

Danske Daily

Market Movers

- **Focus today on digesting the FOMC statement and the Bank of Japan.**
- **In the UK, everything continues to be driven by the upcoming EU in/out referendum. Today, chancellor Osborne is questioned by the House of Commons Treasury Committee about the cost/benefit of EU membership.** In a recent report the Treasury argued that UK GDP could be between 3.5% and 7% lower after 15 years, if the UK leaves the EU.
- **The US will see the first estimate of GDP growth in Q1 and we expect this to confirm that activity slowed in Q1 as most indicators have shown.** We look for growth of a mere 0.7% q/q (ar) as private consumption has slowed and investments have been weak. Our main scenario is that growth will rebound in Q2 and Q3, as we expect consumption growth to pick up again because it has been relatively subdued in Q1 despite high consumer confidence and increasing employment.
- **Focus on Norwegian releases, see *Scandi Markets*.**

Selected Market News

Contrary to our expectations, the Bank of Japan (BoJ) this morning decided to opt for unchanged policy measures as the key policy rate was kept at -0.1% (we had called for a cut to -0.3%) and the asset-purchase target remained at JPY80trn. While a wide dispersion of views as to how and when the BoJ might react to the JPY surge seen in recent months were present ahead of the meeting, a build-up in expectations had clearly taken place judging from not least the drop in USD/JPY to below 110 this morning. Data might show that the Japanese economy was hit by a technical recession with negative GDP growth rates in Q4 15 and Q1 16 and both the PMI and Tankan surveys also imply a weaker economic outlook in the coming months. Finally, a stronger JPY is putting further downward pressure on inflation expectations. **A key risk now is that the BoJ will be tested whether it has run out of options or given up on pursuing a weaker currency. Still to come at the time of writing is Kuroda's press conference: key points to watch for will be any hints that further easing or possibly a coordinated fiscal and monetary policy response are on the table further out.**

Last night the FOMC as expected kept the Fed funds target range unchanged at 0.25-0.50% but the key outcome from the meeting was that the statement did not completely rule out the possibility of a June hike, see *FOMC Review*. Our main scenario is still that the Fed stays on hold until September and only hikes once this year. The still patient stance - despite the slight change in rhetoric - underlines that US monetary policy should prove a supportive factor for risk assets still near term. Hence, it seems that the trigger for a repeat of the global bond sell-off we witnessed a year ago is not going to be US monetary policy for now. **That said, both the fixed-income and the FX markets are vulnerable if the money market starts to move forward the timing of the next hike (September priced with a mere 60% probability at present).**

Market overview

| | 07:30 | 1 day +/- % | |
|------------------------------|---------|-------------|---------|
| S&P500 (close) | 2095.2 | ↑ | 0.16 |
| S&P500 fut (chng from close) | 2081.5 | ↓ | -0.44 |
| Nikkei | 16781.1 | ↓ | -2.95 |
| Hang Seng | 21467.4 | ↑ | 0.50 |
| | 17:00 | 07:30 | +/-, bp |
| US 2y gov | 0.85 | 0.81 | ↓ -4.4 |
| US 10y gov | 1.90 | 1.83 | ↓ -6.5 |
| iTraxx Europe (IG) | 71 | 71 | ↑ 0.5 |
| iTraxx Xover (Non IG) | 302 | 303 | ↑ 1.0 |
| | | | +/-, % |
| EUR/USD | 1.132 | 1.134 | ↑ 0.18 |
| USD/JPY | 111.260 | 108.930 | ↓ -2.09 |
| EUR/CHF | 1.10 | 1.10 | ↓ -0.08 |
| EUR/GBP | 0.778 | 0.779 | ↑ 0.14 |
| EUR/SEK | 9.155 | 9.164 | ↑ 0.09 |
| EUR/NOK | 9.25 | 9.23 | ↓ -0.18 |
| | | | USD |
| Oil Brent, USD | 46.0 | 47.0 | ↑ 2.09 |
| Gold, USD | 1246.5 | 1249.5 | ↑ 0.24 |

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

- *FOMC Review*
UK: Growth slowed in Q1 16 - have Brexit uncertainties hit the economy?

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Scandi Markets

Norway. March retail sales will give us an idea of how lower real wage growth and higher unemployment are affecting consumer spending and the retail trade. As ever, there is particular uncertainty in the period around Easter but we expect retail sales to climb 0.3% m/m after falling in February. Slightly higher growth in overall consumption of goods along with stronger growth in consumption of services would then mean that private consumption climbs 0.4% q/q in Q1, which is enough to ensure positive GDP growth for the period. Meanwhile the Q1 manufacturing survey should provide a more reliable indication of whether the decline in manufacturing activity is now slowing, as both the PMI and manufacturing production data seem to be suggesting. Based on the PMI, we expect the main indicator to climb from -8.2 in Q4 to -5 in Q1. LFS unemployment rose surprisingly strongly in January (December-February) given that the NAV measure fell over the same period. Being a 3M rolling average we nevertheless expect LFS unemployment to hold at 4.8% in February. It is also worth keeping an eye on the employment data in the LFS, because the rise in unemployment here seems to stem mainly from an increased labour supply rather than a decrease in employment. As usual, we will attach most importance to the NAV unemployment data (due Friday).

Sweden. We get March retail sales out of Sweden today and expect headline figures at 0.5% m/m and 3.5% y/y, close to market consensus. We would not pay too much attention to the number though, since Easter was in March and SCB does not always manage to adjust for calendar effects properly, so in fact the number could come in pretty much 'anywhere'. Judging by the NIER business confidence survey released yesterday, retailers are doing fine, profitability is good, and the business outlook is seen as positive.

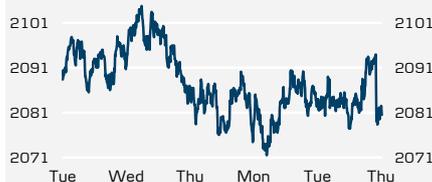
Fixed Income Markets

The US bond market reacted positively to the FOMC meeting, as the Federal Reserve assured the markets that the tightening of monetary policy will be done at a 'gradual' pace. Hence, the Federal Reserve is not in a hurry to hike rates and that is a positive for fixed income markets as well as the equity market. The yield on JGBs rallied a few bp this morning as the lack of action from BoJ is viewed as buying the central bank time and having a wait-and-see stance on the impact of negative rates.

Today, Belgium and Italy are coming to the market with more risk as Belgium is doing its first ever 50Y syndicated deal as well as a new 7Y bond. Hence, the Belgian debt office is continuing with long-dated issuance after issuing a 30Y bond in March and a small deal in a 100Y. The trend for ultra-long bond issuance among EU DMOs is very visible with France issuing a 50Y bond and Ireland doing a 100Y bond. In our view, this is targeted to institutional investors that need duration to match their liabilities as well as receiving a fixed rate higher than the ultra-long swaps - see more on this in [our recent paper on the ultra-long end of the EUR swap curve](#).

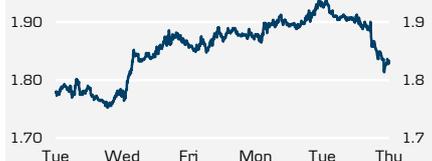
Italy is tapping in the 5Y and 10Y BTPS as well as a new 7Y floater; it will sell up to EUR7.75bn in the three bonds. We expect to see bid-to-cover a bit in the lower range for the BTPS given the ongoing uncertainty regarding Italian banks and the debate about bank treasuries holding large amounts of their own sovereign bonds, So even though Italy has underperformed Spain and supply is one of the factors, demand is not expected to be substantial.

US S&P500 future



Source: Danske Bank Markets

US 10y gov yield



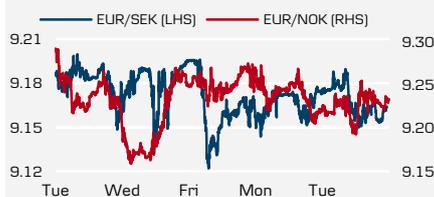
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

FX Markets

USD/JPY briefly dropped below 109 on the announcement that BoJ stayed pat on policy and following the BoJ inaction, we see little support to the cross in the coming months. Without the central bank actively curbing the JPY appreciation pressure stemming from strong underlying fundamental flows, the 'down' trend is likely to remain intact in the coming months – although speculatively long JPY positioning looks increasingly stretched from a historical perspective. Moreover, as the FOMC continues to signal a reluctant stance, we would not rule out a renewed test of this month's low at 107.63. We are currently reviewing our JPY and BoJ forecasts.

The FOMC statement was not able to rock USD crosses much last night with its 'we are still patient' stance despite the fact that it did in our view keep open the option of a June hike. EUR/USD thus remains firmly above the 1.13 level for now but *FX Strategy: EUR/USD to dip near term on revival of relative rates - use to position for a continued rebound in H2* published this morning we stress that the cross could dip near term on a revival of relative rates, while we maintain the case for a continued rebound in H2 on fundamentals. A key argument for downside in 1-3M is the potential for the Fed to be priced more hawkishly and that this will feed through to the FX market as non-commercial positioning is now much closer to neutral than was the case a few months ago. Also, a cyclical situation set to evolve in favour of the US in coming months and the risk of a 'Brexit' suggest to us that the cross could be vulnerable on a 3M horizon. We still project EUR/USD at 1.18 in 12M but firmly stress the risk of a dip towards and possibly below 1.12 in 1-3M.

Key figures and events

| Thursday, April 28, 2016 | | | Period | Danske Bank | Consensus | Previous |
|--------------------------|-----|---|-------------|------------------|-----------|----------------------|
| - | JPY | BoJ annual rise in monetary base | | | | 80 |
| - | JPY | BoJ basic balance rate | % | | | 0.1% |
| - | JPY | BoJ macro add-on balance rate | % | | | 0.0% |
| - | JPY | BoJ policy rate | % | -0.3% | | -0.1% |
| - | JPY | BoJ monetary policy announcement | | | | |
| 1:30 | JPY | Unemployment rate | % | | 3.3% | 3.3% |
| 1:30 | JPY | Job-to-applicant ratio | | | 1.28 | 1.28 |
| 1:30 | JPY | CPI - national | y/y | | | 0.3% |
| 1:30 | JPY | CPI - national ex. fresh food | y/y | | -0.2 | 0.0% |
| 1:30 | JPY | CPI - national ex. fresh food and energy | y/y | | | 0.8% |
| 1:30 | JPY | CPI- Tokyo | y/y | | | -0.1% |
| 1:30 | JPY | CPI - Tokyo ex fresh food | y/y | | -0.3% | -0.3% |
| 1:30 | JPY | Household spending | y/y | | -3.0% | 1.2% |
| 1:50 | JPY | Industrial production, preliminary | m/m y/y | | 2.0% ... | -5.2% -1.2% |
| 1:50 | JPY | Large retailers' sales | y/y | | | 2.2% |
| 1:50 | JPY | Retail trade | m/m y/y | | ... -1.4% | -2.3% 0.4% |
| 7:00 | JPY | Housing starts | y/y | | | 7.8% |
| 9:00 | DKK | Gross unemployment s.a. | K (%) | 4.3% | | 115 (4.3%) |
| 9:00 | DKK | Confidence indicator, industry, s.a. | Net balance | | | -5 |
| 9:00 | ESP | HICP, preliminary | m/m y/y | | | 2.0% -1.0% |
| 9:00 | ESP | Unemployment rate | % | | | 1st quarter 20.9% |
| 9:30 | SEK | Retail sales s.a. | m/m y/y | 0.5% 3.5% | | -0.2% 3.9% |
| 9:55 | DEM | Unemployment | % | | | Apr 6.2% |
| 10:00 | NOK | Manufacturing tendency survey | Index | -5.0 | | 1st quarter -8.2 |
| 10:00 | NOK | Unemployment (LFS) | % | | | Feb 4.8% |
| 10:00 | NOK | Retail sales, s.a. | m/m | | | Mar -0.5% |
| 11:00 | EUR | Business climate indicator | Net bal. | | | Apr 0.1 |
| 11:00 | EUR | Industrial confidence | Net bal. | | | Apr -4.2 |
| 11:00 | EUR | Economic confidence | Index | | | Apr 103.0 |
| 11:00 | EUR | Consumer confidence, final | Net bal. | | | Apr |
| 11:00 | EUR | Service confidence | Net bal. | | | Apr 9.6 |
| 11:30 | GBP | Osborne questioned by Treasury committee on EU Vote | | | | |
| 14:00 | DEM | HICP, preliminary | m/m y/y | | | Apr 0.8% 0.1% |
| 14:30 | USD | GDP, first release | q/q ann. | 0.7% | 0.7% | 1st quarter 1.4% |
| 14:30 | USD | Personal consumption, first release | q/q | | | 1st quarter 2.4% |
| 14:30 | USD | GDP price deflator, first release | q/q | | 0.5% | 1st quarter 0.9% |
| 14:30 | USD | PCE core, first release | q/q | | | 1st quarter 1.3% |
| 14:30 | USD | Initial jobless claims | 1000 | | | |

Source: Bloomberg, Danske Bank Markets

Today's market data: 28 April 2016

STOCKS



| | Close | | +/- |
|------------------|-------|---|-------|
| DJUSTOXX50 | 2927 | ↑ | 0.2% |
| OMXC20 | 959 | ↑ | 0.5% |
| OMXS30 | 1387 | ↓ | -0.2% |
| OSE BX | 606 | ↑ | 1.9% |
| DOW JONES | | | |
| DOW JONES | 18042 | ↑ | 0.3% |
| NASDAQ | 4863 | ↓ | -0.5% |
| S&P500 | 2095 | ↑ | 0.2% |
| NIKKEI (07:30) | 16781 | ↑ | 0.2% |

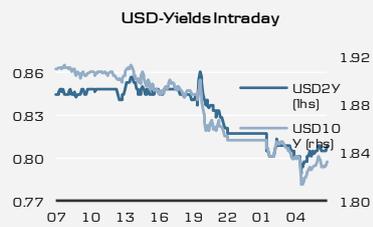
FX & COMMODITIES



| EUR | 17:00 | 07:30 | +/- |
|------------|--------|--------|---------|
| USD | 113.15 | 113.35 | ↑ 0.20 |
| JPY | 125.91 | 123.49 | ↓ -2.42 |
| GBP | 77.81 | 77.92 | ↑ 0.11 |
| NOK | 925.07 | 923.36 | ↓ -1.71 |
| SEK | 915.53 | 916.39 | ↑ 0.86 |
| DKK | 744.29 | 744.34 | ↑ 0.05 |
| PLN | 440.58 | 439.08 | ↓ -1.50 |
| USD | | | |
| JPY | 111.26 | 108.93 | ↓ -2.33 |
| GBP | 145.42 | 145.48 | ↑ 0.06 |
| CHF | 97.24 | 96.98 | ↓ -0.26 |

| | 07:30 | | +/- |
|-----------------------|---------|--------|---------|
| Gold, \$ | 1249.51 | | 46.96 |
| 1 day | ↑ | 3.68 | ↓ -0.22 |
| 1 month | ↑ | 27.73 | ↑ 6.69 |
| Year-t-date | ↑ | 188.09 | ↑ 9.68 |
| Oil, Brent, \$ | | | |
| 07:30 | | | 46.96 |
| 1 day | ↑ | 3.68 | ↓ -0.22 |
| 1 month | ↑ | 27.73 | ↑ 6.69 |
| Year-t-date | ↑ | 188.09 | ↑ 9.68 |
| CRB | | | |
| 1M future | 182.49 | | 455.53 |
| 1 day | ↑ | 1.01 | ↓ -1.38 |
| 1 month | ↑ | 9.92 | ↑ 11.44 |
| Year-t-date | ↑ | 6.35 | ↑ 50.82 |

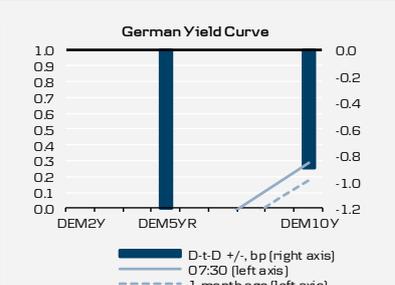
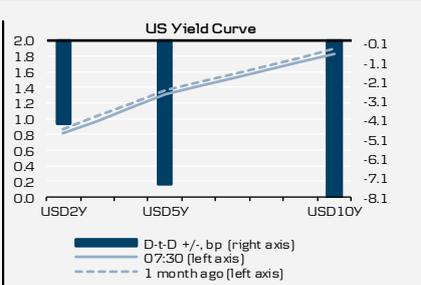
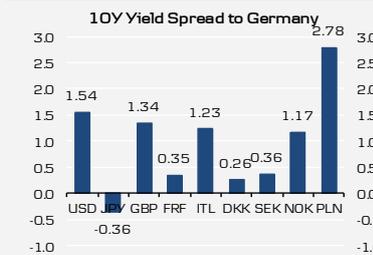
YIELDS & INTEREST RATES



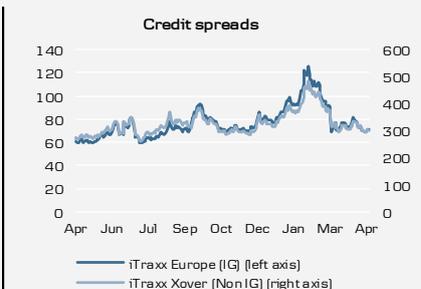
| | Policy Rate | 3M | Spread, bp |
|-----|-------------|-------|------------|
| USD | 0.50 | 0.63 | 13 |
| EUR | 0.00 | -0.25 | -25 |
| GBP | 0.50 | 0.59 | 9 |
| DKK | 0.05 | -0.09 | -14 |
| SEK | -0.50 | -0.44 | 6 |
| NOK | 0.50 | 0.94 | 44 |
| PLN | 1.50 | 1.57 | 7 |

| | 17:00 | 07:30 | +/-, bp |
|-------------------------|-------|-------|---------|
| USD 10Y | 1.90 | 1.83 | ↓ -7 |
| USD 30Y | 2.73 | 2.68 | ↓ -5 |
| JPY 10Y | -0.05 | -0.08 | ↓ -3 |
| 07:30(-1)* 17:00 | | | |
| DEM 10Y | 0.30 | 0.29 | ↓ 0 |
| DKK 10Y | 0.54 | 0.55 | ↑ 1 |
| SEK 10Y | 0.69 | 0.65 | ↓ -5 |
| NOK 10Y | 1.46 | 1.46 | ↑ 0 |
| PLN 10Y | 3.09 | 3.07 | ↓ -2 |

* As of closing previous trading day



| | 07:30 | 1 day | 1 month |
|-------------------|-------|-------|---------|
| Europe (IG) | 71 | ↓ 0 | ↓ -6 |
| HiVol | 73 | ↑ 0 | ↓ -17 |
| Xover (N-IG) | 303 | ↓ 0 | ↓ -18 |
| Finan. Sr. | | | |
| Finan. Sr. | 88 | ↓ 0 | ↓ -8 |
| Finan. Sub. | 198 | ↑ 0 | ↓ -20 |
| Non-finan. | | | |



| | 17:00 | 07:30 | +/- |
|-------------------------|-------|-------|------|
| USD 10Y | | | |
| JPY 10Y | -13 | -12 | ↑ 1 |
| 07:30(-1)* 17:00 | | | |
| EUR 10Y | 0 | | |
| DKK 10Y | 40 | 38 | ↓ -2 |
| SEK 10Y | 48 | 48 | ↓ -1 |
| NOK 10Y | 58 | 62 | ↑ 4 |

* As of closing previous trading day

** Ask price

* Ask price

Source: Bloomberg, Danske Bank Markets

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