



Daily Market Strategy

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Market Strategy

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- USD/CNY at 2wk low on talk of band widening
- 2015 gilt and 10y Treasury auctions ahead

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5235

€/£: 1.3372

\$/¥: 94.04

UK 5y sw: 2.92%

US 5y sw: 2.85%

EU 5y sw: 2.45%

Overnight

- BRC shop price inflation slows to 1.2% y/y in March, lowest since last November
- BCC: Q1 services activity up, manufacturing stagnates, employment and investment slip back
- FOMC minutes: duration of 'extended period' of low interest rates contingent on the evolution of the economy, not on passage of any fixed amount of calendar time
- good US 3y auction: b/c 3.10, indirects get 52.2%, directs take 10.7%
- BoJ overnight rate target left on hold at 0.10%, vote unanimous
- China set for renminbi shift (FT); proposal to adjust currency policy has been submitted to the cabinet for approval; focus on widening of daily trading band for USD/CNY from 0.5%

	Close	Daily Change %
FX		
EUR/GBP	0.8778	-0.44%
GBP/USD	1.5267	-0.19%
EUR/USD	1.3399	-0.63%
USD/JPY	93.790	-0.61%
AUD/USD	0.9284	0.76%
Bonds %		bp
US 10Yr	3.951	-3.5
EUR 10Yr	3.143	5.5
UK10 Yr	3.923	-1.6
UK 5yr Swap	2.913	6.8
Equities		%
S&P500	1189.44	0.17%
FTSE100	5780.35	0.62%
Eurostoxx50	2989.49	0.37%
Shanghai Composite	3137.09	-0.68%
Commodities		%
Crude Oil \$/bl	86.84	0.25%
Gold \$/oz	1134.3	0.21%
Copper	361.7	-0.40%
Baltic Dry	2981	-0.33%
Other		
VIX	16.23	-4.64%
iTraxx XOVER	416.63	-5.7

Markets emerge from a relatively steady trading session in Asia marked by the underperformance of the Shanghai composite (-0.4%) and fresh selling of EUR/G10 crosses. The conventional wisdom for sterling assets is that election polls will dictate near-term price action, but we would not play down the impact of the UK services PMI at 9.30 and the risks that confirmation of last month's 3.9pt surge brings for this week MPC policy discussion. We are not inferring here that monetary policy is near a tipping point (not palatable politically), but the case for a straightforward 'hold' equally seems increasingly hard to justify especially for the more outspoken hawks on the committee as 10y BE inflation expectation extend over 3%.

Ahead today

- UK: the services PMI surprised with a near 4pt jump last month, begging the question whether a technical correction is on the cards this morning, or where output effectively did race ahead in late Q1. The data should not change the outlook for the MPC decision on Thursday, though a number above 60.0 may up the hawkish theme. The DMO gets the 2010/11 funding programme under way with the sale of £4.5bn, 4.75%, 2015 gilts.
- EU: controversially, one could argue that Germany is deliberately playing hardball over Greece, manipulating the EUR lower in the interest of its own manufacturing and export base. Solid gains for the IFO through Q1 could be extended if new industry orders for February come in strong and defy consensus for a 0.5% m/m drop.
- US: the auction of \$21bn 10y notes and speeches by Fed chairman Bernanke and FOMC members Dudley and Hoenig dominates second-tier data releases.

FX: currency majors are trading flat with the exception of EUR crosses which are weaker vs G10. EUR/CHF has been remarkably stable around the 1.4320 area over the last 4 trading sessions, showing no traction whatsoever with EUR/USD and the widening in 10y Greece/bunds spreads. SNB hawk Danthine is set to speak on Friday. USD/CAD moved through parity yesterday and is finding fresh offers below 0.9990 this morning. With the Fed minutes supportive of wider CA/US yield spreads, we target a pullback to 0.98.

Rates: 5y swaps reversed back below 2.90% ion early trade, taking their cue from a positive start for gilts and a pullback in US yields. The 2015 gilt and 10y treasury auctions feature today and are set to drive price action as key technical levels are under scrutiny (4% for UK and US). A stronger services PMI may reinforce the flattening bias in 2y/10y cash (278bp) and swaps (224bp). 10y Greece over bunds is marked 5bp lower at 383bp.

Today's Data	Time	Consensus	Previous	Events
UK Services PMI, Mar	09:30	58.0	58.4	DMO sells £4.5bn, 4.75%, 2015 gilts
BoJ Rate Decision	05:30	0.10%A	0.10%	Fed speakers: Bernanke (18:30), Dudley (17:15), Hoenig (19:00)
EU-16 Services PMI, Mar final	09:00	53.7	53.7	
EU-16 GDP, Q4 final	10:00	0.1%	0.1%	
EU-16 PPI, Feb	10:00	0.2%	0.7%	US Treasury sells \$21bn, 10y notes
Germany Factory Orders, Feb	11:00	-0.5%	4.3%	
US MBA Mortgage Apps, Apr 2	12:00	n/a	1.3%	
US Consumer Credit, Feb	20:00	-0.2bn	5.0bn	

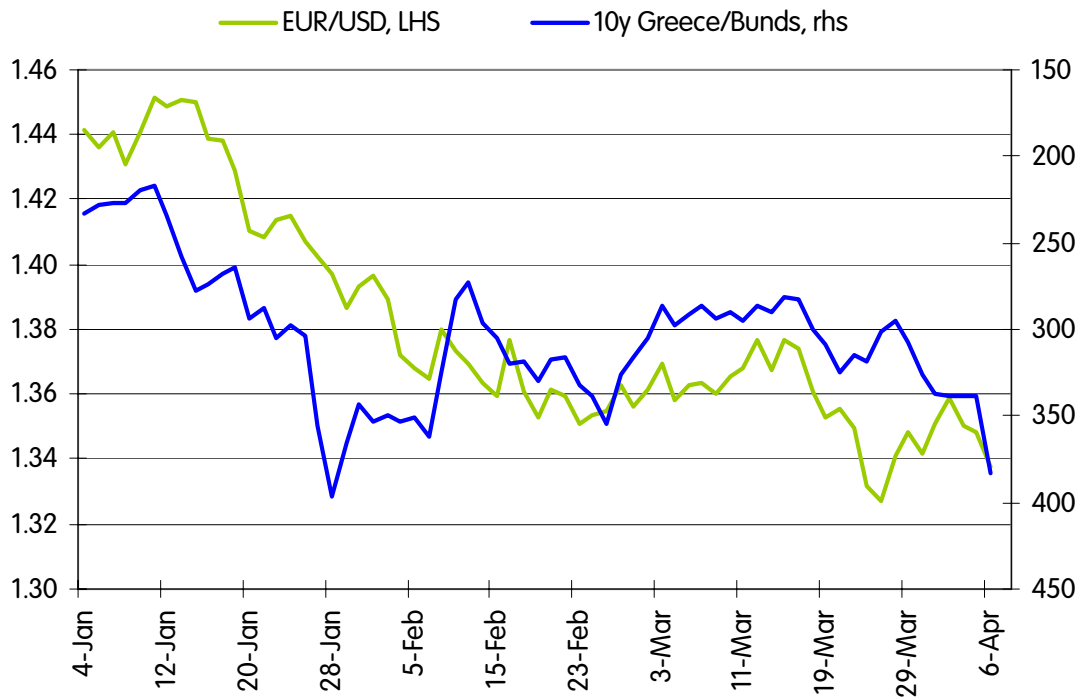
*All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, DataStream & CQG

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

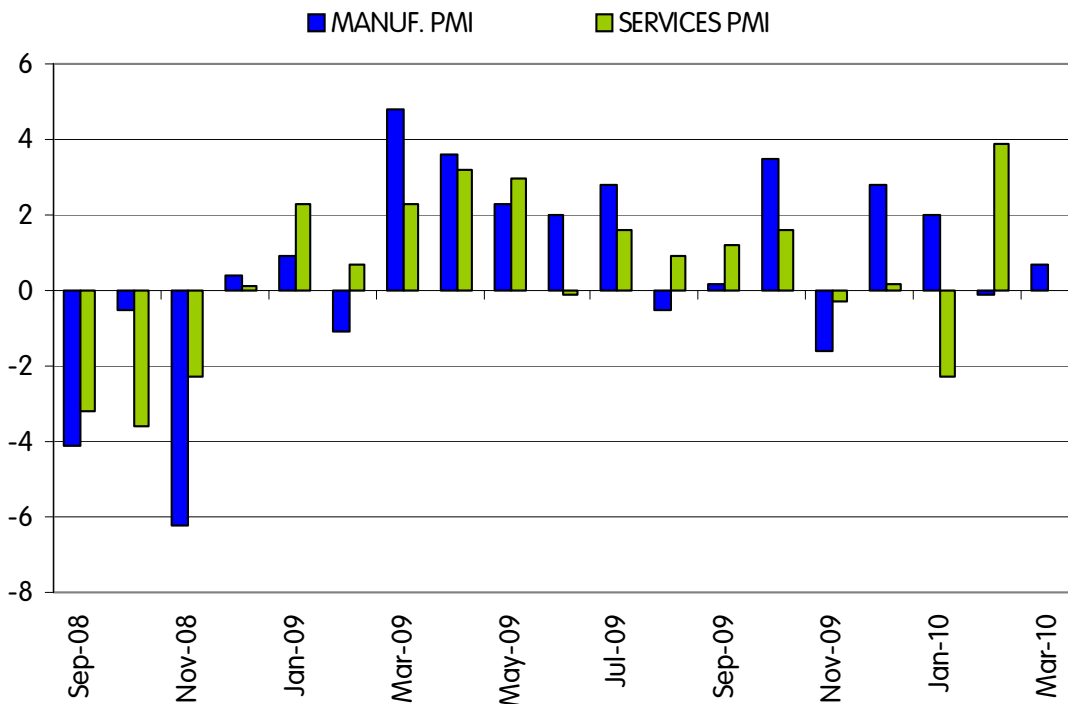
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Last time 10y Greece/bunds hit 400bp (28 Jan), EUR/USD traded above 1.3950



UK services PMI, 3.9pt surge in March a blip?



USD/CAD through parity, target 0.98



Crude: still in the ascendancy





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GBP/EUR	1.1393	0.45%				
GBP/USD	1.5267	-0.19%				
GBP/JPY	143.19	-0.80%				
GBP/CHF	1.6318	0.44%				
GBP/AUD	1.6445	-0.94%				
GBP/CAD	1.5289	-0.27%				
GBP/NZD	2.1602	-0.70%				
GBP/NOK	9.1041	0.17%				
GBP/ZAR	11.0585	-0.04%				
GBP/CNY	10.4201	-0.20%				
Bonds %			bp			
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DJ Agriculture Index	57.35	0.51%				
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*latest price						
Commodities			%			
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Gold \$/oz	1134.3	0.21%				
Copper c/lb	361.7	-0.40%				
Silver \$/oz	17.94	-0.83%				
Baltic Dry	2981	-0.33%				
Swaps %			bp			
US 5yr	2.852	-8.3				
EUR 5yr	2.452	5.3				
UK 5yr	2.913	6.8				
Official Rates %						
UK	0.50					
US	0.25					
EU	1.00					
Japan	0.10					

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