After a strong start to the week, sterling gave up much of last week’s gains versus the dollar. Against the other G-10 currencies, however, sterling outperformed, registering gains of 2.5% versus the New Zealand dollar and 1.66% versus the Canadian dollar.

Downside surprises to money supply and retail sales data in the second half of the week combined with the broad based US dollar rally led to GBP/USD selling off to a low of 1.6078 on Friday before closing at 1.6144.

Concerns over the state of Greek public finances continued to weigh on the euro which fell below key technical levels versus sterling and the US dollar, accelerating the fall. Profit-taking on Friday saw the euro recover some ground with GBP/EUR falling back to 1.1407.

Commodity currencies were hit hardest this week following concerns over the durability of the global recovery despite China posting strong economic data this week.

EUR falling back to 1.1407. After a test of 1.44, EUR/USD sold off to key support at 1.4293 (the 200 day MA). Once this level gave way, a flood of sell orders pushed the currency pair down to an intra-week low of 1.4029 before profit-taking on Friday to close at 1.4153.

Commodity currencies were hit hardest this week following concerns over the durability of the global recovery. Despite China posting a robust set of economic data this week, namely GDP up 10.7% in Q4 2009, measures to restrict bank lending combined with an increase in the three-month bill rate has fuelled speculation that further official tightening measures will occur in the near-term in an attempt to rein in speculative excesses, leading to concerns that the global recovery may be stilled. USD/CNY 12-month forwards rose further during the week to 6.68. AUD/USD fell 1.07% on the week while the New Zealand dollar underperformed, falling 2.49% versus the US dollar.

In the emerging market space, the Brazilian real outperformed, registering gains of 2.5% versus the New Zealand dollar and 1.66% versus the Canadian dollar.

Commodity currencies were hit hardest this week following concerns over the durability of the global recovery despite China posting strong economic data this week.
Government bonds extended their excellent performance since the start of the year, buoyed by a retreat in equity markets and weaker than expected economic data from the G3 economies. UK 5y swaps hit a 3.33% high but closed the week below 3.20% near a 4-week low. Roughly £4bn in sterling issuance was raised in the capital markets.

2010 calendar of central bank meetings

European ECB (1.00%)
- 4 February, 4 March, 8 April, 6 May, 10 June
US FOMC (0-0.25%)
- 27 January, 16 March, 28 April, 20 May, 10 June
UK MPC (0.50%)
- 4 February, 4 March, 8 April, 6 May, 10 June

Rolling calendar of UK data releases and events

Q4 GDP (26/01)
GfK consumer conf. (29/1)
Mortgage approvals (01/02)
PMI Manufacturing (01/02)
PMI Services (03/02)
Producer Prices (05/02)
Industrial Production (10/02)

Rolling calendar of US data releases and events

Existing home sales (25/01)
Consumer confidence (26/01)
New home sales (27/01)
Durable goods orders (28/01)
Q4 GDP (29/01)
Chicago PMI (29/01)
ISM Manufacturing (01/02)

Interest rate market review - bonds, cash and swaps

The report on Tuesday of a steep rise in UK inflation in December unsettled UK debt markets on Tuesday, causing a surge in gilt yields. 10y yields rose 12bps to a 4.05% and 2y yields rose 15bps to 1.36%, causing the yield curve to flatten. 5y swaps hit a high of 3.33%. Annual CPI soared to 2.9% in December vs 1.9% in November. RPI jumped to 2.4% from 0.3%. Stronger than expected labour market data. The question for the BoE is whether the data will influence inflation projections over a 2y horizon, and whether it believes there is a risk that inflation expectations could rise. This would put pressure on the BoE to decide to halt asset purchases at the MPC meeting next month.

Gilt yields reversed and fell sharply later in the week, however, as equities posted heavy falls and UK M4 money supply showed a surprise 1.1% m/m drop in December. Markets looked though the stronger UK labour market figures on Wednesday - the claimant count total fell for a 2nd successive month in December - causing 10y yields to fall back below 3.90% and 5y swaps to fall through 3.20% to the lowest level since December 21. Retail sales disappointed in December, showing only a 0.3% m/m gain vs median expectations of a 1.1% rise.

In a speech to business leaders in Exeter, BoE governor King steered clear of commenting on whether he favours extending QE, and instead sounded confident that inflation would fall back to target by year-end provided that monetary growth stays under control. Markets have extended QE, and instead sounded confident that inflation would fall back to target by year-end provided that monetary growth stays under control. Markets have been at pains to try and infer clues from recent MPC commentary with regard to the BoE’s plan on QE. With no one quite prepared to rule out more QE if UK Q4 GDP disappoints next week, gilts and swaps may target a return to the November lows, supported by fading equity market optimism. The FTSE-100 experienced a bad week, falling below 5,300 to a one-month low as markets reacted to US plans to reform the US financial industry. A retreat in commodity prices also weighed on the FTSE after the Australian press reports of government plans to levy a 40% tax on mining companies. The concentration of commodity listed companies in London gives the FTSE greater exposure to profit taking in commodity stocks if prices fall. Corporate sterling issuance was heavy and dominated by overseas financial institutions including the BiB (£1.3bn) and Intesa SanPaolo (£350mn). London and Quadrant Housing raised £300mn.

US Treasuries outperformed gilts and bunds as the S&P and Dow registered heavy falls on President Obama’s statement and failed to convert solid Q4 results from a number of US blue chips. Weaker than expected Philly Fed survey and a stronger USD also bolstered demand for US paper. 10y yields dropped to a 0.81% low and 5y swaps closed below 2.70%. The UK/US 10y swap spread widened to 25bps, KfW raised $4bn in USD funds, and was followed in size by Italy ($2.5bn) and Bank of Nova Scotia ($2.5bn).

Euro zone bonds equally drew support from lower stocks (Dax closed the week below 5,700), but more importantly for economy watchers was the surprise drop in the January composite PMI survey to 53.6 vs 54.2 in December. This marked the first decline since last February. 5y swaps finished 2bps lower at 2.62%, having touched an intra-week low of 2.58%. Greek 2y yields surged 80bps intra-day on Wednesday to 4.66%.
Foreign exchange - graphical analysis of recent trends

Chart 1: £/$ fell back on weak UK retail sales

Chart 2: €/$ slides on Greece debt concerns

Chart 3: £/€ climbs over 1.15

Chart 4: $/¥ capped at 91.0

Chart 5: $/C$ rebounds on lower oil prices

Chart 6: £/CHF tops out at 1.70

Source: Lloyds TSB Corporate Markets Economics and Thomson Datastream
Fixed income - graphical analysis of recent trends

Chart 1: UK 2yr yields near 1.20%

Chart 2: UK 10yr yield falls from 4.10% high

Chart 3: US 2yr yields extend towards 0.80%

Chart 4: US 10yr yield touches 3.60%

Chart 5: EU-16 2y yield back near 1.10%

Chart 6: EU-16 10yr yields hit 3.20%

Source: Lloyds TSB Corporate Markets Economics and Thomson Datastream
Interest rate markets - graphical analysis of recent trends

Chart 1: US 5yr swap back near December low

Chart 2: Euro 5yr swap 20bp lower vs early January

Chart 3: UK 5yr swap near 3.15%

Chart 4: US curve flatter, spread tests 240bps

Chart 5: Eurozone curve spread tightens below 200bps

Chart 6: UK curve eyes 250bps support

Source: Lloyds TSB Corporate Markets Economics and Thomson Datastream
Key commodity and equity markets - Graphical analysis of recent trends

Chart 1: Gold falls below $1,100

Chart 2: Brent crude slides to $75

Chart 3: FTSE-100 through 5,300 support

Chart 4: Dow Jones erases gains, tumbles below 10,400

Chart 5: Nikkei finds support at 10,600

Chart 6: EuroFirst 300 erases January gains

Source: Lloyds TSB Corporate Markets Economics and Thomson Datastream
### Client support – Contact Details

#### Research Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trevor Williams</td>
<td>+44 (0)20 7158 1748</td>
<td><a href="mailto:trevor.williams@lloydstsb.co.uk">trevor.williams@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Adam Chester, UK Macro</td>
<td>+44 (0)20 7158 1740</td>
<td><a href="mailto:adam.chester@lloydstsb.co.uk">adam.chester@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Jeavon Lolay, Global Macro</td>
<td>+44 (0)20 7158 1742</td>
<td><a href="mailto:jeavon.lolay@lloydstsb.co.uk">jeavon.lolay@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Hann-Ju Ho, Sector Research</td>
<td>+44 (0)20 7158 1745</td>
<td><a href="mailto:hann-ju.ho@lloydstsb.co.uk">hann-ju.ho@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Mark Miller, Global Macro</td>
<td>+44 (0)20 7158 1742</td>
<td><a href="mailto:mark.miller2@lloydstsb.co.uk">mark.miller2@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>George Johns, UK Macro</td>
<td>+44 (0)20 7158 1751</td>
<td><a href="mailto:george.johns@lloydstsb.co.uk">george.johns@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Kenneth Broux, Market Strategy</td>
<td>+44 (0)20 7158 1750</td>
<td><a href="mailto:kenneth.broux@lloydstsb.co.uk">kenneth.broux@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Altaz Dagha, Market Strategy</td>
<td>+44 (0)20 7158 1747</td>
<td><a href="mailto:altaz.dagha@lloydstsb.co.uk">altaz.dagha@lloydstsb.co.uk</a></td>
</tr>
</tbody>
</table>

#### Support/Administration

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarah Pedder, Distribution</td>
<td>+44 (0)20 7158 1746</td>
<td></td>
</tr>
<tr>
<td>Mandy Wright, Distribution</td>
<td>+44 (0)20 7158 1746</td>
<td></td>
</tr>
<tr>
<td>Nikesh Sawjani, Information Manager</td>
<td>+44 (0)20 7158 1749</td>
<td></td>
</tr>
<tr>
<td>Caroline McDonagh, Graphic Designer</td>
<td>+44 (0)20 7158 1743</td>
<td></td>
</tr>
</tbody>
</table>

#### Institutional Equity Sales

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terry Murray</td>
<td>+44 (0)20 7158 1725</td>
<td><a href="mailto:terry.murray@lloydstsb.co.uk">terry.murray@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Andrew Gipp</td>
<td>+44 (0)20 7158 2056</td>
<td><a href="mailto:andrew.gipp@lloydstsb.co.uk">andrew.gipp@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Sam Weitzman</td>
<td>+44 (0)20 7158 1726</td>
<td><a href="mailto:sam.weitzman@lloydstsb.co.uk">sam.weitzman@lloydstsb.co.uk</a></td>
</tr>
</tbody>
</table>

#### Corporate Customer Sales

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrew Willett</td>
<td>+44 (0)20 7158 1616</td>
<td><a href="mailto:andrew.willett@lloydstsb.co.uk">andrew.willett@lloydstsb.co.uk</a></td>
</tr>
<tr>
<td>Kathryn Ball</td>
<td>+44 (0)20 7158 1672</td>
<td><a href="mailto:kathryn.ball@lloydstsb.co.uk">kathryn.ball@lloydstsb.co.uk</a></td>
</tr>
</tbody>
</table>

#### Capital Markets Distribution

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martin Bates</td>
<td>+44 (0)20 7158 1983</td>
<td><a href="mailto:martin.bates@lloydstsb.co.uk">martin.bates@lloydstsb.co.uk</a></td>
</tr>
</tbody>
</table>

#### Commercial Sales

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matt Lawrence</td>
<td>+44 (0)20 7158 1661</td>
<td><a href="mailto:matthew.lawrence@lloydsbanking.com">matthew.lawrence@lloydsbanking.com</a></td>
</tr>
</tbody>
</table>

#### Wealth Product Sales

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrew Evans</td>
<td>+44 (0)20 7158 1691</td>
<td><a href="mailto:andrew.evans@lloydstsb.co.uk">andrew.evans@lloydstsb.co.uk</a></td>
</tr>
</tbody>
</table>

### Disclaimer

Any documentation, reports, correspondence or other material or information in whatever form be it electronic, textual or otherwise is based on sources believed to be reliable, however neither the Bank nor its directors, officers or employees warrant accuracy, completeness or otherwise, or accept responsibility for any error, omission or other inaccuracy, or for any consequences arising from any reliance upon such information. The facts and data contained are not, and should under no circumstances be treated as an offer or solicitation to offer, to buy or sell any product, nor are they intended to be a substitute for commercial judgement or professional or legal advice, and you should not act in reliance upon any of the facts and data contained, without first obtaining professional advice relevant to your circumstances. Expressions of opinion may be subject to change without notice. Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. The facts and data contained are therefore not intended for the use of private customers (as defined by the FSA Handbook) of Lloyds TSB Bank plc. Lloyds TSB Bank plc is authorised and regulated by the Financial Services Authority and a signatory to the Banking Codes, and represents only the Scottish Widows and Lloyds TSB Marketing Group for life assurance, pension and investment business.