

Daily Market Strategy

Monday, 7th September 2009

Market Strategy

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- G20 agrees to maintain current stimulus policies
- IMM data show decline in short USD positioning

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6415, €/\$: 1.4340, \$/Y: 93.18

UK 5y sw: 3.31%, US 5y sw: 2.74%, EU 5y sw: 2.75%

Overnight

- PBoC allows overseas banks to handle yuan-based international trade settlements
- G20 agrees to maintain current stimulus policies until economic recovery is fully secured

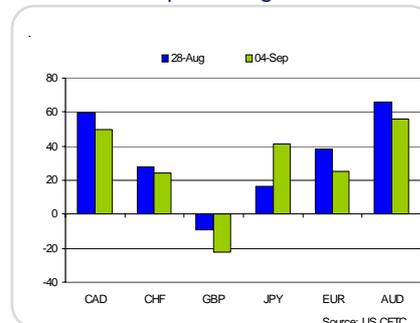
What strikes us as most relevant from the G20 finmin meeting for the near-term direction of financial markets is not the universal agreement to 'prevent the build-up excessive risk and future crisis,' i.e. more financial sector regulation, but the decision to maintain current stimulus policies until the recovery is fully secured. What this means for individual countries is unclear and the room for case-by-case interpretation leaves plenty of scope for erratic price behaviour in major FX and bond markets in the final stretch towards year-end. While France and Germany already appear further down the road to recovery, there are still doubts about the pace of recovery in the UK and the US where the deleveraging is still working its way through the economy and could result in more central bank intervention or public spending. Though the BoE's decision should be a formality on Thursday, the weekend press speculates that the Bank could impose negative interest rates on commercial bank deposits. The BCC even calls on the Bank to cut rates to zero.

FX: Bullish price action in high-yielding currencies and gains in EUR/USD and GBP/USD in the wake of the G20 meeting may underscore the pitfalls of the latest IMM positioning stats. GBP crosses are bid this morning by the £10.2bn bid of Kraft for Cadbury and we are reluctant to call GBP/USD much higher on a pure pro-risk play. Profit-taking could emerge as dealers speculate about the outcome of Thursday's MPC meeting. Diversification of USD holdings in Asia/China could weigh on the US. A 5th consecutive gain for German factory orders could lift EUR/USD above 1.4350 and towards 1.44.

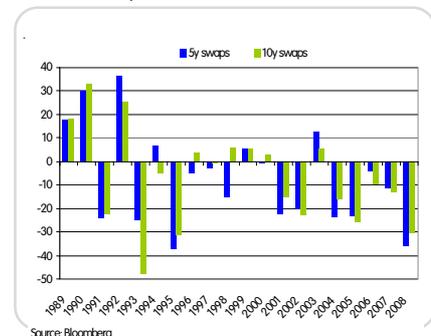
Rates: UK 5y swaps opened a fraction lower at 3.31% and we suspect that rates are likely to drift sideways given the lack of market moving data releases and light flows. 5y swaps briefly fell below 3.30% on Friday and positioning on talk of the BoE deploying new measures should keep swaps near recent lows. The BoE will purchase £3.2bn of gilts this week, pushing the total amount purchased since March above £140bn. The first £1.4bn today will be allocated to longer-term paper (2025 through 2034). The \$128bn in US supply could prove a hurdle to lower yields and swaps, though this could result in narrower US/UK spreads.

	Close	Daily Change %
FX		
EUR/GBP	0.8722	-0.09%
GBP/USD	1.6392	0.45%
EUR/USD	1.4297	0.31%
USD/JPY	93.010	0.40%
AUD/USD	0.8507	1.24%
Bonds %		bp
US 10Yr	3.438	9.4
EUR 10Yr	3.242	-0.1
UK10 Yr	3.593	4.7
UK 5yr Swap	3.306	-1.6
Equities		%
S&P500	1016.40	1.31%
FTSE100	4851.70	1.15%
Eurostoxx50	2743.34	1.63%
Shanghai Composite	2861.61	0.68%
Commodities		%
Crude Oil \$/bl	68.02	0.09%
Gold \$/oz	994.4	0.26%
Copper	286.7	0.05%
Baltic Dry	2415	0.04%
Other		
VIX	25.26	-6.79%
iTraxx XOVER	621.68	1.4

IMM data show decline in USD short positioning



Seasonals favour lower UK swaps this month, inconclusive for the curve



Today's Events

	Time	Consensus	Previous
German Factory Orders, Aug	11:00	+2.0%	+4.5%
BoE to purchase £1.4bn of gilts with following maturities: 2025, 2027, 2028, 2030, 2032, 2034			
BIS meeting			
US Markets closed (Labour Day)			

Technical Analysis

Paul Rodriguez, Senior Technical Analyst

- The overall bullish bias in global equities remain, although caution has increased. The main upward trends in core stock indices are intact, but despite the positive closes on Friday and gains in Asia this morning, the S&P500 cash has yet to breach its 1,039 high (1,016). Hence, the core view remains to buy dips for now, but with a 'trigger happy' exit. A break of resistance in the Sensex (see chart below) would strengthen the bullish case.
- Cable continues to hold up well considering the bearish sentiment. The prospects for a convoluted journey over 1.6500 remain. The commodity currencies are of interest with the AUD breaking into levels not seen since this time last year. Whilst resistance in the current zone is strong, the upward bias remains. The NZD is being monitored as a breakout could be close. Resistance at 0.6898 is the main barrier but our target remains at 0.7447.
- My call for a low in UK 2y yields at 0.81% is currently holding, but the attempt to hit 1.00% was quashed as resistance in this zone is a massive barrier. For the moment, a range looks in prospect and unless the FTSE can puncture 5,000, this area could prove sticky. Technically, the broad bias remains for higher yields but with the bias towards the longer end of the curve. UK 10y yields have held over a key level at 3.50% (3.62%) with US 10y yields on the approach to the pivotal 3.50% (3.44%). Target is at 3.75%.
- The bullish view on gold continues, with momentum picking up on a break of \$975. Naturally, \$1,000 is the main talking point and a close through there should push it through \$1,032 (March 08 peak) in short order. A bullish ascending triangle pattern in copper implies a break of 300 c/lb soon, although crude oil is lagging and sugar's 6.39% drop puts the bullish case on hold.

Chart of the day: BSE Sensex



Key Levels

	EUR	GBP	JPY	EUR/GBP	GBP/EUR
R2	1.4572	1.7044	98.90	0.8910	1.1905
R1	1.4446	1.6626	97.80	0.8845	1.1819
Current Spot	1.4340	1.6410	93.20	0.8739	1.1443
S1	1.4005	1.6113	92.52	0.8461	1.1306
S2	1.3748	1.5975	91.78	0.8400	1.1223

Spot prices as of: 07:25:18 Source: Bloomberg

The Indian stock market continues to hold up well in the face of retracements in Asian stocks. Key resistance at 16,000 looks set to break. Target remains in the 17,500/18,000 zone.

	Spot	Bias	Entry	Target	Stop	Comment/Levels
EUR/USD	1.4336	Bullish	1.4350	1.4500	1.4240	one-month vol.s to break 10%?
USD/JPY	93.19	Bullish	92.60	97.80	91.35	
USD/CHF	1.0578	Bearish	-	1.0300	-	
GBP/USD	1.6393	Bullish	1.6300	1.7000	1.6140	
EUR/GBP	0.8745	Bearish	0.8835	0.8400	0.8835	Stop moved to flat.
GBP/JPY	152.76	Bullish	151.50	156.00	149.75	
EUR/JPY	133.59	Bullish	132.50	139.14	130.85	
CAD/JPY	85.87	Bullish	84.75	90.35	82.95	
AUD/USD	0.8522	Bullish	0.8305	0.8592	0.8305	Target at 0.8520 hit- stop and target raised.
USD/CAD	1.08525	Bearish	1.0930	1.0000	1.1015	
NZD/USD	0.6887	Bullish	0.6860	0.7447	0.6710	Big resistance at 0.6898- break is bullish.
USD/BRL	1.8442	Bearish	1.8604	1.8000	1.8735	
USD/PLN	2.8638	Bearish	current	2.7000	2.9135	
USD/HUF	190.17	Bearish	188.00	180.00	193.10	195.86 is a key resistance level. Stops above.

Spot prices source: Bloomberg

[ENTRY](#) - Targetted

ENTRY - Active

Quantitative Market Analysis

Naeem Wahid, Quantitative Strategist

- IMM data suggest USD/CHF most vulnerable to squeeze higher

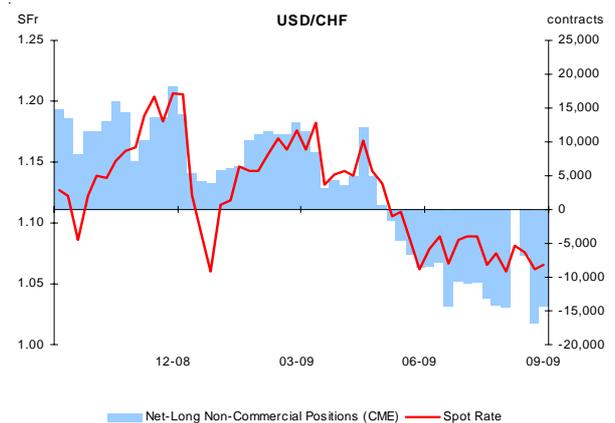
The trend following model has reversed its position in EUR/USD and USD/PLN this morning. The long EUR/USD position has been closed for a profit of 1.07%, and the short USD/PLN has generated us a profit of 8.59%. These profitable positions have been closed as recent price action has failed to move further and sustain the trend. Instead, the spot rate in these currency pairs has begun to establish a consolidation formation. The model now holds a small net short USD position (11%) across developed market currencies and a net long USD position (20%) in emerging market currencies. The fact that these portfolio positions across EM and developed market currencies have diverged, and that the net positions are relatively small, is indicative of range bound trading.

The latest IMM data report, released Friday 4 September 2009, shows speculative positioning for the period ending Tuesday 1 September 2009 – see charts on page 4. The latest data show speculators have further increased their net-short GBP/USD position. Moreover, speculators have been net buyers of USDs in EUR/USD, GBP/USD, USD/CHF, USD/CAD and AUD/USD. Across the major six currency pairs, charted on page 4, USD/JPY is the exception where the USD has been sold. In terms of excessive positioning, the short-USD/CHF position held by speculators is at the 4th percentile (using data over a 3-year period). This leaves the currency pair most vulnerable to a squeeze higher. With leading indicators out of the way, a potential data trigger for a USD rally this week lies in the form of the trade balance, if the report shows a continued improvement in the US economy's imbalances.

Table 1: 1-month correlations

	AUDUSD	USDCAD	EURUSD	GBPUSD	USDJPY	EURJPY
2 YR SPD	0.37	-0.21	-0.46	0.08	0.94	0.90
10 YR SPD	0.10	-0.31	0.37	-0.47	0.92	0.84
S&P500	0.58	-0.71	0.80	-0.20	-0.11	0.20
Gold	0.68	0.01	0.42	-0.23	-0.50	-0.41
Oil	0.06	-0.70	0.41	0.16	0.20	0.40
CRB	-0.18	-0.44	-0.28	0.63	0.86	0.89
Relative Yield Curve	0.48	0.25	-0.53	0.48	0.04	0.80

Chart 1: Speculative positioning at extreme level in USD/CHF

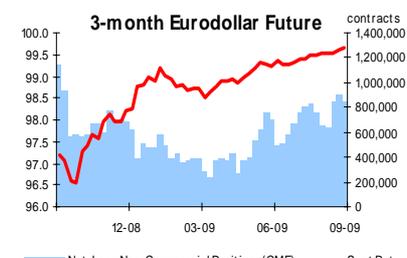
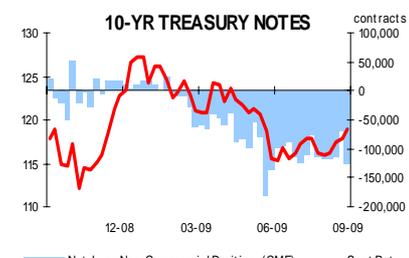
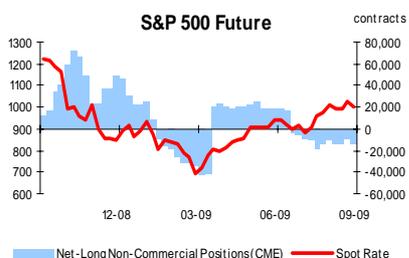
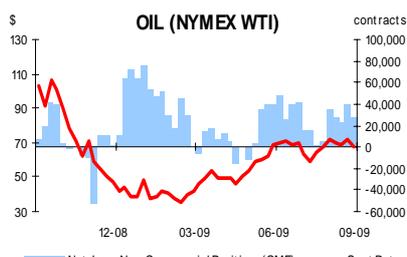
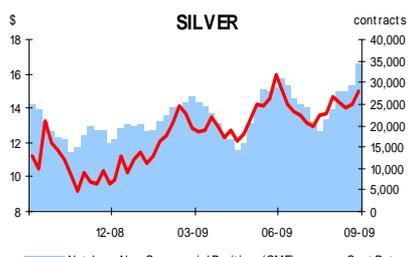
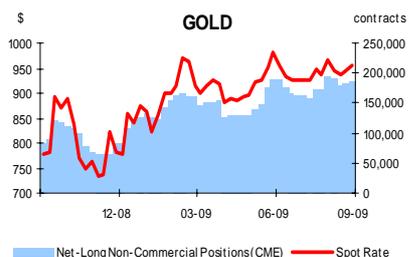
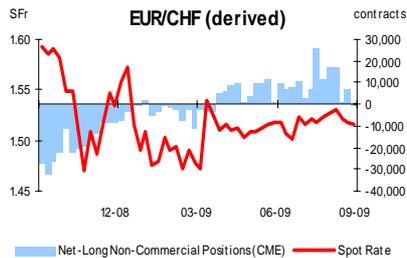
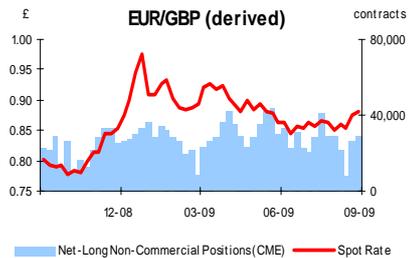
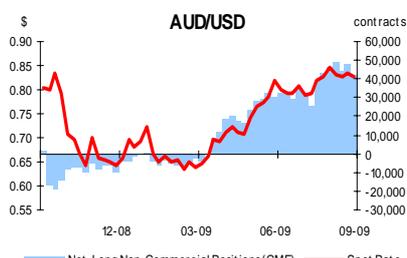
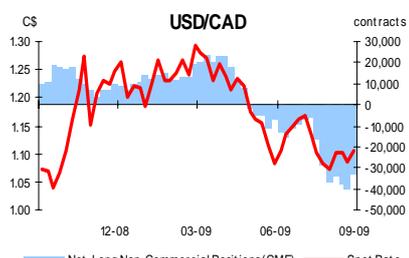
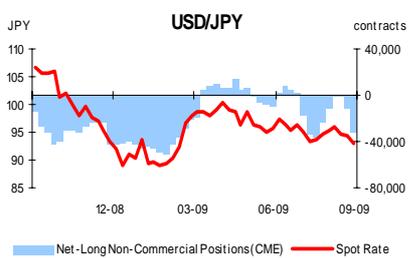
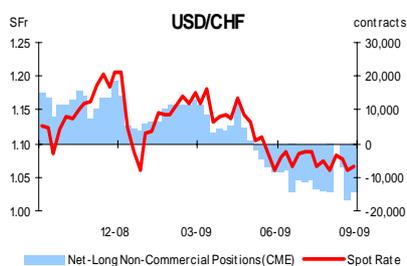
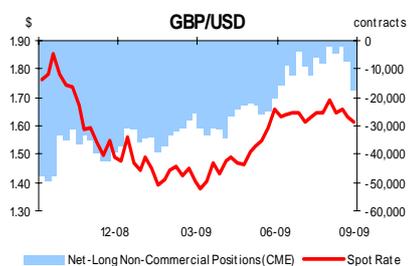
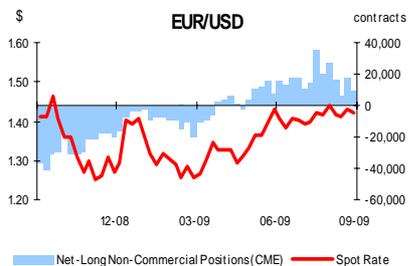


Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	short	17-Aug-09	0.8327
NZDUSD	long	10-Jul-09	0.6298
EURUSD	short	07-Sep-09	1.4146
GBPUSD	short	10-Aug-09	1.6684
USDCHF	short	17-Jul-09	1.0730
USDCAD	long	26-Aug-09	1.0868
USDSEK	short	21-Jul-09	7.7211
USDNOK	short	21-Jul-09	6.3025
USDJPY	short	20-Aug-09	94.07

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	19-May-09	19.709
USDPLN	long	07-Sep-09	2.8592
USDSGD	long	18-Aug-09	1.4522
USDTRY	long	27-Aug-09	1.5093
USDZAR	short	31-Aug-09	7.7525

FX & Commodity Futures Positioning



Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.4297	0.31%	S&P500	1016.40	1.31%
USD/JPY	93.010	0.40%	DJIA	9441.27	1.03%
AUD/USD	0.8507	1.24%	FTSE100	4851.70	1.15%
EUR/GBP	0.8722	-0.09%	Eurostoxx50	2743.34	1.63%
GBP/EUR	1.1464	0.12%	Shanghai Composite*	2861.61	0.68%
GBP/USD	1.6392	0.45%	*latest price		
GBP/JPY	152.46	0.85%	Commodities		
GBP/CHF	1.739	0.27%	Crude Oil \$/bl	68.02	0.09%
GBP/AUD	1.927	-0.78%	Gold \$/oz	994.4	0.26%
GBP/CAD	1.785	-0.75%	Copper c/lb	286.7	0.05%
GBP/NZD	2.385	-0.97%	Silver \$/oz	16.23	0.68%
GBP/NOK	9.844	-0.41%	Baltic Dry	2415	0.04%
GBP/ZAR	12.462	-0.10%	Swaps %		
GBP/CNY	11.196	0.44%	US 5yr	2.741	5.7
Bonds %			EUR 5yr	2.732	0.9
		bp	UK 5yr	3.306	-1.6
US 10Yr	3.438	9.4	Official Rates %		
EUR 10Yr	3.242	-0.1	UK	0.50	
UK10 Yr	3.593	4.7	US	0.25	
Other			EU	1.00	
VIX	25.26	-6.79%	Japan	0.10	
iTraxx XOVER	621.68	1.4			
DJ Agriculture Index	56.69	-2.19%			

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