

# Daily Market Strategy

Wednesday, 30th September 2009

## Market Strategy

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- GBP bid as consumer confidence surges
- Fed's Plosser steps up hawkish rhetoric

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6046, €/\$: 1.4623, \$/¥: 89.79

UK 5y sw: 3.29%, US 5y sw: 2.69%, EU 5y sw: 2.72%

#### Overnight

- UK consumer confidence jumps to -16 in Sep, highest since Jan-08
- Japan industrial output rises for 5th straight month
- IMF cuts global write-down projection to \$3.4tn from \$4tn

Markets were characterised overnight by higher risk appetite on strong Australian retail sales and UK consumer confidence, and did well to shrug off a third set of hawkish remarks by the Fed in less than a week (Warsh, voter, Fisher and Plosser are non-voters). An unexpected nine-point surge in UK consumer confidence in September squeezed sterling shorts and washed away some of the bearish pressures tied to 'misinterpretation' of BoE policy statements. The Bank will hold a press conference today, allegedly to report on yesterday's meeting with City economists and clarify the objectives of QE (and play down speculation of a cut in bank deposit rates). Bigger things lie ahead in terms of market activity like month-end in government bonds and fx, and the results of the ECB's one-year tender. The US September ADP employment and Chicago PMI surveys could add to speculation of a rate hike by the Fed in Q1-10 - odds of a move by April-10 bounced back above 50% overnight - and could reinforce flattening curve strategies (watch 270bps support in UK 2y/10y, 230bps in US 2y/10y, EU 2y/10y below 200bps).

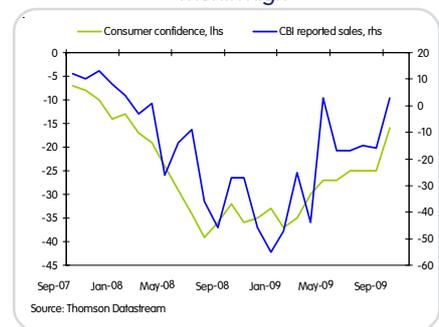
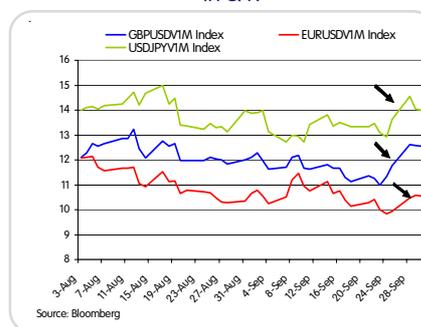
**FX:** Stronger than expected Australian August retail sales sparked fresh AUD buying and lifted AUD/USD above 0.88 to a 13-month high. The outlook for a near-term RBA rate hike explains our call for a rally to 0.90. We look for GBP/AUD to reverse yesterday's gains and test 1.81. EUR crosses could be impacted by the ECB's one-year tender results. Weak demand for funds could be read as a sign of confidence and should bolster pro-risk trades. Resistance for EUR/USD runs at 1.4650 and 1.4684.

**Rates:** UK 5y swaps have opened flat at 3.29%. After today's £1.4bn gilts purchases (shorter-dates), the BoE will have £17.8bn left to do to complete the £175bn QE. Month-end extensions should help to support bond prices today, though the ECB's tender and US economic data could neutralise bullish influence. EU-16 Sep CPI is expected to have stayed at -0.2% y/y.

Rise in FX volatility: a sign of what's to come in Q4?

UK consumer confidence powers to 20-month high

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.9139	-0.73%
GBP/USD	1.5961	0.50%
EUR/USD	1.4588	-0.24%
USD/JPY	90.088	0.51%
AUD/USD	0.8703	-0.25%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.291	1.1
EUR 10Yr	3.229	-2.5
UK 10 Yr	3.627	1.7
UK 5yr Swap	3.293	1.5
<b>Equities</b>		<b>%</b>
S&P500	1060.61	-0.22%
FTSE100	5159.72	-0.12%
Eurostoxx50	2892.44	-0.23%
Shanghai Composite	2782.87	1.03%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	66.71	-0.19%
Gold \$/oz	992.4	0.14%
Copper	272.9	0.07%
Baltic Dry	2185	-0.32%
<b>Other</b>		
VIX	25.19	1.25%
iTraxx XOVER	565.14	-4.8



### Today's Events

Event	Time	Consensus	Previous
UK GfK Consumer Confidence, Sep	00:01	-16A	-2.5
Japan Industrial Production, Aug, m/m	00:50	+1.8% A	+2.1%
German Unemployment, Sep	08:50	+20K	-1K
EU-16 CPI flash, Sep	10:00	-0.2%	-0.2%
US ADP Employment, Sep	13:15	-200K	-298K
US Q2 GDP, final	13:30	-1.2%	-1.0%
US Chicago PMI, Sep	15:00	52.0	50.0
BoE to buy £1.4bn of gilts: UKT_8_270913, UKT_2_25_070314, UKT_4.75_070915, UKT_8_071215, UKT_4_070916, UKT_8.75_250817, UKT_5_070318, UKT_4.5_070319, UKT_3.75_070919			
US Weekly Oil Inventories (15:30)			
ECB to publish results of one-year tender (LTRO)			
ECB speakers: Trichet (18:45), Papademos (08:45), Weber (08:45). Noyer (10:30)			
Fed speaker: Plosser (tbc), Lockhart (15:30), Kohn (17:35), Tarullo (19:30)			

## Technical Analysis

Paul Rodriguez, Senior Technical Analyst

- The equity markets look poised at current levels. The Dec. FTSE future is in shouting distance of its contract high and as we saw yesterday, the fibonacci resistance at 5,169 makes this a doubly important level. Despite the markets' best efforts in early trading yesterday, the resistance remains, together with 5,764 in the DAX index. Some caution regarding a correction has lifted as commodities bounced overnight and the AUD posted new highs for the year - but these levels need clearing. A week-long public holiday in China from tomorrow will leave core markets to find their own direction. It would be unusual for equities to hover so near their highs only to retrace, but for the moment the bias is negative until the trend is confirmed once again.
- The dollar was the weakest major currency overnight with the AUD the strongest (posting gains of 1.02% vs. the greenback) and in the process clearing the prior resistance at 0.8796. This has swept aside the bears (including myself) who were looking for signs of a correction as equities flirted with key resistance. Technically this forces a buy signal and implies the NZD will follow suit, suggesting gains towards 0.8945 and 0.7370 respectively. Some caution will remain given the dent to the pro-risk strategy of late, but with the pound regaining the 1.6000 level and pressing the euro back towards 0.9100 (0.9088 is a key level to watch to extend this today) the FX market may be looking for further risk trades at this pivotal point of the week. The performance of EM currencies has been encouraging (with the exception of the PLN) as the reaction to dollar strength has been relatively muted in the past five trading sessions. Potential for the RUB and BRL to push to new highs should help tip the balance towards risk currencies.
- US 2y yields popped back over the key 1.00% level as equities refused to give up gains. UK 2y yields breached 0.90% resistance but slipped back to 0.88% as the key resistance level in the FTSE held. The outlook remains cautiously positive for bond yields.

Chart of the day: Sugar #11



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
<b>R2</b>	1.4865	<b>1.6300</b>	95.15	0.9482	<b>1.1135</b>
<b>R1</b>	1.4728	1.611	91.80	0.9300	1.1004
Current Spot	1.4627	1.6044	89.81	0.9116	1.0970
<b>S1</b>	1.4450	1.5802	87.14	0.9088	1.0753
<b>S2</b>	1.4407	1.5724	85.00	0.8981	1.0546

Spot prices as of: 07:22:17 Source: Bloomberg

Another sugar rush - the next key resistance to breach is the high at 24.85. Tea prices continue to squeeze also.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4627	<i>Bearish</i>	<a href="#">1.4700</a>	1.4450	1.4770	Retracement against the trend could be worth exploring.
USD/JPY	89.81	<i>Neutral</i>	-	92.00	-	
USD/CHF	1.0333	<i>Bullish</i>	<a href="#">1.0225</a>	1.0500	1.0160	Retracement against the trend.
GBP/USD	1.6044	<i>Bullish</i>	-	1.6000	-	Broad oversold bounce due for the pound.
EUR/GBP	0.9116	<i>Bearish</i>	-	0.9000	-	Overbought here- euro to weaken- 0.9088 is key support.
GBP/JPY	144.14	<i>Neutral</i>	143.20	150.00	143.20	146.76 is the next key resistance point.
EUR/JPY	131.36	<i>Bullish</i>	-	133.00	-	
CAD/JPY	83.06	<i>Bearish</i>	-	78.55	-	
AUD/USD	0.8797	<i>Bullish</i>	current	0.8950	0.8640.	upside squeeze forces long- against expectations.
USD/CAD	1.0812	<i>Bullish</i>	1.0800	1.1200	1.0715	
NZD/USD	0.7217	<i>Bearish</i>	0.7200	0.6700	0.7255	Close stop looks set to trigger as dollar bends once again.
USD/BRL	1.7882	<i>Bearish</i>	1.8338	1.7000	1.8455	Could be ready to break lower today- worth watching
USD/PLN	2.8922	<i>Bearish</i>	2.9000	2.7000	2.9110	Tight stop hit. Pullback likely.
USD/HUF	184.49	<i>Bearish</i>	<a href="#">188.00</a>	180.00	190.20	

Spot prices source: Bloomberg

[ENTRY](#) - Targetted

ENTRY - Active

## Quantitative Market Analysis

Naeem Wahid, Quantitative Strategist

A raft of strong (global) economic data overnight has lifted sentiment across financial markets. The Japanese manufacturing PMI has risen to 54.5, marking three consecutive months of expansion in the sector (the rise in the Japanese PMI and Chinese PMI already well above 50 now bodes well for the US ISM report due tomorrow). UK consumer confidence (GfK) has lurched upwards, now at its highest since July 2008. In New Zealand, NBNZ business confidence rocketed to a decade high at 49.1. Australian retail sales rose by 0.9% in August, much stronger than consensus.

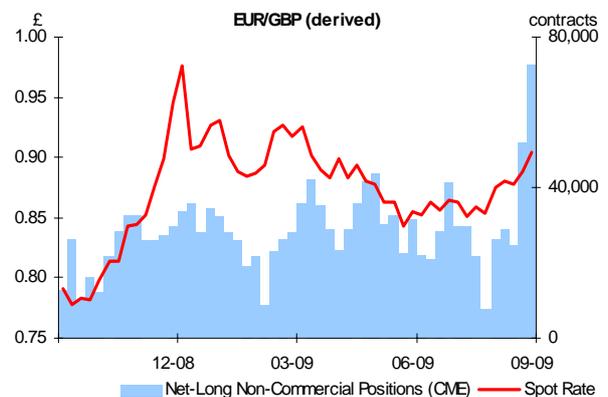
The rise in sentiment (driven by the positive economic data) is positive for pro-growth currencies. As such it is not surprising that AUD/USD has broken to a new high for the year. GBP/USD is back above \$1.60, reverting back towards the centre of its 3-month trading range (\$1.5775-\$1.7050). The latest information from the Bank of England suggests that its current policy of paying interest on reserves is unlikely to change in the short-term. This is positive for sterling and should continue to weigh on EUR/GBP – we highlighted yesterday that the currency pair is over-bought on RSI and speculative positioning measures. Strong global economic data (in the latest round of leading indicators which is currently underway) should continue to provide a bearish environment for EUR/GBP.

Our month end order-flow indicator has not signalled any trades for today. The rally in equity markets has been insufficient over the month to warrant any significant changes in FX hedges at month-end. Additionally, commodity prices have moved in the opposite direction, which would negate any FX divergences. Finally, the trend following model has not initiated any new trades this morning. The model continues to hold a broadly short-USD position against both emerging market and developed market currencies.

Table 1: 1-month correlations

	AUDUSD	USDCAD	EURUSD	GBPUSD	USDJPY	EURJPY
2 YR SPD	-0.67	-0.33	0.52	0.58	-0.73	0.30
10 YR SPD	-0.47	-0.48	0.47	-0.35	0.40	0.64
S&P500	<b>0.90</b>	<b>-0.79</b>	<b>0.94</b>	-0.09	-0.71	0.29
Gold	<b>0.77</b>	<b>-0.78</b>	<b>0.75</b>	0.30	-0.54	0.20
Oil	0.07	-0.56	0.18	0.67	0.31	0.47
CRB	0.47	-0.72	0.63	0.28	-0.20	0.46

Chart 1: Speculative Positioning - IMM data



## Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	long	15-Sep-09	0.8622
NZDUSD	long	10-Jul-09	0.6298
EURUSD	long	09-Sep-09	1.4480
GBPUSD	short	21-Sep-09	1.6270
USDCHF	short	17-Jul-09	1.0730
USDCAD	long	24-Sep-09	1.0745
USDSEK	short	09-Sep-09	7.0444
USDNOK	short	21-Jul-09	6.3025
USDJPY	short	28-Sep-09	89.64

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	19-May-09	19.709
USDPLN	long	29-Sep-09	2.8701
USDSGD	short	08-Sep-09	1.4337
USDTRY	short	15-Sep-09	1.4939
USDZAR	short	31-Aug-09	7.7525

## Market Summary

	Close	Daily Change %		Close	Daily Change %
<b>FX</b>			<b>Equities</b>		
EUR/USD	1.4588	-0.24%	S&P500	1060.61	-0.22%
USD/JPY	90.088	0.51%	DJIA	9742.20	-0.48%
AUD/USD	0.8703	-0.25%	FTSE100	5159.72	-0.12%
EUR/GBP	0.9139	-0.73%	Eurostoxx50	2892.44	-0.23%
GBP/EUR	1.0942	0.74%	Shanghai Composite*	2754.54	1.07%
GBP/USD	1.5961	0.50%	*latest price		
GBP/JPY	143.81	1.01%	<b>Commodities</b>		
GBP/CHF	1.654	0.87%	Crude Oil \$/bl	66.71	-0.19%
GBP/AUD	1.834	0.78%	Gold \$/oz	992.4	0.14%
GBP/CAD	1.731	0.48%	Copper c/lb	272.9	0.07%
GBP/NZD	2.235	0.82%	Silver \$/oz	16.16	-0.12%
GBP/NOK	9.333	0.81%	Baltic Dry	2185	-0.32%
GBP/ZAR	11.861	0.39%	<b>Swaps %</b>		
GBP/CNY	10.898	0.50%	US 5yr	2.654	1.9
<b>Bonds %</b>			EUR 5yr	2.705	0.6
		bp	UK 5yr	3.293	1.5
US 10Yr	3.291	1.1	<b>Official Rates %</b>		
EUR 10Yr	3.229	-2.5	UK	0.50	
UK10 Yr	3.627	1.7	US	0.25	
<b>Other</b>			EU	1.00	
VIX	25.19	1.25%	Japan	0.10	
iTraxx XOVER	565.14	-4.8			
DJ Agriculture Index	58.18	0.22%			

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