



October 20, 2010

Wednesday Morning Kickoff @ Saxo

BoE Minutes to hint that QE2 will soon arrive in the UK?

Themes

- The retracement on the back of the Chinese rate hike surprise made us close below 1170. We are in for a retest of this level anytime soon; the trend is still intact so we are still looking for 1200 though it is a bit more out in the horizon than prior expected.
- An American round of quantitative easing 2 is mostly priced in; will the Bank of England Minutes today reveal just how close we are to QE2 in the UK?

What's going on?

European equity markets will most likely open around 0.3% lower today as China yesterday chose, surprisingly, to hike interest rates. Earnings season continue to surprise to the upside with major corporates like Bank of America, Goldman and Yahoo was out better than expected and this should be supportive for equities going forward.

Wednesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:30	UK Bank of England Minutes			
08:30	UK Public Sector Net Borrowing (SEP)		15.5B	15.3B
08:30	UK M4 Money Supply MoM (SEP)		0.3%	-0.1%
12:30	CA Wholesale Sales MoM (AUG)		0.5%	-0.1%
18:00	US Fed's Beige Book			

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Markets at a glance

Bank of England Minutes are up today and may offer some insight into the support for an additional round of monetary stimulus – or quantitative easing, if you like. The MPC chose not to increase the asset purchase target amount at the last meeting, but a slowing economy may force them to use the QE weapon again despite inflation lingering around 3%. The Centre for Economics and Business Research weighted in with an opinion two days ago that the Bank of England will increase QE by £100bn to £300bn to aid recovery.

Later on another central bank report is published as the Bank of Canada. The BoC did not raise the target rate (1%) yesterday and generally sounded quite dovish. The output gap is now expected to be closed at the end of 2012 rather than at the beginning, consumption is expected to decelerate, the US recovery will be 'weaker-than-projected', and GDP growth for 2010 was cut from 3.5% to 3%. Growth in 2011 was also lowered, this time to 2.3% from 2.9% in July. At the start of 2010, 2011 growth was expected to be 3.5%.

China yesterday raised its benchmark lending and deposit rates for the first time since the Chinese economy recovered from the global recession (mind you, Chinese growth never went below 6% year-on-year). The rates were raised by 25bps to 5.56% and 2.50%, for the lending and deposit rate, respectively, and quickly added to the negative risk sentiment in the markets. The Chinese hikes, an attempt to combat the rising inflation and asset-bubbles, saw safe-haven currencies gain.



Source: Bloomberg. Our calculations.

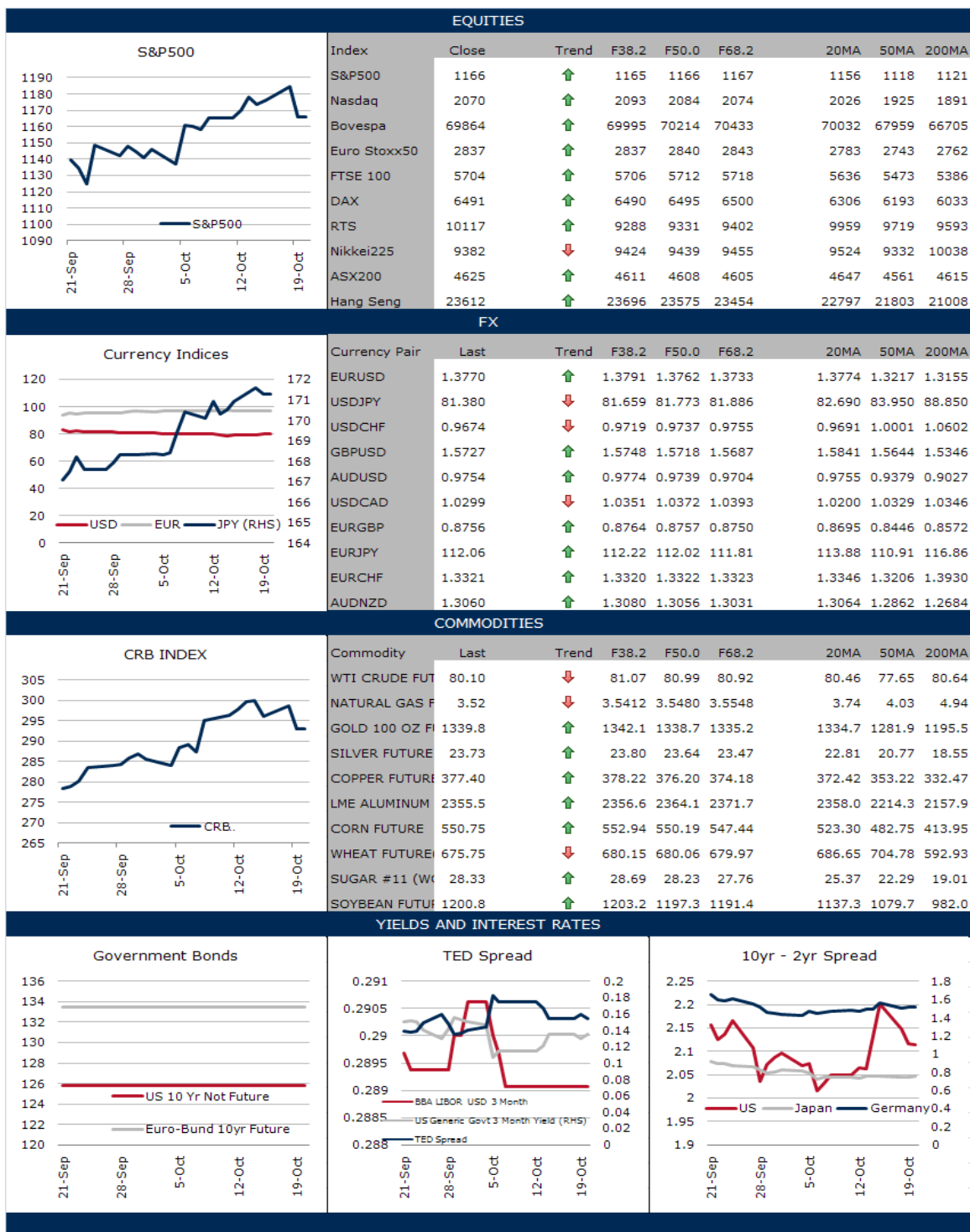
The ZEW surveys out of Germany and the Eurozone once again slowed, and for Germany even showed a negative print (-7.2), which suggests much weaker growth in 6 months time. However, the present situation index improved yet again, this time to 72.6, and points to a solid second half of 2010. German growth has to a certain extent been driven by net exports in this recovery, but the surging euro will soon start to eat into the growth in exports. Indeed, the German association of exports and wholesalers (BGA) said yesterday that the stronger euro is *"already beginning to considerably burden our exports into the dollar area, although it eases the burden on the import bill."*

Equities: a closer look

As expected Bank of America continued the trend from JPMorgan taking back loan loss provisions which increased their earnings quite significantly. They estimate as JPMorgan that the credit deterioration has stopped. This is a very interesting assessment of the future development of the US housing market. Maybe they have an indication of what is in the package from FED on the 3rd of November; for sure it is hard to believe that they would be this optimistic on their credit portfolio development if they knew that there would be no additional support for the US housing market from FED on the 3rd of November. Goldman did also surprise to the upside, but this was mostly due to earnings expectations have been slashed quite significantly up to the earnings season.

Today's most important earnings releases come from Abbott Laboratories, United Technologies, Wells Fargo & Co and Boeing.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
Eurozone Construction Output MoM (AUG)		-0.4%	-3.1%	-3.1%	-3.2%
Eurozone ZEW Survey – Economic Sentiment (SEP)		-2.0	1.8	4.4	
Germany ZEW Survey – Current Situation (SEP)		64.0	72.6	59.9	
Germany ZEW Survey – Economic Sentiment (SEP)		-7.0	-7.2	-4.3	
US Housing Starts (SEP)		580K	610K	598K	608K
US Building Permits (SEP)		575K	539K	569K	571K
Bank of Canada Rate	1.00%	1.00%	1.00%	1.00%	



Source: Bloomberg. Our calculations.

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

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