

# Daily Market Strategy

Tuesday, 8th September 2009

## Market Strategy

### Market Strategy Team

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- UK BRC retail sales drop in August
- USD near summer low, gold breaks \$1000

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6372, €/\$: 1.4360, \$/Y: 92.60

UK 5y sw: 3.28%, US 5y sw: 2.72%, EU 5y sw: 2.70%

Overnight

- UK BRC like-for-like sales fall 0.1% y/y in August; first drop since May
- German August trade surplus widens, exports rise 2.3%

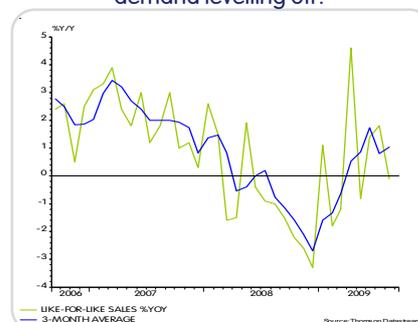
The fall in popularity of President Obama may not directly be linked to weakness of the USD as demand for pro-risk currencies remains in vogue, but as US participants return to a light economic but busy Treasury auction calendar, markets will pay close attention to the President's healthcare speech tomorrow. Currencies were sidestepped at the G20 finmins meeting over the weekend, but a further weakening of the USD - gold broke \$1000 overnight - could force the G20 heads of state to take notice in Pittsburgh on September 24/25. The Treasury auction \$38bn in 3y notes today (see chart below for previous participation).

In the UK, talk that the MPC could announce changes on Thursday with regard to management of excess commercial bank reserves is blamed for the underperformance of GBP and the bid in short-dated gilts and the sterling strip. UK industrial output data is due this morning and could surprise to the downside after a fall back below 50 for the August manufacturing PMI. Weak BRC sales data point to lower ONS sales data next week.

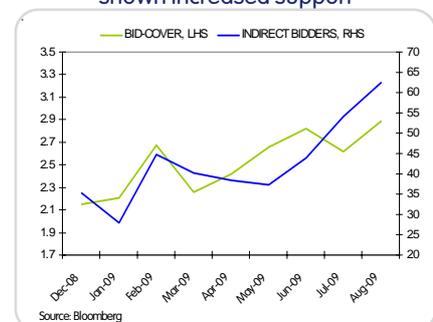
**FX:** The rally by EUR/USD above 1.4350 and fall in USD/CAD below 1.0750 puts the USD index on course for a test of this summer's lows around 77.428. EUR/USD found good support on stronger German exports data and buyers could bid up the cross closer to 1.44 on solid German industrial output data at 11am (f/cast: +1.6%). The drop in GBP/AUD below 1.91 caps a 9% retracement since mid July and highlights how GBP is losing traction. Weaker BRC retail sales were partly blamed for the fall back in GBP/USD overnight. UK Industrial output data could disappoint at 9.30am (f/cast +0.2%).

**Rates:** UK 5y swaps opened below the key 200-day MA of 3.29%, adding to the bullish seasonal set-up. Lower rates have been a regular feature in September as we showed yesterday, and speculation of a BoE policy change has given the market a fresh bid. Weak UK IP data could push rates closer to 3.25%, though US and UK government supply and equities (S&P-500 near 1,017 resistance) may well be a hurdle to lower rates. The BoE will purchase £1.4bn of long and ultra-long gilts today. The DMO will be in the market for £3.75bn in 2019 gilts. The EU 2y/10y spread steepened to 217bps, lining up a test of 220bps. Euro zone spreads over bunds also continue to widen, hinting at rising investor concern in Greece and Spain (+120bps).

UK BRC retail sales fell in August; is demand levelling off?



US short-dated Treasury auctions have shown increased support



	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8768	0.53%
GBP/USD	1.6349	-0.26%
EUR/USD	1.4332	0.25%
USD/JPY	93.080	0.08%
AUD/USD	0.8557	0.59%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.442	0.4
EUR 10Yr	3.232	-1.0
UK10 Yr	3.624	3.1
UK 5yr Swap	3.282	-2.3
<b>Equities</b>		<b>%</b>
S&P500	1016.40	1.31%
FTSE100	4933.18	1.68%
Eurostoxx50	2783.84	1.48%
Shanghai Composite	2881.12	1.17%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	68.02	0.09%
Gold \$/oz	995.3	0.09%
Copper	286.7	0.05%
Baltic Dry	2429	0.58%
<b>Other</b>		
VIX	25.26	-6.79%
iTraxx XOVER	609.17	-12.5

### Today's Events

Time	Consensus	Previous
00:01	-0.1% A	+1.8%
09:30	+0.2%	+0.5%
09:30	+0.3%	+0.4%
07:00	+€13.9bnA	+€12.1bnR
07:00	+€11.0bnA	+€13.5bnR
11:00	+1.6%	-0.1%
20:00	-\$4.0bn	-\$10.3bn
13:30	+0.5%	+1.0%

BoE to purchase £1.4bn of gilts with following maturities: 2036, 2038, 2042, 2046, 2049, 2055  
UK DMO auctions £3.75bn, 2019, 3.75% gilts  
US Treasury sells \$38bn, 3y notes

## Technical Analysis

Paul Rodriguez, Senior Technical Analyst

- The bullish case for equity markets continues as the BSE Sensex index pushed through key resistance as highlighted yesterday and as the FTSE approaches the main 5,000 level. Sentiment continues to be cautiously optimistic from a technical perspective. Key resistance at 21,200 is approaching in the Hang Seng index (20,758), with the S&P cash eyeing the 1,038 key resistance level to trigger the next wave of short covering. This highlights the on-going risk appetite and should continue to grind against the US dollar.
- Commodity and Emerging market currencies continue to be favoured from a technical point of view against the US dollar. Whilst sterling is a sell relative to these markets (GBP/AUD approaches technical target at 1.89 - note 1.8750 is a massive multi-year low from May 96), the pound should push upwards against the dollar and if resistance at 1.6450 can be overcome, the technical target at 1.7000 should come in focus relatively quickly. For the moment, low volumes are making for a cautious market. Key breakouts have occurred in the AUD, NZD and with the CAD approaching the low of the recent range, further dollar weakness should be expected. DXY target is at 75.00.
- The market is discussing the conundrum of lower bond yields and higher stocks and commodity prices. Without adding to the debate, yields should work their way higher, with the longer end more favoured for pressure, but for the moment there seems to be little urgency. US 10y yields need to get through 3.50% as a guide, but for the moment the core yield curves will continue to steepen. Euro yields have broken through March's low at 1.09% and are on the slide towards 1.00%.
- The breakout in gold is causing short covering and those writing covered calls may decide to pause as vol. starts to rise and the prospect of a squeeze through the prior high at \$1,032 develops. Base metals remain bid - look for copper to extend through 300 c/lb (major technical target and resistance) to 345c/lb into year end. Note that rice is ready to break higher too.

### Chart of the day: LME lead



### Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
<b>R2</b>	1.4572	1.7044	95.15	0.8910	<b>1.1905</b>
<b>R1</b>	1.4446	1.6626	93.41	0.8845	1.1819
Current Spot	1.4345	1.6374	92.71	0.8761	1.1414
<b>S1</b>	1.4005	1.6113	92.52	0.8461	1.1306
<b>S2</b>	<b>1.3748</b>	1.5975	91.78	<b>0.8400</b>	1.1223

Spot prices as of: 07:10:06 Source: Bloomberg

The main technical break in lead occurred May 2008. The market has just recovered to this point and whilst it is a major barrier, an extension of the upward trend is expected towards \$3,000.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4345	Bullish	1.4350	1.4500	1.4240	one-month vol.s to break 10%?/ Gold leading a breakout.
USD/JPY	92.71	Bullish	<u>92.60</u>	97.80	91.35	
USD/CHF	1.0593	Bearish	-	1.0300	-	
GBP/USD	1.6374	Bullish	<u>1.6300</u>	1.7000	1.6140	
EUR/GBP	0.8761	Bearish	0.8835	0.8400	0.8835	Stop moved to flat.
GBP/JPY	151.78	Bullish	151.50	156.00	149.75	
EUR/JPY	132.97	Bullish	<u>132.50</u>	139.14	130.85	
CAD/JPY	86.07	Bullish	<u>85.60</u>	90.35	83.95	Entry raised.
AUD/USD	0.8559	Bullish	0.8305	0.8592	0.8305	Target at 0.8520 hit- stop and target raised.
USD/CAD	1.07717	Bearish	<u>1.0845</u>	1.0000	1.1015	Entry lowered.
NZD/USD	0.6920	Bullish	0.6860	0.7447	0.6710	
USD/BRL	1.8426	Bearish	<u>1.8604</u>	1.8000	1.8735	
USD/PLN	2.8572	Bearish	2.8638	2.7000	2.9135	
USD/HUF	189.69	Bearish	188.00	180.00	193.10	195.86 is a key resistance level. Stops above.

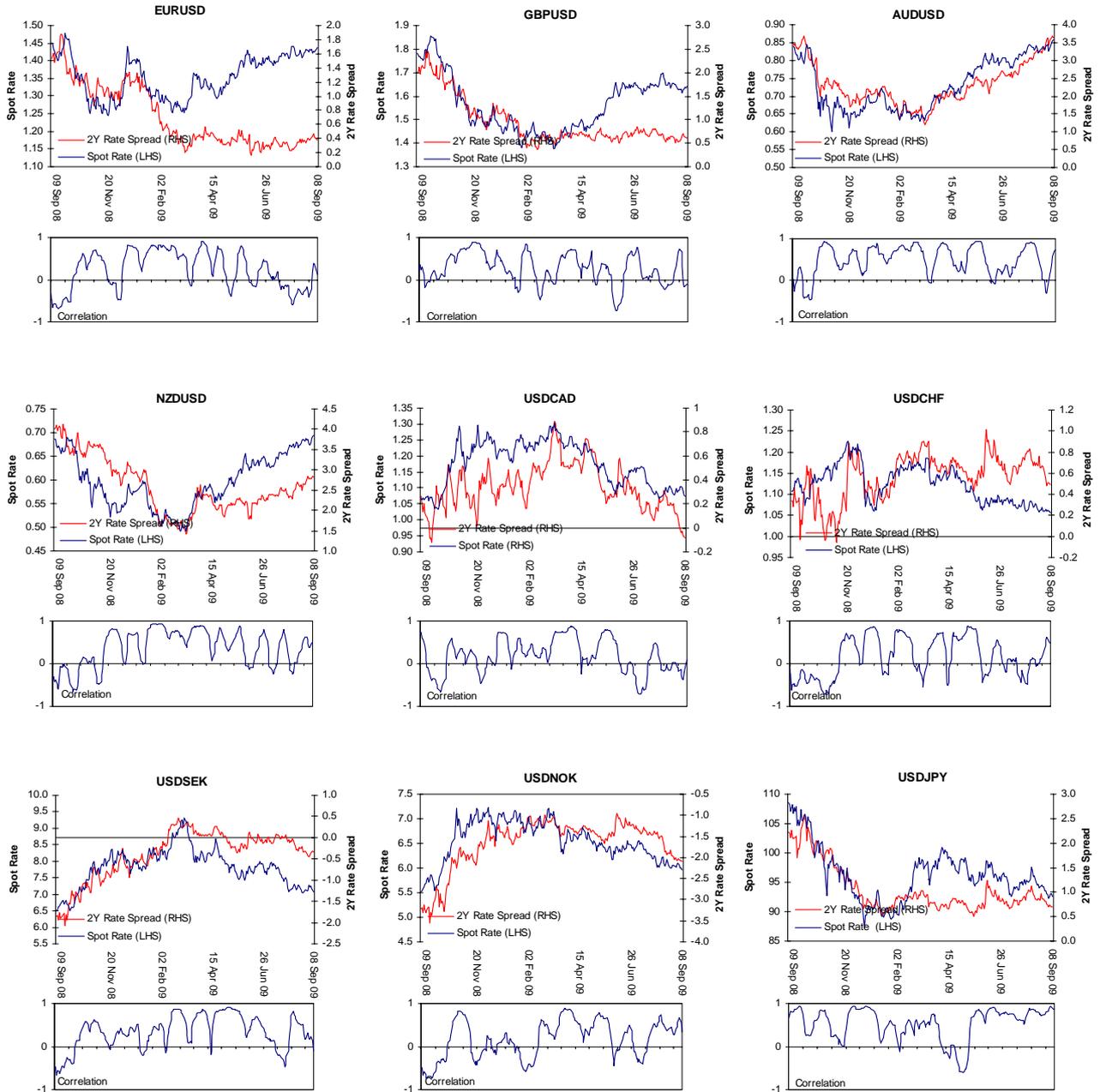
Spot prices source: Bloomberg

**ENTRY** - Targetted

ENTRY - Active

## Quantitative Market Analysis

### 2yr Interest Rate Spreads vs Spot Rate



### 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	short	07-Sep-09	1.4146
GBPUSD	short	10-Aug-09	1.6684
USDCHF	short	17-Jul-09	1.0730
USDCAD	short	08-Sep-09	1.0780
USDSEK	long	08-Sep-09	7.1248
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	long	07-Sep-09	2.8592
USDSGD	short	08-Sep-09	1.4337
USDTRY	long	27-Aug-09	1.5093
USDZAR	short	31-Aug-09	7.7525

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USD/JPY	93.080	0.08%	DJIA	9441.27	1.03%
AUD/USD	0.8557	0.59%	FTSE100	4933.18	1.68%
EUR/GBP	0.8768	0.53%	Eurostoxx50	2783.84	1.48%
GBP/EUR	1.1407	-0.50%	Shanghai Composite*	2881.12	1.17%
GBP/USD	1.6349	-0.26%	*latest price		
GBP/JPY	152.18	-0.19%	<b>Commodities</b>		
GBP/CHF	1.733	-0.33%			%
GBP/AUD	1.911	-0.85%	Crude Oil \$/bl	68.02	0.09%
GBP/CAD	1.763	-1.24%	Gold \$/oz	995.3	0.09%
GBP/NZD	2.360	-1.05%	Copper c/lb	286.7	0.05%
GBP/NOK	9.798	-0.47%	Silver \$/oz	16.33	0.62%
GBP/ZAR	12.393	-0.56%	Baltic Dry	2429	0.58%
GBP/CNY	11.165	-0.28%			
<b>Bonds %</b>			<b>Swaps %</b>		
		bp			bp
US 10Yr	3.442	0.4	US 5yr	2.734	-0.7
EUR 10Yr	3.232	-1.0	EUR 5yr	2.706	-2.6
UK10 Yr	3.624	3.1	UK 5yr	3.282	-2.3
<b>Other</b>			<b>Official Rates %</b>		
VIX	25.26	-6.79%	UK	0.50	
iTraxx XOVER	609.17	-12.5	US	0.25	
DJ Agriculture Index	56.69	-2.19%	EU	1.00	
			Japan	0.10	

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