Daily Market Strategy

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Market Strategy

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- **USD/CNY hits 5-month low on reval talk**
- **FTSE reverses 2-day drop, commodities lead**

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/$: 1.5301	€/$: 1.3369	$/Y: 93.65
UK 5y sw: 2.90%	US 5y sw: 2.79%	EU 5y sw: 2.42%

Overnight

- strong US 30y auction: b/c 2.73 , indirects get 36.8%, directs take 25.5%
- German trade surplus widens to 12.6bn eur in March, exports leap 5.1% m/m
- SNB's Danthine to make speech to 13:00

The day ahead doesn't promise to be anything as exciting as TW's return to competitive golf yesterday, unless China announces a shift in policy on the renminbi. US bond auctions have gone remarkably well this week especially in the long end of the curve where strong cover and indirect/direct bidding helps treasuries to outperform gilts and bunds (-6bp vs +2bp and +10bp respectively). The decline in 10y yields back below last week's NFP level (3.88% vs 3.94%) should settle concerns about near-term US supply, but scope for a further drop in G3 yields looks set to be challenged by the rally in commoditues and risk assets. A bounce in EUR crosses led through EUR/USD and EUR/JPY belies a still uncomfortable situation with regard to Greece. The ECB failed in our view to dispel any doubts about how a rescue plan, if needed, would work in practice. This limits any upside for the single currency and should keep the EUR trailing pro-risk/ currency correlation trades.

	Close	Daily Change
FX		**%**
EUR/GBP	0.8744	-0.13%
GBP/USD	1.5280	0.26%
EUR/USD	1.3361	0.13%
USD/JPY	93.380	0.02%
AUD/USD	0.9288	0.22%
Bonds %		**bp**
US 10Yr	3.890	3.7
EUR 10Yr	3.096	-2.3
UK10 Yr	4.009	-5.1
UK 5yr Swap	2.900	-3.8
Equities		**%**
S&P500	1186.44	0.34%
FTSE100	5712.70	0.00%
Eurostoxx50	2942.31	0.00%
Shanghai Composite	3145.35	0.85%
Commodities		**%**
Crude Oil $/bl	85.39	-0.57%
Gold $/oz	1150.6	0.10%
Copper	358.7	-0.31%
Baltic Dry	2922	-0.85%
Other		
VIX	16.48	-0.84%
iTraxx XOVER	431.62	2.0

Ahead today

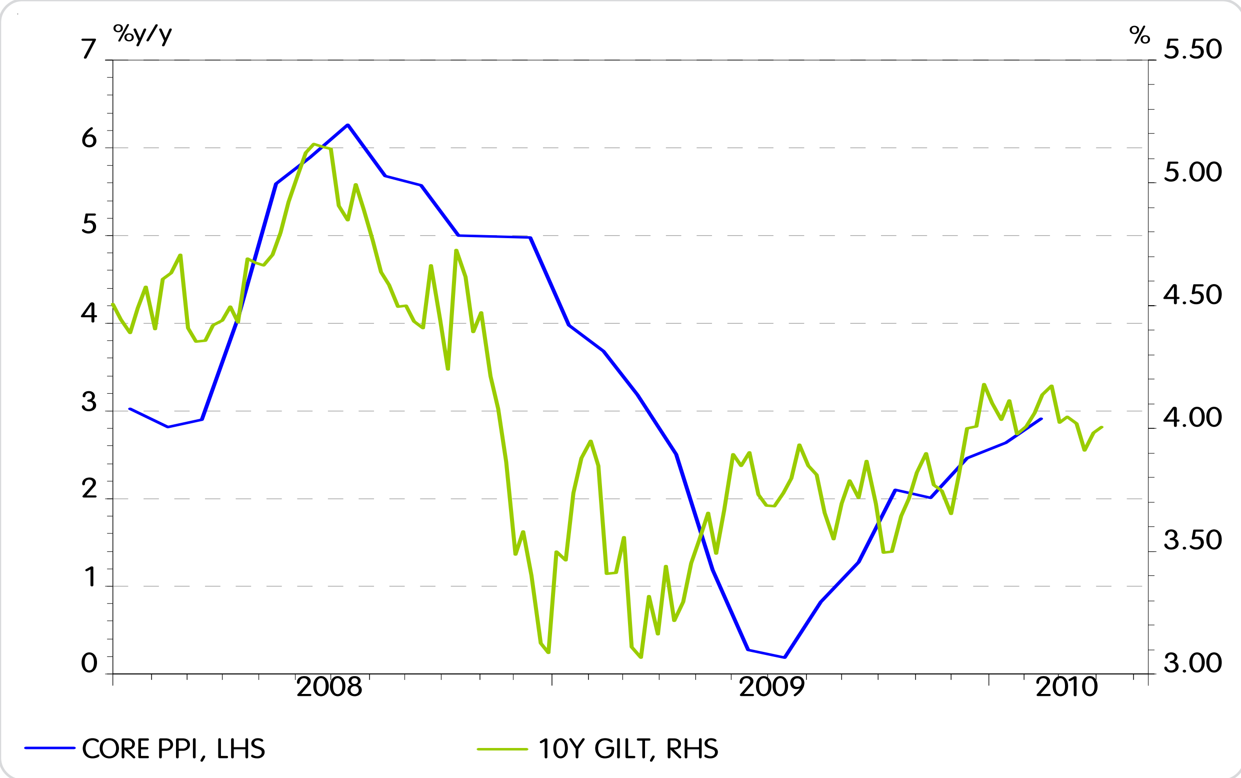
- UK: annual core PPI is forecast to hit a 1-year high of 3.1%, marking a 4th successive rise. Weak sterling and higher fuel costs have squeezed annual input prices inflation over 7%. The stickiness of inflation and recovery in GDP in Q4/Q1 gives the BoE something to think about for next month's Inflation Report and projections for inflation, and may show in two weeks time that a more fragmented discussion took place at this week's MPC meeting.
- US: second-tier release of wholesale inventories should have no major market impact.

FX: Comments by SNB member Danthine contributed to a drop in EUR/CHF of 120 ticks on March 18 so we have been warned as Mr Danthine prepares to make a speech early this afternoon. Though the official view is that excessive Franc appreciation is unwelcome, signs of a strengthening recovery in Switzerland (unemployment rate down, retail sales up) may led Mr Danthine to reiterate that consumers have to prepare for a normalisation on interest rates. EUR/CHF 1mth vol has dropped nearly 2points to 4.01 this month, with spot trading in an extremely tight 1.43-53 range since April 5. The CAD could also be a mover today as a result of the Canadian employment stats for March. The odds of a June rate hike by the BoC are now close to 50%. Evidence of a further rise in full-time employment would support our short-term USD/ CAD call for a move to 0.98. GBP/USD cleared 1.5315 earlier, the 50d MA, drawing support form the latest YouGov election poll (Cons +3, Lab -1). Resistance runs at 1.5382, the March 17 high. Strong PPI data at 9.30am should help GBP to extend gains, aided by thin liquidity.
Rates: Profit taking and a bounce in equities has caused gilts to reverse in early trading with the front end 2y gilt bouncing 5bp after touching a contract low of 1.126% in yield terms yesterday. 5y swaps are steady at 2.91%, within the comfort of recent ranges and partially a function of low corporate sterling supply. CBA issued £500mn of 2015 paper on Wednesday at 100bp over swaps. The 2y/10y swaps curve is steady at 227bp, with cash a touch flatter at 286bp, holding above 283bp support. We are closely following developments in the EU periphery, where Greek bonds claw back some ground this morning after yesterday's sell-off.

Today's Data	Time	Consensus	Previous	Events
Germany Trade Balance, Feb	07:00	12.6bnA	8.0bn	Fed speakers: Bernanke (01:30)
Germany Current Account, Feb	07:00	9.1bnA	3.6bn	
UK -- PPI Input, Mar	09:30	1.2%	0.1%	
-- PPI Output, Mar	09:30	0.4%	0.3%	
-- PPI Output Core, Mar	09:30	0.3%	0.3%	
Canada Employment Change, Mar	12:00	26k	20.9k	
US Wholesale Inventories, Feb	15:00	0.4%	-0.2%	

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

UK core PPI vs 10y gilt: levelling off, or set to accelerate?



UK 5y swaps: downtrend still intact

Market Summary

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USD/JPY	93.38	0.02%
AUD/USD	0.9288	0.22%
EUR/GBP	0.8744	-0.13%
GBP/EUR	1.1437	0.13%
GBP/USD	1.5280	0.26%
GBP/JPY	142.68	0.27%
GBP/CHF	1.6394	0.16%
GBP/AUD	1.6451	0.03%
GBP/CAD	1.5313	-0.16%
GBP/NZD	2.1604	0.21%
GBP/NOK	9.0941	-0.17%
GBP/ZAR	11.1144	0.20%
GBP/CNY	10.4298	0.24%

Bonds %		bp
US 10Yr	3.890	3.7
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UK10 Yr	4.009	-5.1

Other		
VIX	16.48	-0.84%
iTraxx XOVER	431.62	2.0
DJ Agriculture Index	57.19	-1.45%

Equities	Close	Daily Change %
S&P500	1186.44	0.34%
DJIA	10927.07	0.27%
FTSE100	5712.70	0.00%
Eurostoxx50	2942.31	0.00%
Shanghai Composite*	3145.35	0.85%

*latest price

Commodities		%
Crude Oil $/bl	85.39	-0.57%
Gold $/oz	1150.6	0.10%
Copper c/lb	358.7	-0.31%
Silver $/oz	18.11	-0.39%
Baltic Dry	2922	-0.85%

Swaps %		bp
US 5yr	2.789	4.2
EUR 5yr	2.427	3.5
UK 5yr	2.900	-3.8

Official Rates %	
UK	0.50
US	0.25
EU	1.00
Japan	0.10