

Friday Morning Kickoff @ Saxo

Look out for the US Employment report today – 10% within reach?

Themes

- Yesterday we had a forceful move intraday in the US equity market. S&P500 closed above the April's high of 1221. This will for sure be tested today, but given the strength yesterday further upside could be ahead.

What's going on?

Equities and risk appetite was clearly boosted yesterday on the back of the assumption that the quantitative easing (QE) will boost growth and create jobs. The question remains as to whether this is actually going to be the case. First of all we do not expect that QE will be able to create long term sustainable growth or jobs for that matter and second of all, since the usual method is used channeling this liquidity thereby assuming that corporates will create jobs via capex. But policy-makers will be disappointed since the jobs will be created in emerging markets, as this is where corporates expect the best return on their invested capital.

Friday's Key Events

| GMT | Event | Saxo Bank | Consensus | Previous |
|-------|---|-----------|-----------|----------|
| 09:00 | NO Industrial Production MoM (SEP) | | | -4.7% |
| 09:30 | UK PPI Output MoM (OCT) | 0.9% | 0.9% | 0.7% |
| 10:00 | EZ Retail Sales MoM (SEP) | 0.1% | 0.1% | -0.4% |
| 11:00 | CA Net Change in Employment (OCT) | | 15.0K | -6.6K |
| 11:00 | CA Unemployment Rate (OCT) | | 8.0% | 8.0% |
| 11:00 | GE Factory Orders MoM (SEP) | | 0.4% | 3.4% |
| 11:00 | CA Building Permits MoM (SEP) | | 2.5% | -9.2% |
| 13:30 | US Net Change in Nonfarm Payrolls (OCT) | 65K | 60K | -95K |
| 13:30 | US Net Change in Private Payrolls (OCT) | 85K | 80K | 64K |
| 13:30 | US Net Change in Manufacturing Payrolls (OCT) | 0K | 5K | -6K |
| 13:30 | US Unemployment Rate (OCT) | 9.6% | 9.6% | 9.6% |
| 13:30 | US Avg. Hourly Earnings MoM (OCT) | 0.2% | 0.2% | 0.0% |
| 13:30 | US Avg. Weekly Hours (OCT) | 34.2 | 34.2 | 34.2 |
| 14:00 | US Pending Home Sales MoM (SEP) | | 3.0% | 4.3% |
| 19:00 | US Consumer Credit (SEP) | | -\$3.0B | -\$3.3B |

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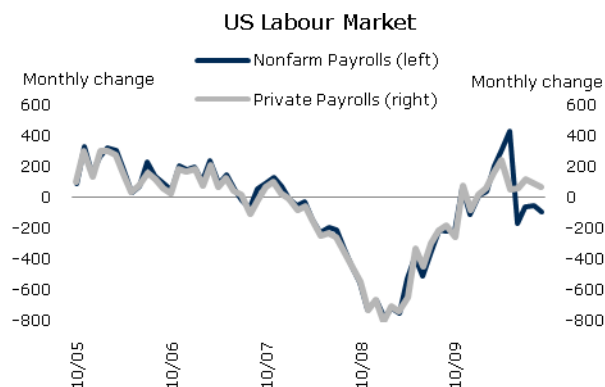
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Markets at a glance

A very busy day in a very busy week culminates when the US Employment report is released today, but that is not the only report worth watching. Elsewhere we get a glimpse of the health of the German growth locomotive, the Canadian employment situation, and back in the US we will also get another status report of the messy housing market.

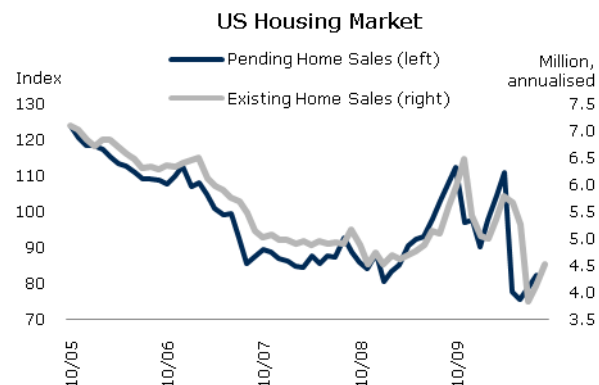


Source: Bloomberg. Our calculations.

We expect the US labour market to have risen 65,000 as the economy has picked up the pace a little bit in October. The private job market continues to improve – we look for 85,000 – but the rate of improvement is still lacking behind the population growth. Unless we see improvement here, the unemployment is again expected to touch the psychologically uncomfortable 10% within the next couple of quarters. For this report, however, we look for an unchanged rate of 9.6%, which would be the third consecutive reading of 9.6%.

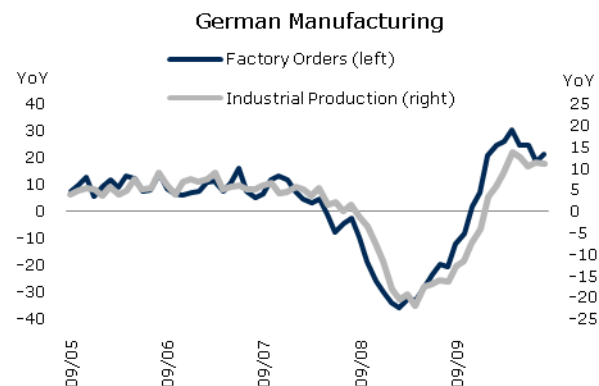
The disrupting 2010 Census will no longer matter and we can hence go back to looking at the headline 'nonfarm payrolls' number. We look for governments to continue to downsize their payrolls, which is why we only look for 65,000 added nonfarm jobs despite healthy private growth of 85,000.

Pending Home Sales, a leading indicator of Existing Home Sales, is up late in the European session and consensus is looking for another small improvement in the housing market. However, as we have stressed before, sales may have bottomed, but prices are expected to decline even further in the rest of 2010 (the recent CaseShiller report only reinforces our view).



Source: Bloomberg. Our calculations.

The German locomotive has pulled the Eurozone economy out of its misery for now, and the latter remains fully dependent on a well-oiled German machine. The marvellous 2.2% QoQ growth rate registered in Germany in the second quarter was largely due to two factors: investment (0.8%-points) and net exports (also 0.8%-points). Investment in equipment and machinery has now risen less than 4.4% in both quarters on record in 2010 construction was up 5.2% while net exports increased 19.9% (exports 8.2% and imports 7%). The weak EUR (earlier in the year) clearly aided activity, but recently voices have been raised among exporters that the EUR's comeback is hurting business. The inventory cycle is also peaking at the moment, we believe, so factory orders a particularly interesting to keep an eye out for at the moment.



Source: Bloomberg. Our calculations.

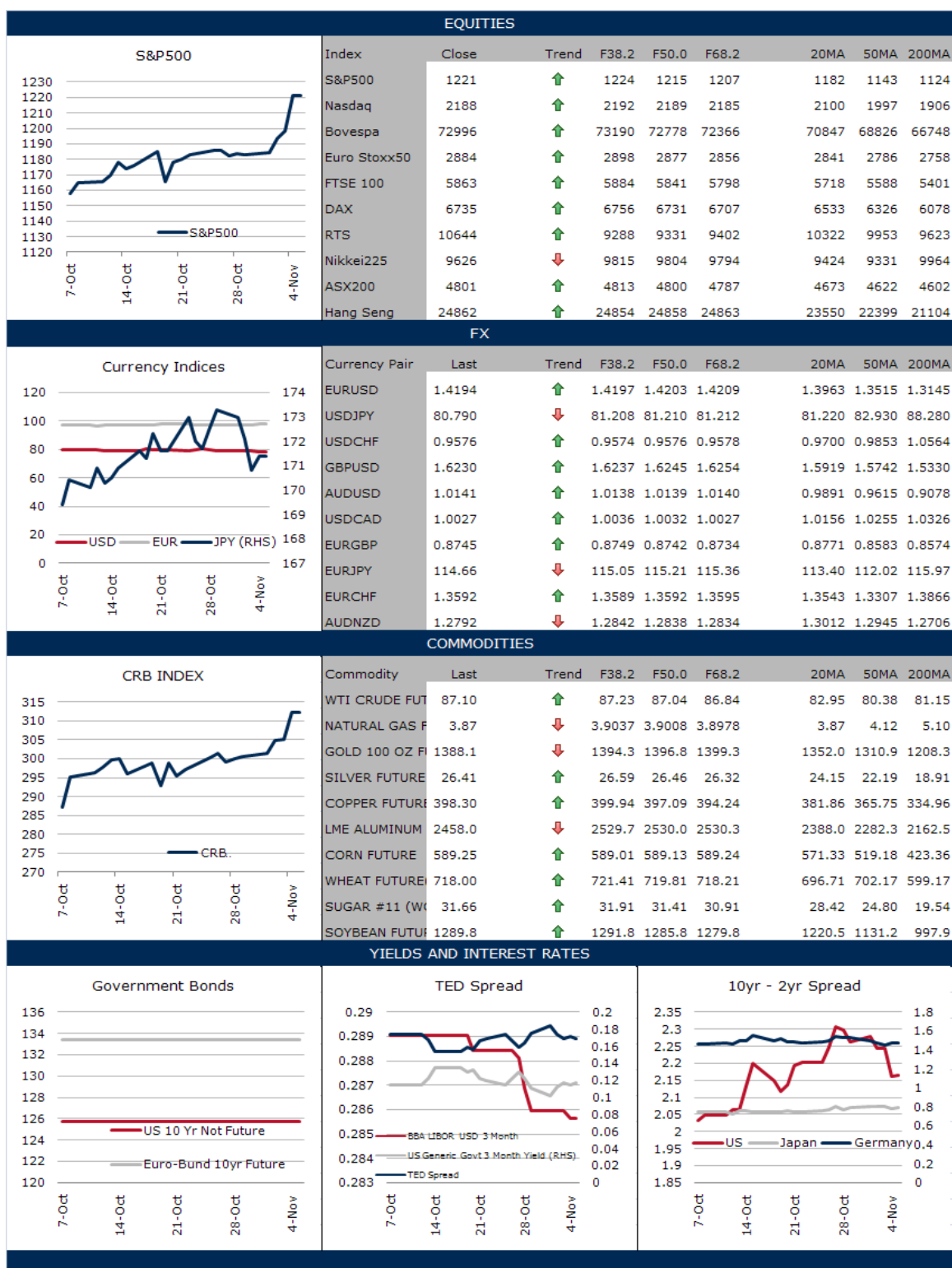
Equities: a closer look

The FED's move to lower interest rates by quantitative easing will most likely not have the expected effect. Household and government in the developed world is deleveraging and corporates do know this meaning that they will elsewhere to do their investments as demand will remain flat for some years in developed markets. So naturally corporates will look for investment opportunities with emerging markets as the demand is here and there is very limited debt – both on the household and government side. So you if you should state this in a headline manner you might say that the US government

just boosted investments in emerging markets by 600 bln USD.

In terms of intraday events that will move the market look out for German factory orders and US employment report later in the day. There will great attention to both numbers, but especially the US numbers has potential to move the market as the unemployment rate is widely expected to move higher for the foreseeable future.

| Economic data highlights | Saxo Bank | Consensus | Actual | Previous | Revised |
|-----------------------------------|-----------|-----------|--------|----------|---------|
| UK Halifax House Prices MoM (OCT) | | 0.6% | 1.8% | 2.6% | 3.4% |
| GE PMI Services (OCT, final) | | 56.6 | 56.0 | 56.6 | |
| EZ PMI Composite (OCT, final) | | 53.4 | 53.8 | 53.4 | -2K |
| EZ PMI Services (OCT, final) | | 53.2 | 53.3 | 53.2 | |
| EZ PPI MoM (SEP) | | 0.3% | 0.3% | 0.1% | 0.0% |
| UK BOE announces rates | 0.50% | 0.50% | 0.50% | 0.50% | |
| UK BOE Asset Purchase Target | 200B | 200B | 200B | 200B | |
| US Nonfarm Productivity QoQ (3Q) | | 1.0% | 1.9% | -1.8% | |
| US Initial Jobless Claims | | 442K | 457K | 434K | 437K |
| US Continuing Jobless Claims | | 4378K | 4340K | 4356K | 4382K |
| EZ ECB announces rates | 1.00% | 1.00% | 1.00% | 1.00% | |
| CA Ivey PMI (OCT) | | 65.0 | 56.7 | 70.3 | |



Source: Bloomberg. Our calculations.

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

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