



Daily Market Strategy

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Market Strategy

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- Long JPY favoured ahead of Obama's China visit
- Bond yields drop ahead of US 30y auction

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6551, €/£: 1.4999, \$/¥: 89.75

UK 5y sw: 3.31%, US 5y sw: 2.60%, EU 5y sw: 2.74%

Overnight

- Australia Oct employment up 24.5k, 2nd successive gain
- Economists at IMF urges lesser role for dollar (FT)
- Beijing hints at change of line on renminbi (FT)

It is hard to see sterling immediately regain its vigour after BoE governor King sent sterling bulls scrambling once again yesterday when he stated that a drop in the pound will help to smooth the rebalancing [of the economy]. We have been here before but sterling has managed to rebound in August and September though from lower lows (vs the USD). Next week's CPI data (off the cycle low?) and MPC minutes will offer a chance to make it three in a row if risk appetite stays intact. A 10th straight increase for the Baltic Dry and a 15-month high for AUD/USD do not imply that sentiment is about to turn over. However, selection is key and the outlook for GBP does not look all that promising against high yielders/commodity currencies as rate differentials drive performance. For rates, we expect gilts and swaps to play the ranges. The option the BoE took out in not ruling out additional QE should protect longer dated yields and swaps from a bearish breakout.

Ahead today: EU-16 Sep industrial output is forecast to rise for a 5th successive month. ECB president Trichet will speak after market close. US continuing claims are forecast to have fallen to 5.7mn, the lowest since March. The Treasury will sell \$16bn in 30y bonds.

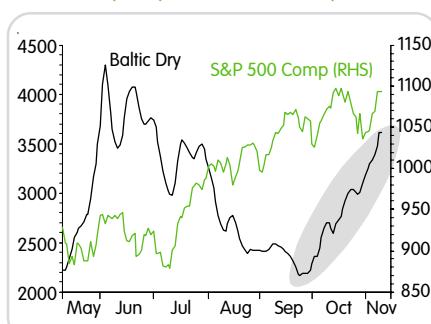
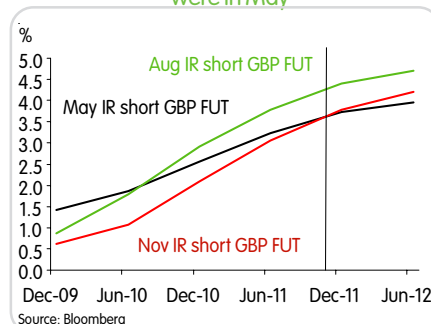
FX: MNI says sources in China dismiss short-term plans for yuan rise - but the FT article and the visit to Beijing of US President Obama early next week justify being short USD/JPY and EUR/JPY, though for the latter this runs against the pro-risk environment. USD/JPY is offered below 90.0 this morning. We look for a test of yesterday's 89.29 low. For EUR/GBP, a rally overnight through the 50d MA (0.9046) and 0.9050 bodes well for a move up to 0.91. For USD/CHF, a rebound off yesterday's 1.0035 lines up a test of 1.01. Resistance at 1.0156. SNB's Jordan speaks at 17.00 on 'Challenges for monetary policy'.

Rates: UK 5y swaps fell through 3.31% on the BoE IR and have extended their decline to 3.28% in early trading. We now look for a test of 3.25%. We doubt there is a lot more downside momentum as stronger UK CPI looms next week. Following a test of 3.73% for 10y yields, we target a pullback to 3.70%. The 2y/10y swaps curve is steady at 211bps. For the US 30y auction, the share of indirects has dropped during the last three auctions, pointing to lower demand for ultra-long US paper. Bid/cover also disappointed in October and favours a defensive set-up.

UK implied rates for Q4-11: back to where they were in May

Baltic Dry is up 72% from the Sep-29 low

	Close	Daily Change %
FX		
EUR/GBP	0.9042	0.98%
GBP/USD	1.6574	-1.02%
EUR/USD	1.4987	-0.04%
USD/JPY	89.870	0.07%
AUD/USD	0.9298	-0.07%
Bonds %		
US 10Yr	3.483	1.1
EUR 10Yr	3.343	6.3
UK 10 Yr	3.792	-4.3
UK 5yr Swap	3.318	-6.3
Equities		
S&P500	1098.51	0.50%
FTSE100	5266.75	0.69%
Eurostoxx50	2881.01	0.86%
Shanghai Composite	3172.95	-0.07%
Commodities		
Crude Oil \$/bl	79.28	0.29%
Gold \$/oz	1117.4	1.05%
Copper	299.1	0.17%
Baltic Dry	3748	3.68%
Other		
VIX	23.04	0.88%
iTraxx XOVER	505.43	-7.1

**Today's Data**

Australia Unemployment Rate, Oct	00:30	5.8%A	5.7%	US Treasury sells \$16bn, 30y bonds
Australia Employment Change, Oct	00:30	24.5k	39.8k	ECB speaker: Trichet (19:00)
EU-16 Industrial Output, Sep	10:00	0.5%	0.9%	ECB Monthly Bulletin (09:00)
US MBA Mortgage Applications, 6-Nov	12:00	n/a	8.2%	US Weekly Oil Inventories (16:00)
US Initial Claims, 7-Nov	13:30	510k	512k	
US Treasury Statement, Oct	19:00	-\$150bn	-\$155.5bn	
Canada New Housing Index, Sep	13:30	0.2%	0.1%	

Time Consensus Previous Events

00:30	5.8%A	5.7%	US Treasury sells \$16bn, 30y bonds
00:30	24.5k	39.8k	ECB speaker: Trichet (19:00)
10:00	0.5%	0.9%	ECB Monthly Bulletin (09:00)
12:00	n/a	8.2%	US Weekly Oil Inventories (16:00)
13:30	510k	512k	
19:00	-\$150bn	-\$155.5bn	
13:30	0.2%	0.1%	

Quantitative Market Analysis

	AUDUSD	USDCAD	EURUSD	GBPUSD	USDJPY	EURJPY	AUDJPY
2 YR SPD	0.45	0.83	0.53	0.38	0.70	0.49	0.62
10 YR SPD	0.36	0.66	0.50	0.87	0.37	0.60	0.73
S&P500	0.87	-0.79	0.86	0.04	-0.15	0.40	0.60
Gold	0.47	-0.14	0.39	0.47	-0.56	-0.18	0.05
Oil	0.46	0.23	0.44	0.80	0.55	0.69	0.69
CRB	0.46	-0.08	0.52	0.45	0.65	0.81	0.75
Relative Yield Curve	0.40	0.71	0.00	-0.75	0.38	0.03	0.32

Table 1: 1-month correlations

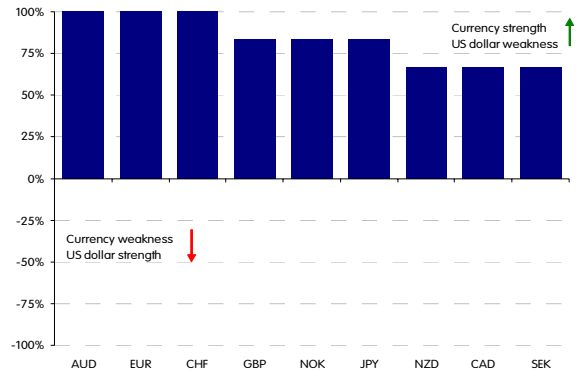


Chart 1: Trend strength indicator

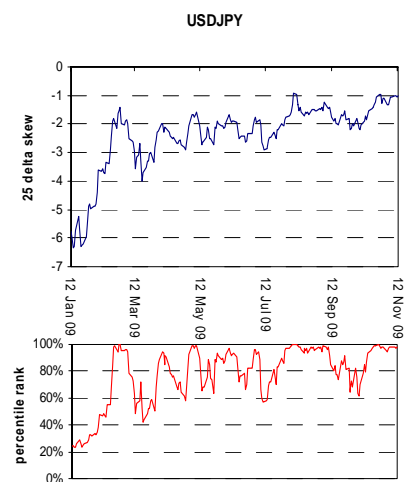
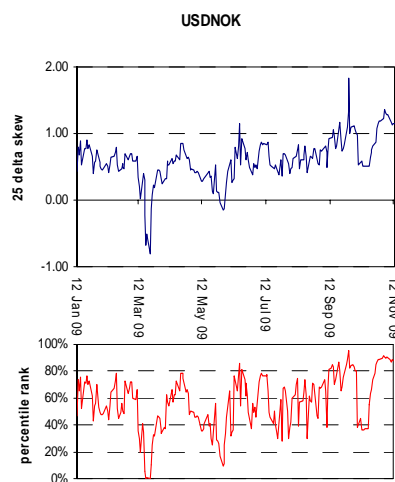
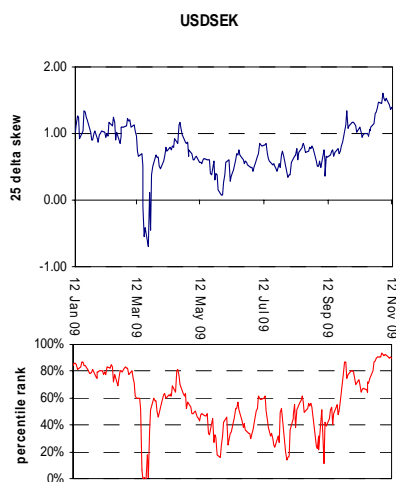
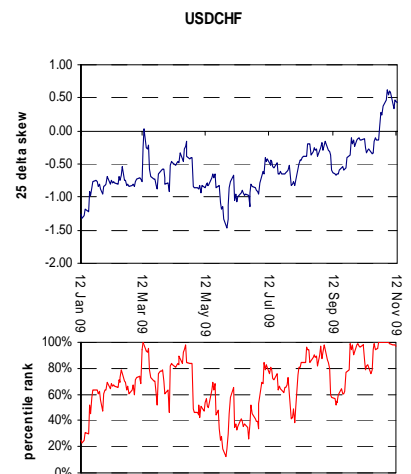
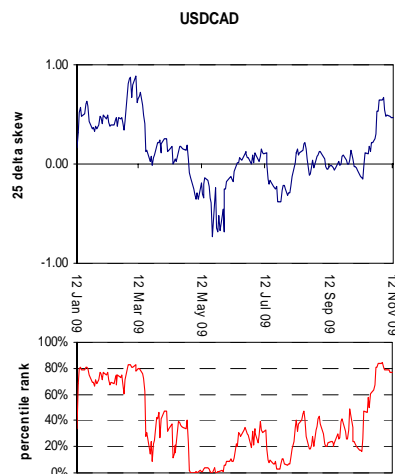
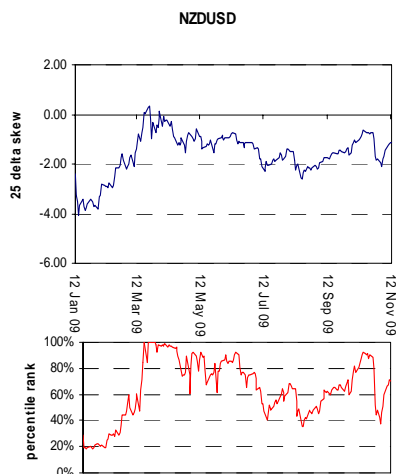
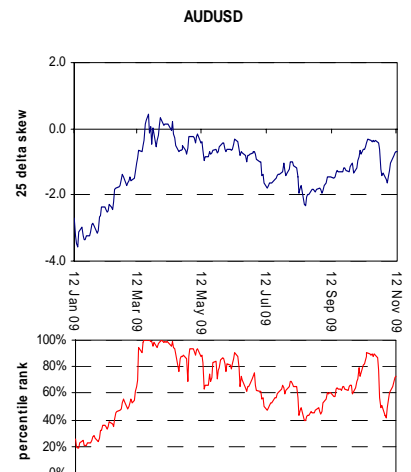
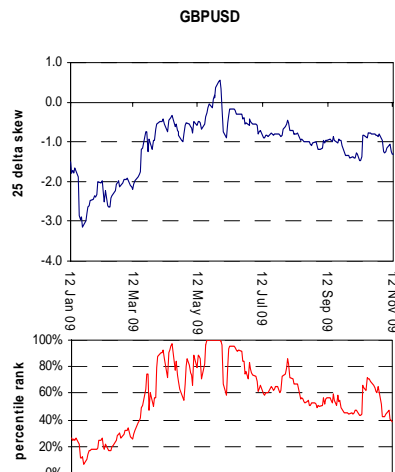
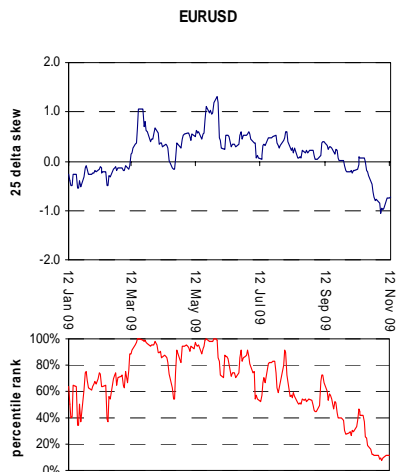
Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	long	11-Nov-09	0.9306
NZDUSD	long	10-Jul-09	0.6298
EURUSD	long	09-Sep-09	1.4480
GBPUSD	long	30-Oct-09	1.6547
USDCHE	short	17-Jul-09	1.0730
USDCAD	short	11-Nov-09	1.0495
USDSEK	short	06-Nov-09	6.9900
USDNOK	short	21-Jul-09	6.3025
USDJPY	short	02-Nov-09	90.10
Net-USD portfolio position			-100%

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	06-Nov-09	17.375
USDPLN	short	05-Nov-09	2.8609
USDSGD	short	10-Nov-09	1.3863
USDTRY	long	11-Nov-09	1.4769
USDZAR	long	12-Nov-09	7.3638
Net-USD portfolio position			-20%



FX Options: Risk Reversal Skews





Market Summary

FX			Equities		
	Close	Daily Change %		Close	Daily Change %
EUR/USD	1.4987	-0.04%	S&P500	1098.51	0.50%
USD/JPY	89.87	0.07%	DJIA	10291.26	0.43%
AUD/USD	0.9298	-0.07%	FTSE100	5266.75	0.69%
EUR/GBP	0.9042	0.98%	Eurostoxx50	2881.01	0.86%
GBP/EUR	1.1059	-0.98%	Shanghai Composite*	3172.95	-0.07%
GBP/USD	1.6574	-1.02%	*latest price		
GBP/JPY	149.00	-0.92%	Commodities		
GBP/CHF	1.6705	-0.99%			%
GBP/AUD	1.7824	-0.96%	Crude Oil \$/bl	79.28	0.29%
GBP/CAD	1.7318	-1.45%	Gold \$/oz	1117.4	1.05%
GBP/NZD	2.2431	-0.39%	Copper c/lb	299.1	0.17%
GBP/NOK	9.2775	-0.78%	Silver \$/oz	17.61	1.50%
GBP/ZAR	12.2047	-1.19%	Baltic Dry	3748	3.68%
GBP/CNY	11.3129	-1.03%	Swaps %		
Bonds %					bp
		bp	US 5yr	2.625	0.3
US 10Yr	3.483	1.1	EUR 5yr	2.773	-0.8
EUR 10Yr	3.343	6.3	UK 5yr	3.318	-6.3
UK10 Yr	3.792	-4.3	Official Rates %		
Other					
VIX	23.04	0.88%	UK	0.50	
iTraxx XOVER	505.43	-7.1	US	0.25	
DJ Agriculture	62.10	0.74%	EU	1.00	
Index			Japan	0.10	

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