

Danske Daily

Market Movers

- Today the market will look for hints on the future path of US monetary policy when Fed's William C. Dudley (voter, dovish) and John C. Williams (neutral, non-voter) speak.
- Preliminary GDP figures for the fourth quarter for the euro area as well as Germany and Italy are due today. We estimate growth increased marginally to 0.4% q/q in the euro area compared with 0.3% q/q for the third quarter. Regionally, we expect Germany to be the strongest with a growth rate of 0.5% q/q.
- We look for clues about whether US consumption growth has slowed and keep an eye on the retail sales figures for January and the preliminary University of Michigan consumer confidence survey for February. In January, consumers stayed optimistic despite the financial turmoil and weaker economic data.
- In Norway, Q4 manufacturing orders could attract some attention today.

Selected Market News

Yesterday, the Riksbank cut its repo rate by 15bp to -0.50%, flattened the repo rate path out to Q2 17, signalled it stands ready to intervene in the FX market and said it will reinvest maturities and coupons, while prepared to do more QE. The Riksbank for the first time mentioned purchases of linkers. It reacts to deterioration of the Swedish inflation outlook, which puts it at risk of not meeting its inflation mandate – it reduced its inflation forecast by 0.4pp for 2016.

The continued risk aversion in financial markets yesterday, leading to further selling of riskier assets such as stocks and commodities, led to a temporary inversion in the front end of the USD rate curve, i.e. the market was tempted to start pricing the probability that the Federal Reserve might reverse its rate hike from December. A sign that the market is increasingly sceptic that additional rate hikes in the US can be justified in the current economic situation.

Another area where the downbeat sentiment was taken to another level was the US crude oil market. The contango in the front end of WTI crude forward curve widened to the highest level since 2008. This signals a significant sell-off in the physical market as demand is weak and inventory levels are high. The oil price found support overnight from comments from UAE oil minister Suhail Al Mazrouei, hinting that coordination among major oil producers to stabilise oil markets could be in the cards.

Yesterday, USD/JPY experienced a sudden spike from a level below 1.12 to above 1.13 and later settled around 1.12 without any obvious trigger. It spurred speculation that Bank of Japan was actively intervening in FX markets to weaken the JPY. The JPY has risen since Bank of Japan cut its key policy rate to negative in January, further weighing on the outlook for Japanese inflation.

Market overview

		07:30	1 day +/- %
S&P500 (close)		1829.1	↓ -1.23
S&P500 fut (chng from close)		1828.7	↑ 0.23
Nikkei		14903.6	↓ -5.15
Hang Seng		18373.2	↓ -0.93
		17:00	07:30
			+/- bp
US 2y gov	0.61	0.66	↑ 5.2
US 10y gov	1.57	1.69	↑ 11.2
iTraxx Europe (IG)	124	126	↑ 1.7
iTraxx Xover (Non IG)	484	486	↑ 2.1
			+/- %
EUR/USD	1.135	1.131	↓ -0.38
USD/JPY	111.920	112.230	↑ 0.28
EUR/CHF	1.10	1.10	↓ -0.28
EUR/GBP	0.786	0.782	↓ -0.59
EUR/SEK	9.492	9.480	↓ -0.12
EUR/NOK	9.73	9.69	↓ -0.42
			USD
Oil Brent, USD	30.3	31.5	↑ 4.09
Gold, USD	1246.8	1240.9	↓ -0.47

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

- [Riksbank goes NIRP for longer](#)

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Scandi Markets

In Norway, SSB will publish Q4 figures for manufacturing orders, a release that never attracts much attention but which we believe will send a very important signal about developments in manufacturing – and so the Norwegian economy – for the rest of 2016. The decline in new orders starting in 2013 pre-staged the gradual decline in manufacturing production and employment seen in 2014 and 2015, so manufacturing orders would be the first place to look for signs of stabilisation. New orders fell by just 0.6% q/q in Q3, probably due to the award of contracts for the Johan Sverdrup project, and we expect a small increase in Q4, which would be very good news for the manufacturing outlook.

Fixed Income Markets

Intra-day movements remain large and fundamental views are challenged with risk aversion being the only driver in town. At the highs of the risk sell-off yesterday the US curve inverted (-4bp in Fed Funds from the fixing level), which stands as the most clear statement in 2016 so far that the Fed's outlook is challenged. As a consequence of the uncertainty in financial markets and rising risk of a systemic crisis we now expect the Fed to stay on hold until the September meeting, as we believe it will take some time before the current high uncertainty about the outlook will clear.

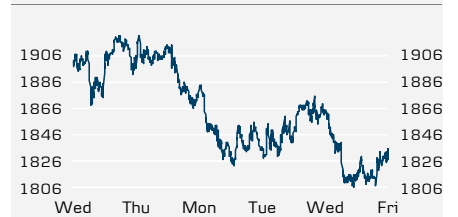
Italy is up for review by Moody's today. We do not expect an update of the rating (Baa2) nor the outlook (Stable). Portuguese government bonds were under significant pressure yesterday given the comments from the EU that more might be needed on the budget as well as renewed speculation of a possible downgrade and the risk of forced selling. We did see some stabilisation in the afternoon, but the PGBs still trade at very wide levels. The new government has stated that it is committed to the reform process, so this is very different from what we saw last year in Greece.

FX Markets

EUR/USD and USD/JPY stabilised overnight despite further sell-offs in equity markets. The main turnaround yesterday was a strong bounce in USD/JPY, which instantly jumped from below 111.50 to above just 113 on BoJ intervention rumours (intervention has not been confirmed by the central bank). Japanese policymakers have been saying that they are watching the FX market closely and that the movements have been rough suggesting that FX intervention is one of the options that the BoJ may consider. Given the pace of JPY appreciation, BoJ actions could be imminent. In a continued negative risk environment we would expect safe-haven demands to pick up again and thus both the EUR and JPY should remain supported. However, the strength of both EUR and JPY is a increasing challenge for both the ECB and BoJ and we now expect the ECB to combine a 10bp rate cut in March with an introduction of a two-tier deposit rate system and also front-loading of the current QE programme. We also think it is likely that the BoJ will cut interest rates further into negative at its meeting on 15 March – if not earlier.

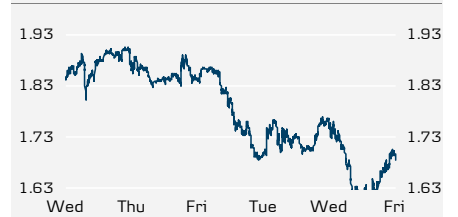
In the Scandi FX market, the Riksbank surprised yesterday by cutting the repo rate to -0.50% (15bp cut, we expected 10bp). The decision initially sent EUR/SEK sharply higher up to 9.6130 but the cross quickly reversed and trades at 9.47 this morning, which is the same level seen just before yesterday's rate announcement. We utilised yesterday's spike to go short EUR/SEK in our FX Trading Portfolio with 9.30 target – see *Danske Bank FX Trading Portfolio: Sell EUR/SEK*, 11 February, for details. We continue to think that 9.10-9.50 represents a fair range for EUR/SEK over the next couple of months and we continue to forecast EUR/SEK at 9.30 in 1-3M.

US S&P500 future



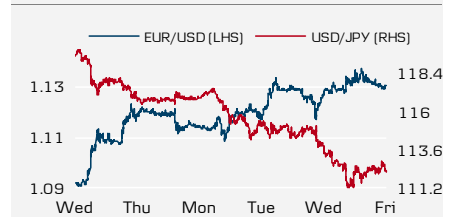
Source: Danske Bank Markets

US 10y gov yield



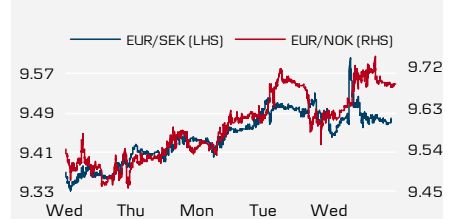
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

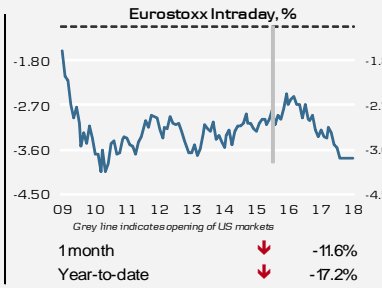
Key figures and events

Friday, February 12, 2016			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Italy's debt rating				
8:00	DEM	GDP, preliminary	q/q y/y 4th quarter	0.5% ...	0.3% 1.4%	0.3% 1.7%
9:00	ESP	HICP, final	m/m y/y Jan			-2.5% -0.4%
9:00	EUR	ECOFIN meeting in Brussels				
10:00	ITL	GDP, preliminary	q/q y/y 4th quarter	0.3% ...	0.3% 1.2%	0.2% 0.8%
10:30	GBP	Construction output	m/m y/y Dec	2.2% 1.0%	1.9% 0.8%	-0.5% -1.1%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y 4th quarter			0.0% 1.4%
11:00	EUR	Industrial production	m/m y/y Dec	0.5% ...	0.3% 0.7%	-0.7% 1.1%
11:00	EUR	GDP, preliminary	q/q y/y 4th quarter	0.4% ...	0.3% 1.5%	0.3% 1.6%
14:30	USD	Retail sales	m/m Jan		0.1%	-0.1%
14:30	USD	Retail sales less autos	m/m Jan		0.1%	-0.1%
14:30	USD	Retail sales less autos and gas	m/m Jan		0.3%	0.0%
14:30	USD	Retail sales control group	m/m Jan		0.5%	-0.3%
14:30	USD	Import prices	m/m y/y Jan		-1.2% -6.8%	-1.2% -8.2%
16:00	USD	University of Michigan Confidence, preliminary	Index Feb		92.5	92.0
16:00	USD	Fed's Dudley (voter, dovish) speaks				

Source: Bloomberg, Danske Bank Markets

Today's market data: 12 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2566	↓	-3.8%
OMXC20	849	↓	-2.7%
OMXS30	1247	↓	-3.9%
OSE BX	515	↓	-2.9%
	Close		+/-
DOW JONES	15660	↓	-1.6%
NASDAQ	4267	↓	-0.4%
S&P500	1829	↓	-1.2%
NIKKEI (07:30)	14904	↓	-3.8%

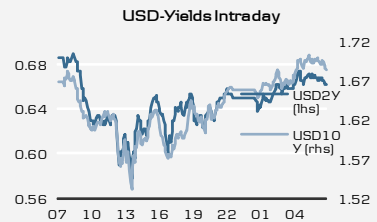
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	113.50	113.07	↓ -0.43
JPY	127.03	126.89	↓ -0.14
GBP	78.65	78.18	↓ -0.46
NOK	972.65	968.52	↓ -4.13
SEK	949.19	948.01	↓ -1.18
DKK	746.43	746.42	↓ -0.01
PLN	441.76	442.57	↑ 0.81
USD	17:00	07:30	+/-
JPY	111.92	112.23	↑ 0.31
GBP	144.31	144.61	↑ 0.30
CHF	97.24	97.34	↑ 0.10

	07:30		Oil, Brent, \$
Gold, \$	1240.93		31.53
1 day	↓	-5.77	↑ 1.47
1 month	↑	154.37	↑ 0.67
Year-t-date	↑	179.51	↓ -5.75
	07:30		CRB, Raw Industrials
CRB 1M future	155.01		42152
1 day	↓	-1.39	↓ -1.31
1 month	↓	-7.06	↑ 13.42
Year-t-date	↓	-21.13	↑ 16.81

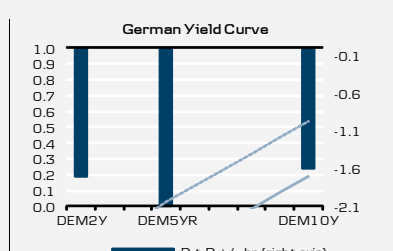
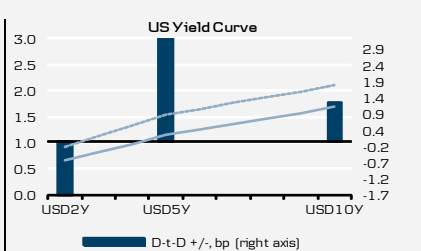
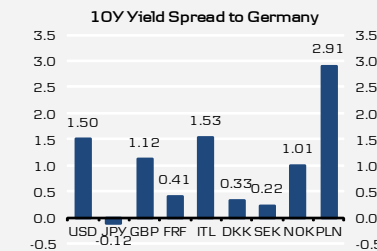
YIELDS & INTEREST RATES



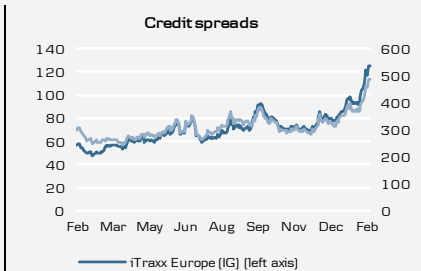
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.18	-23
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.43	-8
NOK	0.75	1.10	35
PLN	1.50	1.59	9

	17:00	07:30	+/-, bp
USD 10Y	1.57	1.69	↑ 11
USD 30Y	2.42	2.53	↑ 11
JPY 10Y	0.02	0.07	↑ 5
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.20	0.17	↓ -3
DKK 10Y	0.61	0.52	↓ -9
SEK 10Y	0.43	0.40	↓ -3
NOK 10Y	1.19	1.19	↑ 0
PLN 10Y	3.13	3.10	↓ -3

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1 day	1 month
Europe (IG)	126	↑ 1	↑ 39
HiVol	150	↑ 0	↑ 24
Xover (N-IG)	486	↓ -1	↑ 131
Finan. Sr.	140	↑ 3	↑ 58
Finan. Sub.	328	↑ 9	↑ 154
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-15	-14	↑ 1
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	38	40	↑ 2
SEK 10Y	43	45	↑ 2
NOK 10Y	72	73	↑ 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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