

# Friday Morning Kickoff @ Saxo

## European banks in the spotlight

### Themes

- European banks will be in the spotlight in the upcoming week as the next release of the Basel III capital requirements are expected out Sunday evening.

### What's going on?

We expect European equity markets to open around 0.3% lower this morning. Today's most important driver of equity markets will clearly be the expectation towards the result of the next release of the Basel III capital requirements which are out Sunday evening. Currently the capital requirement for Tier1 capital ratio is at 8% and the range of expectations varies between 10-16%. Clearly markets do not expect an outcome of 16% because otherwise European banks would not rally as they did yesterday; rather it seems as if market consensus is around 10-11%. No matter what the outcome is financial shares will be the movers of the equity market today and most likely also Monday next week.

### Friday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
07:30	SW Industrial Production MoM (JUL)		0.7%	1.1%
08:00	NO CPI MoM (AUG)		-0.2%	-0.5%
08:00	NO CPI Underlying MoM (AUG)		-0.1%	-0.6%
08:30	UK PPI Output MoM (AUG)		0.1%	0.1%
11:00	CA Change in Employment (AUG, thousand)		30.0	-9.3
11:00	CA Unemployment Rate (AUG)		8.0%	8.0%
14:00	Wholesale Inventories MoM (JUL)		0.4%	0.1%

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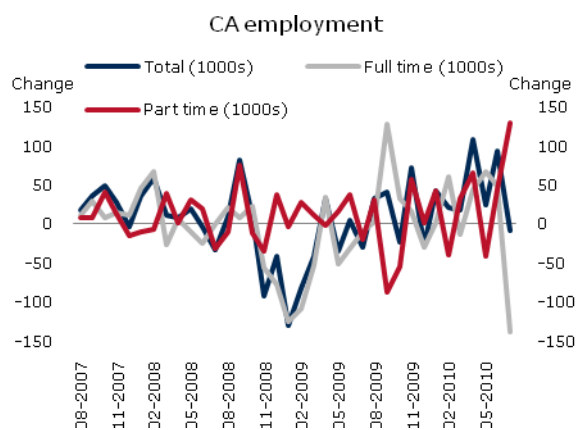
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## Market Musings

**Canadian employment** figures top today's calendar, and it will be interesting to see if the 30,000 consensus estimate is achieved following last month's surprise decline in employment. That report also saw a massive reversal in full time employment, but was it just a one-off? We expect Canada's economy to slow down as is also confirmed by the OECD leading indicators for the economy, which has rolled over and are now trending lower.



The **US trade deficit** narrowed to \$42.8bn in July from \$49.8bn in June, which will likely aid third quarter GDP growth. Unless the August and September reports bring with them large increases in the deficit then the negative contribution from net exports could be minimal (or even positive). That would certainly be a welcome boost to the the-recovery-is-still-on crowd. Net exports contributed -3.37% to GDP in the second quarter (which saw GDP growth of 1.6% annualised).

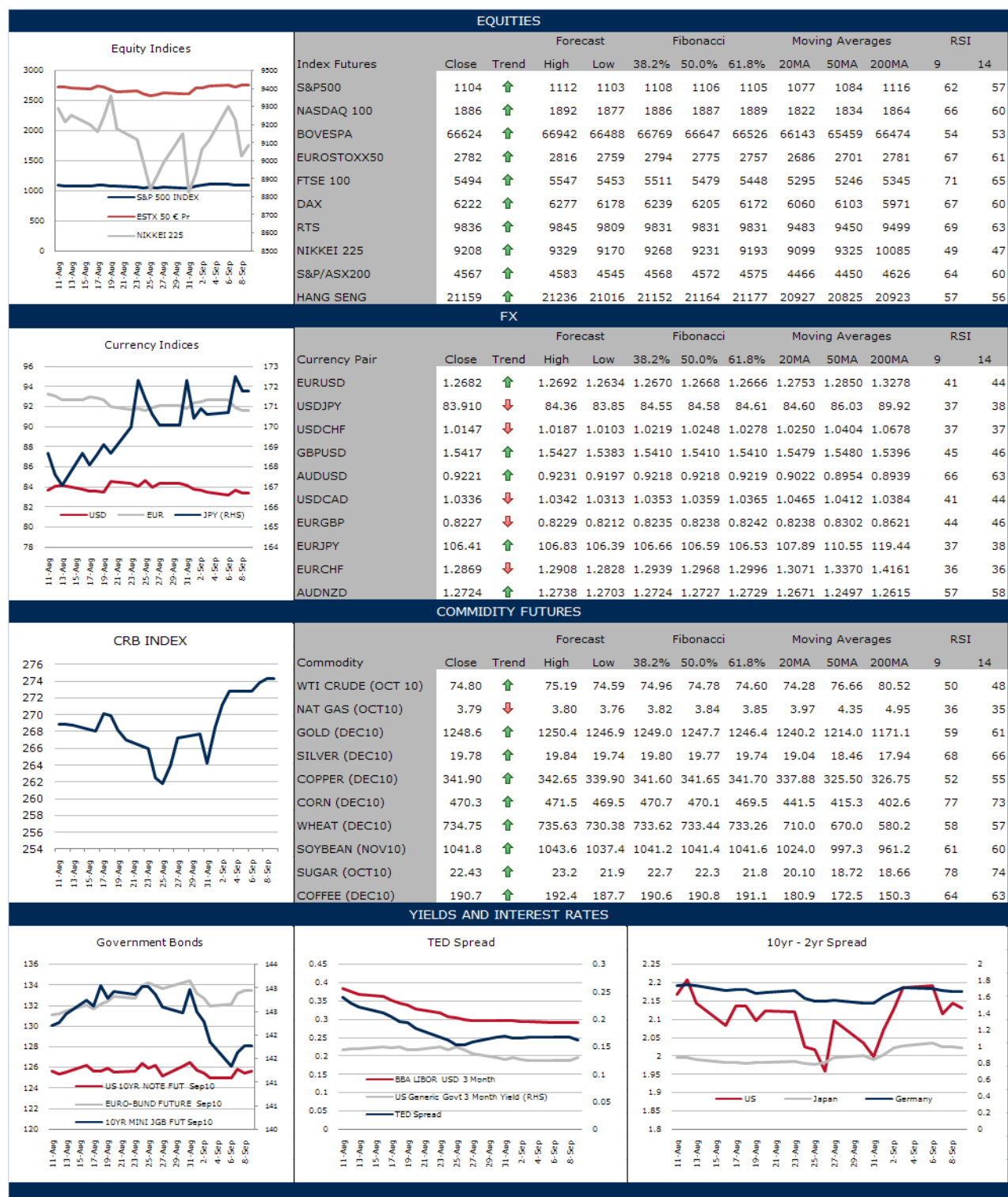
The number of Americans **collecting jobless benefits** declined substantially last week to 451,000; that is a weekly decrease of 27,000 and we are now 53,000 below the recent peak of 504,000. However, don't get excited too early. The Department of Labor (DOL) has acknowledged that nine states didn't report claims due to Labor Day and hence claims for those nine states have been estimated instead. California and Virginia carried out their own estimation while the DOL estimated the other seven states' claims. In other words, let's wait for next week's data. The interesting claims with respect to nonfarm payrolls won't be released for another two weeks, anyway.

The **Bank of England** kept its main rate unchanged at 0.50% and also kept its asset purchase target amount at £200bn. The minutes from the meeting will be released on the 22<sup>nd</sup> of September and could contain more support for another round of quantitative easing. The GDP estimate from the National Institute of Economic and Social Research currently projects growth of 0.7% in 3Q versus 1.3% (realised) in 2Q, and hence agree with our assessment of lower growth going forward. Unlike most other Western countries, UK is battling with high (relatively speaking) inflation and that may act as a deterrent for more QE until the economy moves decisively into a lower gear (BOE member Sentence has suggested a 25bps hike in the last three meetings). Adding weight to the case for a weaker 3Q GDP print is the trade deficit, which showed at big widening to £4916 in July from an upward revised £3932 in June (-£3260 earlier). This will hurt both 2Q and 3Q GDP in the UK.

## Equities: A Closer Look

The equity market is still reacting towards macroeconomic releases on an intraday basis. Clearly there is no trend, only range trading. This Sunday the Basel III capital requirements will be released and it will clearly have a large effect on equities especially financials both on a short and longer term. Market consensus varies between 10-11% and no matter how the result is coming out financials will be very volatile. The real issue is not really the release on Sunday, rather the reasoning behind the results. If the Tier1 and Tier2 capital ratio is set artificially low or the implementation period is extraordinarily long then this is a clear indication of that the steering committee at Basel is very nervous about the state of the financial sector in Europe. On the other hand if the requirements are perceived as being too strict the fear will be that the requirement will curb growth. Either way this is important also on a longer term. But for sure it will not alter the range trading in equities that we are currently witnessing. For that we need more clarity on the outlook for the economy and in our view most investors have too soon abandoned the concern about further economic weakness.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
SW CPI MoM (AUG)		0.1%	0.0%	-0.3%	
UK Trade Balance (JUL, million)		-£3300	-£4916	-£3260	-£3932
UK Bank of England Asset Purchase Target (billion)		200	200	200	
UK Bank of England Rate		0.50%	0.50%	0.50%	
CA Housing Starts (AUG, thousand)		185.0	183.3	189.1	188.9
US Trade Balance (JUL, billion)		-\$47.0	-\$42.8	-\$47.7	-\$49.8
US Initial Jobless Claims (SEP 4, thousand)		470	451	472	478
US Continuing Jobless Claims (AUG 28, thousand)		4450	4478	4456	4480
JP GDP QoQ annualized (2Q, final)		1.5%	1.5%	0.4%	
JP Domestic CGPI MoM (AUG)		-0.1%	0.0%	-0.1%	



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

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