

Daily Market Strategy

Monday, 5th October 2009

Market Strategy

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- GBP/gilts await UK services PMI
- RBA to keep powder dry?

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6012, €/\$: 1.4649, \$/¥: 89.83

UK 5y sw: 3.12%, US 5y sw: 2.57%, EU 5y sw: 2.66%

Overnight

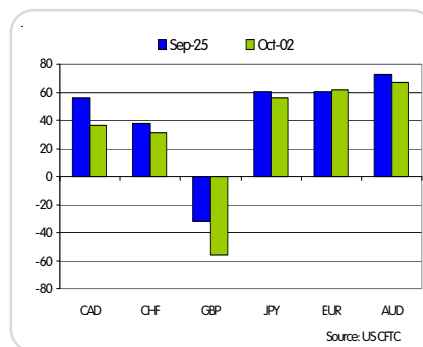
- G7 repeats 'excess volatility and disorderly movements in foreign exchange are undesirable', no explicit mention of the USD
- Chancellor Darling to outline public spending cuts in autumn PBR
- Australian yields rise ahead of RBA rate decision

A couple of (tradeable) news stories caught our attention over the weekend following the weak US NFP report and were responsible for a fairly lively start to the week for fx. The G7 delivered no surprises despite the build-up of expectations by officials that the USD could receive an explicit mention in the communique. It did not happen and this has triggered the liquidation of some speculative USD long positions and a fall back in USD/JPY volatility. What strikes us in the weekly IMM data is the level of GBP bearishness which is approaching extreme levels. The market is clearly underweight GBP and a stronger UK September services PMI this morning - our economics team forecasts a rise to 54.3 - could trigger some short covering. Separately, we still favour Norges Bank to hike rates first later this month, but we would not rule out the RBA pipping Norway to the post and tightening policy to 3.25% in the early hours of tomorrow morning. Also today: the US non-manufacturing ISM is forecast to have edged up to 50.0 and the Treasury will auction \$7bn of TIPS securities (a re-opening). The Nikkei fell overnight for a 3rd successive session. A move below 9,700 threatens to extend to 9,500.

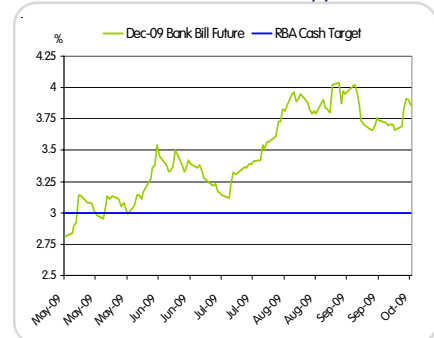
FX: The UK PMI could be a market mover at 09.30. For GBP/USD, key resistance runs at 1.6040 and support at 1.5900. For EUR/GBP, resistance runs at 0.92 and support at 0.9133. (GBP/EUR targets 1.0949 and 1.0870). Profit-taking on 'no change' from the RBA to knock AUD/USD back below 0.87. A rate hike sets up a rally back over 0.88 towards the 0.8859 high, though gains will be conditional on the tone of the accompanying statement.

Rates: UK 5y swaps opened at 3.11%. We remain bullish for a pullback to 3.05% support but are wary of a back-up in rates/yields/steeper curve on a stronger services PMI. Resistance runs at 3.14%. Overall we expect fairly orderly price action until later in the week (BoE/equities) though are mindful of the impact of US Treasury auctions. UK 10y yields are steady at 3.42%. UK/AU 2y spread widens to 268bps. Peripheral EU 10y spreads show a flattening in Greece/bunds to 101bps (Greek Socialist election victory).

IMM data show extreme GBP bearishness



The RBA could hike interest rates as soon as tomorrow. A move is fully priced in.

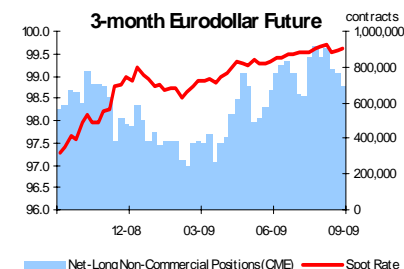
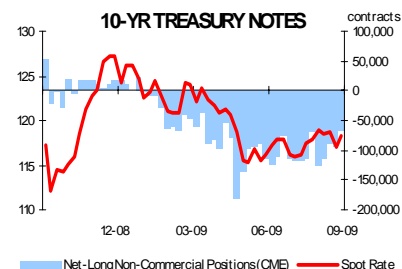
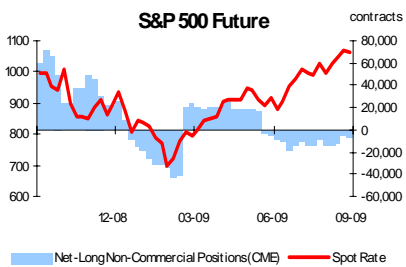
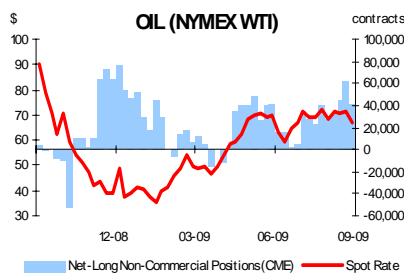
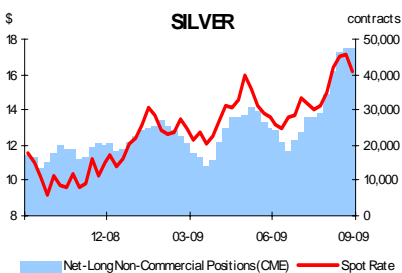
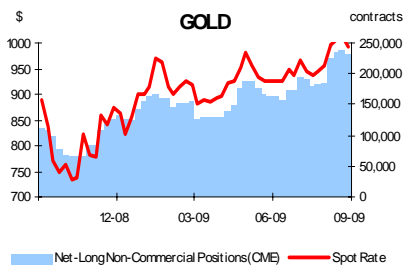
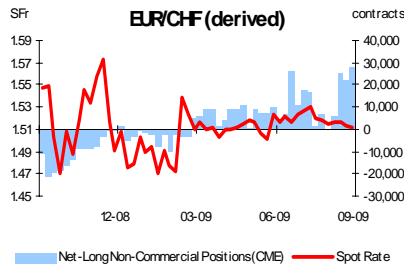
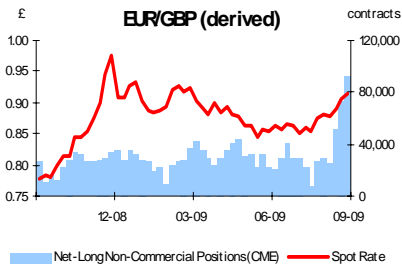
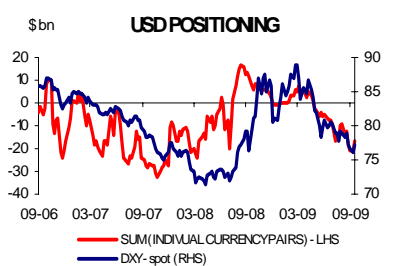
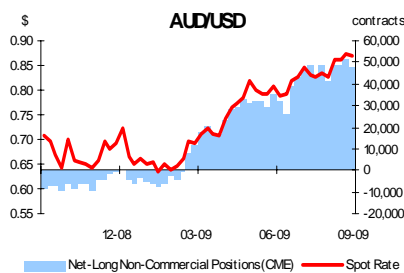
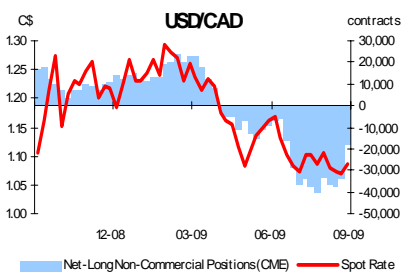
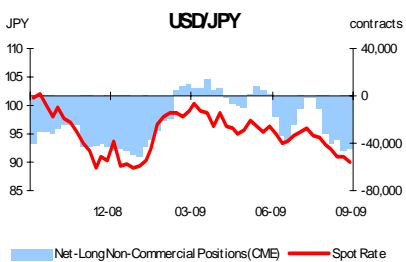
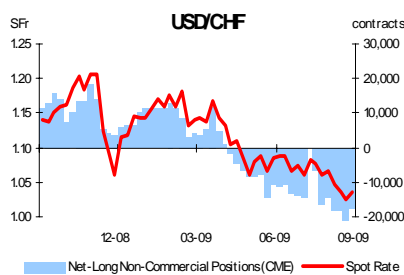
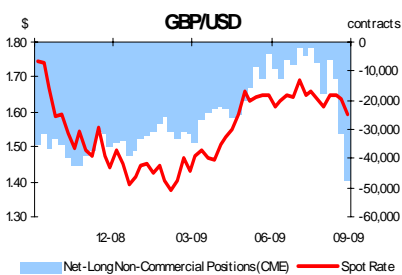
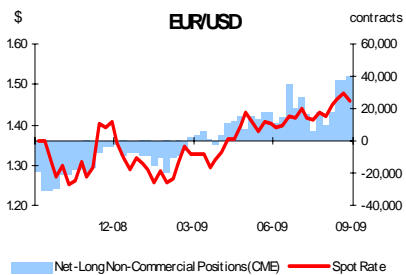


	Close	Daily Change %
FX		
EUR/GBP	0.9141	0.26%
GBP/USD	1.5946	-0.06%
EUR/USD	1.4576	0.21%
USD/JPY	89.805	0.22%
AUD/USD	0.8652	-0.51%
Bonds %		bp
US 10Yr	3.219	4.0
EUR 10Yr	3.122	-3.5
UK 10 Yr	3.439	-4.9
UK 5yr Swap	3.105	-3.8
Equities		%
S&P500	1025.21	-0.45%
FTSE100	4988.70	-1.17%
Eurostoxx50	2760.60	-1.77%
Shanghai Composite	2779.43	0.00%
Commodities		%
Crude Oil \$/bl	69.95	-1.23%
Gold \$/oz	1002.8	0.36%
Copper	268.2	-2.03%
Baltic Dry	2357	3.20%
Other		
VIX	28.68	1.45%
iTraxx XOVER	608.49	16.5

Today's Events

Event	Time	Consensus	Previous
UK Services PMI, Sep	09:30	54.5	54.1
EU-16 Services PMI, Sep final	09:00	50.6	50.6
EU-16 Retail Sales, Aug	10:00	-0.5%	-0.2%
US Non-Manufacturing ISM, Sep	15:00	50.0	48.4
BoE purchases £1.4bn of gilts: UKT_5_070325, UKT_4.25_071227, UKT_6_071228, UKT_4.25_070632, UKT_4.5_070934			
US Treasury sells \$7bn, 10y TIPS			
Fed speakers: Dudley (23:30)			

FX & Commodity Futures Positioning



Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.4576	0.21%	S&P500	1025.21	-0.45%
USD/JPY	89.805	0.22%	DJIA	9487.67	-0.23%
AUD/USD	0.8652	-0.51%	FTSE100	4988.70	-1.17%
EUR/GBP	0.9141	0.26%	Eurostoxx50	2760.60	-1.77%
GBP/EUR	1.0940	-0.26%	Shanghai Composite*	2779.43	0.00%
GBP/USD	1.5946	-0.06%	*latest price		
GBP/JPY	143.21	0.17%	Commodities		
GBP/CHF	1.651	-0.60%	Crude Oil \$/bl	69.95	-1.23%
GBP/AUD	1.843	0.45%	Gold \$/oz	1002.8	0.36%
GBP/CAD	1.722	-0.43%	Copper c/lb	268.2	-2.03%
GBP/NZD	2.228	-0.20%	Silver \$/oz	16.17	-1.13%
GBP/NOK	9.247	-0.34%	Baltic Dry	2357	3.20%
GBP/ZAR	12.178	-0.99%	Swaps %		
GBP/CNY	10.885	-0.06%	US 5yr	2.569	3.6
Bonds %			EUR 5yr	2.648	0.0
		bp	UK 5yr	3.105	-3.8
US 10Yr	3.219	4.0	Official Rates %		
EUR 10Yr	3.122	-3.5	UK	0.50	
UK10 Yr	3.439	-4.9	US	0.25	
Other			EU	1.00	
VIX	28.68	1.45%	Japan	0.10	
iTraxx XOVER	608.49	16.5			
DJ Agriculture Index	57.03	-2.14%			

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