

Tuesday Morning Kickoff @ Saxo

3Q GDP decisive for QE in the UK?

Themes

- We had the first attempt of the 1200 level in S&P500 yesterday, but failed. Look for a retest of this level today and especially look for the close of the US session.

What's going on?

European equity markets will most likely open 0.3% lower as the close of the US was a bit lower than the prior close of the European session. However we had very strong earnings out from UBS this morning and semi-strong earnings out from Archelor-Mittal which could alter the sentiment into positive territory before or just shortly after the opening of the European session. In terms of other important earnings that has sufficient with power to alter direction of the market look out for Ford that will release earnings at 13:00 CET today.

Tuesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
07:30	SW PPI MoM (SEP)		0.0%	-0.5%
07:30	SW Interest Rate		1.00%	0.75%
08:30	UK GDP QoQ (3Q)	0.5%	0.4%	1.2%
13:00	US S&P/CaseShiller 20-City HPI MoM (AUG)	-0.10%	-0.20%	-0.13%
14:00	US Consumer Confidence (OCT)		49.9	48.5
14:00	US House Price Index MoM (AUG)		-0.2%	-0.5%
14:00	US Richmond Fed Manufacturing Index (OCT)		1	-2

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Markets at a glance

UK GDP is a key event today not just because it is the GDP report, but also because it will be an important report from a quantitative easing point of view. If economic activity grows at a weaker pace than consensus is looking for (0.4% QoQ) we could soon see other members of the Bank of England's Monetary Policy Committee (other than Posen) favour a new round of stimulus, that is QE2. Especially since fiscal policy will be a drag on activity in 2011, so it will be up to the BoE to "kick-start" the economy or so the central bank is likely to believe.

US home prices (AUG) – as measured by the CaseShiller home price index – are likely to show the second decline in as many months as prices fall to bring more of a balance between supply and demand. We expect prices to continue to decline for the rest of the year. US Conference Board Consumer Confidence is also released today with consensus looking for a slight increase. The recent Michigan Confidence report, however, shows that confidence is falling with the index down to 67.9 from 68.2.

Existing home sales increased 10% MoM in September (Saxo: 9%, consensus: 4.1%) with the Midwest leading the regions with a 14.5% gain. Months of supply declined for the second time in a row to 10.7 as the market is stabilising following the end of the homebuyer tax credit. However, a supply of almost eleven months is still far above what we normally observe.



Source: Bloomberg. Our calculations.

The Chicago Fed Activity index declined further yesterday to -0.58 from -0.49. A reading below zero indicates sub-trend growth, but not necessarily negative growth.

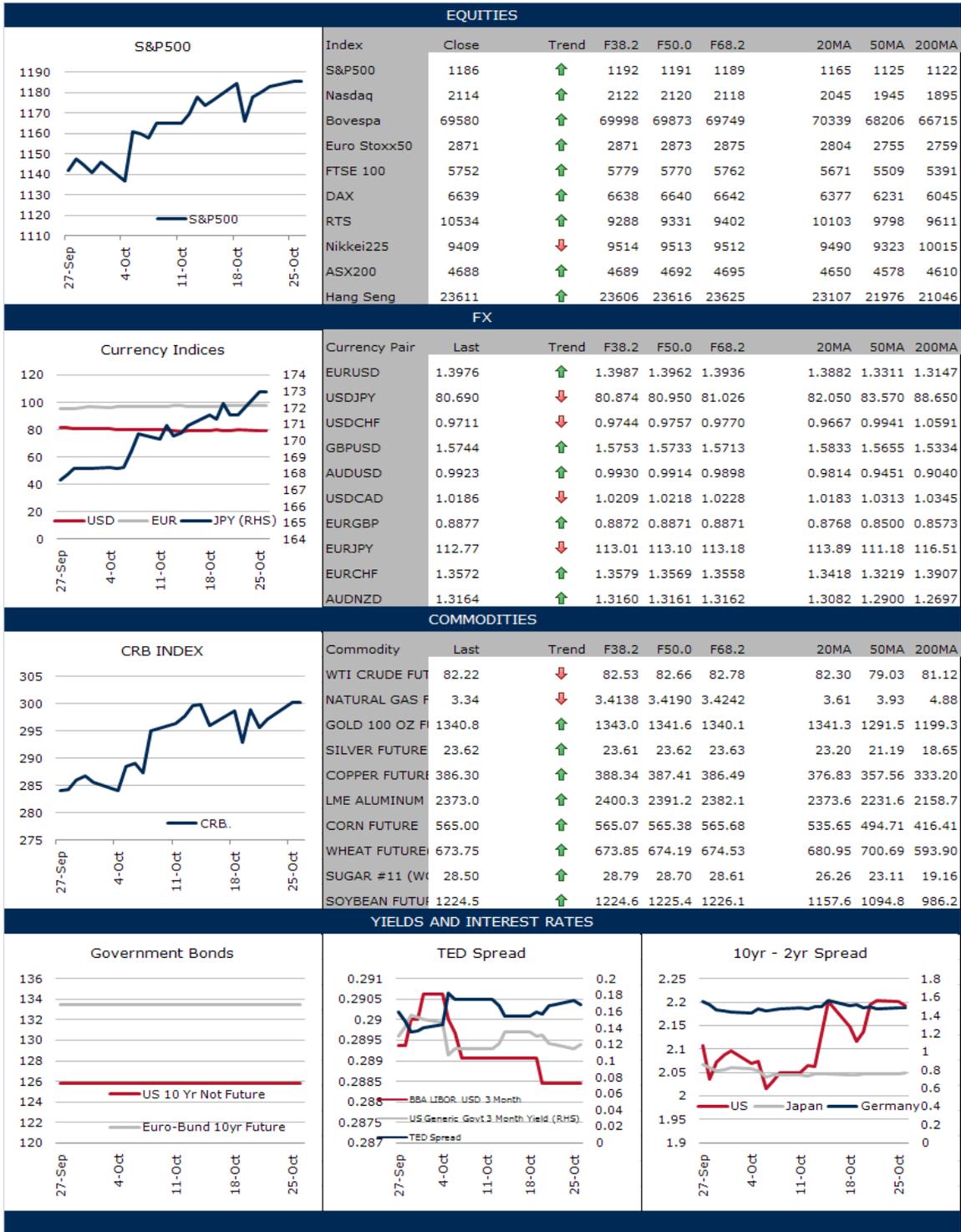
However, at the same time the 3-month average is now down to -0.33.

Equities: a closer look

UBS came out with very strong earnings this morning; net income at 1.66 bln. CHF vs. the market's expectation of 1.16 bln. This was partly due to a net tax credit of 825 mio. CHF, but the overall message was positive: Net inflow into the profitable wealth management business contrary to the last 3 quarters and a less decline than expected in their investment bank. This stands in opposite to the development in Credit Suisse where there were posted significant losses.

Texas Instruments released their earnings report yesterday and Q3 net income rose 60% compared to a year earlier, but their sales forecast and overall outlook on consumer spending was a bit bleak. They expect sales to be hurt by consumer demand, but the flipside to the coin is that Texas sees industrial demand picking up. This is good news and as we said yesterday we now just need this to be reflected in the aggregate numbers.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
Eurozone Industrial New Orders MoM (AUG)		2.2%	5.3%	-2.4%	-1.8%
US Chicago Fed National Activity Index (SEP)		-0.30	-0.58	-0.53	-0.49
US Existing Home Sales MoM (SEP)	9.0%	4.1%	10.0%	7.6%	7.3%
US Dallas Fed Manufacturing Index (OCT)		-8.5	2.6	-17.7	



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

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