



## Daily Market Strategy

Monday, 1st February 2010

## Market Strategy

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- Risk of stronger US ISM, support for Dow at 10k?
- SNB tempted to intervene?

## Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5972

€/£: 1.3892

\$/¥: 90.27

UK 5y sw: 3.08%

US 5y sw: 2.67%

EU 5y sw: 2.60%

## Overnight

- Jan Hometrack house prices up 0.1% m/m, -0.8% y/y
- Four weekend opinion polls tip hung Parliament at general election

We face a long wait for Thursday when the MPC will announce the outcome of what probably is one of the most daunting policy meetings in its recent history. Sterling has not taken kindly to the election poll results over the weekend (gilt curve flatter) and may find itself facing up a catch-22 situation, with both a rise and pause in QE likely to weigh on GBP, unless equities manage to reverse some of last week's losses and positive correlation with risk is reasserted. The Dow closed lower on Friday despite the 5.7% annualised surge in Q4 GDP, and is just 67 points away from 10k. A negative print for NFP on Friday would clear the way for a retracement to 9,700 (FTSE below 5,000). For gilts/swaps, the bearish (steepening) consequences that a QE pause would bring cannot be overlooked in particular for the long end (short end anchored by a freeze in gilt purchases). Seasonals also turn more bearishly from February onwards, with 20y of historical data pointing to upside risk in 5y and 10y swaps.

## Weekly IMM update:

	19-Jan			26-Jan			change
	rep	non rep	total	rep	non rep	total	
CAD	46.803	26.895	73.698	25.809	22.345	48.154	-25.54
CHF	13.971	5.682	19.653	5.705	-1.393	4.312	-15.34
GBP	-20.171	-4.347	-24.518	-27.153	-5.882	-33.035	-8.52
JPY	-17.096	-12.019	-29.115	-4.347	-3.892	-8.239	20.88
EUR	-25.282	4.561	-20.721	-39.539	-1.809	-41.348	-20.63
AUD	62.851	20.458	83.309	45.318	14.745	60.063	-23.25

## Ahead today:

- A busy start to the week for the UK, with the Jan manufacturing PMI to set the tone for optimism about the economy in early Q1. Our economics team has pencilled in a small drop to 53.9 vs 54.1. Consumer credit is forecast to have contracted in December for a fifth successive month.
- The US manufacturing ISM: we see risk of stronger outcome following an upbeat Chicago PMI.

**FX:** We set the scene for GBP in our Weekly Strategy special (ask for a copy), and wonder if the only way for GBP is lower, unless stocks can stage a rebound. For GBP/USD, key support rests at 1.5833. The December 30 low. 1mth vol has broken through 11.0. EUR/GBP is up for a second session. Clearing 0.8701 resistance (10d MA), we look for ranges to stay in place unless we get a shock manufacturing PMI at 09.30. The UK/EU 2 spread narrows to 13bp. EUR/CHF is trading 80 ticks higher at 1.4720 from Friday's low, with dealers wary of intervention (at 1.4640) by the SNB.

**Rates:** UK 5y swaps are unchanged at 3.09%. The UK PMI and equities will set the tone early on, though we expect ranges to stay narrow ahead of Thursday's MPC decision. Resistance comes in at 3.16%. The 2y/10y swaps curve flattens to 219bp. The UK/US 10y swap spread narrows to 17bp. The UK/EU 10y spread tightens to 49bp. Sterling corporate issuance pipeline is light.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8672	0.16%
GBP/USD	1.5986	-0.94%
EUR/USD	1.3863	-0.77%
USD/JPY	90.270	0.39%
AUD/USD	0.8838	-1.21%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.584	-5.0
EUR 10Yr	3.196	-0.5
UK10 Yr	3.911	-2.8
UK 5yr Swap	3.088	-3.3
<b>Equities</b>		<b>%</b>
S&P500	1073.87	-0.98%
FTSE100	5188.52	0.83%
Eurostoxx50	2776.83	1.44%
Shanghai Composite	2941.36	-1.60%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bbl	72.89	-1.02%
Gold \$/oz	1080.9	-0.57%
Copper	305.3	-1.47%
Baltic Dry	2848	-3.88%
<b>Other</b>		
VIX	24.62	3.75%
iTraxx XOVER	454.18	2.9

## Today's Data

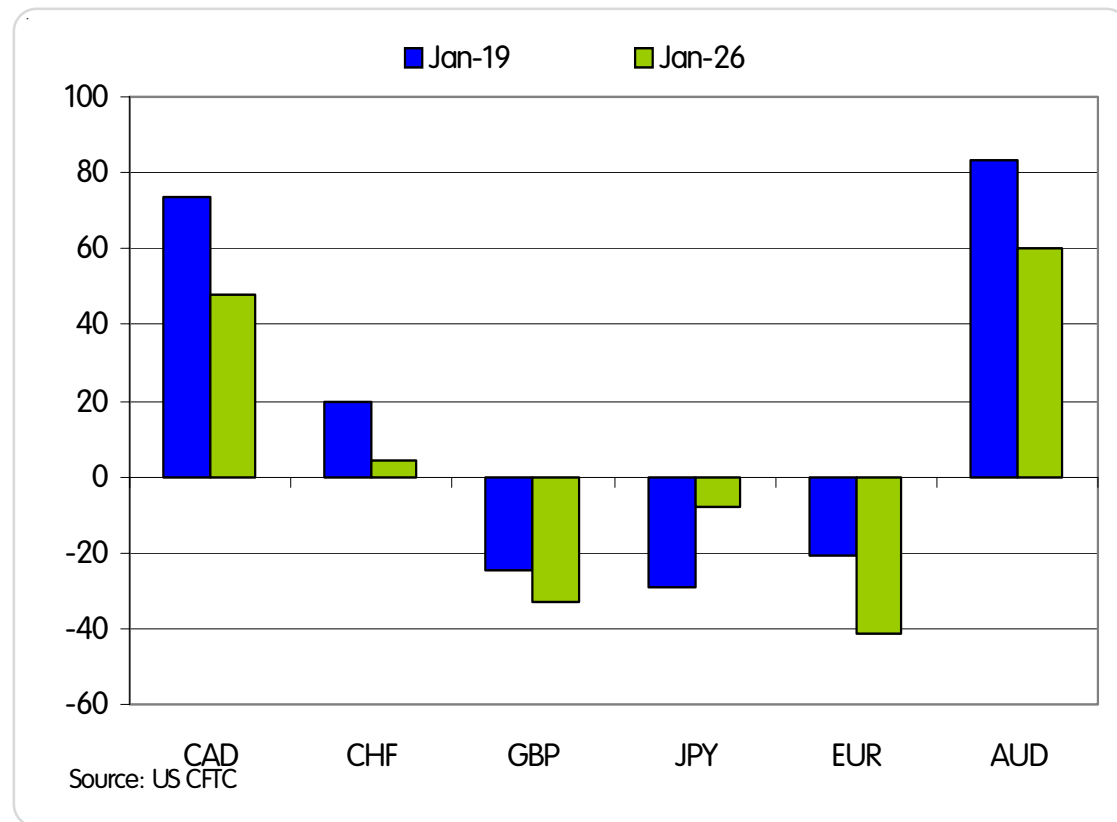
	Time	Consensus	Previous	No Events
EU-16 Manufacturing PMI, Jan final	09:00	52.0	52.0	
UK Consumer Credit, Dec	09:30	-0.4bn	-0.4bn	
UK Mortgage Lending, Dec	09:30	1.6bn	1.5bn	
UK Mortgage Approvals, Dec	09:30	61.8k	60.5k	
UK M4 Money Supply, Dec final	09:30	n/a	-1.1%	
UK Manufacturing PMI, Jan	09:30	53.9	54.1	
US Personal Income, Dec	13:30	0.3%	0.4%	
US Personal Spending, Dec	13:30	0.3%	0.5%	
US Core PCE, Dec	13:30	0.1%	0.0%	
US Manufacturing ISM, Jan	15:00	55.2	55.9	
US Construction Spending, Dec	15:00	-0.5%	-0.6%	

\*All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, DataStream & CQG

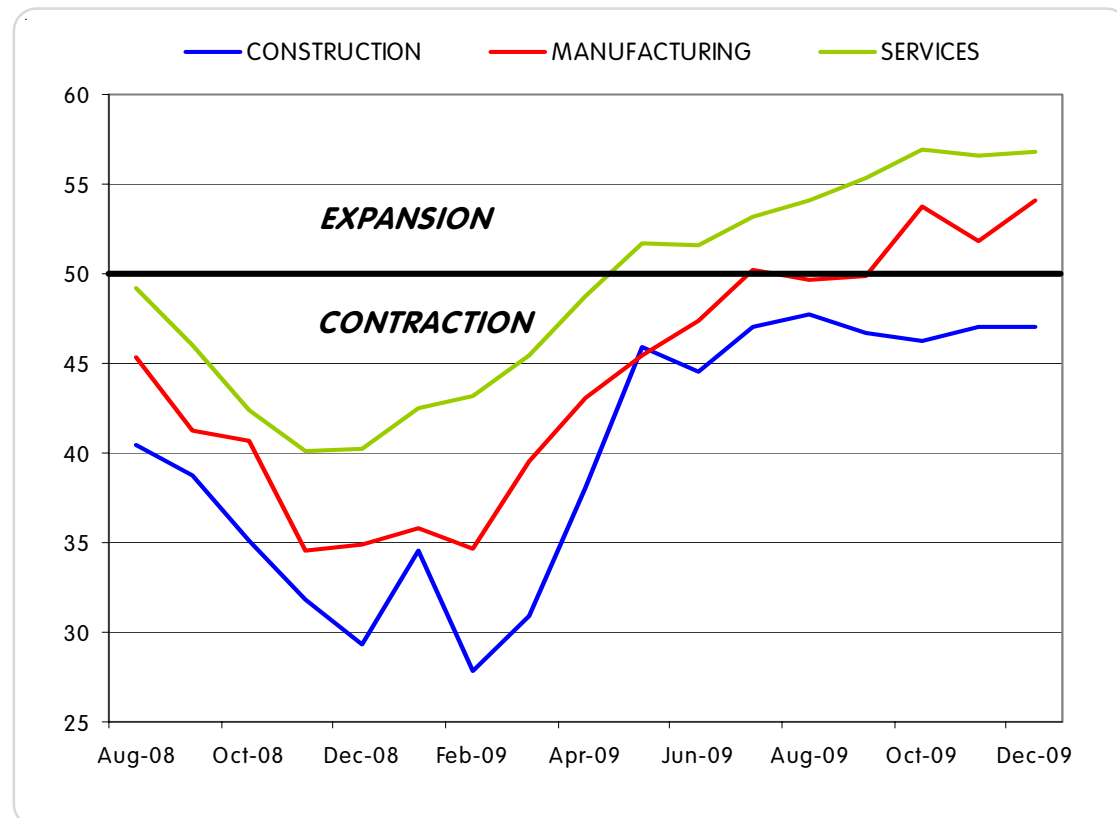
Lloyds TSB Corporate Markets Economic Research, 10 Gresham Street, London, EC2V 7AE, Switchboard: 0207 626 1500.

Bloomberg page: LLOY<GO>

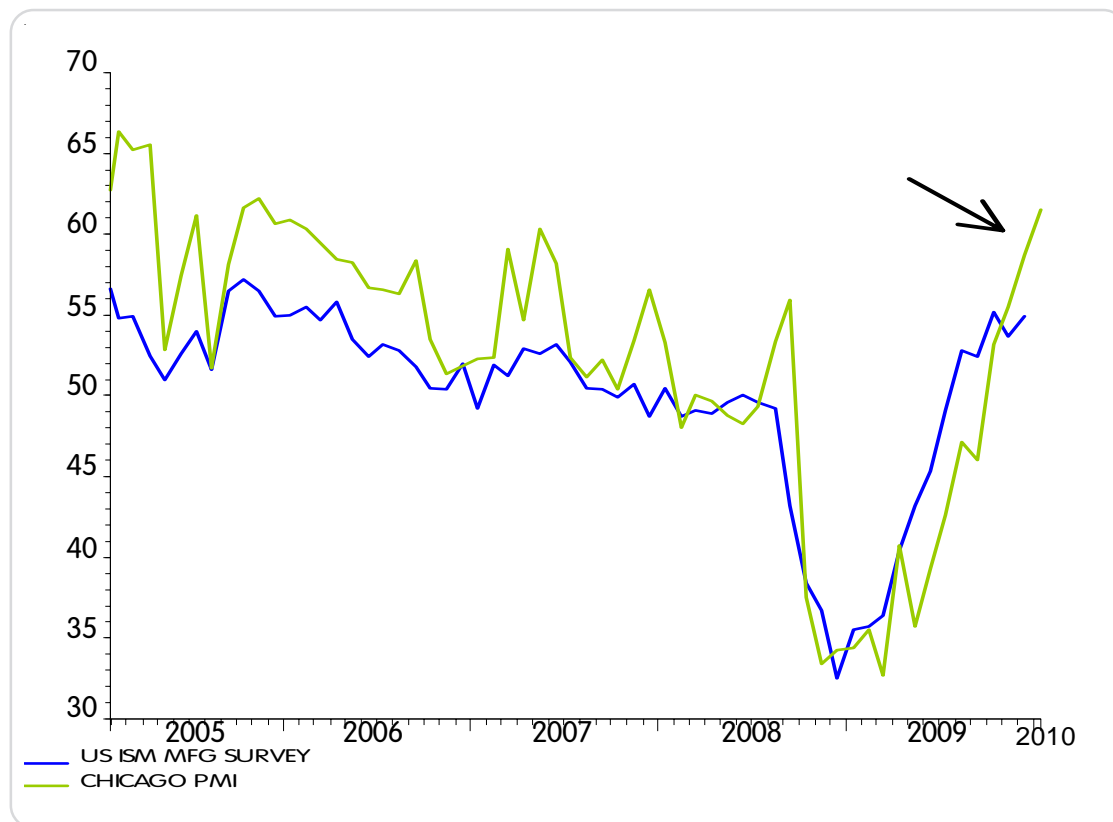
Weekly IMM stats: net EUR shorts higher vs GBP



UK Manufacturing PMI: consolidating at 50+ level in early 2010?



US Manufacturing ISM: positive surprise in January?

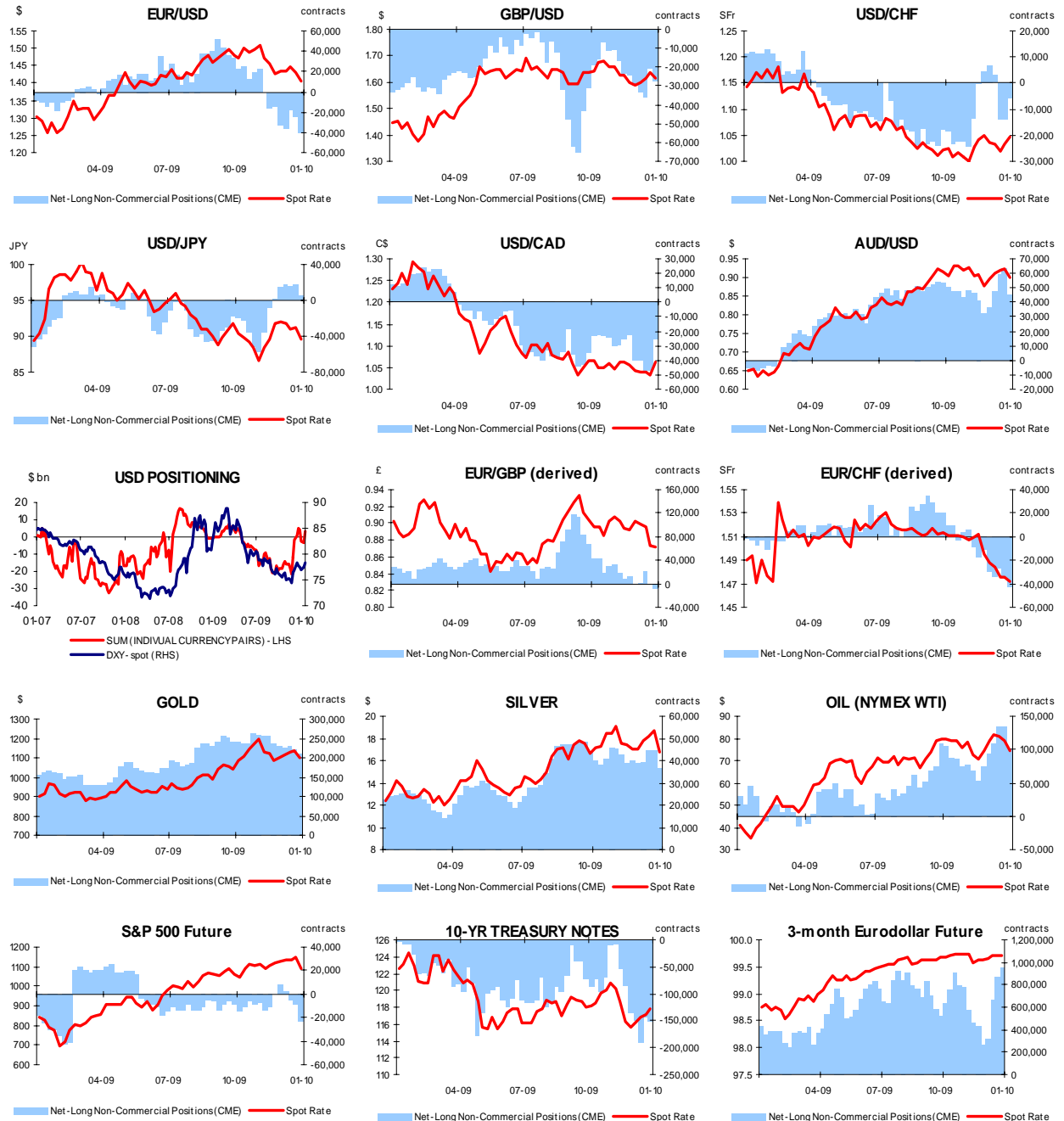




## Quantitative Market Analysis

Altaz Dagha

## FX & Commodity Futures Positioning





## Market Summary

	Close	Daily Change %		Close	Daily Change %
<b>FX</b>			<b>Equities</b>		
EUR/USD	1.3863	-0.77%	S&P500	1073.87	-0.98%
USD/JPY	90.27	0.39%	DJIA	10067.33	-0.52%
AUD/USD	0.8838	-1.21%	FTSE100	5188.52	0.83%
EUR/GBP	0.8672	0.16%	Eurostoxx50	2776.83	1.44%
GBP/EUR	1.1532	-0.16%	Shanghai Composite*	2941.36	-1.60%
GBP/USD	1.5986	-0.94%	*latest price		
GBP/JPY	144.30	-0.55%	<b>Commodities</b>		
GBP/CHF	1.6957	-0.13%			%
GBP/AUD	1.8087	0.27%	Crude Oil \$/bl	72.89	-1.02%
GBP/CAD	1.7107	-0.59%	Gold \$/oz	1080.9	-0.57%
GBP/NZD	2.2808	-0.38%	Copper c/lb	305.3	-1.47%
GBP/NOK	9.4744	-0.45%	Silver \$/oz	16.21	-0.25%
GBP/ZAR	12.1920	-0.55%	Baltic Dry	2848	-3.88%
GBP/CNY	10.9102	-0.97%			
<b>Bonds %</b>			<b>Swaps %</b>		
		bp			bp
US 10Yr	3.584	-5.0	US 5yr	2.630	-5.3
EUR 10Yr	3.196	-0.5	EUR 5yr	2.588	-2.2
UK10 Yr	3.911	-2.8	UK 5yr	3.088	-3.3
<b>Other</b>			<b>Official Rates %</b>		
VIX	24.62	3.75%	UK	0.50	
iTraxx XOVER	454.18	2.9	US	0.25	
DJ Agriculture Index	59.78	-0.98%	EU	1.00	
			Japan	0.10	
<b>3-mth money %</b>					
		bp			
UK	0.616	-			
EUR	0.609	-			
US	0.249	-			

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