Weekly Market Commentary

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Overview Alternating up and down days this week as many instruments hover at 50-day moving averages and/or longer term trendlines – while waiting for today's important US Jobs report. Much talk of investors looking to increase holdings of 'risky' assets, explaining spot Gold's rally to a new record $1097.25. Gold, risky? Since 1970's move to floating exchange rates it has been shown to be the only store of wealth to retain its purchasing power. Equity indices recovered some of last week's losses and likewise most currencies, though the Nikkei 225, Australia's and Egypt's dropped for a second consecutive week losing 6%, 7% and 10% respectively. Baltic Freight Rates are rallying again, Panamax to its best level this year, though tanker rates remain extremely depressed. Short-dated and Index-linked Treasuries stick close to record low yields so the long end is buffeted by speculative flows and fears.

Political and Economic Developments For a second consecutive month the Reserve Bank of Australia raised its key rate by 25 basis points to 3.50% while on the other hand Iceland cut theirs 150 bp to 13.00%. Sweden and the Fed left their rates at record lows saying the time to remove stimulus measures was not yet, so that SEK two-year Treasury yields dropped to a new record low 0.616% and front month Eurodollar interest rate futures rallied to new contract highs. The Bank of England and the ECB also kept rates on hold, the former adding another £25B to the Quantative Easing programme and warning that inflation would rise quickly over 2.00% near term due to petrol and VAT hikes. Note: Fannie Mae reported an $18.9B loss in Q3 after losing $15.2B in Q2! Mr. Trichet noted that credit demand had waned so that over the year lending to the non-financial sector shrank by 0.3% and that he was very happy the Lisbon treaty had been ratified. He must have repeated his mantra of inflation expectations being 'firmly anchored' almost a dozen times, without a hint of irony that EZ16 CPI has ranged from +4.0% to –0.7% Y/Y in the 12 months to July 2009. Eurozone September Retail Sales dropped –3.6% Y/Y, the biggest annual drop after February's record –4.6%.

US Unemployment jumped to 10.2%, 15.7 million people and the highest since 1983. A total 17.5% of US citizens are out of work and discouraged from seeking employment, while the workweek remained at a record low 33 hours. Moody's reports October global speculative-grade defaults rose to 12.4%, higher than 1991's 12.2% and last year's 3.00%, the worst since the 1930's; US junk bond defaults rose to 13.4%.

Underlying Themes EU Competition Commissioner 'steely' Neelie's got her finger on the pulse unlike the blokes at the top of government treasuries and central banks. Her point: bank bail-outs are subsidies and are distorting financial services. Public sentiment has gone beyond castigating bankers and their bonuses to fury that hundreds of billions of taxpayers' money has been thrown at them with no tangible improvement to the world economy. Armageddon and the Great Depression it may not be, but there is no longer even talk of 'green shoots'. The rage has also gone beyond banks to badly run corporates who have also been given billions (directly or indirectly) and still cannot turn a profit while others threaten strikes. GM happily accepted several governments' money to prop it up, then after months of deliberation and horse trading it backtracks on a deal to sell its European operations, saying they will go it alone and cut 10,000 jobs. The political cost is already apparent: the Republicans got new governors into New Jersey and Virginia; President Sarkozy is now the least popular man in that position in 50 years. Taxpayers will not tolerate any more mortgaging of their children and grandchildren's futures because Keynesian economists say so; the little guy now sees all big wigs involved in corruption and white collar crime.

What to watch for next week Sunday 8th and Monday central bankers meet at the BIS, Basle and we get German September Trade Balance, Industrial Production, and EZ16 November Sentix Investor Confidence. Tuesday early Japan September Current Account, October Bank Lending, Bankruptcies, Economy Watchers' Survey and Machine Tool Orders, UK BRC Retail Sales Monitor, and RICS House Price Balance. Then UK September Trade Balance, DCLG House Prices and Germany's November ZEW Survey. Wednesday US and Polish Veteran's Day holidays with Japan September Machine Orders, UK Average Earnings, ILO Unemployment, October Claimant Count Rate and the Bank of England's Quarterly Inflation Report. Thursday Japan October CGPI, Tokyo Condominium Sales, US Monthly Budget Statement and Eurozone September Industrial Production. Friday the 13th, the day the UK's East Coast Main Line is re-nationalised, Japan October Consumer Confidence, EZ16 CPI, US Import Price Index, September Trade Balance, November University of Michigan Confidence Survey, plus German and Eurozone Q3 GDP.

Positioning and Technical Analysis Watch carefully to see whether and where year-end book-squaring strains appear. We feel stock indices have probably already put in this year's highs and are more likely to drift in thin markets over the next two months. FX will continue to consolidate, as should most commodities, with a tendency for the Yen to strengthen slightly. Treasury yields might drift too. Have a nice weekend!

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