Lloyds TSB | Corporate Markets

Daily Market Strategy

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Market Strategy

Kenneth Broux
Market Economist
0207 158 1750
kenneth.broux@lloydstsb.co.uk

Altaz Dagha
Strategist
0207 158 1747
altaz.dagha@lloydstsb.co.uk

- **EUR falls on Greece/IMF rescue talk**
- **Gilts outperform Treasuries/bunds; Feb PSNB data awaited**

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/$: 1.5304	€/$: 1.3668	$/Y: 90.26
UK 5y sw: 2.92%	US 5y sw: 2.58%	EU 5y sw: 2.42%

Events in the EU with regard to Greece are driving price action and merit close attention in the wake of EUR selling in the Asian time zone as talk flares up that Greece will resort to IMF aid over Easter. In an address yesterday in Berlin, German Chancellor Merkel was unusually critical of a rash bailout and in the most severe warning to date, warned that as a last resort, it should be possible to expel countries from the eurozone if a member doesn't fulfil its requirements. Under political pressure from within the region, the EU has frustrated markets by not filling in the blanks of an assistance package now for weeks, with Ecofin chairman Juncker on Monday passing and referring to the Council Summit next week where a final deal (?) should be agreed. Aversion for peripheral sovereign paper re-emerges this morning, with 10y Greece over bunds marked 7bp wider at 307bp and 5y Greece CDS up 6bp at 296bp. The timing for the Greek debt office could not be more awkward as it prepares to launch new syndicated auctions.

Ahead today

- UK: a less pessimistic assessment of public finances has recently emerged, suggesting that borrowing may undershoot the Chancellor's £178bn 2009/10 target. The PSNCR is forecast to have more than doubled to £11.0bn vs February last year. Net borrowing is estimated at £14.0bn, bringing the year-to-date total to £133.3bn. M4 money supply figures and the March CBI industrial trends survey are also due. MPC member Sentance speaks after market close. The DMO sells £3.25bn, 2020 gilts. The last 2020 auction was covered 2.49 times.
- EU-16 supply today totals about 15.3bn eur (France and Spain).
- US: four FOMC speakers, weekly claims, Feb CPI data and the Philly Fed survey may prove directional for the USD and treasuries. A tame set of PPI figures (core 0.1%) was released yesterday, but we have seen discrepancies with CPI in the past due to price swings in housing costs (42% of the overall index).

FX: The EUR is weaker vs G10 currencies this morning with speculation of Greece seeking IMF aid bringing the rally since last week to an end. EUR/GBP opened down for a 3rd straight session, approaching key support in the 0.8915 area (100d MA), with a jump in the UK/EU 2y spread to 26bp providing ammunition to drive the cross lower. We target a retracement below 0.89 going into the March 24 Budget, though the pace of decline could be tempered if we get a shocking set of UK PSNB numbers this morning. For EUR/USD, failure to reach 1.3839, the Feb 9 high, and the Greece/IMF headlines sparked a reversal back below 1.37. Key support runs at 1.3638, the halfway line of the 1.3436-1.3839 trading range. For GBP/USD, support rests at 1.5250 and 1.5218. The move towards parity in USD/CAD stalled in the 1.0071 area, with profit taking bumping the cross back up to a 1.0139 high overnight. Canadian CPI is due tomorrow.

Rates: UK 5y swaps opened flat at 2.92%, with 2y and 10y gilts also steady at 1.21% and 4.0%, respectively. UK PSNB and US CPI will provide some distraction today, but we are not holding our breath for a major change of direction until next week when UK CPI and the Budget are due. The 2y/10y swaps curve is s touch flatter at 225bp, with cash spread steady at 227bp ahead of the 2020 auction. The US treasury will announce 2y, 5y, 7y issuance numbers for next week.

	Close	Daily Change
FX		**%**
EUR/GBP	0.8964	-0.73%
GBP/USD	1.5325	0.54%
EUR/USD	1.3738	-0.20%
USD/JPY	90.310	0.00%
AUD/USD	0.9237	0.57%
Bonds %		**bp**
US 10Yr	3.636	-1.3
EUR 10Yr	3.111	-2.8
UK10 Yr	4.006	-2.0
UK 5yr Swap	2.915	-2.0
Equities		**%**
S&P500	1166.21	0.58%
FTSE100	5644.63	0.00%
Eurostoxx50	2931.31	0.00%
Shanghai Composite	3046.09	-0.14%
Commodities		**%**
Crude Oil $/bl	82.93	1.51%
Gold $/oz	1120.4	-0.65%
Copper	341.8	1.58%
Baltic Dry	3427	-2.03%
Other		
VIX	16.91	-4.41%
iTraxx XOVER	408.02	-9.1

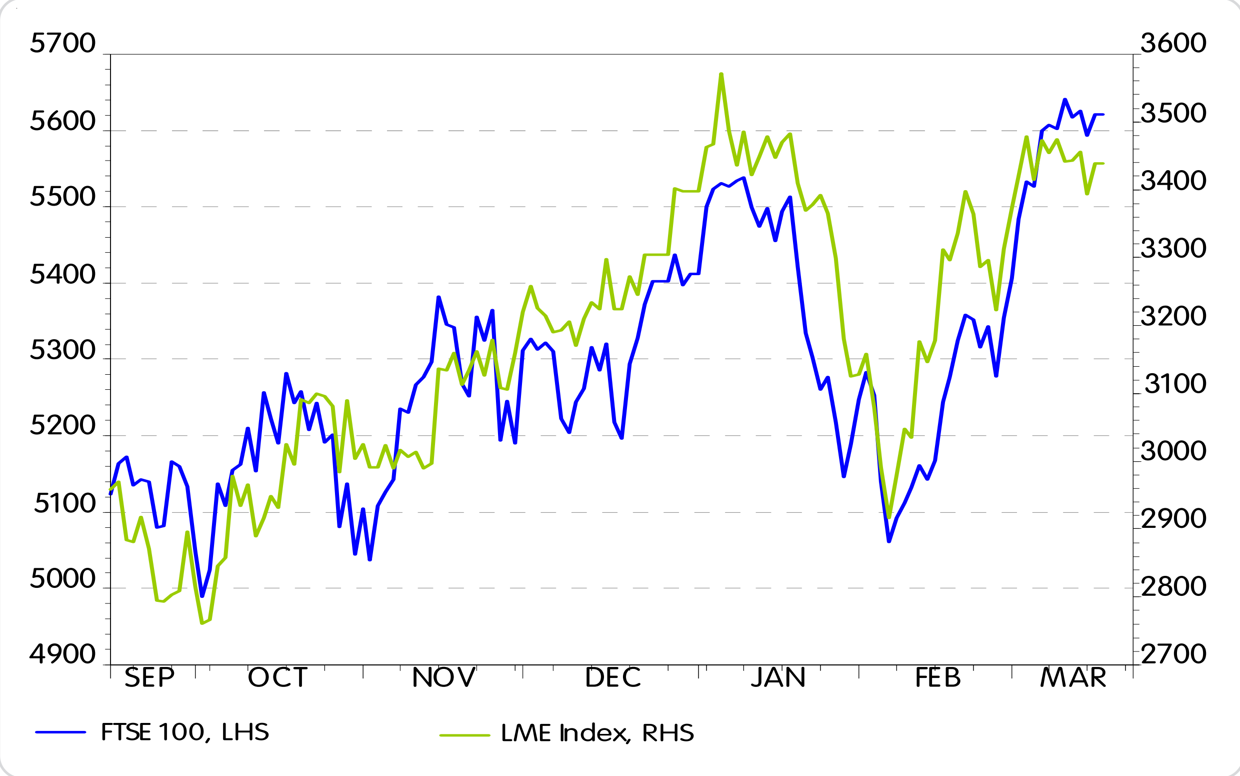
Today's Data	**Time**	**Consensus**	**Previous**
UK Mortgage Approvals, Feb	09:30	54k	49k
UK -- PSNCR, Feb	09:30	11.0bn	-11.8bn
-- PSNB, Feb	09:30	14.0bn	4.3bn
UK M4 Money Supply, Feb prel	09:30	0.7%	0.4%
UK CBI Industrial Trends, Mar	11:00	n/a	
EU-16 Trade Balance, Jan	10:00	5.5bn	7.0bn
US -- CPI, Feb	12:30	0.1%	0.2%
-- Core CPI, Feb	12:30	0.1%	-0.1%
US Weekly Claims, Mar 13	12:30	455k	462k
Philly Fed Survey, Mar	14:00	18.0	17.6
US Leading Indicators, Feb	14:00	0.1%	0.3%

Events

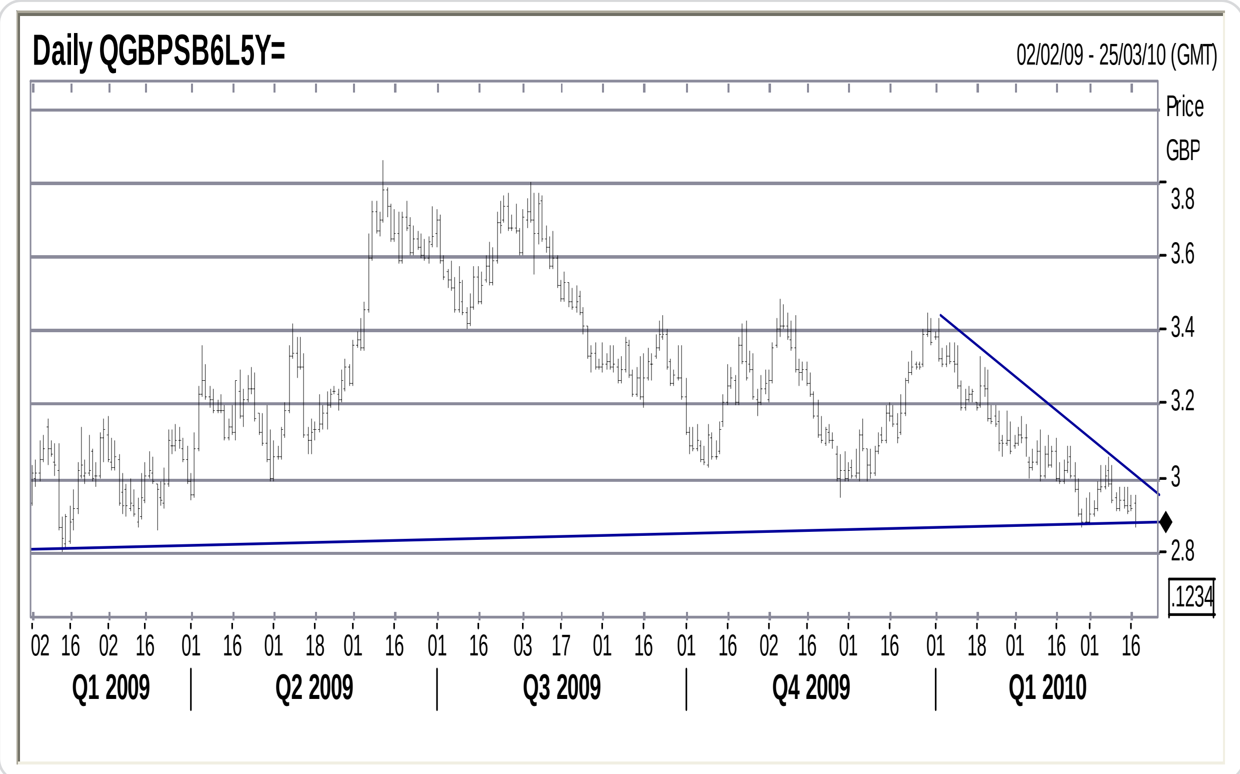
BoE speakers: Sentance (16:45)
DMO sells £3.25bn, 4.75%, 2020 gilts
Fed speakers: Duke (11:30), Hoenig, Lacker, Pianalto (13:00)
France sells max 1.8bn eur 2019 IL, 2040 IL paper; 8bn eur 2012 paper
Spain sells max 5.5bn eur 2020, 2041 bonos

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

FTSE100 vs LME index: 0.83 correlation since Sep

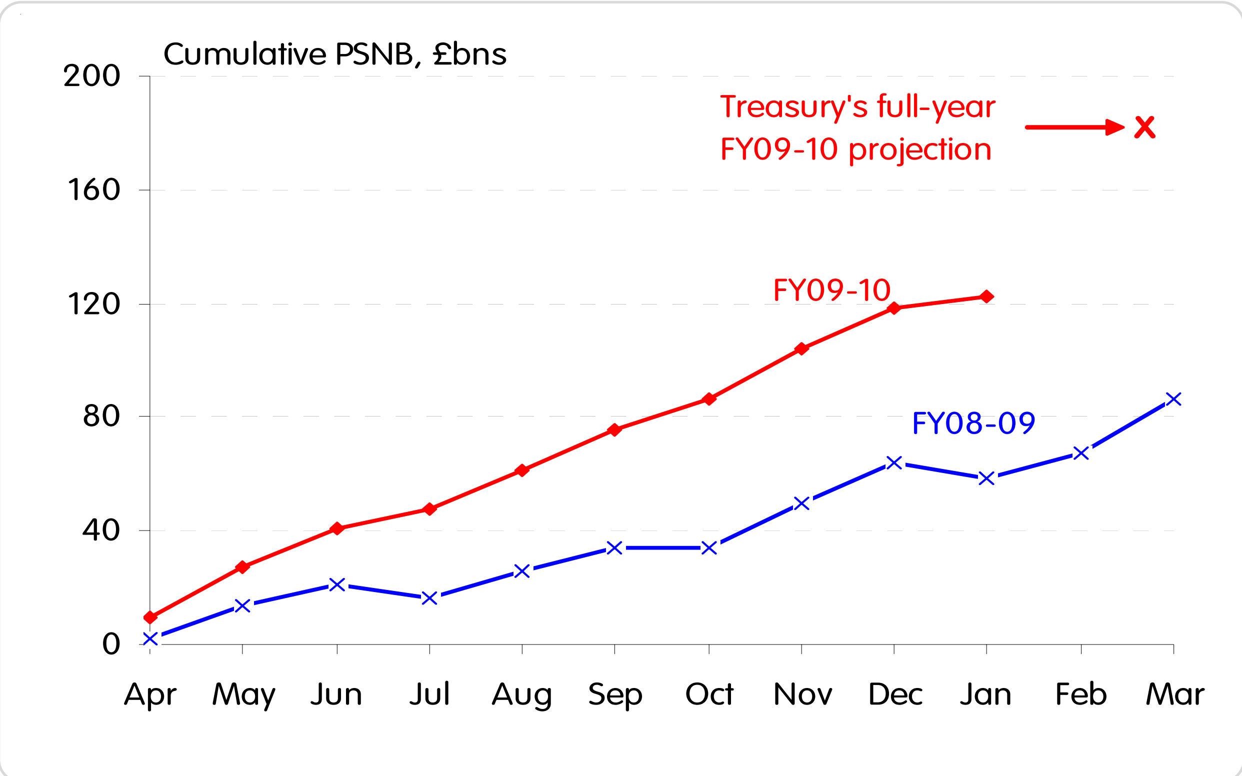


5y swaps: again testing the cycle lows at 2.90%



USD index under pressure: test of 50d MA approaches (79.442)

UK public borrowing on target for £178bn 'undershoot'



Market Summary

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USD/JPY	90.31	0.00%
AUD/USD	0.9237	0.57%
EUR/GBP	0.8964	-0.73%
GBP/EUR	1.1157	0.74%
GBP/USD	1.5325	0.54%
GBP/JPY	138.39	0.54%
GBP/CHF	1.6154	0.48%
GBP/AUD	1.6592	-0.02%
GBP/CAD	1.5484	0.17%
GBP/NZD	2.1463	-0.05%
GBP/NOK	8.9226	0.48%
GBP/ZAR	11.1840	-0.29%
GBP/CNY	10.4614	0.55%

Equities	Close	Daily Change %
S&P500	1166.21	0.58%
DJIA	10733.67	0.45%
FTSE100	5644.63	0.00%
Eurostoxx50	2931.31	0.00%
Shanghai Composite*	3046.09	-0.14%

*latest price

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US 10Yr	3.636	-1.3
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Swaps %		bp
US 5yr	2.593	-0.9
EUR 5yr	2.434	0.8
UK 5yr	2.915	-2.0

Other		
VIX	16.91	-4.41%
iTraxx XOVER	408.02	-9.1
DJ Agriculture Index	59.47	1.28%

Official Rates %	
UK	0.50
US	0.25
EU	1.00
Japan	0.10