

Friday Morning Kickoff @ Saxo

General Electric, Fed's Bernanke to grab the headlines today

Themes

- We have clearly broken the 1170-level and is most likely in for a retest of this level before going anywhere else. If this test turns positive start to look for a test of the 1200-level else look for 1150.

What's going on?

European equity markets will most likely open around 0.2% lower as the US equity markets despite very strong earnings from Google retraced yesterday on the back of the foreclosure practice performed by most banks. Besides from the legal implications the major concern is that a lot of mortgage debt will reverse back into banks balance sheets and thereby putting their solvency under pressure – at least in terms of the need for recapitalization in order to meet the legislative requirements in this field.

Ben Bernanke will give a speech on the Federal Reserve's monetary policy today, which will be closely followed in case any new information on the Fed's stimulus plan – that is, quantitative easing 2. In addition, we have a bucketload of economic reports out of the US, but the Fed Chairman's speech and the earnings report from General Electric are the ones to watch.

Friday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
09:00	Eurozone CPI YoY (SEP)	1.0%	1.0%	1.0%
09:00	Eurozone Core CPI YoY (SEP)	1.8%	1.8%	1.8%
09:00	Eurozone Trade Balance (AUG)		-0.8B	-0.2B
12:15	Fed's Bernanke speaks on monetary policy			
12:30	CA Manufacturing Sales MoM (AUG)		0.5%	-0.9%
12:30	US CPI MoM (SEP)	0.2%	0.2%	0.3%
12:30	US Core CPI MoM (SEP)	0.1%	0.1%	0.0%
12:30	US Retail Sales MoM (SEP)	0.5%	0.4%	0.4%
12:30	US Retail Sales less Autos MoM (SEP)	0.4%	0.3%	0.6%
12:30	US Retail Sales less Autos and Gas MoM (SEP)	0.3%	0.3%	0.5%
12:30	US Empire Manufacturing (OCT)		6.0	4.1
13:55	U. of Michigan Confidence (OCT, preliminary)		68.9	68.2
14:00	US Business Inventories MoM (AUG)	0.5%	0.5%	1.0%

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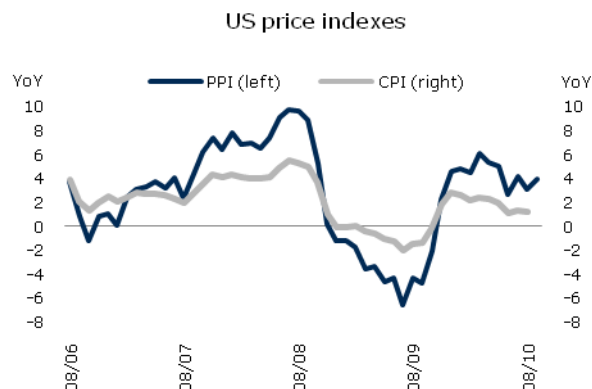
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Markets at a glance

Fed Chairman Ben Bernanke was likely not a happy man yesterday as economic indicators developed in a most unwelcome way. CNBC summed it up quite nicely with the headline screaming: "Jobless Claims, Inflation, Trade Deficit Each Surge Higher". Bernanke says inflation is too low, but producer prices (PPI) rose no less than 0.4% in September on rising crude oil prices. That translates into a 4.0% increase in prices year-on-year, or 1.6% in 'core prices'. Hopefully – for the Federal Reserve, that is – these price increases won't translate into consumer price gains or one of the biggest arguments for another round of stimulus will disappear.

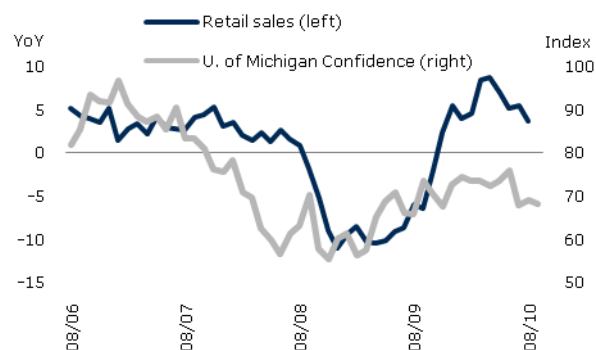
Bernanke's speech today is – together with earnings from General Electric – the event of the day. While we will get a whole host of data from the US as well, the speech from Bernanke will be closely watched in case he offers more insight on when, where, and how the Fed will conduct monetary policy – specifically, quantitative easing (QE). With risk surging higher in recent weeks on anticipation of QE2, any backtracking from the Fed will be unwelcome.



Source: Bloomberg. Our calculations.

So with producers in the US seeing quite solid inflation (especially crude product prices, which are up 20% YoY), the question for today is whether they can pass that on to the consumer or whether they themselves must take the hit to margins. Consumer prices are reported at 12:30 and we expect inflation to rise another 0.2% following the 0.3% increase in August.

US Retail Sales and Consumer Confidence



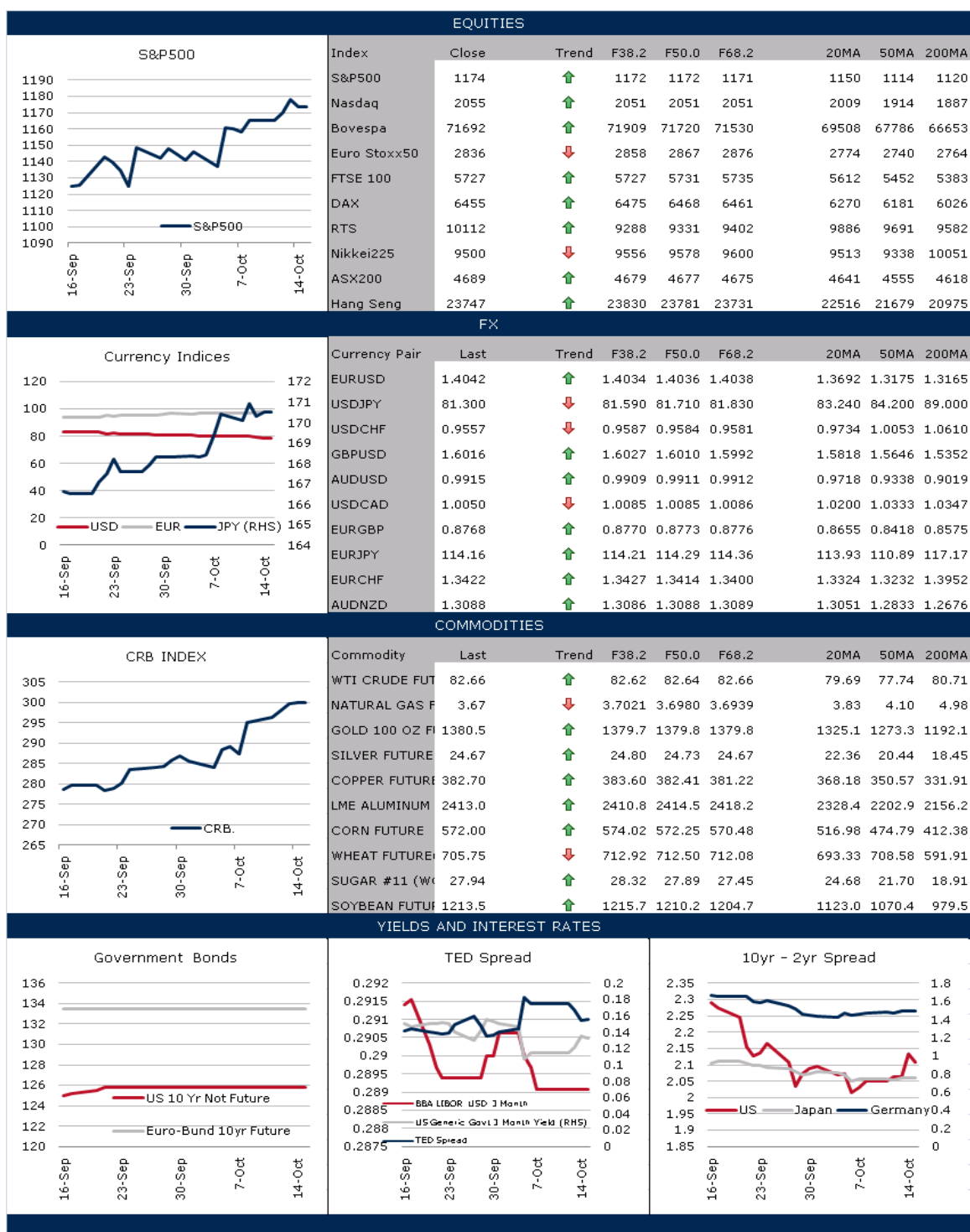
Source: Bloomberg. Our calculations.

Plenty of other data – including U. of Michigan confidence and retail sales – are also out from the US in the afternoon, but they could very well play second fiddle to General Electric and Bernanke today.

Equities: a closer look

The earnings season continued yesterday with the earnings report from Google and this was a very strong report. If we take a look at the numbers first: Net income rose 32% from \$1.64bn to \$2.17bn beating the streets estimate quite significant (\$6.68 expected vs. \$7.64 realized). Revenue went higher to \$5.48bn and in this regard also exceeded analysts' consensus estimate of \$5.26bn. Three things to take away from this earnings report. First of all operating expenses increased by 22% in the reported period leaving margins under the pressure to the downside, but however this was offset by the revenue growth leading to higher earnings. Second the cash or near term cash on the balance sheet grew to \$33.4bn from \$30.1bn in the prior quarter. This should indicate that we could expect Google to be in the acquirer's role in the coming year, even in big deals, as they do not need to ask anyone for a loan in order to purchase a company. Third and finally companies are again spending money on advertising and this is positive looking from a broader economic perspective. Whether the investment cycle in companies again are picking up remains to be seen, but with Google's earnings report yesterday there is clearly an indication that this is the case.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
US Trade Balance (AUG)	-\$44.5B	-\$44.0B	-\$46.3B	-\$42.8B	-\$46.2B
US PPI MoM (SEP)	0.2%	0.1%	0.4%	0.4%	
US Core PPI (SEP)	0.1%	0.1%	0.1%	0.1%	
US Initial Jobless Claims		445K	462K	445K	449K
US Continuing Jobless Claims		4450K	4399K	4462K	4511K



Source: Bloomberg. Our calculations.

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

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