

Daily Market Strategy

Friday, 27th November 2009

Market Strategy

Paul Rodriguez

Senior Technical Analyst

0207 158 1744

paul.rodriguez@lloydstsb.co.uk

Kenneth Broux

Market Economist

0207 158 1750

kenneth.broux@lloydstsb.co.uk

Naeem Wahid

Quantitative Strategist

0207 158 1741

naeem.wahid@lloydstsb.co.uk

Altaz Dagha

Analyst

0207 158 1747

altaz.dagha@lloydstsb.co.uk

	Close	Daily Change %
FX		
EUR/GBP	0.9091	0.34%
GBP/USD	1.6532	-1.04%
EUR/USD	1.5019	-0.76%
USD/JPY	86.590	-0.87%
AUD/USD	0.9137	-1.98%
Bonds %		bp
US 10Yr	3.269	0.0
EUR 10Yr	3.166	-9.9
UK10 Yr	3.634	-2.1
UK 5yr Swap	3.020	-9.0
Equities		%
S&P500	1110.63	0.45%
FTSE100	5194.13	-3.18%
Eurostoxx50	2799.44	-3.36%
Shanghai Composite	3096.27	-2.36%
Commodities		%
Crude Oil \$/bl	77.96	2.55%
Gold \$/oz	1188.4	-0.29%
Copper	319.7	1.70%
Baltic Dry	4119	-2.72%
Other		
VIX	20.48	0.05%
ITraxx XOVER	530.08	17.3

- **Black Friday**
- **UK 5y swaps fall below 3.0%**

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6327	€/\$: 1.4905	\$/¥: 85.81
UK 5y sw: 3.02%	US 5y sw: 2.32%	EU 5y sw: 2.63%

Overnight:

- Japan Oct unemployment rate drops to 5.1%, core CPI edges up to -2.2% y/y
- Weekly MOF flows show foreign investors bought ¥600.6bn of Japanese securities, all MM instruments, sell stocks and JGB's; Japanese investors sell ¥141.6 overseas holdings

Today is dubbed 'Black Friday' for US retailers but a slump in pro-risk assets is set to turn today's trading session in a sombre 'black Friday' experience for investors. The pullback in risk appetite has its roots in the Middle East and China (we wouldn't exaggerate the contribution of Greece) but think the use of the words 'fat tail risk' by some commentators is overdoing it. We are not oblivious to the lingering pockets of instability, i.e. the knock-on effects on confidence from profit taking/de-leveraging overlaid with destabilising forces of exceptionally loose monetary policy in fast growing dollar bloc countries. The turbulence highlights to a great extent the challenge central banks face in timing their exits from non-standard credit measures, whilst governments are forced to heed warnings signals of wider sovereign CDS spreads.

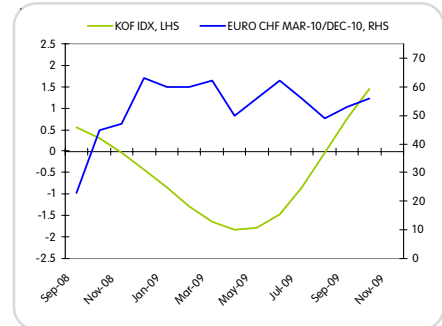
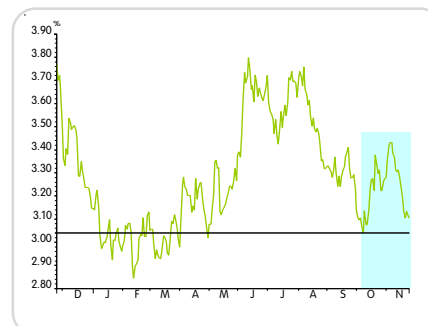
Ahead today: very quiet again for economic releases globally. Focus will obviously centre on the US where equity markets are set to resume trading (Dow futures down 300pts), and the looming visit of EU officials to China including ECB president Trichet. EU-16 economic confidence is forecast to have improved to 88.0 in Nov vs 86.2 in Oct, the highest since Sep-08. The Swiss Nov KOF index will garner plenty of interest and a stronger outcome along with safe haven bids may again force the SNB's hand to snuff out USD/CHF and EUR/CHF shorts.

FX: The Shanghai composite slipped below 3,150 support, triggering heavy selling in high yield currencies. AUD/USD slipped below 0.9037 key technical support but with the RBA looming next week and AU/US 2y spread widening to 365bps, we view this as a buying opportunity. This would be negated by a break of 0.8907 support. For GBP/USD, key support runs along 1.6250-60. Outperformance of EUR/USD keeps EUR/GBP bid over 0.91, but the looming EU/China should (temporarily) temper EUR bulls. We are also on guard against short covering in USD/JPY and a bounce towards the 88.30 area following the overnight comments by the MOF.

Rates: UK 5y swaps dropped below 3.0% to 2.98% in early trading, with the 2y/10y curve flat at 199bps. 2y gilts have taken out 1.15% and a breakout in 10y yields below 3.50% brings 3.40% within play. US 2y yields have dropped below 0.65%. In corporate issuance, the Council of Europe launched a 2013 £200mn deal yesterday at 55bps over gilts. Greece/bunds trades at 203bps and Italian 10y BTP's/bunds are gaining traction over 90bps.

UK 5y swaps through 3.0% support this morning. Heading for the March low?

EURO CHF curve: flattening potential if KOF surprises to the upside



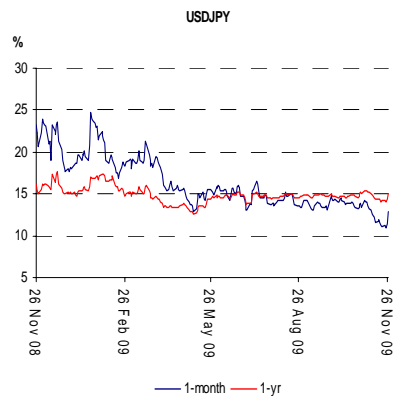
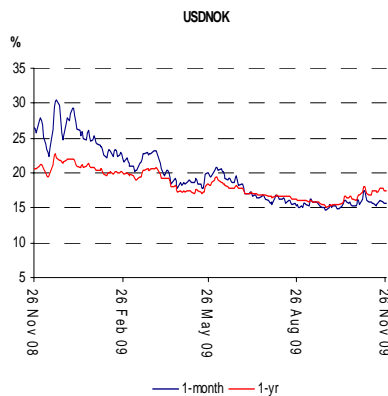
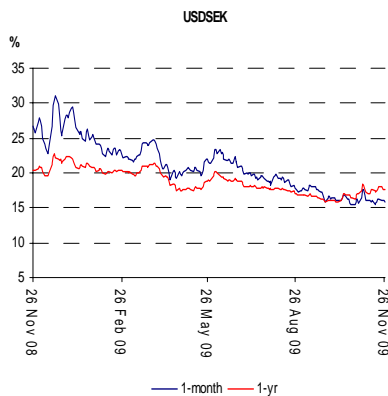
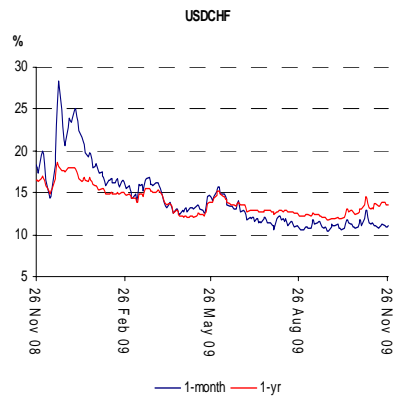
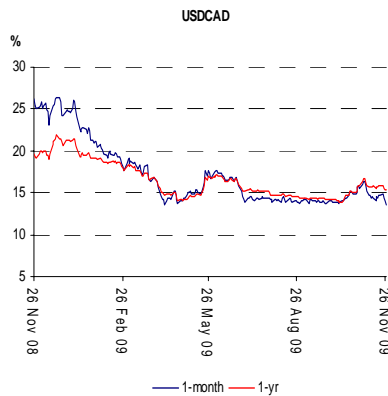
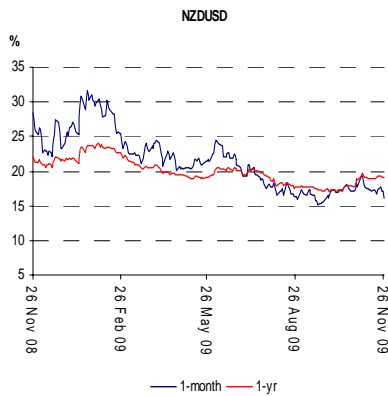
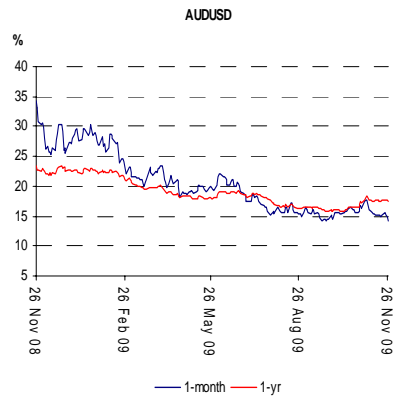
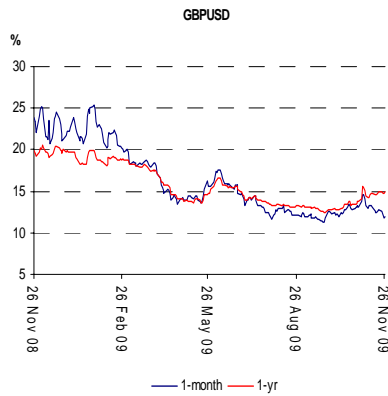
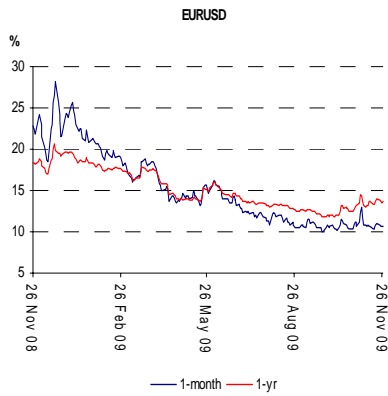
Today's Data

	Time	Consensus	Previous	Events
Germany Import Prices, Oct	07:00	0.5%A	-0.9%	ECB president Trichet visits China
France Consumer Confidence, Nov	07:45	-35	-35	ECB speakers: Ordonnez (11:00)
EU-16 Business Climate Indicator, Nov	10:00	-1.65	-1.78	
EU-16 Consumer Confidence, Nov	10:00	-17	-18	
EU-16 Economic Confidence, Nov	10:00	88.0	86.2	



FX Options: Implied volatility

The charts below show 1-month and 1-year implied volatility for G-10 currencies, against the USD. 1-month volatility is drifting lower, partly reflecting mature and stable FX trends. Additionally, the Thanksgiving and Christmas holidays have reduced the trading days left for 2009, helping to further drive down short-term volatility. Barring a risk aversion led event (where the USD rallies strongly), a continuation of the USD negative trend or a stabilisation in the USD is likely to lead to further weakness in 1-month volatility.



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GBP/EUR	1.1007	-0.28%
GBP/USD	1.6532	-1.04%
GBP/JPY	143.14	-1.90%
GBP/CHF	1.6578	-0.41%
GBP/AUD	1.8095	0.96%
GBP/CAD	1.7508	0.26%
GBP/NZD	2.3112	1.33%
GBP/NOK	9.3524	0.67%
GBP/ZAR	12.4066	1.30%
GBP/CNY	11.2833	-1.07%

		bp
Bonds %		
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UK10 Yr	3.530	-10.4

Other		
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DJ Agriculture Index	64.22	1.84%

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*latest price

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Commodities		
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Copper c/lb	319.7	1.70%
Silver \$/oz	18.67	-0.98%
Baltic Dry	4119	-2.72%

		bp
Swaps %		
US 5yr	2.460	5.8
EUR 5yr	2.665	-7.4
UK 5yr	3.020	-9.0

Official Rates %	
UK	0.50
US	0.25
EU	1.00
Japan	0.10

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