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Monday Morning Kickoff @ Saxo

Risk retracement after BHP Billiton and Rio Tinto cancel deal.

Themes

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- 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?

Lately we had a very strong surge in risk and this has been supported various times by Federal Reserve chairman Bernanke stating that more stimuli may be needed in order to help the economy gain traction again. In addition to this comes that earnings so far has been decently strong across the board leaving investor confidence quite high. But with the cancellation of the deal between BHP Billiton and Rio Tinto in creating the world's largest iron ore producer it seems as if this was the trigger that made market participants take home some of their profit. It is still about earnings, so look out for earnings from Apple, Citigroup and IBM today. The major economic release today is US Industrial Production.

Monday's Key Events

| GMT | Event | Saxo Bank | Consensus | Previous |
|-------|---|-----------|-----------|----------|
| 13:00 | US Total Net TIC Flows (AUG) | - | - | \$63.7B |
| 13:00 | US Industrial Production (SEP) | - | 0.2% | 0.2% |
| 13:15 | US Capacity Utilization (SEP) | - | 74.8% | 74.7% |
| 14:00 | US NAHB Housing Market Index | - | 14 | 13 |
| 16:55 | US FED's Lockhart gives speech on Economy in Savannah | | | |

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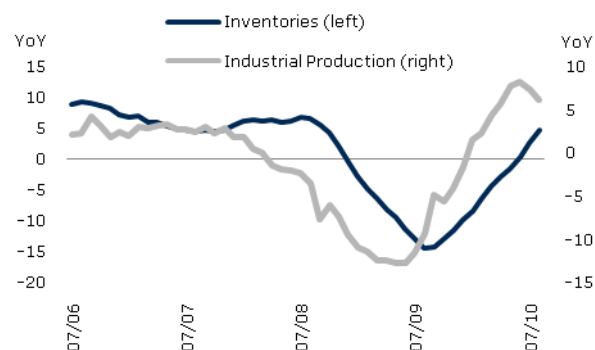
Markets at a glance

Consumer confidence continues to languish in recessionary territory, but retail sales continue to power ahead (0.6% MoM). Industrial production is a major release today and we expect the report to show that production stagnated in September after a weak increase of 0.1% MoM in August. We expect production to remain unchanged (0%), and question how much of the recent increases in production have been due to inventory rebuilding? Likewise, capacity utilization is expected to remain unchanged. The NAHB (National Association of Home Builders) housing market index will also be released, and is a good indicator of the developments in that market though it does not garner too much attention from the markets.

The University of Michigan Confidence survey declined to 67.9 in September from 68.2 (preliminary) as job concerns and high debt levels continue to weigh on consumer sentiment. The confidence report continues to draw a weak picture of the state of the American consumer, which suggests that the recession never ended (it did officially in June 2009). The average reading in recessions since 1975 is in fact 68.9, so the last two reports are in recessionary territory (and August was spot on the recession average). Expansions – which we supposedly are in now – are averaging around 89.2, so the surveyed better listen to the National Bureau of Economic Research and not care about their balance sheet problems: this is a recovery! We do not expect any material increase in the consumer indexes in the coming months as Americans are figuring out that the recovery was mostly fuelled by stimulus spending and a general bounce back in global trade.

Business inventories put in another strong display, rising by 0.6% in August following the 1.1% increase in July. This is quite positive for third quarter growth (inventory additions *positively* affect GDP growth), but the question remains: are companies restocking too fast? Will it simply mean much weaker net additions in September and 4Q? We think the inventory readjustment cycle has mostly run its course and any net inventory addition going forward will simply drag GDP growth forward, but will not be sustained in the quarters ahead.

US Industrial Production and Inventories

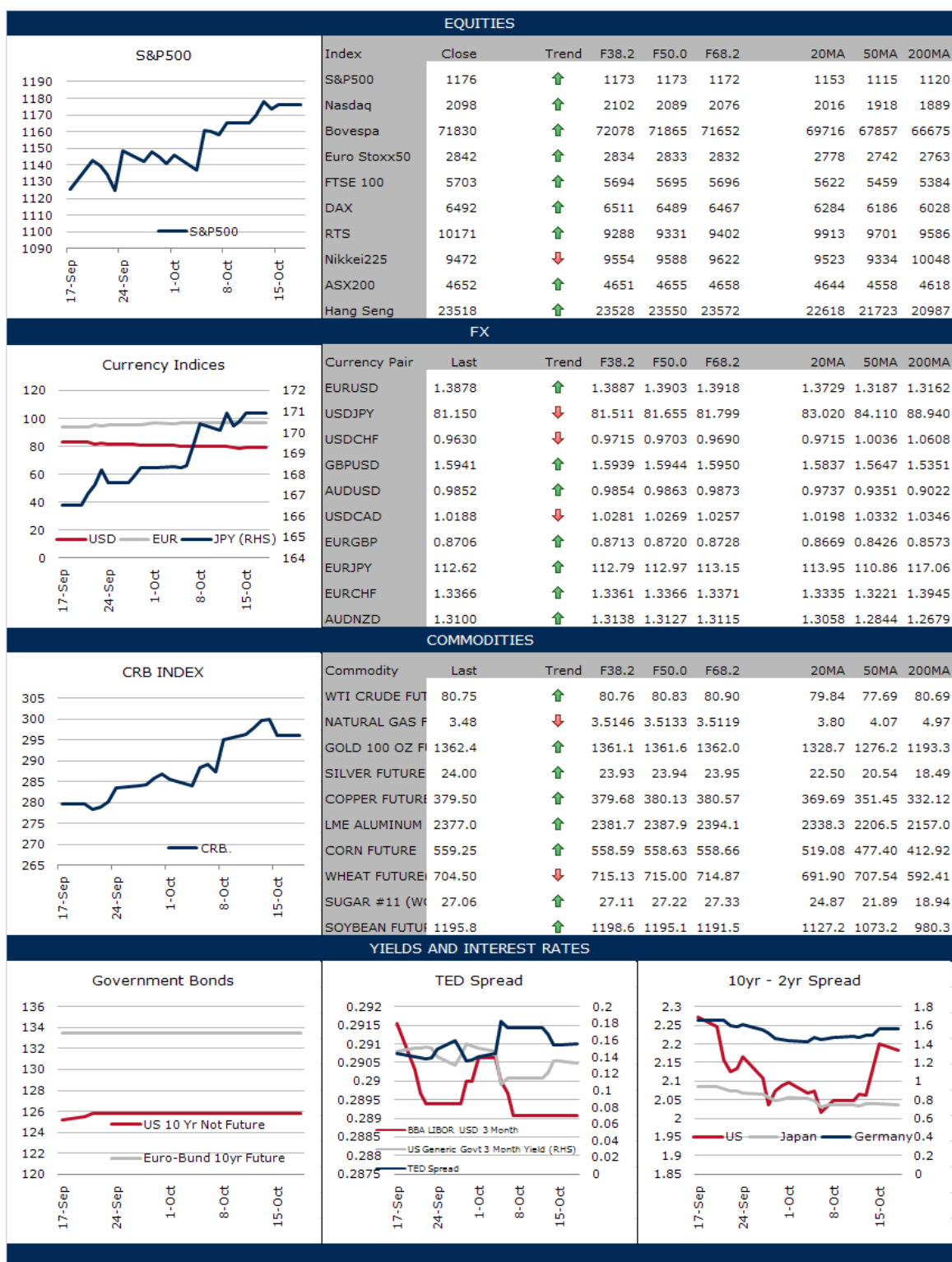


Source: Bloomberg. Our calculations.

Equities: a closer look

It is all about earnings. Last week we had solid earnings reports from the majors – Intel, JPMorgan, Google and GE. This week and next week are the major trend settings weeks in terms of getting direction on how you should expect the remains of the earnings season to play out; so look very carefully. As we have stated before we expect an above average earnings season with at 70% beat, less growth in margins and sales still sluggish. Today's companies to look for is clearly Apple (global consumer exposure), Citigroup (financial), Halliburton (oil services) and to IBM (technology services). Apple will be the first major company that is reporting on how the state of the consumer globally is holding up and look especially for Apple's assessment on how 2011 looks from a consumer perspective. So far the private consumption is sluggish in some parts of the world, but has not dropped as much as e.g. investments. Citigroup is interesting after we had the class leader, JPMorgan out last week. Especially look for their comments on the development in their credit portfolio and how they expect the housing issue to affect their balance sheet. Halliburton will tell us something on the demand for oil because oil services are very short term sensitive to the development in the oil price and finally IBM will provide us with an insight as to how the outsourcing in companies are progressing.

| Economic data highlights | Saxo Bank | Consensus | Actual | Previous | Revised |
|--|-----------|-----------|--------|----------|---------|
| EC CPI MoM (SEP) | - | 0.2% | 0.2% | 0.2% | |
| EC CPI MoM (SEP) | - | 1.8% | 1.8% | 1.8% | |
| EC Trade Balance (AUG) | - | 0.0B | -4.3B | 6.7B | 6.2B |
| CA Manufacturing Sales MoM (AUG) | - | 0.5% | 2.0% | -0.9% | -1.1% |
| CA New Motor Vehicle Sales MoM (AUG) | - | -5.0% | -4.8% | 2.4% | 2.2% |
| US CPI MoM (SEP) | - | 0.2% | 0.1% | 0.3% | |
| US CPI YoY (SEP) | - | 1.2% | 1.1% | 1.1% | |
| US Advance Retail Sales (SEP) | - | 0.4% | 0.6% | 0.4% | 0.7% |
| US Empire Manufacturing (OCT) | - | 6.00 | 15.73 | 4.10 | 4.14 |
| US University of Michigan Confidence (OCT) | - | 68.9 | 67.9 | 68.2 | |
| US Business Inventories (AUG) | - | 0.5% | 0.6% | 1.0% | 1.1% |



Source: Bloomberg. Our calculations.

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

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