

25 February 2016

Danske Daily

Market Movers

- In the **euro area**, we get M3 money supply and bank lending figures. Growth in M3 has started to slow a bit in the past months, which might indicate that economic growth will slow in the latter part of H2 16. The bank lending figures could also attract some attention in light of the current focus on bank credit. We saw some weakness in lending growth in December but as the figure can be quite volatile, we suggest awaiting this number before drawing any conclusions.
- In the **UK**, we do not expect any revisions to overall GDP growth in Q4 in the second release to be released today, i.e. we expect an unchanged print of 0.5% q/q. However, it is the first time the subcomponents from the expenditure side are published and we expect them to show that private consumption was still the main growth driver.
- In the **US**, we will get January data on durable goods orders. The weakness in durable goods demand has been a major factor behind the downturn in the US manufacturing sector and a turn in demand would be very much welcomed.
- St. Louis Fed President Bullard speaks today. Last week he made a very dovish impression, stating that he thinks it is unwise to proceed with the hiking cycle when inflation expectations continue to decline.

Selected Market News

Market movements have been scattered overnight. The US equity market reversed early losses and finished in the plus after the oil price stabilised. Most Asian stock markets are posting similar gains this morning, notably the Japanese Nikkei index, which is up 1.5% following reports that the government is considering an increase in spending to support economic growth. The JPY is weakening against the USD as a sign of better risk sentiment. *However*, the Chinese stock market fell sharply by 3%, the most in a month. With no major economic news out China today, investors appear to be concerned that recent gains may be overdone relative to an uncertain economic outlook. In the UK, a Bloomberg survey showed said that there is a 40% probability of an economic recession should a Brexit happen (for more coverage, see The UK's EU Referendum – Brexit – what if?), 22 February 2016.

The uneven market developments seem to reflect uncertainty about the fundamental strength of the world economy. Last night, the IMF called for the G20 meeting in Shanghai this weekend to come up with 'a strong policy response, both national and multilateral, including from the G20' if downside risks materialise given concerns about slowing global economic growth due to the global impact of China's transition to more balanced growth and signs of distress in emerging markets. IMF calls for both fiscal policies (where there is fiscal space) and balance sheet repair in the financial sector as well as preparedness of a coordinated G20 plan. However, US treasury secretary Lew sounded less alarmed yesterday about the global economic outlook, saying 'this is a moment where you've got real economies doing better than markets think in some cases' and that markets should not 'expect a crisis response in a non-crisis environment' ahead of the G20 meeting.

Market overview

	07:30	1 day +/- %
S&P500 (close)	1929.8	↑ 0.44
S&P500 fut (chng from close)	1932.5	↑ 0.12
Nikkei	16178.0	↑ 1.65
Hang Seng	18991.9	↓ -1.04
	17:00	07:30 +/- bp
US 2y gov	0.71	0.75 ↑ 3.9
US 10y gov	1.67	1.73 ↑ 6.5
iTraxx Europe (IG)	110	111 ↑ 0.8
iTraxx Xover (Non IG)	443	446 ↑ 2.5
		+/- %
EUR/USD	1.104	1.103 ↓ -0.03
USD/JPY	111.170	112.400 ↑ 1.11
EUR/CHF	1.09	1.09 ↑ 0.23
EUR/GBP	0.791	0.792 ↑ 0.15
EUR/SEK	9.350	9.353 ↑ 0.04
EUR/NOK	9.56	9.56 ↓ -0.05
Oil Brent, USD	33.0	34.6 ↑ 4.88
Gold, USD	1247.8	1235.2 ↓ -1.01

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

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Scandi Markets

A lot of **Swedish** data out this morning. NIER confidence for February is expected to show continued decline – if anything – in consumer confidence and also slowing inflation expectations, both in line with previous trend. Business confidence is more split with manufacturing surging past months while other sectors, construction, retail trade and private services all showing a tendency to peak. But there is also data on trade balance, household lending and PPI not least where focus will be on import prices (a key aspect of Riksbank's inflation take). Moreover, the budget management authority (ESV) releases January budget outcome, possibly a cross check on SNDO's figures and forecast released yesterday.

Fixed Income Markets

For most of 2016, the EUR fixed income rally has been very front-end driven with 2Y rates being pushed to new record-low levels on continued ECB deposit cut expectations and with curves keeping a steep shape. However, for the past weeks the short tenors have sidelined with longer tenors continuing down bull flattening the curve. In particular this week the curve flattening has been pronounced and 30Y swap rates thus stand at levels only seen in March and April last year before the big sell-off. In German bonds we are thus getting closer to 'return-free-assets' as curve flattening is removing return from roll-down and with duration risk still intact we recommend to be very cautious with outright longs in longer segments at these levels.

FX Markets

With a light calendar topped by US durable goods orders, FX markets will look ahead to the G20 meeting tomorrow, albeit any hopes for a coordinated policy response should probably be kept at bay.

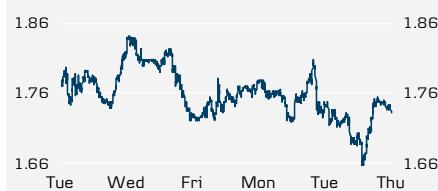
Following the weak Norwegian oil investment survey yesterday, we look for more NOK weakness near term - not least as a Norges Bank (NB) March cut is not fully priced. NB has indicated that monetary policy is the first line of defence against weaker growth and that a weak currency is a crucial part of the economy's transition phase. We expect NB to cut rates in March and with EUR/NOK highly sensitive to risk appetite we expect this to weigh on the NOK. Indeed, the latest risk rally is characterised by 'relief' rather than 'fundamentals', leaving a high likelihood of a correction soon. We do not expect the oil price to rally short term amid the global supply glut and as we consider recent OPEC comments to be 'cheap talk'. Also, NB's weekly flow data show short NOK positioning is less stretched.

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

Thursday, February 25, 2016				Period	Danske Bank	Consensus	Previous
1:00	USD	Fed's Bullard (voter, hawkish) speaks					
8:00	DEM	HICP inflation, final	m/m y/y	Jan			-1.0% 0.4%
8:00	DEM	GfK consumer confidence	Net. Bal.	Mar		9.3	9.4
9:00	ESP	GDP, final	q/q y/y	4th quarter		0.8% 3.5%	0.8% 3.5%
9:00	SEK	Consumer confidence	Index	Feb		96.8	97.5
9:00	SEK	Economic Tendency Survey	Index	Feb		109.1	111.9
9:00	SEK	Manufacturing confidence	Index	Feb	115	115	120.8
9:30	SEK	Household lending	y/y	Jan			7.5%
9:30	SEK	Trade balance	SEK bn	Jan	2.0	1.0	4.7
9:30	SEK	PPI	m/m y/y	Jan			-0.7% -1.9%
10:00	EUR	Money supply (M3)	y/y	Jan	4.5%	4.7%	4.7%
10:00	ITL	Business confidence	Index	Feb			103.2
10:30	GBP	GDP, second release	q/q y/y	4th quarter	0.5% 1.9%	0.5% 1.9%	0.5% 1.9%
10:30	GBP	Index of services	m/m 3m/3m	Dec		0.003 0.007	0.002 0.006
11:00	EUR	HICP inflation	m/m y/y	Jan		-1.4% 0.4%	0.0% 0.2%
11:00	EUR	HICP - core inflation, final	%	Jan		1.0%	1.0%
14:15	USD	Fed's Lockhart (non.voter, neutral) speaks					
14:30	USD	Capital goods orders, non-defense ex air, preliminary	%	Jan		1.0%	-4.3%
14:30	USD	Durable goods orders, preliminary	m/m	Jan		2.5%	-5.0%
14:30	USD	Initial jobless claims	1000				262
15:00	USD	FHFA house price index	m/m	Dec		0.5%	0.5%
18:00	USD	Fed's Williams (non-voter, neutral) speaks					
22:45	NZD	Trade balance	NZD M	Jan		-250	-53

Source: Bloomberg, Danske Bank Markets

Today's market data: 25 February 2016

STOCKS



	Close		+/-
DJSTOXX50	2683	↓	-2.3%
OMXC20	910	↓	-3.3%
OMXS30	1328	↓	-2.8%
OSE BX	545	↓	-2.9%
	Close		+/-
DOW JONES	16485	↑	0.3%
NASDAQ	4543	↑	0.9%
S&P500	1930	↑	0.4%
NIKKEI (07:30)	16178	↓	-2.3%

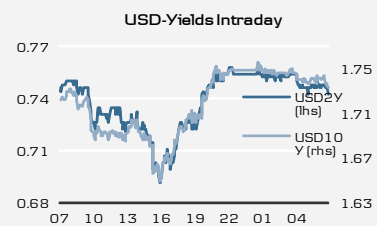
FX & COMMODITIES



	17:00	07:30	+/-
EUR			
USD	110.37	110.34	↓ -0.03
JPY	122.69	124.02	↑ 1.33
GBP	79.08	79.20	↑ 0.12
NOK	956.02	955.56	↓ -0.46
SEK	934.96	935.29	↑ 0.33
DKK	746.23	746.29	↑ 0.06
PLN	438.44	437.10	↓ -1.34
USD			
JPY	111.17	112.40	↑ 1.23
GBP	139.55	139.32	↓ -0.23
CHF	98.58	98.84	↑ 0.26

	07:30		+/-
Gold, \$			
1235.20			
1 day	↑	6.45	↑ 0.19
1 month	↑	127.24	↑ 4.10
Year-t-date	↑	173.78	↓ -2.68
	07:30		+/-
Oil, Brent, \$			
34.60			
1 day	↑	0.19	↑ 0.19
1 month	↑	4.10	↑ 4.10
Year-t-date	↓	-2.68	↓ -2.68
	07:30		+/-
CRB, Raw Industrials			
422.40			
1 day	↑	0.61	↑ 0.61
1 month	↑	11.38	↑ 11.38
Year-t-date	↓	17.69	↓ 17.69

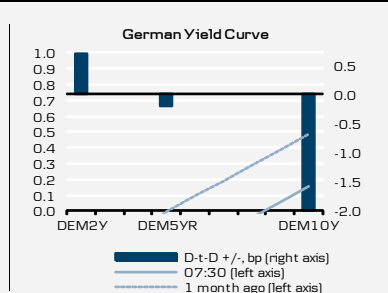
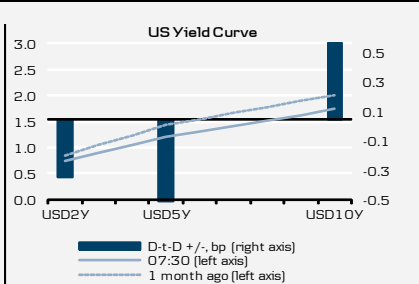
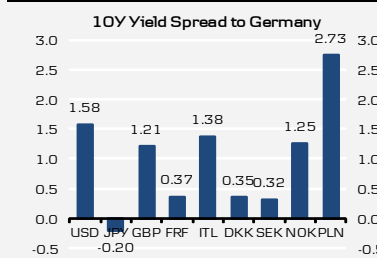
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.05	-0.20	-25
GBP	0.50	0.59	9
DKK	0.05	-0.08	-13
SEK	-0.50	-0.49	1
NOK	0.75	1.07	32
PLN	1.50	1.58	8

	17:00	07:30	+/-, bp
USD 10Y	1.67	1.73	↑ 7
USD 30Y	2.53	2.60	↑ 6
JPY 10Y	-0.06	-0.05	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.17	0.15	↓ -3
DKK 10Y	0.56	0.50	↓ -6
SEK 10Y	0.54	0.47	↓ -7
NOK 10Y	1.41	1.41	0
PLN 10Y	2.92	2.89	↓ -3

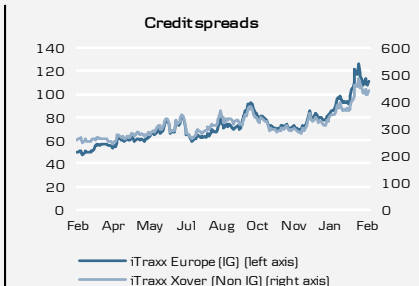
* As of closing previous trading day



Credit spread, iTraxx s. 11*

	07:30	1 day	1 month
Europe (IG)	111	↑ 0	↑ 17
HiVol	137	↑ 0	↑ 3
Xover (N-IG)	446	↑ 1	↑ 69
Finan. Sr.	124	↑ 1	↑ 33
Finan. Sub.	276	↑ 2	↑ 75
Non-finan.			

* Ask price



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-15	-15	↑ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0	16	↑ 16
DKK 10Y	37	38	↑ 1
SEK 10Y	40	43	↑ 3
NOK 10Y	65	63	↓ -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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