Week 21

20th – 26th May 2008

the macro trader's guide to major markets

John Lewis

Authorised and regulated by the FSA

SEVEN DAYS AHEAD

summary – macro trader

Summary

Global Calendar

Interest Rate Futures

+ Euro Dollars	**SQUARE** short & medium term, **BULLISH** long term
+ Short Sterling	**SQUARE** short, medium & long term
+ Euribor	**SQUARE** short, medium & long term

Government Bonds

+ US 10yr Note	**SQUARE** short, medium & long term
+ Gilt	**BEARISH** short, medium & long term
+ Euro Bund	**SQUARE** short, medium & long term

Currencies

+ US Dollar	**SQUARE** short, medium & long term
+ Pound Sterling	**BEARISH** short, medium & long term
+ Euro	**BULLISH** short, medium & long term

Stocks

+ S&P 500	**BULLISH** short, medium & long term
+ FTSE 100	**BULLISH** short, medium & long term
+ Dow Jones Eurostoxx50	**SQUARE** short , medium & long term

Commodities

+ Gold	**BULLISH** short, medium, long term
+ Oil	**BULLISH** short, medium & long term

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	Week of 12th May
Monday	US Mthly bdgt statement $159.3B **BETTER** UK PPI Input 2.4m, 23.3y **WORSE** UK PPI Output 1.4m, 7.5y **WORSE** UK PPI Core 1.0m, 4.6y **WORSE** UK Trade bal -7.437B **BETTER** UK Trade non-EU -3.772B **BETTER** UK BRC Retail sales -1.5y **WORSE** UK RICS Hse prce bal -95.1 **WORSE** IT Ind production -0.2m, -2.5y **WORSE** **THAN EXPECTED**
Tuesday	US Import prces 1.8m, 15.4y **WORSE** US Retail sales -0.2, **AS** US RS Less Autos 0.5 **BETTER** US Business inventories 0.1 **LESS** UK CPI 0.8m, 3.0y **WORSE** UK CPI Core 1.4y **WORSE** UK RPI 0.9m, 4.2y **WORSE** UK RPI-X 4.0y **WORSE** UK DCLG Hse prces 5.2% **BETTER** FR C/A Bal -2.5B **WORSE** **THAN EXPECTED**
Wednesday	US MBA Mrtge apps 2.9% **AS** US CPI 0.2m, 3.9y **BETTER** US CPI Ex-F & E 0.1m, 2.3y **BETTER** UK Jobless chge 7.2 **WORSE** UK unemployment rate 2.5% **AS** UK ILO Unemploym't rate 5.2% **AS** UK Avge earnings 4.0% **WORSE** UK AE Less bonus 3.8% **AS** UK Mfg unit wge cost 0.8 **AS** UK BofE qrtly infltn report GRWTH-/INFLATI'N+ FR CPI 0.3m, 3.0y **BETTER** IT CPI 0.2m, 3.3y **WORSE** **THAN EXPECTED**

	Week of 19th May
Monday	EZ Construction output n/f
Tuesday	US PPI 0.4m, 6.6y US Core PPI 0.2m, 2.9y DM PPI 0.5m, 4.7y IT Ind orders -2.2m, 1.5y IT Ind sales -0.8m, IT C/A n/f DM ZEW Survey -37.0
Wednesday	US MBA Mrtges n/f US FOMC Minutes April 30 meeting UK MPC Minutes 7/2 UK PSNCR -2.5B UK PSNB 1.5B UK M4 Strlg lndg 16.0B DM IFO Survey 102.0

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	Week of 12th May Cont'd
Thursday	US Jobless claims 371k **MORE** US Empire mfg -3.2 **WORSE** US Lg trm TIC flows 80.4B **STRONGER** US Ind production -0.7% **WORSE** US Capacity utilization 79.7 **WEAKER** US Philly Fed -15.6 **BETTER** DM CPI -0.2m, 2.4y **AS** DM Q1 GDP 1.5q, 2.6y **STRONGER** FR Q1 GDP 0.6q, 2.2y **STRONGER** EZ Q1 GDP 0.7q, 2.2y **BETTER** EZ CPI 0.3m, 3.3y **AS** EZ Core CPI 1.6y **BETTER** **THAN EXPECTED**
Friday	US Housing starts 1032k **STRONGER** US Buildg permits 978k **STRONGER** US U. of Michigan conf 59.5 **WEAKER** IT Trade bal -545M **BETTER** IT Trade bal EU 667M **BETTER** EZ Trade Bal -2.3B **WORSE** **THAN EXPECTED**

	Week of 19th May Cont'd
Thursday	US Jobless claims 370k US Hse price indx -1.4%q/q UK Retail sales -0.5m, 4.2y UK Tot bus investm't 0.3q, 5.5y UK CBI Ind trnds survey n/f IT Cons conf 99.4 IT Retail sales -0.2m, 0.6y EZ Ind new orders -0.5m, 4.8y
Friday	US Existing home sales 4.85M UK Q1 GDP 0.4q, 2.5y UK Indx of Services 0.5 3m/3m FR Consumer spndg 0.5m, 2.0y IT Trade Bal non-EU -1.81B IT Q1 GDP 0.2q, 0.4y

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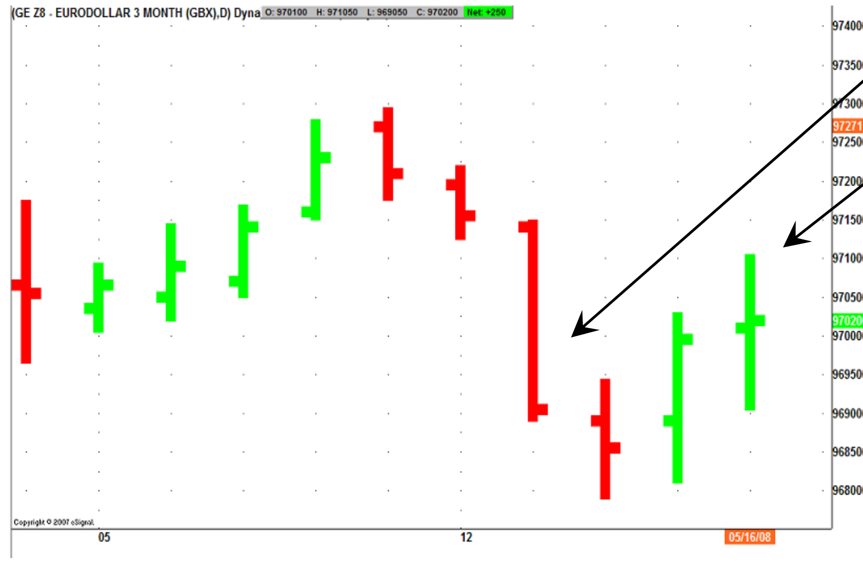
Interest Rate Futures: Euro Dollars December 08

OUR TRADING STANCE: SQUARE.

Last week we were bullish December 08.



See how Eurodollars sold off on Tuesday after the release of better than expected Retail sales ex-autos, but recovered on Thursday and Friday after weak industrial production and capacity utilisation.

Last week we remained bullish of this market as we judged the rally in oil would have a negative impact on growth, at a time when the economy was already weak.

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

- On Monday; the monthly budget statement was better than expected,
- On Tuesday; import prices were worse than forecast, retail sales ex-autos were stronger than expected and business inventories were weaker than expected,
- On Wednesday; MBA mortgage applications were as expected, and CPI was better than expected,
- On Thursday; jobless claims were more than expected, empire manufacturing was worse than expected, long term TIC flows were better than expected, industrial production & capacity utilisation were weaker than expected and the Philly Fed survey was better than expected, and
- On Friday; Housing starts & building permits were stronger than forecast and University of Michigan confidence was weaker than expected.

The market suffered mixed fortunes last week; selling off on retail sales, but recovering on the industrial production data, a split which fitted the pattern set by the recent ISM surveys.

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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 Tuesday; PPI,
- On Wednesday; MBA mortgage applications and FOMC minutes for April 30 meeting,
- On Thursday; Jobless claims and House price index, and
- On Friday; Existing home sales.

The key events this week are highlighted red, but we judge Wednesday's FOMC minutes will be the most important, since many analysts and traders read the Feds policy statement from that meeting as signalling a pause, if that comes across more clearly in the minutes, the market will struggle to rally on anything but bad data moving forward.

The Macro Trader's view is; last week we were stopped out as the retail sales report ex-autos came in better than expected, and after the stronger than expected PMI non-manufacturing survey the previous week, the market took this as another tentative sign of recovery.

However the headline number counts towards GDP, the other measure is a sub-index and headline retail sales came in as expected at -0.2%, so still in negative territory.

Moreover the manufacturing side of the economy is clearly still in trouble as evidenced by industrial production and capacity utilisation, and with mortgage foreclosures still rising we judge the economy isn't yet out of the woods.

However sentiment is clearly ruling out the possibility of any more rate cuts, and with several Fed speakers recently playing up the threat from inflation, the market expects the next move to be a hike.

We don't agree and sense this week's FOMC minutes will be crucial for market direction in the coming week's.

Additionally the oil market continues to make new highs and although the Saudi's have announced a production increase, China has lost hydro electric generating capacity due to the earth quakes and will no doubt increase its oil imports.

For now we choose to remain square and analyse the FOMC minutes, which we think will confirm our view, that the Fed has left the door open for additional rate cuts.

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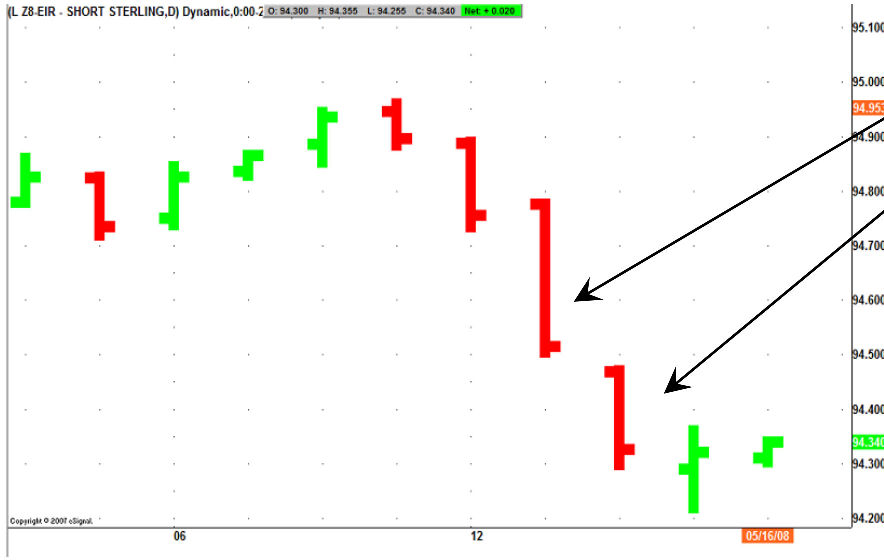
Interest Rate Futures: Short Sterling December 08

OUR TRADING STANCE: SQUARE.

Last week we were bullish of December 08.



See how Short Sterling sold off heavily last week as Tuesday's CPI Report was worse than expected and Wednesday's Bank of England quarterly inflation report poured cold water on hopes of further rate cuts.

Last week we remained bullish of December 08 following a weak PMI services report the previous week which together with the weak housing market led us to expect further rate cuts during the summer.

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

- On Monday; PPI was worse than expected, the Trade report was better than forecast, BRC retail sales and the RICS House price survey were worse than expected,
- On Tuesday; CPI & RPI were worse than expected and the DCLG house price report was better than forecast, and
- On Wednesday; the Official and ILO unemployment rates were as expected, but the jobless change was more than expected, average earnings were mixed, unit wage costs were as expected and the Bank of England quarterly inflation report made further near term rate cuts look unlikely,

The market sold off heavily after the worse than expected CPI report and the Bank's quarterly inflation report, which painted a bleak picture for both inflation and growth leaving policy makers with no option other than to pour large amounts of cold water on any lingering hopes of a rate cut anytime soon.

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Interest Rate Futures: Short Sterling

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

- On Wednesday; the MPC minutes, PSNCR, PSNB and M4 Sterling lending,
- On Thursday; retail sales, total business investment and the CBI Industrial trends survey, and
- On Friday; Q1 GDP and index of services.

This week's key releases are highlighted red, and we judge the retail sales report and GDP report as the most important, especially retail sales as it is the most current indicator and were it to weaken seriously enough over the coming months the MPC would cut rates again.

The Macro Trader's view is: we were stopped out last week as Short Sterling sold off heavily following a very disappointing CPI report.

While there was always a risk the report could overshoot consensus, we hadn't expected such a significant miss.

However we are not at all convinced that policy will remain unchanged for 2 years as heralded by the press. OK the Bank forecast inflation to move higher than expected and growth to weaken by more than previously thought.

But if oil prices continue to rally the economy will take a serious growth hit and at a time when it is already weak. And although the inflation rate would rise, a collapse in growth would soon reverse it, leaving the Bank in a position where it could and should cut rates.

Given the negative RICS report released last week, which is the worst on record, we still expect the MPC to cut interest rates twice more this year.

The feed through from higher oil prices seems quite rapid and as food prices and energy prices drain consumer spending power the economy could slump before the summer is out.

However in the current environment taking a long position is clearly swimming against the tide of sentiment and for now we will remain square and advise others to do likewise.

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Interest Rate Futures: Euribor December 08

OUR TRADING STANCE: SQUARE.

Last week we were square of December 08.

See how Euribor sold off last week as traders switched from worrying about the impact oil prices could have on growth, to the impact they will have on inflation.

Last week we remained square of December 08 Euribor as we judged the ECB would prefer to act to further pressure inflation, but are constrained by lingering fears of potentially weaker growth.

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

- On Monday; Italian industrial production was worse than expected,
- On Tuesday; French C/A data was worse than expected,
- On Wednesday; French CPI was better than expected and Italian CPI was worse than expected,
- On Thursday; German CPI was as expected, Q1 GDP, French Q1 GDP, Euro zone Q1 GDP were stronger than expected, CPI was as expected and core CPI was better than expected, and
- On Friday; Italian trade data was better than expected and Euro zone trade data was worse than expected.

The market sold off last week as traders refocused onto potentially higher future inflation, driven by rising oil prices.

Additionally stronger than expected GDP data from Germany and France made the ECB'S choices look clear cut, until Trichet announced he still expected Euro zone growth to slow due to the credit crunch with Q1 growth likely the high water mark of the current expansion.

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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; Euro zone construction output,
- On Tuesday; German PPI & ZEW survey, and Italian industrial orders, industrial sales & C/A data,
- On Wednesday; German IFO,
- On Thursday; Italian consumer confidence, retail sales and Euro zone New industrial orders, and
- On Friday; French consumer spending, Italian trade bal non-EU and Q1 GDP.

This week's key releases are highlighted in red, but we judge the German IFO report as the most important. Euro zone Q1 GDP only held up due to a very strong German Q1, any weakening of the prospects for the German economy would limit the weakness in Euribor.

The Macro Trader's view is: the Euro zone put in a very solid performance in Q1 with strong contributions from Germany and to a lesser extent France, but Trichet judged this unrepeatable as he expects the Euro zone economy to cool.

What was very interesting though was his comments on interest rates, when he said higher inflation offered little or no room for rate cuts; not exactly a signal for higher interest rates as the market currently expects.

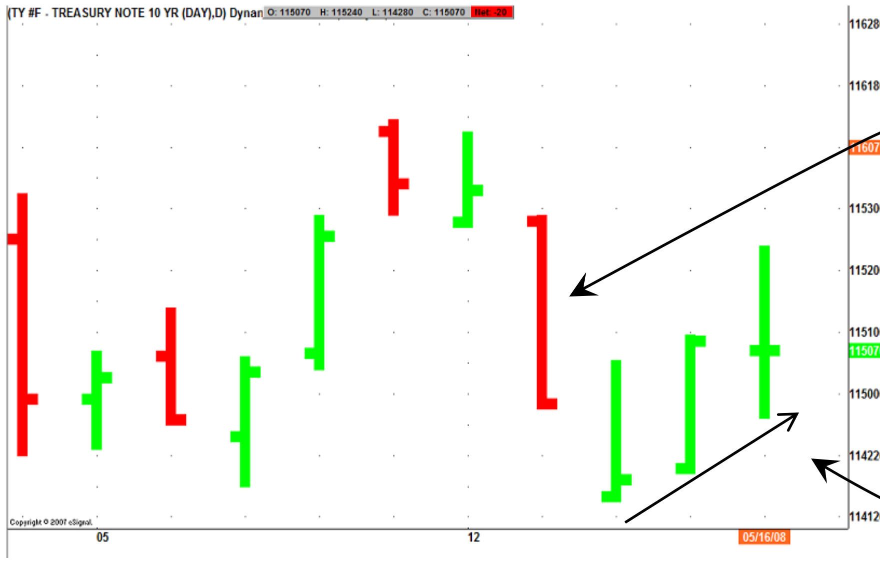
In reality we judge Euro zone policy will likely remain on hold over the next few months. The ECB is moving into a similar predicament to the Bank of England; inflation is expected to rise due to still increasing energy costs, but the economy is expected to slow, making higher interest rates politically impossible, at least in the UK, and if growth does cool in the Euro zone as Trichet expects; there too.

For now we remain square of this market as we judge the case for higher rates seems weakened, but until there is clear evidence of slower growth, the market will continue to price in tighter policy.

Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were square of the 10yr Note.



See how The 10Yr Note experienced another volatile week with no underlying trend asserting as traders 1st reacted to better retail sales on Tuesday and then better CPI on Wednesday and weak industrial production and capacity utilisation on Thursday.

Last week we remained square of this market following the rally the previous week induced by Central Bank intervention in the mortgage backed Bond market, which forced an unsustainable rally.

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

- On Monday; the monthly budget statement was better than expected,
- On Tuesday; import prices were worse than forecast, retail sales ex-autos were stronger than expected and business inventories were weaker than expected,
- On Wednesday; MBA mortgage applications were as expected, and CPI was better than expected,
- On Thursday; jobless claims were more than expected, empire manufacturing was worse than expected, long term TIC flows were better than expected, industrial production & capacity utilisation were weaker than expected and the Philly Fed survey was better than expected, and
- On Friday; Housing starts & building permits were stronger than forecast and University of Michigan confidence was weaker than expected.

The market convulsed again last week as better ex-autos retail sales chimed with the previous week's ISM non-manufacturing report, but rallied on tame CPI and weak industrial output data.

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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 Tuesday; PPI,
- On Wednesday; MBA mortgage applications and FOMC minutes for April 30 meeting,
- On Thursday; Jobless claims and House price index, and
- On Friday; Existing home sales.

The key releases this week are highlighted in red, but we judge the FOMC minutes will be the most important as traders look for clearer evidence of whether the Fed has actually paused or if the door remains open to additional cuts..

The Macro Trader's view is; with tentative signs of improvement coming from some service sector data traders are prone to sell as they judge still rising oil prices pose a serious inflation risk.

And although the weak housing market and manufacturing side of the economy is restraining the bears, higher bond yields appears the most likely outcome in the long term.

Although CPI was better than expected last week and President Bush seems to have persuaded the Saudi's to increase oil production, the celebrations maybe short lived; China looks set to increase its oil imports as it tries to cover the loss of Hydro-electric generating capacity caused by the recent earth quake.

With aftershocks still a problem and the affected area a disaster zone oil prices may shake off the Saudi news and carry on rallying.

Ultimately soaring oil prices do no one any good as the global economy will ultimately react to the pain and slow, but the oil producers seem intent on "making hay while their sun shines".

Given the volatility in this market we continue to advise a square position.

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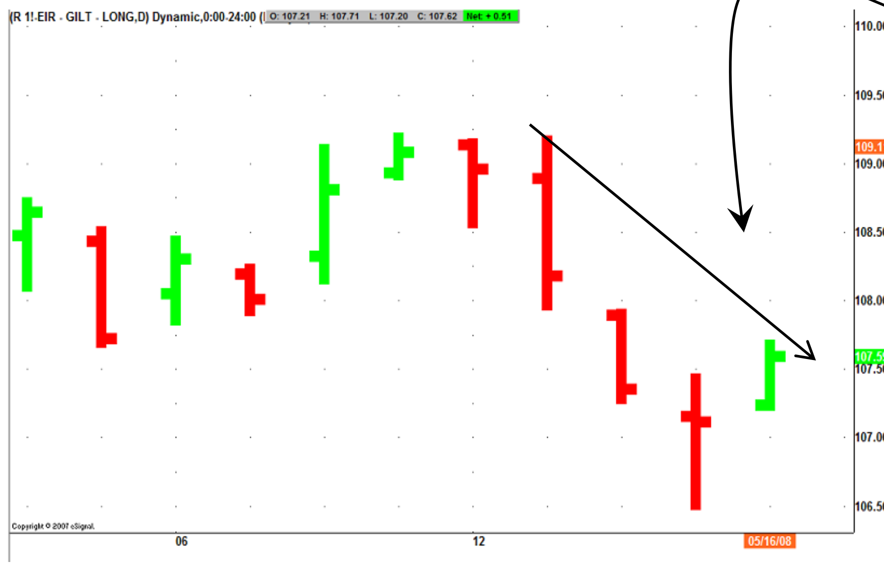
Government Bonds: The Gilt

OUR TRADING STANCE: BEARISH.

Last week we were square of the Gilt.



See how the Gilt sold off last week following worse than expected CPI on Tuesday, warnings of higher inflation in the Bank's quarterly inflation report and a mini budget that effectively increased borrowing by £2.7B as the government sought to buy of the Tax rebellion.

Last week we were square of the Gilt following a rally induced by Central Bank intervention in the mortgage backed bond market.

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

- On Monday; PPI was worse than expected, the Trade report was better than forecast, BRC retail sales and the RICS House price survey were worse than expected,
- On Tuesday; CPI & RPI were worse than expected and the DCLG house price report was better than forecast, and
- On Wednesday; the Official and ILO unemployment rates were as expected, but the jobless change was more than expected, average earnings were mixed, unit wage costs were as expected and the Bank of England quarterly inflation report made further near term rate cuts look unlikely,

The market gave back its gains as PPI and CPI came in worse than expected and as the oil market continued to register new all time highs traders became more concerned with rising inflation.

Additionally the £2.7B increase in public borrowing to finance the placation of the tax rebels also weighed on the Gilt.

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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 Wednesday; the MPC minutes, PSNCR, PSNB and M4 Sterling lending,
- On Thursday; retail sales, total business investment and the CBI Industrial trends survey, and
- On Friday; Q1 GDP and index of services.

This week's key releases are highlighted in red, but we judge the key report is retail sales. Usually we would focus on the MPC minutes, but the inflation report released last week has already clarified the MPC'S position, and GDP unless very much different from consensus is historic.

The Macro Trader's view is: although recently stopped out of this market, we retained our bearish bias and last week's events supported our underlying view.

With oil prices still likely to move higher, driving inflation further away from the MPC'S target, and with the government now clearly willing to buy popularity, we judge the Gilt is a sell.

Traders should be short of this market, our interim target is 106.00 and our stop is set at 108.55; given the wide stop run a small position, which can be added to as the trade proves its self.

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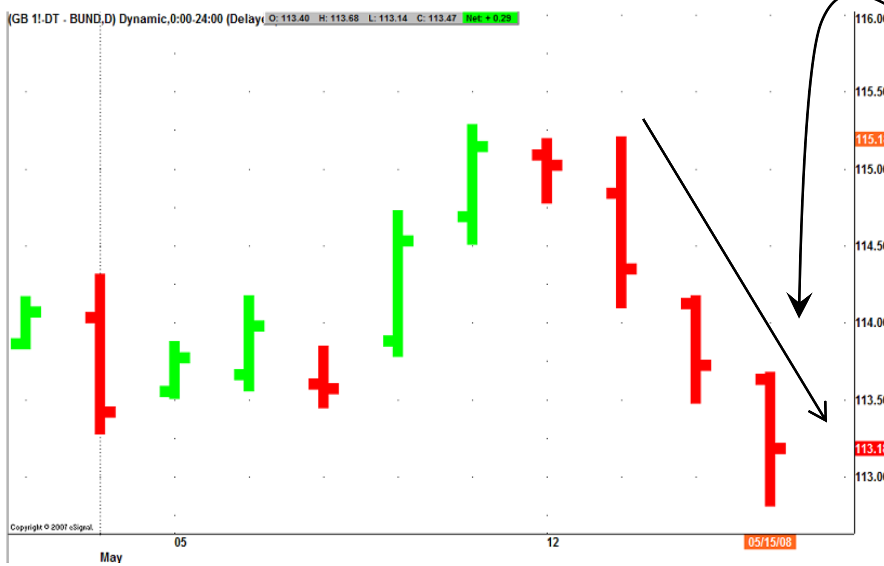
Government Bonds: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of the Bund



See how the Bund gave back the previous week's gains as the previous week's Central Bank bond market intervention faded and stronger than expected US retail sales on Tuesday, plus much better than expected German and Euro zone Q1 GDP on Thursday sent the market below the previous week's range.

Last week we were square of this market as we judged the previous week's rally driven by growth concerns and Central Bank intervention seemed unsustainable.

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

- On Monday; Italian industrial production was worse than expected,
- On Tuesday; French C/A data was worse than expected,
- On Wednesday; French CPI was better than expected and Italian CPI was worse than expected,
- On Thursday; German CPI was as expected, Q1 GDP, French Q1 GDP, Euro zone Q1 GDP were stronger than expected, CPI was as expected and core CPI was better than expected, and
- On Friday; Italian trade data was better than expected and Euro zone trade data was worse than expected.

The Bund sold off last week as strong Q1 Euro zone and GDP data, together with better US retail sales turned the spot light back onto fears of higher inflation.

With the oil price hitting new highs traders began to view the recent improvements in Euro zone CPI as potentially very short lived.

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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; Euro zone construction output,
- On Tuesday; German PPI & ZEW survey, and Italian industrial orders, industrial sales & C/A data,
- On Wednesday; German IFO,
- On Thursday; Italian consumer confidence, retail sales and Euro zone New industrial orders, and
- On Friday; French consumer spending, Italian trade bal non-EU and Q1 GDP.

This week's key events are highlighted in red, but we consider the German IFO report as the most important. After a strong Q1 traders will be seeking evidence of how well the economy is fairing in the second quarter.

The Macro Trader's view is: the Bund reversed last week in line with our fears of continued volatility. The previous week's rally which had been driven by Central Bank intervention in the mortgage backed bond market and fears that the renewed rally in oil would further depress growth, gave way to the realisation that the 1^{st} and most immediate affect would be higher inflation.

Given the concerns for growth, the ECB is increasingly finding itself unable to respond, by hiking rates, and even though Q1 GDP was much better than anticipated, the ECB are already discounting this and anticipating growth to cool, especially in the 2^{nd} quarter as the strong German input was likely due to mild weather allowing for above average construction activity.

However given the recent volatility in this contract and the unclear message now coming from the ECB; Trichet seems to have moved away from signalling tighter policy, we judge the best position short term is to remain square.

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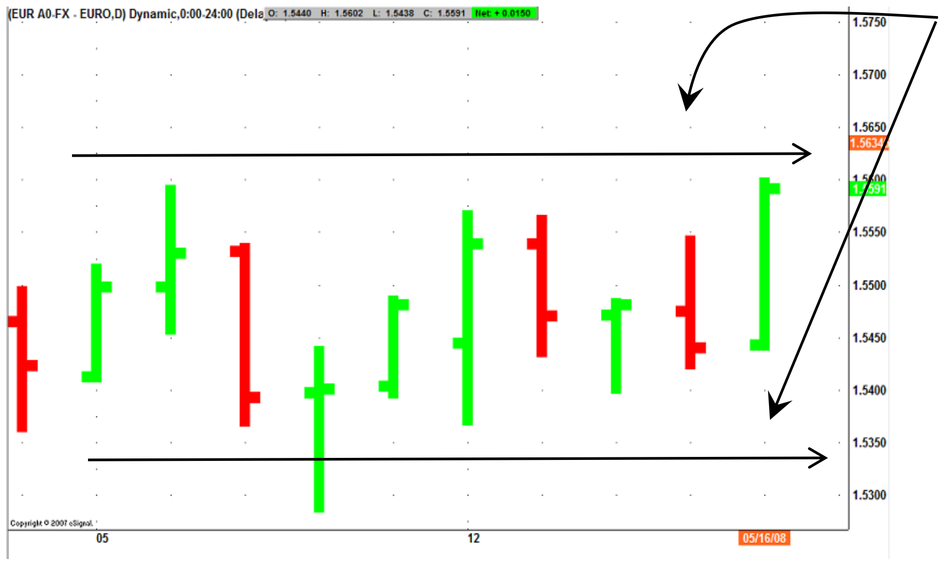
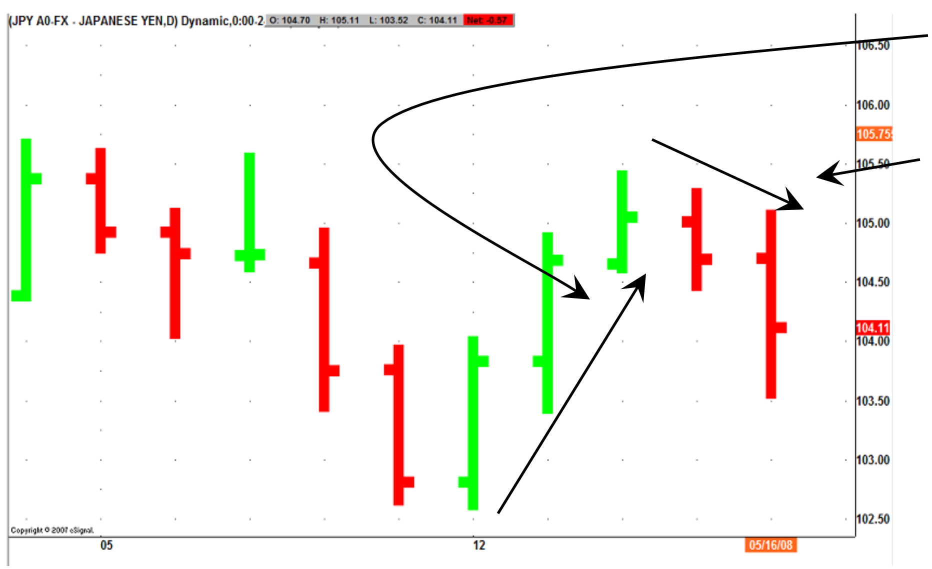
Currencies: The Dollar

OUR TRADING STANCE: SQUARE

Last week we were square of the dollar



See how the Dollar remained range bound last week as better than expected retail sales was cancelled by softer CPI and weaker than expected industrial production and capacity utilisation.



See how the Yen weakened last week as the Dollar strengthened on the back of better retail sales and CPI, but Thursday's poor industrial data and Friday's weak consumer confidence led to profit taking.

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Currencies: The Dollar

Last week we remained square of the Dollar following the release of additional data that appeared to show the economy beginning to stabilise, but with oil prices making new highs we remained unconvinced.

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

- On Monday; the monthly budget statement was better than expected,
- On Tuesday; import prices were worse than forecast, retail sales ex-autos were stronger than expected and business inventories were weaker than expected,
- On Wednesday; MBA mortgage applications were as expected, and CPI was better than expected,
- On Thursday; jobless claims were more than expected, empire manufacturing was worse than expected, long term TIC flows were better than expected, industrial production & capacity utilisation were weaker than expected and the Philly Fed survey was better than expected, and
- On Friday; Housing starts & building permits were stronger than forecast and University of Michigan confidence was weaker than expected.

The Dollar again traded mainly sideways last week as the better Retail sales and CPI offered support, but Thursday and Friday's data served to remind traders the economy continues to struggle.

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

- On Tuesday; PPI,
- On Wednesday; MBA mortgage applications and FOMC minutes for April 30 meeting,
- On Thursday; Jobless claims and House price index, and
- On Friday; Existing home sales.

This week's key events are highlighted red, and we judge the FOMC minutes as the most important as traders seek clarification of the Feds stance; have they paused or will they ease again?

The Macro Trader's view is: the Dollar continues to trade sideways amid a run of data that offers a glimmer of hope the situation might be improving.

Additionally the UK and Euro zone economies are starting to either slow or show signs of potential weakness.

This has put a brake on the Dollars decline, and if the Euro zone does start to cool; Q1'S GDP report notwithstanding, the Dollar could begin to claw back some of the ground ceded to the Euro.

However with home foreclosures in the States still running very high and the housing market generally continuing to correct, we think the US economy is very vulnerable to the current rally in the oil market which could cause another wave of weakness.

For now we advise remaining square as we judge the current spell of range trading could persist a little longer

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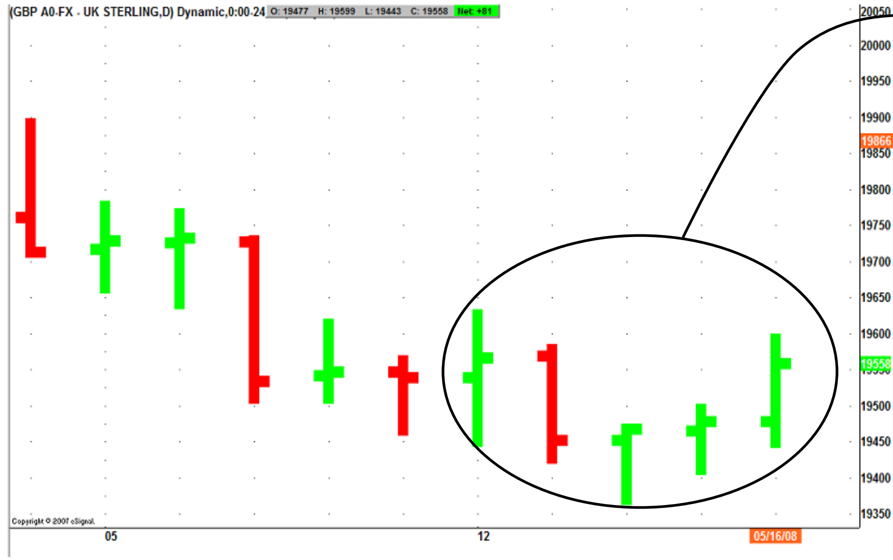
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

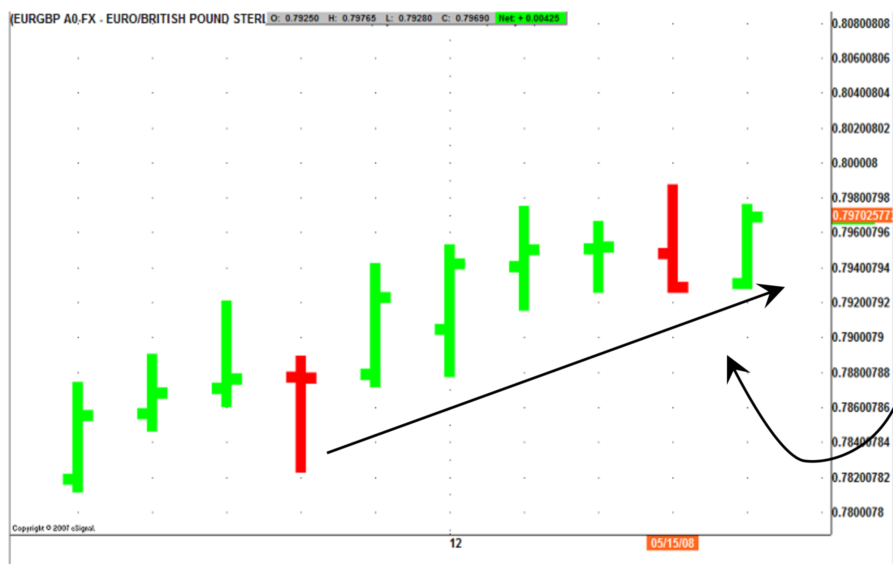
Currencies: The Pound Sterling

OUR TRADING STANCE: BEARISH v THE EURO.

Last week we were square of Sterling .



See how Cable sold off on Tuesday after a worse than expected CPI report and news the government would borrow an additional £2.7B to buy off the tax rebels, but the Pound recovered a little as the Bank's quarterly inflation report, released on Wednesday, seemed to rule out further rate cuts.



See how Sterling began to weaken again against the Euro as UK inflation sharply deteriorated, but with growth expected to weaken further the Bank of England appears virtually powerless to either suppress inflation or support growth.

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Currencies: The Pound Sterling

Last week we were square of Sterling as we judge the recent period of range trading could persist a little longer as growth in the Euro zone showed tentative signs of weakness, while data from the US seemed to be firming up.

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

- On Monday; PPI was worse than expected, the Trade report was better than forecast, BRC retail sales and the RICS House price survey were worse than expected,
- On Tuesday; CPI & RPI were worse than expected and the DCLG house price report was better than forecast, and
- On Wednesday; the Official and ILO unemployment rates were as expected, but the jobless change was more than expected, average earnings were mixed, unit wage costs were as expected and the Bank of England quarterly inflation report made further near term rate cuts look unlikely,

The Pound held its own against the Dollar, but weakened further against the Euro after a strong Q1 GDP result from the Euro zone contrasted with a bleak assessment of the UK economy from the Bank of England's quarterly inflation report.

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

- On Wednesday; the MPC minutes, PSNCR, PSNB and M4 Sterling lending,
- On Thursday; retail sales, total business investment and the CBI Industrial trends survey, and
- On Friday; Q1 GDP and index of services

This week's key data releases are highlighted red, and although Q1 GDP is an important release, unless wide of expectations will have limited impact, but retail sales is current and if weak will weigh heavily on the Pound.

The Macro Trader's view is: the Pound continues to look weak and we expect it to sell off further against the Euro as the Bank of England currently appears to be out of policy options.

The quarterly inflation report flagged higher inflation and weaker growth; the Bank can't rush to ease as its forecast predicted inflation would rise to 4.0%, but it can't hike as its other, forecast a possible recession.

The market deduces the only option policy makers have, is to sit on the fence and cross their fingers; hoping all will be ok in the end.

But with oil prices threatening to go even higher, we think growth could prove a bigger problem, and although higher inflation is the immediate threat, a stalling economy would exert downward pressure on prices and allow the Bank to nudge policy lower once or twice more this year.

In any event compared to the Euro zone the UK is now hobbled by political risk and we advise traders to go short of Sterling/long the Euro.

Our interim target is 0.8050 and our stop loss is set at 0.7848 as protection.

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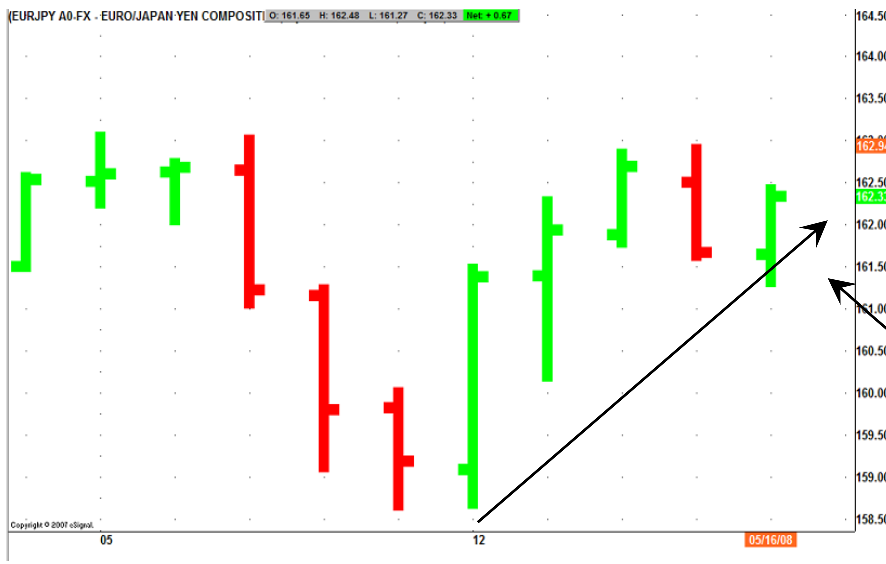
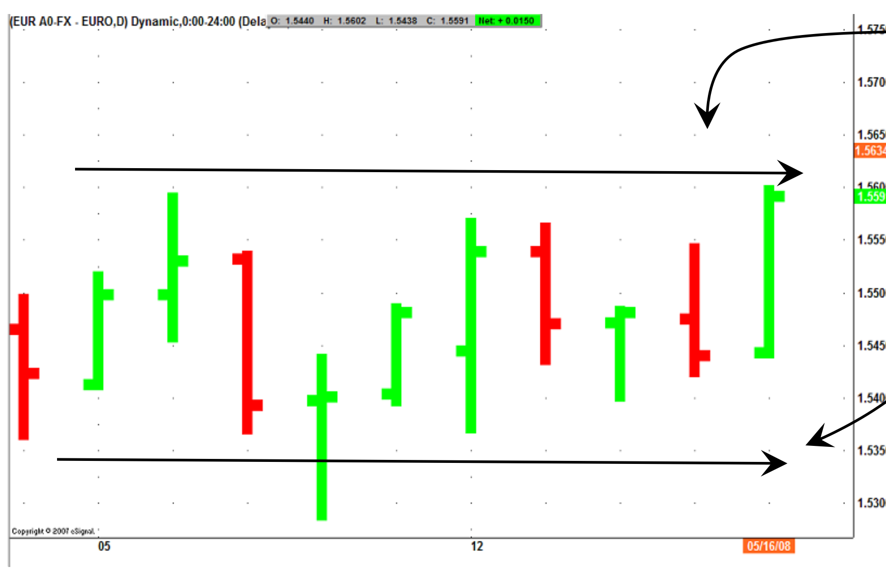
Currencies: The Euro

OUR TRADING STANCE: BULLISH v STERLING.

Last week we were square of the Euro .



See how the Yen appears unable to make any significant gains against the Euro as strong Q1 GDP in the Euro zone eroded all of the Yen's gains from the previous week.



See how the Euro remains range bound against the Dollar as traders assess whether recent US data marks the start of a recovery and if the Euro zone is now about to succumb to weaker growth its self?

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Commodities
+ Gold
+ Oil

Currencies: The Euro

Last week we remained square of the Euro as we judged the ECB was loosing its window of opportunity to hike rates as CPI had eased lower and growth was showing signs of softening.

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

- On Monday; Italian industrial production was worse than expected,
- On Tuesday; French C/A data was worse than expected,
- On Wednesday; French CPI was better than expected and Italian CPI was worse than expected,
- On Thursday; German CPI was as expected, Q1 GDP, French Q1 GDP, Euro zone Q1 GDP were stronger than expected, CPI was as expected and core CPI was better than expected, and
- On Friday; Italian trade data was better than expected and Euro zone trade data was worse than expected.

The Euro lacked direction against the Dollar but strengthened against the Pound as strong Q1 Euro zone GDP contrasted with a highly unfavourable outlook for the UK economy.

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

- On Monday; Euro zone construction output,
- On Tuesday; German PPI & ZEW survey, and Italian industrial orders, industrial sales & C/A data,
- On Wednesday; German IFO,
- On Thursday; Italian consumer confidence, retail sales and Euro zone New industrial orders, and
- On Friday; French consumer spending, Italian trade bal non-EU and Q1 GDP.

The key releases due this week are highlighted in red, but, but after last week's strong German and by extension, Euro zone GDP report all eyes will be on Wednesday's IFO report to see if it can be sustained.

The Macro Trader's view is: the Euro strengthened against the Pound last week helped by a better than expected Q1 GDP performance from Germany and France, and even though Trichet sought to play this down by suggesting growth would probably weaken throughout the rest of the year, by contrast, the UK looks a mess.

Inflation is expected to spike higher and growth seriously under perform.

The natural conclusion is the Euro looks set to extend its Bull run against the Pound as the UK government appears ready to throw money around in the hope of restoring its popularity, making it potentially more difficult for the MPC to help the economy.

Traders should buy Euro/sell Sterling, our interim target is 0.8050 and our stop loss is set at 0.7848 for protection.

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Stocks
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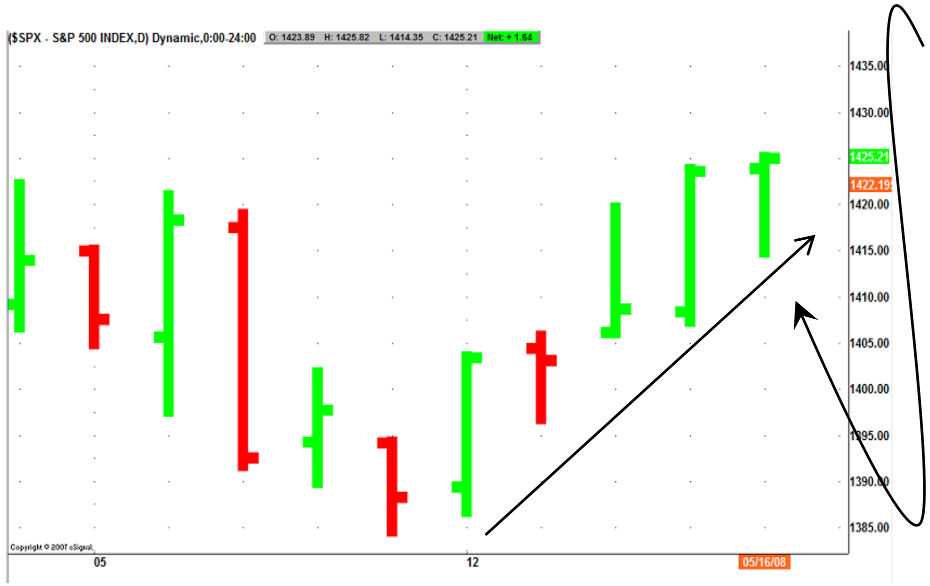
+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Stocks: S&P 500

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the S&P 500



See how stocks rallied last week as the combination of better than expected retail sales ex-autos and softer than expected CPI on both headline and core measures, added to the improving outlook for the US economy begun by data earlier in the month.

Last week we remained bullish of this market following several better than expected key data releases over recent weeks.

And although the release of retail sales and CPI posed a risk, which could have sent the market into reverse, we judged sentiment was turning to expect a slowly improving picture from the US economy.

In the event retail sales were a little better than expected if only on the ex-autos measure, but the improvement fitted the previous week's message offered by the ISM non-manufacturing survey.

With CPI also proving better than consensus, traders shook of the negative news later in the week which showed industrial production and capacity utilisation continuing to under perform.

News late on Friday that Saudi Arabia was set to increase its oil production also helped, but we judge the increased demand for oil likely to come from China, as a result of damage done to hydro-electric generating facilities will probably cancel any benefit out.

Looking ahead the market will focus on Wednesday's release of the FOMC minutes for the April 30 meeting with confirmation that the Fed is on hold being sought.

More

Stocks: S&P 500

The Macro Trader's view is: our long position paid off last week as the market enjoyed a solid rally.

The economy may not be out of the woods yet, but market sentiment suggests its on the road to recovery; we shall see. If oil prices carry on hitting new highs this could yet prove a false dawn.

But with most non-financial sector companies continuing to perform well, the market appears to have a platform from which to rally further.

While we expect this week's FOMC minutes to leave traders guessing as to whether policy makers are on hold, the flip side would be that the door remains ajar for another rate cut if needed and that should support stocks.

Traders should remain long of this market, our interim target is raised to 1456.0 and our stop is raised to 1400.0 for closer protection.

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+ Dow Jones Eurostoxx50

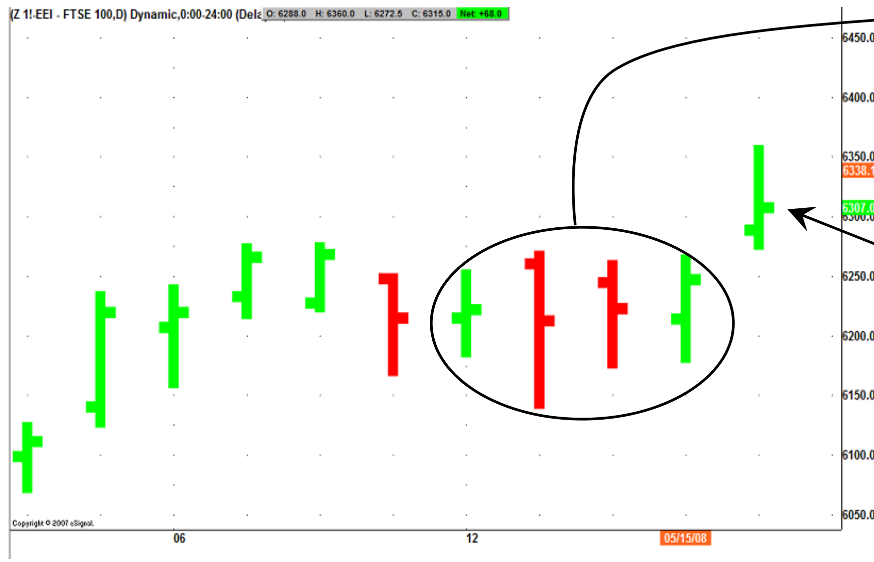
Commodities
+ Gold
+ Oil

More

Stocks: FTSE 100

OUR TRADING STANCE: BULLISH.

Last week we were square of the FTSE 100



See how the FTSE traded sideways last week until Friday when it moved higher on improving sentiment from abroad as Euro zone Q1 GDP beat expectations and US housing starts came in better than consensus, and with oil prices hitting new highs the improving profit outlook for the oil majors further added to the bullish tone of the market.

Last week we remained square of this market as we held to our view that the outlook for growth remained negative and was likely to deteriorate further as oil prices hit new highs.

And in a week that saw the release of CPI and the Bank of England's quarterly inflation report, we judged trading could prove choppy.

In the event CPI was much worse than expected and the Bank of England published a much gloomier than expected inflation report showing inflation rising further and growth weakening to a level that threatened recession.

However the FTSE held up very well, international sentiment, buoyed by better than expected US retail sales and inflation data and stronger than expected Euro zone Q1 GDP data, helped the FTSE enjoy a Friday rally.

Looking ahead the key release this week is retail sales; the MPC minutes have been eclipsed by last week's inflation report, and Q1 GDP is likely to re-state the readings seen in the preliminary release a couple of week's earlier.

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Stocks: FTSE 100

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Commodities
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The Macro Trader's view is: the FTSE is an interesting market for several reasons, but chiefly because of its international exposure created as a result of so many foreign companies listing there, including a strong mining and oil contingent.

With the UK economy looking so negative, it is this international dimension that is currently driving the market, especially the oil majors which benefit from the ongoing rally in the oil market.

With the oil rally looking likely to continue over time as China and India continue to consume ever increasing quantities of energy placing further pressure on supply, the FTSE looks set to benefit from the good news expected on oil company profits.

Moreover traders seem to have convinced themselves that all the bad news is now in the market, and the outlook for stocks is turning increasingly bullish.

Traders should be long of this market, our interim target is set at 6450.0 and our stop is set at 6250.0 for protection.

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SEVEN DAYS AHEAD

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Commodities
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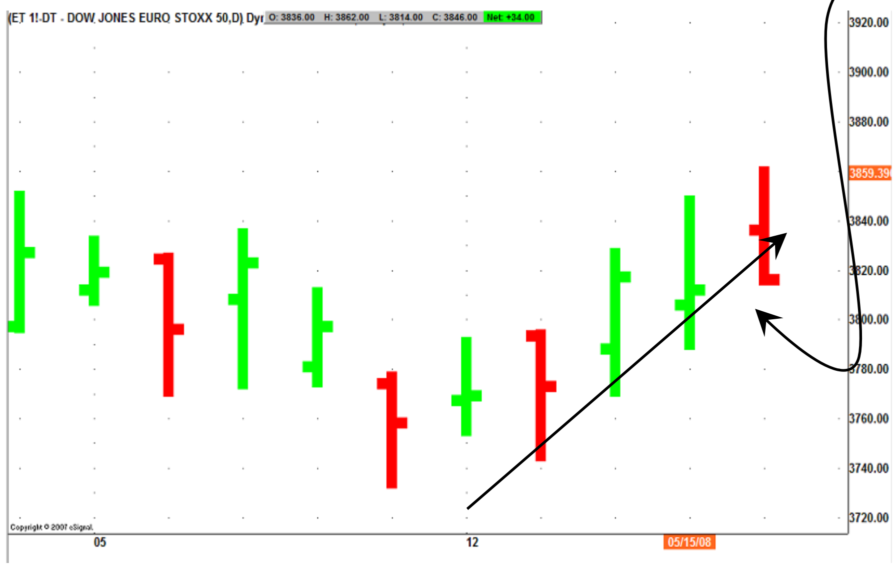
Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ Euro Stoxx 50



See how the market rallied last week as traders continued to react to the ECB'S decision to leave rates on hold, and although Tuesday's news of a Cr Agricole rights issue shook stocks, better than expected Q1 GDP data on Thursday helped the market higher.

Last week we remained square of this market as we judged the ECB'S decision to hold policy steady was a stay of execution rather than a wholesale change of heart.

With oil prices continuing to hit new highs we judged their concern over higher inflation would be heightened, and with several CPI and GDP reports due, we were on alert for fresh evidence that might force a tightening next time they meet.

In the event the key German and Euro zone CPI reports failed to ring alarm bells, but Q1 GDP from Germany and France and by extension the Euro zone came in better than expected.

This underpinned the rally, but seems unlikely to be repeated as the German data received a huge boost from increased construction activity driven by a milder than usual winter.

This week sees the release of the German IFO report and traders will seek clues on the current health of the German economy. But Trichet has already said he expects growth to cool over the remainder of this year.

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+ Gold
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Stocks: DJ Euro Stoxx 50

The Macro Trader's view is: although this market has rallied over recent days along with the S&P and FTSE, we are reluctant to get involved.

We currently judge the other two are the lead performers:

- The S&P is supported by optimism the US economy might be on the mend, or at least isn't getting any worse, and
- The FTSE buy the rally in oil.

In the Euro zone, apart from Trichet saying he thought growth had now peaked and was set to cool, he also said that inflation left little or no room to cut rate.

While this appears to mark a departure from previous hawkish comments that gave rise to the view that Euro zone rates were soon to rise, its negative side is that the ECB will initially do little to help support growth due to worries over inflation.

For now we advise remaining square of this market, we are long the other two and are unwilling to commit too heavily to equities when they will likely experience additional volatility, especially if oil surges again.

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SEVEN DAYS AHEAD

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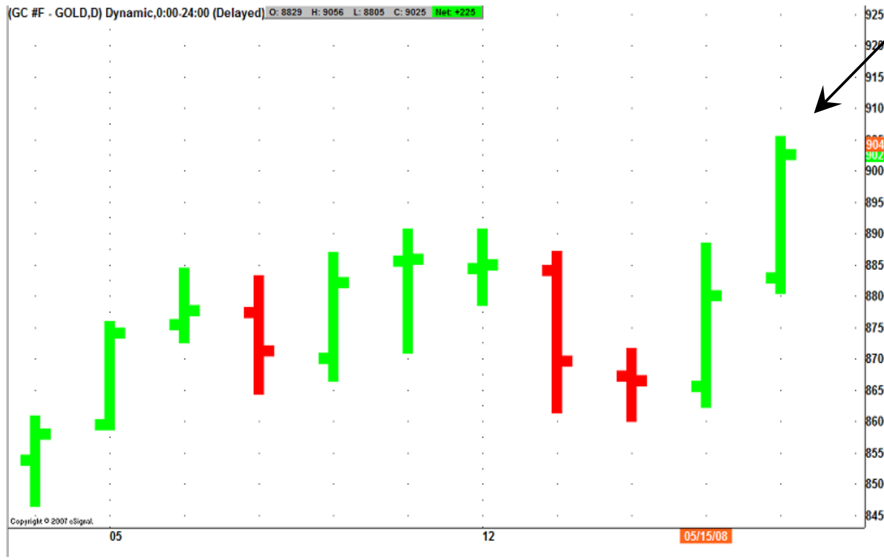
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

Commodities: Gold

OUR TRADING STANCE: BULLISH

Last week we were bullish of Gold



See how Gold rallied last week as inflation worries continued to dominate the markets and Central Bankers thinking.

Last week we remained bullish of this market as the Dollar marked time against the Euro and oil prices rallied further, keeping pressure on inflation and the Central Bankers who aim to control it.

With US retail sales better than expected last week on the Ex-autos measure and the Euro zone posting better than expected Q1 GDP, Gold found support as traders increasingly judge the worst may be over for the US economy.

Moreover the earthquake that hit China looks set to drive up demand for oil as the Chinese seek to replace lost Hydro-electric generating capability.

Further more tension remained high in the Middle East as Iran backed Hezbollah continued to cause trouble in the Lebanon with a return to Civil war looking a very real risk.

Looking ahead with the FOMC minutes due in the US traders will get a clearer picture of whether or not the Fed has indeed paused or is likely to cut rates further, should growth dip again.

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+ Oil

Commodities: Gold

The Macro Trader's view is; inflation remains a serious threat to the economic well being of the west, and since its source; oil, is beyond their control, Gold offers a hedge against not only inflation but a further general devaluation of the paper currencies.

With the emerging giants of India and China set to consume even greater quantities of energy as their aspiring middle classes seek the trappings of affluence enjoyed in the west, namely wider motor car ownership, the resultant increase in the demand for oil, can only drive inflation higher unless fresh significant reserves of oil are found and brought to market, or an alternative energy source is developed.

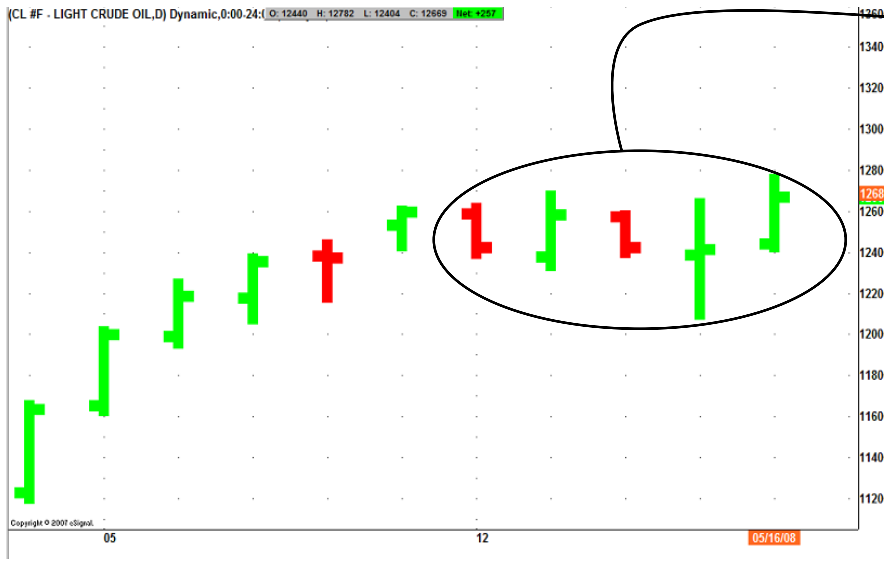
Traders should remain long of this market, our interim target is now US$920.00 an ounce and our suggested stop is raised to US$800.00 for closer protection.

More

Commodities: Oil

OUR TRADING STANCE: BULLISH

Last week we were bullish of Oil



See how oil closed the week on the highs after trading sideways for most of the week traders translated stronger than expected data from both the US and Euro zone into stronger demand for oil.

Last week we remained long of this market following the stronger than expected US ISM non-manufacturing report which indicated the US economy might already be starting to recover.

And in a week with retail sales, CPI and industrial production due, traders were eager to see if the data continued to improve.

In the event retail sales ex-autos was better than expected and although industrial production was weaker, the market focussed on retail sales, which together with the better than expected Q1 GDP data from the Euro zone indicated potentially stronger demand for oil.

Add to this the disaster in China that has knocked out local Hydro-electric generating capacity and the authorities there will be forced to increase their demand for oil to plug the gap.

And although the Saudi's have announced an increase in their oil output, OPEC has ruled out a special meeting to increase over all oil production, meaning the Saudi addition could be consumed by China, which had an import bill before the earthquake of around 20 million barrels of oil a week.

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Commodities
+ Gold
+ Oil

Commodities: Oil

The Macro Trader's view is; the oil market is increasingly driven by long term as well as short term factors.

Short term traders are concerned about the unreliability of Nigerian supply, the level of demand from the US and day to day disruptions in the Middle East.

Long term traders are focused on whether there will be enough oil to go round:

1. Has peak oil production already passed,
2. What will be the level of demand once China and India have a middle class equivalent to Europe or the US, and
3. Will enough oil ever be found to cover that demand.

With the Chinese having a population a little over 4 times that of the US but only running just over 1/6 of the vehicles that are on the roads of the US it doesn't take much imagination to understand that when the Chinese, let alone the Indians, reach the same levels of motor vehicle ownership as in the west, there wont be enough oil coming out of the ground to power them, therefore prices can only go one way over the long term as demand continues to rise.

Traders should stay long of this market, our interim target is now set at US$132.00 a barrel and our stop is raised to 120.00 to provide closer protection.

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