Lloyds TSB | Corporate Markets

Economic Research and Analysis

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Daily Financial Market Outlook

Overview & economic commentary

The publication of the Bank of England's Inflation Report this week will provide further details about the MPC's thinking behind the surprise 1.5% cut in Bank rate last week. The latest economic projections in particular, highlighting prospects for growth and inflation, will be analysed for clues about the likelihood and timing of further rate reductions. However, given the extent of the cut last week, we confidently expect the QIR to show inflation below target based on the prevailing market implied interest rates used in the analysis, so comments from BoE governor King at the press conference should be more informative as to whether current predictions are realistic. Financial markets predict a further reduction of 1% in Bank rate to 2% by Q1 2009. The latest UK labour market figures will also draw strong interest this week. Data this week are also expected to show that euro zone gdp contracted in Q3, confirming the region's first technical recession. While we look for only a modest fall of 0.1%, the risk is skewed to the downside. ECB speakers this week will be listened to closely for any clues about the next move in interest rates. In the US, it is a quiet start to the week for economic data, however the Treasury will be busy auctioning $55bn of new government debt. The first official retail sales data for Q4 are due on Friday, with a modest rise forecast in October after three straight months of declines. The latest barometer of US consumer confidence, published by the University of Michigan on Friday, closes the week.

Currency commentary

The decision by China to boost fiscal spending by some $580bn over the next 2 years helped to spur some buying in Asian stocks overnight and could well form the starting point of a coordinated fiscal stimulus plan as world leaders gather in Washington later this week. With no major data releases or central bank meetings scheduled, this should leave most of the trading impetus for fx and bonds with stock and credit markets. The case for another cut in UK interest rates will be at the forefront of all debate on Wednesday when the BoE publishes its latest Inflation Report. Ahead of that, sterling could take some direction from PPI this morning and BRC retail sales stats tomorrow. €/£ is lining up a test of 0.82 after breaking clear of 0.8150 in Asia. The Nikkei is up 5.8% o/n and this should set the tone for a positive start for UK/EU/US indices. The US treasury funding program this week will be a good test of investor appetite for dollar securities.

Markets (London close)

Currencies		% change (on day)
€/$	1.2786	+0.01
£/$	1.5762	-0.83
€/£	0.8112	+0.85
£/€	1.2327	-0.85
£/Y	154.82	-0.70
£/CHF	1.8531	-0.64
$/Y	98.225	+0.13

Equities		% change (on day)
Dow Jones 30	8943.8	+2.85
S&P 500	931.0	+2.88
FTSE 100	4365.0	+2.17
Nikkei 225	8583.0	-3.55
DJ Eurostoxx 50	2602.5	+2.38

Interest rates (%)		bp change (on day)
UK 3-mth interbank	4.30	-50.0
US 3-mth T-bill	0.31	-1.0
Euro 3-mth Euribor	4.47	-13.0
Japan 3-mth interbank	0.80	zero
UK 10-yr benchmark	4.19	-14.0
US 10-yr benchmark	3.71	-8.0
Euro 10-yr benchmark	3.68	zero
Japan 10-yr benchmark	1.49	-1.0

Swaps 5-yr (%)		bp change (on day)
UK	4.09	-14.0
US	3.60	+9.0
Euro	3.83	-1.0
Japan	1.17	+1.0

Commodities (US$)		$ change (on day)
Oil - Brent, Dec future	57.35	-0.08
Gold spot	736.65	-6.20

Major data and events this week

Today
- UK producer prices
- French industrial production
- Japan trade balance, current account
- Canada housing starts, new housing index
- ECB speaker: President Trichet
- US Treasury sells $25bn 3-yr notes

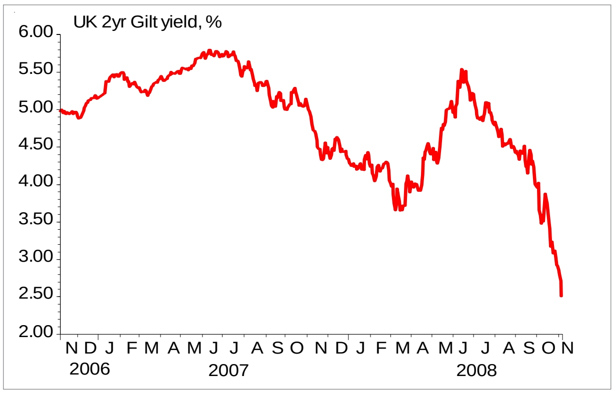
Tuesday
- UK BRC retail sales, RICS house prices, trade balance. DCLG house prices
- US markets closed - Veteran's Day
- German wholesale prices (11-16), ZEW survey
- ECB speaker: Mersch
- UK DMO to auction £3.5bn Treasury stock at 4.75% due 2015

Wednesday
- UK unemployment, average earnings, unit wage costs
- EU-15 industrial production
- Japan domestic CGPI
- BoE publishes the Quarterly Inflation Report
- ECB speakers:Mersch, Stark, President Trichet
- US Fed speaker: Stern
- US Treasury sells $20bn 10-yr notes

Thursday
- US trade balance, initial claims, Treasury statement
- French CPI, current account
- German Q3 GDP
- Japan industrial output
- Canada int'l secs transactions
- ECB speaker: Quaden, Papademos, Weber, Tumpel-Gugerell
- US Fed speaker: Plosser, Stern
- UK DMO to auction of new conventional gilt maturing on 7 Dec. 2011

Friday
- US import prices, retail sales, Uni. of MIchigan confidence
- EU-15 CPI, Q3 GDP
- French Q3 GDP
- German CPI
- Japan Q3 GDP
- Canada manu. shipments
- ECB speaker: President Trichet

Chart of the day: The yield on the two-year gilt dropped below 2.5% last week after the surprise 1.5% cut in Bank rate



CM client support

Economics Team

Trevor Williams: 0207 158 1748 - trevor.williams@lloydstsb.co.uk
Hann-Ju Ho: 0207 158 1745 - hann-ju.ho@lloydstsb.co.uk
Jeavon Lolay: 0207 158 1742 - jeavon.lolay@lloydstsb.co.uk
Kenneth Broux: 0207 158 1750 - kenneth.broux@lloydstsb.co.uk
Nikesh Sawjani: 0207 158 1749 - nikesh.sawjani@lloydstsb.co.uk
Nichola James: 0207 158 1741 - nichola.james@lloydstsb.co.uk
Rabia Bhopal: 0207 158 1747 - rabia.bhopal@lloydstsb.co.uk

Distribution

Sarah Pedder: 0207 158 1746 - sarah.pedder@lloydstsb.co.uk

Information Manager

Hugh Geen: 0207 158 1740 - hugh.geen@lloydstsb.co.uk

Customer sales

Andrew Willett: 0207 158 1616 - andrew.willett@lloydstsb.co.uk
John Haines: 0207 158 1675 - john.haines@lloydstsb.co.uk

Credit distribution

Ton Roeten: 0207 050 6047 - ton.roeten@lloydstsb.co.uk