

10 February 2016

Danske Daily

Market Movers

- The main event for financial markets today will be Federal Reserve chair Janet Yellen's appearance before the Financial Services Committee to deliver the semi-annual report on monetary policy. Although the all important US jobs report Friday supported the notion that the US labour market continues to show progress, the recent significant tightening of global financial conditions and deterioration in other US key figures mean that Yellen, in our view, will aim not to strike a too hawkish tone on monetary policy.
- In the UK, industrial and manufacturing production figures are due for publication. In the calculations of the first estimate of GDP growth for Q4 (which was 0.5% q/q), the Office for National Statistics assumed that industrial production declined 0.2% m/m, manufacturing production was flat.
- In Scandi markets, focus will be on new CPI figures in Denmark and Norway.

Selected Market News

US NFIB small business optimism declined to 93.9 in January from 95.2 in December. Although it remains at a fairly high level, it has been trending down over the past year. In particular, small businesses have become much more worried about the outlook for the next six months. Although this is not one of the most important US key figures, it is another sign that the recovery in the US economy might have lost steam. Consequently, sentiment in financial markets remained weak yesterday, as investors took a cautious stance ahead of Yellen's speech on monetary policy today. Stock prices and commodity prices declined yesterday and the trend has continued overnight with the Japanese Nikkei index falling 4%.

The International Energy Agency (IEA) has just published the February version of the Oil Market Report. Among the few revisions to the outlook for supply and demand there were downward revisions to US and Chinese oil demand in Q4 15. Demand in both economies was revised down by 0.1mb/d. Hence, for China, the drop in oil demand in Q4 15 turned out to be larger than previously thought. On the outlook for the oil market, IEA is, among other things, concerned about the impact on oil demand from the risk of lower global economic growth and the strong dollar. The US Energy Information Administration revised lower its forecast for US crude production in 2016. It now forecasts US crude production to fall to 8.7mb/d this year and to 8.5mb/d next year from 9.4mb/d in 2015.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1852.2	↓	-0.07
S&P500 fut (chng from close)	1843.8	↓	-0.24
Nikkei	15671.6	↓	-2.57
Hang Seng	19288.2	↑	0.55
	17:00	07:30	+/- bp
US 2y gov	0.66	0.69	↑ 3.2
US 10y gov	1.73	1.71	↓ -2.1
iTraxx Europe (IG)	120	120	↑ 0.0
iTraxx Xover (Non IG)	461	463	↑ 1.6
			+/- %
EUR/USD	1.132	1.129	↓ -0.19
USD/JPY	114.780	114.570	↓ -0.18
EUR/CHF	1.10	1.10	↑ 0.11
EUR/GBP	0.781	0.780	↓ -0.09
EUR/SEK	9.496	9.500	↑ 0.04
EUR/NOK	9.69	9.68	↓ -0.03
Oil Brent, USD	32.3	31.0	↓ -4.06
Gold, USD	1193.5	1191.2	↓ -0.20

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

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Scandi Markets

Today's inflation numbers in **Denmark** should show an increase in y/y inflation to 0.7% due to base effects but as always in January the outcome is highly uncertain as many prices are only regulated once a year. The Economic Council (so-called wise men) has slashed its growth forecast for this year from 2.1% to 1.1%. It is mostly technical and driven by the very weak Q3 growth figures but it has also become more pessimistic on exports and investment. The new forecast is more in line with our view, although we are more optimistic on exports. The wise men maintain their outlook for a public deficit of 3.2% of GDP this year and for 33k employment growth in 2016.

Norway. The past year's rise in core inflation has been due almost entirely to higher import prices in the wake of the weaker NOK. On the face of it, there is every reason to expect this effect to subside – and eventually reverse – once the NOK bottoms out. Norges Bank shares this view, which has made the market tolerant of relatively high core inflation. Nevertheless, we expect to see a slightly stronger pass through to consumer prices from higher import prices in the first few months of this year. The decline in the NOK krone has been so strong and so protracted that there is a need to re-price many imported consumer goods in order to maintain profitability. Therefore, we expect core inflation of 3.2% y/y in January, which is higher than consensus (3.0%) and Norges Bank's projection of 2.97% y/y.

In **Sweden** it is all about the Riksbank tomorrow. Hence, today's household consumption data for December will pass more or less without notice. The December print is set to be a tad softer but without questioning the strong underlying trend.

Fixed Income Markets

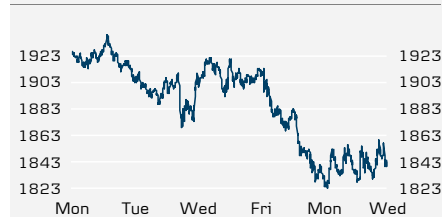
The main event today will be Fed Chairman Yellen's testimony to the congress - this is the semi-annual policy report - and the markets are looking for a dovish stance given the turmoil in the market as well as the mixed data for the US economy. In Europe the market continues to raise expectations for ECB action in March such as more QE, depo rate cuts, an increase in the scope for QE to include credit bonds, two-tier deposit system etc., even though this is not filtering through to the peripheral government bonds or European banks yet. Here the pressure remains on especially Portugal and Greece and short term there seems to be limited relief as we have also seen in the past. However, when the ECB acts, we also get a forceful response in the market as seen in the past. Given that this is not a sovereign debt crisis but a European banking sector 'crisis', other measures are likely to be introduced by the ECB at the upcoming meeting in March or alternatively the use of ESM for direct bank recapitalisation as was done for the Spanish banks. Finally, Germany is opening a new Schatz today, where it sells up to EUR6bn.

FX Markets

The negative risk sentiment continues to dominate price actions in the FX markets and the safe havens EUR and JPY are still in demand. Yesterday, EUR/USD broke above 1.13 for the first time since October, while USD/JPY remains in sub-115 territory. In the current environment, data is less important and all focus will be on Yellen's speech this afternoon. In order to stabilise markets, Yellen will probably need to send a very dovish signal and although this would imply less monetary tightening in the US, it should help to stabilise the USD.

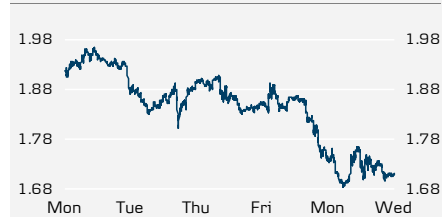
In the Scandi FX sphere, both EUR/SEK and EUR/NOK have moved sharply higher in recent days amid risk off sentiment. The EUR's status as a preferred funding currency has driven EUR-buying in the beginning of the year despite increased speculation of more

US S&P500 future



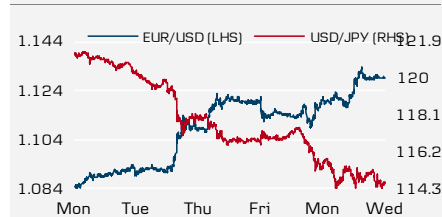
Source: Danske Bank Markets

US 10y gov yield



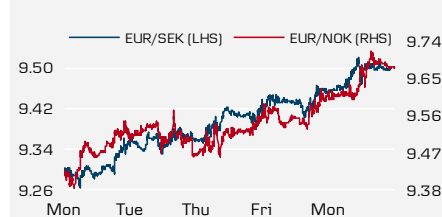
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

ECB easing. As a result of the close connection between the oil price and global risk sentiment (via global growth worries) the NOK is very vulnerable in the current environment. According to our models roughly two-thirds of this week's spike in EUR/NOK has been driven by oil/risk sentiment and the last one-third by relative rates. While the move seems slightly overdone in relation to the move in fundamentals, we would be very careful trying to go against the move - especially as we continue to see a high risk of a Norges Bank rate cut in March, which is not fully priced. As a result our view on EUR/NOK remains that of 'buy-on-dips'.

In respect of EUR/SEK, positioning ahead of the Riksbank meeting tomorrow has weighed on the SEK. We expect the Riksbank to cut interest rates by 10bp and to signal a very dovish stance. The market is pricing 8bp for tomorrow suggesting that EUR/SEK could move a little bit higher on the decision. However, we still believe that upside is limited and rallies should be short-lived. Yesterday's strong decline to 9.47 after the temporary break above 9.52 in our view supports this call. Indeed, a further sell-off in equity markets could potentially trigger some SEK selling due to rebalancing needs supporting further upside in the cross and although cautiousness is warranted given the global market turmoil we prefer to sell rallies. We continue to target EUR/SEK at 9.30 in 1-3M but we stay on the sideline in EUR/SEK awaiting the Riksbank tomorrow.

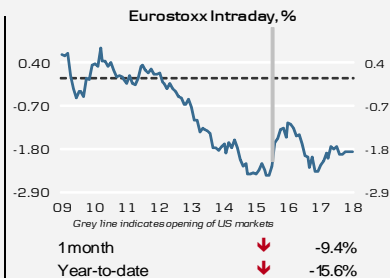
Key figures and events

Wednesday, February 10, 2016				Period	Danske Bank	Consensus	Previous
0:30	AUD	Westpac Consumer Confidence	Index [% m/m]	Feb			97.3 -3.5%
0:50	JPY	PPI	m/m y/y	Jan		-0.7% -2.8%	-0.3% -3.4%
8:45	FRF	Industrial production	m/m y/y	Dec		0.4% ...	-0.9% 2.8%
9:00	DKK	CPI	m/m y/y	Jan	-0.4% 0.7%	-0.4% 0.6%	0.0% 0.5%
9:30	SEK	Household consumption	m/m y/y	Dec			0.1% 3.2%
10:00	NOK	CPI	m/m y/y	Jan		0.1% 2.5%	-0.4% 2.3%
10:00	NOK	Core inflation(CPI-ATE)	m/m y/y	Jan	0.1% 3.2%	-0.1% 3.0%	-0.2% 3.0%
10:00	NOK	PPI	m/m y/y	Jan			-4.5% -10.8%
10:00	ITL	Industrial production	m/m y/y	Dec		0.2% ...	-0.5% 0.9%
10:30	GBP	Industrial production	m/m y/y	Dec	-0.2% 0.9%	-0.1% 1.0%	-0.7% 0.9%
10:30	GBP	Manufacturing production	m/m y/y	Dec	0.0% -1.5%	0.1% -1.4%	-0.4% -1.2%
13:00	USD	MBA Mortgage Applications	%				-2.6%
16:00	USD	Fed's Chair Yellen speaks	m/m				
16:30	USD	DOE U.S. crude oil inventories	K				7792
19:30	USD	Fed's Williams (non-voter, neutral) speaks					
20:00	USD	Budget statement	USD bn	Jan		10.1	

Source: Bloomberg, Danske Bank Markets

Today's market data: 10 February 2016

STOCKS



	Close		+/-
DJSTOXX50	2617	↓	-1.9%
OMXC20	833	↓	-2.3%
OMXS30	1271	↓	-0.2%
OSE BX	531	↓	-0.9%
	Close		+/-
DOW JONES	16014	↓	-0.1%
NASDAQ	4269	↓	-0.3%
S&P500	1852	↓	-0.1%
NIKKEI (07:30)	15672	↓	-1.9%

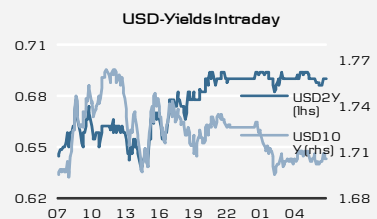
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	113.15	112.94	↓ -0.21
JPY	129.87	129.41	↓ -0.46
GBP	78.09	78.03	↓ -0.07
NOK	968.54	968.21	↓ -0.33
SEK	949.61	950.01	↑ 0.40
DKK	746.31	746.31	↑ 0.00
PLN	444.55	444.52	↓ -0.03
USD	17:00	07:30	+/-
JPY	114.78	114.57	↓ -0.21
GBP	144.90	144.75	↓ -0.15
CHF	96.98	97.27	↑ 0.29

	Gold, \$	Oil, Brent, \$
07:30	191.19	30.96
1day	↑ 2.06	↑ 0.64
1month	↑ 87.14	↓ -2.59
Year-t-date	↑ 129.77	↓ -6.32
	CRB 1M future	CRB, Raw Industrials
07:30	166.58	421.56
1day	↓ -4.00	↓ -1.11
1month	↓ -12.00	↑ 9.33
Year-t-date	↓ -19.57	↑ 16.85

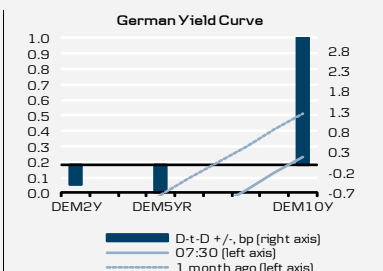
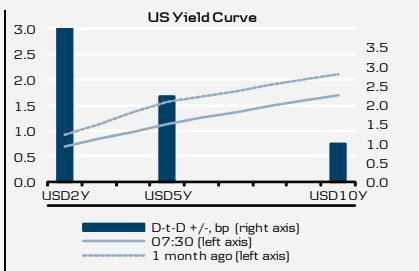
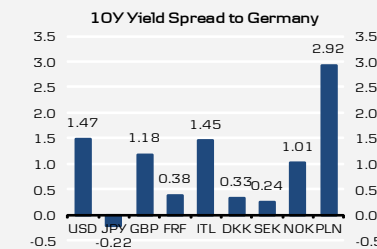
YIELDS & INTEREST RATES



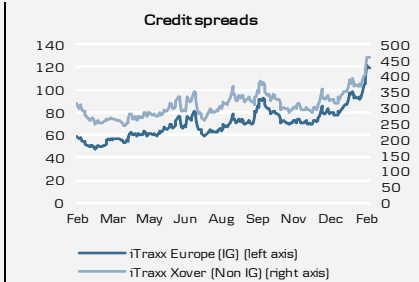
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.17	-22
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.36	-1
NOK	0.75	1.10	35
PLN	1.50	1.59	9

	17:00	07:30	+/-, bp
USD 10Y	1.73	1.71	↓ -2
USD 30Y	2.56	2.53	↓ -3
JPY 10Y	-0.03	0.01	↑ 4
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.20	0.23	↑ 3
DKK 10Y	0.56	0.56	0
SEK 10Y	0.48	0.47	↓ -1
NOK 10Y	1.25	1.25	0
PLN 10Y	3.12	3.15	↑ 3

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	120	↓ 0	↑ 34
HiVol	146	↑ 0	↑ 18
Xover (N-IG)	463	↓ 0	↑ 110
Finan. Sr.	134	↓ -1	↑ 53
Finan. Sub.	310	↓ 0	↑ 136
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-9	-10	↓ -1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	14	↑ 14
DKK 10Y	37	38	↑ 1
SEK 10Y	45	44	↓ -1
NOK 10Y	72	72	0

* 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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