Daily Market Strategy

Thursday, 8th April 2010

Market Strategy

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- **BoE, ECB on hold; Greece, collateral framework in focus**
- **Gold near $1,150 as EUR, equities slip**

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/$: 1.5195	€/$: 1.3316	$/Y: 93.36
UK 5y sw: 2.94%	US 5y sw: 2.77%	EU 5y sw: 2.39%

Overnight

- stellar US 10y auction: b/c 3.72 (record), indirects get 43.1%, directs take 16.3%
- Australia March employment up 19.6k, full-time jobs jump 30.1k
- US Treasury Sec Geithner visits Beijing; Fed's Bernanke says economy 'not out of the woods', Hoenig (lone dissenter) says interest rates should rise to 1% 'sometime soon'.

The Masters gets underway in Augusta later today and will have more than a few market participants glued to the opening shot of 'you know who', potentially reducing market liquidity after the European close. The BoE and ECB meetings are unlikely to set too many pulses racing in comparison. Unchanged rates from both central banks will be par for the course, with the BoE set to repeat that it keeps the £200bn target for asset purchases under review. A backstop to higher yields, the Bank finds an ally today in US Treasuries after a stellar overnight 10y auction and weaker equities (FTSE down 2nd day on the trot). For the ECB, focus will be on details of the new collateral framework including a 'graded haircut schedule' for assets with lower credit ratings, and president Trichet's comment after the ECB's volte face two weeks ago over the involvement of the IMF in a EU/Greece rescue package. A spike in Greece bond yields and risk of further ECB collateral pain squeezed EUR/USD to a 1.3307 low overnight. Further selling of the single currency (watch Geithner's China visit) should help gold to consolidate yesterday's $15 surge and puts $1,161, the January 11 high, on the radar.

Ahead today

- UK: the latest run of economic data points to a relatively solid end to Q1, but this will not sway the BoE to change policy direction today. Manufacturing output is forecast to have rebounded from a dreadful 0.9% drop in January. The NIESR is scheduled to release its first GDP estimate for Q1 later in the day. Our economist team forecasts Q1 GDP at +0.3% q/q.
- EU: no data, spotlight on the ECB and the Spanish 2013 auction (max 3.5bln).
- US: weekly claims are forecast at 435k vs 439k. The $13bn sale of 30y bonds concludes this week's auction schedule. 30y yields closed 8bp lower at 4.75% following the strong 10y auction.

FX: the EUR finds itself under pressure for a 5th successive trading session ahead of the ECB meeting and press conference where Trichet's comments will obviously be key this afternoon. The FT reports that Greek savers have withdrawn 10bn euros in domestic deposits, forcing banks to seek help from the government. EUR/USD slipped to 1.3307 low overnight. Sizeable option protection is said to be situated at 1.3300 (part of 1.3600 DNT). We look for a pullback to 1.3268, the March 26 low. For EUR/GBP, a bounce off 0.8749 support puts the cross on target for a bounce to 0.8880, the 50d MA. AUD/USD failed to extend on strong overnight jobs data, though 1mth risk reversals progress to -1.54 (favouring AUD calls)

Rates: We look for UK 5y swaps to oscillate around 2.90% ahead of UK IP data and the BoE decision. 10y gilts are down 2bp at 4.04%, backing away from resistance at 4.06% as buyers emerge in the wake of a lower close overnight in US yields (10y 3.86%) and a second successive drop for the FTSE . UK/EU 10y swaps hit a 62bp high yesterday but ease back below 60bp to 58bp in early trade. 2y/10y gilts hit 283bp resistance but could see flattening pressure resume if IP data comes in strong at 9.30am. 10y Greece/bunds blows out to 423bp.

	Close	Daily Change
FX		**%**
EUR/GBP	0.8755	-0.26%
GBP/USD	1.5241	-0.17%
EUR/USD	1.3344	-0.41%
USD/JPY	93.360	-0.46%
AUD/USD	0.9268	-0.17%
Bonds %		**bp**
US 10Yr	3.853	-9.7
EUR 10Yr	3.119	-2.4
UK10 Yr	4.060	4.7
UK 5yr Swap	2.938	2.5
Equities		**%**
S&P500	1182.45	-0.59%
FTSE100	5762.06	0.00%
Eurostoxx50	2974.62	0.00%
Shanghai Composite	3118.71	-0.94%
Commodities		**%**
Crude Oil $/bl	85.88	-1.11%
Gold $/oz	1149.4	1.33%
Copper	359.8	-0.54%
Baltic Dry	2947	-1.14%
Other		
VIX	16.62	2.40%
iTraxx XOVER	429.61	13.0

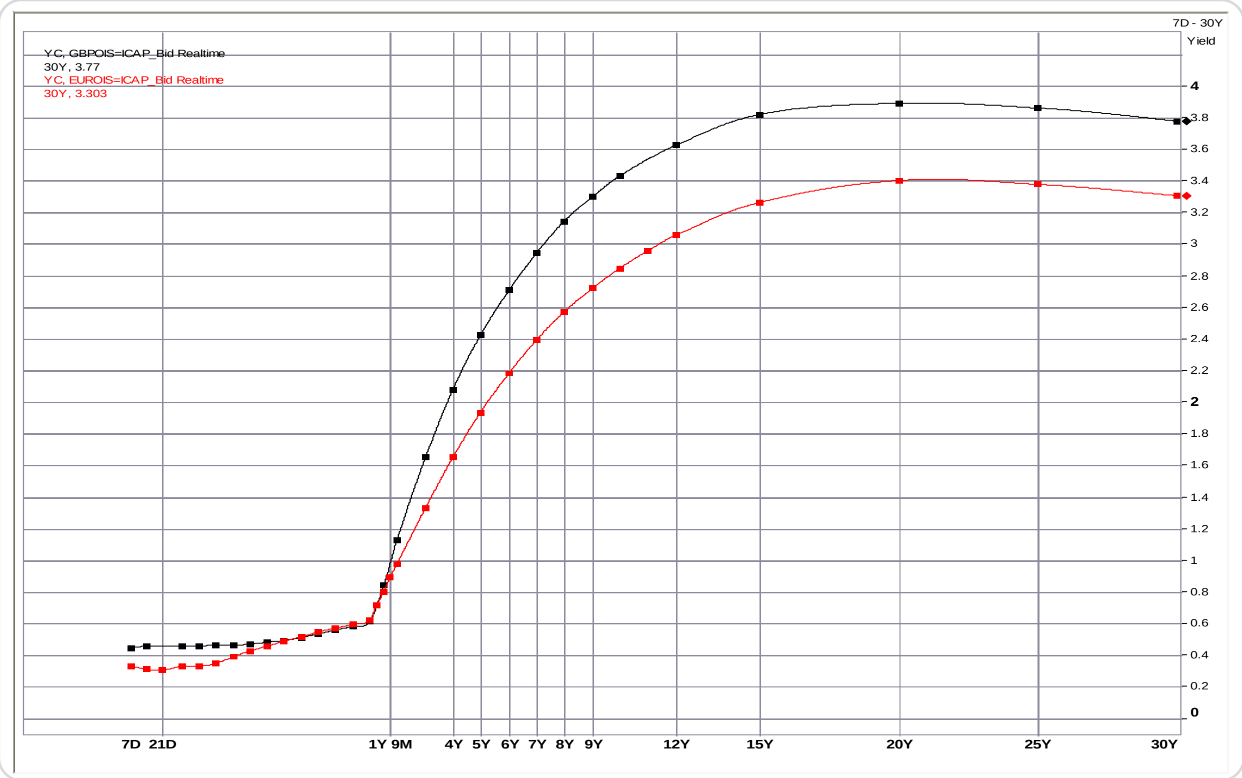
Today's Data	**Time**	**Consensus**	**Previous**
Japan Machinery Orders, Feb, m/m	00:50	-5.4%A	-3.7%
UK Industrial Production, Feb	09:30	0.5%	-0.4%
UK Manufacturing Production, Feb	09:30	0.6%	-0.9%
BoE -- Rate Decision	12:00	0.50%	0.50%
-- APF Target	12:00	200bn	200bn
UK NIESR GDP est, Mar	tbc	n/a	0.3%
ECB Rate Decision	12:45	1.0%	1.0%
US Initial Claims, Apr 3	13:30	435k	439k

Events

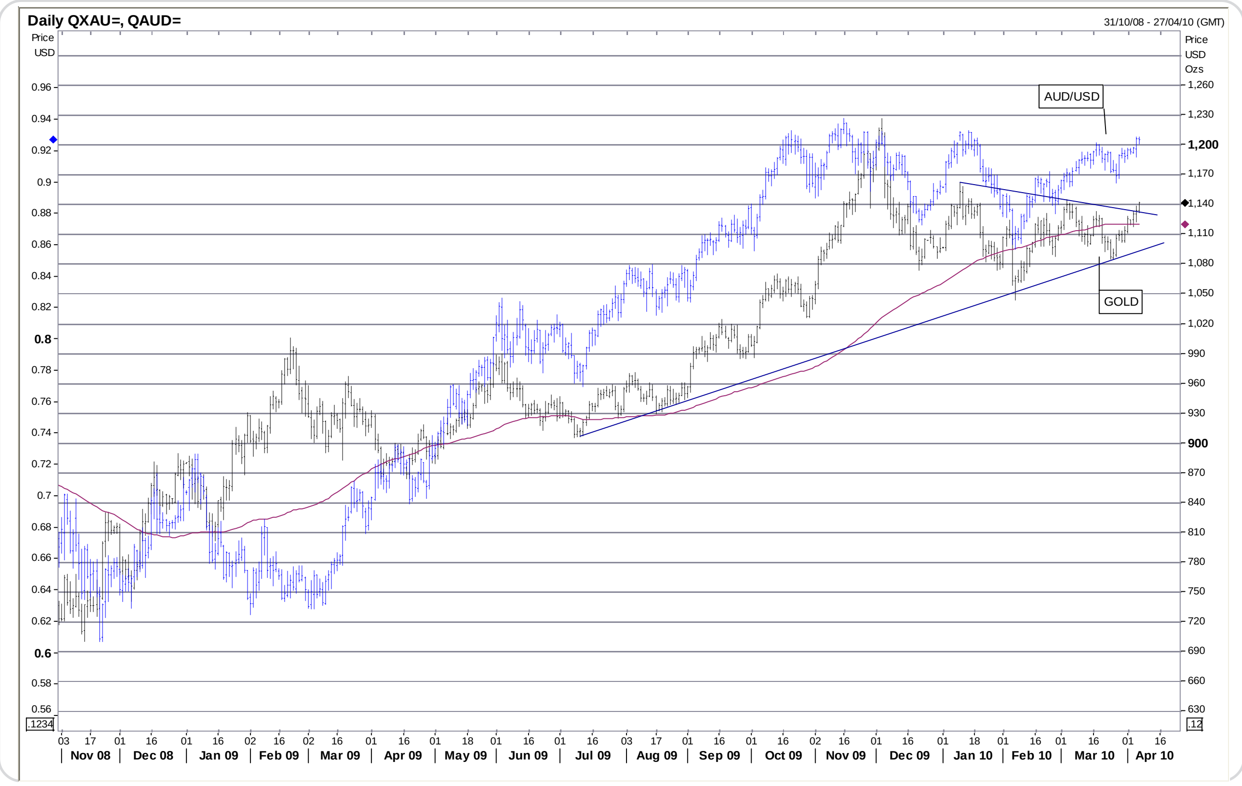
Fed speakers:Tarullo (15:30), Kocherlakota (19:45)
Kohn (21:00)
US Treasury sells $13bn, 30y notes

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

GBP vs EUR OIS swaps: no change in rates expected for the next 12 months



AUD/USD vs gold: moving in lock-step



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USD/JPY	93.36	-0.46%
AUD/USD	0.9268	-0.17%
EUR/GBP	0.8755	-0.26%
GBP/EUR	1.1422	0.25%
GBP/USD	1.5241	-0.17%
GBP/JPY	142.29	-0.63%
GBP/CHF	1.6368	0.31%
GBP/AUD	1.6446	0.01%
GBP/CAD	1.5337	0.31%
GBP/NZD	2.1558	-0.20%
GBP/NOK	9.1098	0.06%
GBP/ZAR	11.0918	0.30%
GBP/CNY	10.4044	-0.15%

Bonds %		bp
US 10Yr	3.853	-9.7
EUR 10Yr	3.119	-2.4
UK10 Yr	4.060	4.7

Other		
VIX	16.62	2.40%
iTraxx XOVER	429.61	13.0
DJ Agriculture Index	58.03	1.18%

Equities	Close	Daily Change %
S&P500	1182.45	-0.59%
DJIA	10897.52	-0.66%
FTSE100	5762.06	0.00%
Eurostoxx50	2974.62	0.00%
Shanghai Composite*	3118.71	-0.94%

*latest price

Commodities		%
Crude Oil $/bl	85.88	-1.11%
Gold $/oz	1149.4	1.33%
Copper c/lb	359.8	-0.54%
Silver $/oz	18.18	1.34%
Baltic Dry	2947	-1.14%

Swaps %		bp
US 5yr	2.747	-10.5
EUR 5yr	2.392	-6.0
UK 5yr	2.938	2.5

Official Rates %	
UK	0.50
US	0.25
EU	1.00
Japan	0.10