



Daily Market Strategy

Wednesday, 14th April 2010

Market Strategy

Kenneth Broux

Senior Market Economist

0207 158 1750

kenneth.broux@lloydstsb.co.uk

- 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.

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% m/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.

	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 %		
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

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
US MBA Mortgage Apps, Apr 9	12:00	n/a	-11.9%	Economic Committee on the economy (15:00)
US -- CPI, Mar	13:30	0.1%	0.0%	Fed speakers: Lacker (00:15), Pianalto (14:30), Lacker
-- CPI ex food/energy, Mar	13:30	0.1%	0.1%	(16:00), Fisher (18:45)
US -- Retail Sales, Mar	13:30	1.2%	0.3%	Fed Beige Book (19:00)
-- Retail Sales ex-autos, Mar	13:30	0.5%	0.8%	ECB speaker: Stark (14:15)
US Business Inventories, Feb	15:00	0.4%	0.0%	Germany sells new 2015 bobl, max 7bn eur

*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.

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

FX			Equities		
	Close	Daily Change %		Close	Daily Change %
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%			%
GBP/AUD	1.6553	-0.11%	Crude Oil \$/bl	84.05	-0.34%
GBP/CAD	1.5397	-0.06%	Gold \$/oz	1150.7	-0.48%
GBP/NZD	2.1550	-0.13%	Copper c/lb	360.1	1.01%
GBP/NOK	9.0393	-0.19%	Silver \$/oz	18.24	-0.05%
GBP/ZAR	11.2269	0.39%	Baltic Dry	2928	0.58%
GBP/CNY	10.4991	0.08%	Swaps %		
Bonds %					bp
		bp	US 5yr	2.705	-1.9
US 10Yr	3.820	-2.1	EUR 5yr	2.429	-2.0
EUR 10Yr	3.146	-3.1	UK 5yr	2.928	-3.1
UK10 Yr	4.017	-3.3	Official Rates %		
Other					
			UK	0.50	
VIX	16.20	3.98%	US	0.25	
iTraxx XOVER	396.75	-12.5	EU	1.00	
DJ Agriculture Index	57.97	1.02%	Japan	0.10	

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).