

18 February 2016

Danske Daily

Market Movers

- In **Europe**, focus will be on the minutes of the January ECB meeting. We will look for any indications of what instruments it is considering or prefers after the quite dovish January meeting.
- In the **UK**, focus will be on the EU council meeting which starts today where the draft deal between the EU and the UK is to be discussed.
- **Scandinavia**: Swedish inflation as well as the annual address from Norges Bank. *See Scandi markets, page 2.*
- Finally, in the afternoon, focus will be on the Philly Fed survey as well as initial jobless claims.

Selected Market News

The Central Bank of Mexico unexpectedly raised policy rates by 50bp yesterday to support the Mexican peso.

Yesterday, the Federal Reserve published the minutes from the last FOMC meeting. The minutes were clearly on the dovish side and based on them, it is hard to see another hike at before June at the earliest.

In general, the Fed was not sure how to interpret the developments in the economy and the financial markets since lift-off in December. We continue to believe that the Fed will stay on hold until September due to continued stress in financial markets and the rising risk of a systemic crisis.

The US equity market continued its recovery yesterday as risky assets rallied and US Treasury yields rose.

Equity markets rose across Asia yesterday, benefitting from the positive sentiment.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1926.8	↑ 1.65	
S&P500 fut (chng from close)	1929.6	↑ 0.36	
Nikkei	16208.3	↑ 2.35	
Hang Seng	19351.2	↑ 2.25	
	17:00	07:30	
		+/- bp	
US 2y gov	0.76	0.73	↓ -2.8
US 10y gov	1.84	1.81	↓ -3.5
iTraxx Europe (IG)	110	109	↓ -0.6
iTraxx Xover (Non IG)	435	436	↑ 0.6
			+/- %
EUR/USD	1.113	1.114	↑ 0.09
USD/JPY	114.300	113.930	↓ -0.32
EUR/CHF	1.11	1.10	↓ -0.09
EUR/GBP	0.778	0.780	↑ 0.25
EUR/SEK	9.489	9.473	↓ -0.17
EUR/NOK	9.55	9.51	↓ -0.38
			USD
Oil Brent, USD	34.1	34.9	↑ 2.52
Gold, USD	1210.8	1209.1	↓ -0.15

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

- [Scandi Markets Ahead](#)
- [IMM positioning](#)

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@Danske_Research

Chief Analyst

Allan von Mehren
+45 45 12 80 55
alvo@danskebank.dk

Scandi Markets

The main focus in the Scandi markets today will be the Swedish inflation data for January as well as the annual address from Norwegian Central Bank governor Olsen. There is a significant degree of uncertainty surrounding the data given index rebalancing as well as various tax/subsidy changes from December, but inflation is expected to be below the Riksbank's projected path – read more [here](#).

The annual address from Norges Bank is usually an opportunity to focus on structural challenges for the Norwegian economy and rarely on concrete monetary policy issues. However, given the current economic uncertainty both domestically and globally, we cannot rule out this year's speech being an exception and having a focus on monetary policy. Read more [here](#) on our stance on Norwegian monetary policy.

Fixed Income Markets

The US Treasury bond market saw decent increases in yields yesterday led by the 5y on the back of stronger data with manufacturing production in particular rebounding well. Against that backdrop, the market took some of it back on the rather dovish tone in the FOMC minutes, with the FOMC members acknowledging the uncertainty and risk to the economic outlook. However, the minutes did not reveal any material news as they were not much different from recent Fed member commentary, thus there is still only an aggregate of 10bp of rate increases priced for 2016.

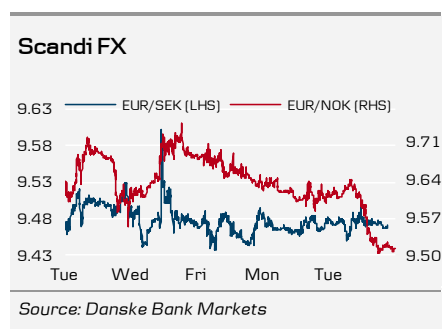
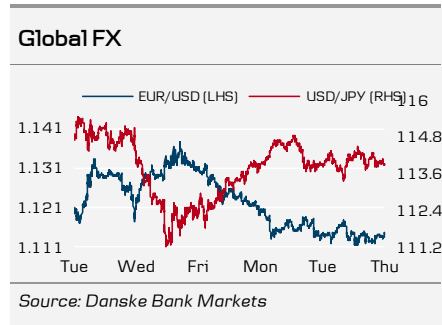
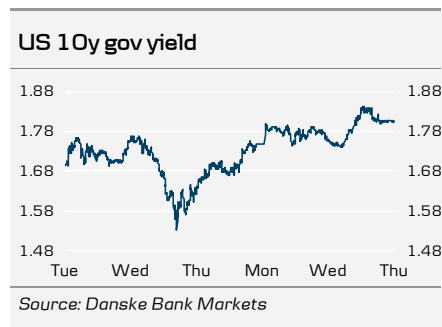
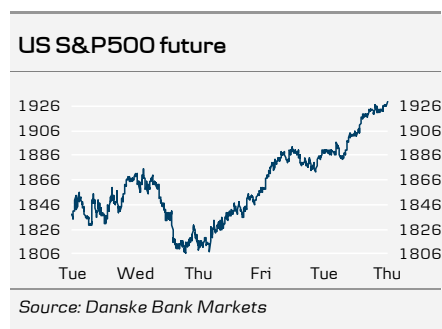
In the European government bond market we have auctions from France and Spain. The Spanish auction will be fairly small as the Debt Office is only selling between EUR3-4bn in the 3Y-4Y and 10Y segments. France is also tapping in the 5Y segment as well as long-dated linkers. We expect decent demand for the Spanish bonds given the yield pickup to EU peers.

FX Markets

Yesterday we sent out our revised *FX Forecast Update – Central bank fatigue*, 17 February. While we have marginally lifted our EUR/Scandi forecast profiles, the biggest changes were those to our USD/JPY and EUR/GBP profiles:

While we think the Bank of Japan (BoJ) will find it difficult to fight short-term appreciation pressure on the JPY, we still think relative monetary policy will support USD/JPY. We expect the BoJ to cut interest rates by 20bp in March and forecast a rise in USD/JPY to 115 in 1M. Longer term, we expect cyclical and monetary policy divergence (Fed hikes and BoJ rate cuts) to continue to support the case for a moderate increase in USD/JPY. We now target the cross at 119 in both 6M and 12M.

In terms of EUR/GBP we have lifted our 1-3M profile due to the looming EU referendum. We now target EUR/GBP at 0.78 (previously 0.76) in 1M and 0.80 in 3M (previously 0.73) with the risks skewed towards further EUR/GBP upside going into a possible referendum in June or July. Longer term, the outlook for EUR/GBP very much depends on the outcome of the referendum. In our main scenario, we assume the status quo for the UK, meaning that people vote to remain in the EU. We target EUR/GBP at 0.74 in 6M (previously 0.71) and 0.73 in 12M (previously 0.75) but stress that these forecasts are subject to significant risk.



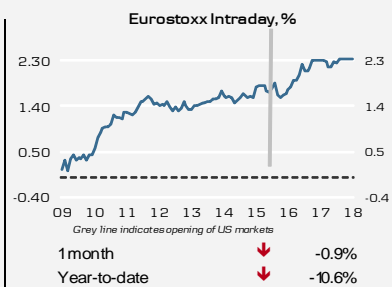
Key figures and events

Thursday, February 18, 2016					Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Jan		-11.0		-8.0
0:50	JPY	Import	y/y (%)	Jan		-15.9		-18.0
0:50	JPY	Trade balance, s.a.	JPY bn	Jan		62.1		36.6
1:30	AUD	Employment change	1000	Jan		13		-1
2:00	USD	Fed's Bullard (voter, hawkish) speaks						
2:30	CNY	PPI	y/y	Jan		-5.4%		-5.9%
2:30	CNY	CPI	y/y	Jan		1.9%		1.6%
8:00	CHF	Trade balance	CHF bn	Jan				2.54
8:45	FRF	HICP, final	m/m/y/y	Jan		-1.0%	0.4%	-1.0%
9:30	SEK	Underlying inflation CPIF	m/m/y/y	Jan	-0.4%	1.6%	-0.6%	1.4%
9:30	SEK	CPI	m/m/y/y	Jan	-0.6%	0.5%	-0.6%	0.5%
10:00	EUR	Current account	EUR bn	Dec				26.4
13:30	EUR	ECB account of the monetary policy meeting						
14:30	USD	Philadelphia manufacturing index	Index	Feb		-3.0		-3.5
14:30	USD	Initial jobless claims	1000			275		269
17:00	EUR	EU summit in Brussels (UK negotiations)						
17:00	USD	DOE U.S. crude oil inventories	K					-754
18:00	NOK	Norges Bank governor Olsen gives annual speech						
21:30	USD	Fed's Williams (non-voter, neutral) speaks						

Source: Bloomberg, Danske Bank Markets

Today's market data: 18 February 2016

STOCKS



	Close		+/-
DJSTOXX50	2772	↑	2.3%
OMXC20	917	↑	2.4%
OMXS30	1374	↑	3.5%
OSE BX	555	↑	4.3%
<hr/>			
	Close		+/-
DOW JONES	16454	↑	1.6%
NASDAQ	4534	↑	2.2%
S&P500	1927	↑	1.6%
NIKKEI (07:30)	16208	↑	2.3%

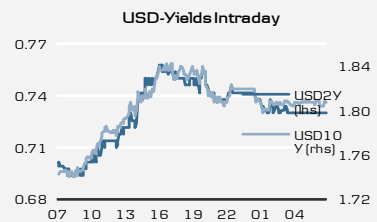
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	111.34	111.44	↑ 0.10
JPY	127.26	126.96	↓ -0.30
GBP	77.76	77.96	↑ 0.20
NOK	954.86	951.27	↓ -3.59
SEK	948.88	947.26	↓ -1.62
DKK	746.47	746.46	↓ -0.01
PLN	439.50	439.62	↑ 0.12
<hr/>			
USD	17:00	07:30	+/-
JPY	114.30	113.93	↓ -0.37
GBP	143.17	142.94	↓ -0.23
CHF	99.29	99.11	↓ -0.18

	Gold, \$	Oil, Brent, \$
07:30	1209.05	34.94
1day	↑ 0.45	↑ 0.44
1month	↑ 120.15	↑ 6.39
Year-t-date	↑ 147.63	↓ -2.34
<hr/>		
	CRB 1M future	CRB, Raw Industrials
07:30	162.54	421.29
1day	↑ 3.67	↑ 0.63
1month	↑ 2.60	↑ 13.47
Year-t-date	↓ -13.61	↑ 16.58

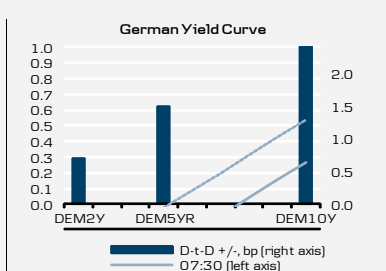
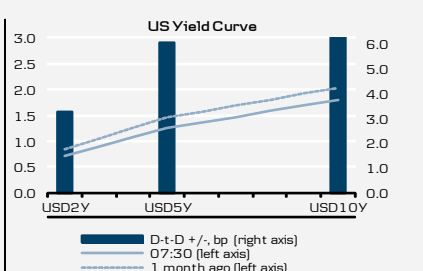
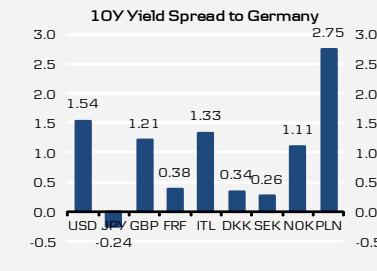
YIELDS & INTEREST RATES



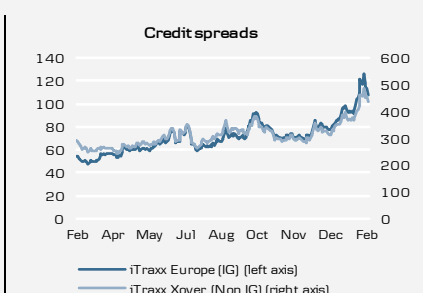
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.19	-24
GBP	0.50	0.59	9
DKK	0.05	-0.09	-14
SEK	-0.50	-0.45	5
NOK	0.75	1.09	34
PLN	1.50	1.59	9

	17:00	07:30	+/-, bp
USD 10Y	1.84	1.81	↓ -3
USD 30Y	2.71	2.67	↓ -3
JPY 10Y	0.06	0.03	↓ -3
<hr/>			
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.25	0.28	↑ 3
DKK 10Y	0.61	0.61	↓ 0
SEK 10Y	0.54	0.54	↓ -1
NOK 10Y	1.37	1.37	↑ 0
PLN 10Y	3.02	3.02	↑ 0

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	109	↓ -1	↑ 12
HIVol	142	↑ 0	↑ 8
Xover (N-IG)	436	↓ -1	↑ 47
<hr/>			
Finan. Sr.	114	↓ -1	↑ 24
Finan. Sub.	262	↓ -8	↑ 62
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-14	-14	↑ 0
<hr/>			
	07:30(-1)*	17:00	+/-
EUR 10Y	0	16	↑ 16
DKK 10Y	37	36	↓ -1
SEK 10Y	43	41	↓ -2
NOK 10Y	68	69	↑ 1

* 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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