

Daily Market Strategy

Friday, 18th September 2009

Market Strategy

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- BoE to publish Trends in Lending report
- US dollar rebounds on Friday profit-taking

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6369, €/£: 1.4723, \$/¥: 91.15

UK 5y sw: 3.30%, US 5y sw: 2.73%, EU 5y sw: 2.77%

Overnight

- German producer prices rise +0.5% m/m in August
- The WSJ carries a report focusing on the view of sterling emerging as a new 'funding' currency to join the yen on FX plays, due to low UK interest rates.

Reduced data/event risk lies ahead today and means price action is likely to be fairly static as dealers square up ahead of the Fed FOMC meeting and \$112bn in Treasury supply (\$170bn including bills!) next week. The BoE will publish its Trends in Lending report at 9.30 where we expect to learn of some loosening in UK credit standards, but still fairly subdued demand from corporates in most industries. As this week's issuance flow demonstrates, lower credit spreads and optimism about economic recovery mean large firms are increasingly turning to capital markets to raise funds. The situation looks distinctly different on the consumer side where, besides an up-tick in mortgage lending, households are likely to have reined in demand for other types of credit. The underperformance of GBP against G10 currencies indicates that investors are less sanguine about the prospects for the UK and GBP.

FX: The probability of SNB intervention has receded, at least for the foreseeable future, after the Bank concluded yesterday that the CHF is stable vs the EUR, and in trade weighted terms. Barring a change in economic conditions, this argues for EUR/CHF to trade in a narrow range around 1.5150 mid-point. We are doubtful that the UK PSNCR data will trigger a major knee-jerk reaction in GBP crosses. The worrying state of public finances has already been priced in and Moody's last week calmed fears of a potential downgrade of the UK's credit rating. Having said this, a PSNB number for August in excess of +£18.5bn (the monthly high is +£19.3bn) should keep EUR/GBP on course for a move up to 0.8950 (GBP/EUR 1.1173).

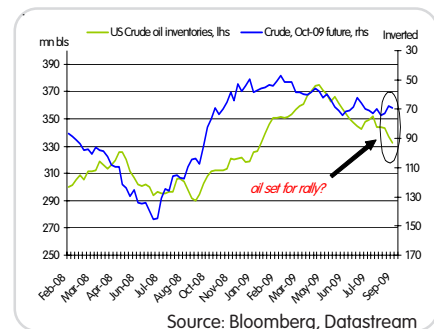
Rates: UK 5y swaps opened at 3.30% and look set to close the week near the highs. The BoE Lending Survey may show a slight improvement in credit conditions, but weak credit demand should bring some reassurance about subdued inflation. Trendline resistance for 10y gilts runs at 3.75%. In supply, BoA is to sell £750mn in 12y notes at 235bps over gilts and Germany is reported to be preparing a USD debt issue for the second time this year. Peripheral euro zone spreads narrowed further yesterday led by a decline in 10y Ireland over bunds to 152bps. Support runs at 147bps.

	Close	Daily Change %
FX		
EUR/GBP	0.8961	0.41%
GBP/USD	1.6453	-0.24%
EUR/USD	1.4741	0.22%
USD/JPY	91.085	0.17%
AUD/USD	0.8728	-0.09%
Bonds %		
US 10Yr	3.384	-8.5
EUR 10Yr	3.365	2.8
UK10 Yr	3.690	7.2
UK 5yr Swap	3.317	3.7
Equities		
S&P500	1065.49	-0.31%
FTSE100	5163.95	0.78%
Eurostoxx50	2895.45	0.46%
Shanghai Composite	2942.76	-3.84%
Commodities		
Crude Oil \$/bl	72.47	-0.06%
Gold \$/oz	1013.6	-0.36%
Copper	289.6	-1.38%
Baltic Dry	2390	-1.04%
Other		
VIX	23.65	-0.17%
iTraxx XOVER	526.46	-0.2

GBP/USD vs short sterling/FF spread



US oil inventories are running at the lowest level since January



Today's Events

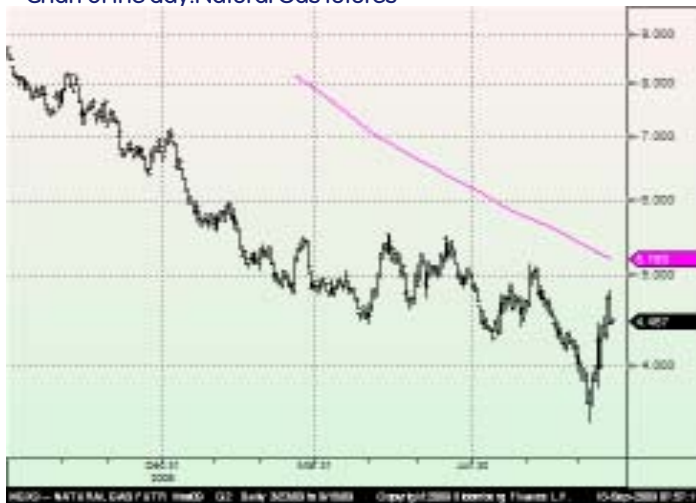
UK M4, Aug
UK PSNB, Aug
UK PSNCR, Aug
German PPI, Aug
EU-16 Current Account, Aug
Canada Wholesale Sales, Jul
BoE publishes Trends in Lending Report (09:30)

Time	Consensus	Previous
09:30	+0.8%	+1.5%
09:30	+£17.6bn	+£8.0bn
09:30	+£14.5bn	+£0.2bn
07:00	+0.5%A	-1.5%
10:00	n/a	-€0.3bn
13:30	+0.5%	+0.6%

Source: Bloomberg, Datastream

- There is a sense of relief for the markets that it's Friday, but it could be a long day. Equities have paused for breath, much as anticipated, but whether the trends will continue to squeeze higher seems less certain than before. Holding short term positions over the weekend given the extent of the current trends will take something special today. With the DAX index futures hitting targets of 5,750, stops will be tightened to the maximum with stops below 5,689 and 5,090 in the FTSE. Indeed, those who are neutral here could take an exploratory short position with a tight stop over the current high's as the risk reward moves in favour of the bears (Note next Technicals report will be Wednesday 23rd Sept).
- Support at 76.00 was a bridge too far for the DXY and in line with a sense of profit-taking, 'risk-on' trades look set for a correction today. Sterling has reacted with a magnified effect to this sentiment, weakening to 0.9000 against the euro. Whilst the downside may well be priced in for sterling, concrete support is still elusive and anything but a sharp reaction of this key level is going to raise longer term concerns. The dollar outlook is still negative with 75.00 the DXY target, but trailing stops in the commodity and EM currency space look set to be triggered and we could be re-visiting the bullish strategy from higher levels.
- Bonds futures remain a strategic sell, but it would take a move through \$1,032 for gold to push the market in to a tail spin. US 2y yields have baulked at 1.00% again, further increasing the relevance of this key level. The lack of follow through here given the broader 'pro-risk' sentiment has been disappointing. US 10y yields continue to hold over 3.35%, but backed off a modest resistance point at 3.40%. The downside feels vulnerable today.
- Lead futures have taken a 4% tumble and the failure to break the \$1,032 high for gold this week leaves the short term market looking to square up and revisit the bullish scenario at a later date. A move back below \$1,000 would be viewed as a buying opportunity however, as would the short term correction in commodities. The weakness in the baltic dry index remains a lingering concern.

Chart of the day: Natural Gas futures



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
R2	1.4966	1.7044	95.15	0.9000	1.1404
R1	1.4865	1.6746	93.41	0.8950	1.1308
Current Spot	1.4721	1.6369	91.15	0.8994	1.1119
S1	1.4500	1.6113	90.30	0.8843	1.1173
S2	1.4177	1.5975	87.14	0.8769	1.1111

Spot prices as of: 07:06:10 Source: Bloomberg

Volatility has increased recently. This could be signalling a change in trend. A dip to 4.25 is a buy zone, but stops will activate below 4.00. A break over 5.20 is the main bullish signal due to key resistance and the 200 day m.a.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4721	Bullish	1.4350	1.4950	1.4640	Target raised from 1.4720.
USD/JPY	91.15	Bullish	<u>89.90</u>	96.00	89.30	
USD/CHF	1.0303	Bearish	-	1.0000	-	1.03 target close- 1.00 next objective
GBP/USD	1.6369	Bullish	1.6455	1.7000	1.6380	Stop hit.
EUR/GBP	0.8994	Bearish	0.9000	0.8500	0.9055	
GBP/JPY	149.16	Bullish	149.45	156.00	148.45	
EUR/JPY	134.17	Bullish	<u>133.50</u>	139.14	132.80	
CAD/JPY	85.41	Bullish	<u>84.90</u>	90.35	83.80	
AUD/USD	0.8696	Bullish	0.8305	0.9000	0.8637	
USD/CAD	1.0671	Bearish	1.0711	1.0000	1.0755	
NZD/USD	0.7096	Bullish	0.6860	0.7447	0.7035	
USD/BRL	1.8055	Bearish	1.8338	1.7000	1.8455	
USD/PLN	2.8075	Bearish	2.8589	2.7000	2.8235	
USD/HUF	184.28	Bearish	186.23	180.00	185.55	

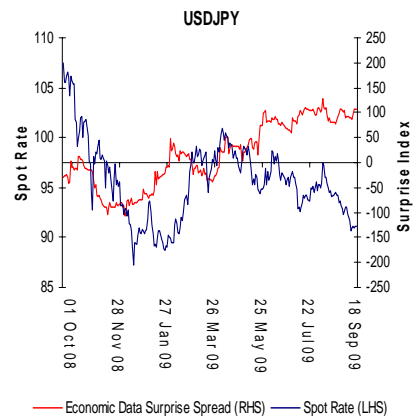
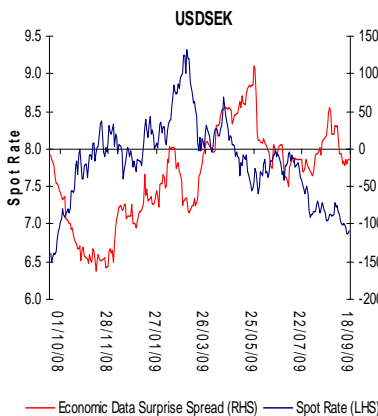
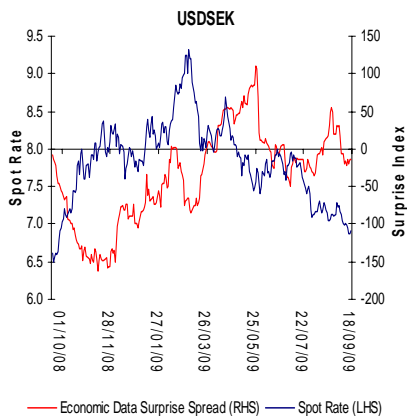
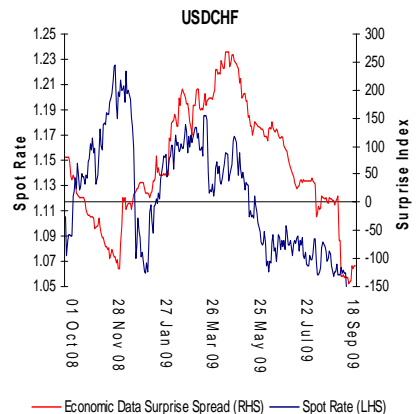
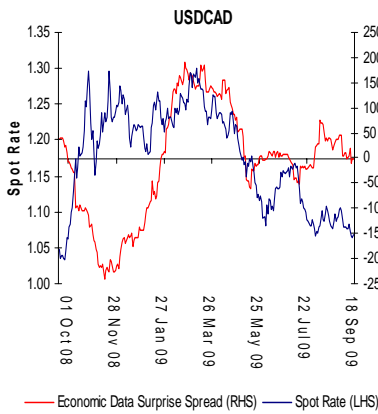
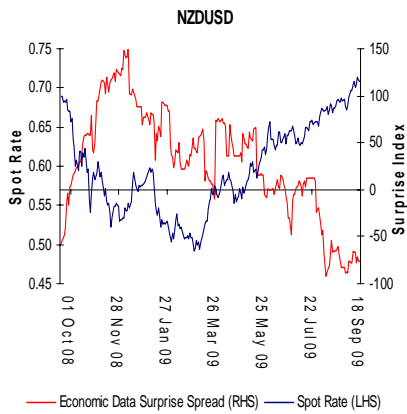
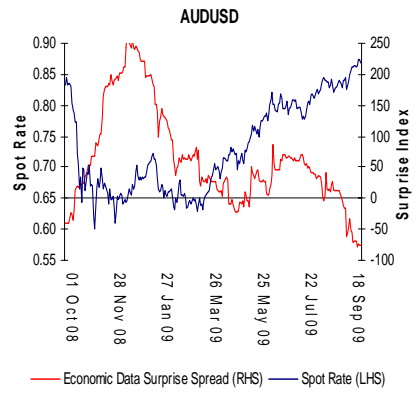
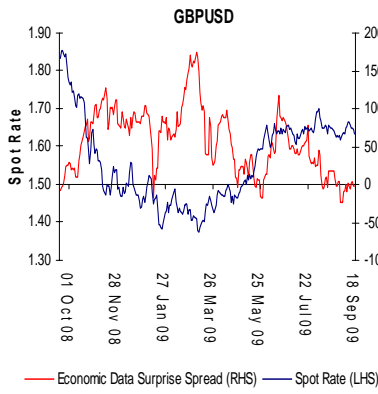
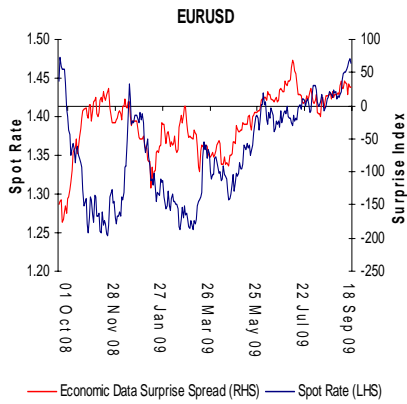
Spot prices source: Bloomberg

ENTRY - Targetted

ENTRY - Active

Quantitative Market Analysis

Economic Data Surprises vs Spot Rates



Source: Bloomberg, Citigroup

Market Summary

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FX			Equities		
EUR/USD	1.4741	0.22%	S&P500	1065.49	-0.31%
USD/JPY	91.085	0.17%	DJIA	9783.92	-0.08%
AUD/USD	0.8728	-0.09%	FTSE100	5163.95	0.78%
EUR/GBP	0.8961	0.41%	Eurostoxx50	2895.45	0.46%
GBP/EUR	1.1160	-0.44%	Shanghai Composite*	3060.26	-3.87%
GBP/USD	1.6453	-0.24%	*latest price		
GBP/JPY	149.86	-0.09%	Commodities		
GBP/CHF	1.692	-0.61%			%
GBP/AUD	1.885	-0.18%	Crude Oil \$/bl	72.47	-0.06%
GBP/CAD	1.752	-0.37%	Gold \$/oz	1013.6	-0.36%
GBP/NZD	2.315	0.21%	Copper c/lb	289.6	-1.38%
GBP/NOK	9.609	-0.40%	Silver \$/oz	17.27	-0.78%
GBP/ZAR	12.151	0.71%	Baltic Dry	2390	-1.04%
GBP/CNY	11.231	-0.21%			
Bonds %			Swaps %		
		bp			bp
US 10Yr	3.384	-8.5	US 5yr	2.731	-8.4
EUR 10Yr	3.365	2.8	EUR 5yr	2.793	2.8
UK10 Yr	3.690	7.2	UK 5yr	3.317	3.7
Other			Official Rates %		
VIX	23.65	-0.17%	UK	0.50	
iTraxx XOVER	526.46	-0.2	US	0.25	
DJ Agriculture Index	59.06	-0.16%	EU	1.00	
			Japan	0.10	

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