

Daily Market Strategy

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Market Strategy

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- Pro-risk moves stall; USD bounces ahead of FOMC minutes
- MPC TSC testimony a threat for GBP bulls

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6539, €/\$: 1.4905, \$/¥: 88.69

UK 5y sw: 3.14%, US 5y sw: 2.46%, EU 5y sw: 2.72%

Overnight

- Decent US 2y auction: b/c 3.16; indirects take 44.5%

- Greek experience sets tone for reducing ECB reliance (FT)

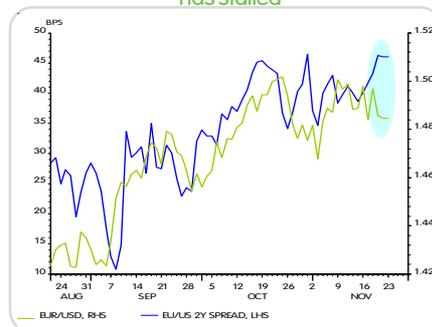
The decline in Asian stocks, led by a 3.5% drop in Shanghai on heavy volume, and subsequent pullback in S&P futures overnight triggered heavy selling of pro-risk currencies and a relief bounce in the USD. The picture we are presented with early this morning is a mirror image of the bullish set-up yesterday, and has roots in a warning by S&P overnight in a bearish report on the global banking industry. The selling in pro-risk currencies - AUD/USD is closing in on 0.9095 key trendline support and EUR/USD through 1.49 - suggests moves may have further to go. The release of revised US GDP and consumer confidence data later today could spur a further rise in risk aversion.

Ahead today: the MPC TSC testimony has no reputation for being a market moving event but sterling bulls could be excused for taking fright ahead of comments by governor King and other committee members on growth, inflation and possibly sterling. The German IFO looks set for an 8th successive rise in November. A downward revision of US Q3 GDP to 3% vs 3.5% may prove too conservative and disappointment along with weaker consumer confidence could add momentum to the safe haven trade. The FOMC minutes of the November 3/4 meeting may add context to the subtle shift more recently towards a more dovish bias, with reference to a possible increase in asset purchases (Bullard, non-voter).

FX: We stick to our two main calls: we like to sell rallies in EUR/USD and USD/JPY (88.0 target for the latter). For EUR/USD, key trendline support runs along 1.4815. For GBP/USD, a bearish set-up ahead of governor King's appearance this morning and flight-to quality support a pullback towards 1.65 support. EUR/GBP target 0.9050 depending on the IFO.

Rates: UK 5y swaps dropped 3bps to 3.11% in early trading. We placed ourself in the bullish camp yesterday and see no reason to change our call as risk is taken of the table. Good corporate demand for paying fixed may occur at the current levels. Key resistance comes in around 3.15%. The 2y/10y swap spread is flat 207bps. The US 2y auction went alright yesterday but the belly of the curve could struggle as dealers prepare for today's 5y auction. The 2y/10y spread flattened below 260bps to 256bps. Greek 10y/bund spread is steady at 166bps.

Traction in EUR/USD with EU/US 2y spread has stalled



Further tightening in UK swap spreads may prove elusive



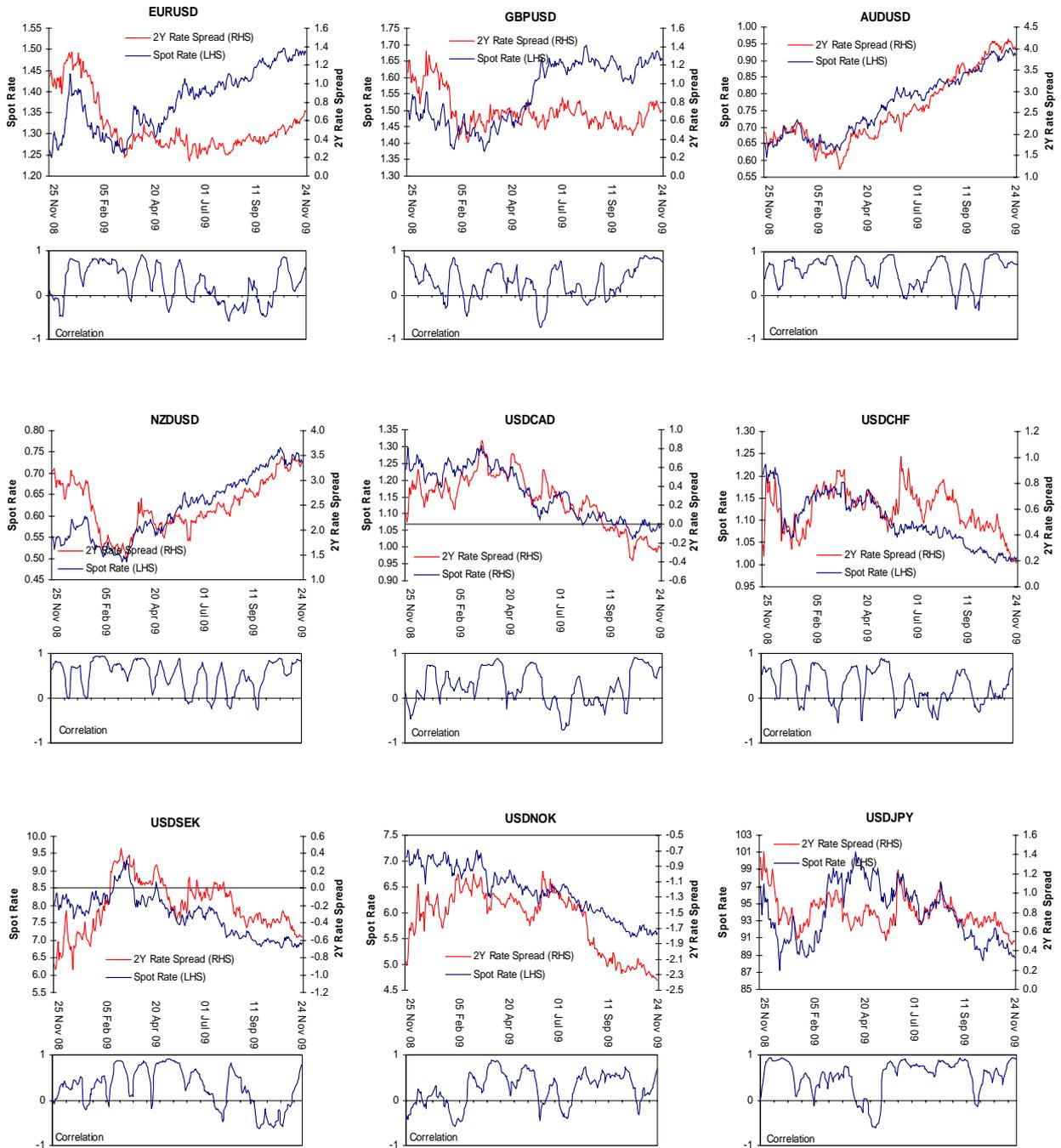
	Close	Daily Change %
FX		
EUR/GBP	0.9010	0.05%
GBP/USD	1.6605	0.62%
EUR/USD	1.4961	0.66%
USD/JPY	88.968	0.09%
AUD/USD	0.9239	1.00%
Bonds %		bp
US 10Yr	3.349	-1.7
EUR 10Yr	3.274	2.0
UK10 Yr	3.638	-2.1
UK 5yr Swap	3.135	3.0
Equities		%
S&P500	1106.24	1.36%
FTSE100	5355.50	1.98%
Eurostoxx50	2898.19	2.30%
Shanghai Composite	3223.53	-3.45%
Commodities		%
Crude Oil \$/bl	77.56	1.09%
Gold \$/oz	1166.1	1.35%
Copper	316.2	0.89%
Baltic Dry	4423	-1.86%
Other		
VIX	21.16	-4.64%
iTraxx XOVER	525.21	-6.9

Today's Data

	Time	Consensus	Previous	Events
German GDP, Q3 details, %q/q	07:00	0.7%A	0.7%	BoE MPC testimony to TSC (09:45)
German IFO Survey, Nov	09:00	92.5	91.9	Fed minutes, Nov 4 FOMC meeting (19:00)
France Business Confidence, Nov	07:45	91	89	US Treasury sells \$42bn in 5y notes
UK Business Investment, Q3, %q/q	09:30	-5.0%	-10.2%	
EU-16 Industry Orders, Sep	10:00	1.0%	2.0%	
US GDP, Q3 annual, 2nd est	13:30	2.8%	3.5%	
US GDP Core Deflator, Q3, 2nd est	13:30	1.4%	1.4%	
US Case Shiller House Prices	14:00	-9.1%	-11.3%	
US Consumer Confidence, Nov	15:00	47.5	47.7	



2yr Interest Rate Spreads vs Spot Rate - 1-m correlations



Trend following model signals

Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	short	19-Nov-09	0.9296
NZDUSD	short	20-Nov-09	0.7312
EURUSD	short	23-Nov-09	1.4864
GBPUSD	short	20-Nov-09	1.6667
USDCHF	long	23-Nov-09	1.0179
USDCAD	long	20-Nov-09	1.0636
USDSEK	short	06-Nov-09	6.9900
USDNOK	long	19-Nov-09	5.5908
USDJPY	short	02-Nov-09	90.10
Net-USD portfolio position			56%

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	long	23-Nov-09	17.438
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	1.4961	0.66%	S&P500	1106.24	1.36%
USD/JPY	88.97	0.09%	DJIA	10450.95	1.29%
AUD/USD	0.9239	1.00%	FTSE100	5355.50	1.98%
EUR/GBP	0.9010	0.05%	Eurostoxx50	2898.19	2.30%
GBP/EUR	1.1099	-0.04%	Shanghai Composite*	3223.53	-3.45%
GBP/USD	1.6605	0.62%	*latest price		
GBP/JPY	147.74	0.73%	Commodities		
GBP/CHF	1.6773	-0.15%			
GBP/AUD	1.7975	-0.38%	Crude Oil \$/bl	77.56	1.09%
GBP/CAD	1.7529	-0.78%	Gold \$/oz	1166.1	1.35%
GBP/NZD	2.2668	-0.54%	Copper c/lb	316.2	0.89%
GBP/NOK	9.2731	-0.67%	Silver \$/oz	18.55	0.22%
GBP/ZAR	12.4558	-0.85%	Baltic Dry	4423	-1.86%
GBP/CNY	11.3379	0.63%			
Bonds %			Swaps %		
		bp			bp
US 10Yr	3.349	-1.7	US 5yr	2.486	-0.9
EUR 10Yr	3.274	2.0	EUR 5yr	2.751	1.7
UK10 Yr	3.638	-2.1	UK 5yr	3.135	3.0
Other			Official Rates %		
VIX	21.16	-4.64%	UK	0.50	
iTraxx XOVER	525.21	-6.9	US	0.25	
DJ Agriculture Index	63.62	-0.43%	EU	1.00	
			Japan	0.10	

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