

Daily Market Strategy

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Market Strategy

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- RBA hikes 25bps, BoJ hold emergency meeting
- Can EUR/GBP extend above 0.9150?

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.6445 €/\$: 1.5033 \$/¥: 86.90
 UK 5y sw: 3.02% US 5y sw: 2.33% EU 5y sw: 2.67%

Overnight:

- Effectiveness of BoE QE questioned as M4 lending ex-OFC extends drop
- UK Nov Nationwide house prices up 0.5% m/m, 2.7% y/y
- No state guarantee for Dubai World, restructuring of \$26bn debt gets underway

Confirmation of the bounce in the Shanghai composite over 3,200 along with a stronger Chicago PMI and speculation that the BoJ may soon announce new liquidity measures (JPY negative, 10y JGB's below 1.20%) are supportive of pro-risk on the first day of the final calendar month of 2009, though we are detecting a strategy worth adjusting with regard to currencies. The RBA rate hike to 3.75% was accompanied by a statement that the 'material adjustments' to borrowing costs are sufficient to keep inflation in the 2-3% range. This effectively opens the door to a possible pause at the next meeting in February, and should allay concerns of a hasty normalisation in policy rates. The AU 2y/10y curve understandably bullish steepened to 96bps, but the possibility of the RBA staying on hold could warrant a partial unwinding of long AUD positions into year-end against, amongst others, GBP and the EUR based on 1/ stronger UK Q4 GDP expectations/ a pause in BoE QE and 2/ ECB liquidity ops announcement/GDP and CPI revisions.

Ahead today: the UK November manufacturing PMI is forecast to come in a tad stronger at 54.0 vs 53.7. We see risk of a stronger US manufacturing ISM following an unexpected increase in the Chicago PMI to a 15-month high and progress in the Philly Fed to a 2 1/2 year high.

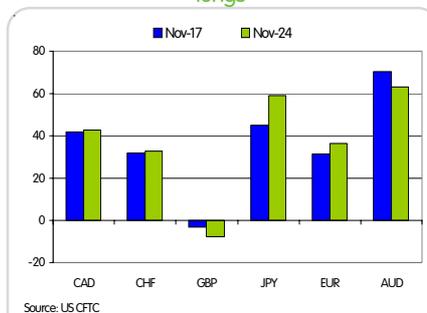
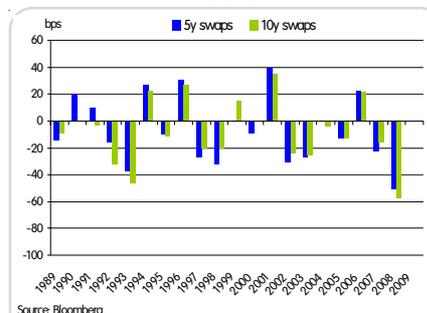
FX: The possibility of a RBA pause makes us more circumspect with regard to upside in AUD despite the still favourable pro-risk backdrop for stocks/commodities. Selection is key and we prefer being long EUR/AUD over short AUD/USD. For the former, we like being long with a 1.65 target heading into the ECB meeting on Thursday. Better UK manufacturing PMI data this morning should squeeze out sterling shorts and should favour a move in GBP/USD back to 1.65. EU/UK 2y spread needs catching up to justify a rally in EUR/GBP, but with the ECB looming we like adding longs on a break of 0.9150. EUR/GBP 25D risk reversals hit a 1-mth high of 1.0725, favouring EUR calls.

Rates: UK 5y swaps remain soft around 3.0% and we see tight ranges staying in place until later in the week when first-tier economic data and next week's US auction details are published. The 2y/10y swaps spread is flat at 197bps holding above key support in the 194-195bps area. US 10y yields briefly pierced 3.20% support overnight but bounced back to 3.22% as equities open on a firmer footing. Intercontinental Hotels is set to issue in sterling.

UK swaps; seasonals suggest rates to stay low in December

IMM stats show fewer GBP shorts, more JPY longs

	Close	Daily Change %
FX		
EUR/GBP	0.9125	0.46%
GBP/USD	1.6440	-0.37%
EUR/USD	1.5005	0.11%
USD/JPY	86.408	-0.14%
AUD/USD	0.9160	1.07%
Bonds %		bp
US 10Yr	3.198	-0.7
EUR 10Yr	3.159	-0.9
UK10 Yr	3.545	1.5
UK 5yr Swap	3.017	-1.2
Equities		%
S&P500	1095.63	0.38%
FTSE100	5190.68	-1.05%
Eurostoxx50	2797.25	-1.20%
Shanghai Composite	3235.36	1.25%
Commodities		%
Crude Oil \$/bl	77.28	1.62%
Gold \$/oz	1179.6	0.17%
Copper	317.7	1.65%
Baltic Dry	3887	-2.19%
Other		
VIX	24.51	-0.93%
iTraxx XOVER	540.46	-3.4



Today's Data

Time	Consensus	Previous	Events
03:30	3.75%A	3.50%	BoE MPC member Posen speaks in London (14:30)
07:00	0.5%A	0.4%	Fed speaker: Plosser (17:00)
09:30	54.0	53.7	ECB speaker: Tumpel-Gugerell (18:00)
07:00	0.5%A	-0.2%	
08:50	5k	-26k	
09:00	51.0	51.0	
10:00	9.8%	9.7%	
15:00	54.8	55.7	
15:00	-1.0%	6.1%	

Trend following model signals

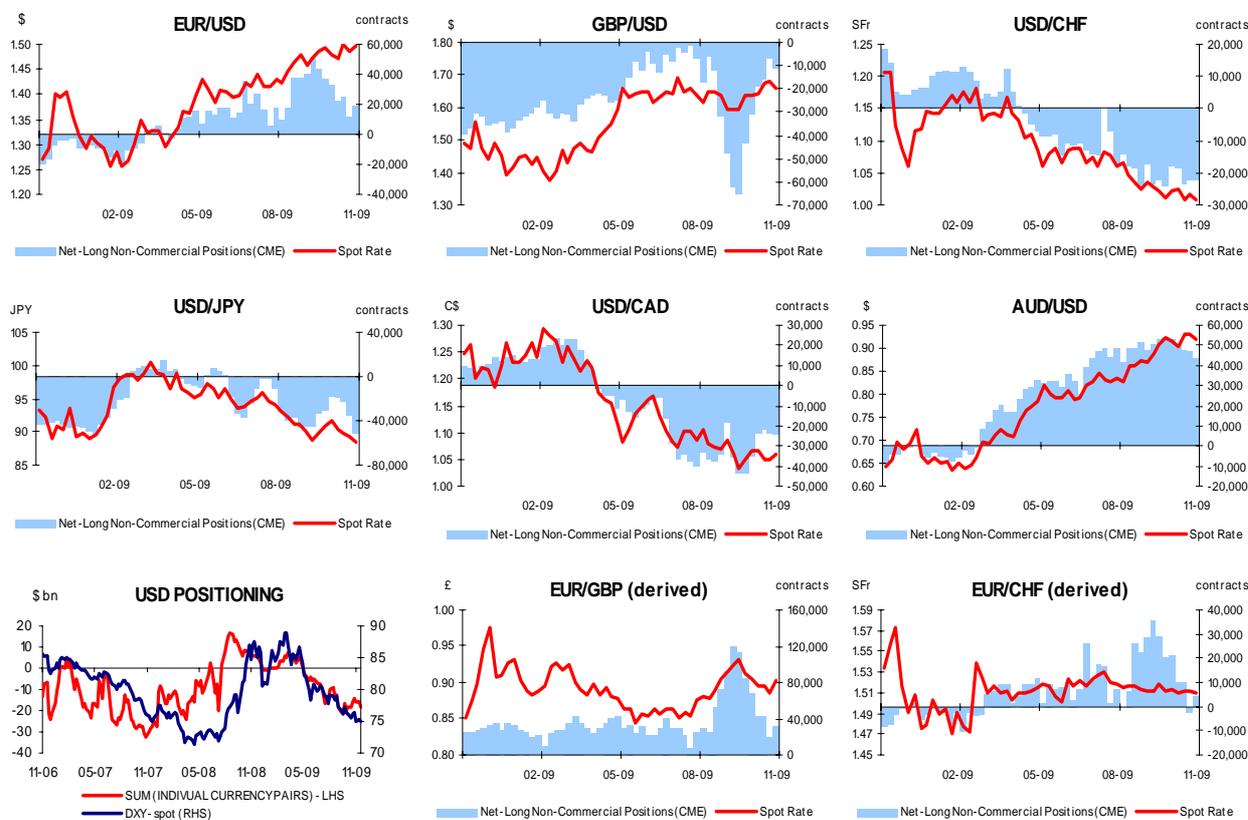
Trend Following Model Positions			
	Signal	Date	Entry Level
AUDUSD	short	19-Nov-09	0.9296
NZDUSD	short	20-Nov-09	0.7312
EURUSD	long	26-Nov-09	1.5138
GBPUSD	long	26-Nov-09	1.6705
USDCHE	short	26-Nov-09	0.9964
USDCAD	long	27-Nov-09	1.0619
USDSEK	long	27-Nov-09	6.9712
USDNOK	long	19-Nov-09	5.5908
USDJPY	short	02-Nov-09	90.10
Net-USD portfolio position			11%

Trend Following Model Positions			
	Signal	Date	Entry Level
USDCZK	short	30-Nov-09	17.428
USDPLN	short	05-Nov-09	2.8609
USDSGD	short	10-Nov-09	1.3863
USDTRY	long	11-Nov-09	1.4769
USDZAR	short	30-Nov-09	7.4041
Net-USD portfolio position			-60%

The FX trend following model has not triggered any new positions this morning. The model's portfolio is 11% long USD against developed market currencies and only 60% short USD against the traded emerging market currencies.

FX Futures Positioning

The latest IMM data, for period ending Tuesday 24th November 2009, has been released – the release is later than usual, due to last week's US Thanksgiving holiday. The data highlight that speculative positioning in USD/CHF and USD/JPY is at an extreme. Analysing data over a 3-year period shows that the speculative positions in USD/CHF and USD/JPY are at the 4th and 5th percentiles, respectively. This leaves them vulnerable to a squeeze higher. Concerns over yen strength, by the Bank of Japan and the Japanese government, are leading to talk of potential intervention. Even a small level of intervention by the BoJ could trigger a large upward move in USD/JPY due to the very large short position held by speculators.



Market Summary

	Close	Daily Change %		Close	Daily Change %
FX			Equities		
EUR/USD	1.5005	0.11%	S&P500	1095.63	0.38%
USD/JPY	86.41	-0.14%	DJIA	10344.84	0.34%
AUD/USD	0.9160	1.07%	FTSE100	5190.68	-1.05%
EUR/GBP	0.9125	0.46%	Eurostoxx50	2797.25	-1.20%
GBP/EUR	1.0958	-0.47%	Shanghai Composite*	3235.36	1.25%
GBP/USD	1.6440	-0.37%	*latest price		
GBP/JPY	142.05	-0.51%	Commodities		
GBP/CHF	1.6529	-0.41%	Crude Oil \$/bl	77.28	1.62%
GBP/AUD	1.7948	-1.42%	Gold \$/oz	1179.6	0.17%
GBP/CAD	1.7365	-0.86%	Copper c/lb	317.7	1.65%
GBP/NZD	2.2959	-1.07%	Silver \$/oz	18.49	1.01%
GBP/NOK	9.3399	-0.16%	Baltic Dry	3887	-2.19%
GBP/ZAR	12.1731	-0.37%	Swaps %		
GBP/CNY	11.2242	-0.34%	US 5yr	2.322	-2.7
Bonds %			EUR 5yr	2.670	0.2
		bp	UK 5yr	3.017	-1.2
US 10Yr	3.198	-0.7	Official Rates %		
EUR 10Yr	3.159	-0.9	UK	0.50	
UK10 Yr	3.545	1.5	US	0.25	
Other			EU	1.00	
VIX	24.51	-0.93%	Japan	0.10	
iTraxx XOVER	540.46	-3.4			
DJ Agriculture Index	65.00	1.10%			

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