Wednesday Morning Kickoff @ Saxo

Did equities overextend themselves yesterday?

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Themes

- We clearly broke the 1150-threshold yesterday. Wait for more price action in order to determine whether we should stay here and move higher or retrace lower.

What's going on?

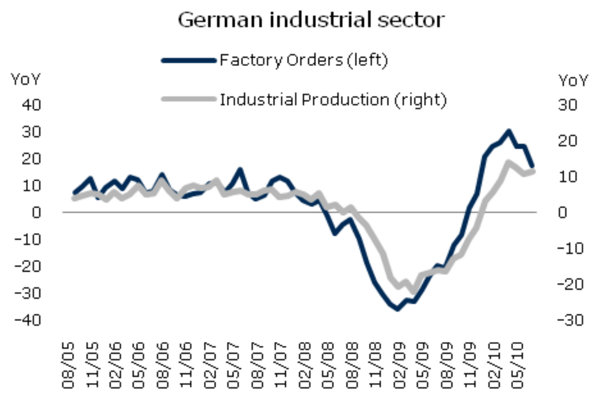
European equity markets will most likely open around 0.5% higher today after a strong close in yesterday's US session on the back of better than expected US ISM Non-manufacturing (service industry) expanded more than expected (53.2 vs. 52.0). Furthermore equities are pricing in that there will be another round of QE from most central banks after Bank of Japans move yesterday. This will short term be very bullish for risk in general and equities in particular.

Wednesday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
09:00	EZ GDP QoQ (2Q, final)	1.0%	1.0%	1.0%
10:00	GE Factory Orders MoM (AUG)		0.9%	-2.2%
12:15	US ADP Employment Change (SEP)		20K	-10K
14:00	CA Ivey PMI (SEP)	60.0	62.0	65.9

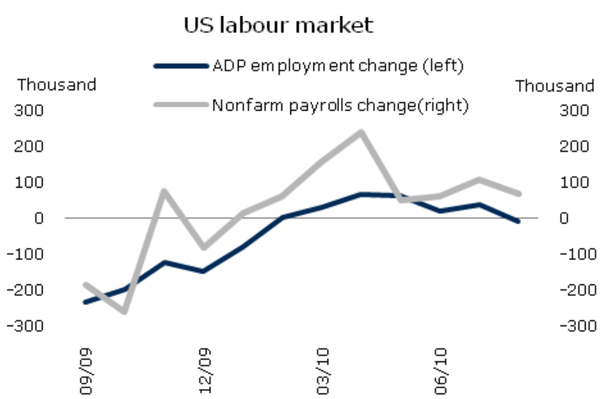
Markets at a glance

German factory orders will shed some light on the extent of the slowdown in the German economy. Orders unexpectedly declined 2.2% in July, and the growth in orders should moderate as the growth in global trade slows down. The other countries in the Eurozone need to pick up the pace, otherwise the slowly German locomotive will push overall Eurozone growth down in the third quarter and beyond. Unfortunately, there seems to be nobody who will be able to do that; also confirmed by the OECD leading indicators, which are pointing down for all the PIIGS (ex. Ireland) and France.



Source: Bloomberg. Our calculations.

The ADP employment report will be released today and is a fairly solid indicator of the net change in private sector jobs in the US, though it has generally pointed to weaker job creation in the last year compared to the BLS's nonfarm report.



Source: Bloomberg. Our calculations.

A couple of dovish central bank announcements from BoJ and RBA and a better than expected ISM non-manufacturing number was all that was needed for equities to rally more than 2%; the non-manufacturing index usually does not receive this amount of attention from the markets.

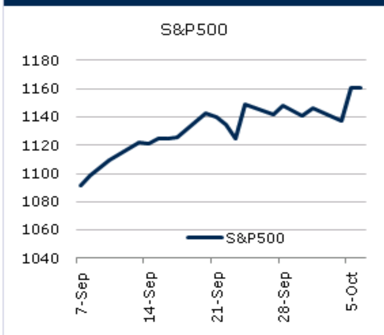
The non-manufacturing sector in the US is expanding at a faster pace (53.2) compared to the previous month (51.5). If we look at the internals of the report, they were also generally sound with new orders up to 54.9 from 52.4 and employment sneaking into expansionary territory (50.2) ahead of Friday's nonfarm payrolls report.

Equities: a closer look

Yesterday we had a surprisingly good macro number out from the US and look what it did to equities and risk. This is clearly an indication of that the market has been overloaded with bad news and just waiting for a good number coming out while holding together the pieces. To us this is clearly an indication of that markets will retrace from current levels as this is more a bear market rally rather than anything else. The earnings season might be able to support the current levels around 1150 in S&P500, but after this and the QE that is now getting priced in what is left to support equities at current price levels?

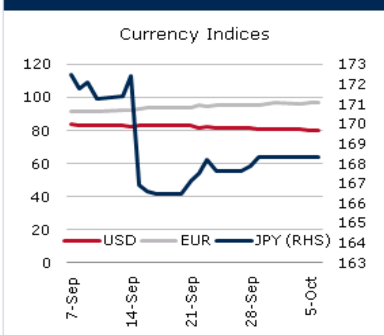
Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
SZ CPI MoM (SEP)		0.0%	0.0%	0.0%	
UK PMI Services (SEP)		51.0	52.8	51.3	
EC Retail Sales MoM (AUG)	0.1%	0.2%	-0.4%	0.1%	
US ISM Non-manufacturing (SEP)	52.5	52.0	53.2	51.5	

EQUITIES



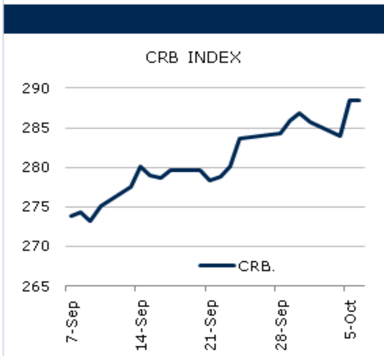
Index	Close	Trend	F38.2	F50.0	F68.2	20MA	50MA	200MA
S&P500	1161	↑	1164	1157	1149	1132	1107	1118
Nasdaq	2025	↑	2029	2018	2008	1967	1894	1881
Bovespa	71283	↑	71390	71061	70732	68412	67364	66560
Euro Stoxx50	2759	↓	2827	2819	2810	2769	2740	2771
FTSE 100	5636	↑	5652	5620	5587	5555	5405	5371
DAX	6216	↑	6239	6200	6161	6236	6169	6014
RTS	10130	↑	9288	9331	9402	9783	9644	9560
Nikkei225	9665	↑	9690	9651	9612	9407	9343	10068
ASX200	4682	↑	4698	4669	4640	4616	4537	4621
Hang Seng	22885	↑	22896	22913	22930	21880	21390	20913

FX



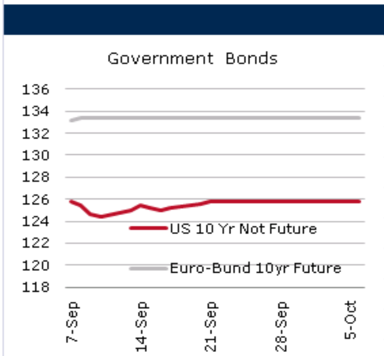
Currency Pair	Last	Trend	F38.2	F50.0	F68.2	20MA	50MA	200MA
EURUSD	1.3838	↑	1.3835	1.3836	1.3837	1.3319	1.3062	1.3179
USDJPY	83.170	↓	83.296	83.345	83.394	84.220	84.810	89.380
USDCHF	0.9652	↓	0.9670	0.9678	0.9685	0.9910	1.0169	1.0635
GBPUSD	1.5905	↑	1.5916	1.5907	1.5897	1.5678	1.5635	1.5357
AUDUSD	0.9710	↑	0.9706	0.9706	0.9705	0.9526	0.9230	0.8992
USDCAD	1.0149	↓	1.0166	1.0173	1.0179	1.0275	1.0356	1.0358
EURGBP	0.8700	↑	0.8697	0.8698	0.8698	0.8494	0.8353	0.8581
EURJPY	115.09	↑	115.06	115.07	115.07	112.15	110.77	117.82
EURCHF	1.3357	↑	1.3359	1.3363	1.3366	1.3194	1.3277	1.4001
AUDNZD	1.2974	↑	1.2994	1.2986	1.2977	1.2959	1.2750	1.2654

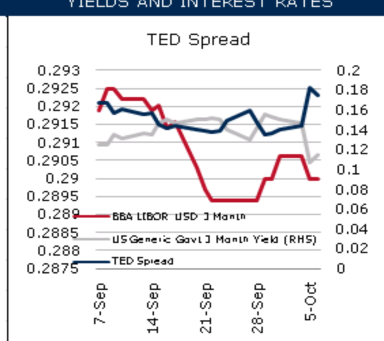
COMMODITIES

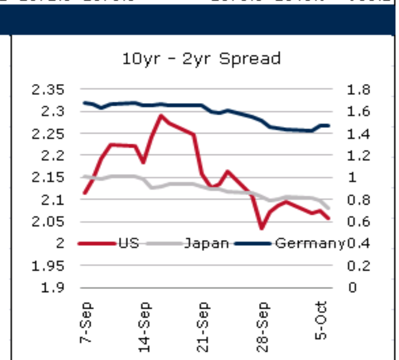


Commodity	Last	Trend	F38.2	F50.0	F68.2	20MA	50MA	200MA
WTI CRUDE FUT	82.91	↑	82.99	82.81	82.62	77.68	77.60	80.70
NATURAL GAS F	3.77	↓	3.7940	3.8033	3.8125	4.01	4.28	5.08
GOLD 100 OZ FI	1350.0	↑	1351.8	1348.0	1344.2	1291.5	1248.8	1183.2
SILVER FUTURE	23.07	↑	23.12	23.01	22.90	21.22	19.67	18.23
COPPER FUTURE	377.85	↑	378.63	376.56	374.50	357.23	344.62	330.19
LME ALUMINUM	2380.0	↑	2390.8	2372.9	2354.9	2238.3	2168.2	2151.2
CORN FUTURE	493.50	↑	495.40	494.00	492.60	495.34	454.15	408.42
WHEAT FUTURE	669.50	↓	680.64	680.19	679.74	705.59	710.75	588.31
SUGAR #11 (WO	23.74	↑	23.90	23.57	23.23	23.24	20.58	18.72
SOYBEAN FUTUI	1071.3	↑	1074.2	1072.3	1070.3	1073.3	1040.9	965.2

YIELDS AND INTEREST RATES







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

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