

# Friday Morning Kickoff @ Saxo

## US 3Q GDP to ruin Bernanke's QE plans?

### Themes

- We had the first attempt of the 1200 level in S&P500 days ago, but failed. Look for a retest of this level as we approach the day for the launch of Fed's QE programme.
- A stronger than expected 3Q US GDP today – which we expect – will likely doom any major QE announcement at next week's FOMC meeting. Instead we could get a series of smaller doses of QE.

### What's going on?

European equity markets will most likely open 03% down as the close of the US was pretty much in line with the close of the European session in terms of levels. Yesterday we had another string of very good earnings results from major companies enforcing the view that this earnings season is surprisingly strong. So far 288 companies have reported in S&P500 out of which 236 had a surprise to the upside and the average surprise is almost 10%. The average growth year-over-year in EPS is 41.44%, which is very strong given the quite solid benchmark that was formed this time around last year. The earnings season has clearly supported equities at current levels and in terms of where we are going from here markets will not move higher on the back of earnings. Rather look for economic numbers and the probable launch of Fed's QE program next week. Today's major event is the US GDP report.

### Friday's Key Events

| GMT   | Event                                     | Saxo Bank | Consensus | Previous |
|-------|---|-----------|-----------|----------|
| 08:00 | NO Retail Sales MoM (SEP)                 |           | 0.6%      | -1.2%    |
| 08:30 | UK Mortgage Approvals (SEP)               |           | 46.0K     | 47.4K    |
| 09:00 | Eurozone CPI Flash Estimate YoY (OCT)     |           | 1.8%      | 1.8%     |
| 09:00 | Eurozone Unemployment Rate (SEP)          |           | 10.1%     | 10.1%    |
| 09:30 | SZ KOF Swiss Leading Indicator (OCT)      |           | 2.16      | 2.21     |
| 12:30 | CA GDP MoM (AUG)                          | 0.2%      | 0.3%      | -0.1%    |
| 12:30 | CA Industrial Product Price MoM (SEP)     | 0.1%      | 0.3%      | 0.4%     |
| 12:30 | US GDP QoQ Ann. (3Q)                      | 2.3%      | 2.0%      | 1.7%     |
| 12:30 | US PCE QoQ Ann. (3Q)                      | 2.3%      | 2.5%      | 2.2%     |
| 13:45 | US Chicago PMI (OCT)                      |           | 58.0      | 60.4     |
| 13:55 | US U. of Michigan Confidence (OCT, final) |           | 68.0      | 67.9     |

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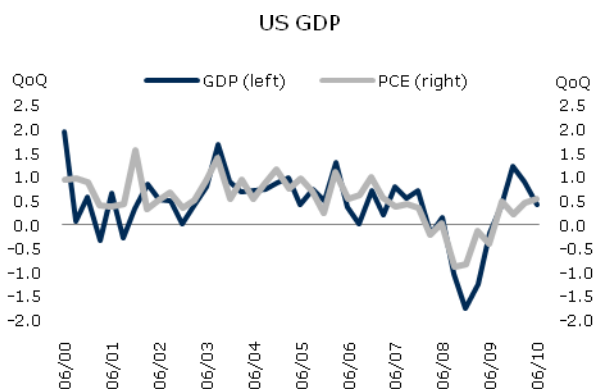
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## Markets at a glance

The US economy is growing too slowly, which is the recent why the markets are currently pricing in another round of quantitative easing. Today's GDP report could (and we expect that it will with our 2.3% forecast) put another dent in Fed Chairman Bernanke's plan for a large-scale quantitative easing programme. Instead, next week's FOMC meeting could very well result in an announcement that the Fed will resume QE, but only to the tune of \$250 billion instead of the \$500-1,000bn currently expected by the markets.

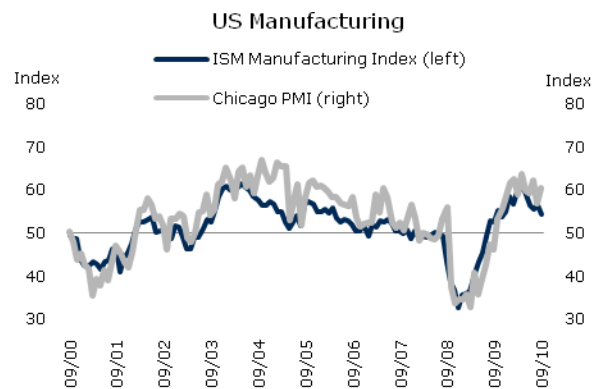
We expect the economy to rebound somewhat in the third quarter after a measly display in the second quarter where the economy only grew 1.7% annualised. We look for an above-consensus growth rate of 2.3% despite our below-consensus expectation for private consumption of 2.3% (consensus: 2.5%). We expect inventories to provide another solid contribution to GDP together with private consumption while net exports will drag down GDP much less than was the case in the second quarter (mainly due to the narrow July trade deficit). Residential investment will obviously be weak following due to the expiration of the homebuyer tax credit, but capital goods investments are likely to show growth once again as confirmed in last Wednesday's Durable Goods Orders report.



Source: Bloomberg, Our calculations.

The Chicago PMI is out today (it is released three minutes earlier at 13:42 for subscribers!) and serves as a solid indicator of next week's ISM Manufacturing index. New

orders have continued to be very strong with a September reading of 61.4 and at no point in the last year has new orders been below 55.



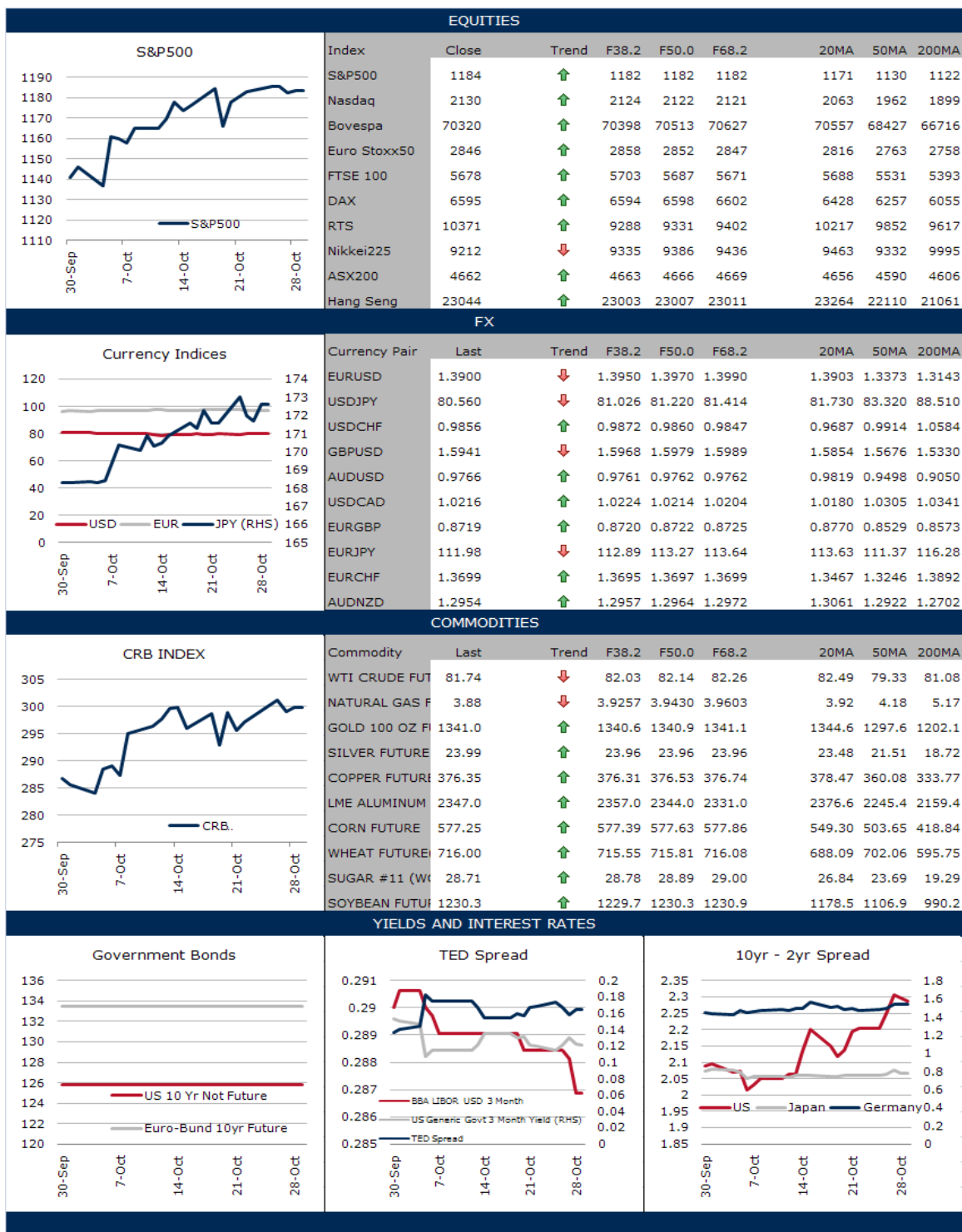
Source: Bloomberg, Our calculations.

Also watch out for the flash estimate for Eurozone CPI, Canada's monthly GDP report for the month of August, and the Swiss KOF indicator.

## Equities: a closer look

Prior to the earnings season we expected industrials, materials and the tech sector to outperform and they did. The average EPS growth in S&P500 so far has been 41.44% and materials has so far realized an EPS growth number of 44.20%, industrials 55.43% and tech of 56.61%. However the big surprise is still financials which have realized an EPS growth number of 108.63%. Given that most banks and financials have not had the tailwind of excessive fixed income trading in this quarter (on the back of a QE program) they have done rather well. Given that FED will most likely launch their QE program next week this should be supportive for investment banks at least for next 2 quarters in terms of lifting earnings. Today's major event will obviously be the US GDP report, but do take a look at earnings from Merck, British Airways and Total.

| Economic data highlights                  | Saxo Bank | Consensus | Actual | Previous | Revised |
|---|-----------|-----------|--------|----------|---------|
| SW Consumer Confidence (OCT)              |           | 28.0      | 23.4   | 28.4     |         |
| SW Manufacturing Confidence (3Q)          |           | 10        | 5      | 3        |         |
| SW Retail Sales MoM (SEP)                 |           | 0.5%      | 0.8%   | 0.0%     | 0.1%    |
| Eurozone Consumer Confidence (OCT, final) |           | -11       | -11    | -11      |         |
| Eurozone Economic Confidence (OCT)        |           | 103.5     | 104.1  | 103.2    |         |
| Eurozone Industrial Confidence (OCT)      |           | -1        | 0      | -2       |         |
| Eurozone Services Confidence (OCT)        |           | 7         | 8      | 8        |         |
| Eurozone Business Climate Indicator (OCT) |           | 0.79      | 0.98   | 0.77     | 0.76    |
| US Initial Jobless Claims                 |           | 455K      | 434K   | 452K     | 455K    |
| US Continuing Jobless Claims              |           | 4430K     | 4356K  | 4441K    | 4478K   |



Source: Bloomberg. Our calculations.

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

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