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Global Markets

News Highlights

- **The US economy registered its sharpest contraction in 7yrs in 3Q as the biggest pullback by consumers since 1980 overwhelmed an increase in government spending. Advance 3Q08 GDP numbers came in at -0.3%, above market expectations for a -0.5% reading but from a +2.8% reading in Q2.** Consumer spending however fell to -3.1% from +1.2% in 2Q, coming in worse than expectations for a -2.4% reading. San Francisco Fed President Yellen said that the economy's performance was 'deeply worrisome' and that the downturn was set to worsen. Yellen was quoted as saying that 'For the fourth quarter, it appears likely that the economy is contracting significantly'. Other economic data releases were also bleak with US initial jobless claims for the week ending 25Oct left unchanged at 479k, above market expectations for a decrease to 475k. **Among economic data to be released today include data on consumer sentiment, personal income and Chicago PMI.**

- **In Fx space, we saw the USD/JPY rose to high of 98.85 on equity market gains as well as speculation of a forthcoming rate cut from the BoJ today.** EUR/USD was little changed, exiting Ldn-NY at 1.2915 in volatile trading with reports indicating that fund managers worldwide are going to buy substantial amounts of USD as month end approaches to neutralize hedges due to reductions in portfolios. **We continue to see little conviction in the major asset classes with price action in the currency market and commodities in clear defiance of action in the equity market.**

- **In addition, Eurozone data indicated that economic sentiment fell to its lowest level since 1993** in Oct, suffering the biggest monthly fall ever. Oct European Commission survey showed the economic sentiment indicator fall to 80.4pts from a downwardly revised 87.5pts in Sep and lower than market expectations for a 86pts reading. Consumer sentiment also underperformed, registering -24pts from -19pts compared to expectations for a -20pts reading. **With ECB policymakers sounding more dovish now, we think the ECB could cut 50bps on Nov6 when it meets.** ECB member Bini Smaghi said that 'Inflation is returning towards 2% and we are adapting monetary policy towards that' and ECB member Ordonex said that '…I 'll say what Tricht said that other day'. **We think this points to continued risk aversion with little clear signs of risk appetite returning to the marketplace soon. This we think will be supportive low yielding defensive currencies such as the USD and JPY.**

- **Despite the dismal economic data, major US equity indices rose on optimism of further rate cuts from central banks.** Equities were also aided by the better than expected GDP number as well as Colgate Palmolive and Exxon Mobil which topped profit estimates. The DJIA rose 189.73pts (2.11%) to close at 9,180.69, the S&P500 gained 24.00pts (2.58%) to end at 954.09 and the Nasdaq Composite added 41.31pts (2.49%) to end at 1,698.52. **Companies reporting today include Chevron, American Electric Power, Clorox and Weyerhaeuser Co.**

- **US treasury debt prices fell** on the back of equity market rises which stemmed some of the allure of safe haven government debt. 2yr benchmark debt price was down 1/32 for yield of 1.56% compared to 1.55% late Wed and 10yr benchmark debt price traded down 14/32 for yield of 3.92% compared to 3.86% late Wed.

- **Crude oil prices fell more than 2%** on continued worries about demand destruction as weak US economic data stirred concerns that the collapse in crude demand could have more room to go. Nymex Dec crude testing upside resistance of $70/ bbl but backing off to settle lower by $1.54 (2.28%) at $65.96/bbl.

- **Gold prices also ended 2% lower** on the back of falling crude prices and weak US economic data which fanned fears of a deflationary recession, weighing on all commodities. Comex Nov gold traded between $739.10-774.0/oz and ended $15.60 lower at $737.20/oz.