

Thursday Morning Kickoff @ Saxo

Manufacturing deceleration continues in developed economies

Themes

- After yesterday's strong move in equity markets closing well above the 1170-level look for a retest of 1170 before moving towards 1200.
- Further deceleration is in the cards for both the overall Eurozone and its largest member country, Germany.

What's going on?

European equity markets will likely open flat as most of the forceful surge that was in the US market yesterday did happen before the European closing and US futures is flat. Earnings continues to be the major driver of earnings as companies like Wells Fargo, United Technologies and Boeing did deliver very strong results and quite positive outlook for the earnings for the remains of the year.

Plenty of data today to cause commotion, including PMI's from Germany and the Eurozone, but earnings will still grab most of the headlines and guide equities.

Thursday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
07:30	GE PMI Manufacturing (OCT)		54.6	55.1
07:30	GE PMI Services (OCT)		54.9	54.9
07:30	SW Unemployment Rate (SEP)		7.6%	7.4%
08:00	Eurozone PMI Composite (OCT)		53.7	54.1
08:00	Eurozone PMI Manufacturing (OCT)		53.2	53.7
08:00	Eurozone PMI Services (OCT)		53.7	54.1
08:30	UK Retail Sales ex Auto Fuel MoM (SEP)	0.2%	0.2%	-0.4%
09:00	SZ Credit Suisse ZEW Survey (OCT)			-5.1
12:30	CA Leading Indicators MoM (SEP)		0.2%	0.5%
12:30	Initial Jobless Claims		455K	462K
12:30	Continuing Jobless Claims		4420K	4399K
14:00	Eurozone Consumer Confidence (OCT)		-11	-11
14:00	US Leading Indicators MoM (SEP)		0.3%	0.3%
14:00	US Philadelphia Fed Business Outlook Index (OCT)		2.0	-0.7
14:00	US Fed's Bullard speaks at St. Louis Fed conference			

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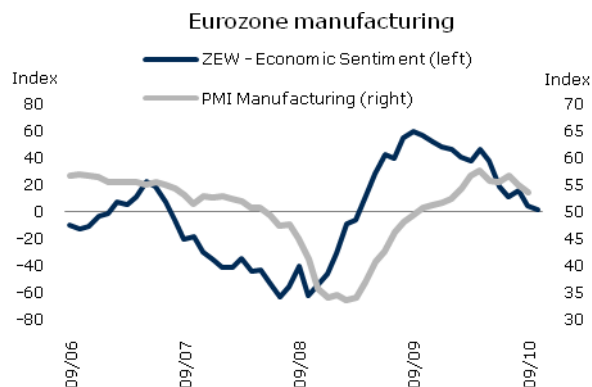
Markets at a glance

Eyes will be on the Eurozone – and Germany in particular – this morning as both economies are set to PMI (purchasing managers' index) data for both manufacturing and services. Consensus is looking for limited declines in October though to levels that would still signal expansion. The ZEW survey out a few days ago certainly points to further deceleration in growth – and possibly contraction – in the manufacturing sector.



Source: Bloomberg. Our calculations.

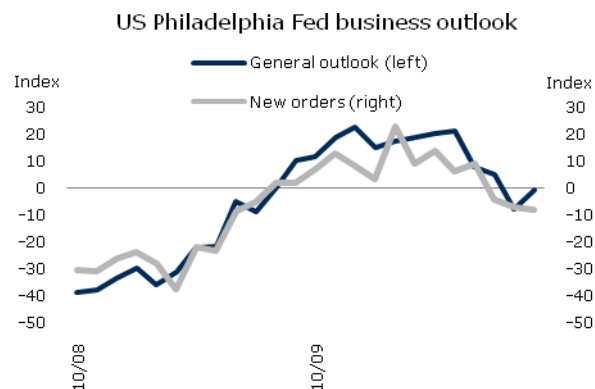
And the same can be said of manufacturing in the Eurozone in general.



Source: Bloomberg. Our calculations.

The afternoon offers leading indicators for both Canada and the US, and in the case of the latter focus should be in whether the 'ex market components' index (ex. stock market and treasury spread) continues to weaken. It has shown monthly declines in three of the last five months with a flat reading in August. Particularly the interest spread continues to boost the US leading indicators index.

The Philadelphia Fed business outlook index (OCT) is also released today and consensus is once again looking for an increase despite two negative readings in a row. Furthermore consensus has been too optimistic in every report since May. The new orders component does not support a positive print as it came out at -8.1 in September. The prices paid and employment indices were the only positives in the September print, and the latter only marginally.



Source: Bloomberg. Our calculations.

A bunch of numbers out of China overnight confirmed our suspicion following the hikes in the lending and deposit rates that inflation would accelerate. Consumer prices are now growing at 3.6% YoY (SEP) vs. 3.5% earlier. Producer prices also accelerated and are now up 4.3%. The economy is cooling with 3Q GDP down to 9.6% YoY vs. 10.3% in 2Q. Retail sales are accelerating slightly, but production and fixed assets are down somewhat on a YoY basis.

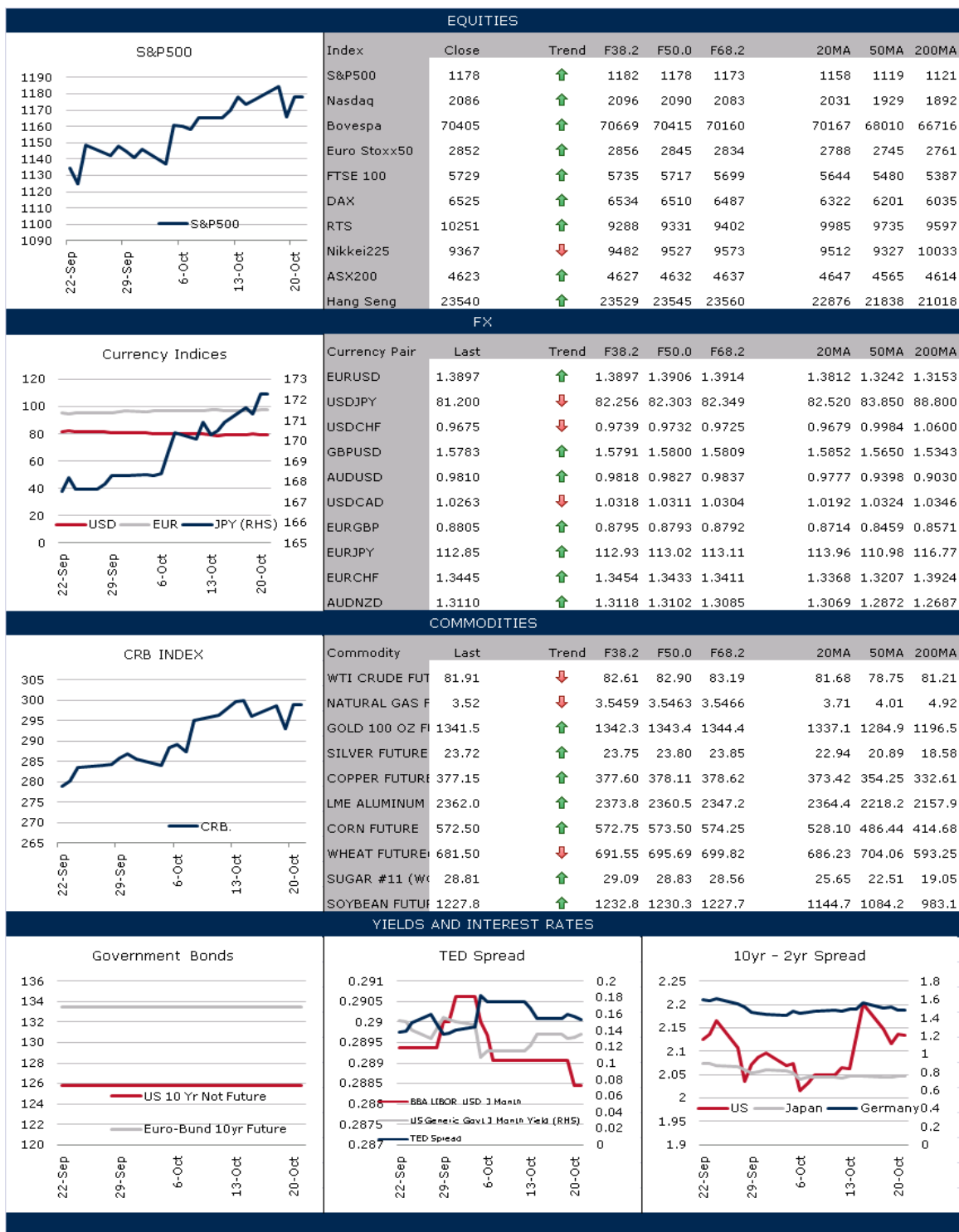
Equities: a closer look

Rather unexpected the credit portfolio improvement continues and yesterday it was Wells Fargo that reported that they are scaling back expected loan loss provisions and this made as in the case of Bank of America and JPMorgan prior their earnings surprise to the upside. Boeing benefitted from a strong order book that clearly offset the delays of especially the 787 Dreamliner as Boeing sees demand picking up especially on the commercial side as Airlines is starting to invest again. This view on the future made Boeing raise their EPS forecast to high end of range and this is good news for the global economy. United Technologies also added with a beat of the streets' expectations and this was driven by and large by unexpected high sales of jet engines. Finally

did Ebay surprise to the upside and lifted their forecast out of the prior range for 4Q provided by the company. So not surprisingly we had a very strong day in the equity markets yesterday and the earnings reports were able to offset the surprise hike in interest rates by China.

The European earnings season is kicked off today by Nokia, but else look for earnings season majors like Caterpillar, Amazon, Eli Lilly, UPS and AT&T from the US.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
UK Public Sector Net Borrowing (SEP)		14.5B	15.6B	15.3B	14.2B
UK M4 Money Supply MoM (SEP)		0.3%	-0.3%	-0.1%	-0.2%
CA Wholesale Sales MoM (AUG)		0.5%	1.2%	-0.1%	0.0%
CH GDP YoY (3Q)		9.5%	9.6%	10.3%	
CH CPI YoY (SEP)		3.6%	3.6%	3.5%	



Source: Bloomberg. Our calculations.

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

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