

Danske Daily

Market Movers

- Several Fed members are due to speak this week. While Yellen's last speech has already set the stage, as she put more weight on the downside than upside risks to her outlook, we will listen in particular to what Jerome H. Powell (voter, neutral) has to say on Thursday, as it is a long time since we heard from him. Also Fed's Dudley (voter, dove), who speaks this afternoon, could be interesting. Otherwise focus this week in the US market is on retail sales on Wednesday and CPI figures on Thursday.
- In the UK, the most important event is the Bank of England (BoE) meeting on Thursday. We expect the BoE to maintain the Bank Rate and stock of purchased assets unchanged at 0.50% and GBP375bn, respectively.
- In the euro area, the calendar is extremely light in terms of data releases. In our view, one of the only interesting events is the release of euro area industrial production for February on Wednesday.
- In Scandinavia attention turns to inflation this week. Norway and Denmark are set to publish data today and Sweden tomorrow.

Selected Market News

This morning Chinese CPI for March rose an unchanged rate of 2.3% y/y compared to February. However, if we look at non-food prices the annual rate was just 1.0% underlining that Chinese inflation is still very muted.

USD/JPY has dropped more than five big figures in April and has overnight once again traded below the 108 level. As a consequence Japanese markets are scaling up easing expectations ahead of the 28 April BoJ meeting. Easing expectations are also fuelled by a weak economic outlook. This morning data showed that core machine orders dropped 9.25 in February. The outcome of the BoJ meeting will not only be important for the FX market but also for the global fixed income market. Recent data show a significant increase in the net purchase of foreign bonds by Japanese investors. Especially US treasuries and French government bonds have been in demand.

Yesterday, Austria became the first European country to use the new European recovery and resolution framework to share losses of a failed bank with senior creditors as it slashed the value of debt owed by the bad-bank of Heta-Heta Asset Resolution AG. Senior liabilities were slashed by 54% and the maturities of all eligible debt were extended to 2023. The announcement comes after a long standoff between the province of Carinthia and Heta's creditors, of which many have insisted on a full repayment because their bonds were guaranteed by the province of Carinthia. The announcement could weigh on sentiment today but remember that the trouble of Heta and the new resolution mechanism are well known to the market.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2047.6	↑	0.28
S&P500 fut (chng from close)	2034.5	↓	-0.30
Nikkei	15652.4	↓	-1.07
Hang Seng	20473.9	↑	0.51
	17:00	07:30	+/- bp
US 2y gov	0.71	0.70	↓ -1.8
US 10y gov	1.73	1.72	↓ -1.7
iTraxx Europe (IG)	80	80	↑ 0.1
iTraxx Xover (Non IG)	335	337	↑ 2.2
			+/- %
EUR/USD	1.141	1.141	↑ 0.04
USD/JPY	108.420	107.910	↓ -0.47
EUR/CHF	1.09	1.09	↓ -0.04
EUR/GBP	0.808	0.807	↓ -0.09
EUR/SEK	9.280	9.299	↑ 0.21
EUR/NOK	9.36	9.38	↑ 0.19
			USD
Oil Brent, USD	41.9	42.1	↑ 0.45
Gold, USD	1239.2	1250.7	↑ 0.92

Note:

* The iTraxx Europe Index shows the spread development of 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

Strategy: Pressure points, negative rates and the fading risk rally

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Scandi Markets

In **Norway**, core inflation surprised on the upside in February, at 3.4% y/y, the highest level since the inflation target was introduced. It is mainly the weak NOK that is behind the rampant import prices, which are driving up overall consumer prices. However, domestic inflation is showing no signs of slowing down either, despite lower wage growth. In our main scenario, core inflation gradually comes down as the effects of the NOK depreciation fade, which means that inflation plays less of a role in rate setting than other factors. However, the longer this situation persists, the greater the chances of inflation popping up on the central bank's radar once again. We expect price cuts on confectionery and other Easter-related goods to drag the annual rate of core inflation down to 3.2% in March.

In **Denmark**, CPI data for March are due to be released today. Inflation has been record low since the financial crisis and there is nothing to suggest that any rapid acceleration is around the corner. We expect the CPI to gain 0.4% m/m and 0.3% y/y. Although petrol and diesel prices climbed in March and food prices rose more than usual, this was probably not enough to push up the annual change in consumer prices given the relatively big monthly increase in March 2015. We expect the annual rate to hold at current levels until July, when we expect it to rise on the back of last summer's steep fall in fuel prices. However, ultimately, it all depends on what happens to energy prices. Otherwise the Danish market is focused on the recent move lower in EUR/DKK that comes after Denmark did not follow the ECB lower in Q1, as banks' net position (excess liquidity) has dropped and as Brexit fears and ECB QE force investors towards markets with a higher yield. For more see *Scandi Markets Ahead*.

Fixed Income Markets

We have a fairly light schedule in the European government bond market this week with only Sweden, Italy and Ireland coming to the market. We could see some of the agencies and supras coming to the market as there is plenty of redemptions from Germany, the Netherlands, Finland as well as Italy.

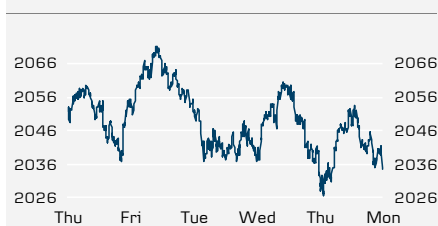
There is inflation data coming from the Scandies and the US as well as various speeches by Federal Reserve members. However, the main focus will be on Bank of England and the policy meeting. We expect BoE to be on hold and to maintain the asset programme at the current level but redemptions to be reinvested.

In Denmark focus is on the currency and the move in the net position. Spreads to Germany/EU swaps have begun to tighten and we expect more to come - although at a much slower pace than in **February-March 2015**.

FX Markets

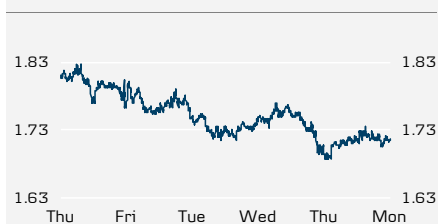
The hottest topic in global FX markets is the relentless strength of the JPY. As we argued in Friday's strategy piece, there is not much that can stop the strength of the JPY near term with the Bank of Japan (BoJ) meeting only coming up at the end of April (see *Strategy: Pressure points, negative rates and the fading risk rally*, 8 April). The natural gravity for USD/JPY is lower as the JPY is undervalued and Japan runs a large current account surplus, like Europe. The threat of FX intervention from the Japanese authorities may not be credible as Japan will likely not have the support of the other G7 members. When Japan intervened in the FX markets in 2011, USD/JPY was trading below 80 and the coordinated intervention on 18 March that year came one week after the Fukushima nuclear disaster. Japan is unlikely to face the same kind of support for FX intervention

US S&P500 future



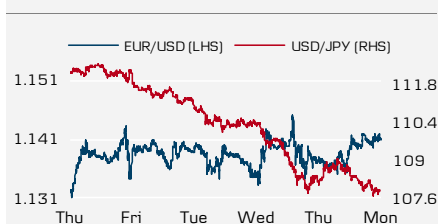
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

this time around. Near term, USD/JPY is likely to test lower levels where 105 is the key near-term psychological support level.

EUR/DKK stabilised during last week but in our view the downward pressure is likely to remain. First, Danish FI assets are cheap compared with early 2015. Second, there are reasons to believe that the liquidity situation in Denmark will not improve substantially in coming months, unless DN starts to sell DKK in FX intervention, which would be likely to keep some upward pressure on EUR/DKK forwards. Third, there are still 2.5 months to the UK's EU referendum, which could drive a EUR risk premium versus the DKK. Interestingly, EUR/SEK traded with a bid tone late last week despite hawkish signals from Riksbanken's Skingsley and Floden. Note that we now expect that it is most likely that the Riksbank will stay put at the meeting on 21 April. We continue to see EUR/SEK in a broad 9.10-9.50 range within a more narrow range of 9.20-9.35. EUR/NOK fell sharply on Friday, which in our view was driven by the rise in the oil price. We do not expect that today's CPI data will have a large impact on the NOK as Norges Bank is disregarding current CPI inflation in its monetary policy setting.

Key figures and events

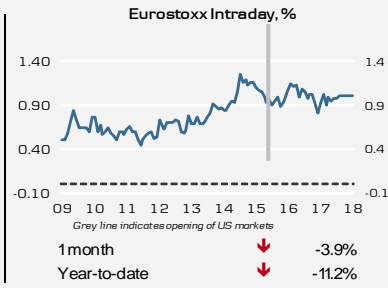
Monday, April 11, 2016

				Period	Danske Bank	Consensus	Previous
1:50	JPY	Machine orders	m/m y/y	Feb		-12.0% -2.4%	15.0% 8.4%
3:30	CNY	PPI	y/y	Mar		-4.6%	-4.9%
3:30	CNY	CPI	y/y	Mar		2.4%	2.3%
9:00	DKK	CPI	m/m y/y	Mar	0.4% 0.3%		0.7% 0.3%
10:00	ITL	Industrial production	m/m y/y	Feb		-0.6% ...	1.9% 3.9%
10:00	NOK	CPI	m/m y/y	Mar		0.3% 3.1%	0.5% 3.1%
10:00	NOK	PPI	m/m y/y	Mar			-2.6% -14.9%
10:00	NOK	Core inflation(CPI-ATE)	m/m y/y	Mar	0.2% 3.2%	0.3% 3.3%	1.0% 3.4%
15:25	USD	Fed's Dudley (voter, dovish) speaks					
19:00	USD	Fed's Kaplan (non-voter, unknown) speaks					

Source: Bloomberg, Danske Bank Markets

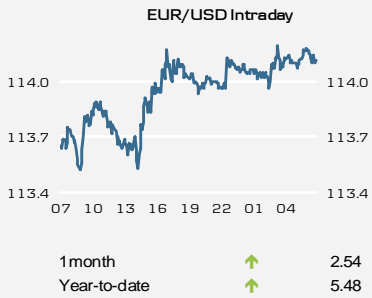
Today's market data: 11 April 2016

STOCKS



	Close		+/-
DJUSTOXX50	2752	↑	10%
OMXC20	957	↑	0.2%
OMXS30	1365	↑	2.6%
OSE BX	566	↑	10%
	Close		+/-
DOW JONES	17577	↑	0.2%
NASDAQ	4851	↑	0.0%
S&P500	2048	↑	0.3%
NIKKEI (07:30)	15652	↑	10%

FX & COMMODITIES

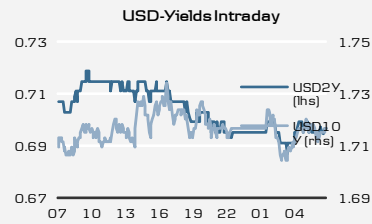


EUR	17:00	07:30	+/-
USD	114.06	114.10	↑ 0.04
JPY	123.66	123.13	↓ -0.53
GBP	80.76	80.68	↓ -0.07
NOK	936.25	938.06	↑ 1.81
SEK	927.97	929.90	↑ 1.93
DKK	744.10	744.15	↑ 0.05
PLN	429.04	429.26	↑ 0.22
USD	17:00	07:30	+/-
JPY	108.42	107.91	↓ -0.51
GBP	141.23	141.42	↑ 0.19
CHF	95.35	95.28	↓ -0.07

	Gold, \$	Oil, Brent, \$
07:30	1250.69	42.06
1 day	↑ 11.35	↑ 0.12
1 month	↓ -0.01	↑ 167
Year-t-date	↑ 189.27	↑ 4.78
	CRB 1M future	CRB, Raw Industrials
07:30	171.04	446.99
1 day	↑ 4.20	↑ 8.14
1 month	↓ -2.48	↑ 17.88
Year-t-date	↓ -5.10	↑ 42.28

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

YIELDS & INTEREST RATES

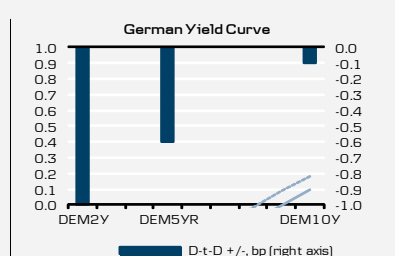
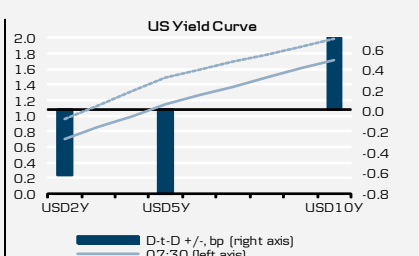
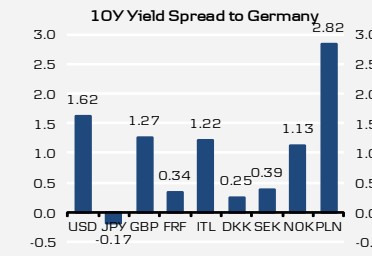


	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.00	-0.25	-25
GBP	0.50	0.59	9
DKK	0.05	-0.10	-15
SEK	-0.50	-0.44	6
NOK	0.50	1.01	51
PLN	1.50	1.57	7

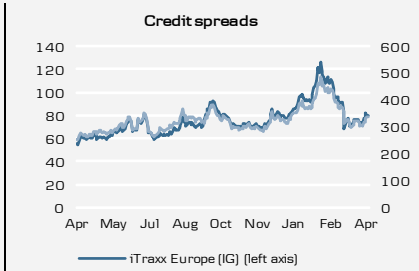
	17:00	07:30	+/-, bp
USD 10Y	1.73	1.72	↓ -2
USD 30Y	2.57	2.55	↓ -1
JPY 10Y	-0.08	-0.08	↓ 0
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.10	0.10	↑ 1
DKK 10Y	0.36	0.35	↓ -1
SEK 10Y	0.48	0.49	↑ 1
NOK 10Y	1.22	1.22	↓ 0
PLN 10Y	2.96	2.92	↓ -4

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

* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	80	↓ 0	↑ 11
HiVol	86	↑ 0	↓ -9
Xover (N-IG)	337	↑ 0	↑ 23
Finan. Sr.	102	↓ 0	↑ 25
Finan. Sub.	240	↓ 0	↑ 68
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-13	-11	↑ 2
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	40	41	↑ 1
SEK 10Y	48	49	↑ 1
NOK 10Y	63	61	↓ -2

* Ask price

* 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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