

### Market Strategy Team

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- US Treasury to sell \$45bn, 2y notes
- Gold falls back below \$1,000, 4th successive drop

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6261, €/\$: 1.4720, \$/¥: 91.66

UK 5y sw: 3.37%, US 5y sw: 2.84%, EU 5y sw: 2.81%

#### Overnight

- Baltic Dry Index falls for a 7th successive day, threatens 2,300 support level

Today's calendar will essentially be dominated by the \$45bn 2y Treasury note auction, the first of three US auctions this week. Solid demand at auctions of different maturities this summer suggest today's 2y sale should be fairly well received, though the 6bps drop in yields since the August 25 auction (higher price and more expensive relative to other curve sectors) and a depreciating USD could test overseas confidence. All in all, the Fed's determination to keep rates low should keep short-dated paper fairly attractive.

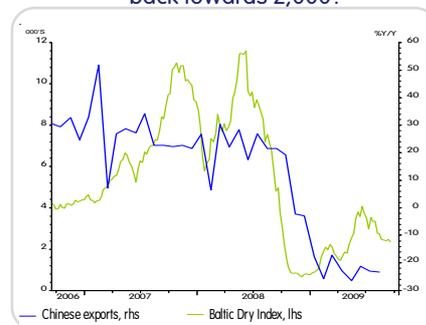
True, this week's bigger events still lie in wait and so we expect price action in currencies to be fairly rangebound, with many dealers mindful of the pitfalls over the next 48 hours. Drawing our attention in the commodity space is the latest decline in the Baltic Dry index - key support lurks at 2,300 - and the fall in gold prices below \$1,000. Buy on dips or wait for even lower prices? Dec-09 gold delivery is down for a 4th successive session and the sharp fall in traded volume, see chart below, points to some underlying inconsistencies. In other words, the correction in prices may have further to go as the USD stages a relief bounce and gold producers like Barrick & AngloGold reduce buybacks for hedging purposes.

FX: EUR/GBP was bid up for a 6th consecutive session yesterday with resistance levels and stops giving way in quick succession despite a narrowing in EU/UK 2y yields to 40bps, a 5-day low. We have mentioned the likelihood of profit-taking and suspect that dealers may step forward ahead of the MPC minutes and EU-16 PMIs tomorrow. The pullback in gold/oil hit commodity currencies with CAD and NOK leading the retreat vs the USD. Trendline resistance for USD/CAD comes in around 1.0913. Canadian July retail sales are expected to show a 0.1% m/m rise ex-autos. Resistance for USD/NOK runs at 5.9710.

Rates: UK 5y swaps cleared 3.35% yesterday and the bias towards higher rates was confirmed by this morning's open at 3.37%. Resistance runs at 3.40%. The first leg of US Treasury supply and Italian and Dutch auctions may add upward pressure for longer duration yields. The BoE will purchase £1.4bn of long gilts. The underperformance of short-dated gilts vs bunds and Treasuries could be a buying opportunity ahead of the MPC minutes.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.9055	0.17%
GBP/USD	1.6217	-0.33%
EUR/USD	1.4680	-0.22%
USD/JPY	91.929	0.70%
AUD/USD	0.8630	-0.52%
<b>Bonds %</b>		
US 10Yr	3.480	1.7
EUR 10Yr	3.379	0.3
UK10 Yr	3.740	-0.1
UK 5yr Swap	3.364	2.9
<b>Equities</b>		
S&P500	1064.66	-0.34%
FTSE100	5134.36	-0.74%
Eurostoxx50	2872.51	-0.51%
Shanghai Composite	2897.55	-2.34%
<b>Commodities</b>		
Crude Oil \$/bl	69.71	-3.23%
Gold \$/oz	1003.7	-0.39%
Copper	280.6	0.74%
Baltic Dry	2318	-1.61%
<b>Other</b>		
VIX	24.06	0.59%
iTraxx XOVER	603.33	72.8

Baltic Dry Index in danger of falling back towards 2,000?



Gap between Dec-09 gold price and traded volume suggests prices may fall

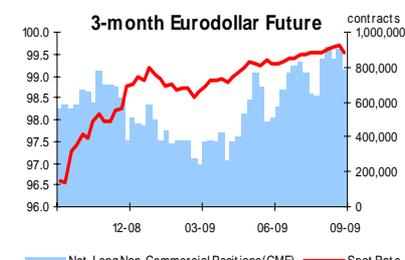
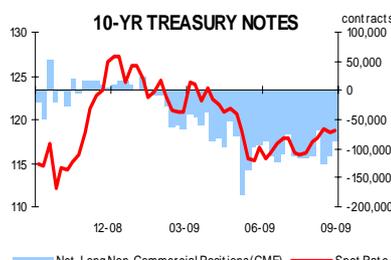
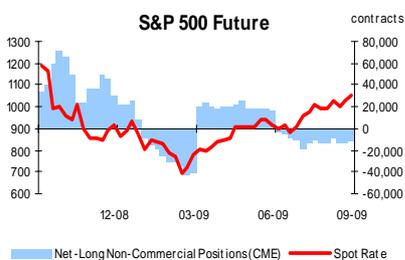
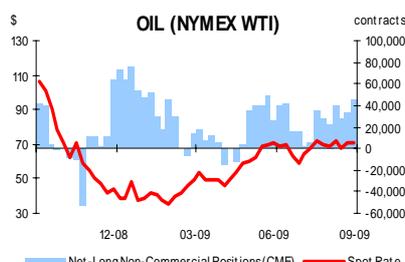
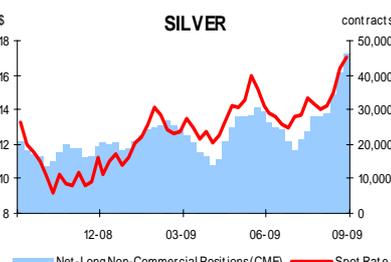
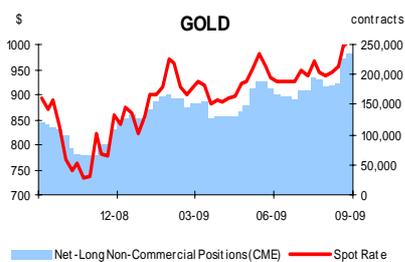
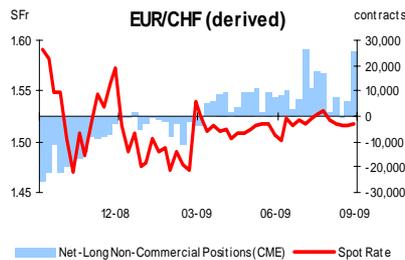
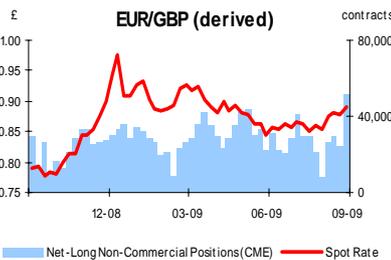
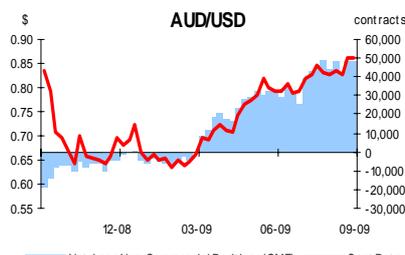
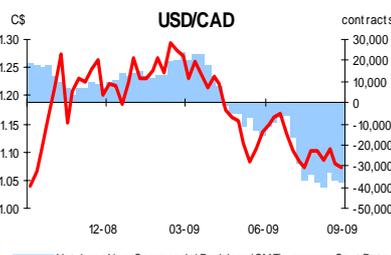
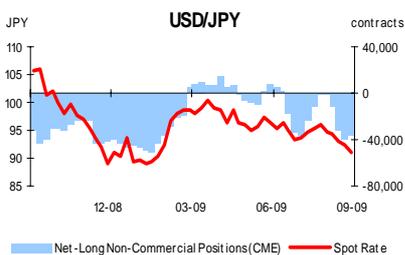
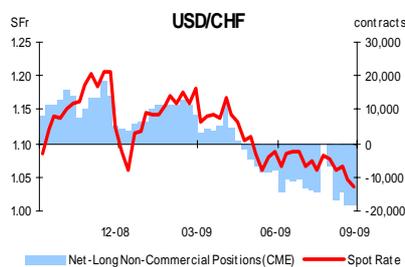
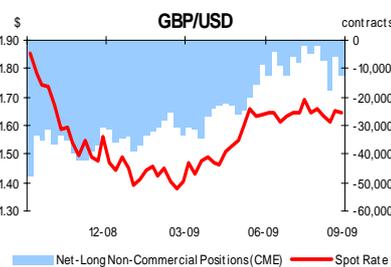
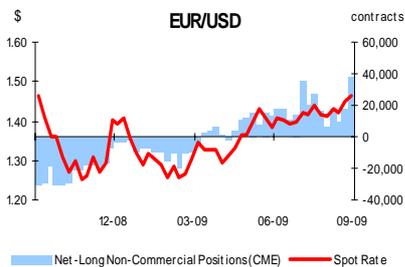


#### Today's Events

	Time	Consensus	Previous
Richmond Fed Manufacturing Index, Sep	15:00	+16	+14
US House Price Index, Jul	15:00	+0.5%	0.5%
Canada Retail Sales, Jul	13:30	+0.7%	+1.0%
Canada Retail Sales, ex-autos, Jul	13:30	+0.1%	+1.0%
BoE buys £1.4bn of gilts: UKT_4.25_070336, UKT_4.75_071238, UKT_4.25_070939, UKT_4.5_071242, UKT_4.25_071246, UKT_4.25_071249, UKT_4.25_071255			

# Quantitative Market Analysis

## FX & Commodity Futures Positioning



## Market Summary

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<b>FX</b>			<b>Equities</b>		
EUR/USD	1.4680	-0.22%	S&P500	1064.66	-0.34%
USD/JPY	91.929	0.70%	DJIA	9778.86	-0.42%
AUD/USD	0.8630	-0.52%	FTSE100	5134.36	-0.74%
EUR/GBP	0.9055	0.17%	Eurostoxx50	2872.51	-0.51%
GBP/EUR	1.1045	-0.15%	Shanghai Composite*	2967.01	-2.34%
GBP/USD	1.6217	-0.33%	*latest price		
GBP/JPY	149.11	0.37%	<b>Commodities</b>		
GBP/CHF	1.674	-0.08%	Crude Oil \$/bl	69.71	-3.23%
GBP/AUD	1.880	0.22%	Gold \$/oz	1003.7	-0.39%
GBP/CAD	1.750	0.60%	Copper c/lb	280.6	0.74%
GBP/NZD	2.295	0.02%	Silver \$/oz	16.84	-0.97%
GBP/NOK	9.577	0.22%	Baltic Dry	2318	-1.61%
GBP/ZAR	12.120	0.34%	<b>Swaps %</b>		
GBP/CNY	11.073	-0.33%	US 5yr	2.843	1.1
<b>Bonds %</b>			EUR 5yr	2.794	-0.9
		bp	UK 5yr	3.364	2.9
US 10Yr	3.480	1.7	<b>Official Rates %</b>		
EUR 10Yr	3.379	0.3	UK	0.50	
UK10 Yr	3.740	-0.1	US	0.25	
<b>Other</b>			EU	1.00	
VIX	24.06	0.59%	Japan	0.10	
iTraxx XOVER	603.33	72.8			
DJ Agriculture Index	57.43	-1.41%			

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