

*X-pand into the Future*



# Economic Data Releases & Dow Jones EURO STOXX 50<sup>®</sup> Index Futures

January 13, 2009

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## Agenda

### 1. Introduction

### 2. Economic Releases

- U.S. Market Movers
- Key European Economic Releases

### 3. Conclusions & Further Information



## Overview

- Today's webinar focuses on economic releases and how they can affect prices in Dow Jones EURO STOXX 50<sup>®</sup> Futures

We will discuss:

- U.S. Economic releases
- Key European economic releases
- How we can trade Dow Jones EURO STOXX 50<sup>®</sup> Index Futures at or around the announcement of economic releases



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## Relevance of Economic Indicators?

- Identify information value of key economic releases
- Set up trades to capitalize on differences between expectations and actual
- Interpretation of technical reactions to economic release data
- Understand what others are doing
- Improve your trading



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## Common Economic Indicators

### US Economic Indicators

- FOMC Meetings
- Employment Situation
- Consumer Confidence (University of Michigan)
- ISM Manufacturing Index

### European Economic Indicators

- ECB rate decisions/ECB Announcements
- ZEW Index (Indicator of Economic Sentiment)
- IFO Geschäftsklimaindex (business climate index)

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## FOMC Meeting Announcement

### Details:

- The Federal Open Market Committee consists of the seven governors of the Federal Reserve Board and five Federal Reserve Bank presidents
- The FOMC meets eight times a year to determine the near-term direction of monetary policy
- Changes in monetary policy are now announced immediately after FOMC meetings

### Why do investors care:

- Interest rates/expectations shape every part of business and consumer finance

### Dates in 2009:

#### 2009 Release Schedule

Released On:	<a href="#">1/28</a>	<a href="#">3/17</a>	<a href="#">4/29</a>	<a href="#">6/24</a>	<a href="#">8/11</a>	<a href="#">9/22</a>	<a href="#">11/4</a>	<a href="#">12/15</a>
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## FOMC Meeting Announcement – The Trade

### Consensus:

- The market expected the Fed to decrease the Federal Funds Rate by 50 basis points at this meeting

### Market Assessment:

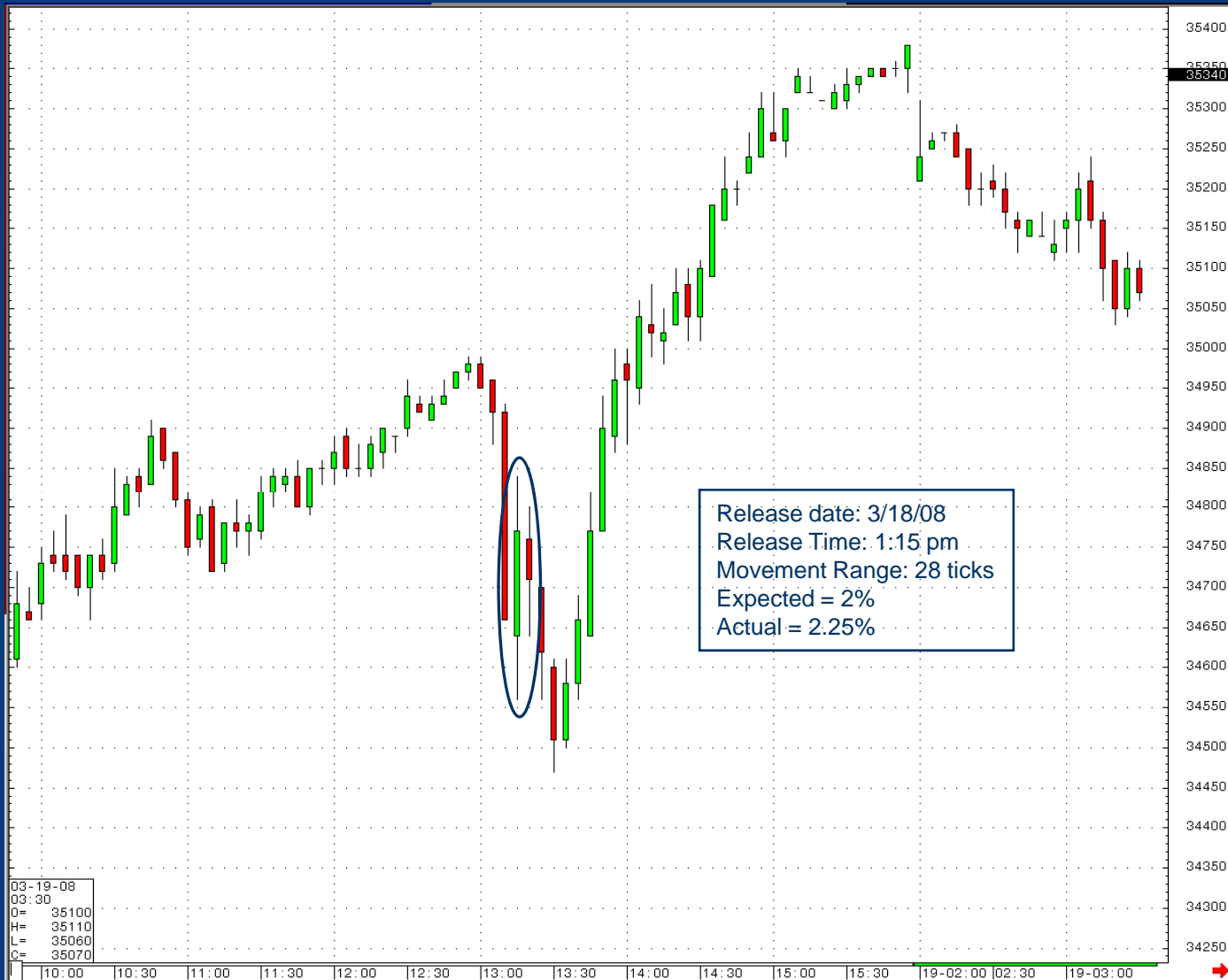
- Our investor believes that the Fed will not move in such a magnitude, in light of the threat of rising inflation

### Outcome:

- The market was disappointed by 25 bps
- Ideally, our investor would try to capitalize on 2 effects:
  - 1.) The immediate short term reaction describing the market's disappointment to the "lower than expected" magnitude of the rate move
  - 2.) The general positive market reaction to the rate reduction of 25 basis points



# FOMC Meeting Announcement - Chart



## Employment Situation

### Details:

- Unemployment rate (unemployed as a percentage of the labour force)
- Non-farm payroll employment counts the number of paid employees working part-time or full-time in the nation's business and government establishments
- The average work week reflects the number of hours worked in the non-farm sector
- Average hourly earnings reveal the basic hourly rate for major industries as indicated in non-farm payrolls

### Why do investors care:

- Employment data gives the most comprehensive report on how many people are looking for jobs, how many have them, what they're getting paid and how many hours they are working
- These numbers are viewed by many as the best way to gauge the current state as well as the future direction of the economy

### Dates in 2009:

2009 Release Schedule												
<b>Released On:</b>	<a href="#">1/9</a>	<a href="#">2/6</a>	<a href="#">3/6</a>	<a href="#">4/3</a>	<a href="#">5/8</a>	<a href="#">6/5</a>	<a href="#">7/2</a>	<a href="#">8/7</a>	<a href="#">9/4</a>	<a href="#">10/2</a>	<a href="#">11/6</a>	<a href="#">12/4</a>
<b>Released For:</b>	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov

## Employment Situation – The Trade

### Consensus:

- Non-farm payroll employment is estimated to fall by 60,000
- The unemployment rate is expected to come in at 5,1 %

### Market Assessment:

- Our investor believes that the unemployment data won't be that bad

### Outcome:

- While NFP fell by only 49,000, the market was surprised/disappointed by the worst rise in the unemployment rate in decades
- Our investor had gone long, but quickly exited his Dow Jones EURO STOXX 50<sup>®</sup> Futures position, after his stop loss was triggered on the significant market down move



# Employment Situation – Chart



## Consumer Sentiment

### Details:

- The University of Michigan's Consumer Survey Center questions 500 households each month on their financial conditions and attitudes about the economy

### Why do investors care:

- The pattern in consumer attitudes and spending is often the foremost influence on stock and bond markets
- For stocks, strong economic growth translates to healthy corporate profits and higher stock prices
- For bonds, the focus is whether economic growth goes overboard and leads to inflation
- Ideally, the economy walks that fine line between strong growth and excessive (inflationary) growth

### Dates in 2009:

#### 2009 Release Schedule

<b>Released On:</b>	<a href="#">1/27</a>	<a href="#">2/24</a>	<a href="#">3/31</a>	<a href="#">4/28</a>	<a href="#">5/26</a>	<a href="#">6/30</a>	<a href="#">7/28</a>	<a href="#">8/25</a>	<a href="#">9/29</a>	<a href="#">10/27</a>	<a href="#">11/24</a>	<a href="#">12/29</a>
<b>Released For:</b>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

## Consumer Sentiment – The Trade

### Consensus:

- The sentiment index is estimated to come in at 62.5 index points

### Market Assessment:

- We are less bullish on private household's financial conditions and economic outlook

### Outcome:

- While the release came out in favor of our investor's position, the market moved against him.

→ “Whisper number”



# Consumer Sentiment- Chart





## ISM Manufacturing Index

### Details:

- The Institute for Supply Management surveys more than 300 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories
- An index of national manufacturing conditions is constructed, where readings above (below) 50 percent indicate an expanding (contracting) factory sector

### Why do investors care:

- With the ISM manufacturing index, investors will know what the economic backdrop is for the various markets
- The stock market likes to see healthy economic growth because that translates to higher corporate profits
- The bond market prefers less rapid growth and is extremely sensitive to whether the economy is growing too quickly and causing potential inflationary pressures

### Dates in 2009:

#### 2009 Release Schedule

<b>Released On:</b>	<u>1/6</u>	<u>2/4</u>	<u>3/4</u>	<u>4/3</u>	<u>5/5</u>	<u>6/3</u>	<u>7/6</u>	<u>8/5</u>	<u>9/3</u>	<u>10/5</u>	<u>11/4</u>	<u>12/3</u>
<b>Released For:</b>	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov

## ISM Manufacturing Index – The Trade

### Consensus:

- The ISM Manufacturing Index is estimated to come in at 48.5 index points

### Market Assessment:

- Our investor is less bearish on the manufacturing industry, and expects the ISM index to be announced at a level > 50 (= indicating an expanding factory sector)

### Outcome:

- At 49.6, the size of the miss was not large enough to create much market movement



# ISM Manufacturing Index – Chart



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## ECB Rate Decision

### Details:

- The European Central Bank Governing Council meets twice a month
- The first monthly meeting of the month is devoted to monetary policy (6:45 a.m. CST)
- Changes in monetary policy, if any, are announced immediately after the meetings. A press conference is held about 45 minutes after the meeting ends, followed by a Q&A session
- No meeting minutes are published

### Why do investors care:

- The European Central Bank determines interest rate policy at their Governing Council meetings
- If the outcome is different from expectations, the impact on European markets can be dramatic and far-reaching
- The interest rates set by the ECB serves as a benchmark for all other rates in the Euro zone

### Dates in 2009:

Governing Council meeting of the ECB											
Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
15.01.2009	05.02.2009	05.03.2009	02.04.2009	07.05.2009	04.06.2009	02.07.2009	06.08.2009	03.09.2009	08.10.2009	05.11.2009	03.12.2009

## ECB Rate Decision – The Trade

### Consensus:

- The ECB is expected to lower its rate to 3.75%

### Market Assessment:

- We believe, the ECB, as so often, will keep rates where they are, due to “looming” inflation risks.

### Outcome:

- The market was disappointed that rates were not lowered
- In addition, comments were hawkish at the press conference



# ECB Rate Decision – Chart



## ZEW Index (ZEW Indicator of Economic Sentiment)

### Details:

- The “Zentrum für europäische Wirtschaftsforschung” (ZEW) is located in Mannheim, Germany and is one of Europe’s leading economic research labs
- The ZEW Index is an early indicator for the economic situation in Germany
- Once a month, a poll amongst 350 financial experts is conducted, which provides an outlook on the economic situation for the next six months

### Why do investors care:

- The indicator reflects the difference between the share of analysts that are optimistic and the share of analysts that are pessimistic for the expected economic development in Germany over the next six months
- The survey also asks for the expectations for the euro zone, Japan, Great Britain and the U.S.A.

### Dates in 2009:

ZEW 2009 Release Schedule											
Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
20.01.2009	17.02.2009	17.03.2009	21.04.2009	19.05.2009	16.06.2009	14.07.2009	18.08.2009	15.09.2009	13.10.2009	10.11.2009	15.12.2009



## ZEW Index – The Trade

### Consensus:

- The ZEW Index is expected to be reported at a level of -30

### Market Assessment:

- We believe the economic outlook for Germany is less positive, and short the Dow Jones EURO STOXX 50<sup>®</sup> Futures

### Outcome:

- On April 15th, 2008, the ZEW Index is reported at a level of -40.7



# ZEW Index – Chart



## IFO Geschäftsklimaindex (Business Climate Germany)

### Details:

- The IFO Institute for Economic Research is a Munich-based research institution
- As one of Germany's largest economic think-tanks, it analyses economic policy and is widely known for its monthly IFO Business Climate Index for Germany

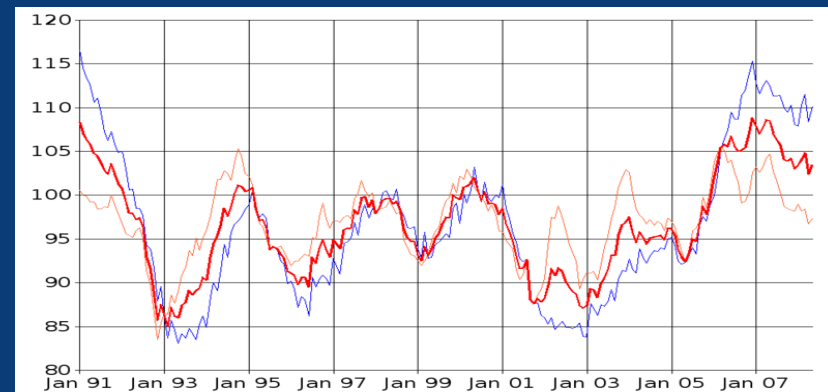
### Why do investors care:

- The IFO index is the most prominent instrument for German business-cycle analyses

### Publication date is usually between the 20th and the 24th of a given month):

IFO Release Schedule	
Jan 09	Feb 09
27.01.2009	24.02.2009

IFO Index Development since 1991



# IFO Business Climate Germany – The Trade

## Consensus:

- The IFO is expected to be reported at a level of 102 index points

## Market Assessment:

- We are more bullish than the market, and expect the business outlook in Germany to be more positive, driving up the European equity market

## Outcome:

- On May 21st, 2008, the IFO Business Climate Index is reported at an index level of 103.5



# IFO Business Climate Germany - Chart





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## Conclusions

- Economic indicators provide the market with viable information concerning the overall economic outlook
- Dedicated trading strategies can be constructed around individual economic data releases, dependent upon consensus, and the market's reaction to deviations thereof
- While trading a figure can be quite a turbulent ride (also due to herding effects, and technical order entry systems at play), profitable but risky trading strategies may be pursuable
- In all cases, investors should be aware of upcoming economic data releases, even if they don't intend on trading them per se
- Economic events will effect the underlyings and futures products we trade, and must be considered in light of intraday and shorter termed trading
- A figure can move the market, and trigger stops and additional order volume in a specific market direction

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  - What's driving markets
  - Economic calendar
  
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*X-pand into the Future*



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