

Daily Market Strategy

Monday, 12th April 2010

Market Strategy

Kenneth Broux

Senior Market Economist

0207 158 1750

kenneth.broux@lloydstsb.co.uk

- EUR, commodities, stocks rally on Greece aid plan
- UK 5y swaps near 3%; FTSE eyes 5,800

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5444

€/£: 1.3645

\$/¥: 93.30

UK 5y sw: 2.93%

US 5y sw: 2.82%

EU 5y sw: 2.50%

Overnight

- average cost of EU aid 5%, 210bp below 10y Greek benchmark, plan may be activated as soon as today; unanimous EU vote required; 10y spread/bunds falls 40bp (355bp)
- Alcoa to kick off Q1 earnings today; JPM reports Wed, BofA and GE on Friday
- UK 5y swaps through 50d MA (2.96%); Tories' poll lead narrows to +6

It took the EU two months to make the step from pledging its political unity to spelling out how loans to Greece would exactly look like. We now know that EU members will offer up to 30bn eur at 5% vs a 10y market rate of 6.7%. The IMF will contribute an additional 15bn eur. The deal still needs unanimous EU backing before it is made operational, so we are not there yet but at least we know how the plumbing looks like if Greece struggles to roll-over short and longer term funding (2.2bn eur in 26-wk and 52-wk T-bills due this week). The EUR and equities are understandably bid on the news with bunds selling off by an average of 5bp (2y/10y curve steeper), taking 2y yields back over 1% and 5y swaps to a 2.54% high. The EU deal should get Greece past the April and May refunding hump (18bn euro in coupon payments and refunding) but beyond that the outlook still looks grim as the economy sets course for a sharp contraction. Participants still have good reason to tread cautiously vs the EUR despite the EU backstop facility.

Ahead today

- UK, EU: no data or gilt auctions; ECB member Nowotny speaks this morning
- US: the monthly budget deficit for March is forecast at \$80bn ; FOMC voter member Tarullo speaks this afternoon

Weekly IMM positions

	30-Mar		06-Apr		change		
	rep	non rep	rep	non rep			
CAD	70	30	101	69	29	98	-2
CHF	-7	0	-7	-4	1	-3	3
GBP	-67	-15	-83	-59	-18	-77	5
JPY	-31	-20	-51	-42	-23	-65	-13
EUR	-85	-12	-98	-67	-10	-77	21
AUD	69	18	88	73	23	97	9

FX: Oversold EUR/CAD and EUR/AUD crosses are bouncing 1.4% this morning from heavily oversold conditions as the Greek news forces short covering of overweight short EUR positions (through shorts reduced by 20,000 contracts according to latest IMM update). For EUR/USD, a high of 1.3692 was hit overnight but profit taking has lowered the cross back to below 1.3650 as the knee-jerk enthusiasm starts to ebb. Though we look for the EUR (and GBP) to benefit from pro-risk sentiment (watch stocks, rate differentials), we reiterate our preferred view shared here last week that both currencies remain under a cloud and are likely to trail high yielders and commodity currencies. Key support for EUR/USD runs at 1.3594. For EUR/GBP, a narrowing of the Tory/Labour poll gap to +6 is bad news and favours a back up to 0.8884 (50d MA) and a re-test 0.8904, the 100d MA.

Rates: A breakout of the narrow trading range is observed for 5y swaps in early trading. A move through 2.96% (50dMA) up to 2.98% (2.99% high) puts 3% on the radar, followed by a move up potentially to 3.08% as risk assets outperform and UK inflation expectations accelerate (see chart). The 2y/10y swaps and cash curves are flat at 226bp and 287bp, respectively.

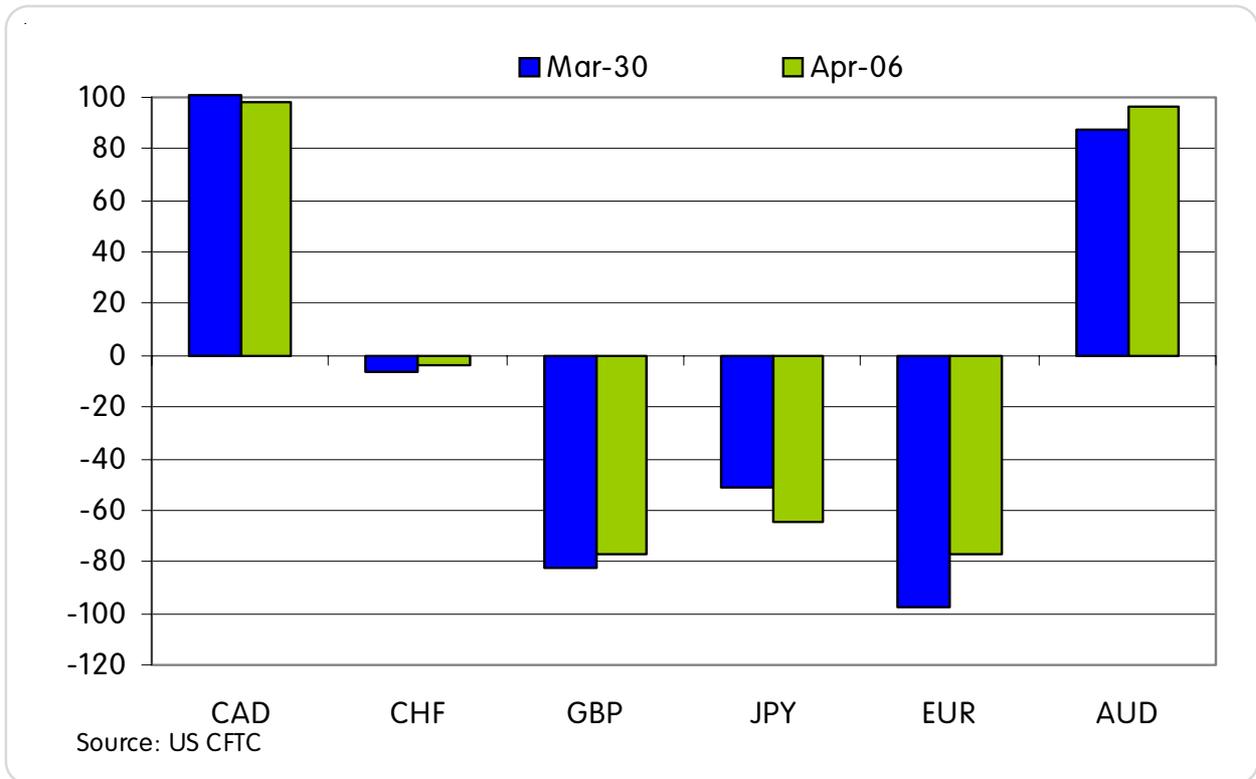
	Close	Daily Change %
FX		
EUR/GBP	0.8780	0.41%
GBP/USD	1.5370	0.59%
EUR/USD	1.3500	1.04%
USD/JPY	93.180	-0.21%
AUD/USD	0.9332	0.47%
Bonds %		bp
US 10Yr	3.883	-0.8
EUR 10Yr	3.166	7.0
UK10 Yr	4.045	3.6
UK 5yr Swap	2.933	3.3
Equities		%
S&P500	1194.37	0.67%
FTSE100	5770.98	1.02%
Eurostoxx50	2993.54	1.74%
Shanghai Composite	3128.53	-0.53%
Commodities		%
Crude Oil \$/bl	84.92	-0.55%
Gold \$/oz	1162.0	1.00%
Copper	359.0	0.10%
Baltic Dry	2913	-0.31%
Other		
VIX	16.14	-2.06%
iTraxx XOVER	420.28	-11.3

Today's Data

	Time	Consensus	Previous	Events
Canada Housing Starts, Mar	13:15	200k	196.7k	ECB speaker: Nowotny (09:30)
US Monthly Budget Statement, Mar	19:00	-80bn	-191.6bn	Fed speaker: Tarullo (15:45)

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

Weekly IMM positions: GBP shorts fall for 2nd week, AUD longs approach 100,000 contracts



EUR/USD: pop higher on Greece aid; resistance at 1.3850



Market Summary

FX	Close	Daily Change %		Close	Daily Change %	
EUR/USD	1.3500	1.04%		Equities		
USD/JPY	93.18	-0.21%		S&P500	1194.37	0.67%
AUD/USD	0.9332	0.47%		DJIA	10997.35	0.64%
EUR/GBP	0.8780	0.41%		FTSE100	5770.98	1.02%
GBP/EUR	1.1388	-0.43%		Eurostoxx50	2993.54	1.74%
GBP/USD	1.5370	0.59%		Shanghai Composite*	3128.53	-0.53%
GBP/JPY	143.20	0.36%		*latest price		
GBP/CHF	1.6382	-0.07%		Commodities		%
GBP/AUD	1.6468	0.10%		Crude Oil \$/bl	84.92	-0.55%
GBP/CAD	1.5409	0.63%		Gold \$/oz	1162.0	1.00%
GBP/NZD	2.1456	-0.69%		Copper c/lb	359.0	0.10%
GBP/NOK	9.0786	-0.17%		Silver \$/oz	18.41	1.68%
GBP/ZAR	11.1478	0.30%		Baltic Dry	2913	-0.31%
GBP/CNY	10.4929	0.60%				
			Swaps %		bp	
Bonds %		bp	US 5yr	2.774	-1.6	
US 10Yr	3.883	-0.8	EUR 5yr	2.450	2.3	
EUR 10Yr	3.166	7.0	UK 5yr	2.933	3.3	
UK10 Yr	4.045	3.6				
			Official Rates %			
Other			UK	0.50		
VIX	16.14	-2.06%	US	0.25		
iTraxx XOVER	420.28	-11.3	EU	1.00		
DJ Agriculture	57.15	-0.07%	Japan	0.10		
Index						

This document is confidential, for your information only and must not be distributed, in whole or in part, to any person not involved with the proposed transaction without the prior consent of Lloyds TSB Bank plc ("LTSB"). Whilst LTSB has exercised reasonable care in preparing this document and any views or information expressed or presented are based on sources it believes to be accurate and reliable, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. In particular, whilst we have sought to identify appropriate products and to provide guidance as to how those products might operate under various accounting standards we are not, and should not be considered to be, giving an accounting opinion or advice and you should conduct your own independent enquiries and seek your own professional advice in this respect. Any transaction which you may enter into with us will be on the basis that you have made your own independent evaluations based on your own knowledge and experience and any professional advice which you may have sought in relation to all aspects of the transaction including legal, regulatory, tax or accounting. All terms contained herein, including pricing, are indicative only and subject to change without notice. This material has been prepared for information purposes only and LTSB, its directors, officers and employees are not responsible for any consequences arising from any reliance upon such information. If you receive information from us which is inconsistent with other information which you have received from us, you should refer this to your LTSB Sales Representative for clarification.

Lloyds TSB Corporate Markets is a trading name of LTSB. LTSB's registered office is at 25 Gresham Street, London EC2V 7HN and it is registered in England and Wales under no. 2065. LTSB is authorised and regulated by the Financial Services Authority. (11.07).