

Daily Market Strategy

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Market Strategy

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- Singapore reval; how soon will China follow?
- Blockbuster day for US: CPI, retail sales, Bernanke, JPM earnings

Market Outlook

Kenneth Broux

Opening levels (7.15am)

£/\$: 1.5424

€/£: 1.3654

\$/¥: 93.43

UK 5y sw: 2.94%

US 5y sw: 2.73%

EU 5y sw: 2.45%

Overnight

- MAS says it seeks 'modest and gradual' appreciation of the SGD and shifts to a stronger range for currency fluctuations, move is first in 39 years and designed to tighten monetary conditions; 2010 GDP forecast raised to 9% vs 6.5%
- Intel surpasses Q1 estimate, raises Q2 guidance; JPM Q1 results today
- Greek/bund spread widens to 369bp despite successful T-bill auctions; Handelsblatt reports EU support for Greece may total 90bn euros

A positive start to the trading session for risk assets and high yield/commodity currencies is backed by the reval of the SGD and bullish Q1 update and business guidance by Intel. In line with our correlation matrix (see FX weekly), AUD/USD and USD/JPY were among the best performing G10 crosses overnight as equities rallied across the region. In emerging markets fx, the SGD and KRW are up 1% vs the USD, followed closely by the MYR (0.8%) as questions resurface over the timetable of a policy shift by China. The dollar experienced an uncharacteristic day yesterday (weaker on risk aversion, lower commodities) and looks set to continue in the same vein today, except vs the JPY, but now with risk appetite is favoured. The caveat to short USD/G10 strategies is the 180 degree turn in Greek bonds this morning following yesterday's T-bill led rally, and the testimony this afternoon by Fed chairman Bernanke. The bond market will be on its wits for comments by the Fed chair hinting at a possible departure from the ultra-dovish stance and any change in language to give the Fed more policy flexibility. In other words, rate differentials could temper some of the USD selling, especially if retail sales data are strong.

	Close	Daily Change %
FX		
EUR/GBP	0.8851	0.08%
GBP/USD	1.5381	0.08%
EUR/USD	1.3614	0.16%
USD/JPY	93.200	-0.04%
AUD/USD	0.9291	0.17%
Bonds %		bp
US 10Yr	3.820	-2.1
EUR 10Yr	3.146	-3.1
UK10 Yr	4.017	-3.3
UK 5yr Swap	2.928	-3.1
Equities		%
S&P500	1197.30	0.07%
FTSE100	5761.66	0.00%
Eurostoxx50	2988.24	0.00%
Shanghai Composite	3166.18	0.16%
Commodities		%
Crude Oil \$/bl	84.05	-0.34%
Gold \$/oz	1150.7	-0.48%
Copper	360.1	1.01%
Baltic Dry	2928	0.58%
Other		
VIX	16.20	3.98%
iTraxx XOVER	396.75	-12.5

Ahead today

- UK: no data or central bank speakers; the DMO sells £900m, 2042 IL paper tomorrow.
- EU: industrial output for February is forecast at +0.1% mi/m; not a market mover.
- US: Fed chairman Bernanke dominates provided retail sales and CPI don't spring a surprise. The Fed chairman only last week reiterated his view that the economy is 'not out of the woods', stating that interest rates can stay low for a long period. The broader question I suppose going into the 28 April FOMC is whether (i) the Fed is confident enough on the economy to justify a change in its commitment to keep interest rates low (ii) how soon the Fed may start selling MBS securities.

FX: GBP/SGD is down 1% overnight on the MAS move, testing support at 2.1189 (20d MA). A move through the level sets the pair up for a test of 2.10. With pro-risk in high demand as the S&P 500 prepares to cross 1,200, we look for AUD and CAD crosses to outperform. Backed by positive US retail sales data, we look for AUD/USD to extend to 93.50 and AUD/JPY to progress towards 87.52, the April 7 high. EUR/AUD faded at 1.47250, with the subsequent reversal puts the cross on course for a retracement to 1.45 as Greek bond spreads widen. For GBP/USD, the improvement in correlation with risk assets over the past two weeks should give the pair a lift and probe the range highs in the 1.5450 area even as the election polls show a stagnation of the Tories over Labour around +6.

Rates: UK 5y swaps ticked up 2bp from the open at 2.96%, taking a cue from better demand for risk assets. 10y swap spreads are flat at -14bp. The same is true for the 2y/10y curve, with the swap spread pinned at 226bp. US CPI and retail sales plus Bernanke will dictate price action this afternoon. Nordea Bank launched a £500m 2015 issue at 103.6bp over mid-swaps.

Today's Data	Time	Consensus	Previous	Events
EU-16 Industrial Output, Feb	10:00	0.1%	1.7%	Fed chairman Bernanke testifies to the House Joint Economic Committee on the economy (15:00)
US MBA Mortgage Apps, Apr 9	12:00	n/a	-11.9%	Fed speakers: Lacker (00:15), Pianalto (14:30), Lacker (16:00), Fisher (18:45)
US -- CPI, Mar	13:30	0.1%	0.0%	Fed Beige Book (19:00)
-- CPI ex food/energy, Mar	13:30	0.1%	0.1%	ECB speaker: Stark (14:15)
US -- Retail Sales, Mar	13:30	1.2%	0.3%	Germany sells new 2015 bobl, max 7bn eur
-- Retail Sales ex-autos, Mar	13:30	0.5%	0.8%	
US Business Inventories, Feb	15:00	0.4%	0.0%	

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

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Bloomberg page: LLOY<GO>

GBP/USD: flirting with resistance in the 1.5450 area



US 10y: bouncing off support at 3.80%; 4% handle key near-term



Market Summary

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FX			Equities		
EUR/USD	1.3614	0.16%	S&P500	1197.30	0.07%
USD/JPY	93.20	-0.04%	DJIA	11019.42	0.12%
AUD/USD	0.9291	0.17%	FTSE100	5761.66	0.00%
EUR/GBP	0.8851	0.08%	Eurostoxx50	2988.24	0.00%
GBP/EUR	1.1298	-0.09%	Shanghai Composite*	3166.18	0.16%
GBP/USD	1.5381	0.08%	*latest price		
GBP/JPY	143.35	0.04%	Commodities		
GBP/CHF	1.6207	-0.44%	Crude Oil \$/bl	84.05	-0.34%
GBP/AUD	1.6553	-0.11%	Gold \$/oz	1150.7	-0.48%
GBP/CAD	1.5397	-0.06%	Copper c/lb	360.1	1.01%
GBP/NZD	2.1550	-0.13%	Silver \$/oz	18.24	-0.05%
GBP/NOK	9.0393	-0.19%	Baltic Dry	2928	0.58%
GBP/ZAR	11.2269	0.39%	Swaps %		
GBP/CNY	10.4991	0.08%	US 5yr	2.705	-1.9
Bonds %			EUR 5yr	2.429	-2.0
		bp	UK 5yr	2.928	-3.1
US 10Yr	3.820	-2.1	Official Rates %		
EUR 10Yr	3.146	-3.1	UK	0.50	
UK10 Yr	4.017	-3.3	US	0.25	
Other			EU	1.00	
VIX	16.20	3.98%	Japan	0.10	
iTraxx XOVER	396.75	-12.5			
DJ Agriculture Index	57.97	1.02%			

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