

WEEK 17 24<sup>th</sup> – 30<sup>th</sup> April 2007

# THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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## SEVEN DAYS AHEAD

Authorized and Regulated by the FSA

124 REGENTS PARK ROAD LONDON NW18XL

TEL +44 (0) 7776181843 E-MAIL [JLEWIS@SEVENDAYSAHEAD.COM](mailto:JLEWIS@SEVENDAYSAHEAD.COM)

[WWW.SEVENDAYSAHEAD.CO.UK](http://WWW.SEVENDAYSAHEAD.CO.UK)

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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 16 <sup>th</sup> April
Monday	US Retail sales 0.7 <b>STRONGER</b> US Ex-Autos 0.8 <b>AS</b> US Empire mfg 3.8 <b>WEAKER</b> US TIC flows 58.1B <b>WEAKER</b> US Business inventories 0.3 <b>MORE</b> UK PPI Input 1.2m, 0.7y <b>WORSE</b> UK PPI Output 0.6m, 2.7y <b>WORSE</b> UK PPI Core 0.4m, 2.9y <b>WORSE</b> UK DCLG House prcs 12.1% <b>STRONGER</b> DM CPI 0.3m, 1.9y <b>AS</b> EZ CPI 0.6m, 1.9y <b>AS</b> EZ CPI Core 1.9y <b>AS</b> <b>THAN EXPECTED</b>
Tuesday	US CPI 0.6m, <b>AS</b> US CPI Ex-F & E 0.1m, <b>LESS</b> US Housing starts 1.518M <b>STRONGER</b> US Buildg permits 1.544M <b>STRONGER</b> US Ind production -0.2 <b>WEAKER</b> US Capacity utilisation 81.4 <b>WEAKER</b> UK CPI 0.5m, 3.1y <b>WORSE</b> UK RPI 4.8y <b>WORSE</b> UK RPI-X 3.9y <b>WORSE</b> IT Trade bal -1.83B <b>BETTER</b> IT Trade EU -88M <b>WORSE</b> DM ZEW 16.5 <b>STRONGER</b> EZ Trade bal -1.7B <b>BETTER</b> <b>THAN EXPECTED</b>
Wednesday	UK MPC Minutes 7/2 <b>AS</b> UK Unemployment -9.2K <b>BETTER</b> UK Unemployment rate 2.9% <b>AS</b> UK Avge earnings 4.6% <b>STRONGER</b> UK Avge earnings Ex-Bonus 3.6% <b>AS</b> UK ILO Unemploy'm't rate 5.5% <b>AS</b> UK Mfg unit wage cost -0.6% <b>HIGHER</b> FR C/A Bal -3.3M <b>WORSE</b> <b>THAN EXPECTED</b>
Thursday	US Jobless 339k <b>WORSE</b> US Philly Fed 0.2 <b>WEAKER</b> DM PPI 0.3m, 2.5y <b>BETTER</b> IT Ind orders -2.5y <b>WEAKER</b> IT Ind sales 4.8y, <b>BETTER</b> <b>THAN EXPECTED</b>
Friday	UK Retail sales 0.3m, 4.8y <b>STRONGER</b> FR Cons spndg 0.7m, 6.3y <b>STRONGER</b> IT Trade bal non-EU -864M <b>BETTER</b> <b>THAN EXPECTED</b>

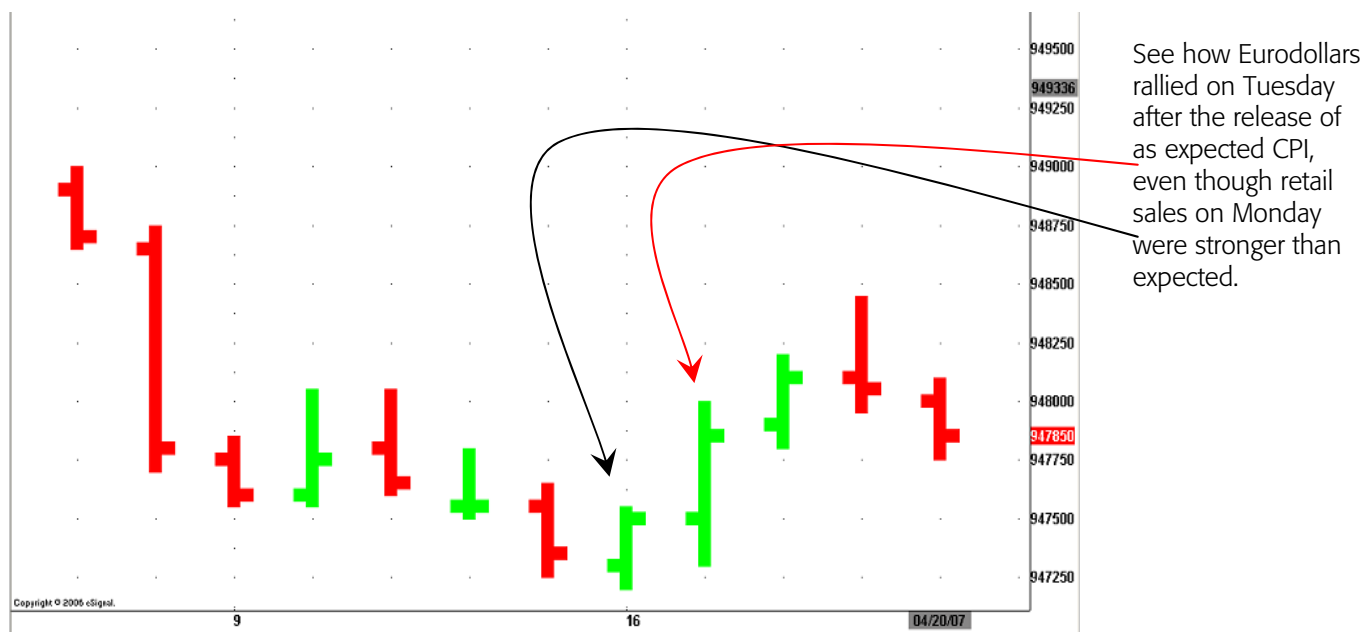
	Week of 23 <sup>rd</sup> April
Monday	UK M4 STRLG Lndg 18.0B UK BBA net mrtge Lndg 5.2B
Tuesday	US Cons conf 105.0 US Existing home sales 6.50M UK PSNCR 15.6B UK PSNB 7.2B UK CBI Ind trends 4.25% IT Cons conf 112.9 EZ C/A n/f IT Retail sales 0.3m, 0.9y EZ Ind new orders n/f
Wednesday	US Durable goods 2.4 US Ex – transport 1.1 US NEW Home sales 875K US Feds Beige BK UK Q1 GDP 0.6q, 2.8y DM IFO 107.8
Thursday	US Jobless claims 330k UK Nationwide Hse prcs 0.6m, 9.5y DM Import prcs 0.3m, 0.7y DM GFK cons conf 4.5 FR Business conf 109.0 FR Unemployment rate 8.4% FR Change -15k
Friday	US Q1 GDP 1.8% US Personal consumpt'n n/f US Employ'm't costly index 0.9 US U. of Michigan conf 85.0 FR Cons conf -21 FR PPI 0.3m, 1.9y IT Business conf 94.5

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# INTEREST RATE FUTURES

## EURO DOLLARS

SEPTEMBER 07 EURO DOLLARS



### THE MARKET EXPLAINED

## OUR TRADING STANCE: BEARISH.

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

Last week we remained bearish of Eurodollars after a stronger than expected headline PPI played to recent fears of higher inflation, which could ultimately provoke the Fed to tighten policy further.

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

- on Monday; retail sales were stronger than expected,
- on Tuesday; headline CPI was inline with the core below expectations, Housing starts & building permits were stronger than expected, but industrial production and capacity utilisation were both weaker than expected, and
- on Thursday; Jobless claims and the Philly Fed survey were both worse than expected.

The market reacted strongly to the CPI data which eased recent concerns that the Fed may need to tighten policy further, and even though retail sales and the housing data were stronger than expected, traders largely ignored this as a short covering rally caught traders out.

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

- on Tuesday; Consumer confidence and existing home sales,
- on Wednesday; Durable goods, New home sales and the Fed's beige book,
- on Thursday; Jobless claims, and
- on Friday; Q1 GDP data, employment cost index and University of Michigan confidence.

Traders should focus on the two housing reports and the GDP data. Any sign of improvement in the housing reports will weigh on this market, but if GDP is weak, that would act as a counter balance.

**The Macro Trader's view is:** we said last week the market would react to the CPI data and it did; but with a relief rally. Although it was mainly in line with consensus, inflation remains above the Fed's comfort zone, as evidenced in a speech by the Fed's Mishkin last Friday.

However traders largely ignored the stronger retail sales report, the better than expected housing starts and building permits data, as they took Eurodollars higher, hitting our stop which took us out of the market.

But the rally petered out by Friday as equities rebounded from a mid week hic up.

On balance the market's reaction was logical; the Fed has had a lot to say about inflation recently, and has played down the significance of weak growth, so any inflation report that doesn't add to those concerns is well received by the market.

But with an FOMC meeting due in a couple of weeks we remain bearish of this market. The Fed is likely to repeat its concerns over inflation, which is higher than it was at this time last year, and if existing and or new home sales show any

strength, traders will sell Eurodollars back towards the recent lows.

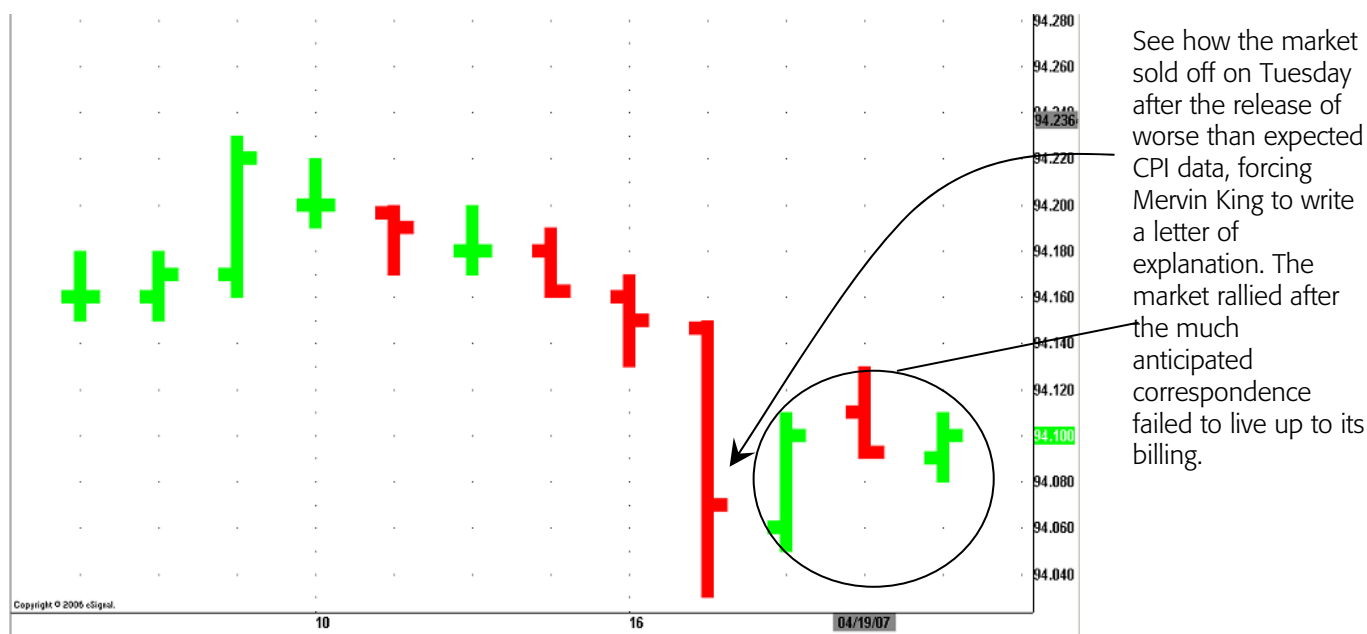
And although we were stopped out with a profit, we re-established our position on Friday, as the rally appeared to be over.

Traders should remain short of this market, the out look for inflation remains unclear, and with oil prices clinging to elevated levels, the Feds worst fears may yet be realised.

Our target for the next 7 days is 94.70, and our stop is set at 94.85 for protection.

# SHORT STERLING

## SEPTEMBER 07 SHORT STERLING



### THE MARKET EXPLAINED

## OUR TRADING STANCE: BEARISH.

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

Last week we remained bearish of September 07  
Short Sterling offering a target of 94.08 which was decisively met, before profit taking took the market away from the lows.

We said if CPI is worse than expected the market will sell off, and in a week with several important data releases, we advised traders to monitor the following:

- on Monday; PPI was worse than expected and the DCLG House price survey was stronger than expected,
- on Tuesday; CPI and all the other inflation measures were worse than expected,
- on Wednesday; the MPC minutes revealed a 7/2 vote with most members biased towards a hike, the unemployment data was better than expected and average earnings including bonuses were stronger than expected, and
- on Friday; retail sales appeared weaker than expected, but with the upward revisions to previous data were actually stronger.

The market reacted to the data with a sell off after Tuesday's inflation data, but the market recovered a little when the tone of the Governors letter to the Chancellor sounded less apocalyptic than some had expected.

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

- on Monday; M4 Sterling lending and the BBA net mortgage lending data,
- on Tuesday; PSNCR, PSNB and CBI Industrial trends survey,
- on Wednesday; Q1 GDP, and
- on Thursday; the Nationwide building society house price survey.

This week the key release is the GDP number, expectations are for a softer reading than of late, but if the data surprise to the upside, the market will revisit the lows.

**The Macro Trader's view is:** our fears over inflation were proved correct quicker than we expected, but already many analysts are forecasting inflation to fall back to the 2.0%

target in a matter of months, suggesting policy need not be tightened very much further.

We are not so relaxed. No one saw this latest spike coming and we judge the correction lower will not materialise as quickly as expected.

With oil prices remaining volatile, domestic energy prices may not evolve as previously hoped.

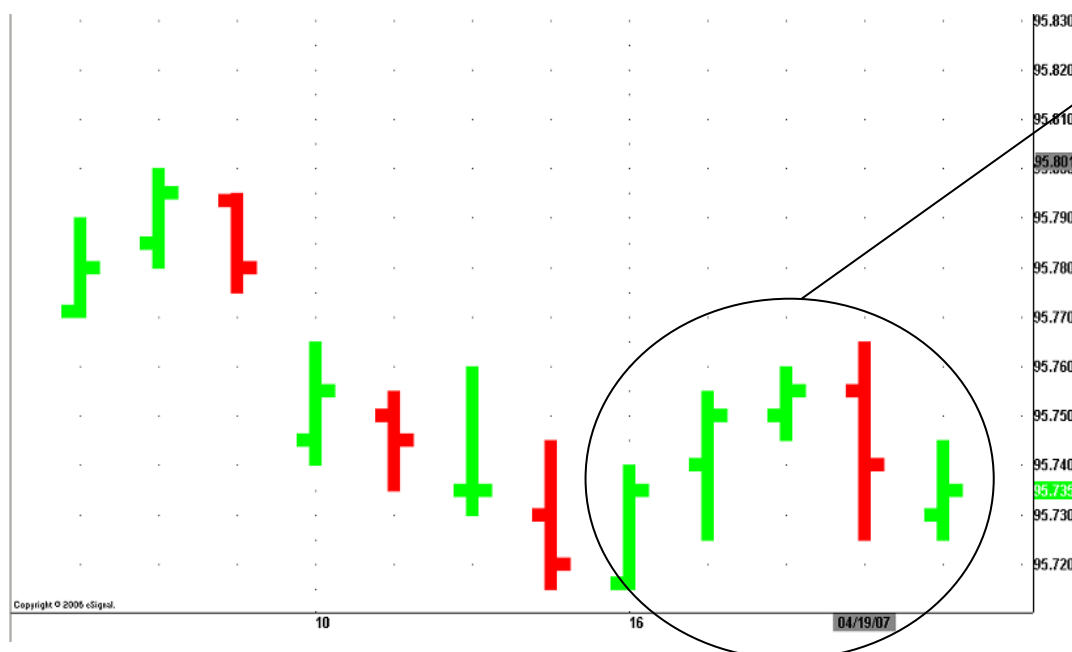
In any event the Bank would look very weak if they fail to make an appropriate response. Already businesses are trying to rebuild margins, if they sense a weak Central Bank they will push further and the round of wage inflation the MPC have for so long feared will materialise.

We expect the MPC to tighten policy in May. We don't expect more than 25bp on that occasion, but we do expect further rate hikes as inflation proves stubborn during the summer months.

As we said last week, much depends on oil prices, and domestic energy prices, but with the Pound through 2.0000 against the Dollar, imported inflation should ease a little, but our fear is once again that businesses will simply take the benefit offered by the currency and try to nudge prices higher.

Traders should remain short of this market and our target over the next 7 - 10 days is 94.05, with our stop now set at 94.20 to protect profits.

## SEPTEMBER 07 EURIBOR



See how Euribor rallied as German and Euro zone CPI reports were as expected on Monday, allowing traders to ignore the stronger ZEW report on Tuesday and focus on the mini equity correction that hit last week. But as stocks recovered on Thursday and Friday, Euribor gave back its gains

### 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 Euribor, as we held to our view that the ECB had at least one and possibly two more hikes up its sleeve. And market levels reflected that view.

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

- on Monday; German and Euro zone CPI were as expected,
- on Tuesday; German ZEW survey was stronger than expected,
- on Wednesday; the French C/A balance was worse than expected,
- on Thursday; Italian industrial orders and sales were mixed, and
- on Friday; French consumer spending was stronger than expected and Italian non-EU trade data was better than forecast.

The market reacted with a rally after inline inflation data on Monday from Germany and the Euro zone and an equity market wobble mid week which rekindled memories of the recent

vicious equity correction, but the rally failed by the week's end after stocks recovered.

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

- on Tuesday; Italian retail sales and Euro zone new orders,
- on Wednesday; the German IFO report,
- on Thursday; German import prices and GFK consumer confidence and French business confidence and unemployment report, and
- on Friday; French consumer confidence & PPI and Italian business confidence.

This week the key report is the German IFO survey. This surprised the market last month as it strengthened further. If the same occurs this time Euribor will slip lower.

**The Macro Trader's view is:** the ECB have forecast inflation to improve short term before deteriorating later in the year.

They have also indicated on several occasions that with growth as strong as it is, interest rates can and will rise further but as ever, timing is the key.

We expect the ECB to deliver two more hikes this year and that is adequately priced into the market.

Unless one disagrees with that assessment one way or another there is very little to go for in this market.

We expect this week's IFO to remain strong and expect the next release of M3 to reveal further strength, so the upside is limited, but unless inflation really takes off, which we do not expect, with the Euro strong on the FX market acting as a counter weight to imported inflation; the down side too is limited.

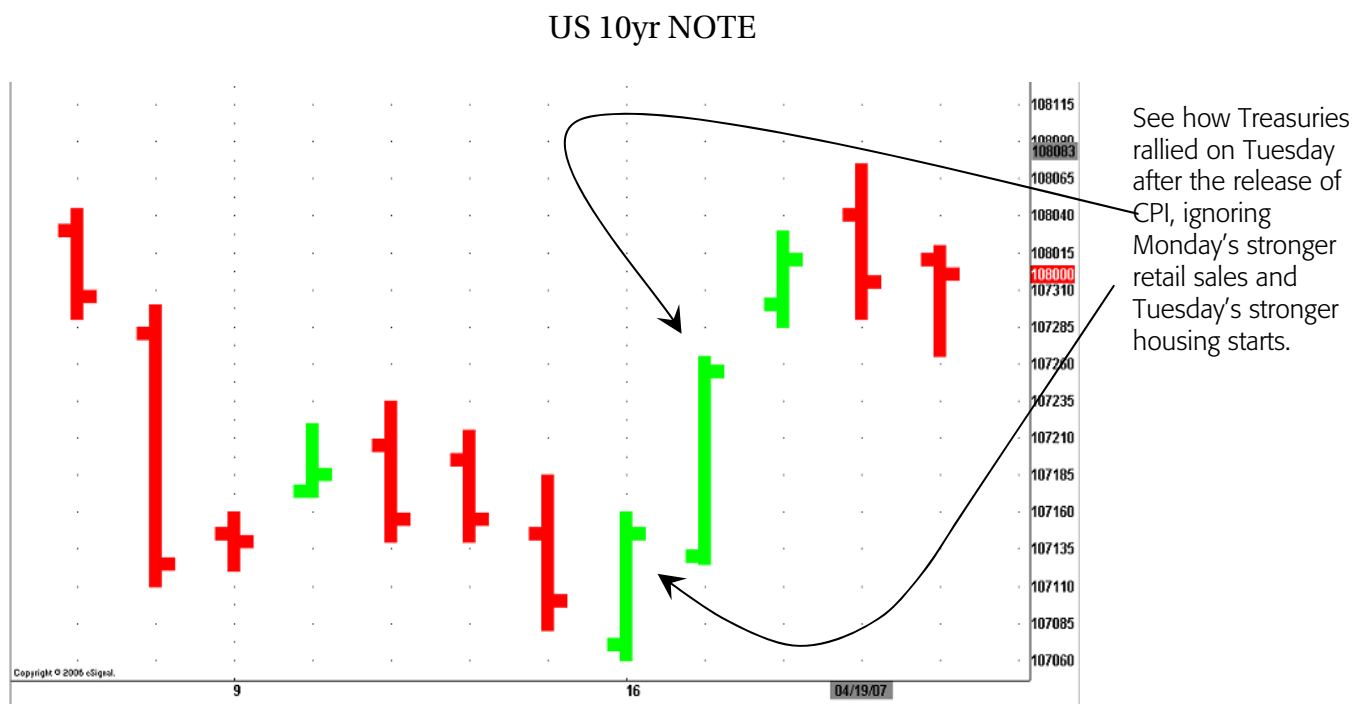
We advise traders to remain square and focus on the Euro Bund, which looks set to trade lower as the clamour for higher Bond yields continues.

# GOVERNMENT BONDS

## US TREASURY NOTE (10 yr)

### OUR TRADING STANCE: BEARISH.

Last week we were bearish of the 10yr Note.



This week we remain bearish of the 10yr Note.

Last week we remained bearish of this market as we judged any negative surprises involving inflation would send Bonds lower, after a stronger than expected PPI report the previous week had exactly that effect.

And in a week with several key data releases, we advised traders to focus on the following:

- on Monday; retail sales were stronger than expected,
- on Tuesday; headline CPI was inline with the core below expectations, Housing starts & building permits were stronger than expected, but industrial production and capacity utilisation were both weaker than expected, and
- on Thursday; Jobless claims and the Philly Fed survey were both worse than expected.

The Market reacted to CPI on Tuesday which showed the headline rate in line with consensus, but a small undershoot to the core measure. After recent speeches from Fed members which have played on the Fed's concern that inflation may not correct as they have forecast, this report was received with a huge sigh of relief.

Even though other key reports were stronger than expected, most notably retail sales and housing starts, traders were caught out by the short covering rally.

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

- on Tuesday; Consumer confidence and existing home sales,
- on Wednesday; Durable goods, New home sales and the Fed's beige book,
- on Thursday; Jobless claims, and
- on Friday; Q1 GDP data, employment cost index and University of Michigan confidence.

We judge Friday's release of Q1 GDP as the main event this week. Any unexpected weakness will hopelessly rekindle thoughts of easier policy and see this market rally, conversely unexpected strength will prompt a sell off. An inline report should see the market drift lower as the recent rally will lose traction and traders take their profits.

**The Macro Trader's view is:** we were stopped out last week, but our level protected a good deal of our profit, and as the rally seemed to stall on Friday we re-established our short position.

The rally last week was a product of an over reaction to what was essentially an in line report. After the Fed surprised markets recently with their focus on inflation, when the market thought slow growth would force an eventual rate cut. Traders were basically relieved that the CPI wasn't worse than expected and closed short positions; hitting stops in the process.

The big picture though remains unchanged; the Fed desires a period of slower growth, but not too slow to risk a recession, and presently they are seeing what they want from growth.

The reason for this is very clear; inflation is still higher than they would like and they hope the combination of past policy action and slow growth will correct it.

But given the stubbornness of inflation, it is becoming increasingly evident from Fed communications that they are becoming frustrated and are beginning to question the effectiveness of the strategy.

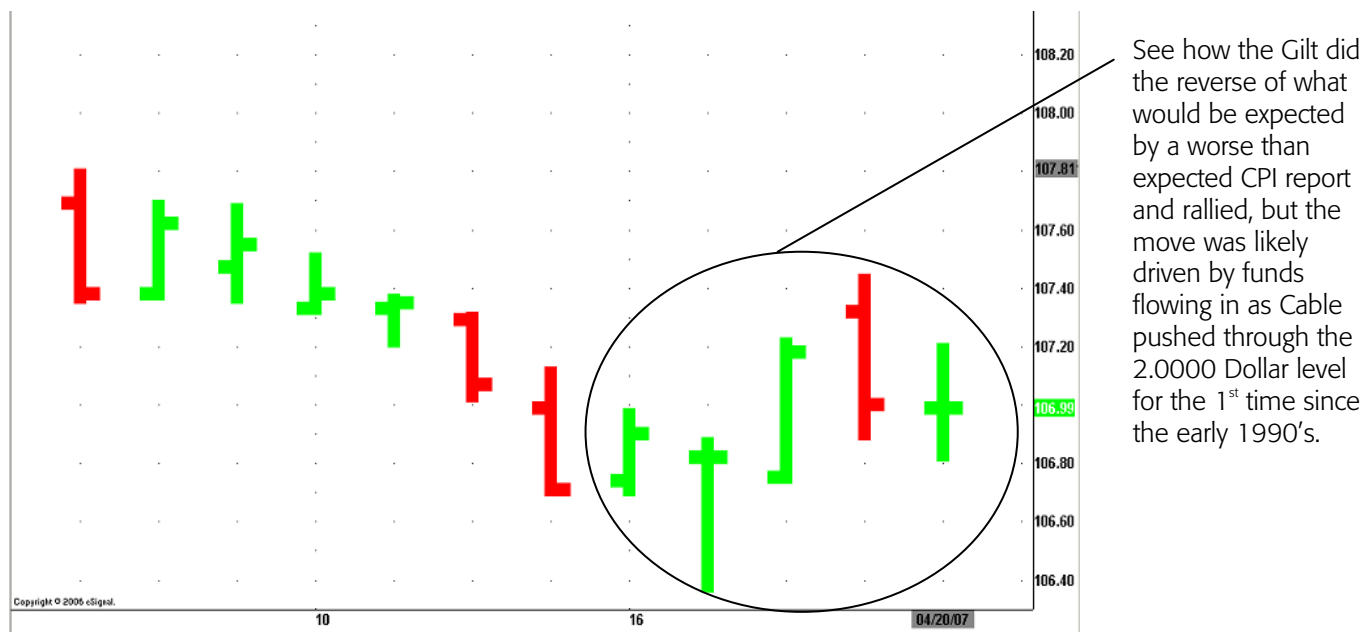
Traders should remain short of this market and our target over the next 7 days is 107.16, with a stop at 108.12 to protect profits.

# THE GILT

## OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

### THE GILT



This week we remain square of the Gilt.

Last week we remained square of this market as we preferred the clarity offered by US Treasury's and the Euro Bund.

But in a week with several reports due, we advised traders to monitor the following:

- on Monday; PPI was worse than expected and the DCLG House price survey was stronger than expected,
- on Tuesday; CPI and all the other inflation measures were worse than expected,
- on Wednesday; the MPC minutes revealed a 7/2 vote with most members biased towards a hike, the unemployment data was better than expected and average earnings including bonuses were stronger than expected, and
- on Friday; retail sales appeared weaker than expected, but with the upward revisions to previous data were actually stronger.

The market reacted counter intuitively and rallied, but this was probably a reaction to the Strength of Sterling and the belief that tighter policy would now almost certainly result. Looking ahead there are several key reports due this week and we advise traders to monitor the following:

- on Monday; M4 Sterling lending and the BBA net mortgage lending data,
- on Tuesday; PSNCR, PSNB and CBI Industrial trends survey,
- on Wednesday; Q1 GDP, and
- on Thursday; the Nationwide building society house price survey.

Our focus this week is GDP, previous forecasts of weakness have failed to materialise, if the same is true this time the Gilt will come under pressure.

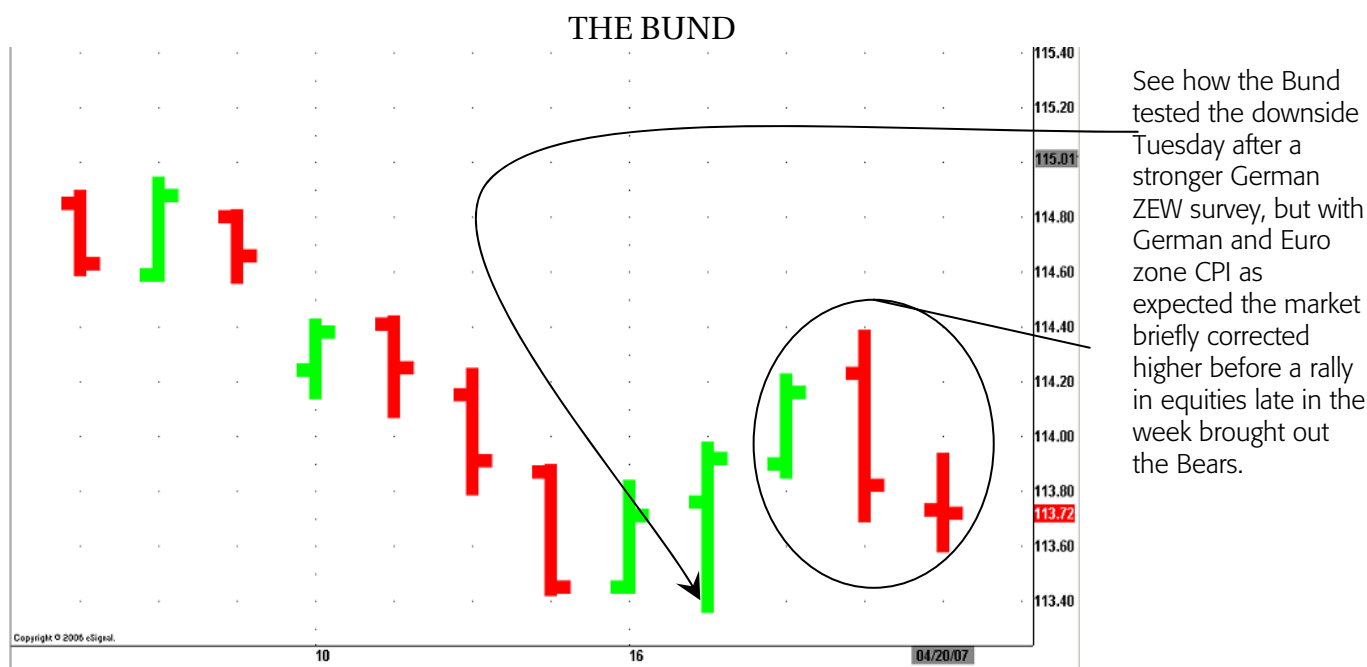
**The Macro Trader's view is:** last week's price action summed up our current detachment from this market, and for now we prefer to remain square and advise others to do likewise.

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# THE BUND

## OUR TRADING STANCE: BEARISH.

Last week we were bearish of the bund.



This week we remain bearish of the Bund.

Last week we remained bearish of the Bund offering a target of 113.00 which wasn't hit as a short covering rally driven by a brief sell off in stocks, hit our stop, taking us out of the market; albeit with a profit of around 1 ½ points locked in.

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

- on Monday; German and Euro zone CPI were as expected,
- on Tuesday; German ZEW survey was stronger than expected,
- on Wednesday; the French C/A balance was worse than expected,
- on Thursday; Italian industrial orders and sales were mixed, and
- on Friday; French consumer spending was stronger than expected and Italian non-EU trade data was better than forecast.

The market's reaction last week was more to do with a relief rally taking place in the US and a brief sell off that hit equities after China reported very strong GDP growth and higher than expected inflation.

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

- on Tuesday; Italian retail sales and Euro zone new orders,
- on Wednesday; the German IFO report,
- on Thursday; German import prices and GfK consumer confidence and French business confidence and unemployment report, and
- on Friday; French consumer confidence & PPI and Italian business confidence.

The key release this week is undoubtedly the German IFO report. Traders brushed off the stronger than expected ZEW report last week, but if IFO continues to strengthen the Bund will be vulnerable to the down side.

**The Macro Trader's view is:** although we were stopped out last week, we remain bearish of this market as we judge the continued strength of the economy and the ECB'S own forecast of higher inflation will weigh on the Bund, especially given the ECB'S hesitation over tightening policy.

Traders should remain short of this market. Our target over the next 7 days is now 113.45 and our stop is set at 114.43 to provide protection.

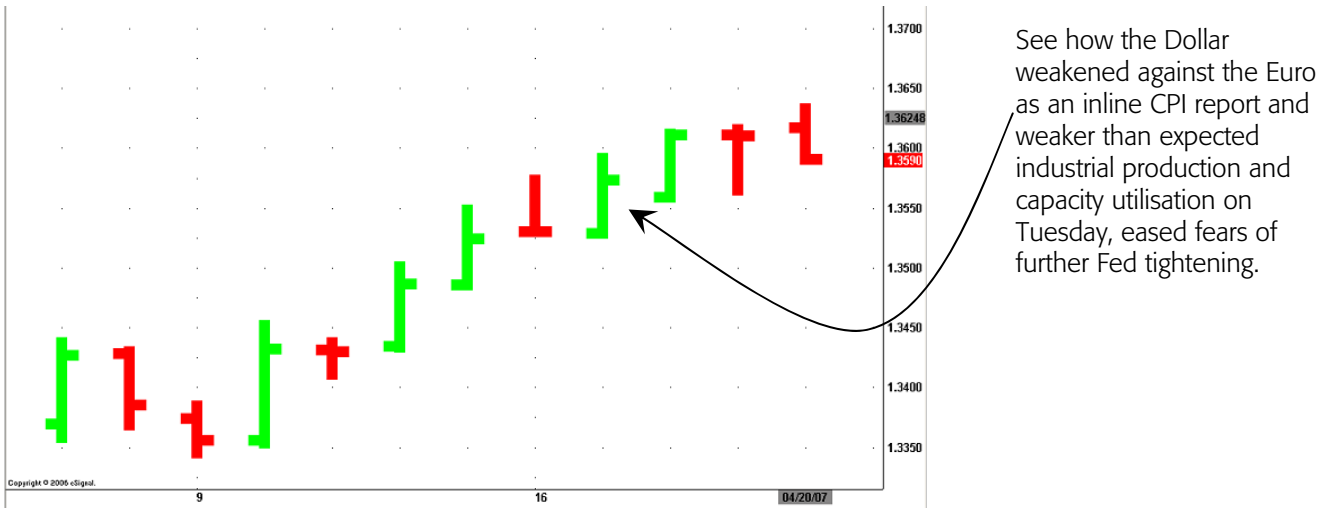
# CURRENCIES

## THE DOLLAR

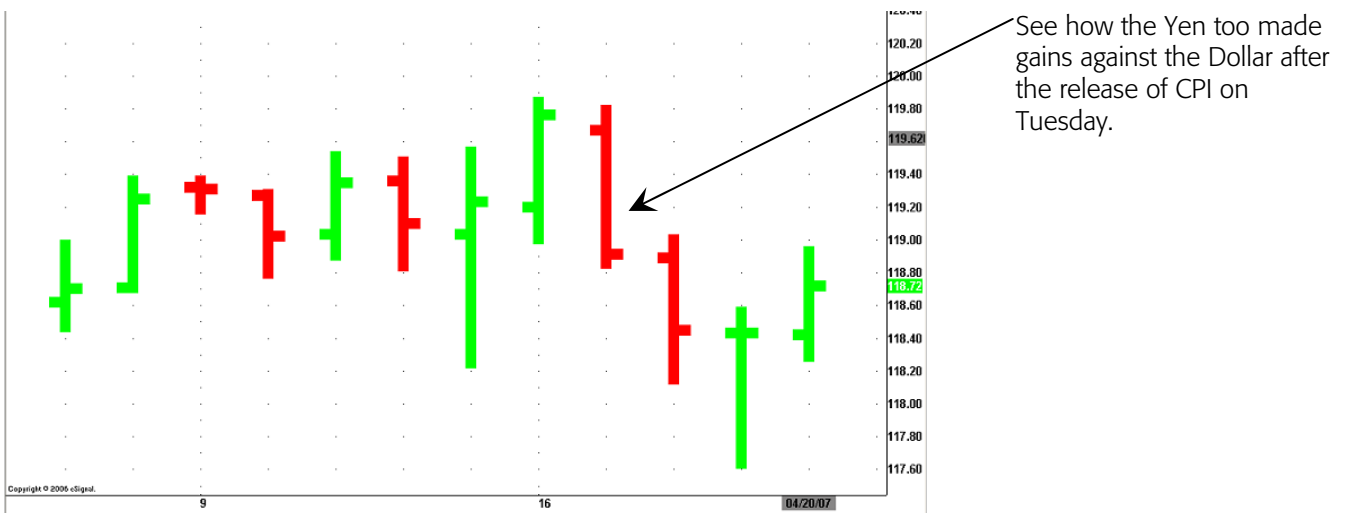
### OUR TRADING STANCE: BEARISH V STERLING.

Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



DOLLAR/YEN CHART



This week we remain bearish of the Dollar v Sterling.

Last week we remained bearish of the Dollar as we judged further evidence of weak growth accompanied by higher than expected inflation, would weigh further on the Dollar.

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

- on Monday; retail sales were stronger than expected,
- on Tuesday; headline CPI was inline with the core below expectations, Housing starts & building permits were stronger than expected, but industrial production and capacity utilisation were both weaker than expected, and

- on Thursday; Jobless claims and the Philly Fed survey were both worse than expected.

The Dollar weakened after the CPI report as this eased fears that the Fed may need to tighten policy further, and with other data mixed, traders sold the Dollar.

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

- on Tuesday; Consumer confidence and existing home sales,
- on Wednesday; Durable goods, New home sales and the Feds beige book,
- on Thursday; Jobless claims, and
- on Friday; Q1 GDP data, employment cost index and University of Michigan confidence.

This week traders should focus on the Home sales data and Q1 GDP. The consensus is for a weak GDP report, and given what is expected, the surprise could be to the upside.

Although this would offer the Dollar temporary support, the margin of deviation is likely to be small so any rally would be short lived, providing traders with better levels to sell.

**The Macro Trader's view is:** we have been bearish of the Dollar for a considerable time and short against the Euro since March 20, but we

took profit in Dollar/Euro last week for a couple of reasons:

- the election in France could have thrown out a surprise and rattled the Euro, and
- last week's price action indicated the rally was becoming tired.

With 3 big figures profit assured we decided to lock it in and monitor developments, especially the French Presidential election, which if it had thrown out a surprise similar to 5 years ago, would have seen the Euro much weaker.

In the event the first round vote went with the polls. But with several key US and Euro zone data releases due, we are staying square for now against the Euro.

Against the Pound we remain bearish and expect the Pound to move higher after a brief spell of consolidation.

The Fed is likely to remain on hold for a few months yet but UK rates are surely set to rise further with the 1<sup>st</sup> move coming in May.

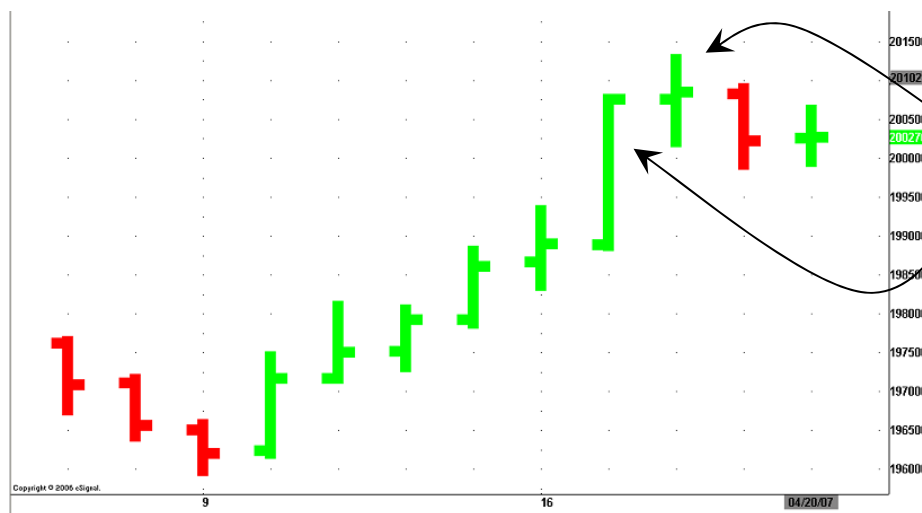
Traders should remain short of the Dollar against the Pound and our target is now 2.0200 and our stop is 1.9890 to protect profits.

# THE POUND STERLING

## OUR TRADING STANCE: BULLISH.

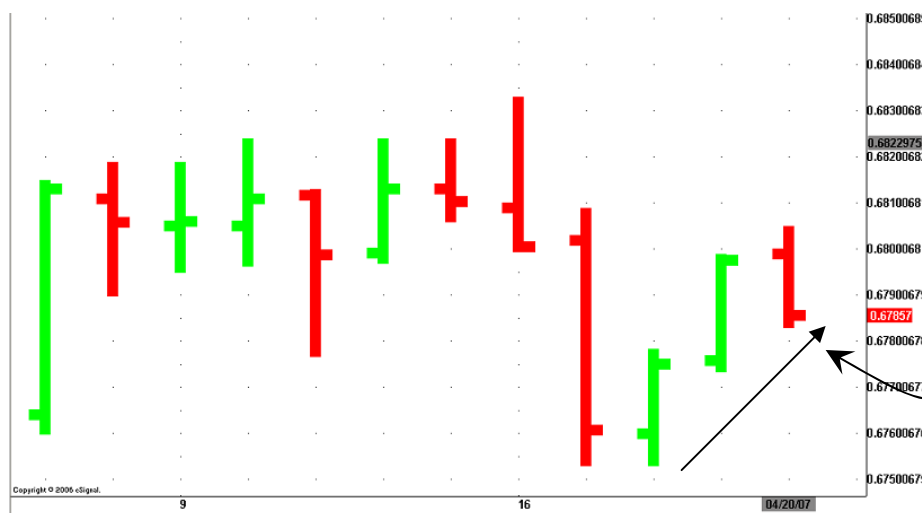
Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound rallied after the worse than expected CPI on Tuesday and the release of the MPC minutes on Wednesday signalling a rate increase in the near future.

THE STERLING/EURO CHART



See how the Pound failed to hold its gains against the Euro as both economies remain strong and both Central Banks are expected to hike rates further with the Euro zones lower CPI giving the Euro the edge over the Pound.

This week we remain bullish of Sterling.

Last week we remained bullish of the Pound ahead of a series of UK inflation reports which if worse than expected held the potential to push it through the 2.0000 Dollar mark.

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

- on Monday; PPI was worse than expected and the DCLG House price survey was stronger than expected,
- on Tuesday; CPI and all the other inflation measures were worse than expected,
- on Wednesday; the MPC minutes revealed a 7/2 vote with most members biased towards a hike, the

unemployment data was better than expected and average earnings including bonuses were stronger than expected, and

- on Friday; retail sales appeared weaker than expected, but with the upward revisions to previous data were actually stronger.

The Pound reacted with a forceful rally as CPI, RPI and RPI-X were all much worse than expected forcing the Governor of the Bank to write a letter of explanation to the Chancellor, and although profit taking set in later in the week, we expect the Pound to rally further.

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

- on Monday; M4 Sterling lending and the BBA net mortgage lending data,
- on Tuesday; PSNCR, PSNB and CBI Industrial trends survey,
- on Wednesday; Q1 GDP, and
- on Thursday; the Nationwide building society house price survey.

The key releases this week are Wednesday's Q1 GDP and Thursday's Nationwide house price index.

A slight deceleration in the rate of growth is expected, but any surprise to the upside will support the Pound, as will any fresh evidence that House prices are continuing to accelerate.

**The Macro Trader's view is:** our target of 2.0000 was hit last week as the inflation report provided the fuel, with the MPC minutes revealing policy makers are biased towards a rate hike.

Two members voted for an immediate hike and David Blanchflower, who voted for a cut in March, voted for unchanged this time.

Although the much anticipated letter from the Governor to the Chancellor failed to live up to its billing, the out look for policy in the coming months is for higher interest rates.

The Bank has warned of volatile inflation for a long time now but the last inflation report predicted a correction lower, this hasn't occurred and to preserve its own credibility and avoid inflation becoming entrenched, the MPC need to take appropriate action.

We remain bullish of Cable and expect the Pound to rally further over the coming weeks and months, and advise traders to be long of Sterling/Dollar.

Our target over the next 7 days is now 2.0200, and our stop is raised to 1.9890, to protect profits.

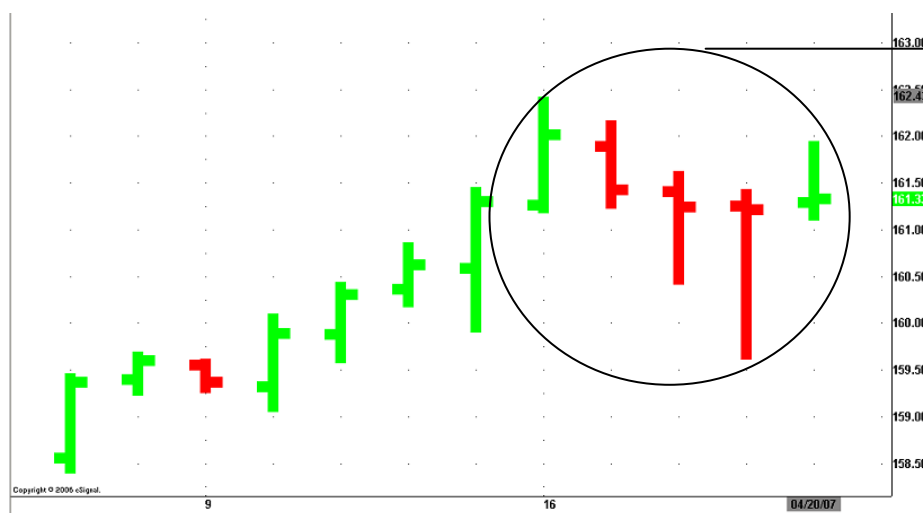
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# THE EURO

## OUR TRADING STANCE: SQUARE.

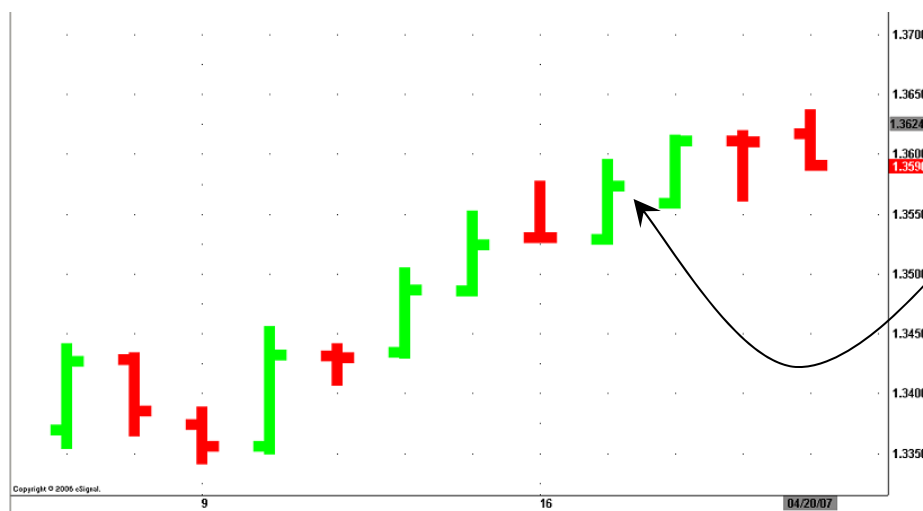
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen recovered mid week as stocks came under pressure following strong GDP data from China.

THE EURO/DOLLAR CHART



See how the Euro rallied further against the Dollar last week after the release on Tuesday of an inline US CPI report eased concern over the path of US interest rates.

This week we are square of the Euro.

Last week we remained bullish of the Euro ahead of some key Euro zone reports, but also several important US data releases which we judged would have a greater influence on the market.

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

- on Monday; German and Euro zone CPI were as expected,
- on Tuesday; German ZEW survey was stronger than expected,
- on Wednesday; the French C/A balance was worse than expected,
- on Thursday; Italian industrial orders and sales were mixed, and

- on Friday; French consumer spending was stronger than expected and Italian non-EU trade data was better than forecast.

Although the German ZEW survey on Tuesday and French consumer spending on Friday were both stronger than expected, the market reacted most to the release on Tuesday of US CPI.

For a report that was mainly in line with consensus the reaction in many markets was significant, but this was a sigh of relief. Had inflation deteriorated further fears of additional Fed tightening would have increased.

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

- on Tuesday; Italian retail sales and Euro zone new orders,
- on Wednesday; the German IFO report,
- on Thursday; German import prices and GfK consumer confidence and French business confidence and unemployment report, and
- on Friday; French consumer confidence & PPI and Italian business confidence.

The Key report from the Euro zone this week is the German IFO report. This has consistently recorded readings flagging continued economic strength.

If that trend continues, the Euro should draw support and after a period of consolidation, move higher.

**The Macro Trader's view is:** once again we expect traders to be led by events on the other side of the Atlantic.

Although German IFO report is released on Wednesday and this will have a material impact on this currency pair, US Q1 GDP is released on Friday, and we judge this will have the greater impact.

The US economy has been sluggish for a while and this week's GDP report is expected to show additional weakness, which would make it trickier for the Fed to enact additional policy firming in response to stubborn inflation. The consequence for the Dollar would be additional weakness.

Although we remain bearish of the Dollar we are currently square having taken profit last week. The Euro broke above 1.3600 against the Dollar, but the nature of the price action indicated the rally was tired and a period of consolidation may ensue.

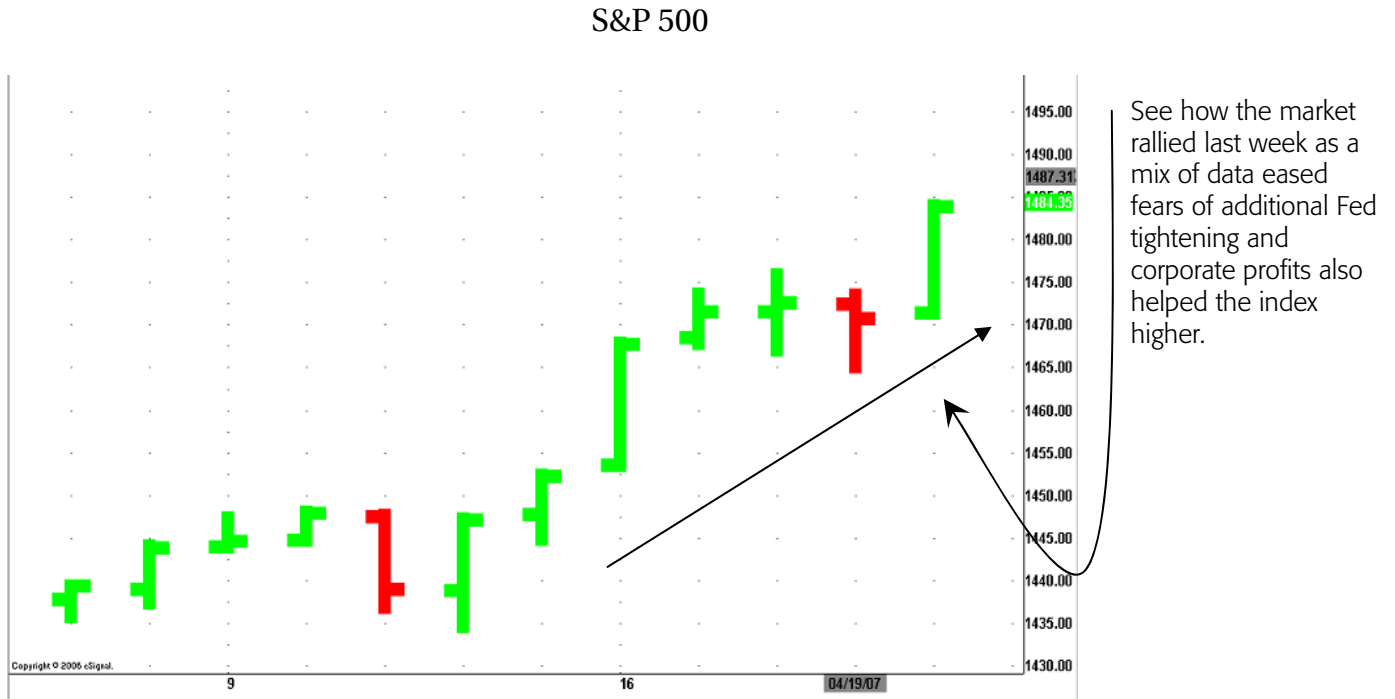
With the French Presidential election now underway, we were also wary of any unscripted upset in the 1<sup>st</sup> round of voting over the weekend, and although the front runners will now contest the run off in May, we are sidelined while we evaluate this week's data.

# 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 remained bullish of the S&P offering a target of 1480.0 which was hit as traders bought stocks in reaction to a benign mix of data.

On Monday stronger than expected retail sales data gave the market a lift as traders anticipated good news for corporate profits, then on Tuesday the combination of firmer housing starts and an in line CPI report added to confidence.

As the week progressed traders put aside fears generated by recent Fed speeches focused on inflation and the market ended the week on a high.

Looking ahead with Q1 GDP due on Friday, traders are already expecting a weak figure, so unless the data is much weaker than expected stocks should rally further.

**The Macro Trader's view is:** a speech on Friday by the Fed's Mishkin summed up the Fed's view of recent economic developments and the associated risks, which naturally were in line with recent comments from Fed Chairman Bernanke.

Our take on these recent communications is the Fed is growing uneasy over the failure of inflation to moderate more quickly in line with their oft repeated forecasts.

But with growth weak and new developments contributing to that weakness we judge the Fed will wait as long as possible before deciding whether or not its policy is working.

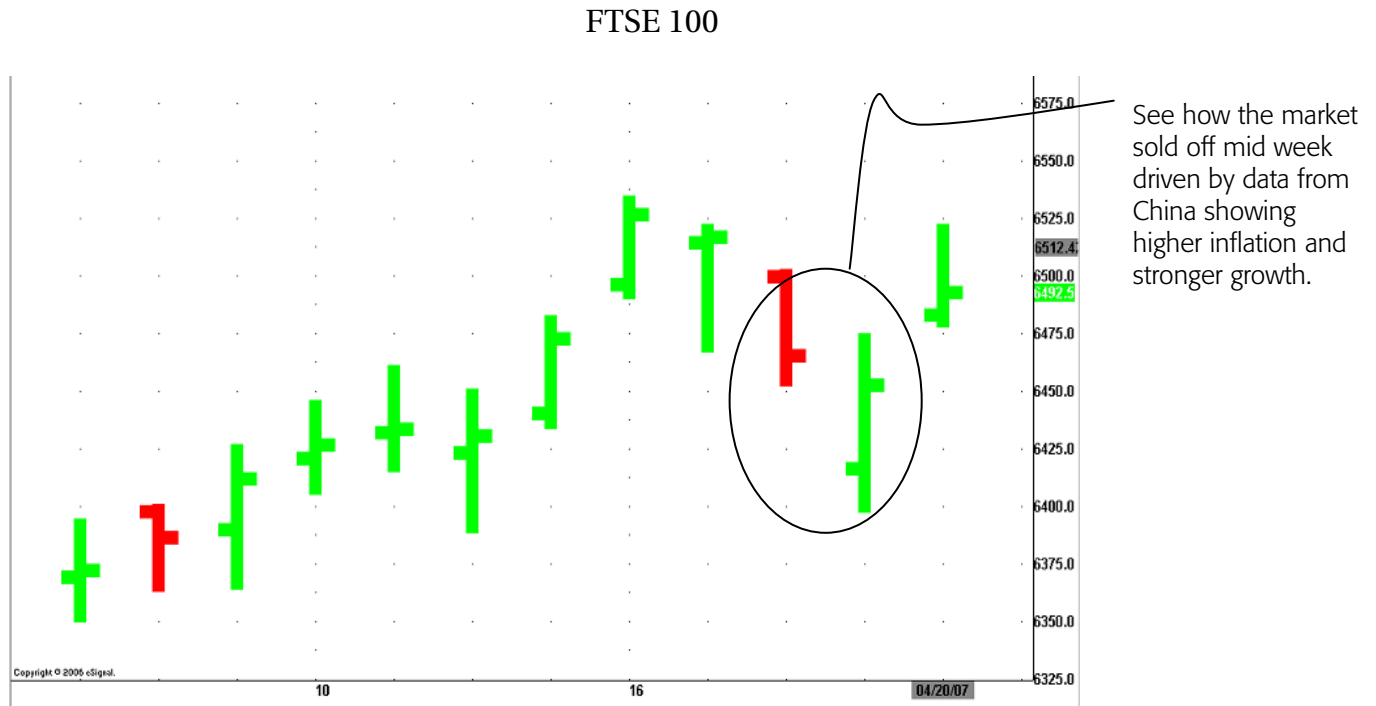
We advise traders to stay long of this market. Our target over the next 7 days is now 1500.00, and our stop is raised to 1459.0 to protect profits.

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# FTSE 100

## OUR TRADING STANCE: BULLISH.

Last week we were bullish of the FTSE 100.



This week we remain bullish of the FTSE 100.

Last week we were stopped out as traders reacted to a report from China showing GDP running above 11.0% with stronger than expected inflation.

The fear was that the Chinese authorities would tighten interest rates in an attempt to cool their economy, and since the FTSE has a strong mining and commodity listing, slower profits there caused by reduced demand for raw materials would weigh on the FTSE.

However the correction was brief and as the market recovered we bought back in on Friday, albeit at levels much higher than where we were stopped out, but we have been long of the FTSE from close to the lows made in the last correction so the stop merely served to lock in a considerable profit.

Looking ahead we remain bullish, as Friday's retail sales report eased the shock of Tuesday's CPI data. And with Q1 GDP due this Wednesday we expect the market to continue this rally.

**The Macro Trader's view is:** increasingly as Chinas economy evolves news from that country will have a growing impact on global markets, but although it is the 4<sup>th</sup> largest economy in the world, it remains dwarfed by the US so good corporate profit news late last week from the US helped western equity markets shake off Chinas news.

And with the world economy forecast to record strong growth this year as several key economies continue to grow, the current weakness of the US economy, shouldn't impact adversely on equities.

We remain bullish of this market and advise traders to remain long. Apart from the UK'S solid economic performance, M&A activity remains strong, with Barclays agreeing take over terms for Dutch Bank ABN/AMRO.

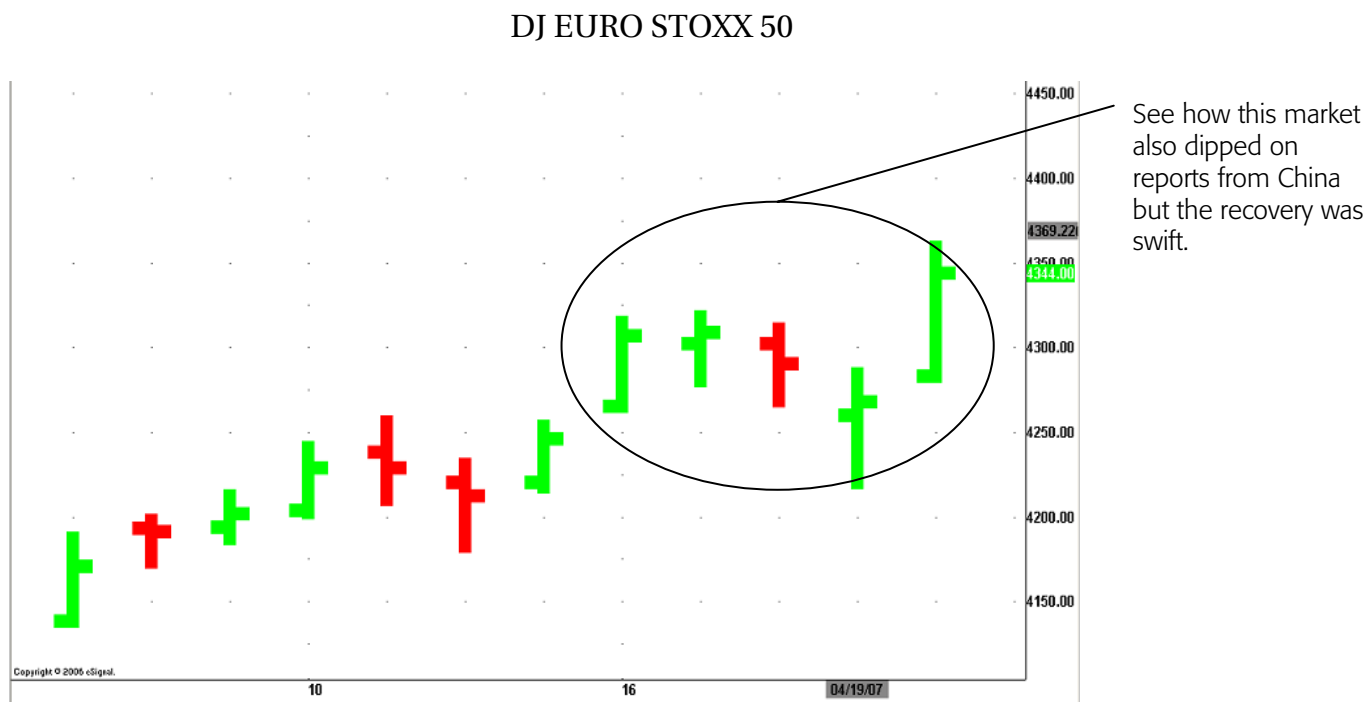
Our target over the next 7 days remains 6575.0 and our stop is now set at 6430.0 to provide protection.

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# DJ EURO STOXX 50

## OUR TRADING STANCE: BULLISH.

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



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

Last week we were bullish of this market offering a target of 4375.0, which was nearly hit, and although the market suffered a set back mid week our well placed stop kept us in this market.

Traders took this market higher after some very helpful data releases:

- on Monday; German and Euro zone CPI was as expected,
- on Tuesday; German ZEW was stronger than expected,
- on Thursday; German PPI was better than expected, and
- on Friday; French consumer spending was stronger than expected.

The picture painted was for solid growth and contained inflation.

This week sees the releases of German IFO which is expected to continue the strong trend, helping stocks rally further.

**The Macro Trader's view is:** the world will increasingly have to get used to economic data from China and eventually India having a material impact on global markets.

As these two economies take their place as economic powerhouses, the balance of economic power will inevitably shift east.

But traders over reacted last week; although Chinas data was strong, any monetary policy adjustment would be gradual and measured, the Chinese cannot afford to risk a rapidly cooling economy as they have millions of workers to keep employed, and quiet.

Traders should remain long of this market as the underlying strength of the Euro zone economy suggests the rally has much further to run.

Our target over the next 7 days is now 4400.0. But our stop remains set at 4213.0 to protect profits.

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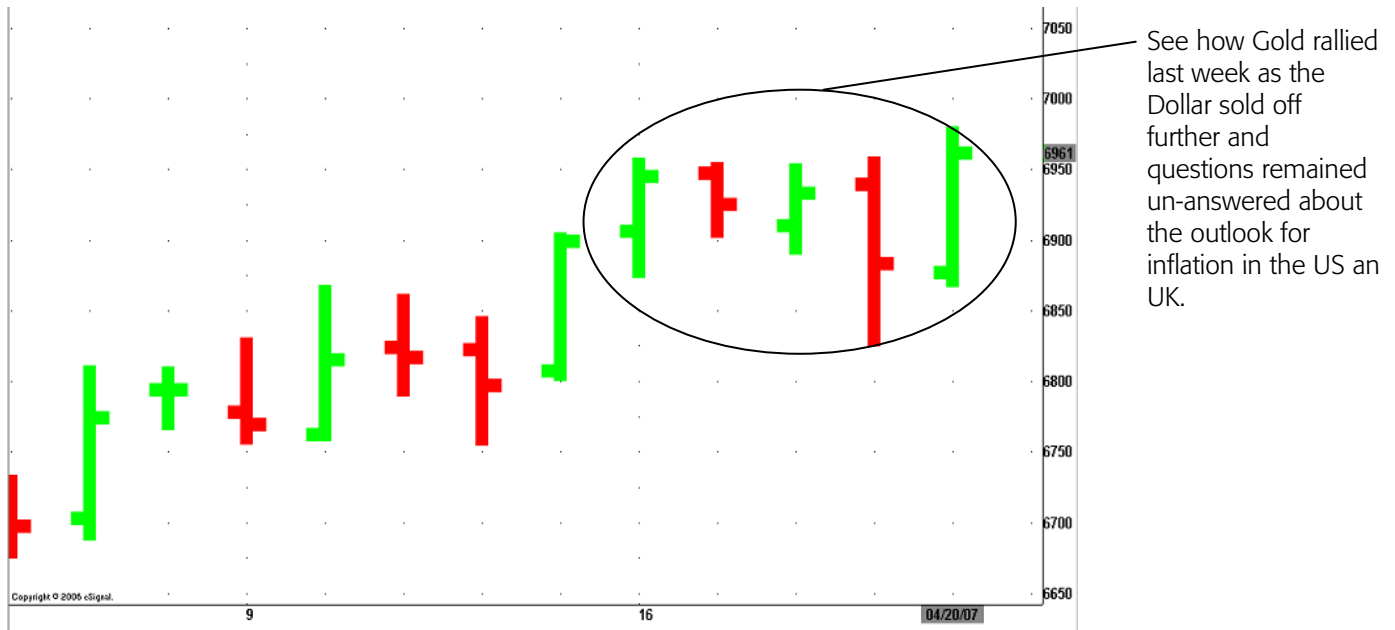
# COMMODITIES

## GOLD

### OUR TRADING STANCE: SQUARE

Last week we were bullish of gold.

THE GOLD CHART



This week we are square of Gold.

Last week we remained long of Gold due to the heightened state of geopolitical tension and the volatile outlook for inflation in the US and UK economies.

In the UK CPI was worse than expected and higher rates are now more certain, but in the US the CPI offered some hope as the headline rate was in line and the core measure was less than expected.

The Dollar weakened further on these reports as US policy appeared set for a prolonged period on hold while UK rates need to rise further.

But although the Dollar hit the previous all time low against the Euro and fell through the 2.0000 barrier against the Pound, Gold only made modest gains falling just short of our target.

**The Macro Trader's view is:** after a tepid performance last week, we have squared our position and banked the profits.

With the Dollar looking ever more vulnerable and no improvement in the geopolitical situation, we would have expected a better performance from Gold.

The price action we saw leads us to expect a period of consolidation so we have squared up and advise others to do likewise.

Longer term we think Gold will go higher, but it needs a fresh injection of drama to provide the necessary fuel.

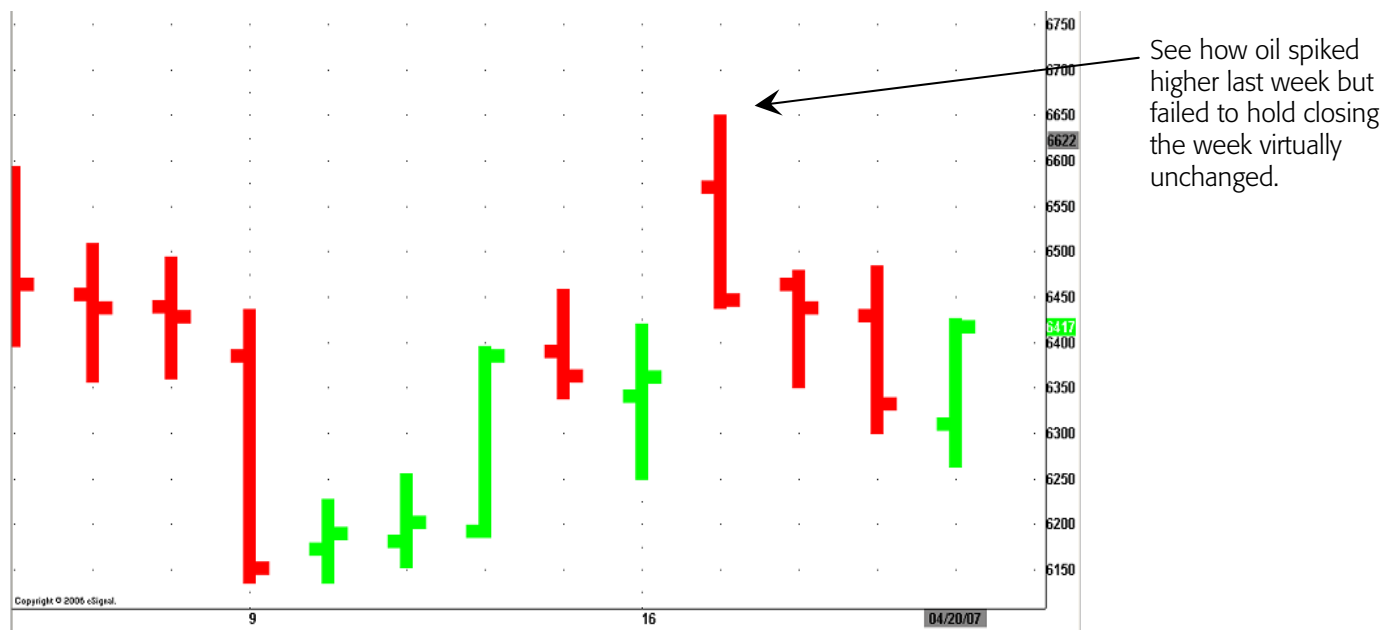
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# OIL

## 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 remained square of oil as we judged it lacked the dynamism to make new highs.

Although the geopolitical situation had altered little with tension between the west and Iran still high, traders needed something new to take the market higher.

A rally began on Tuesday, but levels failed to hold and the market gave back the gains.

With several economies, including China, now looking likely to tighten monetary policy, demand for oil could ease, and although OPEC said the previous week they could if need be pump more oil, they could just as easily agree another production cut if prices eased to far.

**The Macro Trader's view is:** we are remaining square of oil and are not getting involved for now.

Given the general health of the wider world economy we doubt OPEC will at this point in time alter its output levels, and given the heightened state of tension between the west and Iran, we judge any set back in this market will be short lived.

However, we judge now isn't the right time to go long, but we will monitor the situation further, and act as appropriate.

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