

Daily Market Strategy

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Market Strategy

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- IMM data: shorter GBP and EUR, longer AUD and CAD
- Shanghai comp retreats below 3,000

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5194

€/£: 1.3752

\$/¥: 90.72

UK 5y sw: 2.95%

US 5y sw: 2.67%

EU 5y sw: 2.48%

Overnight

- BoE quarterly bulletin says labour market won't deteriorate in coming months; headcount to remain largely stable; Bank balance sheet may not shrink to pre-crisis levels
- Rightmove March house prices gain 0.1% (5.3% y/y)
- EU Ecofin to discuss Greece aid package today

A slow start to the week is dominated by a fall in the Shanghai comp below 3,000 and a firmer dollar as markets take direction from Chinese premier Jibao's Party congress closing press conference and PBoC's governor Zhou's statement on interest rates. Jibao deflected pressure and speculation of a yuan revaluation and said that China would not bow to overseas pressure. Governor Zhou recognised that inflation had accelerated recently, but at 2.7% for annual CPI, there is no case for the PBoC to raise interest rates. Whilst bullish for equities, the Shanghai comp failed to gain positive traction of Zhou's comments, instead falling back below the key 3,000 level. A move through 2,940 would strengthen the case for a bigger pullback towards the October low (2,712). The USD is firmer across the G10, with the Fed meeting tomorrow (BoJ Wednesday) and talk of (less dovish) changes to the FOMC statement stalling gains in pro-risk trades but government bonds yields are unchanged, taking S&P/Moody's latest US/UK ratings warnings in their stride.

Ahead today

- UK, EU-16: no data; all eyes on the EU Ecofin meeting for details on a rescue package for Greece. Weekend press reports mentioned a deal of 20-25bn euros, markedly less than reported on Friday in the Austrian press (50bn euros).
- US TIC data for January is certain to make headlines, with the latest investor behaviour of China set to draw close scrutiny after last month's fall in Treasury holdings to the lowest level in nearly a year. Industrial output and capacity use for Feb are also due and should buttress confidence that the economy is making good progress towards recovery in Q1 and that positive employment growth will soon follow.

Weekly IMM positioning

	02-Mar		09-Mar		change	
	rep	non rep	rep	non rep		
CAD	38	24	62	61	27	25
CHF	-6	-4	-10	-5	-2	2
GBP	-68	-11	-79	-63	-17	-2
JPY	33	-2	30	26	-3	-7
EUR	-67	-2	-69	-75	-6	-11
AUD	49	16	64	61	17	14

FX: EUR/USD and GBP/USD are off Friday's highs, backed by the weekly IMM data which revealed a further increase in overall EUR and GBP short positions. A decline in JPY longs justifies the consolidation phase in USD/JPY above 90.0, though failure to test resistance in the 91.25 area testifies to the lack of conviction to aggressively short the JPY despite the neutral policy/reval comments from China this weekend. EUR/CHF is offered below 1.4575, testing the SNB's resolve. **Rates:** UK 5y swaps have opened a fraction lower at 2.93%, with cash yields flat to marginally lower. 10y gilts have clawed back some of last week's losses, with the return below 4.11% support to 4.09% raising hopes for a dip back to next support at 4.02%-4.03%. A void UK calendar today puts the trading focus on US production data, corporate supply and equities. The DMO sells £3.25bn of 2020 paper on Thursday.

	Close	Daily Change %
FX		
EUR/GBP	0.9053	-0.32%
GBP/USD	1.5204	0.94%
EUR/USD	1.3769	0.64%
USD/JPY	90.560	0.06%
AUD/USD	0.9152	-0.02%
Bonds %		bp
US 10Yr	3.701	-2.7
EUR 10Yr	3.167	-1.2
UK 10 Yr	4.098	-5.1
UK 5yr Swap	2.945	-1.1
Equities		%
S&P500	1149.99	-0.02%
FTSE100	5625.65	0.00%
Eurostoxx50	2898.36	0.00%
Shanghai Composite	2976.94	-1.21%
Commodities		%
Crude Oil \$/bl	81.24	-1.06%
Gold \$/oz	1101.9	-0.69%
Copper	338.0	0.09%
Baltic Dry	3506	5.73%
Other		
VIX	17.58	-2.66%
iTraxx XOVER	410.67	-18.1

Today's Data

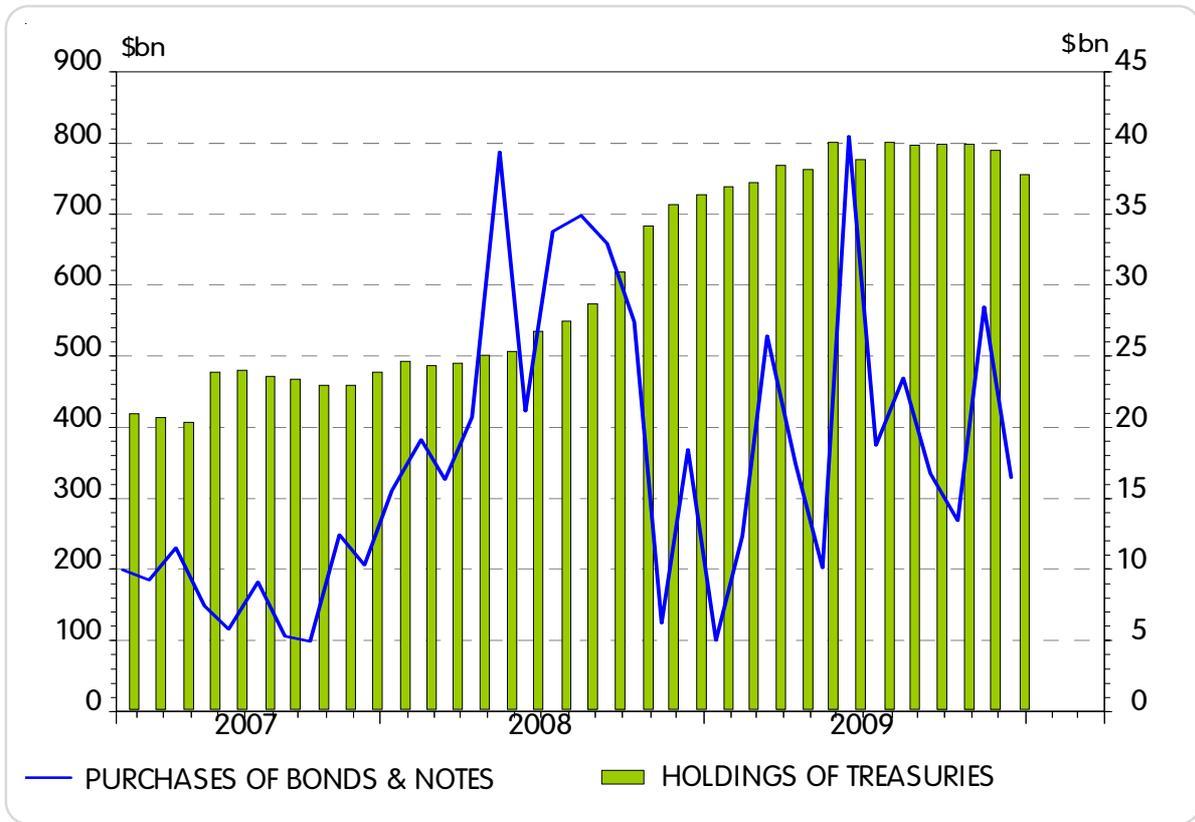
	Time	Consensus	Previous	Events
UK Rightmove House Prices, Mar	00:01	0.1%A	3.2%	BoE Quarterly Bulletin
US Empire Manufacturing Survey, Mar	12:30	20.00	24.91	ECB speaker: Tumpel-Gugerell (09:30)
US TIC Flows, Jan	14:00		63.3bn	
US Industrial Output, Feb	14:15	0.0%	0.9%	
US Capacity Use, Feb	14:15	72.6%	72.6%	

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

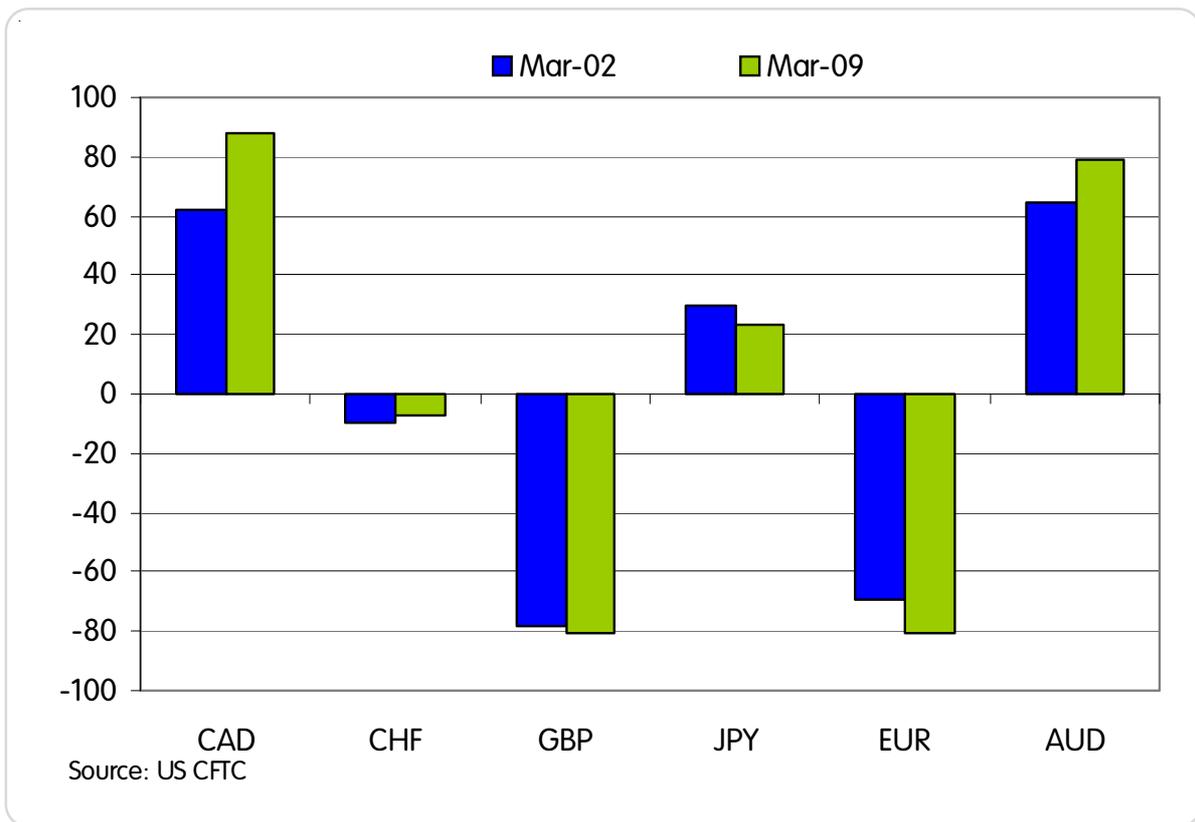
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Bloomberg page: LLOY<GO>

China: holdings of Treasury are falling, but still a net buyer



Weekly IMM positions: shorter GBP and EUR, longer AUD and CAD



Market Summary

FX	Close	Daily Change %		Close	Daily Change %	
EUR/USD	1.3769	0.64%		Equities		
USD/JPY	90.56	0.06%		S&P500	1149.99	-0.02%
AUD/USD	0.9152	-0.02%		DJIA	10624.69	0.12%
EUR/GBP	0.9053	-0.32%		FTSE100	5625.65	0.00%
GBP/EUR	1.1046	0.32%		Eurostoxx50	2898.36	0.00%
GBP/USD	1.5204	0.94%		Shanghai Composite*	2976.94	-1.21%
GBP/JPY	137.69	1.00%		*latest price		
GBP/CHF	1.6084	-0.04%		Commodities		%
GBP/AUD	1.6612	0.95%		Crude Oil \$/bl	81.24	-1.06%
GBP/CAD	1.5499	0.50%		Gold \$/oz	1101.9	-0.69%
GBP/NZD	2.1668	0.76%		Copper c/lb	338.0	0.09%
GBP/NOK	8.8607	0.29%		Silver \$/oz	17.07	-0.64%
GBP/ZAR	11.2492	0.74%		Baltic Dry	3506	5.73%
GBP/CNY	10.3775	0.92%				
			Swaps %		bp	
Bonds %		bp	US 5yr	2.669	-0.7	
US 10Yr	3.701	-2.7	EUR 5yr	2.500	0.2	
EUR 10Yr	3.167	-1.2	UK 5yr	2.945	-1.1	
UK10 Yr	4.098	-5.1				
			Official Rates %			
Other			UK	0.50		
VIX	17.58	-2.66%	US	0.25		
iTraxx XOVER	410.67	-18.1	EU	1.00		
DJ Agriculture Index	58.53	0.09%	Japan	0.10		

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