Week 14

1st – 7th April 2008

the macro trader's guide to major markets

John Lewis

summary – macro trader

Summary

Global Calendar

Interest Rate Futures	
+ Euro Dollars	**BULLISH** short, medium & long term
+ Short Sterling	**BULLISH** short, medium & long term
+ Euribor	**SQUARE** short, medium & long term
Government Bonds	
+ US 10yr Note	**SQUARE** short term, **BULLISH** medium & long term
+ Gilt	**SQUARE** short, medium & long term
+ Euro Bund	**SQUARE** short, medium & long term
Currencies	
+ US Dollar	**BEARISH** short, medium & long term
+ Pound Sterling	**BEARISH** against the Euro
+ Euro	**BULLISH** short, medium & long term
Stocks	
+ S&P 500	**SQUARE** short term, **BEARISH** medium & long term
+ FTSE 100	**SQUARE** short term, **BEARISH** medium & long term
+ Dow Jones Eurostoxx50	**SQUARE** short term, **BEARISH** medium & long term
Commodities	
+ Gold	**SQUARE** short term, **BULLISH** medium, long term
+ Oil	**SQUARE** short term, **BEARISH** medium & long term

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Interest Rate Futures
+ Euro Dollars
+ Short Sterling
+ Euribor

Government Bonds
+ US 10yr Note
+ Gilt
+ Euro Bund

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+ US Dollar
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+ Euro

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+ S&P 500
+ FTSE 100
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Commodities
+ Gold
+ Oil

	Week of 24th March
Monday	US Existing home sales 5.03M **BETTER** UK Rght mve Hse prices 0.8M, 5.0y **WEAKER THAN EXPECTED**
Tuesday	US Cons Conf 64.5 **WEAKER** US Hse price index -1.1%m **WEAKER THAN EXPECTED**
Wednesday	US MBA Mrtge apps 48.1% **STRONGER** US Durable goods -1.7 **WEAKER** US Ex- Transport -2.6 **WEAKER** US New home sales 590k **BETTER** FR Bus conf 109.0 **BETTER** IT Bus conf 89.0 **AS** EZ C/A -10.6B **WORSE** DM IFO 104.8 **STRONGER** EZ Ind new orders 2.0m, 7.3y **STRONGER THAN EXPECTED**

	Week of 31st March
Monday	US Chicago PMI 46.5 UK Index of services 0.5 3m/3m FR PPI 0.5m, 4.9y IT PPI 0.5m, 5.2y EZ M3 11.5y EZ M3 11.5 3mth EZ CPI 3.3y IT CPI 0.3m, 3.1y EZ Cons conf -12 EZ Economic conf 100.0
Tuesday	US ISM Mfg 47.5 US ISM Prcs paid 74.5 US Construction spndg -1.0% UK PMI Mfg 51.0 DM ILO Unemploym’t 7.5 DM Rte 7.9% DM Change -45k DM Retail sales 0.5m, -0.3y IT PMI mfg 50.2 FR PMI Mfg 52.0 DM PMI Mfg 54.9 EZ PMI Mfg 52.0 EZ Unemploym’t rate 7.1
Wednesday	US MBA Mrtge apprvls n/f US Bernanke @ jnt economic committee US Factory orders 0.6 UK M4 Strlg lndg n/f UK Net cons cr 0.9B UK Net lndg on dwellings 7.2B UK Mrtge apprvls 72k UK BSA Mrtge apprvls n/f UK PMI Construction 52.0 UK B of E equty withdrwl 9.5B EZ PPI 0.6m, 5.2y

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	Week of 24th March Cont'd
Thursday	US Q4 GDP 0.6 **AS** US Q4 Persnl consump 2.3% **BETTER** US Q4 Core PCE 2.5% **LESS** US Q4 GDP Price indx 2.4% **LESS** US Jobless claims 366k **BETTER** UK Q4 Tot bus investmnt 1.8q, 5.3y **STRONGER** UK BBA Hse purchse loans 43.87K **BETTER** UK CBI Distributive trdes 1 **BETTER** DM GFK Cons conf 4.6 **BETTER** IT Trade bal non-EMU -1.33B **LESS** **THAN EXPECTED**
Friday	US Persnl income 0.5% **STRONGER** US Persnl spndg 0.1% **AS** US Core PCE 0.1m, 2.0y **BETTER** US PCE Deflator 3.4% **BETTER** US U. of Michigan conf 69.5 **WEAKER** UK Nationwide hse prces -0.6m, 1.1%y **WEAKER** UK GFK Cons conf -19 **WORSE** UK Q4 GDP 0.6q, 2.8y **LESS** UK Q4 C/A -8.5B **BETTER** DM CPI 0.5m, 3.1y **WORSE** DM Import prces 1.1m, 5.9y **WORSE** FR Cons conf -36 **WEAKER** FR Q4 GDP 0.4q, 2.1y **BETTER** **THAN EXPECTED**

	Week of 31st March Cont'd
Thursday	US Jobless claims 365k US ISM non-mfg 48.5 UK PMI Services 53.3 IT PMI Services 47.2 FR PMI Services 57.3 DM PMI Services 52.5 EZ PMI Services 51.7 EZ Retail sales 0.2m, 0.0y
Friday	US Non-farm payroll -50k US Unemploym't rate 5.0% US Avge hrly earnings 0.3m US Avge wrk week 33.7hrs DM Factory orders 0.8m, 6.7y

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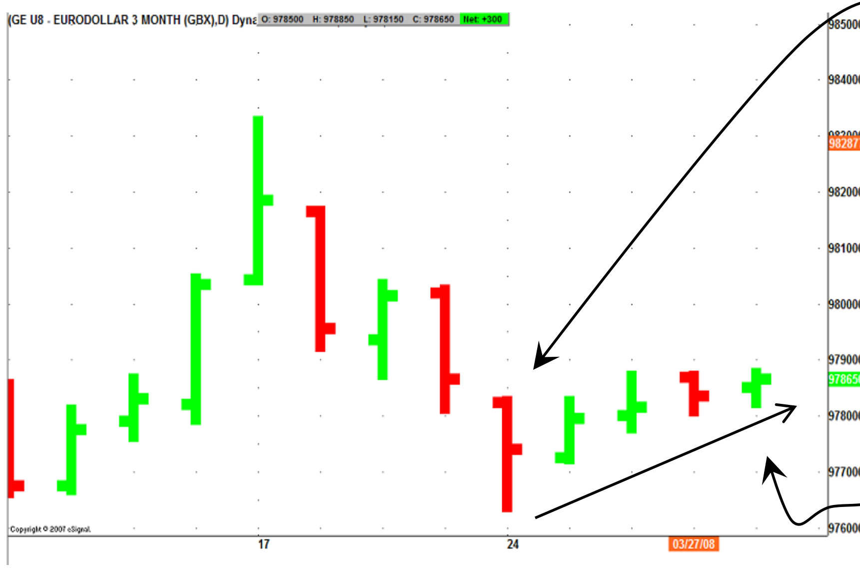
Interest Rate Futures: Euro Dollars September 08

OUR TRADING STANCE: BULLISH.

Last week we were square September 08.



See how Eurodollars continued the previous week's sell off into Monday following JPM Chase's decision to increase its offer for Bear Sterns, but the lows were rejected after the release on existing home sales data which saw the biggest drop in house prices since 1968, other data throughout the week helped the market extend the gradual recovery.

Last week we were square of this market as it continued to correct lower in response to the short covering rally in equities which began when the Fed eased policy the previous week.

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

- On Monday; existing home sales were better than expected but prices fell faster,
- On Tuesday; consumer confidence was weaker than expected and the CaseShiller house price index was weaker than expected,
- On Wednesday; MBA Mortgage applications were stronger than forecast, durable goods were weaker than expected and New home sales were better than expected,
- On Thursday; Q4 GDP was as expected, Q4 Core PCE was better than expected and Jobless claims were less than expected, and
- On Friday; Personal income was better than expected spending was as expected, Core PCE was better than expected and University of Michigan confidence was weaker than forecast.

The market recovered from Monday's sell off as housing market data revealed prices are still falling and with durable goods weaker than expected, the Fed will need to ease policy further to shore up confidence which is at very low levels and continues to weaken..

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Interest Rate Futures: Euro Dollars

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

- On Monday; Chicago PMI,
- On Tuesday; ISM Mfg survey, ISM Prices paid and construction spending,
- On Wednesday; MBA Mortgage applications, Bernanke testifies at the Joint economic committee and factory orders,
- On Thursday; Jobless claims and ISM non-manufacturing survey, and
- On Friday; non-farm payroll, unemployment rate, average hourly earnings and the average work week.

The key events this week are highlighted red; Bernanke's testimony will likely prove a market mover, but in a week with several key releases, events could prove fast moving with Friday's non-farm payroll number the most important.

The Macro Trader's view is; we bought back into the market as we judged the housing market data was likely to contribute to further economic weakness as prices continue to fall, as evidenced by Monday's existing home sales report which saw house prices fall 8.2% year on year, the biggest drop since 1968.

And with both ISM reports and non-farm payroll due at the end of the week, we expect this market to rally further.

The main risk comes from Friday's payroll data; consensus is for a drop of 50k jobs, if that number proves better than expected the market will sell off, but on balance we think that unlikely.

With the Fed expected to ease policy further at their April meeting current market levels are cheap. Friday's close in the September contract is roughly neutral and has plenty of room to rally just to reflect our expectation for an April ease.

Traders should be long of this market, our interim target is 98.00, but run a stop which we suggest as 97.68 for protection.

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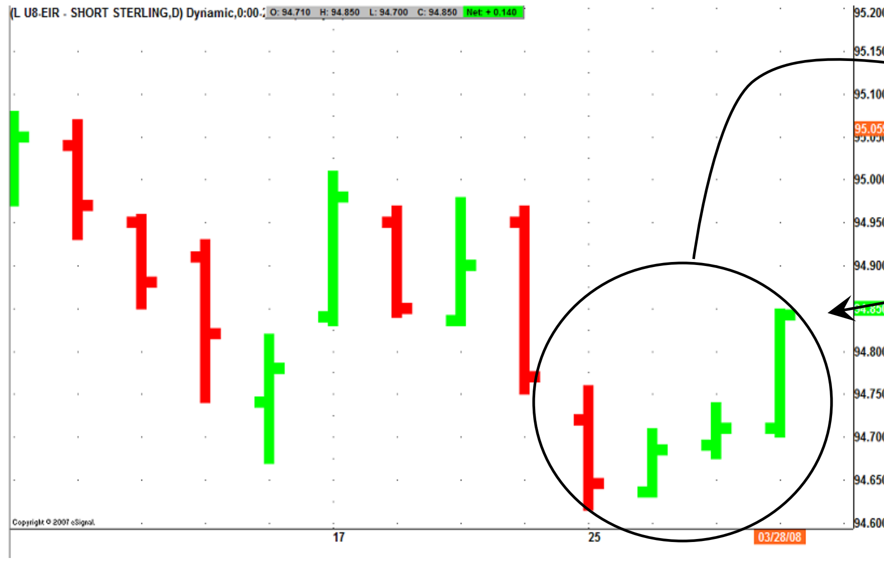
Interest Rate Futures: Short Sterling September 08

OUR TRADING STANCE: BULLISH.

Last week we were square of September 08.



See how Short Sterling convulsed last week as markets continued to react at the start of the week to the revised offer for Bear Sterns, but as UK data emerged the housing market looked weak especially Friday's release of the Nationwide house price index which reported the weakest conditions since 1996 and the market rallied.

Last week we were square of this market after being stopped out the previous week as markets continued to react to the Feds rate cut and the Bear Sterns rescue with domestic data sending out some mixed signals.

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

- On Monday; Right move house price survey was weaker than expected,
- On Thursday; Q4 Total business investment was stronger than expected, BBA house purchase loans were better than expected and CBI Distributive trades survey was better than expected, and
- On Friday; the Nationwide house price survey was weaker than forecast, Q4 GDP was less than expected & Q4 C/A data was better than expected.

The market recovered from Tuesday's sell off which was driven by J P Morgan Chases increased bid for Bear Sterns.

But with UK Housing data continuing to report weakness the market made a strong recovery, especially after the Nationwide House price report, which saw house price inflation at its weakest since 1996.

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Interest Rate Futures: Short Sterling

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

- On Monday; the Index of services,
- On Tuesday; PMI manufacturing survey,
- On Wednesday; M4 Sterling lending, Net consumer credit, Net lending secured on dwellings, mortgage approvals, PMI Construction survey, and B of E equity withdrawal report, and
- On Thursday; UK PMI Services survey.

This week's key releases are highlighted red, and we advise watching the PMI survey's closely, but the lending data too is important and reports directly on the health of the housing market and consumer spending.

The Macro Trader's view is: following a period of choppy price action we stood back from this market last week. Our purpose was to seek greater clarity which sometimes comes easier when not carrying a position.

The market now seems to be working off its period of negativity which was compounded by the stronger than expected retail sales report the previous week.

But we have consistently said we see the housing market as the key to the fate of the wider economy, and after last week's Nationwide house price report, the outlook has deteriorated further.

The sense of despondency increased when the Nationwide announced on Thursday higher interest rates for certain types of mortgages, designed to make it less competitive.

Other lenders had acted similarly recently and the Nationwide didn't want to increase its share of the mortgage market in an environment where liquidity and wholesale funding remains tight.

This is bad news for anyone wanting to either re-mortgage or buy a house; the cost has just gone up, with the direction of mortgage rates moving in the opposite direction to official interest rates as set by the MPC.

This gives policy makers another head ache; if the housing market is the perceived source of future weakness, how can they support it and the wider economy if lenders are hiking interest rates instead of passing on the cut.

This leaves the economy exposed to a worse fate than previously and apart from devising a method whereby lenders feel able and willing to ease commercial rates, policy makers could end up having to do more than they previously expected.

During his testimony at a Parliamentary committee last week King conceded he was more disposed than previously to ease rates due to tight credit market conditions, last week's developments may allow an April rate cut.

Traders should be long of this market, our interim target is 95.00, but run a stop at 94.60 for protection.

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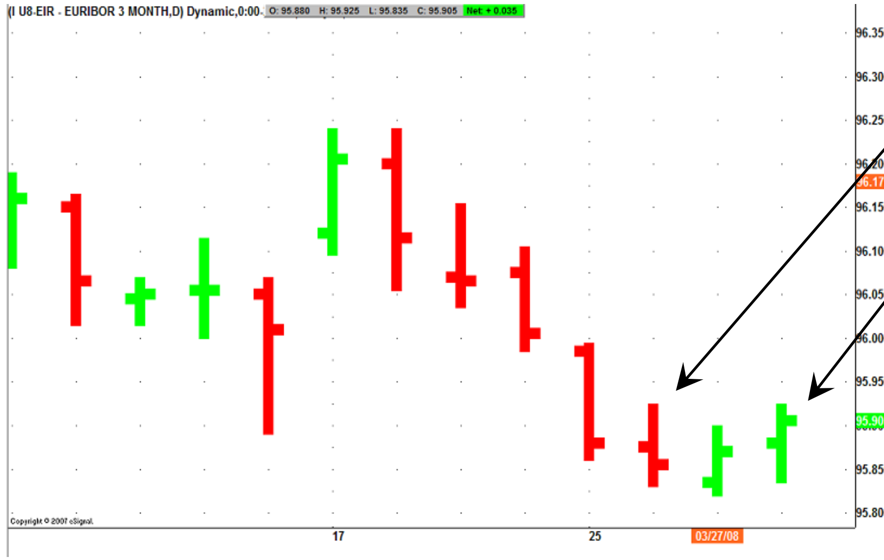
Interest Rate Futures: Euribor September 08

OUR TRADING STANCE: SQUARE.

Last week we were square of September 08.



See how Euribor traded lower last week after the release on Wednesday of a stronger than expected German IFO report, which together with Friday's worse than expected German CPI report held this market back on a day when other short term interest rate futures markets rallied on heightened fears of economic weakness.

Last week we remained square of September 08 Euribor after the market sold off the previous week on stronger growth and worsening inflation data which re-enforced the view that the ECB would be in no rush to ease policy.

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

- On Wednesday; French business confidence was better than expected, Italian business confidence was as expected, Euro zone C/A data was worse than expected, German IFO was stronger than expected and Euro zone industrial new orders were stronger than expected,
- On Thursday; German GFK consumer confidence was better than expected and Italian trade data was better than expected, and
- On Friday; German CPI and import prices were worse than expected, French consumer confidence was weaker than expected and Q4 GDP was better than expected.

The market remained under pressure early in the weak as equities rallied on the Bear Sterns story, but stronger German IFO and CPI held the market back as Eurodollars and Short Sterling rallied on deepening fears of recession.

With the ECB firmly focused on inflation, the upside in Euribor is strictly limited.

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Global Calendar

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+ Short Sterling
+ Euribor

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+ Gilt
+ Euro Bund

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+ Euro

Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Interest Rate Futures: Euribor

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

- On Monday; French PPI, Italian PPI & CPI, Euro zone M3, CPI, Consumer confidence and economic confidence,
- On Tuesday; German ILO & unemployment reports, Retail sales and PMI manufacturing survey, also Italian, French and Euro zone PMI Manufacturing survey and Euro zone unemployment,
- On Wednesday; Euro zone PPI,
- On Thursday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales, and
- On Friday; German factory orders.

This week's key releases are highlighted in red and that's most of the calendar, but with the ECB firmly focused on inflation we advise closely monitoring the inflation reports and Euro zone M3 report.

The Macro Trader's view is: Euribor is trapped between fears of economic weakness emanating from the US and UK economies and the threat of inflation which is currently the ECB'S prime concern.

The ECB acknowledges the downside risks to growth, but can't cut because inflation is above target and is likely to rise further, but they can't tighten policy for fear of crystallising the downside risks.

For now they sit on the fence and hope the strength of the Euro offers some protection against higher oil prices while praying the US slowdown will eventually force oil prices lower and ease global inflationary pressures.

With the German economy still looking strong policy makers will judge the Euro zone economy may just avoid the worst effects of the credit crunch, and since the US isn't the Euro zones biggest export market, they may be right.

But the trade flows aren't the route of weakness, the credit markets are and Banks in the Euro zone have an exposure to the US problem, so too then does the Euro zone economy generally.

For now we advise remaining square of this market, as there is no clear trade to recommend.

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Commodities
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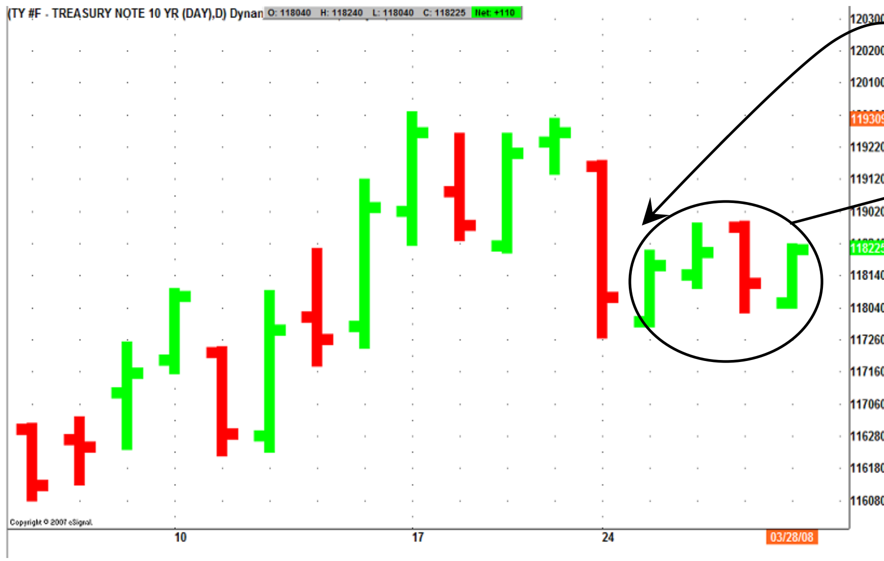
Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were square of the 10yr Note.



See how Treasuries sold off on Monday after J P Morgan Chase upped its bid for Bear Sterns, helping equities rally, but weaker data later in the week placed a floor under the market.

Last week we were square of this market following the news that J P Morgan Chase had upped its bid for Bear Sterns which led equities higher and weighed heavily on bonds.

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

- On Monday; existing home sales were better than expected but prices fell faster,
- On Tuesday; consumer confidence was weaker than expected and the CaseShiller house price index was weaker than expected,
- On Wednesday; MBA Mortgage applications were stronger than forecast, durable goods were weaker than expected and New home sales were better than expected,
- On Thursday; Q4 GDP was as expected, Q4 Core PCE was better than expected and Jobless claims were less than expected, and
- On Friday; Personal income was better than expected spending was as expected, Core PCE was better than expected and University of Michigan confidence was weaker than forecast.

The market failed to recover all of Monday's losses, even though data was mainly bullish during the week, with durable goods weaker and house prices still falling, and even confirmation of weak Q4 GDP failed to start a bond market rally.

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Government Bonds: US Treasury Note (10yr)

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

- On Monday; Chicago PMI,
- On Tuesday; ISM Mfg survey, ISM Prices paid and construction spending,
- On Wednesday; MBA Mortgage applications, Bernanke testifies at the Joint economic committee and factory orders,
- On Thursday; Jobless claims and ISM non-manufacturing survey, and
- On Friday; non-farm payroll, unemployment rate, average hourly earnings and the average work week.

The key releases this week are highlighted in red, but we judge the main event will be Friday's non-farm payroll report. Market consensus is for an other negative number; -50k, but the result will need to be worse than that to start a fresh rally.

The Macro Trader's view is; last week's price action wasn't too re-assuring for the Bulls; the housing market remains week, inflation was generally better than expected and growth data reported additional weakness, but bonds only managed to ease away from the lows.

Maybe traders are keeping their powder dry for this week's data, but we sense the market is nervous of buying bonds if the US economy is heading into a severe recession.

With the US budget deficit already less than re-assuring, the short end of the market (Eurodollars) looks more inviting, and we agree.

For now we advise remaining square of this market, if Friday's data is weaker than expected Eurodollars will rally hard as the Fed will need to cut again and very, very little is currently priced in.

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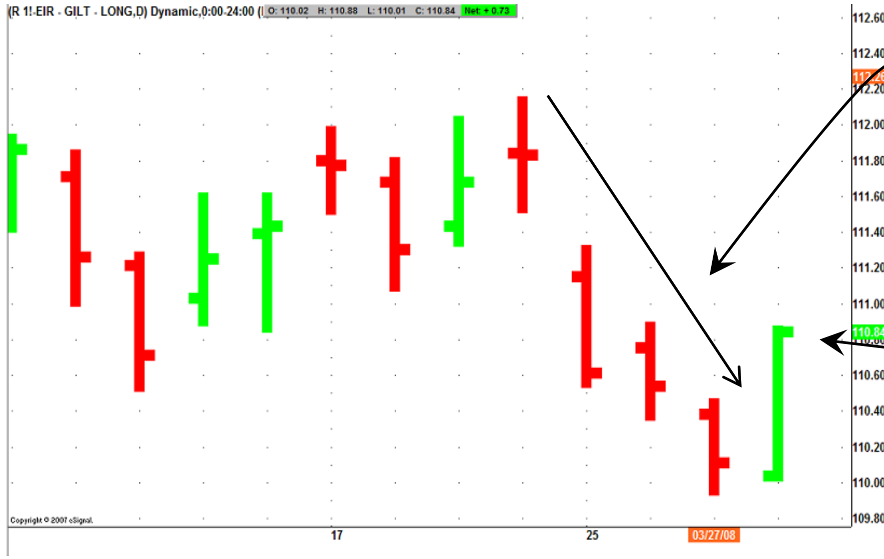
Government Bonds: The Gilt

OUR TRADING STANCE: SQUARE.

Last week we were square of the Gilt.



See how the Gilt sold off heavily last week as stocks rallied on Tuesday in reaction to J P Morgan Chases improved bid for Bear Sterns and King's comment that the MPC will not engage in Fed style rate cuts, but bad news on the housing market led to a partial recovery on Friday.

Last week we were square of the Gilt as we sensed sentiment in this market was currently neutral to short term bearish, and with equities rallying at the start of the week on the evolving Bear Sterns rescue bonds looked vulnerable.

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

- On Monday; Right move house price survey was weaker than expected,
- On Thursday; Q4 Total business investment was stronger than expected, BBA house purchase loans were better than expected and CBI Distributive trades survey was better than expected, and
- On Friday; the Nationwide house price survey was weaker than forecast, Q4 GDP was less than expected & Q4 C/A data was better than expected.

The market finally found some support on Friday after the release of a worse than expected Nationwide house price survey, which after Thursday's news that the Nationwide was increasing rates for some of its mortgage products to ensure its share of the market remained static, led traders to judge the economy was at greater risk of a deeper slowdown.

Fresh weakness in equity markets on Friday also offered the Gilt support.

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Government Bonds: The Gilt

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

- On Monday; the Index of services,
- On Tuesday; PMI manufacturing survey,
- On Wednesday; M4 Sterling lending, Net consumer credit, Net lending secured on dwellings, mortgage approvals, PMI Construction survey, and B of E equity withdrawal report, and
- On Thursday; UK PMI Services survey

This week's key releases are highlighted in red, and we advise traders to monitor them closely, but we judge the market will continue to be influenced by the price action in equity markets which remains volatile and events in the US on Friday.

The Macro Trader's view is: our decision to remain square last week paid off as the Gilt suffered a steep sell off.

Currently we see little reason to enter the market. The Bank of England recognises the risks to growth and the potential damage which could be caused by tight liquidity conditions in wholesale money markets, but remains set against offering any help that might be construed as helping traders/Bankers wriggle out of suffering the consequences of their actions.

In the meantime lenders are tightening their lending standards and even hiking rates to deter borrowers from seeking mortgages as their ability to fund them in the wholesale money markets remains highly restricted. This will hurt the economy and the governments borrowing will increase.

Ultimately the Bank of England will have no alternative but to cut rates, but how bad does the situation have to get before they act?

For now we advise remaining square of this market and focus on the very cheap Short Sterling market.

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SEVEN DAYS AHEAD

Government Bonds: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of the Bund

See how the Bund sold off further last week driven by a stronger German IFO report and worse than expected inflation data, (Friday's price action was distorted by a bad tic).

Last week we remained square of this market as we held to our view that the Euro zone inflation environment would prevent the ECB from delivering an early interest rate cut even allowing for concerns over growth.

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

- On Wednesday; French business confidence was better than expected, Italian business confidence was as expected, Euro zone C/A data was worse than expected, German IFO was stronger than expected and Euro zone industrial new orders were stronger than expected,
- On Thursday; German GFK consumer confidence was better than expected and Italian trade data was better than expected, and
- On Friday; German CPI and import prices were worse than expected, French consumer confidence was weaker than expected and Q4 GDP was better than expected.

Last week's data was again, mainly bearish for the Bund as German data came in above consensus, especially IFO and CPI.

Although other Government bond markets attempted a recovery on Friday, the Bund was held back by the weight of domestic data.

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Government Bonds: The Bund

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

- On Monday; French PPI, Italian PPI & CPI, Euro zone M3, CPI, Consumer confidence and economic confidence,
- On Tuesday; German ILO & unemployment reports, Retail sales and PMI manufacturing survey, also Italian, French and Euro zone PMI Manufacturing survey and Euro zone unemployment,
- On Wednesday; Euro zone PPI,
- On Thursday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales, and
- On Friday; German factory orders.

This week's key events are highlighted in red, and we advise paying close attention to the various inflation reports and the Euro zone M3 report; if these deteriorate further, the ECB may begin to think a rate hike, rather than a cut should be their next move.

The Macro Trader's view is: increasingly the Bund seems to be going its own way as domestic Euro zone data continues to flag trend economic growth coupled with troublesome inflation.

The Bundesbank has already begun to think allowed, saying Euro zone rates could need to go up rather than down and we judge if inflation data continues to move in the wrong direction, the ECB will begin to communicate that message too.

Although we expect oil prices to ease lower as the US economy slips deeper into trouble, so far the oil market is resisting gravity, and as the main source of inflation in the Euro zone and globally, there is very little prospect of Euro zone inflation correcting lower short term, and today saw Euro zone CPI hit a 16 year high at 3.5%.

For now we expect the ECB to maintain their current posture as they monitor the broader economic situation, but if inflation hasn't begun to ease or growth started to show clear signs of weakness in the coming months, a rate hike may well be delivered by the end of the 3rd quarter.

However, a bear trade is too risky short term; if the US reports much worse than expected data this week, bonds will rally, the Bund included and even though the move may not endure, it could be sharp enough to stop bearish traders out.

We advise remaining square.

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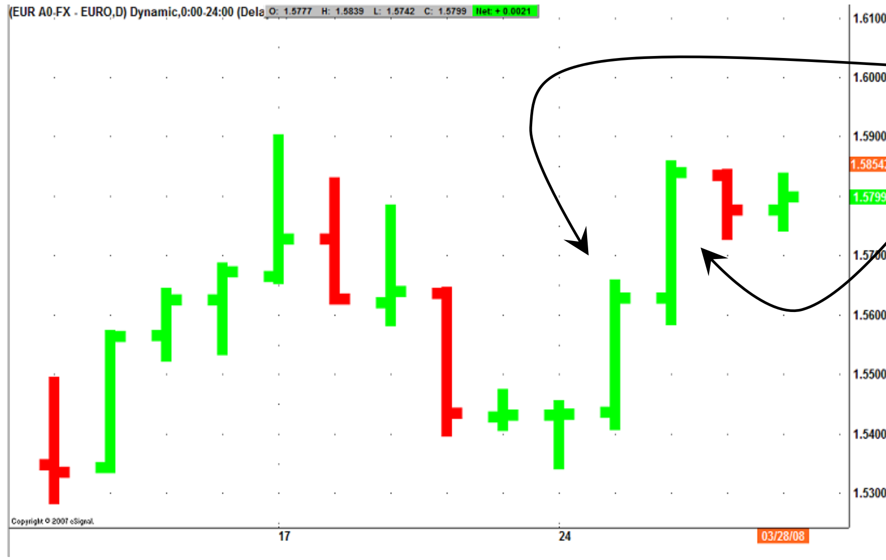
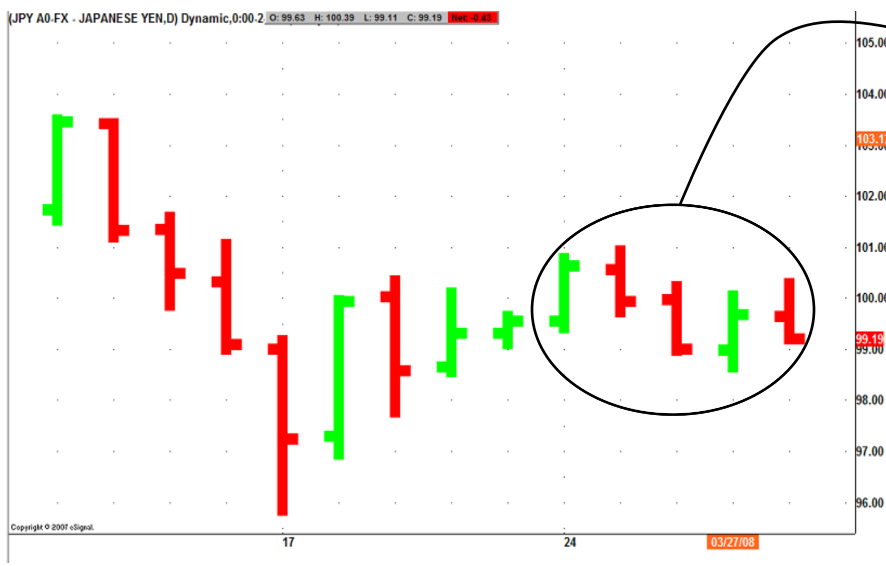
Currencies: The Dollar

OUR TRADING STANCE: BEARISH

Last week we were square of the dollar



See how the Dollar weakened again last week especially on Tuesday after the release of the Case/Shiller house price index and on Wednesday after a poor durable goods report, which compared badly with a stronger than expected German IFO survey released the same day.



See how the Yen traded mainly sideways last week as rumours continued that the BOJ may cut rates in the near future.

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Commodities
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+ Oil

Currencies: The Dollar

Last week we were square of the Dollar following the short covering rally the previous week, which on past evidence may have endured a little longer as traders breathed a sigh of relief in response to the improved bid for Bear Sterns from JPM Chase.

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

- On Monday; existing home sales were better than expected but prices fell faster,
- On Tuesday; consumer confidence was weaker than expected and the CaseShiller house price index was weaker than expected,
- On Wednesday; MBA Mortgage applications were stronger than forecast, durable goods were weaker than expected and New home sales were better than expected,
- On Thursday; Q4 GDP was as expected, Q4 Core PCE was better than expected and Jobless claims were less than expected, and
- On Friday; Personal income was better than expected spending was as expected, Core PCE was better than expected and University of Michigan confidence was weaker than forecast.

The Dollar reversed direction last week as traders were reminded the housing market correction continues with house prices falling their furthest since 1968, even though home sales were a little better than expected.

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

- On Monday; Chicago PMI,
- On Tuesday; ISM Mfg survey, ISM Prices paid and construction spending,
- On Wednesday; MBA Mortgage applications, Bernanke testifies at the Joint economic committee and factory orders,
- On Thursday; Jobless claims and ISM non-manufacturing survey, and
- On Friday; non-farm payroll, unemployment rate, average hourly earnings and the average work week.

This week's key events are highlighted red, and with both ISM reports and non-farm payroll due we judge traders will be kept busy, and if non-farm payroll surprises to the downside, the Dollar will sell off further.

The Macro Trader's view is: our decision to remain square last week looks a little cautious with hindsight, but the Dollar has staged several corrections during the long bear market, some of which have been extended over weeks or even months.

However this one now looks over and as house prices weakened further last week traders were reminded of the fragility of the US economy and re-established short positions, especially against the Euro where a rate hike later in the summer is creeping back onto the agenda due to ever worsening Euro zone inflation.

With several key reports due this week which are likely to under line the economy's weakness, we expect the Dollar to make fresh lows against the Euro and advise traders to go short of Dollar/Euro.

Our interim target is 1.6000, and our suggested stop is 1.5600.

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SEVEN DAYS AHEAD

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+ Short Sterling
+ Euribor

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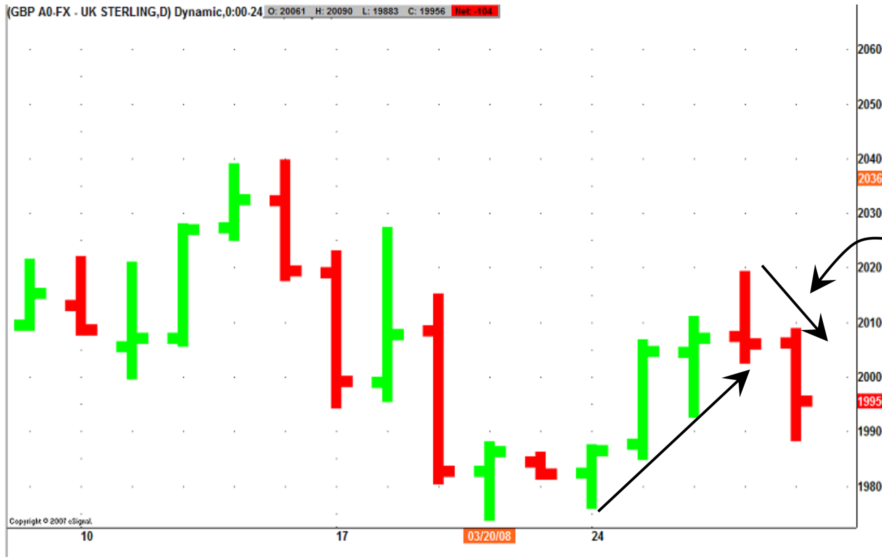
Stocks
+ S&P 500
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

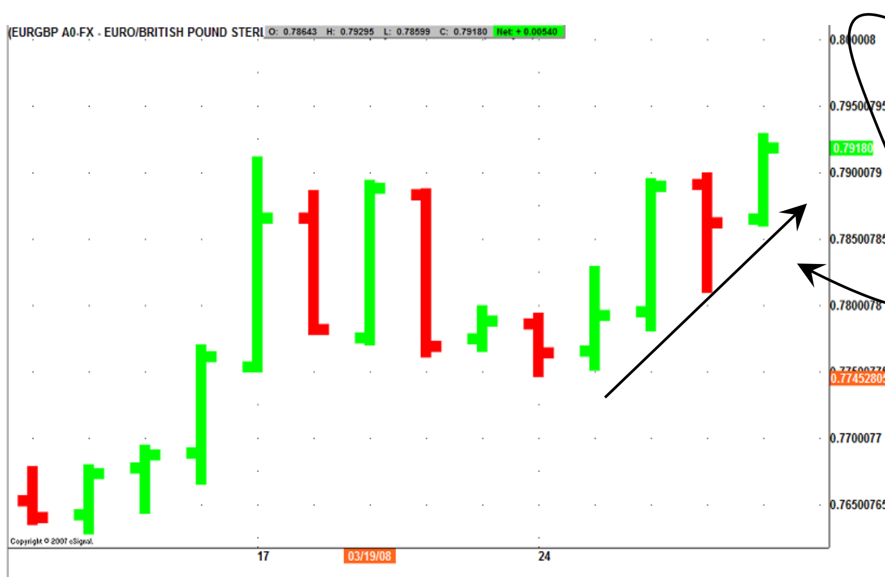
Currencies: The Pound Sterling

OUR TRADING STANCE: BEARISH V THE EURO.

Last week we were bearish of Sterling v the Euro.



See how Cable staged a brief recovery against the Dollar early in the week in the absence of any UK data, allowing traders to focus on weak reports coming from the US, but by Thursday housing market data in the UK was back in focus as the Nationwide hiked selective mortgage rates and then on Friday reported a further decline in house price inflation.



See how Sterling weakened further against the Euro as a deepening housing market correction and tighter lending standards looks ever more likely to lead to a serious spell of UK economic weakness.

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- + Euro Bund

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- + Pound Sterling
- + Euro

Stocks
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- + FTSE 100
- + Dow Jones Eurostoxx50

Commodities
- + Gold
- + Oil

Currencies: The Pound Sterling

Last week we were bearish of Sterling against the Euro, as we judged the Pound was vulnerable to further negative price action against the Euro driven by deepening fears of economic weakness.

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

- On Monday; Right move house price survey was weaker than expected,
- On Thursday; Q4 Total business investment was stronger than expected, BBA house purchase loans were better than expected and CBI Distributive trades survey was better than expected, and
- On Friday; the Nationwide house price survey was weaker than forecast, Q4 GDP was less than expected & Q4 C/A data was better than expected.

The key data releases last week were from the housing market and its continued weakness undermined the Pound, as Euro zone data; German IFO, reveals the Euro zone economy continues to resist the US exported slowdown.

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

- On Monday; the Index of services,
- On Tuesday; PMI manufacturing survey,
- On Wednesday; M4 Sterling lending, Net consumer credit, Net lending secured on dwellings, mortgage approvals, PMI Construction survey, and B of E equity withdrawal report, and
- On Thursday; UK PMI Services survey

This week's key data releases are highlighted red, and we advise monitoring the consumer credit and lending against dwellings data for further evidence of weakness. Additionally the PMI Services report should be watched for signs of general weakness in what is the economy's biggest GDP component.

The Macro Trader's view is: our decision to remain square of Cable last week proved sound as the Pound gave back almost all of its early week gains against the Dollar.

Against the Euro the situation seems more straight forward as last week's target was surpassed:

- The Euro zone economy continues to display evidence of solid growth, but with rising inflation that may yet force higher rates, where as
- The UK economy is bedevilled by a deepening housing market correction which will be made worse by key mortgage providers hiking interest rates to deter borrowers.

Ultimately we do expect the wider economy to become infected by the woes currently confined to housing, and as expectations of City job losses rise, demand could be hit by a worsening labour market and tighter more expensive credit, which in an economy build on cheap borrowed money would be a major hurdle to future expansion.

Traders should remain short of Sterling/Euro, our interim target is now 0.8050, and our stop is raised to 0.7805 to protect profits.

But traders should take profit if our target is hit. We remain long term bulls but see this level as a good profit taking opportunity.

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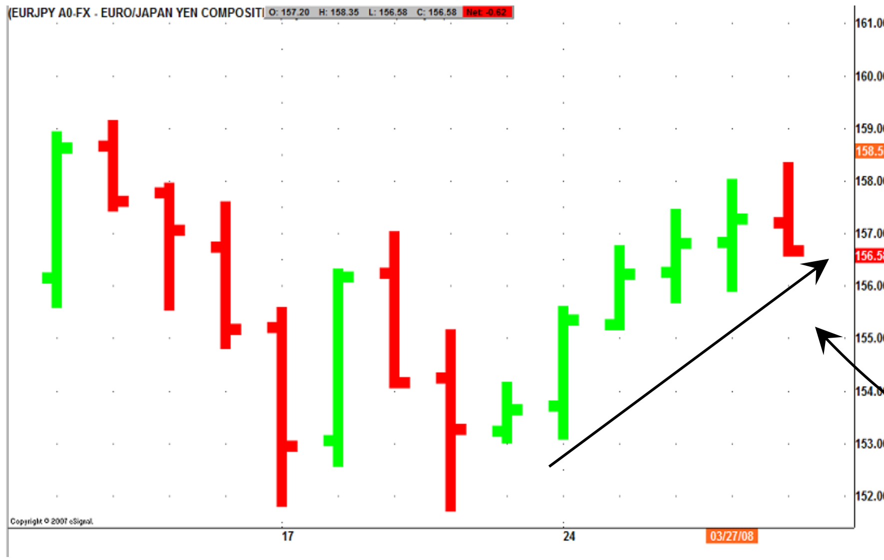
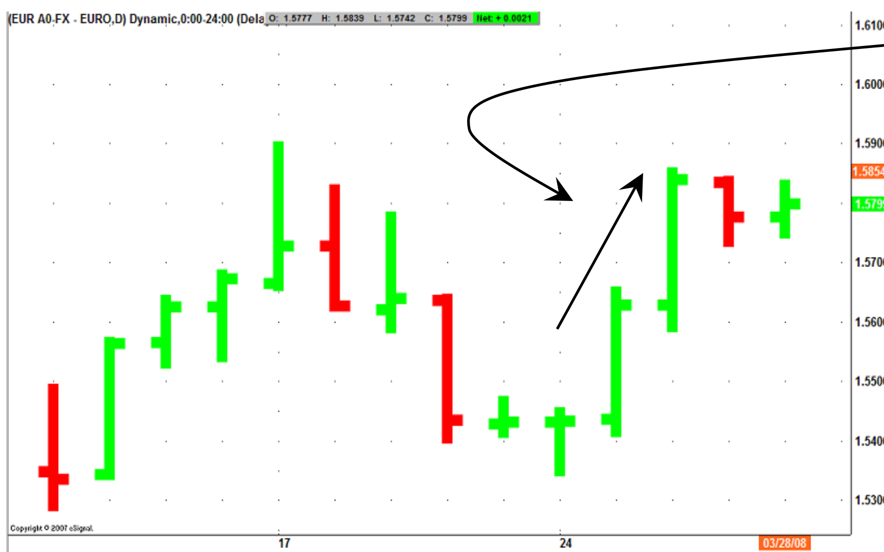
Currencies: The Euro

OUR TRADING STANCE: BULLISH

Last week we were bullish of the Euro v Sterling



See how the Yen weakened against the Euro last week as Euro zone data shows the world's largest economic area defying the effects of the US credit crisis, with IFO beating consensus and inflation forcing a rethink on the direction of Euro zone interest rates.



See how the Euro rallied against the Dollar after weak US data releases on Tuesday and Wednesday and strong IFO on Wednesday followed by worse than expected German CPI on Friday.

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+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Currencies: The Euro

Last week we were square of Dollar/Euro as the Dollar looked set to correct further on false optimism generated by the Bear Sterns saga, but we saw a clear opportunity for the Euro bulls against the Pound.

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

- On Wednesday; French business confidence was better than expected, Italian business confidence was as expected, Euro zone C/A data was worse than expected, German IFO was stronger than expected and Euro zone industrial new orders were stronger than expected,
- On Thursday; German GFK consumer confidence was better than expected and Italian trade data was better than expected, and
- On Friday; German CPI and import prices were worse than expected, French consumer confidence was weaker than expected and Q4 GDP was better than expected.

The rallied against both the Dollar and Sterling last week as data proved supportive, especially German IFO and CPI.

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

- On Monday; French PPI, Italian PPI & CPI, Euro zone M3, CPI, Consumer confidence and economic confidence,
- On Tuesday; German ILO & unemployment reports, Retail sales and PMI manufacturing survey, also Italian, French and Euro zone PMI Manufacturing survey and Euro zone unemployment,
- On Wednesday; Euro zone PPI,
- On Thursday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales, and
- On Friday; German factory orders.

The key releases due this week are highlighted in red, but we urge traders to monitor the various inflation reports as this is going to prove troublesome for the ECB and may eventually force a rate hike.

The Macro Trader's view is: the Euro zone and US/UK economies currently look very different; the US and to a delayed degree, the UK economies are facing a serious slowdown driven by a weakening housing market and tighter credit supply.

The Euro zone economy continues to post optimistic growth survey data but has a growing problem with inflation.

The only obstacle to higher Euro zone interest rates is the ECB'S fear that the Euro zone is just a little further behind the other two and will eventually experience a slowdown albeit milder.

If policy makers conclude those fears are overdone due to different housing preferences in the Euro zone, the ECB will hike rates to bring inflation back to target, unless the oil price has collapsed 1st which it may yet well do but probably not quickly enough for the ECB.

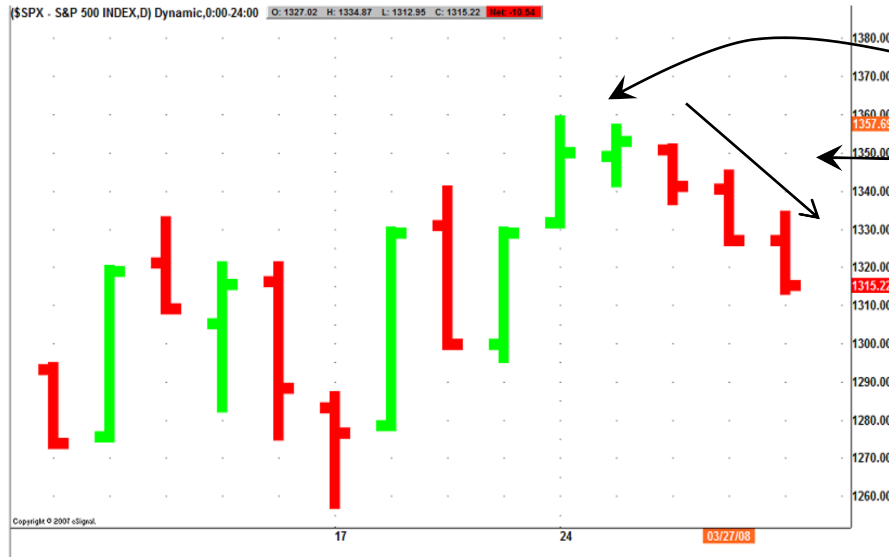
Traders Should be long of the Euro: against sterling take profit target of 0.8050, stop 0.7805. Against the Dollar, target 1.6000, stop 1.5600.

More

Stocks: S&P 500

OUR TRADING STANCE: SQUARE.

Last week we were square of the S&P 500



See how stocks rallied on Monday/Tuesday on news of JPM Chases increased offer for Bear Sterns, but sold off from Wednesday out as housing data and durable goods undershot consensus and rekindled fears of economic weakness.

Last week we were square of this market following a period of volatility which resolved to a short covering rally driven by a Fed rate cut and market optimism that maybe the end may be in sight.

The rally extended to Tuesday of last week as J P Morgan Chase upped their bid for Bear Sterns in the face of emerging competitor bids and complaints from share holders.

But the rally withered as the week progressed as traders re-focussed onto the real economy which is on the brink of a serious recession.

The housing market data released last week provided the reality check; although both existing and new home sales came in above expectations, house prices fell at their sharpest rate since 1968, leaving the clear impression that the worst is far from over, and just to add to the gloom durable goods were weaker than expected with consumer confidence softening further.

This week sees several key data releases with non-farm payroll due for release on Friday. Expectations are for a weak number, and in all probability that will be the result, which would weigh heavily on equity markets.

Additionally Fed Chairman Bernanke testifies at the joint economic committee and his remarks are likely to stir these markets up further.

More

Stocks: S&P 500

The Macro Trader's view is: despite the market weakening again last week, we are remaining square.

A major feature of equities over the last year has been volatility, and it is still evident today.

So while we expect stocks to sell off further over the medium/long term, volatility makes timing the trade difficult, and essentially a poor risk reward.

Equity traders seem to be in a period of denial over just how serious the downturn will be, but if it proves any where near as severe as some think the outlook for corporate profitability is grim.

With the Q1 reporting season upon us, maybe a string of bad news will bring a sense of reality to traders who are praying the Feds rate cuts will make everything all right.

Ultimately easier monetary policy will help repair the economy, but it takes 12 – 18 months for rate cuts to impact the economy and that is why the Fed has delivered such big moves; they realised they were behind the curve and are trying to catch up. They wont, the damage is done, but the cuts are still important, as the policy moves will help support confidence which is another key ingredient for economic health.

For now we advise a square position, we judge Eurodollars offer the best risk reward right now as interest rates look set to fall further.

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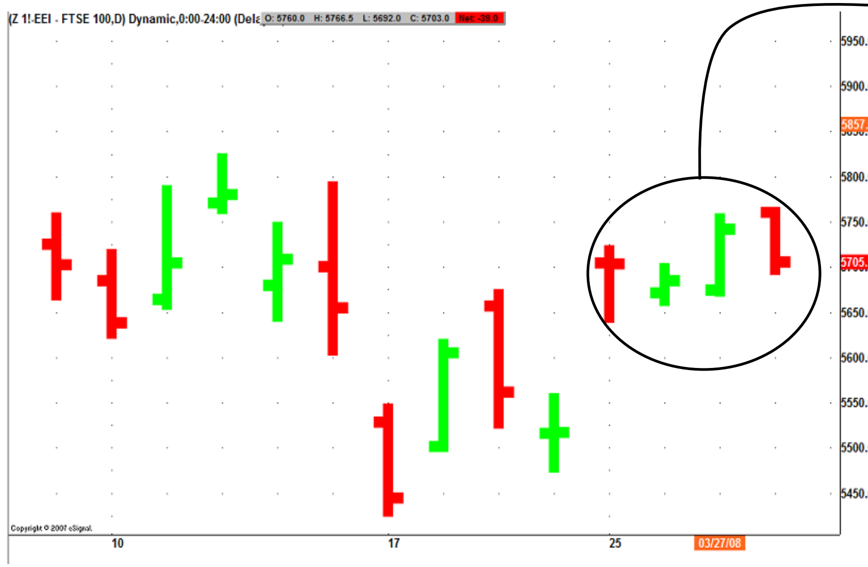
SEVEN DAYS AHEAD

Stocks: FTSE 100

OUR TRADING STANCE: SQUARE.

Last week we were square of the FTSE 100



See how the FTSE held most of last week's gains as King in testimony in Parliament ruled out aggressive US style rate cuts by trying to distinguish between the financial economy and the real economy, saying the latter was currently holding up very well.

Last week we were square of this market following a period of volatility shows little sign of abating.

The market has swung several times in the last two weeks as the US authorities aided J P Morgan Chases rescue of Bear Sterns after a near collapse sent markets to the brink of freefall.

The saga continued into last week as an improved offer sent shares higher. In the UK Mervin King did his bit to talk up the economy by ruling out US style rate cuts, when he said the real economy was sound, the problems lay in the financial economy.

The problem with that analysis is that the financial economy finances and underpins the "real economy" so if it become dysfunctional, as it is now, the whole economy will eventually suffer.

A taste of things to come emerged on Thursday when Nationwide Building society increased its mortgage rates in an effort to deter new borrowers.

If people can't obtain a mortgage they can't sell or buy, and that will force home values lower which will hit confidence and consumer spending leading to rising unemployment leading to large interest rate reductions later this year from the Bank of England; it seems the MPC/B of E have learnt nothing from the was they miss-handled events in the summer of 2007.

More

Stocks: FTSE 100

The Macro Trader's view is: events in the US, and the general volatility in the market lead us to conclude that the risk reward in equities is still currently unattractive.

Although we retain our medium/long term bearish view of stocks and the FTSE in particular, large intra-day ranges and volatility are making it very difficult to hold positions.

Either positions must be small to allow for a large stop; making gains small, or if a closer stop is used in anticipation of catching a large move, the position seems too easily stopped out.

However frustrations aside it is worth remembering the "big picture". The housing market in the UK continues to correct and if the current pace is maintained prices will begin to record year on year declines, which will make consumers and Bankers nervous.

The House price report released by the Nationwide last Friday, saw House price inflation decline further to -0.6 on the month and 1.1% on the year, which at the current pace will see year on year price declines in the next month or two, then watch consumer demand implode as over stretched borrowers look into the abyss of negative equity.

That doesn't sound like a reason to be investing in a stock market representing an economy facing such a prospect.

For now though, timing remains unclear and we advise remaining square and watching the data.

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Commodities
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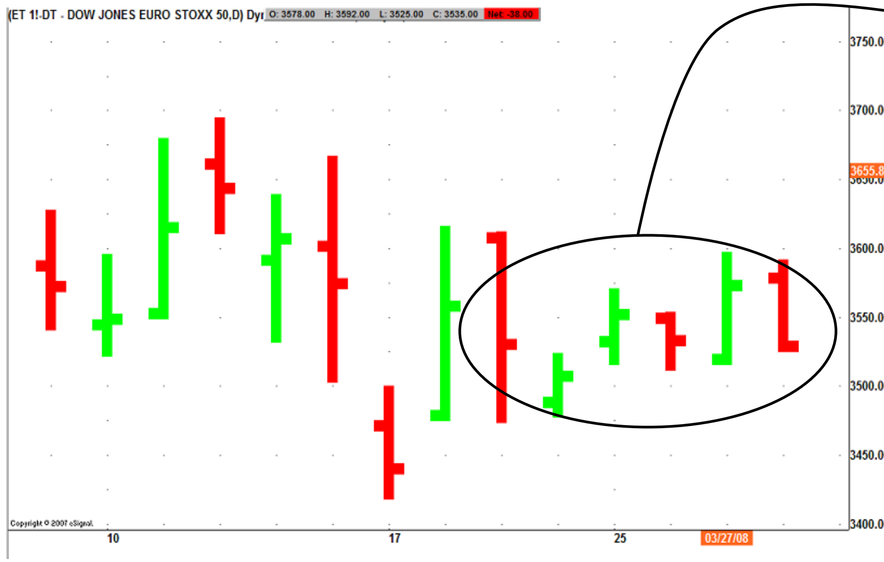
+ Oil

Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ Euro Stoxx 50



See how the market traded sideways last week as the strength of Euro zone economic data supported the market even though concerns over higher Euro zone inflation makes a rate cut seem increasingly unlikely.

Last week we were square of this market, and after last week's price action our decision appears to have been sound.

While US markets suffered fresh selling pressure in the 2nd half of last week, as data continued to paint a picture of US economic weakness, Euro zone data showed an opposite trend.

The release of a stronger than expected German IFO report on Wednesday indicates growth there and in the wider Euro zone is well entrenched.

The only negative is inflation, which remains well above the ECB'S target and today's release of the Euro zone CPI showed inflation reaching a 16 year high at 3.5%.

With several other inflation reports due and PMI manufacturing and services surveys also due during the week, traders may have to re-assess their expectations for Euro zone interest rates.

On the most recent evidence we think the ECB could well hike rates towards the end of the 3rd quarter as their focus remains fixed on controlling inflation.

If that begins to replace expectations for easier policy stocks could come under renewed selling pressure.

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Stocks: DJ Euro Stoxx 50

The Macro Trader's view is: although we consider equity markets are in a bear phase, we are remaining sidelined.

We judge risk reward is unattractive as there is no clear trend currently dominating the market as evidenced by the choppy price action of recent weeks.

Until the underlying bear trend re-asserts; confirmation of which for us would be a break below the low made on March 17, we see little point in holding a position.

From current levels and given the recent run of data we judge the market could just as easily rally back to test the 3600 level as it could sell off towards the 3400 level.

Guess work isn't a sound basis for recommending a trade and we advise remaining square for now.

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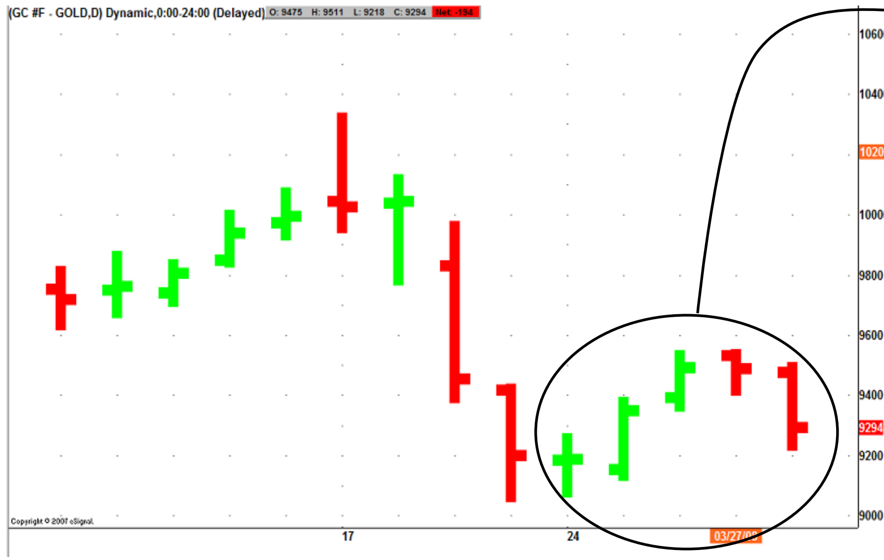
Commodities
+ Gold
+ Oil

Commodities: Gold

OUR TRADING STANCE: SQUARE

Last week we were square of Gold



See how Gold attempted a rally last week as the Dollar came under renewed selling pressure but the move ran out of steam, as US inflation data came in slightly better than expected.

Last week we were square of this market after it sold off heavily the previous week, in conjunction with a sell off in commodities generally and a short covering rally in the Dollar.

However as fighting raged in the southern Iraqi city of Basra and rebels blew up an oil pipe line, Gold prices staged a recovery which was assisted by the re-emergence of Dollar weakness, driven by fresh evidence that the US housing market has yet to reach bottom in the more than 2 year correction.

Additionally several measures of US inflation released last week did little to support the Dollar, but curtailed Gold's rally as traders questioned how much further the move could go.

This week sees the releases of several key reports in the US which we expect to confirm expectations of ongoing economic weakness, which will likely drive the Dollar to new lows, but in the absence of any new inflation reports, and after the Iraqi rebels have ceased their hostilities, we sense Gold will struggle to rally further from here.

Additionally the Russians are starting to make conciliatory noises towards the US after a period of unhelpful rhetoric and this too will undermine the allure of gold.

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+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Commodities: Gold

The Macro Trader’s view is; although gold attempted a recovery last week, we are unconvinced it can develop into a broad based recovery that would see the market back up to the $1,000.00 an ounce level anytime soon.

Indeed we think the price action of the last few days is more akin to a short covering rally with the market more likely to retest the lows before the long term bull trend can reassert.

Although we expect the Dollar to weaken further, especially if this week’s non-farm payroll report is weaker than expected, the recent fears of US stagflation have receded, after the release of better than expected CPI and downward revisions to Q4 PCE data, with the more current PCE reports coming in a little better than expected.

But we do not think it prudent to recommend a bear trade either, inflation remains a problem in the Euro zone and the situation in Iraq and the wider Middle East could easily flare up again with little notice.

For now we continue to advise a square position and let this market complete its current consolidation phase.

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SEVEN DAYS AHEAD

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+ FTSE 100
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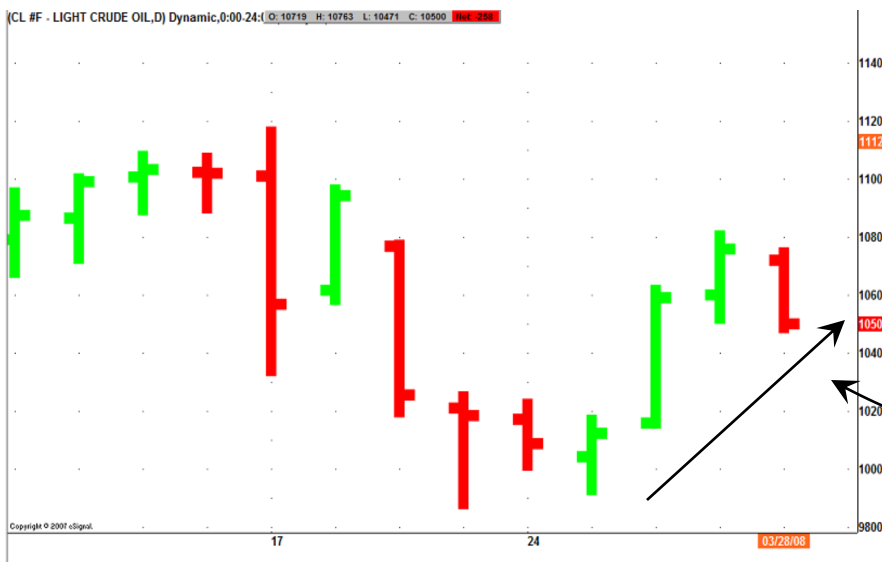
Commodities
+ Gold
+ Oil

Commodities: Oil

OUR TRADING STANCE: SQUARE

Last week we were square of Oil



See how oil rallied last week as an important oil pipe line in southern Iraq was attacked last week amid a more general rebellion engulfing the city of Basra and surrounding areas.

Last week we were square of oil having taken profit the previous week after a sharp sell off in the market. So rapid was the move that we judged further downside price action in the short term might be difficult to achieve and in the event our judgement proved sound.

However the recovery last week was stronger than we would have expected, but it was driven mainly by an attack by Iraqi rebels against one of the two main oil pipe lines running near the city of Basra.

With fighting raging between Iraq government forces and various militia groups, the country seemed on the brink of collapse, and oil prices set for a further leg of the recent ruinous rally.

However the pipe line was repaired and the rebels called off and although the situation remains tense, oil prices have eased back from the recent highs.

Looking ahead there are several key US reports due this week which we expect to confirm the seriousness of the current US slowdown, that being the case, and in the absence of fresh fighting in Iraq, oil prices could resume their slide lower.

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Commodities: Oil

The Macro Trader's view is; we remain bearish of this market based on our expectation of a severe US economic slowdown, but the market continues to defy gravity as traders view the weakness of the Dollar as a reason to buy oil.

The rationale for this is that if the Dollar weakens to much the oil exporters will switch their pricing from Dollars to another currency; probably the Euro.

However the Euro isn't as big a reserve currency as the Dollar and we doubt the ECB would be too pleased of such a development as it would complicate their already difficult task of managing a strong currency at a time when politicians are fearful of its impact on growth at a time when inflation is materially above the ECB'S inflation target.

However long established trends take time to reverse, and a period of volatility usual occurs before a major reversal.

We judge we are in such a phase now, oil prices have likely seen their highs, but a period of choppy price action is likely before the weak US economy and resultant weakening demand for oil is able to force this market lower.

For now we advise remaining square of this market a little while longer.

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