

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 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 Weaving 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 22 nd October
Monday	
Tuesday	UK CBI Qrtly trends survey -6 WEAKER FR Cons spndg 0.1m, 5.8y STRONGER IT Retail sales 0.2m, 1.4y STRONGER EZ Ind new orders 0.3m, 5.1y LESS THAN EXPECTED
Wednesday	US MBA Mrtge apps 0.0 AS US Existing home sales 5.04M WEAKER IT Bus conf 92.9 BETTER IT Trade bal non-EU -2.112B WORSE EZ C/A 3.8B BETTER THAN EXPECTED
Thursday	US Jobless claims 331k WORSE US Durable goods -1.7% WEAKER US Ex-transport 0.3 WEAKER US New home sales 770k LESS UK BBA Hse purch loans 52.685K WEAKER DM Import prices 0.6m, 1.3y STRONGER FR Bus conf 108.0 AS DM IFO 103.9 BETTER THAN EXPECTED
Friday	US U. of Michigan conf 80.9 WEAKER DM GFK Cons conf 4.9 WEAKER EZ M3 11.5% 3mth LESS EZ M3 11.3% y/y LESS THAN EXPECTED

WHAT'S HAPPENING THIS WEEK?

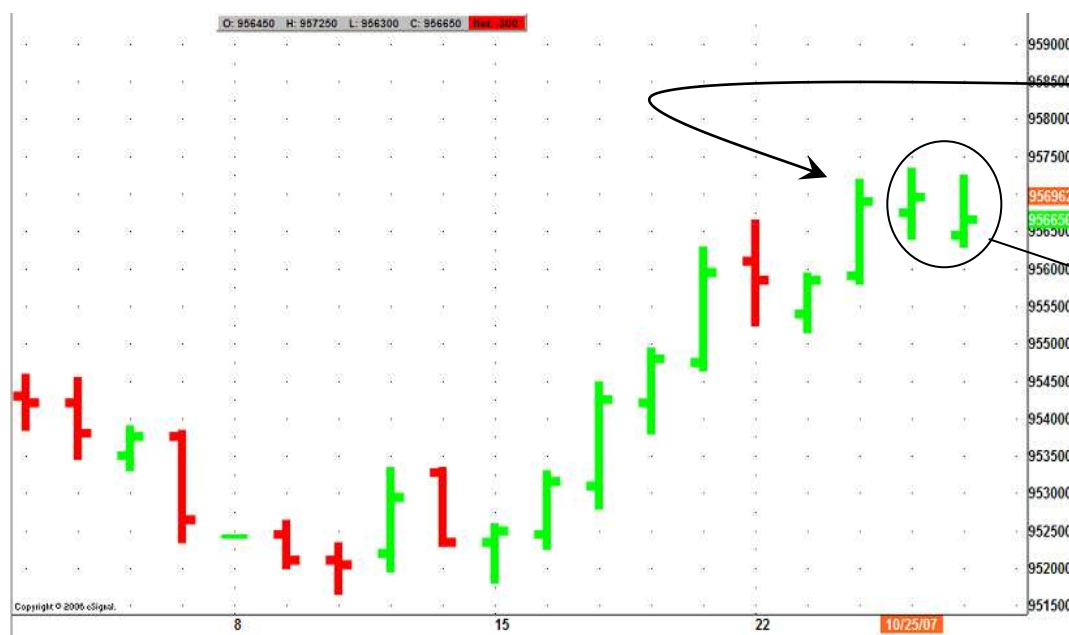
	Week of 29 th October
Monday	UK M4 Strlg Indg n/f UK Net cons cr 0.9B UK Net Indg on dwellings 8.3B UK Mrtge apps 102K DM CPI 0.1m, 2.4y
Tuesday	US Cons conf 100.0 DM ILO Unemploy'm't 6.1% DM Unemploy'm't rate 8.7 DM Change -30k FR Qrtly mfg survey n/f IT PPI 0.2m, 3.1y
Wednesday	US MBA Mrtge apps n/f US Q3 GDP 3.1 US Q3 Person'l consump 3.2% US Q3 Core PCE 1.5% US Q3 Employ'm't cost INDX 0.9 US Chicago PMI 53.0 US Construction spndg -0.3 US FOMC Rate decision 4.5% UK Nationwide hse prcs 0.2m, 8.5y UK GFK Cons conf -8 FR Cons conf -22 FR PPI 0.3m, 2.5y EZ Cons conf -5 IT CPI 0.2m, 2.0y EZ CPI 2.3% EZ Unemploy'm't rate 6.9% DM Retail sales 0.8m, -0.6y
Thursday	US Jobless claims 335k US Personal income 0.4 US Personal spndg 0.4 US PCE Core 0.2 US ISM Mfg 52.0 UK PMI Mfg 54.5 UK CBI Distributive trdes n/f
Friday	US Non-farm payroll 90k US Unemploy'm't rate 4.7 US Avge work wk 33.8 US Avge hrly earnings 0.3% US Factory orders 1.0% UK PMI Construction 59.5 IT PMI Mfg 52.0 EZ PMI Mfg 51.5 DM PMI mfg 53.5 FR PMI Mfg 50.0

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INTEREST RATE FUTURES

EURO DOLLARS

MARCH 08 EURO DOLLARS



See how Eurodollars rallied on Wednesday after the release of weaker than expected existing home sales, with other data on Thursday and Friday helping the market consolidate.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of Eurodollars as an equity market sell off which began the previous week, looked like continuing with short term interest rate futures being forced into another rally as traders sought safe haven trades.

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

- on Wednesday; MBA Mortgage applications were as expected and Existing home sales were weaker than forecast,
- on Thursday; Jobless claims were worse than expected, Durable goods were weaker than expected and New home sales were below consensus, and
- on Friday; University of Michigan consumer confidence was weaker than forecast.

The market's reaction to the equity market price action was more muted than feared, but Wednesday's existing home sales led the market higher as traders now expect the Fed to deliver another rate cut.

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

- on Tuesday; **Consumer confidence**,
- on Wednesday; MDA Mortgage applications, **Q3 GDP, Q3 Personal consumption, Q3 Core PCE, Q3 Employment cost index, Chicago PMI, Construction spending and the FOMC interest rate decision**,
- on Thursday; Jobless claims, Personal income & spending, **Core PCE and ISM Mfg survey**, and
- on Friday: **non-farm payroll, unemployment rate, average hourly earnings, average work week** and factory orders.

The key events this week are highlighted red, but the market will be firmly focused on the Fed's interest rate decision.

The consensus among traders is for a 25bp rate cut, but 50bp cannot be ruled out as the Fed has continued to communicate its anxiety over the

likely economic consequences of the on going housing market correction.

The Macro Trader's view is: Bernanke's speeches last week were very important; they wiped away the sense of security that had built up in most markets, especially stocks that the worst of the turmoil was behind us.

Indeed in interest rate futures markets traders had figured the Fed was unlikely to ease rates further in the near term without fresh evidence to show the economy was in distress.

That was also our view, but clearly we were all wrong. The Fed has communicated the opposite view to the one we were expecting.

Far from biding their time and wondering how to prepare the market for a removal of the recent rate cut, they have in one week disabused the market of that view to the extent that traders now expect the Fed to ease at their October 30/31 meeting.

And if New home Sales and Existing home sales are weaker than expected, speculation may turn to will the cut be 50bp rather than 25bp.

For us the single most important event last week was when Bernanke uttered the phrase on Friday during his speech

...“staying ahead of the recession curve”...

This together with his other comments showed that policy makers are very concerned that the economy faces a very real threat of recession as a result of the on going, and arguably deepening, housing correction.

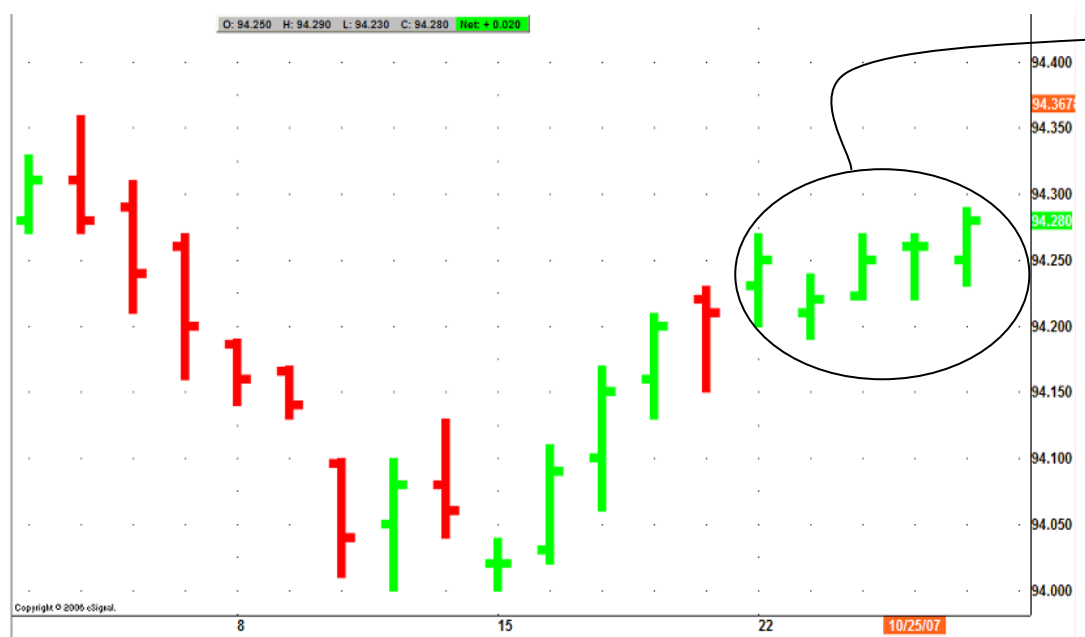
Indeed recent data releases have led us all up a blind alley; the Fed sees the worst as yet to come, where as the markets had assumed the worst was behind us.

For now we judge it best to remain square, we missed last week's rally and although we now expect a rate cut; 25bp is fully priced in, only an expectation of a 50bp move can justify buying at the top of a strong rally.

Traders should watch the home sales data very closely, if they are much weaker than expected then simply go long.

SHORT STERLING

MARCH 08 SHORT STERLING



See how Short Sterling mainly traded sideways last week as the volatility in equities helped the market higher.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of this market in the absence of any heavy weight data releases as we held to our view that the economy remained strong enough to rule out any short term rate cuts.

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

- on Tuesday; the CBI Quarterly industrial trends survey was weaker than expected, and
- on Thursday; the BBA report of loans for house purchase was weaker than expected.

The market drew support from the volatility in the equity markets as data had very little impact, but impressively, as equities recovered their poise, Short Sterling held its gains as bullish sentiment from the US offered support.

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

- on Monday; M4 Sterling lending, Net consumer credit, **Net lending against dwellings and mortgage applications**,

- on Wednesday; the **Nationwide House price survey** and GFK Consumer confidence report,
- on Thursday; the **PMI Manufacturing survey** and **CBI Distributive trades survey**, and
- on Friday; the PMI construction survey.

This week's key releases are highlighted red, and we advise monitoring the data on the housing market and the CBI distributive trades report.

The MPC are only likely to cut when they see incontrovertible evidence that the housing market is heading for a steep correction and consumer demand is suffering as a consequence; that so far isn't apparent.

The Macro Trader's view is: we are well aware of the various scenarios currently circulating in the market which culminate with the MPC cutting rates, but the data simply doesn't support those views; yet.

Unlike the Fed, we judge the MPC will not rush to ease “just in case” when they see an economy operating at its upper safety limits.

While policy makers do not want to see a pronounced slow down, a cooling of the economy is desired, as stated in the recent minutes.

Just how slow they would like is unclear, perhaps a GDP rate of 2.0 – 2.25% is their preference. However soft landings are notoriously difficult to engineer, and by the time the MPC realise they aren't going to get one, it may be too late to avoid a more pronounced slowdown, albeit still avoiding recession.

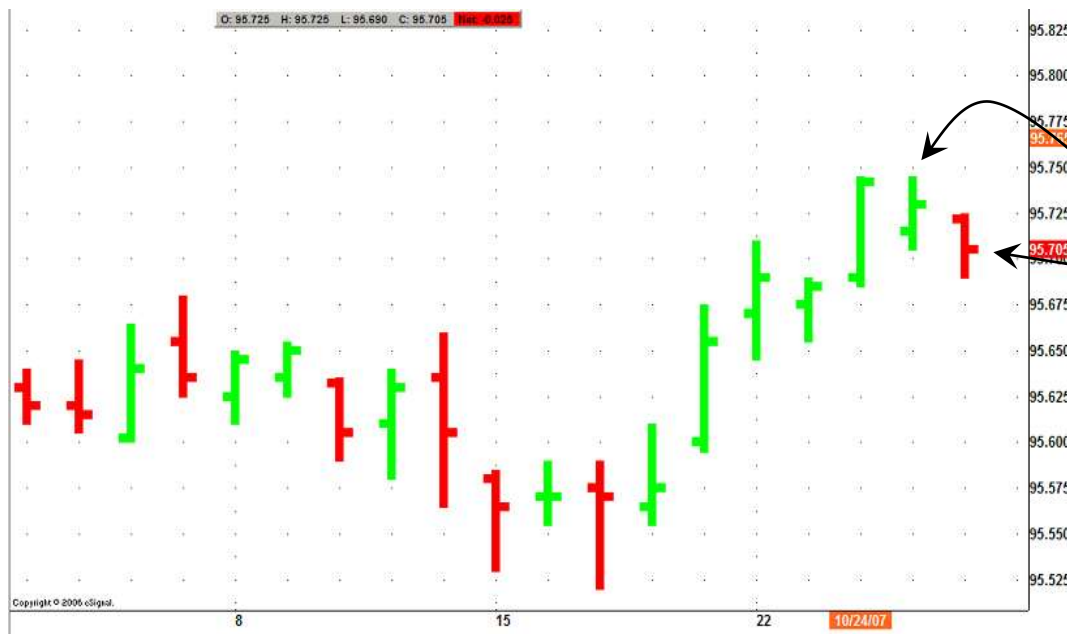
That is our main reason for judging the Bank of England isn't yet close to cutting rates.

But if the US economy does cool in line with Fed thinking, Cable hits 2.2000, oil hits \$100.00+ a barrel and the UK housing market does buckle, then rates here will fall, but none of this will likely be apparent until the New Year; at the earliest, and in the interim tricky to trade off.

For now we advise remaining square of this market, at least until the next quarterly inflation report is released in November which will inform the market of the MPC'S current thinking and anxiety levels.

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MARCH 08 EURIBOR



See how Euribor continues to price in another rate hike from the ECB especially after Thursday's IFO report and Friday's still elevated M3 report.

THE MARKET EXPLAINED

OUR TRADING STANCE: SQUARE.

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

Last week we remained square of this market as we judged the ECB retained a tightening bias that was currently restrained by the uncertainty of how the Euro zone economy would evolve over the next few months after the dislocation caused by the summer chaos in financial markets, which gave a brief encore last week.

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

- on Tuesday; French consumer spending was stronger than expected, Italian retail sales were stronger than expected and Euro zone industrial new orders were less than forecast,
- on Wednesday; Italian business confidence was better than expected, non-EU trade balance was worse than expected and Euro zone C/A data was better than expected,
- on Thursday; German import prices were stronger than expected, the IFO survey was better than expected and French business confidence was as expected, and

- on Friday; German GfK consumer confidence was weaker than expected and Euro zone M3 was below consensus but still at elevated levels.

The market rallied early in the week in response to the volatility in equities, which for a while on Monday looked like developing into a full blown re-run of the summer sell off.

However, equity markets steadied and staged a recovery and Euribor traders reacted to the solid IFO and M3 reports which will do nothing to allay the inflation anxieties of the ECB.

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

- on Monday; **German CPI**,
- on Tuesday; German **ILO Unemployment report, unemployment rate**, French quarterly manufacturing survey and Italian PPI,
- on Wednesday; **French PPI** and consumer confidence, Italian CPI and **Euro zone Consumer confidence, CPI**

- and unemployment rate and German retail sales, and on Friday; Italian, French, German and Euro zone PMI manufacturing surveys.

This week's key releases are highlighted in red, and of them we advise monitoring the manufacturing PMI reports and CPI releases.

The Euro zone has built its recovery on manufacturing, not retail sales as in the UK and US so these releases are more significant than in the two Anglo Saxon economies.

The Macro Trader's view is: our view last week that Euribor was the least bullish short term interest rate futures market was largely born out by the subsequent price action.

While Eurodollars and Short Sterling closed the week on a bullish note, Euribor suffered a downturn.

The volatility in equities which caused the rally

early in the week eased, and as we suspected the IFO report in particular, but also the M3 money supply data, revealed the economy remains well set, with the risk of higher inflation.

With oil prices hitting a new high last week on inventory worries in the US and heightened geopolitical tension centred on Iran, the ECB are highly unlikely to follow the Fed and ease.

Indeed another rate hike looks likely early in the New Year.

However the market has that scenario priced in and we would question whether policy would be tightened beyond 4.25%.

With Euribor clinging to a level that supports our view we see little opportunity for either the Bulls or Bears and advise remaining square.

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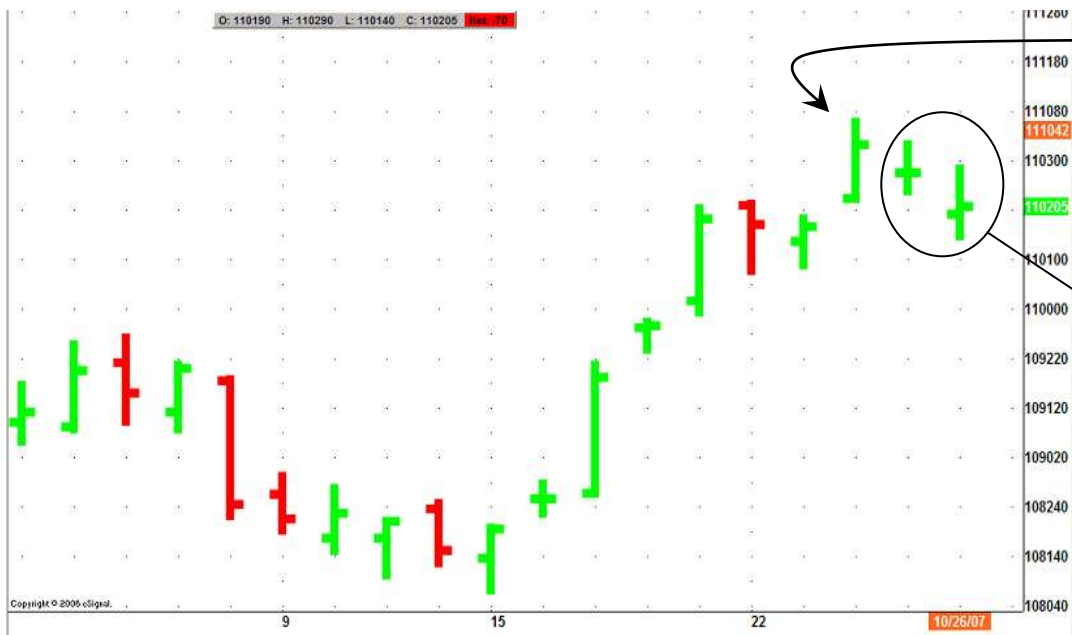
GOVERNMENT BONDS

US TREASURY NOTE (10 yr)

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the 10yr Note.

US 10yr NOTE



See how Treasuries hit our target on Wednesday after the release of weaker than expected Existing home sales, but drifted lower as equity markets staged a recovery on Thursday and Friday.

This week we remain bullish of the 10yr Note.

Last week we were bullish of this market following speeches from Bernanke which laid the ground work for a Fed rate cut at the October 30/31 FOMC meeting, as the correction in the housing market continues to ring alarm bells with policy makers.

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

- on Wednesday; MBA Mortgage applications were as expected and Existing home sales were weaker than forecast,
- on Thursday; Jobless claims were worse than expected, Durable goods were weaker than expected and New home sales were below consensus, and
- on Friday; University of Michigan consumer confidence was weaker than forecast.

The market was clearly torn between the price volatility in equities and the weaker housing market data seen on Wednesday and Thursday, with other releases adding to those concerns, but a recovery in equities later in the week led

investors out of their safe haven trades in Bonds.

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

- on Tuesday; **Consumer confidence**,
- on Wednesday; MDA Mortgage applications, **Q3 GDP, Q3 Personal consumption, Q3 Core PCE, Q3 Employment cost index, Chicago PMI, Construction spending and the FOMC interest rate decision**,
- on Thursday; Jobless claims, Personal income & spending, **Core PCE and ISM Mfg survey**, and
- on Friday: **non-farm payroll, unemployment rate, average hourly earnings, average work week** and factory orders.

The key releases this week are highlighted in red, and apart from the Fed watch jobless claims and non-farm payroll. The weekly jobless claims report has steadily risen over recent weeks and if the payroll report showed weakness this time, it would have corroborating evidence to support the

slowdown theory the Fed is acting on.

The Macro Trader's view is: the market hit our target last week but couldn't hold it. The likely reason was the volatility in equities as last week's data was definitely bullish for this market.

Interestingly we think a 25bp rate cut on Wednesday could see this market higher, as it seems equities are expecting another 50bp from the Fed. If they don't get it equities will likely sell off and traders will take the Treasury market higher.

Interest rate and fixed income traders seem to be expecting 25bp, but as said here before, the Fed isn't focusing on current data, they are looking out how big a hit the economy could potentially take from a housing market that continues to contract; they may just surprise and go 50bp.

That should support both equities and bonds, at

least short term.

One thing is clear; inflation is no longer the Fed's prime concern. Shortly after taking office, ex-Chairman Alan Greenspan once said something like... there may be time when the Fed starts cutting rates even when CPI seems to be rising... clearly he was thinking an imminent recession, or threat of one will send inflation lower even with easier policy. He may no longer be in office but that remark remains as true today and policy makers will continue to act in the spirit of those words.

Traders should be long of this market, our target over the next 7 days is the recent high at 111.07, but our stop remains at 109.10 as protection.

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THE GILT

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.

THE GILT



See how the Gilt mainly traded sideways as it consolidated the previous week's gains which were induced by a wobble in equity markets.

This week we remain square of the Gilt.

Last week we remained square of the Gilt as our view of the economy's prospects over the next two quarters differs to current market sentiment.

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

- on Tuesday; the CBI Quarterly industrial trends survey was weaker than expected, and
- on Thursday; the BBA report of loans for house purchase was weaker than expected.

The market consolidated the previous week's rally as equity markets experienced another troubled spell. Not until later in the week were equities able to regain some of their losses with the Gilt clinging to the meagre gains it made on the week.

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

- on Monday; M4 Sterling lending, Net consumer credit, **Net lending against dwellings and mortgage applications**,
- on Wednesday; the **Nationwide House**

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- price survey** and GfK Consumer confidence report,
- on Thursday; the **PMI Manufacturing survey** and **CBI Distributive trades survey**, and
- on Friday; the PMI construction survey.

This week's key releases are highlighted red, and we urge traders to monitor the data related to the housing market closely, since signs of material weakness here will validate calls for easier monetary policy.

The Macro Trader's view is: we remain uninterested in this market, we continue to see the Gilt dragged higher by events in the US and excitement in the UK that rates here could ease before Christmas.

We do not expect the MPC to ease UK policy this side of the New Year as the economy remains strong and the MPC do require a slowdown to occur, so with Q3 GDP running at 3.3%, they have time on their hands and will likely use it fully.

THE BUND

OUR TRADING STANCE: SQUARE.

Last week we were square of the bund.

THE BUND



See how the Bund rejected the highs on Thursday after the release of a solid German IFO report and again on Friday as Euro zone M3 clung to its elevated levels.

This week we remain square of the Bund.

Last week we were square of the Bund as equity markets continued to correct lower at the start of the week, but with Euro zone economic data remaining solid our long term view of the Bund is bearish.

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

- on Tuesday; French consumer spending was stronger than expected, Italian retail sales were stronger than expected and Euro zone industrial new orders were less than forecast,
- on Wednesday; Italian business confidence was better than expected, non-EU trade balance was worse than expected and Euro zone C/A data was better than expected,
- on Thursday; German import prices were stronger than expected, the IFO survey was better than expected and French business confidence was as expected, and
- on Friday; German GFK consumer confidence was weaker than expected and Euro zone M3 was below consensus but still at elevated levels.

The Bund was led higher into mid week on the fresh round of selling that hit equities the previous week and into last week, but the impact was short lived after a strong IFO report on Thursday sent the Bund away from the highs. An equally strong M3 report, albeit just below market consensus, further weighed on the Euro Bund and it gave back most of the week's gains.

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

- on Monday; **German CPI**,
- on Tuesday; German **ILO Unemployment report, unemployment rate**, French quarterly manufacturing survey and Italian PPI,
- on Wednesday; **French PPI** and consumer confidence, Italian CPI and **Euro zone Consumer confidence, CPI and unemployment rate** and German retail sales, and
- on Friday; **Italian, French, German and Euro zone PMI manufacturing surveys**.

This week's key events are highlighted in red, and are a mix of preliminary inflation data and further insight into the Euro zones manufacturing health, which as the motor of that economy is one of the

important indicators considered by the ECB when setting monetary policy.

The Macro Trader's view is: the two areas we highlighted for attention last week:

- the German IFO report, and
- Euro zone M3 money supply,

Lived up to our expectations and came in at levels which will ensure the ECB retains a bias for tighter monetary policy.

However, with much uncertainty still circulating over how the Euro zone economy will ultimately deal with the fall out from the Credit crunch, the

ECB will continue to bide its time, and we don't expect them to change policy until the New Year.

This makes the Bund a difficult market to trade, as on the one hand:

- it benefits from the frequent sell offs that occur in equities, even though they have so far resolved to new highs, and
- on the other hand, it retains an air of bearishness as higher Oil prices are already forcing inflation higher at the same time as growth remains under pinned.

Until this dichotomy resolves its self, we advise traders to remain square.

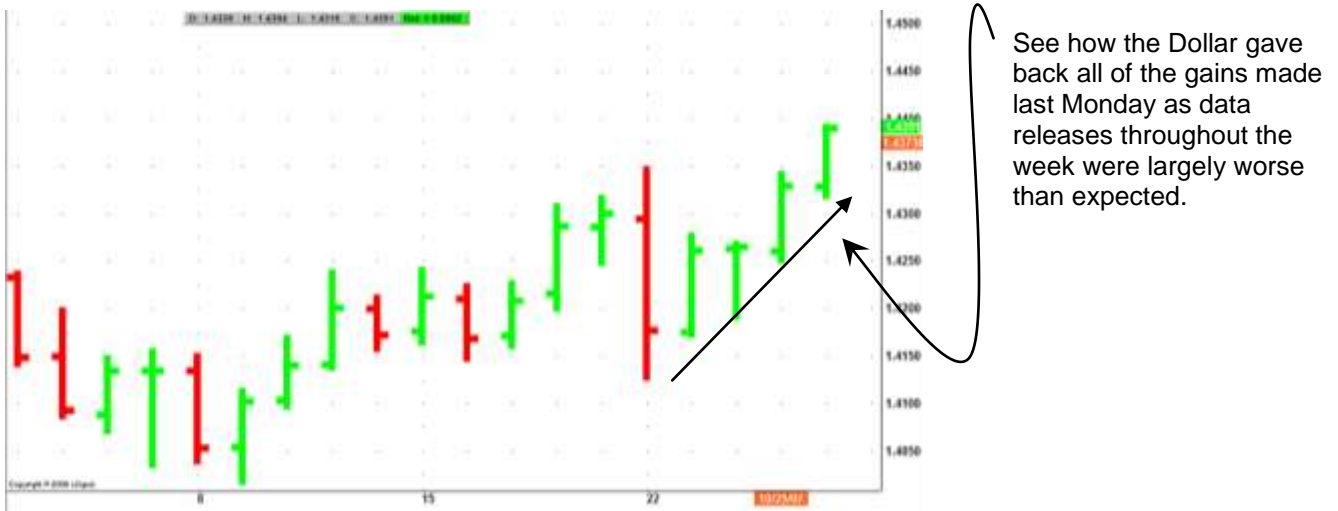
CURRENCIES

THE DOLLAR

OUR TRADING STANCE: BEARISH.

Last week we were square of the Dollar.

EURO/DOLLAR CHART



DOLLAR/YEN CHART



This week we are bearish of the Dollar.

Last week we remained square of the Dollar as it put in a strong rally at the start of last week. Although we doubted its durability, the move was caused by some aggressive early selling in equities and after the events of the summer, we decided to watch from the sidelines, rather than potential get swamped by another fierce wave of risk aversion.

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

- on Wednesday; MBA Mortgage applications were as expected and Existing home sales were weaker than forecast,
- on Thursday; Jobless claims were worse

- than expected, Durable goods were weaker than expected and New home sales were below consensus, and on Friday; University of Michigan consumer confidence was weaker than forecast.

The Dollar relinquished its gains over the course of the week as equities steadied and then recovered, at the same time as US data revealed fresh signs of weakness, albeit in data series that have been weak for some time.

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

- on Tuesday; **Consumer confidence**,
- on Wednesday; MDA Mortgage applications, **Q3 GDP, Q3 Personal consumption, Q3 Core PCE, Q3 Employment cost index, Chicago PMI**, Construction spending and the **FOMC interest rate decision**,
- on Thursday; Jobless claims, Personal income & spending, **Core PCE and ISM Mfg survey**, and
- on Friday: **non-farm payroll, unemployment rate, average hourly earnings, average work week** and factory orders.

This week's key events are highlighted red, and we expect the FOMC rate decision and its policy statement to set the tone for the Dollar over the next period, but other key releases shouldn't be

ignored and after a run of several weeks where jobless claims have moved steadily higher, Friday's non-farm payroll report should be watched closely; any weakness there now should be taken seriously and the Dollar would come under more intensive selling pressure.

The Macro Trader's view is: we went short of the Dollar against the Pound last week, as Monday's rally was eroded during the week.

With the Fed continuing to communicate their vision of how the housing market slump poses a serious threat to the general health of the US economy, the Dollar has remained the preferred vehicle for traders to express their bearishness.

Looking at this week's releases we judge the Dollar could be at an important moment, weak data will see the longer term bearish forecasts come into sharp focus, where as less conclusive data will consign its decline to the slower lane, but long term it is vulnerable to further selling pressure.

We advise traders to be Short of the Dollar:

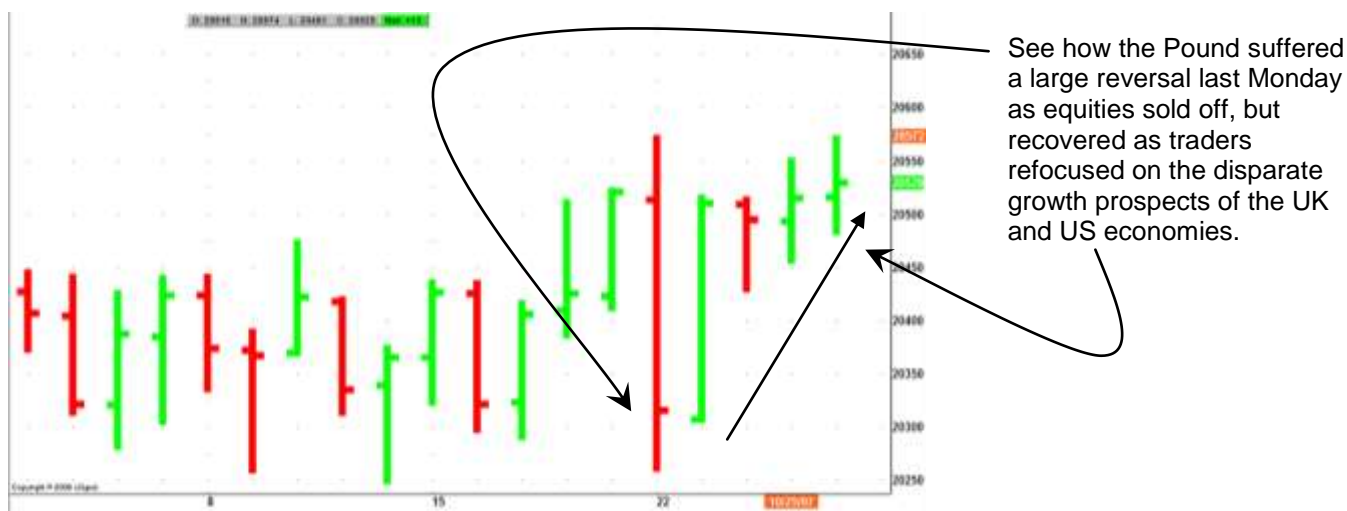
- against the Pound our target over the next 7 days is 2.0700, with a stop at 2.0250, and
- against the Euro our target over the next 7 days is 1.4500 with a stop at 1.4190 for protection.

THE POUND STERLING

OUR TRADING STANCE: BULLISH.

Last week we were square of Sterling.

THE CABLE CHART



THE STERLING/EURO CHART



This week we remain bullish of Sterling.

Last week we remained square of the Pound as the week began with a strong Dollar recovery against all the major currencies fuelled by bearish price action in equity markets.

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

- on Tuesday; the CBI Quarterly industrial trends survey was weaker than expected,

- and on Thursday; the BBA report of loans for house purchase was weaker than expected.

The Pound recovered as the week progressed as equity markets recovered and US data was weaker than expected, with UK data of little strategic consequence.

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

- on Monday; M4 Sterling lending, Net consumer credit, **Net lending against dwellings and mortgage applications**,
- on Wednesday; the **Nationwide House price survey** and GFK Consumer confidence report,
- on Thursday; the **PMI Manufacturing survey** and **CBI Distributive trades survey**, and
- on Friday; the PMI construction survey.

This week's key data releases are highlighted red, and we advise paying close attention to the housing market data.

Traders expecting the MPC to ease policy, base their judgement on the UK property market suffering a similar correction to the one unfolding in the US, without it, the MPC are unlikely to ease in the short/medium term, and that will support the Pound.

The Macro Trader's view is: we eventually bought back into Cable, albeit at elevated levels, last week, once we were satisfied the sell off in

equities was a short lived event; which it now seems to have been.

Although there was little UK data out last week, the previous week's releases were strong, and these contrasted with the weak housing and durable goods reports that came out of the US last week.

With the Fed widely expected to cut interest rates at this Wednesday's FOMC meeting the Dollar is very vulnerable to the downside. The Fed may opt for another 50bp cut, even though 25bp is widely expected, and the considerable amount of US data due could also send the Dollar lower.

From a UK perspective we see the Pound remaining supported by the continuing strength of UK economic activity and the current stability of UK interest rates.

Traders should be long of Cable and our target over the next 7 days is 2.0700, with a protective stop at 2.0250.

THE EURO

OUR TRADING STANCE: BULLISH.

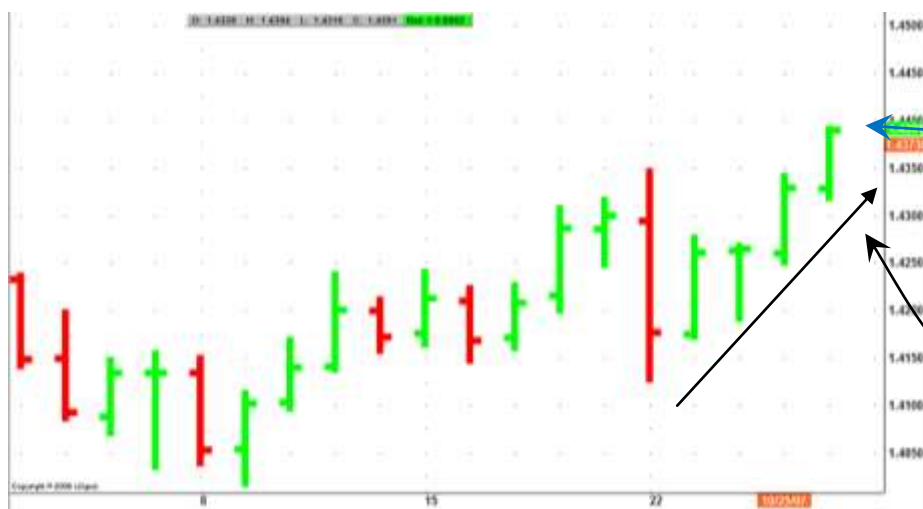
Last week we were square of the Euro.

EURO/YEN CHART



See how the Yen gave back some of its gains last week as German IFO and M3 came in at levels that keep the ECB nervous about inflation.

THE EURO/DOLLAR CHART



See how the Euro recovered from Monday's sell off and went on to make a new high as Euro zone data later in the week contrasted sharply with weak US housing reports.

This week we are bullish of the Euro.

Last week we remained square of the Euro as traders squared their positions across a range of asset classes in reaction to a fresh sell off in equities, which at one point looked like escalating into a re-run of the summer crisis, with the Dollar staging a very robust recovery.

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

- on Tuesday; French consumer spending was stronger than expected, Italian retail sales were stronger than expected and Euro zone industrial new orders were less than forecast,

- on Wednesday; Italian business confidence was better than expected, non-EU trade balance was worse than expected and Euro zone C/A data was better than expected,
- on Thursday; German import prices were stronger than expected, the IFO survey was better than expected and French business confidence was as expected, and
- on Friday; German GfK consumer confidence was weaker than expected and Euro zone M3 was below consensus but still at elevated levels.

The equity correction, mercifully proved short lived and so too did the Dollars strength, as strong Euro zone data aided by weak US home sales reports, sent the Euro to new highs by the week's end.

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

- on Monday; **German CPI**,
- on Tuesday; German **ILO Unemployment report, unemployment rate**, French quarterly manufacturing survey and Italian PPI,
- on Wednesday; **French PPI** and consumer confidence, Italian CPI and **Euro zone Consumer confidence, CPI and unemployment rate** and German retail sales, and
- on Friday; **Italian, French, German and Euro zone PMI manufacturing surveys**.

The key releases due this week are highlighted in red, and we expect the CPI reports to keep the

thought alive that the ECB could hike rates again in the coming months.

The Macro Trader's view is: the Euro performed well last week, overcoming a considerable set back last Monday to go on and make new highs by Friday.

The dynamics of this market are clear:

- the ECB has one more rate hike left to deliver, where as
- the Fed will almost certainly cut rates again at this week's meeting and may feel the need to repeat the move at their December meeting.

Apart from the occasional correction in equities which acts to support the Dollar as traders square short Dollar positions, this in a nut shell is what drives this currency pair.

After last week's strong German IFO report and weak US home sales reports traders should be long of this market.

In addition to the Fed there is a whole raft of data due in the US with non-farm payroll at the week's end. This may be weaker than expected as the weekly jobless claims report has slowly deteriorated over the last few weeks, if employment in the states does slow, the Dollar will really come under selling pressure.

Our target over the next 7 days is 1.4500 and our stop is set at 1.4190 for protection.

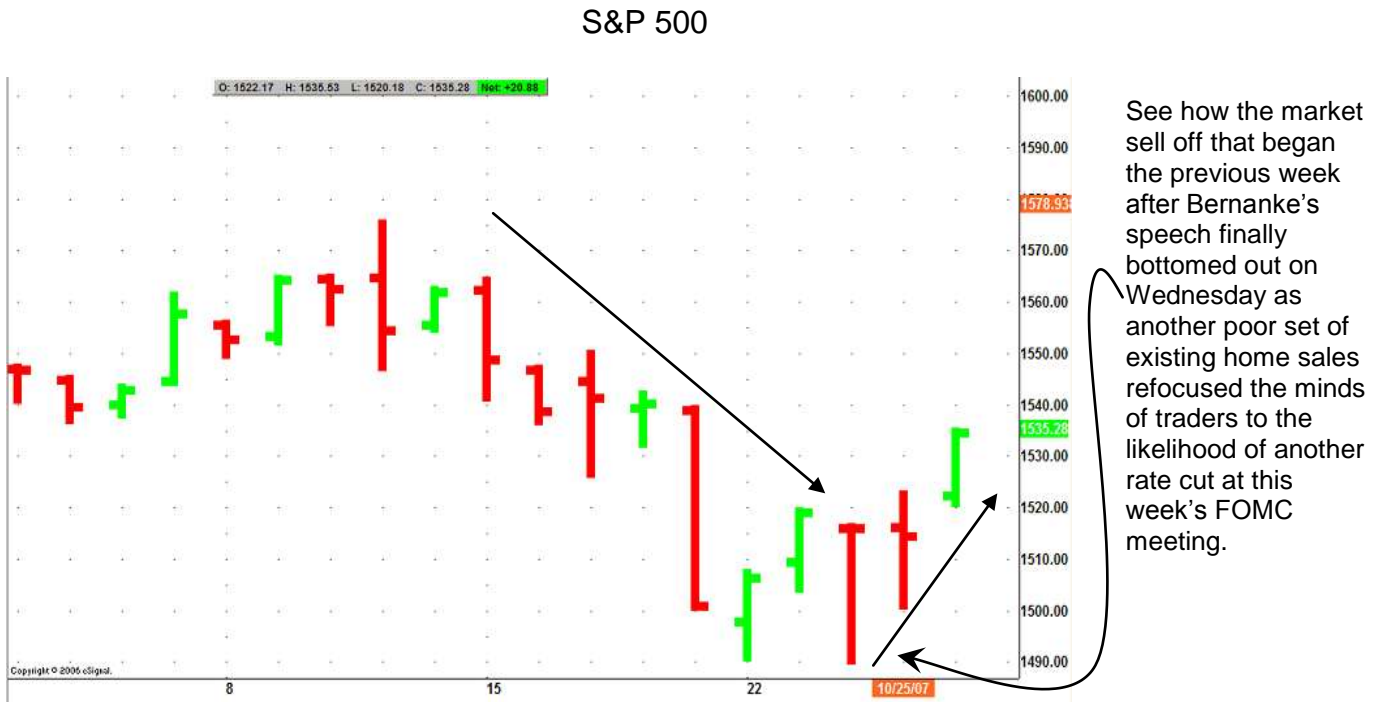
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STOCKS

S&P 500

OUR TRADING STANCE: SQUARE.

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



This week we remain square of the S&P 500

Last week we were square of this market as it continued to correct lower.

Although the move began the previous week, when a speech by Fed chairman Bernanke coincided with some poor high profile profit reports, to remind traders that the conditions that led to the summer chaos in financial markets were still in place.

And accelerated when Merrill Lynch announced some very bad 3rd quarter results, paradoxically the market began to recover after the release of a poor set of Existing home sales the same day, which led traders to speculate the Fed would cut rates again at its FOMC meeting this week.

Looking ahead, apart from the Fed, Q3 GDP is due and so is the ISM manufacturing report and at the end of the week, non-farm payroll.

The Macro Trader's view is: for now we think equities are too volatile. Although they recovered

after the summer correction and made new highs, last week's price action really should remind traders that the uncertainty that led to the summer sell off still exists, although it took a speech by Bernanke to remind everyone.

The current rally while likely to lead to new highs, is also likely to be a volatile affair; traders are bullish on the prospect of further US interest rate cuts, but nervous over how much damage the housing market correction will inflict on the economy, and its this schizophrenia that is causing the volatility.

Additionally equity markets seem to be anticipating a 50bp rate cut is more than just a possibility, where as fixed income and short term interest rate traders are expecting 25bp.

A cut of 25bp may not be enough to sustain equities and we advise traders to remain square.

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FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100.

FTSE 100



This week we remain square of the FTSE 100.

Last week we remained square of this market following a sell off the previous week which confirmed our view that this and other equity markets remain highly volatile.

Apart from the influence of sentiment from the US which has had a very measurable impact, the FTSE is heavily exposed to the international economy as many foreign firms have chosen to list on it.

The mining and oil sector is heavily represented and swings in the oil price play havoc with this market, as does news from the Banking sector as witnessed recently when Northern Rock became a Bank in deep trouble.

With the US Fed deciding on interest rates this Wednesday, all equity markets will be focused on that side of the Atlantic, even though the UK economy looks very different to that of the US, and we judge volatility is likely to remain all through this week.

The Macro Trader's view is: the market's bounce last week was almost as impressive as the previous week's sell off was depressive.

Although we expect the FTSE to make new highs in the coming weeks, we are remaining sidelined due to the level of volatility and frequency of market corrections.

These are such that no reasonable stop loss offers the kind of protection expected; traders are viciously stopped out only to see the market stage a vigorous recovery.

From a money making point of view, we judge the risk reward ratio isn't right and we advise traders to remain sidelined for the time being.

But given that our underlying view of this market is still bullish, as soon as the current level of volatility does subside, we will be seeking to go long; patience is required.

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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 fared better than the S&P and FTSE, although it too suffered a correction the recovery made the initial sell off seem a much less significant event than elsewhere.

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

Last week we remained square of this market as we judged it had under performed the S&P and FTSE over recent weeks and remained far below its previous highs which made it the least attractive of the equity markets we follow at that time.

But during the last two weeks that has been this markets saving grace; as US and UK equity markets sold off and then staged a recovery, this market appears much less volatile, and where as previously we were unwilling to consider a long position, the recent price action has caused us to reconsider.

With two key reports last week; German IFO and Euro zone M3 money supply, supporting the view that the Euro zone economy remains well underpinned, at least for now, this market may prove the least volatile and best long term option for equity Bulls.

The Macro Trader's view is: although we are attracted to this markets qualities; lower volatility than the other major equity markets, we are still nervous about going long ahead of this week's US FOMC meeting.

The current market sentiment in equities, at least in the US, is such that a 50bp rate cut is hoped for; the interest rate market consensus is focused on a 25bp rate cut.

We judge if the Fed eases by 25bp equity markets in the US may react negatively and this will spill over into international markets including this one.

For now we prefer to remain square, there is always another trade and better if the risk reward is more heavily in favour of the trader.

But if this week's Fed decision and policy statement is taken favourably, we would advise going long of this market, not the S&P or FTSE.

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COMMODITIES

GOLD

OUR TRADING STANCE: BULLISH

Last week we were bullish of gold.

THE GOLD CHART



This week we remain bullish of Gold.

Last week we remained long of this market and after a short lived by steep correction at the start of the week, Gold rallied to make new highs.

Traders sought out Gold as an alternative not only to the Dollar, but also the other major currencies. While it is the US economy that is making the headlines regarding the possibility of a recession, the other major economies could suffer a similar fate if a US slowdown was deep and prolonged.

The Dollar remains under pressure and sold off further last week after the release of another weak set of US home sales reports and with oil prices within sight of \$100.00 a barrel, traders also have one eye on inflation.

The Macro Trader's view is: Gold market was indeed bullish, as we said last week, and it ripped through our target.

Apart from the economic woes which support it, geopolitical concerns are not only lingering, but intensifying, Russia continues to flex its muscles

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with fresh warnings to the EU over Kosovo and Iran, not too long ago Russia was an impoverished former giant, but after several years of high and rising oil prices, it now has the resources to re-kit its military and it is letting the world know its views and wants them to be heeded.

That's all very well but because of Russia's interest in a high oil price, they are increasingly conflicting with the interests of the leading western powers, especially over Iran's drive to master nuclear technology.

All of these factors combined makes gold a powerful long term market and we advise traders to remain long.

Our target over the next 7 days is now \$810.00 and our stop is raised to \$766.00 to better protect our profits.

OUR TRADING STANCE: BULLISH.

Last week we were bullish of oil.

THE CRUDE OIL CHART



This week we remain bullish of oil.

Last week we remained bullish of oil for the same underlying reasons as last week...With a Turkish invasion of north Iraq on the cards which would interrupt oil production in that region, OPEC continuing to resist calls for an increase in oil production, and Russia continuing to make it harder for the west to reach an already unlikely diplomatic solution with Iran over its nuclear program, the Oil price seemed well supported...and indeed it made fresh new highs last week.

In addition to last week's woes the latest data on US oil inventories was lower than expected and below the 5yr average for this time of the year. With the northern hemisphere winter just around the corner that was a big support for this market.

The Macro Trader's view is: the new found confidence of Russia in its international dealings, are becoming an important factor in the oil market. Its refusal to support the western powers in the diplomatic struggle with Iran over its nuclear

program due to its own self interest in seeing oil prices as high as possible, makes an ill conceived US attack seem more likely.

Although an attack on Iran will be fraught with problems, leaving such a regime to develop, build and deploy nuclear weapons is far more serious. Were they to acquire such hardware the risk of it being used, either by Iran or by its terrorist associates is too great. Clearly this is a risk the major powers are not prepared to take and they over shadow the consequences of launching an attack; terrorist reprisals.

This uncertainty is capable of propelling oil to and through \$100.00 a barrel, but if the bombs start falling who knows where the price will settle.

Traders should stay long of this market, our target over the next 7 days is US\$94.50 a barrel, and our stop is raised to \$86.00 for closer protection.

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