

Daily Market Strategy

Wednesday, 28th October 2009

Market Strategy

Market Strategy Team

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	Close	Daily Change %
FX		
EUR/GBP	0.9043	-0.69%
GBP/USD	1.6368	0.19%
EUR/USD	1.4804	-0.49%
USD/JPY	91.796	-0.43%
AUD/USD	0.9166	0.04%
Bonds %		bp
US 10Yr	3.445	-10.9
EUR 10Yr	3.269	-8.5
UK 10 Yr	3.697	2.2
UK 5yr Swap	3.223	-9.3
Equities		%
S&P500	1063.41	-0.33%
FTSE100	5200.97	0.18%
Eurostoxx50	2835.17	0.01%
Shanghai Composite	3031.33	0.33%
Commodities		%
Crude Oil \$/bl	79.55	1.11%
Gold \$/oz	1040.1	0.15%
Copper	299.9	-0.40%
Baltic Dry	3013	-1.02%
Other		
VIX	24.83	2.14%
iTraxx XOVER	504.80	4.3

- UK 5y swaps through key support, approach 3.20%
- Norway set to hike 25bps, can NOK bounce?

Market Outlook

Kenneth Broux

Opening levels (7.15am)
£/\$: 1.6368, €/\$: 1.4829, \$/Y: 91.22
UK 5y sw: 3.22%, US 5y sw: 2.76%, EU 5y sw: 2.78%

Overnight

- Stellar US 2y auction: b/c 3.63; indirects take 44.5%, record high direct take-up
- Australia Q3 CPI above f/cast at 3.8% (RBA trimmed mean)
- Japan Sep industrial output up 1.0% m/m, 6th consecutive rise

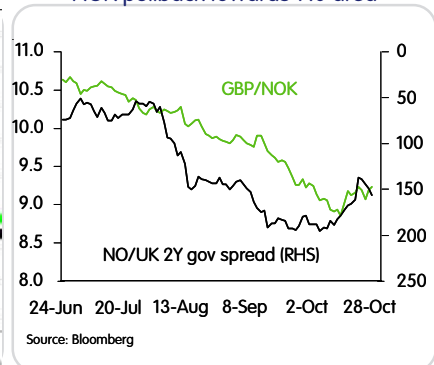
Risk appetite in major asset markets has been unwound for the last three trading sessions, and, with selling compounded by the biggest monthly drop in US household confidence since Dec-08, we wonder if what is underway is the start of a more broad based market reversal, or merely a temporary phase of profit taking after a three-month rally. In the context of faltering US confidence in early Q4 and strong US 5y TIPS and 2y note auctions, there is a sense that markets will look through today's durable goods orders and tomorrow's Q3 GDP release (both expected to be positive) as nervousness grows about a Q4 turn in the leading indicators. This has widened the comfort zone for rate bulls - you can't argue with UK 5y swaps through 3.25% - but government supply from Germany and the US and the last Fed buy-back could trigger some profit talking in the longer dates.

Ahead today: It is very quiet in the UK where the BoE is close to wrapping up its £175bn APF with the purchase of £1.4bn of gilts. Preliminary German CPI is forecast at -0.1% y/y vs -0.5% y/y. US September durable goods orders are pencilled in for a 1.0% rise and new home sales are forecast to gain 2.6%. Germany and the US sell 5y government paper. We expect Norges Bank to hike 25bps and issue a hawkish statement.

FX: The SEK and NOK have been among the worst hit currencies in the G10 this week in what so far has been a fairly orderly USD rally. For the NOK, a 25bps rate hike and hawkish NB statement should realistically help to restore some support for a move back towards 5.60 in USD/NOK. The unwinding of pro-risk trades, AUD/USD bounced to 0.9205 overnight only to reverse to 0.9073, could deter follow-through NOK buying if equities falter.

Rates: The outperformance of short-dated gilts resulted in wider UK/US and UK/EU 2y spreads, a trend we expect to remain in place going into the MPC meeting next week. We look for UK 2y yields to probe 0.80%. For 5y swaps, we have been careful playing the ranges but a break of 3.27% followed by 3.25% exposes bullish momentum. Support comes in at 3.20%. For UK 10y, a break through 3.60% would clear the path to 3.53%.

UK 5y swaps through 50d MA (3.27%), next support at 3.20% Widening NO/UK spread argues for GBP/NOK pullback towards 9.0 area



Today's Data

Australia CPI, RBA Weighted Mean, Q3, y/y	00:30	A	4.2%	RBA speakers: Assistant Governor Edey
Japan Industrial Output, Sep prelim	00:50	A	1.8%	BoE purchases £14bn gilts: UKT_4.5_070313, UKT_8_270913,
German Import Prices, Sep	07:00	A	1.3%	UKT_2.25_070314, UKT_4.75_070915, UKT_8_071215,
German CPI, prelim y/y	TBC	-0.1%	-0.5%	UKT_4_070916, UKT_8.75_250817, UKT_5_070318,
US Durable Goods Orders, Sep	12:30	10%	-2.4%	UKT_4.5_070319, UKT_3.75_070919
US New Home Sales, Sep	14:00	440K	429K	US Treasury sells \$4bn, 5y notes
Norway Rate Decision	13:00	150%	125%	Germany sells 5y bunds

Time Consensus Previous Events

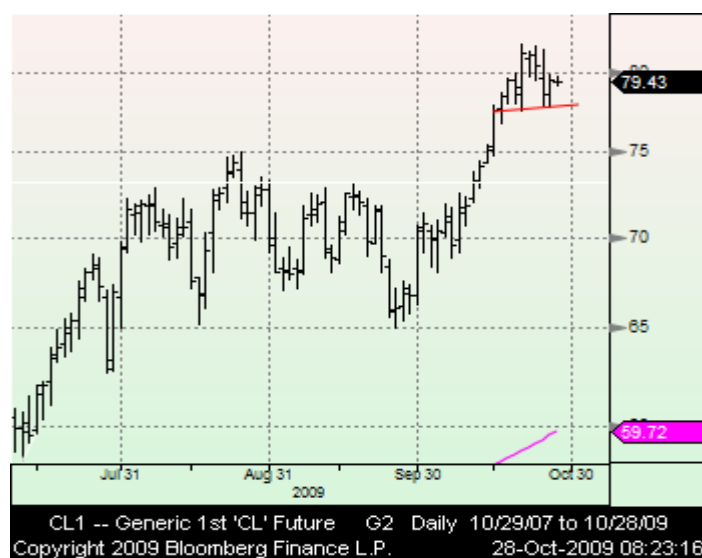
00:30	A	4.2%	RBA speakers: Assistant Governor Edey
00:50	A	1.8%	BoE purchases £14bn gilts: UKT_4.5_070313, UKT_8_270913,
07:00	A	1.3%	UKT_2.25_070314, UKT_4.75_070915, UKT_8_071215,
TBC	-0.1%	-0.5%	UKT_4_070916, UKT_8.75_250817, UKT_5_070318,
12:30	10%	-2.4%	UKT_4.5_070319, UKT_3.75_070919
14:00	440K	429K	US Treasury sells \$4bn, 5y notes
13:00	150%	125%	Germany sells 5y bunds

Technical Analysis

Paul Rodriguez, Senior Technical Analyst

- The bearish outlook for stock indices continues to unfold with Brazilian stocks tumbling 2.96%, completing a minor double top formation. Asian equities are edging lower, although the move for the moment seems controlled as the market views this as a minor pullback in an upward trend. This view could be tested today as the bounce I was looking for yesterday in European stocks fades and the downside opens up once again. The target in DAX index futures remains at 5,500, with Euro STOXX futures targeting 2,728. FTSE futures continue to hover above support at 5,136, outperforming the broader market, but a break is becoming increasingly likely for 5,018. The Nikkei is looking to shed the 10,000 handle shortly (currently around 10,075), but on the positive side, Chinese stocks seem unfazed, with the Shanghai index fractionally higher (+0.33%) and on the right side of 3,000 (currently at 3,031).
- The theme of selling commodity and EM currencies and buying the USD and GBP could step up a gear today as oil readies for a downside break (see chart below of Brent crude). Weakness in the equity markets is driving the dollar higher, but this is unlikely to accelerate until commodities retrace more aggressively (an increasing risk). This view was given a boost by the drop in Brazilian stocks and the sharp decline of the ZAR. This should continue to weigh on the AUD, CAD and NZD as risk is broadly pared back. The resurgent dollar's rise was checked in the short term by the 76.30 trendline resistance in the DXY, but this resistance should give way with 77.44 the target into December. The EUR and CHF should remain pressured with GBP, USD and JPY favoured currencies to express this view (H&S reversal mentioned in the GBP crosses yesterday).

Chart of the day: Brent crude oil- Continuation contract



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
R2	1.5287	1.7050	95.15	0.9520	1.1364
R1	1.5063	1.6743	92.54	0.9306	1.1135
Current Spot	1.4834	1.6383	91.35	0.9055	1.1044
S1	1.4764	1.6125	87.14	0.8981	1.0746
S2	1.4500	1.5709	85.00	0.8800	1.0504

Spot prices as of: 07:05:02 Source: Bloomberg

A minor head and shoulders top should trigger in the next couple of sessions. 78.00 is the signal level with target at 74.00. Stops are over \$80.00.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4834	<i>Bearish</i>	current	1.4500	1.4955	Buying USD- Sell level at 1.4950 came close but was not hit.
USD/JPY	91.35	<i>Bullish</i>	90.20	94.00	89.75	Stop hit- will look to re-enter lower down.
USD/CHF	1.0198	<i>Bullish</i>	1.0180	1.0450	1.0075	Buying USD.
GBP/USD	1.6383	<i>Bullish</i>	1.6225	1.6750	1.6140	Sideline for now- upside favoured.
EUR/GBP	0.9055	<i>Bearish</i>	0.9180	0.8800	0.9255	H&S reversal. Sell euros . 0.8980 key support.
GBP/JPY	149.63	<i>Bullish</i>	149.50	153.27	148.70	Entry hit, but under pressure.
EUR/JPY	135.51	<i>Bearish</i>	136.00	130.00	137.30	Look to reverse trade- sell euros.
CAD/JPY	85.75	<i>Neutral</i>	-	-	-	Turning bearish
AUD/USD	0.9125	<i>Bearish</i>	0.9300	0.9000	0.9240	Stop lowered.
USD/CAD	1.0654	<i>Bullish</i>	1.0450	1.0800	1.0575	
NZD/USD	0.7408	<i>Bearish</i>	0.7585	0.7200	0.7475	Stop lowered.
USD/BRL	1.7448	<i>Bullish</i>	1.7000	1.7665	1.7000	Note Bovespa Index down 2.96%- Target 1.7665.
USD/PLN	2.8404	<i>Bullish</i>	2.8260	2.9500	2.7990	2.80 buy level came close- Buy level raised.
USD/HUF	181.71	<i>Bullish</i>	176.98	190.00	179.40	Target hit at 182.00- raised.

Spot prices source: Bloomberg

[ENTRY](#) - Targeted

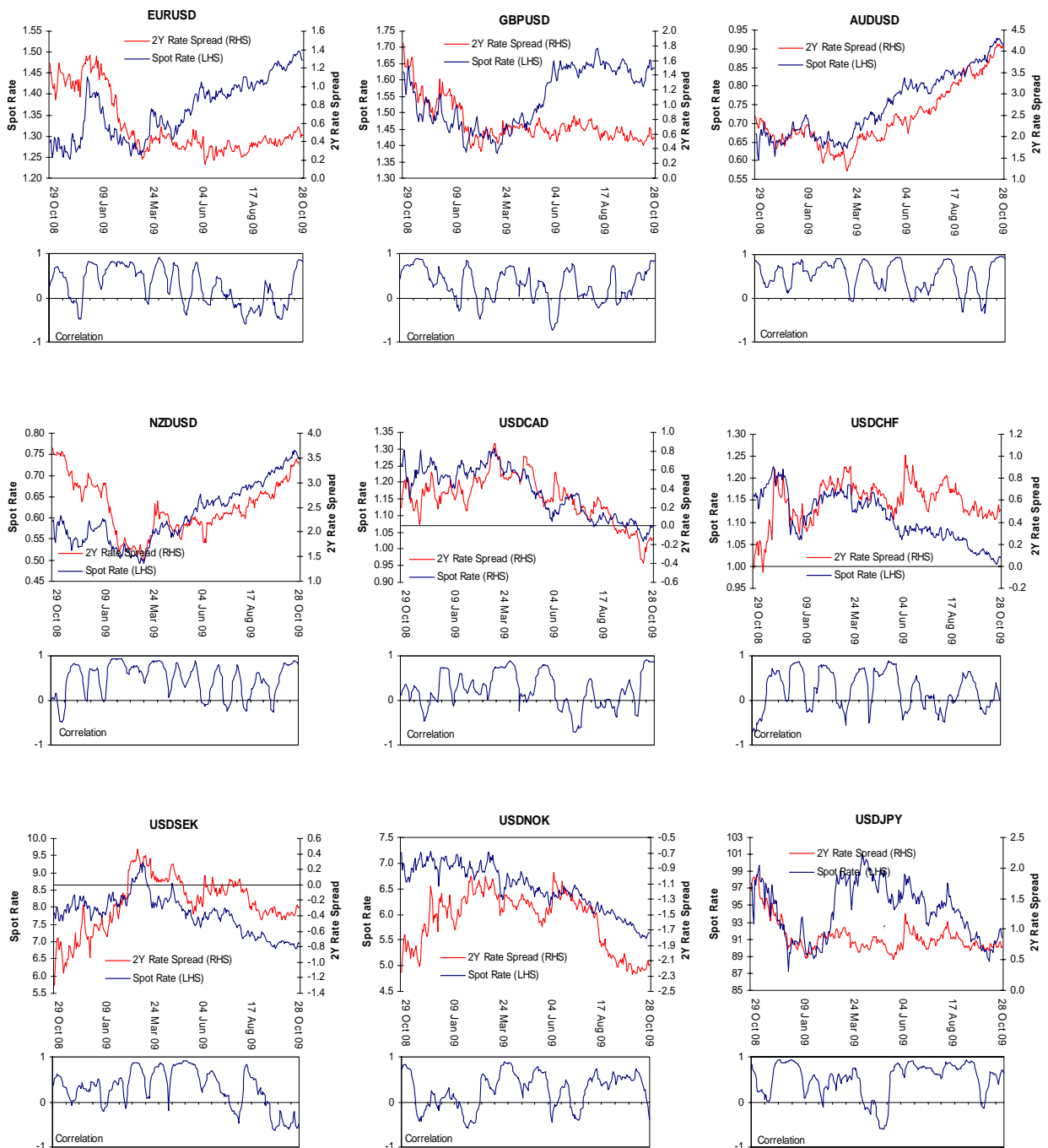
ENTRY - Active

Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	long	15-Sep-09	0.8622
NZDUSD	long	10-Jul-09	0.6298
EURUSD	long	09-Sep-09	1.4480
GBPUSD	short	26-Oct-09	1.6308
USDCAD	short	17-Jul-09	1.0730
USDCHF	long	21-Oct-09	1.0494
USDSEK	long	28-Oct-09	6.9739
USDNOK	short	21-Jul-09	6.3025
USDJPY	long	16-Oct-09	90.55
Net-USD portfolio position			-11%

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	long	21-Oct-09	17.260
USDPLN	long	27-Oct-09	2.8256
USDSGD	short	08-Sep-09	1.4337
USDTRY	long	27-Oct-09	1.4904
USDZAR	long	21-Oct-09	7.3665
Net-USD portfolio position			60%

2yr Interest Rate Spreads vs Spot Rate - 1-m correlations



Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.4804	-0.49%	S&P500	1063.41	-0.33%
USD/JPY	91.80	-0.43%	DJIA	9882.17	0.14%
AUD/USD	0.9166	0.04%	FTSE100	5200.97	0.18%
EUR/GBP	0.9043	-0.69%	Eurostoxx50	2835.17	0.01%
GBP/EUR	1.1056	0.68%	Shanghai Composite*	3031.33	0.33%
GBP/USD	1.6368	0.19%	*latest price		
GBP/JPY	150.25	-0.23%	Commodities		
GBP/CHF	1.6725	0.56%	Crude Oil \$/bl	79.55	1.11%
GBP/AUD	1.7857	0.14%	Gold \$/oz	1040.1	0.15%
GBP/CAD	1.7426	-0.22%	Copper c/lb	299.9	-0.40%
GBP/NZD	2.1997	0.67%	Silver \$/oz	16.71	-2.17%
GBP/NOK	9.2462	0.68%	Baltic Dry	3013	-1.02%
GBP/ZAR	12.5570	1.28%	Swaps %		
GBP/CNY	11.1801	0.23%	US 5yr	2.745	-12.3
Bonds %			EUR 5yr	2.777	-6.0
		bp	UK 5yr	3.223	-9.3
US 10Yr	3.445	-10.9	Official Rates %		
EUR 10Yr	3.269	-8.5	UK	0.50	
UK10 Yr	3.697	2.2	US	0.25	
Other			EU	1.00	
VIX	24.83	2.14%	Japan	0.10	
iTraxx XOVER	504.80	4.3			
DJ Agriculture Index	61.13	-1.50%			

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