

15 December 2015

# Danske Daily

## Market Movers

- Main event in Scandies will be the **Riksbank meeting** where a rate cut cannot be ruled out, see *Scandi Markets*.
- Otherwise the key market drivers continue to be developments in the oil market, the stress in US high yield and the Fed meeting tomorrow.
- The last piece of interesting US data ahead of the Fed decision will be released today with the November **US inflation** numbers. Core inflation is the number to watch and it is expected to rise 0.2% m/m. This will take the annual core inflation rate to 2.0% y/y from 1.9% y/y. The US also releases the Empire manufacturing survey as well as the NAHB housing survey.
- **UK inflation** for November is due for release and we look for an increase to 0.1% y/y (in line with consensus) from -0.1% y/y in October boosted by all four major components (services, non-energy industrial goods, energy and foods). We estimate core inflation has increased from 1.1% y/y in October to 1.3% y/y (consensus 1.2% y/y) in November.
- We expect **German ZEW expectations** for December to increase modestly signalling further improvement in the German business cycle following the recent soft patch.

## Selected Market News

**The oil price fell further yesterday to a new low before rebounding slightly** again in the afternoon. The declining trend is still in place, though, and it is too early to call the bottom. Bloomberg reported yesterday that hedge funds are boosting bearish bets on oil contributing to the push lower. Risk sentiment recovered together with the oil price and **US stocks as well as bond yields finished the day higher**.

Despite the slight rebound in oil prices, **US high yield remained under pressure with spreads widening to new highs**. The stress in the high yield market is a big concern as liquidity is very poor leaving the market vulnerable if outflows from retail investors intensify. The combination of lower stock markets and higher credit spreads has led to a sharp tightening of US financial conditions lately – something that will likely worry the Fed.

Interestingly, **EUR/USD moved higher yesterday alongside a decent move up in US 2-year yields** suggesting that the relative yield spread to the euro area is having less of an impact currently. As we have highlighted, the relative yield spread loses its power to drive the exchange rates when positioning is stretched as is the case currently with investors being heavily long the USD and short EUR, see *IMM positioning: EUR/USD positioning remains stretched short post ECB*, 14 December.

In China the **CNY has weakened further against the USD** after China on Friday highlighted that the CNY is managed against a basket of currencies and not just the USD. USD/CNY is trading at the highest level since summer 2011 at 6.465.

## Market overview

	07:30	1 day +/-%	
S&P500 (close)	2021.9	↑ 0.48	
S&P500 fut (chng from close)	2014.0	↑ 0.22	
Nikkei	18623.4	↓ -1.38	
Hang Seng	21333.4	↑ 0.11	
	17:00	07:30	
		+/-, bp	
US 2y gov	0.93	0.94	↑ 0.8
US 10y gov	2.19	2.21	↑ 1.8
iTraxx Europe (IG)	85	86	↑ 1.1
iTraxx Xover (Non IG)	354	359	↑ 4.9
			+/-, %
EUR/USD	1.104	1.103	↓ -0.09
USD/JPY	120.610	120.790	↑ 0.15
EUR/CHF	1.08	1.08	↑ 0.07
EUR/GBP	0.730	0.727	↓ -0.33
EUR/SEK	9.343	9.327	↓ -0.17
EUR/NOK	9.58	9.53	↓ -0.47
			USD
Oil Brent, USD	37.3	37.8	↑ 1.31
Gold, USD	1070.3	1063.7	↓ -0.62

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

- *Norges Bank Preview - Unchanged and very dovish bias - but unusually close call*
- *Fed Lift-off Series No. 3: FOMC preview: we expect a dovish hike*

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## Scandi Markets

In accordance with most other economic commentators, we believe the Riksbank will leave the repo rate unchanged at -0.35% today and will not announce additional QE-measures. That said, plummeting oil and raw material prices together with a below forecast inflation outcome last week mean that it is a closer call than current market pricing will have it. As we write, only 2bp cut is priced in for today and only 5bp cut in total, up to April. Thenceforth, markets are expecting hikes. Seems like a stretch if you ask us., see also *Scandi Markets Ahead: Close calls for the Riksbank and Norges Bank meetings*, 14 December.

## Fixed Income Markets

The Riksbank meeting is the key focus for Swedish fixed income today and we and most/all analysts expect a no-change vote. However, as mentioned above it will be a close call and a rate cut cannot be ruled out.

In the EUR govie market the periphery came under pressure towards the end of the session yesterday with 10Y Spain and Italy widening 6bp to Germany. The move appeared flow driven and with poor liquidity it takes little to move the market these days. The weekly ECB figures released yesterday confirmed that frontloading continues although the figure was somewhat lower than the week before, see *graph*. The increased QE buying continues until 21 December and after that it will be interesting to see the market action as we are 'on our own' until next year.

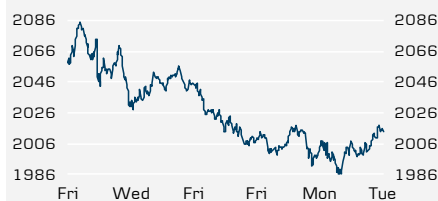
In the primary market Austria is tapping EUR1.2bn in Nov-22s and Oct-25. The auction is likely to be well bid due to the usual overbidding 'beauty contest' among primary dealers. However, Austria announced last week that next year's issuance target is lifted to EUR20-22bn from EUR19bn this year and risk is even tilted towards higher supply due to the potential Heta exposure.

## FX Markets

Today, the most important event in the Scandi markets is the Riksbank decision due at 9:30 CET. It is a close call but we lean towards a no-change from the Riksbank given the ECB's modest easing on 3 December and the recent weakness of EUR/SEK, which is trading 'safely' in the 9.10-9.50 range. If the Riksbank leave rates unchanged but as expected is dovish in the statement and at the press conference we would expect EUR/SEK to fall modestly towards 9.25-9.30. If it decides to cut interest rates by, say, 10bp to 45bp we would expect a short-lived bounce towards 9.40-9.45, while e.g. an extension or expansion of the QE programme is likely to have less impact. In any case, we expect EUR/SEK to trade within a 9.10-9.30 range over the coming three months before a more sustained downtrend emerges.

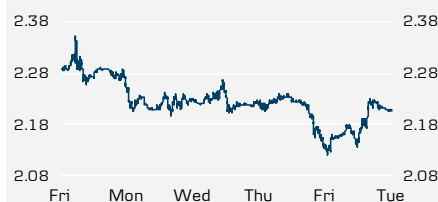
The USD is weakening against low-yielding currencies like the EUR, JPY and CHF but strengthening against commodity currencies like the CAD and MXN. The latest sharp weakness of large US trading-partner currencies such as the CNY, CAD and MXN supports our view that the Fed will deliver a 'dovish' hike on Wednesday. The recent weakness of the USD versus interest-rate sensitive currencies like the EUR, JPY and CHF is pricing in a dovish rate hike from the Fed. We expect the Fed rate hike will support modest near-term USD strength given increasing market expectations of a dovish hike.

### US S&P500 future



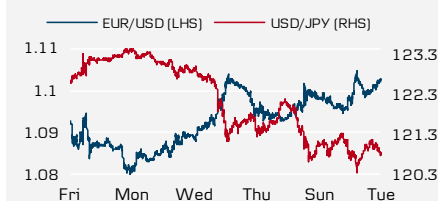
Source: Danske Bank Markets

### US 10y gov yield



Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

## Key figures and events

Tuesday, December 15, 2015					Period	Danske Bank	Consensus	Previous
9:00	ESP	HICP, final	m/mly/y	Nov			... -0.4%	0.2% -0.4%
9:30	SEK	Riksbank, rate decision	%			-0.35%	-0.35%	-0.35%
10:00	NOK	Trade balance	NOK bn	Nov				20.6
10:30	GBP	PPI - input	m/mly/y	Nov			-1.0% -12.4%	0.2% -12.1%
10:30	GBP	PPI - output	m/mly/y	Nov			-0.1% -1.3%	0.0% -1.3%
10:30	GBP	CPI	m/mly/y	Nov		-0.1% 0.1%	-0.1% 0.0%	0.1% -0.1%
10:30	GBP	CPI core	y/y	Nov		1.3%	1.1%	1.1%
11:00	DEM	ZEW current situation	Index	Dec		60	54.1	54.4
11:00	DEM	ZEW expectations	Index	Dec		16.5	15.0	10.4
11:00	EUR	Employment	q/qly/y	3rd quarter				0.3% 0.8%
14:00	HUF	Central Bank of Hungary rate decision	%			1.35%	1.35%	1.35%
14:30	USD	Empire manufacturing PMI	Index	Dec			-5.8	-10.7
14:30	USD	CPI	m/mly/y	Nov		0.1% 0.5%	0.0% 0.5%	0.2% 0.2%
14:30	USD	CPI - core	m/mly/y	Nov		0.2% 2.0%	0.2% 2.0%	0.2% 1.9%
16:00	USD	NAHB Housing Market Index	Index	Dec			63.0	62.0
22:00	USD	TICS international capital flow, net inflow	USD bn	Oct				-175.1

Source: Bloomberg, Danske Bank Markets

# Today's market data: 15 December 2015

## STOCKS



	Close	+/-
DJSTOXX50	2961	↓ -1.9%
OMXC20	963	↓ -0.3%
OMXS30	1389	↓ -0.8%
OSE BX	585	↓ -1.6%
DOW JONES	17369	↑ 0.6%
NASDAQ	4952	↑ 0.4%
S&P500	2022	↑ 0.5%
NIKKEI (07:30)	18623	↓ -1.9%

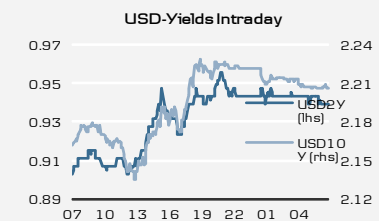
## FX & COMMODITIES



	17:00	07:30	+/-
<b>EUR</b>			
USD	110.37	110.27	↓ -0.10
JPY	133.11	133.20	↑ 0.09
GBP	72.96	72.71	↓ -0.24
NOK	957.69	953.23	↓ -4.46
SEK	934.32	932.74	↓ -1.58
DKK	746.16	746.14	↓ -0.02
PLN	436.18	436.29	↑ 0.11
<b>USD</b>			
JPY	120.61	120.79	↑ 0.18
GBP	151.28	151.65	↑ 0.37
CHF	98.06	98.22	↑ 0.16

	Close	+/-
<b>Gold, \$</b>		
07:30	1063.66	
1day	3.81	↓ -0.16
1month	-20.26	↓ -5.85
Year-t-date	-121.20	↓ -19.57
<b>Oil, Brent, \$</b>		
07:30	37.76	
1day	-0.59	↓ -1.36
1month	-10.50	↓ -12.4
Year-t-date	-55.69	↓ -90.44
<b>CRB</b>		
1M future	174.26	
07:30	401.67	
1day	-0.59	↓ -1.36
1month	-10.50	↓ -12.4
Year-t-date	-55.69	↓ -90.44

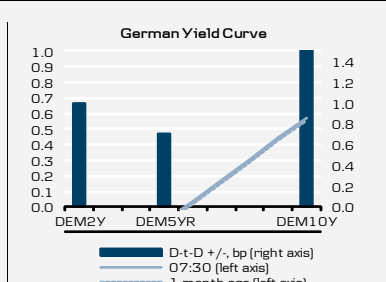
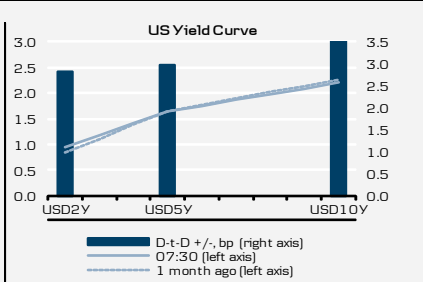
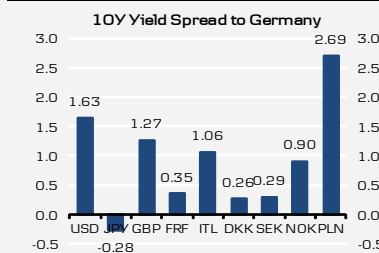
## YIELDS & INTEREST RATES



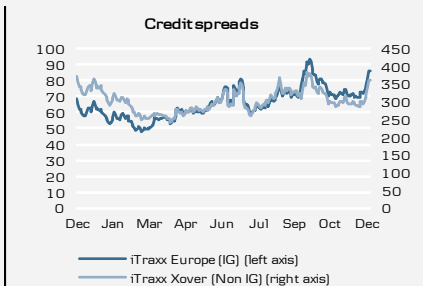
	Policy Rate	3M	Spread, bp
USD	0.25	0.51	26
EUR	0.05	-0.13	-18
GBP	0.50	0.59	9
DKK	0.05	-0.13	-18
SEK	-0.35	-0.38	-3
NOK	0.75	1.10	35
PLN	1.50	1.62	12

	17:00	07:30	+/-, bp
USD 10Y	2.19	2.21	↑ 2
USD 30Y	2.93	2.94	↑ 1
JPY 10Y	0.30	0.30	↓ 0
DEM 10Y	0.56	0.58	↑ 2
DKK 10Y	0.89	0.84	↓ -5
SEK 10Y	0.85	0.86	↑ 2
NOK 10Y	1.48	1.48	↑ 0
PLN 10Y	3.12	3.27	↑ 15

\* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	86	↑ 1	↑ 11
HiVol	106	↑ 3	↑ 15
Xover (N-IG)	359	↑ 3	↑ 45
Finan. Sr.	83	↑ 1	↑ 6
Finan. Sub.	173	↑ 5	↑ 13
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-8	-9	↓ -1
EUR 10Y	0	14	↑ 14
DKK 10Y	33	34	↑ 1
SEK 10Y	44	42	↓ -2
NOK 10Y	62	60	↓ -2

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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