Trade Booster

08 August 2013

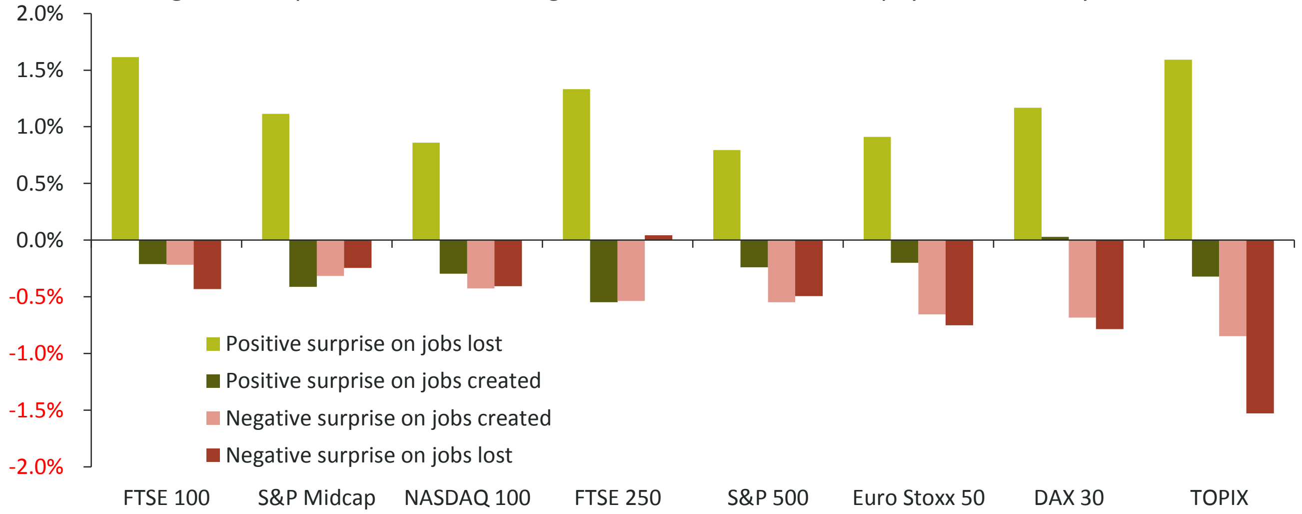
As US payroll data disappoints, equities may follow

Summary

- **Equities tend to perform poorly in the week following the release of US nonfarm payrolls, with European and Japanese equities affected worst when the report disappoints.**
- **Last week's disappointing US job numbers coupled with subdued macro data from China and Eurozone may undermine sentiment in equity markets this week.**
- **Investors may consider the following short positions on Japan and Eurozone equities if they share this sentiment: buying the Boost TOPIX 1x Short Daily ETP (1JAS), Boost EURO STOXX 50 3x Short Daily ETP (3EUS) and Boost ShortDAX 3x Daily ETP (3DES)**

Disappointing US nonfarm payrolls may be an opportunity to short equities this week

Average 1 week performance following the release of US nonfarm payroll's on Friday*



Source: Boost ETP Research, Bloomberg. Data as at 30 July 2013
* Calculated based on monthly data from Dec 1999 to July 2013, in local currency

As markets enter a soft patch in August, most of the market moving indicators were announced last week. Absent major economic releases this week, last Friday's disappointing US job numbers may potentially be more powerful and weaken equity markets. History shows that equity markets tend to react negatively in the week following the announcement. European and Japanese stocks are particularly affected by falling prices. Investors who share the negative sentiment may consider a short position in those equity markets most affected by US jobs disappointment: buying the Boost TOPIX 1x Short Daily ETP (1JAS), Boost EURO STOXX 50 3x Short Daily ETP (3EUS) and Boost ShortDAX 3x Daily ETP (3DES).

Friday's job numbers in the US disappointed the markets. At 162K for July, the nonfarm payrolls job numbers fell short of the 185K expected by consensus and the number of new jobs created in June and May were also revised down by a total of 26,000.

The chart above analyses the impact of US nonfarm payroll numbers in terms of surprise (actual numbers coming in better or worse than expected) and strength (jobs being created or lost) to the average performance of major equity markets for the week following its release. The nonfarm payroll is reported on the first Friday of each month, so the weekly performance of equity markets is calculated from the following Monday's open to the following Friday's close. The data is based on Bloomberg's latest available consensus numbers on US Nonfarm payrolls prior to its release, so any revisions to the estimates are not taken into account. Based on the four categories by which the release of nonfarm payroll numbers can be described, equity markets tend to react negatively in the week following the announcement. The extent of this negative reaction depends to a significant degree on the surprise element contained in the US job numbers.

The most bullish signal, the instance where both jobs are being created and exceed consensus expectations, has on average resulted in equity markets reacting negatively. The reason for this counterintuitive result may be that, after a string of positive signals from other economic releases such as PMI and Consumer Confidence, investors build overly bullish positions ahead of, or immediately after, the release of US job numbers. With price momentum feeding stock prices, equity markets correct lower over the following week. It is only in instances where positive surprises occur whilst US jobs are shrinking that equity markets tended to perform well in the following week.

The negative performance of equity markets is most pronounced where decreasing jobs numbers are worse than expected. Instances where positive jobs numbers also fall short of expectations are also weakening equity markets, albeit to a lesser extent (see chart). Last week's job numbers fall within this category. Europe and Japan's equity markets appear to be most affected by such negative surprises. The least affected by negative surprises are UK large cap stocks, followed by US large and midcap stocks, all of which ironically derive most of their sales from the US.

US PMI readings for July were strong, although readings for China were subdued and for the Eurozone remained weak. Unemployment in the Eurozone is expected to remain high given there was no hint by the ECB of more easing or stimulus last week. Friday's release of nonfarm payrolls suggest that the US job market is not recovering fast enough to significantly reduce US unemployment or reinvigorate momentum in economic activity. The void in major releases this week may reinforce a more downbeat sentiment on equities. If history repeats itself, this may offer investors an opportunity to short European and Japanese equity markets, by buying the Boost TOPIX 1x Short Daily ETP (1JAS), Boost Euro STOXX 50 3x Short Daily ETP (3EUS) and Boost ShortDAX 3x Daily ETP (3DES).

.

boost™
Three-thinking ETPs

Disclaimer

This communication has been provided by Boost ETP LLP which is an appointed representative of Mirabella Financial Services LLP which is authorised and regulated by the Financial Conduct Authority.

The products discussed in this document are issued by Boost Issuer PLC (the "Issuer") under a Prospectus approved by the Central Bank of Ireland as having been drawn up in accordance with the Directive 2003/71/EC. The Prospectus has been passported from Ireland into the United Kingdom and is available on the websites of the Central Bank of Ireland and the Issuer. Please read the Prospectus before you invest in any Exchange Traded Products ("ETPs"). Neither the Issuer nor Boost ETP LLP is acting for you in any way in relation to the investment to which this communication relates, or providing investment advice to you. The information is not an offer to buy or sell or solicitation of an offer to buy or sell any security or investment. You are advised to seek your own independent legal, investment and tax or other advice as you see fit.

The value of an investment in ETPs may go down as well as up and past performance is not a reliable indicator of future performance. An investment in ETPs is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

ETPs offering daily leveraged or daily short exposures ("Leveraged ETPs") are products which feature specific risks that prospective investors should understand before investing in them. Higher volatility of the underlying indices and holding periods longer than a day may have an adverse impact on the performance of Leveraged ETPs. As such, Leveraged ETPs are intended for financially sophisticated investors who wish to take a short term view on the underlying indices. As a consequence, Boost ETP LLP is not promoting or marketing Boost ETPs to Retail Clients. Investors should refer to the section entitled "Risk Factors" and "Economic Overview of the ETP Securities" in the Prospectus for further details of these and other risks associated with an investment in Leveraged ETPs and consult their financial advisors as needed.

This marketing information is derived from information generally available to the public from sources believed to be reliable although Boost ETP LLP does not warrant the accuracy or completeness of such information. All registered trademarks referred to herein have been licensed for use. None of the products discussed above are sponsored, endorsed, sold or promoted by any registered trademark owner and such owners make no representation or warranty regarding the advisability on dealing in any of the ETPs.

Contact Information: ☏ +44 (0)20 3515 0050 ✉ info@boostetp.com www.boostetp.com