Be contrarian on Friday's US job numbers

Trade Idea

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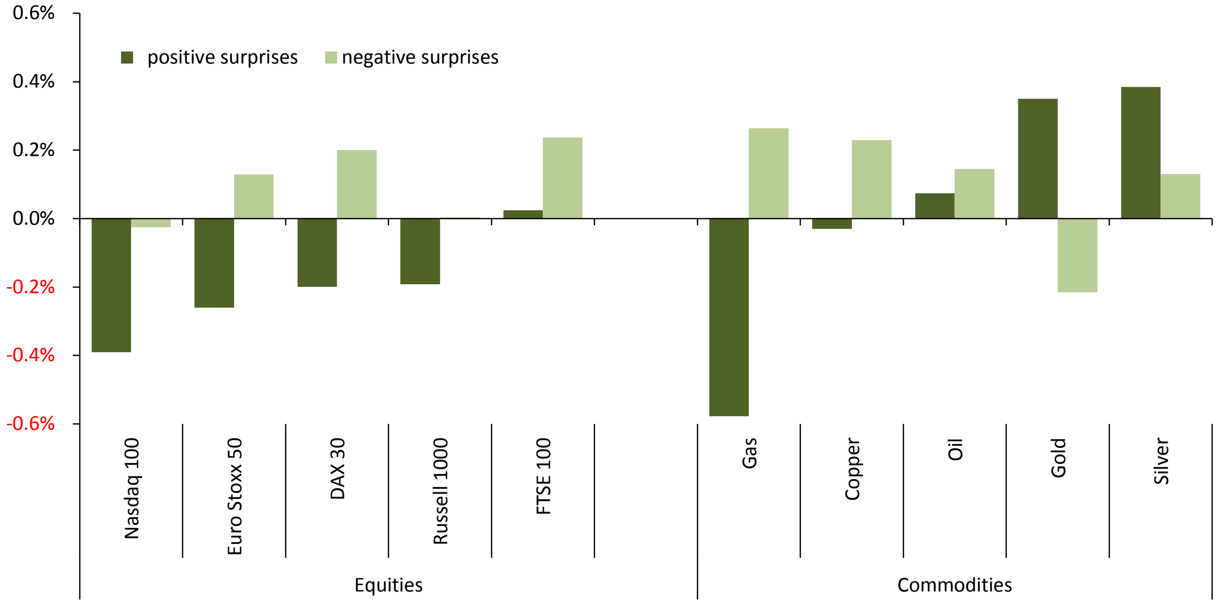
Summary

- The FTSE 100 has historically performed well relative to other benchmarks on the announcement of US nonfarm payroll numbers, even if the numbers disappoint
- Contrary to expectations, gold and silver do even better on positive surprises

How to use our Boost ETP products on this Friday's US Nonfarm payrolls
Average 1 day price performance on release day since 2000, in USD to play on Friday



Source: Boost Research, Bloomberg, data as at 03/04/2013

The FTSE 100 may offer investors relative safety when US job numbers are released this Friday. However, it is within safe haven asset classes such as gold and silver where their potential may be even greater. Investors should contrarian and consider the Boost Gold 3x Leverage Daily ETP (3GOL) in anticipation of consensus-beating number releases or consider Boost FTSE 100 3x Leverage Daily ETP (3UKL) in case the numbers are expected to fall short of expectations.

On Friday US Payroll numbers will be announced for February. According to Bloomberg consensus, the numbers are hovering close to 200K. Since 2012 the US added well over 180K jobs per month on average., This may not be sufficient to overtake population growth and reduce unemployment, but against a downbeat climate in Europe and decelerating growth in emerging market economies, expectations are anything but upbeat. So how will markets react?

Since 2001, some surprising observations have been made on the day the US nonfarm payroll figures are released.

When distinguishing between positive surprises (the times when the actual numbers exceeded expectations) and negative surprises (those that fall short of expectations), defensive stock markets appear to do better than high beta and cyclical sensitive markets. In fact, since 2001 the average return of the FTSE 100 on the announcement date of the US nonfarm payroll numbers was positive for both positive and negative surprises. Contrary to what one would expect, positive surprises helped other stock market prices lower, with US tech stocks losing the most on average. Broad large cap stock markets in Europe and the US also fall short. A mirror image appears when the numbers disappoint, when broad stock markets in the US and Europe end the day higher, on average.

The most striking observation however, is within commodities. In consensus beating announcements gold and silver prices have risen on average and bested even the FTSE 100. When job numbers data disappoints, prices for gold have fallen while for silver they have risen, on average. In seeking a hedge against disappointment in the labour market, gold stands out as a poor asset class to be holding relative to other commodities.

There may be several reasons for why the results appear so contradictory. For one, most of the expectations may already have been baked into the price in days if not weeks ahead of the announcement, in particular when a string of data releases is resulting in a one-directional surprise. For instance, since June last year, US nonfarm payrolls have, consistently been underestimated by consensus (except for the month of February). This has provided a significant confidence boost to investors and helped the Dow Jones Industrials to end the trading day up on 66% of the time since the start of the year. March stood out as an exceptional month for the Dow Jones: the month experienced only 5 trading days where the index closed lower. On the back of other macro-economic releases complementing US job numbers that more often than not are correlated, expectations can get carried away. Therefore, if the positive momentum seen in US macro indicators of late is anything to go by, then safe haven assets may have been discounted too heavily as a result.

Moreover, the days following the announcement of nonfarm payrolls in the US have not been considered here, which may be relevant for capturing the sentiment of conservative investors looking to rebalance with more certainty after the release of important indicators such as US nonfarm payrolls.

For now and leading up to Friday, we still adhere to the view that investors should consider buying the UK stock market (see Trade Idea of 2nd of April 2013 "The FTSE 100 a potential safe haven in Cyprus crisis") over and above stock markets in Eurozone or the US. However, just ahead of Fridays' job numbers, it may pay to be contrarian for that day, particularly in light of the overall strong performance of stock markets to date and gold and silver having fallen so short of expectation of late.

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