

Daily Market Strategy

Wednesday, 16th September 2009

Market Strategy

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- UK 2y yields touch new low; gold clears \$1,010
- Benign UK wage and US CPI data ahead

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6470, €/£: 1.4691, \$/¥: 90.53

UK 5y sw: 3.24%, US 5y sw: 2.76%, EU 5y sw: 2.73%

Overnight

- Japan's Fuji opposed to FX intervention
- EUR/GBP clears 0.89, target raised to 0.90
- Ireland plans to buy property loans from banks (WSJ)

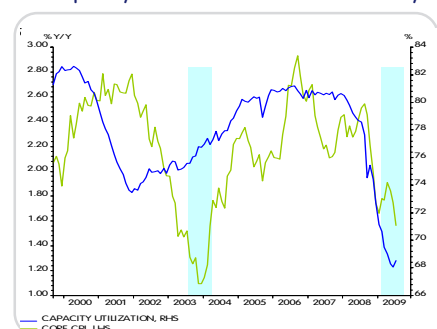
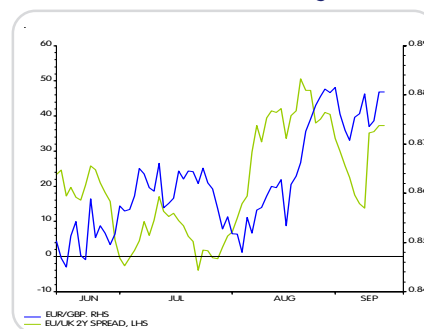
The USD index plummeted to new 2009 lows overnight led by a move in EUR/USD above 1.4650 and a return below 0.91 by USD/JPY as Japanese finance minister Fuji stated his opposition to FX intervention. This keeps the USD index on track for our near-term target of 75.0. The latest down leg for the USD boosted gold above key technical resistance around \$1,010, and despite the dovish central bank inflation rhetoric and flat break even rates, we see gold attracting good support. GBP is lagging the EUR against the USD as dealers heed BoE Governor King's comments yesterday which fuelled confidence that the Bank will lower the rate paid to hold reserves at the central bank. The plunge in UK 2y yields to 0.76% helped EUR/GBP to spike above 0.89. Despite some concerns that leading euro zone indicators could echo the ZEW and start levelling off, the widening in EU/UK 2y spreads to 49bps could nudge EUR/GBP closer to 0.90 as dealers discount dovish MPC minutes next week. GBP faces a volatile 48 hours as markets square up to a duo of potentially weak UK wage and retail sales data and a rise in the ILO jobless rate to 8%. US August core CPI is forecast to show a decline to 1.4% vs 1.5% in July. We will also be alert for US Treasury flows and Chinese purchases in the July TIC data.

FX: EUR/USD hit a 1.4695 high overnight in Asia and so far EUR bulls have not been distracted by the possible collateral damage of EUR strength to the euro zone economy. With gold viewed as the main refuge and the USD increasingly viewed as a funding currency, it is hard to see how strong US data can bring USD selling to a halt.

Rates: UK 5y swaps opened at 3.24% and could make progress towards 3.20% on benign UK wage and US CPI data. The BoE will be buying £1.4bn in shorter dated gilts in its 3rd operation of the week. The sale of €5bn of German bunds (tap) could result in underperformance vs gilts. US 10y yields fell 6bps overnight to 3.43%. Support runs at 3.39%.

Break out in EUR/GBP as 2y yields hit new low: 0.90 next target

Where's the bottom for US core CPI? Capacity use shows tentative recovery



	Close	Daily Change %
FX		
EUR/GBP	0.8891	0.84%
GBP/USD	1.6489	-0.57%
EUR/USD	1.4658	0.27%
USD/JPY	91.050	0.12%
AUD/USD	0.8634	0.15%
Bonds %		
US 10Yr	3.454	3.3
EUR 10Yr	3.292	3.5
UK10 Yr	3.609	-0.1
UK 5yr Swap	3.240	-4.3
Equities		
S&P500	1052.63	0.31%
FTSE100	5042.13	0.46%
Eurostoxx50	2843.00	0.49%
Shanghai Composite	3007.21	-0.87%
Commodities		
Crude Oil \$/bl	70.93	3.01%
Gold \$/oz	1007.6	0.73%
Copper	284.5	1.44%
Baltic Dry	2431	-0.78%
Other		
VIX	23.42	-1.84%
iTraxx XOVER	549.76	-13.4

Today's Events

UK Claimant Count, Aug
UK ILO Unemployment Rate, Jul
UK Average Earnings, Jul
EU-16 CPI, Sep
US CPI, Aug
US CPI core, Aug
US TIC data, Jul
US Industrial Output, Aug
US Capacity Use, Aug
BoE buys £1.4bn of gilts: UKT_4.5_070313, UKT_8_270913, 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
Germany sells €5bn, 10y bunds (tap)
US weekly oil inventories (15:30)
ECB speakers: Gonzalez-Paramo

Time	Consensus	Previous
09:30	+23K	+24.9K
09:30	8.0%	7.8%
09:30	2.0%	2.5%
10:00	+0.3%	-0.7%
13:30	+0.3%	zero
13:30	+0.1%	+0.1%
14:00	+\$65.0bn	+\$90.7bn
14:15	+0.7%	+0.5%
14:15	+69.1%	+68.5%

- Equity markets remain in 'bull-mode' as the S&P cash edged into a new high for over a year and continued to push towards the next technical target at 1,106 (1,052). FTSE futures punctured stubborn resistance at 5,044 and should continue to squeeze towards objectives at 5,338 as DAX futures hovered at 5,653 key resistance, still underperforming core equities. Euro strength as well as a high weighting of commodity stocks for the FTSE 100 are seen as the reasons for this and with EUR/GBP squeezing higher this scenario looks set to persist. Chinese stocks are little changed despite a decent 1.75% bounce in the Hang Seng index, but notably yen strength is weighing on the Nikkei still as it managed to post only modest gains. The VIX index looks ready to break 23.00 - the year's low - adding to the pro-risk scenario.
- The dollar index edged towards interim support at 76.00 and on the way towards technical targets at 75.00. However the main news in FX was the weakness of sterling as it plummeted against the euro, swiss and yen. Only the broad weakness of the dollar lessened the impact. Whilst UK equities are outperforming, UK 2y yields have breached 0.81% (contrary to my expectations) to hit a low of 0.74%. The pro-risk nature of GBP should eventually gain traction, but for now there is little reason to fight this move. The main EM and commodity currencies should continue to rally against the USD and GBP and the close proximity of key supports/resistance should see another leg in these markets.
- UK 2y swaps breached a key support at 1.80% and could ease towards 1.60% in short order. The break below 0.81% in UK 2 y yields is at odds with the moves in asset markets and against the consolidation in the US 2's which highlights the disparity of the 'normal' market relationships. Buying UK 2y year gilts and selling US 10 year and looking for broader curve steepening is a favoured strategy.
- Gold stays bullish (see chart below). Oil is ready to squeeze through \$73.00 with silver targeting \$18.00 and platinum \$1,522 (38.20% fibbo resistance at \$1,339). Natural gas seems to be basing, but rice has failed to breakout. Copper continues in a holding pattern below 300 c/lb. Cocoa futures are making 15th month highs as coffee and tea prices surge.

Chart of the day: Gold



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
R2	1.4865	1.7044	95.15	0.9000	1.1404
R1	1.4720	1.6746	93.41	0.8950	1.1308
Current Spot	1.4687	1.6456	90.90	0.8925	1.1204
S1	1.4330	1.6113	90.30	0.8843	1.1173
S2	1.4177	1.5975	87.14	0.8769	1.1111

Spot prices as of: 07:03:01 Source: Bloomberg

Momentum in gold increases as the risk of a break into all time highs through \$1,032.70 builds. Year end technical targets are at \$1,100.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4687	Bullish	1.4350	1.4720	1.4565	Stop raised.
USD/JPY	90.90	Bullish	<u>89.90</u>	96.00	89.30	
USD/CHF	1.0326	Bearish	-	1.0300	-	
GBP/USD	1.6456	Bullish	1.6480	1.7000	1.6480	Stop hit. (re-buy at 1.6360- stop 1.6285)
EUR/GBP	0.8925	Bearish	0.8835	0.8400	0.8835	Stop hit- strong collection of stops sees squeeze.
GBP/JPY	149.58	Bullish	-	156.00	-	
EUR/JPY	133.50	Bullish	<u>132.00</u>	139.14	131.20	
CAD/JPY	84.86	Bullish	<u>83.60</u>	90.35	82.95	
AUD/USD	0.8667	Bullish	0.8305	0.9000	0.8530	Ready to break the high.
USD/CAD	1.0711	Bearish	<u>Current</u>	1.0000	1.0920	
NZD/USD	0.7068	Bullish	0.6860	0.7447	0.6860	Ready to break the high.
USD/BRL	1.8037	Bearish	1.8338	1.7000	1.8455	Add on a close below 1.8040. Target extended to 1.7000.
USD/PLN	2.8187	Bearish	2.8589	2.7000	2.9210	Add on a break below 2.80
USD/HUF	184.23	Bearish	186.23	180.00	191.10	

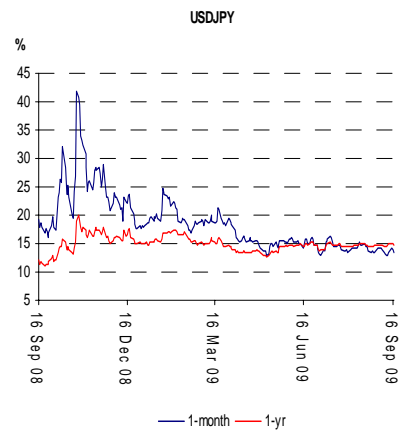
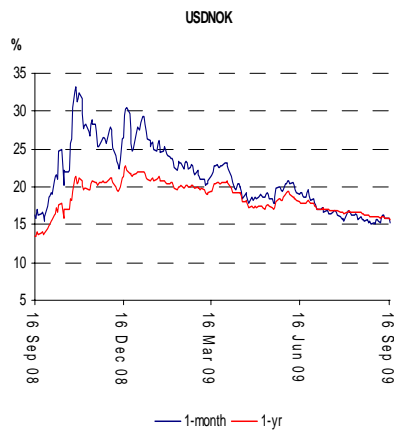
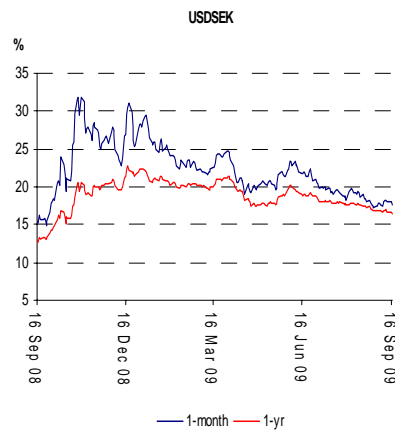
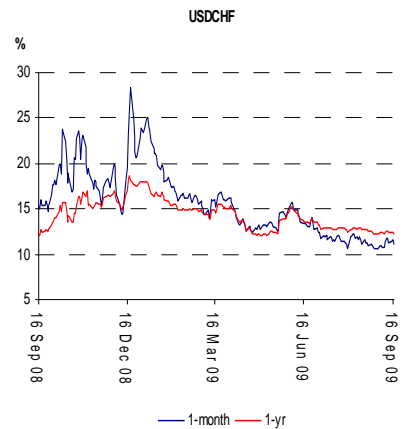
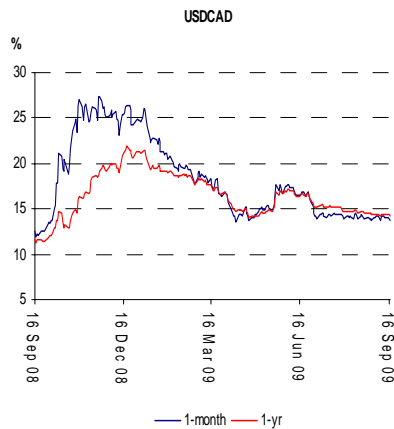
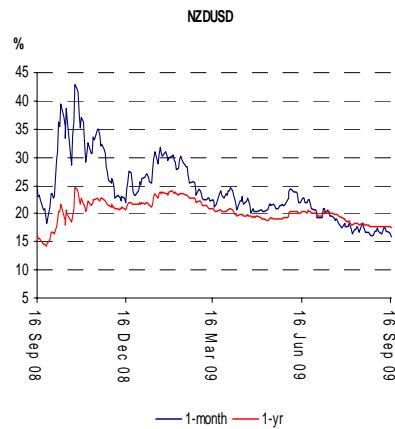
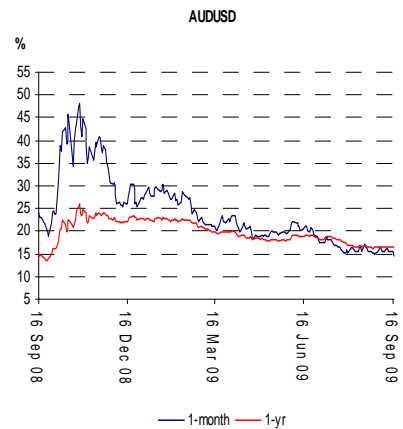
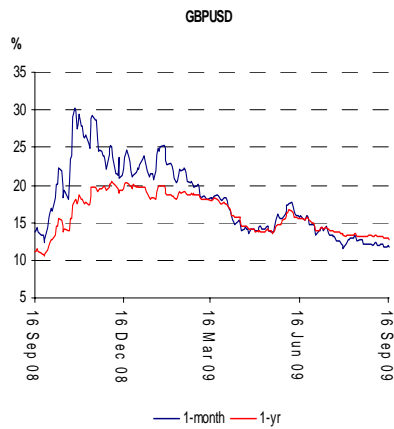
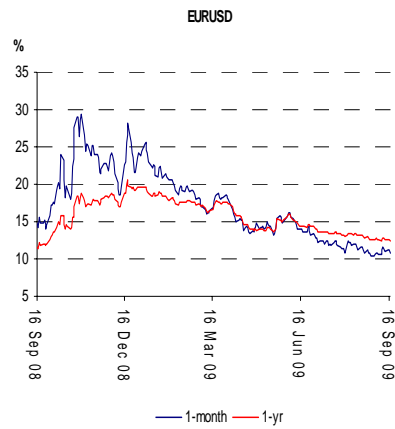
Spot prices source: Bloomberg

[ENTRY](#) - Targetted

ENTRY - Active

Quantitative Market Analysis

Implied Volatility



Market Summary

FX			Equities		
	Close	Daily Change %		Close	Daily Change %
EUR/USD	1.4658	0.27%	S&P500	1052.63	0.31%
USD/JPY	91.050	0.12%	DJIA	9683.41	0.59%
AUD/USD	0.8634	0.15%	FTSE100	5042.13	0.46%
EUR/GBP	0.8891	0.84%	Eurostoxx50	2843.00	0.49%
GBP/EUR	1.1249	-0.85%	Shanghai Composite*	3033.73	-0.78%
GBP/USD	1.6489	-0.57%	*latest price		
GBP/JPY	150.13	-0.45%	Commodities		
GBP/CHF	1.706	-0.55%			%
GBP/AUD	1.910	-0.72%	Crude Oil \$/bl	70.93	3.01%
GBP/CAD	1.768	-1.53%	Gold \$/oz	1007.6	0.73%
GBP/NZD	2.339	-1.12%	Copper c/lb	284.5	1.44%
GBP/NOK	9.704	-0.96%	Silver \$/oz	17.05	3.04%
GBP/ZAR	12.144	-1.84%	Baltic Dry	2431	-0.78%
GBP/CNY	11.259	-0.57%	Swaps %		
Bonds %					bp
		bp	US 5yr	2.782	3.4
US 10Yr	3.454	3.3	EUR 5yr	2.735	2.7
EUR 10Yr	3.292	3.5	UK 5yr	3.240	-4.3
UK10 Yr	3.609	-0.1	Official Rates %		
Other					
VIX	23.42	-1.84%	UK	0.50	
iTraxx XOVER	549.76	-13.4	US	0.25	
DJ Agriculture	59.27	3.29%	EU	1.00	
Index			Japan	0.10	

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