

# Daily Market Strategy

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## Market Strategy

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- USD rallies on Greek downgrade fears
- UK 5y swaps through 2.90%, target 2.79% low

### Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5322

€/£: 1.3465

\$/¥: 89.43

UK 5y sw: 2.91%

US 5y sw: 2.64%

EU 5y sw: 2.42%

### Overnight

- Average US 5y auction: b/c 2.75, indirects get 40.3%, strong direct bid (12.8%), 1.5bp tail
- Japanese investors sell Y27.9bn foreign equities, buy Y348bn foreign bonds
- The euro's next battleground: Spain (WSJ); many commentators have singled out Spain before, but its public finances are in better shape and spreads over bunds trade much tighter, with refinancing needs as percentage of GDP also more comfortable

For one brief moment yesterday, it looked as if risk assets and high yield/commodity currencies would haul themselves back on the more bullish trail, shaking off a dreadful US new homes sales report and taking comfort from Fed chairman Bernanke's testimony on the economy and the prospect for ultra-loose monetary policy. However, the landscape turned for the worse again overnight as fears of a Greece bailout escalated. A delegation from the EC/EU and IMF expressed concerns that proposals to cut the budget deficit to 8.7% of GDP are based on optimistic assumptions for economic growth. At the same time, S&P warned Greece that it could face an imminent downgrade of its LT credit ratings to BBB-, making it more difficult to refinance 24bn euros in Q2. Taking a step back, the price action in global markets, risk-off, buy USD dips, demonstrates a lack of conviction among optimists that the economy has sufficiently recovered to drive earnings growth, with fears that sovereign balance sheet funding pressures will dampen prospects for the corporate sector as risk premia rise.

### Ahead today

- We don't expect BoE governor King to touch on monetary policy issues during his talk on the 'Future of Banking'. David Miles on the other hand could discuss the economy, though we know from Tuesday's TSC that he also favours a resumption of QE if warranted by worsening economic backdrop. As one of the more outspoken MPC doves, his comments should support lower yields/swaps/GBP. Q4-09 business investment and the CBI distributive trades survey for Feb should attract a fair amount of attention in the context of tomorrow's revised Q4 GDP estimate and expectations for Q1.
- US weekly claims could compound selling in equities/safe haven bid in treasuries/USD if the last week's spike up to 473k is not reversed. The last auction of the week features the 32bn of 7y notes (last b/c 2.85; 51.1% indirects).

**FX:** A safe haven bid triggered sharp gains for the USD and JPY overnight. This puts us back where we were on Tuesday, when a trio of weak data and downgrade to 4 largest Greek banks sparked a move out of risk assets. Most of the damage to GBP and EUR was done overnight and we favour buying USD dips as fears of contagion in the EU periphery dictates G10 currency flows. For GBP/USD, stronger business investment and CBI survey data this morning will be opportunities to sell as we target levels below 1.53. For EUR/USD, a relief bounce from the 1.3451 overnight low is keeping the cross within striking distance of 1.35. EUR/JPY pierced 120.71 support and may struggle to hold on to 120.0.

**Rates:** UK swaps hit new cycle lows this morning on good receiving interest and risk aversion from stocks/Greece. For 5y swaps, a move through the Nov-09 2.93% low opens the door for a move to 2.79%, the Feb-09 and all-time low. The 2y/10y swaps curve steepens to 239bp. For EU debt, 10y Greece/bunds moves through 350bp (+16), the highest since 8th Feb. The flight to quality bid should support good participation for the US \$32bn 7y auction.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8788	0.33%
GBP/USD	1.5408	-0.12%
EUR/USD	1.3538	0.23%
USD/JPY	90.150	-0.08%
AUD/USD	0.8937	0.26%
<b>Bonds %</b>		<b>bp</b>
US 10Yr	3.691	0.8
EUR 10Yr	3.135	-3.2
UK10 Yr	4.076	-9.7
UK 5yr Swap	2.925	-6.5
<b>Equities</b>		<b>%</b>
S&P500	1105.24	0.97%
FTSE100	5342.92	0.52%
Eurostoxx50	2734.95	0.16%
Shanghai Composite	3060.62	1.27%
<b>Commodities</b>		<b>%</b>
Crude Oil \$/bl	80.00	1.45%
Gold \$/oz	1097.8	-0.51%
Copper	325.4	0.59%
Baltic Dry	2707	-0.62%
<b>Other</b>		
VIX	20.27	-5.15%
iTraxx XOVER	474.08	1.5

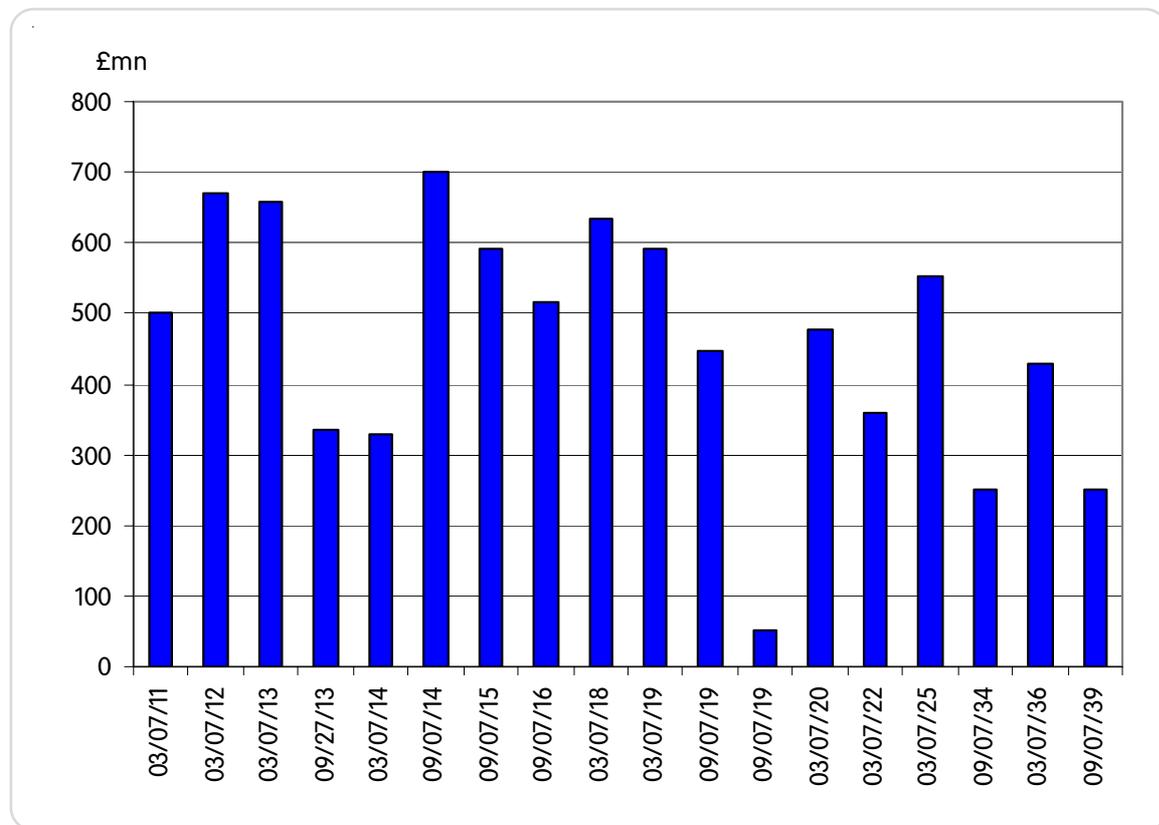
Today's Data	Time	Consensus	Previous	Events
German Unemployment, Feb, m/m	08:55	16k	6k	BoE gov King speaks on 'The Future of Banking' (09:30)
EU-16 M3 Money Supply, Jan, y/y	09:00	0.0%	-0.2%	BoE speakers: Miles (18:00)
UK Business Investment, Q4 prel, q/q	09:30	0.2%	-0.6%	ECB speaker: Stark (10:45)
UK CBI Distributive Trades Survey, Feb	11:00	+2	-8	Fed chair Bernanke repeats testimony (15:00)
US -- Durable Goods Orders, Jan	13:30	1.5%	1.0%	Fed speaker: Pinalto (13:35), Bullard (18:15)
-- Durable Goods Orders, ex-trans	13:30	0.9%	1.4%	US Treasury sells \$32bn, 7y notes
US Weekly Claims, Feb-20	13:30	465k	473k	

\*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>

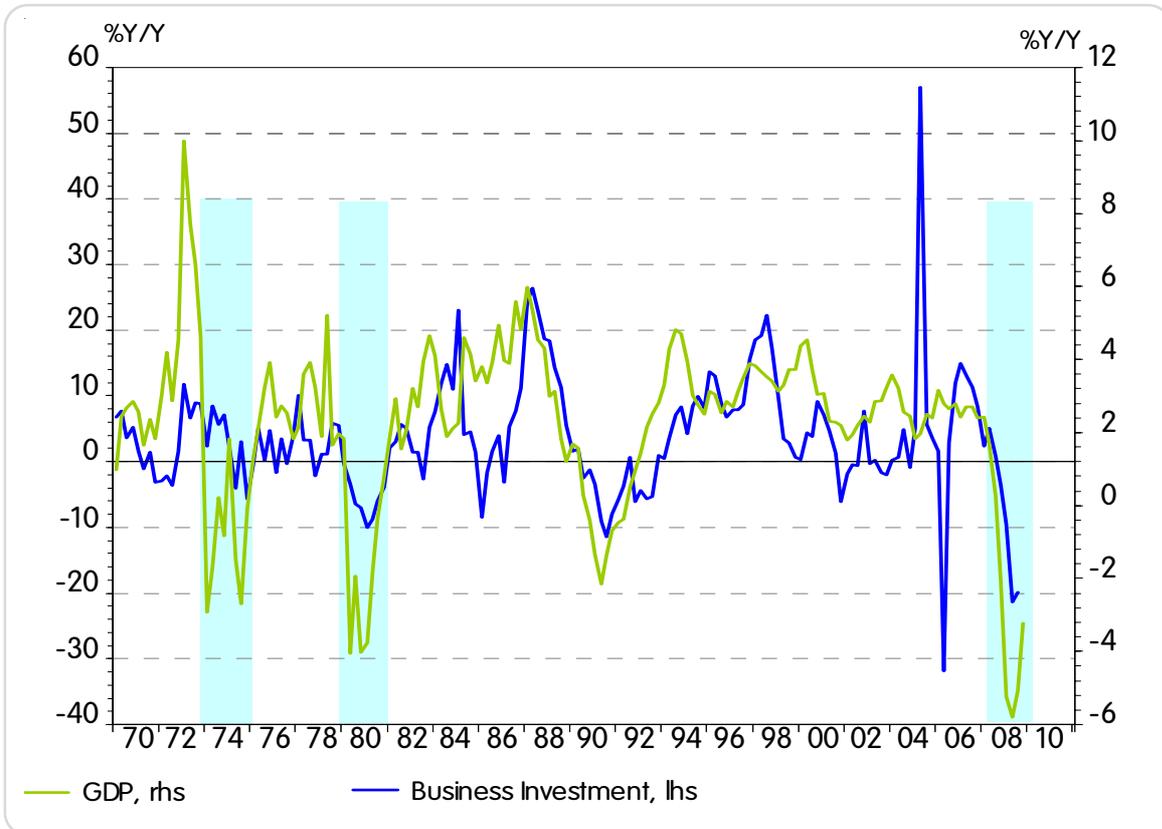
UK gilt dividend payments today total £8.349bn



GBP/USD: through 1.5335 support, our medium-term target is 1.50



UK business investment: recovery ahead, or drifting along the bottom?



US unfilled orders: room for increase in capacity use



## Market Summary

FX	Close	Daily Change %	Equities	Close	Daily Change %
EUR/USD	1.3538	0.23%	S&P500	1105.24	0.97%
USD/JPY	90.15	-0.08%	DJIA	10374.16	0.89%
AUD/USD	0.8937	0.26%	FTSE100	5342.92	0.52%
EUR/GBP	0.8788	0.33%	Eurostoxx50	2734.95	0.16%
GBP/EUR	1.1381	-0.33%	Shanghai Composite*	3060.62	1.27%
GBP/USD	1.5408	-0.12%	*latest price		
GBP/JPY	138.90	-0.18%	Commodities		%
GBP/CHF	1.6657	-0.36%	Crude Oil \$/bl	80.00	1.45%
GBP/AUD	1.7242	-0.38%	Gold \$/oz	1097.8	-0.51%
GBP/CAD	1.6236	-0.36%	Copper c/lb	325.4	0.59%
GBP/NZD	2.2222	-0.30%	Silver \$/oz	15.97	0.88%
GBP/NOK	9.1465	-0.47%	Baltic Dry	2707	-0.62%
GBP/ZAR	11.9167	-0.96%	Swaps %		bp
GBP/CNY	10.5194	-0.11%	US 5yr	2.675	-0.5
			EUR 5yr	2.446	-2.9
			UK 5yr	2.925	-6.5
Bonds %		bp	Official Rates %		
US 10Yr	3.691	0.8	UK	0.50	
EUR 10Yr	3.135	-3.2	US	0.25	
UK10 Yr	4.076	-9.7	EU	1.00	
Other			Japan	0.10	
VIX	20.27	-5.15%			
iTraxx XOVER	474.08	1.5			
DJ Agriculture Index	61.47	0.16%			
3-mth money		bp			
UK	0.642	-			
EUR	0.605	-			
US	0.252	-			

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