



Daily Market Strategy

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Market Strategy

Paul Rodriguez

Senior Technical Analyst

0207 158 1744

paul.rodriguez@lloydstsb.co.uk

Kenneth Broux

Market Economist

0207 158 1750

kenneth.broux@lloydstsb.co.uk

Naeem Wahid

Quantitative Strategist

0207 158 1741

naeem.wahid@lloydstsb.co.uk

Altaz Dagha

Analyst

0207 158 1747

altaz.dagha@lloydstsb.co.uk

- 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).

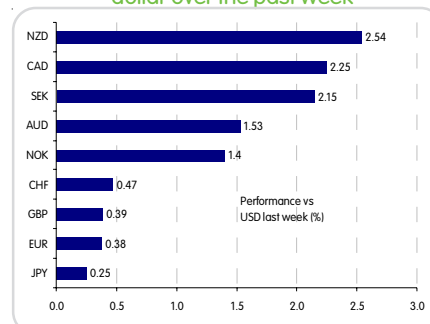
The removal of FX references is important for the USD as it opens the potential for further weakness. The expectation that China may, any time soon, move away from its policy of holding USD/CNY stable has receded (USD/CNY forward rates have jumped higher this morning). Given the need for China (and other 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 %		
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

Japan GDP, Q3 annual.	23:50	4.8% A	2.7%
Japan GDP Deflator, Q3, y/y	23:50	0.2% A	0.5%
UK Rightmove House Prices, Nov, m/m	00:01	-1.6% A	2.8%
US Retail Sales, Oct	13:30	0.9%	-1.5%
US Retail Sales ex autos, Oct	13:30	0.4%	0.5%
NY Fed Manufacturing Survey, Nov	13:30	29.0	34.6
US Business Inventories, Sep	15:00	-0.6%	-1.5%

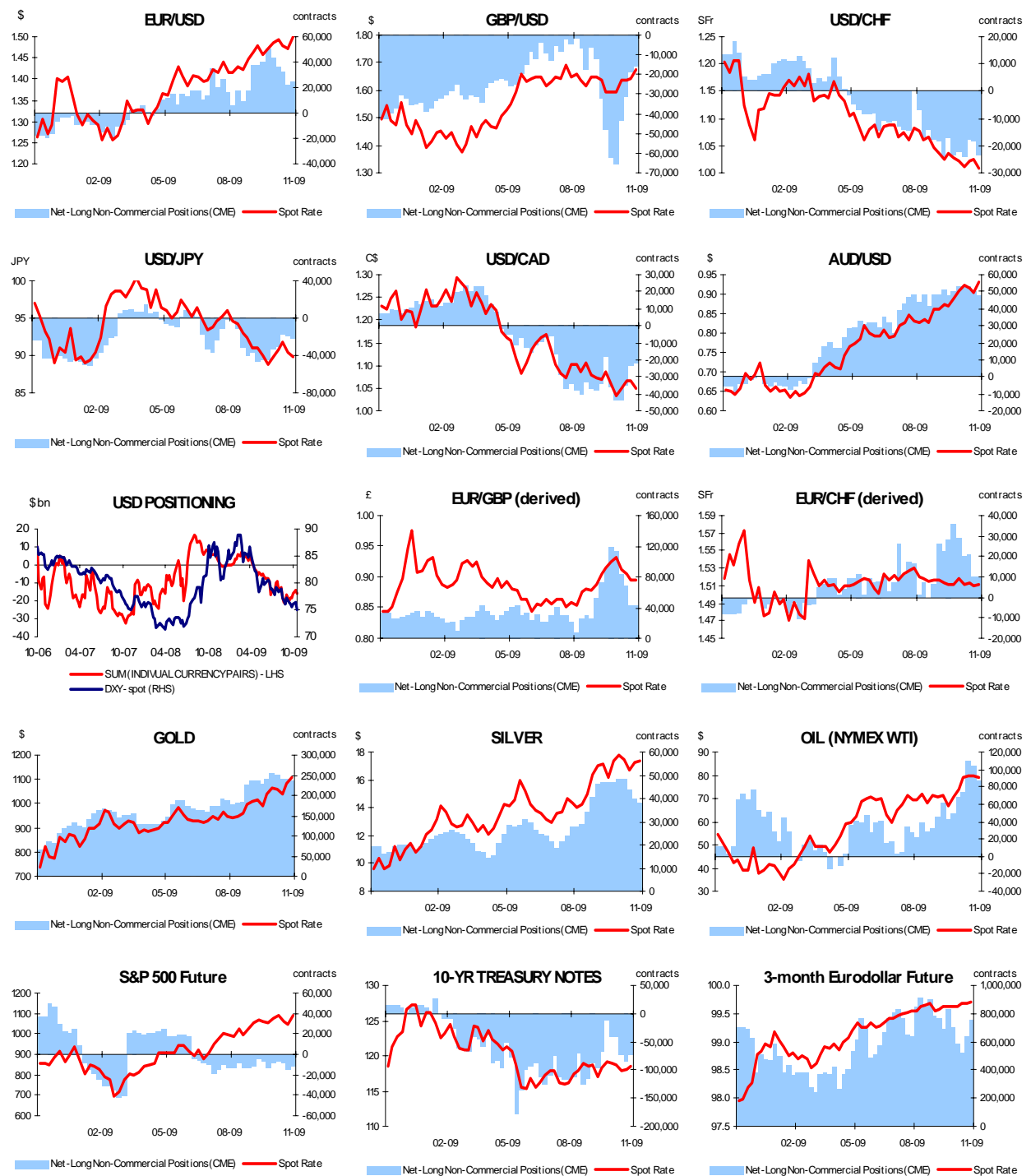
Time Consensus Previous

Events

BoE rev auction (£1.7bn): 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, UKT_4_220160
ECB speakers: Noyer (08:15), Weber (08:50), Tumpel-Guarelli (10:30), Quaden (16:00)
Fed speakers: Bernanke (17:15), Fisher (18:15), Kohn (23:15)



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

FX			Equities		
	Close	Daily Change %		Close	Daily Change %
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%			%
GBP/AUD	1.7871	-0.44%	Crude Oil \$/bl	76.35	-0.77%
GBP/CAD	1.7538	0.23%	Gold \$/oz	1118.7	1.35%
GBP/NZD	2.2429	-0.84%	Copper c/lb	300.0	0.89%
GBP/NOK	9.3594	-0.37%	Silver \$/oz	17.44	1.28%
GBP/ZAR	12.3715	-0.07%	Baltic Dry	4111	3.97%
GBP/CNY	11.3841	0.60%	Swaps %		
Bonds %					bp
		bp	US 5yr	2.571	0.0
US 10Yr	3.418	-2.6	EUR 5yr	2.778	0.7
EUR 10Yr	3.381	1.9	UK 5yr	3.313	0.2
UK10 Yr	3.778	2.3	Official Rates %		
Other					
VIX	23.36	-3.63%	UK	0.50	
iTraxx XOVER	518.75	3.4	US	0.25	
DJ Agriculture	62.34	0.38%	EU	1.00	
Index			Japan	0.10	

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