



Week 42  
16<sup>th</sup> – 22<sup>nd</sup> October 2018

## Summary

## Global Calendar

## US Markets

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

## UK Markets

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

## Euro Zone Markets

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

## Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

## Commodities

- + GOLD
- + OIL

## Disclaimer



# Multi-asset fundamental strategies

John Lewis

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## SUMMARY

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### Global Calendar

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- BEARISH
- BEARISH
- BULLISH v the EURO
- SQUARE

### UK Markets

+ SHORT STERLING  
+ GILT  
+ STERLING  
+ FTSE

- SQUARE
- SQUARE
- SQUARE
- SQUARE

### Euro Zone Markets

+ EURIBOR  
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+ DJ EURO STOXX 50

- SQUARE
- BEARISH
- BEARISH v the DOLLAR
- SQUARE

### Japanese Markets

+ JAPANESE BONDS  
+ YEN  
+ NIKKEI

- SQUARE
- SQUARE
- SQUARE

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- SQUARE
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# This week's global calendar

	Week of 15 <sup>th</sup> October		Week of 15 <sup>th</sup> October
Monday	US Retail sales 0.5% US RS Ex-Autos 0.5% US Empire mfg 24.4 US Business invntry 0.5% US Budget statement 71.0B UK Rght mve hse prices n/f DM WPI 0.4% JP Ind production 0.7% JP Capacity utilisation 0.1%	Thursday	US Philly Fed 21.0 US Jobless claims 210k UK Retail sales -0.3m, 3.7y JP National CPI 1.0y JP Super mkt sales n/f
Tuesday	US Ind production -0.1% US Capacity utilisation 78.0 US NAHB Housing mkt indx 68 UK Unemployment rate 2.6% UK Unemploy'm't chge 4.5k UK ILO 4.0% UK Averige earngs 2.6% UK Averige earngs ex-bonus 2.9% EZ Trade bal 15.1B DM ZEW Survey -12.3 DM Import prices 0.1m, 5.2y JP Nationwide dept stre sales n/f JP Tokyo dept stre sales n/f JP Tokyo condo sales n/f	Friday	US Existing home sales 5.31M UK PSNB 4.60B UK PSNCR n/f EZ C/A 21.4B
Wednesday	US MBA Mrtge apps n/f US Housing starts 1200k US Buildg permits 1275k US FOMC Minutes UK CPI 0.2m, 2.6y UK RPI 0.1m, 3.5y UK RPI-X 3.4% UK PPI Input 0.9m, 9.2y UK PPI Output 0.2m, 2.9y UK Core PPI 0.2m, 2.3y UK House price indx 3.5% EZ Construction output n/f EZ CPI 0.5m, 2.1y JP Trade bal -Y50.0B		

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## Last week's releases

	Week of 8 <sup>th</sup> October		Week of 8 <sup>th</sup> October
Monday	UK BRC Sales -0.2m, <b>WEAKER</b> DM Ind production -0.3m, -0.1y <b>WEAKER</b> JP C/A Y1838.4B <b>LESS</b> JP Trade bal -Y219.38 <b>LESS</b> JP Eco watchers 48.6 <b>BETTER THAN EXPECTED</b>	Thursday	US CPI 0.1m, 2.3y <b>LESS</b> US CPI Ex-F&E 0.1m, 2.2y <b>LESS</b> US Jobless claims 214k <b>MORE THAN EXPECTED</b>
Tuesday	US NFIB Sml bus optimism 107.9 <b>LESS</b> DM Trade bal 17.2B <b>STRONGER</b> DM C/A 15.3B <b>LESS</b> JP Machine orders 6.8m, 12.6y <b>STRONGER THAN EXPECTED</b>		
Wednesday	US MBA Mrtge apps -1.7% <b>WEAKER</b> US PPI 0.2m, 2.6y <b>WEAKER</b> US PPI Ex-F&E 0.2m, 2.5y <b>AS</b> US Wholesale invntry 1.0% <b>STRONGER</b> UK Trade bal -£11.195B <b>WORSE</b> UK Trade bal non-EU -£4.219B <b>WORSE</b> UK Ind production 0.2m, 1.3y <b>STRONGER</b> UK Mfg output -0.2m, 1.3y <b>LESS</b> UK Construction output -0.7m, 1.3y <b>WEAKER</b> UK Q3 GDP 0.7q/q <b>STRONGER</b> UK Q3 Indx of services 0.0m, 0.5q/q <b>LESS</b> UK RICS House prices -2% <b>WEAKER</b> JP Machine tool orders 2.8% <b>LESS</b> JP Dmstc corp gds prices 0.3m, 3.0y <b>MORE</b> JP Bank lending 2.3y <b>MORE</b> JP PPI 0.3m, 3.0y <b>STRONGER THAN EXPECTED</b>	Friday	US Import prices 0.5m, 3.5y <b>STRONGER</b> US U.OF Michigan sentiment 99.0 <b>WEAKER</b> DM CPI 0.4m, 2.3y <b>AS</b> EZ Ind production 1.0m, 0.9y <b>STRONGER</b> JP Tertiary indstry indx 0.5% <b>MORE THAN EXPECTED</b>

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## US MARKETS: economic background

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### Disclaimer

Last week's focus was split between PPI and CPI as traders increasingly focus on inflation following remarks in the last FOMC policy statement.

In the event headline PPI was a little softer than expected and the core reading in line with consensus. The CPI report fell short of consensus on both the core and headline readings, but that won't stop the Fed pressing ahead with their stated policy of hiking a gain this year and into 2020.

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

- On Monday; **Retail sales, Empire manufacturing, business inventories and**

**federal budget statement,**

- On Tuesday; **Industrial production, capacity utilisation and NAHB Housing market index,**
- On Wednesday; **Housing starts, building permits and FOMC Minutes,**
- On Thursday; **Jobless claims and Philly Fed, and**
- On Friday; **Existing home sales.**

There are three key events this week, retail sales, industrial production and the FOMC minutes.

We judge the FOMC minutes are the main event as traders will be seeking any further clues on the Fed's policy aims.



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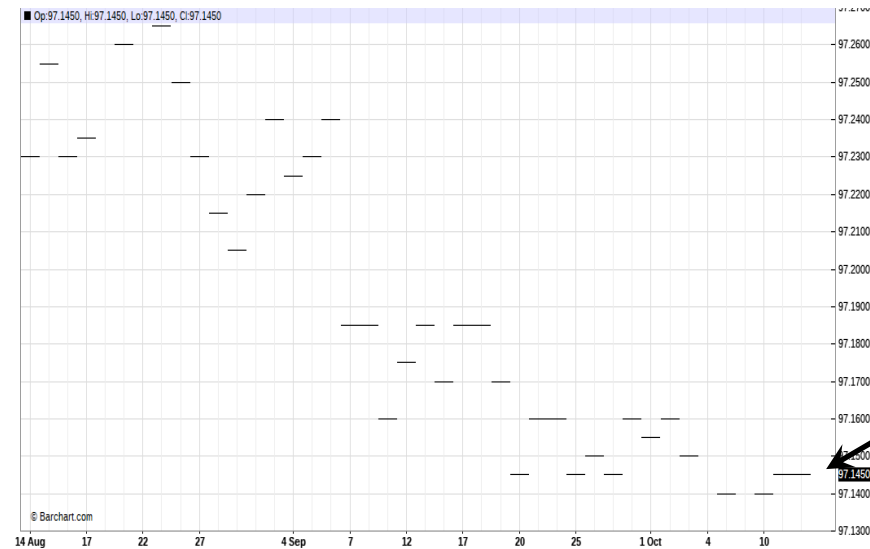
- + GOLD
- + OIL

## Disclaimer

## US MARKETS: Eurodollars

### OUR TRADING STANCE: **BEARISH.**

Last week we were **Bearish** of Eurodollars.



Eurodollars further tested the lows despite softer than expected inflation data.

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

...“Looking ahead the two key releases this week are PPI and CPI, stronger than expected reports will weigh on this market”...

In the event data was softer than expected, but traders were none too impressed as they judged the Fed would look through these two reports and remain focused on the longer trend.

Looking ahead there are several key data releases due, but we judge the FOMC minutes are the main event. If the minutes reveal a firmer tone than the original policy statement, this market will trade lower.

We are Bearish Eurodollars.

Our suggested target is 97.00 and our suggested stop set at 97.20 for protection.

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## Disclaimer

## US MARKETS: 10 Year Note

### OUR TRADING STANCE; **BEARISH**.

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



The 10 year note corrected on softer inflation and stock market selling.

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

...“Looking ahead PPI and CPI due, stronger than expect reports will weigh on this market”...

In the event PPI and CPI were softer than expected and combined with the selling in stocks the market corrected.

Looking ahead retail sales and the FOMC minutes are due, a strong retail sales report and more hawkish tone in the minutes than in the original policy statement would weigh on this market.

We remain bearish the T Note despite our suggested stop of 118.05 being hit.

Our target remains set at 117.0 and our suggested stop reset to 118.28 for protection.

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## Japanese Markets

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## Commodities

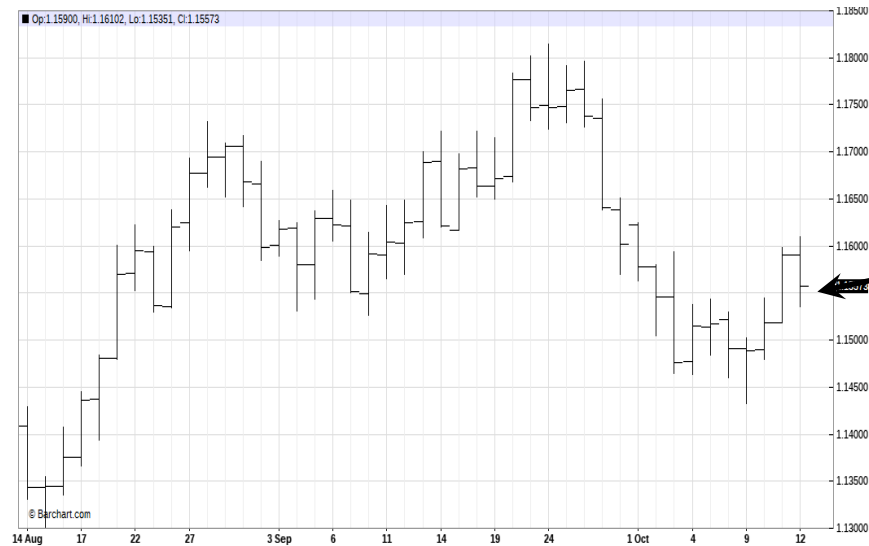
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## Disclaimer

## US MARKETS: US Dollar

### OUR TRADING STANCE: **BULLISH** v the **EURO**

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



The Dollar corrected on softer inflation data.

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

...“Looking ahead PPI and CPI stand out and stronger than expected reports will only strengthen the Fed's case for tighter policy”...

In the event PPI and CPI fell just short of consensus, but that will not deflect the Fed from hiking rates as communicated in their recent policy statement.

Looking ahead the FOMC minutes stand out. The tone

of the minutes will be surely compared closely to that of the original policy statement, if traders detect a more hawkish stance the Dollar should strengthen.

We are bullish the Dollar against the Euro

Our suggested target is now 1.1400 and our suggested stop reset at 1.1650 for protection after our previous stop was hit.

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## Japanese Markets

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## Commodities

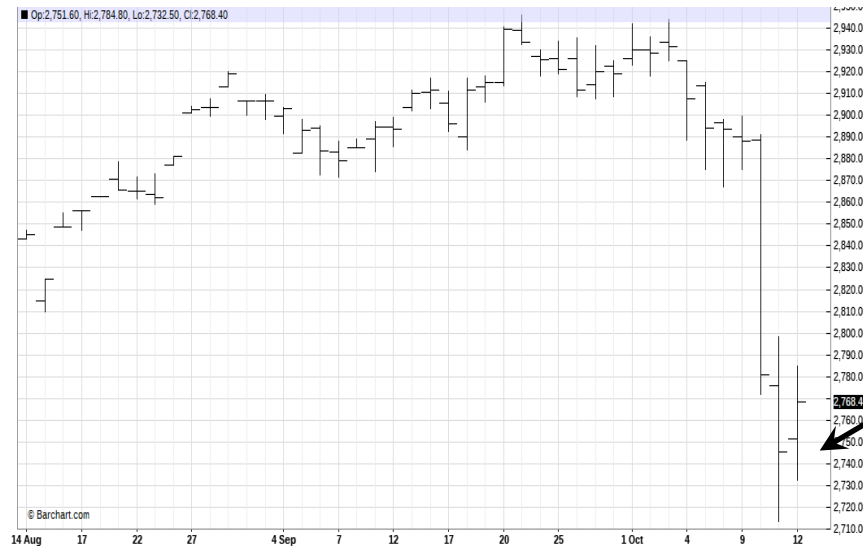
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## Disclaimer

## US MARKETS: S&P500

### OUR TRADING STANCE: SQUARE

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



The S&P suffered a steep sell off last week as traders continued to reflect on the recent FOMC meeting.

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

...“Looking ahead the focus this week is PPI and CPI, the Fed is focused on inflation, stronger reports this week will stiffen their resolve to keep policy ahead of the curve”...

In the event PPI and CPI were easier than forecast,

but the Fed will look beyond these two reports, however Trump's criticism of the Fed and its policy stance hit stocks hard and the sold off.

Looking ahead the FOMC minutes stand out, will there be any subtle differences from the policy statement that further undermines this market.

We are now square.

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## Japanese Markets

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## Commodities

+ GOLD  
+ OIL

## Disclaimer

## UK MARKETS: economic background

Last week's focus was Wednesday's data releases, especially Q3 GDP.

In the event data delivered the usual mix, worse than expected trade data, stronger industrial production, but softer manufacturing output, but the one bright spot was the stronger than expected Q3 GDP report. Was it just a weather fuelled phenomenon or something more durable?

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

- On Monday; **Right move house prices**,
- On Tuesday; **Unemployment report and average**

**earnings**,

- On Wednesday; **CPI, PPI, RPI and house price index**,
- On Thursday; **retail sales**, and
- On Friday; **PSNB and PSNCR**.

There is a whole raft of data due again this week and we judge the two key reports are CPI and retail sales.

A mix of stronger than expected inflation and weaker than forecast retail sales will only serve to highlight the Bank of England's dilemma; support the economy or fight inflation.



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## Euro Zone Markets

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## Japanese Markets

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## Commodities

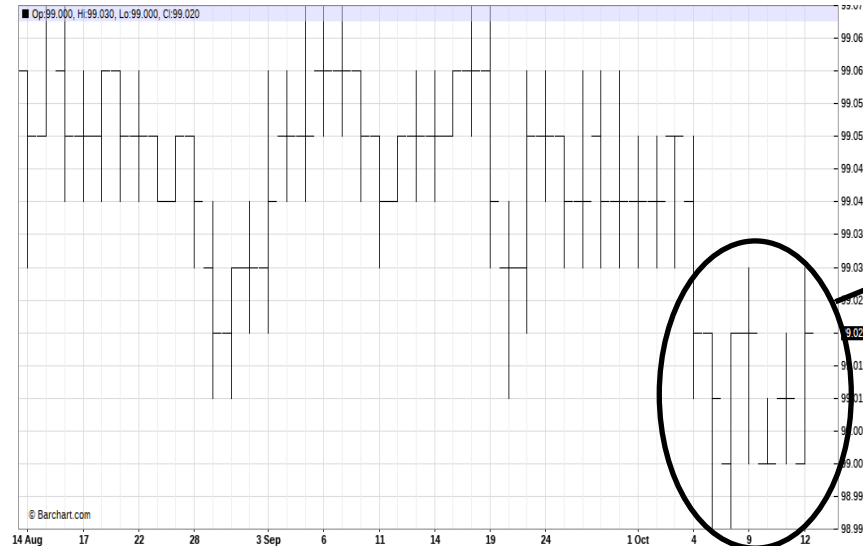
- + GOLD
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## Disclaimer

## UK MARKETS: Short Sterling

### OUR TRADING STANCE: SQUARE.

Last week we were Square of Short Sterling.



Short Sterling endured a choppy week but for now rejected the lows.

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

...“Looking ahead several key releases due on Wednesday, but traders are reacting to negative sentiment from the US where the Fed is set to continue tightening policy, but the UK economy looks nothing like that of the US!”...

In the event a familiar set of data from the UK with

only Q3 GDP offering some faint hope, but it is likely to prove a weather induced blip.

Looking ahead CPI and retail sales are due, but unless inflation advances further we judge this market's downside potential is limited

We remain square.

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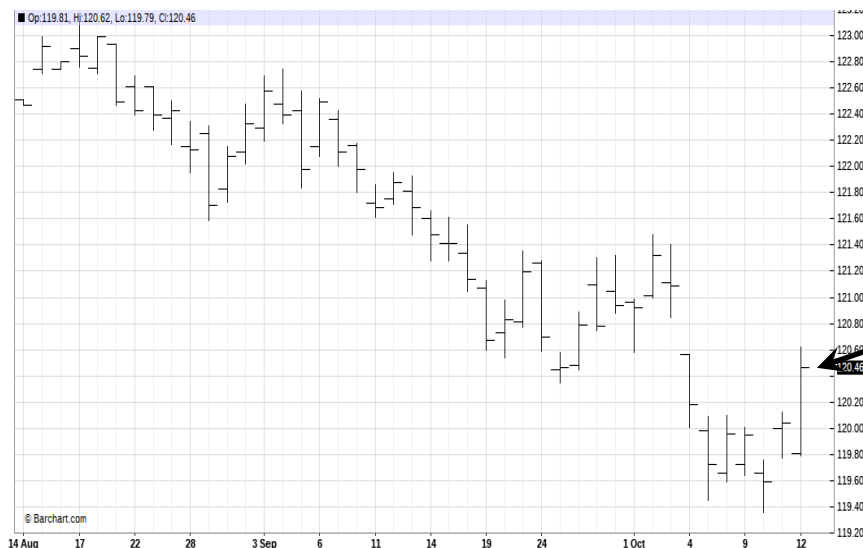
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## Disclaimer

## UK MARKETS: Gilt

### OUR TRADING STANCE; SQUARE.

Last week we were Square.



See how the Gilt tested the lows but bounced on stock market selling.

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

...“Looking ahead several key data releases due on Wednesday, but we judge international sentiment will continue to dominate”...

In the event Q3 GDP was stronger than expected and the Gilt extended the sell off led by US Treasuries, but a sharp sell off in global equities forced a correction,

but the trend still looks lower.

Looking ahead CPI, retail sales and PSNB are due, but we judge the price action in equity markets will be just as important.

We are remaining square, stock market price action has added a degree of uncertainty.

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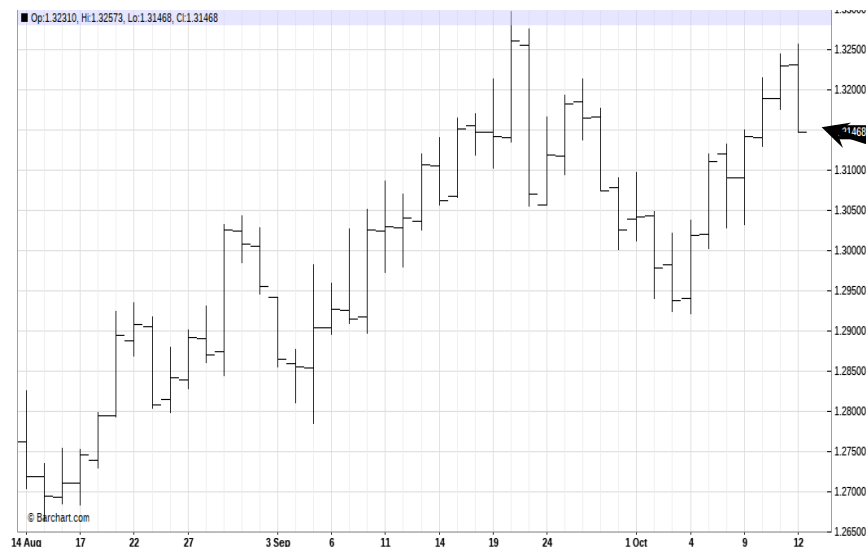
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## Disclaimer

## UK MARKETS: Sterling

### OUR TRADING STANCE: SQUARE

Last week we were Square



The Pound drew support from hopes a "BREXIT" deal may be close to concluding.

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

...“Looking ahead several key reports due on Wednesday with Q3 GDP the main event, but we judge the Pounds fate ultimately remains tied to the outcome of “BREXIT” and that is still uncertain meaning a volatile period for Sterling is highly likely”...

In the event we judge that was the case. Data was mixed despite Q3 GDP, but the focus remains

“BREXIT”. There were some encouraging signs a deal was close to be agreeing, but maybe not.

Looking ahead CPI and retail sales are due, but “BREXIT” is already setting the pace this week as reports suggest talks have broken down, if true the Pound will likely weaken.

We are square. There is too much uncertainty and rumour to make a balanced judgement other than volatility will remain a feature of trading in Sterling.

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## UK MARKETS: FTSE

### OUR TRADING STANCE: SQUARE.

Last week we were Square.



The FTSE suffered a steep sell off as risk aversion gripped global equity markets.

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

...Looking ahead the key release this week is Q3 GDP, but we judge the cocktail of events that hit stocks last week remain in play"...

In the event Q3 GDP beat consensus, but the general feeling in the market was it was a weather induced phenomenon, but the main dynamic was international

sentiment driven by fears of rising interest rates in the US and Trump's criticism of Fed policy.

Looking ahead several key data releases due, but international sentiment and "BREXIT" turbulence are likely to prove the dominant factors in this market..

We are remain square.

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## EURO ZONE MARKETS: economic background

Last week's focus was German industrial production, with the Italian budget stand off with Brussels causing market angst.

In the event German industrial production was much weaker than expected, but for once the broader Euro zone report was stronger than forecast.

Meanwhile the Italian budget drama dragged on with ECB President Draghi calling on his countrymen to act responsibly.

Looking ahead there are several key reports due which are detailed on the global calendar, but we

judge these are the week's **key** releases:

- On Monday; **German Wholesale price index,**
- On Tuesday; **German ZEW survey, import prices and Euro zone trade balance,**
- On Wednesday; **Euro zone CPI, and**
- On Friday; **Euro zone C/A.**

The key release this week is the Euro zone CPI report.

The ECB is intent on curtailing its QE program, but it is assumed in markets that Euro zone interest rates are on hold for a long while yet, unless inflation starts to accelerate.



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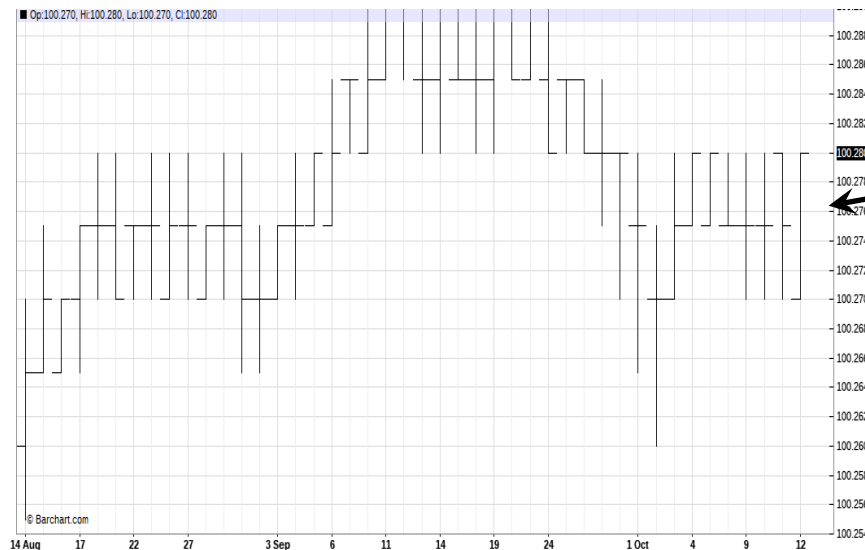
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## EURO ZONE MARKETS: Euribor

### OUR TRADING STANCE: SQUARE.

Last week we were Square of Euribor.



Euribor remains in a well defined trading range.

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

...“Looking ahead German industrial production is due, but interest rates aren’t going anywhere for at least the short/medium term”...

In the event German and Euro zone industrial production diverged, the former was weaker and the

later stronger than expected.

Looking ahead the key release this week is Euro zone CPI, a stronger than expected report will not push the ECB into hiking rates, but it will start chattering about when they will.

For now we are staying square.

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## EURO ZONE MARKETS: The Bund

### OUR TRADING STANCE: SQUARE.

Last week we were **Bearish** of The Bund.



The Bund made new recent lows before a sell off in stock begun a correction.

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

...“Looking ahead German and Euro zone industrial production are due, but until a consensus it reached with Italy we judge the Bund remains vulnerable”...

In the event the sell off in global stocks driven by fear over US interest rates rising further and Trump's ill advised criticism of the Fed heralded a correction, but

we doubt its durability.

Looking ahead Euro zone CPI is due, but we judge all eyes remain trained on stocks, meaning further selling there will offer the Bund some more short term relief.

We are Bearish the Bund.

Our suggested target is 157.00 and our suggested stop is set at 159.00 for protection.

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## EURO ZONE MARKETS: The Euro

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

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



The Euro lost further ground against Sterling last week as expectation of a “BREXIT” deal increased.

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

...“Looking ahead the key data releases are German and Euro zone industrial production, but the Euro looks under pressure until the Italian fiscal dispute with Brussels is resolved”...

In the event German and Euro zone industrial production delivered mixed signals, but Italy seems intent on pressing ahead with its budget proposals.

Looking ahead Euro zone CPI is due, but unless very different to consensus we judge the Euro looks hostage to Italy, “BREXIT” and anxiety about the extent of US interest rate hikes.

We are Bearish the Euro v the Dollar.

Our suggested target is 1.1400 and our suggested stop reset at 1.1650 for protection after our previous stop was hit.

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## UK Markets

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

## Euro Zone Markets

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

## Japanese Markets

- + JAPANESE BONDS
- + YEN
- + NIKKEI

## Commodities

- + GOLD
- + OIL

## Disclaimer

## EURO ZONE MARKETS: DJ Euro Stoxx 50

### OUR TRADING STANCE: SQUARE.

Last week we were Square



See how the market sold off hard as selling swept through global equity markets.

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

...“Looking ahead German and Euro zone industrial production are due, but we judge this market looks vulnerable to the down side”...

In the event data delivered mixed signals, but the market sold off in conjunction with other global equity markets on US interest rate concerns, Trump's

criticism of the Fed's current policy stance and friction between Rome and Brussels over the proposed Italian budget.

We are square here.

Any further selling and traders will be asking the question; are we closing in on a bear market in stocks? For now the answer is no.

More



## Summary

## Global Calendar

## US Markets

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

## UK Markets

+ SHORT STERLING  
+ GILT  
+ STERLING  
+ FTSE

## Euro Zone Markets

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+ BUND  
+ EURO  
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## Commodities

+ GOLD  
+ OIL

## Disclaimer

## JAPANESE MARKETS: economic background

Last week's focus was the trade data and machine orders.

In the event the trade balance was worse than expected, but machine orders were very much stronger, good news for the economy and policy makers.

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

- On Monday; **industrial production and capacity**

**utilisation,**

- On Tuesday; **Nationwide and Tokyo department store sales,**
- On Wednesday; **the trade balance, and**
- On Thursday; **National CPI.**

The main event this week is the CPI report, further progress towards target would support the view the authorities are finally winning the battle against sub-par inflation.



## Summary

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## Commodities

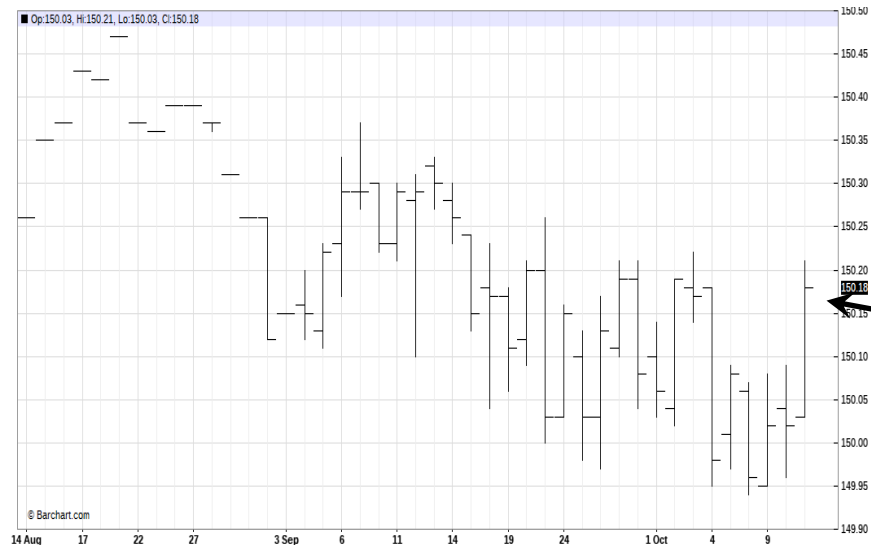
- + GOLD
- + OIL

## Disclaimer

## JAPANESE MARKETS: Japanese Bonds

### OUR TRADING STANCE: SQUARE.

Last week we were Square of Japanese Bonds.



The JGB bucket the trend last week and rallied as the Nikkei sold off.

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

...“Looking ahead the trade balance and machine orders are due, but this market is both vulnerable and volatile”...

In the event the market rallied on a sell off in the Nikkei that was driven by a strengthening Yen and negative international sentiment.

Looking ahead the key release this week is National CPI, will it show further progress towards the Bank of Japan's target of 2.0%.

We are staying square; too much volatility and too little direction.

More



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## Commodities

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## Disclaimer

## JAPANESE MARKETS: Yen

### OUR TRADING STANCE: SQUARE

Last week we were Square



The Yen strengthened further as traders sought safety during heightened international tensions.

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

...“Looking ahead the trade data is due, but the Yen looks set to weaken further against a Dollar supported by strong economic growth and the Fed’s firmer tone with policy driven by concerns a tight labour market will drive up US inflation”...

In the event the reverse was true. Traders grew more uneasy about the potential pace of US interest rate

risers and Trump’s strident criticism of the Fed and its current policy as “out of control”.

Looking ahead global tensions continue to build with the US threatening Saudi Arabia of harsh punishment if it had a hand in the disappearance of a Jamal Khashoggi meaning the Yen could rally on further short term safe haven buying.

We are staying square, for now.

More



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## Commodities

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## Disclaimer

## JAPANESE MARKETS: Nikkei

### OUR TRADING STANCE: SQUARE

Last week we were Square of the Nikkei.



The Nikkei sold off hard in concert with other global equity markets on a return of risk aversion.

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

...“Looking ahead several data releases due, but we judge international sentiment will continue to weigh on this market as traders see an increasingly hawkish Fed and no end to the trade dispute between the US and China”...

In the event global stocks took fright last week and sold

off hard as fears of tighter monetary policy in the US took hold and were exacerbated by Trump calling the Fed “out of control”.

Looking ahead the key data release this week is National CPI but we judge this market is in the hands of global sentiment and the Yen's direction of travel.

We are staying square.



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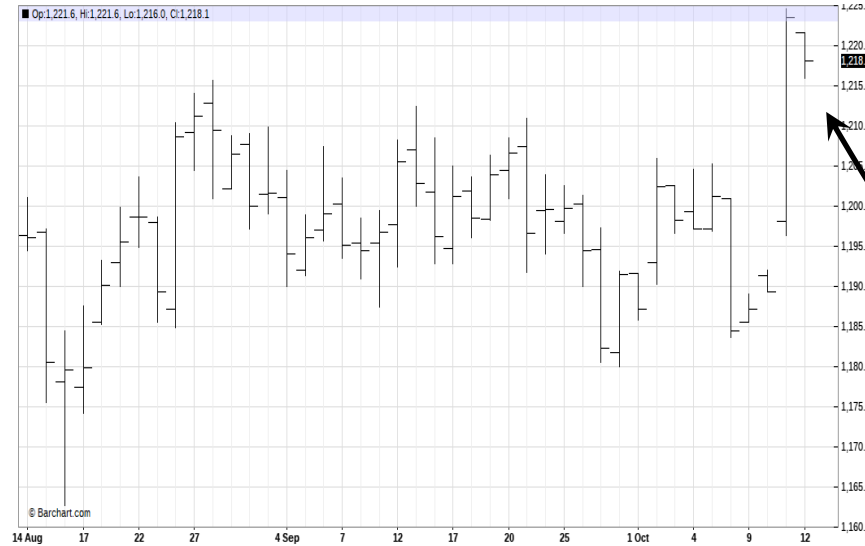
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## Disclaimer

## COMMODITIES: Gold

### OUR TRADING STANCE: SQUARE

Last week we were Square of Gold.



See how Gold spiked on increasing global tensions centred on the suspected killing of a dissident Saudi journalist inside the Saudi embassy to Turkey.

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

...“Looking ahead the key releases this week are US PPI and CPI. Strong reports will support the Dollar leaving Gold yet again side lined”...

In the event both reports delivered a benign message, but are likely to prove a blip keeping the Fed on its stated policy course, but it was fresh geopolitical tension that sent Gold higher.

Looking ahead all eyes on Saudi Arabia and the unanswered question of what happened to Jamal Khashoggi inside the Saudi Embassy to Turkey; he went in, but didn't come out.

We are staying square for now, but if tensions between the US and Saudi Arabia worsen then go long.

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- + OIL

## Disclaimer

## COMMODITIES: Oil

### OUR TRADING STANCE: SQUARE

Last week we were Square of Oil.



See how oil continued to slide on equity market weakness.

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

...“Looking ahead we see little in this week’s data that can alter the course of this market short term, but we judge higher oil prices will lead to increased US Shale output that will ultimately act as a cap”...

In the event the market sold off, but we doubt shale output was behind it, more likely the sell off that swept through global equity markets driven by concerns over rising US interest rates and how much higher they will go.

Looking ahead the outlook for oil has become uncertain. On the one hand a prolonged period of weakness in equity markets will weigh on oil as traders fret about a possible cooling of the US economy, derived from the Fed’s current policy stance. But if tensions between the US and Saudi Arabia worsen and it emerges some ill fate befell Jamal Khashoggi in the Saudi mission to Turkey and Trump hits the Saudi’s with sanctions, an oil shock driven by Saudi Arabia might result?.

We are staying square of oil, for now.

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- + GOLD
- + OIL

## Disclaimer

### SEVEN DAYS AHEAD

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