

WEEK 29 17th – 23rd July 2007

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



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SEVEN DAYS AHEAD

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ABOUT SEVEN DAYS AHEAD

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

ABOUT THIS GUIDE

John Lewis's unique contribution is to bridge the gap between the trader and the economist by being acutely sensitive to the interplay of real world economic data with market expectations. Using his successful trading experience of 30 years, he studies the evidence in minute detail but tries never to lose sight of the big picture, or the day-to-day problems of running a position.

Each week the Macro Trader's Guide identifies the key economic releases of the previous week and explains why the markets reacted as they did. Then it anticipates the week ahead, emphasising the critical releases and predicts the likely market outcomes.

The Guide reveals money-making trading opportunities but includes a candid assessment of loss-making situations that can arise from trend less or too-volatile markets.

ABOUT JOHN LEWIS

John Lewis has worked in the London financial markets for 30 years.

He left the Stock Exchange and joined Standard Chartered Bank London in 1976 trading the Sterling money markets.

He then trained as a floor trader with Holco Trading on the London Commodity Exchange specialising in cocoa and oil futures.

He began to trade off the floor with Drexel Burnham Lambert becoming Deputy Manager of their Money Desk in Europe responsible for all funding, money market trading and FX hedging for the European operation.

He rose to become Deputy Global Head of Proprietary Trading with Skandinaviska Enskilda Banken and thence Head of Proprietary trading Svenska Handelsbanken London.

After 1998 he moved into the hedge fund business as a senior fund manager of Weavering Capital UK. Now in association with Seven Days Ahead he works with a wide variety of financial institutions and independent traders, utilizing his long experience and successful trading record.

GLOBAL CALENDAR

WHAT HAPPENED LAST WEEK?

| | Week of 9 th July |
|-----------|---|
| Monday | UK PPI Input 0.9m, 2.1y AS UK PPI Output 0.2m, 2.4y LESS UK PPI Core 0.2m, 2.1y LESS UK BRC Retail sales monitor 3.0y HIGHER DM C/A Data 9.6B BETTER DM Trade data 17.5B BETTER DM Ind production 1.9m, 1.2y WEAKER THAN EXPECTED |
| Tuesday | US Wholesale inventories 0.5% HIGHER US Feds Bernanke on inflation ACADEMIC UK Trade data -6.3B BETTER UK Trade non-EU -2.8B BETTER DM WPI 0.1m, 1.9y LESS FR Ind production 0.4m, WEAKER FR Mfg output 0.1m, WEAKER IT Ind production 0.9m, 0.9y BETTER THAN EXPECTED |
| Wednesday | UK RICS House price bal 10.6 WEAKER THAN EXPECTED |
| Thursday | US Trade data -\$60.0B AS US Jobless claims 308k LESS EZ Q1 GDP 0.7q, 3.1y STRONGER EZ Ind production 0.9m, 2.5y BETTER THAN EXPECTED |
| Friday | US Import prcs 1.1m, WORSE US Retail sales -0.9m, WEAKER US Ex-Autos -0.4m, WEAKER US U. of Michigan conf 92.4 STRONGER US Business inventories 0.5 HIGHER FR C/A Bal -2.4B WORSE FR CPI 0.1m, 1.2y BETTER IT CPI 0.2m, 1.7y AS THAN EXPECTED |

WHATS HAPPENING THIS WEEK?

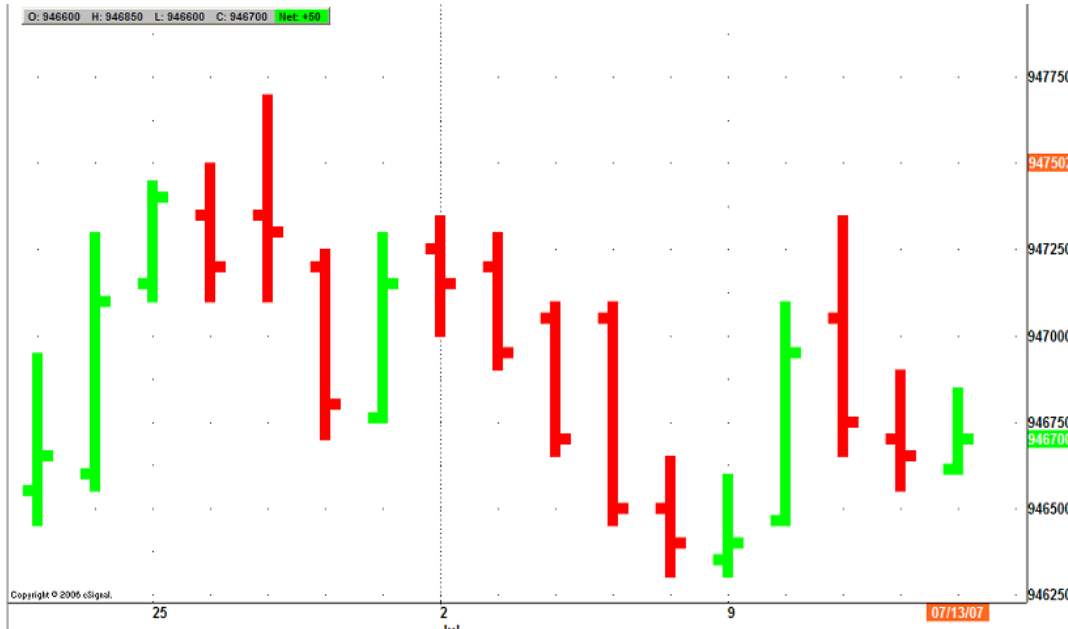
| | Week of 16 th July |
|-----------|---|
| Monday | US Empire mfg 18 UK DCLG Hse prices 11.2y DM CPI 0.1m, 1.8y EZ CPI 0.1m, 1.9y |
| Tuesday | US PPI 0.1m, US PPI Core 0.2m, US Net TIC flow \$70.0Bm, US Ind production 0.5m, US Capacity utilisation 81.5% UK CPI 0.1m, 2.3y DM ZEW survey 19.5 IT C/A n/f |
| Wednesday | US CPI 0.2m, US Core CPI 0.2m, US Housing starts 1.450M US Building permits 1.480M US Bernanke @ the Hse on monetary policy UK MPC Minutes 6/3 UK Unemploy'm't rate 2.7% UK Change -7.5k UK Avge earnings 3.6% UK Avge ex-bonus 3.6% UK ILO rate 5.5% IT Trade bal -875M IT Trade bal EU n/f EZ Trade bal 2.2B |
| Thursday | US Jobless claims 310k US Bernanke @ Senate on monetary policy US Philly Fed 14 US FOMC minutes June 28 meeting UK Retail sales 0.3m, 3.5y UK PSNCR 12 1B UK PSNB 6.2B UK M4 Strlg Indg 18.9B UK BSA Mrtge approvals n/f DM PPI 0.3m, 1.8y |
| Friday | US Feds Poole on sub-prime mrtges UK Q2 GDP 0.7q, 2.9y UK Indx of services 1.0% IT Ind orders 1.1m, 3.8y IT Ind sales 0.9m, 1.1y IT Trade bal n/f |

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INTEREST RATE FUTURES

EURO DOLLARS

DECEMBER 07 EURO DOLLARS



See how Eurodollars rallied wildly on Tuesday and Wednesday on fears of a possible economic slowdown resulting from the sub-prime mortgage crisis, but the move reversed as stocks rallied.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of the market ahead of a speech due on Tuesday from Fed Chairman Bernanke which we anticipated as a possible market moving event.

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

- On Tuesday; Wholesale inventories were higher than expected but the speech by Fed Chairman Bernanke on inflation proved an academic event,
- On Thursday; the trade balance was as expected and Jobless claims were as expected, and
- On Friday; import prices were worse than expected, retail sales were weaker than expected, University of Michigan confidence was stronger than expected and business inventories were higher than expected.

The market ignored the data as a wave of panic buying gripped short term interest rate futures fuelled by more anxiety over the sub-prime mortgage crisis, but this subsided abruptly late on Wednesday as stocks rallied.

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

- on Monday; Empire mfg,
- on Tuesday; **PPI**, Net TIC flow, **industrial production and capacity utilisation**,
- on Wednesday; **CPI**, Housing starts, Building permits and **Bernanke testifies at the House on monetary policy**,
- on Thursday; Jobless claims, **Bernanke testifying at the senate**, the Philly Fed survey and **FOMC minutes for June 28 meeting**, and
- on Friday; the **Feds Poole on the sub-prime mortgage crisis**.

The key events this week are highlighted in red, and although the PPI and CPI data are important, we judge Bernanke's testimony at both the House and Senate as the main events.

The Macro Trader's view is: we were surprised by the extent of last week's rally, which was driven by pure fear and panic. The rating agency Standard and Poors placed a tranche of Sub-

prime mortgage debt on watch for down grade and traders feared the worst.

This was exacerbated by some disappointing results from home depot, which led stocks lower on fears of a weaker housing market destabilising the wider economy.

However the move didn't last; stocks recovered and both short term interest rate futures and Bond futures gave back their gains. Other data last week reverted to the mixed picture seen earlier in June as retail sales collapsed, but import prices soared.

This week traders will scrutinise the PPI and CPI data for a clearer picture on inflation, as the Fed still sees this as its primary concern.

And we see Bernanke's twin appearances before Congress as an ideal opportunity for him to communicate to the markets exactly what the Fed seeks from the economy.

Previously the comments from policy makers have flagged improving growth but retained anxiety over the pace at which inflation has improved. On balance we expect that message to be retained.

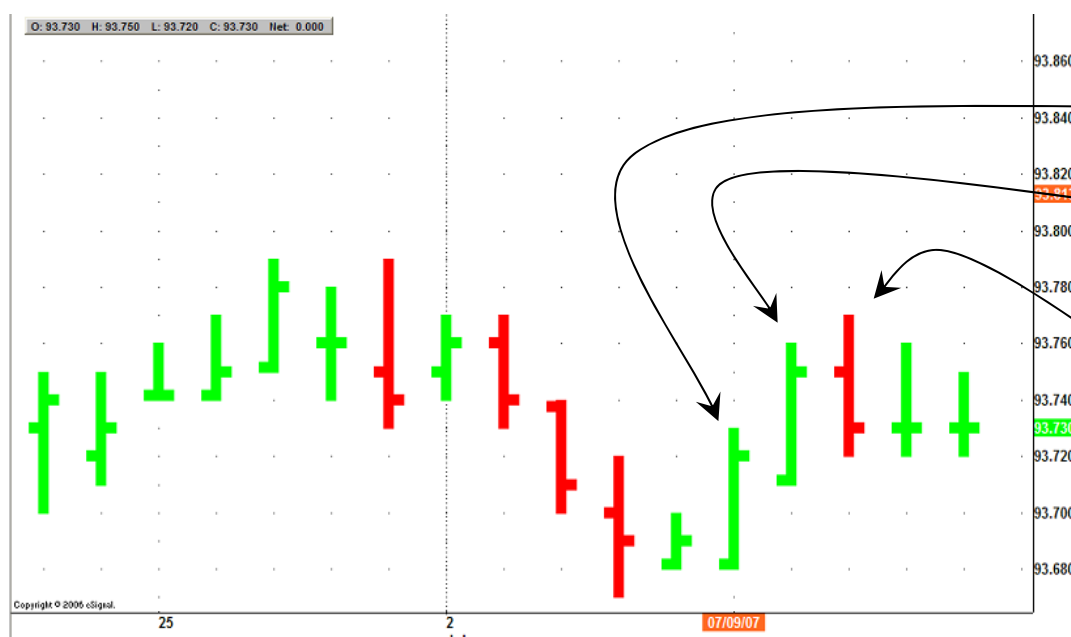
As we have said on several occasions; we think the improvements won on inflation are small given the weak economic environment in which they were achieved and we judge in a more robust economic phase they could easily be rolled back.

If Bernanke in any way expresses this view, Eurodollars will sell off.

For now, amid the current mood of uncertainty and volatility, we advise remaining square. The summer holiday season is underway and with senior traders away from their desks, markets could become thin and accentuate the air of uncertainty.

SHORT STERLING

DECEMBER 07 SHORT STERLING



See how the market rallied last week as PPI on Monday was better than expected, Trade on Tuesday was better than expected and the RICS survey on Wednesday was weaker than expected.

THE MARKET EXPLAINED

OUR TRADING STANCE: BEARISH.

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

Last week we remained bearish of December 07 Short Sterling as we expected the events from the previous week to eclipse what we considered mainly league two data.

However, we advised traders to monitor the following:

- on Monday; Core PPI was better than expected but the BRC Retail sales monitor was stronger than consensus,
- on Tuesday; the trade data showed across the board improvement, and
- on Wednesday; the RICS House price survey was weaker than expected,

The market rallied on this data, but the move was exaggerated by anxiety caused by Standard and Poors placing \$12.0B worth of US Sub-prime securities on negative credit watch.

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

- on Monday; the DCLG House price report,
- on Tuesday; **CPI, RPI etc,**
- on Wednesday; the **MPC minutes,**

unemployment data and **average earnings,**

- on Thursday; **Retail sales,** PSNCR, PSNB, M4 Sterling lending and mortgage approvals, and
- on Friday; **Q2 GDP** and index of services.

This week the key events are highlighted in red. Clearly inflation is very important, especially as another drop is forecast, but so too is average earnings and retail sales, but we judge the MPC minutes and Q2 GDP will have the greatest impact.

The Macro Trader's view is: last week's rally seems an aberration to us, but the release of Q2 GDP will likely have the final say.

The UK economy is enjoying its strongest period of expansion in living memory, and the Q2 GDP data will almost certainly see that extend.

The MPC are concerned that after such a prolonged economic expansion there is next to no spare capacity in the UK economy, but to be frank; there is very little in the global economy either.

Therefore this week's MPC minutes will also heavily impact the market and if the vote for a rate hike is anything other than 5/4 we expect a sell off.

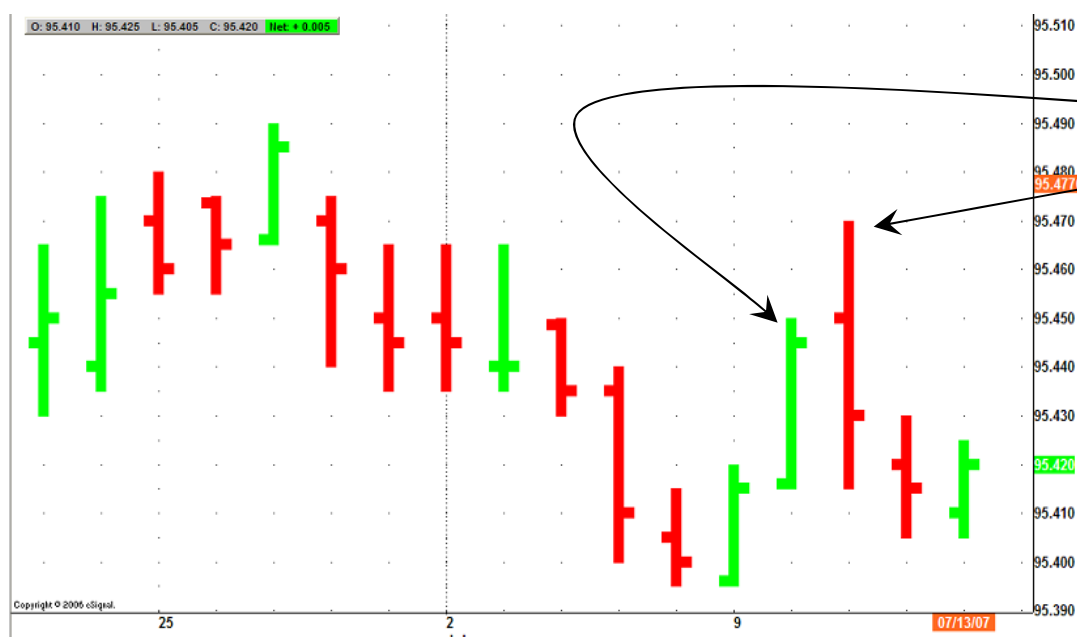
Such a result will flag more action remains in the pipeline and a strong Q2 GDP report will likely hasten another rate hike during the summer.

Traders should remain short of this market as we expect it to decline further.

Our target over the next 7 days is 93.67, but we expect it to go lower yet medium/long term, but our stop remains at 93.79 to protect profits.

EURIBOR

DECEMBER 07 EURIBOR



See how Euribor rallied on Tuesday and especially Wednesday, but the move wasn't inspired by domestic data but panic over the possible consequences of the US sub-prime mortgage crisis.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of December 07 Euribor, as we judged the market would enter oversold territory if it weakened further.

But in a week with few key reports due we advised traders to monitor the following:

- on Monday; German Current A/C and trade A/C data were stronger than expected but industrial production was weaker than forecast,
- on Tuesday; German WPI was less than expected, French industrial production and manufacturing output were both weaker than expected and Italian industrial production was stronger than expected,
- on Thursday; Euro zone Q1 GDP was stronger than expected and industrial production too was better than forecast, and
- on Friday; French C/A data was worse than expected and CPI was better than expected and Italian CPI was as expected.

The data was supportive of an upward move, but

the actual rally far exceeded all plausibility. Traders were panicked by the news that Standard and Poors had placed \$12.0B of sub-prime mortgage backed securities on negative credit watch.

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

- on Monday; **German CPI and Euro zone CPI,**
- on Tuesday; **German ZEW survey and Italian C/A data,**
- on Wednesday; Italian and Euro zone trade data,
- on Thursday; **German PPI,** and
- on Friday; Italian industrial orders, industrial sales and trade data.

This week's key releases are in red, but we think the German ZEW survey could be the most important.

The Macro Trader's view is: we have consistently stated that our expectation is for policy to peak at 4.25%.

And so far we haven't seen anything to change our view.

However last week's brief rally was clearly nothing to do with domestic events but everything to do with fears over a serious economic slowdown in the US caused by the ongoing sub-prime mortgage crisis.

However, given the length of time this has already been in the news and the small

proportion of debt it represents, we think last week's fear was irrational.

Furthermore, the latest US mortgage applications data showed an increase, so the housing market melt down in America is delayed; at least for now.

Once again we advise traders to remain square of this market. Inflation remains below target, and with inflation reports from France, Italy and Germany remaining benign, the ECB can afford to wait.

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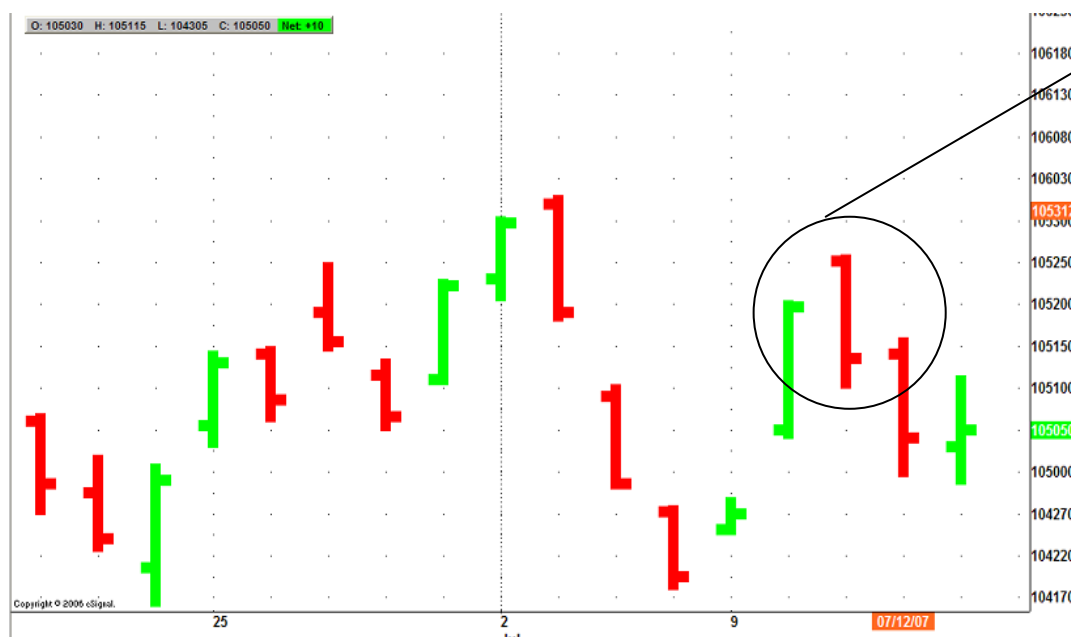
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the 10yr Note.

US 10yr NOTE



See how Treasuries spiked mid-week on safe haven buying as exaggerated fears over sub-prime washed through Government bond markets.

This week we are square of the 10yr Note.

Last week we remained short of this market after a week of very strong data, and with a couple of key reports due, we expected the market to sell off further.

And with this in mind we advised traders to monitor the following:

- On Tuesday; Wholesale inventories were higher than expected but the speech by Fed Chairman Bernanke on inflation proved an academic event,
- On Thursday; the trade balance was as expected and Jobless claims were as expected, and
- On Friday; import prices were worse than expected, retail sales were weaker than expected, University of Michigan confidence was stronger than expected and business inventories were higher than expected.

The Market largely ignored last week's data as a wave of panic swept global markets driven by renewed anxiety over the sub-prime mortgage crisis.

Looking ahead there are several key releases this

week, and we advise traders to monitor the following:

- on Monday; Empire mfg,
- on Tuesday; **PPI, Net TIC flow, industrial production and capacity utilisation,**
- on Wednesday; **CPI, Housing starts, Building permits and Bernanke testifies at the House on monetary policy,**
- on Thursday; **Jobless claims, Bernanke testifying at the senate, the Philly Fed survey and FOMC minutes for June 28 meeting, and**
- on Friday; **the Feds Poole on the sub-prime mortgage crisis.**

The key reports for this week are highlighted red, but we are eager to hear Bernanke's testimony on monetary policy and the economy mid-week; there are several conflicting views that need clarification.

The Macro Trader's view is: after a fierce sell off the previous week, driven by unambiguously strong data, we expected the market to sell off further as traders refocused on the building strength of the economy.

In the event, the market endured an equally fierce short covering rally.

The driving force was as on previous occasions, a sudden risk aversion caused by panic over the US sub-prime mortgage market. The trigger this time was Standard and Poors placing US\$12.B of debt on negative credit watch.

But this is a fraction of all debt issued and a very small percentage of mortgage debt; the risk of contagion is small and the Fed has dismissed it as an insignificant risk to the economy.

As the week progressed sanity returned as a recovery in stocks helped by better reports from the likes of Wall Mart, and a drop in home foreclosures, saw bonds retest earlier lows.

However, amid all this we were stopped out, albeit with a reduced profit. But although our outlook for Bonds remains bearish, we are remaining square, temporarily.

With two inflation reports due, and Bernanke giving testimony in Congress, markets could remain choppy and unpredictable.

We sense conditions will be more predictable as the week wears on and these events have passed.

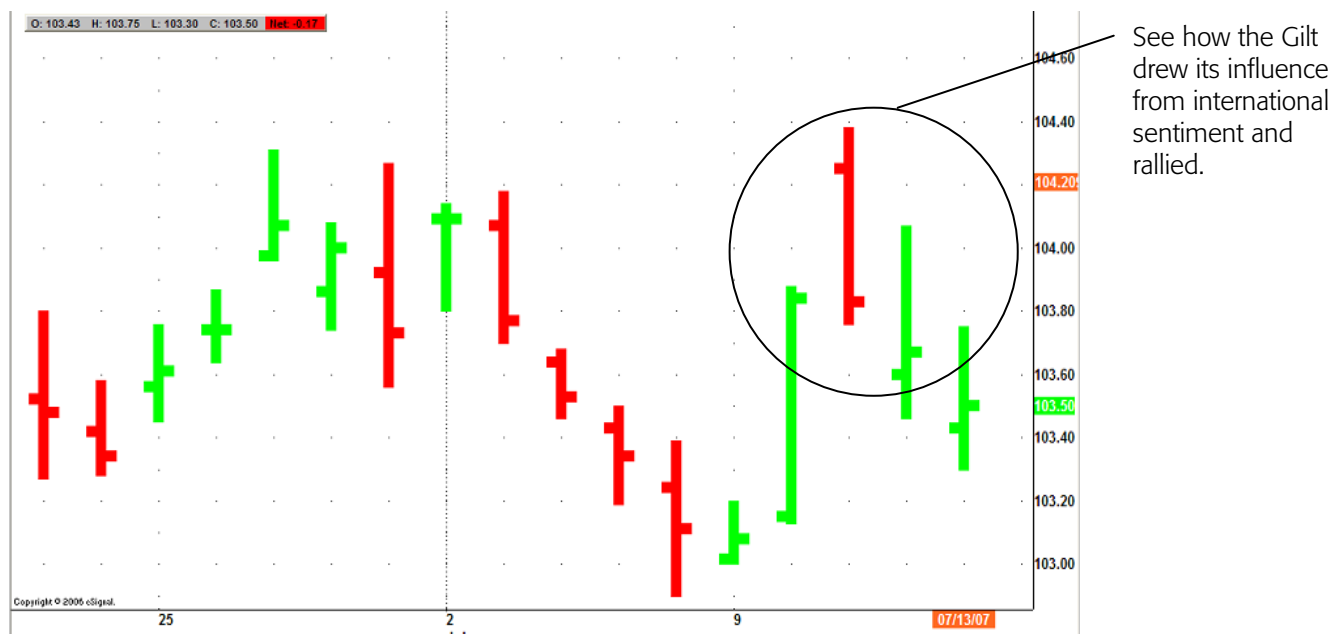
For now we advise being square, but we judge this market has much further to go on the downside in the medium/long term, but timing as ever will prove critical.

THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the Gilt.

THE GILT



This week we are square of the Gilt.

Last week we were bearish of the Gilt as UK and US data from the previous week weighed on bonds sending them much lower as traders weighed the likely impact on inflation of a US economic recovery.

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

- on Monday; Core PPI was better than expected but the BRC Retail sales monitor was stronger than consensus,
- on Tuesday; the trade data showed across the board improvement, and
- on Wednesday; the RICS House price survey was weaker than expected,

The data was generally better than expected last week and a mild correction higher should have ensued, but the move which occurred mid-week was exaggerated by irrational fears over US sub-prime mortgages.

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

- on Monday; the DCLG House price report,

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- on Tuesday; **CPI, RPI etc,**
- on Wednesday; the **MPC minutes,** unemployment data and **average earnings,**
- on Thursday; **Retail sales,** PSNCR, PSNB, M4 Sterling lending and mortgage approvals, and
- on Friday; **Q2 GDP** and index of services.

The key events this week are highlighted in red, and we single out the MPC minutes and especially the vote as the main event. Anything other than 5/4 will be taken as bearish.

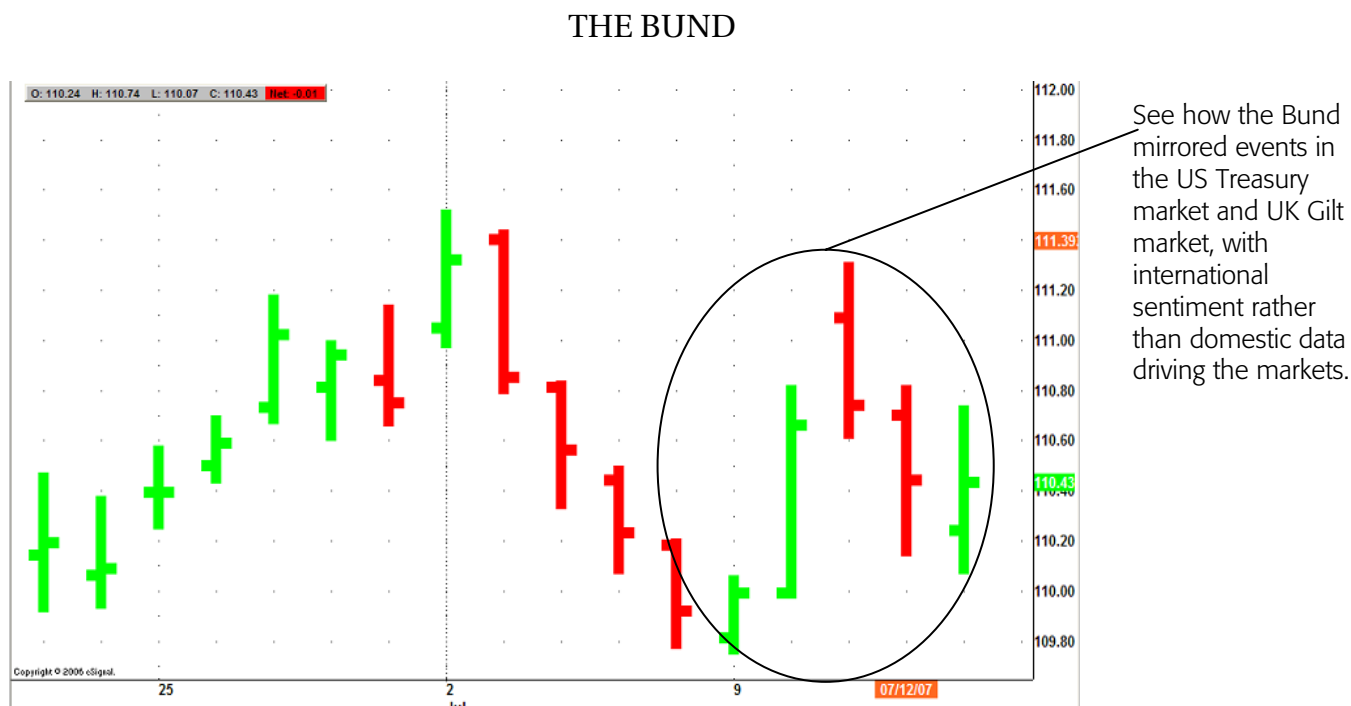
The Macro Trader's view is: although we were stopped out, the move was unpredictable and driven by irrational fear. Our analysis of this market remains unchanged; bearish. But with several key events due in the UK and US this week we judge it wise to remain square ahead of them.

Although markets returned to trend by the week's end, we judge sentiment remains fragile and we think it wise to remain temporarily sidelined.

THE BUND

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the bund.



This week we are square of the Bund.

Last week we were bearish of the Bund following the release of some strong data in the Euro zone and US the previous week which led us to expect further bearish price action as traders re-assessed the outlook for global inflation medium/long term.

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

- on Monday; German Current A/C and trade A/C data were stronger than expected but industrial production was weaker than forecast,
- on Tuesday; German WPI was less than expected, French industrial production and manufacturing output were both weaker than expected and Italian industrial production was stronger than expected,
- on Thursday; Euro zone Q1 GDP was stronger than expected and industrial production too was better than forecast, and
- on Friday; French C/A data was worse than expected and CPI was better than expected and Italian CPI was as expected.

The data last week was, on balance, bearish for the market with German trade data showing that economy powering ahead and Euro zone Q1 GDP playing a strong supportive role for the bears, but international sentiment drove the market last week and it experienced a fierce, but brief corrective short covering rally.

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

- on Monday; **German CPI and Euro zone CPI,**
- on Tuesday; **German ZEW** survey and Italian C/A data,
- on Wednesday; Italian and Euro zone trade data,
- on Thursday; **German PPI,** and
- on Friday; Italian industrial orders, industrial sales and trade data.

This week's key releases are highlighted in red and we judge the German ZEW survey could be important for the market this week. But with markets still nervous, the lead is likely to come from the US and how traders there react to Bernanke's mid week twin testimonies.

The Macro Trader's view is: although we were stopped out by last week's fierce corrective short covering rally, we retain our medium/long term bearish view of this market.

Traders were squeezed last week as a result of being over committed, so when panic buying hit Government bonds after news Standard and Poors was placing a chunk of US sub-prime mortgage debt on negative credit watch, the effects of stops being hit greatly exaggerated the short covering rally.

This was evidence by the way it fizzled out, with markets reverting to trend direction by the week's end.

For now we judge markets are likely to remain very nervous, especially as we move through the holiday period with senior traders away from their desks in many markets.

However, if as we expect, Bernanke restates the Feds analysis of the US economy as expressed in recent policy statements:

- growth; likely to recover,
- inflation; should correct lower, but
- the slow speed by which inflation has so far corrected gives cause for concern.

We expect all the major government bond markets to weaken further.

With oil supply once again making headline news we see two key factors dominating bonds in the medium/long term:

- rising energy prices forcing higher inflation, and
- more aggressive Central Bank policy responses.

So our advise at least short term is stay square and let the dust settle, before going short once more.

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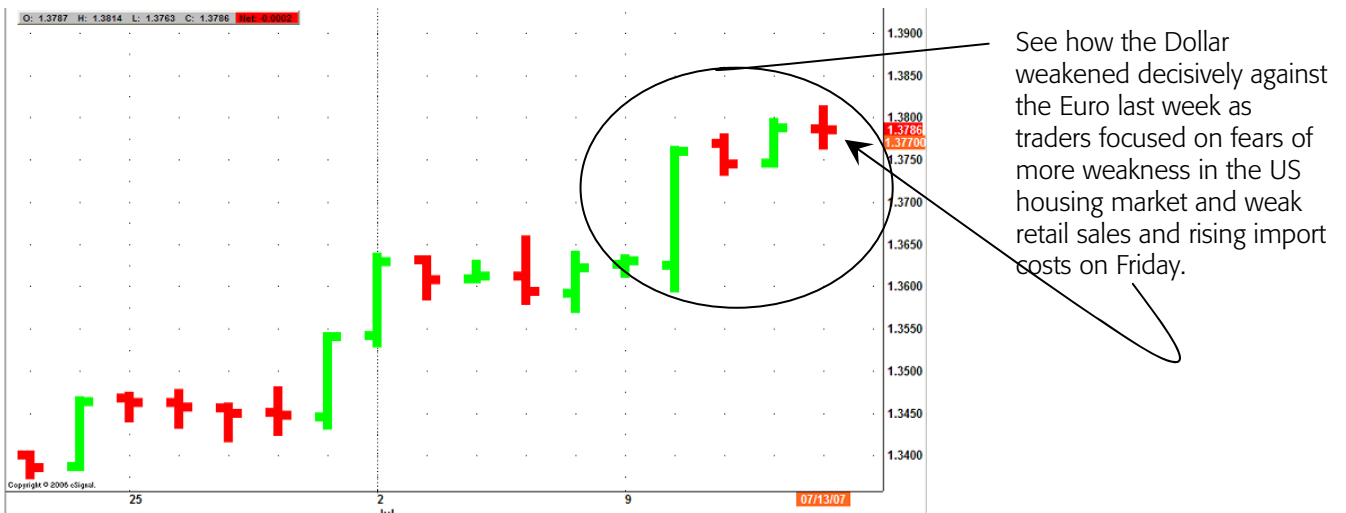
CURRENCIES

THE DOLLAR

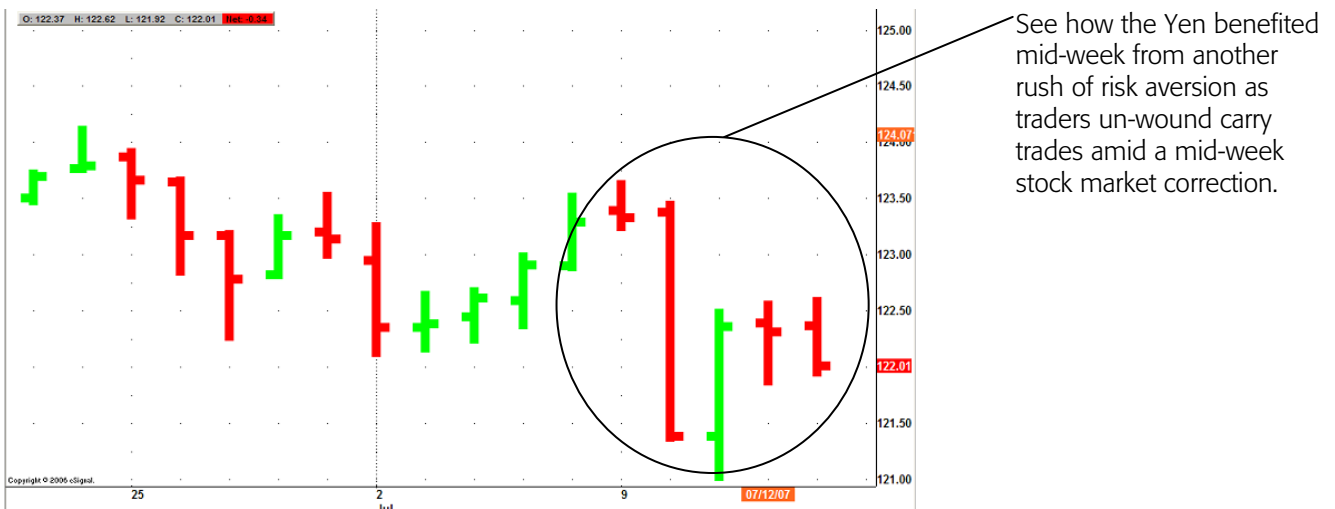
OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Dollar v Sterling.

EURO/DOLLAR CHART



DOLLAR/YEN CHART



This week we are bearish of the Dollar.

Last week we remained bearish of the Dollar against the Pound as traders continued to sell the Dollar as a result of the widely held belief that the Fed would remain on hold for a further extended period.

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

- On Tuesday; Wholesale inventories were

higher than expected but the speech by Fed Chairman Bernanke on inflation proved an academic event,

- On Thursday; the trade balance was as expected and Jobless claims were as expected, and
- On Friday; import prices were worse than expected, retail sales were weaker than expected, University of Michigan

confidence was stronger than expected and business inventories were higher than expected.

The data last week was once again mixed, with retail sales at their weakest for some time and import prices making an oil price driven surge.

The Dollar weakened further on this but also traders became concerned the Sub-prime mortgage crisis would yet have a serious negative impact on the economy and this too sent the Dollar lower.

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

- on Monday; Empire mfg,
- on Tuesday; **PPI**, Net TIC flow, **industrial production and capacity utilisation**,
- on Wednesday; **CPI**, Housing starts, Building permits and **Bernanke testifies at the House on monetary policy**,
- on Thursday; Jobless claims, **Bernanke testifying at the senate**, the Philly Fed survey and **FOMC minutes for June 28 meeting**, and
- on Friday; the **Feds Poole on the sub-prime mortgage crisis**.

This week's key releases are highlighted in red, but of these we urge traders to pay special attention to Bernanke's testimony on Wednesday and Thursday.

Any comments which reveal the Fed has shifted its inflation concerns to the medium/long term

will cause further problems for the Dollar after last week's retail sales weakness.

The Macro Trader's view is: we remain concerned and maybe the Fed is too, that the recent slight improvement to inflation could be more than reversed as the US economy begins to grow much faster over the coming quarters, especially at a time when world growth is already running at 5.0%.

Currently sentiment in the market is leaning towards the economy performing weaker than we expect; retail sales were quite soft last week and some use this to justify their view.

But we are focussed on the recent strength displayed by the two ISM reports and retail sales.

However this lack of clarity is working against the Dollar as traders expect the Fed to remain on hold, with few, if any, expecting the next policy move to be a hike.

In this environment of a Fed seemingly unable to do anything other than sit on the fence, the Dollar will remain under pressure.

We advise traders to stay short of Dollar/Sterling and now Dollar/Euro and our targets over the next 7 days are:

- For Cable; 2.0500 with a revised stop at 2.0100, and
- For Dollar/Euro; 1.3875 with a stop at 1.3600 to provide close protection.

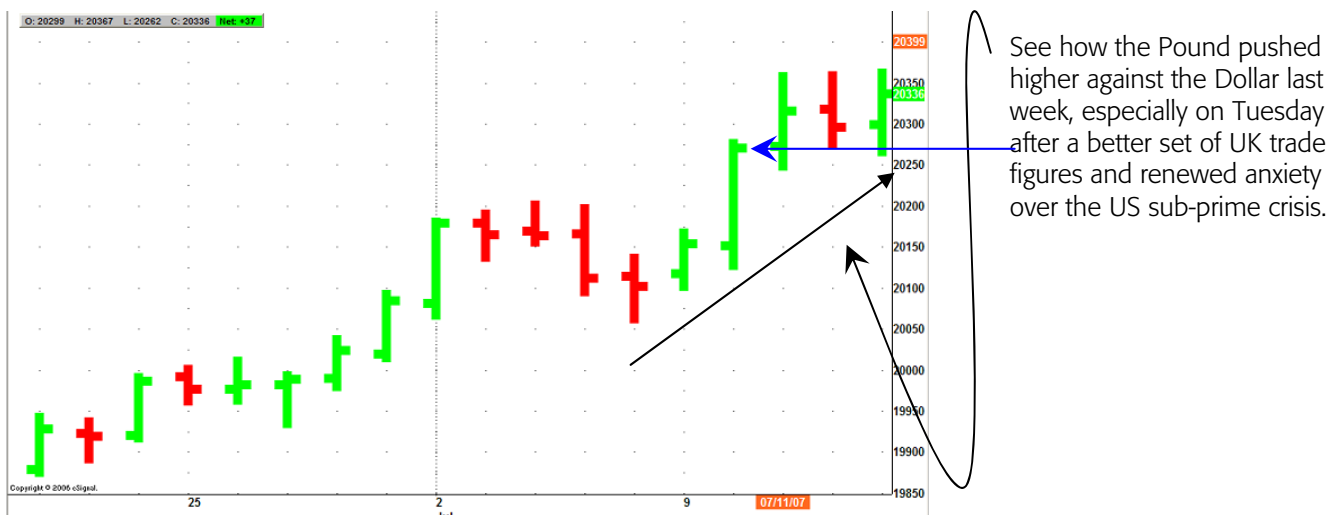
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THE POUND STERLING

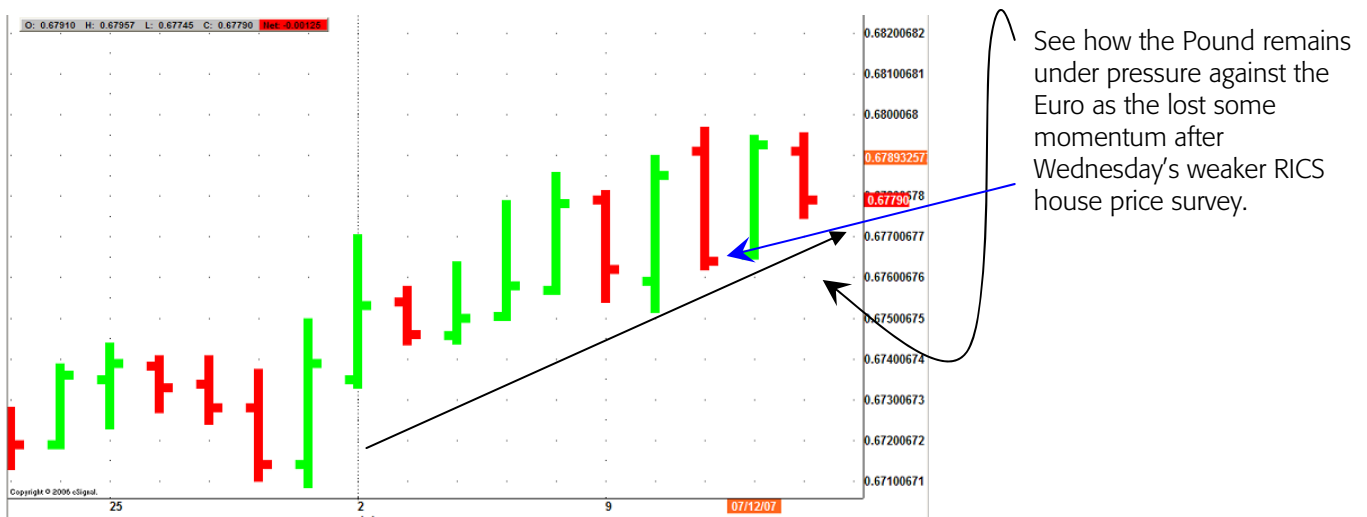
OUR TRADING STANCE: BULLISH v the DOLLAR.

Last week we were bullish of Sterling v the Dollar.

THE CABLE CHART



THE STERLING/EURO CHART



This week we remain bullish of Sterling v the Dollar.

Last week we stayed long of the Pound as we judged the prospect of a widening interest rate differential in Sterling's favour would send the UK currency higher against a Dollar beset by a sidelined Fed, hoping for stronger growth while focussing on stubborn inflation.

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

- on Monday; Core PPI was better than expected but the BRC Retail sales monitor was stronger than consensus,
- on Tuesday; the trade data showed across the board improvement, and
- on Wednesday; the RICS House price survey was weaker than expected,

The Pound reacted to the data by extending the rally, especially after the improved trade data, but the weaker RICS report on Wednesday weakened the Pound against the Euro and caused a spell of sideways trading against the Dollar.

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

- on Monday; the DCLG House price report,
- on Tuesday; **CPI, RPI etc,**
- on Wednesday; the **MPC minutes**, unemployment data and **average earnings**,
- on Thursday; **Retail sales**, PSNCR, PSNB, M4 Sterling lending and mortgage approvals, and
- on Friday; **Q2 GDP** and index of services.

The reports likely to have the greatest impact are highlighted red. If CPI disappoints the Pound will rally, similarly if retail sales show unexpected strength; this too will support Sterling.

But we judge the MPC minutes have the potential to generate a serious move in either direction.

The Macro Trader's view is: Sterling hit our target of 2.0300 and looks well placed to move higher.

While domestic data broadly supported the Pound, US data helped, as US retail sales were much weaker than expected, but with import prices significantly higher on rising energy prices, the Fed still faces the same conundrum.

With the MPC minutes for the July meeting due on Wednesday, traders should be better able to judge the timing of the next rate hike.

And in our opinion, a vote other than 5/4 will signal varying degrees of bullishness for Sterling over the summer months.

Traders should remain long of Cable as we judge Sterling is set to move higher in the coming weeks and months.

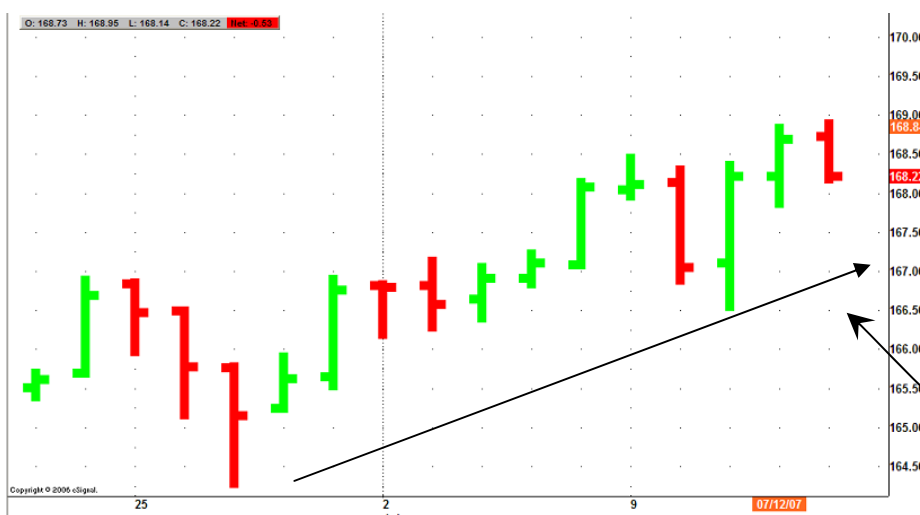
Our target over the next 7 days is now at 2.0500, and our stop is raised to 2.0100 to protect profits.

THE EURO

OUR TRADING STANCE: BULLISH.

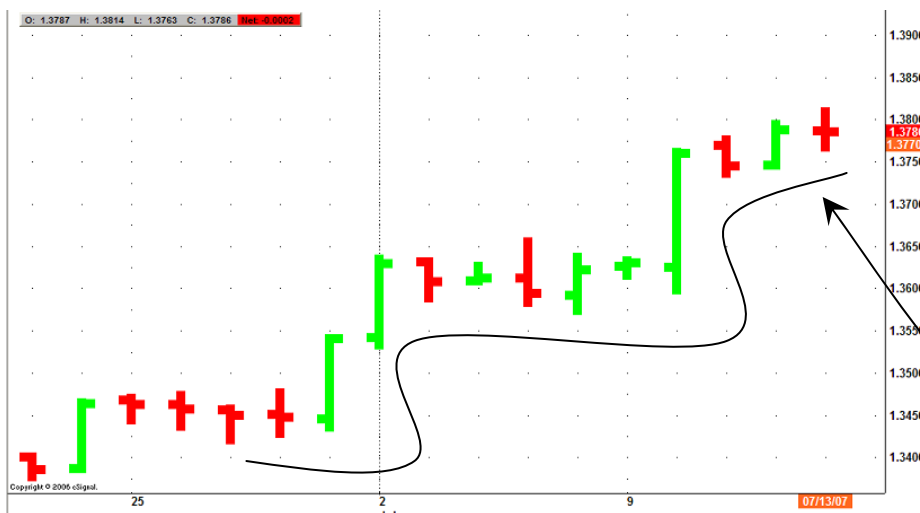
Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen remains weak against the Euro as the Euro finally assailed the old high against the Dollar.

THE EURO/DOLLAR CHART



See how the Euro literally climbed the next rung of the ladder in its rally against the Dollar as traders again fretted over the sub-prime crisis weakening the US economy.

This week we are bullish of the Euro.

Last week we remained square of the Euro as it had yet to mount a serious assault on the psychologically important all time high, and we saw little urgency in changing our stance.

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

- on Monday; German Current A/C and

- trade A/C data were stronger than expected but industrial production was weaker than forecast,
- on Tuesday; German WPI was less than expected, French industrial production and manufacturing output were both weaker than expected and Italian industrial production was stronger than

- expected,
on Thursday; Euro zone Q1 GDP was stronger than expected and industrial production too was better than forecast, and
- on Friday; French C/A data was worse than expected and CPI was better than expected and Italian CPI was as expected.

The Euro rallied on the combination of a growing German trade surplus, subdued German wholesale prices and stronger than expected Q1 GDP.

Looking ahead this week's calendar has several data releases and we advise traders to monitor the following:

- on Monday; **German CPI and Euro zone CPI**,
- on Tuesday; **German ZEW** survey and Italian C/A data,
- on Wednesday; Italian and Euro zone trade data,
- on Thursday; **German PPI**, and
- on Friday; Italian industrial orders, industrial sales and trade data.

The key events are highlighted red, and we judge a stronger than expected German ZEW survey will help the Euro higher, but we sense events in the US will again lead this market.

The Macro Trader's view is: after remaining sidelined for several weeks as the Euro built up

enough strength to break through the old high, we are again long.

The barrier was only psychological but that made it no less of a barrier.

Now though traders will refocus onto the fundamentals and over the medium/long term they still favour the Euro. Here growth is well established at or just above 3.0%, inflation is below target at 1.9%; and that's headline not core, where as in the US, the survey evidence points to a strong recovery, but actual data; last week's retail sales, still paint a different picture.

This leaves the Fed where its been all along; focussing on inflation; expecting it to improve, but worried it wont and determined to act if it doesn't but aware further tightening will hurt the economy.

Sounds like a recipe for a weak Dollar, and that's what we have.

Traders should be long of the Euro against the Dollar. Our target over the next 7 days is 1.3875 and our stop is 1.3600.

A little tight, but after the time taken to break above the old high, it should offer good support, if not then no sense staying long.

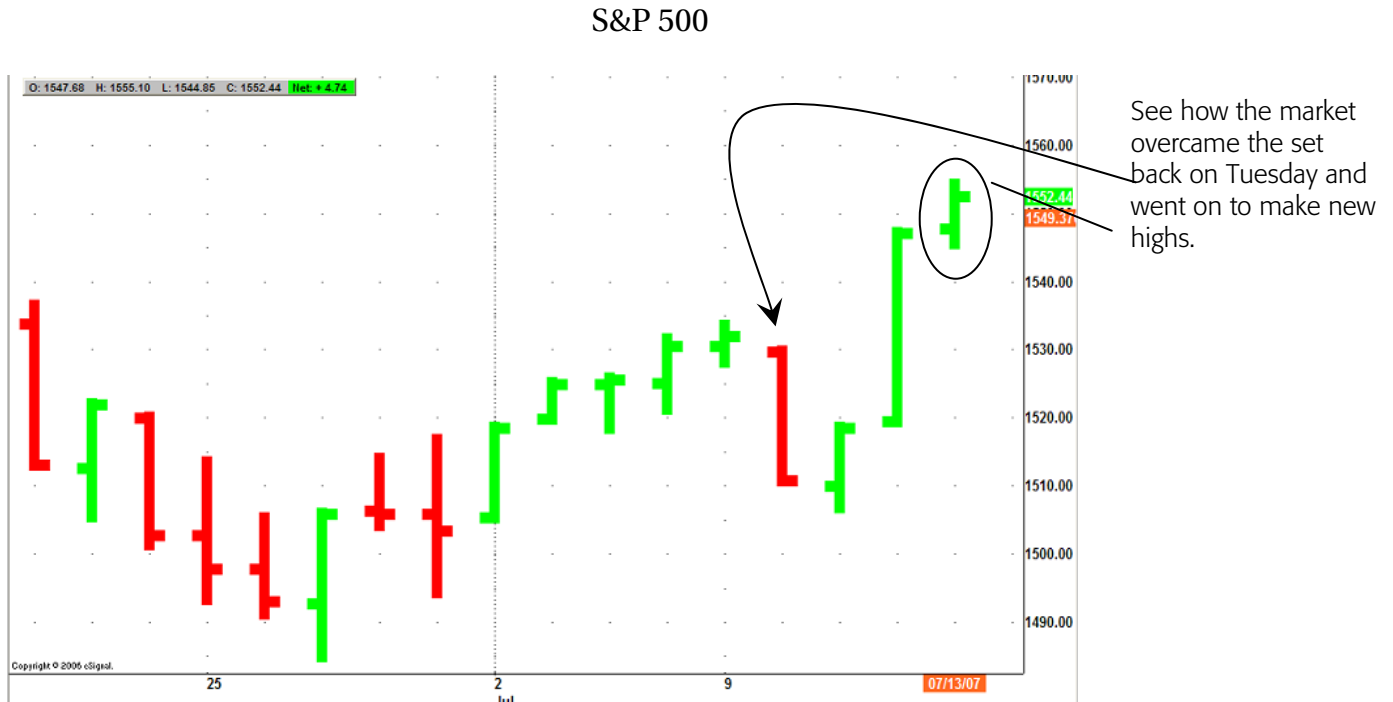
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STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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



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

Last week we were bullish of this market expecting to see it push higher, but the week got off to a shaky start as old fears over the sub-prime mortgage crisis re-surfaced and coincided with a weak report from home depot sending the market lower on fears of fresh weakness.

The negativity didn't last as several reports came in stronger:

- the new mortgage applications data showed an increase,
- a report on home foreclosures fell, and
- that old bell weather of main street; Wall Mart revealed increased sales.

The market responded with a rally and although retail sales released on Friday were weaker than expected, the market hit a new high as traders judged the Fed would have to maintain steady interest rates for a prolonged period.

This week Bernanke appears in Congress on two occasions to give testimony on the economy and monetary policy.

He will likely prove the main event for markets this week even though both PPI and CPI are due.

The Macro Trader's view is: our target of 1543.0 was hit last week as traders took the market to new highs, shrugging off fears of a deeper sub-prime induced economic slowdown, and with the Feds Poole due to deliver a speech on this subject on Friday, perhaps the market can get this problem into perspective.

Traders should remain long of this market as we expect it to make new highs, but volatility will probably remain a feature of this market over the summer months.

Our target over the next 7 days is now 1565.0, and our stop is now set at 1520.0 for closer protection.

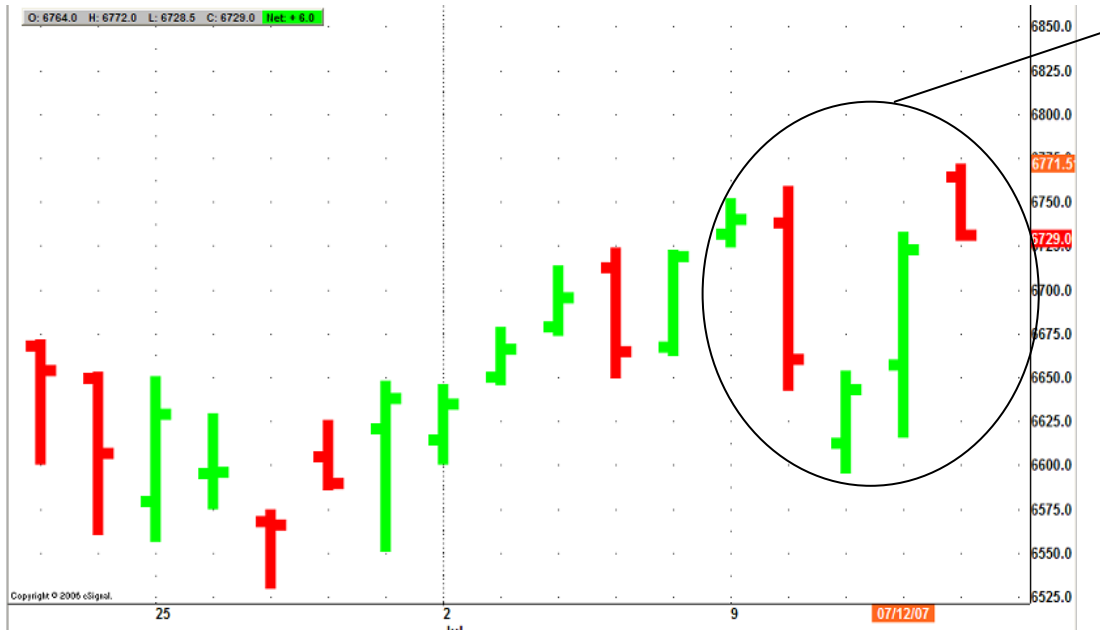
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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100.

FTSE 100



See how the market suffered a mid-week set back on panic caused by fears over the US sub-prime crisis, but amazingly this market made a less convincing recovery than the US S&P500.

This week we remain square of the FTSE 100.

Last week we remained square of this market as we judged it remained susceptible to further attacks of anxiety.

And early in the week the market suffered yet another correction lower, which was caused by heightened concerns over US sub-prime.

The spell of irrational selling hit all the major equity markets, but the US S&P500 showed the greatest resilience and not only recovered but made new highs; this market barely recovered its exaggerated losses.

Looking ahead there is much food for thought this week,

- the CPI report on Tuesday;
- the MPC minutes on Wednesday,
- Retail sales on Thursday, and
- In the US Fed Chairman Bernanke appears in Congress twice to report on monetary policy and the economy.

This market will remain vulnerable and we are staying out of it.

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

"...although the market enjoyed a rally last week we are remaining cautious and staying square.

The S&P in the US made a better attempt to recover recent losses and that's where we will focus our attention this week.

However if the FTSE can see this week out without any fresh set backs, we will take a more positive approach to it next week.

For now we advise a square position

Until the market proves it has overcome the recent uncertainty that has characterised recent weeks"...

The FTSE suffered a further set back last week, and we were pleased to be un-involved. And we advise traders to remain square as this market continues to look vulnerable to volatility and uncertainty.

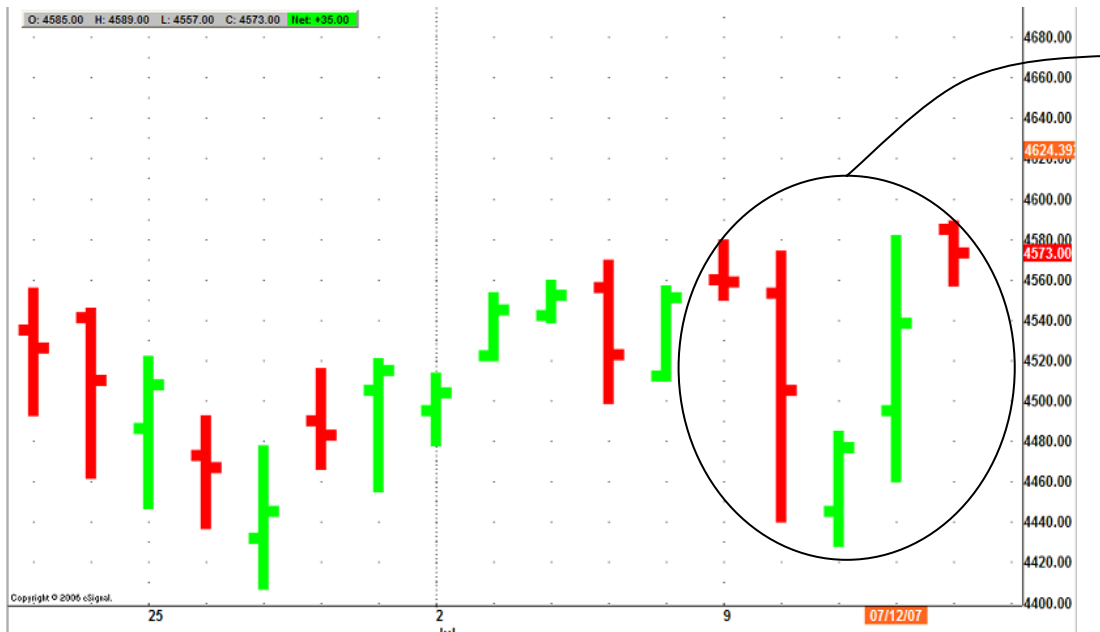
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DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

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

DJ EURO STOXX 50



See how the market traded similarly to the FTSE despite domestic data which should have provided good support.

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

Last week we remained square of this market following ongoing volatility in global equity markets.

And yet again this market suffered a fierce correction that justified our detachment. The source of the volatility was anxiety over the US Sub-prime mortgage crisis.

This time the act of Standard and Poors placing US\$12.0B of debt on negative credit watch worried investors that the US housing market might experience a greater correction, which would seriously weaken the economy.

Although US markets shook these concerns off, European markets were dogged by them for most of the week, even though Euro zone data was supportive.

And in a week packed with key data releases on both sides of the Atlantic and Bernanke's appearance in Congress to report on the US

economy and monetary policy, we judge this market will remain nervous.

The Macro Trader's view is: after last week's price action, what we said then applies again

"...while the negative sentiment coming from the US which led stocks lower seems to have turned bullish again, traders remain sensitive to several factors:

- the threat of a resurgence of inflation caused by diminishing spare global capacity,
- the threat of higher interest rates to contain upward pressures threatening price stability, and
- the ongoing drama centred on the US sub-prime mortgage lending fiasco which is a local US event but has wider implications through contagion if it becomes a systemic threat.

All of this leads us to caution and we advise remaining square a little longer..."

And in short there is little more to say other than stay square.

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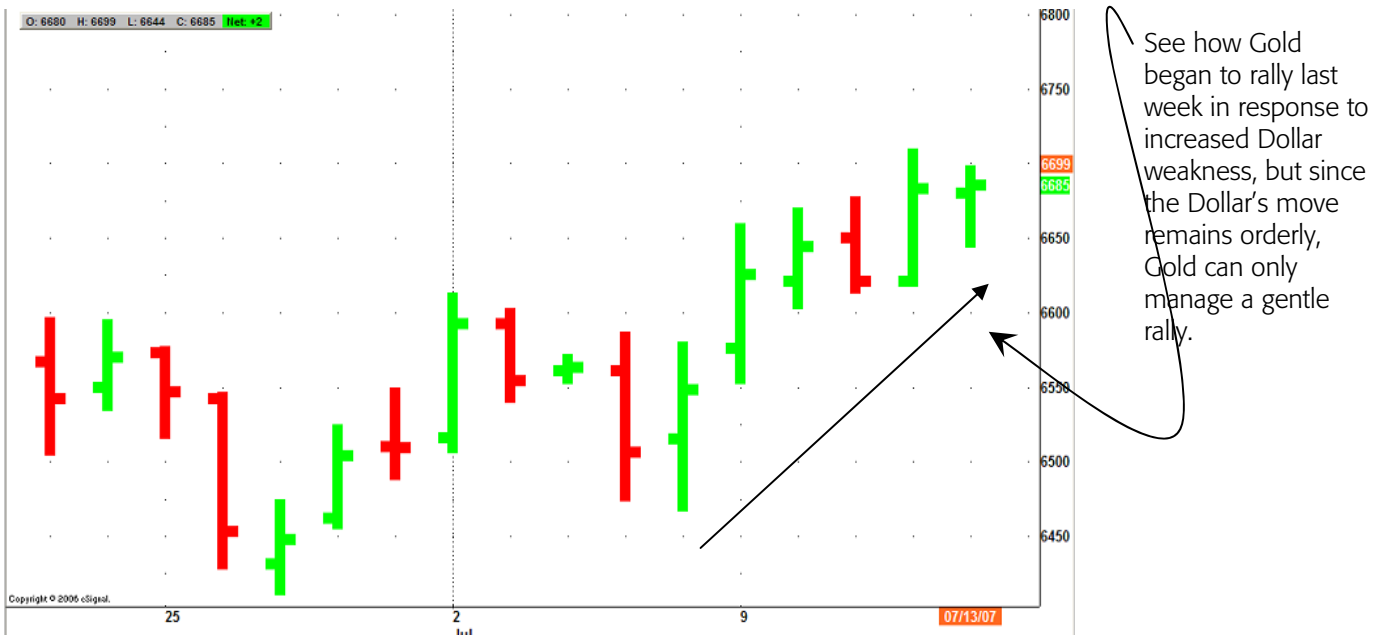
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were square of gold.

THE GOLD CHART



This week we remain square of Gold.

Last week we remained square of this market as the geopolitics offered nothing new and although the Dollar remained weak against Sterling and the Euro, the move continued to lack any sense of drama.

With nothing **new** to report from a geopolitical standpoint, the Gold market only managed a gentle rally as Dollar/Euro finally broke above the old high.

Looking ahead if as we expect, the Dollar continues to weaken, Gold should edge higher, but given the current pace in currency markets is best described as “sedate”, there seems little prospect of Gold enjoying a decisive run.

The Macro Trader's view is: although we are square currently, we are still watching this market closely.

With so many flash points in and around the Middle East, Gold could receive a boost if any one of them ignited.

Also the Dollar looks set to decline further; that will bring the Gold bulls back into this market at some point if a sell off **really gets going**.

So although we are currently un-interested in going long, we would still strongly advise against going short.

For now stay square, but we think Gold will enjoy another rally in the medium/long term given all the unresolved issues of a geopolitical nature.

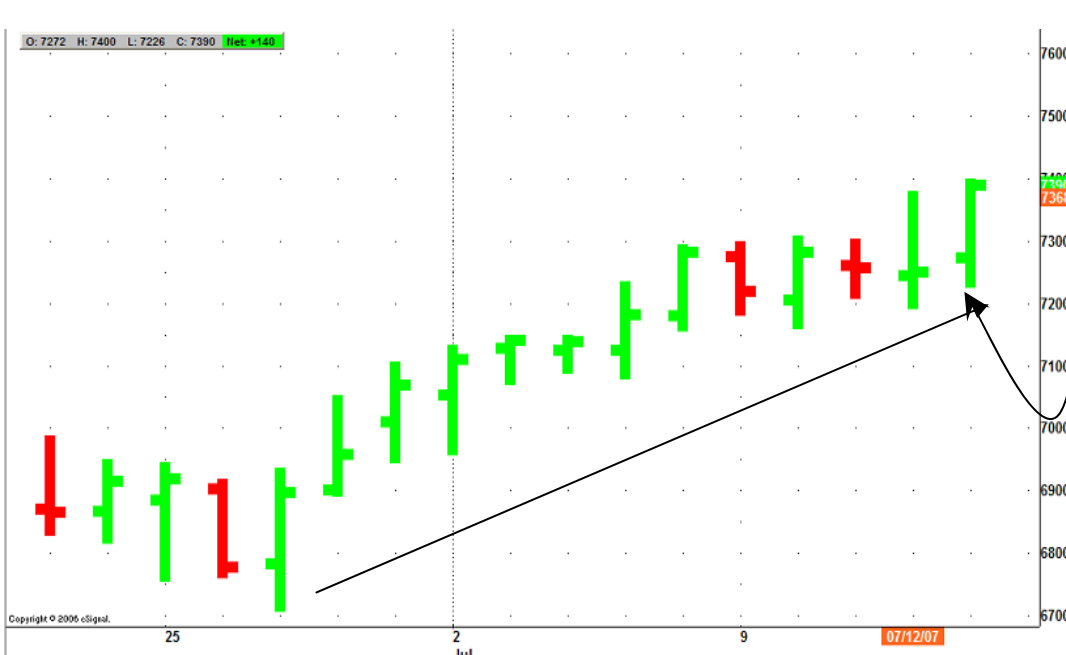
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OIL

OUR TRADING STANCE: BULLISH.

Last week we were bullish of oil.

THE CRUDE OIL CHART



See how oil continues to push up as traders weigh up the recent IEA report which forecast a serious tightening of supply over the next few years.

This week we remain bullish of oil.

Last week we were bullish of oil as several factors came to bear on the market:

- the recent failed terrorist attacks in the UK re-awakened fears over the security of supply,
- the recently reported intention of the UK Government to introduce tougher sanctions into the UN Security Council aimed at forcing Iran to moderate its nuclear program, caused concerns over delivery,
- the hostility towards the UK from Iran and other extreme Muslim groups over the award of a Knighthood to Salman Rushdie also highlights supply security concerns, and
- the IEA report last week which informed of an expected supply crunch in the next 5 years needs no further explanation.

All of this serves to drive the oil price higher.

The Macro Trader's view is: the market has been made aware in the last week or so of the finite nature of Oil and our current acute dependence on it.

If the IEA are correct, and why shouldn't they be, then oil prices will react to that news ahead of the event, and oil prices look set to move higher from here.

Clearly the emergence in recent years of the giant economies of China and India have placed increased demand on energy resources which will only accelerate as these economies continue to grow, but new reserves are insufficient and OPEC et al are in no hurry to develop existing discoveries as they seek to maximise their revenue.

Traders should be long of this market and our target over the next 7 days is raised to US\$75.50 a barrel, but as always run a stop for protection our level is raised to US\$71.50 a barrel.

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