

Thursday Morning Kickoff @ Saxo

FOMC unsurprisingly announces QE2; will not help the economy

Themes

- After yesterday's QE announcement we did not move above 1200 intraday in S&P500 and obviously not closing above 1200 which could indicate that this is as far we will go this time around. Look for a retracement towards 1150.

What's going on?

European equity markets will most likely open 0.5 higher this morning due to the Fed announcement yesterday of more liquidity injected into the US economy. As we stated yesterday in our morning note we had a base scenario of \$500bn and Fed said yesterday evening that they would inject \$600bn USD over the next 8 months aiming at \$75bn per month. Yesterday's announcement was virtually a non-event in markets making USD slide a bit, but not much and equities closed marginally higher, but failed to pass the important threshold of 1200 in S&P500.

Thursday's Key Events

GMT	Event	Saxo Bank	Consensus	Previous
08:00	UK Halifax House Prices MoM (OCT)		0.8%	2.6%
08:55	GE PMI Services (OCT, final)		56.6	56.6
09:00	EZ PMI Composite (OCT, final)		53.4	53.4
09:00	EZ PMI Services (OCT, final)		53.2	53.2
10:00	EZ PPI MoM (SEP)		0.3%	0.1%
12:00	UK BOE announces rates	0.50%	0.50%	0.50%
12:00	UK BOE Asset Purchase Target	200B	200B	200B
12:30	US Nonfarm Productivity QoQ (3Q)		1.0%	-1.8%
12:30	US Initial Jobless Claims		442K	434K
12:30	US Continuing Jobless Claims		4378K	4356K
12:45	EZ ECB announces rates	1.00%	1.00%	1.00%
14:00	CA Ivey PMI (OCT)		65.0	70.3

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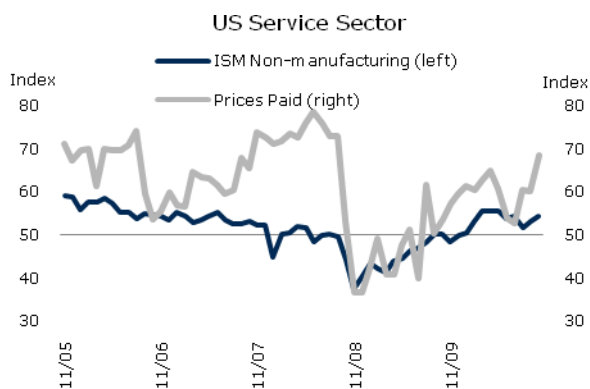
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Markets at a glance

The Bank of England and the ECB will both announce rates today and we do not expect any changes. Furthermore, we do not expect the BoE to take the step towards quantitative easing 2 just yet as the economy has produced a string of good numbers of late (such as GDP at 0.8% QoQ vs. 0.4% exp.). However, QE is very likely also coming to the UK in the not too distance future.

The FOMC meeting resulted in a new round of quantitative easing, and on balance the outcome was as expected by both us and consensus yesterday. The Fed will inject \$600bn into the economy (that is, banks' reserves) through June 2011, meaning that the amount is somewhat smaller than we anticipated on a monthly basis where we were looking for roughly 100bn/month. Despite the largely expected outcome, the USD got pummelled yet again while stocks took a while before closing near the 1200 level at 1197 in the S&P 500. The dollar index is now down 13.6% since the peak in early June and down 8.2% in the fall alone! Perhaps Treasury Secretary Geithner will call his boss, Obama, and accuse his government of being a currency manipulator, but somehow we doubt it.

The ADP Employment report was better than expected as 43,000 new private sector jobs were created (on net) in October compared to 20,000 expected by the market. September's monthly change was revised up from a lousy -39,000 to a less poor -2,000. Disturbingly the goods-producing sector continues to shed jobs (-34,000) and hasn't seen a single positive change since the recession ended (or began for that matter).



Source: Bloomberg. Our calculations.

The US service sector improved in October according to the ISM Non-manufacturing index. The overall index rose

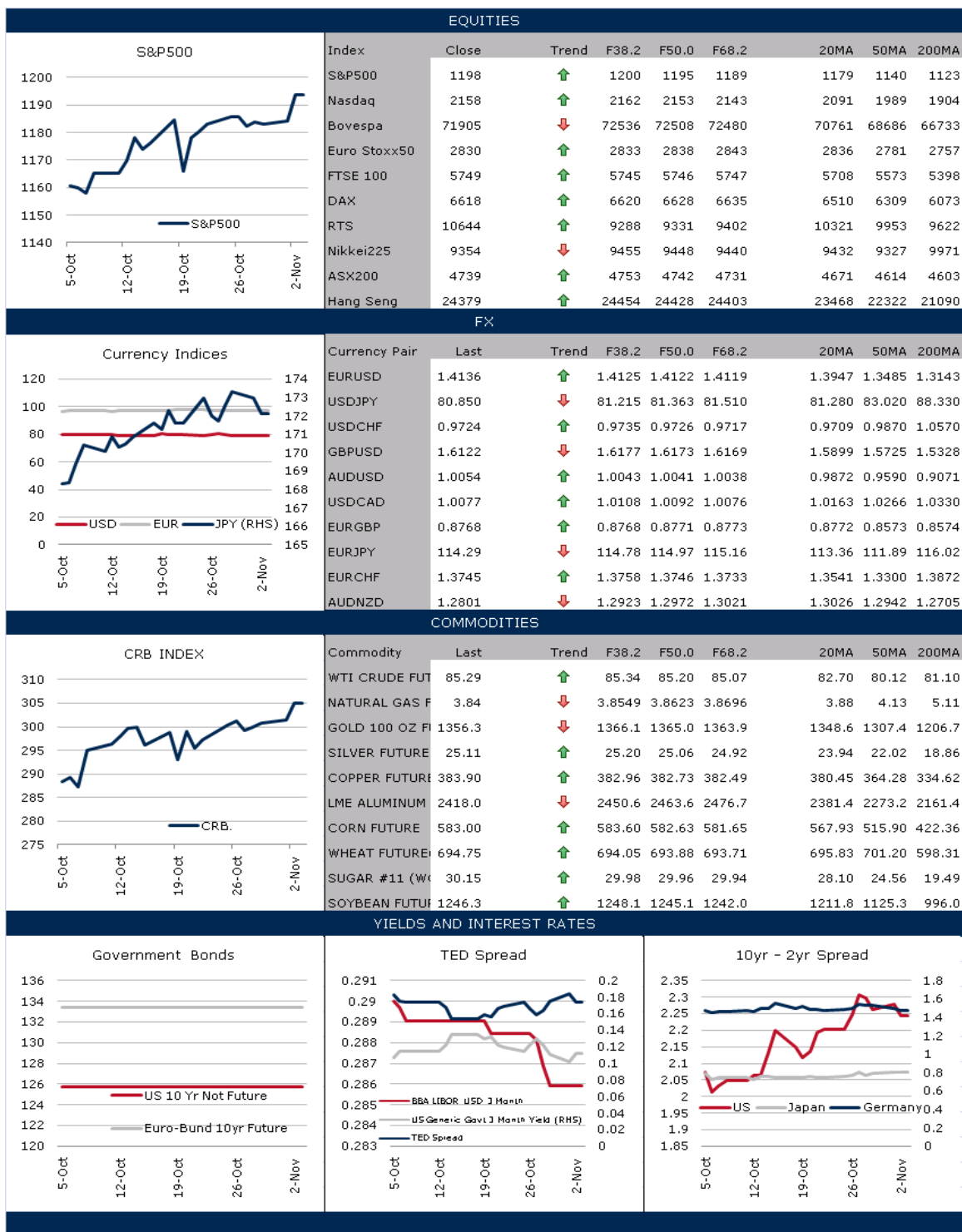
to 54.3 from 53.2 and a look at the components reveals that the improvement was broad based. However, just like the manufacturing sector, services struggles with increasing input prices (prices paid rose to 68.3 from 60.1) and we wonder whether this will hurt margins going forward.

Equities: a closer look

The amount of QE is now out in the open and the Fed did choose to exceed market expectations by launching a 600 bln USD program compared to market expectations of 500 bln USD. Equities did move marginally higher on the back of this, but not much indicating that most of Fed's action was already priced in.

A note of concern should be raised. When Fed did its round of QE it did have an impact; it made spreads tighter compared to widening following the Lehman collapse and markets began to function relative smoothly again even on lower volumes compared to the freeze that had hit markets. However this time around it will be more difficult to achieve success because the market is already working relatively well, but what is needed is jobs and inflation, that is an impact on the real economy. Given that Congress will now be in a gridlock fiscal policies will not be as expansionary as previously seen. As we have argued elsewhere using the usual channels for this round of QE there is a risk that the funds are not channeled into the real economy, but rather it partly will end up as excess reserves at banks balance sheets partly into financial markets asset prices. It remains yet to be seen how higher stock prices can be converted into jobs; as long as corporates are reluctant to invest and as long as banks are reluctant to lend there will be no job creation. So short term we could see equity markets moving higher, but when starting to measure the impact of this round of QE in terms of real economy progress equities will start to sell-off on back of lack of any effect.

Economic data highlights	Saxo Bank	Consensus	Actual	Previous	Revised
NO Unemployment Rate (AUG)		3.4%	3.4%	3.3%	3.4%
UK PMI Services (OCT)		52.6	53.2	52.8	
US ADP Employment Change (OCT)	0K	20K	43K	-39K	-2K
US ISM Non-manufacturing Index (OCT)	53.3	53.5	54.3	53.2	
US Factory Orders MoM (OCT)	1.9%	1.6%	2.1%	-0.5%	0.0%



Source: Bloomberg. Our calculations.

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

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