

# Daily Market Strategy

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## Market Strategy

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- CAD, SEK top G10 table on CB rate calls
- UK 10y BEIR climbs to 3.15%; labour market stats, MPC minutes ahead

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5395

€/£: 1.3442

\$/¥: 93.31

UK 5y sw: 2.91%

US 5y sw: 2.72%

EU 5y sw: 2.40%

### Overnight

- GBP holds on to gains despite mixed election polls, yields steady
- Capital inflows create dilemma (FT); improved creditworthiness of emerging markets and low interest rates in the developed economies make more central bank intervention likely
- IMF cuts global bank write-down f/cast to \$2.3tn, sees increased sovereign default risk (WSJ)
- G20 to discuss yuan within a rebalancing context

The Riksbank and the Bank of Canada pressed ahead with their transition towards exit from ultra-loose monetary policy, signalling interest rate increases towards the end of Q2, and giving the SEK and pro-risk CAD additional tailwind vs other G10 currencies, notably vs the EUR and JPY. Somewhere further down the hawkish-dovish policy scale, we would not underestimate the possibility of the BoE moving away from an ultra-dovish to a more neutral policy stance sooner rather than later. If anything, yesterday's strong CPI data, arguably aided by base effects, did not go unnoticed in the break-even world where 10y rates accelerated to 3.15%, something the Bank cannot ignore as it reassesses the probability of inflation hitting the target by year-end. A subtle change in today's MPC minutes (and stronger labour market stats) could be enough to drive home our more defensive point, causing the front-end and short sterling strip to lose ground. With nominal yields showing no great sense of unrest over the likelihood of a hung Parliament or the inflation backdrop, we wonder if BoE commentary will get yields moving.

### Ahead today

- UK: our economics team forecasts a drop in the claimant count of 5k vs 10k consensus, no change in the ILO unemployment rate (8.7%) and an up-tick in averages wages to 2.5% vs 0.9%. A unanimous MPC vote is also expected. The DMO sells up to £600mln, 1.25%, 2017 IL gilts by tender.
- EU: all quiet on the data front. Germany sells 3bln eur of 2040 paper (re-open). Delegations of the EU/ECB/IMF start consultations in Athens over the practical details of a loan rescue package.
- US: no data

**FX:** GBP managed to hold on to CPI led gains overnight, with more talk of dividend payment related GBP/USD buying reportedly underpinning the cross in the 1.54 area. We stick to our bullish GBP/USD and GBP/EUR view for this week. For today, labour markets stats (bigger 'pre-election' drop in claimant count?) and the MPC minutes should underpin bullish GBP sentiment. For GBP/USD, we target a rally to 1.55. EUR/GBP pierced 0.8750 support and remains on course to hit our 0.8700 target. Support comes in at 0.8706, the Apr 9 low. For GBP/CAD, we prefer selling rallies following the move through 1.55 support, targeting a pullback to 1.50 on UK/CA rate differentials. The dollar index ran out of steam in the 81.05 area, and with no major data or Fed events scheduled, we look to equities for near-term direction.

**Rates:** Very tight ranges remain in place even after a solid CPI shock yesterday and reveal a reluctance to commit positions even of a more defensive nature. Fundamentally, we see mileage to the upside in yields as inflation remains sticky and 'other factors' seem to be taking the upper hand over spare capacity. With the week still young in terms of UK event risk, we remain on alert for a test of recent levels. We target a move up to 3% for 5y swaps and 4.10% for 10y gilts. Flattening curve pressure emerges this morning and could gain momentum on stronger employment data/MPC minutes. 2y/10y swaps narrow to 226bp, cash tightens to 285bp.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8747	-0.54%
GBP/USD	1.5359	0.14%
EUR/USD	1.3435	-0.40%
USD/JPY	93.220	0.89%
AUD/USD	0.9318	0.86%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.799	0.2
EUR 10Yr	3.098	2.0
UK10 Yr	3.991	0.7
UK 5yr Swap	2.903	2.0
<b>Equities</b>		<b>%</b>
S&P500	1207.17	0.81%
FTSE100	5783.69	0.97%
Eurostoxx50	2983.91	1.49%
Shanghai Composite	3015.76	1.22%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	83.85	2.95%
Gold \$/oz	1140.8	0.44%
Copper	353.6	0.50%
Baltic Dry	2998	-0.13%
<b>Other</b>		
VIX	15.73	-9.28%
iTraxx XOVER	409.53	-18.8

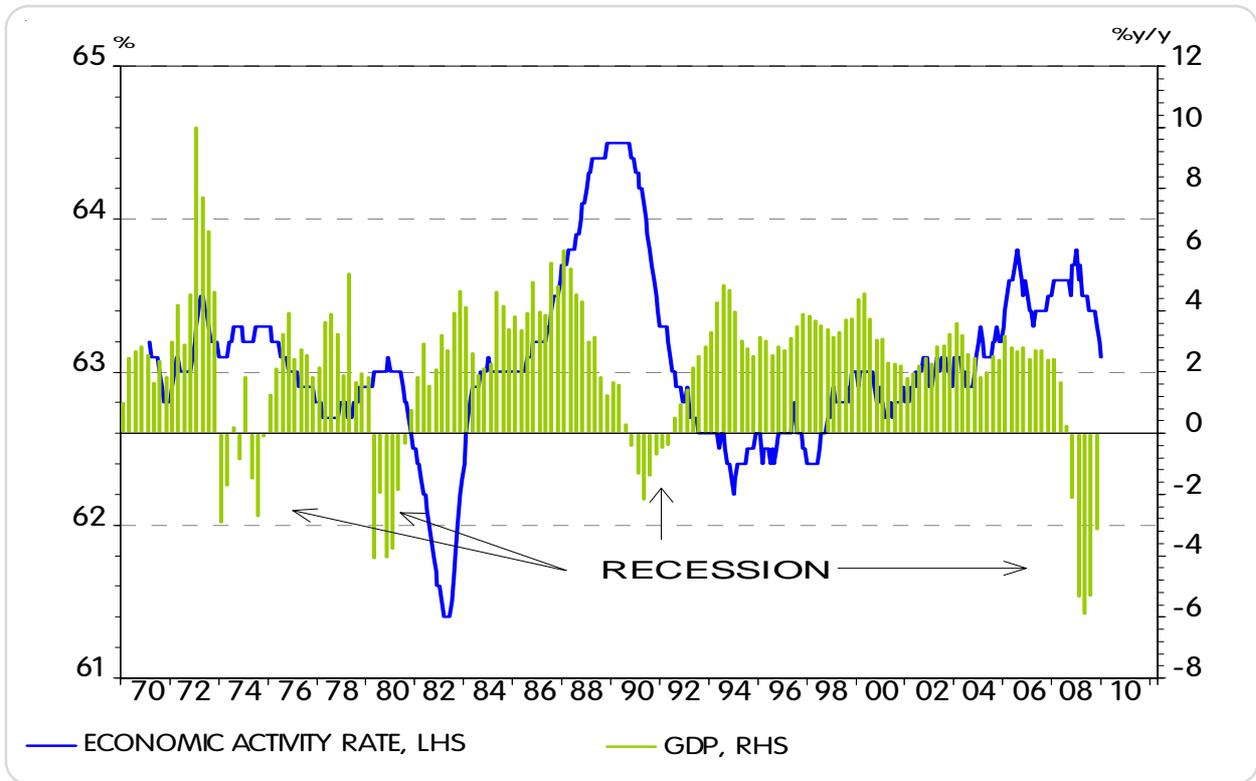
### Today's Data

	Time	Consensus	Previous	Events
BoE MPC Minutes, Apr 7/8 Meeting	09:30			DMO sells £600mln, 2017 IL by tender
UK Claimant Count Change, Mar	09:30	-10k	-32.3k	Germany sells 3bln, 2040 bunds
UK Average Weekly Earnings, Feb, %3M/	09:30	2.4%	0.9%	
UK ILO Unemployment Rate, Feb	10:00	7.8%	7.8%	
US MBA Mortgage Apps, Apr 16	12:00	n/a	-9.6%	

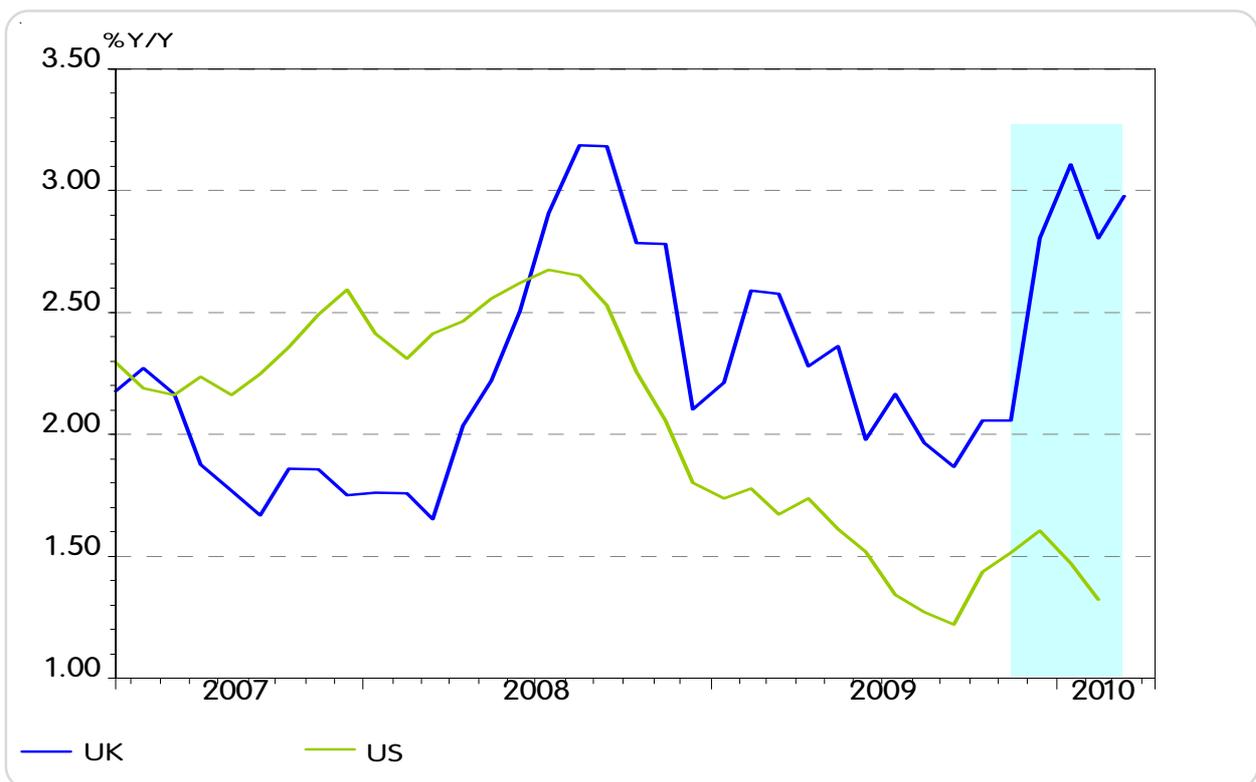
\*All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, DataStream & CQG



UK economic activity rate still falling, even as recessions loosens its grip



Core CPI trends compared: sticky in the UK, dormant in the US



## Market Summary

<b>FX</b>	<b>Close</b>	<b>Daily Change %</b>		<b>Close</b>	<b>Daily Change %</b>	
EUR/USD	1.3435	-0.40%		<b>Equities</b>		
USD/JPY	93.22	0.89%		S&P500	1207.17	0.81%
AUD/USD	0.9318	0.86%		DJIA	11117.06	0.23%
EUR/GBP	0.8747	-0.54%		FTSE100	5783.69	0.97%
GBP/EUR	1.1432	0.54%		Eurostoxx50	2983.91	1.49%
GBP/USD	1.5359	0.14%		Shanghai Composite*	3015.76	1.22%
GBP/JPY	143.17	1.02%		*latest price		
GBP/CHF	1.6412	0.66%		<b>Commodities</b>		<b>%</b>
GBP/AUD	1.6482	-0.72%		Crude Oil \$/bl	83.85	2.95%
GBP/CAD	1.5335	-1.45%		Gold \$/oz	1140.8	0.44%
GBP/NZD	2.1582	0.07%		Copper c/lb	353.6	0.50%
GBP/NOK	9.0740	0.10%		Silver \$/oz	17.85	0.56%
GBP/ZAR	11.3400	-0.67%		Baltic Dry	2998	-0.13%
GBP/CNY	10.4841	0.14%				
			<b>Swaps %</b>		<b>bp</b>	
<b>Bonds %</b>		<b>bp</b>	US 5yr	2.703	2.0	
US 10Yr	3.799	0.2	EUR 5yr	2.388	3.0	
EUR 10Yr	3.098	2.0	UK 5yr	2.903	2.0	
UK10 Yr	3.991	0.7				
			<b>Official Rates %</b>			
<b>Other</b>			UK	0.50		
VIX	15.73	-9.28%	US	0.25		
iTraxx XOVER	409.53	-18.8	EU	1.00		
DJ Agriculture Index	58.34	1.49%	Japan	0.10		

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