

# Danske Daily

## Market Movers

- Only tier 2 data will be released today ahead of an otherwise busy week with US retail sales on Wednesday, US CPI on Thursday, Chinese September trade data and the German ZEW on Tuesday.
- The most important events today will be the speeches by Fed President Lockhart (voter, neutral) and Fed board member Brainard (voter, neutral).
- US bond markets are closed due to Columbus day.
- We expect Danish inflation to rebound in September (*See Scandi markets, page 2*).

## Selected Market News

New York Fed President Dudley said on Friday that he still sees a December lift-off as his base case but that this is conditional on his economic forecasts coming true and that there are risks to these. FOMC Vice Chair Fischer echoed this message at the IMF meeting over the weekend. He stated that at the September FOMC meeting most members of the FOMC thought that lift-off later this year was appropriate, but that the Fed is monitoring slower domestic job growth, the previous two job reports have been 'disappointing' and international developments would decide the exact timing of lift-off. We expect the Fed to deliver the first rate hike in January next year.

In an interview with the Greek newspaper Kathimerini on Saturday, ECB President Draghi said that the QE programme undertaken by the ECB has worked better than expected. He also said that while it looks as though it will take somewhat longer for inflation to return to 2%, this is largely caused by the drop in oil prices. We expect the ECB to extend the current QE programme, but at the December ECB meeting at the earliest, and possibly not until next year.

The Chinese Yuan is now trading at its strongest level since the change of currency regime two months ago. The PBOC raised its fixing on Monday by 0.14 percent to 6.3406 and the currency has strengthened further in today's trading.

The stock markets continued the positive trend in the US and Europe on Friday and this morning Asian bourses have extended last week's rally led by strong gains in Chinese shares. US treasury markets held broadly stable at the end of Friday and with a slightly flatter 2-30 curve. EUR/USD has moved higher and the EUR is now at its strongest against the USD since mid-September. Oil prices have held on to their gains from last week.

## Market overview

		07:30	1 day +/- %
S&P500 (close)		2014.9	↑ 0.07
S&P500 fut (chng from close)		2005.9	↓ -0.07
Nikkei		18438.7	↑ 1.64
Hang Seng		22763.4	↑ 1.36
		17:00	07:30
			+/- bp
US 2y gov	0.64	0.64	↓ -0.4
US 10y gov	2.10	2.09	↓ -1.6
iTraxx Europe (IG)	81	80	↓ -0.6
iTraxx Xover (Non IG)	330	328	↓ -2.0
			+/- %
EUR/USD	1.136	1.137	↑ 0.09
USD/JPY	120.300	120.160	↓ -0.12
EUR/CHF	1.09	1.09	↑ 0.06
EUR/GBP	0.742	0.742	↓ -0.02
EUR/SEK	9.300	9.317	↑ 0.18
EUR/NOK	9.18	9.19	↑ 0.11
			USD
Oil Brent, USD	52.9	53.0	↑ 0.19
Gold, USD	1157.4	1158.5	↑ 0.09

### 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

- *Government Bonds Weekly: Heavy issuance in the coming week*
- *Weekly Focus: German softness looming due to Chinese turmoil and VW fraud*

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## Scandi Markets

Denmark: we expect the Danish CPI reading for September to be 0.5% y/y, the same as in August. There is likely to be some reversal from the downside surprise in September, especially in food prices. We are also now beginning to see the positive base effects from the decline in fuel prices last year. However, in the other direction, gasoline prices declined almost 5% in September, which was much more than the decline in the oil price in itself indicated. The difference between oil and petrol prices has now almost returned to normal.

## Fixed Income Markets

From a market perspective, not much new came out of the IMF gathering with Fischer's (Fed) speech being the most interesting out of Lima. The market reading is a tad 'hawkish' as the 'inner circle' around Yellen still wants to keep the door open for a rate hike in December despite the recent weak data. The Fischer comments could weigh a bit on core EUR markets on the opening as did the improved risk sentiment throughout last week.

We have a very busy week in the govie primary market with, in particular, longer-dated supply out of the periphery. This week we have taps from Italy (Tuesday; 3Y, 7Y and 17Y), The Netherlands (Tuesday; 10Y), Germany (Wednesday; 5Y), Portugal (Wednesday; 15Y and 22Y), Spain (Thursday; 3Y, 10Y and 15Y) and France (Thursday; 3Y, 5Y, 7Y + linkers) – see weekly for details *Government Bonds Weekly: Heavy issuance in the coming week*.

The periphery performed well throughout last week helped by the general positive risk sentiment and market talks of QE2. 10Y Italy versus Germany has dropped to the tightest level (107bp) since early April. In particular, the long end of Spain and Italy outperformed Germany 6bp and 4bp, respectively, in Friday's session as the market had priced in some probability of 30Y supply out of Spain. Also, the govie market has recently been more sensitive to supply – so let us see how well the periphery will get through this week's heavy supply. Spain will release details on size today at 14:00 CET.

## FX Markets

EUR/SEK jumped on Friday after news the Swedish Christian Democrats will leave the December agreement, thus opening up political uncertainty in Sweden and weighing on the SEK. The cross is back in the range, which we believe the Riksbank would like to see, namely 9.30-9.60, but verbal intervention from board members remains likely over the coming days. The Riksbank has, however, put itself into a corner in terms of the krona: if there is no additional monetary stimulus in connection with the 28 October meeting, there is an imminent risk that the krona will strengthen further, and break the inflationary impulse that it previously generated.

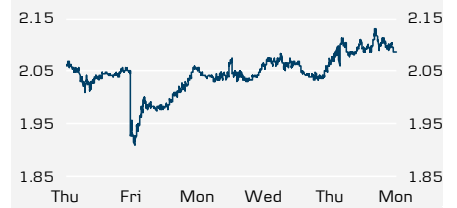
EUR/USD edged higher into the weekend after Draghi stressed that while the ECB remains on high alert on disinflation, QE remains the preferred option (rather than a deposit rate cut); maybe less surprisingly, the ECB's Lautenschlager (from Germany) took this one step further over the weekend when stating that it is still premature to consider more QE for the ECB. We see limited EUR downside from the ECB near term as a pick-up in inflation (albeit on base effects) takes some pressure off policy makers to deliver aggressively near term. Furthermore, with last week's FOMC minutes revealing that the September no-hike decision was not really the close call it was marketed to be by

### US S&P500 future



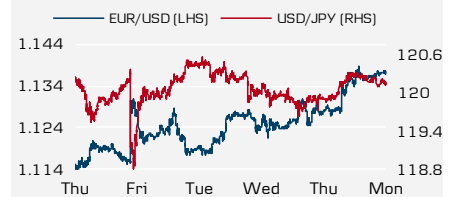
Source: Danske Bank Markets

### US 10y gov yield



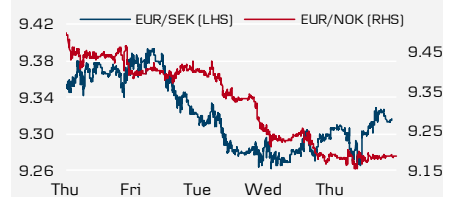
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

some FOMC members, we think it will take a sustained reversal in the US economic surprise index, which has made a turn for the worse since late August, to fuel more aggressive pricing of the Fed in the currency market; this is despite the fact the Fed (latest: Fischer over the weekend) maintains that a 2015 hike remains likely. This suggests USD support may be lacking for some time still; watch FOMC members speaking tonight though. EUR/USD will be kept in the 1.11-1.14 range for now.

The weekly positioning data showed fewer JPY shorts in the week to 6 October, more bearish GBP and CHF bets were added; the release also showed how speculators put on longs (or covered shorts) in risk assets such as the commodity currencies and oil and copper. This serves to further highlight the risk rally fuelled in recent weeks by the Fed's reluctance to hike near term.

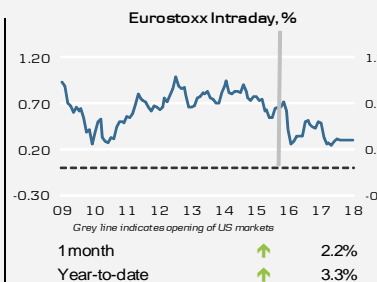
**Key figures and events**

Monday, October 12, 2015			Period	Danske Bank	Consensus	Previous
-	OPC	OPEC publishes monthly oil market report	Oct			
8:00	SEK	PES unemployment	%			4.3%
9:00	DKK	CPI	m/m y/y	0.3% 0.5%		-0.3% 0.5%
14:10	USD	Fed's Lockhart (voter, dovish) speaks				
16:30	USD	Fed's Evans (voter, dovish) speaks				
22:30	USD	Fed's Brainard (voter, dovish) speaks				

Source: Bloomberg, Danske Bank Markets

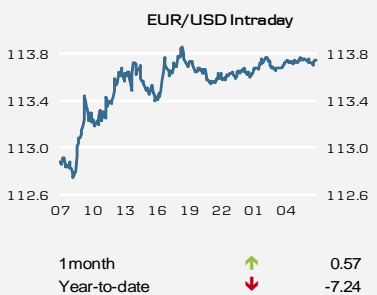
Today's market data: 12 October 2015

STOCKS



	Close		+/-
DJSTOXX50	3102	↑	0.3%
OMXC20	938	↑	0.3%
OMXS30	1484	↑	1.3%
OSE BX	619	↑	0.7%
<b>DOW JONES</b>			
DOW JONES	17084	↑	0.2%
NASDAQ	4830	↑	0.4%
S&P500	2015	↑	0.1%
NIKKEI (07:30)	18439	↑	0.3%

FX & COMMODITIES

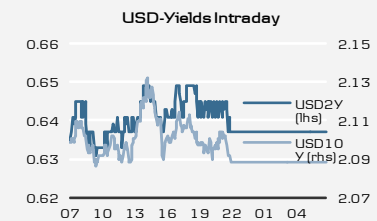


EUR	17:00	07:30	+/-
USD	113.64	113.74	↑ 0.10
JPY	136.71	136.67	↓ -0.04
GBP	74.21	74.19	↓ -0.01
NOK	917.53	918.50	↑ 0.97
SEK	929.96	931.65	↑ 1.69
DKK	746.04	746.11	↑ 0.07
PLN	422.32	421.70	↓ -0.62
USD	17:00	07:30	+/-
JPY	120.30	120.16	↓ -0.14
GBP	153.15	153.31	↑ 0.16
CHF	96.14	96.11	↓ -0.03

	Close		+/-
07:30	158.52		53.02
1day	↑ 1.24	↑	0.37
1month	↑ 50.74	↑	4.88
Year-t-date	↓ -26.34	↓	-4.31
<b>CRB</b>			
07:30	202.69		431.20
1day	↑ 1.39	↓	-0.80
1month	↑ 5.97	↓	-12.14
Year-t-date	↓ -27.27	↓	-60.91

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

YIELDS & INTEREST RATES

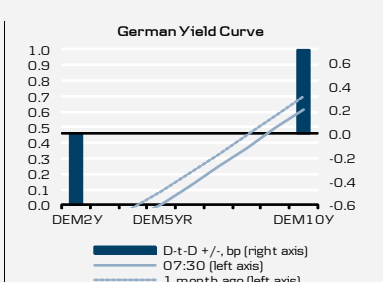
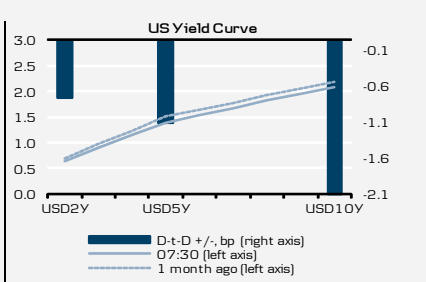
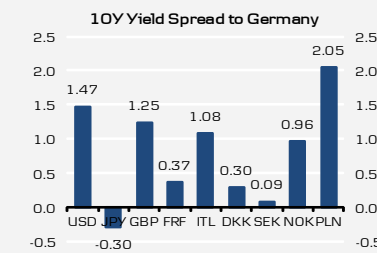


	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.05	-10
GBP	0.50	0.57	7
DKK	0.05	-0.06	-11
SEK	-0.35	-0.30	5
NOK	0.75	1.11	36
PLN	1.50	1.63	13

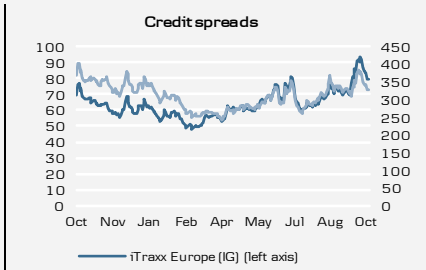
	17:00	07:30	+/-, bp
USD 10Y	2.10	2.09	↓ -2
USD 30Y	2.93	2.92	↓ -1
JPY 10Y	0.33	0.32	↓ -1
<b>07:30(-1)* 17:00 +/-, bp</b>			
DEM 10Y	0.61	0.61	↑ 0
DKK 10Y	0.91	0.91	↑ 0
SEK 10Y	0.68	0.69	↑ 2
NOK 10Y	1.58	1.58	↑ 0
PLN 10Y	2.66	2.67	↑ 1

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

\* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1day	1month
Europe (IG)	80	↓ -1	↑ 8
HiVol	78	↑ 0	↑ 9
Xover (N-IG)	328	↓ -4	↓ -5
<b>Finan. Sr.</b>			
Finan. Sub.	81	↓ -1	↓ -3
Non-finan.	172	↓ 0	↑ 5



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-2	0	↑ 2
<b>07:30(-1)* 17:00 +/-</b>			
EUR 10Y	0	19	↑ 19
DKK 10Y	40	38	↓ -1
SEK 10Y	47	45	↓ -2
NOK 10Y	70	70	↑ 0

\* Ask price

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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