

11 January 2016

Danske Daily

Market Movers

- Fed's Lockhart and Kaplan (both non-voters) are scheduled to speak today and the US labour market condition index is due for release.
- Confusion regarding China's FX policy contributed to the market turmoil last week. Focus today and throughout the week will therefore be on China and any announcements on monetary or economic policy.
- Scandi markets will keep an eye on December's CPI inflation figures in Denmark and Norway published today.

Selected Market News

Worries over the outlook for global economic growth continue to weigh on sentiment, which has sent equity markets and commodity markets plunging at the start of this week, thereby continuing the trend from last week. Stock prices in China and Hong Kong have declined 2-3% today, the price on Brent crude has dropped below USD32/bl and the price on 3M LME Copper has dropped below USD4,500/MT again. Both the CNY and the CNH have strengthened a bit today.

China's December CPI inflation was 1.6% y/y and December's PPI inflation was 5.9% y/y, in line with the consensus expectation, highlighting that inflation in China remains subdued.

UK Prime Minister David Cameron said on Sunday that he is confident a deal on the terms of UK EU membership can be reached next month, which means a referendum on the matter could come already this summer.

Saudi Arabia announced on Friday that it is looking into the possibility of selling shares in the state-owned oil company Saudi Aramco. It highlights (1) that Saudi Arabia needs money to finance the large budget deficit amid low oil prices and (2) that the new leadership in Saudi Arabia continues to push forward with its reform agenda.

2015 ended very well for the US labour market as 292,000 new jobs were created. The revisions to the previous months were also favourable as the two-month net revisions were +50,000. Overall, the US labour market rebounded in Q4 with on average 284,000 new jobs added after the slowdown in Q3 when 174,000 new jobs were created per month on average. In total, employment rose by 2.65m which, however, was lower than in 2014 when employment increased by 3.12m. Despite the weak activity data lately, the strong labour market tells us that the underlying growth in the US is solid.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1922.0	↓ -1.08	
S&P500 fut (chng from close)	1912.7	↑ 0.06	
Nikkei	17698.0	↓ -0.39	
Hang Seng	20006.1	↓ -2.19	
	17:00	07:30	
		+/- bp	
US 2y gov	0.94	0.93	↓ -1.2
US 10y gov	2.15	2.12	↓ -3.3
iTraxx Europe (IG)	85	86	↑ 1.1
iTraxx Xover (Non IG)	350	351	↑ 0.9
			+/- %
EUR/USD	1.089	1.092	↑ 0.26
USD/JPY	117.730	117.350	↓ -0.32
EUR/CHF	1.08	1.09	↑ 0.06
EUR/GBP	0.749	0.751	↑ 0.29
EUR/SEK	9.276	9.290	↑ 0.15
EUR/NOK	9.71	9.70	↓ -0.13
			USD
Oil Brent, USD	33.1	32.8	↓ -1.06
Gold, USD	1102.2	1106.6	↑ 0.40

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

- *Flash Comment US: Strong employment growth but Fed's main takeaway is the subdued wage growth, 8 January*
- *Strategy: Chinese FX policy confusion*
- *Weekly Focus: Scandinavian inflation week in store*

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Scandi Markets

In **Denmark** the statistical office releases inflation figures for December today. Inflation has been extraordinarily low over the past year, due mainly to the slide in the oil price pulling down manufacturers' production costs. We expect inflation of -0.3% m/m or 0.2% y/y in December but there is a fair amount of uncertainty. The registration duty on new cars was reduced with effect from December and food prices are also expected to fall given the sharp drop in German food prices in December. Looking ahead just one month to January, however, we expect inflation to pick up due to strong base effects from last year's drop in petrol prices.

In **Norway** inflation is on the way up due to higher import prices in the wake of the weaker NOK. The drop in the NOK gained momentum during the autumn, which suggests that the upward trend in inflation will continue through to the end of the year. We therefore expect core inflation of 3.1% y/y in December. We do not have the impression that Christmas trading was particularly slack and heavy price discounting was limited. As the effect of the NOK's decline will gradually phase out, there is reason to believe that the surge in inflation will be only temporary, and that lower wage growth will gradually help pull it back down again.

Fixed Income Markets

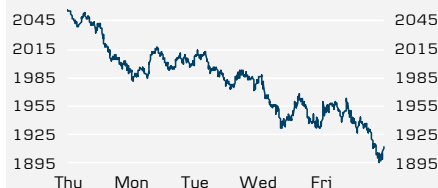
The first week in the FI markets was driven by a sharp fall in equity prices and the oil price declining another USD5/bl to the lowest level since 2004. After the first week's 10bp decline in the Bund yield we are back at exactly the level where we started 2015. Ireland was the top performer in the first week tightening 4bp to Bunds despite the 3bn syndicated 10Y issuance. 10Y Italy/Spain widened 5bp versus Germany in the first week and Portugal was the worst performer losing just below 20bp versus Germany. Focus is on the banking sector (Banif and Novo Banco), some austerity rollback from the left-wing government and speculation whether the IGCP could come to the market. In the EUR govie market focus is on upcoming new issuance with Belgium being a good candidate for launching a new 10Y this week, for further details see *Supply vs QE in 2016 - zooming in on Q1 issuance*, 1 January.

FX Markets

The USD declined versus the JPY, EUR and CHF on Friday despite the strong US labour market report as risk sentiment continues to dominate price actions. EUR/USD bounced back above the 1.09 level on Friday afternoon, while USD/JPY temporarily dipped below 117 this morning. EUR/USD price actions have been somewhat different in the first week of 2016 and EUR/USD both moved higher (in the beginning of the week) and lower (on Friday) in risk off markets. However, Friday's move higher in EUR/USD and thus a negative correlation to equities was in line with the correlations seen in 2015 when EUR was increasingly viewed as funding currency. We think the negative correlation between EUR/USD risk appetite will continue to dominate, suggesting that risk remains skewed to the upside for EUR/USD, while USD/JPY will stay heavy in the short term. However, note that FX developments are very important both for the ECB and BoJ and further appreciation of the currencies could trigger actions from the central banks.

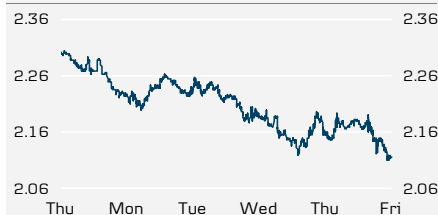
GBP has started the new year on a very weak note due to a combination of negative risk markets, an increase in short-term correlations with risk assets caused by substantial USD buying, waning BoE rate hike expectations and some Brexit risk premium probably being priced in at this early stage. In the short term, we expect GBP to remain under pressure in a negative risk environment and we have revised our EUR/GBP forecast higher. We now target the cross at 0.74 (0.71) in 1M. The GBP is significantly oversold, according to our

US S&P500 future



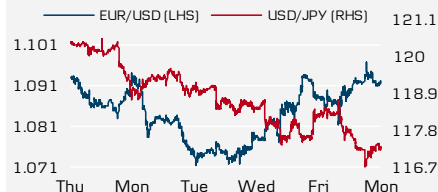
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

short-term financial models and we still look for a rebound in the coming three-six months driven by a re-pricing of the BoE, as the UK economy is expected to continue to grow above trend in 2016. We target 0.73 (0.70) in 3M and 0.71 (0.70) in 6M. In H2 16, the Brexit theme should gather further pace and weigh increasingly on the GBP, while the EUR, to a greater extent, should benefit from fundamentals and we now target EUR/GBP at 0.75 in 12M (revised up from 0.73). For details see FX Strategy: GBP outlook - UK growth and relative rates to support GBP, 8 January.

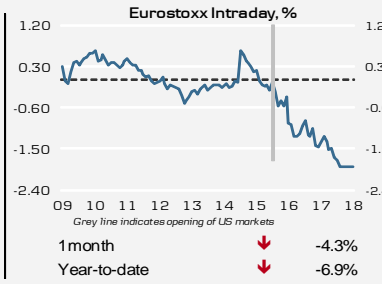
Key figures and events

Monday, January 11, 2016					Period	Danske Bank	Consensus	Previous
9:00	DKK	Current account (nsa sa)	DKK bn	Nov	14.0 12.9		12.4 10.1	
9:00	DKK	CPI	m/m y/y	Dec	-0.3% 0.2%	-0.2% 0.3%	-0.3% 0.3%	
9:00	DKK	Industrial production	m/m	Nov	-0.4%		-0.5%	
9:00	DKK	Trade balance ex ships	DKK bn	Nov	5	4.5	4	
9:00	DKK	Exports	m/m	Nov				
9:15	CHF	Retail sales	y/y	Nov			-0.8%	
10:00	NOK	Core inflation(CPI-ATE)	m/m y/y	Dec		0.0% 3.2%	0.2% 3.1%	
10:00	NOK	CPI	m/m y/y	Dec		-0.2% 2.6%	0.4% 2.8%	
10:00	NOK	PPI	m/m y/y	Dec			0.5% -6.4%	
10:30	EUR	Sentix Investor Confidence	Index	Jan	12.5	11.8	15.7	
16:00	USD	Fed's LMCI	m/m	Dec			50.0%	
18:40	USD	Fed's Lockhart (non-voter, neutral) speaks						
23:50	USD	Fed's Kaplan (non-voter, unknown) speaks						

Source: Bloomberg, Danske Bank Markets

Today's market data: 11 January 2016

STOCKS



	Close		+/-
DJSTOXX50	2888	↓	-1.9%
OMXC20	970	↓	-1.6%
OMXS30	1349	↓	-0.6%
OSE BX	564	↓	-0.3%
	Close		+/-
DOW JONES	16346	↓	-1.0%
NASDAQ	4644	↓	-1.0%
S&P500	1922	↓	-1.1%
NIKKEI (07:30)	17698	↓	-1.9%

FX & COMMODITIES

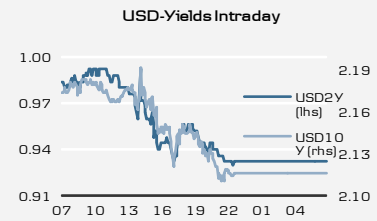


EUR	17:00	07:30	+/-
USD	108.89	109.17	↑ 0.28
JPY	128.20	128.11	↓ -0.09
GBP	74.91	75.13	↑ 0.22
NOK	970.78	969.50	↓ -1.28
SEK	927.60	929.00	↑ 1.40
DKK	745.99	745.99	↑ 0.00
PLN	435.71	436.59	↑ 0.88
USD	17:00	07:30	+/-
JPY	117.73	117.35	↓ -0.38
GBP	145.38	145.32	↓ -0.06
CHF	99.63	99.43	↓ -0.20

	Gold, \$	Oil, Brent, \$
07:30	1106.58	32.79
1day	↑ 2.53	↓ -0.76
1month	↑ 31.84	↓ -5.14
Year-t-date	↑ 45.16	↓ -4.49
	CRB 1M future	CRB, Raw Industrials
07:30	168.58	412.23
1day	↑ 0.04	↑ 3.97
1month	↓ -6.28	↑ 12.34
Year-t-date	↓ -7.57	↑ 7.52

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

YIELDS & INTEREST RATES

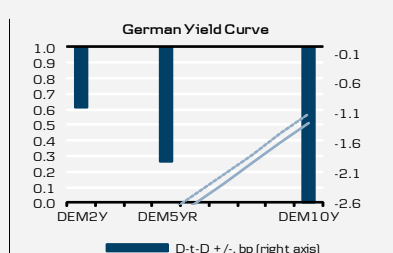
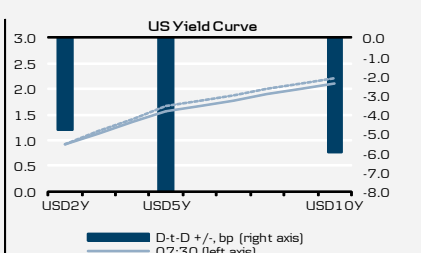
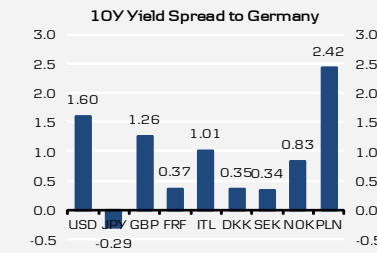


	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.14	-19
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.32	3
NOK	0.75	1.11	36
PLN	1.50	1.62	12

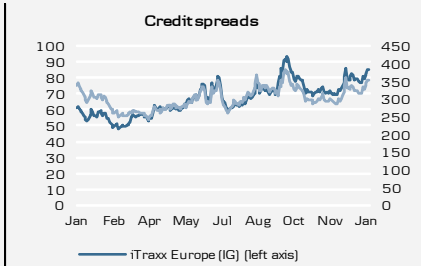
	17:00	07:30	+/-, bp
USD 10Y	2.15	2.12	↓ -3
USD 30Y	2.94	2.91	↓ -3
JPY 10Y	0.24	0.23	↓ -2
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.54	0.52	↓ -2
DKK 10Y	0.97	0.87	↓ -10
SEK 10Y	0.87	0.86	↓ -1
NOK 10Y	1.35	1.35	↑ 0
PLN 10Y	2.97	2.93	↓ -4

* 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)	86	↑ 1	↑ 5
HiVol	116	↓ -5	↑ 19
Xover (N-IG)	351	↓ -1	↑ 15
Finan. Sr.	83	↑ 0	↑ 4
Finan. Sub.	173	↑ 0	↑ 13
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-11	-11	↓ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	36	37	↑ 1
SEK 10Y	38	37	↓ -1
NOK 10Y	65	64	↓ -1

* Ask price

** Ask price

Source: Bloomberg, Danske Bank Markets

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