

Monday Morning Kickoff @ Saxo

Look out for US Factory Orders and Pending Home Sales.

Themes

- We had a third test of the 1150-level yesterday and failed. Look for a downside move testing the 1120-level.

What's going on?

We expect European markets to open roughly flat this morning on the back of Friday's US session closing higher, while the futures over night have been trading lower. The numbers that will move markets today are coming from the US – pending home sales and factory orders. We expect in line with consensus a small decline in factory orders and pending home sales to fall on a month-on-month basis. We do not expect much market action on the back of this as such (it should be priced in). What should be noted is how the market will react to the news that bottom up analysts is now finally starting to revise their earnings forecasts for 2011 down. We have been saying that this process should be going on for a while now and finally it starts to take off. However short term it will not have much effect as the earnings season is just around the corner, but if the first 2 weeks of earnings comes out disappointingly weak then this will have an accelerating negative effect on equity markets and you should expect an outright sell-off. The earnings season is kicked off at 7th of October with the Alcoa report.

Monday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
09:00	EC PPI MoM (AUG)	-	0.2%	0.2%
07:55	EC PPI YoY (AUG)	-	3.6%	4.0%
14:00	US Pending Home Sales MoM (AUG)			5.2%
14:00	US Factory Orders MoM (AUG)	-0.3%		0.1%
14:00	US Pending Home Sales MoM (AUG)			5.2%
14:00	US Factory Orders MoM (AUG)	-0.3%		0.1%

Saxo Bank Strategy & Research

David Karsbøl, *Chief Economist*

John J. Hardy, *Senior FX Consultant*

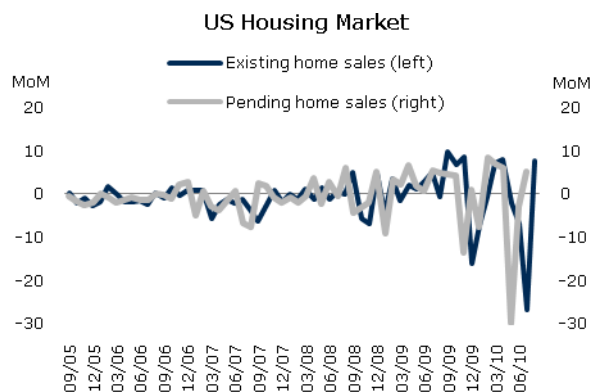
Robin Bagger-Sjöbäck, *Research Analyst*

Christian T. Blaabjerg, *Chief Equity Strategist*

Mads Koefoed, *Macro Strategist*

Markets at a glance

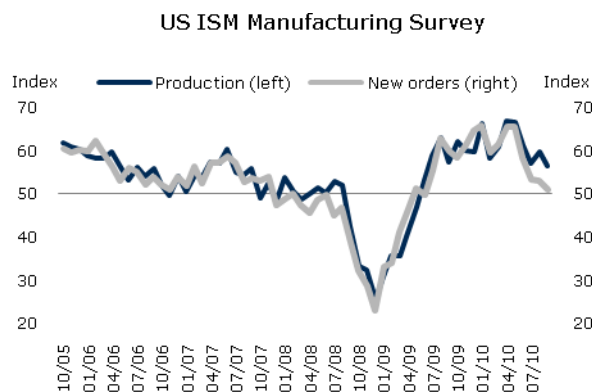
Look for pending home sales today to give a clue about sales of existing homes. The pending home sales is a solid indicator of existing home sales, since they record the same thing, but at different stages of the sales process.



Source: Bloomberg. Our calculations.

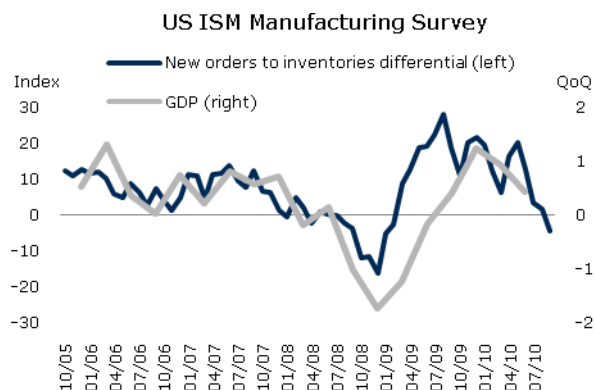
Factory orders from the US will also be released today, and they are expected to show a decrease of 0.4% in August due to the 1.3% decline in durable goods orders. Nondurable goods orders are, however, expected to increase MoM, which is why we and consensus are only looking for a small decline in orders.

The ISM manufacturing index fell to 54.4 in line with expectations, which implies that the manufacturing sector in the US is still growing though at a slower pace. However, the devil is in the details and we will classify it as a report. First, the new orders index is down sharply to only 51.1 from 53.1 (it was at 65.7 just four months ago), which does not bode well for production in the coming months.



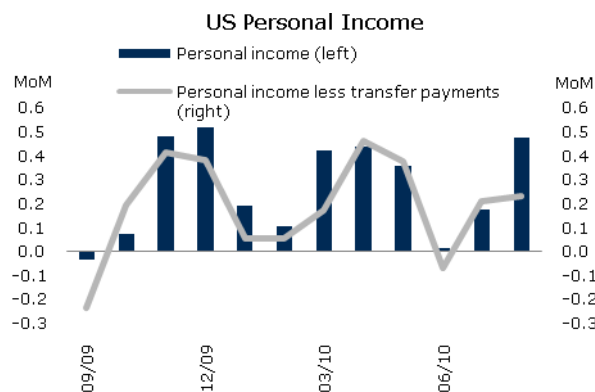
Source: Bloomberg. Our calculations.

Second, the new orders to inventories differential continues to deteriorate and has now turned negative (-5) for the first time in 19 months indicating that the inventory rebound is all but over and will soon start to become a drag on the economy.



Source: Bloomberg. Our calculations.

With the ISM manufacturing report putting in a average-to-weak performance, it was left to the income and spending report to save the report. And save the day, it did – at first glance. Not only did consumption increase 0.4% MoM as expected, but income rose much more than we expected by 0.5% (exp.: 0.1%). This pushed the savings rate a tad higher to 5.8% from 5.7%. However, most of the newfound income came courtesy of Uncle Sam, which contributed 0.3%-points of the 0.5% increase through transfer payments. So the higher savings rate was due to the deficit-spending US government! If we strip out inflation, income and spending increased 0.2% each in August. In other words, without transfer payments the change in income would have been negative on an inflation-adjusted basis.



Source: Bloomberg. Our calculations.

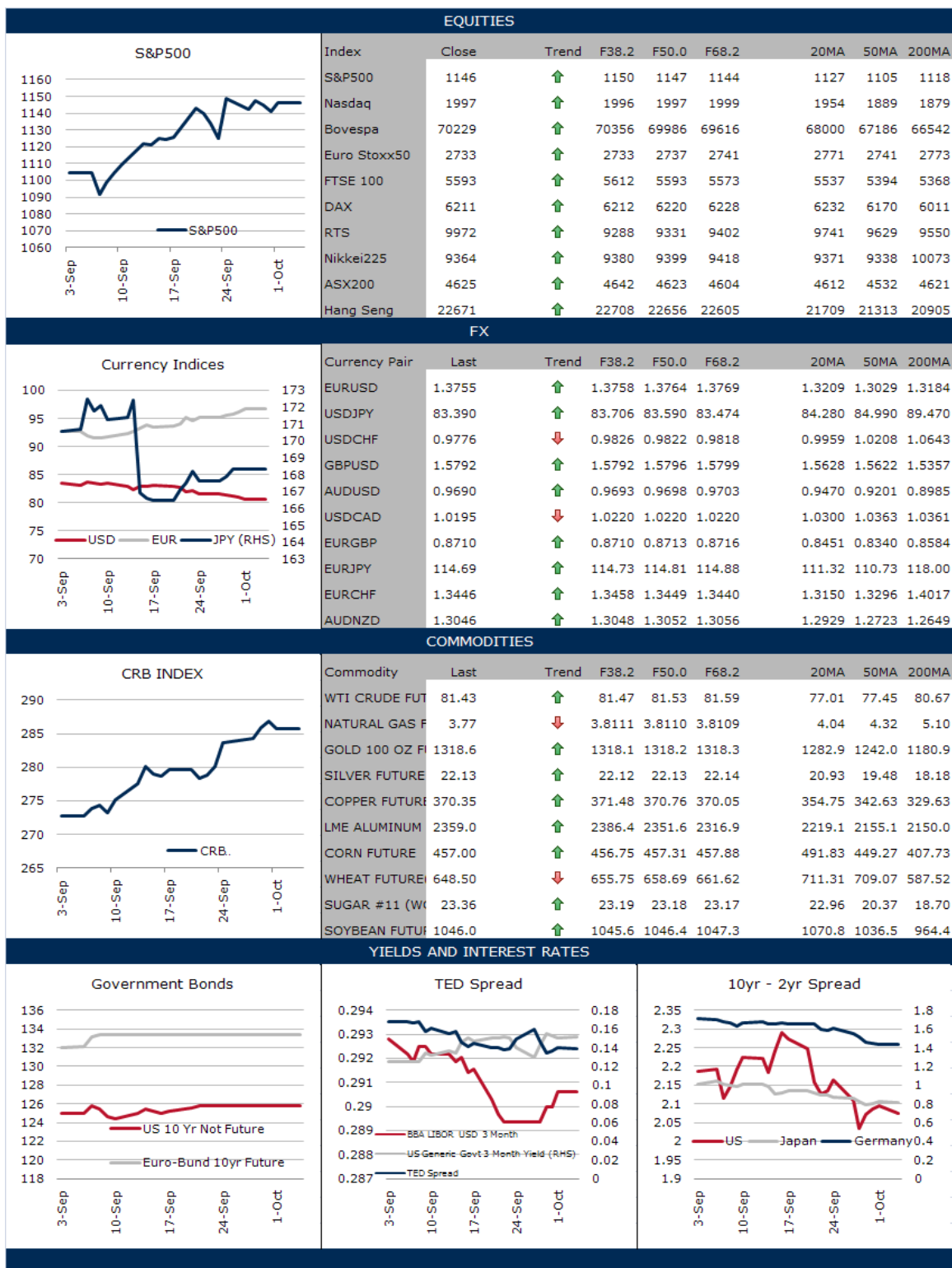
So, with both the ISM manufacturing and the personal income and spending reports being rather poor, it was left to the weekly ECRI leading indicator to provide the good news of the day. The index rose to 122.5 from 122.1 a week ago and the year-on-year decline is now "only" 7.8% (the YoY drop was more than 10% just three weeks ago).

Equities: a closer look

Earnings expectations for 2011 are now finally being downgraded by bottom up analysts and we have expected this for a while. But for now, contrary to the usual development when these are posted, this will have

virtually no effect as we are close to the opening of the earnings season. We expect a strong-to-moderate earnings season and this could short term bring equities higher, before the necessary adjustment to macro economic reality is resurfacing. With quarters of slow economic growth it is outright based on hope rather than facts that you can have +15% earnings growth as sales will obviously remain weak and margins are already in the higher end. Expect markets to range trade until the first earnings report hits the street and be cautious on deciding the direction of the equity market until the first week of earnings reports has passed. Then you should have enough data to make an informed decision.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
NO Unemployment rate (SEP)		2.7%	2.8%	2.9%	
GE PMI Manufacturing (SEP, Final)		55.3	55.1	55.3	
EC PMI Manufacturing (SEP, Final)		53.6	53.7	53.6	
US Personal Income (AUG)		0.3%	0.5%	0.2%	
US Personal Spending (AUG)		0.3%	0.4%	0.4%	
US PCE Deflator YoY (AUG)	1.5%	1.5%	1.5%	1.5%	
US PCE Core YoY (AUG)	1.4%	1.4%	1.4%	1.4%	
US Uni. of Michigan Confidence (SEP, final)		67.0		66.6	
US ISM Manufacturing (SEP)	54.8	54.5	54.4	56.3	
US Prices Paid (SEP)		59.0	70.5	61.5	
US Construction Spending MoM (AUG)	-0.6%	-0.4%	-0.4	-1.0%	



Source: Bloomberg. Our calculations.

Note: the trend is defined as the slope of the 13-day exponential moving average.

For more trading commentary on [forex, equities, and commodities](#) go to www.tradingfloor.com or www.saxobank.com

General

These pages contain information about the services and products of Saxo Bank A/S (hereinafter referred to as "Saxo Bank"). The material is provided for informational purposes only without regard to any particular user's investment objectives, financial situation, or means. Hence, no information contained herein is to be construed as a analysis; or an offer to buy or sell; or the solicitation of an offer to buy or sell any security, financial product, or instrument; or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Saxo Bank does not guarantee the accuracy or completeness of any information or analysis supplied. Saxo Bank shall not be liable to any customer or third person for the accuracy of the information or any market quotations supplied through this service to a customer, nor for any delays, inaccuracies, errors, interruptions or omissions in the furnishing thereof, for any direct or consequential damages arising from or occasioned by said delays, inaccuracies, errors, interruptions or omissions, or for any discontinuance of the service. Saxo Bank accepts no responsibility or liability for the contents of any other site, whether linked to this site or not, or any consequences from your acting upon the contents of another site. Opening this website shall not render the user a customer of Saxo Bank nor shall Saxo Bank owe such users any duties or responsibilities as a result thereof.

Analysis Disclosure & Disclaimer

Risk warning

Saxo Bank A/S shall not be responsible for any loss arising from any investment based on any analysis, forecast or other information herein contained. The contents of this publication should not be construed as an express or implied promise, guarantee or implication by Saxo Bank that clients will profit from the strategies herein or that losses in connection therewith can or will be limited. Trades in accordance with the analysis in an analysis, especially leveraged investments such as foreign exchange trading and investment in derivatives, can be very speculative and may result in losses as well as profits, in particular if the conditions mentioned in the analysis do not occur as anticipated.