

Daily Market Strategy

Friday, 13th November 2009

Market Strategy

Paul Rodriguez

Senior Technical Analyst

0207 158 1744

paul.rodriguez@lloydstsb.co.uk

Kenneth Broux

Market Economist

0207 158 1750

kenneth.broux@lloydstsb.co.uk

Naeem Wahid

Quantitative Strategist

0207 158 1741

naeem.wahid@lloydstsb.co.uk

Altaz Dagha

Analyst

0207 158 1747

altaz.dagha@lloydstsb.co.uk

	Close	Daily Change %
FX		
EUR/GBP	0.8957	-0.94%
GBP/USD	1.6577	0.02%
EUR/USD	1.4851	-0.91%
USD/JPY	90.370	0.56%
AUD/USD	0.9235	-0.68%
Bonds %		bp
US 10Yr	3.444	-3.9
EUR 10Yr	3.367	2.4
UK10 Yr	3.778	2.3
UK 5yr Swap	3.310	-0.8
Equities		%
S&P500	1087.24	-1.03%
FTSE100	5276.50	0.19%
Eurostoxx50	2876.92	-0.14%
Shanghai Composite	3187.65	0.46%
Commodities		%
Crude Oil \$/bl	76.94	-2.95%
Gold \$/oz	1103.8	-1.22%
Copper	297.3	-0.60%
Baltic Dry	3954	5.50%
Other		
VIX	24.24	5.21%
iTraxx XOVER	515.31	9.9

- **GBP recovers, now up on the week**
- **German Q3 GDP up 0.7% q/q, weak private consumption**

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6622, €/\$: 1.4882, \$/¥: 90.30

UK 5y sw: 3.31%, US 5y sw: 2.58%, EU 5y sw: 2.75%

Overnight

- Lacklustre US 30y auction: b/c 2.26; indirects take 44%; 3.5bps tail
- US President to raise currency issue on China visit
- Fed seen lifting rates around Sep-10 (WSJ survey)

Global markets were fairly quiet overnight with the exception of US Treasuries. A lacklustre 30y auction (3.5bp tail) caused yields to spike to 4.47%, the highest since August, before buyers emerged and squeezed yields back below 4.40%. We are not trying to connect the sloppy auction to fundamentals (inflation subdued, 5y BE 2.70%), but it demonstrates some discomfort among buyers over the US funding size and preference perhaps for shorter duration. We are interested to see the latest US TIC report next week for the breakdown of foreign buyers/sellers. Separately, the first Q3 GDP releases have come in from the euro zone this morning and show similar trends to Q2, i.e. an export and business investment led recovery. Germany posted growth of 0.7% q/q, the strongest since Q1-08. France recorded 0.3% growth. Private sector spending in Germany stayed weak and supports a benign inflation outlook (on/below target over two years). Data for France fell short of the 0.6% consensus despite the loftier PMIs vs its rivals. Like in the UK, perhaps the PMIs are no longer capturing underlying trends as well as they previously did which risks sending false market signals.

Ahead: EU-16 GDP is forecast at +0.5% q/q. Michigan consumer confidence survey may show a second successive drop following a lower TIPP survey (0.7 correlation over the last six months). The US trade deficit is forecast to have widened to \$31.6bn on higher imports.

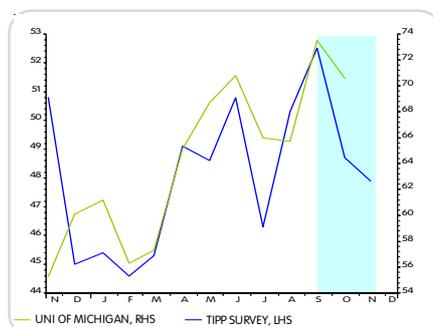
FX: The BA/Iberia-tie up and the rollover of a new UK 2y benchmark (1.29% yield, EU/UK spread plunges to -9bps, lowest since March) helped to squeeze EUR/GBP below 0.90 and 0.8950 overnight. A test of 0.8912 support would clear the way for 0.89 and a decline to the 0.8898 low of November 4. For GBP/USD, a rally to 1.6684 sets the scene for a bounce over 1.67 into UK CPI/retail sales data and the MPC minutes next week. We still like being long JPY ahead of the US/China summit (yuan reval. speculation) and target USD/JPY at 89.50.

Rates: UK 5y swaps opened flat at 3.31% with 2y/10y swap spread steady at 209bps. The roll of the 2y benchmark caused the 2y/10y spread to collapse to 249bps. 10y and 30y gilts are slightly better bid, taking a cue from the US 30y post-auction market bid. A weaker Michigan survey should support lower/rangebound yields ahead of US/UK CPI next week.

USD/CNY 12mth forward trades at 6.59, 3.4% below spot



Second successive drop for Michigan confidence in November?



Today's Data

Japan Industrial Output, Sep final	00:30	2.1% A	1.4%
Japan Consumer Confidence, Oct	00:30	40.5 A	40.5
German GDP, Q3 prel, q/q	07:00	0.7% A	0.4% R
France GDP, Q3 prel, q/q	07:15	0.3% A	0.3%
France CPI, Oct, y/y	07:40	-0.2%	-0.4%
Italy GDP, Q3 prel, q/q	09:00	0.8%	-0.5%
EU-16 GDP, Q3 prel, q/q	10:00	0.5%	-0.2%
US Trade Balance, Sep	13:30	-\$31.8 bn	-\$30.7 bn
US Import Prices, Oct	13:30	1.0%	0.1%
Uni of Michigan Confidence, Nov	15:00	71.0	70.6
Canada Trade Balance, Sep	13:30	-\$1.8 bn	-\$2.0 bn

Time Consensus Previous Events

00:30	2.1% A	1.4%	ECB speakers: Gonzalez-Paramo (12:00), Weber
00:30	40.5 A	40.5	Fed speakers: Fisher (14:20), Evans (16:30)
07:00	0.7% A	0.4% R	
07:15	0.3% A	0.3%	
07:40	-0.2%	-0.4%	
09:00	0.8%	-0.5%	
10:00	0.5%	-0.2%	
13:30	-\$31.8 bn	-\$30.7 bn	
13:30	1.0%	0.1%	
15:00	71.0	70.6	
13:30	-\$1.8 bn	-\$2.0 bn	

Quantitative Market Analysis

Naeem Wahid, Quantitative Strategist

The trend following model has continued to lighten up on its short USD (long G-10 currency) position this morning. Following yesterday's short NZD/USD signal, a short AUD/USD and long USD/NOK signal has been triggered today. The previous AUD/USD and USD/NOK trades have been closed for a profit of -0.77% and 11.21% respectively. As a result of this morning's trades, the model's portfolio is now only 33% short USD (down from 100% short USD earlier this week).

Across emerging market currencies, the trend following model has not initiated any new positions this morning. The model portfolio remains at 20% short USD against the traded currencies – see table below.

The technical outlook for the short USD position has deteriorated as the USD DXY index rallied sharply off the 2009 low. This has recorded a morning star formation, suggesting further upside risk and a potential double-bottom. In individual currency pairs, many trend reversal formations have occurred. AUD/USD and USD/CAD have recorded a key day reversal whilst EUR/USD, USD/CHF and USD/NOK have recorded evening/morning star formations. Finally, USD/SEK has recorded a bullish engulfing formation. In each case, a strong USD positive signal has been recorded.

Importantly, the USD positive signal is also corroborated across financial markets. The S&P500 failed to record a close above 1100, instead printing a bearish engulfing signal and a potential double-top. The CRB index (a broad based representation of commodities) is now at key support (around 268). A close below this would pave the way for a deeper correction lower, triggering further weakness in commodity currencies.

Finally, the US trade balance and University of Michigan consumer confidence data are due for release this afternoon. Further improvements in the trade balance are now needed to provide a structural positive for the USD.

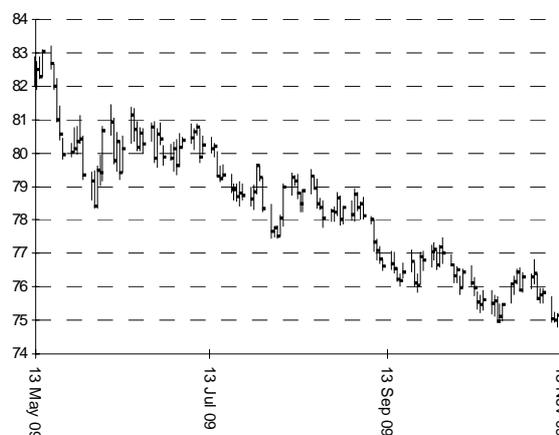


Chart 1: Bullish technical reversal formation for the USD DXY index

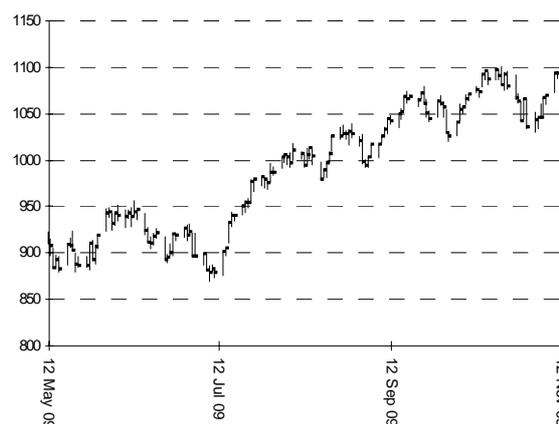


Chart 2: S&P500 unable to push through 1100, recording a bearish engulfing signal - corroborating the USD positive signal

Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	short	13-Nov-09	0.9306
NZDUSD	short	12-Nov-09	0.7389
EURUSD	long	09-Sep-09	1.4480
GBPUSD	long	30-Oct-09	1.6547
USDCHF	short	17-Jul-09	1.0730
USDCAD	short	11-Nov-09	1.0495
USDSEK	short	06-Nov-09	6.9900
USDNOK	long	13-Nov-09	5.6671
USDJPY	short	02-Nov-09	90.10
Net-USD portfolio position			-33%

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	06-Nov-09	17.375
USDPLN	short	05-Nov-09	2.8609
USDSGD	short	10-Nov-09	1.3863
USDTRY	long	11-Nov-09	1.4769
USDZAR	long	12-Nov-09	7.3638
Net-USD portfolio position			-20%

Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.4851	-0.91%	S&P500	1087.24	-1.03%
USD/JPY	90.37	0.56%	DJIA	10197.47	-0.91%
AUD/USD	0.9235	-0.68%	FTSE100	5276.50	0.19%
EUR/GBP	0.8957	-0.94%	Eurostoxx50	2876.92	-0.14%
GBP/EUR	1.1163	0.95%	Shanghai Composite*	3187.65	0.46%
GBP/USD	1.6577	0.02%	*latest price		
GBP/JPY	149.81	0.54%	Commodities		
GBP/CHF	1.6865	0.96%			
GBP/AUD	1.7950	0.70%	Crude Oil \$/bl	76.94	-2.95%
GBP/CAD	1.7498	1.04%	Gold \$/oz	1103.8	-1.22%
GBP/NZD	2.2619	0.84%	Copper c/lb	297.3	-0.60%
GBP/NOK	9.3939	1.25%	Silver \$/oz	17.22	-2.22%
GBP/ZAR	12.3797	1.43%	Baltic Dry	3954	5.50%
GBP/CNY	11.3158	0.03%			
Bonds %			Swaps %		
		bp			bp
US 10Yr	3.444	-3.9	US 5yr	2.572	-5.4
EUR 10Yr	3.367	2.4	EUR 5yr	2.771	-0.2
UK10 Yr	3.778	2.3	UK 5yr	3.310	-0.8
Other			Official Rates %		
VIX	24.24	5.21%	UK	0.50	
iTraxx XOVER	515.31	9.9	US	0.25	
DJ Agriculture Index	62.11	0.02%	EU	1.00	
			Japan	0.10	

This document is confidential, for your information only and must not be distributed, in whole or in part, to any person not involved with the proposed transaction without the prior consent of Lloyds TSB Bank plc ("LTSB"). Whilst LTSB has exercised reasonable care in preparing this document and any views or information expressed or presented are based on sources it believes to be accurate and reliable, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. In particular, whilst we have sought to identify appropriate products and to provide guidance as to how those products might operate under various accounting standards we are not, and should not be considered to be, giving an accounting opinion or advice and you should conduct your own independent enquiries and seek your own professional advice in this respect. Any transaction which you may enter into with us will be on the basis that you have made your own independent evaluations based on your own knowledge and experience and any professional advice which you may have sought in relation to all aspects of the transaction including legal, regulatory, tax or accounting. All terms contained herein, including pricing, are indicative only and subject to change without notice. This material has been prepared for information purposes only and LTSB, its directors, officers and employees are not responsible for any consequences arising from any reliance upon such information. If you receive information from us which is inconsistent with other information which you have received from us, you should refer this to your LTSB Sales representative for clarification.

Lloyds TSB Corporate Markets is a trading name of LTSB. LTSB's registered office is at 25 Gresham Street, London EC2V 7HN and it is registered in England and Wales under no. 2065. LTSB is authorised and regulated by the Financial Services Authority. (11.07).