

# Daily Market Strategy

Friday, 11th September 2009

## Market Strategy

### Market Strategy Team

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- Strong Chinese data trigger USD selling, equity rally
- Bond yields/swaps hit weekly lows

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6717, €/\$: 1.4607, \$/Y: 91.18

UK 5y sw: 3.30%, US 5y sw: 2.65%, EU 5y sw: 2.70%

Overnight

- US 30y bond auction covered 2.92 times; indirects take 46.5%; strong
- FDIC studies ending/restricting bank funding guarantees
- China reports strong August retail sales, industrial output, M2 lending data
- IEA raises world oil demand forecast for 3rd successive month

Selling the USD remains the favourite game in town as we approach the end of the week after strong economic data from China boosted Asian equities and high yield and commodity currencies. Pro-risk sentiment was aided by reports that the US will pull emergency guarantees for money market mutual funds at the end of the month and is studying an end or restriction of funding guarantees for banks (FT front page). The dollar index fell for a 6th successive session, pushing GBP/USD above 1.47 and EUR/USD above 1.46. The G20 may be forced to take notice of the latest USD down leg in Pittsburgh in two weeks time.

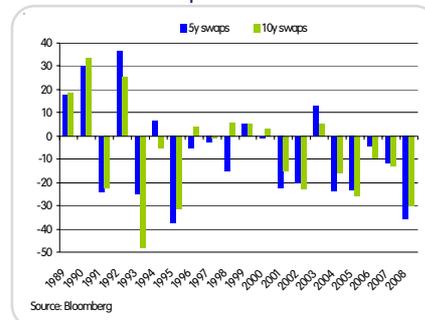
A decent reversal in bond yields and swap rates yesterday reminded us of the typically bullish seasonals that tend to transpire into lower rates this time of year (we have re-inserted the chart for those who missed it last week). The bullish flattening was arguably helped by the bond friendly US trade data (a bigger July deficit will subtract from GDP) and China premier Wen's comment that the recovery in China is unstable (a reference to strong M2 and lending growth?). UK August producer prices and the September preliminary Michigan confidence survey are unlikely to influence price action into the weekly close.

**FX:** The resilience of GBP, aided by a market short of sterling and the BoE decision to stand pat on rates and QE yesterday, means GBP has caught up with the pro-risk theme following a pretty torrid month of August. A technical break of 1.6750 would clear the path for a move back up to 1.70.GBP. The pullback in EUR/CHF below 1.5150 sparked speculation of SNB intervention prior to the quarterly policy meeting next week. Support is at 1.5110.

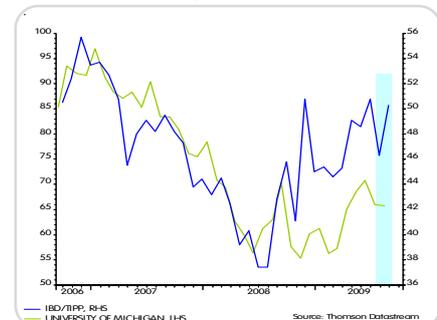
**Rates:** It is hard to argue against softer yields after the impressive reversal in UK 5y swaps from 3.38% below 3.30%. Corporate supply and the prospect of soft UK CPI data next week bodes well for a test of Tuesday's 3.26% low in 5y swaps. Higher stocks and above \$72 crude oil could force yields to back up. The gilt spread 2y/10 is steady at 277bps, lagging the bullish flattening move in Treasuries (246bps) and bunds (207bps).

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8754	-0.53%
GBP/USD	1.6651	0.62%
EUR/USD	1.4582	0.17%
USD/JPY	91.735	-0.33%
AUD/USD	0.8640	0.18%
<b>Bonds %</b>		
US 10Yr	3.347	-12.4
EUR 10Yr	3.304	-5.8
UK 10 Yr	3.759	8.4
UK 5yr Swap	3.298	-8.4
<b>Equities</b>		
S&P500	1044.14	1.04%
FTSE100	4987.68	-0.33%
Eurostoxx50	2817.50	-0.11%
Shanghai Composite	2983.55	2.01%
<b>Commodities</b>		
Crude Oil \$/bl	71.94	1.18%
Gold \$/oz	996.6	0.43%
Copper	287.7	-2.69%
Baltic Dry	2492	0.04%
<b>Other</b>		
VIX	23.55	-3.17%
iTraxx XOVER	582.16	-4.2

Downside favoured for UK swaps in September



Will Michigan consumer confidence index catch up with IBD/TIPP?



### Today's Events

UK PPI Input, Aug	09:30	+1.0%	-1.4%
UK PPI Output core, Aug	09:30	+0.2%	+0.5%
US Import Prices, Aug	13:30	+1.0%	-0.7%
US Wholesale Inventories, Jul	15:00	-1.0%	-1.7%
Uni. of Michigan Confidence, Sep prelim	15:00	67.3	65.7
Canada New Housing Index, Jul	13:30	-0.1%	-0.2%
Japan Real GDP, Q2 final	00:50	2.3% A	+3.7%
Japan Real GDP Deflator, Q2 final	00:50	+0.5% A	+0.5%
ECB speakers: Gonzalez-Paramo (08:00), Bini Smaghi (10:45), Odonnez (10:45)			
Fed speakers: Evans (14:30)			

Time	Consensus	Previous
09:30	+1.0%	-1.4%
09:30	+0.2%	+0.5%
13:30	+1.0%	-0.7%
15:00	-1.0%	-1.7%
15:00	67.3	65.7
13:30	-0.1%	-0.2%
00:50	2.3% A	+3.7%
00:50	+0.5% A	+0.5%

- The bullish view of equities remains with FTSE futures targeting 5,338 from here and with the S&P cash pushing into a new high for the year. Technical target remains at 1,106 but a bout of Friday profit taking is clearly possible given the gains this week. DAX index futures cleared the main resistance level at 5,578 yesterday and target remains at 5,750, despite the prospects for underperformance against the FTSE. The Hang Seng has cleared resistance at 21,196 (21,237) but the margin is still thin and an extension to 25,000 is anticipated technically. The Shanghai composite remains below the key 3,000 level, but looks finally ready to breach this barrier, adding to the bullish sentiment. The BDY has been little changed in the past few sessions.
- Target of 75.00 remains in the DXY with dollar weakness still the core strategy. Cable is playing catch-up and with 1.6620 breached (the next resistance level is close at 1.6746) the market is gearing up for technical targets at 1.7000. EUR/GBP targets remain at 0.8400 and a break of support at 0.8703 (expected into next week) would increase momentum. Dollar yen has not moved as expected and the broad based weakness of the dollar is technically of interest. For the moment the focus is on selling dollars against the high yielding and EM currencies.
- Bond yields continue to yo-yo, with bond futures being bought up once again, despite the rally in equities. The sharp decline to 3.3% in US 10y yields was not expected, but whilst above 3.25% the view is positive for a move back towards 3.50% and eventually 3.75%. The chart of UK 10y yields looks relatively more positive and 4.00% continues to be the year end objective, but the lack of traction is noted.
- Base and precious metals had a rollercoaster ride yesterday with gold trading as low as \$982 before recovering back to \$1,000. Year-end targets are at \$1,100. Copper continues to circle below the 300 c/lb level, but the bias continues for an upside breakout. Sugar has begun to squeeze back upwards, but the recent volatility will make for a more cautious approach to the long term bullish view. 25 c/lb is seen as the main resistance level to clear ahead of the recent high at 26.25 c/lb.

Chart of the day: Gold



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
<b>R2</b>	1.4865	1.7044	95.15	0.8910	<b>1.1905</b>
<b>R1</b>	1.4720	<b>1.6746</b>	93.41	0.8845	1.1819
Current Spot	1.4617	1.6731	91.12	0.8737	1.1446
<b>S1</b>	1.4330	1.6113	90.30	0.8461	1.1306
<b>S2</b>	<b>1.4177</b>	1.5975	87.14	<b>0.8400</b>	1.1223

Spot prices as of: 07:16:24 Source: Bloomberg

The technical view has been bullish for sometime. Year-end targets are at \$1,100. Only a close below \$960 would imply a break downwards in the current momentum.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4617	Bullish	1.4350	1.4720	1.4470	Stop raised.
USD/JPY	91.12	Neutral	92.60	97.80	91.35	Stop hit.
USD/CHF	1.0360	Bearish	-	1.0300	-	
GBP/USD	1.6731	Bullish	1.6480	1.7000	1.6480	Stop raised.
EUR/GBP	0.8737	Bearish	0.8835	0.8400	0.8835	
GBP/JPY	152.45	Bullish	151.50	156.00	151.50	
EUR/JPY	133.18	Bullish	133.60	139.14	132.40	
CAD/JPY	84.71	Bullish	85.60	90.35	83.95	
AUD/USD	0.8649	Bullish	0.8305	0.9000	0.8530	
USD/CAD	1.07565	Bearish	1.0800	1.0000	1.0920	
NZD/USD	0.7046	Bullish	0.6860	0.7447	0.6860	Stop raised to flat
USD/BRL	1.8105	Bearish	1.8338	1.8000	1.8455	
USD/PLN	2.8351	Bearish	2.8638	2.7000	2.8555	Stop hit.Re-sell current. 2.8347 with the same stop.
USD/HUF	185.75	Bearish	188.00	180.00	188.00	183.32 is a big level- bias for a break. 185.31 is a sell s/t.

Spot prices source: Bloomberg

[ENTRY](#) - Targetted

ENTRY - Active

## Quantitative Market Analysis

Chart 1: Trend Strength

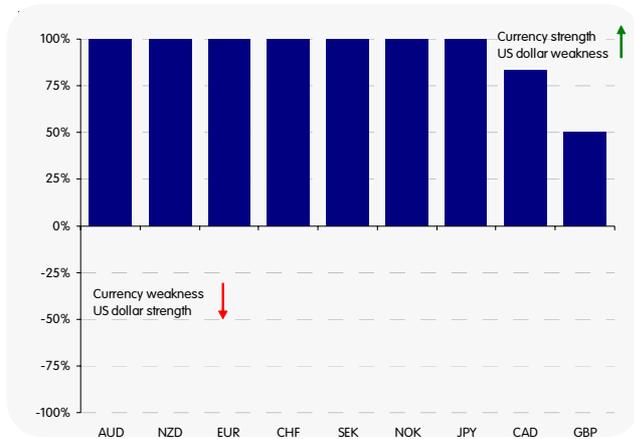


Table 1: 1-month correlations

	AUDUSD	USDCAD	EURUSD	USDJPY	AUDJPY	EURJPY
2 YR SPD	0.14	0.14	-0.70	<b>0.82</b>	0.24	0.61
10 YR SPD	-0.07	-0.18	0.52	0.67	0.47	0.44
S&P500	0.73	<b>-0.81</b>	<b>0.85</b>	-0.48	0.38	0.13
Gold	<b>0.85</b>	-0.43	0.72	<b>-0.79</b>	0.16	-0.47
Oil	0.20	-0.64	0.43	0.00	0.26	0.43
CRB	-0.27	-0.15	-0.18	0.71	0.50	<b>0.89</b>
Relative Yield Curve	0.22	0.32	-0.38	0.19	-0.16	0.55

Table 2: Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	short	17-Aug-09	0.8327
NZDUSD	long	10-Jul-09	0.6298
EURUSD	long	09-Sep-09	1.448
GBPUSD	long	09-Sep-09	1.6490
USDCHF	short	17-Jul-09	1.0730
USDCAD	short	08-Sep-09	1.0780
USDSEK	short	09-Sep-09	7.0444
USDNOK	short	21-Jul-09	6.3025
USDJPY	short	20-Aug-09	94.07

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	19-May-09	19.709
USDPLN	short	09-Sep-09	2.8278
USDSGD	short	08-Sep-09	1.4337
USDTRY	long	27-Aug-09	1.5093
USDZAR	short	31-Aug-09	7.7525

## Market Summary

FX			Equities		
	Close	Daily Change %		Close	Daily Change %
EUR/USD	1.4582	0.17%	S&P500	1044.14	1.04%
USD/JPY	91.735	-0.33%	DJIA	9627.48	0.84%
AUD/USD	0.8640	0.18%	FTSE100	4987.68	-0.33%
EUR/GBP	0.8754	-0.53%	Eurostoxx50	2817.50	-0.11%
GBP/EUR	1.1419	0.47%	Shanghai Composite*	2924.88	1.98%
GBP/USD	1.6651	0.62%	*latest price		
GBP/JPY	152.75	0.29%	Commodities		
GBP/CHF	1.729	0.37%			%
GBP/AUD	1.927	0.44%	Crude Oil \$/bl	71.94	0.88%
GBP/CAD	1.794	0.50%	Gold \$/oz	996.6	0.43%
GBP/NZD	2.365	-0.54%	Copper c/lb	287.7	-2.69%
GBP/NOK	9.904	1.50%	Silver \$/oz	16.67	2.21%
GBP/ZAR	12.600	0.97%	Baltic Dry	2492	0.04%
GBP/CNY	11.373	0.63%			
Bonds %			Swaps %		
		bp			bp
US 10Yr	3.347	-12.4	US 5yr	2.645	-8.8
EUR 10Yr	3.304	-5.8	EUR 5yr	2.717	-5.7
UK10 Yr	3.759	8.4	UK 5yr	3.298	-8.4
Other			Official Rates %		
VIX	23.55	-3.17%	UK	0.50	
iTraxx XOVER	582.16	-4.2	US	0.25	
DJ Agriculture Index	57.05	0.96%	EU	1.00	
			Japan	0.10	

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