



## Daily Market Strategy

Friday, 26th February 2010

## Market Strategy

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- **GBP sell-off intensifies, revised GDP could disappoint**
- **2y gilt/bund spread reduced to zero**

**Market Outlook**

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5258

€/£: 1.3564

\$/¥: 89.31

UK 5y sw: 2.90%

US 5y sw: 2.62%

EU 5y sw: 2.45%

**Overnight**

- UK consumer confidence rises for 2nd straight month in Feb; Nationwide house prices fall 1% m/m, first drop in 10 months; MPC's miles says premature to write obituary of QE policy
- Greece to issue 10y next week after 2-2.5bn euros austerity package, hopes to raise 3-5bn euros (DJ)
- German debt agency chief Daube says an EU bankruptcy ends Euro experiment (Bbrg)
- Good US 7y auction: b/c 2.98, indirects get 40.3%, record direct bid (17.2%)
- Hedge funds try 'career trade' against euro (WSJ)

We don't have high hopes for a relief bounce in GBP/G10 crosses this morning after this week's brutal sell-off and collapse through key technical levels leaves no other option but to remain wary of further selling pressure, especially vs the JPY considering the risk-off context. Occasions have been rare in the past, especially since the start of the recession in 2008, where the report of a second UK GDP estimate has triggered a relief bounce. With 17/22 economists looking for an upward revision this morning to +0.2% q/q vs 0.1% q/q, risk/reward suggests there is more mileage in shorting GBP on a disappointing GDP reading (flat or lower). The weak Q4 business investment data released yesterday (-5.8% q/q) should at least, if not completely, offset the stronger manufacturing output data. For gilts/swaps, a small month-end extension (0.02 years) should cap upside for yields if the FTSE bounce through the 50d MA (5,324). S&P futures are up a few ticks but with no conviction as EU sovereign spreads and arctic weather risks playing havoc with the latest Chicago PMI and final Michigan survey later today.

**Ahead today**

- UK Q4-09 GDP, 2nd est: 17/22 economists are looking for an upward revision to +0.2% vs +0.1%. Zero out of 22 are looking for a lower number. Our economics team goes for no revision.
- Negative US data surprises have picked up and look set to continue today when the Chicago PMI is released. The index has gained 6 points over the last two months. For the second estimate of Q4 GDP, a surging trade deficit in December to \$43.7bn in real terms may have shaved a few percentage points off the advance 5.7% estimate.

**FX:** A combination of EUR/USD outperformance vs GBP/USD, month-end flows and gilt dividend redemptions pushed EUR/GBP though 0.8822 (200d MA) and 0.8850 yesterday, leaving us to ponder whether further upside lies ahead today and going into next week. A test of 0.8894 trendline resistance and UK/EU 2yr spread support the bullish set-up though technicals are looking increasingly overbought (upper Bollinger). Alas, this morning's UK GDP data and fears of a hung parliament (Conservatives lead over Labour cut to 5pts according to latest Ipsos poll) suggest the cross should have a peek over 0.89.

**Rates:** UK swaps are drifting 2bp lower to 2.88% in early trade, deriving some strength from dovish MPC comments overnight and a hesitant open for risk assets. New cycle lows (test of 2.79%) remains on our radar, and look for UK GDP/ equities to support our call. The 2y/10y swaps curve flattens to 237bp. Month end extension of 0.12 yrs for Treasuries, 0.04yrs for bunds and 0.02 yrs for gilts should help the long end to finish the week on a high, with a break below trendline support in US 10y (3.64%) supporting a move to 3.60%.

	Close	Daily Change %
<b>FX</b>		
EUR/GBP	0.8878	1.02%
GBP/USD	1.5265	-0.93%
EUR/USD	1.3548	0.07%
USD/JPY	89.070	-1.20%
AUD/USD	0.8883	-0.60%
<b>Bonds %</b>		
US 10Yr	3.632	-5.9
EUR 10Yr	3.110	-2.5
UK10 Yr	4.030	-4.6
UK 5yr Swap	2.904	-2.1
<b>Equities</b>		
S&P500	1102.94	-0.21%
FTSE100	5278.22	-1.21%
Eurostoxx50	2684.42	-1.85%
Shanghai Composite	3051.94	-0.28%
<b>Commodities</b>		
Crude Oil \$/bl	78.17	-2.29%
Gold \$/oz	1106.4	0.78%
Copper	321.0	-1.34%
Baltic Dry	2711	0.15%
<b>Other</b>		
VIX	20.10	-0.84%
iTraxx XOVER	486.75	12.7

**Today's Data**

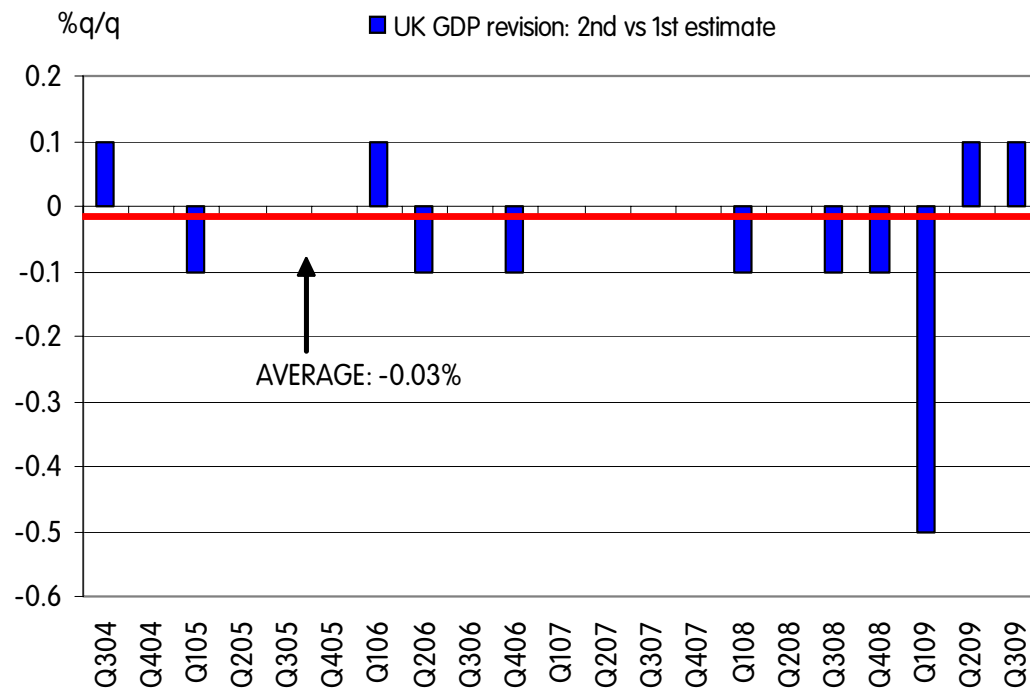
	Time	Consensus	Previous	Events
UK GfK Consumer Confidence, Feb	00:01	-14A	-17	Fed speakers: Hoenig (13:30), Duke (14:00), Dudley (15:45), Kocherlakota (15:45), Tarullo (18:00), Evans (18:00)
UK Nationwide House Prices, Feb	07:00	-1.0%A	1.4%R	
UK GDP, Q4 2nd est	09:30	0.2%	0.1%	
German CPI, Feb prel, %y/y	tbc	0.7%	0.8%	
EU-16 -- CPI, Jan, %y/y	10:00	1.0%	0.9%	
-- core CPI, %y/y	10:00	1.0%	0.9%	
US GDP Q4, 2nd est, annualised	13:30	5.7%	5.7%	
US core GDP deflator, Q4, 2nd est	13:30	1.4%	1.4%	
Chicago PMI, Feb	14:45	59.7	61.5	
Uni. of Michigan confidence, Feb final	14:55	73.9	73.7	

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

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Bloomberg page: LLOY&lt;GO&gt;

Average revision to UK GDP 1st vs 2nd est is -0.1% since recession start; -0.03% since 2004



Source: ONS

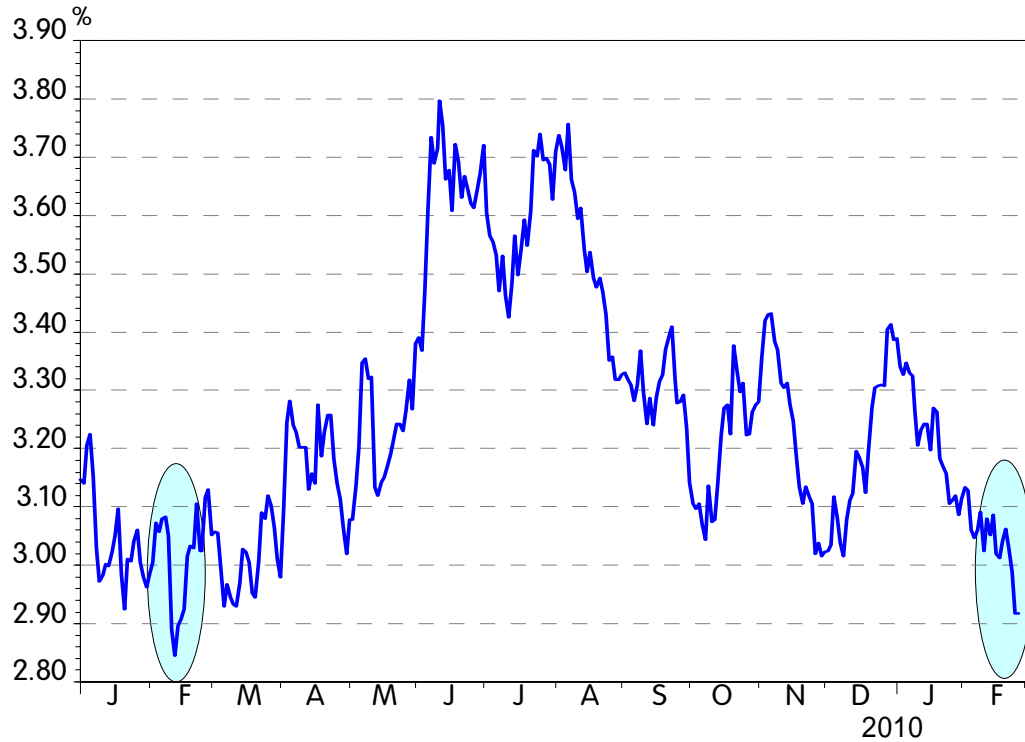
EUR/GBP: Bullish near-term set up for test of 0.89



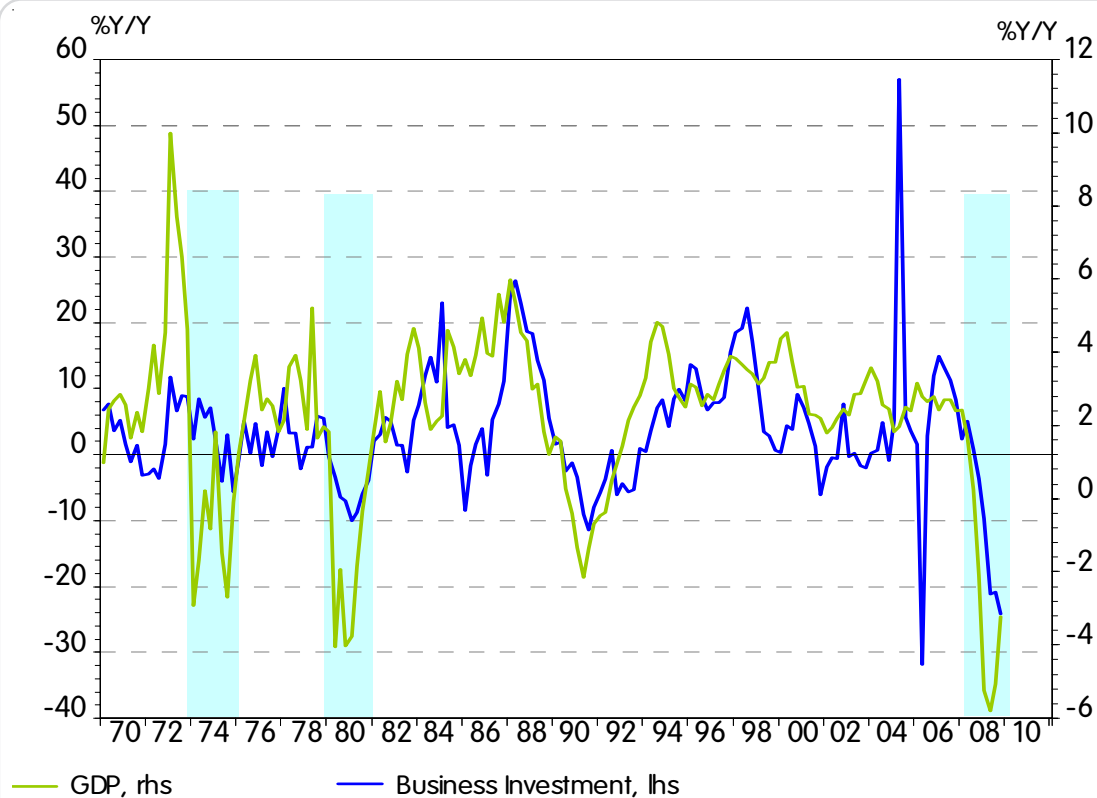
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UK 5y swaps: set for test of 2.79% all-time low?



Downside risk for UK Q4 GDP after bigger drop in business investment?





# Market Summary

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EUR/USD	1.3548	0.07%
USD/JPY	89.07	-1.20%
AUD/USD	0.8883	-0.60%
EUR/GBP	0.8878	1.02%
GBP/EUR	1.1265	-1.02%
GBP/USD	1.5265	-0.93%
GBP/JPY	135.96	-2.12%
GBP/CHF	1.6488	-1.01%
GBP/AUD	1.7184	-0.34%
GBP/CAD	1.6190	-0.28%
GBP/NZD	2.2065	-0.71%
GBP/NOK	9.0600	-0.95%
GBP/ZAR	11.8455	-0.60%
GBP/CNY	10.4208	-0.94%

Bonds %		bp
US 10Yr	3.632	-5.9
EUR 10Yr	3.110	-2.5
UK10 Yr	4.030	-4.6

Other		
VIX	20.10	-0.84%
iTraxx XOVER	486.75	12.7
DJ Agriculture Index	60.72	-0.01%

3-mth money		bp
UK	0.642	-
EUR	0.603	-
US	0.252	-

Equities	Close	Daily Change %
S&P500	1102.94	-0.21%
DJIA	10321.03	-0.51%
FTSE100	5278.22	-1.21%
Eurostoxx50	2684.42	-1.85%
Shanghai Composite*	3051.94	-0.28%

\*latest price

Commodities		%
Crude Oil \$/bl	78.17	-2.29%
Gold \$/oz	1106.4	0.78%
Copper c/lb	321.0	-1.34%
Silver \$/oz	16.09	0.72%
Baltic Dry	2711	0.15%

Swaps %		bp
US 5yr	2.605	-7.0
EUR 5yr	2.442	-0.4
UK 5yr	2.904	-2.1

Official Rates %	
UK	0.50
US	0.25
EU	1.00
Japan	0.10

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