

THE *MACRO* TRADER'S GUIDE TO MAJOR MARKETS

JOHN LEWIS



CONTENTS

03 [GLOBAL CALENDAR](#)

INTEREST RATE FUTURES

04 [EURODOLLARS](#)

SQUARE short, medium & long term

06 [SHORT STERLING](#)

SQUARE short, medium & long term

08 [EURIBOR](#)

SQUARE short, medium & long term

GOVERNMENT BONDS

10 [US 10YR NOTE](#)

BEARISH short, medium & long term

12 [GILT](#)

BEARISH short, medium & long term

13 [EURO BUND](#)

BEARISH short, medium & long term

CURRENCIES

14 [US DOLLAR](#)

BEARISH short, medium & long term

16 [POUND STERLING](#)

BULLISH short, medium & long term

18 [EURO](#)

BULLISH short, medium & long term

STOCKS

20 [S&P 500](#)

BULLISH short, medium & long term

21 [FTSE 100](#)

BULLISH short, medium & long term

22 [DOW JONES EUROSTOXX50](#)

SQUARE short & medium term, **BULLISH** long term

COMMODITIES

23 [GOLD](#)

SQUARE short term, **BULLISH** medium & long term

24 [OIL](#)

SQUARE short term. **BULLISH** medium & long term

SEVEN DAYS AHEAD

Authorized and Regulated by the FSA

124 REGENTS PARK ROAD LONDON NW18XL

TEL +44 (0) 7776181843 E-MAIL JLEWIS@SEVENDAYSAHEAD.COM

WWW.SEVENDAYSAHEAD.CO.UK

This information memorandum has been prepared solely for informational purposes for customers of SevendaysAhead and is based on publicly available information from sources believed to be reliable. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. No representation is made as to the completeness or accuracy of any statements or forecasts contained herein and no responsibility or liability is accepted for losses arising from transactions undertaken or investments purchased, sold or held on its recommendation. Consequently, any persons acting on information contained herein do so entirely at their own risk. Although the opinions contained herein were considered valid at the time of release, financial markets are subject to rapid and unexpected movements. SevendaysAhead, its associated companies, their directors, employees, other customers or connected persons may from time to time undertake transactions or deal in investments mentioned in this information memorandum or have a material interest, relationship or arrangement in relation to them.

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 31 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 31 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 17 th September
Monday	US Empire Mfg 14.7 LESS EZ Trade bal 4.6B LESS THAN EXPECTED
Tuesday	US PPI -1.4m, BETTER US PPI ex F & E 0.2m, MORE US Net TIC Flows 19.2B WEAKER US FOMC Rate decision 4.75% MORE UK CPI 0.4m, 1.8y BETTER UK RPI 0.6m, 4.1y WORSE UK RPI X 2.7y WORSE DM ZEW -18.1 WEAKER THAN EXPECTED
Wednesday	US MBA Mrtge 2.4% AS US CPI -0.1m, BETTER US CPI ex- F & E 0.2m, AS US Housing strts 1.331M WEAKER US Build'g permits 1.307M WEAKER UK MPC Minutes Sept 9/0 AS DM PPI 0.1m, 1.0y AS THAN EXPECTED
Thursday	US Jobless claims 311k BETTER US Bernanke @ Congress US Philly Fed 10.9 STRONGER UK Retail sales 0.6m, 4.9y STRONGER UK M4 Strling Indg 23.0B STRONGER UK BSA Mrtge apps 3.962B STRONGER UK CBI Ind trnds 6 AS IT Unemploy'm't rate 6.0 BETTER EZ Construct'n output 0.0m, 1.7y WEAKER THAN EXPECTED
Friday	EZ C/A 1.7B LESS THAN EXPECTED

WHATS HAPPENING THIS WEEK?

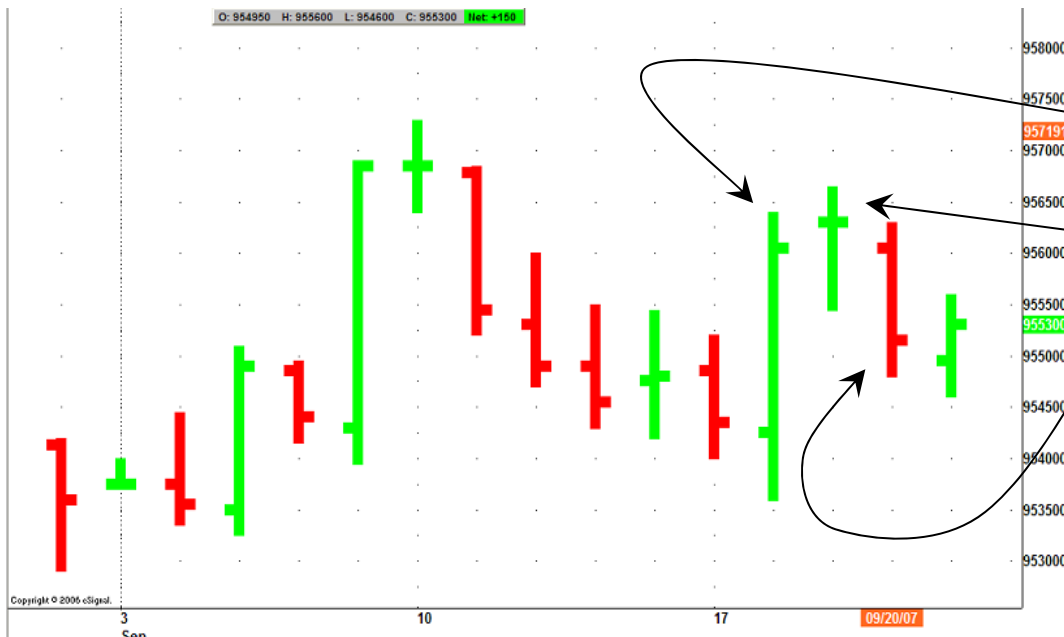
	Week of 24 th September
Monday	UK PSNCR 3.5B UK PSNB 6.5B EZ Ind new orders -3.0m, 10.2y
Tuesday	US Cons conf 104.5 US Existing home sales 5.50M UK Tot bus investment 0.8q, 7.4y DM Import prices 0.0m, 0.2y FR Cons spndg 0.3m, 0.9y IT Cons conf 105.9 IT Retail sales 0.1m, 1.0y DM IFO 105.0 IT Trade bal 1.426B IT Trade EU 2.01B
Wednesday	US MBA Mrtge apps n/f US Durable goods -3.0% US Ex Transport -0.7% UK Q2 F GDP 0.8q, 3.0y DM GFK Cons conf 7 FR Bus conf 108.0 IT Bus conf 93.5
Thursday	US Q2 F GDP 3.9% US Q2 Personal consump 1.4% US Q2 GDP price index 2.7% US Q2 Core PCE 1.3q US Jobless claims 320k US New home sales 830k JPY CPI Core -0.3y UK Nationwide hse prces 0.3m, 8.7y UK Idx of Services 0.8 3m/3m, UK BBA Housing Loans n/f UK CBI Distributive trdes n/f DM Unemploy'm't ILO 6.2% DM Unemploy'm't chge -20k DM Rate 8.9% IT Trade bal non-EU n/f EZ M3 11.7y EZ M3 11.5 3m avge, FR Unemploy'm't rate 8.0% FR Change -10k
Friday	US Personal income 0.4m, US Personal spndg 0.4m US PCE Core 0.1m, 1.8y US Chicago PMI 53.0 US Construction spdng -0.2m US U. of Michigan conf 84.0 UK GFK Cons conf -6 DM Retail sales 0.3m, -1.5y FR Cons conf -17 FR Q2 F GDP 0.3q, 1.3y FR PPI 0.0m, 1.3y IT PPI 0.1m, 2.0y IT CPI 0.1m, 1.8y EZ CPI 2.1Y EZ Cons conf -4 EZ Economic conf 109.0

[Back to contents](#)

INTEREST RATE FUTURES

EURO DOLLARS

MARCH 08 EURO DOLLARS



See how Eurodollars rallied after the Fed cut interest rates on Tuesday, with additional support coming from PPI and CPI on Wednesday, but profit taking set in on Thursday as traders began to wonder if this might be the only move from the Fed.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were square of March 08.
This week we are square of March 08.

Last week we remained square of Eurodollars as we considered the market was a little ahead of its self; we expected a 25bp cut from the Fed and judged that would sustain prevailing price levels but not lead immediately to a fresh leg of the rally.

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

- On Monday; Empire manufacturing survey was less than expected,
- On Tuesday; PPI was better than expected, Net TIC flows were very weak and the FOMC interest rate decision surprised with a 50bp cut,
- On Wednesday; MBA mortgage applications were as expected, CPI was better than expected, but Housing starts and building permits were both weaker than forecast, and
- On Thursday; Jobless claims were less than expected, Bernanke testifies in Congress on Sub-prime and the Philly Fed survey was stronger than expected.

The market rallied on the news of the Fed's rate

cut; most were expecting 25bp, and 50bp came as a surprise. The better than expected CPI report also helped the market higher, but Thursday's jobless claims did not support the view that a recession is imminent, as unlike the non-farm payroll report; this series is no-where near recessionary levels.

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

- On Tuesday; **Consumer confidence and existing home sales**,
- On Wednesday; MBA mortgage applications and durable goods,
- On Thursday; Q2 F GDP, Q2 Personal consumption, Q2 Core PCE, Jobless claims and **New home sales**, and
- On Friday; **Personal income & spending, PCE Core, Chicago PMI**, construction spending and **University of Michigan confidence**.

The key events this week are highlighted red, and of these, both existing and new home sales will be scrutinised for any fresh signs of weakness, Personal spending and income for the

sustainability of consumer demand and the Core PCE measure for a look at inflation.

The Macro Trader's view is: we thought the Fed would err on the side of caution and deliver 25bp, and although it was the weak non-farm payroll report earlier this month that led to the heightened clamour for a rate cut, at no time since has the weekly Jobless claims report echoed that message.

However the Fed, especially Bernanke, decided it was better to do too much rather than not enough.

The judgement hinged on whether the ongoing correction in the housing market would eventually infect the wider economy and cause a recession, but to wait for evidence would mean they would be seriously behind the curve, and given the dislocation that had gripped financial markets in recent months, that was a risk they judged couldn't be taken.

Whereas, the risk of cutting too much and avoiding recession, but stoking inflation, seemed a more manageable prospect given the uncertainty of the current situation.

But what comes next?

The market's euphoria was certainly short lived; although both PPI and CPI were better than expected, traders began to wonder if this was all the Fed was likely to deliver.

We think it too early to judge. The Feds policy statement noted that inflation still needed watching, but also said that policy makers would act as appropriate to incoming data.

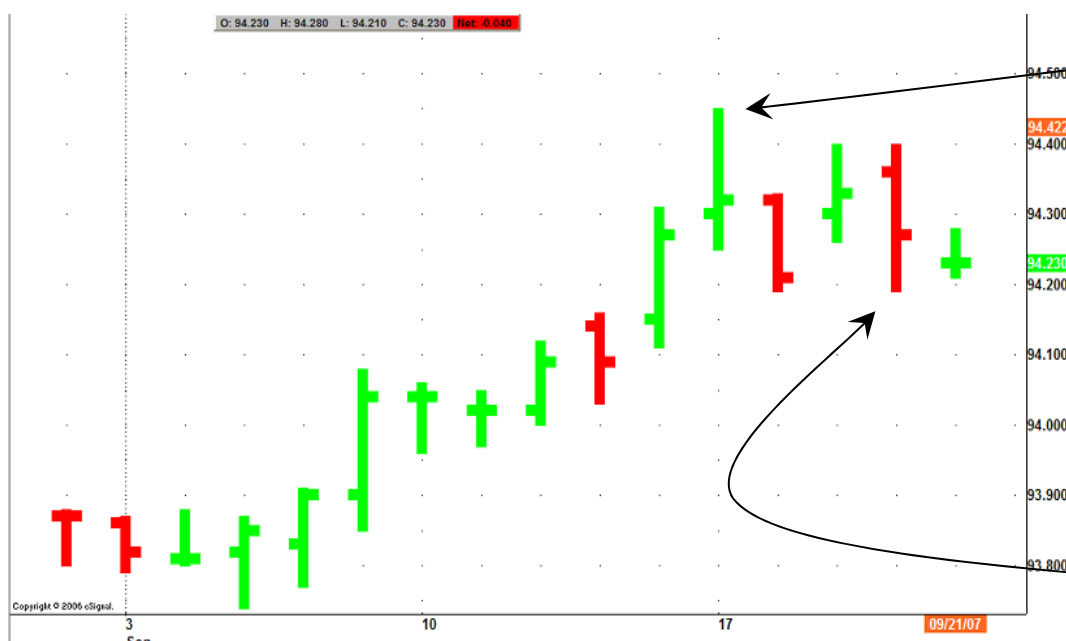
Needless to say if the housing market does what is feared and falls off a cliff, taking the economy with it, they will cut further. We think rates will fall further from here.

However we are keen to see the next non-farm payroll report due Friday week. If that too is weak, then the Fed acted prudently, if it isn't; a pause is likely to ensue.

For now we judge it best to remain square of this market until the whole situation becomes clearer.

SHORT STERLING

MARCH 08 SHORT STERLING



See how the market hit a high on Monday as depositors continued to withdraw their cash from Northern Rock, but the Government issued a statement guarantying savers money and the market eased, King's about turn later in the week with an injection of 3 month liquidity also weighed on the market and Thursday's stronger than expected retail sales took it lower.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were bullish of March 08.
This week we are square of March 08.

Last week we remained bullish of this market as a good old fashioned Bank run on Northern Rock, held the prospect of a wider Banking crisis with other similar institutions looking vulnerable to savers seeking to withdraw their funds, unless confidence could be quickly re-established.

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

- on Tuesday; CPI was better than expected, RPI and RPI-X were worse than expected,
- on Wednesday; the MPC minutes for September revealed a 9/0 vote to hold policy steady, and
- on Thursday; Retail sales were stronger than expected, M4 Sterling lending was stronger than expected, the BSA mortgage application data was stronger than expected and the CBI Industrial trends survey was as expected.

The market rallied further on Monday, but peaked after the Government acted to restore confidence by guarantying all deposits in Northern Rock and extending that commitment to savers with any other institution that might

succumb to similar circumstances. Even a better than expected CPI report on Tuesday failed to lift the market as traders took what increasingly seemed like windfall profits, especially after Thursday's stronger than expected retail sales report.

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

- on Monday; PSNCR & PSNB,
- on Tuesday; total business investment,
- on Wednesday; the final look at Q2 GDP,
- on Thursday; the Nationwide house price survey, index of services, BBA housing loans data and CBI distributive trades report, and
- on Friday; the GFK consumer confidence report.

This week's key release is the Nationwide house price report, if this weakens as most now expect, traders will price back into the market a near term rate cut.

The Macro Trader's view is: after last Thursday's retail sales report, we took profit and are now square.

Clearly domestic demand hasn't yet weakened, although it is important to note that the increase in sales volumes was achieved as a result of discounting as evidenced by the further decrease in the CPI index.

But for the Bank to cut rates, they will want to see evidence that the much discussed housing market correction has materialised and is likely to weigh heavily on consumer demand.

For now that doesn't seem the case, and now that the Government has guaranteed the savings of anyone that may find themselves tied up with a Bank/Building society that might need to seek help from the Bank of England as a result of the current market chaos; we see confidence proving reasonably resilient.

Although Mervin King took heavy criticism for his apparent U turn when the Bank offered 3 month liquidity against inferior collateral, in truth his crime was not doing so earlier.

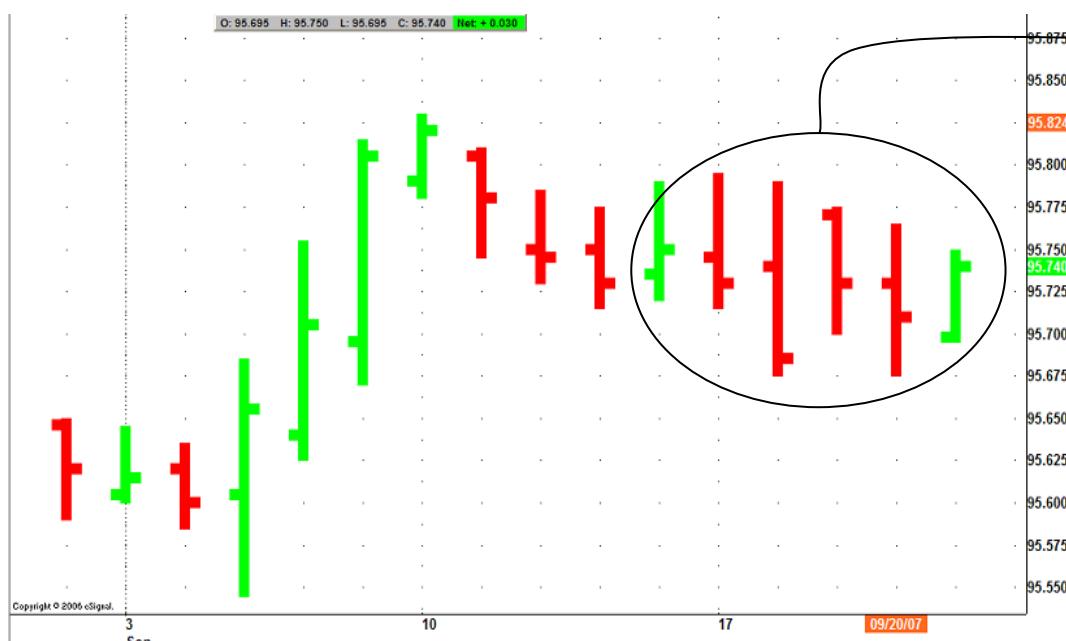
The City of London is a major engine of the UK economy and one of, if not the Pre-eminent financial centre of the world. To see its markets locked up as a result of an evaporation of liquidity and the refusal of help from a high minded Central Bank, does not serve its future well.

We sense a rate cut isn't imminent, but with wholesale money market rates still way above official interest rates, the economy may yet suffer a shock.

Further, it is likely that mortgage lenders will tighten their terms as a result of recent events, and the longer market rates remain where they are, the greater the pressure lenders will come under to pass those costs on; this is how the economy will likely falter.

For now we advise remaining square, but traders should closely monitor the Nationwide House price report, if it is weaker than expected; go long.

MARCH 08 EURIBOR



See how Euribor suffered a degree of intra-day volatility but closed the week a tick lower, even though the German ZEW survey came in weaker than expected and a composite Euro zone index revealed a greater degree of economic weakness than anticipated.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

Last week we were bullish of March 08.
This week we are square of March 08.

Last week we were bullish of this market as traders awaited an interest rate cut from the Fed and sight of the German ZEW survey, which if weaker was expected to support the market.

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

- on Monday; Euro zone trade balance was worse than expected,
- on Tuesday; German ZEW survey was weaker than expected,
- on Wednesday; German PPI was as expected,
- on Thursday; Italian unemployment data was better than forecast and Euro zone construction output was weaker than consensus, and
- on Friday; Euro zone C/A data was weaker than expected.

The market failed to hold its gains even though the Fed delivered a generous cut and the ZEW survey was weak.

With the ECB silent on its monetary policy intentions, traders were unwilling to further

remove the possibility of additional rate hikes in the Euro zone.

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

- on Monday; Euro zone industrial new orders,
- on Tuesday; German import prices, French consumer spending and **German IFO**,
- on Wednesday; German GfK Consumer confidence, together with French and Italian business confidence,
- on Thursday; **German unemployment data, Euro zone M3** and French unemployment report, and
- on Friday; German retail sales, French and Italian PPI, and Italian and **Euro zone CPI**.

This week's key releases are highlighted in red, but clearly the market will be led by German IFO and the Euro zone M3 reports.

After the weaker ZEW survey, traders will be alert to any slowing signals from this report, and M3 is

a key indicator for the ECB, but may be distorted by the recent injections of liquidity from the ECB.

The Macro Trader's view is: we were stopped out last week, but retain the view that the ECB is unlikely to hike further, at least this year.

But what is impeding the market is a lack of guidance from policy makers.

However a composite Euro zone economic indicator released last week was weaker than expected and analysts are concerned the recent market turmoil may have had a bigger impact on Euro zone growth than previously expected. If

this proves the case the ECB will avoid further rate hikes.

This leaves the prospect of a 25bp rally in March 08 Euribor, and that's without pricing in a cut.

Traders should get a clearer view after the release of this week's IFO, M3 and Euro zone CPI reports.

Ahead of this data we are square and advise others to take a similar stance, but if IFO does weaken, then traders should go long.

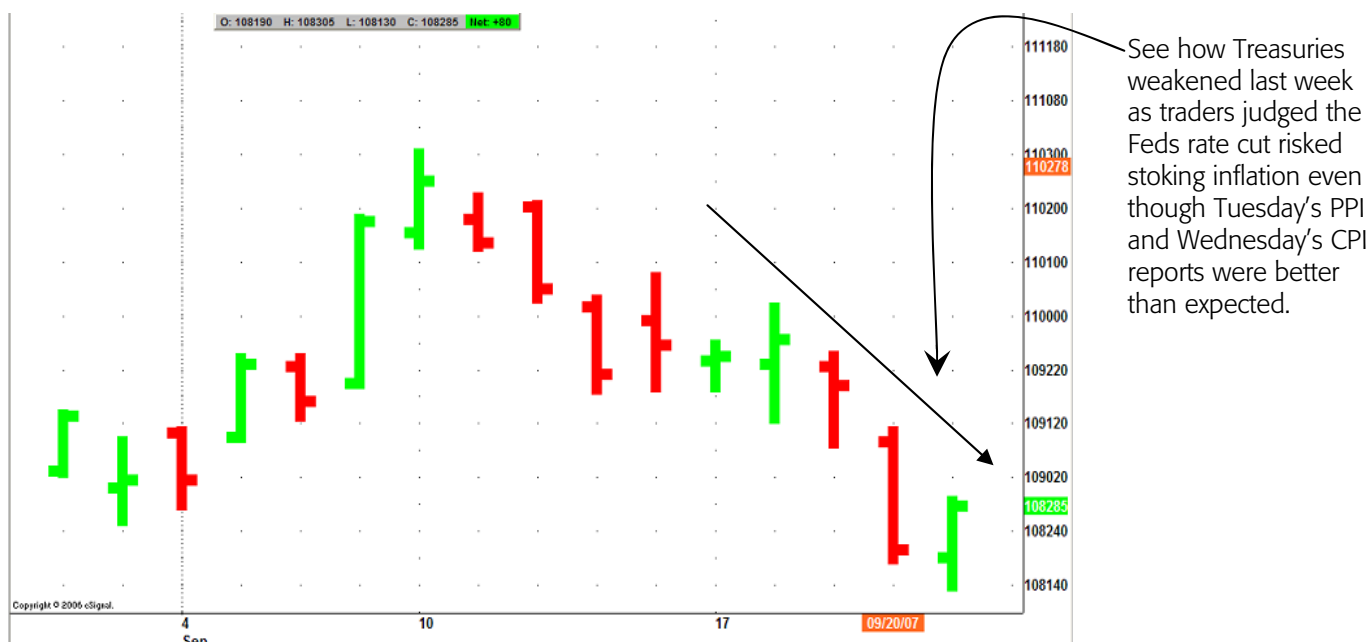
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BEARISH.

Last week we were square of the 10yr Note.

US 10yr NOTE



This week we are bearish of the 10yr Note.

Last week we were square of this market ahead of the Fed's FOMC meeting. With different views circulating in the market concerning the size of the expected rate cut, we judged the market's potential response, to any given outcome, was too varied to risk a position.

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

- On Monday; Empire manufacturing survey was less than expected,
- On Tuesday; PPI was better than expected, Net TIC flows were very weak and the FOMC interest rate decision surprised with a 50bp cut,
- On Wednesday; MBA mortgage applications were as expected, CPI was better than expected, but Housing starts and building permits were both weaker than forecast, and
- On Thursday; Jobless claims were less than expected, Bernanke testifies in Congress on Sub-prime and the Philly Fed survey was stronger than expected.

Although the improvements to both PPI and CPI were welcome, the market judged the 50bp rate

cut too much too soon and sold off. Traders were clearly concerned that should a recession not hit, the result could be a bigger inflation headache over the medium term than would otherwise have been the case.

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

- On Tuesday; **Consumer confidence and existing home sales**,
- On Wednesday; MBA mortgage applications and durable goods,
- On Thursday; Q2 F GDP, Q2 Personal consumption, Q2 Core PCE, Jobless claims and **New home sales**, and
- On Friday; **Personal income & spending, PCE Core, Chicago PMI**, construction spending and **University of Michigan confidence**.

The key releases this week are highlighted in red, if the home sales data is worse than expected, personal income and spending are worse than expected, and Core PCE declines, traders will turn bullish as the Fed may have got it right.

However, aside from the housing data, the other two are likely to point in the other direction and this should keep Treasuries under pressure.

The Macro Trader's view is: like many in the market we were surprised by the size of the Fed's cut. In testimony Bernanke made it clear not doing enough was worse than doing too much, but until Bond traders see data that shows the economy slipping into or close to recession, they will remain bearish on the perception that inflation will become a bigger problem in the not too distant future.

However the Fed were caught between a "rock and a hard place", the markets would have convulsed had they decided not to act and with hindsight, 25bp probably wouldn't have satisfied equity markets.

Additionally a 50bp rate cut makes mortgage servicing ultimately cheaper and should help forestall additional foreclosures and that in its

self will help ease this crisis as the fear of a Subprime mortgage meltdown is what started the whole crisis off.

It maybe that the Fed has done enough to calm the situation and no further cuts are forthcoming, or more likely data will remain confused enough to force further action.

If next week's non-farm payroll data fails to confirm last times weakness, this market will sell off, and given that Jobless claims are not approaching levels consistent with recession, we are now short of this market.

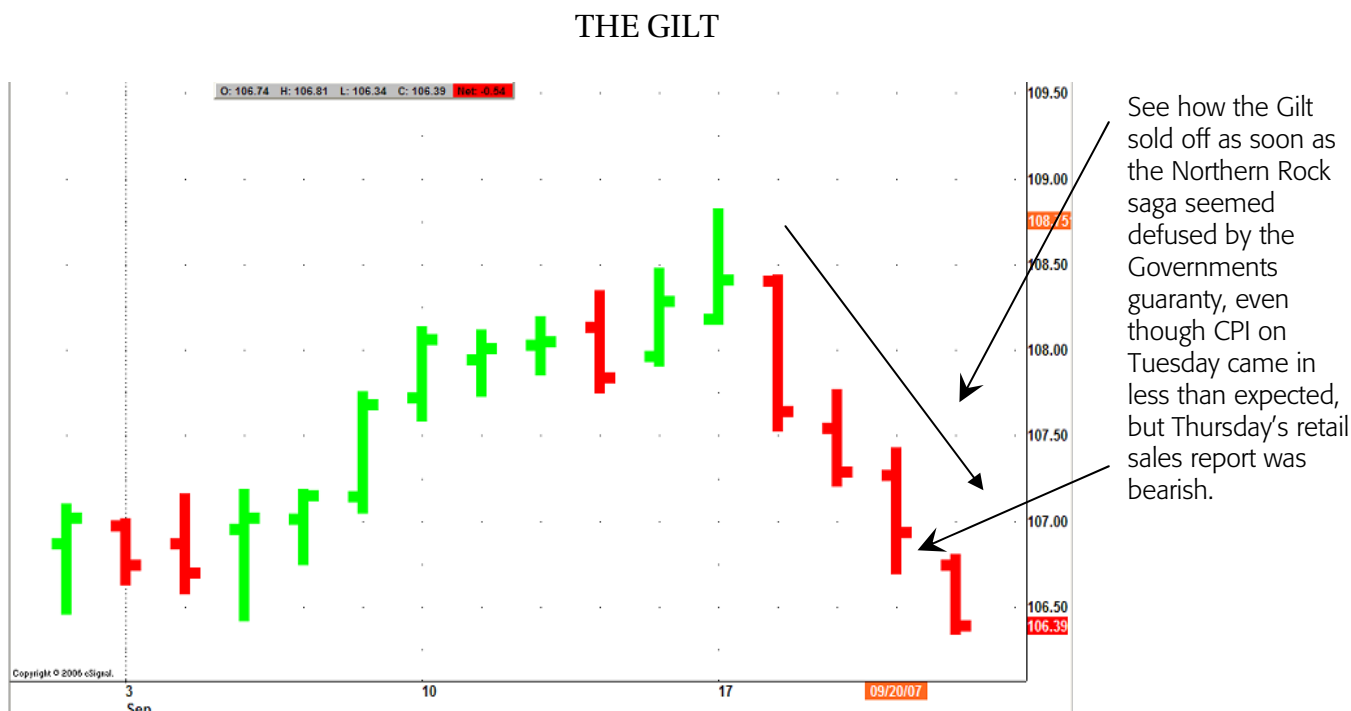
We expect the recovery in equities to close any remaining safe haven trades and fears of future inflation to weigh on bonds generally.

Traders should be short of this market. Our target over the next 7 days is 108.08 and our stop is at 109.12.

THE GILT

OUR TRADING STANCE: BEARISH.

Last week we were square of the Gilt.



This week we are bearish of the Gilt.

Last week we remained square of the Gilt as we judged the fundamentals of the UK economy remained sound, and indeed last week's price action validated our underlying bearish view of bonds.

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

- on Tuesday; CPI was better than expected, RPI and RPI-X were worse than expected,
- on Wednesday; the MPC minutes for September revealed a 9/0 vote to hold policy steady, and
- on Thursday; Retail sales were stronger than expected, M4 Sterling lending was stronger than expected, the BSA mortgage application data was stronger than expected and the CBI Industrial trends survey was as expected.

The market took little from last week's data, the main impact came from the Government guaranty for savers, King's sudden U turn in the markets and the stronger than expected retail sales report which led the Gilt lower.

[Back to contents](#)

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

- on Monday; PSNCR & PSNB,
- on Thursday; the Nationwide house price survey, index of services, BBA housing loans data and CBI distributive trades report, and
- on Friday; the GFK consumer confidence report.

The key event this week is likely to be the Nationwide house price survey. Although housing is expected to cool, it is highly debatable that the economy will suffer a recession; demand appears solid.

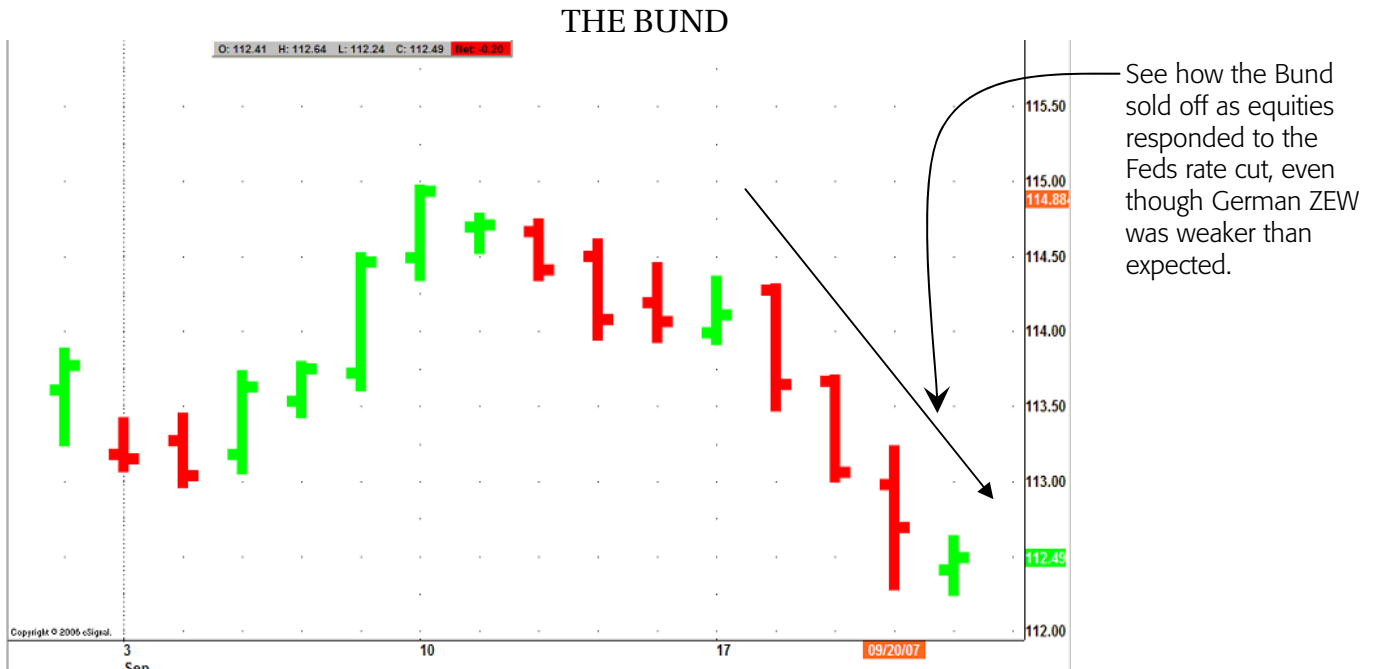
The Macro Trader's view is: after last week's retail sales report and B of E action in the money markets, we expect the Gilt to resume its decline. Equities look set to resume their earlier bull trend and Bond traders are becoming nervous about inflation, especially after last week's Fed rate cut which isn't likely to occur here in the near term at least.

Traders should be short of the Gilt, our 7 day target is 106.00 and our stop is at 106.95.

THE BUND

OUR TRADING STANCE: BEARISH.

Last week we were square of the bund.



This week we are bearish of the Bund.

Last week we were square of the Bund as we judged the recent rally was driven by equity market weakness caused by fears over the Sub-prime mortgage crisis, and with a Fed rate cut looming we were unwilling to become involved.

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

- on Monday; Euro zone trade balance was worse than expected,
- on Tuesday; German ZEW survey was weaker than expected,
- on Wednesday; German PPI was as expected,
- on Thursday; Italian unemployment data was better than forecast and Euro zone construction output was weaker than consensus, and
- on Friday; Euro zone C/A data was weaker than expected.

The data last week should have supported the market, but as equities rallied smartly after the Fed cut rates by 50bp, bonds sold off, even though the German ZEW survey was weak.

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

[Back to contents](#)

- on Monday; Euro zone industrial new orders,
- on Tuesday; German import prices, French consumer spending and **German IFO**,
- on Wednesday; German GfK Consumer confidence, together with French and Italian business confidence,
- on Thursday; **German unemployment data, Euro zone M3** and French unemployment report, and
- on Friday; German retail sales, French and Italian PPI, and Italian and **Euro zone CPI**.

This week's key events are highlighted in red, but pay close attention to IFO and M3. Unless these weaken the Bund will come under increasing selling pressure.

The Macro Trader's view is: as equities recover traders need concrete evidence that the economy has been damaged; without it the Bund is a sell.

Traders should now be short. Our target over the next 7 days is 111.75 and our stop is at 113.00.

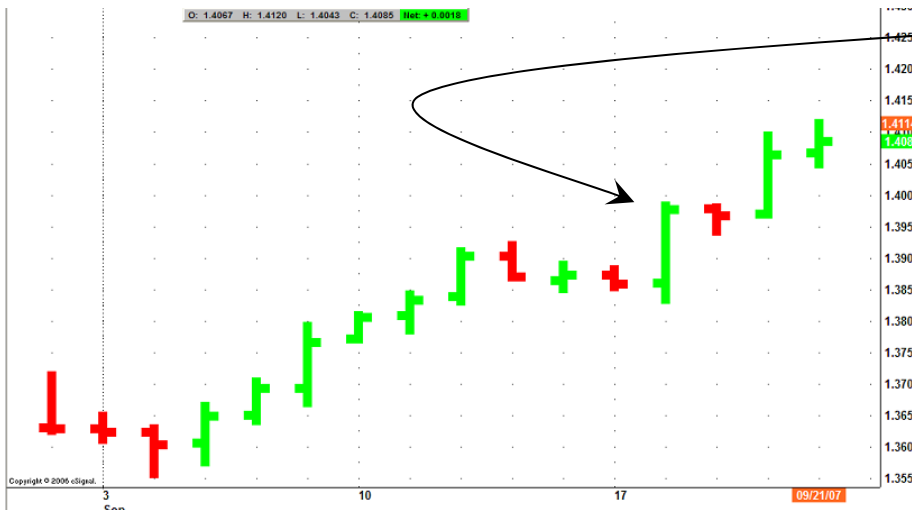
CURRENCIES

THE DOLLAR

OUR TRADING STANCE: BEARISH.

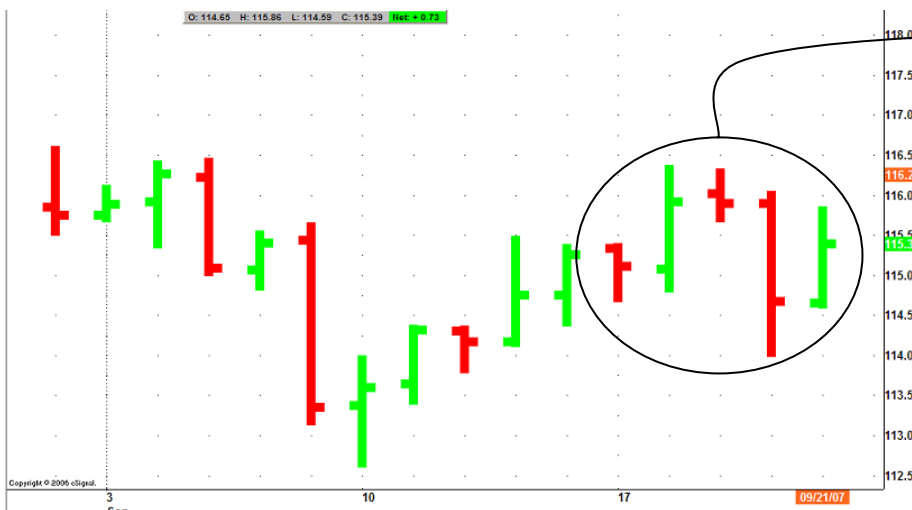
Last week we were bearish of the Dollar.

EURO/DOLLAR CHART



See how the Dollar weakened after the Fed cut rates by more than expected, as traders reasoned it a sell if the economy is weak, or alternatively on future inflation worries if recession is avoided.

DOLLAR/YEN CHART



See how the Yen suffered from the drama of Japan's mini political crisis, consigning it to week of sideways trading against an otherwise weak Dollar.

This week we remain bearish of the Dollar.

Last week we remained bearish of the Dollar as the Fed was expected to ease policy at its Tuesday meeting. With worries of an impending recession dominating markets, the Dollar remained weak against the Euro and even the Pound which had its own local difficulties.

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

- On Monday; Empire manufacturing survey was less than expected,
- On Tuesday; PPI was better than expected, Net TIC flows were very weak and the FOMC interest rate decision surprised with a 50bp cut,
- On Wednesday; MBA mortgage applications were as expected, CPI was better than expected, but Housing starts

and building permits were both weaker than forecast, and

- On Thursday; Jobless claims were less than expected, Bernanke testifies in Congress on Sub-prime and the Philly Fed survey was stronger than expected.

The Dollar weakened further after the bigger than expected cut from the Fed and some unhelpfully weak reports, namely the TIC flow, housing starts and building permits and Bernanke's testimony on Thursday.

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

- On Tuesday; **Consumer confidence and existing home sales**,
- On Wednesday; MBA mortgage applications and durable goods,
- On Thursday; Q2 F GDP, Q2 Personal consumption, Q2 Core PCE, Jobless claims and **New home sales**, and
- On Friday; **Personal income & spending, PCE Core, Chicago PMI**, construction spending and **University of Michigan confidence**.

This week's key events are highlighted red, and if as we expect the housing data is weak, but

personal spending and income holds up, the Dollar will sell off further.

The Macro Trader's view is: the Fed's cut seemed aggressive, but in the end their choices were equally unpleasant:

- Risk doing too much, avoiding recession, but stoking inflation further out, or
- Doing too little, seeing the economy stall and then race to catch up.

They opted to risk doing too much, judging it would be easier to regain control of inflation rather than try to rebuild confidence if the housing market had collapsed and led to a recession.

In any event we will need several more months of data before a judgement can be made, but in the mean time the uncertainty will result in further Dollar weakness.

Traders should remain short of the Dollar against the Euro, our target over the next 7 days is now 1.4200, and our stop is raised to 1.3980.

Additionally go long of Cable, our target here is 2.0400 and our stop is set at 2.0125.

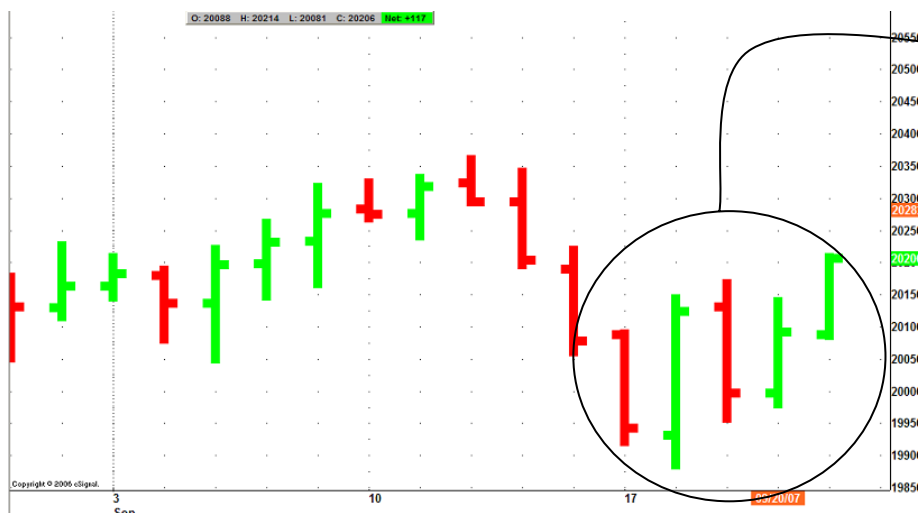
[Back to contents](#)

THE POUND STERLING

OUR TRADING STANCE: BULLISH.

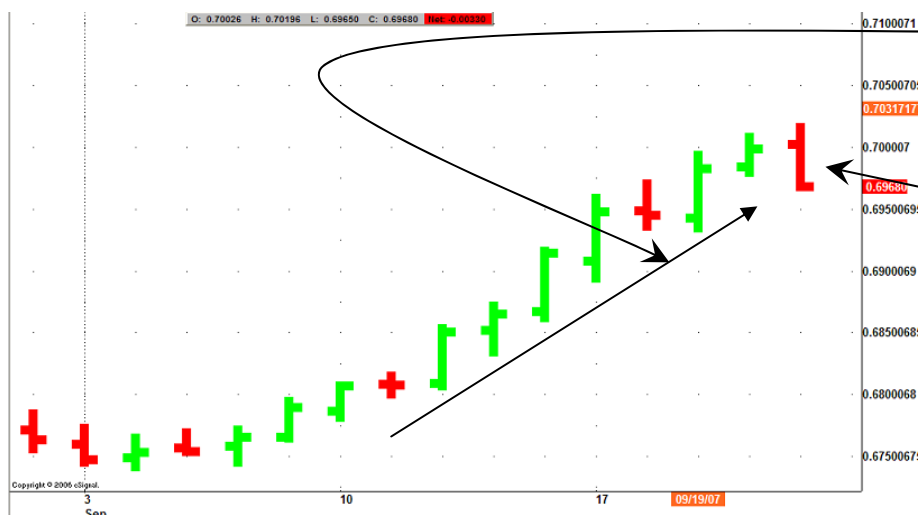
Last week we were square of Sterling.

THE CABLE CHART



See how the Pound benefited from the Feds cut, the Governments diffusing of the Northern Rock crisis and the B of E U turn that offered a route out of the log jam that has affected UK wholesale money markets. Better inflation news and solid retail sales also helped the Pound recover.

THE STERLING/EURO CHART



See how the Pound remained weak against the Euro last week, until Friday, when a weak Euro zone composite survey contrasted with strong UK retail sales.

This week we are bullish of Sterling.

Last week we were square of the Pound as the currency suffered from the perception rates had not only peaked but would be cut, especially if the crisis engulfing Northern Rock spread to other similar lending institutions.

And in a week with several key events due we advise traders to monitor the following:

- on Tuesday; CPI was better than

expected, RPI and RPI-X were worse than expected,

- on Wednesday; the MPC minutes for September revealed a 9/0 vote to hold policy steady, and
- on Thursday; Retail sales were stronger than expected, M4 Sterling lending was stronger than expected, the BSA mortgage application data was stronger

than expected and the CBI Industrial trends survey was as expected.

The Pound emerged from its troubles buoyed by the better domestic data but helped additionally by the Government's guaranty for savers at Northern Rock, and the Bank of England's U turn which resulted in 3 month liquidity being pumped into the money markets against easier terms of collateralisation.

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

- on Monday; PSNCR & PSNB,
- on Tuesday; total business investment,
- on Wednesday; **the final look at Q2 GDP**,
- on Thursday; the **Nationwide house price survey**, index of services, **BBA housing loans data and CBI distributive trades report**, and
- on Friday; the **GFK consumer confidence** report.

The main events this week are highlighted in red, but the main benefits for the Pound are; the increasing calm in the money markets, and unanswered questions surrounding the US economy. Only if the Nationwide house price index registers a large fall will the Pound wobble further.

The Macro Trader's view is: whether or not Mervin King's U turn was voluntary or forced is of secondary importance, what matters is that someone in power realised the damage being

done to London as a pre-eminent world financial centre and took action.

The Government Guaranty to savers at not only Northern Rock, but also anyone else who's savings institution might fall to a similar fate restored consumer confidence in the Banking system, the Bank's decision to pump in £10.0B of 3 month funding, and accept mortgages as collateral will surely see the three month interbank LIBOR rate decline to a level more consistent with the current base rate, and result in a significant improvement to liquidity conditions.

Since these were the main issues that sent Sterling lower, the Pound should now resume its rally.

The economy may be negotiating a dodgy patch but last week's retail sales were strong, combined with improving inflation, the Bank will neither rush to cut rates or to hike them; policy has more than likely peaked.

With the Dollar looking highly vulnerable we advise being long of Cable. Our target over the next 7 days is 2.0400 and our stop is at 2.0125 to provide close protection.

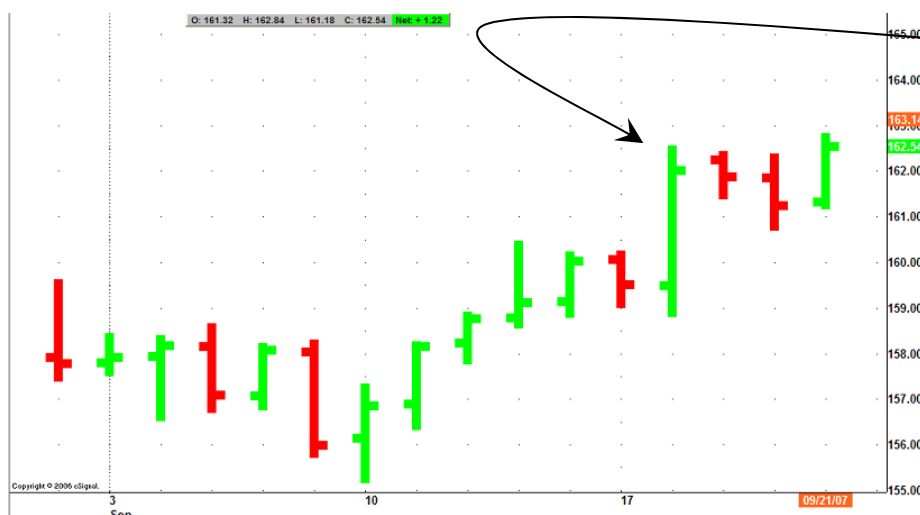
[Back to contents](#)

THE EURO

OUR TRADING STANCE: BULLISH.

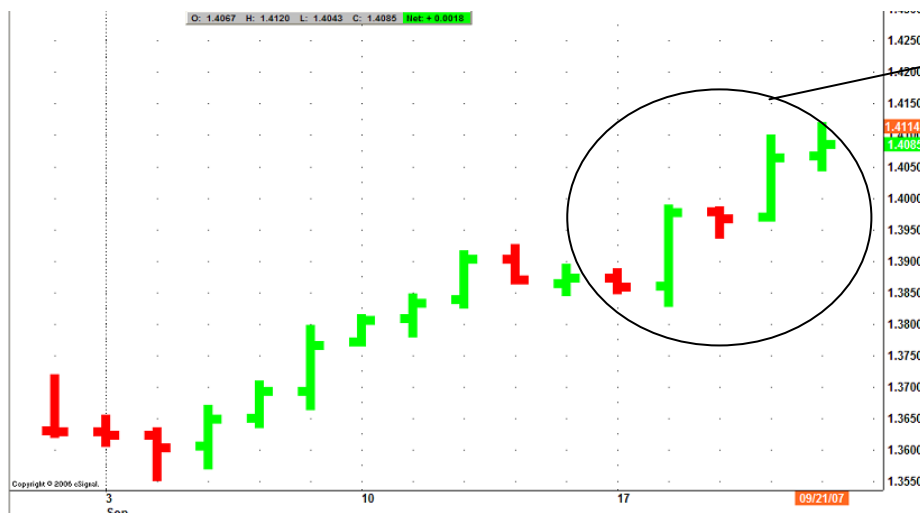
Last week we were bullish of the Euro.

EURO/YEN CHART



See how the Yen weakened against the Euro on Tuesday, as the single currency rallied against the Dollar following the Fed's rate cut.

THE EURO/DOLLAR CHART



See how the Euro made new highs against the Dollar driven by the surprise 50bp cut from the Fed, with domestic data having little impact.

This week remain bullish of the Euro.

Last week we were bullish of the Euro as we awaited the FOMC rate decision due on Tuesday. With little domestic data for traders to focus on, except the German ZEW survey, we saw little capable of reversing the recent trend in the market.

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

- on Monday; Euro zone trade balance was worse than expected,
- on Tuesday; German ZEW survey was weaker than expected,
- on Wednesday; German PPI was as

- expected,
- on Thursday; Italian unemployment data was better than forecast and Euro zone construction output was weaker than consensus, and
- on Friday; Euro zone C/A data was weaker than expected.

The German ZEW report was weaker than expected, but traders were focused on the Fed. Their decision to cut by 50bp, took the markets by surprise and the Dollar weakened.

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

- on Monday; Euro zone industrial new orders,
- on Tuesday; German import prices, French consumer spending and **German IFO**,
- on Wednesday; German GfK Consumer confidence, together with French and Italian business confidence,
- on Thursday; **German unemployment data, Euro zone M3** and French unemployment report, and
- on Friday; German retail sales, French and Italian PPI, and Italian and **Euro zone CPI**.

The key releases due this week are highlighted in red, and of these monitor closely the German IFO report and Euro zone M3 report.

Currently the ECB is expected to maintain interest rates at present levels, but any material

under or over shoot will dictate the path of monetary policy.

The Macro Trader's view is: our target was hit last week as Dollar/Euro broke through 1.4000 for the first time.

The Fed succeeded in surprising the markets with the size of the cut:

- Equities not surprisingly took the move as bullish,
- Short term interest rate futures rallied, but profit taking set in,
- Bonds immediately focused on the longer term implications for inflation and sold off, and
- The Dollar weakened as traders figured the uncertain outlook for the economy left it vulnerable to the downside.

Whether the end result is indeed a recession requiring further rate cuts, or a revival with a re-emergence of inflation, neither scenario seems appealing.

As a result we remain bullish of the Euros prospects against the Dollar, and traders should remain long of this pair.

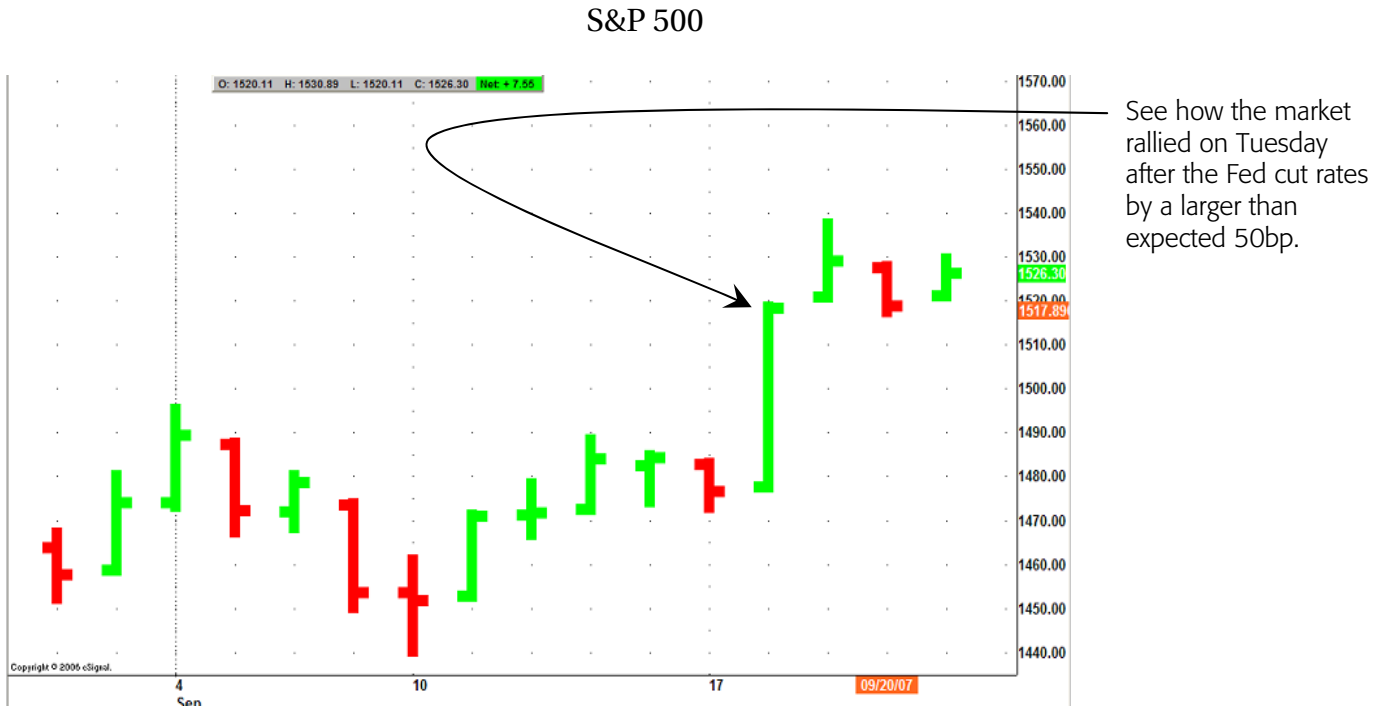
Our target over the next 7 – 10 days is now 1.4200, which doesn't seem too far off but could prove demanding. Our stop is raised to 1.3980 to protect profits.

STOCKS

S&P 500

OUR TRADING STANCE: BULLISH.

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



This week we bullish of the S&P 500

Last week we were square of this market after being stopped out the previous week. With the Fed deciding on interest rates that Tuesday, and expected to cut rates for the 1st time since 2003, we chose to remain sidelined.

Although traders were divided over their expectation, the 50bp cut sent stocks solidly up. The size of the cut will not only help beleaguered sub-prime mortgagees in, or close to default, better afford their repayments, but simultaneously reduced the fear in the market of a more broadly based housing market dislocation dragging the whole economy down with it.

Further good news on PPI and CPI helped the market cement the move and this week traders will focus on the combination of data and profit reports, but with several high profile Wall Street firms having already reported solid numbers, traders are increasingly likely to refocus on the

core economic fundamentals for their future lead.

The Macro Trader's view is: the Fed took a bold step; data doesn't yet point to recession. The housing market remains weak, but apart from non-farm payroll, other data is more upbeat.

From our point of view the weekly Jobless claims report has so far failed to flag serious economic weakness and we are concerned that October's non-farm payroll report may revert to trend.

This would lead to questions over the size of the Fed's move, but re-assure markets that the economy is in better shape than feared.

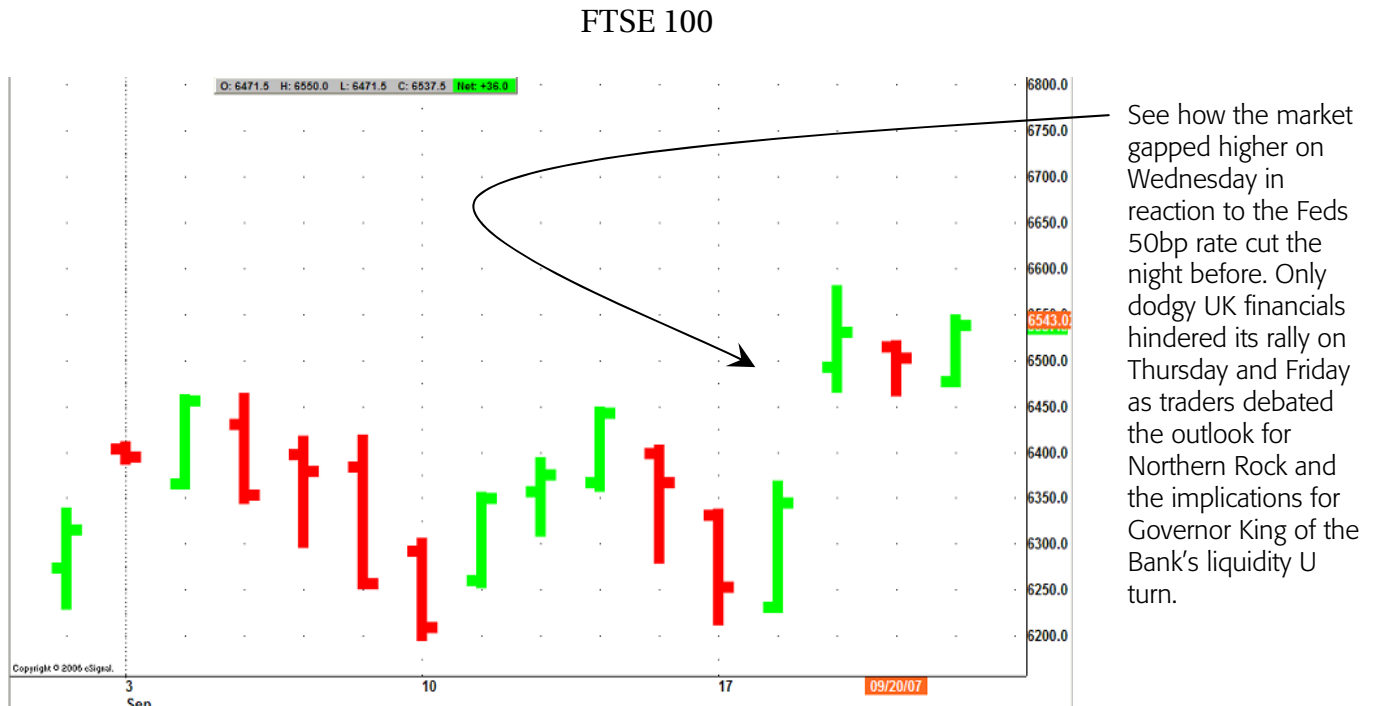
With confidence gaining vital support we advise going long of this market. Our target over the next 7 days is 1540.0 and our stop is set at 1498.0 for protection, but longer term we expect this market to make new highs.

[Back to contents](#)

FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were square of the FTSE 100.



This week we are bullish of the FTSE 100.

Last week we were square of this market, a Fed rate cut was expected, and the signs were it could help stabilise equity markets, but with Northern Rock customers queuing for their money and the Bank of England imposing a penalty funding arrangement, UK stocks still looked risky.

But the new Chancellor acted quickly to restore confidence when he announced the Government would guaranty their savings, and those of any other saver caught up in similar circumstances in the future.

This together with:

- The Fed's 50bp rate cut,
- Better than expected UK CPI on Tuesday,
- Stronger than expected UK retail sales on Thursday, and
- Decisive liquidity help from the Bank of England.

Helped the FTSE rally and consolidate the gain.

This week's data is light weight with only the Nationwide housing report capable of moving

the market, but even though few expect a near term rate cut from the MPC, neither do they expect a hike, and equities should rally further as the Bank's liquidity injection works its way through the system.

The Macro Trader's view is: markets now seem on a sounder footing following last week's events.

However uncertainty hasn't been completely removed and traders could prove skittish for a while yet.

But the FTSE has over the last couple of weeks responded to the mainly bullish news, albeit with big intra-day and intra-week swings, and this has made it difficult to remain engaged.

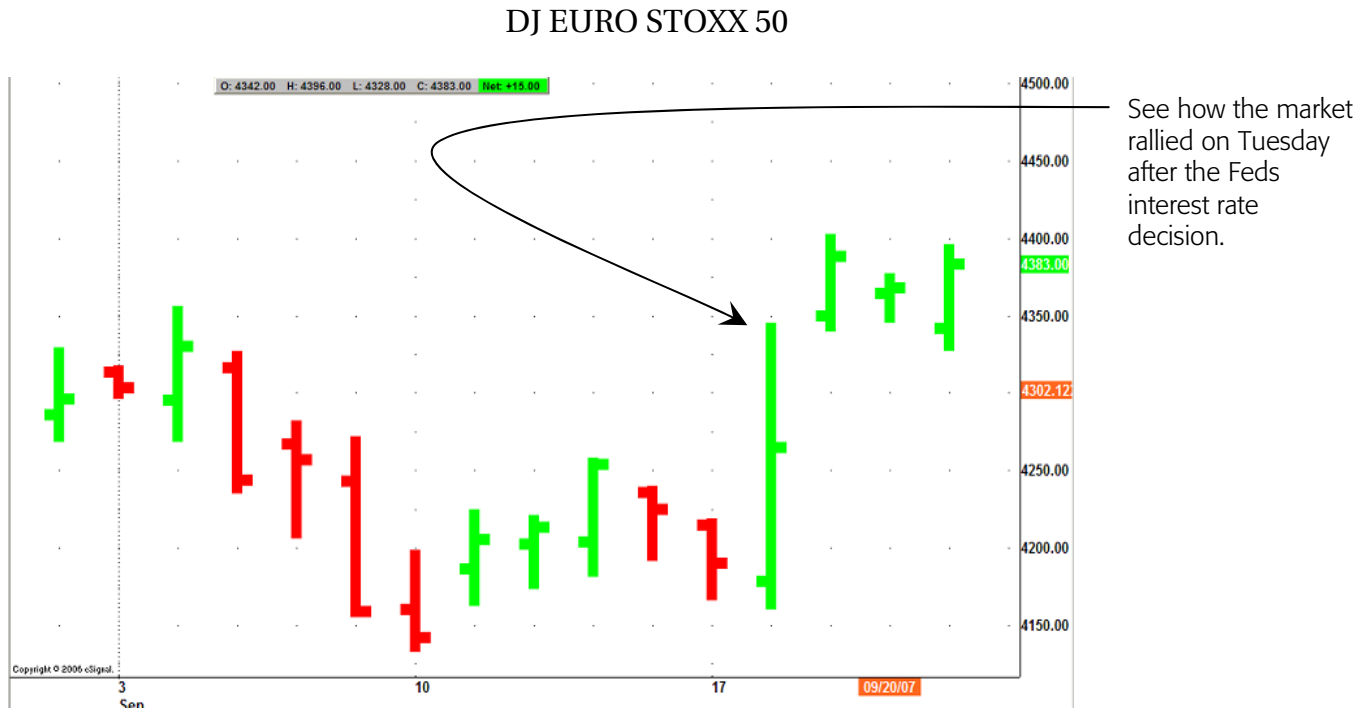
However we now judge the situation to have calmed sufficiently to advise a long position and our target over the next 7 days is 6600.0 and our stop is at 6450.

[Back to contents](#)

DJ EURO STOXX 50

OUR TRADING STANCE: SQUARE.

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



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

Last week we remained square of this market as equities remained vulnerable to further set-backs, but with the Fed expected to cut interest rates on Tuesday, a recovery seemed the most likely outcome.

Although domestic data offered this market little help, with the German ZEW survey coming in weaker than consensus, the Fed's rate cut, which was bigger than most expected, lifted all equity markets as cheaper money should go some way to relieving the Sub-prime mortgage problem.

Looking ahead, this week's German IFO and Euro zone M3 reports are key events for Euro zone monetary policy.

A recent survey showed the Euro zone economy suffering more than expected from the turmoil in financial markets, if IFO confirms this, traders will begin seeking a rate cut from the ECB.

The Macro Trader's view is: for now we are staying square of this market.

While we expect it to recover as other leading global equity markets emerge from their Sub-prime induced panic, the situation in the Euro zone needs clarifying.

The ECB is unlikely to hike in the near future and the peak of this cycle may have been reached, but currently no one expects the ECB to cut rates.

However if evidence accumulates that the best of this economic expansion is now in the past, that perception would change.

It is this lack of clarity that leads us to remain on the sidelines a little longer, and recommend others remain square too.

[Back to contents](#)

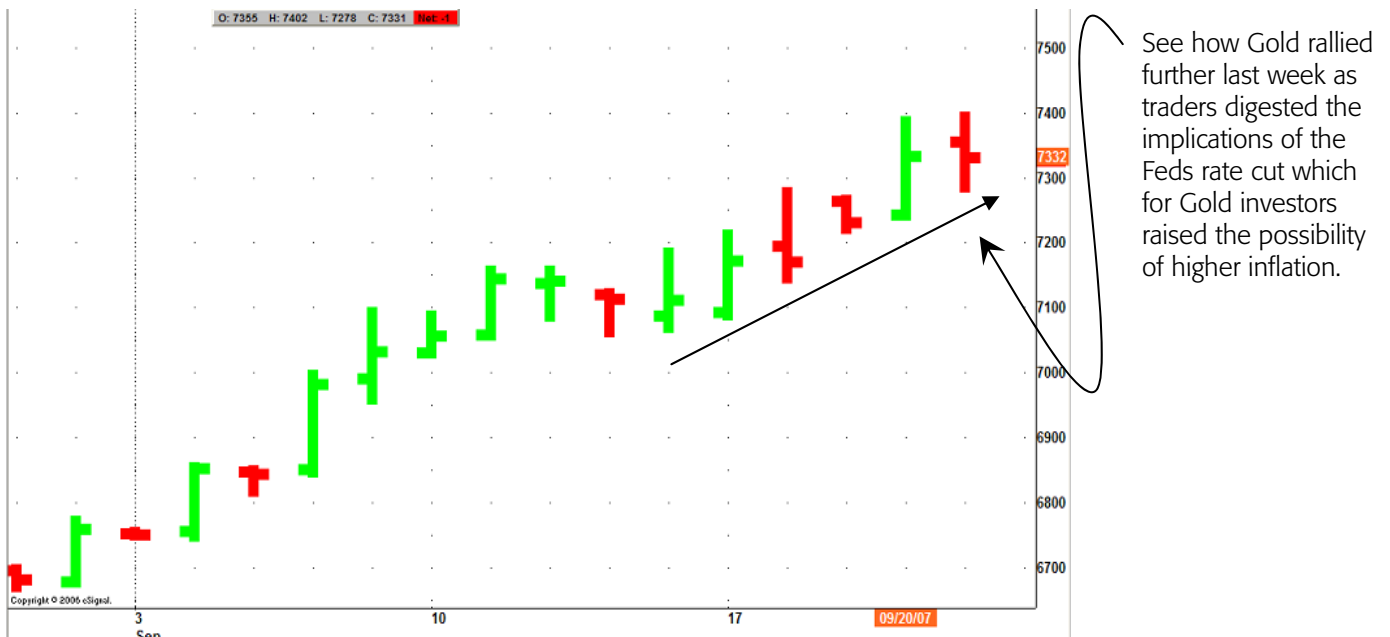
COMMODITIES

GOLD

OUR TRADING STANCE: SQUARE

Last week we were bullish of gold.

THE GOLD CHART



This week we are square of Gold.

Last week we remained long of this market and our target was more than met as traders reacted to the Fed's rate cut by seeking an alternative not only to the Dollar but also the other major currencies.

Even though the UK Pound overcame its earlier wobble, questions remain about the strength of the UK economy over the next couple of quarters and also the Euro zone economy after the release of a weak composite index of economic prospects in the Euro zone on Friday.

But the main factor behind Gold's move last week was the larger than expected interest rate cut from the Fed.

Traders worried that the economy may not be that close to recession, as data generally does not yet uniformly signal such an event, which makes them anxious about a resurgence of inflation over the coming quarters.

The Macro Trader's view is: we have today taken profit as the market currently appears tired.

While we judge this rally has further to go, traders had begun to take profit after a solid week long rally helped by the Fed's 50bp rate cut.

Our move is purely tactical and we anticipate buying back into the market soon; hopefully at lower levels.

The Dollar remains damaged by the uncertainty surrounding the US economy and the general level of geopolitical tension so we advise traders adopting our stance to remain alert, this market has further to go on the upside, but markets never travel in straight lines for long and usually correct periodically.

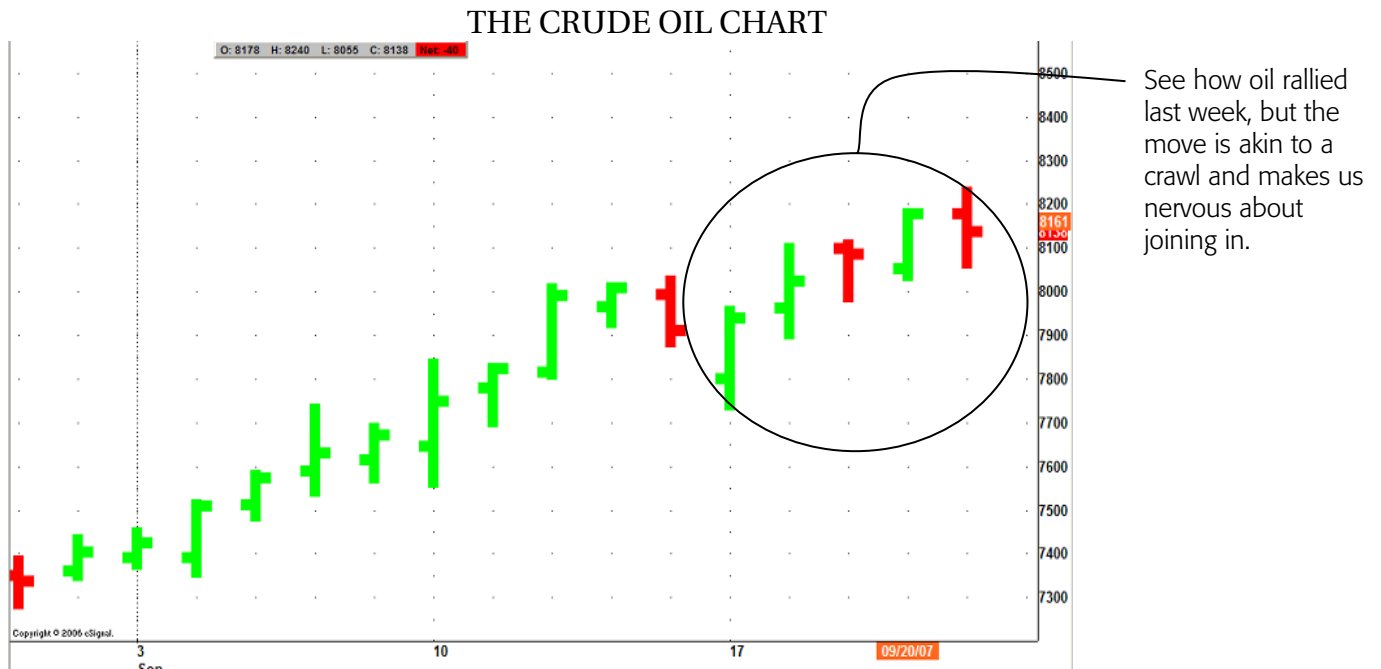
If a correction is now taking place, it should be possible to buy back in around the low \$720.00's level in the near future.

[Back to contents](#)

OIL

OUR TRADING STANCE: SQUARE.

Last week we were square of oil.



This week we are square of oil.

Last week we remained square of oil ahead of an important week for US monetary policy which saw the Fed cut interest rates by 50bp to ward off the possibility of a recession.

We had expected such a cut would see the market higher as US data is not conclusively pointing to a recession and the easier monetary policy could easily fuel demand and tighten the market for oil.

Although Oil did indeed rally the move lacked dynamism and we remained sidelined.

The Macro Trader's view is: although we are currently square, we are still bullish of this market for several reasons:

- There are concerns US supplies maybe too low for this winter,
- OPEC remains unwilling to pump enough oil to bring the price down and has become used to high prices, and
- Geopolitical tensions remain with the talk of possible conflict with Iran still doing the rounds.

The threat maybe hollow, as it is difficult to imagine a US President attracting support for another war, especially with the campaign in Iraq so unpopular.

But Iran may be different? The US public remembers the humiliation at the hands of the Ayatollahs in the late 1970's as they held Americans hostage.

The regime is suspected strongly, by the US, of supporting active terrorist organisations, and the US is clear that Iran is using its nuclear program as a cover to build nuclear weapons capability.

Given what we know of this regime the prospect of it becoming nuclear armed is unacceptable, and the more frequent comments about military force from western powers will insure oil remains supported.

We advised last week that if oil held above \$80.00 it was time to go long, but although that occurred, the market failed to progress in line with our expectations.

[Back to contents](#)