

Daily Market Strategy

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Market Strategy

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- Positive US NFP may not halt risk aversion
- USD extends gains, UK 5y swaps test 3%

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5733

€/£: 1.3723

\$/¥: 89.64

UK 5y sw: 3.06%

US 5y sw: 2.64%

EU 5y sw: 2.54%

Overnight

- Volatility surges on equity sell-off
- Further correction in stocks could dampen economic confidence
- SNB slows CHF appreciation

Fears of contagion in euro zone debt markets will briefly make place for the monthly US employment data and the G7 meeting, but may do little to stem the flight-to-quality that has held asset markets in a tight grip since the start of the week. Greek, Spanish and Portugese spreads are widening further over bunds this morning, fuelling speculation that only direct EU intervention can bring the crisis to a halt. Asian equities followed US indices deeply into the red led by the Hang Seng (-3.3%), propelling the dollar index through 80.0 and helping G3 yield curves to bull steepen and UK 5y swaps on the verge of breaking below 3%. With a number of participants having raised the bar for today's US non-farm payrolls following stronger employment readings for the ISMs and ADP, the risk is for disappointment and clearout of risk ahead of the long US weekend, with the dollar index pushing towards the June 2009 highs of 81.46.

Ahead today:

- UK PPI data for January may underline the near-term upward pressure on inflation, with input and output prices (including core) forecast to have edged up in January.
- US Jan non-farm payrolls: our economics team has pencilled in a rise of 20k and no change in the unemployment rate a 10%.

FX:

The USD is overbought on technicals (Bollinger bands) but with global markets in a defensive frame of mind, it is hard to pick levels where profit taking will eventually set in.

GBP/USD has just cracked 1.57 and this clears the path for a retracement to 1.55. A strong NFP outcome may underpin bullish USD sentiment, though the FOMC remains sidelined.

EUR/USD drops below 1.3650 in early trading as 10y Greek and Portugese spreads vs bunds resume their upward trend. 10y Spain/bunds moves through the 100bp barrier. There is no real support until 1.35. Equally selling in EUR/USD and GBP/USD keeps EUR/GBP in balance around the 0.8725 area.

EUR/CHF was the big mover overnight, spiking nearly 300 ticks to a 1.4831 high on unconfirmed reports that the SNB intervened to stop CHF appreciation. The problem is the SNB is in effect handcuffed by the situation in peripheral euro zone markets, with flight-to-quality flows pushing Swiss 2y yields below 0.30% and 10y yields falling below 2%.

EUR/JPY bounced off decent trendline support overnight at 122.0. Unless equities stage a relief rally, we look for the retracement to carry on towards the 120 area.

Rates: We definitely got the break out of the recent ranges for gilts and swaps as participants rush for the exit from stocks. The decision by the BoE to halt QE initially squeezed yields higher across the curve but with the 10 swaps underperforming and 2y/10y swaps curve steepening to 224bps. 5y swaps have dropped 6bp in early trade, briefly taking out 3%. A move to 2.93% is on the cards today or into early next week if US NFP stats disappoint. US 10y yield rests on key support in the 3.57% area and could target a move to 3.50% on weak NFP stats, though support for higher prices may be capped ahead of the quarterly refunding next week.

	Close	Daily Change %
FX		
EUR/GBP	0.8711	-0.36%
GBP/USD	1.5754	-0.87%
EUR/USD	1.3723	-1.22%
USD/JPY	89.050	-2.12%
AUD/USD	0.8646	-2.08%
Bonds %		bp
US 10Yr	3.606	-9.9
EUR 10Yr	3.163	-6.0
UK10 Yr	3.897	-1.8
UK 5yr Swap	3.063	-6.5
Equities		%
S&P500	1063.11	-3.11%
FTSE100	5139.31	-2.17%
Eurostoxx50	2707.45	-3.46%
Shanghai Composite	2939.40	-1.87%
Commodities		%
Crude Oil \$/bl	73.14	-4.99%
Gold \$/oz	1063.7	-4.15%
Copper	287.9	-3.18%
Baltic Dry	2685	0.45%
Other		
VIX	26.08	20.74%
iTraxx XOVER	466.50	23.2

Today's Data

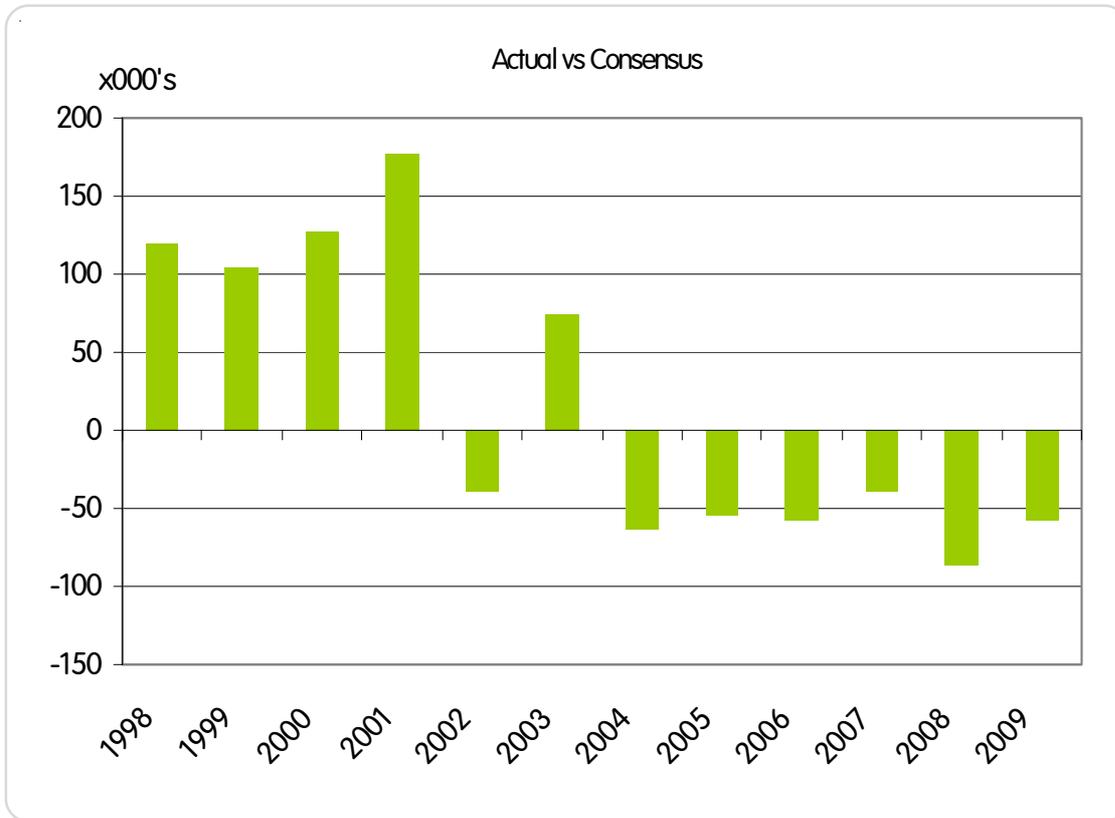
	Time	Consensus	Previous	Events
UK PPI -- Input Prices, Dec	09:30	0.8%	0.1%	ECB speaker: Liikanen (10:30)
-- Output Prices, Dec	09:30	0.3%	0.5%	Fed speaker: Bullard (22:15)
-- Output Prices core, Dec	09:30	0.3%	0.7%	
Germany Industrial Output, Dec	11:00	0.6%	0.7%	
Canada Employment Change, Jan	12:00	15k	-2.6k	
Canada Unemployment Rate, Jan	12:00	8.5%	8.5%	
US Non-Farm Payrolls, Jan	13:30	15k	-85k	
US Unemployment Rate, Jan	13:30	10.0%	10.0%	
US Average Earnings, Jan	13:30	0.2%	0.2%	

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

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Bloomberg page: LLOY<GO>

US non-farm payrolls: negative surprises in all of the last 6 years



GBP/USD: through 1.5700 support, 1.55 and 1.5250 next key targets



Spain's IBEX: collapse pushes index close to 10,000 barrier



Gold: through \$1,065. Next target \$1,034



Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.3723	-1.22%	S&P500	1063.11	-3.11%
USD/JPY	89.05	-2.12%	DJIA	10002.18	-2.61%
AUD/USD	0.8646	-2.08%	FTSE100	5139.31	-2.17%
EUR/GBP	0.8711	-0.36%	Eurostoxx50	2707.45	-3.46%
GBP/EUR	1.1481	0.38%	Shanghai Composite*	2939.40	-1.87%
GBP/USD	1.5754	-0.87%	*latest price		
GBP/JPY	140.29	-2.98%	Commodities		
GBP/CHF	1.6809	-0.18%			%
GBP/AUD	1.8221	1.22%	Crude Oil \$/bl	73.14	-4.99%
GBP/CAD	1.6925	0.22%	Gold \$/oz	1063.7	-4.15%
GBP/NZD	2.2921	1.32%	Copper c/lb	287.9	-3.18%
GBP/NOK	9.4064	0.80%	Silver \$/oz	15.26	-6.78%
GBP/ZAR	12.1209	1.55%	Baltic Dry	2685	0.45%
GBP/CNY	10.7560	-0.83%			
Bonds %			Swaps %		
		bp			bp
US 10Yr	3.606	-9.9	US 5yr	2.627	-9.3
EUR 10Yr	3.163	-6.0	EUR 5yr	2.536	-8.6
UK10 Yr	3.897	-1.8	UK 5yr	3.063	-6.5
Other			Official Rates %		
VIX	26.08	20.74%	UK	0.50	
iTraxx XOVER	466.50	23.2	US	0.25	
DJ Agriculture Index	59.37	-2.33%	EU	1.00	
			Japan	0.10	
3-mth money					
		bp			
UK	0.616	-			
EUR	0.606	-			
US	0.249	-			

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