

# Tuesday Morning Kickoff @ Saxo

## Obama saves Asian steelmakers?

### Themes

- Short term equities are still in for a test of the 1130-level in S&P500, while longer-term we expect equities to retrace back to lower levels.
- European sovereign debt concerns are back in vogue this morning as Eurozone countries look to auction EUR 80bn in September, about twice the amount in August.

### What's going on?

We expect European equity markets to open roughly flat. However the continued rumour on another package from Obama & Co. has especially made steelmakers in Asia move against the trend of falling equity markets overnight. Despite that most are well aware of the fact that another round of stimulus will spur risk sentiment short term, but long term it is not going to help much. Earnings will still be under pressure due to weak sales and the prospect of further significant margin gains is remote.

The calendar is fairly light once again today, but sovereign debt woes are weighting in risk this morning. Meanwhile both Bank of Japan and Australia's RBA kept rates unchanged.

### Tuesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:00	NO Industrial Production MoM (JUL)			-1.7%
08:00	NO Manufacturing Production MoM (JUL)		-0.8%	3.3%
10:00	GE Factory Orders MoM (JUL)		0.5%	3.2%
15:00	US Fed purchases treasury notes (maturity: 8/2014-7/2016)			

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## Market Musings

Concerns over European debt are back as the members of the Eurozone prepare to auction some EUR 80 billion in September. This is roughly twice the 43bn that was auctioned in August. Spain is looking to auction 7bn in September up from 3.5bn in August.

In the US President Obama is stealing the headlines as the administration looks to spend \$168bn in various programmes to boost the economy. Interestingly the proposed \$100bn extension of the R&D tax credit to US companies seeks – among other things – to keep jobs in the US, but at the same time the administration is supposedly looking to invest \$50bn in infrastructure, such as roads and railways, which has sent Asian steelmakers higher this morning.

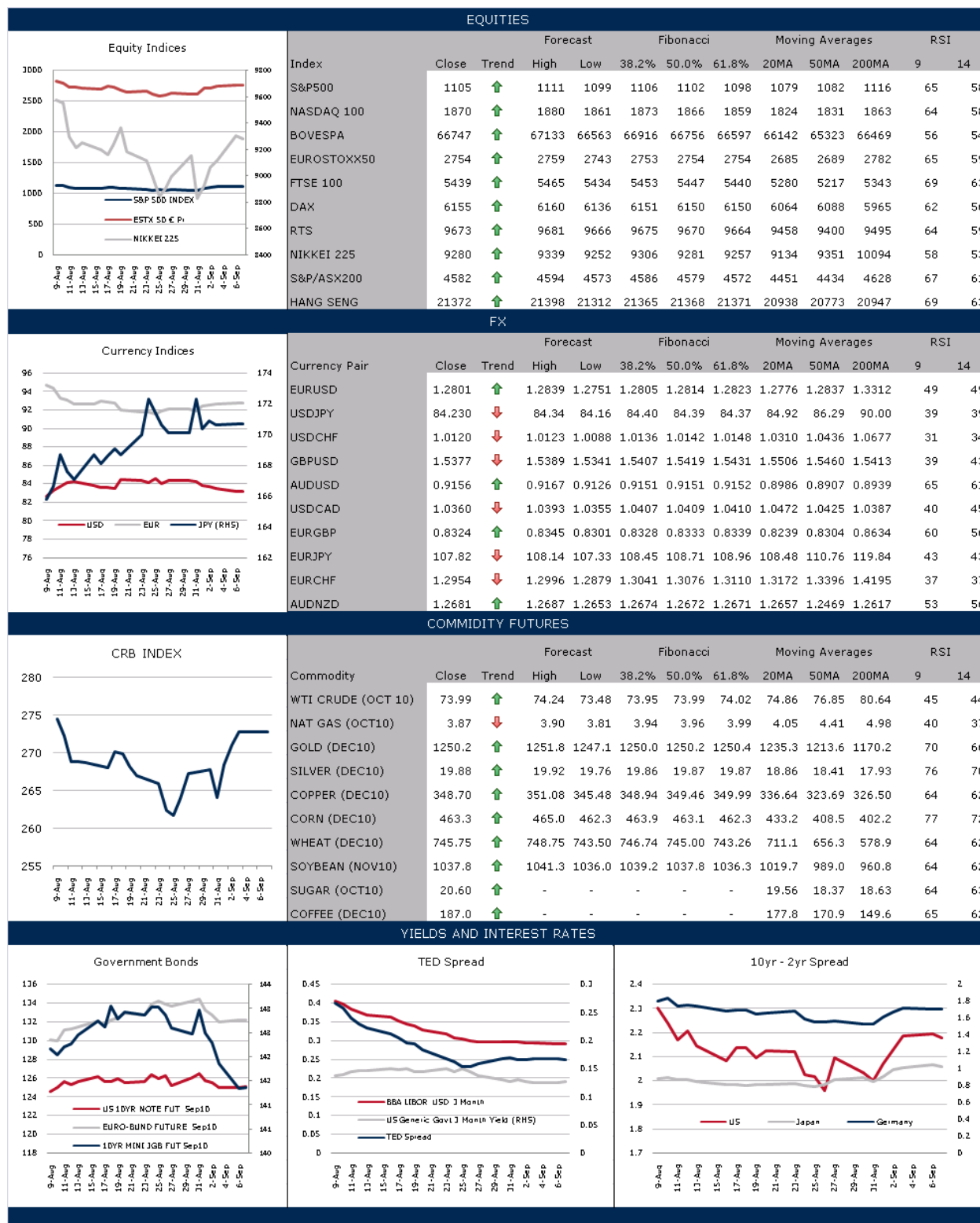
The Bank of Japan failed to do anything except keep rates low, which combined with a retreat in general to safehaven currencies has sent the Yen higher. Japanese prime minister rival Ozawa had put pressure on current PM Kan ahead of the meeting overnight, but that didn't translate into BOJ action. Rates were unsurprisingly kept at the ridiculous level of 0.10%. Elsewhere in Asia the Aussie has weakened as the Reserve Bank of Australia (RBA) also kept rates steady despite a string of positive economic data and at the same time news are out that Labor has managed to cling on to power as PM Gillard has secured a one-seat majority. The many rate hikes (6) have had a sobering effect on the Australian housing market, which were running close to redhot for a while. The question remains whether a bust is avoidable, and while consensus is optimistic, we prefer a more cautious approach. The AiG performance of construction index, which was released overnight, points to a quite sharp decline in construction in Australia.

## Equities: A Closer Look

Obama is most likely going to launch another stimulus package/infrastructure investment that for sure will spur short term risk appetite and lead to equities travelling higher. This would most likely lead to the test of the 1130-level in S&P500 as we have had as our short term target for a while now. That said we still believe that the long term fundamental issues in the western economies is far from solved and this simply acts like a structural barrier for further sustainable growth in companies. Consumers needs to deleverage (as does the government) and will be reflected in a weak demand. Currently the weak sales are masked by margin improvements and higher capacity utilization, but soon or later this will spill over into earnings disappointments. We still see, contrary to consensus, at EPS of 84-85 USD in S&P500 for 2011 leading to a fair value of 1174.

Overnight Asian equity markets have retraced a bit after several strong days which is expected. However notice that steelmakers are trading countertrend and going higher fueled by the hope of renewed strong demand coming from Obama infrastructure project. We expect this to continue until the details of the plan are put forward and the plan has actually been transformed into law. There is no such thing as hope.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
EC Sentix Investor Confidence (SEP)		9.0	7.6	8.5	
JP Manpower Survey (4Q)			6.0	6.0	
AU AiG Performance of Construction Index (AUG)			43.2	43.3	
AU RBA Cash Target Rate		4.50%	4.50%	4.50%	
JP BOJ Rate		0.10%	0.10%	0.10%	



\*) Note: Trend is defined as the slope of the 13 day exponential moving average

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