



Week 25

24th – 30th 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

Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

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

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

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



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Commodities

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	Week of 16 th June
Monday	US Empire mfg -8.7 WORSE US Net lg trm TIC flows \$115.1B BETTER US Feds Bernanke @ Senate EZ CPI 0.6m, 3.7y WORSE EZ Core CPI 1.7y BETTER THAN EXPECTED
Tuesday	US Q1 C/A Bal -\$176.4B WORSE US Housing strts 975k WEAKER US Bldg permits 969k BETTER US PPI 1.4m, 7.2y WORSE US PPI Ex F & E 0.2m, 3.0y AS US Ind production -0.2m, WEAKER US Capacity utilisation 79.4 WEAKER UK CPI 0.6m, 3.3y WORSE UK Core CPI 1.5m AS UK RPI 0.5m, 4.3y WORSE UK RPI-X 4.4m, WORSE IT Trade bal EU 770M BETTER IT Trade bal -1.004B BETTER DM ZEW -52.4 WEAKER EZ Trade bal 2.3B BETTER THAN EXPECTED
Wednesday	US MBA Mrtge apps -8.8 WEAKER UK MPC Minutes June meeting 8/1 AS UK CBI Ind trends survey 1 BETTER EZ Construct'n output -0.8m, -2.4y WEAKER THAN EXPECTED

	Week of 23 rd June
Monday	EZ PMI Composite 50.7 DM IFO 102.5
Tuesday	US House price INDX -0.5m, US Cons conf 56.7 UK BBA Hse buyer loans n/f DM GFK Cons conf 4.6 FR Cons spndg 0.7m, 1.9y FR Bus conf 101 IT Cons conf 102.0
Wednesday	US MBA Mrtge apps n/f US Durable goods 0.0 US Ex-transport -0.9 US New Home sales 512k US FOMC Rate decision 2.0% UK CBI Dis trades n/f IT Retail sales 0.2m, 0.2y EZ Ind new orders -0.5m, 2.7y



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	Week of 16 th June Cont'd
Thursday	US Jobless claims 381k WORSE US Philly Fed -17.1 WEAKER UK Retail sales 3.5m, 8.1y MUCH STRONGER UK PSNCR 11.0B WORSE UK PSNB 11.0B WORSE UK M4 Strlg Indg 4.8B LESS IT Unemploym't rate 6.5% HIGHER THAN EXPECTED
Friday	DM PPI 1.0m, 6.0y WORSE IT Ind orders 1.2m, 12.8y STRONGER IT Ind sales 2.2m, 13.9y STRONGER IT Trade bal non-EU -1.774B AS THAN EXPECTED

	Week of 23 rd June Cont'd
Thursday	US Q1 GDP 1.0% US GDP Price indx 2.6 US Q1 Persnl consumpt'n 1.0% US Q1 Core PCE 2.1% US Jobless claims 375k US Existing home sales 4.95M UK Q1 Total bus investm't -1.4q, 3.7y DM Import prces 1.5m, 6.9y FR Cons conf -41 IT Bus conf 88.8 EZ M3 3M 10.4 EZ M3 YOY 10.4
Friday	US Pern'l income 0.4 US Pern'l spndg 0.6 US Core PCE 0.2m, 2.1y US PCE Deflator 3.2y US U. of Michigan conf 56.8 UK Q1 GDP 0.4q, 2.5y UK C/A bal -12.1B FR PPI 0.6m, 5.9y FR Q1 GDP 0.6q, 2.2y EZ C/A n/f EZ Bus climate indicator 0.40 EZ Cons conf -16 EZ Economic conf 96.5



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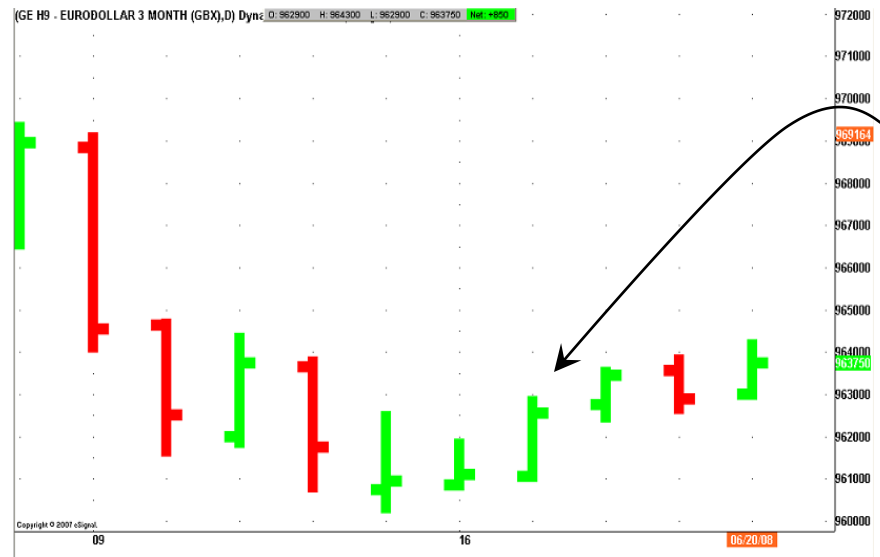
Commodities

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Interest Rate Futures: Euro Dollars March 09

OUR TRADING STANCE: SQUARE.

Last week we were bearish March 09.



See how Eurodollars rallied throughout the week as several reports came in worse than expected, but comments from Fed officials on Tuesday which noted the Eurodollar market priced in more rate cuts than the Fed is likely to delivered was the key support.

Last week we were bearish of this market as the recent run of stronger data continued, together with recent hawkish remarks from Fed chairman Bernanke made Eurodollars seem vulnerable to further bearish price action.

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

- On Monday; empire manufacturing; worse than expected, net long term TIC flows; better than expected and Bernanke testifies at the Senate,
- On Tuesday; Q1 C/A Balance; worse than expected, housing starts; weaker than

expected, building permits; better than expected, PPI; mixed, Industrial production and capacity utilisation; weaker than expected, On Wednesday; MBA Mortgage applications; weaker than expected, and

- On Thursday; Jobless claims; worse than expected and the Philly Fed; weaker than expected.

The market recovered a little after last week's sell off mainly due to Fed officials trying to play down market expectations for rate hikes this year, but in line core PPI and weak industrial production & capacity utilisation broke the recent run of stronger data.



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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; **House price index and consumer confidence**,
- On Wednesday; MBA mortgage applications,, **durable goods, New home sales and the FOMC rate decision**
- On Thursday; **Q1 GDP, Q1 GDP Price index, Q1 Personal consumption, Q1 Core PCE, Jobless claims and Existing home sales**, and
- On Friday; Personal income & spending, **Core PCE**, PCE Deflator and **University of Michigan confidence**.

The key events this week are highlighted red, and it seems to be most of them, but focus on the housing market data, Core PCE and the FOMC rate decision and all important policy statement for guidance on the timing of future rate changes.

The Macro Trader's view is; until last week we had maintained a square position because we were unconvinced that the economy had so effortlessly dodged the much feared recession.

We judged the recent pick up in activity had more to do with the impact of one off tax rebates being spent than

any longer lasting recovery taking hold.

But as the data releases continued to flag a nascent recovery and Bernanke delivered several hawkish addresses which appeared to pave the way for higher interest rates, we judged our stance wrong and went short.

Our timing was poor; the Fed fearful that the markets had priced in too much fielded officials to deliver such a message and several important data releases came in weaker.

As a result we were stopped out and we are pleased to be sidelined. Several leading investment Banks are still reporting losses, Goldman Sacks sees an additional Banking sector hit of around US\$65.0B and CitiGroup have issued a 2nd quarter profit warning.

All it seems is still not well with the economy, but with such conflicting signals from the data and the Fed we judge a square position the only rational stance.

With an FOMC meeting this week we do not expect a policy change, but do hope for some clarity of thought from the Fed.



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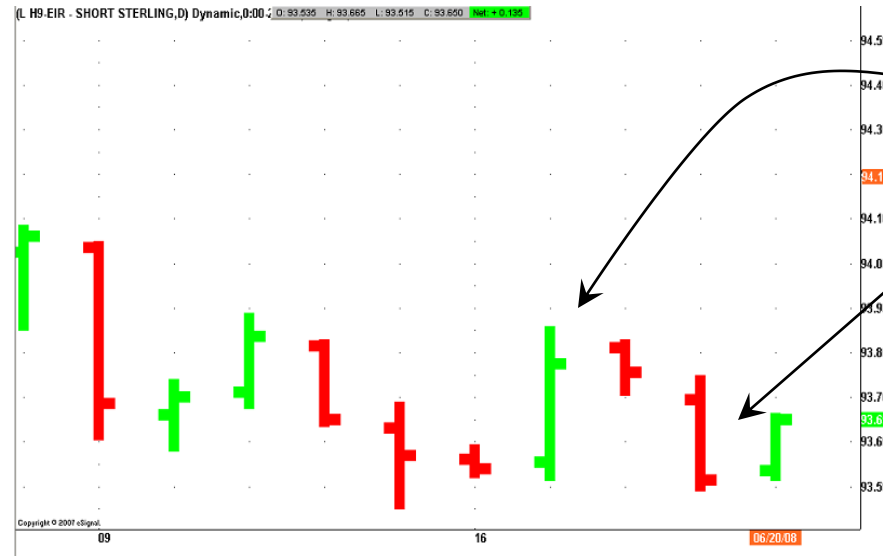
Commodities

- + Gold
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Interest Rate Futures: Short Sterling March 09

OUR TRADING STANCE: SQUARE.

Last week we were square of March 09.



See how Short Sterling suffered a torrid week last week as Tuesday's worse than expected CPI report was discounted after the regulatory Governor to Chancellor letter seemed surprisingly dovish, but Thursday's retail sales report shook the market with the strongest report seen for many years.

Last week we remained square of March 09 Short Sterling as we judged the economy would weaken further, but the threat of yet higher inflation dominated sentiment and the market had priced in a series of rate hikes.

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

- On Tuesday; CPI, RPI and RPI-X; all worse than expected,
- On Wednesday; the MPC minutes for June; showed rates staying on hold and CBI Industrial trends survey; better than expected, and
- On Thursday; Retail Sales; much stronger

than expected, PSNCR & PSNB; worse than expected and M4 Sterling lending; weaker than expected.

The market's fear of higher inflation was realised on Tuesday as CPI came in worse than expected requiring a letter from the Governor to the Chancellor by way of explanation.

But the tone was deemed dovish and the market rallied as traders hastily adjusted positions and expectations, an about turn came on Thursday when a much stronger than expected retail sales report increased the chances of higher interest rates.



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Commodities

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- + Oil

Interest Rate Futures: Short Sterling

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

- On Tuesday; **BBA Home buyer loans report**,
- On Wednesday; **CBI Distributive sales survey**,
- On Thursday; Q1 Total business investment, and
- On Friday; Q1 Final GDP and Current account balance.

This week's key releases are highlighted red, but they are mainly minor league, however the CBI survey seems important after last week's strong retail sales report and any data from the housing market needs monitoring for signs of intensifying weakness.

The Macro Trader's view is: our long run decision to remain square of this market seemed vindicated last week. The Governor of the Bank of England isn't in a hurry to tighten policy even as he revised his own recent inflation forecast much higher.

Instead a period of unchanged rates seems his preferred course. He echoed this at the Mansion house diner on Wednesday night when he fleshed out his

stance saying that if people accepted a relatively brief period of a drop in real take home pay and the drop in living standards that went with it, the expected economic slowdown would reduce inflation, and avoid a damaging wage price spiral that would force higher interest rates.

However the markets belief in that message was short lived as a very strong retail sales report placed a huge question mark over the extent of the Bank's tolerance.

We judge the MPC won't react to one month's data, but given the content of King's speech on Wednesday will wait for further information.

However the market will not sit idle; we judge a choppy period lies ahead as the economic drama unfolds and market sentiment swings between the need to tackle inflation and the need to prop up the economy.

We judge traders should remain square of this market.



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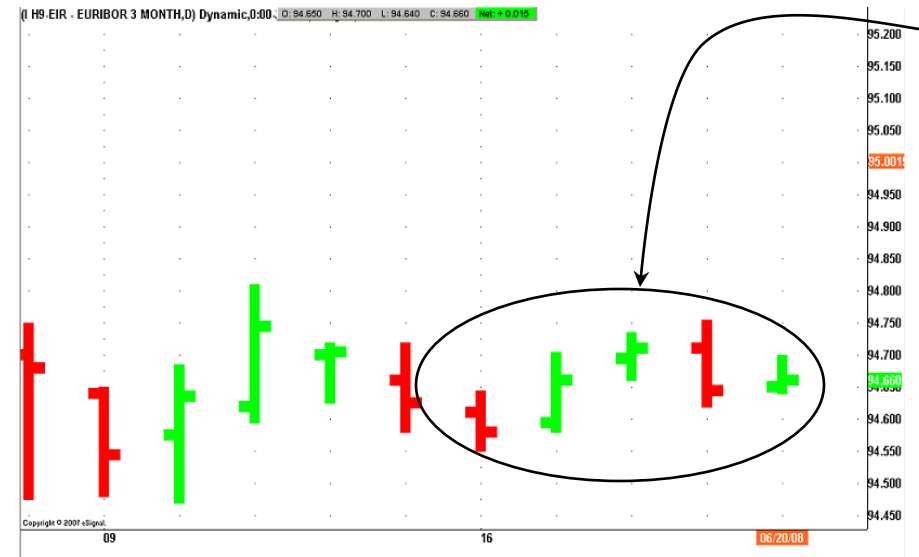
Commodities

- + Gold
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Interest Rate Futures: Euribor March 09

OUR TRADING STANCE: BEARISH.

Last week we were bearish of March 09.



See how Euribor traded mainly sideways last week as the ECB joined other Central Banks in an attempt to reduce market expectation of much higher interest rates, but with growth data looking buoyant and inflation rising further traders weren't too convinced.

Last week we remained bearish of March 09 Euribor even though the ECB attempted to play down market expectations for higher rates. With inflation looking likely to rise further against a backdrop of a reasonably strong economy, we judged the ECB could be forced into a more aggressive stance.

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

- On Monday; Euro zone CPI; worse than expected,
- On Tuesday; Italian trade data; better than expected, German ZEW; weaker than expected and Euro zone trade data; better than expected,

- On Wednesday; Euro zone construction output data,
- On Thursday; Italian unemployment data; worse than expected, and
- On Friday; German PPI; worse than expected, Italian industrial sales and orders; stronger than expected and non-EU trade balance; as expected.

The market traded mainly sideways as the data seemed to contradict the ECB'S attempts to cool market expectations which were based on the reality of current inflation data and expectations of yet higher inflation driven by still sky high energy prices.



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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 Monday; Euro zone composite PMI report and **German IFO**,
- On Tuesday; German GFK consumer confidence, French consumer confidence & business confidence and Italian consumer confidence,
- On Wednesday; Italian retail sales and **Euro zone industrial new orders**,
- On Thursday; **German import prices**, French consumer confidence, Italian business confidence and **Euro zone M3 money supply data**, and
- On Friday; **French PPI**, Q1 GDP, Euro zone C/A, business climate indicator, consumer confidence and economic confidence.

This week's key releases are highlighted in red, but we judge the inflation data and IFO reports as the main events.

If IFO continues to flag strong German growth, rising inflation reports will be greeted with increased bearish sentiment from traders leaving the market vulnerable to selling pressure.

The Macro Trader's view is: we judge of the three leading economies we cover, the Euro zone is the most vulnerable to higher inflation and interest rates by virtue of the resilience of its economic growth.

The ECB are anxious not to allow the markets to run ahead of any timetable that policy makers have in mind.

The threat from the credit crunch remains real, but due to the composition, mainly of the German economy, the Euro zone has suffered little from it.

But the prospects for inflation are quite clear; as energy prices seem set to rise further, Euro zone inflation will move with it, and at some point the ECB will judge the time is right to act. If the economy is still humming along by the end of the 3rd quarter, the markets view of Euro zone monetary policy may no longer look out of step with the ECB'S actions.

Traders should remain short of this market. Our interim target remains at 94.45 and our stop continues at 94.90 for protection.



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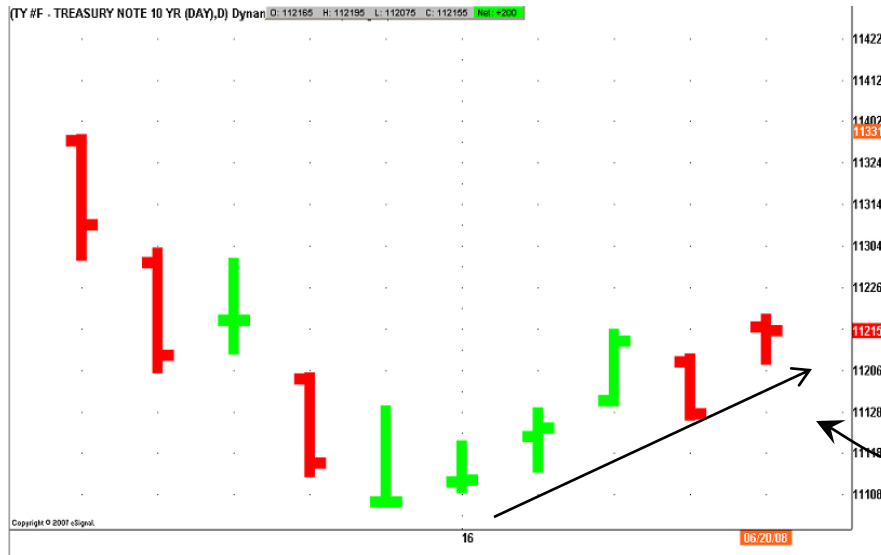
Commodities

- + 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 rallied on a run of weaker data and an in line core PPI report, which relieved pressure after several weeks of unexpectedly stronger data, that traders had expected would lead to higher rates later this year.

Last week we remained square of this market amid contradictory views that on the one hand saw the economy recovering with higher inflation threatening, but on the other hand saw the housing market yet to reach bottom with leading financial institutions still recording heavy write downs and losses?

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

- On Monday; empire manufacturing; worse than expected, net long term TIC flows; better than expected and Bernanke testifies at the Senate,
- On Tuesday; Q1 C/A Balance; worse than expected, housing starts; weaker than

expected, building permits; better than expected, PPI; mixed, Industrial production and capacity utilisation; weaker than expected,

- On Wednesday; MBA Mortgage applications; weaker than expected, and
- On Thursday; Jobless claims; worse than expected and the Philly Fed; weaker than expected.

The market recovered as the Fed sought to play down expectations for higher rates, just as several key reports came in weaker than expected, with jobless claims staying closer to recessionary levels than readings which would suggest expansion is under way.



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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; **House price index and consumer confidence**,
- On Wednesday; MBA mortgage applications, **durable goods, New home sales and the FOMC rate decision**
- On Thursday; **Q1 GDP, Q1 GDP Price index, Q1 Personal consumption, Q1 Core PCE, Jobless claims and Existing home sales**, and
- On Friday; Personal income & spending, **Core PCE**, PCE Deflator and **University of Michigan confidence**.

The key releases this week are highlighted in red, but we expect the FOMC interest rate decision and accompanying policy statement to prove the market mover.

The Macro Trader's view is; after weeks of uncertainty and conflicting signals from the Fed as well as from data, policy makers have an opportunity to lay out in clear terms where they collectively see the risks and how they anticipate responding.

We judge there message will highlight inflation as becoming their leading concern, but qualify that by spelling out the risks to growth that still remain, albeit perhaps on a reducing scale.

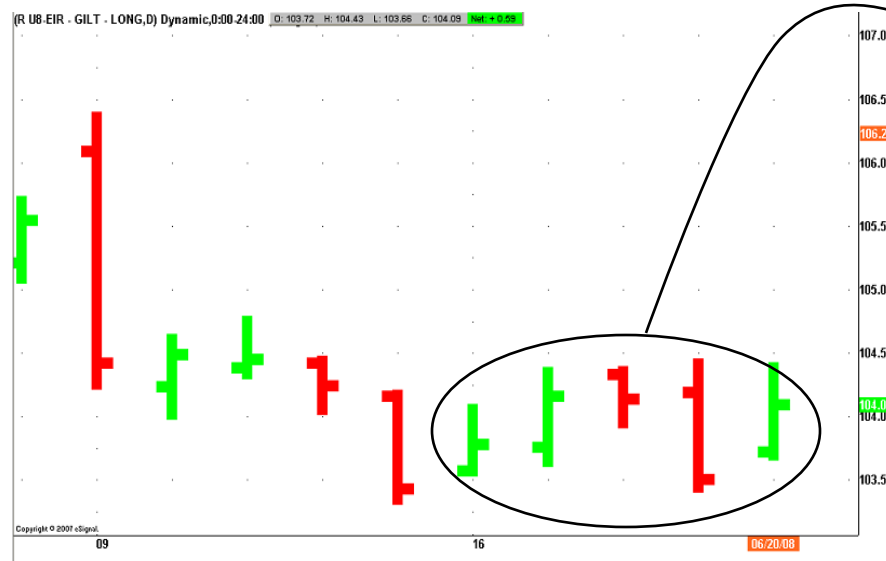
For our part, while the risk from inflation is clear; has the economy really begun a sustainable recovery? It might have, but the coincident arrival of tax rebate cheques may be much more than coincidence and we reserve judgement and intend remaining square a little longer.



Government Bonds: The Gilt

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.



See how the Gilt lacked direction last week as it was buffeted by the dramatic swings in sentiment caused by the Bank of England's reaction to inflation pushing even further above target, but was corrected by evidence of strong consumer demand in Thursday's retail sales.

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Commodities

- + Gold
- + Oil

Last week we remained bearish of the Gilt following a bad PPI report which we judged would cause a spike in the inflation premium demanded by bond investors, especially as the MPC are unlikely to rush into raising rates.

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

- On Tuesday; CPI, RPI and RPI-X; all worse than expected,
- On Wednesday; the MPC minutes for June; showed rates staying on hold and CBI Industrial trends survey; better than expected, and

- On Thursday; Retail Sales; much stronger than expected, PSNCR & PSNB; worse than expected and M4 Sterling lending; weaker than expected.

The market was clearly confused by the events of the week as the Bank of England seemed set to tolerate higher inflation on the flimsy premise that the public will accept a reduction of living standards instead of higher rates and much higher unemployment as a cure for the current bout of inflation.

But with retail sales so strong on Thursday that policy is already beginning to look flawed.



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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 Tuesday; **BBA Home buyer loans report**,
- On Wednesday; **CBI Distributive sales survey**,
- On Thursday; Q1 Total business investment, and
- On Friday; Q1 Final GDP and Current account balance.

This week's key releases are highlighted in red, but are unlikely to prove so dramatic as last week's events, and we judge this market will be lead this week by events in the US.

The Macro Trader's view is: our target wasn't met last week as traders faced a confusing set of events driven by the Bank's apparent acquiescence to higher inflation.

But closer inspection reveals that rates wont rise so

long as an erosion of living standards, brought about by rising inflation is accepted by the public.

If not and a wage price spiral looks in danger of developing then policy makers, in King's own words "will do what ever it takes to return inflation to target".

In the current environment, if wage claims do begin to spiral, something they currently show little sign of doing, the Bank will tighten policy and a deep and costly recession will result.

For this market we judge traders will react by selling as inflation data continues to deteriorate without a Central Bank response.

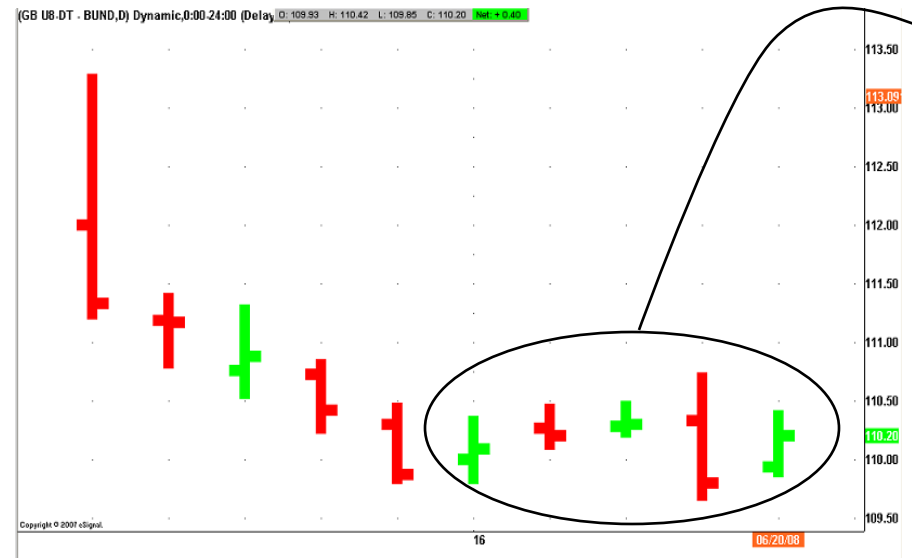
Traders should stay short of this market, our interim target is now 103.50, but our stop remains at 104.90 to provide close protection for profits in what are still very volatile markets.



Government Bonds: The Bund

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Bund



See how the Bund traded mainly sideways last week even though several inflation reports were worse than expected, but the market drew support from a sell off in equities and optimism derived from Saudi Arabia's announcement of an oil production increase that traders hoped would ease oil prices and by extension; inflation.

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Commodities

+ Gold
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Last week we remained bearish of this market as we judged the continued deterioration of inflation and the ECB'S attempts to dampen expectations for higher interest rates, would ultimately drive the Bund lower.

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

- On Monday; Euro zone CPI; worse than expected,
- On Tuesday; Italian trade data; better than expected, German ZEW; weaker than expected and Euro zone trade data; better than expected,
- On Wednesday; Euro zone construction output data,

- On Thursday; Italian unemployment data; worse than expected, and
- On Friday; German PPI; worse than expected, Italian industrial sales and orders; stronger than expected and non-EU trade balance; as expected.

The inflation reports we flagged last week were worse than expected and several growth reports revealed strength, but the ECB, Fed and Bank of England sent out a message last week that markets were pricing in too much tightening and this helped short term interest rate futures markets correct, and the Bund traded sideways while traders pondered the likely relevance of Saudi Arabia's intention to pump more oil.



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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 composite PMI report and **German IFO**,
- On Tuesday; German GfK consumer confidence, French consumer confidence & business confidence and Italian consumer confidence,
- On Wednesday; Italian retail sales and **Euro zone industrial new orders**,
- On Thursday; **German import prices**, French consumer confidence, Italian business confidence and **Euro zone M3 money supply data**, and
- On Friday; **French PPI**, Q1 GDP, Euro zone C/A, business climate indicator, consumer confidence and economic confidence.

This week's key events are highlighted in red, and we advise watching them all closely. The IFO report is of particular interest as it has consistently flagged strong growth for an extended period; if that continues while inflation rises further, the ECB will have the space it needs to hike rates.

The Macro Trader's view is: the ECB together with other leading Central Banks again tried to play down the markets interpretation of Trichet's earlier remarks

on Euro zone interest rates, which led traders to expect a new tightening cycle.

But with inflation a growing problem globally, at some point the ECB will need to tackle it.

While their current caution is understandable as news from the US and UK continues to show the effects of the credit crisis are still at work, the Euro zone has largely escaped, as the German economy has looked East for its export markets, which are themselves faced with rising inflation.

What is clear the economic world has changed. The west are no longer the economic masters; that power is now spread around more widely and it will take a degree of global co-operation that is unlikely to emerge any time soon, to implement policies that will benefit all.

Until then we judge inflation will remain a threat caused by heightened demand for a spectrum of commodities, and will drive Bond yields higher over the medium/long term.

Traders should remain short of the Bund, our interim target remains at 109.50, but our stop is reduced further to 111.00 to better protect profits.



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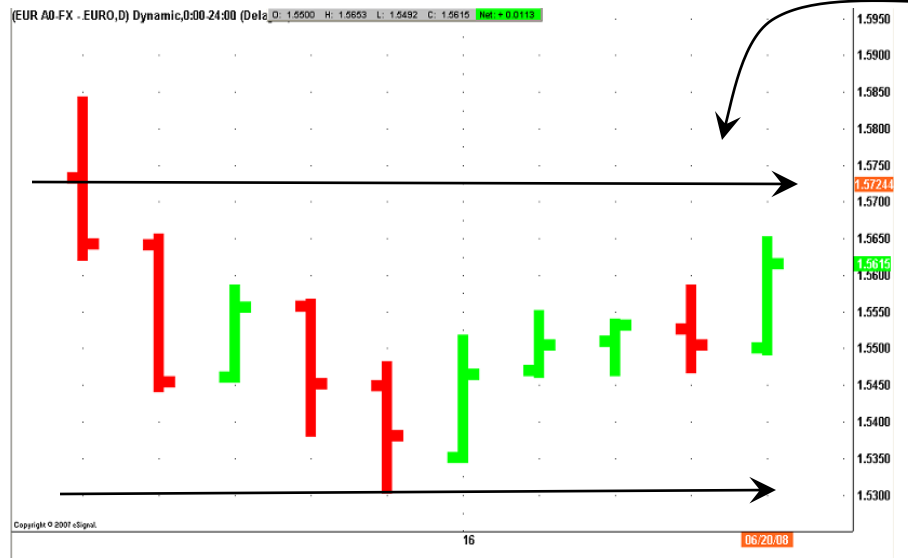
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- + Gold
- + Oil

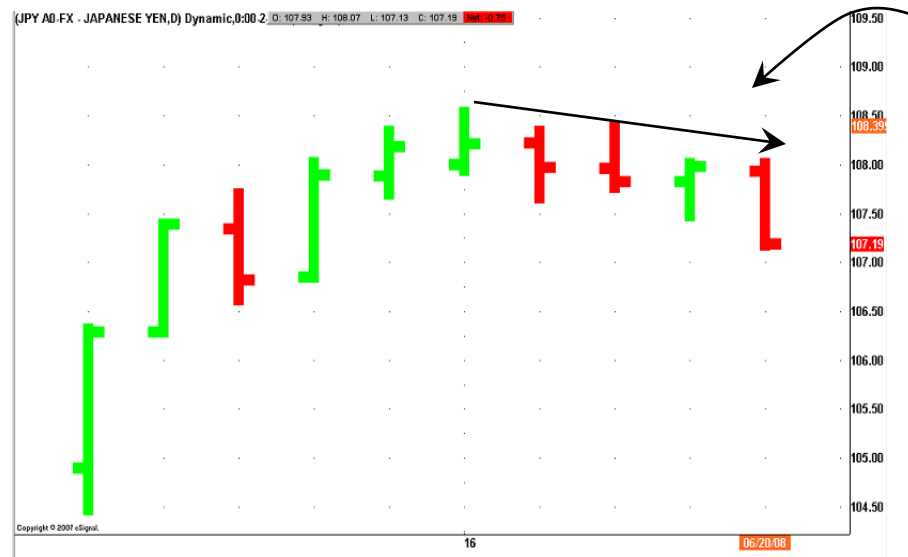
Currencies: The Dollar

OUR TRADING STANCE: SQUARE

Last week we were square of the dollar



See how the Dollar has remained broadly within a range as the Fed has back peddled on recent hawkish statements regarding its stance towards inflation.



See how the Yen drifted away from its recent low against the dollar, which in the absence of any key Japanese data lacked a sense of direction.



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 Dollar

Last time we were square of the Dollar as the market seemed in a state of flux which sometimes indicates a change of direction, but which we judge this time results from conflicting data unrealistic expectations of higher interest rates.

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

- On Monday; empire manufacturing; worse than expected, net long term TIC flows; better than expected and Bernanke testifies at the Senate,
- On Tuesday; Q1 C/A Balance; worse than expected, housing starts; weaker than expected, building permits; better than expected, PPI; mixed, Industrial production and capacity utilisation; weaker than expected,
- On Wednesday; MBA Mortgage applications; weaker than expected, and
- On Thursday; Jobless claims; worse than expected and the Philly Fed; weaker than expected.

The Dollar drifted within the recent range last week as the recent run of stronger data ceased and the Fed made it known that traders were expecting too much too soon from the Fed regarding tighter monetary policy.

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

- On Tuesday; **House price index and consumer confidence**,
- On Wednesday; MBA mortgage applications,

durable goods, New home sales and the FOMC rate decision

- On Thursday; Q1 GDP, Q1 GDP Price index, Q1 Personal consumption, Q1 Core PCE, Jobless claims and Existing home sales, and
- On Friday; Personal income & spending, **Core PCE**, PCE Deflator and **University of Michigan confidence**.

This week's key events are highlighted red, and that covers most releases, but the FOMC statement and interest rate decision will be the most important as the Fed is expected to clarify its stance on inflation, growth and interest rates, while still retaining space to manoeuvre.

The Macro Trader's view is: our decision to remain square last week seems sound as there was no evident direction to trading.

The weaker data seen last week may be significant; the tax cheques are spent has the economy lost its temporary prop?

Moreover core PPI was inline with expectations and after the Fed's back peddling last week we judge the FOMC meeting policy statement is likely to attempt at introducing a long lead time into the markets expectations for higher rates.

This could act to undermine the Dollar, but with inflation a threat globally, we see little direction emerging in the near term and advise remaining square.



Currencies: The Pound Sterling

OUR TRADING STANCE: SQUARE.

Last week we were square of Sterling.

Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

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

Currencies

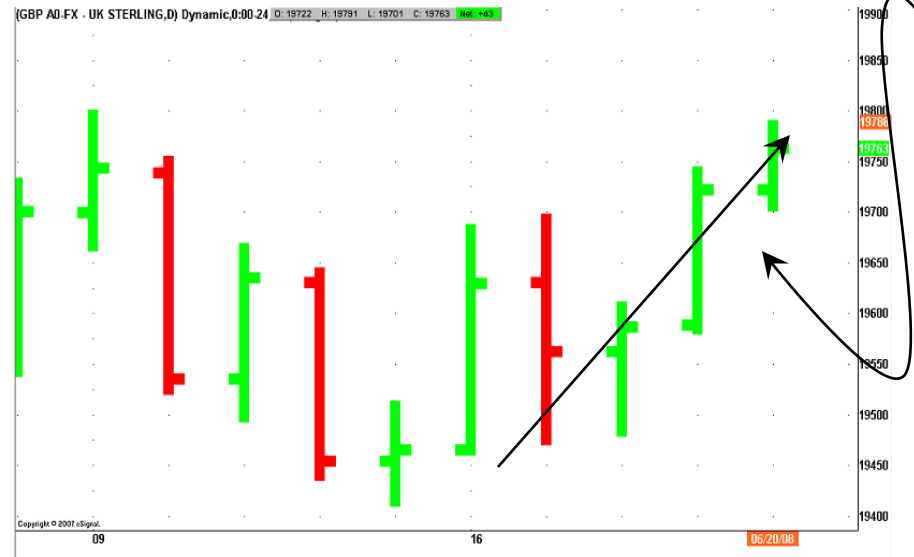
- + US Dollar
- + Pound Sterling
- + Euro

Stocks

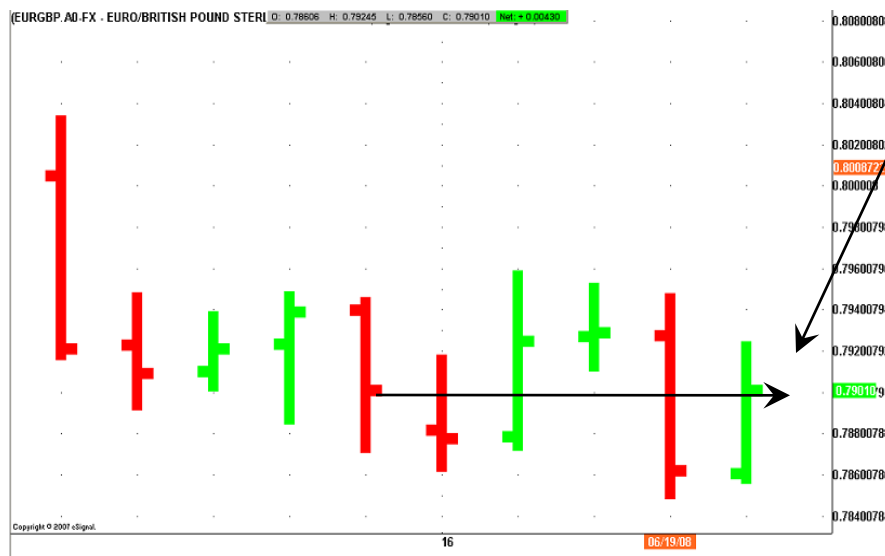
- + S&P 500
- + FTSE 100
- + Dow Jones Eurostoxx50

Commodities

- + Gold
- + Oil



See how Cable rallied last week as the combination of higher inflation and very strong retail sales seemed to undermine King's stance that inflation can be corrected by pay restraint and a general acceptance of a drop in living standards without the need for higher interest rates.



See how Sterling strengthened against the Euro on Thursday after the release of stronger retail sales but couldn't hold its gains, closing the week virtually unchanged.



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 square of Sterling following the previous week's worse than expected PPI report, which heightened expectations for higher interest rates, which jarred against our view of a rapidly slowing economy that would stand the shock of tighter policy.

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

- On Tuesday; CPI, RPI and RPI-X; all worse than expected,
- On Wednesday; the MPC minutes for June; showed rates staying on hold and CBI Industrial trends survey; better than expected, and
- On Thursday; Retail Sales; much stronger than expected, PSNCR & PSNB; worse than expected and M4 Sterling lending; weaker than expected.

The Pound rallied last week as higher inflation, followed by very strong retail sales confounded the view of a weakening economy and revealed King's strategy for reducing inflation as potentially high risk.

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

- On Tuesday; **BBA Home buyer loans report**,
- On Wednesday; **CBI Distributive sales survey**,
- On Thursday; Q1 Total business investment, and
- On Friday; Q1 Final GDP and Current account balance.

This week's key data releases are highlighted red, but we judge they are mainly second division and will have

limited impact.

The Macro Trader's view is: King's letter last Tuesday and his Mansion house speech on Wednesday largely played to our long held view that the Bank would be reluctant to hike rates at a time when growth is expected to cool sharply.

But after Thursday's retail sales report we are questioning our own view of policy during the coming months.

If retail sales were rising at a time of weakening inflation, or if the measure was value based, we would be more relaxed, but it is a volume based report, which means demand remains strong, even as inflation rises and house prices correct lower.

The fact that unemployment remains low may be the key; house prices may be falling., but home owners who largely remain in employment will sit tight and pay their mortgage, albeit at less favourable interest rates.

The crunch for the economy may only come if unemployment starts to rise more sharply.

With king hoping people will accept a drop in real take home pay and living standards as the route to controlling inflation, that may not occur as quickly as previously thought. Rather it is unlikely that any individual will willingly accept a drop in standards and seek higher pay to compensate, that would provoke higher rates, and higher unemployment.

For now we see little direction in this market and advise remaining square.



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

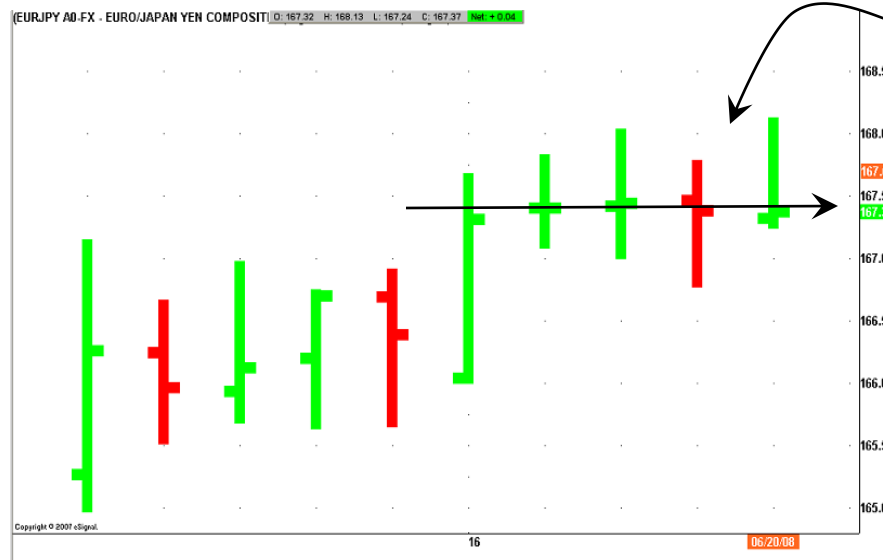
Commodities

- + Gold
- + Oil

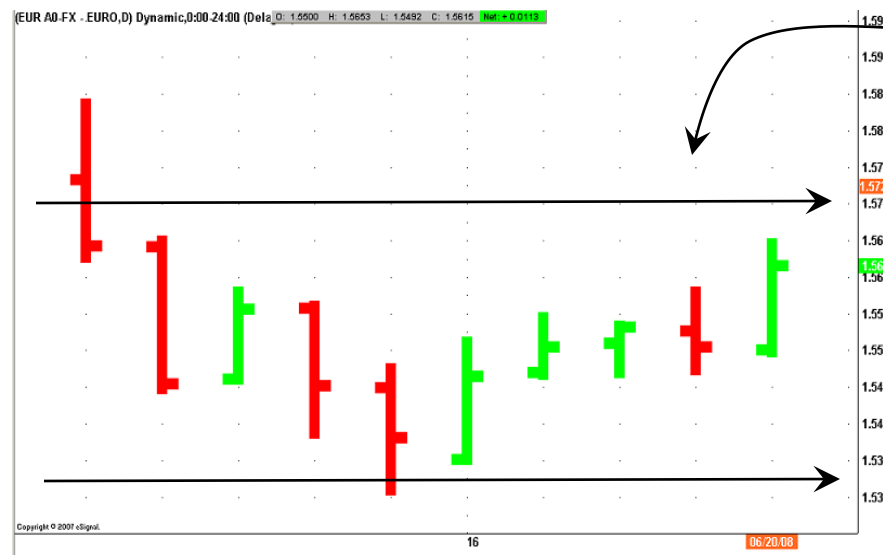
Currencies: The Euro

OUR TRADING STANCE: SQUARE.

Last week we were square of the Euro .



See how the Yen remained anchored to a central pivot last week as currency markets lacked any sense of direction.



See how the Euro recovered some lost ground last week, but currency markets are currently trapped in clearly definable ranges and Dollar/Euro is no exception.



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 square of the Euro after the ECB sought to reduce market expectations for higher interest rates, beyond the July hike policy makers are currently mulling.

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

- On Monday; Euro zone CPI; worse than expected,
- On Tuesday; Italian trade data; better than expected, German ZEW; weaker than expected and Euro zone trade data; better than expected,
- On Wednesday; Euro zone construction output data,
- On Thursday; Italian unemployment data; worse than expected, and
- On Friday; German PPI; worse than expected, Italian industrial sales and orders; stronger than expected and non-EU trade balance; as expected.

The Euro moved away from the previous week's lows as worse than expected Euro zone inflation added support, but the leading Central Banks all sought to play down expectations of higher interest rates, leaving them all looking variously unattractive bets.

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

- On Monday; Euro zone composite PMI report and **German IFO**,
- On Tuesday; German GfK consumer confidence, French consumer confidence & business confidence and Italian consumer confidence,
- On Wednesday; Italian retail sales and **Euro**

zone industrial new orders,

- On Thursday; **German import prices**, French consumer confidence, Italian business confidence and **Euro zone M3 money supply data**, and
- On Friday; **French PPI**, Q1 GDP, Euro zone C/A, business climate indicator, consumer confidence and economic confidence.

The key releases due this week are highlighted in red, and we advise monitoring the inflation and money supply data closely for evidence of continued deterioration; today's IFO was below consensus but still strong.

The Macro Trader's view is: we judge currency markets currently lack direction.

The US, UK and Euro zone are all bedevilled by higher inflation and the threat or fear of slower growth, but Central Banks are far from eager to hike rates for fear of precipitating a collapse in their economies.

This makes all the leading currencies appear unattractive, as they all run the risk of reduced purchasing power in their native land if not against each other.

The winner currently appears to be the Chinese Renminbi, but it still isn't fully convertible, and China is running inflation somewhere in excess of 10.0%; with nominal growth of around 9.0% or 10.0%, real growth doesn't look that great there either; they too need higher rates.

For now we advise maintaining a square position.



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

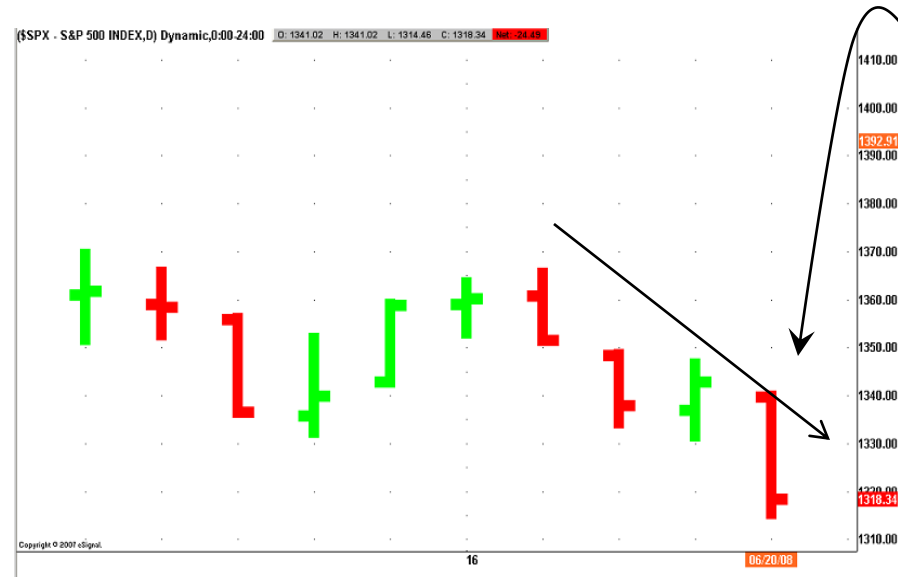
Commodities

- + Gold
- + Oil

Stocks: S&P 500

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the S&P 500



See how stocks sold off last week as a promised hike in Saudi oil output failed to cool the oil market, Goldman Sacks warned of further large losses at the leading Banks and data turned soft.

Last time we remained bearish of this market as we anticipated more bad news on inflation which after recent speeches from Fed Chairman Bernanke would make a near term rate hike seem more likely.

In the event PPI was mixed; headline was worse than expected, but core was in line with consensus.

However, the market received more bearish news as Goldman Sacks released a report that forecast Banking losses/write downs totalling an additional US\$65.0B, and Lehman brothers and Citigroup quickly provided the corroborating evidence by announcing further large

losses and potential write downs.

The much hoped for relief expected from the announcement that Saudi Arabia was increasing its oil output failed to arrive as attacks in Nigeria further eroded output there, and Israel continued to threaten Iran with a pre-emptive strike if attempts to develop nuclear weapons weren't abandoned.

Additionally the Fed let it be known that the interest rate futures market was expecting too much too soon from the Fed and this seemed to neuter Bernanke's earlier attempts to sound tough on inflation.



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

Looking ahead there are several key releases due, and after last weeks weaker than expected data traders will be looking for evidence of renewed economic weakness.

But the key event for the market this week is the FOMC meeting; a rate change isn't expected, but the market is more interested in the policy statement. The Fed is expected to flag inflation as the main threat, but remind the markets that due to still fragile conditions it is too early to hike rates.

The Macro Trader's view is: our target was met last week as resilient oil prices and the threat of more bad news from the Banking sector weighed on the market.

With the Fed dampening expectations for higher rates so soon after Bernanke identified inflation as a risk and

was disappointed it hadn't corrected further during the current period of weak growth, traders were confused by last week's comments from the Fed that described interest rate futures markets as pricing in more than the Fed was likely to deliver.

Interestingly last week saw weak industrial production and capacity utilisation and Jobless claims close to levels indicative of recession.

We judge these are not conditions where equities usually thrive and remain bearish.

Traders should remain short of this market, our interim target is now 1300.0 and our stop is reduced further to 1350.0 for close protection of profits, 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

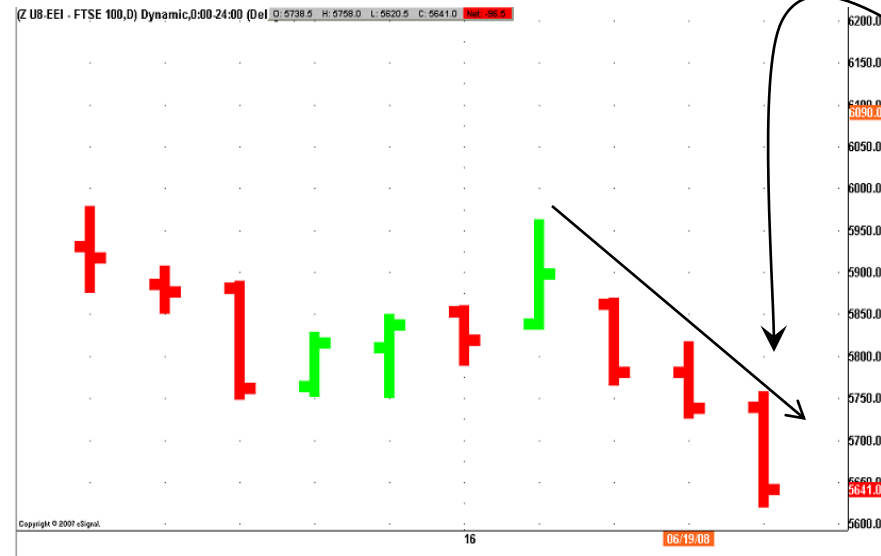
Commodities

- + Gold
- + Oil

Stocks: FTSE 100

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the FTSE 100



See how the FTSE sold off last week on a string of worsening domestic and foreign news: UK inflation rose further and forecast to top 4.0% by year end, retail sales were stronger than expected, several US Banks warned of new large losses, China raised its oil price by 18% and Indian inflation rose above 11%.

Last week we remained bearish of this market as the bad news for the UK economy seemed to intensify during the previous week as PPI came in worse than expected and a Bank of England report on inflation expectations came in higher than expected.

With several key reports due we sensed the market was vulnerable to further selling pressure, as CPI was expected to report a further rise and retail sales were expected to weaken.

In the event inflation went up but retail sales were very much stronger than expected, leaving King's strategy for tackling inflation, communicated only the night

before, looking very risky indeed; expecting people to individual accept a drop in living standards as a main strategy for fighting inflation doesn't seem realistic.

Looking ahead this week's data is unlikely to have too much impact and we judge traders will look to the US for a lead as the FOMC meeting on Wednesday announces its decision on interest rates with a policy statement that traders hope will provide something of a route map going forward.

But with oil prices brushing off the Saudi hike in output, the prospects for inflation and growth look dim.



Stocks: FTSE 100

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 view is: our target was met last week after our stop was hit 1st, but we re-established the position during Wednesday's sell off, as domestic and global data made poor reading for equity traders driving the market to new recent lows.

With inflation rising around the world driven by rising demand for food, commodities and energy, and Central Bankers sounding soft on tackling it, we judge equities remain a sell.

The idea that pay restraint can cool inflation is great theory, but in practise every one will say not me and look to his neighbour to bear the brunt.

Pay and prices policies were last tried in the 1970's; they were a complete disaster requiring very high interest rates and the decimation of the UK'S manufacturing base in the process of controlling it.

During that period equity prices collapsed and took many years to fully recover as high inflation produced little or no real growth.

The Bank of England is right in current conditions to be cautious about hiking rates and we had argued policy should be eased to support growth, but after Thursday's retail sales report we think a rate cut now would be a disaster.

Moreover, if the report remains strong next month we judge the Bank should begin hiking rates in an economy where growth hasn't collapsed and inflation is at risk of moving too far away from target.

Traders should stay short of this market, our interim target is reduced to 5575.0 and our stop is now set at 5900.0 for closer protection in still 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

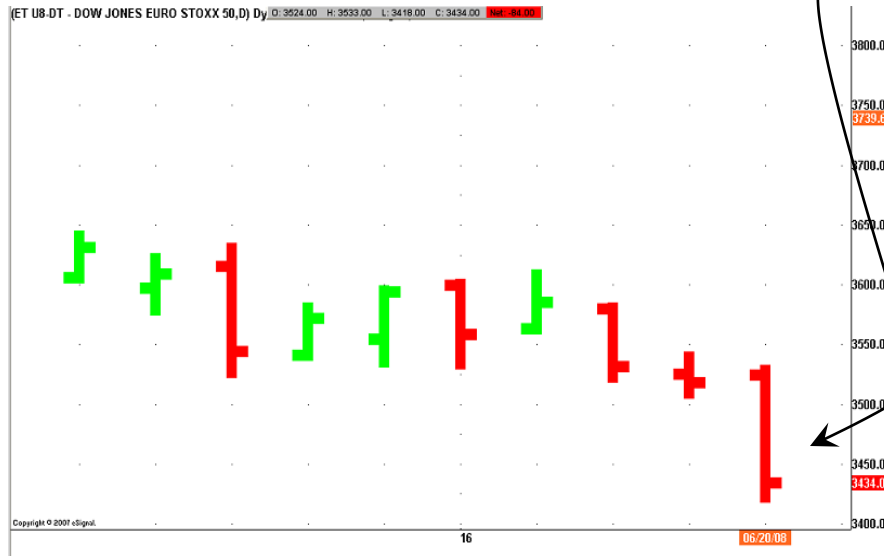
Commodities

- + Gold
- + Oil

Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: SQUARE.

Last week we were square of the DJ Euro Stoxx 50



See how the market traded sideways for much of the week until Friday when sentiment in US markets spilt over into Europe after Citigroup announced a new big write down and equities traded lower as oil prices recovered from Thursday's sell off on sabre rattling from Israel and production outages from Nigeria caused by attacks on its facilities.

Last time we remained square of this market as we continued to judge it the least bearish of the leading equity markets we cover and by comparison, last weeks price action supported our view.

And in a week with several key releases which showed growth well supported and inflationary pressures still building, traders were surprised by the ECB'S additional attempts to play down expectations for higher rates.

Looking ahead this week sees the release of more Euro zone inflation data and M3 money supply. With today's German IFO report still strong, albeit below

consensus, the prospect of yet higher inflation remains real and the ECB'S reluctance to hike further puzzling.

As the emerging economies of India and China remain behind the curve in tackling their own high inflation, demand for commodities, food and energy is likely to remain high, keeping prices and inflation at elevated levels.

Significantly the oil market has already shrugged off Saudi Arabia's announcement of increased oil production as insufficient, given risks to supply from Nigeria and threats from Venezuela to stop exporting to Europe.



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 remain reluctant to add to our short equity position and consider we are involved in the two markets most likely to lead a further sell off.

The S&P and FTSE are variously dogged by forecasts of slow growth and rising inflation that threatens stagflation, which 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.

Unsurprisingly OPEC has refused to up production so Saudi Arabia's increase is merely a replacement for lost Nigerian out put.

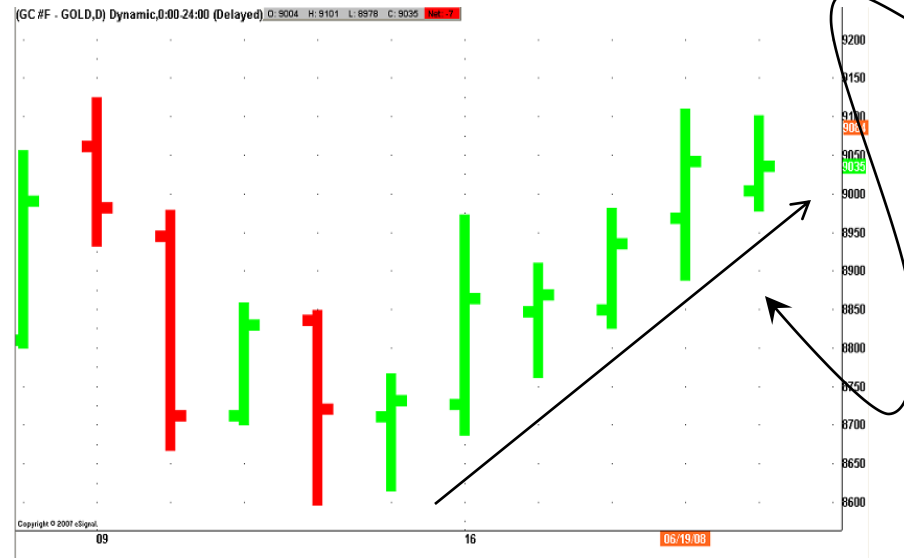
With all eyes on the Fed this week, we judge markets will be led by US price action and sentiment, so again we advise remaining square of this market and concentrate on the S&P and FTSE.



Commodities: Gold

OUR TRADING STANCE: SQUARE.

Last week we were square of Gold



See how Gold rallied last week as Central Banks turned soft on inflation, but the market remains within a clearly defined range which has existed for several weeks and from which it is unable so far to escape.

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

Last week we were square of this market as we judged the more hawkish tones recently coming from the Fed could if followed up would likely support the Dollar and deprive gold of one of its main supports.

But with inflation around the world a growing threat as not only the west but India and China also struggle with double digit inflation, we judged the long term trend in the gold market remained in play, but required a trigger to send the market higher.

Amazingly after briefing the markets that inflation must be contained etc, the leading Central Banks stepped back from the brink and the Fed, MPC and ECB in one way or another told traders they had factored too much

tightening too soon into short term interest rate markets, giving the clear impression that higher inflation would be tolerated as long as higher wage claims didn't follow and lead to a general rise of inflation.

We judge this a dangerous strategy and sense it will all end in tears as inflation gains a greater foot hold requiring more pain in the future.

This week's FOMC meeting will no doubt set the tone, while a rate hike isn't expected clarification is, but if the lead time for the 1st hike seems long gold will appeal to investors as a hedge against a devaluation of paper money caused by higher inflation.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
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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 economies continue to grow, and 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 within a reasonable time frame.

This poses a serious risk to the economic well being of not only the west but globally as the emerging economies are slow to use monetary policy to tackle inflation for fear of cooling growth and sparking domestic unrest where large sections of the population remain poor and have yet to enjoy the benefits of the significant economic expansion seen to date.

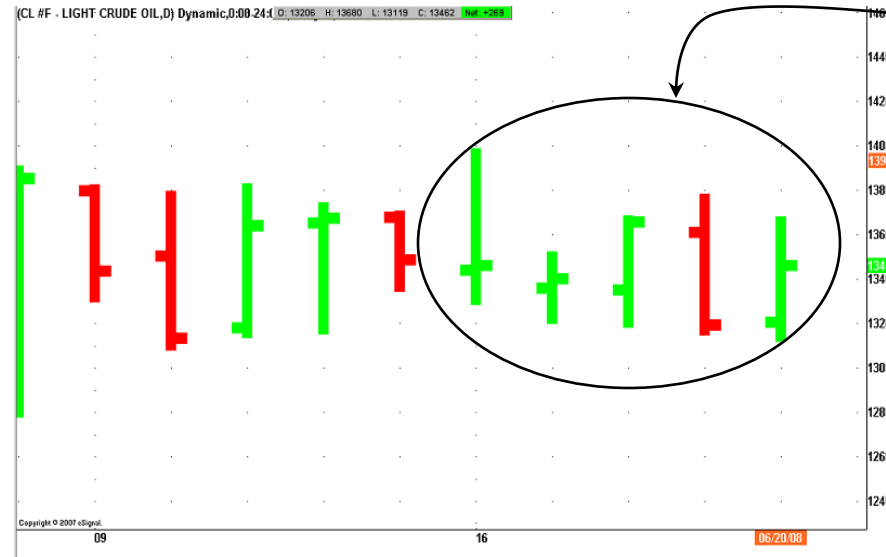
For now though we are advising a square position. The market has made several previous failed attempts to rally and we now think it prudent to stand back and let the market prove its bullish intent before becoming involved again, which for us is a sustained break back above US\$935.00 an ounce.



Commodities: Oil

OUR TRADING STANCE: SQUARE

Last week we were bullish of Oil



See how oil traded sideways last week, albeit within large intra-day ranges as Saudi Arabia's news of an increase of its oil production left traders pondering over whether it would be sufficient to bring prices significantly away from the highs.

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

Last week we were long of this market, as we judged the reaction to the Saudi output increase wasn't that encouraging for those hoping for a correction lower to develop.

But with talk of an emergency OPEC meeting we decided to protect profits and bring our stop up close, this proved sound and although we were stopped out, profits were left largely intact and the opportunity for re-entering the market remained in play.

Although the Saudis subsequently confirmed a production increase, albeit less than initially announced, OPEC refused to co-operate and the

market found support.

Additionally interruptions to Nigeria's supply continues so the Saudi increase has become more of a replacement than an increase of supply.

Add to this the tension in the Middle East that again seems to be rising as Israel announced a recent large scale air force exercise apparently involving 100 F15 & F16 jets, which was intended as a warning shot to Iran to stop developing the technology to make nuclear weapons, and oil prices seem unlikely to drop this summer.



Summary

Global Calendar

Interest Rate Futures

- + Euro Dollars
- + Short Sterling
- + Euribor

Government Bonds

- + US 10yr Note
- + Gilt
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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 factors over short term considerations.

Quite bluntly the question remains, "will there be enough oil to go round":

1. Has peak oil production already passed,
2. What will be the level of demand from China and India's growing middle class, and
3. Will enough oil ever be found to cover that demand.

While we remain medium/long term bulls of this market, we are for now remaining square. The bulls should be encouraged that recent news from Saudi

Arabia hasn't led the market lower, but recent price action indicates a period of consolidation.

And while Israel's posturing towards Iran represents an escalation of tension, they are unlikely to attack without US agreement; will Bush in the dying months of his Presidency sanction such a move and saddle his successor with the problem? Maybe he will as a way of insuring Iran is dealt with.

For now we advise remaining square, but if the market breaks above the high go long as the trend will be back in play, which we see as supported by global fundamentals and not an irrational bubble as some suggest.



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