



Daily Market Strategy

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Market Strategy

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- USD firms ahead of FOMC decision (18:15)
- Yields in tight range, £1bn mini-tender today

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5050

€/£: 1.3676

\$/¥: 90.30

UK 5y sw: 2.93%

US 5y sw: 2.65%

EU 5y sw: 2.48%

Overnight

- ONS changes RPI calculation method to better represent mortgage availability; measure to align RPI closer with CPI; no implication for monetary policy
- BoJ two-day meeting underway; expansion of liquidity-injecting market operations beyond ¥10tn touted; 10y JGB yields at 4-week high (1.36%)
- US Congress increases pressure to label China a currency manipulator in next month's report on exchange rate policies (FT)

The USD finds decent support this morning ahead of the FOMC decision in contrast to government bonds where tight ranges are observed (with tilt higher for yields) ahead of the £1bn, 2028 mini-tender at 10.30. A first hike in the Fed funds rate is still some way off, putting the emphasis tonight on the FOMC statement and whether the words 'extended period' stay in the text for at least another meeting. Every month of better/solid US economic data that goes by means we are inevitably approaching the 'sell by date' of the 'extended period' language, but with no tangible evidence (yet) of a return to (sustained) employment growth, we think the Fed is likely to stick to its (dovish) guns for now. Barring exceptional circumstances, the Fed has no tendency of signalling policy shifts at one-day meetings. The other question then is whether lone hawk Mr Hoenig finds support on the committee to back his opposition against rates staying low for an 'extended period', and whether the Fed sticks to previously announced shut downs of credit facilities.

Ahead today

- UK: DCLG Jan house prices, £1bn 2028 mini-tender
- EU-16: German ZEW survey for March, no major surprise expected in the light of recent news and data flow. Over the last month, we had weak German exports but resilience in industrial output data, higher equities, and a weaker euro. An EU Ecofin press conference is scheduled for this afternoon. The discussion of final details (Greek aid) is set to be planned for next week at the Council Summit.
- US: it's all about the Fed. Housing starts hit a 6-month high in Jan (591k annualised) and are forecast to have dropped back to 570k in Feb. Import prices are also due.

FX: The USD is a tad firmer across the G10 this morning, helping the DXY to consolidate above 80.0. No change in Fed funds and the FOMC text mean the focus will rapidly shift to the BoJ decision in the early hours of tomorrow. Though the expansion of liquidity ops by the BoJ is largely priced in, currency reaction is likely to be articulated through a weaker JPY vs G10. A surprise change in Fed rhetoric would obviously clear the way for a USD rally. Support for EUR/USD runs at 1.35. For GBP/USD, trendline support comes in at 1.4873. For USD/JPY, a less dovish statement would propel USD/JPY towards 91.21. No change in language is unlikely to trigger major fx moves. EUR/CHF extends its grind lower, approaching 1.45 figure, with no sign of the SNB slowing CHF appreciation.

Rates: UK 5y swaps are stuck near the lower end of the range at 2.93%, with cash yields up a few ticks in fairly subdued trading. The labour market stats and MPC minutes tomorrow are potential market movers and we expect participants to keep their powder dry until. Up to £1bn of 6%, 2028 gilts will be sold via mini-tender today. The previous non-IL mini-tender (£1bn, 4.25%, 2032) was covered 2.49 times. Strong participation is expected, though the attraction of the 6% coupon relative to the 4.75%, 07_2030 issue is outweighed by the extensive price premium.

| | Close | Daily Change % |
|--------------------|---------|----------------|
| FX | | |
| EUR/GBP | 0.9083 | 0.34% |
| GBP/USD | 1.5057 | -0.97% |
| EUR/USD | 1.3677 | -0.67% |
| USD/JPY | 90.530 | -0.03% |
| AUD/USD | 0.9146 | -0.07% |
| Bonds % | | |
| US 10Yr | 3.695 | -0.6 |
| EUR 10Yr | 3.155 | -1.2 |
| UK10 Yr | 4.064 | -3.4 |
| UK 5yr Swap | 2.933 | -1.2 |
| Equities | | |
| S&P500 | 1150.51 | 0.05% |
| FTSE100 | 5593.85 | -0.57% |
| Eurostoxx50 | 2870.55 | -0.96% |
| Shanghai Composite | 2992.84 | 0.53% |
| Commodities | | |
| Crude Oil \$/bl | 79.80 | -1.77% |
| Gold \$/oz | 1108.5 | 0.59% |
| Copper | 331.5 | -1.92% |
| Baltic Dry | 3574 | 1.94% |
| Other | | |
| VIX | 18.00 | 2.39% |
| iTraxx XOVER | 424.00 | 13.3 |

Today's Data

| | Time | Consensus | Previous | Events |
|---------------------------|-------|-----------|----------|---|
| UK DCLG House Prices, Jan | 09:30 | 3.5% | 2.9% | DMO sells max £1.0bn, 6%, 2028 gilts by mini-tender EU Ecofin press conference (14:00) |
| Germany ZEW Survey, Mar | 10:00 | 43.5 | 45.1 | |
| EU-16 -- CPI, Feb, %y/y | 10:00 | 0.9% | 0.9% | |
| -- Core CPI, Feb, %y/y | 10:00 | 0.8% | 0.9% | |
| US Import Prices, Feb | 12:30 | -0.2% | 1.4% | |
| US Housing Starts, Feb | 12:30 | 570k | 591k | |
| US Building Permits, Feb | 12:30 | 601k | 621k | |
| FOMC Rate decision | 18:15 | 0.25% | 0.25% | |

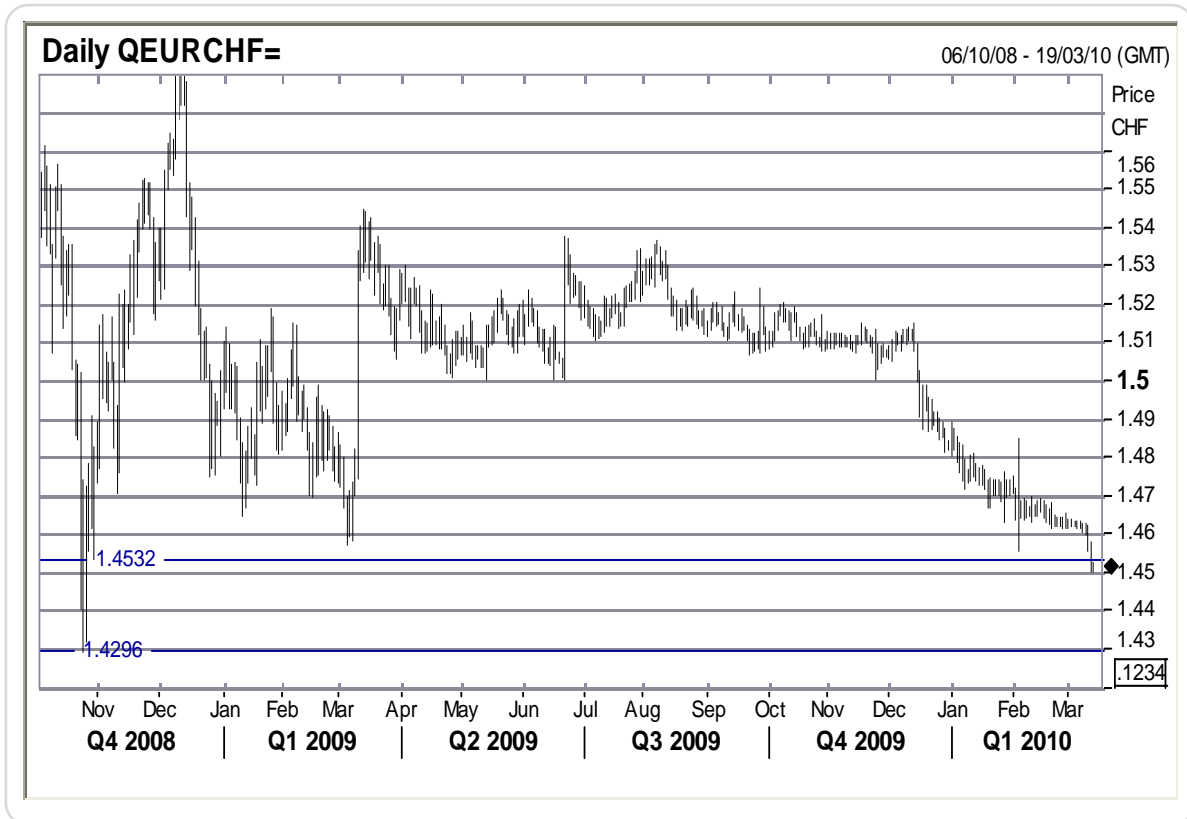
*All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, DataStream & CQG

Lloyds TSB Corporate Markets Economic Research, 10 Gresham Street, London, EC2V 7AE, Switchboard: 0207 626 1500.

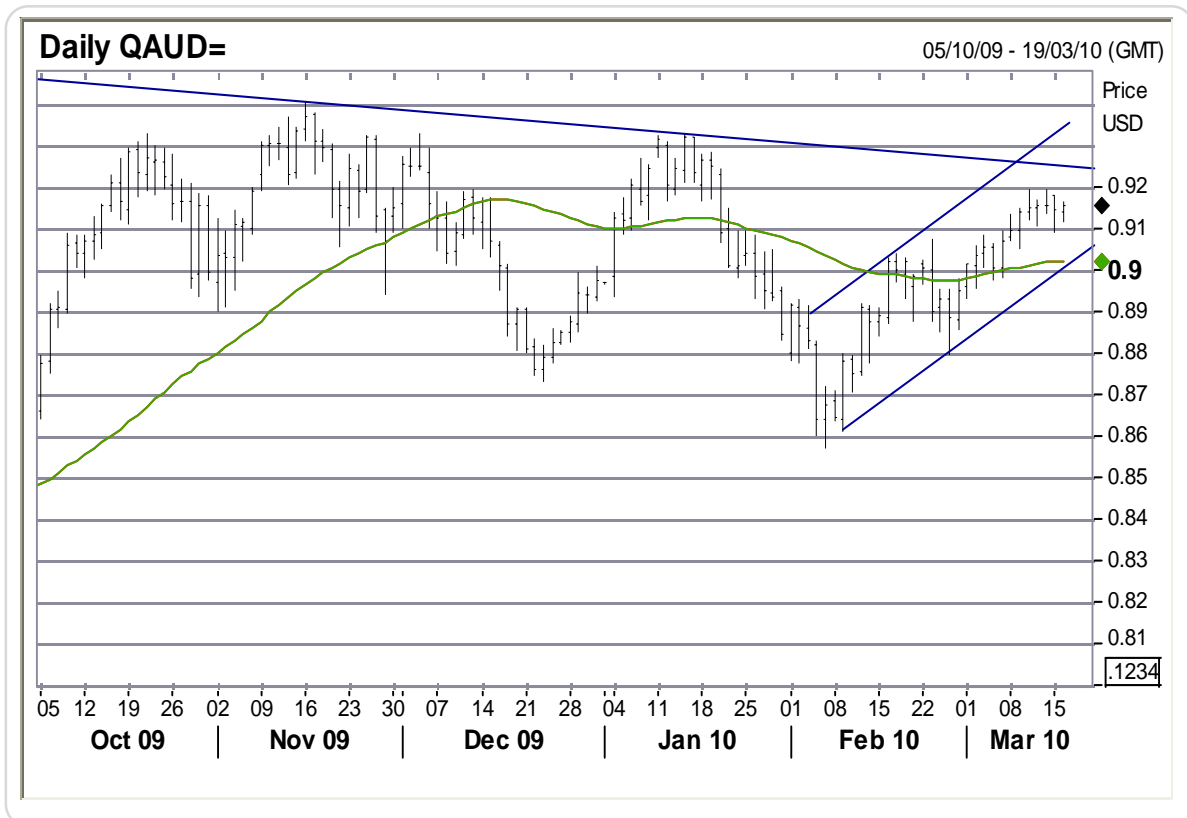
Bloomberg page: LLOY<GO>



EUR/CHF near 1.45; SNB to intervene?



USD/AUD: steady at 0.9150, trend still upwards





Market Summary

| | Close | Daily Change % | | Close | Daily Change % |
|----------------------|---------|----------------|-------------------------|----------|----------------|
| FX | | | Equities | | |
| EUR/USD | 1.3677 | -0.67% | S&P500 | 1150.51 | 0.05% |
| USD/JPY | 90.53 | -0.03% | DJIA | 10642.15 | 0.16% |
| AUD/USD | 0.9146 | -0.07% | FTSE100 | 5593.85 | -0.57% |
| EUR/GBP | 0.9083 | 0.34% | Eurostoxx50 | 2870.55 | -0.96% |
| GBP/EUR | 1.1009 | -0.33% | Shanghai Composite* | 2992.84 | 0.53% |
| GBP/USD | 1.5057 | -0.97% | *latest price | | |
| GBP/JPY | 136.30 | -1.01% | Commodities | | |
| GBP/CHF | 1.5989 | -0.59% | Crude Oil \$/bl | 79.80 | -1.77% |
| GBP/AUD | 1.6461 | -0.91% | Gold \$/oz | 1108.5 | 0.59% |
| GBP/CAD | 1.5348 | -0.97% | Copper c/lb | 331.5 | -1.92% |
| GBP/NZD | 2.1464 | -0.94% | Silver \$/oz | 17.12 | 0.29% |
| GBP/NOK | 8.8405 | -0.23% | Baltic Dry | 3574 | 1.94% |
| GBP/ZAR | 11.1360 | -1.01% | Swaps % | | |
| GBP/CNY | 10.2776 | -0.96% | US 5yr | 2.648 | -2.1 |
| Bonds % | | | EUR 5yr | 2.486 | -1.4 |
| | | bp | UK 5yr | 2.933 | -1.2 |
| US 10Yr | 3.695 | -0.6 | Official Rates % | | |
| EUR 10Yr | 3.155 | -1.2 | UK | 0.50 | |
| UK10 Yr | 4.064 | -3.4 | US | 0.25 | |
| Other | | | EU | 1.00 | |
| VIX | 18.00 | 2.39% | Japan | 0.10 | |
| iTraxx XOVER | 424.00 | 13.3 | | | |
| DJ Agriculture Index | 58.22 | -0.43% | | | |
| 3-mth money | | | | | |
| | | bp | | | |
| UK | 0.645 | - | | | |
| EUR | 0.595 | - | | | |
| US | 0.258 | - | | | |

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