

The Day So Far

Markets responding positively this morning to hawkish comments from Yellen, who tried to backtrack on her post-FOMC speech which so spooked the markets over the past week. Also, S&P futures hit 1900, a solid level for shorts to take some profits and bargain hunters to step in and snap up some hard-hit stocks. Whilst it seems odd to market-watchers over the past five years that equities would be cheered by hawkish comments from a Fed Chair, but it important for the credibility of monetary policy that the Fed sticks to its previously well-choreographed plan to hike this year. The willingness of the Fed to abruptly change course last week dealt a damaging blow to the credibility of the central bankers, and Yellen was at pains last night to assert that low inflation was transitory. She also downplayed the effects of the China slowdown on the US economy and confirmed that most FOMC members, herself included, were committed to raising rates this year. The Dax powered above 9700 as automakers in particular staged a rebound, while S&P futures have climbed 50 points from yesterday's lows.

On a more worrying note, Japan fell back into deflationary territory for the first time since April 2013 and the launch of 'Abenomics' on falling energy price sand slumping consumer demand. This is a savage blow for Prime Minister Abe and his pledge to lift Japan out of the deflationary spiral they have been in for the best part of two decades. The Bank of Japan has tripled its balance sheet in that time to seemingly little effect.

The Afternoon View

Is this a bounce made to last? That is the question on the minds of investors as equities look to end another volatile week on the front foot. Data-wise, we have final look at Q2 US GDP and PCE, but the most important data will come later in the form of the University of Michigan consumer sentiment survey at 15:00 BST. Whilst respecting the strong bounce in equities, we are sticking with the short theme that has served us well over the past week or so. Look for correlated shorts in crude and longs in fixed income going into the weekend. The euro remains the hardest call, but 1.12 handle has been a good point of resistance and a good place for the dollar to resume its uptrend following the hawkish Yellen speech last night.

Key Headlines

Market Sentiment: Bearish

- Japan falls back into deflation for the first time since April 2013
- Hawkish Yellen soothes markets and re-iterates call for rate rise this year

Major Data Releases

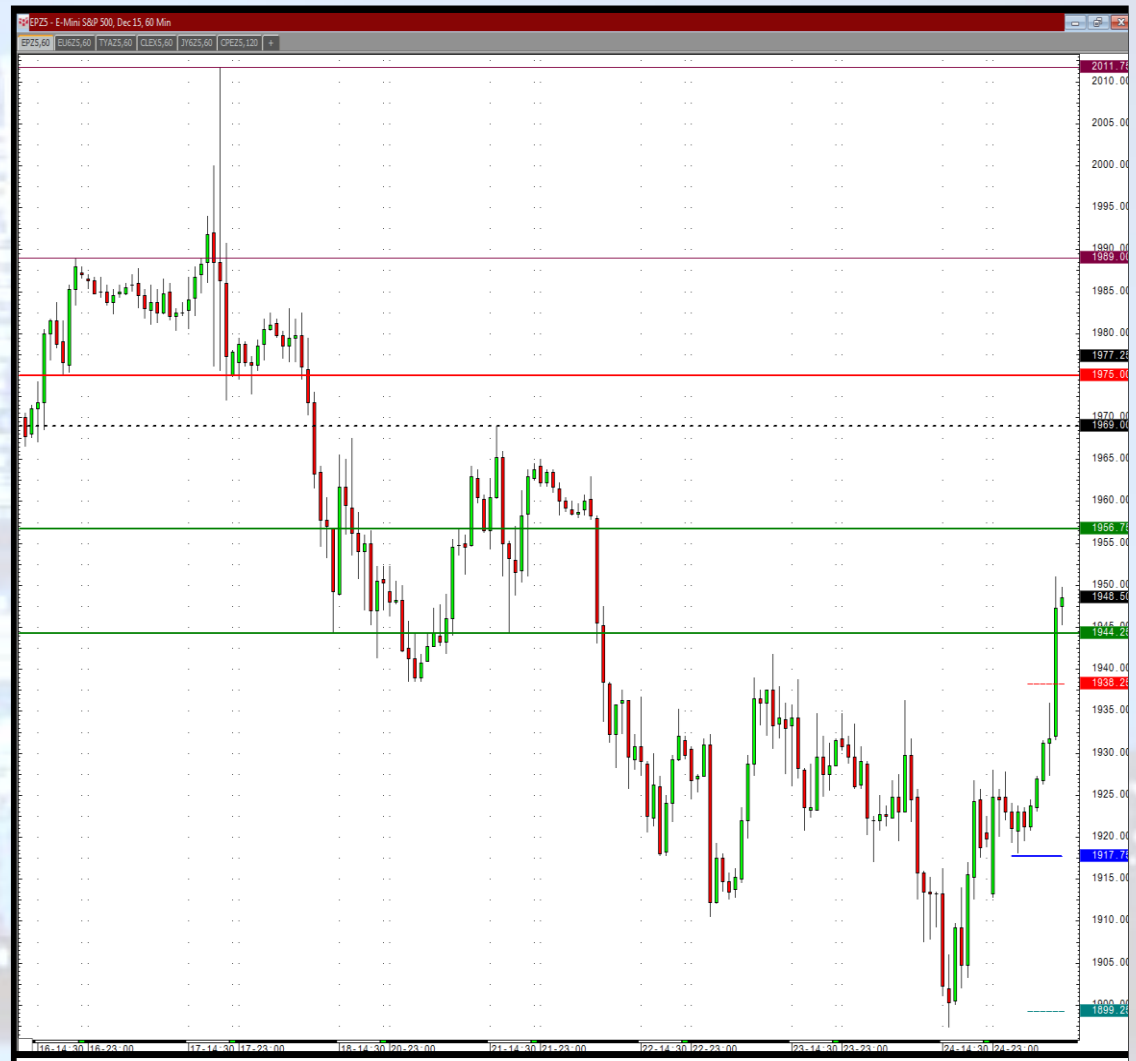
Data	Expected	View
US Q2 GDP (Q/Q T)	3.70%	Inline
Personal Consumption (Q2 T)	3.20%	inline
Core PCE (Q2 T)	1.80%	Inline
Services PMI	55.6	Inline
Uni. Of Michigan Consumer Sentiment	86.5	inline

Strategy	Short
Entry	1969.00
1 st Target	1956.75
2 nd Target	1944.25
Stop	1975.00

Key Levels	Comments
1989.00	High of 16 th
1975.00	Support on 16 th
1969.00	High of 21 st
1956.75	R2
1944.25	Support on 21 st
1938.25	R1
1917.75	Pivot

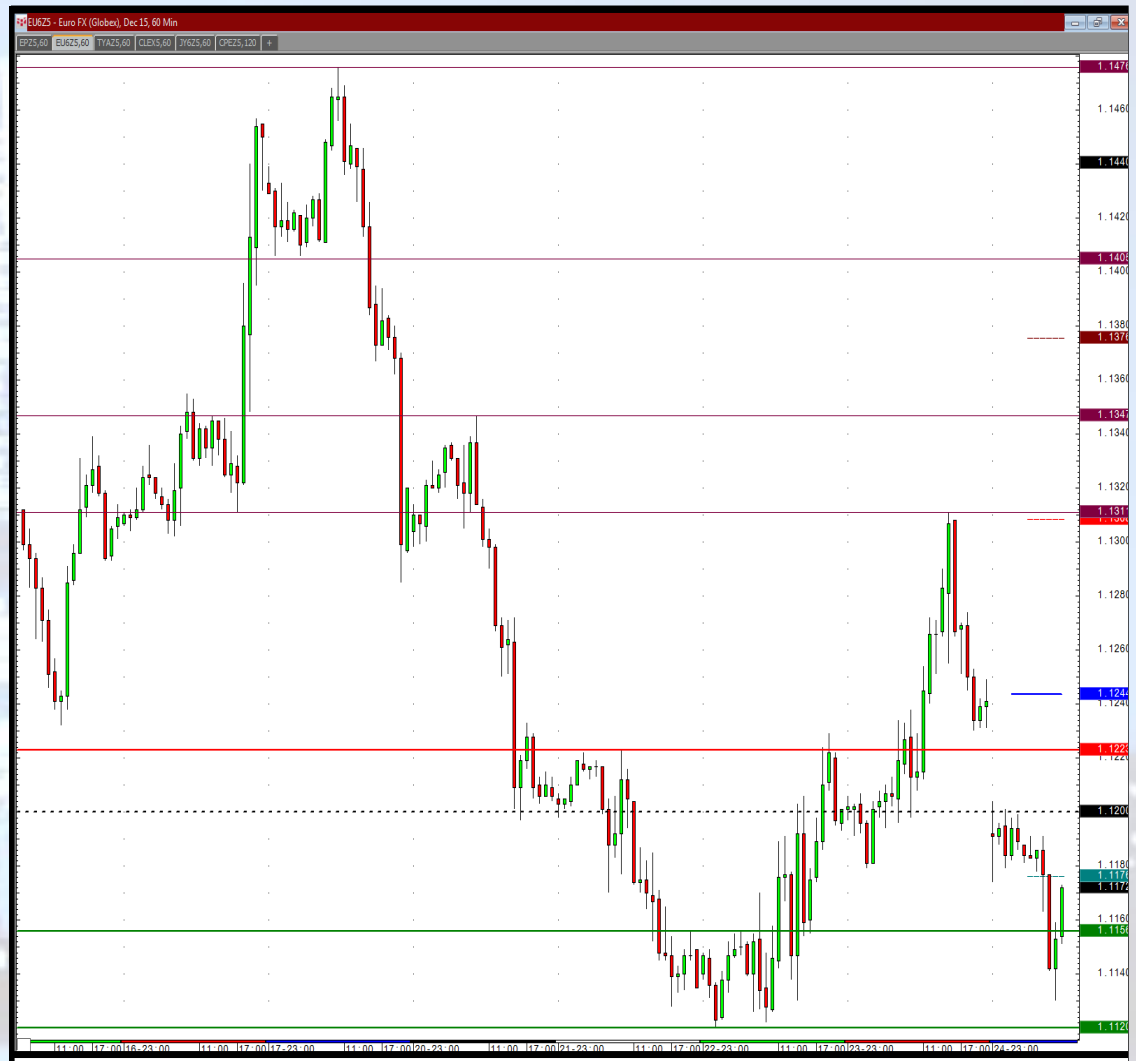
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Please see page 5 for more information



Strategy	Short
Entry	1.1200
1st Target	1.1156
2nd Target	1.1120
Stop	1.1223

Key Levels	Comments
1.1244	Pivot
1.1223	High of 22 nd
1.1200	Handle Resistance
1.1176	S1
1.1156	Resistance on 22 nd
1.1120	Low of 23 rd



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Strategy	Long
Entry	127.245
1 st Target	128.005
2nd Target	128.060
Stop	127.205

Key Levels	Comments
128.150	Yesterday's High
128.135	R1
128.060	Resistance on 22 nd
128.040	Pivot
128.005	High of 18 th
127.245	S1
127.205	Support of 18 th

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Strategy	Short
Entry	45.40
1st Target	44.66
2nd Target	44.15
Stop	45.58

Key Levels	Comments
45.62	R1
45.58	Support on 22 nd
45.40	Low of 22 nd & Overnight High
44.66	Pivot
44.15	S1
43.71	Yesterday's Low



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