WEEK 18 1st – 7th May 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@SEVEVDAYSAHEAD.COM
WWW.SEVENDAYSAHEAD.CO.UK

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 Handlesbanken 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?

	Week of 23rd April
Monday	UK M4 STRLG Lndg 12.7B BETTER UK BBA net mrtge lndg 5.1B AS THAN EXPECTED
Tuesday	US Cons conf 104.0 WEAKER US Existing home sales 6.12M WEAKER UK PSNCR 17.2B WORSE UK PSNB 8.5B WORSE UK CBI Ind trends 2 WORSE IT Cons conf 107.8 WEAKER EZ C/A -5.3B WORSE IT Retail sales 0.2m, 0.4y WEAKER EZ Ind new orders 0.7m, 4.7y WEAKER THAN EXPECTED
Wednesday	US Durable goods 3.4 STRONGER US Ex – transport 1.5 STRONGER US NEW Home sales 858K LESS US Feds Beige BK MIXED UK Q1 GDP 0.7q, 2.8y STRONGER DM IFO 108.6 STRONGER THAN EXPECTED
Thursday	US Jobless claims 321k LESS UK Nationwide Hse prcs 0.9m, 10.2y MORE DM Import prcs 0.6m, 0.9y MORE DM GFK cons conf 5.5 STRONGER FR Business conf 111.0 STRONGER FR Unemployment rate 8.3% LESS THAN EXPECTED
Friday	US Q1 GDP 1.3% WEAKER US Personal consumpt'n 3.8 LESS US Q1 GDP Price INDX 4.0% WORSE US Q1 PCE 3.4q, 2.2y WORSE US Q1 Core PCE 2.2q, 2.2y WORSE US Employm't costy index 0.8 LESS US U. of Michigan conf 87.1 BETTER FR Cons conf -20 BETTER FR PPI 0.3m, 2.1y WORSE IT Business conf 98.2 STRONGER THAN EXPECTED

WHATS HAPPENING THIS WEEK?

	Week of 30th April
Monday	US Persnl income 0.5 US Personal spndg 0.5 US PCE Deflator n/f US PCE Core 0.1m, 2.2y US Chicago PMI 54.0 UK BBA Mrtge approvals 77.0k UK GFK Cons conf -8 DM Retail sales 0.8m, -0.6y EZ M3 3M 9.8 EZ M3 Y/Y 9.7 IT PPI 0.5m, 3.8y IT CPI 0.2m, 1.6y EZ Cons conf -3 EZ CPI 1.8y
Tuesday	US ISM Mfg 51.0 US ISM Prices 66.0 UK HBOS 0.8m, 10.6y UK PMI Mfg 54.0 UK CBI Dist trades 30
Wednesday	US Factory orders 2.0 US Factory Inventories 0.2 UK PMI Construction 59.0 UK M4 Sterling lndg n/f UK Net cons CR 0.9B UK Net lndg on Dwellings 10.0B UK Mrtge approvals 117k DM ILO Unemployment 6.8 DM Unemployment -40k DM Rate 9.1 IT PMI Mfg 53.9 FR PMI Mfg 54.3 DM PMI Mfg 57.3 EZ PMI Mfg 55.7 EZ Unemployment rate 7.2
Thursday	US Q1 Non-farm productivity 1.1 US Jobless claims 317k US ISM non-mfg 53.0 UK PMI Services 57.5 EZ PPI 0.3m, 2.8y
Friday	US Non-farm payroll 100k US unemployment rate 4.5 US Avge hrly earnings 0.3m, US avge wkly hours 33.9 IT PMI Services 54.3 FR PMI Services 59.4 DM PMI Services 57.9 EZ PMI Services 57.6 EZ Retail sales 0.5m, 2.3y

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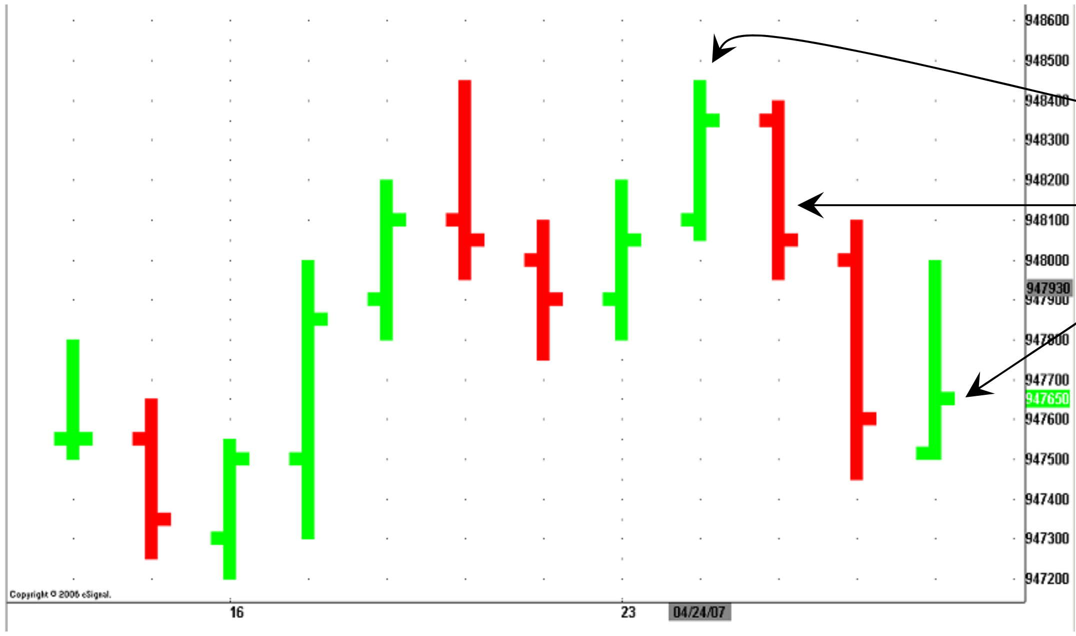
INTEREST RATE FUTURES

EURO DOLLARS

SEPTEMBER 07 EURO DOLLARS



See how Eurodollars rallied on Tuesday after weaker existing home sales, traded lower on Wednesday after stronger durable goods and again on Friday after a weak GDP report as the price action reflected unease over the worsening inflation data.

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 as we continued to focus on inflation, which we think will be the final arbiter of whether the Fed eventually hikes or cuts interest rates.

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

- on Tuesday; Consumer confidence and existing home sales were both weaker than expected,
- on Wednesday; Durable goods were stronger than forecast, New home sales were below consensus but showed improvement and the Feds beige book noted mixed conditions,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Q1 GDP data was weaker than expected, Q1 personal consumption was less than expected, Q1 GDP Price index was worse than expected, Q1 PCE was worse than expected, Q1 Core PCE was worse than expected, employment cost index was less than expected and University of Michigan confidence was stronger than forecast.

The market rallied on Tuesday after the weak existing home sales report, but after that it was down hill as traders sold Eurodollars on the stronger durable goods data and after Friday's GDP report which showed inflation on three separate measures; worse than expected.

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

- on Monday; Personal income & spending, PCE deflator, Core PCE and Chicago PMI,
- on Tuesday; ISM manufacturing survey,
- on Wednesday; Factory orders,
- on Thursday; Q1 non-farm productivity, jobless claims and the ISM non-manufacturing survey, and
- on Friday; non-farm payroll, the unemployment rate and average hourly earnings.

Traders should watch most of this closely as it all has a direct bearing on the outlook for interest rates, but as ever Friday's non-farm payroll is likely to be the main market mover.

The Macro Trader's view is: although our target wasn't hit last week, the price action supported our view and moved our way.

Although the housing market remains problematic and the highly volatile durable goods report showed some strength, the main story was Friday's Q1 GDP report.

This was weak and was well below consensus, but the market was unable to sustain a rally because the accompanying inflation reports were all materially worse than expected.

This one report completely summed up the dilemma facing the Fed:

- weak growth demands a rate cut, but
- stubborn inflation requires a rate hike.

Which is it to be?

For the Fed to ease policy they would lose much of their anti inflation credibility, but to tighten could force a recession.

But the Fed seems to be running out of time; at some point in the next few months they are going to have to make a very difficult choice; support growth, or fight inflation.

We don't see them abandoning their hard won credibility as inflation fighters.

Worse still, the current policy stance seems to be pushing the US economy towards stagflation; the worst of all worlds.

Given the tone of last Friday's inflation reports we judge this market remains vulnerable to the down side and an above consensus non-farm payroll report would see it lower.

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

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

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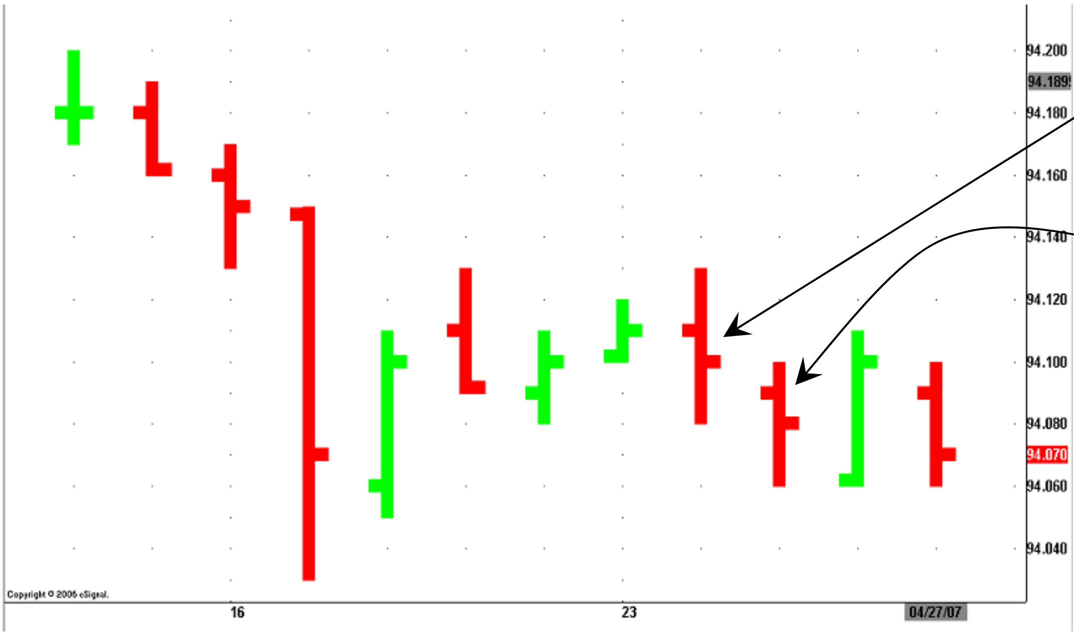
SHORT STERLING

SEPTEMBER 07 SHORT STERLING



See how the market traded lower after Tuesdays worse than expected government borrowing data, and Wednesday's stronger than expected Q1 GDP data.

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 as growth remained strong with inflation well above target leading us to expect a further two or three rate hikes from the MPC.

And in a week with several key reports due we advised traders to monitor the following:

- on Monday; M4 Sterling lending was less than expected and the BBA net mortgage lending data was as expected,
- on Tuesday; PSNCR, PSNB were worse than expected but the CBI Industrial trends survey was weaker than forecast,
- on Wednesday; Q1 GDP was stronger than expected with quarterly growth at 0.7%, and
- on Thursday; the Nationwide building society house price survey was stronger than expected.

The market reacted by selling off after Tuesday's and Wednesday's data as once again GDP beat forecasts of slower growth, which surely convinced even the most optimistic among us that policy needs to be tightened to close to 6.0% over the coming months.

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

- on Monday; BBA mortgage approvals and GFK consumer confidence,
- on Tuesday; HBOS house price measure, PMI manufacturing survey and CBI distributive trades survey,
- on Wednesday; the PMI construction survey, M4 Sterling lending, net consumer credit, net lending secured on dwellings and mortgage approvals, and
- on Thursday; UK PMI Services survey.

This week traders should monitor the two PMI surveys and the HBOS house price survey. Unlike the US the UK economy continues to thrive with the housing market a key component of wealth creation.

The Macro Trader's view is: after a strong CPI report the previous week, last week's stronger GDP report has likely cemented the case for a rate hike in May.

And with house prices continuing to increase at 10.0% or more annually further hikes should follow.

Unlike the US economy, the bulk of economic activity in the UK occurs in a relatively confined corner of the country; the southeast; mainly London and the land available for development is finite with the green belt constraining urban expansion.

As foreign workers continue to flood into the UK, needing somewhere to live, house prices are maintained due to demand supply constraints, and even at the top end of the market prices are well supported by rich foreigners seeking property here as well as handsomely rewarded city workers spending their bonuses on the dream house and prepared to bid up to get what they want.

The contrast between here and the US or the rest of Europe for that matter, couldn't be starker.

Traders should remain short of this market and our target over the next 7 - 10 days is 94.00, with our stop now set at 94.15 to better protect profits.

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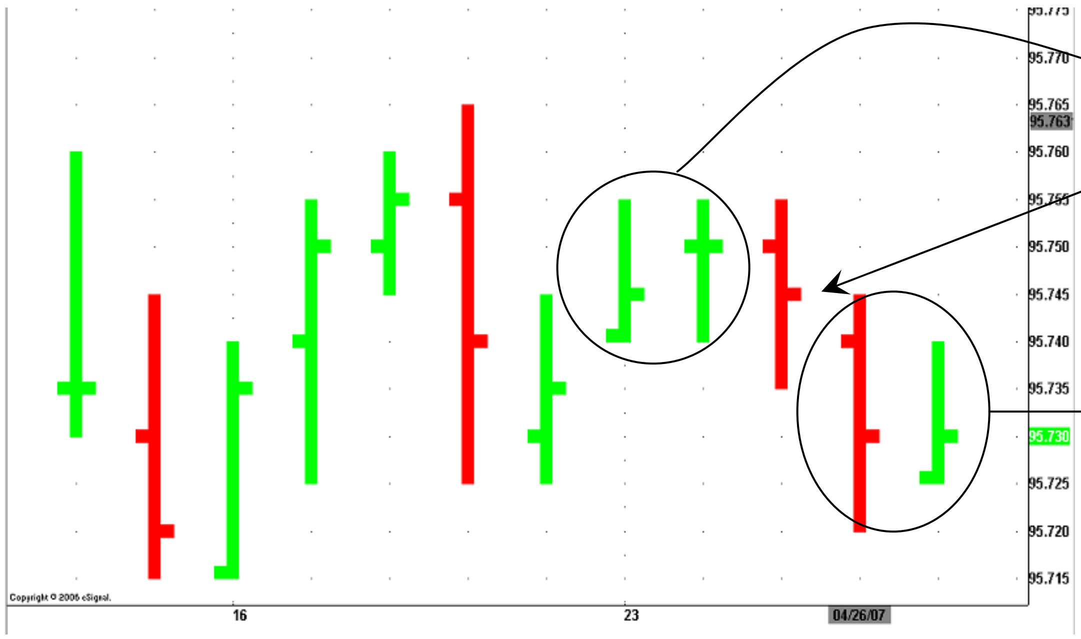
EURIBOR

SEPTEMBER 07 EURIBOR



See how a brief rally on Monday and Tuesday ended on Wednesday after the release of a very strong German IFO report, which together with the mix of data released on Thursday and Friday, saw Euribor close lower on the week.

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 Tuesday; Italian retail sales and Euro zone new orders were weaker than expected,
- on Wednesday; the German IFO report was stronger than expected,
- on Thursday; German import prices were higher than expected and GFK consumer confidence was better than expected and French business confidence was stronger than expected and unemployment rate was less than expected, and
- on Friday; French consumer confidence was better than forecast but PPI was worse than expected with Italian business confidence stronger than expected.

The market reacted with a brief rally followed by a sell off as the German IFO report dominated the market.

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

- on Monday; German retail sales, Euro zone M3, Italian PPI & CPI, Euro zone consumer confidence and CPI,
- on Wednesday; German and Euro zone employment data together with the Euro zones PMI manufacturing surveys,
- on Thursday; Euro zone PPI, and
- on Friday; all the Euro zones PMI Services surveys and Euro zone retail sales.

Although the PMI and inflation reports are important, without doubt this week's key release is the Euro zone M3 report.

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.

After last week's stronger than expected German IFO report, an interest rate hike has probably moved a little closer.

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 M3 report to remain strong so the upside remains limited, but unless inflation really takes off, which we do not expect, with the Euro adding to its strength 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.

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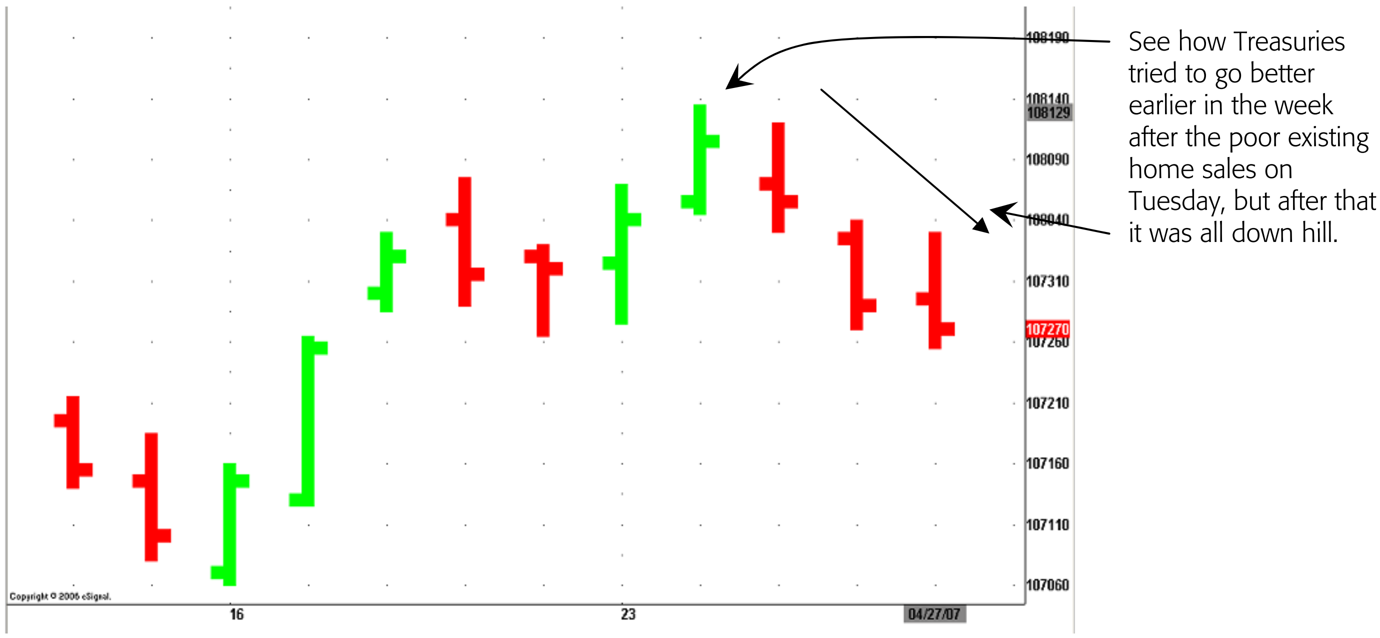
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the 10yr Note.

US 10yr NOTE



This week we remain bearish of the 10yr Note.

Last week we remained bearish of this market as we judged the Feds main concern was inflation, which despite a recent in line CPI report, remained problematic.

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

- on Tuesday; Consumer confidence and existing home sales were both weaker than expected,
- on Wednesday; Durable goods were stronger than forecast, New home sales were below consensus but showed improvement and the Feds beige book noted mixed conditions,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Q1 GDP data was weaker than expected, Q1 personal consumption was less than expected, Q1 GDP Price index was worse than expected, Q1 PCE was worse than expected, Q1 Core PCE was worse than expected, employment cost index was less than expected and University of Michigan confidence was stronger than forecast.

The Market reacted for much of the week in accordance with the data releases which began promising but turned, especially on Friday, with a Q1 GDP report which revealed weak growth with **rising inflation**.

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

- on Monday; Personal income & spending, PCE deflator, Core PCE and Chicago PMI,
- on Tuesday; ISM manufacturing survey,
- on Wednesday; Factory orders,
- on Thursday; Q1 non-farm productivity, jobless claims and the ISM non-manufacturing survey, and
- on Friday; non-farm payroll, the unemployment rate and average hourly earnings.

There are several important releases to focus on this week, and the market could prove a little choppy. With non-farm payroll due on Friday the market could come under selling pressure if the trend in this data series is maintained.

The Macro Trader's view is: once again we were stopped out, even though the market ultimately went our way.

With hindsight our stop was too tight given the mixed nature of recent data releases.

But in our opinion Friday's GDP report summed up perfectly the Feds dilemma:

- weak and weakening growth, set against
- high and rising inflation.

The Feds response should be a rate hike, even at the expense of yet slower growth, but they will likely demure and hold policy steady.

This makes Bonds a sell.

As inflation continues to disappoint traders and investors will demand a higher risk premium and send this market lower.

And even if growth does weaken further the Feds dilemma will only get worse as they face a potential spell of stagflation.

In the end the Fed, in our opinion, will be unwilling to sacrifice its inflation fighting credibility and we sense the next move in policy is likely to be a hike, but it is likely to be a long wait.

Traders should remain short of this market and our target over the next 7 days is now 107.06, but we have set a slightly higher stop at 108.16 to protect against any unforeseen surprises.

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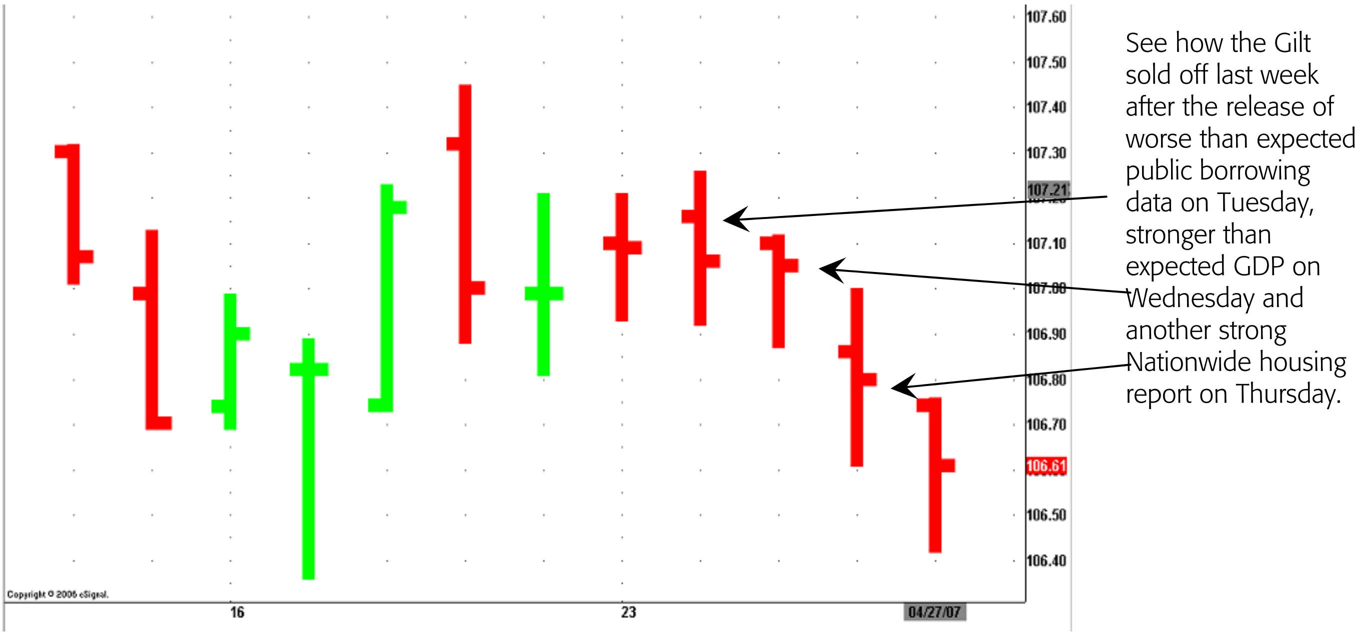
THE GILT

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 after some fairly choppy price action argued in favour of a square position.

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

- on Monday; M4 Sterling lending was less than expected and the BBA net mortgage lending data was as expected,
- on Tuesday; PSNCR, PSNB were worse than expected but the CBI Industrial trends survey was weaker than forecast,
- on Wednesday; Q1 GDP was stronger than expected with quarterly growth at 0.7%, and
- on Thursday; the Nationwide building society house price survey was stronger than expected.

The market reacted to the data by trading lower over the course of the week as the stronger GDP report gave the lie to recent forecasts that growth had slowed and the continued strength of the housing market added to expectations among traders that monetary policy would be tightened further at the upcoming MPC meeting in May.

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

- on Monday; BBA mortgage approvals and GFK consumer confidence,
- on Tuesday; HBOS house price measure, PMI manufacturing survey and CBI distributive trades survey,
- on Wednesday; the PMI construction survey, M4 Sterling lending, net consumer credit, net lending secured on dwellings and mortgage approvals, and
- on Thursday; UK PMI Services survey.

We advise traders to monitor closely the various housing market related reports due throughout the week, plus the two main PMI surveys.

The Macro Trader's view is: the Gilt came under selling pressure last week as a result of stronger data which highlighted the need for further rate hikes, but we are already short of Short Sterling and do not want any more risk in UK markets.

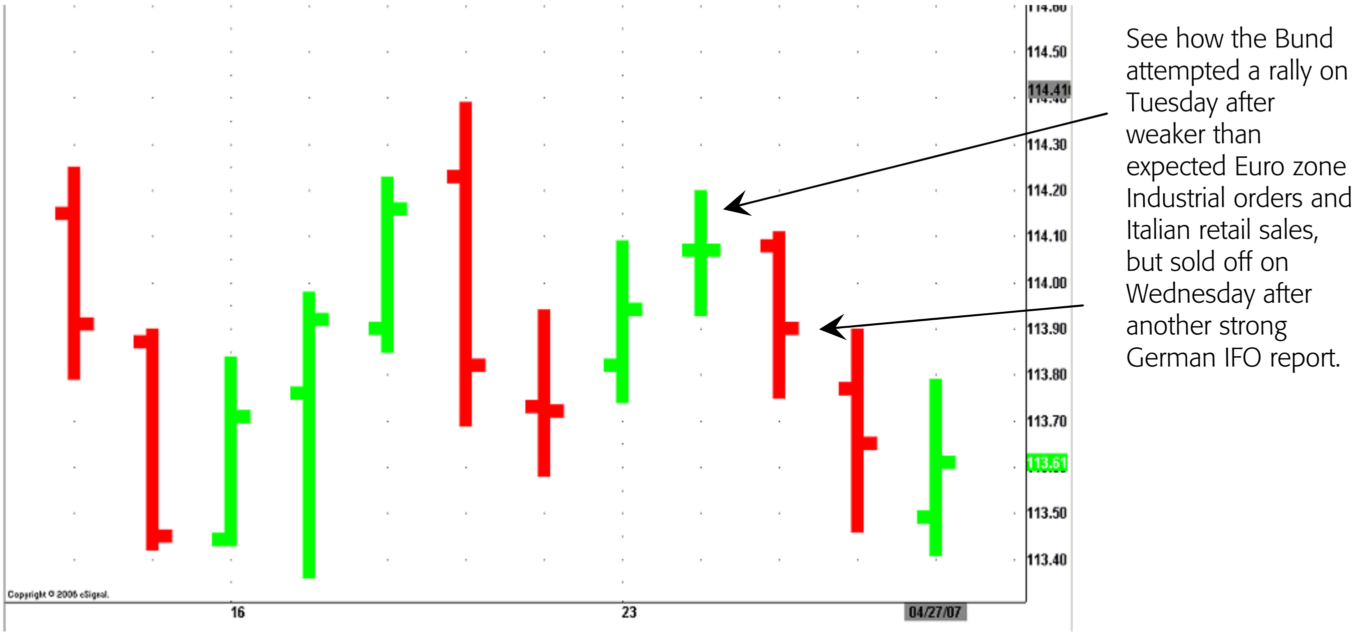
For now we are remaining square and advise others to do likewise.

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 remained bearish of the Bund offering a target of 113.45 which was hit after the release of some stronger data reasserted the recent trend lower.

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

- on Tuesday; Italian retail sales and Euro zone new orders were weaker than expected,
- on Wednesday; the German IFO report was stronger than expected,
- on Thursday; German import prices were higher than expected and GFK consumer confidence was better than expected and French business confidence was stronger than expected and unemployment rate was less than expected, and
- on Friday; French consumer confidence was better than forecast but PPI was worse than expected with Italian business confidence stronger than expected.

The market's reaction was linked to the strength of the German IFO report on Wednesday, which as we assumed last week, overshadowed all else.

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

- on Monday; German retail sales, Euro zone M3, Italian PPI & CPI, Euro zone consumer confidence and CPI,
- on Wednesday; German and Euro zone employment data together with the Euro zones PMI manufacturing surveys,
- on Thursday; Euro zone PPI, and
- on Friday; all the Euro zones PMI Services surveys and Euro zone retail sales.

Although the various inflation reports and PMI surveys due this week should be closely monitored, for us the key report this week is the Euro zone M3 release.

The Macro Trader's view is: following last week's strong IFO report, a strong M3 release this week will guide the ECB closer to a rate hike and if they start to see inflation creep in the CPI and PPI reports, the May meeting may offer an opportunity, but traders are increasingly demanding an inflation premium for holding Bonds.

Traders should remain short of this market. Our target over the next 7 days is now 113.00 but our stop is still at 114.43 to provide protection and allow for a degree of volatility.

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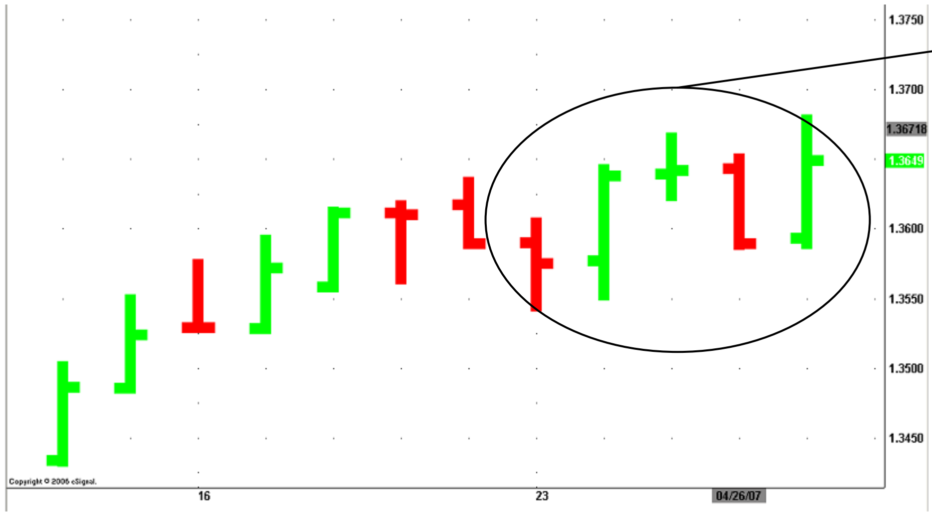
CURRENCIES

THE DOLLAR

OUR TRADING STANCE: SQUARE.

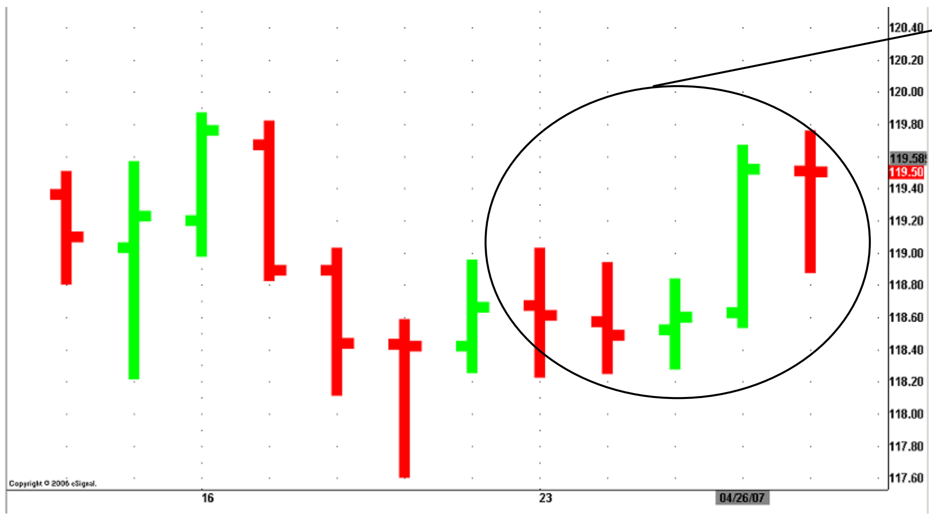
Last week we were bearish of the Dollar v Sterling.

EURO/DOLLAR CHART



See how the Dollar weakened against the Euro especially on Friday after a poor Q1 GDP report, but it failed to decisively break above the previous all time high.

DOLLAR/YEN CHART



See how the Yen weakened against the Dollar last week after Japanese CPI revealed deflation was still hanging on in Japan.

This week we are square of the Dollar.

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, but with market consensus for US GDP already quite low, we warned any surprise could be to the upside.

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

- on Tuesday; Consumer confidence and existing home sales were both weaker than expected,
- on Wednesday; Durable goods were stronger than forecast, New home sales were below consensus but showed

- improvement and the Feds beige book noted mixed conditions,
- on Thursday; Jobless claims were less than expected, and
- on Friday; Q1 GDP data was weaker than expected, Q1 personal consumption was less than expected, Q1 GDP Price index was worse than expected, Q1 PCE was worse than expected, Q1 Core PCE was worse than expected, employment cost index was less than expected and University of Michigan confidence was stronger than forecast.

The Dollar weakened against the Euro over the course of the week driven by the mainly weaker data.

And although the Dollar tested the lows against the Euro, a breakthrough wasn't forthcoming as traders were left pondering how the Fed would handle much weaker than expected growth, accompanied by stronger than expected inflation.

Looking ahead there are several key reports due this week and we advise traders to watch the following:
- on Monday; Personal income & spending, PCE deflator, Core PCE and Chicago PMI,
- on Tuesday; ISM manufacturing survey,
- on Wednesday; Factory orders,
- on Thursday; Q1 non-farm productivity, jobless claims and the ISM non-manufacturing survey, and
- on Friday; non-farm payroll, the unemployment rate and average hourly earnings.

This week traders have several heavy weight reports to consider and if recent trends hold they will likely throw out conflicting signals.

With that in mind the main event is likely to be Friday's non-farm payroll report. Of all the data series this one has continued to show strength with solid job creation and an easing unemployment rate; which we expect to continue, and although this might help the Dollar short term, if the PMI reports are weak, the Dollar would remain a sell.

The Macro Trader's view is: we were stopped out of our Cable trade last week, albeit with a tidy profit, as the market stalled around the 2.0000 level.

Although Cable did spend some time above 2.0000 and the data from the UK supported that move, US data was a little more confusing:
- weak home sales,
- weak GDP growth,
- and mixed consumer confidence reports,

set against:
- stronger durable goods, and
- higher than expected inflation.

In our opinion the Dollar remains a sell as the Fed will have to opt, at least short/medium term, for a further period of inactivity.

Longer term we think they will act against inflation, but if growth is still weak, the Dollar will fall further, and heavily.

For now we are remaining square. With so much data out this week, the market is likely to experience some volatility and we prefer to avoid that.

However our instinct and judgement tell us that the current period of consolidation will not last long and we expect to re-establish a short position in either Dollar/Euro or Cable later this week.

We advise others to adopt the same patient approach.

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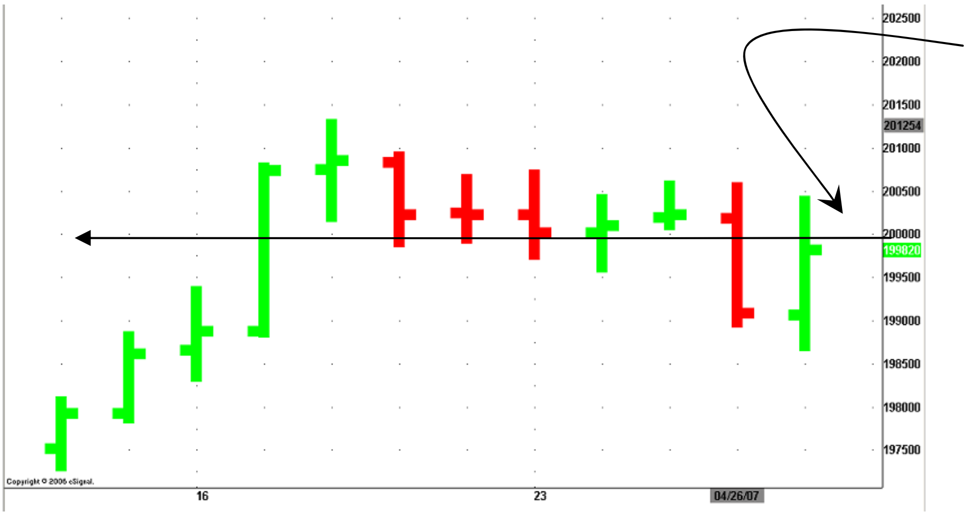
THE POUND STERLING

OUR TRADING STANCE: SQUARE.

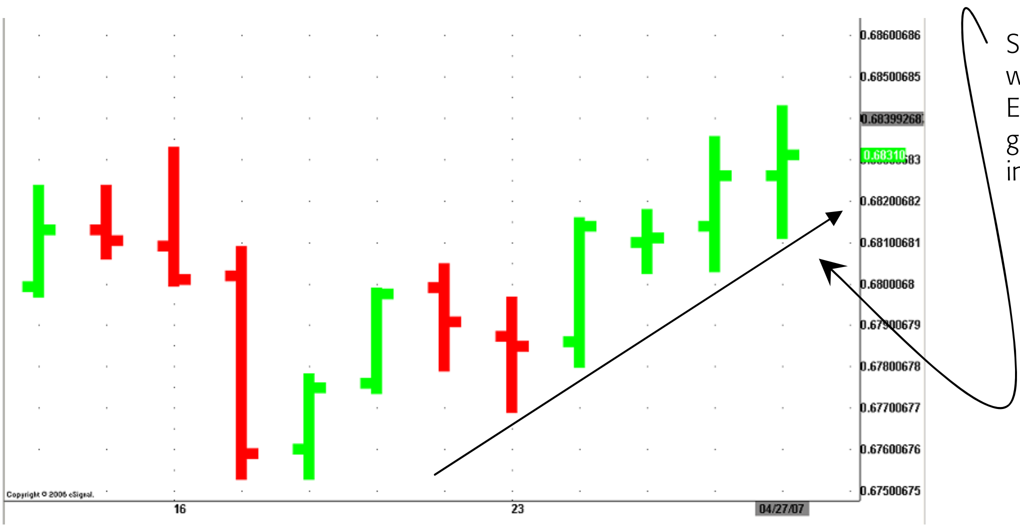
Last week we were bullish of Sterling.

THE CABLE CHART



See how the Pound struggled to hold above the psychologically important 2.0000 level last week.

THE STERLING/EURO CHART



See how the Pound remains weak against the Euro as the Euro zone also has strong growth, but with better inflation.

This week we are square of Sterling.

Last week we remained bullish of the Pound after it recently broke through the $2.0000 barrier and with GDP and house price data due we expected the Pound to consolidate the move and move higher.

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

- on Monday; M4 Sterling lending was less than expected and the BBA net mortgage lending data was as expected,
- on Tuesday; PSNCR, PSNB were worse than expected but the CBI Industrial trends survey was weaker than forecast,
- on Wednesday; Q1 GDP was stronger than expected with quarterly growth at 0.7%, and

- on Thursday; the Nationwide building society house price survey was stronger than expected.

The Pound reacted curiously as the Nationwide house price report was stronger than expected and so was the Q1 GDP report, and with US data remaining very mixed, we expected the rally to advance further, but it stalled as traders took profits.

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

- on Monday; BBA mortgage approvals and GFK consumer confidence,
- on Tuesday; HBOS house price measure, PMI manufacturing survey and CBI distributive trades survey,
- on Wednesday; the PMI construction survey, M4 Sterling lending, net consumer credit, net lending secured on dwellings and mortgage approvals, and
- on Thursday; UK PMI Services survey.

The key releases this week are Tuesday's HBOS report and the two PMI surveys, but with so much heavy weight US data due, events may be led from the US this week.

The Macro Trader's view is: our stop was hit last week after the market struggled to build on the recent break through, locking in a 200bp profit.

We judge the reason was linked more to psychology rather than anything else. Cable above 2.0000 is a big level, and even when it has been achieved in the past, it hasn't endured that long as some economic calamity has conspired to produce Sterling weakness.

The last occasion was the Pounds exit from the ERM which saw Sterling collapse against the Dollar amid a recession.

Although there isn't any fear of a UK recession this time, traders are confused by the data coming from the US.

As we have noted here in recent weeks, that data has been mixed, but Friday's US Q1 GDP report presented the Fed with the worst possible combination:

- weakening growth, now only 1.3% annualised, and
- rising inflation as measured by the GDP price index, the PCE deflator and the Core PCE index.

Looking ahead we judge this mix will lead to further Dollar weakness, but until traders have a feel for this week's data we are staying out as the market could prove choppy.

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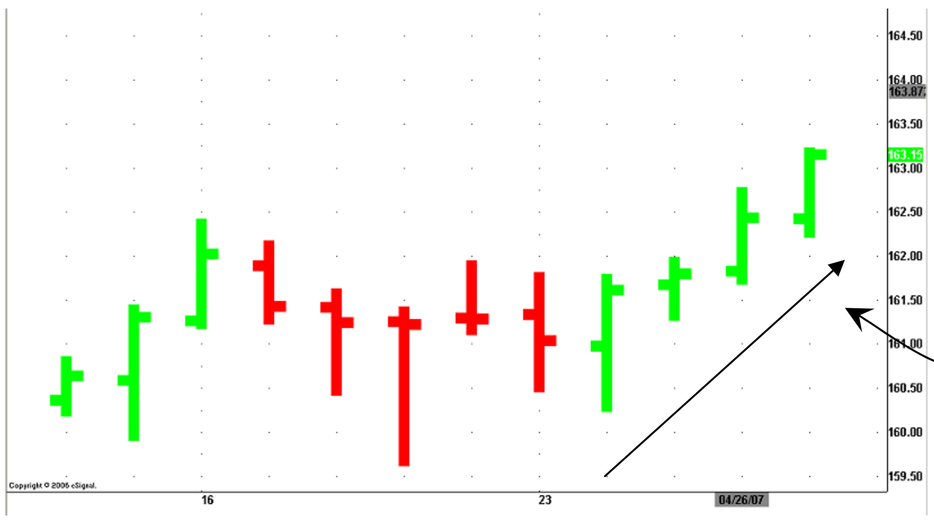
THE EURO

OUR TRADING STANCE: SQUARE.

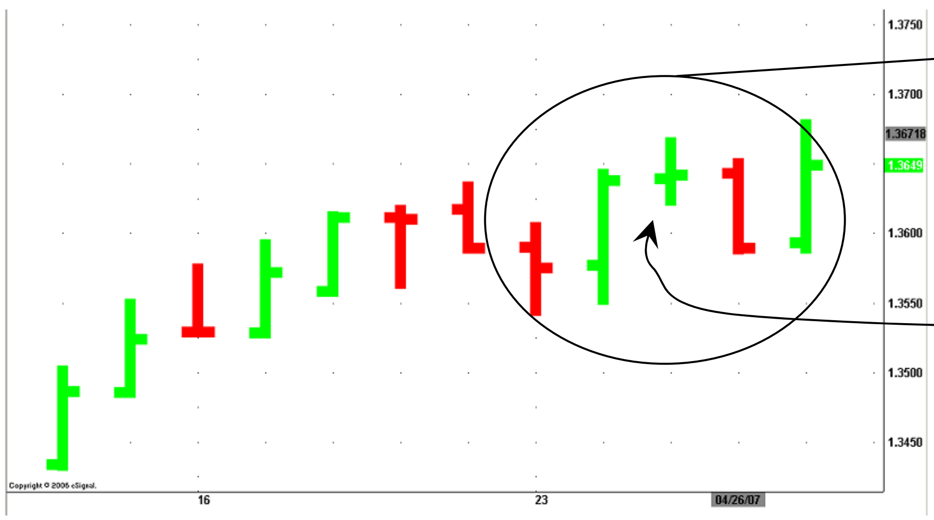
Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen weakened further against the Euro after Japanese CPI was less than expected.

THE EURO/DOLLAR CHART



See how the Euro crawled higher against the Dollar testing the all time high, driven by a strong German IFO report on Wednesday.

This week we are square of the Euro.

Last week we were square of the Euro after we took profit the previous week, as we judged back then that the price action in the market was indicating a degree of hesitancy among traders, and although the Euro did trade a little higher; not by very much and has slipped back away from the high's.

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

- on Tuesday; Italian retail sales and Euro zone new orders were weaker than expected,
- on Wednesday; the German IFO report was stronger than expected,

- on Thursday; German import prices were higher than expected and GFK consumer confidence was better than expected and French business confidence was stronger than expected and unemployment rate was less than expected, and
- on Friday; French consumer confidence was better than forecast but PPI was worse than expected with Italian business confidence stronger than expected.

As we expected the German IFO report released on Wednesday was indeed stronger than expected and the Euro tested the highs as a result, but failed to penetrate or hold.

Looking ahead this week's calendar offers some key data releases and we advise traders to monitor the following:
- on Monday; German retail sales, Euro zone M3, Italian PPI & CPI, Euro zone consumer confidence and CPI,
- on Wednesday; German and Euro zone employment data together with the Euro zones PMI manufacturing surveys,
- on Thursday; Euro zone PPI, and
- on Friday; all the Euro zones PMI Services surveys and Euro zone retail sales.

The Key report from the Euro zone this week is the M3 report which we expect to remain strong and vex the ECB further. But traders need to keep a close eye on this week's US data.

The Macro Trader's view is: although we have remained square as we enter this week, we are none the less still bullish of the Euro against the Dollar.

The reasons that led us to recently take profit are also keeping us temporarily sidelined.

The all time high in Dollar/Euro of 1.3668 is a psychological barrier, not a physical one and traders need to overcome this in their minds.

The Euro as a relatively new currency now offers little technical analysis for traders to time their moves, so the market will consolidate until a fresh body of evidence capable of forcing the Euro through builds up.

That may occur this week given the nature of the data releases due in the Euro zone, but more importantly in the US.

And although the Pound has traded much higher than this against the Dollar in the past, it is currently the Euro that is the more dominant as evidenced by the price action in Sterling/Euro.

We advise remaining sidelined a little longer until this week's data is known; getting the timing of a trade right is just as important as getting the market direction correct; being out of sync with the price action can prove very costly.

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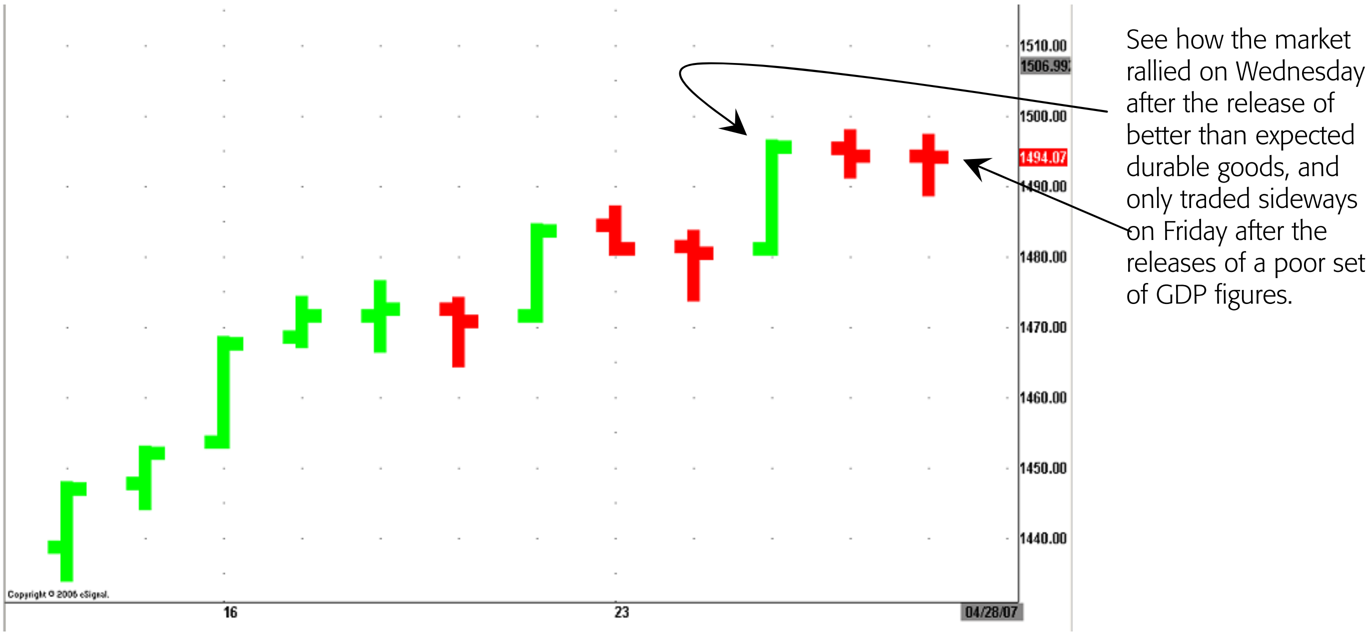
STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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

S&P 500



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

Last week we remained bullish of the S&P offering a target of 1500.0 which was almost hit as traders continued to buy stocks on the back of some good corporate profit results.

Even though last week's data releases continued mixed with:

- weak existing home sales and consumer confidence on Tuesday,
- stronger than expected durable goods on Wednesday, and
- on Friday; a Q1 GDP report that simultaneously demanded a rate cut to help growth, and a rate hike to bear down on inflation,

The market continued the upward trend.

This week with several key data releases due:

- On Tuesday; ISM Mfg,
- On Thursday; ISM non-mfg, and
- On Friday; non-farm payroll.

We remain bullish of this market, as the non-farm payroll report is likely to offset any weakness registered by the other two.

The Macro Trader's view is: although the ebb and flow of data releases have produced some "choppy" trading in other markets, stocks have faired rather better as traders reason that the only realistic course open to the Fed right now is to continue to hold policy steady.

Although Fed members continue to state that their priority is inflation, with growth so anaemic they would struggle to sell additional tightening to the American people.

But if inflation ultimately fails to correct lower, they will have to make a very difficult choice.

We advise traders to stay long of this market. Our target over the next 7 days is now 1510.00, and our stop is raised to 1468.0 to protect profits.

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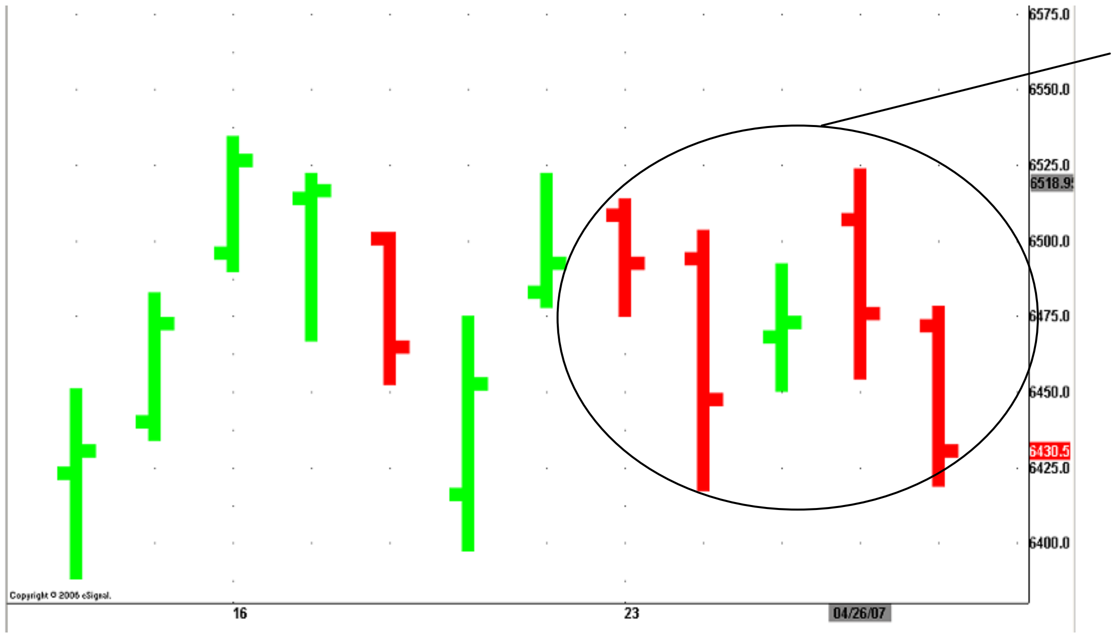
FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were bullish of the FTSE 100.

FTSE 100



See how the market swung around last week, with turbulence caused by weakness on the Madrid exchange and comments from Chinas social security fund manager regarding the un-sustainability of the Chinese stock index.

This week we are square of the FTSE 100.

Last week we were again stopped out as traders reacted to a sell off on the Madrid exchanged driven by worries over the stability of the Spanish real estate market.

And although the FTSE recovered after stronger than expected Q1 GDP on Wednesday, and a stronger than expected Nationwide house price survey on Thursday, the market revisited the lows on Friday after Chinas social security fund manager voiced concern over the unsustainable rally in Chinese equities.

Although from a domestic stand point the FTSE remains bullish, its international composition makes it vulnerable to foreign negativity.

Looking ahead the market may draw support from this week's data releases, for details see the global calendar, but we are currently square.

The Macro Trader's view is: once again the FTSE suffered a set back as a result of foreign news, and although we expect the market to recover and make new highs, we have elected to remain side lined this week ahead of a whole raft of key data releases in the UK, Euro zone and US.

If as we expect the market consolidates and pushes above the recent highs, we will re-enter the market, but we will let the trend resume first; we have no intention of making a career of being stopped out of this market.

Traders should remain square for now and monitor this week's data releases, with the MPC due to meet next week, and a hike almost unanimously expected, the market should settle unless there are further surprises from the data.

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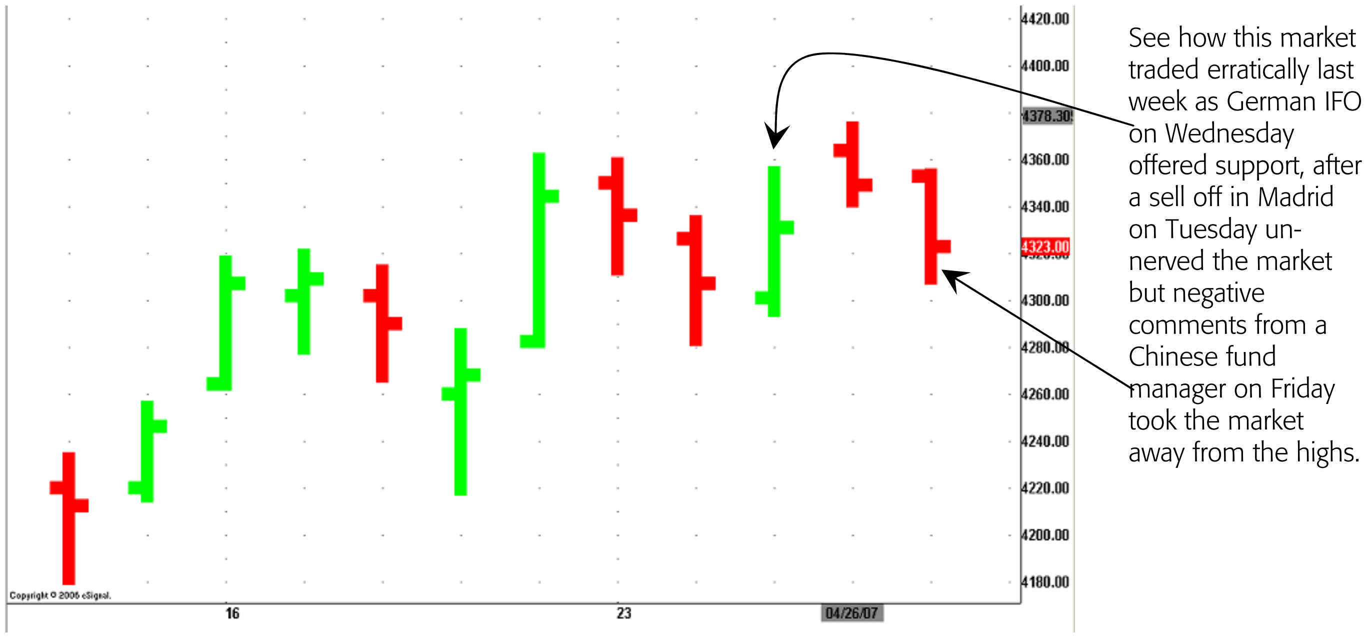
DJ EURO STOXX 50

OUR TRADING STANCE: BULLISH.

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

DJ EURO STOXX 50



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

Last week we remained bullish of this market as we expected the rally to continue, helped by more bullish data releases.

We advised traders last week to monitor the German IFO report, which we judged would remain strong, and help this market higher.

But a sell off on Tuesday on the Madrid exchange, driven by worries centred on the Spanish property market sent the STOXX50 lower.

Although the IFO report on Wednesday turned the market around, the market closed the week marginally lower after comments from a Chinese fund manager.

Looking a head the market should stabilise and move higher, but with so much data due from the leading economies this week, a period of consolidation may ensue.

The Macro Trader's view is: as we said last week "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".

And once again an event in China had a direct impact on western stock markets, even though it was only a rational risk assessment of the Chinese stock market which has enjoyed a very strong rally this year.

For now 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 remains 4400.0. But our stop is raised to 4260.0 to offer closer protection.

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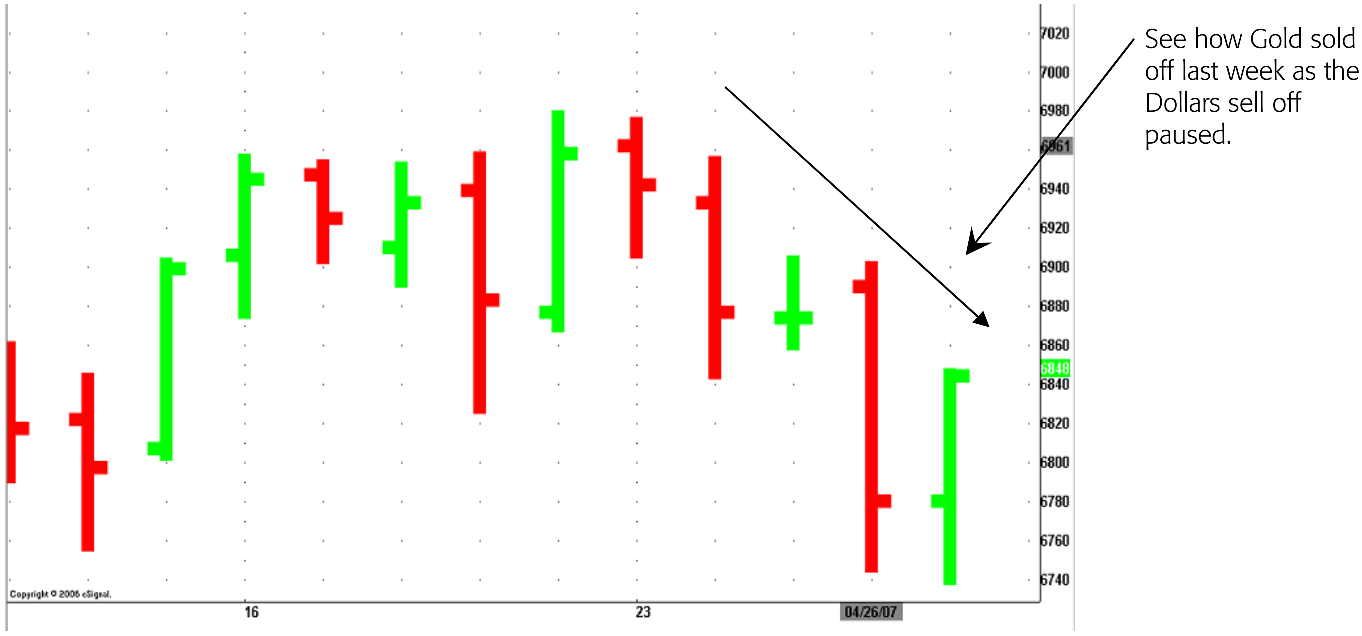
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were square of gold.

THE GOLD CHART



This week we are square of Gold.

Last week we went square of Gold as we judged the rally had run out of steam, based on the market price action, which we judged should have been more strongly bullish, given the performance of the US Dollar.

However as the Dollar sell off paused, Gold came under selling pressure of its own as traders took profit.

Looking ahead we sense this market will struggle to rally in the immediate future as traders step back from pushing the Dollar to new lows against the Euro.

With several key data releases due in the US this week, the Dollar may yet come under fresh selling pressure, but with the FOMC meeting due next week, we are staying square for now.

The Macro Trader's view is: we squared our position in good time last week, ahead of a sizeable retracement that would have eaten a big chunk of our profit.

But with the US economy recording a very weak Q1 GDP with worrying inflation signals, we remain longer term bulls.

Additionally events in the Middle East remain a challenge and although the US has approached Iran to join discussions aimed at improving security in Iraq, the big issue geopolitically for Gold, is Iran's nuclear program.

For now we advise remaining square of this market and let the trend re-emerge, as we judge it should do once this week's data is out of the way.

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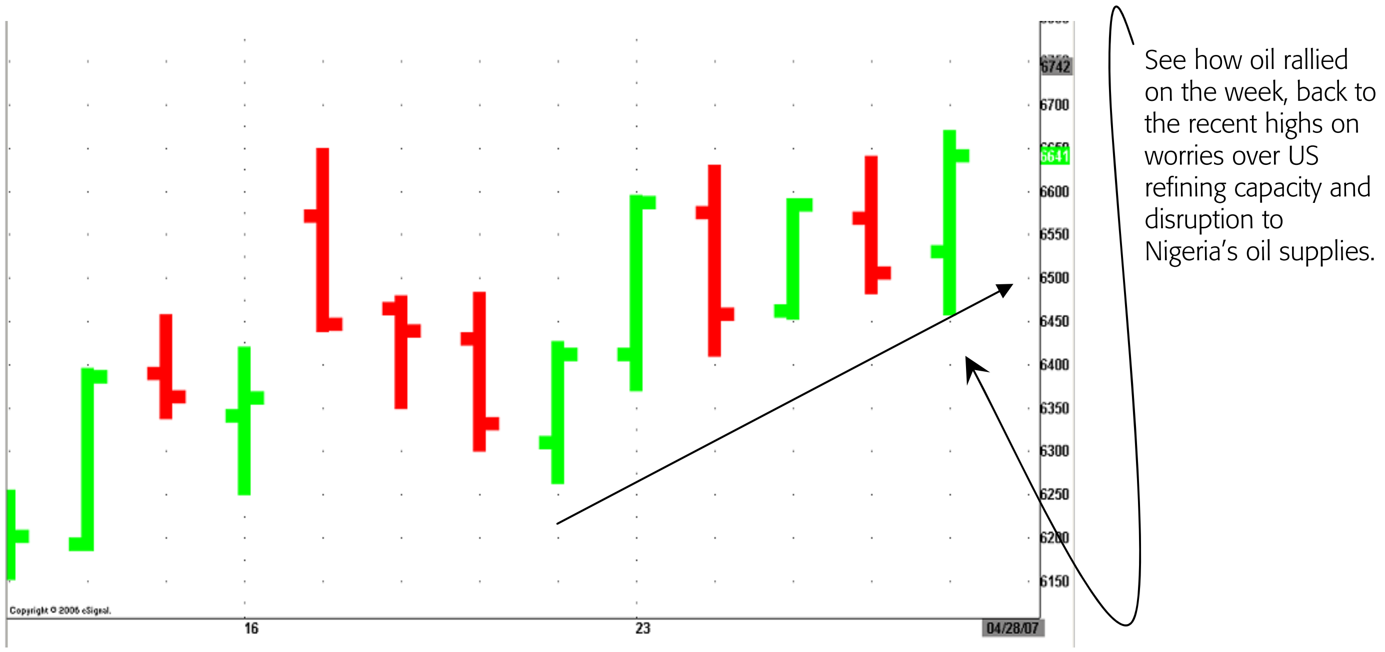
OIL

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.

However the market rallied as unrest in Nigeria continued and that country's oil out put remained below par.

Additionally data from the US on Wednesday revealed stocks of gasoline fell further, even though crude inventories rose, underling the inadequacies of US refining capacity.

Especially as the US driving season isn't now that far off which will further test the ability of US refiners to produce sufficient supplies.

The Macro Trader's view is: although the market rallied last week, the move wasn't compelling and lacked a sense of dynamism or a reason to take a strategic position.

With adequate supplies of crude the US will likely have to import greater volumes of refined products until it addresses the inadequacies of its own refining capability, which was laid bare by the effects of the two hurricanes that devastated New Orleans and surrounding areas a couple of years ago.

Further more, although the US approach to Iran only covers a desire to speak about the security situation in Iraq, once in close proximity, the chance of an off the record conversation about Iran's nuclear program may arise, and then; we can only hope.

For now we are remaining square of this market and advise others to adopt the same stance until a compelling reason to buy emerges.

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