

15 February 2016

Danske Daily

Market Movers

- This week is light in terms of data releases for the euro area but, interestingly, ECB President Draghi is due to speak at the EU Parliament today at 15.00 CET. His words will be followed closely by investors as they look to see whether he provides any new comments on possible further easing. Last week, he sounded very dovish and his comments have for some evoked memories of the remarkable ‘whatever it takes’ speech from 2012. We believe that ‘policy action’, preferably globally coordinated, would be the trigger for market stabilisation. Note that we changed our call on the March ECB meeting. We now expect a 10bp rate cut to be accompanied by a two-tier deposit rate system and frontloaded QE. For more see [Market Turmoil, Policy Responses and Market Implications](#), 12 February 2016.
- The US calendar is quite empty today and focus is on the minutes from the FOMC January meeting, which are due for release on Wednesday.
- In the UK, focus is on the upcoming EU council meeting on Thursday and Friday, when the draft deal between the EU-UK is due to be discussed. If an agreement is reached at the meeting, the UK is likely to hold a EU in/out referendum in June.

Selected Market News

After weeks of weak risk appetite we saw some optimism in both the European and the US session on Friday and, in Asia, Nikkei is up more than 6% after dropping almost 5% on Friday. Market optimism improved after a better-than-feared US retail sales report, which showed that despite financial market jitters, consumers certainly did not go on a buyers’ strike in January. Retail sales rose 0.2% m/m and, accounting for lower gasoline prices, growth was an impressive 0.4%. The US consumer seems happy to spend the money he saves on cheaper gasoline. The US consumer is also going into 2016 supported by higher real earnings as employment growth remains positive and as hourly earnings are picking up. Hence, the numbers supported the view that the US economy is not heading for a recession. Helping with better sentiment was a 9% rise in oil prices and better performance for bank stocks also provided support.

The strong rise in Japanese stocks this morning came after Q4 GDP numbers surprised on the downside dropping 1.4% q/q s.a., as especially private consumption was weak. Even though Q3 was revised higher to 1.3% from 1.0% previously there is little doubt that the weak growth numbers increase the probability of yet another round of easing from the Bank of Japan after negative policy rates were introduced at the latest policy meeting. The weaker numbers and the ‘threat’ of new policy measures, together with better risk appetite, have reversed some of the JPY gains seen this month and USD/JPY is now trading close to 1.14 after trading as low as 1.12 on Friday.

In global fixed income markets we saw some weakness on Friday, as risk appetite improved. The market is now ‘only’ pricing in a 10bp cut from the ECB at the March meeting. In the US, the first rate hike is still not fully priced in before late 2017.

The Chinese Yuan rose the most in a decade this morning as the central bank governor voiced support for the currency and raised the USD/CNY fixing to a one-month high.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1864.8	↑ 1.95	
S&P500 fut (chng from close)	1879.2	↑ 1.12	
Nikkei	16076.4	↑ 7.52	
Hang Seng	18852.9	↑ 2.91	
	17:00	07:30	+/- bp
US 2y gov	0.67	0.71	↑ 4.8
US 10y gov	1.71	1.75	↑ 3.8
iTraxx Europe (IG)	119	119	↓ -0.3
iTraxx Xover (Non IG)	462	464	↑ 1.9
			+/- %
EUR/USD	1.124	1.122	↓ -0.14
USD/JPY	112.830	113.930	↑ 0.97
EUR/CHF	1.10	1.10	↑ 0.11
EUR/GBP	0.778	0.772	↓ -0.72
EUR/SEK	9.482	9.443	↓ -0.41
EUR/NOK	9.68	9.63	↓ -0.55
			USD
Oil Brent, USD	32.5	33.3	↑ 2.59
Gold, USD	1235.0	1219.3	↓ -1.27

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

- [Portugal Update: What's next?](#)
- [Weekly Focus: Financial turmoil and central bank fatigue](#)
- [Research US: Fed on hold](#)
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Scandi Markets

The Scandi calendar is relatively empty today. Norwegian trade figures are not expected to attract much attention. Later this week, inflation data is due out of Sweden as are the annual address and GDP numbers in Norway. On Wednesday, all three debt management offices are due to sell bonds through auctions in the market. For more details see ‘*Scandi Markets Ahead: Swedish inflation, annual address and GDP numbers in Norway and taps in 2Y and 30Y segment in Denmark*’, 15 February 2016 and ‘*Government Bonds Weekly: Relief for Portugal?*’, 12 February 2016.

Fixed Income Markets

A Reuters story (<http://mobile.reuters.com/article/idUSKCN0VL1IP>) on Friday revealed firm support for a 10bp deposit rate cut within the ECB’s Governing Council but that appetite for more radical actions is more limited.

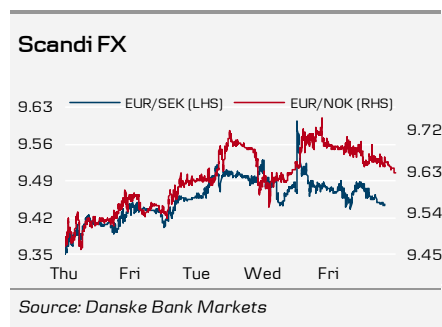
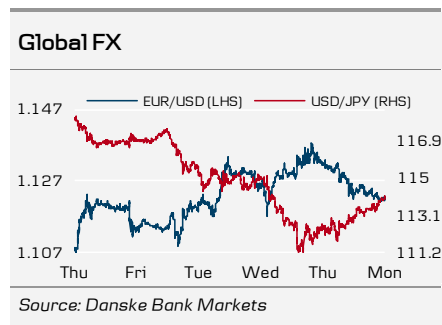
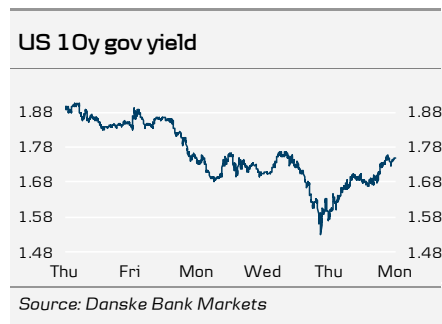
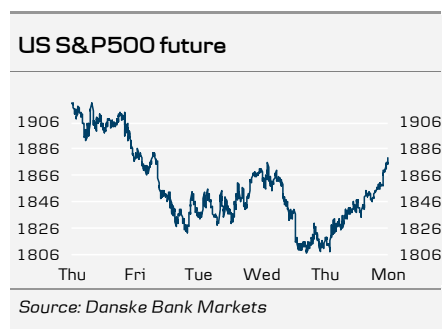
The short end of the EUR curve took back some of the latest aggressive ECB deposit cut pricing with the March meeting now priced for only a 10bp cut and the aggregate inversion in the curve being reduced some 5bp to 23bp. However, the story also highlighted that a broader package is in the pipeline and we expect QE purchases to be increased temporarily to 80bp/month together with a signal that further deposit cuts could be made in addition to the 10bp due to be delivered in March. We saw a decent rally in the peripheral markets on Friday with especially Portugal performing well as the Portuguese government again stated that it is committed to the fiscal consolidation, and that it will make a back-up plan in case of fiscal slippage.

Furthermore, the comments from DBRS on Friday did not indicate that a downgrade was imminent, but that the government needs to be committed to the reform process as well as fiscal consolidation, and the recent rise in Portuguese government bond yields is a risk factor given the high debt level. DBRS would be concerned if fiscal slippage became persistent. See our recent comment on Portugal, ‘*Strategy: Portugal Update – What’s next?*’, 12 February 2016.

We have plenty of auctions due this week – Germany, France and Spain as well as Denmark, Norway and Sweden are coming to the market. The bulk part of the issuance is concentrated in the 5Y and 10Y segments, and with the change in risk sentiment, we expect to see decent demand at the Spanish and French auctions (see Government Bonds Weekly above).

FX Markets

Funding currencies for not least the EUR and the JPY have significantly appreciated over recent months despite both the ECB and Bank of Japan signalling more easing. The reason for this is found in the EUR’s and the JPY’s status as preferred funding currencies, which especially in 2014 contributed in sending the two currencies to far weaker levels than what long-term models would point to as ‘fair’. When markets tumble, a reversal in EUR and JPY funded transactions, hedge-ratio adjustments and general stop-loss triggering result in appreciation pressures. The ECB and BoJ are therefore ‘fighting gravity’, which is also reflected in the recent IMM data: JPY positioning is close to the highest level since October 2012 while EUR bets are at the least bullish level since June 2014. Short term, we would be careful going against this trend.



In the Scandis, EUR/NOK remains heavily tied to general risk sentiment not only via the EUR leg but also via the NOK leg, as oil prices are tied to global growth concerns. Going forward, we still think EUR/NOK risks remain skewed to the upside as a Norges Bank March cut is not fully priced in and as we think risky assets remain vulnerable near term. Finally, the fact that EUR/SEK is now trading at lower levels despite the larger-than-expected Riksbank cut last Thursday shows that markets are in a ‘sell-on-rallies’ mode – a view we share.

Key figures and events

Monday, February 15, 2016			Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Jan	60.6	60.1
-	CNY	Imports	y/y	Jan	-3.6%	-7.6%
-	CNY	Exports	y/y	Jan	-1.8%	-1.4%
0:50	JPY	GDP deflator, preliminary	y/y	4th quarter	1.6%	1.8%
0:50	JPY	GDP, preliminary	q/q ann.	4th quarter	-0.2% -0.8%	0.3% 1.0%
1:01	GBP	Rightmove House Prices	m/m y/y	Feb		0.5% 6.5%
5:30	JPY	Industrial production, final	m/m y/y	Dec		-1.4% -1.6%
5:30	JPY	Tertiary industry index	m/m	Dec	-0.1%	-0.8%
9:30	SEK	Capacity utilization, industry	%	4th quarter		87.1%
10:00	NOK	Trade balance	NOK bn	Jan		18.1
11:00	EUR	Trade balance	EUR bn	Dec	22.2	22.7
15:00	EUR	ECB's Draghi speaks in Brussels				
22:45	NZD	Retail sales	q/q	4th quarter	1.5%	1.6%

Source: Bloomberg, Danske Bank Markets

Today's market data: 15 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2652	↑	3.3%
OMXC20	860	↑	1.3%
OMXS30	1287	↑	3.2%
OSE BX	522	↑	1.4%
<hr/>			
	Close		+/-
DOW JONES	15974	↑	2.0%
NASDAQ	4338	↑	1.7%
S&P500	1865	↑	2.0%
NIKKEI (07:30)	16076	↑	3.3%

FX & COMMODITIES

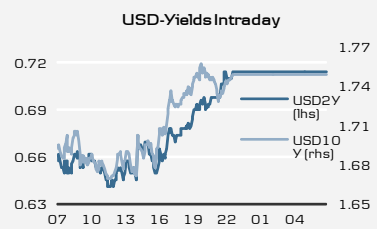


EUR	17:00	07:30	+/-
USD	112.40	112.24	↓ -0.16
JPY	126.83	127.88	↑ 1.05
GBP	77.78	77.23	↓ -0.56
NOK	968.08	962.78	↓ -5.30
SEK	948.15	944.28	↓ -3.87
DKK	746.41	746.43	↑ 0.02
PLN	440.88	439.35	↓ -1.53
USD	17:00	07:30	+/-
JPY	112.83	113.93	↑ 1.10
GBP	144.51	145.34	↑ 0.83
CHF	97.74	97.99	↑ 0.25

	07:30		+/-
Gold, \$	1219.34		
Oil, Brent, \$	33.31		
1 day	↓	-18.58	↓
1 month	↑	130.46	↑
Year-t-date	↑	157.92	↓
<hr/>			
	07:30		+/-
CRB 1M future	160.36		
CRB, Raw Industrials	42189		
1 day	↑	5.35	↑
1 month	↑	0.43	↑
Year-t-date	↓	-15.78	↑

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

YIELDS & INTEREST RATES

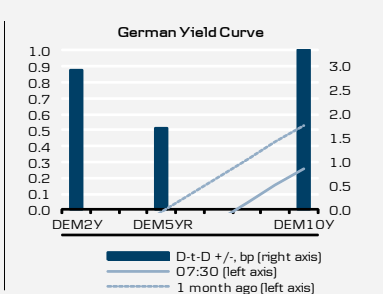
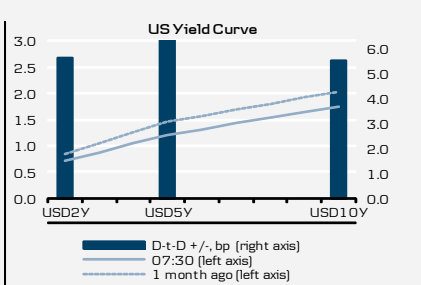
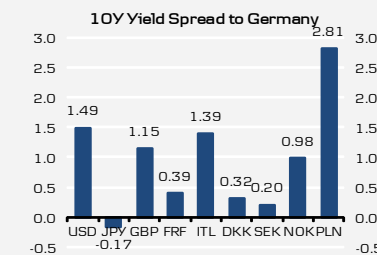


	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.18	-23
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.44	-9
NOK	0.75	1.10	35
PLN	1.50	1.59	9

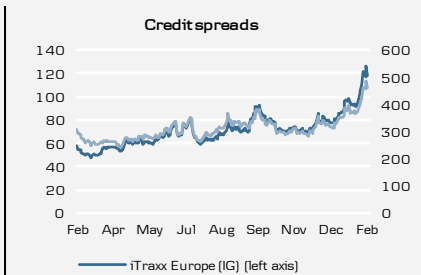
	17:00	07:30	+/-, bp
USD 10Y	1.71	1.75	↑ 4
USD 30Y	2.57	2.60	↑ 4
JPY 10Y	0.09	0.09	↑ 0
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	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.23	0.26	↑ 3
DKK 10Y	0.57	0.59	↑ 2
SEK 10Y	0.42	0.46	↑ 5
NOK 10Y	1.24	1.24	↑ 0
PLN 10Y	3.11	3.07	↓ -5

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	119	↓ -1	↑ 24
HiVol	149	↑ 0	↑ 16
Xover (N-IG)	464	↓ 0	↑ 82
<hr/>			
Finan. Sr.	127	↓ -1	↑ 40
Finan. Sub.	305	↓ 0	↑ 15
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-15	-13	↑ 2
<hr/>			
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	41	39	↓ -2
SEK 10Y	47	44	↓ -4
NOK 10Y	73	70	↓ -4

* Ask price

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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