

Danske Daily

Market Movers

- Euro area inflation figure for March is due today and we expect it to remain in deflation territory. This should occur because the drag from energy price inflation is set to go up despite the higher oil price. This is caused by the oil price being at a higher level last year, hence taking the yearly inflation rate lower. Core inflation will also be in focus after it declined to 0.8% in February from 1.0% in January. We look for higher core inflation in March as the early timing of Easter will be supportive. That said, the ECB's updated core inflation forecast of 1.1% on average in 2016 still looks optimistic to us.
- Today, Chicago Fed's Evans and New York Fed's Dudley are scheduled to speak.
- We expect Norwegian retail sales to have climbed 0.2% m/m in February, see *Scandi Markets*.

Selected Market News

Financial markets have appreciated the recent more dovish stance from the Federal Reserve following the remarks from chairwoman Janet Yellen on Tuesday. The market now does not discount the first full 25bp rate hike until next year, which consequently pushed the dollar down close to the low from earlier this month, which is the lowest since October of last year – EUR/USD tested 1.135 yesterday and seems to have found some support above 1.13. Longer-term inflation expectations continued to recover yesterday as well. Measured by the 5Y5Y breakeven inflation swap, inflation expectations have recovered some 30bp since the bottom. The US stock market is also catching up – the S&P 500 rose 0.5% yesterday and is now up about 1% in 2016.

Sentiment towards emerging markets has also found support from the change in tone on US monetary policy. Notably, the Brazilian stock market continues to rally. However, demand for Brazilian stocks is likely also getting support from the internal domestic dispute, where Brazil's largest party on Tuesday left Dilma Rouseff's government coalition raising bets on potential impeachment. An ousting of Dilma Rouseff is viewed by the market as something that could turn the tide for the Brazilian economy amid a deep recession. Finally, the oil market is also taking notice of the policy change. The price on Brent crude yesterday tried to make a firm break from the USD40/bbl level.

Interestingly enough, the market was not spooked by another strong US ADP job report yesterday, which showed job gains in March of 200K and supports our call for 200K of job gains in Friday's non-farm payroll release. Comments from Chicago Fed's Evans yesterday may offer an explanation for the changed focus. Evans, although counted as a dove in the FOMC, once again highlighted the worrisome development in inflation expectations, which he thinks could be a result of the Federal Reserve undershooting its inflation target for too long. Consequently, he said, this calls for a 'very shallow (ed. rate hiking) path'.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2064.0	↑	0.44
S&P500 fut (chng from close)	2053.2	↓	-0.10
Nikkei	16890.9	↑	0.07
Hang Seng	20768.7	↓	-0.17
	17:00	07:30	+/- bp
US 2y gov	0.79	0.75	↓ -3.6
US 10y gov	1.86	1.81	↓ -4.2
iTraxx Europe (IG)	73	72	↓ -0.4
iTraxx Xover (Non IG)	312	312	↓ -0.6
			+/- %
EUR/USD	1.135	1.132	↓ -0.29
USD/JPY	112.520	112.320	↓ -0.18
EUR/CHF	1.09	1.09	↑ 0.04
EUR/GBP	0.787	0.789	↑ 0.25
EUR/SEK	9.234	9.227	↓ -0.07
EUR/NOK	9.43	9.42	↓ -0.08
			USD
Oil Brent, USD	40.2	38.8	↓ -3.46
Gold, USD	1228.5	1228.4	↓ -0.01

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

Nordic Outlook - March 2016

Research China: A turn in construction to be a game changer

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Scandi Markets

The big downside risk to **the Norwegian economy** is a sharp slowdown in household demand. Consumer confidence fell steeply in 2015 but actual spending has held up well, with growth in Q4 and an increase in January. February retail sales will therefore send important signals about whether higher unemployment and lower wage growth are now hitting private consumption. We expect retail sales to climb 0.2% m/m, which would mean that private consumption makes a solid contribution to GDP growth again in Q1 and signal that recession and zero rates are still some way off.

Fixed Income Markets

While we wait for the non-farm payrolls on Friday, we have seen a divergence between ‘inflation expectations’ in Europe versus the US. We measure this by the 5Y5Y EUR inflation forward relative to the 5Y5Y USD inflation forward and the oil price - normally there is a fairly close correlation but this has broken down recently. One explanation can be the ongoing strengthening of the EUR versus the USD and JPY. The stronger EUR will dampen inflation expectations but it is remarkable that 5Y5Y EUR has not moved upwards given the rise in the oil price even with the strengthening of the EUR.

The low inflation expectations are putting pressure on the ECB to do more easing, despite the risk of a sharp turnaround in the EUR inflation expectations. The potential for more easing from the ECB as well as redemptions and a more modest issuance picture in Q2 relative to Q1 should bode well for fixed income markets in Q2.

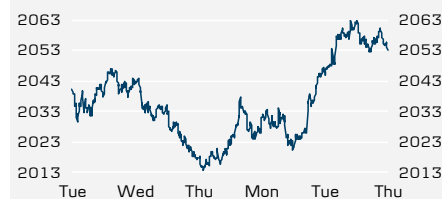
There are no government bond auctions today. Focus will be on the month-end rebalancing in the various bond indices. The changes to the duration are fairly modest apart from Belgium, where the duration increased by 0.44 on the back of the new 30Y bond entering the Belgian bond indices.

FX Markets

USD bulls are losing confidence as Fed Chair Yellen’s latest comments seem to undermine previous hawkish comments from other board members. Indeed, in our view the dovish camp of the Federal Reserve seems to dominate with seven out of 10 voting members indicating a maximum of two hikes this year (our estimates). With US monetary policy setting focused on external developments – which now to a much lesser extent seem deemed as ‘exogenous factors’ – even a strong non-farm payroll report on Friday would most likely not be enough to trigger a renewed USD up-trend. Overall the latest developments give us comfort in our long held non-consensus call of EUR/USD ending the year higher.

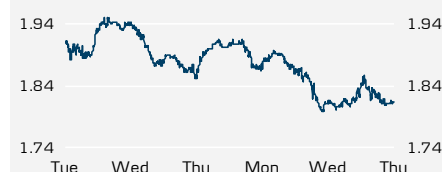
In the Scandies focus returns to the NOK after yesterday’s higher-than-expected LFS unemployment print. The spike in the unemployment rate, however, seems to have been driven by a rise in the labour force – indeed the quarterly change to LFS employment has been positive. As we wrote in yesterday’s edition, this left EUR/NOK an attractive intraday bet on a move lower amid improved risk sentiment and a stabilisation in the oil price. Today, we could see more upside to the NOK as we expect a solid retail sales print (see paragraph above). While the announcement of Norges Bank’s daily NOK purchases for April will catch the market’s attention, it is important to stress that only the size of the non-oil budget deficit influences the net demand for the NOK. Having said this, we have previously seen a short-lived announcement effect.

US S&P500 future



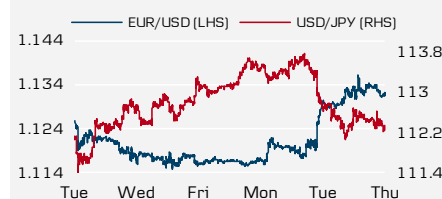
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

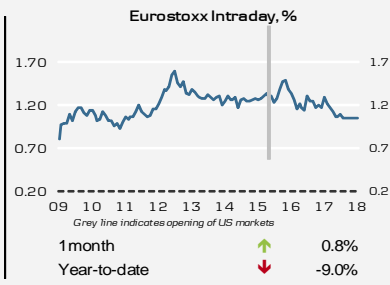
Key figures and events

Thursday, March 31, 2016					Period	Danske Bank	Consensus	Previous
1:05	GBP	GfK consumer confidence	Index	Mar				0.0
7:00	JPY	Housing starts	y/y	Feb				0.2%
8:45	FRF	Household consumption	m/m y/y	Feb				0.6% 0.6%
8:45	FRF	HICP inflation, preliminary	m/m y/y	Mar				0.3% -0.1%
9:00	DKK	CB's securities statistics		Feb				
9:00	DKK	Foreign portfolio investments		Feb				
9:00	DKK	Gross unemployment s.a.	K (%)	Feb				116 (4.4)
9:00	ESP	HICP inflation, preliminary	m/m y/y	Mar				-0.4% -1.0%
9:00	ESP	Retail sales	y/y	Feb				3.3%
9:00	DKK	GDP, final	q/q y/y	4th quarter	0.2% ...			0.2% ...
9:55	DEM	Unemployment	%	Mar				6.2%
10:00	NOK	Retail sales, s.a.	m/m	Feb	0.2%			0.9%
10:00	NOK	Norges Bank's daily FX purchases	m	Apr	-900			-900
10:30	GBP	Broad money M4	m/m y/y	Feb				0.0% 0.8%
10:30	GBP	GDP, third estimate	q/q y/y	4th quarter				0.5% 1.9%
10:30	GBP	Index of services	m/m 3m/3m	Jan				0.2% 0.7%
10:30	GBP	Mortgage approvals	1000	Feb				74.6
11:00	ITL	HICP inflation, preliminary	m/m y/y	Mar				-0.4% -0.2%
11:00	EUR	HICP - core inflation, preliminary	y/y	Mar	0.9%			0.8%
11:00	EUR	HICP inflation, preliminary	y/y	Mar	-0.2%			-0.2%
14:30	CAD	GDP	m/m y/y	Jan				0.2% 0.5%
15:45	USD	Chicago PMI	Index	Mar				47.6
18:30	CHF	SNB's Andrea Maechler speaks in Zurich						

Source: Bloomberg, Danske Bank Markets

Today's market data: 31 March 2016

STOCKS



	Close		+/-
DJSTOXX50	2822	↑	1.0%
OMXC20	955	↑	0.7%
OMXS30	1377	↑	2.1%
OSE BX	585	↑	2.7%
	Close		+/-
DOW JONES	17717	↑	0.5%
NASDAQ	4869	↑	0.5%
S&P500	2064	↑	0.4%
NIKKEI (07:30)	16891	↑	1.0%

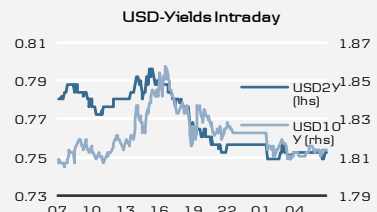
FX & COMMODITIES



	17:00	07:30		+/-
EUR				
USD	113.48	113.15	↓	-0.33
JPY	127.69	127.10	↓	-0.59
GBP	78.68	78.88	↑	0.20
NOK	942.77	942.02	↓	-0.75
SEK	923.35	922.74	↓	-0.61
DKK	745.18	745.34	↑	0.16
PLN	425.69	427.76	↑	2.07
USD				
JPY	112.52	112.32	↓	-0.20
GBP	144.23	143.46	↓	-0.77
CHF	96.28	96.60	↑	0.32

	07:30		+/-
Gold, \$	1228.39		
1day	↑	3.38	↓ -0.45
1month	↓	-10.35	↑ 2.84
Year-t-date	↑	166.97	↑ 153
	07:30		+/-
Oil, Brent, \$	38.81		
1day	↓	-0.45	↑ 2.84
1month	↑	2.84	↑ 153
Year-t-date	↑	153	
	07:30		+/-
CRB, 1M future	170.97		
1day	↓	-0.49	↓ -0.09
1month	↑	7.76	↑ 18.08
Year-t-date	↓	-5.17	↑ 35.50
	07:30		+/-
CRB, Raw Industrials	440.21		
1day	↓	-0.09	↑ 18.08
1month	↑	18.08	↑ 35.50
Year-t-date	↑	35.50	

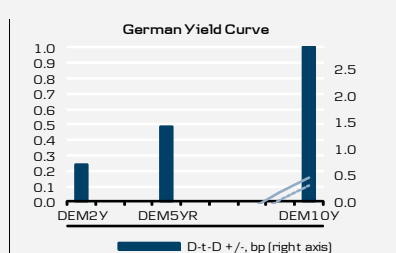
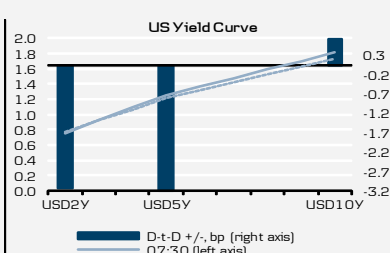
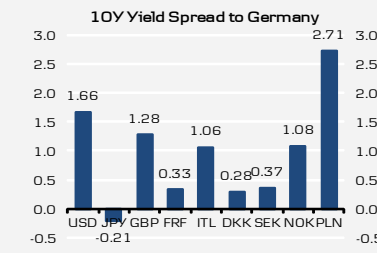
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.00	-0.24	-24
GBP	0.50	0.59	9
DKK	0.05	-0.09	-14
SEK	-0.50	-0.46	4
NOK	0.50	1.00	50
PLN	1.50	1.57	7

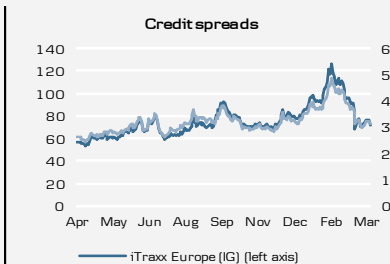
	17:00	07:30		+/-, bp
USD 10Y	1.86	1.81	↓	-4
USD 30Y	2.68	2.64	↓	-4
JPY 10Y	-0.09	-0.05	↑	4
	07:30(-1)*	17:00		+/-, bp
DEM 10Y	0.13	0.16	↑	4
DKK 10Y	0.39	0.45	↑	5
SEK 10Y	0.52	0.53	↑	1
NOK 10Y	1.24	1.24	↑	0
PLN 10Y	2.83	2.86	↑	3

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	72	↓ -1	↓ -28
HiVol	90	↑ 0	↓ -37
Xover (N-IG)	312	↓ -2	↓ -98
Finan. Sr.	91	↓ -1	↓ -19
Finan. Sub.	203	↓ -3	↓ -39
Non-finan.			

* Ask price



	17:00	07:30		+/-
USD 10Y				
JPY 10Y	-14	-14	↑	0
	07:30(-1)*	17:00		+/-
EUR 10Y	0	22	↑	22
DKK 10Y	39	39	↓	0
SEK 10Y	49	48	↓	-1
NOK 10Y	63	62	↓	-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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