



Week 22

27th May – 2nd June 2008

Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + Oil



the macro trader's guide to major markets

John Lewis

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summary – macro trader

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Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
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SQUARE short medium & long term
SQUARE short, medium & long term
SQUARE short, medium & long term

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

SQUARE short, medium & long term
BEARISH short, medium & long term
BEARISH short, medium & long term

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

BEARISH short, medium & long term
BEARISH short, medium & long term
BULLISH short, medium & long term

Stocks

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

BEARISH short, medium & long term
BEARISH short, medium & long term
SQUARE short , medium & long term

Commodities

- + Gold
- + Oil

BULLISH short, medium, long term
BULLISH short, medium & long term



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Commodities

- + Gold
- + Oil

	Week of 19 th May
Monday	EZ Construction output -2.2m, -1.4y WEAKER THAN EXPECTED
Tuesday	US PPI 0.2m, 6.5y BETTER US Core PPI 0.4m, 3.0y WORSE DM PPI 1.1m, 5.2y WORSE IT Ind orders -0.8m, -3.7y WORSE IT Ind sales -1.6m, -4.3y WORSE IT C/A -4.467B WORSE DM ZEW Survey -41.4 WORSE THAN EXPECTED
Wednesday	US MBA Mrtges -7.8% WORSE US FOMC Minutes April 30 meeting PAUSE UK MPC Minutes 8/1 INFLATION UK PSNCR -1.0B WORSE UK PSNB -0.5B BETTER UK M4 Strlg Indg 26.0B WORSE DM IFO Survey 103.5 STRONGER THAN EXPECTED

global calendar – macro trader

	Week of 26 th May
Monday	MARKET HOLIDAY
Tuesday	US Cons conf 60.1 US New home sales 0.1% UK BBA Home buyer loans DM Q1 GDP 1.5q, 2.6y DM GFK Cons conf 5.7 FR Bus conf 105.0 FR Pod outlk indicator -10 IT Bus conf 86.9
Wednesday	US MBA Mrtge apps n/f US Durable goods -1.1% US Durables ex-transport -0.5% DM CPI 0.4m, 2.8y DM Import prices 0.7m, 5.5y FR Cons conf -37.0 EZ C/A n/f

More



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- + Oil

	Week of 19 th May Cont'd
Thursday	US Jobless claims 365k BETTER US Hse price indx -0.2%q/q BETTER UK Retail sales -0.2m, 4.2y BETTER UK Tot bus investm't -1.4q, 3.7y WORSE UK CBI Ind trnds survey -10 AS IT Cons conf 103.2 BETTER IT Retail sales -0.5m, -1.0y WORSE EZ Ind new orders -1.0m, -2.5y WORSE THAN EXPECTED
Friday	US Existing home sales 4.89M BETTER UK Q1 GDP 0.4q, 2.5y AS UK Indx of Services 0.5 3m/3m AS FR Consumer spndg -0.8m, 0.4y WORSE IT Trade Bal non-EU -1.782B BETTER IT Q1 GDP 0.4q, 0.2y WEAKER THAN EXPECTED

	Week of 26 th May Cont'd
Thursday	US Q1 GDP 0.9%A US Q1 Persnl consumpt'n 1.0% US Q1 Core PCE 2.2% US Q1 GDP Price indx 2.6% US Jobless claims 370k UK Nationwide hse prces -0.5m, -2.1y UK CBI Distributive trades n/f UK GFK Cons conf -25.0 DM ILO Unemploy'm't rate 7.3% DM Unemploy'm't rate 7.8% DM Change -25k EZ M3 (3M) 10.7% EZ M3 (YOY) 10.3% EZ Bus climate indicator 0.41 EZ Cons conf -12.0
Friday	US Persnl income 0.2% US Persnl spndg 0.2% US Core PCE 0.1m, 2.1y US Chicago PMI 48.8 US U. of Michigan conf 59.5 DM Retail sales 0.6m, -2.0y FR PPI 0.6m, 5.1y IT PPI 0.7m, 6.5y EZ Unemploy'm't rate 7.1 EZ CPI Estimate 3.5y IT CPI 0.3m, 3.3y



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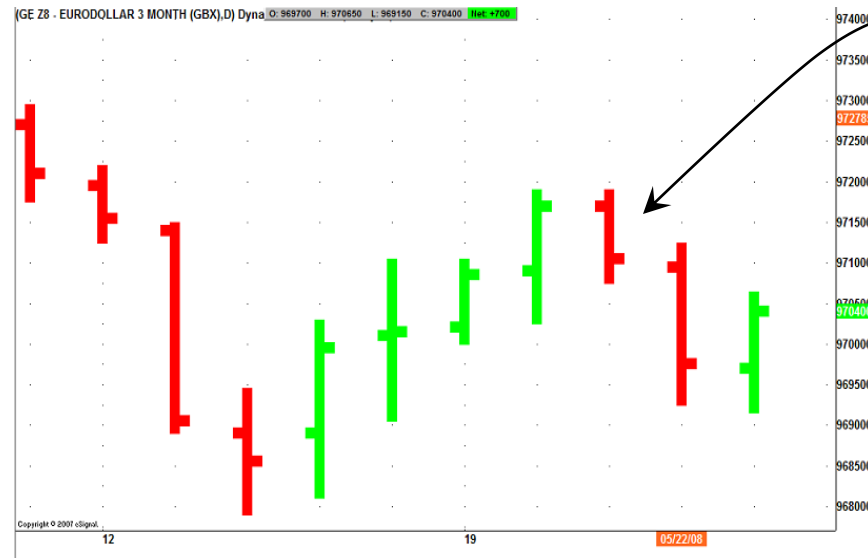
Commodities

- + Gold
- + Oil

Interest Rate Futures: Euro Dollars December 08

OUR TRADING STANCE: SQUARE.

Last week we were square December 08.



See how Eurodollars sold off after Wednesday's FOMC minutes which revealed a more hawkish Fed than expected, as they announced no more rate cuts under current conditions.

Last week we were square of this market as data continued to show gradual signs of improvement, which forced traders to focus increasingly on the threat of higher inflation posed by oil.

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

- On Tuesday; PPI headline was better than expected but core was worse,
- On Wednesday; MBA mortgage applications were weaker than forecast and FOMC minutes for April 30 meeting were more hawkish than expected,

- On Thursday; Jobless claims were better than expected as was the House price index, and
- On Friday; Existing home sales were a little better than expected.

The market took Tuesday's PPI in its stride but sold off after the FOMC minutes which revealed policy maker don't intend cutting rates further unless the economic outlook materially deteriorates from what they currently expect, especially as inflation is clearly their main concern moving forward.



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Commodities

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+ Oil

Interest Rate Futures: Euro Dollars

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

- On Tuesday; consumer confidence and **New home sales**,
- On Wednesday; MBA Mortgage applications and Durable goods,
- On Thursday; **Q1 GDP, Q1 Personal consumption, Q1 Core PCE**, Q1 GDP Price index and jobless claims, and
- On Friday; **Personal income & spending, Core PCE, Chicago PMI and University of Michigan confidence**.

The key events this week are highlighted red, and that includes most releases, but we suggest watching Q1 GDP, if it is revised up it will harden sentiment against any further rate cuts, additionally the PCE data is an index watched closely by the Fed; if it begins to move higher the market will expect the next move in rates to be up.

The Macro Trader's view is; last week's FOMC minutes were more hawkish than we expected. While we thought they would reveal the Fed had paused, we didn't expect the door to be slammed and locked.

The Fed made it clear they were worried about inflation, sufficiently to say that rates couldn't go any lower even if the economy slipped into recession.

They also said that only if the economic outlook deteriorated significantly would they consider easing further.

This suggests the Fed expects a recession, but only a mild one.

However the market now prices in a 100bp policy tightening by year end, we think this too aggressive. The Fed also said they expected a sharp rise in unemployment, which we think could bring about a greater slowdown than currently expected.

Additionally oil prices continue to rally, and while this is undoubtedly the main source of inflation, it will also further weaken growth.

No one knows how much further oil can go and over what time frame. From a long term perspective increasing energy demand should not only support prices but push them higher.

The Fed could find its self faced with a protracted spell of economic weakness with stubborn inflation making policy choices very difficult.

For now we judge it wise to remain square of this market.



Interest Rate Futures: Short Sterling December 08

OUR TRADING STANCE: SQUARE.

Last week we were square of December 08.

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Government Bonds

- + US 10yr Note
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Currencies

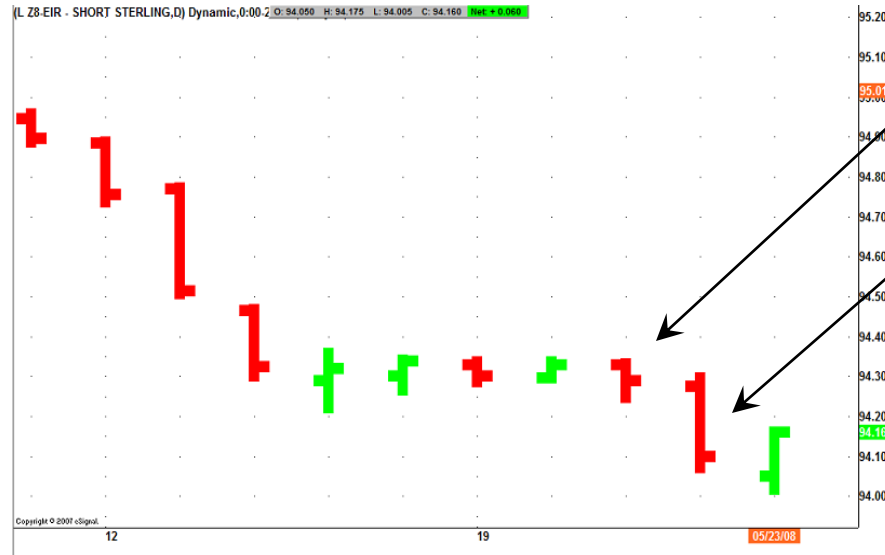
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Stocks

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Commodities

- + Gold
- + Oil



See how Short Sterling sold off further last week as Wednesday's MPC minutes re-enforced the message that policy makers are focussed on containing inflation, but especially after Thursday's better than expected retail sales.

Last week we were square of December 08 following the previous week's worse than expected CPI and hawkish B of E quarterly inflation report.

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

- On Wednesday; the MPC minutes confirmed the inflation report message, PSNCR was worse than expected, PSNB was better than expected and M4 Sterling lending was worse than expected,
- On Thursday; retail sales were better than expected, total business investment was weaker than forecast and the CBI Industrial

- trends survey was as expected, and On Friday; Q1 GDP was as expected and index of services was as expected.

The market sold off as the MPC minutes re-enforced the view that inflation stands in the way of rate cuts, and that the economy needs to slow to correct imbalances.

But another better than expected retail sales report weighed heavily on the market as consumer demand continues to hold up and will support Q2 GDP if sustained over May and June..



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Stocks

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Commodities

- + Gold
- + Oil

Interest Rate Futures: Short Sterling

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

- On Tuesday; BBA Home buyer loans, and
- On Thursday; the **Nationwide house price index**, CBI Distributive trades survey and GFK consumer confidence.

This week's key releases are highlighted red, and we judge the Nationwide report should reveal additional bad news from the housing market, but likely not capable of reversing any of the current sell off.

The Macro Trader's view is: we stood aside from this market last week as policy makers made it clear they were unable to ease further in the near future with inflation forecast to rise as it is.

While we think the correcting housing market and soaring energy prices are capable of seriously weakening the economy, sentiment has shifted to the extent that rate hikes are priced in over the 2nd half of this year.

We do not subscribe to that view at all.

While we understand the Bank's current stance and

the message it is sending out, we still expect interest rates to drop from here and close the year at 4.5%.

If the oil market continues to rally, as we think it will, inflation will rise further, but at the expense of growth.

The price of fuel has reached unprecedented levels and will force consumers to divert resources away from other intended purchases.

This may give the appearance that retail sales are holding up, but closer inspection will reveal the emerging truth; money is being spent on energy.

However we don't see the MPC easing policy in the next few months as they sit tight and hope the storm will pass; there is little else they can do. If they can't cut for fear of stoking inflation, they surely can't hike for fear of tipping the economy over into recession.

But if the economy evolves as we expect, then interest rate cuts will move back onto the agenda towards the end of the summer.

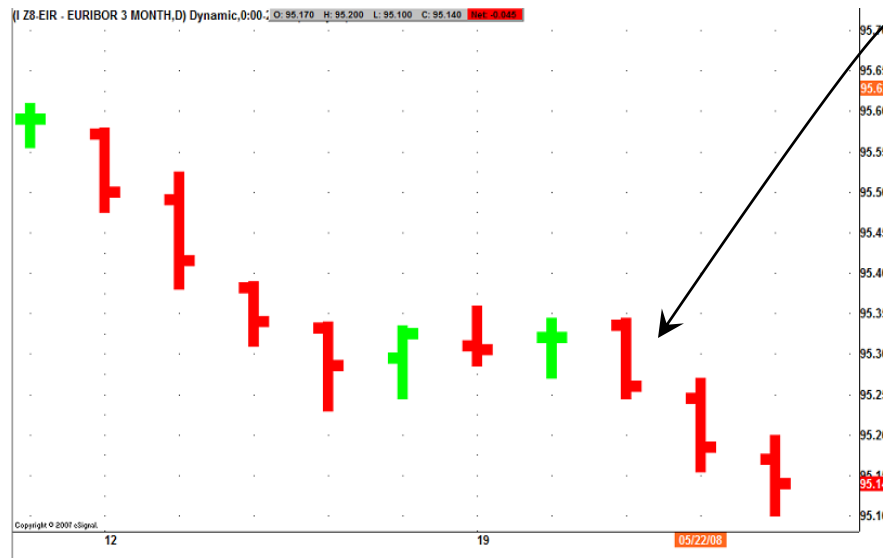
For now we advise remaining square of this market.



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 after Wednesday's release of a stronger than expected German IFO report which suggests the German, and by extension, Euro zone economies have retained much of their Q1 momentum.

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Commodities

- + Gold
- + Oil

Last week we remained square of December 08 Euribor as the outlook for Euro zone monetary policy remained opaque following Trichet's recent comment that growth will cool during the rest of this year.

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

- On Monday; Euro zone construction output was weaker than expected,
- On Tuesday; German PPI & ZEW survey were worse than expected, and Italian industrial orders, industrial sales & C/A data were all worse than expected,
- On Wednesday; German IFO was stronger than expected,
- On Thursday; Italian consumer confidence

was better than expected, retail sales were weaker than forecast and Euro zone New industrial orders were worse than expected, and

- On Friday; French consumer spending was weaker than expected, Italian trade bal non-EU was better than expected and Q1 GDP was weaker than forecast.

The market sold off last week as German IFO came in better than expected, signalling the German economy remains very robust. As the largest economy in the Euro zone it will help sure up Euro zone growth as the ECB continues to ponder its next move on interest rates.



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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 Tuesday; **German Q1 GDP**, GfK consumer confidence, French business confidence, production outlook indicator and Italian business confidence,
- On Wednesday; **German CPI**, Import prices, French consumer confidence and Euro zone current account data,
- On Thursday; German ILO unemployment & official unemployment report, **Euro zone M3**, business climate indicator and consumer confidence, and
- On Friday; German retail sales, **French PPI**, **Italian PPI & CPI** and **Euro zone** unemployment rate and **CPI**.

This week's key releases are highlighted in red, and yet again we judge the various inflation reports as the most important, but German Q1 GDP should be watched for revisions; the initial estimate was very strong.

The Macro Trader's view is: we judge the outlook for Euro zone monetary policy remains a close call. The ECB continues to fret about inflation, but are worried the fall out from the credit crunch will soon begin to slow the Euro zone economy.

But with oil prices making new all time highs again last week, Euro zone inflation will resume its push higher, which will no doubt provoke ECB policy makers to trot out their rhetoric of the importance of price stability.

But along with higher inflation comes weak growth. Germany remains the world's leading exporter and its prosperity is built on value added high end engineering.

As a major manufacturer it is susceptible to energy and commodity induced inflation, will the ECB risk higher rates when they are already forecasting a slowdown?

We think all of the leading Central Banks are more or less in the same predicament; they cannot change policy in either direction without having a malign impact on the part of the economy they are not targeting.

In other words if they try to hit inflation; growth suffers, if they try to support growth, inflation results.

We therefore judge a period of policy inactivity is most likely and advise remaining square of this market.



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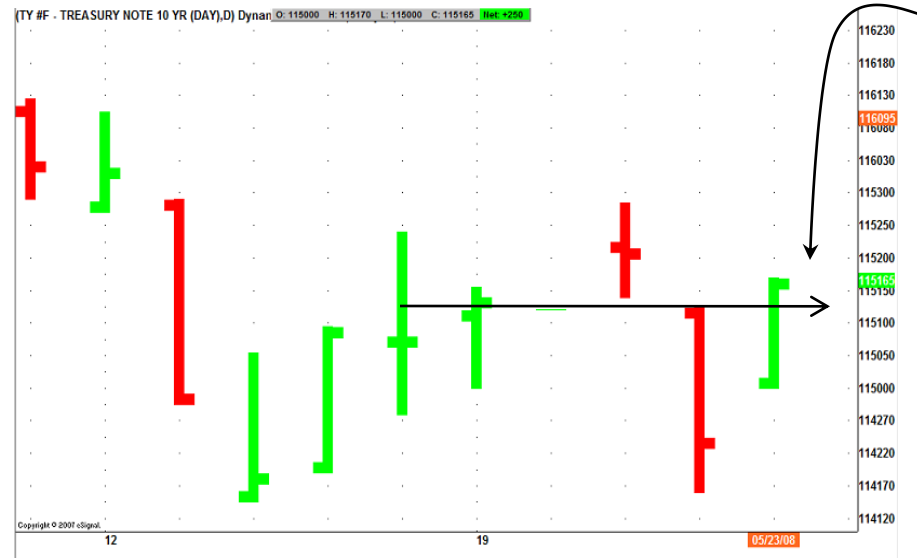
Commodities

- + Gold
- + Oil

Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were square of the 10yr Note.



See how The 10Yr Note closed virtually unchanged on the week as traders swung from worries over inflation to concerns over growth as the Fed confirmed its pause and oil hit new highs.

Last week we remained square of this market following a better than expected run of data releases which served only to cloud the outlook for the economy moving forward, as oil prices continued to rise posing risks for both inflation and growth.

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

- On Tuesday; PPI headline was better than expected but core was worse,
- On Wednesday; MBA mortgage applications were weaker than forecast and FOMC minutes for April 30 meeting were more hawkish than expected,
- On Thursday; Jobless claims were better than

expected as was the House price index, and On Friday; Existing home sales were a little better than expected.

The market experienced a choppy week as core PPI came in worse than expected and the Feds minutes made it clear policy wouldn't be cut further even though they expect unemployment to rise, and even if the economy slipped into recession.

Only if the economic outlook deteriorated significantly would they consider another ease, which means a slump would have to be a very real risk rather than a "mild" recession.



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Stocks

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Commodities

+ Gold
+ Oil

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; consumer confidence and **New home sales**,
- On Wednesday; MBA Mortgage applications and Durable goods,
- On Thursday; **Q1 GDP, Q1 Personal consumption, Q1 Core PCE**, Q1 GDP Price index and jobless claims, and
- On Friday; **Personal income & spending, Core PCE, Chicago PMI and University of Michigan confidence**.

The key releases this week are highlighted in red, and that includes most of them, but we advise watching the GDP and core PCE reports closely. An upward revision to GDP and or a worse than expected inflation report would send this market lower.

The Macro Trader's view is; traders of this market are torn between worrying over still slowing growth or

fears of higher inflation.

With the Fed warning it will not ease further even if a recession takes hold, long term yields are likely to oscillate over the coming weeks until a dominant trend emerges in the economy; either further rapid slowdown or sharply rising inflation.

The truth is though, with oil prices rallying as they are both could occur at once; stagflation.

Given this outlook we judge this market offers poor risk reward and we advise remaining square.

If the US does suffer stagflation, the budget deficit will grow as weak growth shrinks the tax take and rising inflation eventually forces investors to seek higher yields as compensation for rising inflation.

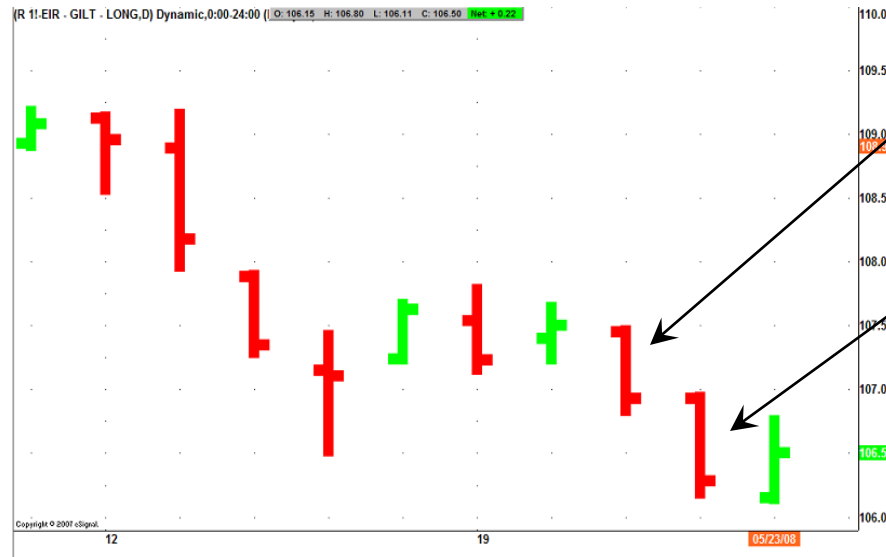
For now the market is unsure which way it wants to go.



Government Bonds: The Gilt

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.



See how the Gilt sold off last week as Wednesday's MPC minutes again flagged inflation as the greater threat facing the economy, and the government suffered another set back at the polls.

Last week we were bearish of the Gilt as we judge the threat of yet higher inflation, slower growth and a desperate government rapidly losing popularity, made the gilt a sell.

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

- On Wednesday; the MPC minutes confirmed the inflation report message, PSNCR was worse than expected, PSNB was better than expected and M4 Sterling lending was worse than expected,
- On Thursday; retail sales were better than expected, total business investment was

weaker than forecast and the CBI Industrial trends survey was as expected, and On Friday; Q1 GDP was as expected and index of services was as expected.

The market tested the lows again last week as the MPC minutes confirmed policy makers are focussed on the growing threat posed by energy driven inflation.

And with retail sales holding up better than expected and the growing political risk posed by an increasingly unpopular and desperate government, the gilt is vulnerable to the downside.

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Government Bonds: The Gilt

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

- On Tuesday; BBA Home buyer loans, and
- On Thursday; the **Nationwide house price index**, CBI Distributive trades survey and GFK consumer confidence.

This week's key releases are highlighted in red, and we expect more negative news on house prices from the Nationwide, but with global inflation a real and growing threat, we judge this market will be driven by the price action in the oil market.

The Macro Trader's view is: although our target wasn't hit we were right to stay short.

Oil made fresh highs last week and although profit

taking set in ahead of the long weekend, that market looks set to rally further, placing additional upward pressure on UK inflation and increasing the risk of a UK recession that might force yet more rash decisions from the government as it tries to buy support with money it doesn't have.

Moreover, while the MPC are talking up the threat of higher inflation, they aren't about to hike rates to curtail it, leaving bond investors demanding increasingly higher yields.

Traders should stay short of this market, and our interim target remains 106.00, but our stop is reduced to 107.90 to protect against volatility which could emerge if equities extend last weeks sell off.



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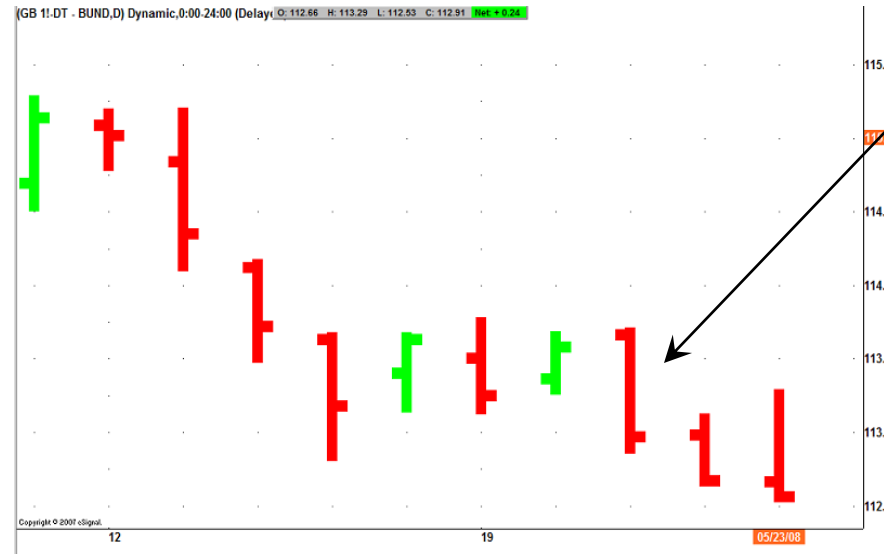
Commodities

- + Gold
- + Oil

Government Bonds: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were square of the Bund



See how the Bund sold off last week after the release of a German IFO report on Wednesday which showed the German economy remains strong.

Last week we remained square of this market as we judged the benign mix of strong growth and easing inflation was unlikely to last, as the rally in the oil market was likely to send inflation higher.

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

- On Monday; Euro zone construction output was weaker than expected,
- On Tuesday; German PPI & ZEW survey were worse than expected, and Italian industrial orders, industrial sales & C/A data were all worse than expected,
- On Wednesday; German IFO was stronger than expected,

- On Thursday; Italian consumer confidence was better than expected, retail sales were weaker than forecast and Euro zone New industrial orders were worse than expected, and
- On Friday; French consumer spending was weaker than expected, Italian trade bal non-EU was better than expected and Q1 GDP was weaker than forecast.

The main event last week was the stronger than expected German IFO report which contradicted Trichet's remarks from the previous week that Euro zone growth would cool over the coming months, sending the Bund down to the lows.



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Government Bonds: The Bund

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- On Wednesday; **German CPI**, Import prices, French consumer confidence and Euro zone current account data,
- On Thursday; German ILO unemployment & official unemployment report, **Euro zone M3**, business climate indicator and consumer confidence, and
- On Friday; German retail sales, **French PPI**, **Italian PPI & CPI** and **Euro zone** unemployment rate and **CPI**.

This week's key events are highlighted in red, and we judge the inflation reports as the most important. As oil prices continue to make fresh highs inflation will be driven higher, testing the ECB'S resolve to maintain price stability.

The Macro Trader's view is: the ECB consider price stability as their top priority, and only a couple of weeks ago began sending signals that interest rates could rise.

But even as Q1 GDP came in better than expected their message changed as Trichet warned that growth was likely to slow over the rest of this year, meaning interest rates were more likely to be left unchanged.

But this is a rapidly evolving situation; oil prices have pushed up further and as the world wakes up to the reality of future supply/demand strains caused by India and China emerging as economic super powers, with a middle class that will demand all the trappings enjoyed in the west, oil prices are set to hit new highs and controlling inflation is going to be a major challenge which will likely limit the trend growth rates of the mature economies, especially the Euro zone which didn't do enough to reform when it had the chance.

Traders should be short of the Bund, our interim target is 112.0 and our stop is placed at 113.75 for protection.



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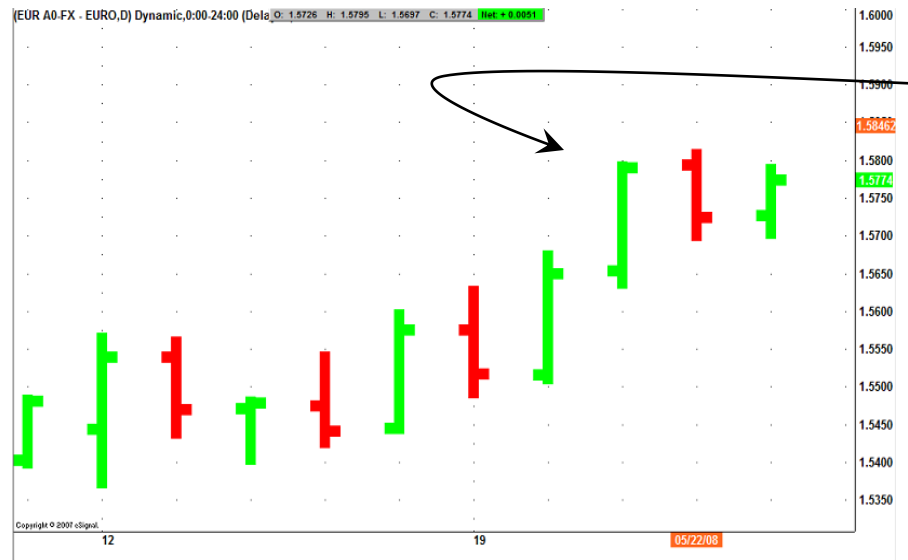
Commodities

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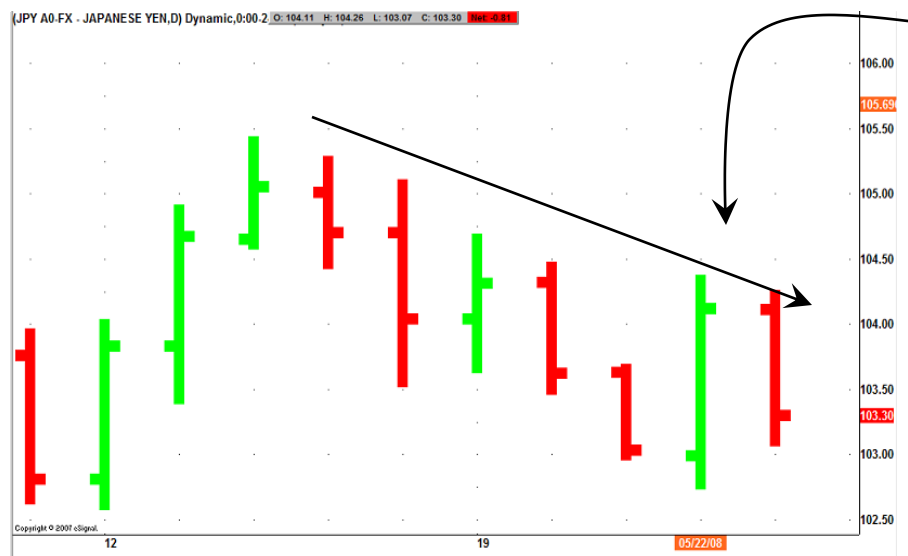
Currencies: The Dollar

OUR TRADING STANCE: BEARISH

Last week we were square of the dollar



See how the Dollar weakened after the FOMC minutes released on Wednesday effectively consigned the US economy to a period of stagflation.



See how the Yen continued its recent recovery against the Dollar as the FOMC minutes ruled out further rate cuts even though policy makers saw a recession and sharply higher unemployment, which prevents them from acting to contain inflation.



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Government Bonds

+ US 10yr Note
+ Gilt
+ Euro Bund

Currencies

+ US Dollar
+ Pound Sterling
+ Euro

Stocks

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

Commodities

+ Gold
+ Oil

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 continuing to make new highs we remained unconvinced.

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

- On Tuesday; PPI headline was better than expected but core was worse,
- On Wednesday; MBA mortgage applications were weaker than forecast and FOMC minutes for April 30 meeting were more hawkish than expected,
- On Thursday; Jobless claims were better than expected as was the House price index, and
- On Friday; Existing home sales were a little better than expected.

The Dollar weakened last week on the back of the FOMC minutes which painted continued weakness but worries over higher inflation.

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

- On Tuesday; consumer confidence and **New home sales**,
- On Wednesday; MBA Mortgage applications and Durable goods,
- On Thursday; **Q1 GDP, Q1 Personal consumption, Q1 Core PCE**, Q1 GDP Price index and jobless claims, and
- On Friday; **Personal income & spending, Core PCE, Chicago PMI and University of Michigan confidence**.

This week's key events are highlighted red, and we judge they are all important for the outlook of both growth and inflation, but with the Fed virtually declaring its self done in this easing cycle, we suggest monitoring Q1 GDP.

The Macro Trader's view is: although the Fed has announced a pause that barring any unforeseen events could turn permanent, the Dollar weakened last week on the admission that conditions are nowhere near where the Fed would like them to be.

A possibility of a recession still exists even though negative growth was avoided in Q1 and the Fed also expects unemployment to rise much further.

With inflation also forecast to move higher, the US economy is highly vulnerable to stagflation, but more worryingly there is nothing left in the Fed's locker to throw at the problem.

They tried to cut rates aggressively in the hope that the economy could be stabilised, with the expectation of easing inflation, those hopes have been dashed; oil prices are again the problem, rallying to new highs and set to drive inflation higher and undermine growth and with it the US Dollar.

Traders should be short of Dollar/Euro, our interim target is 1.5900 and our stop is set at 1.5475 for protection.



Currencies: The Pound Sterling

OUR TRADING STANCE: BEARISH v THE EURO.

Last week we were bearish of Sterling .

Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

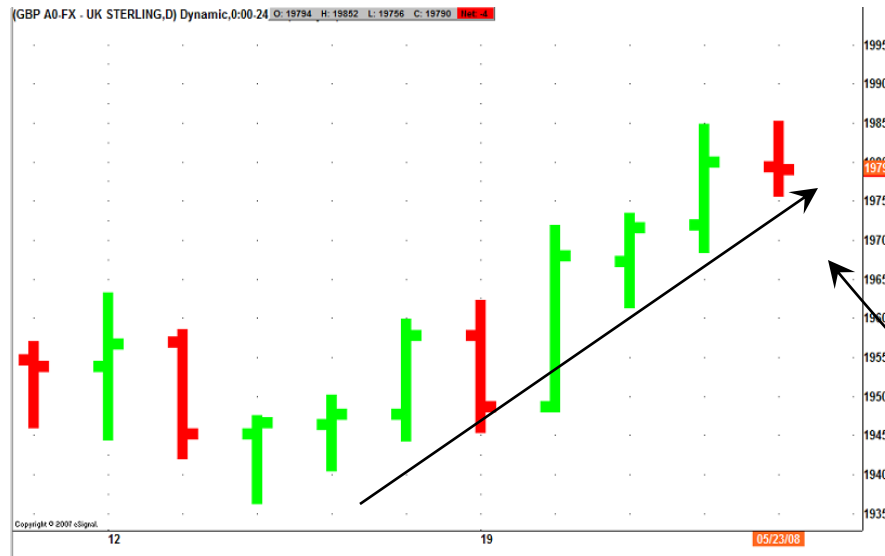
- + US Dollar
- + Pound Sterling
- + Euro

Stocks

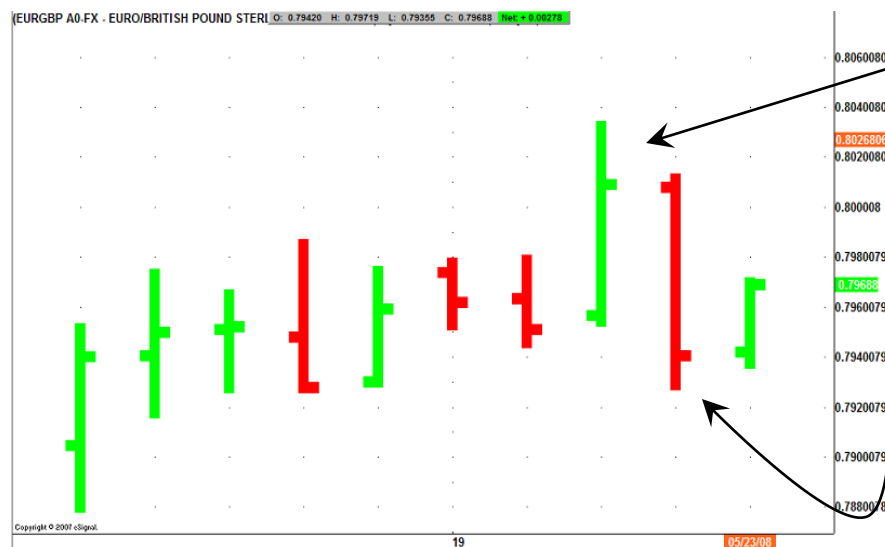
- + S&P 500
- + FTSE 100
- + Dow Jones Eurostoxx50

Commodities

- + Gold
- + Oil



See how Cable rallied last week as the Dollar re-established its self as the weakest of the major currencies even though the UK faces its own difficulties and the UK government is growing increasingly unpopular.



See how Sterling weakened on Wednesday after the release of the MPC minutes and a strong German IFO report, but clawed back most of the losses after a better than expected retail sales report on Thursday.



Summary

Global Calendar

Interest Rate Futures

+ Euro Dollars
+ Short Sterling
+ Euribor

Government Bonds

+ US 10yr Note
+ Gilt
+ Euro Bund

Currencies

+ US Dollar
+ Pound Sterling
+ Euro

Stocks

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

Commodities

+ Gold
+ Oil

Currencies: The Pound Sterling

Last week we were bearish of Sterling against the Euro following the release of stronger than expected Q1 Euro zone GDP and a bleak assessment in the Bank of England's quarterly inflation report.

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

- On Wednesday; the MPC minutes confirmed the inflation report message, PSNCR was worse than expected, PSNB was better than expected and M4 Sterling lending was worse than expected,
- On Thursday; retail sales were better than expected, total business investment was weaker than forecast and the CBI Industrial trends survey was as expected, and
- On Friday; Q1 GDP was as expected and index of services was as expected.

The Pound had a schizophrenic week last week as it rallied against the Dollar, weakened mid week against the Euro than recovered against the Euro as UK retail sales came in stronger than expected.

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

- On Tuesday; BBA Home buyer loans, and
- On Thursday; the **Nationwide house price index**, CBI Distributive trades survey and GfK consumer confidence.

This week's key data releases are highlighted red, and

we expect more sombre news from the housing market, but unless it is worse than expected we see Sterling/Euro driven by key data releases from the Euro zone this week.

The Macro Trader's view is: the Pound made a surprise recovery against the Dollar last week, but we judge that due to Dollar weakness rather than any inherent Sterling strength.

Both the UK and US face similar difficulties, the US is just ahead of every one else in experiencing them, and in a sense the UK may have a rougher time as interest rates remain high and will restrict growth during a weak patch due to fears of higher inflation.

Against the Euro we continue to expect Sterling to weaken further. The MPC minutes re-enforced the theme of the quarterly inflation report, and although retail sales were better than expected, they were negative and provided a back to back monthly decline in sales, however the report was sufficient to force a round of profit taking ahead of the long weekend.

Traders should stay short of Sterling/Euro, Euro zone growth continues to hold up, while the UK economy can only be best described as in a pickle from which the MPC and government seem powerless to rescue it.

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



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

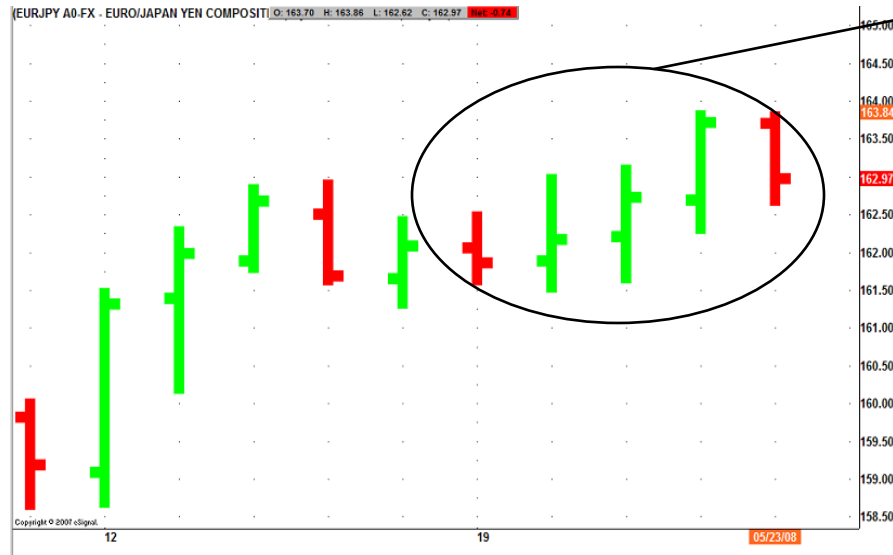
Commodities

- + Gold
- + Oil

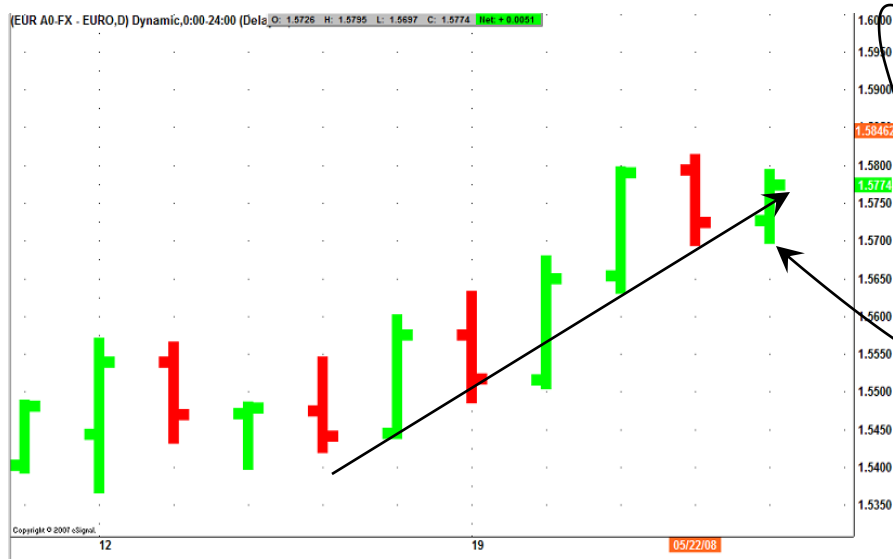
Currencies: The Euro

OUR TRADING STANCE: BULLISH.

Last week we were bullish of the Euro .



See how the Yen remains the weakest of the three big currencies as the Euro consolidated the recent rally after a strong German IFO report.



See how the Euro rallied against the Dollar, helped by stronger than expected German IFO data and bleak FOMC minutes from the US released on Wednesday.



Summary

Global Calendar

Interest Rate Futures

+ Euro Dollars
+ Short Sterling
+ Euribor

Government Bonds

+ US 10yr Note
+ Gilt
+ Euro Bund

Currencies

+ US Dollar
+ Pound Sterling
+ Euro

Stocks

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

Commodities

+ Gold
+ Oil

Currencies: The Euro

Last week we were bullish of the Euro against Sterling following the release of stronger than expected Euro zone GDP and a Bank of England quarterly inflation report which made depressing reading.

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

- On Monday; Euro zone construction output was weaker than expected,
- On Tuesday; German PPI & ZEW survey were worse than expected, and Italian industrial orders, industrial sales & C/A data were all worse than expected,
- On Wednesday; German IFO was stronger than expected,
- On Thursday; Italian consumer confidence was better than expected, retail sales were weaker than forecast and Euro zone New industrial orders were worse than expected, and
- On Friday; French consumer spending was weaker than expected, Italian trade balance non-EU was better than expected and Q1 GDP was weaker than forecast.

The Euro seesawed against the Pound as stronger UK retail sales confounded predictions, but rallied against the Dollar as the Fed virtually flagged stagflation and German IFO came in strong.

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

- On Tuesday; **German Q1 GDP**, GfK consumer confidence, French business confidence, production outlook indicator and

- Italian business confidence, On Wednesday; **German CPI**, Import prices, French consumer confidence and Euro zone current account data,
- On Thursday; German ILO unemployment & official unemployment report, **Euro zone M3**, business climate indicator and consumer confidence, and
- On Friday; German retail sales, **French PPI**, **Italian PPI & CPI** and **Euro zone** unemployment rate and **CPI**.

The key releases due this week are highlighted in red, and we suggest watching German Q1 GDP for any revisions. But the inflation data should be watched as any signs of a fresh upward push will bring out the ECB hawks.

The Macro Trader's view is: the Euro looked the stronger currency last week as German IFO came in stronger than expected only a week after much better than expected Q1 GDP.

With both the UK and US facing a period of weak or no growth coupled with rising inflation at a time when the US has a lame duck President and the UK has a dead duck Prime minister, both the Dollar and the Pound look vulnerable to the downside.

Traders should stay long of the Euro:

- Against Sterling, our interim target remains 0.8050 and our stop loss is set at 0.7848 for protection, and
- Against the Dollar, our interim target is 1.5900 and our stop is set at 1.5475 for protection.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + Oil

Stocks: S&P 500

OUR TRADING STANCE: BEARISH.

Last week we were bullish of the S&P 500



See how stocks sold off last week as the threat of rising inflation weighed on equity markets following the release of worse than expected Core PPI on Tuesday and Wednesday's release of the April 30 FOMC minutes which raised the spectre of stagflation.

Last week we remained bullish of this market following several better than expected data releases seen over recent weeks which seemed to be laying the groundwork for the Feds forecast 2nd half recovery.

However on Tuesday PPI on the core measure was worse than expected, driven by an oil price rally that has seen new highs almost every day for two weeks.

However the real damage for this market came on Wednesday with the release of the April 30 FOMC minutes. The Fed made it clear that they had not just paused, but baring a new hitherto unexpected deterioration of economic prospects, they were not prepared to ease any further; even if the economy

slipped into recession and in-spite of their expectation that unemployment would sharply rise.

The reason for their hawkish tones was their deteriorating outlook for inflation, and with oil prices hitting new highs almost daily over recent weeks, they all but forecast a period of stagflation.

Looking ahead there are several key inflation reports due this week and a more detailed look at Q1 GDP which could be revised up.

Clearly the main threat to equities this week would be further negative news on inflation, which would accelerate the current sell off.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + Oil

Stocks: S&P 500

The Macro Trader's view is: last week we remained long of this market as we anticipated a different message from the FOMC minutes released on Wednesday. Our expectation was for a somewhat vaguer allusion to a pause with lingering concerns over growth continuing to outweigh clear concerns over inflation, leaving the door ajar to one or two more rate cuts later this year if the economy failed to evolve in line with the Fed's forecasts.

In the event the message was different, no more rate cuts are to be expected unless there is a material deterioration of prospects for the economy, and that after the Fed changed its forecast to basically expect recession, rising unemployment and rising inflation.

After having thrown every thing it has at the economy, the Fed is now effectively a spectator; unable to risk cutting rates further in case a serious burst of inflation results, but unable to hike because the economy is still weak.

What then of the improving data we saw over recent weeks? Clearly with oil prices surging higher over the last two weeks, with the possibility that they could and probably will go higher yet over the coming weeks and months, the small up tick in data will likely prove a false dawn as rising energy prices forces up global inflation and saps consumer spending power.

After being stopped out last week, albeit for a tiny loss after moving our stop up, we are now bearish of this market.

The prospect of stagflation is not only the US but in other leading economies is becoming increasingly probable and equity markets should labour hard from here.

Traders should be short of this market, our interim target is 1350.0 and our stop is set at 1425.0 for protection, in what are still obviously volatile markets.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

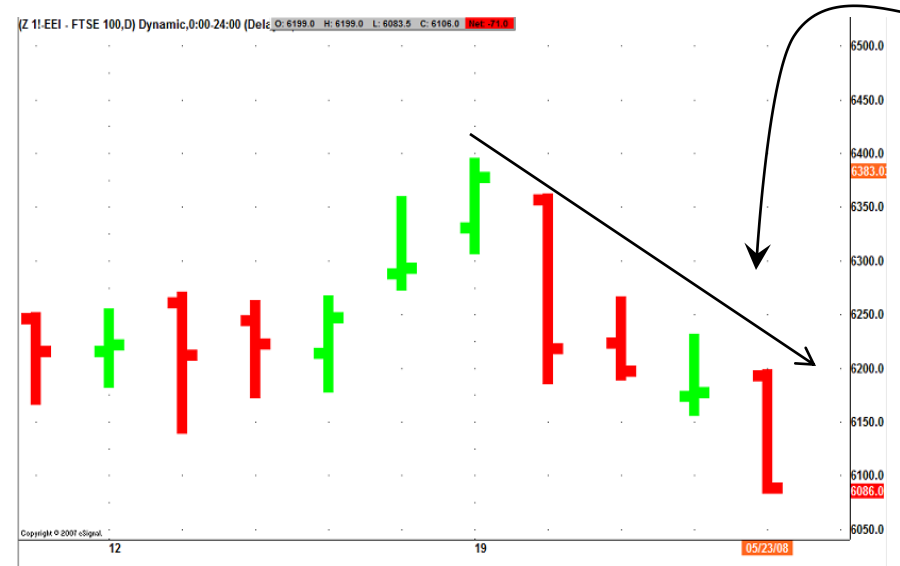
Commodities

- + Gold
- + Oil

Stocks: FTSE 100

OUR TRADING STANCE: BEARISH.

Last week we were bullish of the FTSE 100



See how the FTSE sold off last week especially on Tuesday after the oil price broke above its previous highs and began heading towards \$130.00 a barrel, a level it ultimately broke, heightening fears of even greater upward pressure on inflation only day's after the Bank of England had painted a sombre picture of the UK economy, which was echoed by the Fed on Wednesday in its FOMC minutes.

Last week we were bullish of this market as we judged the seemingly improving prospects of the US economy and the FTSE'S international composition made it appear a market worth being long.

We judged the UK'S own negative outlook would be eclipsed by bullish sentiment coming from the US, as traders priced in a more benign outlook than now seems likely.

Moreover, as oil prices continued to rally we judged the strong mining and oils representation in the index would too bolster this market, so in many respects it represented a trade on several markets and asset classes neatly packaged into one long position.

However the FOMC minutes released on Wednesday, and to a lesser extent, the MPC minutes released the same day unravelled that support very quickly.

Both the Fed and the Bank of England are firmly focused on inflation; the Fed feels it has done all it can and the Bank feels it has done all it dare without further fuelling inflation and more important inflation expectations.

The rally in oil was the final straw. Looking ahead there are several important releases from all three economies we cover and we judge equity markets will move in unison, so refer to the global calendar for detailed releases.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + Oil

Stocks: FTSE 100

The Macro Trader's view is: the FTSE succumbed to the realisation last week that stagflation is a real and growing threat.

While not yet confirmed in any of the leading economies, it is a real risk as oil prices continue to drive inflation higher and ultimately drive growth lower. What un-nerves equity markets in this environment is there is very little the leading Central Banks can do to affect the root cause.

Previously they could have collapsed demand in their own economies, this would have reduced domestic inflation and ultimately the price of oil as demand fell and inventories built up. That is no longer possible without the help of China and India and they will not help.

Not through any malign intent, but because their

priorities and difficulties are very different.

As two still emerging economies they require strong growth to keep the modernisation momentum in their economies going forward and as they grow they consume larger quantities of oil.

That consumption will only increase further as a population that begins to catch up with the west acquires the same trappings of modern life as in the west; namely widespread motor car ownership.

The prospect of almost 2.5B people owning cars on a similar scale as in the west will drive oil prices to levels never before dreamt of.

Traders should be short of this market, our interim target is set at 6000.0 and our stop is set at 6230.0 for protection.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + 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 sold off last week as a strong German IFO report on Wednesday and a strong rally in the oil market re-awakened fears of higher Euro zone inflation.

Last week we remained square of this market as the strong Q1 GDP performance from Germany, France and by extension, the Euro zone was seen as a last hurrah of an economy that was about to suffer its share of ill effects from the credit crunch.

However German IFO released on Wednesday was much better than expected and suggested that momentum in the Euro zones biggest economy was possibly stronger than even Trichet had expected.

And although rising oil prices risked a fresh burst of inflation in the Euro zone, unlike in the US and to an extent the UK, the ECB has a little more flexibility. With growth still holding up well, the ECB could hike interest

rates to bear down on inflation.

This would at the same time force the Euro higher, but since the source of inflation is external, a stronger Euro would help off set this to a degree.

The risk though is that growth could suffer, but the German economy has experienced periods of coping with an "overvalued" currency in the past and no doubt could again.

This week sees the release of several key inflation reports and traders should monitor these closely and any comments coming from ECB policy makers.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + Oil

Stocks: DJ Euro Stoxx 50

The Macro Trader's view is: we were reluctant to trade this market during the recent rally, and are equally reluctant to trade it in the current sell off.

The S&P and FTSE are dogged by forecasts of slow growth and rising inflation that threatens stagflation, that currently isn't the risk in the Euro zone.

Here growth appears to be holding up, but inflation is a problem and seems set to increase further driven on by rising energy prices.

However, with the other major equity markets looking increasingly bearish, this market will be infected by sentiment coming from abroad and we judge the best

position here is to remain square.

There is a second look at German Q1 GDP on Tuesday, if this was revised down and inflation came in above consensus, this market would become increasingly vulnerable to the downside.

Since as a result of globalisation which so benefited the west in its early stages, the negative impact, which is a dilution of economic control, is about to make its presence felt as finite resources now more widely spread drive up inflation and place a lower cap on the speed at which the mature economies can safely grow, unless productivity can somehow be greatly increased.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

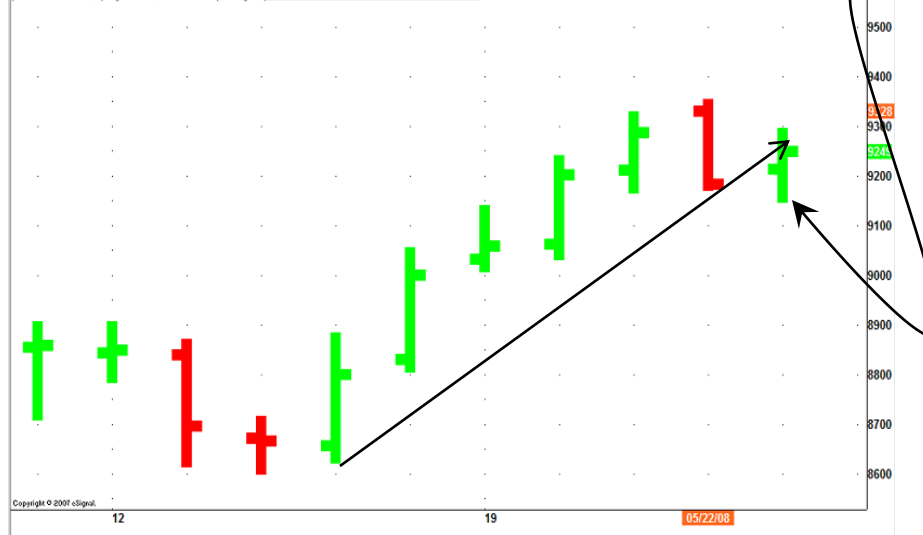
- + Gold
- + Oil

Commodities: Gold

OUR TRADING STANCE: BULLISH

Last week we were bullish of Gold

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See how Gold traded through our target last week as the US Dollar suffered renewed selling pressure driven by fears of yet higher inflation fuelled by the relentless rally in the oil market.

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.

And with the FOMC minutes for the April 30 meeting due we judged there would be plenty for traders to ponder.

Our expectation that the minutes would reveal policy makers were set to pause at their next meeting but stood ready to do more with policy if needed, proved miss placed as the Fed revised down its forecast for growth, revised up its forecast for inflation, announced it expected unemployment to rise further, and then

announced that unless the prospects for growth materially worsened beyond what they currently expect, which includes the possibility of recession, interest rates wouldn't go any lower.

This proved a signal to sell the Dollar and buy gold as it raised the very real prospect of stagflation, which for obvious reasons, Central Bankers find particularly difficult, especially when the source of the problem is from abroad.

Looking ahead there are inflation reports due from the US and Euro zone this week and they could will make difficult reading, which would provide traders with an opportunity to send gold higher.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

Commodities

- + Gold
- + 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.

This risks a bout of stagflation, and with the leading Central Banks increasingly appearing impotent, Gold looks set to rally further; back towards the old high.

Traders should remain long of this market, our interim target is now US\$940.00 an ounce and our suggested stop is raised to US\$885.00 for closer protection.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

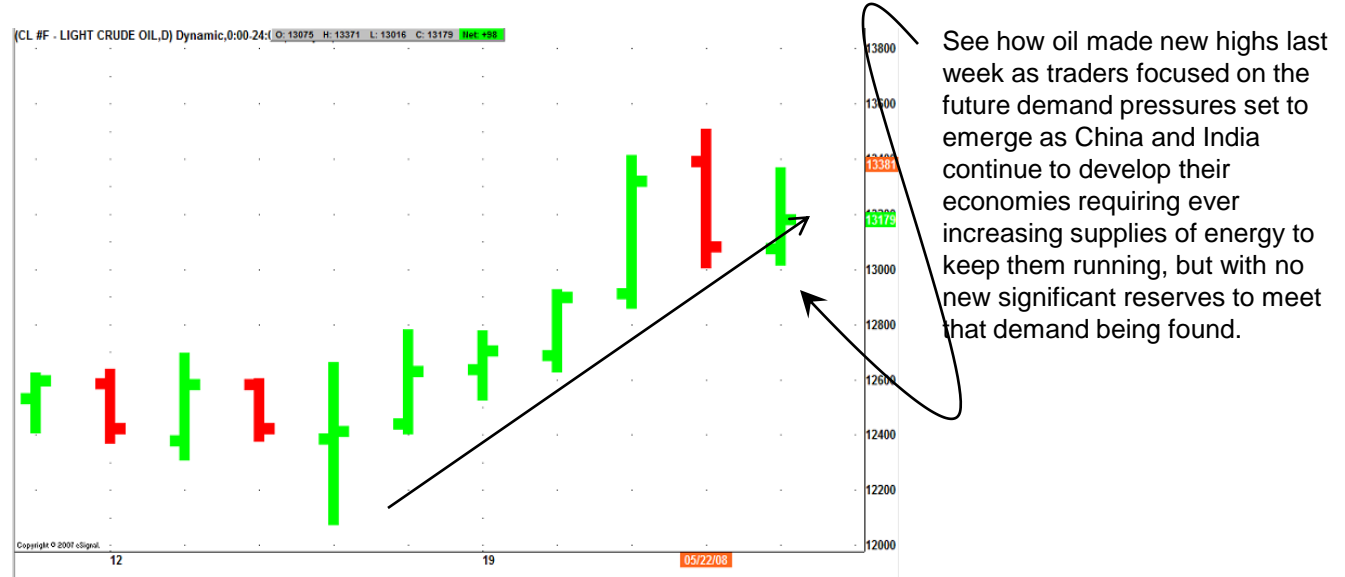
Commodities

- + Gold
- + Oil

Commodities: Oil

OUR TRADING STANCE: BULLISH

Last week we were bullish of Oil



Last week we remained long of this market as both short, medium and long term forces seemed to be pointing towards an upward curve for demand, but a flat curve for supply.

With the US releasing slightly better than expected data in recent weeks traders judged the US economy looked set to bounce back sooner than expected and the brief correction that occurred in oil a week or so ago was reversed.

This together with a likely increase in medium term demand for oil from China resulting from damage done

to Hydro-electric power generating capacity caused by the recent massive earth quake sent oil to new highs.

And even when the Feds FOMC minutes revealed a weaker US growth forecast the market continued to rally, revealing that the US is no longer the only major driver influence behind this market, although a weaker than expected US Crude inventory report reversed a spell of profit taking.

Looking ahead traders will watch US Q1 GDP for any upward revisions that would flag a potential increase in demand in the coming months.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
- + Euro Bund

Currencies

- + US Dollar
- + Pound Sterling
- + Euro

Stocks

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

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 won't 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.

And although there could be a spell of profit taking this week, we judge the long term trend remains supported by long term fundamentals.

Traders should stay long of this market, our interim target is now set at US\$137.00 a barrel and our stop is raised to 122.50 to provide closer protection.



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[Back to main menu](#)