

# Danske Daily

## Market Movers

- In the **US**, the Markit PMI manufacturing for January will give us some insight into how manufacturing has performed in the first month of the new year. The PMI index is not followed nearly as closely as the ISM index by the markets. However, the divergence between US manufacturing and services sector has attracted a lot of attention and the Markit PMI manufacturing index has not painted the same negative picture as ISM manufacturing in recent months.
- In the **euro area**, the January preliminary PMI figures for France, Germany and the euro area are due today. We expect the improving trend in the euro area to continue and look for an increase both in manufacturing and service PMIs. Regionally, we expect Germany to be the pulling force and improve the most, while France is set to lag a bit behind still.
- In the **UK**, retail sales (excluding auto and fuel) are expected to decline 0.3% m/m in December following an unexpected large increase of 1.7% m/m in November. A decline of 0.3% m/m will result in an annual increase of 3.5% y/y in December.

## Selected Market News

Despite high expectations of additional rate cuts already priced in the market, Draghi managed to deliver and presented a very dovish tone at the ECB press conference yesterday implying it will review and possibly reconsider its monetary policy stance at the next meeting in early March. In our view, the meeting showed that the very low oil price and the risk of second-round effects are a big concern to the ECB. We now expect the ECB to cut the deposit rate by 10bp at the upcoming meeting in March and expect the central bank to maintain an easing bias over the next six months. See [ECB comment: Draghi never gives up – we expect 10bp cut in March](#) (21 January) for more details.

We expect Denmark's Nationalbank (DN) to mirror a possible ECB rate cut in March and lower the rate of interest on certificates of deposit to minus 0.75%. In our view, the 7 January 10bp rate hike normalising the DKK-EUR money market interest rate spread to around the level last seen in 2013 should be sufficient to stabilise EUR/DKK close to the central rate of 7.46038. For more details, see [Flash Comment Denmark: Denmark to mirror ECB cut in March - but it's a close call](#) (21 January).

Draghi's dovish stance was well received in the market and US equity indices ended the day higher following the solid bounce in Europe while Brent crude oil rose USD25 cent/bbl to USD29.75/bbl. In Asia, equities also trade higher this morning on the prospect of additional easing with Japan being the biggest winner so far. In the FX market, the two safe havens were sold off on the improved sentiment sending EUR/USD lower and USD/JPY higher.

In Japan, the Nikkei manufacturing PMI index dipped slightly lower from 52.6 in December to 52.4 in January according to the flash estimate released this morning. While the index remains above 50 indicating further improvement in the manufacturing sector, details were also weaker than expected suggesting that the PMI index is likely to decline further in the coming months.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	1869.0	↑ 0.52	
S&P500 fut (chng from close)	1878.3	↑ 0.93	
Nikkei	16982.1	↑ 6.02	
Hang Seng	19101.8	↑ 3.02	
	17:00	07:30	
		+/- bp	
US 2y gov	0.83	0.85	↑ 2.4
US 10y gov	2.00	2.04	↑ 4.0
iTraxx Europe (IG)	96	96	↑ 0.0
iTraxx Xover (Non IG)	380	382	↑ 2.1
			+/- %
EUR/USD	1.082	1.083	↑ 0.09
USD/JPY	117.430	118.110	↑ 0.58
EUR/CHF	1.09	1.09	↓ -0.15
EUR/GBP	0.764	0.761	↓ -0.37
EUR/SEK	9.295	9.281	↓ -0.15
EUR/NOK	9.58	9.51	↓ -0.70
			USD
Oil Brent, USD	28.7	30.7	↑ 6.87
Gold, USD	1093.2	1098.3	↑ 0.46

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

- [ECB comment: Draghi never gives up – we expect 10bp cut in March](#)
- [Denmark: Denmark to mirror ECB cut in March - but it's a close call](#)

### Senior Analyst

Morten Helt  
+45 45 12 85 18  
mohe@danskebank.dk

## Scandi Markets

In **Denmark**, the statistical office is due to release its monthly employment figures for November. Employment has been climbing steadily since bottoming out in spring 2013 and we expect this to continue in December with another 3,000 people in work, in line with the average monthly increase in 2015.

## Fixed Income Markets

The continued signal of an easing bias will to a larger extent keep ECB easing expectations in the curve together with an inversion of the Eonia forward curve. Market implied probability for a March deposit cut has moved from 50% before the meeting to around 90% with a March ECB trading at -33bp. This is thus in line with our assessment of a 10bp deposit cut being delivered in March. This will keep a solid anchoring of 2Y rates and fundamental steep curves with our assessment of ECB for now preferring further deposit rate cuts to other easing measures.

On the government bond side, risk sentiment obviously turned with Draghi's signals with the periphery re-gaining around 50% of yesterday's losses and the semi core recovering from the risk-off widening to Bunds. Should the ECB 'recalibration' of policy contain QE programme changes, we would point to the periphery as a main performer: first of all because of a potential upscale/front-loading of purchases benefiting countries where PSPP purchases already are high compared with gross issuance but also because other potential new findings from the working groups (e.g. larger tolerance of deviation from capital key) are skewed to benefit these countries compared with the core. For now, however, we think that material changes to the QE programme are not the most likely outcome of the March meeting.

Ireland is up for review by Moody's today. Currently, Moody's has Ireland on a positive outlook (since September 2015) and a Baa1-rating. If we look at the rating rationale – then we would expect an upgrade – also if we compare the rating metrics with, e.g. Belgium. However, Moody's is likely to leave the rating unchanged ahead of the general election to be held no later than 11 April. For details, see *FI Research Ireland up for a rating review by Moody's – back to single-A?* (21 January).

## FX Markets

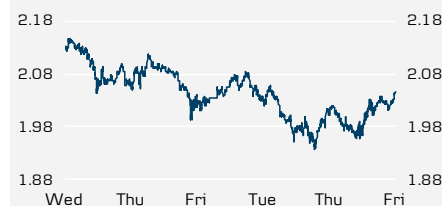
FX markets are increasingly looking to major central banks for support in an environment where market participants are left guessing whether recent market gyrations are merely repercussions of the oil price drop or a warning of a global recession ahead. Yesterday, Draghi clearly hinted that the ECB could be a first mover in this respect, signaling that it will be likely to be necessary to both 'review and reconsider' the ECB's policy stance in March. EUR/USD fell below 1.08 as a result with close to a full 10bp cut in the deposit rate now priced in for March. While we were surprised by Draghi's dovish stance, we maintain that EUR/USD is caught in the 1.05-1.10 range near term and still project the cross at 1.06 in 1-3M. The Fed has also been repriced recently in a more dovish direction but without much effect on EUR/USD as a range of counteracting forces are keeping the cross afloat at present, see *Oil price repercussions* for details. A key risk to our call for limited EUR/USD downside is that the Fed will continue with rate hikes with a reference to the continued strength in US job creation while the ECB stays in easing mode beyond H1.

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

Friday, January 22, 2016			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish France's debt rating				
-	EUR	Moody's may publish Ireland's debt rating				
-	EUR	Fitch may publish Belgium's debt rating				
9:00	DKK	Employment (monthly)	1.000 m/m	Nov	<b>3000</b>	3100 0.1%
9:00	DKK	Retail sales	m/m y/y	Dec		0.3% 1.1%
9:00	FRF	PMI manufacturing, preliminary	Index	Jan	<b>51.0</b>	51.5
9:00	FRF	PMI services, preliminary	Index	Jan	<b>50.2</b>	50.3
9:30	DEM	PMI manufacturing, preliminary	Index	Jan	<b>53.5</b>	53.0
9:30	DEM	PMI services, preliminary	Index	Jan	<b>56.2</b>	55.5
10:00	EUR	PMI manufacturing, preliminary	Index	Jan	<b>53.5</b>	53.0
10:00	EUR	PMI composite, preliminary	Index	Jan	<b>54.5</b>	54.2
10:00	EUR	PMI services, preliminary	Index	Jan	<b>54.4</b>	54.2
10:30	GBP	Retail sales	m/m y/y	Dec		-0.1% 4.3%
10:30	GBP	Retail sales ex fuels	m/m y/y	Dec		0.3% 4.1%
14:30	CAD	CPI	m/m y/y	Dec		0.2% 1.4%
14:30	CAD	Retail sales	m/m	Nov		0.1%
15:45	USD	Markit manufacturing PMI, preliminary	Index	Jan		51.5
16:00	USD	Existing home sales	m (m/m)	Dec		5.2 9.2%

Source: Bloomberg, Danske Bank Markets

Today's market data: 22 January 2016

STOCKS



	Close		+/-
DJUSTOXX50	2789	↑	1.8%
OMXC20	928	↑	2.9%
OMXS30	1313	↑	1.7%
OSE BX	531	↑	2.4%
	Close		+/-
DOW JONES	15883	↑	0.7%
NASDAQ	4472	↑	0.0%
S&P500	1869	↑	0.5%
NIKKEI (07:30)	16982	↑	1.8%

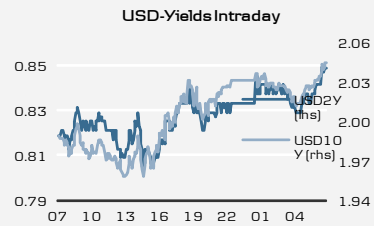
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	108.21	108.31	↑ 0.10
JPY	127.07	127.92	↑ 0.85
GBP	76.41	76.13	↓ -0.28
NOK	957.73	950.98	↓ -6.75
SEK	929.54	928.14	↓ -1.40
DKK	746.28	746.20	↓ -0.08
PLN	448.52	448.70	↑ 0.18
USD	17:00	07:30	+/-
JPY	117.43	118.11	↑ 0.68
GBP	141.63	142.28	↑ 0.65
CHF	101.16	100.91	↓ -0.25

	07:30		Oil, Brent, \$
Gold, \$	1098.25		30.65
1 day	↓	-2.99	↑ 1.40
1 month	↑	25.76	↓ -5.46
Year-t-date	↑	36.83	↓ -6.63
	07:30		CRB, Raw Industrials
CRB 1M future	159.14		409.86
1 day	↑	2.82	↓ -0.41
1 month	↓	-12.81	↑ 7.70
Year-t-date	↓	-17.00	↑ 5.15

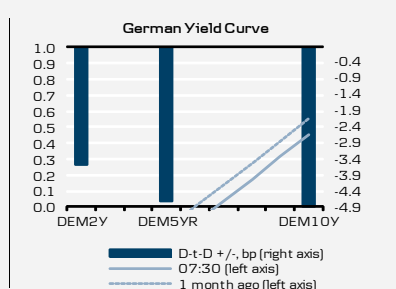
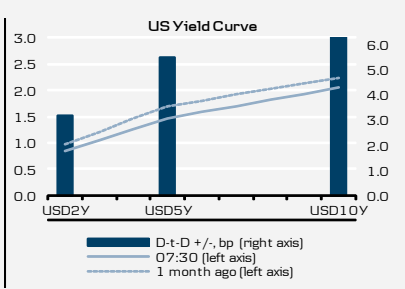
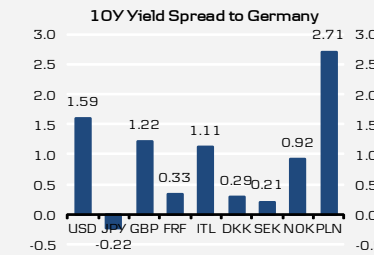
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.15	-20
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.28	7
NOK	0.75	1.18	43
PLN	1.50	1.60	10

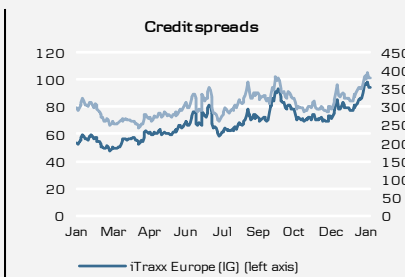
	17:00	07:30	+/-, bp
USD 10Y	2.00	2.04	↑ 4
USD 30Y	2.78	2.82	↑ 3
JPY 10Y	0.23	0.23	↓ 0
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.50	0.46	↓ -4
DKK 10Y	0.85	0.74	↓ -12
SEK 10Y	0.71	0.67	↓ -4
NOK 10Y	1.37	1.37	↑ 0
PLN 10Y	3.16	3.16	↑ 0

\* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1 day	1 month
Europe (IG)	96	↓ 0	↑ 13
HiVol	128	↑ 0	↑ 23
Xover (N-IG)	382	↑ 0	↑ 45
Finan. Sr.	92	↓ 0	↑ 14
Finan. Sub.	204	↓ -3	↑ 40
Non-finan.			

\* Ask price



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-13	-13	↓ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	40	39	↓ -2
SEK 10Y	41	42	↑ 1
NOK 10Y	63	65	↑ 2

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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