

TRADE ALERT

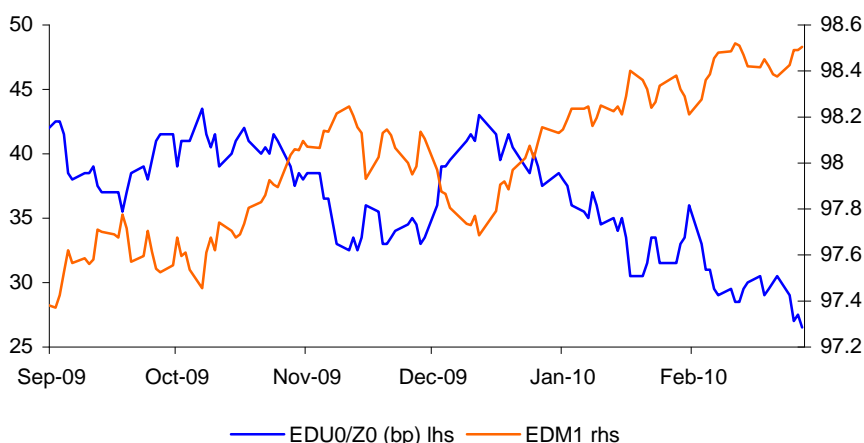
Euro\$ Strip - Update

Front end struggling to steepen for now

Last month we recommended buying the EDU0/Z0 spread at close to 30bp with a target of just over 40bp and a relatively tight stop at 26bp which has now been hit (see Trade Alert 10/2/2010 & chart below). This week's FOMC statement contained no real surprises and, while noting some improvement in the labour market data and having a generally more upbeat tone, the usual caution was still evident. Markets still await a further signal that the Fed is getting closer to raising rates and the front end of the strip struggles to steepen as a result; EDU0/Z0 managed to reach only about 35/36bp in the period since we flagged the steepener, a little short of our more ambitious target around the 40bp area.

The focus now shifts back to the labour market numbers with the recovery seemingly shifting from job shedding to job creating (see MF Global's Macro for Markets 12/3/2010) and whether any signs of further strength fuel expectations that the Fed will alter its rates low for an "extended period" language to something less committal as we move into the second quarter. To protect against this scenario we are now looking at mid-curve Eurodollar put spreads (see Trade Alert 12/3/2010) and have suggested that investors start focusing on plays in mid-June such as the 0EM1 98.00/97.75 which is currently close to 3.5 (ref 98.48).

EURODOLLARS



Source: MF Global UK Limited and Bloomberg

› Strategy is available on Bloomberg MFLS <GO>, Capital IQ, Factset, Reuters Knowledge, Thomson 1 Analytics, Thomson STARMINE and www.themarkets.com

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