

Daily Market Strategy

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Market Strategy

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- USD under pressure as APEC removes call for market orientated FX rates
- Data focus on inflation & retail sales this week

Market Outlook

Naeem Wahid

Opening levels (7.15am)

£/\$: 1.6735, €/£: 1.4976, \$/¥: 89.56

UK 5y sw: 3.31%, US 5y sw: 2.58%, EU 5y sw: 2.77%

Overnight

- Japan Q3 annualised GDP up 4.8%, deflator 0.2%

- UK Oct Rightmove house prices down 1.6% in November

APEC's removal of references to foreign exchange in its final declaration alongside its commitment to keep stimulus policies in place until a durable recovery is evidenced has left equity markets opening strongly this morning. Commodities are also bouncing higher with NYMEX WTI crude oil jumping back into the \$76.5-\$82.0 range (it had marked a bearish weekly close outside of this range on Friday).

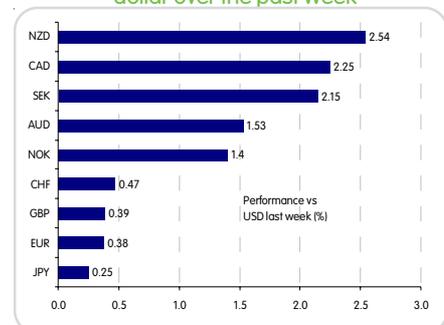
The removal of FX references is important for the USD as it opens the potential for further weakness. The expectation that China may, any time soon, move away from its policy of holding USD/CNY stable has receded (USD/CNY forward rates have jumped higher this morning). Given the need for China (and other central banks, such as those of the Middle East oil producing nations, who peg their currencies to the USD) to diversify its USDs, this suggests no let up in the bid for developed market currencies.

The latest IMM data, for period ending Tuesday 10th November and released on Friday 13th November 2009, show only a very small change in speculative positioning – see charts on page 2. Speculators have further reduced their net-short GBP/USD and net-long AUD/USD positions. The most significant change appears to be in USD/CHF, where speculators have increased their net-short position. Analysing the data over a 3-year period suggests that the current position is at the 2nd percentile – which highlights the strong risk of a squeeze higher in the currency pair. We look for CHF underperformance against other developed market currencies, especially GBP.

The trend following model has triggered further short USD positions this morning, following Friday's bout of USD selling. The USD came under broad based pressure which appeared to be heavily focussed against commodity currencies. Hence, it is not surprising that the model has purchased the Australian dollar, New Zealand dollar and the Norwegian krone against the USD this morning. The trend following model is once again 100% short of USD against developed market currencies. Across the emerging market currency space, the model's portfolio is only 20% short of USD. No new positions were triggered by the model this morning.

Data this week focus on CPI and retail sales. Strong retail sales amidst softer inflation reports are now required to further support the risk positive environment, boosting equities and weighing on the USD.

G-10 currency performance versus the US dollar over the past week



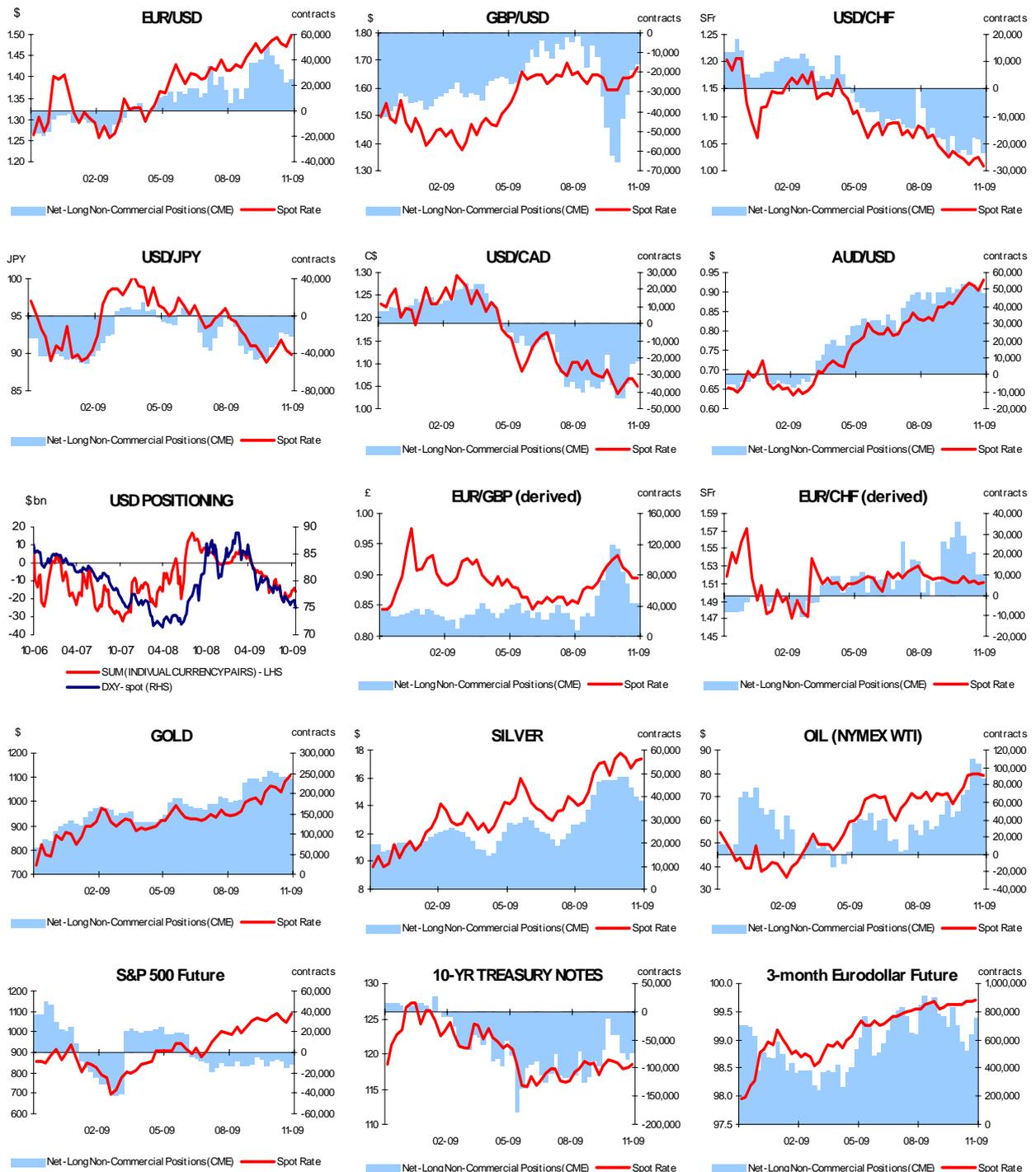
| | Close | Daily Change % |
|--------------------|---------|----------------|
| FX | | |
| EUR/GBP | 0.8937 | -0.22% |
| GBP/USD | 1.6676 | 0.60% |
| EUR/USD | 1.4903 | 0.35% |
| USD/JPY | 89.657 | -0.79% |
| AUD/USD | 0.9330 | 1.03% |
| Bonds % | | bp |
| US 10Yr | 3.418 | -2.6 |
| EUR 10Yr | 3.381 | 1.9 |
| UK10 Yr | 3.778 | 2.3 |
| UK 5yr Swap | 3.313 | 0.2 |
| Equities | | % |
| S&P500 | 1093.48 | 0.57% |
| FTSE100 | 5296.38 | 0.38% |
| Eurostoxx50 | 2883.04 | 0.21% |
| Shanghai Composite | 3275.05 | 2.74% |
| Commodities | | % |
| Crude Oil \$/bl | 76.35 | -0.77% |
| Gold \$/oz | 1118.7 | 1.35% |
| Copper | 300.0 | 0.89% |
| Baltic Dry | 4111 | 3.97% |
| Other | | |
| VIX | 23.36 | -3.63% |
| iTraxx XOVER | 518.75 | 3.4 |

Today's Data

| | Time | Consensus | Previous | Events |
|-------------------------------------|-------|-----------|----------|--|
| Japan GDP, Q3 annual. | 23:50 | 4.8% A | 2.7% | BoE rev auction (£1.7bn): UKT_4.25_070336, UKT_4.75_071238, |
| Japan GDP Deflator, Q3, y/y | 23:50 | 0.2% A | 0.5% | UKT_4.25_070939, UKT_4.5_071242, UKT_4.25_071246, |
| UK Rightmove House Prices, Nov, m/m | 00:01 | -1.6% A | 2.8% | UKT_4.25_071249, UKT_4.25_071255, UKT_4_220160 |
| US Retail Sales, Oct | 13:30 | 0.9% | -1.5% | ECB speakers: Noyer (08:15), Weber (08:50), Tumpel- |
| US Retail Sales ex autos, Oct | 13:30 | 0.4% | 0.5% | Guarell (10:30), Quaden (16:00) |
| NY Fed Manufacturing Survey, Nov | 13:30 | 29.0 | 34.6 | Fed speakers: Bermanke (17:15), Fisher (18:15), Kohn (23:15) |
| US Business Inventories, Sep | 15:00 | -0.6% | -1.5% | |



FX & Commodity Futures Positioning



Trend following model signals

| Trend Following Model Positions | | | |
|-----------------------------------|--------|-----------|--------------|
| | Signal | Date | Entry Level |
| AUDUSD | long | 16-Nov-09 | 0.9330 |
| NZDUSD | long | 16-Nov-09 | 0.7389 |
| EURUSD | long | 09-Sep-09 | 1.4480 |
| GBPUSD | long | 30-Oct-09 | 1.6547 |
| USDCHF | short | 17-Jul-09 | 1.0730 |
| USDCAD | short | 11-Nov-09 | 1.0495 |
| USDSEK | short | 06-Nov-09 | 6.9900 |
| USDNOK | short | 16-Nov-09 | 5.6091 |
| 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% |

Market Summary

| | Close | Daily Change % | | Close | Daily Change % |
|----------------------|---------|----------------|-------------------------|----------|----------------|
| FX | | | Equities | | |
| EUR/USD | 1.4903 | 0.35% | S&P500 | 1093.48 | 0.57% |
| USD/JPY | 89.66 | -0.79% | DJIA | 10270.47 | 0.72% |
| AUD/USD | 0.9330 | 1.03% | FTSE100 | 5296.38 | 0.38% |
| EUR/GBP | 0.8937 | -0.22% | Eurostoxx50 | 2883.04 | 0.21% |
| GBP/EUR | 1.1190 | 0.24% | Shanghai Composite* | 3275.05 | 2.74% |
| GBP/USD | 1.6676 | 0.60% | *latest price | | |
| GBP/JPY | 149.47 | -0.22% | Commodities | | |
| GBP/CHF | 1.6882 | 0.10% | Crude Oil \$/bl | 76.35 | -0.77% |
| GBP/AUD | 1.7871 | -0.44% | Gold \$/oz | 1118.7 | 1.35% |
| GBP/CAD | 1.7538 | 0.23% | Copper c/lb | 300.0 | 0.89% |
| GBP/NZD | 2.2429 | -0.84% | Silver \$/oz | 17.44 | 1.28% |
| GBP/NOK | 9.3594 | -0.37% | Baltic Dry | 4111 | 3.97% |
| GBP/ZAR | 12.3715 | -0.07% | Swaps % | | |
| GBP/CNY | 11.3841 | 0.60% | US 5yr | 2.571 | 0.0 |
| Bonds % | | | EUR 5yr | 2.778 | 0.7 |
| | | bp | UK 5yr | 3.313 | 0.2 |
| US 10Yr | 3.418 | -2.6 | Official Rates % | | |
| EUR 10Yr | 3.381 | 1.9 | UK | 0.50 | |
| UK10 Yr | 3.778 | 2.3 | US | 0.25 | |
| Other | | | EU | 1.00 | |
| VIX | 23.36 | -3.63% | Japan | 0.10 | |
| iTraxx XOVER | 518.75 | 3.4 | | | |
| DJ Agriculture Index | 62.34 | 0.38% | | | |

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