

25 January 2016

Danske Daily

Market Movers

- **Focus to remain on central-bank responses to recent market turmoil with notably the Fed and Bank of Japan meetings this week.** Today both ECB's Draghi and Lautenschlager are set to speak, which could make for some further policy-maker reflections following last week's signal from the central bank that the ECB will cut rates again in H1.
- **Main release today is the German IFO expectations**, which should be followed closely to judge any impact on economic sentiment of the latest market jitters. We look for a drop in 'current conditions' but a rise in the 'expectations' component. Last week the German manufacturing PMI declined from 53.2 to 52.1, driven mainly by weaker export orders. Overall, downside risks to our expectation of higher euro-area GDP growth are continued financial uncertainty and global weakness but our expectation of higher GDP growth is due mainly to higher domestic demand and, so far, the euro area has remained rather resilient to the weakness in emerging markets.

Selected Market News

Risk sentiment has continued to improve with Brent oil now trading around the USD32.50 mark, equities up 1-2% in the Asian session and most major currencies stronger against the USD overnight. While the oil-price rise was partly driven by the US snowstorm hitting the east coast and comments in Davos from Saudi Aramco that 30-dollar oil is 'irrational', it does seem that the optimism that was sowed last week by ECB's soft message has carried over to the start of this week. **Notably, a range of major banks have been out declaring that now is the time to go against the sell-off – and we broadly agree**, see *Strategy: Central banks to turn oversold risk markets*.

Crucially, this week will see policy meetings at both the Fed (Wednesday) and the Bank of Japan (BoJ) (Friday). On the back of the 're-re-collapse' in the oil price and global financial turmoil we think the Fed will leave rates unchanged and deliver a dovish tone in the released statement. That said, as markets now only price in one hike for 2016, any indications of March being a 'live' meeting for further rate hikes would be interpreted as hawkish.

We also expect the BoJ to leave policy unchanged but the probability of additional easing has increased substantially, not least on the latest appreciation of the JPY, the lower oil price and concerns that the 'shunto' spring wage negotiations may disappoint. Comments from Kuroda on Friday afternoon do, however, in our view hint that the BoJ is not ready to deliver more easing at this stage.

Thus, while we think the Fed will echo the ECB with a dovish message this week, do not look to BoJ for comfort to risk assets just yet.

Market overview

		0730	1 day +/-, %
S&P500(close)		1906.9	↑ 2.03
S&P500 fut (ding from close)		1900.0	↑ 0.04
Nikkei		17087.2	↑ 0.76
Hang Seng		19332.8	↑ 1.32
	1700	0730	+/-, bp
US 2y gov	0.87	0.88	↑ 12
US 10y gov	2.06	2.06	↑ 02
iTraxx Europe (IG)	93	94	↑ 05
iTraxx Xover (Non IG)	371	374	↑ 22
			+/-, %
EUR/USD	1.083	1.082	↓ -0.15
USD/JPY	118.410	118.780	↑ 0.31
EUR/CHF	1.10	1.10	↓ -0.08
EUR/GBP	0.755	0.756	↑ 0.12
EUR/SEK	9.293	9.261	↓ -0.35
EUR/NOK	9.47	9.43	↓ -0.48
			USD
Oil Brent, USD	31.2	32.7	↑ 481
Gold, USD	1100.5	1100.4	↓ -0.01

Note:

* The iTraxx Europe Index shows the spread development for the most liquid investment grade CDS contracts in the euro credit market.

**The iTraxx Europe Crossover show the spread development of the most liquid non-investment grade CDS contracts in the euro credit market.

***The Markit CDX North America Investment Grade Index shows the spread development for the most liquid investment grade CDS contracts in the US credit market.

Source: Bloomberg

Selected readings from Danske Bank

- *Weekly Focus: Fed's time to react to the financial turmoil*
- *Strategy: Central banks to turn oversold risk markets*
- *Flash Comment: Russian rouble - what's next?*

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Scandi Markets

No major Scandi events/releases scheduled.

Fixed Income Markets

For the turnaround in risk sentiment to be sustained, it is important that the signal from the ECB is confirmed and in our view the Fed is likely to deliver a soft message pointing to concerns about a low oil price, low inflation expectations, risk-off sentiment in US equity markets and weak key economic figures. And although we expect the BoJ to leave policy unchanged in January, we believe the probability of additional easing has increased substantially. Thus, core rates could be pushed off their recent lows this week as we look for a slowly improving risk sentiment.

The peripheral markets got a strong boost from Draghi and this week will provide a test whether the positive sentiment will continue. There will be more news regarding the bad bank construction in Italy, as the Italian finance minister is meeting with the EU's competition commissioner on Tuesday. The meeting may provide more news regarding a possible deal to set up a bad-bank for the Italian banking sector in order to get rid of the large pile of bad debts. Furthermore, Germany and Italy are selling bonds this week. Germany is tapping in the 30Y segment, while Italy is tapping in the 5Y-10Y segment of the BTPS curve as well as the 2Y 0%-coupons and linkers. In Scandinavia, Norway and Sweden are coming to the market. We expect Norway to tap in the 10Y segment, while Sweden is doing a tap in the linkers, see *Government Bonds Weekly*, 22 January.

FX Markets

With the ECB being the first central bank to deliver the highly needed G3 central bank 'put' last Thursday, focus in FX markets will this week turn to the Fed and BoJ. Notably, February is very thin in terms of major central bank meetings and any market disappointment would have almost one and a half month to run before the next G3 monetary policy meeting in March.

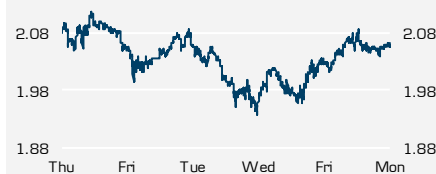
In our view the latest move lower in EUR/NOK has been 'fair' given the moves in relative rates, the oil price and global risk sentiment on the back of the ECB surprise. Meanwhile the import-weighted index, 'I44', is now close to Norges Bank's (NB) projection and the currency is consequently no longer an argument for a higher rate path at the next monetary policy meeting in March. Also economic data releases do not suggest that the business cycle is about to turn and with significantly lower global rates and oil prices (relative to NB's estimates) the argument for a 25bp rate cut has strengthened since the December meeting. While markets do price a full rate cut in H1 16 and roughly a 50% probability of another cut in H2 16, the implied probability of less than 50% of a March cut does suggest some upside risk to EUR/NOK for an unchanged oil price in the coming month. We forecast EUR/NOK at 9.60 in both 1M and 3M.

US S&P500 future



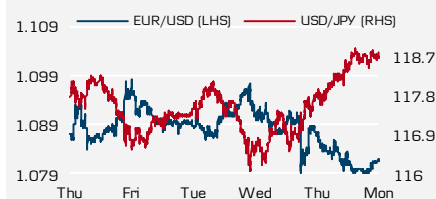
Source: Danske Bank Markets

US 10y gov yield



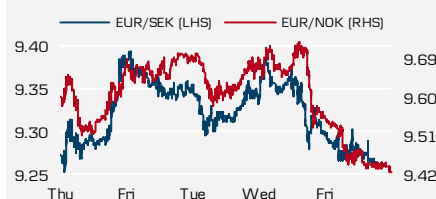
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

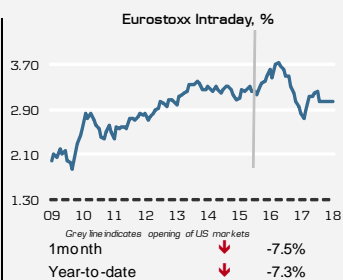
Monday, January 25, 2016

				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Dec		-7.0	-3.3
0:50	JPY	Import	y/y (%)	Dec		-16.4	-10.2
0:50	JPY	Trade balance, s.a.	JPY bn	Dec		84.2	-3.3
1:30	AUD	NAB Business Conditions	Index	Dec			10.0
6:00	JPY	Leading economic index, final	Index	Nov			103.9
10:00	DEM	IFO - business climate	Index	Jan	109.5	108.4	108.7
10:00	DEM	IFO - current assessment	Index	Jan	114.0	112.6	112.8
10:00	DEM	IFO - expectations	Index	Jan	103.0	104.1	104.7
18:30	EUR	ECB's Lautenschlaeger speaks in Brussels					
19:00	EUR	ECB's Draghi speaks in Frankfurt					

Source: Bloomberg, Danske Bank Markets

Today's market data: 25 January 2016

STOCKS



	Close	Δ	%
DJSTOXX50	2874	↑	3.0%
OMXC20	951	↑	2.6%
OMXS30	1361	↑	3.7%
OSE BX	553	↑	4.1%
	Close	Δ	%
DOW JONES	16094	↑	13%
NASDAQ	4591	↑	2.7%
S&P500	1907	↑	2.0%
NIKKEI (07:30)	17087	↑	3.0%

FX & COMMODITIES

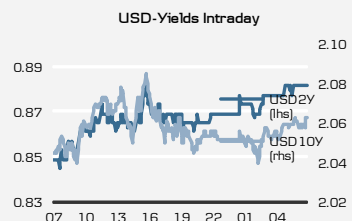


EUR	17:00	07:30	Δ
USD	108.31	108.15	-0.16
JPY	128.24	128.46	0.22
GBP	75.54	75.62	0.09
NOK	947.15	942.63	-4.52
SEK	929.27	926.05	-3.22
DKK	746.19	746.19	0.00
PLN	445.88	446.05	0.17
USD	17:00	07:30	Δ
JPY	118.41	118.78	0.37
GBP	143.39	143.01	-0.38
CHF	10134	10141	0.07

	Close	Δ	%
Gold, \$	1200.41	↑	0.48
Oil, \$	32.66	↓	-5.23
Brent, \$	32.66	↓	-4.62
	Close	Δ	%
CRB	163.80	↑	1.16
CRB, Raw	41102	↑	9.24
CRB, Industrials	41102	↑	6.31

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

YIELDS & INTEREST RATES

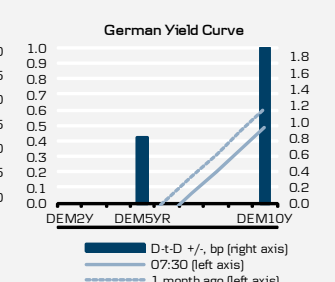
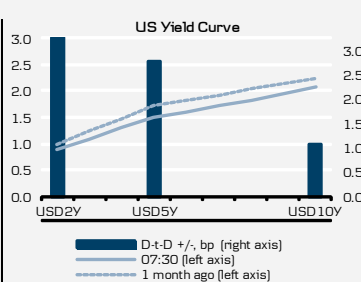
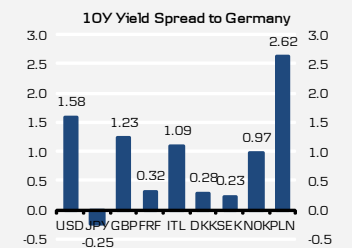


	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.15	-20
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.29	6
NOK	0.75	1.19	44
PLN	1.50	1.60	10

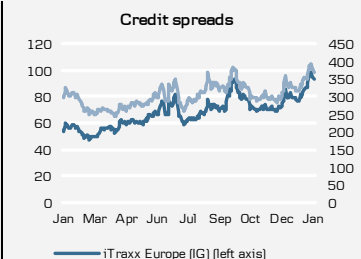
	17:00	07:30	Δ, bp
USD 10Y	2.06	2.06	0
USD 30Y	2.83	2.83	-1
JPY 10Y	0.24	0.23	-1
	07:30(-1)*	17:00	Δ, bp
DEM 10Y	0.47	0.48	2
DKK 10Y	0.81	0.76	-5
SEK 10Y	0.65	0.72	7
NOK 10Y	1.45	1.45	0
PLN 10Y	3.16	3.10	-6

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	94	↑	14
HiVol	128	↑	26
Xover (N-IG)	374	↑	47
Finan. Sr.	89	↓	14
Finan. Sub.	195	↓	39
Non-finan.			



	17:00	07:30	Δ
USD 10Y			
JPY 10Y	-14	-13	1
	07:30(-1)*	17:00	Δ
EUR 10Y	0	16	16
DKK 10Y	39	35	-4
SEK 10Y	42	41	-1
NOK 10Y	65	65	0

* Ask price

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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