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"Hey Guys, let's vote NO and see what happens…"

Today's comment

Majors & Scandies

By the Majors & Scandis Team

Have the US politicians been playing parcel dice game all last week?! You can almost imagine the politicians sitting at their tables in Congress rolling the dice: "1, 2, 3, 4, or 5 the financial markets get the package, 6 they don't". Rolling 1-5s (with an occational 6) all week and in the last game before the vote it was a 1-5. And then some politician who has no understanding of what is going on throws out "Hey Guys, let's vote NO and see what happens anyway…". As you probably have guessed, the House of the Congress failed to vote through the bill and it immediately had a negative impact on financial markets. S&P500 closed down almost 9%, the second largest fall ever, only exceeded by *Black Monday* in 1987. The rescue plan might cost $700B up front, some/most of which will be paid back when the toxic papers are sold back to investors in the end, but last night's action in the market cost the shareholders more than $1,300 billion! Flight-to-quality was massively seen in the market, 2-year US Treasuries rallied and the implied rate fell to below 1.66%. The same was the case with 3-month T-bills where the implied rate fell to below 0.3% - not quite as low as two weeks back, but low enough. Consequences in the FX market are more or less as expected from the fallout of the vote in Congress: carry unwinding! This means stronger yen and Swiss franc whereas Australian and New Zealand dollar weakened. It is not that hard to put a direction on the market right now – it's down… But as we have argued a million times by now, this is not a time to throw good money after bad money. If you are highly speculative and have very deep pockets, then there might be some good opportunities in the FX market at the moment, but it is very troubling that we should be prepared for just about everything the next few days. In the last few weeks, we have seen NOK, SEK, AUD, and NZD being sold. In addition, we have seen JPY strengthening quite a bit whereas CHF-stength has not been as powerful yet. Hence, we almost have a complete picture, the only thing that we need to see now is a massively strengthening Swiss franc. At the same time, it is very hard for us to see any turnaround in the money market. It did help that the Federal Reserve more than doubled the swap lines (increased by $330B from $290B) to the other centralbanks and extended them through April 2009. The total size of the outstanding swap lines is now $620B, which includes $240B to the ECB, $30B to BoC, $80B to BoE, $120B to BOJ, $15B to Danmarks Nationalbank, $15B to Norges Bank, $30B to RBA, $30B to Sveriges Riksbank, and $60B to SNB. But in light of the disappoint political decision yesterday, the money market is likely to stay under consideral stress.

Emerging Markets

By the Emerging Markets Team

The rejection of the US rescue plan was obviously bad news for EM, which was already rattled by a string of bank failures across the US, the UK, the Euro Area - and Iceland. With the Congress being on leave until Thursday, we really see no positives ahead - and the only reason that we do not recommend selling of most of our EM-crosses is due to the fact that volatility is so elevated that it is very difficult to express directional views while at the same time protecting the downside. But let us just make clear: A neutral stance in the table below does not mean buy! In Iceland, the government finally acted and bought 75% of Glitnir - but once again, the Icelandic authorities act to late and when they had no other choice. The 5-year CDS spread on the state of Iceland thus ballooned by some 200bps, while EUR/ISK once again headed above 140. With the global backdrop taking a severe turn for the worse over the last couple of weeks and markets doubting Iceland's ability to shore up its banking sector, risks for the ISK remain clearly skewed to the downside!

Today's Key Events

- **08:00 ILO Unemployment, DEM**
- **09:25 ECB's Gonzales-Paramo speaks, EUR**
- **10:00 Retail Sales, NOK**
- **10:30 GDP, GBP**
- **11:00 Consumer Prices, EUR**
- **15:00 CaseShiller House Prices, USD**
- **15:45 Chicago PMI, USD**
- **16:00 Consumer Confidence from Conference Board, USD**
- **18:00 ECB's Trichet speaks, EUR**
- **19:00 FED's Lockhart speaks, USD**
- **01:50 Tankan Report, JPY**

Majors Short Term (0-1 Month) FX Recommendations

Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*	
EURUSD	143,73	neutral	sep 05		140,90 - 148,60	-	
USDDKK	519,059	neutral	sep 05		502,05 - 529,48	-	
EURGBP	79,7	neutral	aug 28		77,95 - 82,00	-	
GBPDKK	936,064	neutral	aug 28		909,81 - 957,08	-	
EURJPY	149,95	neutral	sep 05		148,20 - 158,75	-	
JPYDKK	4,97528	neutral	sep 05		4,70 - 5,03	-	
EURCHF	157,33	neutral	jun 06		154,40 - 160,80	-	
CHFDKK	474,19	neutral	jun 06		463,96 - 483,19	-	
EURNOK	832,82	neutral	sep 01		815,00 - 854,70	-	
NOKDKK	89,5803	neutral	sep 01		87,29 - 91,54	-	
EURSEK	977,257	neutral	jun 04		970,00 - 985,00	-	<<
SEKDKK	76,3405	neutral	jun 04		75,74 - 76,91	-	<<
AUDUSD	80,23	neutral	aug 08		78,40 - 86,65	-	
NZDUSD	67,19	neutral	aug 06		67,15 - 72,00	-	
USDCAD	105,1	neutral	feb 19		103,00 - 106,55	-	
USDJPY	104,311	neutral	maj 05		100,90 - 108,80	-	

* Adjusted against DKK to daily EURDKK exchange rate   << = Recommendation updated

Emerging Markets Short Term (0-1 Month) FX Recommendations

Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*	
EURCZK	24,66	neutral	jul 07		23,50 - 25,50	-	
CZKDKK	30,25	neutral	jul 07		29,25 - 31,74	-	
EURPLN	3,40	neutral	jul 24		3,25 - 3,50	-	
PLNDKK	219,57	neutral	jul 24		213,09 - 229,48	-	
EURISK	142,63	neutral	sep 24		135,00 - 160,00	-	<<
ISKDKK	5,23	neutral	sep 24		4,66 - 5,52	-	<<
EURTRY	1,81	neutral	sep 19		1,76 - 1,95	-	<<
TRYDKK	411,28	neutral	sep 19		382,47 - 423,76	-	<<
EURZAR	12,01	neutral	sep 19		11,40 - 12,60	-	<<
ZARDKK	62,09	neutral	sep 19		59,19 - 65,42	-	<<

* Adjusted against DKK to daily EURDKK exchange rate   << = Recommendation updated

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