

# Danske Daily

## Market Movers

- **Global risk sentiment** will be under pressure from the tension in the Middle East and sharp fall in stock markets in Asia overnight.
- In the **euro area**, Italian and Spanish manufacturing and service PMIs are due today. The Italian figures have stabilised at levels not seen since 2011, suggesting GDP growth should strengthen. In Spain, PMIs undershot actual GDP growth in Q3 but the composite PMI new orders index, which is a good leading indicator for activity, improved in both October and November and suggests solid GDP growth of 0.8% q/q again in Q4.
- In the **US**, the ISM indices for December are due to be released later Today. ISM manufacturing in November declined to 48.6, the lowest level since June 2009 (see *Flash Comment: Weak ISM manufacturing in November puts Fed in difficult position*, 1 December 2015). We think it will rebound back to 50.0 in December. We think ISM non-manufacturing will stay in the range 55-57 in coming months, suggesting further growth in the sectors outside manufacturing (mainly services).
- See *Scandi markets*, page 2.

## Selected Market News

First of all, a happy 2016 to everyone. The new year has begun with tensions in the Middle East, where Saudi Arabia has cut its diplomatic ties with Iran after its embassy in Tehran was attacked by protesters. The upheaval comes after Saudi Arabia executed a prominent Shia Cleric, prompting sharp criticism from Iran. The execution has raised concerns about a regional power struggle. As a result, the **oil price** is about 2.5% higher this morning.

**Asian stock markets** are down over a broad front. In China, the CSI 300 index has fallen 7%, while the Nikkei 225 index has fallen 3%. Due to the sharp fall in the CSI index, trading has been halted on the Chinese stock exchange for the rest of the day. This is required by a so-called new circuit breaker system in place from today, which requires a halt in trading if the index falls by 7%. Apart from the tension in the Middle East, the fall in the stock indices was also prompted by relatively weak unofficial PMI numbers, which came out this morning. The Caixin China December manufacturing PMI index fell to 48.2 from 48.6 in November and was short of market expectations of 48.9. However, the official manufacturing PMI number, which came out on 1 January, rose slightly to 49.7 from 49.8. However, non-manufacturing PMI increased quite significantly to 54.4, underscoring our view that the rebalancing of the Chinese economy towards services and consumption growth is in full process.

The **euro** strengthened somewhat this morning on the back of the news in the Middle East while the offshore **renimbi** fell to a five-year low on the weak Chinese numbers.

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## Scandi Markets

In Norway and Sweden, PMI are due out today. The market will be looking for further strength in the Swedish PMI number, while markets will obviously focus on the higher oil price today and whether this is a start of a new trend should the tension in the Middle East continue.

## Fixed Income Markets

January is the high season when it comes to launching new bonds and the first syndicated deals are likely to hit us already this week. In our note '*EUR FI – Supply vs QE in 2016 zooming in on Q Issuance*', 1 January 2016, we take a detailed look at the January issue pattern. Ireland has been the first to launch a new bond in the past two years. Belgium also tends to be early with its new 10Y bond, while Portugal has been the first peripheral with a syndicated deal. Spain tends to come with a new 10Y via syndication in the third week of the year.

In the same note, we also go into detail on the euro area sovereign funding outlooks for 2016. We expect gross supply to decrease by 5-6% in 2016 versus 2015 and net issuance to decrease to around EUR175bn in 2016 from EUR214bn last year. The biggest decreases in supply are in Ireland, The Netherlands and Spain (our estimates). Supply is set to increase in Germany, Austria and Finland. In Ireland, QE purchases are set to be even higher than supply. Note also that the rating calendars for 2016 have been released and you can get the full overview in our note here: *FI Research: Rating calendar and outlook for 2016*, 1 January 2016.

Today, the main data points are German and Spanish CPI data and in the US session, ISM manufacturing. The divergent monetary policy will be in focus in Q1 as speculation on additional easing from the ECB and the hiking pace in the US remain key market drivers.

## FX Markets

As a relatively uneventful holiday period draws to a close, focus in the FX market will return to the impulses that investors are expecting central bankers to deliver in 2016. In 2015, the consensus FX trade of the year was to be short EUR/USD, which proved correct, albeit mainly in the first three months of the year. We think EUR/USD will stay range-bound in coming months, then stage a rebound towards 1.16 in 12M.

In the Scandi markets, Riksbank governor Ingves stole the attention as just before New Year, he reiterated worries regarding SEK strength and explicitly warned that the Riksbank may have to resort to FX intervention should the level of the SEK endanger the inflation outlook. These comments briefly sent EUR/EK back above 9.20. We note that the Riksbank's preferred exchange-rate measure, the KIX, was close to 2% below the central bank's Q1 16 forecast at the time of Ingves' intervention warning. In our view, the Riksbank worried about the pace of appreciation rather than about protecting certain levels or thresholds, but the late-2015 warning proves that it is not without risk to 'test the Riksbank' on this matter.

Separately, the quarterly COFER data from the IMF on FX reserves allocation revealed that reserve managers skipped low-yielding currencies such as JPY and EUR; USD and CHF were also shed in Q3 but less so than the former two. Reserve holdings in CAD, AUD and GBP rose. This confirms that the single currency has joined the yen as a preferred funding currency and thus helps explain the recent rise of the euro as a countercyclical currency that is boosted by souring risk appetite.

## Key figures and events

Monday, January 4, 2016					Period	Danske Bank	Consensus	Previous
2:35	JPY	Nikkei Manufacturing PMI, final	Index	Dec				52.5
2:45	CNY	Caixin Manufacturing PMI	Index	Dec			49.0	48.6
8:30	SEK	PMI manufacturing	Index	Dec				54.9
9:00	CHF	Total sight deposits	CHF bn					468.3
9:00	NOK	PMI manufacturing	Index	Dec				47.6
9:15	ESP	PMI manufacturing	Index	Dec		53.6	53.6	53.1
9:30	CHF	PMI manufacturing	Index	Dec			49.9	49.7
9:45	ITL	PMI manufacturing	Index	Dec		54.9	54.8	54.9
9:50	FRF	PMI manufacturing, final	Index	Dec		51.6	51.6	51.6
9:55	DEM	PMI manufacturing, final	Index	Dec		53.0	53.0	53.0
10:00	EUR	PMI manufacturing, final	Index	Dec		53.1	53.1	53.1
10:30	GBP	Mortgage approvals	1000	Nov			70.2	69.6
10:30	GBP	PMI manufacturing	Index	Dec		52.7	53.0	52.7
10:30	GBP	Broad money M4	m/mly/y	Nov				0.6% 0.2%
14:00	DEM	HICP, preliminary	m/mly/y	Dec		... 0.8%	0.2% 0.4%	0.1% 0.3%
15:45	USD	Markit manufacturing PMI, final	Index	Dec				51.3
15:45	EUR	ECB publishes monthly asset purchases						
16:00	USD	Construction spending	m/m	Nov			0.6%	1.0%
16:00	USD	ISM manufacturing	Index	Dec		50.0	49.5	48.6
16:00	USD	ISM prices paid	Index	Dec			36.0	35.5
23:30	USD	Fed's Williams (non-voter, neutral) speaks						

Source: Bloomberg, Danske Bank Markets

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