

# Danske Daily

## Market Movers

- Today's main event is the US retail sales data for September. The US economy is currently split between solid domestic demand driven by private consumption spending and weak exports that hurt the manufacturing sector. Signs of weakness in the main US growth engine, personal consumption, would support the current dovish pricing of future Fed rate hikes. Consensus is looking for an 0.3% m/m increase in the important control group component (excluding sales of autos, gasoline, food and building materials) but we see downside risks to this as we estimate that the control group increased a more modest 0.1% m/m.
- In the UK, we estimate that average weekly earnings ex bonus (3M average) increased to 3.0% y/y in August from 2.9% y/y in July. We believe wage growth will accelerate further as the labour market tightens with unemployment close to NAIRU. Our calculations suggest the unemployment rate (3M average) was unchanged at 5.5% in August.
- The German ZEW expectations index declined more than expected in October and today we will get hard data on euro area industrial production growth for August, which we expect to show an 0.6% m/m decline.

## Selected Market News

The higher-than-expected Swedish CPI yesterday sent EUR/SEK to its lowest since June. The inflation print seems more supported by volatile components than underlying price pressure and we continue to expect further easing from the Riksbank this year.

Chinese CPI data for September released this morning showed inflation moderating to 1.6% y/y from 2.0% in August falling below consensus expectations of a 1.8% print. The drop in inflation was primarily driven by lower food price inflation. With inflation a good deal below the 3% government target this year, the central bank has room to ease policy further after cutting interest rates five times since November last year.

FOMC board member Daniel Tarullo in an interview with CNBC yesterday said that he did not find it appropriate to raise interest rates this year as he would like to wait for more solid evidence that inflation is moving higher. He thereby stroke the same more dovish tone as Lael Brainard (voter, FOMC board member) who Monday advocated for patience due to uncertainty and downside risks.

US bond markets were closed on Monday but saw support on Tuesday from the dovish Fed speak with treasury yields down 2-5bp across the curve. EUR/USD has held stable overnight while the S&P500 closed 0.7% lower yesterday. This morning most Asian equity indices are slightly down.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	2003.7	↓ -0.68	
S&P500 fut (chng from close)	1994.0	↑ 0.01	
Nikkei	17924.4	↓ -1.70	
Hang Seng	22470.8	↓ -0.57	
	17:00	07:30	
		+/- bp	
US 2y gov	0.63	0.62	↓ -1.2
US 10y gov	2.07	2.04	↓ -2.8
iTraxx Europe (IG)	79	80	↑ 0.9
iTraxx Xover (Non IG)	329	332	↑ 2.7
			+/- %
EUR/USD	1.138	1.139	↑ 0.11
USD/JPY	119.820	119.590	↓ -0.19
EUR/CHF	1.09	1.09	↓ -0.09
EUR/GBP	0.746	0.746	↓ -0.11
EUR/SEK	9.255	9.260	↑ 0.05
EUR/NOK	9.24	9.26	↑ 0.21
			USD
Oil Brent, USD	50.3	49.4	↓ -1.85
Gold, USD	1166.4	1174.1	↑ 0.65

### 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

- [UK: Back to deflation - we think this is the bottom for now](#)

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## Scandi Markets

**Sweden.** Prospera publishes the monthly version of the inflation expectation survey, which just covers the money market. The most important figures are inflation expectations on a 2- and 5-year horizon.

## Fixed Income Markets

Another busy day in the primary market today. Portugal is coming to the market in the long end with a EUR1.00-1.25bn tap in the PGB Oct-25 and the PGB Apr-37. This year the IGCP has lifted the average maturity on the supply to 12.9 years. IGCP stated in the Q4 funding outlook that it would do one or two tap auctions in Q4. The monthly PSPP purchases amount to EUR1.1bn. Hence, the remaining net supply adjusted for PSPP purchases will be negative in the remainder of this year. We prefer the PBG Oct-25s to the Apr-37s at the auction. Portugal has cheapened substantially following the auction announcement and the 10Y is looking attractive relative to, for instance, Spain. Germany is also in the market with EUR3bn tap in Bobls.

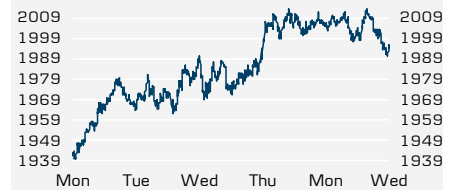
In Scandinavia both Norway and Sweden will be printing in the 10Y today. The slightly higher-than-expected CPI print in Sweden weighed a bit on SGBs and around +7bp to Germany we see value in SGBs as we expect further Riksbank easing. Subdued liquidity is weighing on the Norwegian market, which could weigh a bit on demand at the auction. Finally, we have a T-bill auction in Denmark in Dec-15 and Mar-16, at 10:15 CET. This is the first T-bill auction after the Danish central bank resumed its issuance of government bonds last Wednesday, which saw decent demand from investors. We do not expect to see any significant sale in Dec-15 due to the short maturity. With respect to Mar-16 we expect the central bank to sell T-bills if bids are around -46 to -45bp or below in yield. The auctions offer great value for foreign investors as well, as Mar-16 can be swapped into EUR and USD, respectively, with a pick-up of 10 and 40bp to maturity equivalent domestic government bonds.

## FX Markets

EUR/SEK yesterday breached important technical levels on the back of the Swedish inflation print surpassing market expectations. Overall the print seems supported by inflation volatility (from airline tickets, charter packages and furniture) and to a lesser extent by underlying price pressures. While we in our base case do not expect the Riksbank to ease monetary policy at the upcoming October meeting, we still assign a decent probability to Governor Ingves reacting to the substantial SEK appreciation since August. This is especially the case as the majority of the move has been driven by what Riksbank members term 'external drivers' such as global growth worries and a re-pricing of ECB and Fed monetary policy. Indeed, should the Riksbank decide to leave monetary policy unchanged this month it risks a further extension of the SEK appreciation trend, which would leave it substantially behind the curve in terms of supporting inflation.

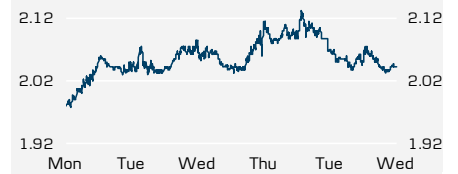
On the other hand, EUR/GBP moved higher yesterday on the lower-than-expected UK inflation release. Although CPI inflation continues to be low, we still expect inflation to pick up early next year when the base effects from the drop in commodity prices begin to fall out of the consumer price index. In addition, we expect the UK economy to continue to grow at a decent pace in the coming quarters primarily driven by consumption. This should continue to support an already strong labour market where wage growth has picked up substantially over the past months. We still have February 2016 as our base case for the first Bank of England hike and consequently we expect relative rates to be a supportive factor for the GBP in the coming months (currently markets price in a full hike in January 2017). Adding to this the GBP already seems significantly undervalued

### US S&P500 future



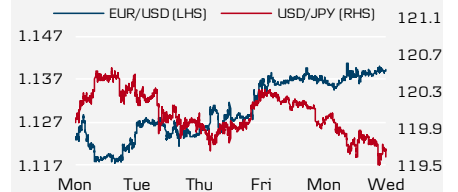
Source: Danske Bank Markets

### US 10y gov yield



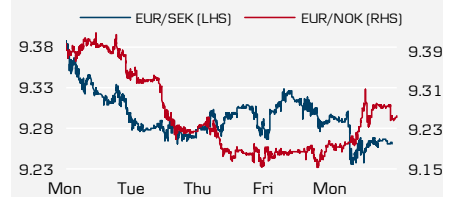
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

according to our short-term financial models – even at current fundamentals. As a consequence, we sold EUR/GBP yesterday in the Danske Bank FX Trading Portfolio.

Key figures and events

Wednesday, October 14, 2015			Period	Danske Bank	Consensus	Previous
8:00	SEK	House prices, Mäklarstatistik				
8:00	SEK	Prospera inflation expectations, 1y/y 2y/y 5y/y				1.0% 1.5% 1.8%
8:45	FRF	HICP	m/m y/y	Sep	-0.4% 0.1%	0.4% 0.1%
9:00	ESP	HICP, final	m/m y/y	Sep	0.4% -1.2%	0.4% -1.2%
10:00	ITL	HICP, final	m/m y/y	Sep		... 0.2%
10:30	GBP	Average weekly earnings (3M)	y/y	Aug	3.1%	2.9%
10:30	GBP	Average weekly earnings ex bonus (3M)	y/y	Aug	3.0%	2.9%
10:30	GBP	Unemployment rate	%	Aug	5.5%	5.5%
11:00	EUR	Industrial production	m/m y/y	Aug	-0.6% ...	-0.7% 1.8%
13:00	USD	MBA Mortgage Applications	%			25.5%
14:30	USD	Retail sales control group	m/m	Sep	0.1%	0.3%
14:30	USD	Retail sales	m/m	Sep	0.0%	0.2%
14:30	USD	Retail sales less autos	m/m	Sep	-0.3%	-0.1%
14:30	USD	Retail sales less autos and gas	m/m	Sep	0.2%	0.3%
14:30	USD	PPI	m/m y/y	Sep	-0.2% -0.8%	0.0% -0.8%
14:30	USD	PPI core	m/m y/y	Sep	0.1% 1.2%	0.3% 0.9%

Source: Bloomberg, Danske Bank Markets

Today's market data: 14 October 2015

STOCKS



	Close		+/-
DJUSTOXX50	3075	↓	-0.9%
OMXC20	931	↓	-1.0%
OMXS30	1460	↓	-1.4%
OSE BX	610	↓	-0.5%
	Close		+/-
DOW JONES	17082	↓	-0.3%
NASDAQ	4797	↓	-0.9%
S&P500	2004	↓	-0.7%
NIKKEI (07:30)	17924	↓	-0.9%

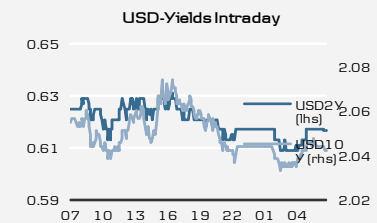
FX & COMMODITIES



<b>EUR</b>	17:00	07:30	+/-
USD	113.78	113.91	↑ 0.13
JPY	136.33	136.23	↓ -0.10
GBP	74.64	74.56	↓ -0.08
NOK	924.19	926.09	↑ 1.90
SEK	925.47	925.97	↑ 0.50
DKK	746.11	746.09	↓ -0.02
PLN	422.95	423.40	↑ 0.45
<b>USD</b>	17:00	07:30	+/-
JPY	119.82	119.59	↓ -0.23
GBP	152.44	152.79	↑ 0.35
CHF	95.98	95.77	↓ -0.21

	07:30			<b>Oil, Brent, \$</b>	
	174.05				49.35
1 day	↑ 5.24	↑			0.11
1 month	↑ 64.95	↑			2.98
Year-t-date	↓ -10.81	↓			-7.98
	07:30			<b>CRB, Raw</b>	
	199.46			<b>CRB, Industrials</b>	426.43
1 day	↓ -0.27	↑			0.82
1 month	↑ 3.66	↓			-18.59
Year-t-date	↓ -30.50	↓			-65.68

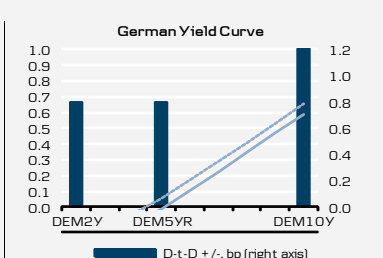
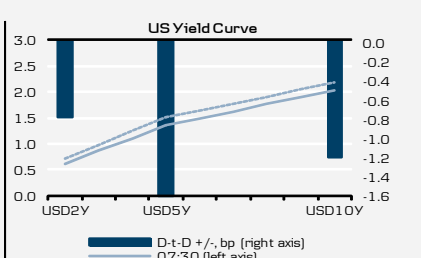
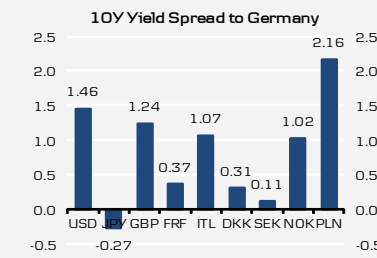
YIELDS & INTEREST RATES



	<b>Policy Rate</b>	<b>3M</b>	<b>Spread, bp</b>	
USD	0.25	0.32	7	
EUR	0.05	-0.05	-10	
GBP	0.50	0.58	8	
DKK	0.05	-0.06	-11	
SEK	-0.35	-0.30	5	
NOK	0.75	1.12	37	
PLN	1.50	1.63	13	

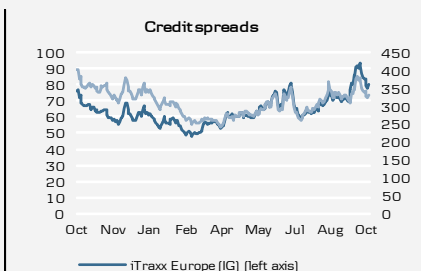
	17:00	07:30	+/-, bp
USD 10Y	2.07	2.04	↓ -3
USD 30Y	2.90	2.88	↓ -3
JPY 10Y	0.32	0.31	↓ 0
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.58	0.60	↑ 2
DKK 10Y	0.88	0.90	↑ 1
SEK 10Y	0.67	0.70	↑ 2
NOK 10Y	1.61	1.61	↑ 0
PLN 10Y	2.67	2.75	↑ 8

\* As of closing previous trading day



**Credit spread, iTraxx s. 11\***

	07:30	1 day	1 month
Europe (IG)	80	↓ 0	↑ 7
HiVol	74	↓ -2	↑ 5
Xover (N-IG)	332	↑ 1	↓ -1
Finan. Sr.	80	↑ 0	↓ -3
Finan. Sub.	169	↑ 1	↑ 2
Non-finan.			



**Swap Spread, bp\*\***

	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-3	-3	↓ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0	19	↑ 19
DKK 10Y	38	38	↑ 0
SEK 10Y	45	46	↑ 1
NOK 10Y	71	71	↓ -1

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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