

# Daily Market Strategy

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## Market Strategy

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- One-way traffic in EUR crosses
- Strong Chinese data, when will PBoC hike?

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6271

€/£: 1.4117

\$/¥: 91.54

UK 5y sw: 3.26%

US 5y sw: 2.74%

EU 5y sw: 2.64%

### Overnight

- China Q4 GDP up 10.7% y/y vs 9.1% in Q3, Dec CPI jumps to 1.9% vs 0.6% in Nov; pressure on PBoC to tighten, 3mth T-bill yield climbs
- US Treasury buyers move the goalposts (FT)

Overnight releases of Chinese Q4 GDP and December CPI topped forecasts and prompted new calls for tighter monetary policy by the PBoC. Rumours of rate hikes surfaced in the market yesterday and will gather momentum after yields on 3mth T-bills rose for a second time this month. This favours risk aversion plays in currencies and steeper yield curves. For AUS/USD, this could be a buy-on-dip opportunity at 0.91 ahead of the RBA next week. Though the S&P has been flirting with 1,150, it is fair to say that equities have so far not at all responded well to US Q4 earnings, with the benchmark sliding 1% in two of the last three sessions. The prospect of higher rates and reduced liquidity in China could be the catalyst for a push in the Shanghai composite below 3,000 after failing to break 3,300. For currencies, this primarily favours short EUR strategies on reduced Asian diversification flows and increased aversion for euro zone sovereign risk.

### Ahead today:

- MPC member Tucker speaks after market close, will he share his view on QE? UK December data for public finances are forecast to show a whopping rise in the PSNCR to £25.5bn vs £14.7bn in November and £21.6bn 12 months ago. The DMO auctions 3.3bn of 2019 paper.
- ECB speakers Trichet and Weber may comment on the blowout of Greek bonds yields and this may put the flash January PMIs in the shade. Bond supply is scheduled from France (12bn euros) and Spain (2bn)
- US data: weekly claims and the Philly Fed. The Treasury will announce details of 2y, 5y, 7y supply next week. Amex and Goldman report Q4 results

### FX:

EUR/USD: 1.40 has been on our radar since last month and we see a good chance of this target being hit on Greece-induced EUR selling and speculation of a PBoC rate hike. Below 1.40, support rests around 1.3812, the 50% Fibon retracement.

EUR/CHF: a test of 1.47 is lined up and opens up a move to 1.4570-1.46, the March 09 low. The SNB can only stand by and watch despite its commitment in the latest monetary policy update to counter the appreciation of the CHF vs the EUR. If CHF strength is sustained, it would rekindle deflationary concerns and push forward the timetable of a first SNB rate hike.

EUR/GBP: the UK/EU 2y spreads widens to 22bps in early trade, providing cover for the cross below 0.87. Support runs at 0.8521, the 500D MA. Resistance is pinned at 0.8749/

**Rates:** UK 5y swaps are moving sideways at 3.27% this morning, within the 3.20%-3.40% range. Weakness in equities on the one hand and fears of escalating inflation on the other are keeping swaps finely poised. Support rests at 3.25%. Tuesday's 3.33% high acts as main resistance. MPC member Tucker's speech tonight, UK retail sales and equities are set to decide price action into the close tomorrow. 2y/10y cash spread flattens below 270bps but 2y/10y swaps finds support at 217bps, one bps wider from yesterday's close. On the corporate issuance side, Prudential reportedly priced £250mn of 3y paper at 95bps over mid-swaps. The last 2019 DMO auction was covered 1.81X.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8658	-0.84%
GBP/USD	1.6292	-0.43%
EUR/USD	1.4106	-1.27%
USD/JPY	91.241	0.10%
AUD/USD	0.9101	-1.42%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.647	-4.4
EUR 10Yr	3.223	-5.4
UK10 Yr	4.014	-1.2
UK 5yr Swap	3.263	0.0
<b>Equities</b>		<b>%</b>
S&P500	1138.04	-1.06%
FTSE100	5420.80	-1.67%
Eurostoxx50	2914.60	-2.35%
Shanghai Composite	3158.86	0.22%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	77.74	-1.62%
Gold \$/oz	1111.1	-2.39%
Copper	335.5	-2.67%
Baltic Dry	3158	-1.56%
<b>Other</b>		
VIX	18.68	6.26%
iTraxx XOVER	426.17	16.3

### Today's Data

EU-16 Manufacturing PMI, Jan	09:00	51.9	51.6
EU-16 Services PMI, Jan	09:00	53.8	53.6
UK PSNCR, Dec	09:30	25.5bn	14.7bn
UK M4, Dec prel	09:30	0.9%	0.1%
UK CBI Industrial Trends, Jan	11:00	n/a	
US Initial Claims, Jan-16	13:30	440k	444k
US Philly Fed Survey, Jan	15:00	18.4	20.4
US Leading Indicators, Dec	15:00	0.7%	0.9%

### Time Consensus Previous

09:00	51.9	51.6
09:00	53.8	53.6
09:30	25.5bn	14.7bn
09:30	0.9%	0.1%
11:00	n/a	
13:30	440k	444k
15:00	18.4	20.4
15:00	0.7%	0.9%

### Events

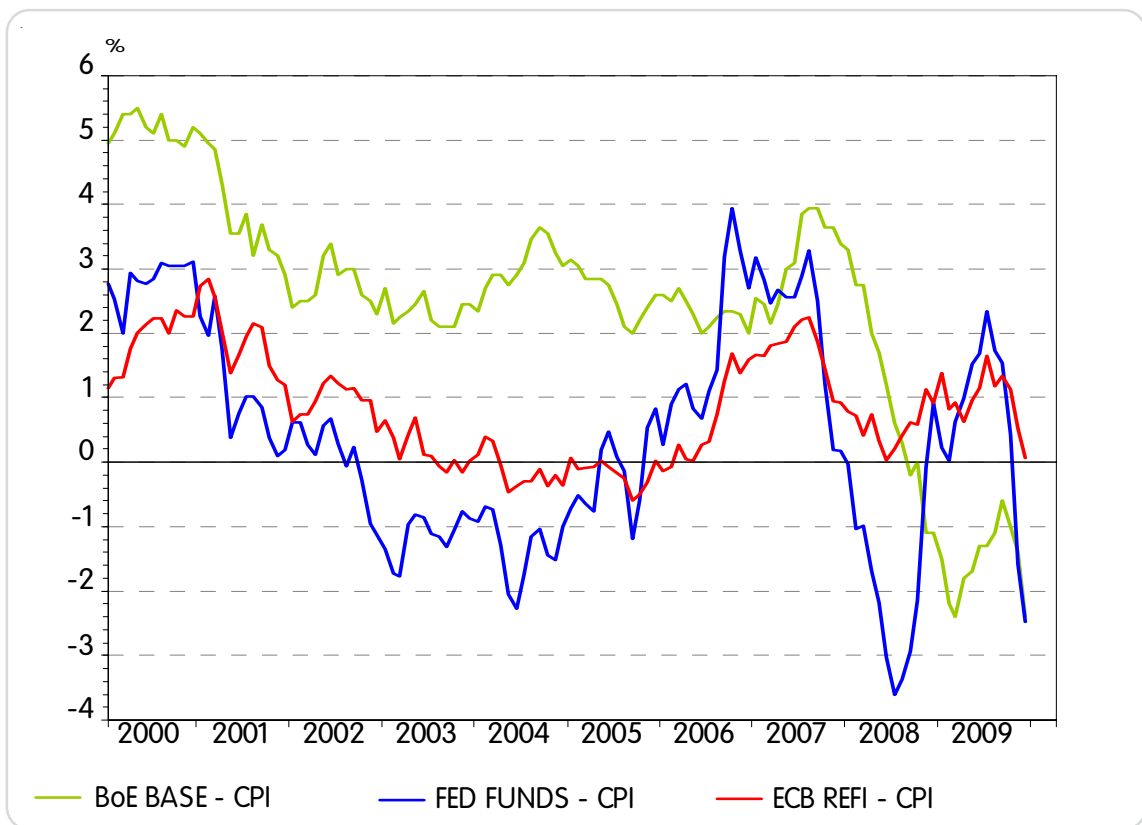
UK DMO auction, 3.3bn, 2019, 3.75%
BoE speaker: Tucker (18:30)
ECB speakers: Weber (10:00), Gonzalez (12:00)
Trichet (12:00)
France sells 12bn euros, 2012 through 2019IL
Spain sells 2bn euros, 2029

\*All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, DataStream & CQG

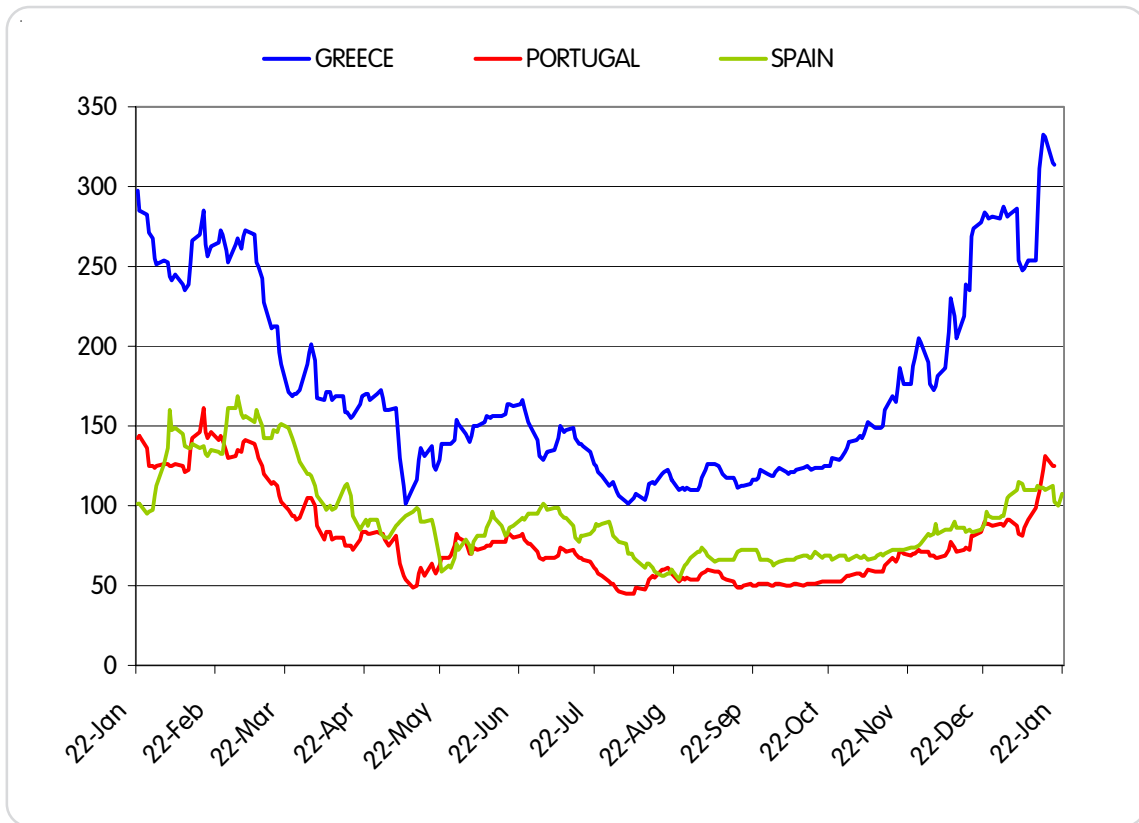
EUR/GBP: 500d MA next support level at 0.8522



Real interest rates: below zero in the UK and the US



EU CDS spreads: Greece leads, Portugal trades wider than Spain



## Market Summary

	Close	Daily Change %		Close	Daily Change %
<b>FX</b>			<b>Equities</b>		
EUR/USD	1.4106	-1.27%	S&P500	1138.04	-1.06%
USD/JPY	91.24	0.10%	DJIA	10603.15	-1.14%
AUD/USD	0.9101	-1.42%	FTSE100	5420.80	-1.67%
EUR/GBP	0.8658	-0.84%	Eurostoxx50	2914.60	-2.35%
GBP/EUR	1.1550	0.85%	Shanghai Composite*	3158.86	0.22%
GBP/USD	1.6292	-0.43%	*latest price		
GBP/JPY	148.65	-0.33%	<b>Commodities</b>		
GBP/CHF	1.7009	0.66%			
GBP/AUD	1.7900	1.00%	Crude Oil \$/bl	77.74	-1.62%
GBP/CAD	1.7049	1.03%	Gold \$/oz	1111.1	-2.39%
GBP/NZD	2.2573	1.46%	Copper c/lb	335.5	-2.67%
GBP/NOK	9.4172	1.23%	Silver \$/oz	17.88	-4.64%
GBP/ZAR	12.2695	1.30%	Baltic Dry	3158	-1.56%
GBP/CNY	11.1234	-0.42%			
<b>Bonds %</b>			<b>Swaps %</b>		
		<b>bp</b>			<b>bp</b>
US 10Yr	3.647	-4.4	US 5yr	2.705	-2.3
EUR 10Yr	3.223	-5.4	EUR 5yr	2.627	-2.8
UK10 Yr	4.014	-1.2	UK 5yr	3.263	0.0
<b>Other</b>			<b>Official Rates %</b>		
VIX	18.68	6.26%	UK	0.50	
iTraxx XOVER	426.17	16.3	US	0.25	
DJ Agriculture Index	61.56	-0.83%	EU	1.00	
			Japan	0.10	

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