

17 February 2016

Danske Daily

Market Movers

- Today we get the [minutes from the FOMC meeting of 26-27 January](#). This will give us a broader insight into the different views of the FOMC members. It could attract some attention as Yellen's testimony was more or less just a repetition of the January FOMC statement. However, since the meeting, uncertainty in financial markets and the risk of a systemic crisis have both increased which, in our view, should keep the Fed on hold until the September meeting. See also [Research US: Fed on hold - uncertainty set to keep Fed sidelined](#), 12 February 2016.
- US manufacturing production and capacity utilisation for January are due today and will also attract attention given the current weakness in manufacturing indicators like ISM. Finally, housing starts and permits are due for release.
- The UK labour market report for December is likely to show that the market continued to tighten. We forecast that the unemployment rate (3M) fell to 5.0% from 5.1%. We estimate that the annual growth rate in average weekly earnings excluding bonuses (3M) (AWE) was unchanged at 1.9% y/y. Although AWE is quite volatile by nature, we think this was the bottom and expect the series to trend up again.
- Inflation expectations from Sweden are due out but are probably becoming less relevant. Government bond auctions will be held today in Sweden, Norway and Denmark. [See Scandi markets, page 2](#).

Selected Market News

Yesterday, oil ministers from Qatar, Russia, Saudi Arabia and Venezuela committed to freezing production at 11 January levels. The decision does not change the current oil market situation. Recent estimates suggest that both Russia and Saudi Arabia produced at levels close to a record high in January and the two leading oil producers have basically committed not to take any imminent action to reduce the current global overproduction of around 1.5m bpd. The announcement was a disappointment for the oil market and the price of Brent crude has dropped around USD 3 a barrel since the announcement.

The market is very much waiting for the ECB and Fed meetings in March and 'hoping' for a big policy move from the ECB and for the Fed to at least go on 'hold' for now. Last night Fed voting member Rosengreen said "Monetary policy will be responsive to incoming economic data...But if the outlook doesn't improve from its current state...the normalization of monetary policy should be unhurried, and wait for economic data to improve".

Early US economic data for February released yesterday showed a mixed picture. Empire manufacturing actually improved slightly to -16.54 from -19.37 in January and new orders also improved. It still points to a drop in activity but at a slower pace. In ISM terms this would translate into a 45 reading from the current 43. See graph [here](#). Housing data was a bit on the weak side.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1895.6	↑	1.65
S&P500 fut (chng from close)	1884.8	↓	-0.21
Nikkei	15811.5	↓	-1.51
Hang Seng	19015.9	↓	-0.56
	17:00	07:30	+/- bp
US 2y gov	0.70	0.70	↑ 0.2
US 10y gov	1.76	1.75	↓ -1.5
iTraxx Europe (IG)	114	114	↑ 0.6
iTraxx Xover (Non IG)	456	458	↑ 1.9
			+/- %
EUR/USD	1.115	1.117	↑ 0.14
USD/JPY	113.660	113.740	↑ 0.07
EUR/CHF	1.10	1.10	↑ 0.03
EUR/GBP	0.780	0.781	↑ 0.14
EUR/SEK	9.479	9.476	↓ -0.03
EUR/NOK	9.62	9.63	↑ 0.06
			USD
Oil Brent, USD	32.3	32.4	↑ 0.31
Gold, USD	1215.6	1207.2	↓ -0.69

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

- [Flash comment UK](#): Inflation remains low

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Scandi Markets

The Riksbank's (monthly) inflation survey of money market players is released today at 08:00 CET. Last month 2-year inflation (CPI) expectations held stable at 1.6% (from 0.1% currently) and rose marginally to 1.9% over a 5-year horizon. Over the same time frame, the repo rate was expected to increase (from -0.5% currently) to 1.9% in five years. The combination appears completely illogical given the strong impact of short-term rates on Swedish CPI. In fact, a 240 bp rate hike over a 5-year horizon resulting in a CPI inflation rate at 1.9% would imply an inflation rate excluding mortgage interest rates (i.e. CPIF) at almost -1%, in which case the Riksbank would hardly have hiked rates in the meantime. Our point is that the survey result doesn't make sense and we have indications that the Riksbank has observed this.

Norway, Sweden and Denmark hold government bond auctions today. See more below.

Fixed Income Markets

We have a string of auctions from Denmark, Sweden, Norway and Germany with the bulk of the issuance in the long end of the curves - so plenty of risk coming to the market. Denmark is tapping in the 2Y benchmark as well as the old 30Y benchmark bond. We recommend buying the long bond as we see room for more flattening. Regarding the 2Y bond, there are better alternatives in the Danish noncallable covered bonds - see more here bit.ly/1KV3Xk5.

Norway is launching a new 10Y benchmark. We expect to see good demand given a wide spread to Germany. However, as this will be a new benchmark, there will be plenty of issuance in the coming months, so we do not expect pricing to be expensive. See more here bit.ly/1Wqr5rj.

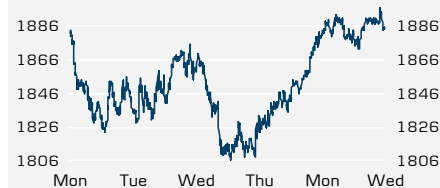
Sweden is tapping in the old 10Y and the 15Y segments, and finally Germany is tapping in the new Bund. With rates low and a need for hedging, the Bund auction is likely to see a low bid-to-cover as has been the norm in 2016.

FX Markets

In FX markets focus today will turn to the USD amid a very packed US calendar, not least ending with the release of the January FOMC minutes. As market sentiment has tumbled further and US data weakened since the January meeting, one could argue that the information that we receive tonight is outdated. Yet markets will look for signs and comments in the minutes that could justify the significant re-pricing of Fed monetary policy over recent weeks: despite higher US rates in recent days, markets still price less than a 50% probability of a 2016 Fed hike and the first full Fed hike is first priced in Q4 2017!

The latest IMM positioning data shows that aggregate USD positioning is no longer stretched long – for only the second week since August 2014. According to our models this suggests that the greenback's sensitivity to higher short-term US rates has increased. Should tonight's minutes confirm that the FOMC is far more divided than appeared in December, markets should deem the latest USD weakening as fair. If, on the contrary, the 'Phillips curve' way of thinking holds, markets could well send the DXY index markedly higher short-term. For EUR/USD, the effect of a stronger USD would be partially countered by a stronger EUR, via the single currency's status as a preferred funding currency.

US S&P500 future



Source: Danske Bank Markets

US 10y gov yield



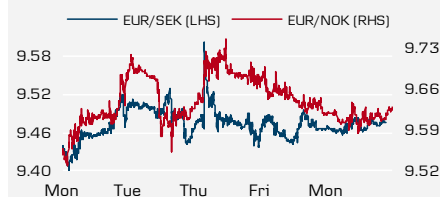
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

Wednesday, February 17, 2016			Period	Danske Bank	Consensus	Previous
0:50	JPY	Machine orders	m/m y/y		4.7% -2.8%	-14.4% 1.2%
1:00	USD	Fed's Rosengren (voter, dovish) speaks				
8:00	SEK	Prospera inflation expectations				
10:30	GBP	ILO Unemployment rate	%	Dec	5.0%	5.0%
10:30	GBP	Average weekly earnings ex bonus (3M)	y/y	Dec	1.9%	1.8%
10:30	GBP	Average weekly earnings (3M)	y/y	Dec		1.9%
13:00	USD	MBA Mortgage Applications	%			2.0%
14:30	USD	Housing starts	1000 (m/m)	Jan		9.3%
14:30	USD	Building permits	1000 (m/m)	Jan		1170
14:30	USD	PPI	m/m y/y	Jan		1200
14:30	USD	PPI core	m/m y/y	Jan		1149.0 [-2.5%]
15:15	USD	Capacity utilization	%	Jan		1204.0 [-6.1%]
15:15	USD	Industrial production	m/m	Jan		-0.2% -0.6%
15:15	USD	Manufacturing production	m/m	Jan		0.1% 0.4%
20:00	USD	FOMC minutes from January meeting				0.1% 0.3%
						76.7%
						76.5%
						0.3%
						-0.4%
						0.2%
						-0.1%

Source: Bloomberg, Danske Bank Markets

Today's market data: 17 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2709	↓	-0.5%
OMXC20	895	↓	-1.2%
OMXS30	1328	↓	-0.6%
OSE BX	532	↓	-1.3%
	Close		+/-
DOW JONES	16196	↑	14%
NASDAQ	4436	↑	2.3%
S&P500	1896	↑	1.7%
NIKKEI (07:30)	15811	↓	-0.5%

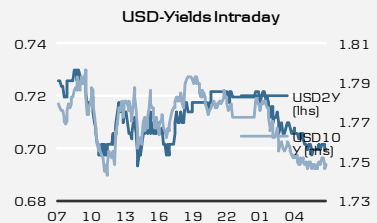
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	111.49	111.65	↑ 0.16
JPY	126.72	126.99	↑ 0.27
GBP	77.98	78.09	↑ 0.11
NOK	962.21	962.78	↑ 0.57
SEK	947.88	947.64	↓ -0.24
DKK	746.45	746.44	↓ -0.01
PLN	440.96	440.97	↑ 0.01
USD	17:00	07:30	+/-
JPY	113.66	113.74	↑ 0.08
GBP	142.98	142.98	0.00
CHF	98.77	98.66	↓ -0.11

	07:30	1day	1month	Year-t-date	Gold, \$	Oil, Brent, \$
	1207.18	↑	118.30	↑	32.37	0.19
	145.76	↓			3.43	-4.91
					CRB	CRB, Raw
					158.87	420.66
					1M future	Industrials
					-150	-1.23
					-1.07	12.84
					-17.28	15.95

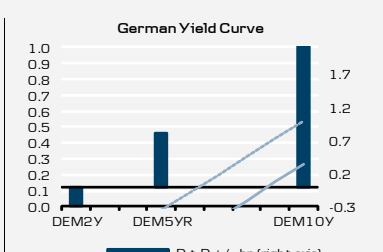
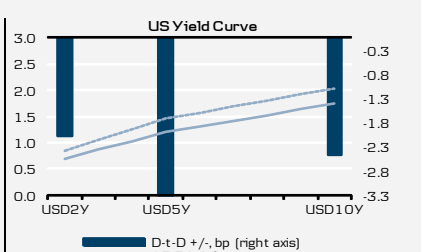
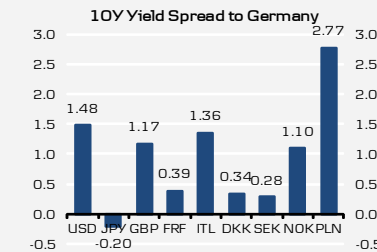
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.19	-24
GBP	0.50	0.59	9
DKK	0.05	-0.09	-14
SEK	-0.35	-0.44	-9
NOK	0.75	1.08	33
PLN	1.50	1.59	9

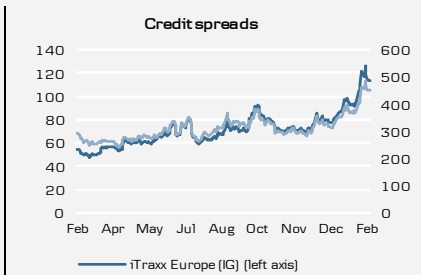
	17:00	07:30	+/-, bp
USD 10Y	1.76	1.75	↓ -2
USD 30Y	2.63	2.61	↓ -2
JPY 10Y	0.03	0.07	↑ 4
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.25	0.26	↑ 1
DKK 10Y	0.61	0.59	↓ -2
SEK 10Y	0.52	0.54	↑ 3
NOK 10Y	1.36	1.36	0
PLN 10Y	3.05	3.04	↓ -1

* As of closing previous trading day



	Credit spread, iTraxx s. 11*
	07:30 1day 1month
Europe (IG)	114 ↑ 0 ↑ 17
HiVol	141 ↑ 0 ↑ 8
Xover (N-IG)	458 ↓ 0 ↑ 68
Finan. Sr.	123 ↑ 0 ↑ 32
Finan. Sub.	295 ↑ 2 ↑ 95
Non-finan.	

* Ask price



	Swap Spread, bp**
	17:00 07:30 +/-
USD 10Y	
JPY 10Y	-15 -15 ↑ 1
	07:30(-1)* 17:00 +/-
EUR 10Y	0 17 ↑ 17
DKK 10Y	38 37 ↓ -1
SEK 10Y	42 43 ↑ 1
NOK 10Y	70 68 ↓ -2

* 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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