

Danske Daily

Market Movers

- The calendar is light today, so financial markets will look to Sweden, where the Riksbank will announce its decision on monetary policy at 9:30 CET. We expect a repo rate cut of at least 10bp to 0.45% or lower. With regard to the Riksbank's forecasts, we believe the main change will be in the inflation outlook, which could be revised downward by up to 0.5pp. Should the Riksbank make such a large revision, there is a chance of an even bigger cut or other policy measures.
- Federal Reserve chairwoman Janet Yellen is set to speak again today – the second day in a row. We expect her to reiterate the message from yesterday, that the Federal Reserve is monitoring the tightening of financial conditions, which may have a negative impact on the outlook for growth in the US economy and lead to a postponement of the next increase in the federal funds rate.

Selected Market News

Federal Reserve chairwoman Janet Yellen's testimony before the US congress on monetary policy yesterday did not deliver any significant changes to the Federal Reserve's view on the economy and monetary policy. Overall, Janet Yellen preserved the right not to jump to any premature conclusions before the next monetary policy meeting in March despite a significant tightening in financial conditions. She did acknowledge that tighter financial conditions could have a negative impact on the outlook for the US economy and warrant a postponement of the next increase in the federal funds rate but did not discuss a possible rate cut.

Overall, the message from Yellen was fairly balanced and she managed not to spook financial markets further yesterday, although prices on riskier assets, such as stocks and commodities, did show slight declines led by an initial rise in the USD. Sentiment in financial markets overnight has been negative. The Hong Kong stock market opened, following a three day holiday close, with a loss of 3%, the JPY continues to rise with USD/JPY falling below 1.13 and the oil price has fallen. The price on WTI crude has dropped below USD27/bl and widened the spread to the price on Brent crude to more than USD3/bl on the back of an increase in crude oil stocks in Cushing Oklahoma to a record high level.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1851.9	↓	-0.02
S&P500 fut (chng from close)	1838.5	↓	-0.44
Nikkei	15713.4	↓	-2.31
Hang Seng	18476.2	↓	-4.21
	17:00	07:30	+/- bp
US 2y gov	0.73	0.69	↓ -4.0
US 10y gov	1.73	1.67	↓ -6.6
iTraxx Europe (IG)	118	117	↓ -0.4
iTraxx Xover (Non IG)	454	454	↑ 0.3
			+/- %
EUR/USD	1.122	1.130	↑ 0.71
USD/JPY	114.190	112.640	↓ -1.36
EUR/CHF	1.10	1.10	↑ 0.14
EUR/GBP	0.775	0.777	↑ 0.27
EUR/SEK	9.492	9.480	↓ -0.13
EUR/NOK	9.60	9.64	↑ 0.46
			USD
Oil Brent, USD	30.9	30.7	↓ -0.84
Gold, USD	1192.4	1207.4	↑ 1.26

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

- [Norway: We expect a rate cut in March](#)

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Scandi Markets

In Sweden, we expect the Riksbank to lower the repo rate by 10bp, flatten the repo rate path substantially and express readiness to do more including FX interventions to weaken the currency if the SEK were to appreciate sharply. The arguments: inflation has been overestimated, the global outlook has deteriorated, other central banks have eased, by doing nothing EUR/SEK would collapse and it does not want that. A decision as sketched above including communicating 'lower for longer' could send rates slightly lower and EUR/SEK slightly higher.

Fixed Income Markets

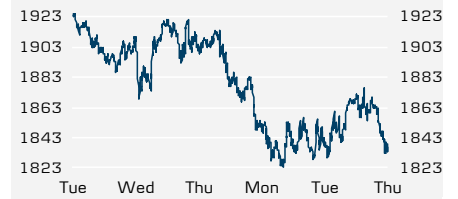
With Yellen's testimony largely a repeat of the January FOMC statement, there was no particular news on any changes to the Fed analysis and with the market only being able to reach a few bp, the main driver remains the credit and equity markets with their effect on the broader risk sentiment. There are plenty of important events today starting with the Riksbank meeting, where we expect a very dovish outcome. This should be supportive for government bonds as well as issuers such as Kommuneinvest - especially if the Riksbank broadens the QE to e.g. include Kommuneinvest. On top of the Riksbank meeting, the Swedish Debt Office is launching a new 10Y inflation-linked benchmark, where demand is expected to be decent despite the recent underperformance of linkers on the back of low inflation, see *Index-Linked Report*, 9 February. In the European government bond market Ireland is tapping EUR1bn in the 10Y benchmark. We think there is excellent value in this bond against Aa-rated EU peers such as France and Belgium after the recent Irish underperformance. The Irish fundamentals are in much better shape than France and Belgium but uncertainty about the outcome of the general election, 'Brexit' and the risk-off sentiment have weighed on the Irish government bonds. Finally, Italy is tapping EUR5.5bn in the 3Y, 7Y and 15Y BTPS. We expect the auction to go very smoothly despite the turmoil in the markets and the focus on the bad-bank plan and NPLs among Italian banks.

FX Markets

Yellen's speech yesterday provided only a short-lived relief in risk appetite and both the EUR and JPY gained versus the USD last night. In particular USD/JPY took a steep dive and dropped below 113 overnight to the lowest level seen since October 2014 when the Bank of Japan (BoJ) surprised the market and eased monetary policy. As such, both the JPY and EUR are likely to remain supported by safe-haven demands as long as market jitters continue. However, the recent strengthening of the two currencies is a concern for both the ECB and the BoJ. Especially, the BoJ's credibility and willingness to weaken the JPY is being tested at the moment. First line of defense from the BoJ is normally verbal intervention but it has been unusually quiet over the past week. This could either be a sign of fatigue or that something big is coming up. We do not think the BoJ is about to abandon its policy and we therefore expect it to react sooner rather than later. Question is what the BoJ can do at this stage. Further negative interest rates and more QE are both likely, in our view but there has also been some speculation about currency intervention in the news media.

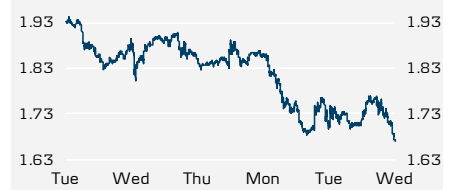
In the Scandi FX markets it is all about the Riksbank today. We expect the Riksbank to cut interest rates by 10bp and to signal a very dovish stance. This could send EUR/SEK a little bit higher on the decision but we still believe that upside is limited and rallies should be short-lived. Hence, EUR/SEK above 9.50 is a selling opportunity in our view, and we still prefer to sell on rallies.

US S&P500 future



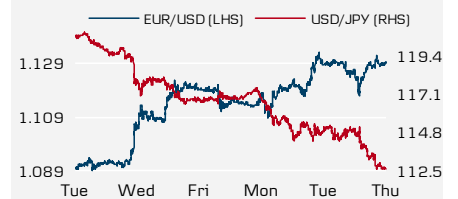
Source: Danske Bank Markets

US 10y gov yield



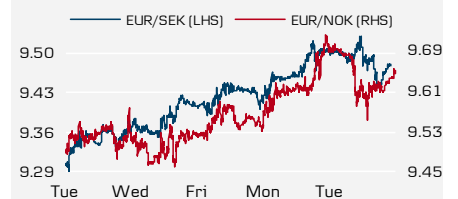
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Yesterday we changed our call for Norges Bank and we now expect it to cut rates by 25bp on 17 March. Since the December meeting, most of the factors affecting the rate decision and the rate path have surprised to the downside. Our view on the domestic economy remains unchanged and we expect it to be the last cut in this cycle. See *Norway: We expect a rate cut in March*, 10 February, for details. In respect of the NOK, we keep our EUR/NOK forecast unchanged targeting the cross at 9.60 in 3M. A full rate cut in March is not priced in and we think that risks mainly lie on the upside for EUR/NOK in the short term. Longer term, the NOK development continues to be heavily tied to how the economy is doing and thereby the oil price. A key part of the Norwegian transition phase is a weaker currency: when the oil price falls the NOK should weaken in the short term to counter the negative growth effect. However, we still expect the NOK to strengthen in H2 16 and we target EUR/NOK at 9.30 in 6M and 9.00 in 12M.

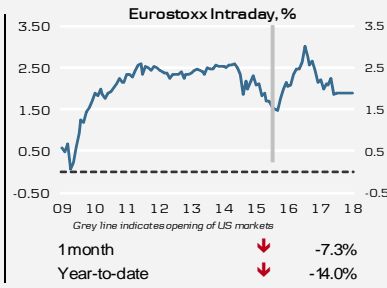
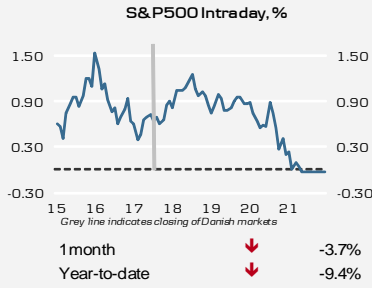
Key figures and events

Thursday, February 11, 2016				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jan		0.5	0.5
8:00	SEK	PES unemployment	%	Jan			4.2%
9:15	CHF	CPI	m/mly/y	Jan		-0.4% -1.3%	-0.4% -1.3%
9:30	SEK	Average house prices	SEK m	Jan			2.677
9:30	SEK	Riksbank, rate decision	%		-0.45%	-0.45%	-0.35%
14:30	USD	Initial jobless claims	1000				285
15:00	EUR	Eurogroup meeting in Brussels					
16:00	USD	Fed's Chair Yellen speaks					

Source: Bloomberg, Danske Bank Markets

Today's market data: 11 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2667	↑	1.9%
OMXC20	873	↑	4.8%
OMXS30	1298	↑	2.1%
OSE BX	531	↓	-0.2%
Close +/-			
DOW JONES	15915	↓	-0.6%
NASDAQ	4284	↑	0.3%
S&P500	1852	↓	0.0%
NIKKEI (07:30)	15713	↑	1.9%

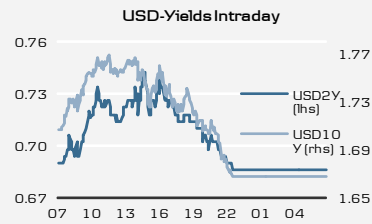
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	112.16	112.96	↑ 0.80
JPY	128.08	127.24	↓ -0.84
GBP	77.51	77.72	↑ 0.21
NOK	959.94	964.33	↑ 4.39
SEK	949.23	948.02	↓ -1.21
DKK	746.42	746.37	↓ -0.05
PLN	442.27	441.16	↓ -1.11
USD			
JPY	114.19	112.64	↓ -1.55
GBP	144.70	145.33	↑ 0.63
CHF	97.71	97.15	↓ -0.56

	Gold, \$	Oil, Brent, \$
07:30	1207.37	30.66
1day	↑ 10.25	↓ -0.18
1month	↑ 113.17	↓ -0.89
Year-t-date	↑ 145.95	↓ -6.62
CRB		
07:30	156.40	422.83
1day	↓ -0.18	↑ 1.27
1month	↓ -7.84	↑ 10.60
Year-t-date	↓ -19.74	↑ 18.12

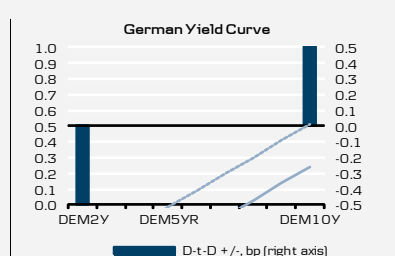
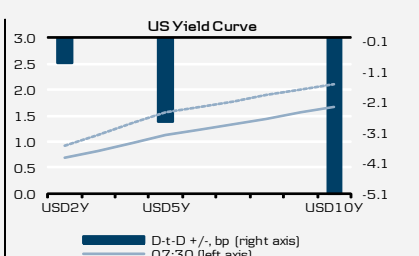
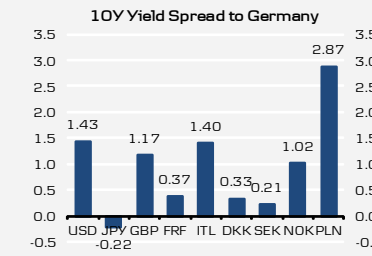
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.18	-23
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.37	-2
NOK	0.75	1.12	37
PLN	1.50	1.59	9

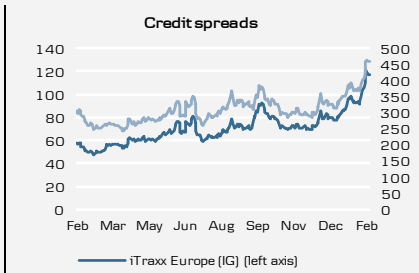
	17:00	07:30	+/-, bp
USD 10Y	1.73	1.67	↓ -7
USD 30Y	2.55	2.49	↓ -6
JPY 10Y	-0.03	0.02	↑ 5
07:30(-1)* 17:00 +/-, bp			
DEM 10Y	0.24	0.25	↑ 1
DKK 10Y	0.57	0.57	↑ 1
SEK 10Y	0.48	0.45	↓ -2
NOK 10Y	1.26	1.26	↑ 0
PLN 10Y	3.18	3.12	↓ -6

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	117	↓ -1	↑ 31
HiVol	143	↑ 0	↑ 14
Xover (N-IG)	454	↓ -2	↑ 101
Finan. Sr.			
Finan. Sub.	127	↓ -1	↑ 46
Non-finan.	291	↓ -5	↑ 117

* Ask price



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-12	-11	↑ 1
07:30(-1)* 17:00 +/-			
EUR 10Y	0	16	↑ 16
DKK 10Y	37	37	↑ 0
SEK 10Y	44	43	↓ 0
NOK 10Y	72	72	↑ 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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