

24 February 2016

# Danske Daily

## Market Movers

- There are no significant economic releases for the **euro area** today apart from France consumer confidence.
- In the **US** non-manufacturing PMI is due for release. In terms of the housing market, new home sales numbers are released and we look for a decline to 513,000.

## Selected Market News

**Global risk sentiment continues to be fragile with another drop in Asian equities overnight.** The Nikkei index fell 1.1%, while the Chinese Shenzhen index is down 1.3% and the Hang Seng index declined 1.8%. US equities also declined yesterday with the Dow Jones falling 1.1%. The JPY strengthened further against the USD. The sour sentiment follows weak economic numbers released in the US and Europe, which again raises the question of the strength of global demand: US consumer confidence was weaker than expected and the German IFO number fell short of expectations. The weakness in global demand draws attention to this weekend's meeting of G20 finance ministers and central bank chiefs and whether they will signal a willingness to support the world economy in some form (for further discussion, see *Danske Bank: Market Turmoil, Policy Responses and Market Implications*), 12 February 2016.

**The further fall in the oil price also continues to weigh on global risk sentiment.** Brent crude oil retreated 1.4% overnight to USD32.81 per barrel. The oil price remains under pressure after Iran's oil minister yesterday called a proposal by Saudi Arabia and Russia to freeze oil production 'ridiculous'. We think this shows the difficulties of OPEC countries finding a common line on cutting back on production to stimulate the oil price, see *Strategy: Saudi-Russian oil output freeze no game changer*. Other commodity prices also fell (copper and aluminium down 1% and 1.65%, respectively) with gold the only exception.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	1921.3	↓	-1.25
S&P500 fut (chng from close)	1910.0	↓	-0.32
Nikkei	15885.3	↓	-1.04
Hang Seng	19107.3	↓	-1.58
	17:00	07:30	+/- bp
US 2y gov	0.73	0.74	↑ 1.0
US 10y gov	1.73	1.72	↓ -1.2
iTraxx Europe (IG)	108	108	↑ 0.5
iTraxx Xover (Non IG)	427	430	↑ 2.6
			+/- %
EUR/USD	1.104	1.102	↓ -0.18
USD/JPY	112.020	111.730	↓ -0.26
EUR/CHF	1.09	1.09	↑ 0.12
EUR/GBP	0.782	0.789	↑ 0.79
EUR/SEK	9.357	9.353	↓ -0.05
EUR/NOK	9.48	9.48	↓ -0.02
			USD
Oil Brent, USD	33.2	32.7	↓ -1.51
Gold, USD	1226.2	1227.5	↑ 0.11

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

- *US manufacturing woes set to continue*
- *Scandi Markets Ahead*

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## Scandi Markets

**Norway.** The most important release of the week, if not the quarter, is the February oil investment survey today at 10:00 CET. In November the oil companies revised down their estimates for 2016 quite considerably, probably as a result of the oil price falling further from around USD50/bl to close to USD40/bl. As the price has since dropped again to around USD33/bl, there is a significant risk of their estimates coming down further. We reckon exploration activity in particular will be hit by the latest price slide and so expect the industry's investment estimate to be cut to NOK165bn, which is NOK5bn lower than in November. This would translate into a decrease in oil investment this year of around 14%, which is more than the 11% Norges Bank assumed in its December monetary policy report. We do believe, however, that the chances of a serious downward revision are relatively small, given that there is little to suggest any notable change in the investment estimate for the Johan Sverdrup field. As oil investment continues to decline, so, presumably, will activity in the supply sector, but it is entirely possible that the sector will cope with prices in the 30s far better than many – including us – had feared. We also get December unemployment figures from Statistics Norway. In line with consensus, we expect the unemployment rate to stay unchanged at 4.6%. In addition, we will have a closer look at the employment figures, to see if the weakening trend towards year-end continued into 2016.

**Sweden.** Only a few months ago there was a lot of discussion about migration having a devastating effect on Swedish state finances. Judging by recent media reports and comments by banks in Sweden, this is no longer the case. Most banks now appear to expect a reduction of the debt office's projection of the 2016-2017 borrowing requirements as the new forecast is released today. Admittedly, we have seen several months of tax revenues exceeding forecasts of late. From a market perspective, the most interesting issue is whether the debt office makes any adjustments to the planned gross supply of nominal bonds (according to the latest forecast SEK88bn per year in 2016 and 2017). We think not. First, we do not expect adjustments of the total (net) borrowing requirement to be significant enough to justify a changed supply. Secondly, given that the Riksbank is set to continue its weekly purchases of nominal bonds at least through June, we would guess that the debt office would want to avoid scaling back supply, risking negative effects on market liquidity.

## Fixed Income Markets

The Portuguese debt office released new forecasts for the borrowing requirement and issuance of PGBs for 2016. The borrowing requirement is raised as the overall budget deficit increases, but the debt office has been able to fund EUR1.7bn through its EMTN-programme as well as EUR0.7bn in retail and other debt and to pay IMF EUR2.0bn, which shows a combination of access to funding as well as a strong cash position. On top of this, it announced a buyback in the 1Y, 2Y and 3Y benchmarks for February 25. This is very supportive for the front end and will keep the curve steep, such that investors who buy the 5Y bonds will enjoy a significant roll-down on the curve. Even though the front-end PGBs rallied on the news, there is still plenty of value in e.g. the 2Y segment.

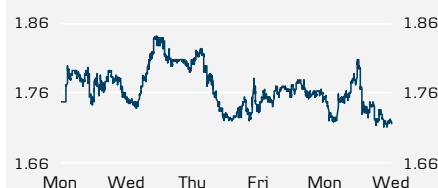
In terms of issuance, Germany is tapping EUR1bn in the old 30Y benchmark. We do not expect to see a strong demand for this segment. Italy is tapping up to EUR1bn in the 15Y linkers. Finally, the Italian debt office announced the terms for the BTPS auction on Friday. Here it will launch a new 10Y benchmark (this was expected). It plans to sell up to EUR4bn. Furthermore, there are taps in the 5Y BTPS and 7Y CCTeu for up to EUR2.25bn and EUR2bn, respectively.

### US S&P500 future



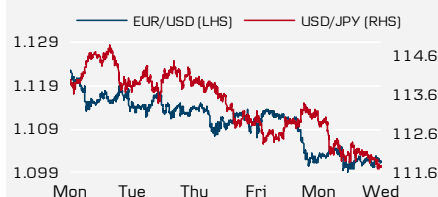
Source: Danske Bank Markets

### US 10y gov yield



Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

## FX Markets

Today focus will be on the Norwegian oil investment survey, which could come out on the weak side and send EUR/NOK higher yet again. EUR crosses generally moved lower yesterday, seeing EUR/USD breaking the 1.10 level for the first time since early February. Notably, EUR/CHF also continued its recent trend lower despite market pricing of SNB rate cuts becoming even more aggressive. A speech from SNB's Jordan yesterday regarding the impact of negative rates in fact suggests to us that the SNB remains reluctant to cut rates further even if ECB goes for more: while negative rates have been necessary in a range of countries in order to fight deflation and, in the Swiss case, to restore the required negative interest-rate differential to the eurozone, Jordan stressed that there are limits as to how low rates can go without negative consequences and that the transmission to the non-financial private sector has been far from perfect. We maintain that despite the aggressive pricing on SNB (25bp rate cut priced in 3-6M) that SNB will stay put if we are right in ECB going for a mere 10bp in March. This would clearly send EUR/CHF lower but provided EUR/CHF stays above, say, 1.075, we think SNB will prefer to stick to intervention to go against the resulting CHF appreciation pressure and not cut rates in March, see *FX Forecast Update*, 17 February 2016 for details.

### Key figures and events

Wednesday, February 24, 2016				Period	Danske Bank	Consensus	Previous
6:00	JPY	Leading economic index, final	Index	Dec			102.0
6:00	JPY	Small business confidence	Index	Feb		47.1	47.2
8:45	FRF	Consumer confidence	Index	Feb		97.0	97.0
9:30	SEK	Debt Office releases new 2016-2017 borrowing projection					
10:00	NOK	Statistics Norway releases Q1 oil investment survey	NOK bn		165		
10:00	NOK	Unemployment (LFS)	%	Dec		4.6%	4.6%
13:00	USD	MBA Mortgage Applications	%				8.2%
15:45	USD	Markit service PMI, preliminary	Index	Feb		53.6	53.2
15:45	USD	Markit composite PMI, preliminary	Index	Feb			53.2
16:00	USD	New home sales	1000 (m/m)	Jan	513 (-5.8%)	520	544.0 (10.8%)
16:30	USD	DOE U.S. crude oil inventories	K				2147
19:15	USD	Fed's Kaplan (non-voter, unknown) speaks					

Source: Bloomberg, Danske Bank Markets

Today's market data: 24 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2745	↓	-1.4%
OMXC20	940	↑	0.6%
OMXS30	1367	↓	-1.4%
OSE BX	562	↓	-0.5%
<b>Close +/-</b>			
DOW JONES	16432	↓	-1.1%
NASDAQ	4504	↓	-1.5%
S&P500	1921	↓	-1.2%
NIKKEI (07:30)	16885	↓	-1.4%

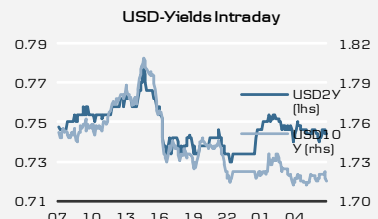
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	110.35	110.15	↓ -0.20
JPY	123.61	123.07	↓ -0.54
GBP	78.24	78.86	↑ 0.62
NOK	948.45	948.24	↓ -0.21
SEK	935.74	935.26	↓ -0.48
DKK	746.23	746.24	↑ 0.01
PLN	437.92	438.69	↑ 0.77
<b>USD</b>			
JPY	112.02	111.73	↓ -0.29
GBP	141.04	139.69	↓ -1.35
CHF	99.02	99.32	↑ 0.30

	07:30		Oil, Brent, \$
Gold, \$	1227.49		32.72
1 day	↑	1.89	↓ -0.55
1 month	↑	129.49	↑ 0.54
Year-t-date	↑	166.07	↓ -4.56
<b>CRB</b>			
1M future	160.44		42179
1 day	↓	-2.20	↓ -0.39
1 month	↓	-3.37	↑ 10.77
Year-t-date	↓	-15.71	↑ 17.08

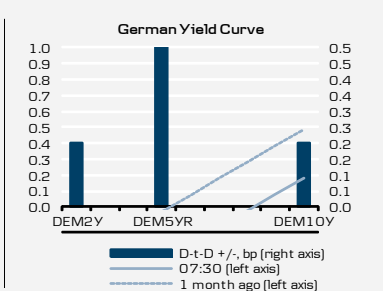
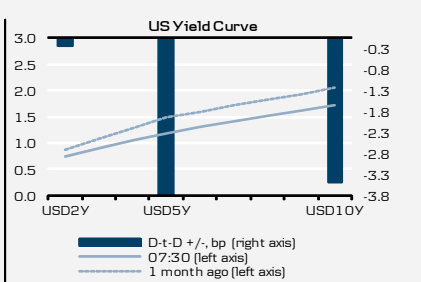
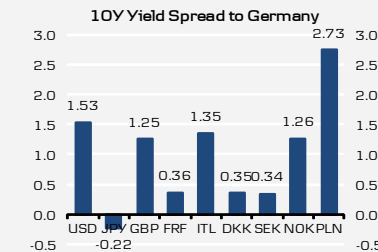
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.20	-25
GBP	0.50	0.59	9
DKK	0.05	-0.08	-13
SEK	-0.50	-0.48	2
NOK	0.75	1.08	33
PLN	1.50	1.58	8

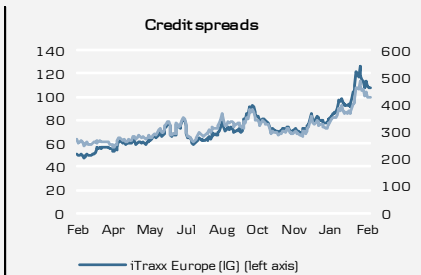
	17:00	07:30	+/-, bp
USD 10Y	1.73	1.72	↓ -1
USD 30Y	2.58	2.58	↓ -1
JPY 10Y	0.00	-0.04	↓ -4
<b>07:30(-1)* 17:00 +/-, bp</b>			
DEM 10Y	0.18	0.18	↓ 0
DKK 10Y	0.56	0.53	↓ -3
SEK 10Y	0.50	0.52	↑ 2
NOK 10Y	1.45	1.45	↑ 0
PLN 10Y	2.95	2.91	↓ -4

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	108	↑ 0	↑ 14
HiVol	136	↑ 0	↑ 2
Xover (N-IG)	430	↑ 1	↑ 52
<b>Finan. Sr.</b>			
Finan. Sub.	119	↑ 0	↑ 28
Non-finan.	262	↓ 0	↑ 64

\* Ask price



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-14	-15	↓ -2
<b>07:30(-1)* 17:00 +/-</b>			
EUR 10Y	0	14	↑ 14
DKK 10Y	38	38	↑ 0
SEK 10Y	41	41	↓ 0
NOK 10Y	67	65	↓ -2

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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