

Daily Market Strategy

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Market Strategy

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- 2y/10y swap spread below 220bps
- Retail sales, 2nd election debate ahead

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5455 €/\$: 1.3400 \$/¥: 92.90
 UK 5y sw: 2.98% US 5y sw: 2.66% EU 5y sw: 2.37%

Overnight

- Asian equities lose ground, fears of Greek debt crisis escalate, commodities within ranges

We are mindful of the pitfalls ahead today with regard to our bullish sterling call and our preference for flattening curve plays ahead of retail sales and the second of three election TV debates. With inflation taking off to 3.3% in March, we are reminded of the danger of disappointing retail sales data at 9.30am (volume terms) and subsequent profit taking in long GBP positions and in flattening curve strategies in 2y/10y gilts and swaps. However, we think this offers better entry levels ahead of the Q1 GDP number tomorrow which could impress and add to the view that the BoE may shift to a neutral policy stance in May.

Ahead today

- UK: retail sales for March are forecast to show a 0.5% m/m gain; our economics team are above consensus with 0.8%. Public borrowing stats are forecast to show a jump in the PSNCR to £33bn and in the PSNB by £24bn. The DMO sells £3.75bn, 4.75%, 2020 gilts.
- EU: flash PMIs for April are expected to confirm the picture of solid activity in early Q2, with both manufacturing and services indices forecast to have made further progress in April, capitalising on a weaker euro and strong overseas demand.
- US data due features PPI, jobless claims and existing home sales; Microsoft reports Q1 results

Central banks: where they stand

	Policy Bias	Policy Rate
Fed	expansionary	on hold
ECB	expansionary	on hold
BoE	expansionary	on hold
BoJ	expansionary	on hold
BoC	tightening	higher

	Policy Bias	Policy Rate
Riksbank	tightening	higher
SNB	expansionary	on hold
Norges Bank	tightening	higher
RBA	tightening	higher
RBNZ	tightening	on hold

	Close	Daily Change %
FX		
EUR/GBP	0.8689	-0.66%
GBP/USD	1.5411	0.34%
EUR/USD	1.3390	-0.33%
USD/JPY	93.190	-0.03%
AUD/USD	0.9268	-0.54%
Bonds %		bp
US 10Yr	3.736	-6.4
EUR 10Yr	3.079	-1.9
UK10 Yr	4.020	2.9
UK 5yr Swap	2.982	8.0
Equities		%
S&P500	1205.94	-0.10%
FTSE100	5723.43	-1.04%
Eurostoxx50	2947.64	-1.22%
Shanghai Composite	3008.10	-0.83%
Commodities		%
Crude Oil \$/bl	83.68	0.28%
Gold \$/oz	1146.8	0.53%
Copper	355.8	0.62%
Baltic Dry	3009	0.37%
Other		
VIX	16.32	3.75%
iTraxx XOVER	415.11	5.6

FX: GBP /USD has rallied virtually unchecked since yesterday morning and made the best of positive Asian session overnight by overcoming resistance in the 1.5450 area, backed by a widening in UK/US 10y spread to 27bp, the highest since Mar 19. Retail sales and the second election debate will be key today, along with the extent of dividend payment related buying which has supported the cross for most of the week. Our bullish strategy (1.55 target) has worked out well so far, but we are wary of profit taking if retail sales disappoint at 9.30am. For EUR/GBP, a decline below our ST 0.8700 target was followed by a move through 0.8680 trendline support. Support comes in at 0.8603, the Jan 28 low. GBP/AUD is flirting with a break above 1.6676 trendline resistance for a move up to 1.6750.

Rates: No change in our tactical view. UK macro data is surprising to the upside, supporting my view that the BoE may turn less dovish on inflation in May. Retail sales arguably pose some risk to our call. Following a 1.6% m/m jump in February sales, weak data could entice buyers to at better levels ahead of the election debate and tomorrow's Q1 GDP release. Our targets are as they were: 3% for 5y swaps and 4.10% for 10y gilts. The UK 2y/10y swap spread broke below 221bp support area yesterday and extends the flattening move this morning to 218bp. We target a move to 210-215bp. Separately, the likelihood of (another) political crisis in Belgium moved closer overnight, putting upward pressure on 10y OLO/bund spread (43bp).

Today's Data	Time	Consensus	Previous	Events
EU-16 Manufacturing PMI, Apr prel	09:00	56.7	56.6	DMO sells 3.75bn, 4.75%, 2020 gilts
EU-16 Services PMI, Apr prel	09:00	54.4	54.1	Bank of Canada Monetary Policy Report (15:30)
UK Retail Sales, Mar	09:30	0.6%	1.6%	BoJ Governor Shirakawa speaks in NY (17:15)
UK -- PSNCR, Mar	09:30	31.3bn	7.7bn	
-- PSNB, Mar	09:30	24.0bn	12.4bn	
UK M4 Money Supply, Mar, y/y	09:30	n/a	3.9%	
UK CBI Industrial Trends Survey, Apr	11:00	n/a	n/a	
US -- PPI, Mar	13:30	0.5%	-0.6%	
-- Core PPI, Mar	13:30	0.1%	0.1%	
US Initial Claims, Apr 17	13:30	450k	484k	
US Existing Home Sales, Mar	13:30	5.28mln	5.02mln	

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

UK 2y/10y swaps: through 220bp; target 215bp



EUR/GBP: through 0.8680 trendline support; target 0.8603 (Jan 28 low)



Market Summary

FX	Close	Daily Change %	Equities	Close	Daily Change %
EUR/USD	1.3390	-0.33%	S&P500	1205.94	-0.10%
USD/JPY	93.19	-0.03%	DJIA	11124.92	0.07%
AUD/USD	0.9268	-0.54%	FTSE100	5723.43	-1.04%
EUR/GBP	0.8689	-0.66%	Eurostoxx50	2947.64	-1.22%
GBP/EUR	1.1509	0.67%	Shanghai Composite*	3008.10	-0.83%
GBP/USD	1.5411	0.34%	*latest price		
GBP/JPY	143.61	0.31%	Commodities		%
GBP/CHF	1.6496	0.51%	Crude Oil \$/bl	83.68	0.28%
GBP/AUD	1.6628	0.89%	Gold \$/oz	1146.8	0.53%
GBP/CAD	1.5407	0.47%	Copper c/lb	355.8	0.62%
GBP/NZD	2.1712	0.60%	Silver \$/oz	18.10	1.40%
GBP/NOK	9.1055	0.35%	Baltic Dry	3009	0.37%
GBP/ZAR	11.4076	0.60%			
GBP/CNY	10.5201	0.34%			
			Swaps %		bp
Bonds %		bp	US 5yr	2.646	-5.7
US 10Yr	3.736	-6.4	EUR 5yr	2.369	-1.9
EUR 10Yr	3.079	-1.9	UK 5yr	2.982	8.0
UK10 Yr	4.020	2.9			
			Official Rates %		
Other			UK	0.50	
VIX	16.32	3.75%	US	0.25	
iTraxx XOVER	415.11	5.6	EU	1.00	
DJ Agriculture Index	58.74	0.67%	Japan	0.10	

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