

Wednesday Morning Kickoff @ Saxo

Intel sees no double dip, but FOMC wants QE now

Themes

- We clearly broke the 1150-threshold and has recently closed well above the 1150-level. Seems from the latest price action that investors' just wants risk (equities) and the next step is a test of 1170. Disappointment in the QE-launch or in the ongoing earnings season could lead to a sharp market correction.

What's going on?

European equity markets will most likely open around 0.5% higher today as Intel had a decent earnings report, but were clearly upbeat on sales in the next quarter and in 2011. It is rather important to note that Intel noticed 3 things; first there is not going to be a double dip, second Intel does not expect sales to explode, but a decent pickup and third that Intel does not see any margin improvements from the current reading of approximately 67%. The last part is important because this is what has driven equities higher, but given the outlook from Intel which usually is a very well-managed company this could signal that we could see disappointments later in the earnings season regarding margin development. Today's most important earnings release is JPMorgan. Watch out for the development in their credit-portfolio.

UK employment data lead the way in terms of macro data today. Jobless claims surprisingly rose in August, and we expect another slight increase in September, though not enough for the claimant count rate to increase from 4.5%. The UK economy has begun to slow down even before the government's austerity measures have been implemented.

Wednesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:30	UK Claimant Count Rate(SEP)	4.5%	4.5%	4.5%
08:30	UK Jobless Claims Change (SEP)	1.7K	4.5K	2.3K
08:30	UK ILO Unemployment Rate (AUG)	7.8%	7.8%	7.8%
09:00	EC Industrial Production MoM (AUG)	0.4%	0.8%	0.0%
11:00	JPMorgan Chase reports earnings (3Q2010)		0.88	1.09

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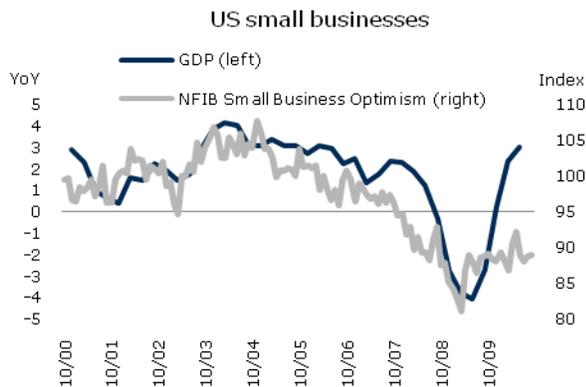
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Markets at a glance

The markets nervously anticipated both Intel's earnings report and the FOMC minutes yesterday, but both were rather unexciting though Intel did announce that the company see no chance of a double dip currently while sales growth was expected to be moderate.

The FOMC Minutes did not contain news with respect to quantitative easing 2, but we did learn that the FOMC lowered its forecast for GDP growth in 2010 and 2011. The Minutes did make it quite clear that QE2 will arrive – we maintain our expectation for QE2 to be launched as soon as Nov. 3 – and will consist mainly of purchases of longer-term Treasury securities.

The US small business survey (NFIB) increased meagrely to 89 in September from 88.8 previously. The index' historical average is 99.7 in an expansion – which the US is experiencing now according to the National Bureau of Economic Research – while the index has averaged 91.9 in a recession. Additionally, small businesses have seen practically no improvement in a year according to NFIB with the yearly growth rate standing at 0.2%.



Source: Bloomberg, Our calculations.

Business confidence is in other words still low in the small business segment. Small businesses are responsible for a substantial portion of jobs creation in the US economy, and it is therefore a vital part to get going again before we will see a sustainable recovery.

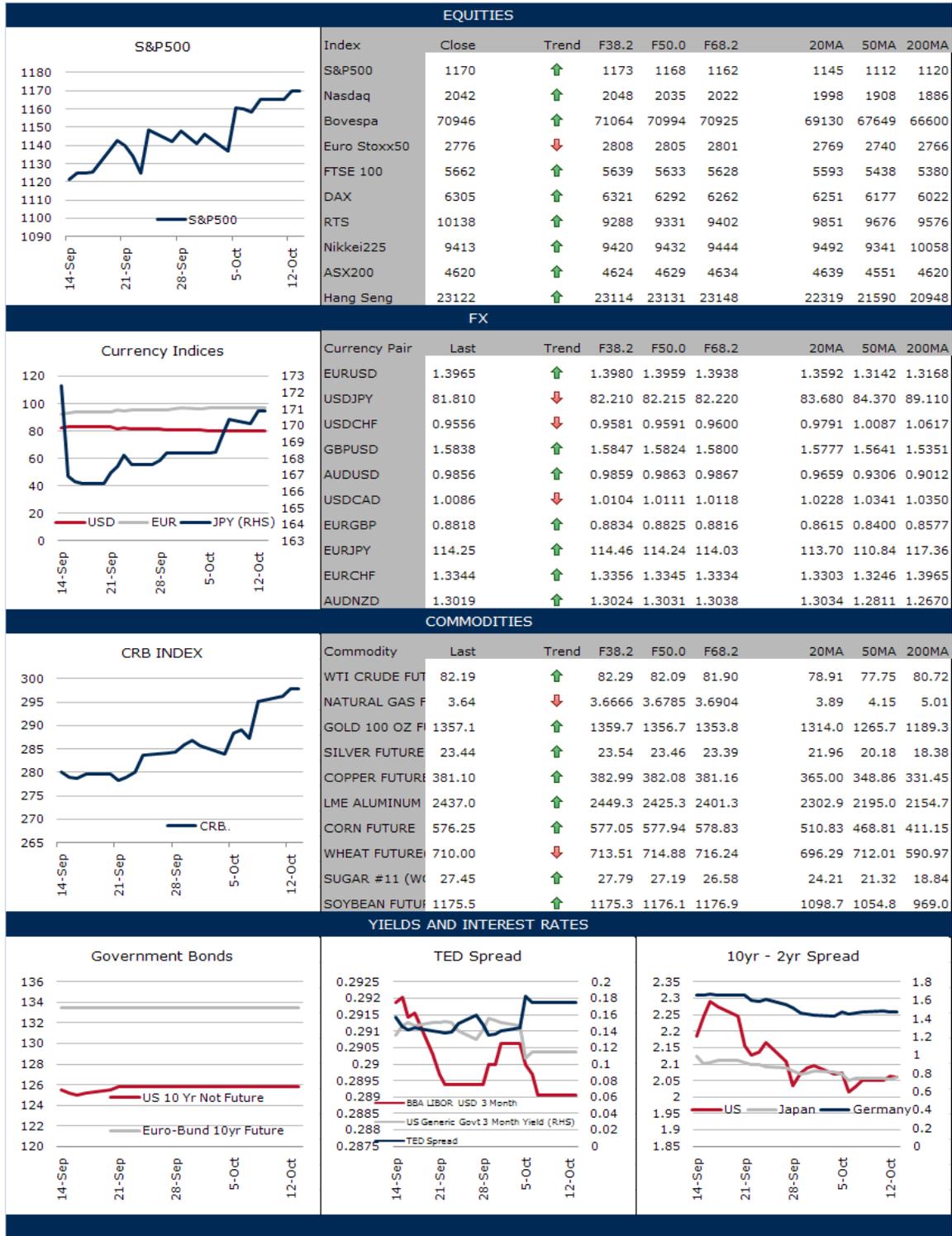
The hiring index was quite disappointing. Expected hirings fell to -3% from 1% earlier, meaning that now 16% (up 3%-points) expect fewer hirings while 8% (unchanged) expect increased hirings. Thus the net change between those two groups is -3%. Weak demand and fierce competition limit the amount of price pressure as indicated by the *higher selling prices* component, which declined to -11% from -8%. Again, the interpretation is that on net 3% more of the companies see lower prices compared to a month ago (12% see higher prices, 24% lower prices).

The UK trade balance improved slightly in August to -£4.6bn from -£4.9bn, but that still corresponds to a roughly £600mln monthly deterioration in the third quarter relative to 2Q. Foreign trade went downhill in August with exports down 1.2% MoM, but imports down even more by 2%, which explains the smaller trade deficit. The trade deficit thus looks likely to remain a drag on economic activity as measured by GDP in 3Q.

Equities: a closer look

The earnings season was kicked off by Intel yesterday and as already noted they have a positive outlook for the last quarter of this year and for 2011, where they see sales as 'pretty strong'. However this is hardly a surprise, but the surprise lies in the margin expectations. They are virtually flat for the next year and with the current reading of 67% you should expect an earnings growth of 5-8% in Intel in 2011. This is clearly not what markets have priced in, so in not so many words this is going to be an unusual interesting earnings season. If the overall take away from this season is that margins is hardly going to improve from current levels then earnings expectations for 2011 seriously needs to be adjusted down; currently the market expects around 20% growth, but if we are talking 5-8% then for sure we are going to see downwards revisions leading equity markets lower. So stay tuned.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
SW CPI MoM (SEP)		0.8%	0.8%	0.0%	
UK DCLG House Prices YoY (AUG)		8.1%	8.3%	8.4%	
UK CPI YoY (SEP)	3.0%	3.1%	3.1%	3.1%	
UK Core CPI YoY (SEP)	2.7%	2.6%	2.7%	2.8%	
UK RPI YoY (SEP)	4.3%	4.4%	4.6%	4.7%	
UK Trade Balance (AUG, million GBP)		-£4388	-£4643	-£4916	-£4991
NFIB Small Business Optimism (SEP)		89.6	89.0	88.8	



Source: Bloomberg. Our calculations.

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

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