

# Daily Market Strategy

Tuesday, 4th May 2010

## Market Strategy

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- Speculative EUR shorts hit new high
- 10y gilt slips below 3.90%

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5233

€/£: 1.3177

\$/¥: 94.87

UK 5y sw: 2.98%

US 5y sw: 2.67%

EU 5y sw: 2.34%

### Overnight

- YouGov: Tories 35% (+1), Lib Dems 28% (-1), Labour 28% (=)
- RBA hikes 25bp to 4.50%, inflation to be in upper half of CB target range of 2-3% over year ahead; says borrowing costs have returned to average levels; pause likely
- US manufacturing ISM climbs to 60.4 in April, highest since June-04, core PCE deflator unchanged at 1.3%, spending up 0.6% (6th successive gain)
- IMF bailout of Greece reduces threat of debt restructuring, first tranche due before May 19 (10y bond matures worth 8.1bln eur), deals fails to arrest EUR selling

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8655	-0.58%
GBP/USD	1.5248	-0.17%
EUR/USD	1.3195	-0.74%
USD/JPY	94.540	0.74%
AUD/USD	0.9261	0.19%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.682	2.9
EUR 10Yr	3.065	4.8
UK10 Yr	3.907	-4.3
UK 5yr Swap	2.978	0.0
<b>Equities</b>		<b>%</b>
S&P500	1202.26	1.31%
FTSE100	5553.29	0.00%
Eurostoxx50	2816.50	0.00%
Shanghai Composite	2835.28	-1.23%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	86.19	0.05%
Gold \$/oz	1182.2	0.25%
Copper	329.4	-1.79%
Baltic Dry	3354	-0.15%
<b>Other</b>		
VIX	20.19	-8.44%
iTraxx XOVER	426.17	-0.3

As we return from a cold bank holiday, we find the market in one mind about currencies but in two minds about risk appetite. The Shanghai composite slumped blow 2,900 overnight hitting an 8-month low, dragging down high yield and commodity currencies. By contrast, a duo of strong US manufacturing ISM and personal spending/income data released yesterday lifted the S&P 500 back over 1,200, arguably on low volume. Alas, the pullback in government bond yields (10y gilt below 3.90%), despite fears of a hung Parliament, reveals a switch to safe haven from sterling assets. For GBP this has considerable implications for the currency has traded well vs the G10 over the last three weeks due to high correlation with risk. A first rise in GBP short positions in five weeks testifies to greater caution and likely underperformance until uncertainty over the election outcome disappears. For rates, one would instinctively expect gilts to underperform treasuries and bunds, but this has not been the case and dampens fears of a spike in yields even as a hung Parliament looms. Let's see how long this holds.

### Ahead today

- UK: manufacturing PMI data is forecast to have edged up in April to 57.5, pointing to a solid start to Q2 and giving the BoE greater reason to exercise caution over near-term inflation as it finalises its Q2 QIR. Consumer credit is forecast to have expanded in March for a 3rd straight month.
- EU: no data, eyes on the newswires for pre-EU council meeting commentary
- US: second-tier data includes March factory orders and pending home sales

### Weekly IMM positioning

	20-Apr		27-Apr		change		
	rep	non rep	rep	non rep			
CAD	70	32	101	59	31	90	-11
CHF	-5	0	-6	-14	-4	-18	-12
GBP	-49	-12	-61	-55	-12	-67	-6
JPY	-50	-28	-78	-50	-25	-75	4
EUR	-71	-5	-76	-89	-8	-97	-21
AUD	79	22	101	66	17	83	-18

**FX:** The AUD is trading lower across the G10 after the RBA statement and pullback in Asian equities and S&P futures, logging a decline of 0.4-0.6% vs the G7 majors. For GBP/USD, the pullback below 1.52 puts the cross right on trendline support at 1.5176. A break would risk dragging the cross down to 1.5126 area, the April 28 low. A stronger manufacturing PMI could bring out buyers on dips though commitment ahead of Friday is expected to be weak.

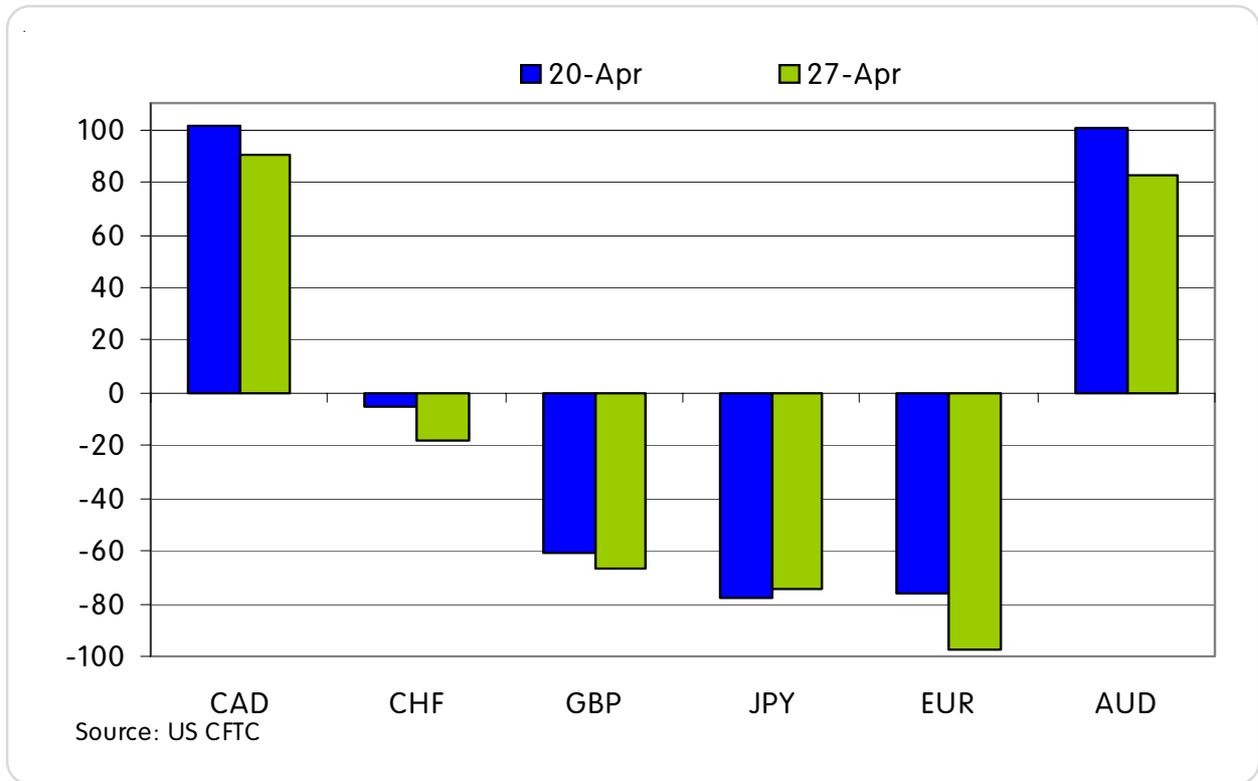
**Rates:** UK 5 swaps drop to 2.94% in early trade, setting sight on 2.90%. Unless UK data disappoints over the next two days, tight trading ranges will dictate flow. A drop in 10y gilts below 3.90% argues for the opposite, with a test earlier of 3.84% underlining the bullish setup.

### Today's Data

	Time	Consensus	Previous Events
German Retail Sales, Mar	07:00	-2.4%A	1.1%R US Treasury Sec Geithner testifies on banking reform (15:00)
UK Net Consumer Credit, Mar	09:30	0.4bln	0.5bln Bundesbank's Zeidler speaks (17:30)
UK Mortgage Approvals, Mar	09:30	49.0k	47.1k
UK M4, Mar final	09:30	n/a	0.1%
UK Manufacturing PMI, Apr	09:30	57.5	57.2
EU-16 PPI, Mar	10:00	0.7%	0.1%
US Factory Orders, Mar	15:00	-0.1%	0.6%
US Pending Home Sales, Mar	15:00	5.0%	8.2%

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

IMM positions: short GBP positions rise for first time in 5 weeks



UK 10y: probing trendline support area around 3.90%



## Market Summary

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EUR/USD	1.3195	-0.74%	<b>Equities</b>	S&P500	1202.26 1.31%
USD/JPY	94.54	0.74%		DJIA	11151.83 1.30%
AUD/USD	0.9261	0.19%		FTSE100	5553.29 0.00%
EUR/GBP	0.8655	-0.58%		Eurostoxx50	2816.50 0.00%
GBP/EUR	1.1553	0.57%		Shanghai Composite*	2835.28 -1.23%
GBP/USD	1.5248	-0.17%		*latest price	
GBP/JPY	144.14	0.58%		<b>Commodities %</b>	
GBP/CHF	1.6555	0.61%		Crude Oil \$/bl	86.19 0.05%
GBP/AUD	1.6463	-0.36%		Gold \$/oz	1182.2 0.25%
GBP/CAD	1.5411	-0.85%		Copper c/lb	329.4 -1.79%
GBP/NZD	2.0861	-0.70%		Silver \$/oz	18.80 0.83%
GBP/NOK	9.0518	0.38%		Baltic Dry	3354 -0.15%
GBP/ZAR	11.3052	0.19%			
GBP/CNY	10.4062	-0.17%			
<b>Bonds % bp</b>			<b>Swaps % bp</b>		
US 10Yr	3.682	2.9	US 5yr	2.667	5.8
EUR 10Yr	3.065	4.8	EUR 5yr	2.345	2.3
UK10 Yr	3.907	-4.3	UK 5yr	2.978	0.0
<b>Other</b>			<b>Official Rates %</b>		
VIX	20.19	-8.44%	UK	0.50	
iTraxx XOVER	426.17	-0.3	US	0.25	
DJ Agriculture Index	58.28	-0.54%	EU	1.00	
			Japan	0.10	

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