



## Week 26

1<sup>st</sup> – 7<sup>th</sup> July 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 term, **BULLISH** medium & long term if the incoming data deteriorates

**SQUARE** short, medium & long term

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

### Government Bonds

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

**SQUARE** short, medium & long term

**BEARISH** short, medium & long term

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

### Currencies

- + US Dollar
- + Pound Sterling
- + Euro

**SQUARE** short, medium & long term

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### Stocks

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

**BEARISH** short, medium & long term

**BEARISH** short, medium & long term

**BEARISH** short , medium & long term

### Commodities

- + Gold
- + Oil

**BULLISH** short, medium, long term

**BULLISH** short, medium & long term



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	Week of 23 <sup>rd</sup> June
Monday	EZ PMI Composite 49.5 <b>WORSE</b> DM IFO 101.3 <b>WEAKER</b> <b>THAN EXPECTED</b>
Tuesday	US House price INDX -0.8m, <b>WEAKER</b> US Cons conf 50.4 <b>WEAKER</b> UK BBA Hse buyer loans 27.968K <b>WEAKER</b> DM GFK Cons conf 3.9 <b>WEAKER</b> FR Cons spndg 2.0m, 3.1y <b>STRONGER</b> FR Bus conf 102.0 <b>STRONGER</b> IT Cons conf 100.0 <b>WEAKER</b> <b>THAN EXPECTED</b>
Wednesday	US MBA Mrtge apps -9.3 <b>WEAKER</b> US Durable goods 0.0 <b>AS</b> US Ex-transport -0.9 <b>AS</b> US New Home sales 512k <b>AS</b> US FOMC Rate decision 2.0% <b>AS</b> UK CBI Dis trades -9 <b>WEAKER</b> IT Retail sales 0.0m, -2.3y <b>WEAKER</b> EZ Ind new orders 2.5m, 11.7y <b>STRONGER</b> <b>THAN EXPECTED</b>

## global calendar – macro trader

	Week of 30 <sup>th</sup> June
Monday	US Chicago PMI 48.4 UK M4 Strlg Indg n/f UK Net consumer CR 1.0B UK Net Indg against dwellings 6.0B UK Mrtge approvals 51k UK Indx of services 0.3% IT PPI 0.9m, 6.8y IT CPI 0.3m, 3.6y EZ CPI 3.9y
Tuesday	US ISM Mfg survey 49.0 US Prices paid 86.5 US Construct'n spndg -0.6 UK Nationwide hse prces indx -1.0m, -6.4y UK PMI Mfg survey 49.8 DM Retail sales 0.8m, -1.1y DM ILO unemploy'm't 7.4% DM Unemploy'm't chge -15k DM Unemploy'm't rate 7.9 IT PMI Mfg 47.5 FR PMI Mfg 49.2 DM PMI Mfg 52.3 EZ PMI Mfg 49.1 EZ Unemploy'm't rate 7.1
Wednesday	US MBA Mrtge apps n/f US Challenger job cuts n/f US Factory orders 0.5% UK PMI Construction 43.1 UK B of E Equity withdrawal 5.3B EZ PPI 0.9m, 6.7y

More



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### Commodities

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	Week of 23 <sup>rd</sup> June Cont'd
Thursday	US Q1 GDP 1.0% <b>AS</b> US GDP Price indx 2.7 <b>WORSE</b> US Q1 Persnl consumpt'n 1.1% <b>BETTER</b> US Q1 Core PCE 2.3% <b>WORSE</b> US Jobless claims 384k <b>WORSE</b> US Existing home sales 4.99M <b>BETTER</b> UK Q1 Total bus investm't -1.8q, 4.5y <b>BETTER</b> DM Import prces 2.4m, 7.9y <b>WORSE</b> FR Cons conf -46 <b>WEAKER</b> IT Bus conf 87.1 <b>WEAKER</b> EZ M3 3M 10.5 <b>MORE</b> EZ M3 YOY 10.4 <b>AS</b> <b>THAN EXPECTED</b>
Friday	US Pern'l income 1.9 <b>STRONGER</b> US Pern'l spndg 0.8 <b>STRONGER</b> US Core PCE 0.1m, 2.1y <b>AS</b> US PCE Deflator 3.1y <b>BETTER</b> US U. of Michigan conf 56.4 <b>WEAKER</b> UK Q1 GDP 0.3q, 2.3y <b>WEAKER</b> UK C/A bal -8.4B <b>BETTER</b> FR PPI 1.3m, 6.7y <b>WORSE</b> FR Q1 GDP 0.5q, 2.0y <b>WEAKER</b> EZ C/A -0.3B <b>BETTER</b> EZ Bus climate indicator 0.14 <b>WEAKER</b> EZ Cons conf -17 <b>WORSE</b> EZ Economic conf 94.9 <b>WEAKER</b> DM CPI 0.3m, 3.3y <b>AS</b> <b>THAN EXPECTED</b>

	Week of 30 <sup>th</sup> June Cont'd
Thursday	US Non-farm payroll -55k US Unemploy'm't rate 5.4% US Avge hrly earnings 0.3m, US Avge wrk week 33.7 US Jobless claims n/f US ISM non-mfg 51.5 UK B of E CR conditions n/f UK PMI Services 49.5 IT PMI Services 47.8 FR PMI Services 49.2 DM PMI Services 53.3 EZ PMI Services 49.5 EZ Retail sales 0.5m, -0.7y EZ ECB Rate decision 4.25%
Friday	US HOLIDAY INDEPENDENCE DAY DM Factory orders 0.8m, 2.0y



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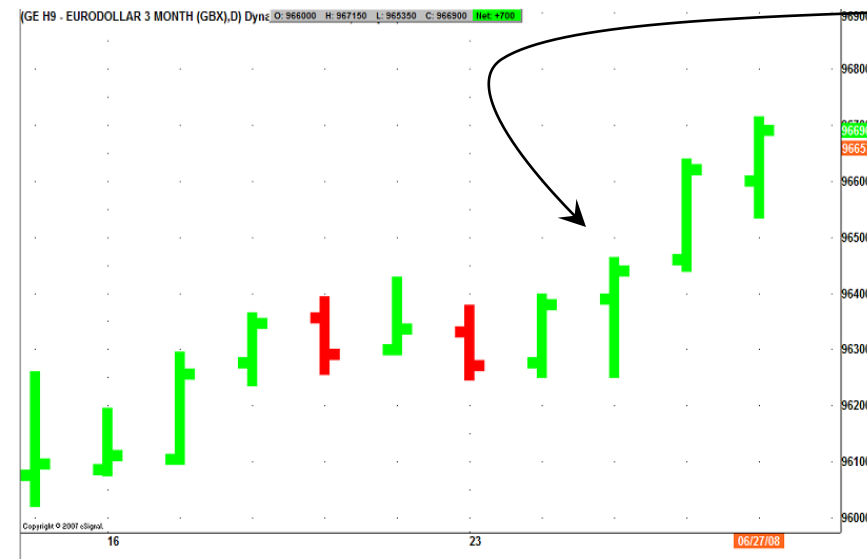
## Commodities

- + Gold
- + Oil

## Interest Rate Futures: Euro Dollars March 09

### OUR TRADING STANCE: SQUARE.

Last week we were square March 09.



See how Eurodollars began to rally on Wednesday after the Fed failed to give an indication of when policy might be tightened even though they highlighted inflation as the main risk.

Last week we were square of this market following remarks from Fed officials that suggested traders were overly pessimistic in their assumptions about future policy moves, which left an air of confusion hanging over US interest rates.

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

- On Tuesday; House price index and consumer confidence; weaker than expected,
- On Wednesday; MBA mortgage applications; weaker than expected, durable goods, New home sales and the FOMC rate decision; as expected,
- On Thursday; Q1 GDP; as expected, Q1 GDP Price index; worse than expected, Q1 Personal consumption; stronger than

expected, Q1 Core PCE & Jobless claims; worse than expected and Existing home sales; better than expected, and

- On Friday; Personal income & spending; stronger than expected, Core PCE; as expected, PCE Deflator; better than expected and University of Michigan confidence; weaker than expected.

The market rallied after Wednesday's FOMC meeting as the statement paved the way for a further period of unchanged policy with the Fed saying they expected inflation to moderate later this year and into next.

Even Friday's strong personal income failed to upset the market as it was driven by tax rebate cheques.



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## Commodities

- + Gold
- + Oil

## Interest Rate Futures: Euro Dollars

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

- On Monday; Chicago PMI,
- On Tuesday; **ISM Mfg survey** and construction spending,
- On Wednesday; MBA Mortgage applications, Challenger job cuts and Factory orders, and
- On Thursday; **Non-farm payroll**, **unemployment rate**, average hourly earnings, Jobless claims and **ISM non-mfg survey**
- On Friday; Market closed 4<sup>th</sup> July.

The key events this week are highlighted red, and we advise watching them all closely. After last week's FOMC statement the Fed will only hike if the inflation outlook begins to materially worsen, where as a run of weak data now would lengthen the lead time further for any future rate hikes which could send Eurodollars into a serious correction higher.

**The Macro Trader's view is;** the Fed disappointed some last week when it failed to back its tough talk on inflation with policy action, and with inflation globally a

growing problem and the Dollar likely to weaken further, the Fed may end up wishing Bernanke had framed his recent Dollar/inflation comments differently.

Obviously the Fed remains concerned about the health of the economy, but is alert to inflation worsening further.

But with unemployment set to rise further and the Banking sector still struggling, they don't seem to have many policy options currently available.

From a trading perspective, we judge this market can correct higher, but this week's data will have to be supportive, i.e. Weaker than expected.

This would provide traders with the security blanket they need to re-price the Eurodollar strip to reflect a more realistic time frame for the Fed introducing higher interest rates.

For now we advise remaining square, but if this week's data are weaker than forecast, traders should go long.



## Interest Rate Futures: Short Sterling March 09

### OUR TRADING STANCE: SQUARE.

Last week we were square of March 09.

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#### Government Bonds

- + US 10yr Note
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#### Currencies

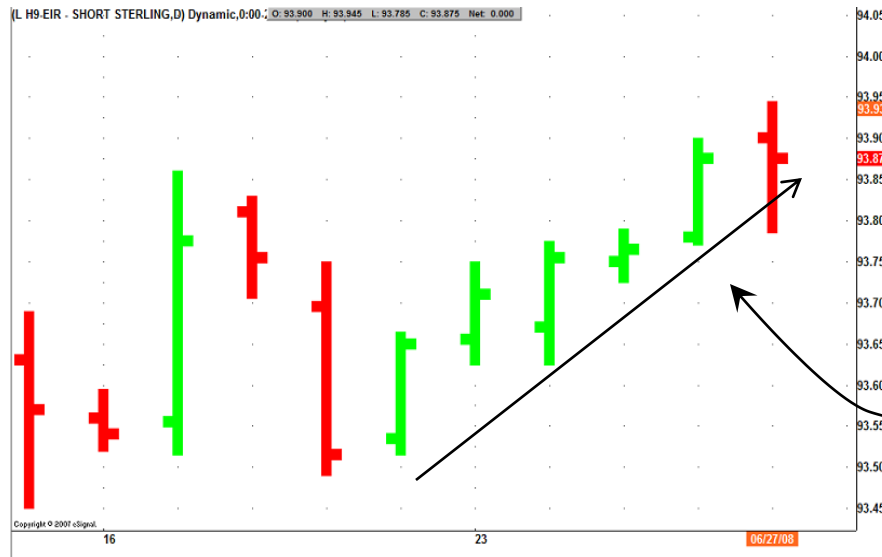
- + US Dollar
- + Pound Sterling
- + Euro

#### Stocks

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

#### Commodities

- + Gold
- + Oil



See how Short Sterling rallied last week after a weak BBA report on Tuesday, assurances from King in Parliamentary testimony on Thursday that rates weren't about to be jacked up and a weaker than expected final Q1 GDP report on Friday.

Last week we remained square of March 09 Short Sterling following a run of very conflicting reports/signals the previous week which saw the market convulse as King gave assurances and then retail sales spiked.

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

- On Tuesday; BBA Home buyer loans report; weaker than expected,
- On Wednesday; CBI Distributive sales survey; weaker than expected,
- On Thursday; Q1 Total business investment; better than expected, and
- On Friday; Q1 Final GDP; weaker than

expected and Current account balance; better than feared.

The market rallied last week as mortgage lending continued to collapse and Bank Governor King again gave assurances that interest rates weren't going to be jacked up, even though inflation is expected to rise further, for fear of causing a target undershoot, which means the Bank is anxious not to tip an economy that is forecast to weaken, into recession.

The surprise downward revision to Q1 GDP helped the market close near the week's highs even though oil prices hit a new high that same day.



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## Stocks

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- + FTSE 100
- + Dow Jones Eurostoxx50

## Commodities

- + Gold
- + 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 Monday; M4 Sterling lending, net consumer credit, **net lending against dwellings, mortgage approvals** and index of services,
- On Tuesday; **Nationwide's house price survey and PMI Manufacturing survey**,
- On Wednesday; PMI Construction survey and Bank of England equity withdrawal, and
- On Thursday; Bank of England credit conditions report and **PMI Services survey**.

This week's key releases are highlighted red, we advise monitoring them all closely. If the Bank is concerned that tightening policy would likely crash the economy, Short Sterling is over sold and ripe for a correction, but the data will have to lead the way.

**The Macro Trader's view is:** Mervin King redelivered his message on Thursday that interest rates are not going to be jacked up to counter what he still regards as a short term inflation spike.

He fears pushing interest rates up now risks causing an un-acceptable target undershoot in the medium term, which means the economy would likely be in recession, not what he or other MPC members want.

However given the previous week's strong retail sales report, traders will need to see evidence before they begin correcting an over sold market.

That may come in the shape of additional weakness in the PMI Services report; although the housing market data is expected to weaken further, so far that hasn't caused the much anticipated collapse in consumer demand.

For now we advise remaining square of this market. Forecasts continue to be centred on economic weakness and higher short term inflation; the inflation forecast is proving correct, but growth is managing to hold up; Q1 annual 2.3% growth is still respectable.





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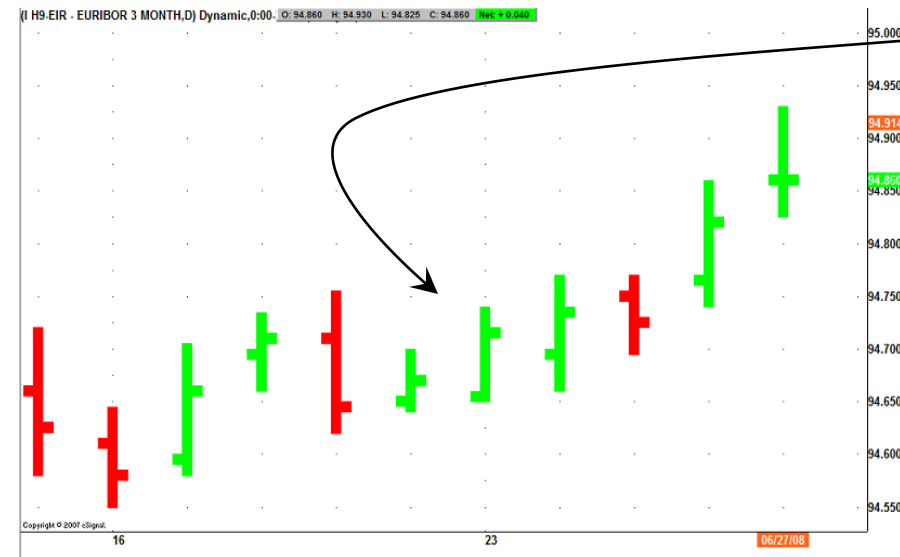
## Commodities

- + Gold
- + Oil

## Interest Rate Futures: Euribor March 09

### OUR TRADING STANCE: SQUARE.

Last week we were bearish of March 09.



See how Euribor rallied last week after Monday's Euro zone PMI composite index came in weaker than expected with a sub 50.0 reading, and although Trichet virtually pre-announced the expected July rate hike later in the week, traders began to believe it would be a lone strike as other data also came in below consensus.

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 composite PMI report and German IFO; weaker than expected,
- On Tuesday; German GfK consumer confidence; weaker than expected, French consumer confidence & business confidence; stronger than expected and Italian consumer confidence; weaker than expected,
- On Wednesday; Italian retail sales; weaker than expected and Euro zone industrial new

- orders; stronger than expected,
- On Thursday; German import prices; worse than expected, French consumer confidence & Italian business confidence; weaker than expected and Euro zone M3 money supply data; broadly in line, and
- On Friday; French PPI; worse than expected, Q1 GDP; weaker than expected, Euro zone C/A; better than expected, business climate indicator, consumer confidence and economic confidence; weaker than expected and German CPI as expected.

The market rallied last week as Monday's PMI composite index revealed tangible signs of future economic weakness, which traders judged would hold the ECB to its declared intent of a one off rate hike at their July meeting.

More



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- + Pound Sterling
- + Euro

## Stocks

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

## Commodities

- + Gold
- + Oil

## Interest Rate Futures: Euribor

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

- On Monday; **Italian PPI, CPI and Euro zone CPI**,
- On Tuesday; **German** retail sales, unemployment data, **PMI manufacturing report**, **Italian, French and Euro zone PMI manufacturing reports** and Euro zone unemployment data,
- On Wednesday; **Euro zone PPI**,
- On Thursday; **Italian, French, German and Euro zone PMI Services reports**, Euro zone retail sales and the **ECB interest rate decision**, and
- On Friday; German factory orders.

This week's key releases are highlighted in red, but we judge the ECB'S interest rate decision as the most important; a rate hike has been so brazenly flagged that failure to deliver would ruin their credibility, but the

press conference will be of great interest to see how the ECB is positioned moving forward.

**The Macro Trader's view is;** the ECB has committed its self to hiking just as data begins to reveal weakness, the very event that kept the ECB on hold for so long.

However, if this is the start of a cooling of the Euro zone economy, then July's hike should indeed prove a one off and Euribor much like Eurodollars and Short Sterling will be left looking oversold and vulnerable to a correction higher.

But with oil prices still looking set to rally further and several inflation reports due this week, that may be an event for the coming weeks rather than now.

Traders should remain square of this market after we were stopped out last week.



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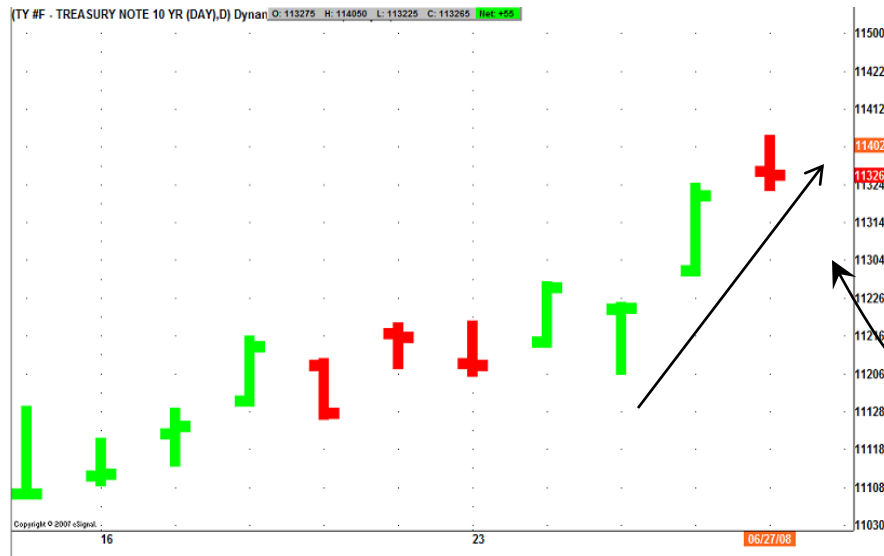
## Commodities

- + 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 after the FOMC statement released on Wednesday evening all but removed the threat of tighter policy for the medium term as policy makers acknowledged the inflationary threat but forecast it to correct lower later this year and into next.

Last week we remained square of this market amid the lack of clarity being caused by conflicting Fed comments on inflation and market expectations for policy moves.

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

- On Tuesday; House price index and consumer confidence; weaker than expected,
- On Wednesday; MBA mortgage applications; weaker than expected, durable goods, New home sales and the FOMC rate decision; as expected,
- On Thursday; Q1 GDP; as expected, Q1 GDP Price index; worse than expected, Q1

Personal consumption; stronger than expected, Q1 Core PCE & Jobless claims; worse than expected and Existing home sales; better than expected, and

- On Friday; Personal income & spending; stronger than expected, Core PCE; as expected, PCE Deflator; better than expected and University of Michigan confidence; weaker than expected.

The market rallied on the Feds policy statement which forecast an improving inflation environment and no near term rate hikes, with additional support coming from a sell off in equity markets.



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## Government Bonds: US Treasury Note (10yr)

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

- On Monday; Chicago PMI,
- On Tuesday; **ISM Mfg survey** and construction spending,
- On Wednesday; MBA Mortgage applications, Challenger job cuts and Factory orders, and
- On Thursday; **Non-farm payroll**, **unemployment rate**, average hourly earnings, Jobless claims and **ISM non-mfg survey**
- On Friday; Market closed 4<sup>th</sup> July.

The key releases this week are highlighted in red, and we advise watching them closely, but apart from expected weakness in non-farm payroll, a reversal in the ISM non-manufacturing report to show fresh weakness would extend last week's rally.

**The Macro Trader's view is;** the Fed cleared the air, but not as many had assumed. Their anxiety over inflation, but forecast of an improving outlook later this year and next, gives them space to remain on hold for

an extended period.

Only an unexpected substantial rise in inflation will provoke a hike, or an unexpected drop in economic growth produce a cut; the Fed seems to expect neither, but oil prices continue to rise and will force inflation higher and consume more disposable income leaving less for other expenditure.

In short the Fed much like the Bank of England and ECB after this week's much anticipated rate hike, is trapped by events with few options at its disposal.

One can only hope China and India cool their economies in an effort to tackle their own domestic inflation which if serious would reduce demand for energy and other commodities, but after China agreed to a 96% price rise for Iron ore imports last week, that doesn't seem a realistic hope.

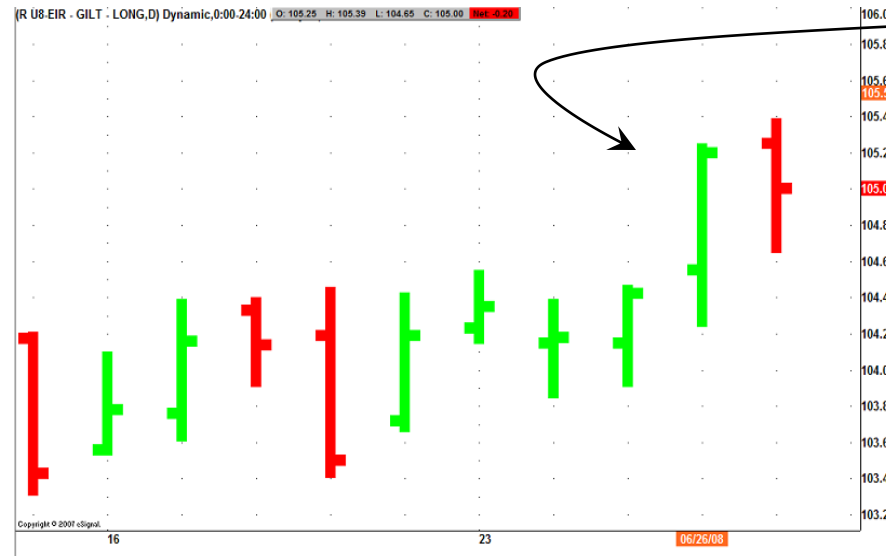
For now stay square, but if this week's data is weak, then go long for a corrective rally.



## Government Bonds: The Gilt

### OUR TRADING STANCE: BEARISH.

Last week we were bearish of the Gilt.



See how the Gilt rallied on Thursday after King gave further assurances during testimony in Parliament that interest rates wouldn't be jacked up to curb the current "short term" burst of inflation for fear of de-stabilising the economy.

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Last week we remained bearish of the Gilt following stronger than expected CPI and retail sales the previous week which we judged would send Bond yields higher.

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

- On Tuesday; BBA Home buyer loans report; weaker than expected,
- On Wednesday; CBI Distributive sales survey; weaker than expected,
- On Thursday; Q1 Total business investment; better than expected, and
- On Friday; Q1 Final GDP; weaker than

expected and Current account balance; better than feared.

The market rallied into the weekend after King repeated his Mansion House speech message that interest rates were not about to rise in response to what the Bank judges will prove to be a short term spike in inflation.

And Friday's release of weaker than expected Q1 GDP provided additional support as traders took profit in the face of a new all time high in the oil market which rammed home the growing threat of rising global inflation.



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

- On Monday; M4 Sterling lending, net consumer credit, **net lending against dwellings, mortgage approvals** and index of services,
- On Tuesday; **Nationwide's house price survey and PMI Manufacturing survey**,
- On Wednesday; PMI Construction survey and Bank of England equity withdrawal, and
- On Thursday; Bank of England credit conditions report and **PMI Services survey**.

This week's key releases are highlighted in red, but we judge Thursday's PMI Services report to be the most important, since in the absence of evidence to show demand is weakening, bond yields should move higher on the clear threat from inflation.

**The Macro Trader's view is:** we were stopped out last week, but given the strength of the previous

week's data and the rally which unfolded in the oil market we re-established our position on Friday, albeit at lower levels.

The Bank of England Governor has repeated his message that interest rates are not about to rise anytime soon, but oil prices continue to rise threatening yet higher levels of inflation than expected only a few short week's ago.

While we agree with the Bank's reluctance to hike rates, at a time when the economy is expected to cool sharply, that will not stop bond yields from rising as investors demand greater risk premium for holding long dated assets.

Traders should stay short of this market, our interim target stays at 103.50, and our stop is reset at 105.40 to provide protection but with greater flexibility in still volatile markets.



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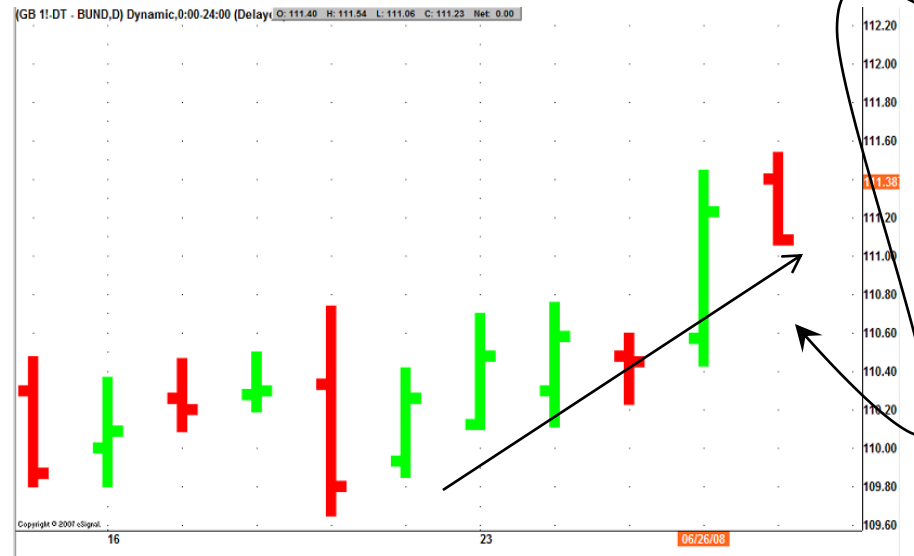
## Commodities

+ Gold  
+ Oil

## Government Bonds: The Bund

### OUR TRADING STANCE: SQUARE.

Last week we were bearish of the Bund



See how the Bund rallied last week in reaction to weaker data, even though Trichet dropped the strongest clues yet that a rate hike is coming in July.

Last week we remained bearish of this market as we judged the ECB'S assurances tat they were only planning one hike could soon look ill considered if oil prices and inflation continued to rise.

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

- On Monday; Euro zone composite PMI report and German IFO; weaker than expected,
- On Tuesday; German GfK consumer confidence; weaker than expected, French consumer confidence & business confidence; stronger than expected and Italian consumer confidence; weaker than expected,
- On Wednesday; Italian retail sales; weaker than expected and Euro zone industrial new

- orders; stronger than expected,
- On Thursday; German import prices; worse than expected, French consumer confidence & Italian business confidence; weaker than expected and Euro zone M3 money supply data; broadly in line, and
- On Friday; French PPI; worse than expected, Q1 GDP; weaker than expected, Euro zone C/A; better than expected, business climate indicator, consumer confidence and economic confidence; weaker than expected and German CPI as expected.

The Bund rallied last week as data began to show a weakening of the Euro zone economy, which the ECB has long feared but is unlikely to cause a policy rethink.



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+ Euro

## Stocks

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

## Commodities

+ Gold  
+ Oil

## Government Bonds: The Bund

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

- On Monday; **Italian PPI, CPI and Euro zone CPI**,
- On Tuesday; **German** retail sales, unemployment data, **PMI manufacturing report, Italian, French and Euro zone PMI manufacturing reports** and Euro zone unemployment data,
- On Wednesday; **Euro zone PPI**,
- On Thursday; **Italian, French, German and Euro zone PMI Services reports**, Euro zone retail sales and the **ECB interest rate decision**, and
- On Friday; German factory orders.

This week's key events are highlighted in red, but we judge the key event is Thursday's ECB meeting; a rate hike is expected, but the press conference will be of greater importance as traders will be seeking guidance

for the future.

**The Macro Trader's view is:** we were stopped out last week as all the major bond markets rallied.

Traders reacted to the Feds message that rates in the US are likely on hold for an extended period, and news that Euro zone data has shown clear signs of weakening.

But with oil prices still pushing higher, driven by demand from China and India, we judge bond yields are set to move higher in the medium/long term as inflation continues to work its way through the Euro zone economy.

However short term we are staying square; the ECB is due to hike and if this week's US data is worse than expected, the Bund will temporarily correct higher with US Treasuries.





## 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

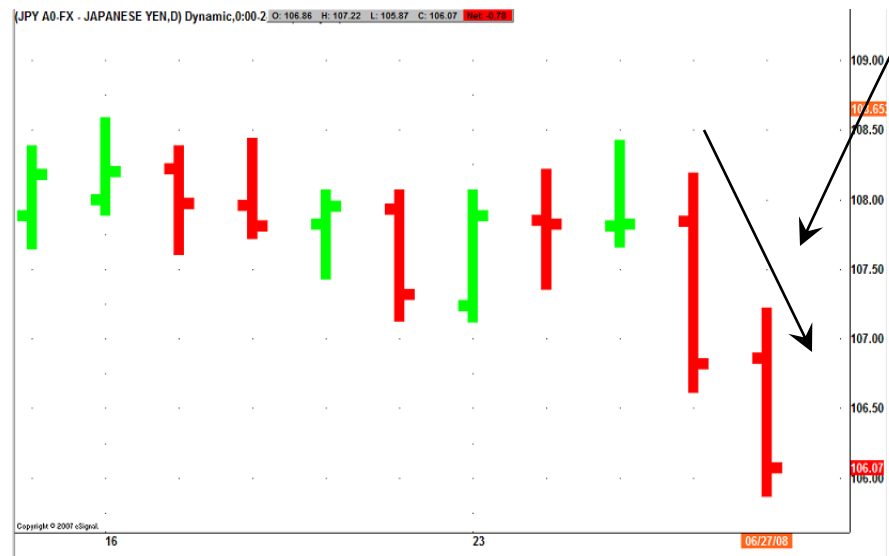
## Currencies: The Dollar

### OUR TRADING STANCE: SQUARE

Last week we were square of the dollar



See how the Dollar came under fresh selling pressure last week after the Fed held rates steady at their Wednesday meeting and effectively signalled no policy change in the coming months.



See how the Yen rallied against a Dollar weakened by the Fed's stance over US interest rates. Although US policy makers see inflation as the main threat, they forecast it to correct later this year and into next.



## 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 remained in a state of flux which sometimes indicates a change of direction, but which we judge this time results from conflicting data and unrealistic expectations of higher interest rates.

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

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

The Dollar sold off on the Feds message which showed US rates are likely on hold, probably until year end. This completely undermined recent attempts to shore up the Dollar leaving it vulnerable to further selling pressure.

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

- On Monday; Chicago PMI,
- On Tuesday; **ISM Mfg survey** and construction

spending,

- On Wednesday; MBA Mortgage applications, Challenger job cuts and Factory orders, and
- On Thursday; **Non-farm payroll**, **unemployment rate**, average hourly earnings, Jobless claims and **ISM non-mfg survey**
- On Friday; Market closed 4<sup>th</sup> July.

This week's key events are highlighted red, and we judge they are all important, but assuming non-farm payroll doesn't throw out a rogue number, we sense Thursday's ISM non-manufacturing report will be the key event. This number unexpectedly strengthened last month, in our opinion due to optimism built on the tax rebate, if it immediately slips back to or below 50.0 the Dollar will take it badly.

**The Macro Trader's view is:** after last week's events we sense the recent period of range trading could be about to end resulting in another period of Dollar weakness.

However this will depend heavily on the run of data this week.

If as we suspect it comes in weaker than expected the Dollar will be a sell. But we have approached these levels with optimism on several occasions recently, only for the range to re-assert, with the Dollar staging a limited correction.

For now we advise staying square, but if by Thursday the data has undershot consensus than sell the Dollar against the Euro.



## 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

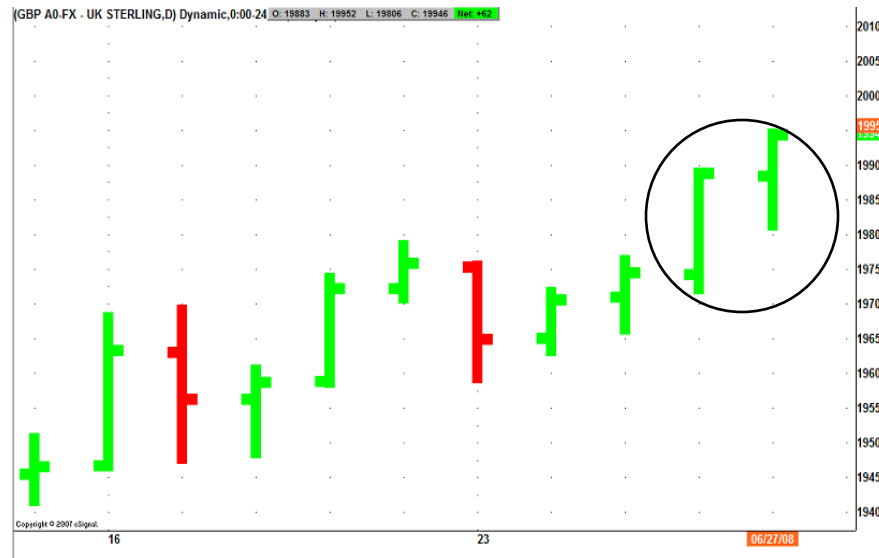
## Commodities

- + Gold
- + Oil

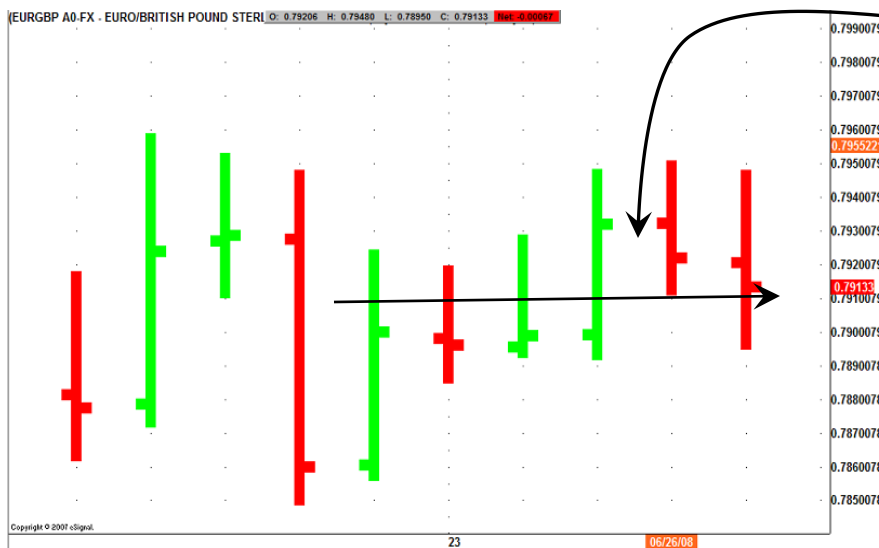
## Currencies: The Pound Sterling

### OUR TRADING STANCE: SQUARE.

Last week we were square of Sterling.



See how Cable rallied on Thursday and Friday in response to the FOMC statement released Wednesday night which removed the threat of higher US interest rates and depriving the Dollar of its most obvious recent support.



See how Sterling remains within a broad range against the Euro as both currencies rallied against the Dollar after the Fed's statement indicated rates on hold.



## 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 remained square of Sterling even though the previous week inflation spiked higher and retail sales were stronger than expected, but the Bank Governor said rates were not going up in the current environment.

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

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

The Pound rallied last week even though the data released could hardly be described as supportive, but the Feds FOMC statement released last Wednesday undermined the Dollar against the other major currencies; including the Pound.

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

- On Monday; M4 Sterling lending, net consumer credit, **net lending against dwellings, mortgage approvals** and index of services,
- On Tuesday; **Nationwide's house price survey and PMI Manufacturing survey,**
- On Wednesday; PMI Construction survey and Bank of England equity withdrawal, and
- On Thursday; Bank of England credit conditions report and **PMI Services survey.**

This week's key data releases are highlighted red, but we judge the two PMI surveys are the most important, especially Thursday's Services report.

The housing market is already in recession, but consumer demand is holding up well, so a weaker than expected PMI Services report would undermine Sterling, especially against the Euro.

**The Macro Trader's view is:** we judge last week's stronger performance by Sterling was more a result of a weaker Dollar. The Fed has left the market expecting US rates to remain on hold as they judge inflation should correct later this year.

The Bank of England is also advising that interest rates are set to remain unchanged for what looks like a prolonged period.

Only the ECB looks set to tighten policy as a warning shot against inflation, but this is meant to be a one off move and Euro zone data has started to show a weakening economy.

In short as the world's reserve currency, the fate of the Dollar will in the absence of compelling local developments, continue to drive the direction of currency markets, so while Cable appears on the verge of an upside break, we advise watching this week's US data closely.

Traders should remain square of the Pound, but if US data undershoots consensus this week, there could be a good buying opportunity in Cable; wait for Thursday to decide.



## 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

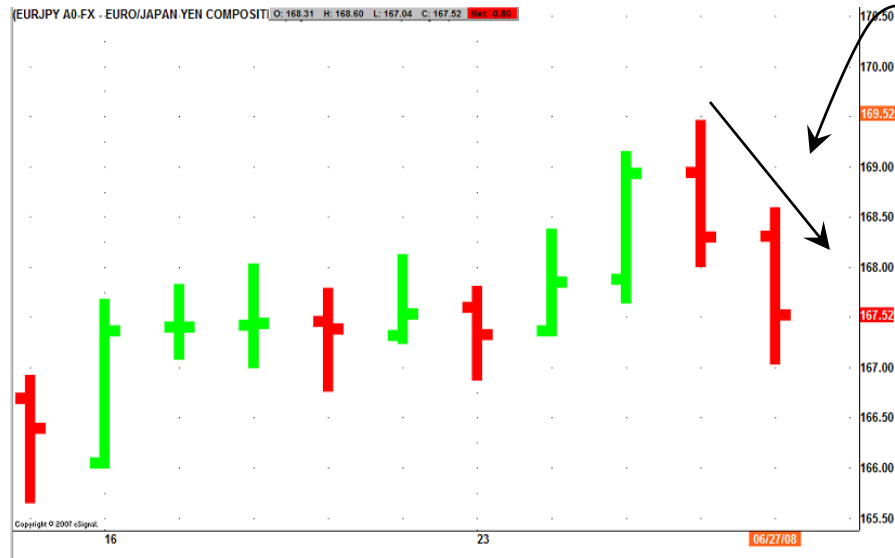
## Commodities

- + Gold
- + Oil

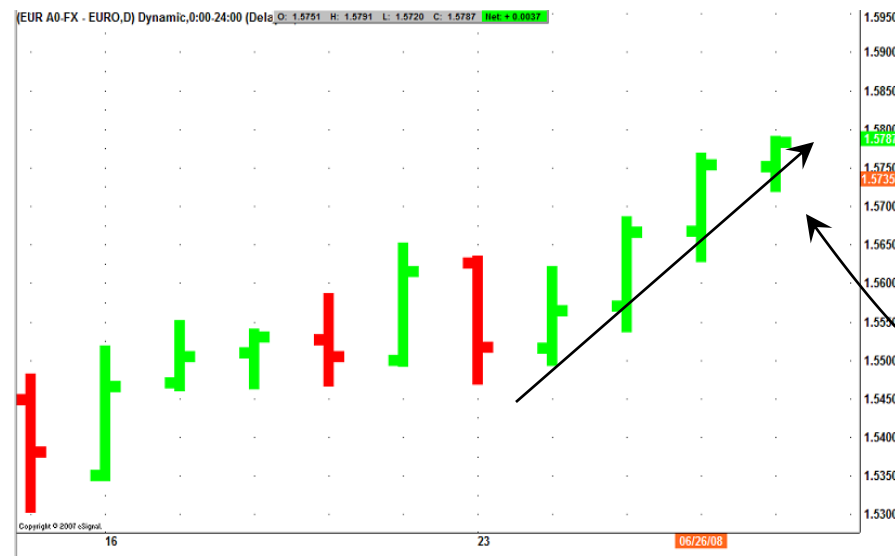
## Currencies: The Euro

### OUR TRADING STANCE: SQUARE.

Last week we were square of the Euro .



See how the Yen rallied against the Euro on Thursday and Friday as several Euro zone confidence indicators came in weaker than expected.



See how the Euro rallied against the Dollar after the Fed all but ruled out higher interest rates over the Short/Medium term as they expect inflation to begin correcting lower later this year, at the same time as the US economy continues to look fragile.



## 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 almost certain to deliver later this week.

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

- On Monday; Euro zone composite PMI report and German IFO; weaker than expected,
- On Tuesday; German GfK consumer confidence; weaker than expected, French consumer confidence & business confidence; stronger than expected and Italian consumer confidence; weaker than expected,
- On Wednesday; Italian retail sales; weaker than expected and Euro zone industrial new orders; stronger than expected,
- On Thursday; German import prices; worse than expected, French consumer confidence & Italian business confidence; weaker than expected and Euro zone M3 money supply data; broadly in line, and
- On Friday; French PPI; worse than expected, Q1 GDP; weaker than expected, Euro zone C/A; better than expected, business climate indicator, consumer confidence and economic confidence; weaker than expected and German CPI as expected.

The Euro rallied last week, but not due to Euro zone data, the impetus came from the Fed, as they disappointed traders but failing to flag higher rates anytime in the near future.

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

- On Monday; **Italian PPI, CPI and Euro zone CPI**,
- On Tuesday; **German** retail sales, unemployment data, **PMI manufacturing report, Italian, French and Euro zone PMI manufacturing reports** and Euro zone unemployment data,
- On Wednesday; **Euro zone PPI**,
- On Thursday; **Italian, French, German and Euro zone PMI Services reports**, Euro zone retail sales and the **ECB interest rate decision**, and
- On Friday; German factory orders.

The key releases due this week are highlighted in red, and the ECB meeting on Thursday is clearly the main event, but we judge currencies will be moved by US data releases this week more than domestic events.

**The Macro Trader's view is:** although we sense the recent range bound trading could be coming to a close, we are staying square a little longer.

On several recent occasions the Euro has set its self up for a break out, only for the Dollar to revive. While there seems little hope of that occurring this week, it would only take a rogue payroll number for the Dollar to bounce.

Traders should remain square, listen to Trichet on Thursday, assuming the ECB does what is universally expected and hikes rates, and watch the US data for evidence that last months better data was a blip.



## 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 US Banks announced more bad news and the Fed's decision to hold policy steady sent a message to equity markets that the US economy was far from fixed, and with oil prices still pushing higher, the bears were in control.

Last time we remained bearish of this market as we judged the Fed would flag inflation as the main threat on its radar but would refrain from flagging a clear intent to begin tightening interest rates in the near future.

In the event that was broadly the outcome, but by announcing that they expected inflation to begin correcting lower this year and into next, they effectively ruled out the need to hike at all this year.

As always they gave themselves a get out clause by saying that if inflation risked rising by much more than

anticipated they would do the necessary, but given their outlook, a prolonged period of unchanged rates looks most likely.

This week traders will focus on several key data releases, but the main action occurs on Thursday with non-farm payroll due at lunch time and the ISM non-manufacturing survey due at 3.00pm UK time.

The payroll report is unlikely to hold any surprises but the ISM report is the one to watch, a fresh display of weakness will stir up fears of stagflation and weigh heavily on stocks.



## 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:** our target was met again last week as oil prices again made new highs and threaten more damage to the western economies in the shape of higher inflation and slower growth.

With many Banks still drip feeding out bad news on write downs and trading losses and announcing job losses, the immediate outlook seems negative for equities and we advise remaining short.

Now that the tax rebate cheques have all arrived and likely all been spent, we wonder where the impetus will

come from to drive the economy forward as it still struggles to recover from the still correcting housing market.

Last week's personal income will prove no salvation as this was bloated by the inclusion of the tax rebate cheques in the data.

Traders should remain short of this market, our interim target is now 1270.0 and our stop is reduced further to 1315.0 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

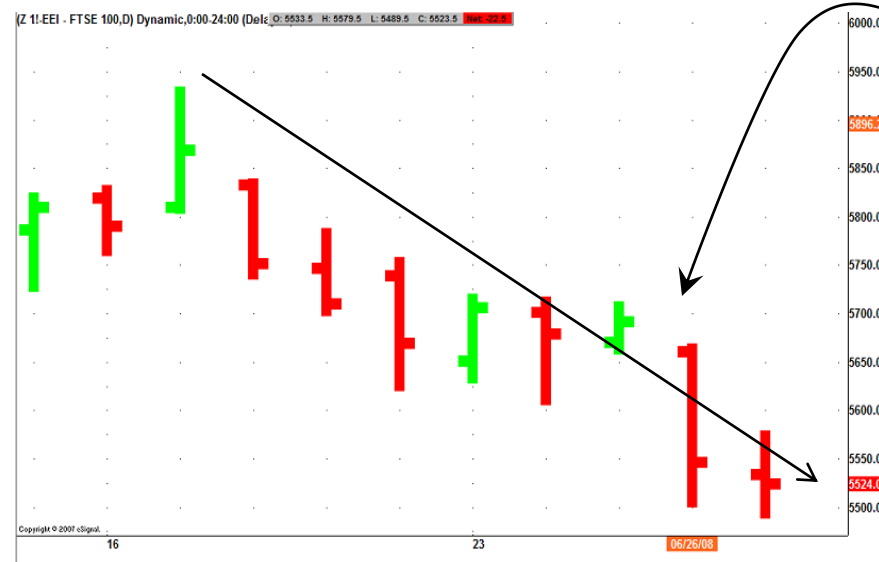
## Commodities

- + 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 as the BBA announced a further drop in home buyer loans and again on Thursday and Friday as oil prices continued to rally and Q1 GDP was unexpectedly revised lower.

Last week we remained bearish of this market as we judged the UK economy looked set to suffer further from weakening growth and rising inflation.

The energy summit of the previous weekend and Saudi Arabia's output increase had no impact on oil prices, indeed the market made a new high which only served to highlight the growing risks of stagflation facing not just the UK but other industrialised economies also.

Even Kings repeated assertions on Thursday during Parliamentary testimony that rates weren't about to be jacked up in response to a spike in inflation, offered no support as this runs the risk of inflation becoming more

deeply entrenched in the economy.

With the Labour Government weakened, and the Labour party loosing financial donors, the unions are emerging as their paymasters once more and they are becoming restless with strikes planned in support of higher pay and new trades union rights.

This will only make the situation more difficult to control and Kings policy looks high risk.

Looking ahead there are several key releases due, but we judge Thursday's PMI Services report as the most important.



## 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:** our target was met last week as the outlook for global inflation continued to weigh on equity markets.

The main source of inflation is indeed oil but other commodities too are having an impact, food costs have risen, but raw materials are sky high and it came as a surprise when China agreed to an annual price increase for Iron ore imports of 96% last week.

Clearly while the emerging economies of China and India are able to sustain these price hikes, the outlook for inflation looks grim.

The west may no longer be the work shop of the world, but it is a customer of Chinas manufactured goods, so one way or another we all pay for these price hikes.

In an environment of relatively low pay awards this does mean an erosion of living standards, to what degree UK workers are willing to accept this will determine the Banks success or otherwise of its current strategy.

But at times of financial and economic distress inaction is perceived, usually incorrectly, as weakness, often it can be the best short term strategy.

We sense impatient traders will fail to appreciate this and judge the FTSE looks set to sell off further.

Traders should stay short of this market, our interim target is reduced to 5495.0 and our remains at 5900.0 in an attempt to keep us involved with volatile markets that increasingly look bearish.



## 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

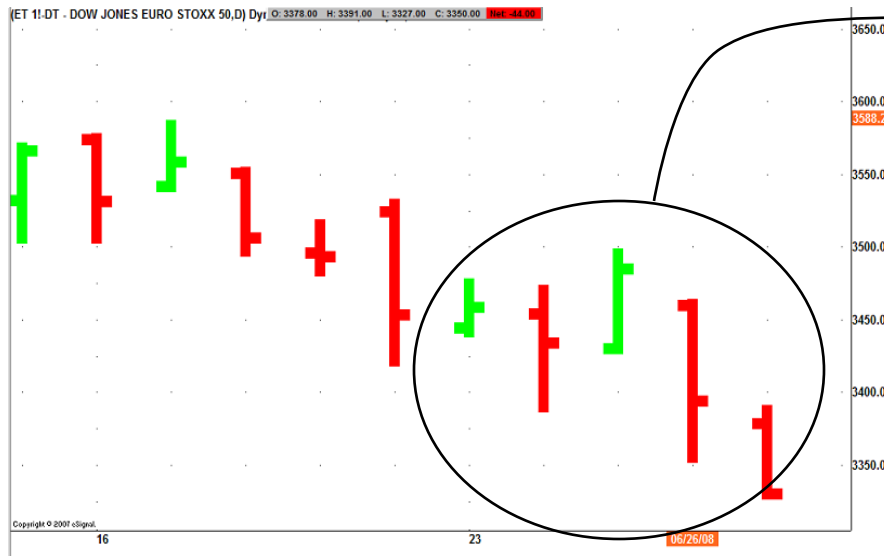
## Commodities

- + Gold
- + Oil

## Stocks: DJ Euro Stoxx 50

### OUR TRADING STANCE: BEARISH.

Last week we were square of the DJ Euro Stoxx 50



See how the market sold off last week as Euro zone data began to weaken, while inflation continues to pose a serious upside risk.

Last time we remained square of this market as we were reluctant to extend our exposure in equities to an additional short position.

But as all equity markets look increasingly vulnerable to the down side, with the FTSE in particular drawing a degree of support from rising oil prices due to the inclusion of many large oil stocks in the index, we judge the Dow Jones Euro STOXX50 offers an appropriate extension of risk.

Last week's Euro zone data began to show signs of weakness creeping in as the PMI Composite index released on Monday came in below 50.0 and

throughout the week several confidence indicators too weakened.

Looking ahead the key event in the Euro zone this week is the ECB rate meeting, but a hike is so well flagged, equities would only react if they surprised and did nothing.

This leaves the US as probably emerging as the main driver of equities as they release a raft of key data over three days.

And with oil prices continuing to rise the threat of higher inflation will be ever present on traders minds.



## Stocks: DJ Euro Stoxx 50

### 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:** we were reluctant to trade this market as we judged for a period of time the Euro zone economy offered a sense of stability that meant it wasn't likely to be the leading bear market.

But as Euro zone data has begun to show signs of future weakness, while inflation remains a threat, this market offers an opportunity the FTSE for instance doesn't; it isn't home to a large number of international oil companies who's profits are bloated every time the oil price spikes higher.

This offers an opportunity to reflect the economic damage rising oil prices are inflicting, rather than convey the prospect of yet higher corporate profits for oil companies.

Traders should now be short of this market, our interim target is 3300.0 and our stop is placed at 3500.0 for protection, but to allow for a degree of volatility which still dogs these 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

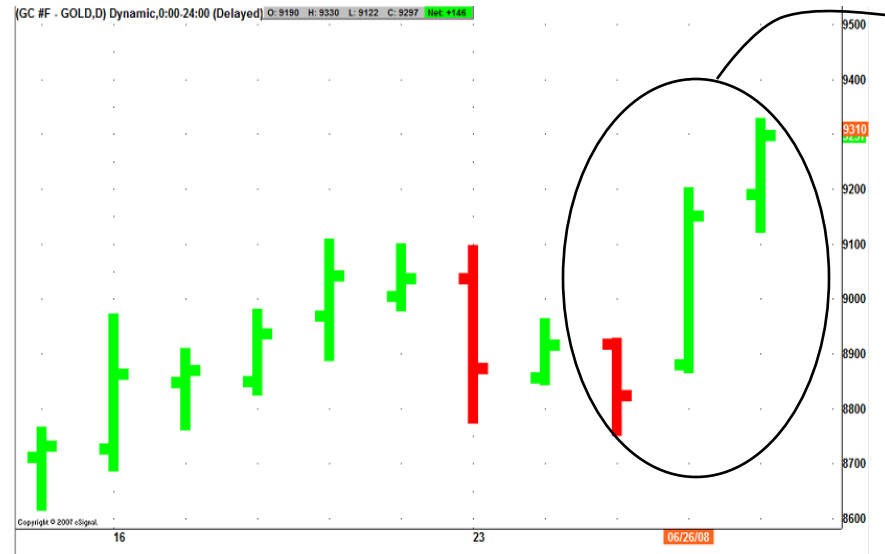
## Commodities

- + Gold
- + Oil

## Commodities: Gold

### OUR TRADING STANCE: BULLISH.

Last week we were square of Gold



See how Gold rallied last week, especially after the Fed left rates on hold and gave a clear impression that they wouldn't change anytime soon.

Last week we remained square of this market as the leading Central Banks continued to talk a tough line against inflation, but the reality of their proposed response was far from hawkish.

With the FOMC rate decision due on Wednesday we judged the gold market was threatening to re-establish its bull trend, but we said a break above 935.0 was needed to lure us back into the market.

In the event the market did trade higher and broke above our level. The impetus was the FOMC policy statement which paved the way for an extended period of US rates on hold.

Although they said the downside risks to growth while still present had diminished and that the upside risks to inflation had increased, they also said that inflation should correct lower later this year and into next.

Together with their assessment of the negatives actually still weighing on the economy, the out look for interest rates is clearly a long pause.

Looking ahead the main indicators likely to affect this market are due on Thursday and we sense the ISM non-mfg survey could be the most important.



## 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 at a time when Central Banks are unable to aggressively respond with tighter monetary policy.

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, indeed this was confirmed last week when China agreed to a 96% annual price increase of its Iron ore imports..

Traders should be long of this market, the threat from inflation is real and growing and the Dollar still looks weak.

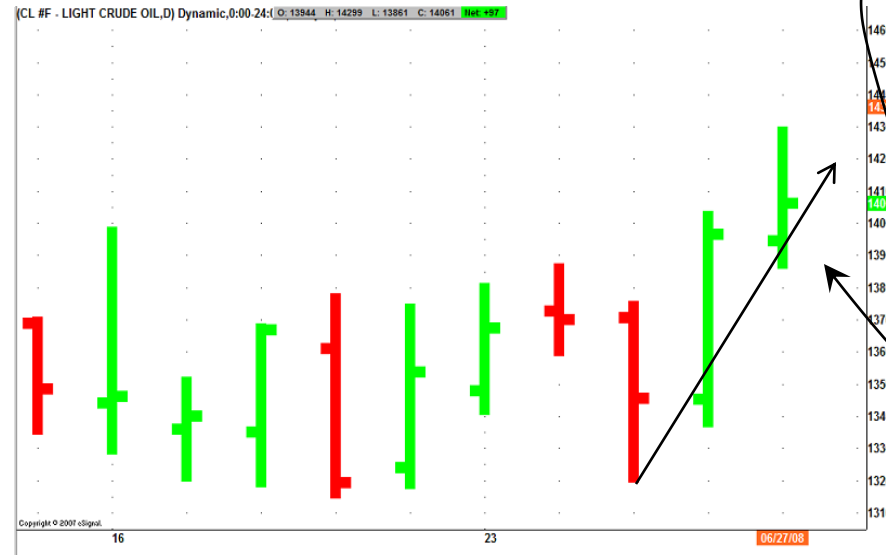
Our interim target is US\$950.0 and our stop is set at \$900.0 to provide protection.



## Commodities: Oil

### OUR TRADING STANCE: BULISH

Last week we were square of Oil



See how oil rallied last week as the tension simmering between Israel and Iran escalated, with reports Iran had positioned missiles near its boarder to provide a strike capability against Israel's own nuclear facilities in case Israel launched an attack.

#### 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 stood back to evaluate the impact of the Saudi increase in oil output which met with no similar increase from OPEC at a summit the previous weekend.

But as the week progressed it was clear the Saudi move would have very little impact on oil prices as Nigeria continue to experience difficulties and disruptions to its own supply.

Add to this the growing row between Israel and Iran over fears and threats that Israel was preparing to launch a pre-emptive strike against Iran's nuclear

installations with apparent US agreement and the oil price could rally much further.

Moreover, Iran isn't a passive potential target, it has moved missiles capable of hitting Israel into a position from which Israel's own nuclear plant could be hit, and has also threatened to block shipping in the Gulf which would upset supplies and send prices through the roof.

In this environment economic considerations are secondary to the price, but are still supported by demand from China and India.



## Summary

## Global Calendar

## Interest Rate Futures

- + Euro Dollars
- + Short Sterling
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## Government Bonds

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

## Currencies

- + US Dollar
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- + 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.

Given the developments over recent days linked both to supply and geopolitics were are now long of this market.

If Israel attacks Iran, which at some point seems likely, there will be a bloody exchange in the Middle East and depending on its ferocity and its impact on Israel runs the risk of drawing in the US.

They will not engage in an Afghanistan or Iraq operation, it will be an Ariel attack and the weapons they use will be decided by the casualties taken by Israel and the level of force used by Iran

Oil prices could rocket.

We advise being long of this market, our interim target is \$145.0 and our stop is at \$130.0 but clearly the point of this trade is to be involved in case military action does occur.





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