

Danske Daily

Market Movers

- **In terms of data releases, focus will be on the US retail sales in November.** This is one of the few remaining figures to be released ahead of the FOMC meeting next week. Consensus expects an increase of around 0.3% but, in our view, there are some downside risks to this forecast as the weekly retail sales from ICSC have been weak.
- **The US preliminary consumer confidence survey from University of Michigan for December is also released today.** While consumer sentiment fell in November, it is still at a high level. Consumers' long-term inflation expectations are likely to attract attention as they have been trending down for the past couple of years and some FOMC members have expressed concern about this development. Long-term inflation expectations were 2.6% y/y in November.
- **The US PPI figures for November is also due today.** The low commodity prices imply that there is currently no price pressure from the producer side.
- **Russia's central bank is due to announce its monetary policy decision and we expect a 50bp cut to the key rate as disinflation continues.** That said, the risks for delayed easing have increased as recent geopolitical developments could fuel inflation expectations, see *CBR rate decision preview: facing a vicious circle*, 9 December 2015 For more on the Russian economy, see *Russia: L-shaped recovery – Russia's economy set to grow marginally in 2016*, 7 December 2015.
- There are no market movers in the Scandi markets today.

Selected Market News

The downward sliding oil price remains in the spotlight with Brent trading at USD39.5/bbl at the time of writing. Any hopes of stabilisation in energy markets from OPEC cutting production have been crushed following last week's OPEC meeting. Instead, a non-OPEC response could stop the current price slide as key producers are struggling despite lower costs. An end to the USD rally in 3M, as we look for, should also stabilise commodities more generally.

Asian stocks are lower this morning driven by lower Chinese equities. The Shanghai composite index is down 0.9% today after a 3% decline since Monday. The CNY has continued to weaken to 6.450. This is likely to reflect speculation on a weakening ahead of next week's FOMC meeting. Note that Chinese industrial production, fixed asset investment and retail sales are due for release over the weekend.

Ahead of next week's FOMC meeting, Fed fund futures place an 85% chance of the Fed raising rates. In our view, a Fed hike next week seems like a done deal, see *Fed lift-off series #1: Evidence from previous hiking cycles*, 7 December 2015. Hence, we believe attention will quickly shift to the updated Fed projections and the so-called 'dots' illustrating the individual FOMC members' view on the future rate path. We expect the median 'dot' for 2016 to be revised down from four to three hikes, while five hikes should still be included in 2017. This is more hawkish than market expectations, as markets have priced in only a total of approximately five hikes until year-end 2017, see *Fed lift-off series #2: 'Game of dots' – Fed set to signal 'dovish hike'*, 7 December 2015.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2052.2	↑	0.23
S&P500 fut (chg from close)	2043.9	↑	0.14
Nikkei	19213.5	↑	0.88
Hang Seng	21562.4	↓	-0.66
	17:00	07:30	+/- bp
US 2y gov	0.94	0.95	↑ 1.6
US 10y gov	2.22	2.23	↑ 0.3
iTraxx Europe (IG)	77	77	↑ 0.7
iTraxx Xover (Non IG)	317	320	↑ 3.0
			+/- %
EUR/USD	1.095	1.094	↓ -0.05
USD/JPY	121.470	122.030	↑ 0.46
EUR/CHF	1.08	1.08	↓ -0.12
EUR/GBP	0.721	0.723	↑ 0.21
EUR/SEK	9.305	9.320	↑ 0.17
EUR/NOK	9.45	9.48	↑ 0.30
			USD
Oil Brent, USD	39.7	39.5	↓ -0.68
Gold, USD	1073.5	1069.3	↓ -0.39

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

- [Market guide - December 2015](#)
 - [Presentation - Euro area and ECB outlook: Hot topics in 2016](#)
 - [Bank of England Review: Lower oil price eases pressure on BoE - we now expect the first hike in Q2 16](#)
 - [Flash Comment SNB: Happily on hold - EUR/CHF to 1.15 in 12M](#)
- All from 10 December 2015

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Fixed Income Markets

The disappointing ECB meeting last week has resulted in speculation about whether the ECB will be forced to ease again in 2016. From a market perspective, the Eonia curve remains inverted and prices around a 50% probability of another deposit cut next year. In our view, the bar for additional ECB easing is quite high and dependent on incoming economic data with the inflation development being crucial. See *Presentation – Euro area and ECB outlook: Hot topics in 2016*, 10 December 2015.

We believe additional pricing of further rate cuts (especially in March next year) is too aggressive. We also see value in positioning for higher inflation, as our inflation forecast is above what is priced in. Over time, the yield curve should steepen from the long end in a usual end-of-easing move.

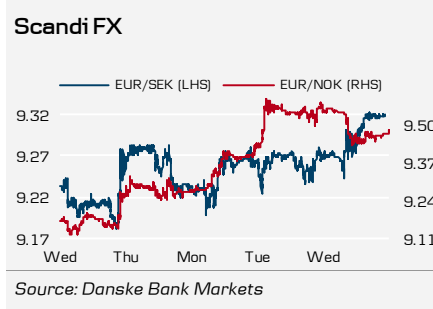
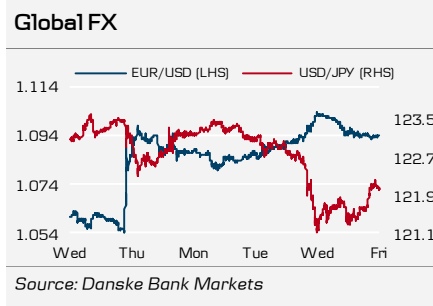
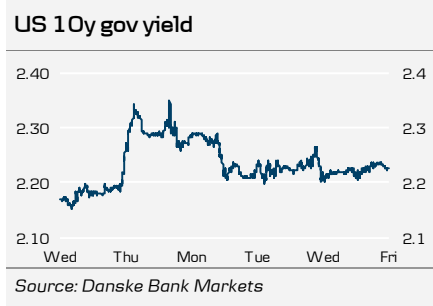
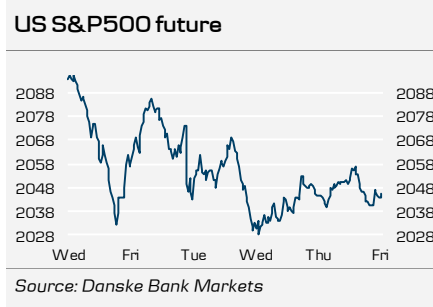
In the govie market, Spain is due to announce details on next week's auction today at 2pm CET. We could imagine a tap of the Apr-18, Jul-20 and the Oct-25 and in any case that it will be relatively small (details Monday). Yesterday, Ireland released Q3 GDP figures, which once again surprised on the upside with a 7% y/y reading. This should be supportive for an early 2016 Moody's upgrade, which is one of the drivers for our 2016 top trade – long 10Y Ireland versus France, see note *FI Research: Ireland: 7% growth YtD – highest in euro area 3 years in a row?*, 10 December 2015.

France is up for rating review by S&P (AAu/neg.) and Fitch (AA/stable). Soaring costs for security after the Paris attack add a downside risks to the rating and outlook from both agencies and the increasing support to Front National means also increased political risk.

FX Markets

The Bank of England (BoE) took another dovish stance at its monetary policy meeting yesterday. Although the pressure on the BoE to keep rates low eased significantly after the ECB disappointed last week, the lower oil price has lowered the inflation outlook for next year. The lower oil price is the main reason why we now expect the first BoE hike in Q2 16, probably in May (previously Q1 16, February). The implication for FX is that we now see less EUR/GBP downside potential short term but instead look for a more gradual and longer lasting decline instead. Thus, we have revised our 3M EUR/GBP forecast higher to 0.71 (previously 0.68) as GBP now should see less support from relative rates in the coming months. With the first BoE hike now expected to arrive in Q2 instead, we forecast EUR/GBP to drop to 0.70 in 6M (was 0.71). Longer term, we still expect the cross to stabilise and eventually move gradually higher, and we keep our 12M target unchanged at 0.73. See *Bank of England Review: Lower oil price eases pressure on BoE - we now expect the first hike in Q2 16*, for details, 10 December 2015.

The Swiss National Bank (SNB) kept its 3M Libor target and sight deposit rate at -0.75% yesterday at its quarterly meeting. This sent EUR/CHF lower as some probability of a rate cut was priced in ahead of the decision. We expect the SNB to keep policy rates unchanged for the foreseeable future. In our view, December was the end of ECB easing and we expect the Fed to start a hiking cycle next week; both would be helpful in bringing about the depreciation of the trade-weighted CHF that the SNB longs for. Should EUR/CHF fall 'excessively' below what we deem to be the lower comfort level around 1.05, we would expect the SNB to use intervention as a first line of defence. We still look for range trading around the 1.08 level in 1-3M and then for a gradual uptick in EUR/CHF towards 1.15 in 12M. For more details, see *Flash Comment SNB: happily on hold - EUR/CHF to 1.15 in 12M*, 10 December 2015.



Norwegian inflation rose more than expected in November. However, overall the figures are fairly much in line with the latest forecast from Norges Bank, and should not affect the rate decision next week. Instead, we note that yesterday's appreciation of NOK has sent NOK closer to Norges bank's I44 forecast, which limits the implicit easing. Moreover, Brent crude oil has dropped below 40USD/bbl and is roughly 20% below Norges Bank's projection. We stress that this is a binary risk factor that could trigger another insurance cut from Norges Bank.

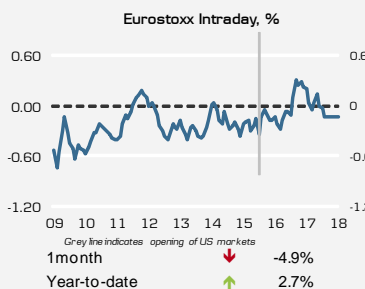
Key figures and events

Friday, December 11, 2015					Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP, final	m/m/y/y	Nov	... 0.3%	0.1% 0.3%	0.1% 0.3%	
9:30	SEK	Average house prices	SEK m	Nov			2.48	
10:00	ITL	Industrial production	m/m/y/y	Oct		0.3% 1.9%	0.2% 1.7%	
10:30	GBP	Construction output	m/m/y/y	Oct	2.0% 0.0%	-0.2% -1.6%	-0.2% -1.6%	
11:10	EUR	ECB sixth TLTRO Result						
11:30	RUB	Central Bank of Russia rate decision	%		10.5%	10.8%	11.0%	
14:30	USD	Retail sales less autos	m/m	Nov		0.3%	0.2%	
14:30	USD	Retail sales less autos and gas	m/m	Nov		0.4%	0.3%	
14:30	USD	Retail sales control group	m/m	Nov		0.5%	0.2%	
14:30	USD	PPI	m/m/y/y	Nov		0.0% -1.4%	-0.4% -1.6%	
14:30	USD	PPI core	m/m/y/y	Nov		0.1% 0.2%	-0.3% 0.1%	
14:30	USD	Retail sales	m/m	Nov		0.3%	0.1%	
16:00	USD	University of Michigan Confidence 1 year inflation, preli	y/y	Dec			2.7%	
16:00	USD	University of Michigan Confidence, preliminary	Index	Dec		92.0	91.3	

Source: Bloomberg, Danske Bank Markets

Today's market data: 11 December 2015

STOCKS



Index	Close	Change	%
DJSTOXX50	3086	↓	-0.1%
OMXC20	991	↓	-0.8%
OMXS30	1433	↓	-0.5%
OSE BX	604	↓	-1.1%
DOW JONES	17575	↑	0.5%
NASDAQ	5045	↑	0.4%
S&P 500	2052	↑	0.2%
NIKKEI (07:30)	19214	↓	-0.1%

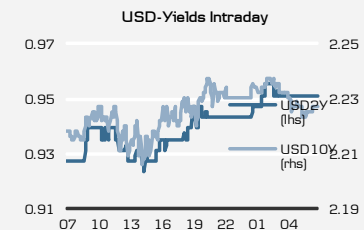
FX & COMMODITIES



EUR	17:00	07:30	Change
USD	109.46	109.41	↓ -0.05
JPY	132.95	133.52	↑ 0.57
GBP	72.12	72.27	↑ 0.15
NOK	945.03	947.83	↑ 2.80
SEK	930.47	932.02	↑ 155
DKK	746.10	746.10	↑ 0.00
PLN	434.64	434.80	↑ 0.16
USD	17:00	07:30	Change
JPY	12147	122.03	↑ 0.56
GBP	15176	15139	↓ -0.37
CHF	98.87	98.80	↓ -0.07

Oil, Brent, \$	07:30	Change
Gold, \$	1069.34	
1day	-2.21	↓
1month	-16.98	↓
Year-t-date	-115.52	↓
CRB	07:30	Change
1M future	177.03	
1day	-0.53	↓
1month	-12.39	↓
Year-t-date	-52.93	↓
CRB, Raw Industrials	07:30	Change
400.31		
1day	-0.34	↓
1month	-3.07	↓
Year-t-date	-9180	↓

YIELDS & INTEREST RATES

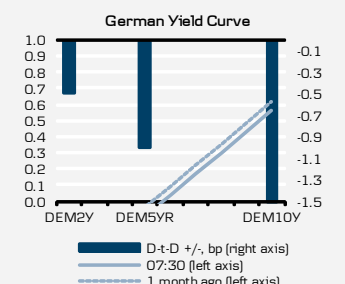
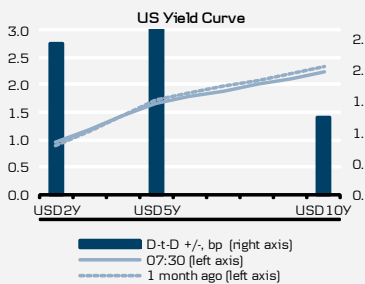
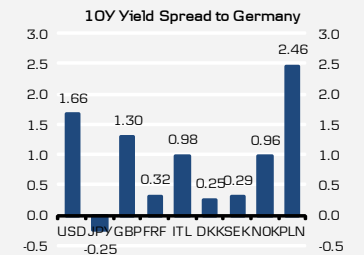


Policy Rate	3M	Spread, bp
USD	0.25	0.49
EUR	0.05	-0.13
GBP	0.50	0.58
DKK	0.05	-0.15
SEK	-0.35	-0.41
NOK	0.75	1.08
PLN	1.50	1.62

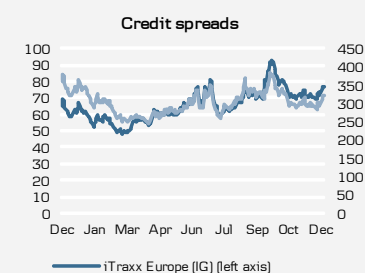
Spread, bp	17:00	07:30	Change
USD 10Y	2.22	2.23	↑ 0
USD 30Y	2.97	2.96	↓ -1
JPY 10Y	0.31	0.32	↑ 1

Spread, bp	07:30(-1)*	17:00	Change
DEM 10Y	0.58	0.57	↓ -1
DKK 10Y	0.91	0.82	↓ -9
SEK 10Y	0.91	0.87	↓ -4
NOK 10Y	1.53	1.53	↑ 0
PLN 10Y	2.98	3.03	↑ 5

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1day	1month
Europe (IG)	77	↑ 0	↑ 6
HiVol	94	↓ 0	↑ 11
Xover (N-IG)	320	↑ 2	↑ 21
Finan. Sr.	74	↑ 0	↑ 3
Finan. Sub.	152	↑ 0	↓ -4
Non-finan.			



Swap Spread, bp**	17:00	07:30	Change
USD 10Y			
JPY 10Y	-8	-7	↑ 1
EUR 10Y	0	14	↑ 14
DKK 10Y	31	34	↑ 3
SEK 10Y	40	42	↑ 2
NOK 10Y	62	64	↑ 2

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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