

Monday Morning Kickoff @ Saxo

Nonfarm payrolls lift equities on QE expectations

Themes

- We clearly broke the 1150-threshold and closed well above the 1150-level yesterday. Seems from the latest price action that investors just want risk (equities). Disappointment in the QE-launch or in the upcoming earnings season could lead to a sharp market correction.

What's going on?

European equity markets will most likely open around 0.2% higher today after a strong close in yesterdays' US session on the back of expectations rising on the content of the QE package from the Fed. Prepare for tomorrow's earnings from Intel. This is very important for sentiment in markets and will fundamentally most likely provide a solid insight into how expectations will be in terms of sales growth in 2011.

Monday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:00	NO CPI MoM (SEP)		0.8%	-0.2%
08:00	NO CPI Underlying MoM (SEP)		0.9%	-0.2%
12:00	Fed's Dudley speaks in Washington			
16:00	ECB's Trichet speaks in Washington			
18:45	Fed's Yellen speaks on Fed challenges in Denver			

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Markets at a glance

The earnings season does not get really exciting until tomorrow when Intel reports. Furthermore, the macro calendar is very, very light. However, do watch out for the Fed speakers today. While we think QE2 is now a near certainty, last week a couple of Fed members did attempt to talk down the likelihood of more QE at the November FOMC meeting.

Nonfarm payrolls fell for the first time since December 2009 when you exclude temporary Census workers. The decline of 18,000 jobs was due to a much larger than expected decline in non-Census government workers. Private payrolls (64,000 vs. Saxo: 65,000) and Census workers (77,000 vs. Saxo: 80,000) came in as expected, but the 83,000 decline in non-Census government job positions surprised greatly to the downside as state and locals really cut back.

The unemployment rate did not increase as expected, but instead remained at 9.6% as the household survey was somewhat better than the establishment (nonfarm) survey. The former survey saw employment increase by roughly 141,000 while the civilian labor force rose by 48,000, so the unemployment rate actually declined somewhat, but is still rounded to 9.6%. The so-called underemployment rate, which includes marginally attached workers, rose no less than 0.4%-points to 17.1%, which is the highest rate since April. This was due to a large increase in persons employed '*part time for economic reasons*' rose by no less than 612,000. In other words, more than half a million additional workers worked part time in September, but would rather have had a full

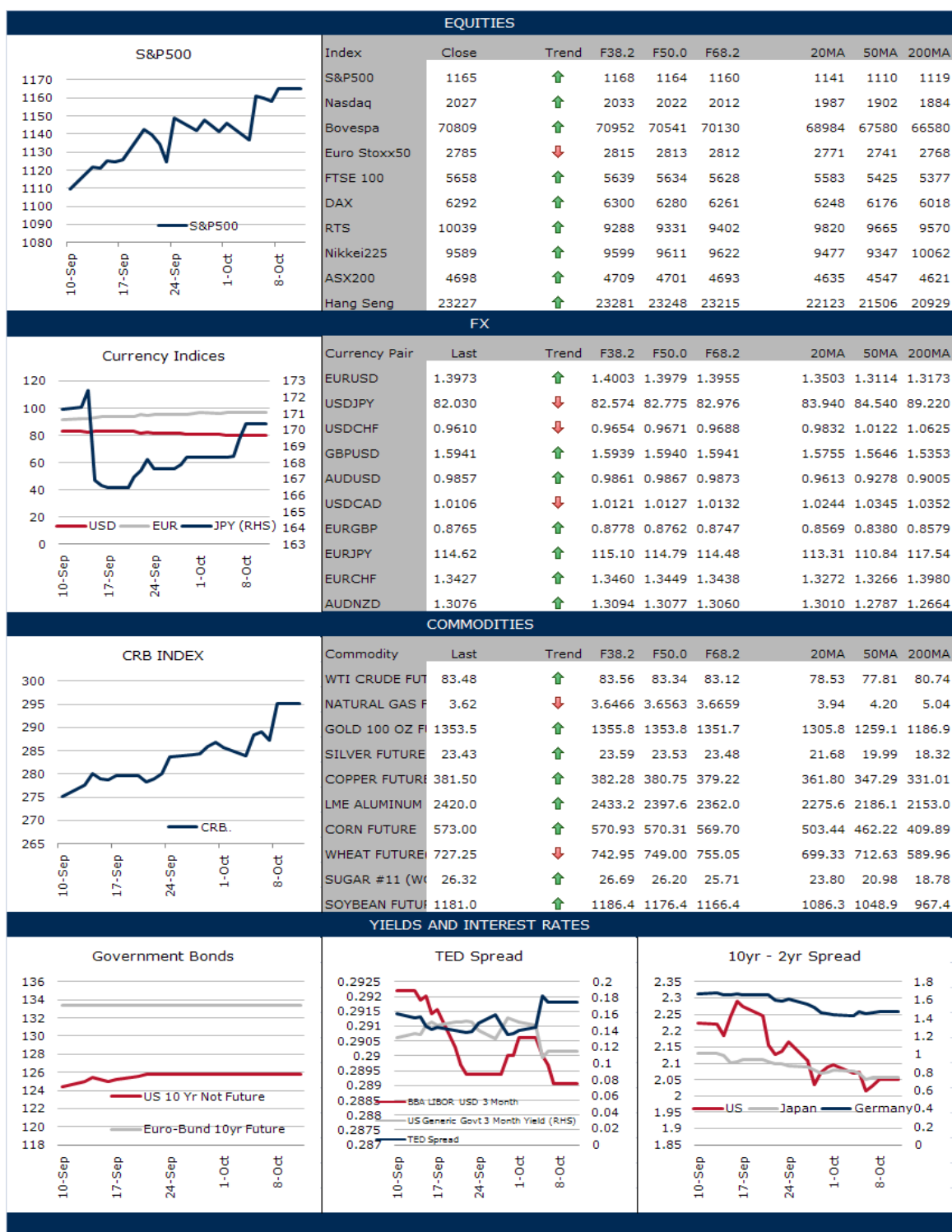
time position.

The very poor labour market report caused equities to rally and stocks ended the day 0.5% higher in the US. Currently, stocks rally both on good news and on all the news, which confirms quantitative easing 2 will soon arrive.

Equities: a closer look

The earnings season will be kicked off by Intel tomorrow, so look for this report. This is important due to Intel's global exposure – both towards businesses and consumers. This week we will have a pretty decent indication how the big global corporates expect 2011 to perform in terms of sales and EPS growth. JPMorgan, Google and GE all reports this week and this will set the tone going forward in the earnings season. The nonfarm payrolls Friday clearly was a bullish statement in terms of how you should expect the QE announcement in the beginning of November to turn out. These expectations have so far lifted markets quite substantially and it is hard to envision how these expectations can be met.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
SW Industrial Production MoM (AUG)		1.0%	-4.0%	2.9%	3.0%
UK PPI Output MoM (SEP)	0.0%	0.1%	0.3%	0.0%	
CA Net Change in Employment (SEP)	11.0K	10.0K	-6.6K	35.8K	
CA Unemployment Rate (SEP)	8.1%	8.1%	8.0%	8.1%	
CA Housing Starts (SEP)		179.0K	186.4K	183.3K	189.3K
US Change in Nonfarm Payrolls (SEP)	-25K	-5K	-95K	-54K	-57K
US Change in Private Payrolls (SEP)	65K	75K	64K	67K	93K
US Change in Manufacturing Payrolls (SEP)	0K	2K	-6K	-27K	-28K
US Unemployment Rate (SEP)	9.7%	9.7%	9.6%	9.7%	
US Average Hourly Earnings MoM (SEP)	0.2%	0.2%	0.0%	0.3%	
US Average Weekly Hours (SEP)	34.2	34.2	34.2	34.2	
US Wholesale Inventories MoM (AUG)		0.5%	0.8%	1.3%	1.5%



Source: Bloomberg. Our calculations.

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

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