Week 31

5th – 11th August 2008

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Disclaimer

the macro trader's guide to major markets

John Lewis

summary – macro trader

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

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	Week of 28th July
Monday	DM GFK Cons conf 2.1 **WEAKER** **THAN EXPECTED**
Tuesday	US Case Shiller Hme prce indx -15.78 **WORSE** US Cons conf 51.9 **BETTER** UK M4 Strlg lndg 46.1 **AS** UK Net cons Cr 0.9B **LESS** UK Net lndg on dwellgs 3.1B **WEAKER** UK Mortge apps 36k **WEAKER** FR Cons conf -48 **WEAKER** FR PPI 0.7m, 7.3y **AS** **THAN EXPECTED**
Wednesday	US MBA mrtge apps 1.3% **BETTER** UK GFK Cons conf -39 **WEAKER** IT PPI 0.8m, 8.2y **AS** EZ Economic conf 89.5 **WEAKER** EZ Bus climate indicator -0.21 **WEAKER** EZ Cons conf -20 **WEAKER** **THAN EXPECTED**

	Week of 4th August
Monday	US Personal income -0.2 US Personal spendg 0.5 US PCE Core 0.2m, 2.2y US Factory orders 0.7 UK PMI Construction 37.5 EZ PPI 0.8m, 7.9y
Tuesday	US ISM Non-mfg survey 48.0 US FOMC Rate decision 2.0% UK PMI Services 46.6 UK Ind production 0.1m, -1.2y UK Mfg output 0.1m, -0.6y UK NIESR GDP Est 0.2 IT PMI Services 47.3 FR PMI Services 47.0 DM PMI Services 53.3 EZ PMI Services 48.3 EZ Retail sales -0.6m, -1.3y
Wednesday	US MBA Mrtge apps n/f UK BRC Shop prices n/f DM Factory orders 0.4m, -4.7y

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	Week of 28th July Cont'd
Thursday	US Q2 GDP 1.9% **WEAKER** US Q2 GDP Price indx 1.1% **BETTER** US Q2 Persnl consumpt'n 1.5 **BETTER** US Q2 Core PCE 2.1% **WORSE** US Q2 Employm't cost indx 0.7% **AS** US Jobless claims 448k **WORSE** US Chicago PMI 50.8 **STRONGER** UK Nationwide hse prces -1.7m, -8.1y **WEAKER** DM ILO Unemploym't rate 7.3% **BETTER** DM Unemploym't chge -20k **AS** IT CPI 0.5m, 4.1y **WORSE** EZ CPI 4.1y **AS** EZ Unemploym't rate 7.3% **WORSE** **THAN EXPECTED**
Friday	US Non-farm payroll -51k **BETTER** US Unemploym't rate 5.7% **WORSE** US Avge hrly earngs 0.3m, 3.4y **MORE** US Avge wrk week 33.6 **LESS** US ISM Mfg survey 50.0 **BETTER** US ISM Prices 88.5 **WORSE** UK PMI Mfg survey 44.3 **WEAKER** IT PMI Mfg survey 45.3 **WEAKER** FR PMI Mfg survey 47.1 **WEAKER** DM PMI Mfg survey 50.9 **AS** EZ PMI Mfg survey 47.4 **WEAKER** **THAN EXPECTED**

	Week of 4th August Cont'd
Thursday	US Jobless claims 413k US Pending home sales-1.0% UK MPC Rate decision 5.0% DM Trade bal 15.5B DM C/A 12.0B FR Trade bal -4.6B IT Ind production 0.3m, -2.0y DM Ind production 0.8m, 1.5y EZ ECB Interest rate decision 4.25%
Friday	US Q2 Non-farm productivity 2.6% US Q2 Unit labour costs 1.2% US Wholesale inventories 0.6% IT Q2 GDP 0.0q, 0.3y

SEVEN DAYS AHEAD

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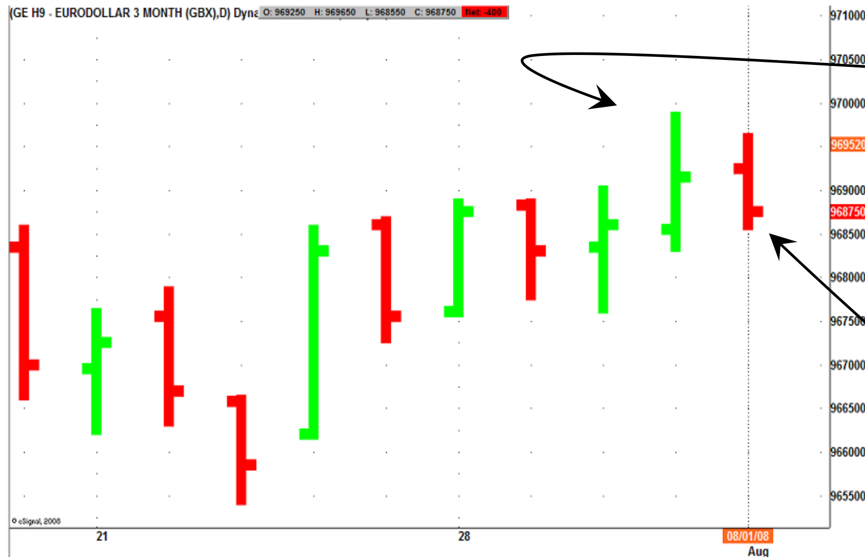
Interest Rate Futures: Euro Dollars March 09

OUR TRADING STANCE: SQUARE.

Last week we were square March 09.



See how Eurodollars rallied last week, especially on Thursday after the slightly disappointing Q2 GDP data and spike in jobless claims, but Friday's better than expected non-farm payroll and better ISM manufacturing survey led to profit taking even though the unemployment rate rose to 5.7%.

Last week we remained square of this market as jobless claims data indicated a deteriorating labour market, but with Fed officials increasingly vocal on inflation we judged the market would struggle for direction.

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

- On Tuesday; Case Shiller home price index; worse than expected and consumer confidence; better than expected,
- On Wednesday; MBA mortgage applications; better than expected,
- On Thursday; Q2 GDP; weaker than forecast, Q2 Price index; better than expected, Q2 Personal consumption; better than expected, Q2 Core PCE; worse than expected, Q2 Employment cost index; as expected, Jobless claims; worse than expected and Chicago PMI mfg survey; better than expected, and
- On Friday; non-farm payroll; better than expected, unemployment rate; worse than expected and ISM Manufacturing survey; better than expected.

The market rallied throughout the week especially after the disappointing Q2 GDP data, only a better than expected non-farm payroll report on Friday held the market back, even though the unemployment rate jumped.

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Interest Rate Futures: Euro Dollars

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

- On Monday; personal income & spending, PCE Core and factory orders,
- On Tuesday; ISM Non-manufacturing survey and FOMC rate decision,
- On Wednesday; MBA mortgage applications,
- On Thursday; jobless claims and pending home sales, and
- On Friday; Q2 Non-farm productivity, Q2 Unit labour costs and wholesale inventories.

The key events this week are highlighted red, and we judge the FOMC rate decision as the main event; will the Fed hike or indicate when the market should expect tighter policy?

We don't expect a rate hike but think the policy statement will focus on both inflation and the still difficult market conditions, leaving the market with no clear time frame.

The Macro Trader's view is; we continue to judge a square stance in this market as the most appropriate.

Signals coming from the economy are mixed but still indicate weakness, with last week's data revealing a deteriorating labour market as the economy continues to shed jobs.

Apart from the Fed traders should watch Tuesday's ISM non-mfg report; any strength will send the market lower, irrespective of the Fed's rate decision.

But with many major Banks still posting losses and or large quarterly write downs, the economy remains vulnerable to the downside due to the restricted flow of credit, which could yet undermine any fledgling recovery that some claim to detect.

We judge the economy is poised precariously and could go either way, and given the current lack of clarity in this market, we are remaining square.

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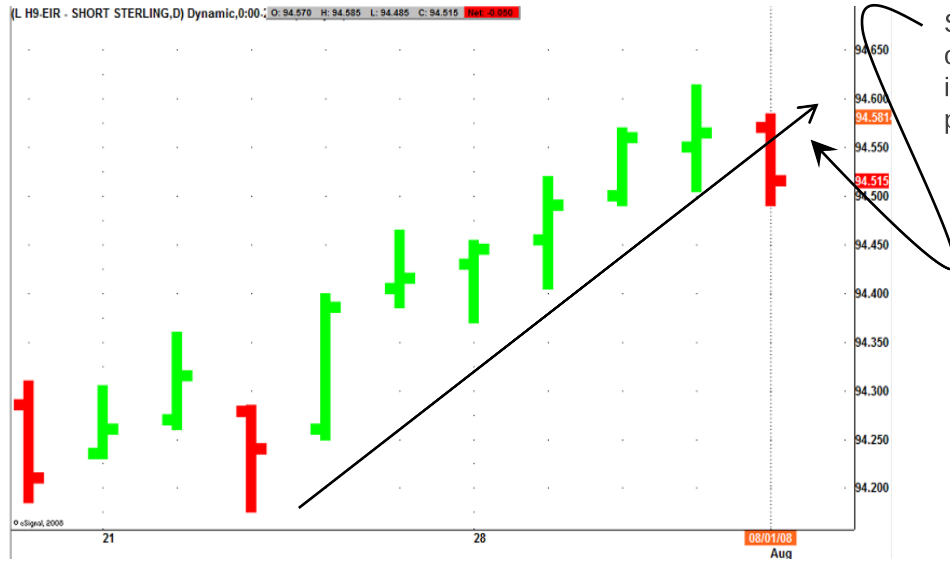
Interest Rate Futures: Short Sterling March 09

OUR TRADING STANCE: BULLISH.

Last week we were bullish of March 09.



See how Short Sterling rallied to our target last week as key indicators remained negative and point increasingly to recession.

Last week we were bullish of March 09 Short Sterling after the release the previous week of much weaker than expected retail sales, which made a recession seem increasingly likely.

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

- On Tuesday; M4 Sterling lending; worse than expected, Net consumer credit; weaker than expected, net lending on dwellings; weaker than expected and mortgage approvals; weaker than expected,
- On Wednesday; GFK Consumer confidence; weaker than expected,
- On Thursday; Nationwide house price survey; weaker than expected, and
- On Friday; PMI Manufacturing survey; weaker than expected.

The market extended the rally last week as data pointed increasingly to a recession in the UK, as lending continued to contract and house prices fell further.

And although only representing a small portion of GDP; the PMI Manufacturing survey came in weaker than expected.

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Interest Rate Futures: Short Sterling

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

- On Monday; PMI Construction survey,
- On Tuesday; PMI Services survey, industrial production, manufacturing output and NIESR GDP estimate,
- On Wednesday; BRC Shop prices survey, and
- On Thursday; the MPC interest rate decision.

This week's key releases are highlighted red, and we judge the MPC rate decision as the main event even though we expect unchanged interest rates.

The PMI services report if weaker than expected. Will send this market higher, with an unchanged decision on Thursday further fuelling the rally.

The Macro Trader's view is: all the available data over recent week's points one way; recession, were it not for the current short/medium term problem with inflation interest rates would be 150bp lower already.

But even allowing for the current inflation head ache we still expect the next move from the MPC to be a cut, but patience is required.

The main worry is though, that by the time policy makers judge it safe enough to ease, the economy will already be in recession and with house prices by then likely very much lower, simply cutting rates will not bring about a swift recovery as home owners will be in negative equity and many more trying to navigate their way out of the sea of debt most people allowed themselves to sail into.

Traders should remain long of this market, our interim target is now set at 94.70 and our suggested stop is raised to 94.40 for closer protection.

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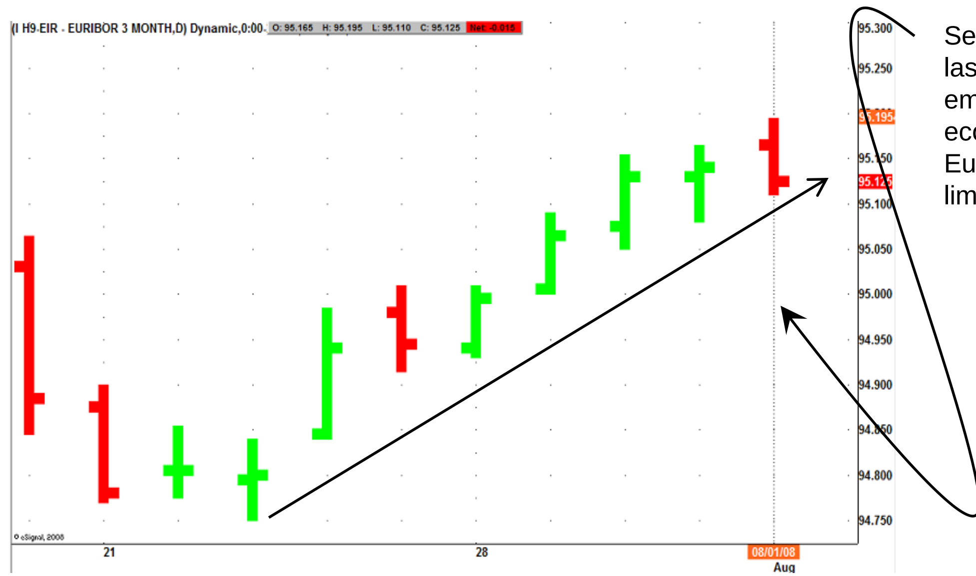
Interest Rate Futures: Euribor March 09

OUR TRADING STANCE: SQUARE.

Last week we were square of March 09.



See how Euribor rallied further last week as several reports emphasised the growing economic weakness, and even Euro zone CPI at 4.1% had limited impact.

Last week we were square of this market, following the release of weaker than expected German IFO and Euro zone M3 the previous week which we judged would restrain the ECB from hiking policy further.

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

- On Monday; German GFK consumer confidence; weaker than expected,
- On Tuesday; French consumer confidence; weaker than expected and PPI; as expected,
- On Wednesday; Italian PPI; as expected, Euro zone economic confidence; weaker than expected, business climate indicator and consumer confidence; weaker than expected,
- On Thursday; German ILO unemployment report; better than expected, Italian CPI; worse than expected, Euro zone CPI; as expected and Unemployment report; worse than expected, and
- On Friday; Italian, French and Euro zone PMI manufacturing surveys; weaker than expected and German PMI Mfg; as expected.

The market rallied as data remained soft which traders increasingly judge will make it difficult for the ECB to tighten policy further.

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Interest Rate Futures: Euribor

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

- On Monday; Euro zone PPI,
- On Tuesday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales,
- On Wednesday; German factory orders,
- On Thursday; German trade and C/A data, French trade data, Italian industrial production, German industrial production and the ECB interest rate decision, and
- On Friday; Italian Q2 GDP.

This week's key releases are highlighted in red, and we judge the ECB interest rate decision on Thursday as the main event, especially the press conference led by Trichet, which follows soon after.

The Macro Trader's view is; our decision to close the short position the previous week proved sound as the market rallied further.

Although we see the risk of a rate hike receding it hasn't evaporated. The ECB are uncomfortable with current levels of inflation, and while they acknowledge its origin comes from abroad, they fear 2nd round inflation effects.

However with the economy clearly slowing, how big a risk is that, but labour markets are more tightly regulated in the Euro zone; it isn't as easy to hire and fire as in the UK or US so unions have little incentive to advise their members to tighten their belts until better times.

This is why the ECB remains biased towards higher rates, which although they may never deliver, makes this market currently an unattractive trade, so for now stay square.

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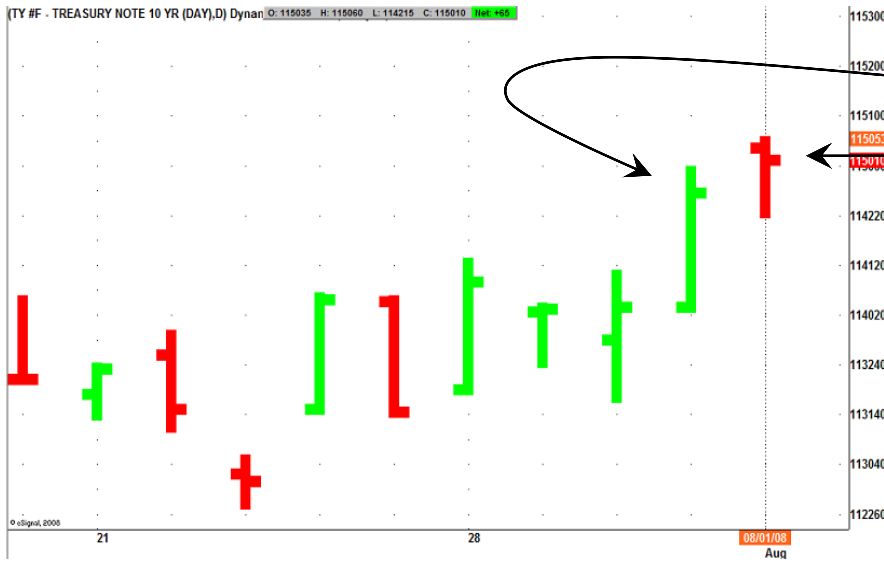
Government Bonds: US Treasury Note (10yr)

OUR TRADING STANCE: SQUARE.

Last week we were bearish of the 10yr Note.



See how The 10Yr Note rallied last week, especially on Thursday after the disappointing Q2 GDP report and again on Friday after the unemployment rate moved higher.

Last week we remained bearish of this market following some mixed data but ahead of a Q2 GDP report which we thought could prove stronger than expected.

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

- On Tuesday; Case Shiller home price index; worse than expected and consumer confidence; better than expected,
- On Wednesday; MBA mortgage applications; better than expected,
- On Thursday; Q2 GDP; weaker than forecast, Q2 Price index; better than expected, Q2 Personal consumption; better than expected, Q2 Core PCE; worse than expected, Q2 Employment cost index; as expected, Jobless claims; worse than expected and Chicago PMI mfg survey; better than expected, and
- On Friday; non-farm payroll; better than expected, unemployment rate; worse than expected and ISM Manufacturing survey; better than expected.

The market rallied last week as the GDP report proved a disappointment. Although only just below consensus, the market was ready for a number that showed greater strength.

In the event its tepid nature seemed due to the tax rebate cheques that won't be repeated, placing a question mark over the 3rd quarter data.

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Government Bonds: US Treasury Note (10yr)

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

- On Monday; personal income & spending, PCE Core and factory orders,
- On Tuesday; ISM Non-manufacturing survey and FOMC rate decision,
- On Wednesday; MBA mortgage applications,
- On Thursday; jobless claims and pending home sales, and
- On Friday; Q2 Non-farm productivity, Q2 Unit labour costs and wholesale inventories.

The key event this week is without doubt the FOMC rate decision and the policy statement.

We do not expect a rate hike and judge the policy statement will highlight inflation but fall short of flagging a time table for tighter policy.

The outlook for this market then hinges on the strength of incoming data, which could well remain a little mixed.

The Macro Trader's view is; our expectations/fears for Q2 GDP were ultimately miss-placed and the relief rally that followed stopped us out.

However we are not now bullish. The Fed is concerned about inflation, but is likely constrained by the fragile state of the financial markets which pose a serious risk to the health of the wider economy.

So if the Fed remains on hold and inflation continues to cause problems, bonds could yet sell off as traders fret the Fed isn't taking the necessary action to bring inflation back under control.

With this thought in mind, we judge Tuesday's ISM non-manufacturing survey as very important. If it bounces, as did the Mfg version, this market will struggle to extend the rally, but if it comes in below consensus, will the market rally? Maybe initially, but it could be a good selling opportunity, especially if the Core PCE report shows inflation creeping up.

In short we judge the outlook clouded; commodities and oil could yet rally further and that would be negative for bonds.

For now stay square.

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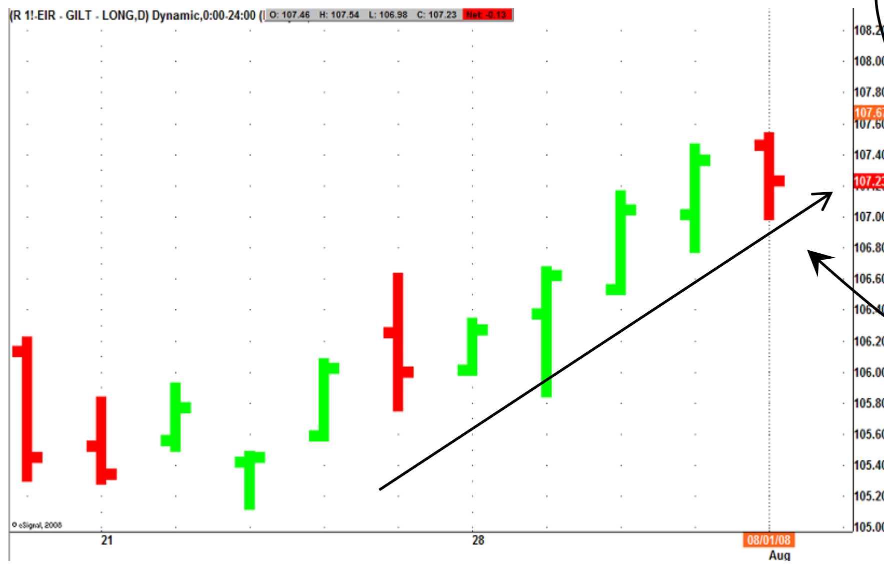
Government Bonds: The Gilt

OUR TRADING STANCE: BULLISH.

Last week we were square of the Gilt.



See how the Gilt rallied last week as data continued to show an economy cruising towards recession.

Last week we were square of the Gilt as the Brown administration moved closer to self destruct with obvious implications for public finances.

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

- On Tuesday; M4 Sterling lending; worse than expected, Net consumer credit; weaker than expected, net lending on dwellings; weaker than expected and mortgage approvals; weaker than expected,
- On Wednesday; GFK Consumer confidence; weaker than expected,
- On Thursday; Nationwide house price survey; weaker than expected, and
- On Friday; PMI Manufacturing survey; weaker than expected.

The market rallied further last week as data remained weak, especially anything linked to the housing market with Tuesday showing a further decline in loans for house purchase and Thursday reporting another drop in house prices, in all a week when data cried out for lower rates, which won’t yet be delivered due to short term inflation considerations currently preoccupying the MPC.

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Government Bonds: The Gilt

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

- On Monday; PMI Construction survey,
- On Tuesday; PMI Services survey, industrial production, manufacturing output and NIESR GDP estimate,
- On Wednesday; BRC Shop prices survey, and
- On Thursday; the MPC interest rate decision.

This week's key releases are highlighted in red, and we judge the MPC rate decision on Thursday as the most important; some fear a rate hike; we don't, but once out of the way, traders will reflect on the PMI Services report which could be even weaker than expected.

The Macro Trader's view is: bond traders hate inflation and typically in a period of rising inflation where the Central Bank appears to be behind the curve, bond yields rise.

Even a period of stagflation usually argues for higher rates where growth falls but inflation continues to rise.

But we judge the conditions are not currently right for higher Gilt yields; inflation is rising, but not because pay is helping to drive costs and prices higher, no pay has remained reasonably stable. The problem comes from abroad, caused by oil and other commodities which the MPC cannot on its own influence.

Additionally the same rising oil and commodity prices are sapping consumer spending power so simultaneously weakening growth.

This combined with the credit shock is sufficient to cause a recession, but the MPC are unable to respond, so the yield curve will reflect the economic reality and cause Gilts to rally, albeit unevenly.

Traders should be long of this market, we think an unchanged announcement on Thursday will prove bullish for this market.

Our interim target is 107.66 and our stop is set at 106.45.

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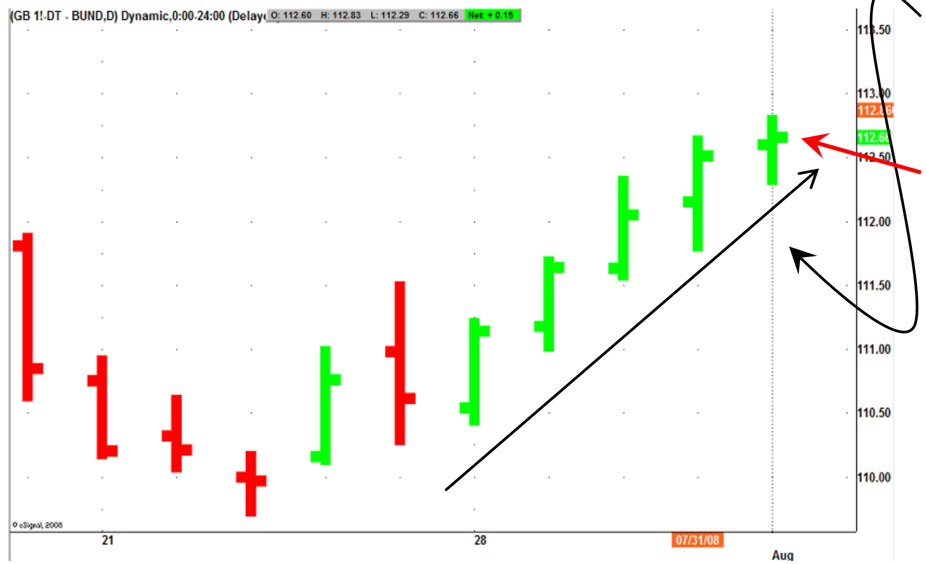
Government Bonds: The Bund

OUR TRADING STANCE: SQUARE.

Last week we were square of the Bund



See how the Bund rallied last week as remained weak with several confidence reports below consensus and three out of four key PMI mfg surveys released on Friday came in weaker than expected.

Last week we remained square of this market following the previous week's disjointed price action caused by evidence of both yet slower growth and higher inflation.

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

- On Monday; German GFK consumer confidence; weaker than expected,
- On Tuesday; French consumer confidence; weaker than expected and PPI; as expected,
- On Wednesday; Italian PPI; as expected, Euro zone economic confidence; weaker than expected, business climate indicator and consumer confidence; weaker than expected,
- On Thursday; German ILO unemployment report; better than expected, Italian CPI; worse than expected, Euro zone CPI; as expected and Unemployment report; worse than expected, and
- On Friday; Italian, French and Euro zone PMI manufacturing surveys; weaker than expected and German PMI Mfg; as expected.

The Bund rallied last week as data largely came in below consensus, and although Euro zone CPI recorded higher inflation, it was in line with expectations.

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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 PPI,
- On Tuesday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales,
- On Wednesday; German factory orders,
- On Thursday; German trade and C/A data, French trade data, Italian industrial production, German industrial production and the ECB interest rate decision, and
- On Friday; Italian Q2 GDP.

This week's key events are highlighted in red, but we judge the ECB rate decision and post meeting press conference as the main event this week.

We do not expect a change to interest rates, but Trichet's remarks are likely to provide insight to current ECB thinking.

The Macro Trader's view is: although the ECB is probably still biased towards higher rates, that doesn't mean they will deliver them any time soon.

It is impossible to ignore the slowdown currently unfolding in the Euro zone, but much like the US and UK inflationary pressures persist.

While policy makers continue to remind markets that they will not allow inflation to take hold, their options in reality are limited.

And although the ECB has a record of hiking rates at sensitive junctures for growth, and may well take interest rates higher later this year. We sense they are operating at the margin of the current tightening cycle, meaning at most one more move.

For now we prefer to remain square of this market, but if the slowdown intensifies, the Bund may well present as a medium term buy.

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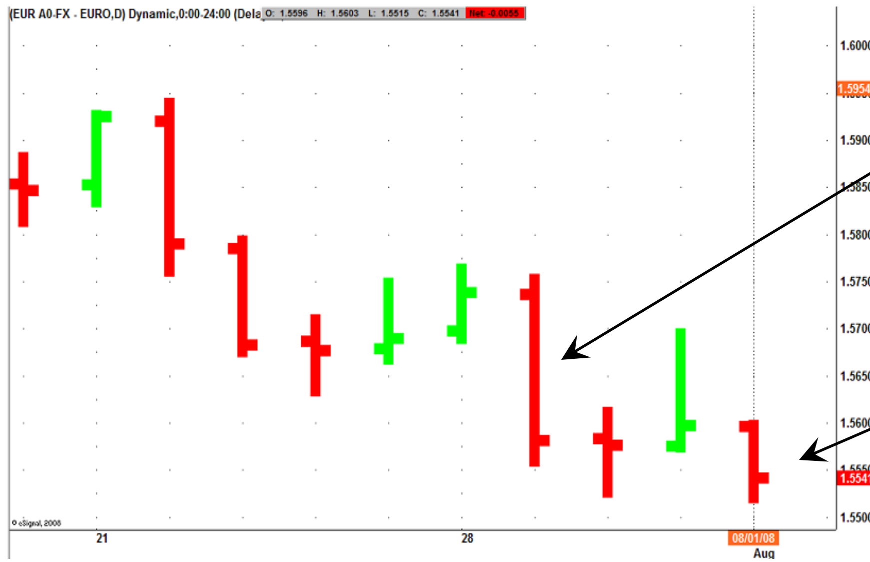
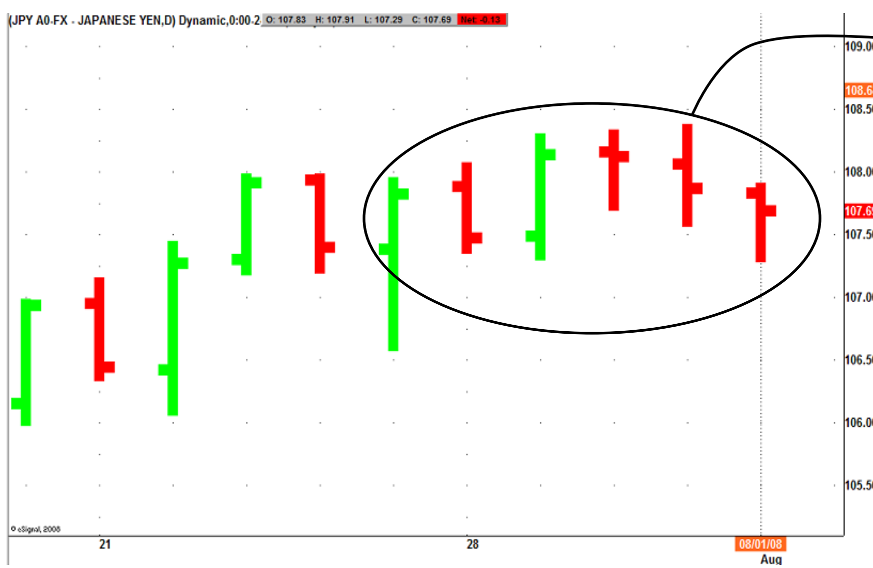
Currencies: The Dollar

OUR TRADING STANCE: SQUARE

Last week we were square of the dollar



See how the Dollar strengthened further last week, helped by the looming FOMC meeting and a firming of consumer confidence on Tuesday and better than expected non-farm payroll and ISM Mfg survey on Friday.



See how the Yen largely moved sideways against the Dollar last week as Japanese household spending and retail trade data came in better than expected.

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Currencies: The Dollar

Last week we remained square of the Dollar as we judged it remained range bound. With several breakout attempts in either direction over recent weeks failing.

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

- On Tuesday; Case Shiller home price index; worse than expected and consumer confidence; better than expected,
- On Wednesday; MBA mortgage applications; better than expected,
- On Thursday; Q2 GDP; weaker than forecast, Q2 Price index; better than expected, Q2 Personal consumption; better than expected, Q2 Core PCE; worse than expected, Q2 Employment cost index; as expected, Jobless claims; worse than expected and Chicago PMI mfg survey; better than expected, and
- On Friday; non-farm payroll; better than expected, unemployment rate; worse than expected and ISM Manufacturing survey; better than expected.

The Dollar strengthened last week, on relatively flimsy evidence; better consumer confidence on Tuesday and a less negative than expected non-farm payroll report on Friday, ignoring the worse than expected unemployment rate which rose to 5.7%.

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

- On Monday; personal income & spending, PCE Core and factory orders,
- On Tuesday; ISM Non-manufacturing survey and FOMC rate decision,
- On Wednesday; MBA mortgage applications,
- On Thursday; jobless claims and pending home sales, and
- On Friday; Q2 Non-farm productivity, Q2 Unit labour costs and wholesale inventories.

This week's key events are highlighted red and we judge the FOMC rate decision as the main focus for traders this week.

There has been heightened speculation over the chances of a rate hike, due to briefings and comments from Fed officials, but on balance the consensus is for unchanged rates as the financial markets remain fragile.

The Macro Trader's view is: the Dollar rallied further last week, but remains range bound. Unless the Fed either hikes on Tuesday or communicates in the policy statement that a rate hike is relatively imminent we can not see a range breakout just yet.

Moreover a weak ISM non-manufacturing report tomorrow would undermine the Dollar, by indicating the limited Q2 recovery was due almost entirely to tax rebates.

But with the Euro zone and UK economies in no better shape, we fail to see any clear cut opportunity for the Dollar and advise remaining square; maybe the Fed will prove us wrong and the ISM report will strengthen, if so then the Dollar will have the foundations for an eventual recovery, but currently we don't expect it.

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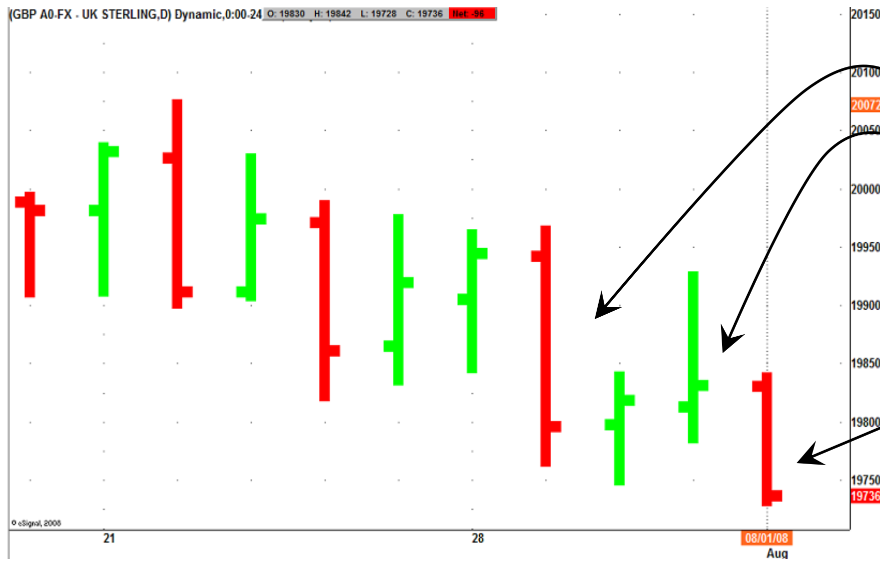
+ Dow Jones Eurostoxx50

Commodities
+ Gold
+ Oil

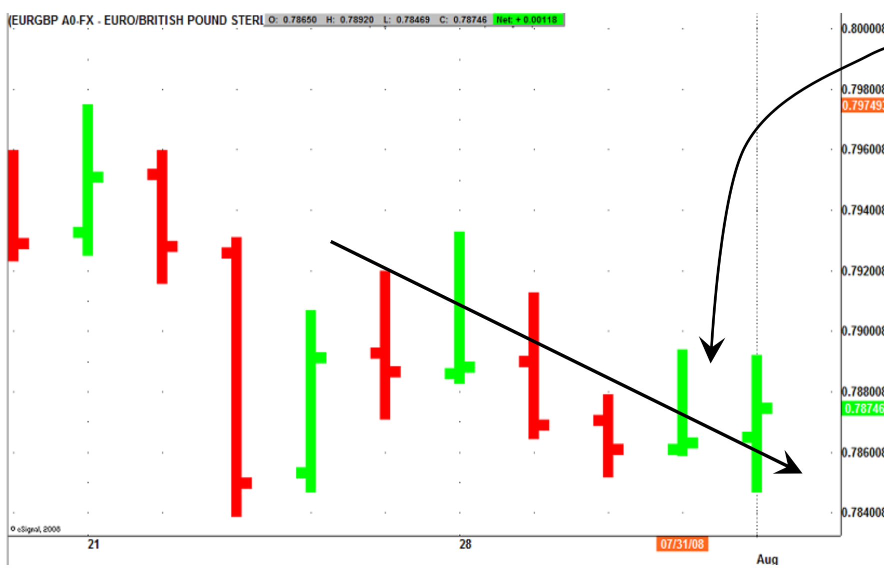
Currencies: The Pound Sterling

OUR TRADING STANCE: SQUARE.

Last week we were square of Sterling.



See how Cable weakened last week especially on Tuesday after the release of weak lending data, on Thursday after another weak Nationwide house price survey and on Friday after a weaker than expected PMI Mfg survey.



See how Sterling faired a little better against the Euro as the combination of weaker Euro zone data and a stronger Dollar dragged Sterling a little higher.

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- + Euribor

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- + Euro Bund

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- + Euro

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- + Dow Jones Eurostoxx50

Commodities
- + Gold
- + Oil

Currencies: The Pound Sterling

Last week we remained square of Sterling following the release of data, both domestic and foreign, that offered small hope of a resumption of the previous trend, or the emergence of a new one.

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

- On Tuesday; M4 Sterling lending; worse than expected, Net consumer credit; weaker than expected, net lending on dwellings; weaker than expected and mortgage approvals; weaker than expected,
- On Wednesday; GFK Consumer confidence; weaker than expected,
- On Thursday; Nationwide house price survey; weaker than expected, and
- On Friday; PMI Manufacturing survey; weaker than expected.

The Pound weakened against the Dollar as UK data rammed home the message of deepening economic gloom, and only drifted higher against the Euro as the outlook in the Euro zone is little better.

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

- On Monday; PMI Construction survey,
- On Tuesday; PMI Services survey, industrial production, manufacturing output and NIESR GDP estimate,
- On Wednesday; BRC Shop prices survey, and
- On Thursday; the MPC interest rate decision.

This week's key data releases are highlighted red, but are unlikely to support Sterling; the PMI Services report is more likely to show further weakness and the MPC will most likely hold policy steady despite wide spread market anxiety of a rate hike.

The Macro Trader's view is: the Pound like the other major currencies remains range bound.

The data coming from the UK economy is by no means bullish for Sterling, but by comparison neither is the data coming from the US or Euro zone particularly helpful for the Dollar or Euro.

In short currencies remain stuck in a range and we judge they could spend longer going sideways before any fresh news emerges capable of forcing a breakout.

If we are wrong about the Fed and/or MPC then the deadlock will break, but in-spite of hawkishness from both leading Central Banks we judge they will not act for fear of causing greater economic weakness.

Although inflation in the UK could well rise closer to 5.0% as a result of the energy companies price hikes, wages so far are not chasing inflation high. This allows the MPC to leave policy on hold while the already apparent economic weakness eventually bears down on domestic inflation, with hopes that the broader global slowdown will eventually cool the commodity and oil markets.

For now we advise remaining square.

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Commodities
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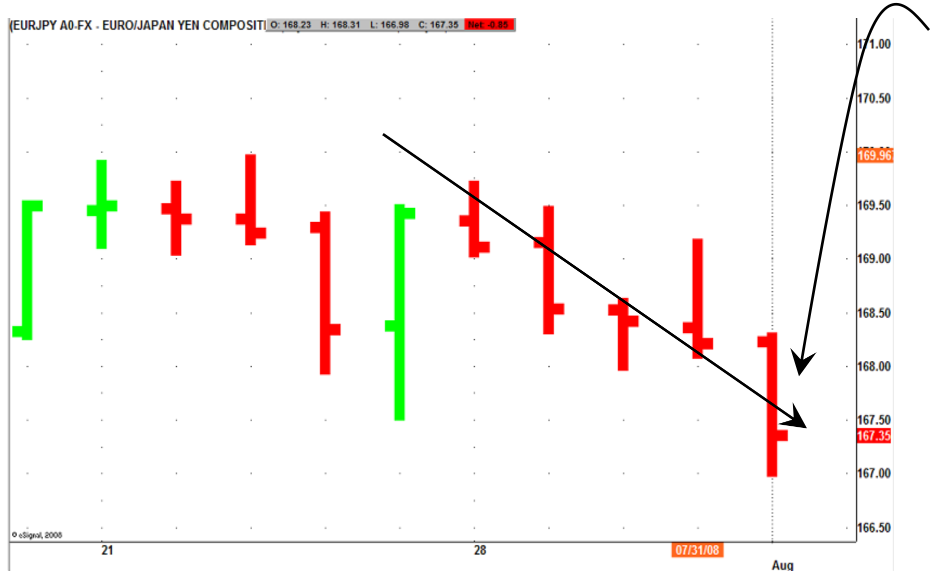
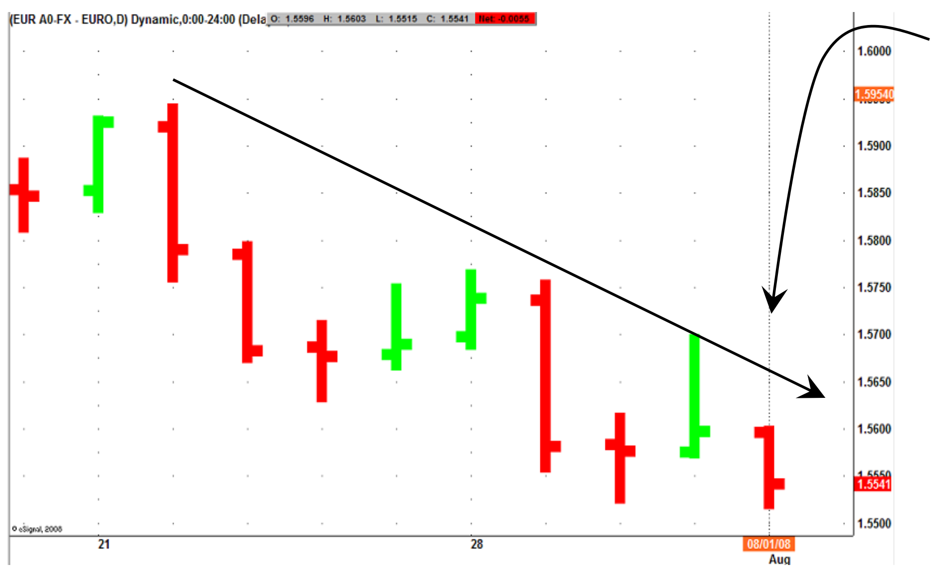
Currencies: The Euro

OUR TRADING STANCE: SQUARE.

Last week we were square of the Euro .



See how the Yen strengthened last week as stronger Japanese house spending and retail trade data contrasted with worse than expected data from the Euro zone.



See how the Euro weakened against the Dollar as traders speculated over the chances of a US interest rate hike, which while slim led to traders taking long Dollar positions as a hedge.

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Commodities
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Currencies: The Euro

Last week we remained square of the Euro following the release of a weaker than expected IFO report the previous week which we judge neutered any advantage the Euro once had over the Dollar.

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

- On Monday; German GFK consumer confidence; weaker than expected,
- On Tuesday; French consumer confidence; weaker than expected and PPI; as expected,
- On Wednesday; Italian PPI; as expected, Euro zone economic confidence; weaker than expected, business climate indicator and consumer confidence; weaker than expected,
- On Thursday; German ILO unemployment report; better than expected, Italian CPI; worse than expected, Euro zone CPI; as expected and Unemployment report; worse than expected, and
- On Friday; Italian, French and Euro zone PMI manufacturing surveys; weaker than expected and German PMI Mfg; as expected.

The Euro zone data was again weaker than expected throughout the week with Friday's PMI manufacturing reports mainly below consensus, which threw attention over to US data which came in marginally better than consensus yet still too weak to offer the Dollar long term support.

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

- On Monday; Euro zone PPI,
- On Tuesday; Italian, French, German and Euro zone PMI Services surveys and Euro zone retail sales,
- On Wednesday; German factory orders,
- On Thursday; German trade and C/A data, French trade data, Italian industrial production, German industrial production and the ECB interest rate decision, and
- On Friday; Italian Q2 GDP.

The key releases due this week are highlighted in red, and obviously the ECB interest rate decision and post meeting press conference on Thursday are the key events.

But traders should also monitor the PMI Services surveys due on Tuesday, as weakness here will further restrain any intentions the ECB may hold for hiking rates.

The Macro Trader's view is: we saw nothing last week that has changed our minds over the currency market's; they largely remain range bound.

While there are key events due this week capable in theory of breaking the deadlock; the policy meetings held by the Fed, ECB and MPC, we do not expect anything from them other than more rhetoric about the need to control inflation, tempered by warnings of still present downside risks to growth.

If we are wrong and one or other of them breaks cover than clearly the market will react, but we judge the best position is to remain square.

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+ FTSE 100
+ Dow Jones Eurostoxx50

Commodities
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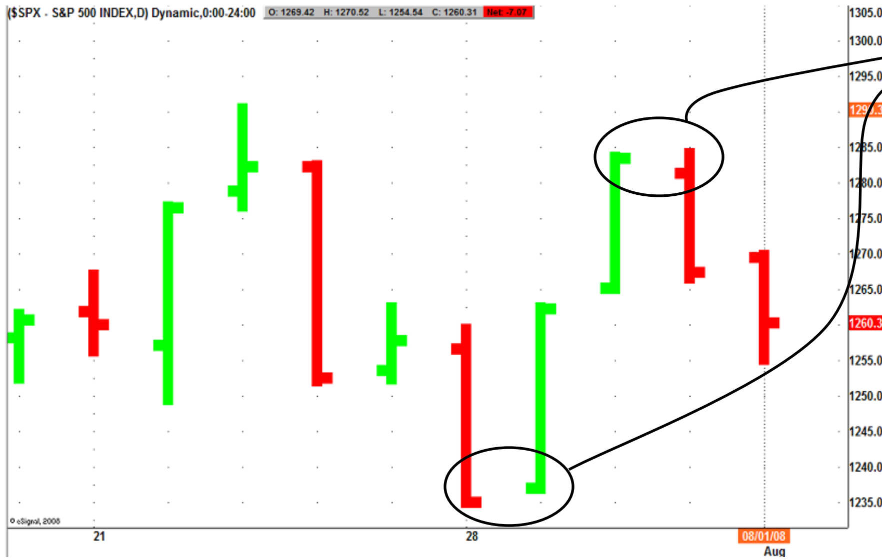
+ Oil

Stocks: S&P 500

OUR TRADING STANCE: BEARISH.

Last week we were square of the S&P 500



See how stocks endured a volatile week as both highs and lows were tested amid the ebb and flow of data and corporate results that revealed more woe for leading financials.

Last week we were square of this market ahead of an important week for data. With Q2 GDP due we felt there was a real chance that this number could come in better than consensus, an event that would have sent equities higher.

In the event the number fell short of expectations and as we thought last week, the market gave back its gains on the news and we took our own advise and went short.

Even a slightly better than expected non-farm payroll report on Friday and better than expected ISM manufacturing report failed to offer support as traders reacted to the jump in the unemployment rate and the spike in jobless claims the day before, which is now at levels consistent with recession.

Corporate data throughout the week was no help either as Merrill Lynch announced new write downs and will likely attempt a fresh cash call to bolster capital.

Away from Wall street, GM and Sunmicrosystems announced disappointing results too.

Looking ahead all eyes are on the Fed, we expect unchanged rates with rhetoric aimed at inflation but tempered by caution over downside risks to growth, with this market likely selling off further.

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Commodities
+ Gold
+ Oil

Stocks: S&P 500

The Macro Trader's view is: our decision to stand back last week proved sound as the market endured a volatile week, which although ending the week on weakness, left it largely unchanged from the previous week's close.

However we judge it is right to re-establish a short position as Q2 GDP was a disappointment. Now the fiscal stimulus is spent, Q3 will be a more accurate reflection of the economy's true health.

We expect a slower quarter which should keep the Fed on hold as they continue to balance the need to control inflation against the need to support growth, and by their own admission, with financial markets still fragile, Banks and other financial institutions still publishing write offs and large losses, non-financials releasing disappointing profits with the housing market still correcting and the labour market continuing to contract we think the Fed will struggle to hike at all this year.

Given the fragile conditions still pertaining we see stocks selling off further and advise traders to go short.

Our interim target is 1220.0 and our stop is placed at 1292.0 for protection.

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Stocks
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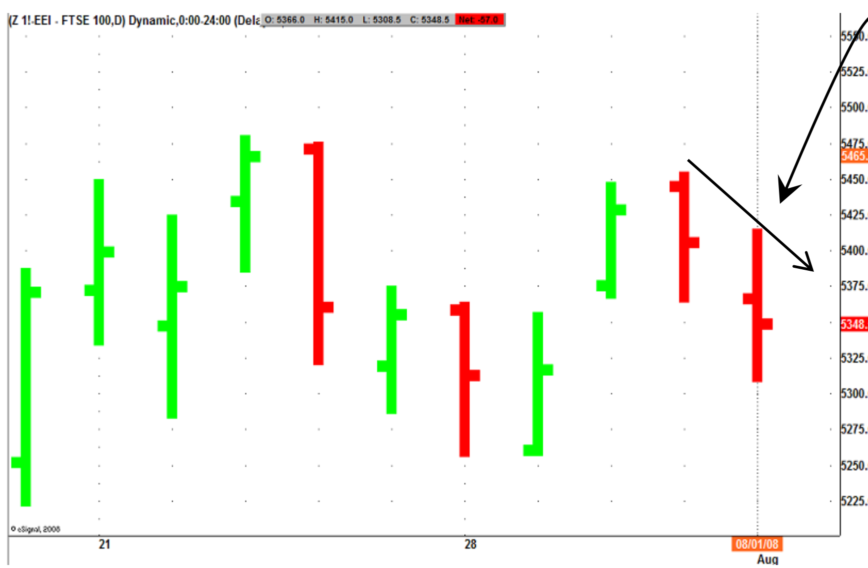
Commodities
+ Gold
+ Oil

Stocks: FTSE 100

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the FTSE 100



See how the FTSE failed to hold its early week gains and sold off on negative corporate news and a weaker than expected Nationwide house price survey released on Thursday and a weak PMI Mfg report on Friday..

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, and although there were no inflation data last week, other data showed increasing weakness:

- On Tuesday lending data both personal and for house purchase fell further,
- On Wednesday the GFK consumer confidence measure weakened further,
- On Thursday the Nationwide house price survey showed price falls accelerating, and
- On Friday the PMI Manufacturing survey sank further into contractionary territory.

Add to this the collapse of the British energy deal and RBS announcing it lost £1.B and the weakness seen in the FTSE on Thursday and Friday looks like extending further.

Looking ahead the main releases this week are the PMI Services survey on Tuesday which is expected to show greater weakness and the MPC rate decision on Thursday which should see policy left unchanged, even though energy prices were jacked up by 35% which is bad news for inflation but also consumer spending.

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Stocks: FTSE 100

The Macro Trader's view is: our target was met last week before the market short covered higher, but with all the negative UK news and data currently being released we judge this market remains bearish.

Regardless of the MPC'S interest rate decision on Thursday, we expect equities to weaken further, only today HSBC announced a 28% drop in profits and $10.1B set aside to cover loan losses. This following the record loss announced by RBS last week.

But were the MPC to hike rates on Thursday this market would slump as the economy would not only go into recession, but collapse, as the blow to already fragile confidence among home owners and consumers would be immense, that's why we don't think policy makers will raise rates.

Traders should be short of this market, our interim target is now 5250.0 but our stop remains at 5505.0 for protection.

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Commodities
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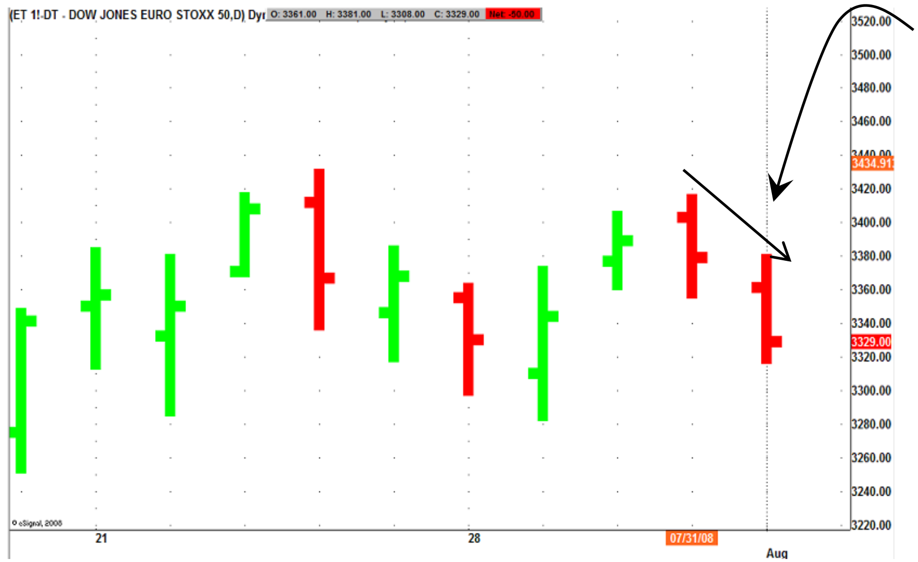
Stocks: DJ Euro Stoxx 50

OUR TRADING STANCE: BEARISH.

Last week we were bearish of the DJ Euro Stoxx 50



See how the market attempted a rally but weak economic data and more loan losses sent this market into reverse on Thursday and Friday.

Last week we were bearish of this market following a weaker than expected German IFO report the previous week, which together with other economic data that has been increasingly flagging economic weakness, making further bearish price action seem highly likely.

With various confidence reports coming in weaker than expected throughout the week, together with Friday's mainly weaker than expected PMI manufacturing surveys, the market rejected an attempt to rally and settled lower on the week.

News of a huge write down by Deutsche Bank on Thursday, to the tune of $11.1B compounded the negative sentiment starting to reassert its grip on equities generally following the attempted recovery started the previous week by the sell off in the oil market.

Looking ahead the PMI Services surveys are the main economic data releases this week, with the ECB meeting and press conference on Thursday providing the main point of interest; traders remain wary of the ECB, and remain alert to fresh hints pointing to further tightening, but we are unlikely to see any change of policy this week or indeed during the coming months if data continues to weaken.

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Stocks: DJ Euro Stoxx 50

The Macro Trader's view is: the Euro zone economy is showing signs of going the way of the US and UK, only the intensity is now up for debate, and like the Fed and the Bank of England the ECB is fast finding its policy options closing down as it has to balance a weakening economy against persistent inflationary pressures.

As leading Banks in the three main western economies continue to report losses and large write offs, with non-financial companies also experiencing weaker conditions as evidenced by BMW's profit warning last week, a recovery from the impact of the credit crunch one year after it first hit, still seems a long way off.

Traders should remain short of this market, our interim target is now set at 3250.0 but our stop remains set at 3445.0 for protection.

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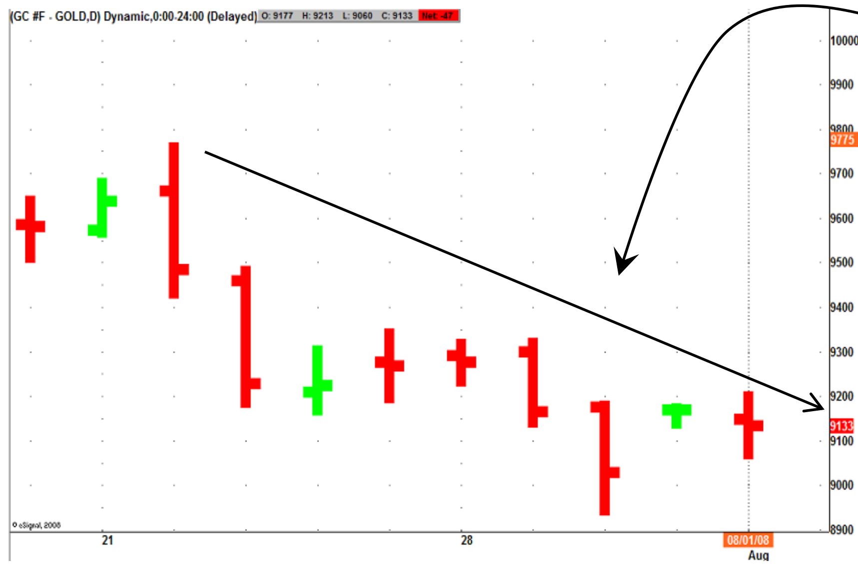
Commodities
+ Gold
+ Oil

Commodities: Gold

OUR TRADING STANCE: SQUARE.

Last week we were square of Gold



See how Gold continued to correct last week, as the Dollars recent spell of strength continued, but rejected the lows hit on Wednesday as inflation worries continue to cause Central Bankers concern as evidenced by the release on Thursday of Euro zone CPI at 4.1%.

Last week we were square of this market following the sizeable correction the previous week, induced by a correcting Dollar based on hawkish Fed comments and an abrupt sell off in oil.

Although we repeated our long term view of Gold remained bullish, we judged the market would take time to re-assert its bullish trend in an environment where Central Banks seemed more in earnest about controlling inflation.

Even though we judged any near term rate hikes from the Fed, ECB or MPC were unlikely given the still present down side risks to growth.

But with oil selling off on fears the sky high prices of energy and other key commodities were hurting economic activity, two key supports for Gold had been removed:

1. Dollar weakness, and
2. The prospect of ever rising energy prices and inflation.

Looking ahead the main event this week is the FOMC meeting and although we do not expect a hike, we judge the carefully crafted policy statement will fail to allow the Dollar to extend its gains, leaving currencies range bound and gold in a period of consolidation.

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+ Oil

Commodities: Gold

The Macro Trader's view is; our view of gold remains largely unchanged; we are long term bulls and expect it not only to eventually revisit the high made in March of this year, but make new highs.

We see the problems that beset the western economies as remaining a threat and unlikely to be resolved any time soon.

Growth looks set to weaken further and inflation remains on an upward path, driven by commodity and oil prices, which we judge are currently only correcting.

For now though we see no sense in committing resources to this market until a greater degree of clarity emerges.

We though that could be forthcoming last week, but Q2 GDP was weaker than expected and although the unemployment rate rose further, non-farm payroll was less negative than feared.

For now we advise remaining square, until either the Dollar resumes its sell off or the Oil market resumes its rally. But in the event of neither Gold could drift lower.

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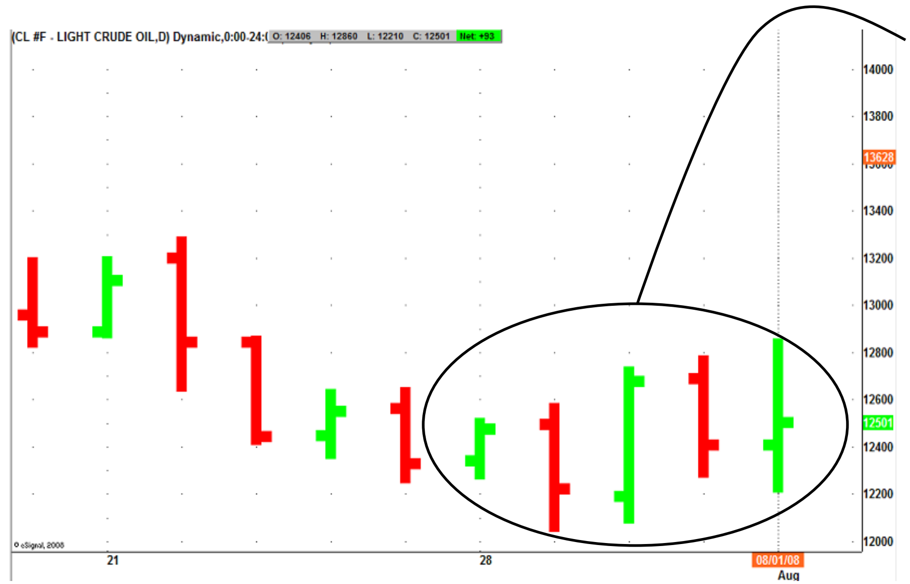
Commodities
+ Gold
+ Oil

Commodities: Oil

OUR TRADING STANCE: SQUARE

Last week we were square of Oil



See how oil stabilised last week and tried to recover but with the US releasing disappointing Q2 GDP data and the Euro zone economy showing signs of gathering economic gloom, the market lacked a trigger to rally.

Last week we were square of this market as it continued to correct lower the previous week, following lingering optimism over the Iran question, and fears of a wider global economic slowdown.

With US data mixed and Fed officials sounding hawkish on inflation and interest rates and the German/Euro zone economy looking set to weaken further, oil remained well below the highs on the potential for reduced demand.

But as the Iranians failed to meet the deadline set by the west for a response to a package of incentives designed to encourage Iran to abandon its nuclear ambitions the market steadied, and found additional support from claims by Israel that Iran will have a nuclear weapon by 2010, much sooner than most had previously considered.

Looking ahead we judge the market will remain in a consolidation phase. There appears to be no data due likely to cause a recovery in the market unless US ISM non-manufacturing comes in very much stronger than expected.

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Commodities
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+ Oil

Commodities: Oil

The Macro Trader's view is; the oil market remains a highly political market driven not only by supply and demand which has been increasingly skewed to favour the oil producing countries of OPEC, but by geopolitical tension.

Now that the market has moved some US$20.00 away from the highs, it will be interesting to see OPEC's reaction; there should of course be none, the oil price has been too high for too long, for any bodies long term good.

The western economies are on the brink of recession with inflation set to become a serious problem, so for a group of countries that in the main produce or manufacture nothing other than oil which needs little help in coming out of the desert, they should welcome lower prices as a means of sustaining longer term demand.

For now we advise remaining square of this market. It isn't yet clear how much further the correction can go. If GDP offered few clues, as it was weaker than expected, leaving traders in need of analysing fresh incoming data to better gauge the strength of the US economy.

To repeat; traders should for now remain square and await greater clarity.

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