

# Tuesday Morning Kickoff @ Saxo

## Markets await the results of the US elections

### 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 this week.

### What's going on?

European markets are expected to open 0.3% lower following a weak session in the US. However, futures made a slight comeback in the Asian session as the RBA unexpectedly hiked rates. We have plenty of companies reporting results today, including Archer-Daniels-Midland, Pfizer, and MasterCard, but look for equities to range trade ahead of news from the US elections. The macro calendar is very light with only UK PMI Construction worth taking a look at. PMIs from GE and EZ are 'final' and hence not likely to change much.

### Tuesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:55	GE PMI Manufacturing (OCT, final)		56.1	56.1
09:00	Eurozone PMI Manufacturing (OCT, final)		54.1	54.1
09:30	UK PMI Construction (OCT)		53.0	53.8
Bef-Mkt	Mastercard Inc. (3Q 2010)		3.540	3.490
Bef-Mkt	Archer-Daniels-Midland (1Q 2011)		0.750	0.700
Bef-Mkt	Pfizer Inc. (3Q 2010)		0.510	0.620

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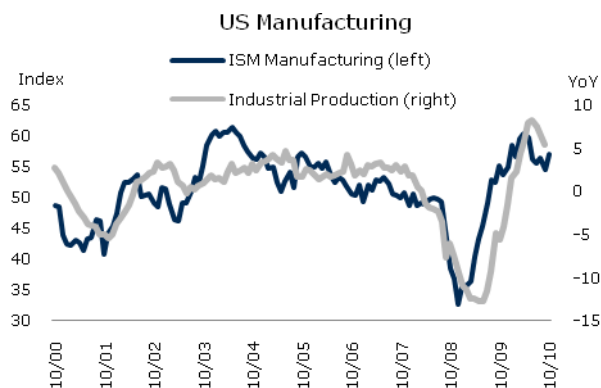
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## Markets at a glance

The Australian central bank, the RBA, surprised markets this morning and raised the cash target rate by 25bps to 4.75%. It is the first hike in six months and it signals that the bank is getting more concerned about the impact of the strong Chinese economy. The bank was reacting too slowly in 2007 as it refrained from hiking and today's event suggests that they are not prepared to let that happen again.

ISM Manufacturing rose substantially to 56.9 in October from 54.4 earlier and overall the report was quite good. New orders rose all the way to 58.9 from 51.1, employment rose to 57.7 from 56.5, and production rose to 62.7 from 56.5. The only negative part of the report was prices paid, which rose to 71.0 from 70.5. Can the companies pass these higher prices along to the consumers or will margins take a hit? Somewhat comically, the current string of good reports out of the US could end up hurting equities as the odds of large-scale quantitative easing dwindle. We still expect QE2 to be announced on Wednesday, but the size of the programme will likely disappoint those, who continue to expect a \$1 trillion dollar injection.

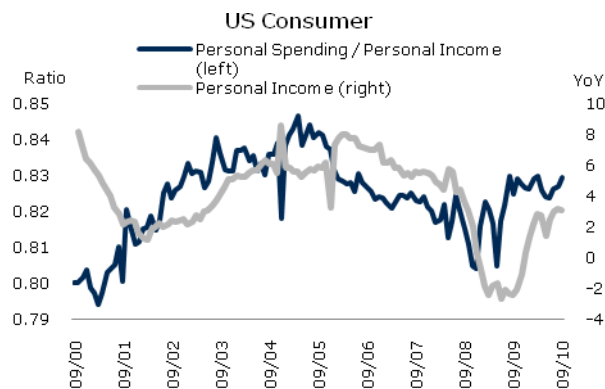


Source: Bloomberg. Our calculations.

Personal income declined a tad in September by 0.1% MoM while spending rose 0.2%. American consumers, in other words, lowered their rate of savings in September to finance their additional spending. The savings rate now stands at 5.3%, down from 5.6% a month ago. It has now either remained flat or declined in every month since May. So much for prudent US consumers!

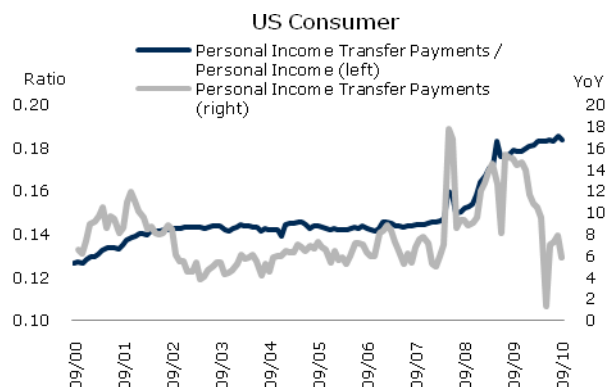
The problem is that it is government spending that drives personal income at the moment (as we saw in last Friday's GDP report where government consumption was up 3.4% QoQ annualised and federal spending was up 8.8%). Transfer payments are up 6% YoY and have

increased rapidly as a share of overall income. Without transfer payments, income is up 2.5% from a year ago, but spending is up 3.7%.



Source: Bloomberg. Our calculations.

Transfer payments were to a large degree responsible for the decline in personal income in September. The large spike in income in August (0.4% MoM) was due to the extension of jobless benefits. If benefits are not extended further, we could very well see income continue to decline – or grow very slowly – as people fall off of the benefits programme.



Source: Bloomberg. Our calculations.

## Equities: a closer look

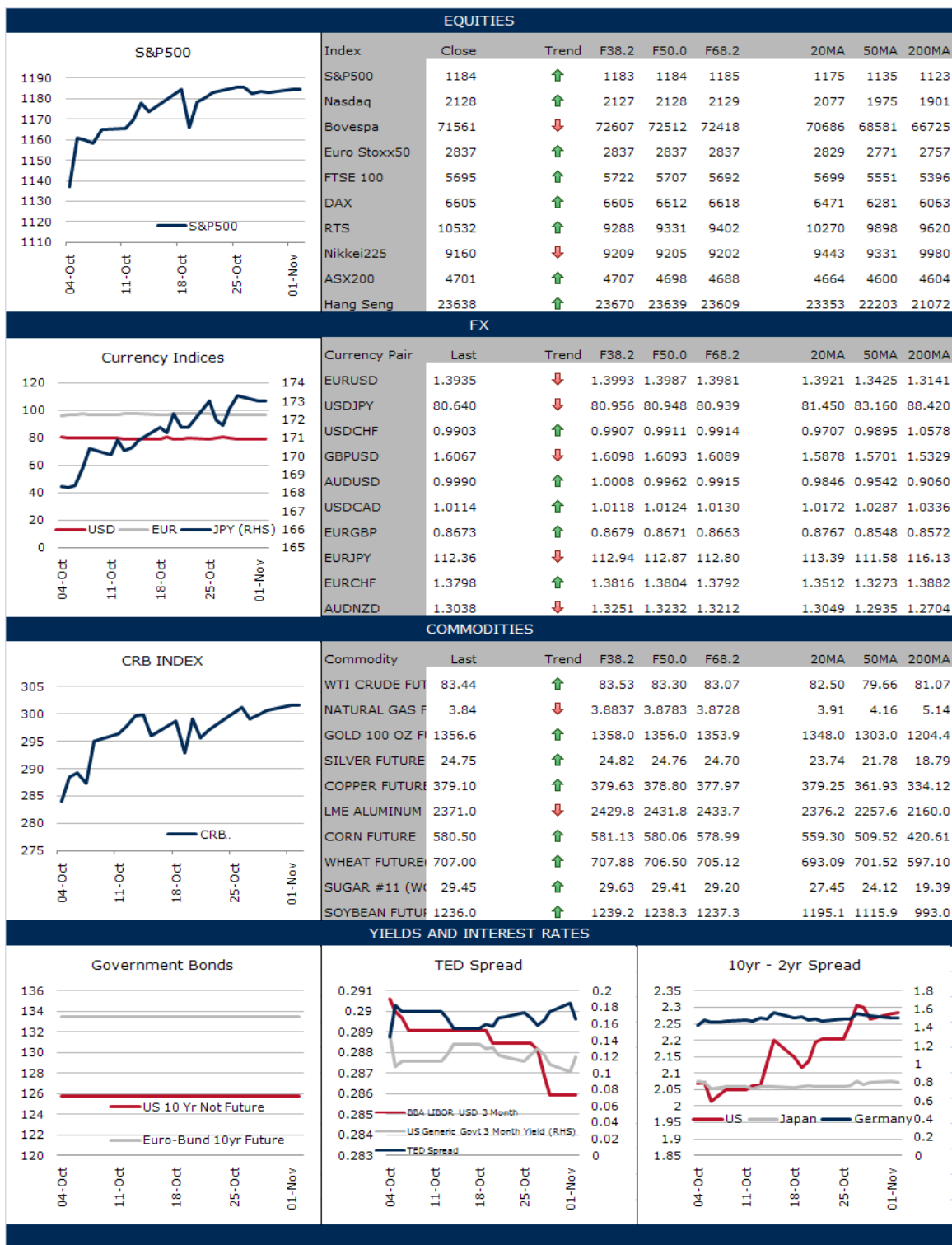
The RBA's decision to hike rates immediately sent AUD crosses higher and we expect that to carry over into equities. Despite a weak session in the US, the futures are rising and were certainly boosted by the RBA's rate announcement.

We expect equities to range trade today in the European session as the economic calendar is very light. While we do have quite a few earnings reports, we expect equities to wait and see what election news comes out of the US.

BP reported earnings this morning with a return to profit despite an additional pre-tax charge of USD 7.7 billion in respect of the Gulf of Mexico spill. The company's divestment programme is making good progress with sales agreements in place totalling around USD 14 and

combined with strong operating results net debt is unchanged compared to a year ago. On this basis the Board intends to review future dividend with the full-year results in early 2011. This is clearly a strong signal and shows that BP can survive the financial impact and the future liabilities from the Gulf of Mexico spill.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
SZ SVME-PMI (OCT)		59.3	59.2	59.7	
UK PMI Manufacturing (OCT)		53.0	54.9	53.4	
US Personal Income MoM (SEP)	0.0%	0.2%	-0.1%	0.5%	0.4%
US Personal Spending MoM (SEP)	0.5%	0.4%	0.2%	0.4%	0.5%
US ISM Manufacturing (OCT)	53.0	54.0	54.4	54.4	
US ISM Prices Paid (OCT)		70.0	70.5	70.5	
US Construction Spending MoM (SEP)	-0.3%	-0.5%	0.4%	0.4%	
AU RBA Cash Target Rate		4.50%	4.75%	4.50%	



Source: Bloomberg. Our calculations.

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

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