

Daily Market Strategy

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Market Strategy

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- Market positioned for upward UK GDP revision
- Litany of US data ahead of Thanksgiving break

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6644, €/\$: 1.4993, \$/¥: 88.37

UK 5y sw: 3.12%, US 5y sw: 2.42%, EU 5y sw: 2.72%

Overnight

- Strong US 5y auction: b/c 2.81; indirects take 60.9%
- FOMC minutes say inflation outlook balanced, dollar decline 'orderly'
- US bank lending falls 2.8% in Q3, 5th successive drop; real estate leads decline (-8.1%).
- Will rising debt trigger euro zone break up? (Plender, FT)

We doubt that an upward revision in UK q/q Q3 GDP - consensus -0.3% vs -0.4% - will matter all that much for sterling and gilts today as markets concentrate on the broader trends in the USD and equities, and the strong results of the US 5y auction. We are mindful that volumes will dry up over the next three days as US dealers break up for Thanksgiving. The Shanghai composite did well to bounce back 2% overnight and suggests that the 3.5% plunge on Tuesday was nothing more than a bump in the road. So with risk back on, the dollar index slips back below key 75.0 support and USD/JPY makes progress towards our 88.0 target.

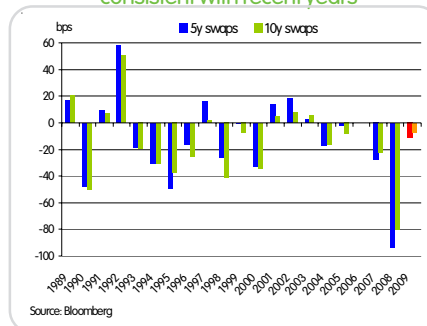
Ahead today: we know from the ONS that revisions to preliminary UK GDP estimates (q/q) do not on average exceed 0.2pp. This puts the revised Q3 estimate in a -0.6% to -0.2% range. However, the lack of historical data for recessions and cycle turning points make it difficult to pinpoint at which side of the -0.4% preliminary estimate the revised number will fall, though better than feared business investment data yesterday favour an upward adjustment. A downward revision could (briefly) distract markets from bigger issues at hand (US Oct durable goods orders, personal spending/income, new home sales weekly claims, and the \$32bn 7y auction).

FX: A decline in the USD index below 75.0 is showing good traction in EUR/USD, GBP/USD and USD/JPY but we are wary of jumping on the EUR/USD bandwagon for reasons tied to 1/central bank interest, 2/sovereign debt concerns, 3/ ECB president Trichet travels to China on Friday alongside the EC's Almunia and Eurogroup's Juncker. Resistance runs at 1.5016 and further up at 1.5048. We look for opportunities to sell EUR/USD rallies. EUR/GBP hit our 0.9050 target yesterday but failed to hold. Early selling this morning pulled the cross back below 0.90 (GBP/EUR 1.1111). An upward revision to UK GDP could squeeze the pair to 0.8956 support.

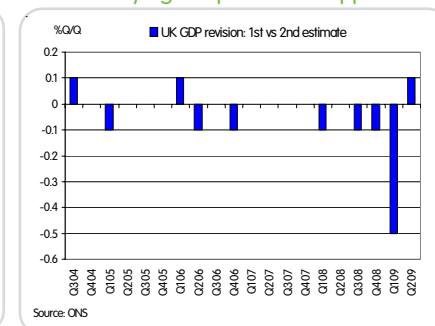
Rates: UK 5y swaps fell to 3.11% in early trading, but we expect ranges to hold today. The 2y/10y swaps curve bear flattens to 201bps; cash 2y/10y is steady at 241bps. Along with equities, US data and the 7y Treasury auction will be key for the direction of yields and the curve. 10y Greece over Germany widens to 170bps.

| | Close | Daily Change % |
|--------------------|---------|----------------|
| FX | | |
| EUR/GBP | 0.9024 | 0.16% |
| GBP/USD | 1.6587 | -0.11% |
| EUR/USD | 1.4969 | 0.05% |
| USD/JPY | 88.500 | -0.53% |
| AUD/USD | 0.9192 | -0.50% |
| Bonds % | | bp |
| US 10Yr | 3.303 | -4.6 |
| EUR 10Yr | 3.254 | -2.0 |
| UK10 Yr | 3.655 | -1.0 |
| UK 5yr Swap | 3.115 | -2.0 |
| Equities | | % |
| S&P500 | 1105.65 | -0.05% |
| FTSE100 | 5323.96 | -0.59% |
| Eurostoxx50 | 2877.58 | -0.71% |
| Shanghai Composite | 3290.17 | 2.07% |
| Commodities | | % |
| Crude Oil \$/bbl | 76.02 | -1.99% |
| Gold \$/oz | 1169.4 | 0.28% |
| Copper | 314.4 | -0.59% |
| Baltic Dry | 4340 | -1.88% |
| Other | | |
| VIX | 20.47 | -3.26% |
| iTraxx XOVER | 524.49 | -0.7 |

Decline in UK swaps so far this month is consistent with recent years



Upward UK Q3 GDP revision expected. Recent history signals possible disappointment



| Today's Data | Time | Consensus | Previous | Events |
|--------------------------------------|-------|-----------|----------|--------------------------------------|
| German Consumer Confidence, Dec | 07:00 | 3.7A | 4.0 | ECB speakers: Mersch (15:00) |
| UK GDP, Q3 rev, %q/q | 09:30 | -0.3% | -0.4% | BoJ Meeting Minutes |
| US MBA Mortgage Applications, Nov-20 | 13:30 | n/a | -2.5% | US Treasury sells \$32bn in 7y notes |
| US Personal Spending, Oct | 13:30 | 0.1% | 0.0% | |
| US PCE Index, Core, %m/m | 13:30 | 0.1% | 0.1% | |
| US Durable Goods Orders, Oct | 13:30 | 0.5% | 1.4% | |
| US Initial Claims, Nov-21 | 13:30 | 500k | 505k | |
| Michigan confidence, Nov final | 15:00 | 67.0 | 66.0 | |
| US New Home Sales, Oct | 15:00 | 0.4% | -3.6% | |



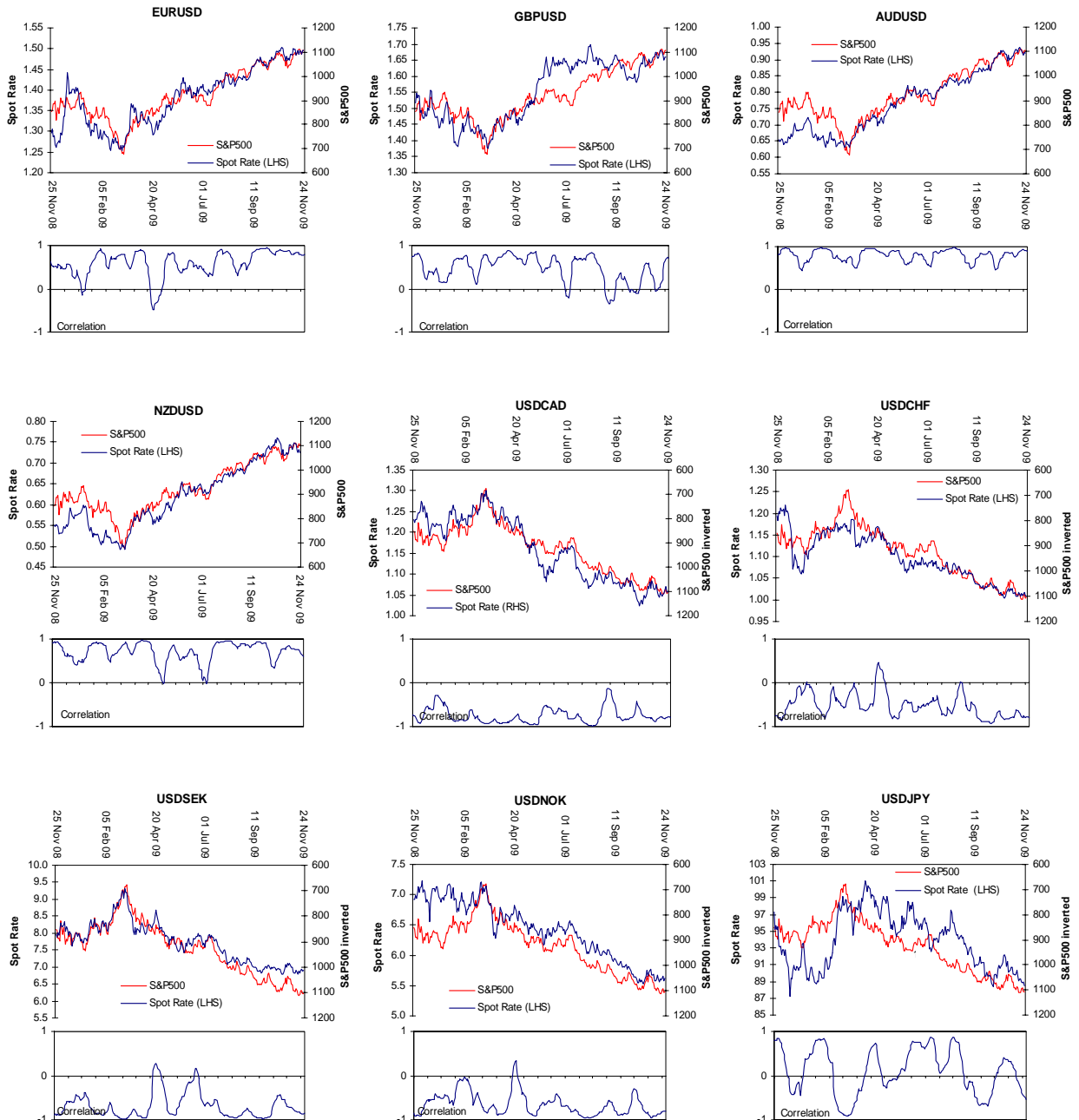
Trend following model signals

| Trend Following Model Positions | | | |
|-----------------------------------|--------|-----------|-------------|
| | Signal | Date | Entry Level |
| AUDUSD | short | 19-Nov-09 | 0.9296 |
| NZDUSD | short | 20-Nov-09 | 0.7312 |
| EURUSD | short | 23-Nov-09 | 1.4862 |
| GBPUSD | short | 20-Nov-09 | 1.6667 |
| USDCAD | long | 20-Nov-09 | 1.0636 |
| USDSEK | short | 06-Nov-09 | 6.9900 |
| USDNOK | long | 19-Nov-09 | 5.5908 |
| USDJPY | short | 02-Nov-09 | 90.10 |
| Net-USD portfolio position | | | 56% |

| Trend Following Model Positions | | | |
|-----------------------------------|--------|-----------|-------------|
| | Signal | Date | Entry Level |
| USDCZK | long | 23-Nov-09 | 17.445 |
| USDPLN | short | 05-Nov-09 | 2.8609 |
| USDSGD | short | 10-Nov-09 | 1.3863 |
| USDTRY | long | 11-Nov-09 | 1.4769 |
| USDZAR | long | 12-Nov-09 | 7.3638 |
| Net-USD portfolio position | | | 20% |

Finally, the FX trend following model has not triggered any new positions this morning. The model's portfolio is 56% long USD against developed market currencies and only 20% long USD against the traded emerging market currencies.

S&P500 vs Spot Rate - 1-m correlations



Market Summary

| | Close | Daily Change % | | Close | Daily Change % |
|----------------------|---------|----------------|-------------------------|----------|----------------|
| FX | | | Equities | | |
| EUR/USD | 1.4969 | 0.05% | S&P500 | 1105.65 | -0.05% |
| USD/JPY | 88.50 | -0.53% | DJIA | 10433.71 | -0.16% |
| AUD/USD | 0.9192 | -0.50% | FTSE100 | 5323.96 | -0.59% |
| EUR/GBP | 0.9024 | 0.16% | Eurostoxx50 | 2877.58 | -0.71% |
| GBP/EUR | 1.1082 | -0.16% | Shanghai Composite* | 3290.17 | 2.07% |
| GBP/USD | 1.6587 | -0.11% | *latest price | | |
| GBP/JPY | 146.81 | -0.63% | Commodities | | |
| GBP/CHF | 1.6733 | -0.24% | Crude Oil \$/bl | 76.02 | -1.99% |
| GBP/AUD | 1.8050 | 0.42% | Gold \$/oz | 1169.4 | 0.28% |
| GBP/CAD | 1.7550 | 0.12% | Copper c/lb | 314.4 | -0.59% |
| GBP/NZD | 2.2854 | 0.82% | Silver \$/oz | 18.52 | -0.17% |
| GBP/NOK | 9.3305 | 0.62% | Baltic Dry | 4340 | -1.88% |
| GBP/ZAR | 12.3777 | -0.63% | Swaps % | | |
| GBP/CNY | 11.3271 | -0.10% | US 5yr | 2.411 | -7.5 |
| Bonds % | | | EUR 5yr | 2.732 | -1.9 |
| | | bp | UK 5yr | 3.115 | -2.0 |
| US 10Yr | 3.303 | -4.6 | Official Rates % | | |
| EUR 10Yr | 3.254 | -2.0 | UK | 0.50 | |
| UK10 Yr | 3.655 | -1.0 | US | 0.25 | |
| Other | | | EU | 1.00 | |
| VIX | 20.47 | -3.26% | Japan | 0.10 | |
| iTraxx XOVER | 524.49 | -0.7 | | | |
| DJ Agriculture Index | 63.06 | -0.88% | | | |

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