on the housing market,
- inflation seems less subdued than previously thought, and at 2.8% remains uncomfortably close to the upper limit of the inflation target zone, and
- stocks made a solid recovery last week which saw the end of the frantic rush to dump cheap Yen funding.

Additionally the Dollar looks weak, as concerns continue over the US sub-prime mortgage situation and its impact on the wider US economy.

Although several Fed speakers have sought to play the matter down, and US housing data was stronger than expected last week, the whole issue will continue to hang over markets until the degree of severity is more obvious.

We advise traders to be long of Sterling/Dollar and suggest a target over the next 7 days of 1.9800, but as always run a stop which we suggest as 1.9430, to act as protection.

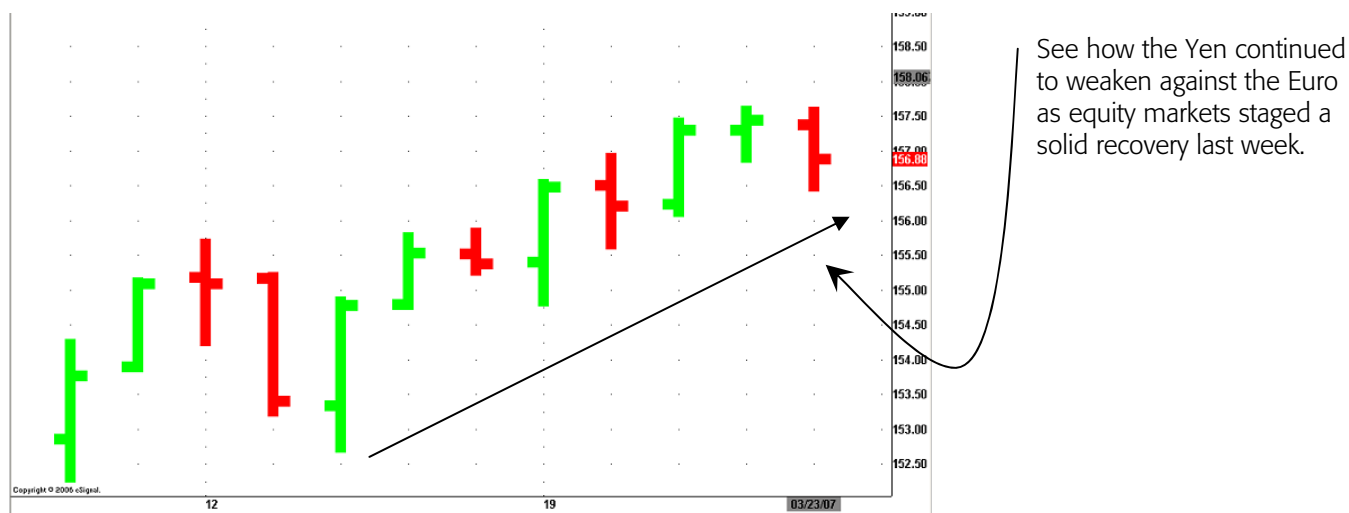
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THE EURO

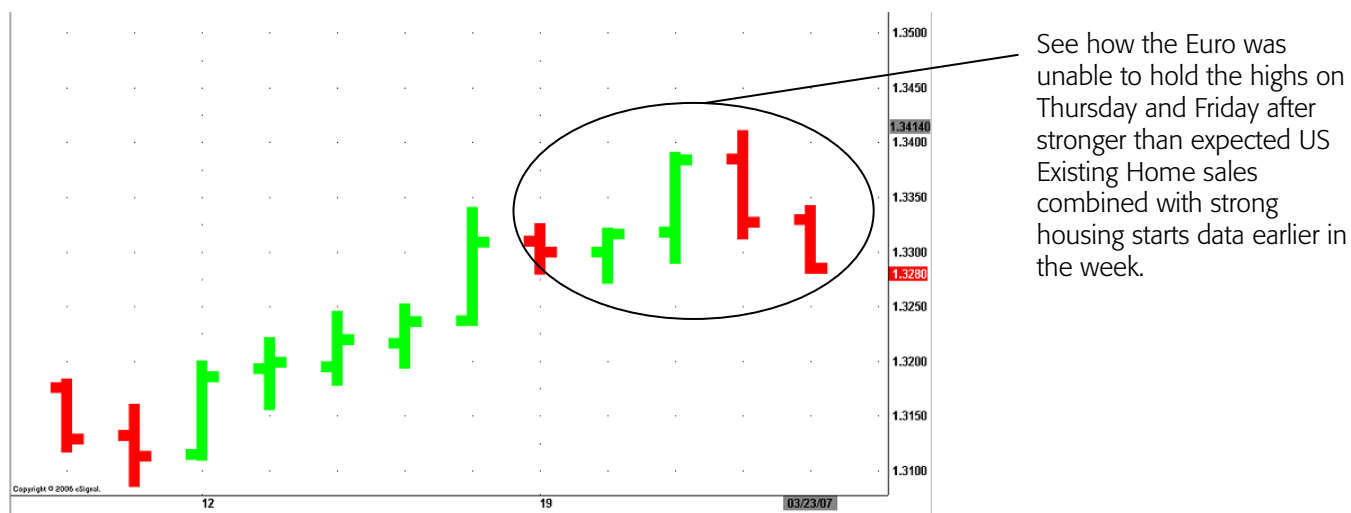
OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro.

EURO/YEN CHART



THE EURO/DOLLAR CHART



This week we remain bullish of the Euro.

Last week we were bullish of the Euro as markets remained fixated by the US sub-prime story which many feared could undermine fixed income markets generally and derail the US economy.

And with only lightweight data releases due in the Euro zone we judged markets would be

guided by US data releases and the Feds FOMC meeting.

But with the ECB still expected to tighten policy further moving forward, we advised traders to monitor the following:

- on Tuesday; German PPI was as expected,

- on Thursday; Euro zone trade data was worse than expected and new industrial orders were better than expected, and
- on Friday; French consumer spending was above forecast, Italian retail sales were weak and the Euro zone C/A balance was as expected.

In the event our thinking was correct, traders focused on the US and the result of Wednesday's FOMC meeting.

Rates were held steady as expected, but the policy statement saw a key shift in phraseology which was initially interpreted to mean lower US interest rates.

Looking ahead this week's calendar offers some key data releases and we advise traders to monitor the following:

- on Tuesday; the German IFO report,
- on Wednesday; German CPI and GfK consumer confidence and Euro zone M3 money supply,
- on Thursday; German and French unemployment data and Italian PPI, and
- on Friday; French Q4 GDP & PPI, Euro zone CPI & unemployment rate together with Italian CPI.

Unlike last week, we judge all eyes will be on the Euro zone as two key releases are due. The ECB has mentioned the M3 measure of money supply many times as a determining factor in its interest

rate deliberations, and with German IFO also due, the Euro could receive a timely boost against the other major currencies, but especially the Dollar.

The Macro Trader's view is: although improving US housing data took the shine off of the Euros appeal towards the end of last week, the improvement to housing starts was likely driven by weather.

And although the Fed's policy statement alterations may have been aimed at stabilising the equity market, and not signalling the imminence of easier policy, at the very least a prolonged spell of Fed inactivity can be expected.

This removes the lingering hope among Dollar bulls that further hikes may have eventually materialised.

Now as the interest rate differential between the US and Euro zone looks set to shrink and uncertainty remains over the impact of the US sub-prime mortgage sector, the Euro should strengthen further.

Traders should be long the Euro short of the Dollar and our target over the next 7 days remains 1.3400, which although hit last week, wasn't held. Our stop continues at 1.3200 to provide protection.

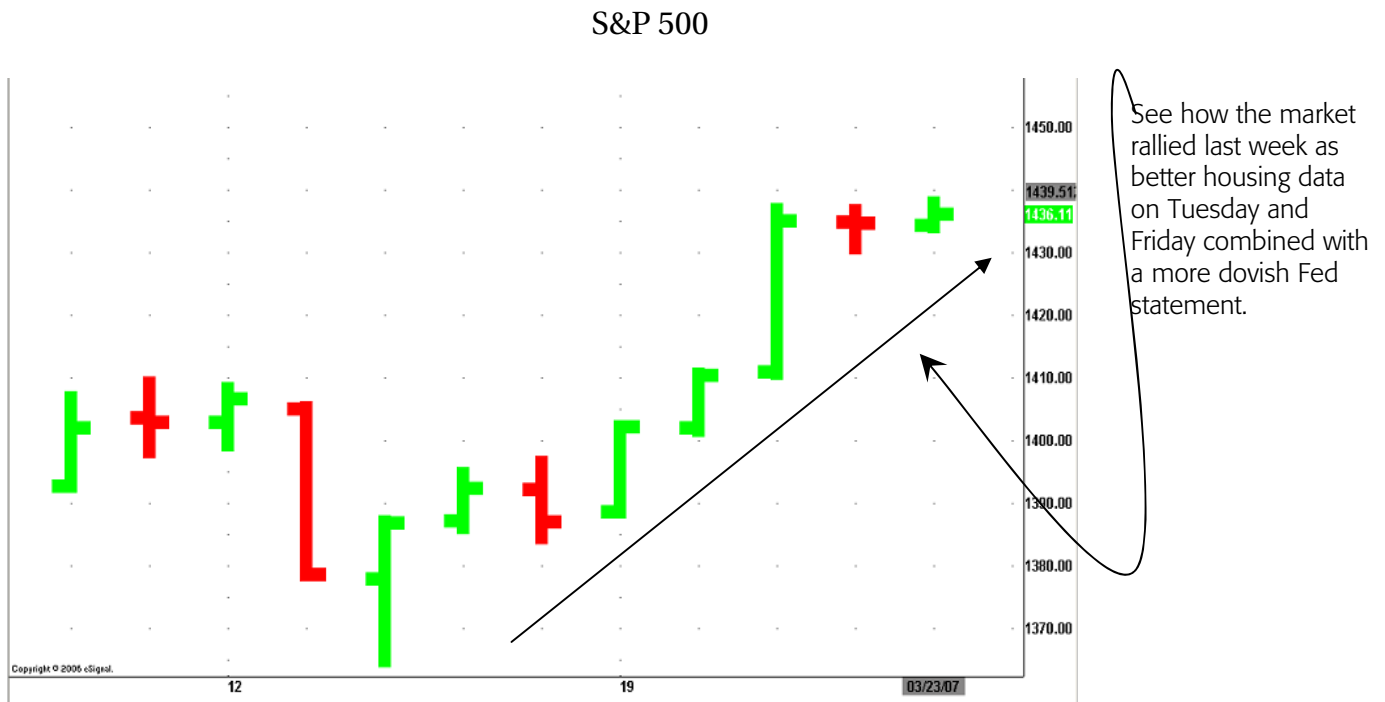
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STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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



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

Last week we were bullish of the S&P, as we expected the market to emerge from the recent correction.

With the FOMC meeting due to announce its interest rate decision on Wednesday, which as universally expected held policy steady, traders were anticipating some help for the market in the wording of the policy statement.

This they got as the Fed acknowledged the on going correction in the housing market and the very mixed nature of recent data releases.

Although they re-stated their concern over inflation, the wording concerning future policy tightening was significantly softened and the market rallied.

Taken together with stronger than expected existing home sales on Friday, the market closed the week looking ready to add to the rally.

Looking ahead we judge today's release of New Home sales and Bernanke's testimony to Congress on Wednesday are the main events.

The Macro Trader's view is: we held to our analysis last week and remained long of this market, and although we only offered a modest target for a nucleus position, the strategy worked and our target was significantly surpassed.

Unless Bernanke uses his testimony in congress on Wednesday to dampen market sentiment that the Fed's next move is an ease, we judge this market will react positively to stronger data releases and advise traders to remain long of this market and add gradually to positions.

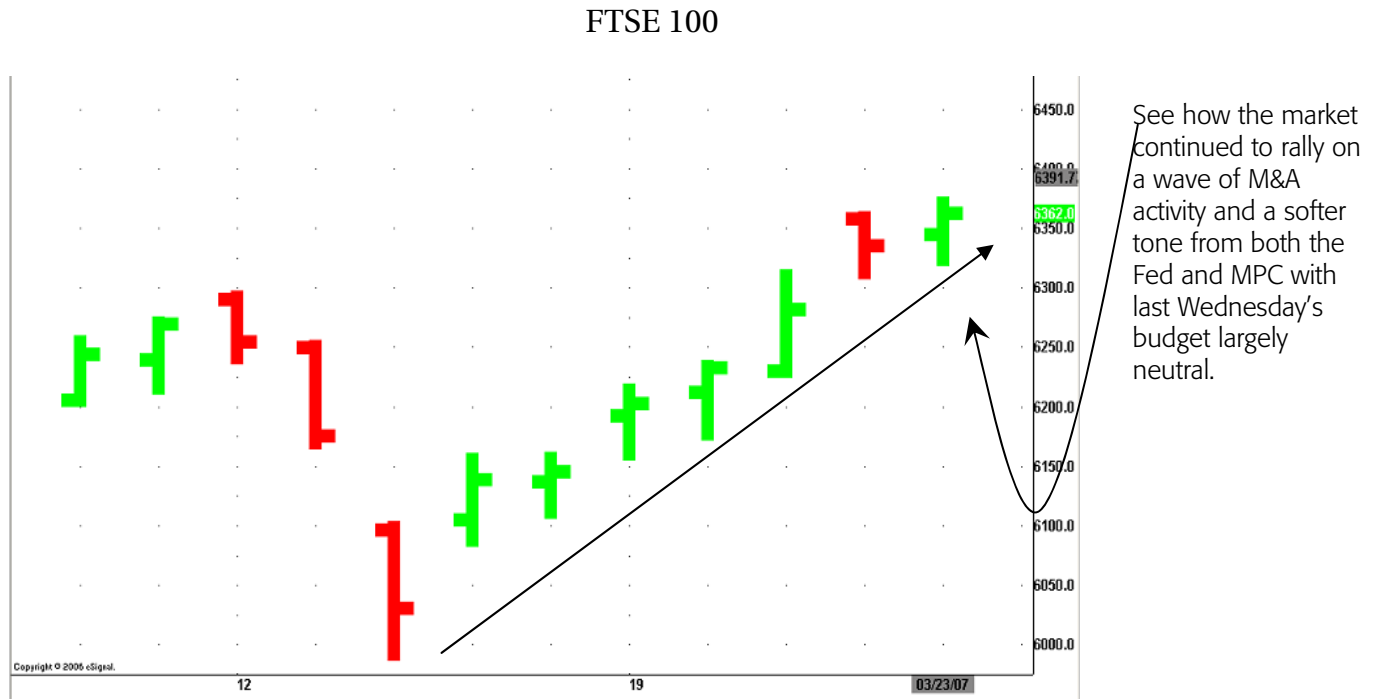
Our target over the next 7 days is 1440.00 and our stop is raised to 1410.0. This will avoid a loss and guarantee a small profit, but more crucially this area should act as support.

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FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the FTSE 100.



This week we are bullish of the FTSE 100.

Last week we were bullish of the FTSE offering a target of 6300.00 which was convincingly hit as traders continued to buy stocks on a wave of M&A activity.

Additionally, the Fed and MPC excited markets with a hint of a softer line on interest rates, and although we think traders may have read more into those communications than were actually there, the effect on stocks was pronounced as all the major equity markets rallied.

The crucial development for markets last week was that traders were able to look beyond the US sub-prime drama that has so dominated thinking recently and as the Fed softened its comments on future policy moves and one MPC member voted for a rate cut, markets resumed their rally.

Looking ahead we think the MPC vote was a one off event and next time the minutes will look

different with tighter policy appearing more imminent than currently thought, but the markets have moved on and with the UK economy continuing to perform well, fresh rate hikes, when they come, shouldn't un-nerve the FTSE.

The Macro Trader's view is: as with the S&P our strategy worked and the market rallied strongly all week.

Now the correction appears over we advise traders to remain long of this market and focus on the strong core fundamentals which support it.

Our target over the next 7 - 10 days is 6400.0, but as always run a stop which we have raised to 6235.0 to protect profits.

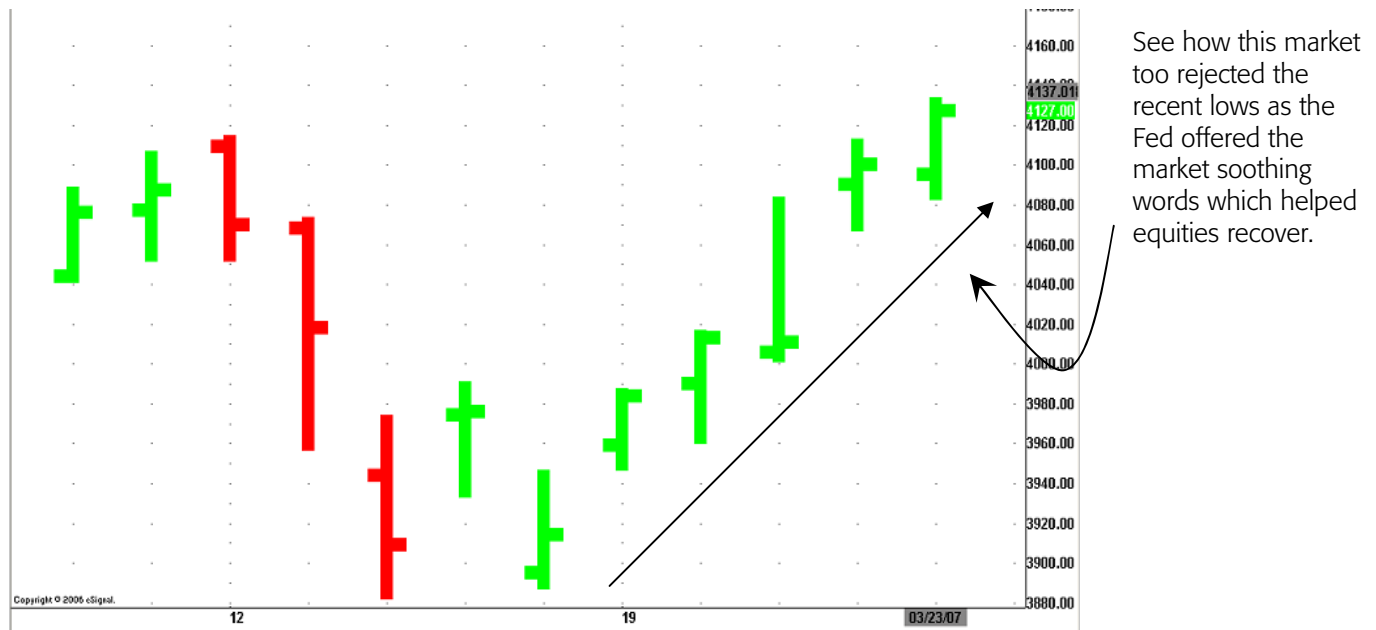
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DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

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

DJ EURO STOXX 50



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

Last week we were square of this market and although it rallied for similar reasons to the S&P and FTSE we are remaining square.

Although we judge the violent correction which hit all equity markets in recent week's is now over, we don't want to place all our risk in one place.

International tension is running high after Iran kidnapped 15 British military personnel from Iraqi territorial waters, and until we know how this event will resolve, equities could take freight once more.

For this reason we are not taking a position here this week.

The Macro Trader's view is: our reluctance to get involved with this market last week now looks

miss-placed, but for reasons already explained we are remaining sidelined from this market for now.

Additionally the release this week of German IFO and Euro zone M3 may alter the outlook for Euro zone interest rates, to the extent that more tightening might be needed if the data is stronger than expected.

That being the case this market may under perform the other two.

For reasons of risk management we advise remaining square of this market if already involved in the other two, as we are; if not and a long position is contemplated, proceed with caution as to enter the market afresh now after a strong rally last week, may result in a position that starts underwater.

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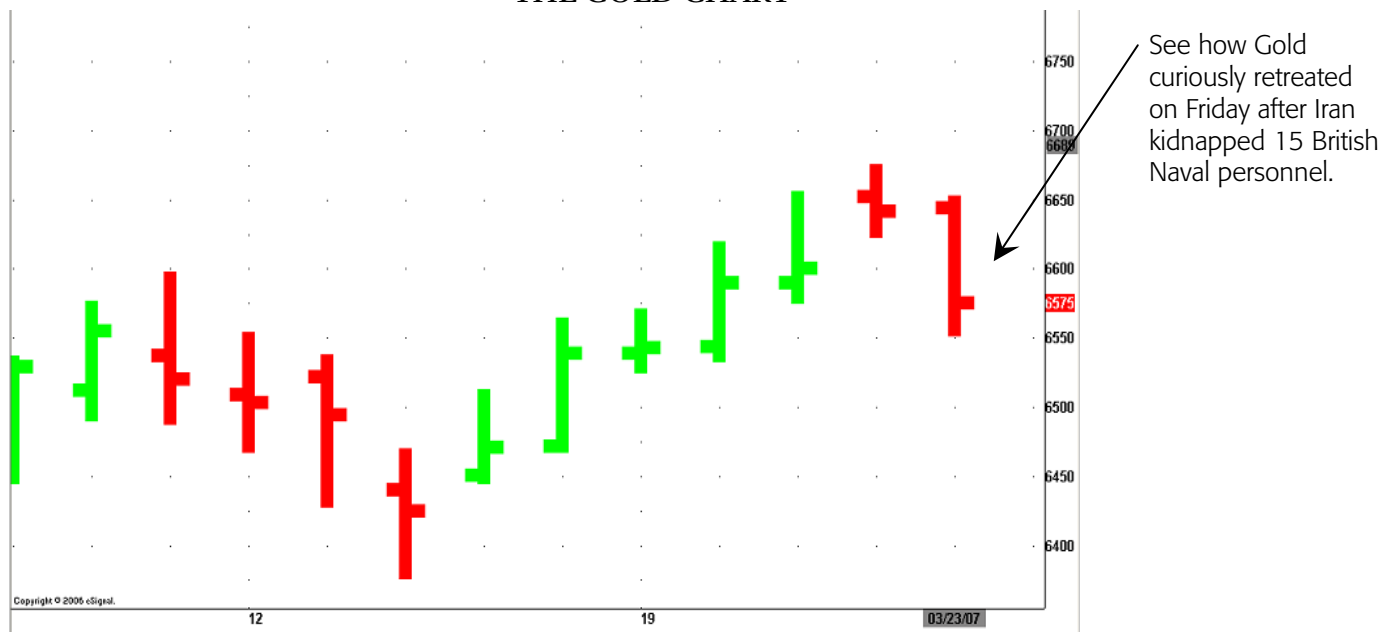
COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH

Last week we were square of gold.

THE GOLD CHART



This week we are bullish of Gold.

Last week we were square of Gold as we judged the tension between Iran and the west had ceased to be the market mover it once was.

As the UN Security Council was set to vote on new sanctions against Iran, which remained weak in order to achieve a unanimous vote. We judged Iran would initially make a lot of noise and then ignore them.

With the US increasingly looking unlikely to attempt any kind of military intervention, we judged Gold lacked the appeal needed for a profitable trade.

But after the kidnapping on Friday by Iran of British sailors on the pretence they were in Iranian territorial waters, we are now long of this market.

Although the market retreated on Friday, we judge this to be an insignificant move as we expect Gold to rally if as now looks likely, this incident develops further with an unknown conclusion.

The Macro Trader's view is: after remaining square for so long, we are now long of this market.

The act of aggression by Iran against UK forces in Iraqi territorial waters is a serious matter, and depending on how it evolves, could materially poison further the already sour relations between the UK and Iran as a solution is sought, but remains elusive, in the crisis over Iran's nuclear program.

There act on Friday highlights the very nature of this regime and clearly labels them as no better than the terrorists the west strongly suspects them of supporting.

Although overt UK military action is unlikely, covert action can not be ruled out, and at some point in the not too distant future, the free civilized world, by western values, needs to find the stomach needed to decisively confront and defeat this evil which has hijacked one of the world's great religions.

Traders should be long of this market, our target over the next 7 days is US\$670.0 an ounce, but run a protective stop at US\$650.0 an ounce.

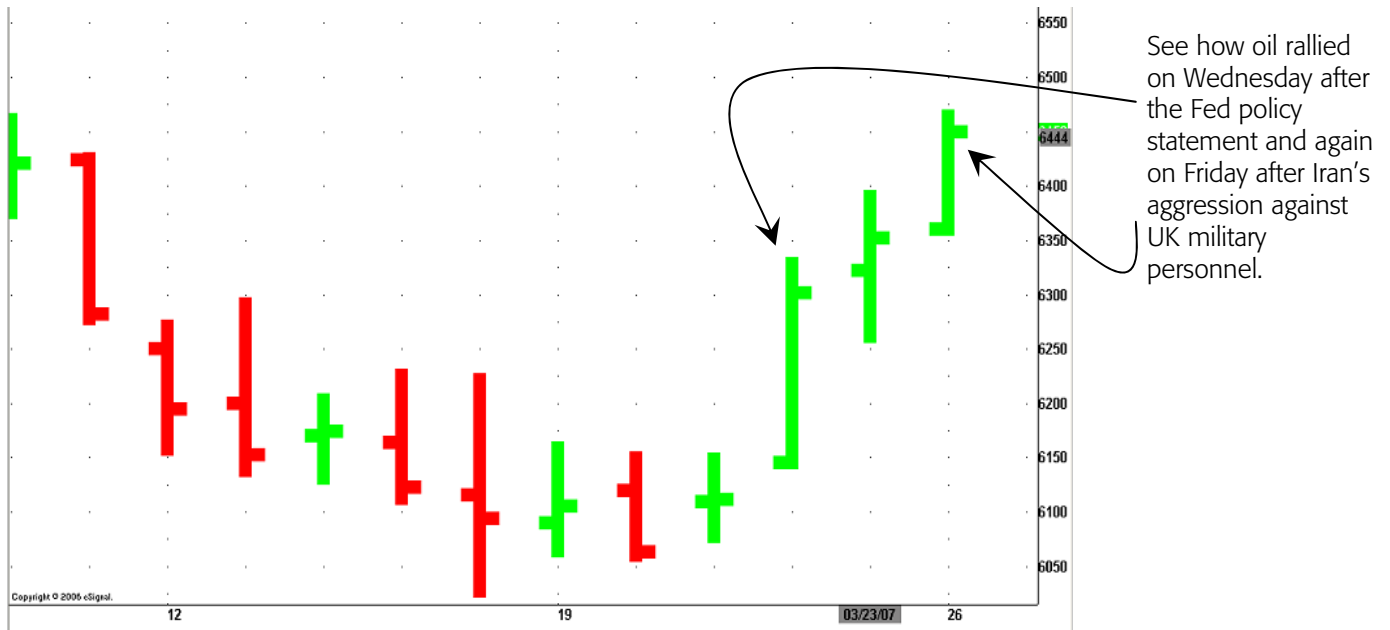
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OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.

THE CRUDE OIL CHART



This week we are bearish of oil.

Last week we were bearish of oil as we noted the markets negative re-action to the weakness that had swept equities.

As traders began to fret that the US Sub-prime drama might derail the US economy traders sold oil as they judged demand would as a result of US economic weakness, reduce further.

However the market rallied on Wednesday after the Fed released a more dovish policy statement which many believed signalled the possibility of easier US policy later this year.

While we think the signal was the Fed remains on hold for a further extended period, the market rallied and stopped us out of our position in June 07 Oil.

The Macro Trader's view is: once again the Oil market reminded us of just how volatile it can be.

After Iran kidnapped British military personnel on Friday the oil market advanced further and as a result the already tense situation with Iran has worsened.

Although the UN has just voted on a new set of fairly modest sanctions aimed at encouraging Iran to give up elements of its nuclear program, the UK is already pressing for further harsher sanctions, presumably as a response to last week's Iranian aggression.

This could see the price of Oil rally further if both sides dig in and Iran begins interrupting oil supplies.

This wouldn't be in their best interests as the Iranian economy isn't in the best of health but would upset the economies of the west.

If on the other hand common sense prevails and the British personnel are released, the oil price at least will come off of the boil and allow time for Iran to consider the latest set of UN measures.

Given this uncertainty and the weakness of the US economy which argues for lower oil prices, we are remaining square of this market for now.

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