03 February 2016

Danske Daily

Market Movers

- **US ISM non-manufacturing** is released at 16:00 CET and we expect the index to be stable at the current level (55.3) suggesting that the service sector continues to grow at a moderate pace.
- **Euro area retail sales for December** are due at 11:00 CET and the focus is likely to be on any impact of the lower oil price and continued progress in the labour market. We expect to see a small monthly increase on the back of the drop in the oil price. Overall, we look for private consumption to continue to be an important driver of the euro area recovery and we expect the very low oil price to have a positive impact in Q1.
- The **UK services PMI index** (released 10:30 CET) is expected to stay at the current level, suggesting that the moderate growth will continue to be driven by services.
- In Scandi markets, **Norwegian unemployment and January housing data** will be in focus. Also, Swedish PMI data is due for release. See *Scandi Markets*.

Selected Market News

Risk appetite remains under pressure. Yesterday, US stocks resumed their slide and credit spreads widened as the WTI oil future fell back below USD30/barrel for the first time in two weeks. In terms of economic data, there was no clear trigger for the renewed market weakness. In the US, the only release of interest was auto sales for January, which actually came out better than expected, rising to 17.5m (17.3m expected, 17.2m previous). However, the oil price slump is clearly putting oil companies under pressure. Yesterday, Exxon Mobile Corp posted its weakest annual results in more than a decade, while BP Plc posted a loss on par with 2010 when the Gulf of Mexico oil spill occurred.

Fed President Esther George (voter, hawkish) struck a rather optimistic tone, providing no support to risky assets. In her speech she noted that the Fed got a 'late start' by raising its interest rate target in December, while noting that the economy stands in a 'generally good position' and could support further rate increases with an uptick in activity. Unlike Fed Vice Chairman Fischer, who spoke on Monday, she did not indicate that recent market trends had led her to reconsider the policy path.

Asian bourses take the lead from the weak performance on US and European bourses. At the time of writing, the Japanese Nikkei index is down 3.5%. Despite further easing measures announced in China yesterday (see *China eases further - aimed at ailing construction sector*, 2 February) as well as the Caixin Service PMI rising to 52.4 in January (December: 50.2) this morning, Chinese equities are also in red, with the Shanghai Composite currently 1.2% lower.

Pace of FX intervention by Danish Nationalbank (DN) slowed in January. Data released by DN yesterday showed FX interventions in January amounting to only DKK7.7bn. Hence, it would seem that upside pressure on EUR/DKK has eased, following the 7 January rate hike. We expect DN to mirror a potential 10bp rate cut from ECB in March, leaving the CD rate at -0.75%. For details, see *Denmark: Pace of FX intervention slowed in January*, 2 February.

Market overview

		07:30		1 day +/-,%
S&P500 (close)		1903.0	↓	-1.87
S&P500 fut (chng from close)		1894.2	↓	-0.17
Nikkei		17171.5	↓	-3.26
Hang Seng		18918.3	↓	-2.72
	17:00	07:30		+/-, bp
US 2y gov	0.76	0.73	↓	-3.2
US 10y gov	1.88	1.84	↓	-3.5
iTraxx Europe (IG)	97	98	↑	1.2
iTraxx Xover (Non IG)	385	388	↑	2.8
				+/-, %
EUR/USD	1.090	1.092	↑	0.26
USD/JPY	120.310	119.590	↓	-0.60
EUR/CHF	1.11	1.11	↑	0.05
EUR/GBP	0.758	0.758	↓	-0.01
EUR/SEK	9.355	9.368	↑	0.14
EUR/NOK	9.51	9.54	↑	0.30
				USD
Oil Brent, USD	32.9	32.5	↓	-1.19
Gold, USD	1125.8	1128.8	↑	0.27

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

- *Denmark: Pace of FX intervention slowed in January*
- *China eases further - aimed at ailing construction sector*
- *US Labour Market Monitor*

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Senior Analyst
Sverre Holbek
+45 4514 8882
holb@danskebank.dk

Scandi Markets

Norway. SSB will publish LFS unemployment for November (October-December), where we in line with consensus expect an unchanged rate of 4.6%. Due to the often substantial monthly fluctuations in the LFS jobless measure, it has to some extent been overshadowed by the NAV's data, which are also more up-to-date. It would therefore take relatively big changes for the LFS to trigger significant market movements. We also get January housing prices, where only a really strong number could have a market impact at this junction.

Sweden. Like elsewhere, today offers fresh services PMI data from Sweden too. We doubt it will attract very much attention, though. In fact, services PMI numbers have been trendless, moving around 55 (December came in at 58) for the past couple of years. This suggests continued recovery in the sector but not an impressive one by historical standards. The services PMI has a shorter history than its manufacturing counterpart, but in the boom preceding the financial crisis and in 2010-11 we saw readings around 65, considerably above the current levels.

Fixed Income Markets

Since Mario Draghi put focus on the 5Y5Y inflation swap in a speech in August 2014, its development has been followed closely as a measure of EUR inflation expectations. By that measure, ECB has a problem as 5Y5Y is now being pushed back to the January 2014 all-time low at 1.51% after this week's turn in the oil price. Hence, market pricing suggests some subdued inflation expectations and risk of second-round effects from the oil price decline. Expectations for continued ECB easing are thus at a highs reflected in the Eonia forward curve pricing in 23bp cut on aggregate from now until September.

We have a string of auctions today - new 5Y bond from Germany, tap in the 10Y and 30Y bonds in Denmark (see more *here*) and finally a tap in the 5Y and 9Y benchmarks in Sweden.

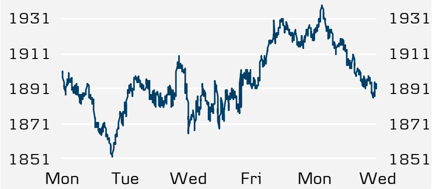
There is a significant risk of a 'weak' auction in Germany but as with the other auctions in 2016 this should not have much impact on the sentiment for Bunds, which are being supported by the negative sentiment in the market, where the core-EU markets, Treasuries and Gilts are rallying. The long end in Denmark and Sweden both look cheap in this environment as we are still pricing too many independent rate 'hikes' from the Danish central bank and too few from the Riksbank. Furthermore, the cost of a currency hedge into EUR is low.

What added to the poor sentiment in the periphery yesterday was that the Italian debt office sold some EUR9bn in a new 30Y BTPS and even though the price was tightened some 4bp from the initial price guidance, there was still a new issue premium for investors and the order book was above EUR 17bn.

FX Markets

EUR/SEK traded higher on Tuesday as the market appears to be increasingly concerned about further Riksbank action ahead of the Riksbank meeting on 11 February. The market is now pricing in around 13bp of rate cuts by May. We see EUR/SEK as stuck in a 9.10-9.50 range where we would expect selling interests to emerge from foreign market participants around 9.40. Meanwhile, EUR/NOK has traded higher in the last sessions in line with the fall in the oil price. Near term, we continue to see the risks to EUR/NOK as skewed to the upside following the latest oil price rise, forecasting 9.60 on 1M and 3M.

US S&P500 future

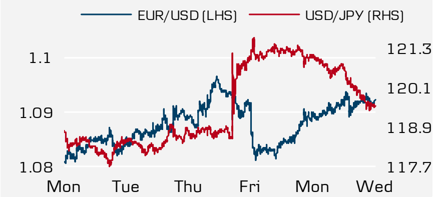


Source: Danske Bank Markets

US 10y gov yield

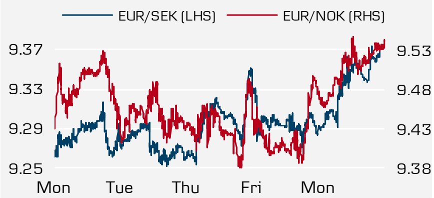
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

This morning, we published our main arguments for why EUR/USD should rally in 2016. (See *Why EUR/USD is set to rally in 2016 – Now is the time to prepare!*, 3 February 2016). In our view, there is one argument for a lower EUR/USD, which is relative rates. However, there are several arguments for a higher EUR/USD: valuation, external balances, cyclical, positioning, terms of trade and hedging flows. Near term, we expect EUR/USD to range trade between 1.07-1.10 but the scene is set for a move higher in the medium term.

Key figures and events

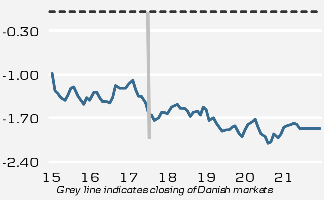
Wednesday, February 3, 2016				Period	Danske Bank	*Consensus*	Previous
-	PLN	Polish central bank rate decision	%		**1.50%**	*1.50%*	1.50%
8:30	SEK	PMI services	Index	Jan		*57.6*	58.0
9:15	ESP	PMI services	Index	Jan	**53.5**	*54.5*	55.1
9:45	ITL	PMI services	Index	Jan	**54.0**	*54.1*	55.3
9:50	FRF	PMI services, final	Index	Jan		*50.0*	50.6
9:55	DEM	PMI services, final	Index	Jan		*55.4*	55.4
10:00	NOK	Unemployment (LFS)	%	Nov	**4.6%**	*4.6%*	4.6%
10:00	EUR	PMI composite, final	Index	Jan		*53.5*	53.5
10:00	EUR	PMI services, final	Index	Jan		*53.6*	53.6
10:30	GBP	PMI services	Index	Jan	**55.5**	*55.4*	55.5
10:30	GBP	PMI composite	Index	Jan			55.3
11:00	EUR	Retail sales	m/m|y/y	Dec	**0.2%|...**	*0.3%|1.5%*	-0.3%|1.4%
11:00	ITL	HICP inflation, preliminary	m/m|y/y	Jan	**...|0.4%**	*-2.3%|0.4%*	-0.1%|0.1%
13:00	USD	MBA Mortgage Applications	%				8.8%
14:15	USD	ADP employment	1000	Jan		*193*	257
14:30	CAD	Retail sales	m/m	Oct			-0.5%
14:30	CAD	GDP	m/m|y/y	Oct			-0.5%|0.0%
15:45	USD	Markit service PMI, final	Index	Jan			53.7
15:45	USD	Markit composite PMI, final	Index	Jan			53.7
16:00	USD	ISM non-manufacturing	Index	Jan	**55.3**	*55.3*	55.3
16:30	USD	DOE U.S. crude oil inventories	K				8383

Source: Bloomberg, Danske Bank Markets

Today's market data: 03 February 2016

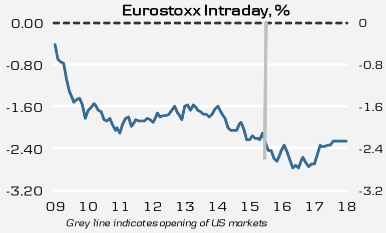
STOCKS

S&P500 Intraday, %



1month	↓	-6.9%
Year-to-date	↓	-6.9%

Eurostoxx Intraday, %

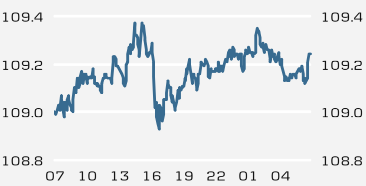


1month	↓	-8.8%
Year-to-date	↓	-8.8%

	Close		+/-
DJSTOXX50	2829	↓	-2.3%
OMXC20	964	↓	-1.0%
OMXS30	1320	↓	-1.6%
OSE BX	539	↓	-3.1%
	Close		*+/-*
DOW JONES	16154	↓	-1.8%
NASDAQ	4517	↓	-2.2%
S&P500	1903	↓	-1.9%
NIKKEI (07:30)	17172	↓	-2.3%

FX & COMMODITIES

EUR/USD Intraday



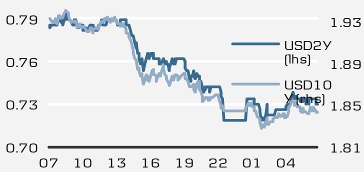
1month	↑	0.92
Year-to-date	↑	0.61

EUR	*17:00*	*07:30*		*+/-*
USD	108.95	109.23	↑	0.28
JPY	131.08	130.63	↓	-0.45
GBP	75.79	75.78	↓	-0.01
NOK	951.41	954.30	↑	2.89
SEK	935.47	936.82	↑	1.35
DKK	746.31	746.28	↓	-0.03
PLN	439.69	440.70	↑	1.01
USD	*17:00*	*07:30*		*+/-*
JPY	120.31	119.59	↓	-0.72
GBP	143.76	144.14	↑	0.38
CHF	101.98	101.77	↓	-0.21

		Gold, $		Oil, Brent, $
07:30		1128.78		32.49
1day	↓	-0.29	↓	-0.23
1month	↑	67.36	↓	-4.79
Year-t-date	↑	67.36	↓	-4.79
		CRB 1M future		**CRB, Raw Industrials**
07:30		160.18		420.05
1day	↓	-3.31	↑	2.35
1month	↓	-15.96	↑	15.34
Year-t-date	↓	-15.96	↑	15.34

YIELDS & INTEREST RATES

USD-Yields Intraday

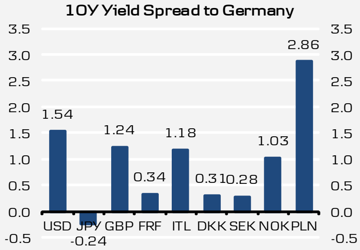


	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.16	-21
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.34	1
NOK	0.75	1.15	40
PLN	1.50	1.60	10

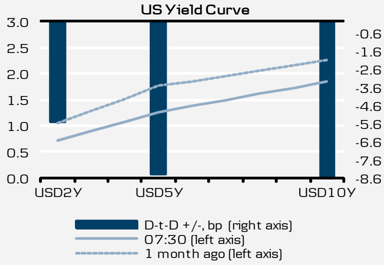
	17:00	*07:30*		*+/-, bp*
USD 10Y	1.88	1.84	↓	-3
USD 30Y	2.69	2.66	↓	-4
JPY 10Y	0.09	0.07	↓	-2
	*07:30(-1)**	*17:00*		*+/-, bp*
DEM 10Y	0.33	0.31	↓	-2
DKK 10Y	0.71	0.62	↓	-9
SEK 10Y	0.60	0.60	↓	0
NOK 10Y	1.34	1.34	↑	0
PLN 10Y	3.20	3.16	↓	-4

* As of closing previous trading day

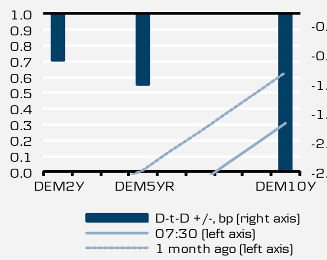
10Y Yield Spread to Germany



US Yield Curve



German Yield Curve

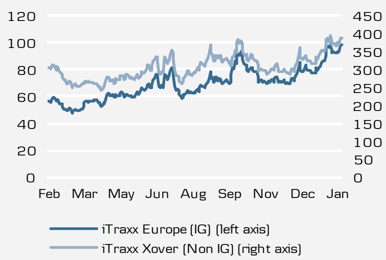


Credit spread, iTraxx s. 11*

	07:30		1day		1month
Europe (IG)	98	↑	1	↑	18
HiVol	133	↑	0	↑	19
Xover (N-IG)	388	↑	1	↑	56
Finan. Sr.	99	↑	1	↑	19
Finan. Sub.	229	↑	2	↑	62
Non-finan.					

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	*07:30*		*+/-*
USD 10Y				
JPY 10Y	-12	-11	↑	1
	*07:30(-1)**	*17:00*		*+/-*
EUR 10Y	0	17	↑	17
DKK 10Y	33	35	↑	2
SEK 10Y	40	42	↑	2
NOK 10Y	65	66	↑	1

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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First date of publication

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