26 November 2015

Danske Daily

Market Movers

- With the US market closed due to Thanksgiving, today is set to be a relatively quiet day on the data front.
- At 10:00 CET, **EU money supply figures** (M3) for October are due to be released. We generally expect the recent strong growth to continue but are also waiting to see if the decline in growth in loans to non-financial corporations in September continues. This is one of the transmission mechanisms of the ECB's QE purchases and if the upward trend has reversed, this will be a concern for the ECB.
- Swedish trade balance data and financial market statistics are the highlights in Scandi space today. See *Scandi Markets*.

Selected Market News

Reports emerge on ECB easing options. European fixed income markets rallied and the EUR weakened yesterday amid reports on potential ECB measures to be announced at the key meeting on 3 December. The ECB seems likely to expand the scope of its QE programme by including a wider range of assets, potentially purchasing bonds issued by towns or regions, while even buying non-performing loans of banks' balances are said to have been considered, according to Reuters (*link*). Furthermore, a two-tiered deposit rate system is being discussed, whereby banks would be charged a different deposit rate depending on the level of excess liquidity deposited. This could allow a bigger deposit rate cut, while cushioning the impact on banks' profits. See the Fixed Income and FX sections on page 2 for further comments.

Quiet day in the US. Trading volume was low and the major stock indices were broadly unchanged, amid a flood of data which seemed to confirm the picture of a US economy growing at moderate pace and leaving expectations for a December Fed hike unchanged. Durable goods orders rose a healthy 3.0% in October, though much of the increase appeared driven by a rebound in aircraft orders. Initial jobless claims fell 12k to 260k, i.e. close to the cycle-low of 255k reached in July. New home sales rebounded by 10.7% in October, while the University of Michigan sentiment indicator was revised lower to 91.3 from the 93.1 flash estimate, presumably due to the impact of the Paris terrorist attack.

Asia stocks push higher amid signs of easing geopolitical tensions. Nato officials yesterday called for 'calm and de-escalation', while US President Obama agreed with Turkish President Erdogan on the importance of such an event not being repeated. This morning, the key Asia stock indices are all trading in green.

Market overview

		07:30		1 day +/-,%
S&P500 (close)		2088.9	↓	-0.01
S&P500 fut (chng from close)		2090.5	↑	0.11
Nikkei		19948.9	↑	0.51
Hang Seng		22670.5	↑	0.77
	17:00	07:30		+/-, bp
US 2y gov	0.94	0.93	↓	-0.4
US 10y gov	2.24	2.23	↓	-0.2
iTraxx Europe (IG)	71	71	↓	-0.1
iTraxx Xover (Non IG)	298	299	↑	0.5
				+/-, %
EUR/USD	1.061	1.062	↑	0.12
USD/JPY	122.850	122.560	↓	-0.24
EUR/CHF	1.09	1.09	↑	0.01
EUR/GBP	0.703	0.702	↓	-0.11
EUR/SEK	9.283	9.270	↓	-0.14
EUR/NOK	9.19	9.19	↓	-0.04
				USD
Oil Brent, USD	45.5	46.1	↑	1.36
Gold, USD	1072.4	1073.3	↑	0.08

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

- *China Comment: Takeaways from trip to Hong Kong and Beijing*

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Scandi Markets

Swedish household debt was a central theme in the Financial Stability report, which concluded that low interest rates and a supply versus demand mismatch have boosted asset prices in Sweden. We will probably see more of the same today when household lending figures for October are released. Separately, we expect trade balance for October to show a small surplus of 1.5bn. Finally, Ms Skingsley will talk monetary policy at 08:00 CET.

Fixed Income Markets

Wednesday's *Reuters story* added to market expectations of an aggressive ECB move. Roughly 16bp cut is now priced in for December and an accumulated 20bp cut is priced in over 12M. In the core markets 2Y to 5Y yields hit new all-time lows and in Italy the 5Y is just a couple of bp from the March low. In the periphery Portugal continues to recover with the 10Y yield dropping 10bp supported by a strong auction.

The Reuters story also included the interesting possibility of 'introducing a two-tier penalty charge on banks that park money with the ECB'. Denmark has this to mitigate the cost on the banking system. However, such a system including a wide corridor could lead to more volatility in the EONIA. Of course there are many variables here including the degree of fragmentation in the money market, the fraction that could be parked at the higher rate etc. For now the market verdict is that the preparation of such a move hints at the ECB being aggressive including more than a 10bp cut.

FX Markets

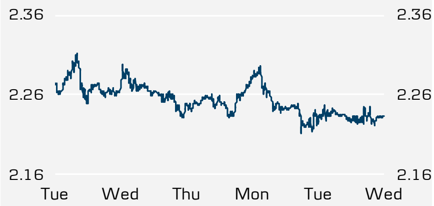
While yesterday's Reuters story of ECB considering a two-tier penalty charge drove broad-based EUR-weakness – amid markets speculating in more than a 10bp rate cut on 3 December – it also raises some uncertainties as to the possibilities of setups. In FX markets it is the marginal rate of interest that is of importance and consequently the effect on the EUR could be more ambiguous than what one at first could assume. Irrespectively, market expectations continue to build around the ECB meeting and with the front end pricing of 16bp worth of cuts for December the downside risk to EUR/USD has naturally become lower - especially given the stretched level of bearish bets. Our short-term financial model has 1.07 as the current fair value estimate for EUR/USD.

Norges Bank's FX transactions released yesterday showed that foreign banks (proxy for speculative flows) last week net bought the Norwegian currency worth NOK4.7bn, which from a historical perspective is considerable. From an overall perspective, however, speculative NOK positioning remains stretched short and consequently we expect short-covering to eventually constitute a NOK positive when the business cycle turns in 2016 and Norges Bank can signal no more need for rate cuts. According to our microstructure model on FX flows, the NOK is 4% cheaper than what a historical/statistical relationship suggests, thereby highlighting the rise in the NOK liquidity risk premium over the past year. Noteworthy, the liquidity premium seems to have diminished in recent weeks but we expect it to widen again in December when liquidity historically tends to worsen. Going forward we still see EUR/NOK risks as skewed to the upside.

US S&P500 future

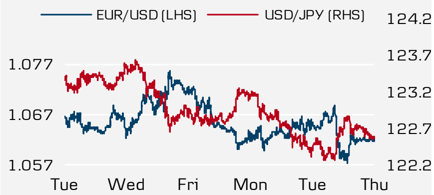
Source: Danske Bank Markets

US 10y gov yield



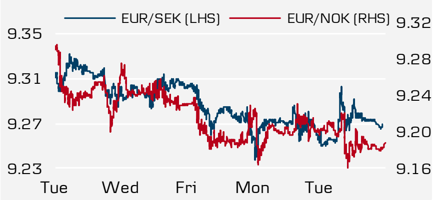
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

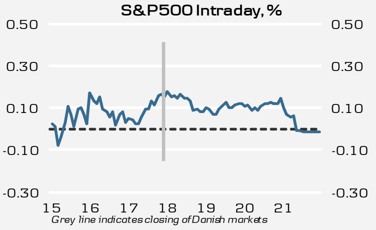
Thursday, November 26, 2015				Period	Danske Bank	*Consensus*	Previous
9:00	ESP	GDP, final	q/q|y/y	3rd quarter		*0.8%|3.4%*	0.8%|3.4%
9:30	SEK	Household lending	y/y	Oct	**7.4%**		7.3%
9:30	SEK	Trade balance	SEK bn	Oct	**1.5**		3.3
10:00	EUR	Money supply (M3)	y/y	Oct		*4.9%*	4.9%
13:00	DEM	GfK consumer confidence	Net. Bal.	Dec		*9.2*	9.4

Source: Bloomberg, Danske Bank Markets

Today's market data: 26 November 2015

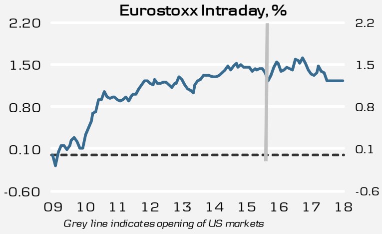
STOCKS

S&P500 Intraday, %



1month	↑	0.9%
Year-to-date	↑	1.5%

Eurostoxx Intraday, %



1month	↑	1.3%
Year-to-date	↑	8.7%

	Close		+/-
DJSTOXX50	3265	↑	1.2%
OMXC20	994	↑	1.4%
OMXS30	1507	↑	1.2%
OSE BX	624	↓	-0.1%

	Close		+/-
DOW JONES	17813	↑	0.0%
NASDAQ	5116	↑	0.3%
S&P500	2089	↓	0.0%
NIKKEI (07:30)	19949	↑	1.2%

FX & COMMODITIES

EUR/USD Intraday

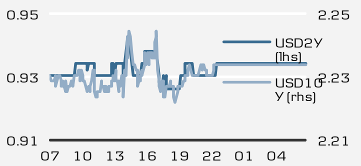
1month	↓	-4.36
Year-to-date	↓	-14.76

EUR	*17:00*	*07:30*		*+/-*
USD	106.09	106.22	↑	0.13
JPY	130.32	130.18	↓	-0.14
GBP	70.32	70.25	↓	-0.08
NOK	919.15	918.77	↓	-0.38
SEK	928.27	926.99	↓	-1.28
DKK	746.09	745.95	↓	-0.14
PLN	426.73	426.75	↑	0.02
USD	*17:00*	*07:30*		*+/-*
JPY	122.85	122.56	↓	-0.29
GBP	150.86	151.21	↑	0.35
CHF	102.32	102.21	↓	-0.11

		Gold, $		**Oil, Brent, $**
07:30		1073.31		46.14
1day	↑	2.15	↓	-0.03
1month	↓	-89.72	↓	-1.40
Year-t-date	↓	-111.55	↓	-11.19
		CRB 1M future		**CRB, Raw Industrials**
07:30		185.70		399.20
1day	↑	0.43	↑	1.89
1month	↓	-6.58	↓	-21.24
Year-t-date	↓	-44.26	↓	-92.91

YIELDS & INTEREST RATES

USD-Yields Intraday

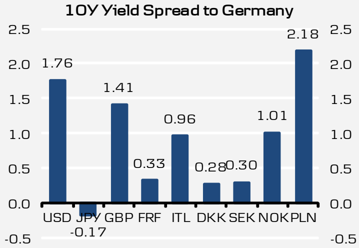


	Policy Rate	**3M**	**Spread, bp**
USD	0.25	0.40	15
EUR	0.05	-0.10	-15
GBP	0.50	0.57	7
DKK	0.05	-0.14	-19
SEK	-0.35	-0.41	-6
NOK	0.75	1.20	45
PLN	1.50	1.63	13

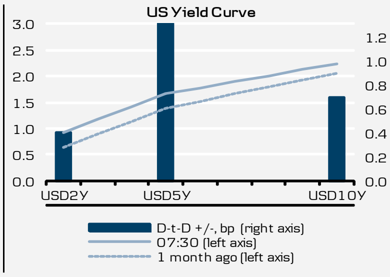
	17:00	*07:30*		*+/-, bp*
USD 10Y	2.24	2.23	↓	0
USD 30Y	2.99	2.99	↑	0
JPY 10Y	0.30	0.30	↓	-1
	*07:30(-1)**	*17:00*		*+/-, bp*
DEM 10Y	0.51	0.47	↓	-4
DKK 10Y	0.86	0.75	↓	-11
SEK 10Y	0.84	0.77	↓	-6
NOK 10Y	1.48	1.48	↑	0
PLN 10Y	2.68	2.65	↓	-3

* As of closing previous trading day

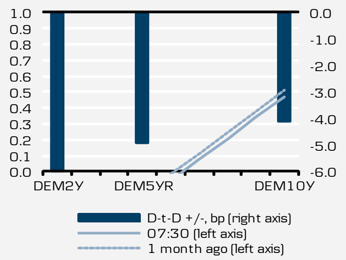
10Y Yield Spread to Germany



US Yield Curve



German Yield Curve



Credit spread, iTraxx s. 11*

	07:30		1day		1month
Europe (IG)	71	↓	0	↓	0
HiVol	86	↓	-2	↑	13
Xover (N-IG)	299	↓	-1	↓	-1
Finan. Sr.	70	↓	0	↑	0
Finan. Sub.	150	↓	-1	↑	6
Non-finan.					

* Ask price

Credit spreads

Swap Spread, bp**

	17:00	*07:30*		*+/-*
USD 10Y				
JPY 10Y	-13	-11	↑	2
	*07:30(-1)**	*17:00*		*+/-*
EUR 10Y	0	15	↑	15
DKK 10Y	33	35	↑	2
SEK 10Y	42	44	↑	2
NOK 10Y	54	57	↑	3

* 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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