

29 February 2016

Danske Daily

Market Movers

- **Euro area flash HICP inflation will be in focus today and we expect it to decline back to deflation territory due mainly to the lower oil price.** Despite the increase in the oil price since mid-January this year, it is still much lower than in February 2015, thereby giving a yearly drag from energy to inflation. The oil price has historically explained around 50% of the monthly variation in inflation.
- **German retail sales for January are released and we expect a moderate monthly increase of 0.3%.** This should follow due to the lower oil price and continued progress in the labour market as well as still-high consumer confidence.
- Tomorrow morning before markets open in Europe **the Chinese Caixin and official PMI manufacturing are due for release** and we look for a slight rise in both.
- The rest of the week, **focus will be on the US ISM figures and the labour market report**, where the average hourly earnings are key for the Fed. In the euro area the unemployment rate should have continued lower.
- Today in the Scandis, **Danish and Swedish Q4 15 GDP figures** together with Norwegian retail sales are published, see [Scandi Markets](#).

Selected Market News

The G20 meeting in Shanghai concluded with a demand for more fiscal and less monetary policy stimulus. Without delivering a specific global coordinated stimulus plan, which some investors might have hoped for given the latest market turmoil, the conclusion from the G20 meeting was *'we will use fiscal policy flexibility to strengthen growth, job creation and confidence'*. In terms of monetary policy, the G20 concluded *'monetary policy alone cannot lead to balanced growth'*, which is in line with our view of some central bank fatigue.

The US Monetary Policy Forum on Friday was mainly about Fed communication and most Fed members expressed a view of an expected gradual rate rises. Among the Fed speakers Brainard (voter, dove) said that financial tightening due to cross-border spill-overs may be limiting the extent to which the Fed policy diverges from other central banks. On Friday, core PCE inflation, which the Fed targets, surprised on the upside and increased 0.3% m/m, the highest since February 2012. The monthly increase implied the yearly inflation is at 1.7% - not far from the Fed's 2% target.

The Irish general election resulted in a dramatic loss for the government. The result does not show a clear winner or an alternative, hence, we are in for a volatile period in Irish politics before the Irish parliament will meet on 10 March (see more on page 2).

Market overview

	07:30	1 dag +/-%
S&P500 (lukning)	1948.1	↓ -0.19
S&P500 fut (ændr. fra lukning)	1932.0	↓ -0.55
Nikkei	16086.4	↓ -0.63
Hang Seng	19114.8	↓ -1.29
	17:00	07:30 +/-, bp
US 2 års stat	0.80	0.78 ↓ -2.4
US 10 års stat	1.77	1.73 ↓ -3.3
iTraxx Europe (IG)	105	105 ↓ -0.4
iTraxx Xover (Non IG)	426	429 ↑ 3.4
		+/-, %
EUR/USD	1.092	1.094 ↑ 0.25
USD/JPY	113.97	112.81 ↓ -1.02
EUR/CHF	1.09	1.09 ↓ -0.03
EUR/GBP	0.788	0.789 ↑ 0.14
EUR/SEK	9.343	9.363 ↑ 0.21
EUR/NOK	9.49	9.50 ↑ 0.07
		USD
Olie Brent, USD	36.4	35.3 ↓ -2.94
Guld, USD	1213.0	1228.2 ↑ 1.25

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

- *Weekly focus: All eyes on China and the US labour market report*
- *Strategy: The puzzle about the global economy*
- *Central Bank Fatigue? ECB has plenty of tools*

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Scandi Markets

Denmark. Today we get GDP figures for Q4 15. The economy contracted by 0.4% in Q3, which was disappointing in itself but even more so given the strong positive contribution from stock building. We estimate GDP growth of 0.6% for Q4. We have already had signs that private consumption continued to grow and that exports of goods did better than earlier in the year when they really did disappoint; neither do the stock data point to any negative contribution from the quarter.

Sweden. The GDP figures for Q4 15 are due for release in Sweden as well. In the third quarter Sweden outperformed most 'competitors' growth-wise with a GDP of 3.9% y/y. One might wonder how Sweden can show such excellent GDP-figures while major trading partners, not least Europe, are growing at pretty moderate paces. The answer is probably that unlike the traditional pattern, growth right now is not driven by the export sector. Instead strong consumer spending and a boom in construction are the drivers. We expect this to have prevailed in Q4. Data are out at 09:30 CET and we expect 0.7% q/q and 3.5% y/y - good numbers.

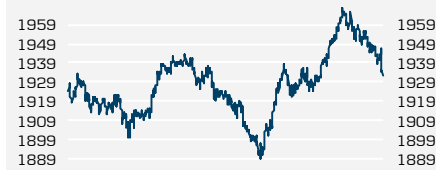
Norway. SSB will publish January retail sales figures at 10:00 CET. Higher unemployment and uncertainty due to the collapse in the oil price have sent consumer confidence tumbling to its lowest level since the banking crisis of the early 1990s. Although private consumption has held up relatively well, growing 2% y/y in 2015, the slide in confidence represents a downside risk to consumption and to the economy as a whole. Retail sales have been highly volatile over the past 18 months but the trend since Easter 2015 seems to have been more or less sideways. Following a fall of 1.3% m/m in December, we therefore think the stage is set for a minor positive correction in January and predict a rise of 0.7% m/m. This is consistent with a continued sideways trend in retail sales but remember that private consumption has fared much better than retail sales would suggest, as a result of the consumption of services growing much more strongly. In Q4, for example, services consumption grew 0.9% q/q, with the result that private consumption as a whole climbed 0.6% despite unchanged goods consumption.

Fixed Income Markets

Dramatic loss for the government at the Irish general election. The coalition government of Fine Gael and Labour not only lost their absolute majority but also faced a heavy loss at the election. The big winner was the Fianna Fail that made a significant comeback as well as Sinn Fein. However, the result does not show a clear winner or an alternative after 146 seats has been decided out of a total of 158. Hence, there is now speculation that Fine Gael and Fianna Fail may set their historical division aside and make a grand coalition even though it seems unlikely. Traditionally, Ireland has been ruled by either Fianna Fail or Fine Gael and the statements so far do not indicate that either party would like to form a coalition government. Alternatively, Fine Gael could go for a minority government - although this would be a fragile solution. There are also speculations whether the PM Enda Kenny from Fine Gael will have to step down after the heavy electoral loss. So far Kenny has announced that he is not resigning. Hence, we are in for a volatile period in Irish politics before the Irish parliament will meet on 10 March.

The outcome of the election with no clear winner/alternative for the outgoing government is not positive for the Irish government bond market, where Ireland underperforms e.g. France. Short term we could see more underperformance until we have more clarity on the political outlook but longer term the spread to EU peers should tighten as Ireland has solid fundamentals and a modest borrowing requirement for 2016. However, it is crucial that the government is still committed to fiscal consolidation.

US S&P500 future



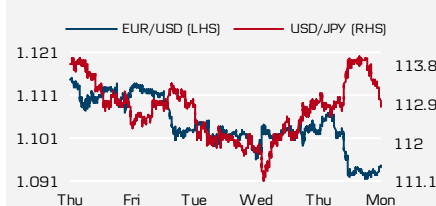
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

FX Markets

While the G20 communiqué was generally vague, G20 members did commit to consult closely on exchange rate policy and refrain from competitive devaluations. However, as risk sentiment has weakened somewhat on the back of the meeting, the JPY strengthened against the USD overnight after weakening towards the end of last week. Weak risk sentiment may support the EUR versus the USD but markets will also be looking at today's euro-area inflation flash HIPC inflation numbers for February, as two more reasons for the ECB to loosen monetary policy at its March meeting. A weak reading could work against the EUR. Regarding the GBP, the G20 meeting voiced concern about the possible adverse consequences of a Brexit and we saw further GBP weakness on Friday, although the GBP is relatively unchanged against the USD this morning. Regarding Scandi currencies, the NOK first strengthened a bit but later fell back on Friday as the oil price retreated from almost a three-month high. However, given economic weaknesses in Norway, we think the market will have to price in more monetary policy easing for the Norge's Bank meeting in March and therefore see a weaker NOK going forward.

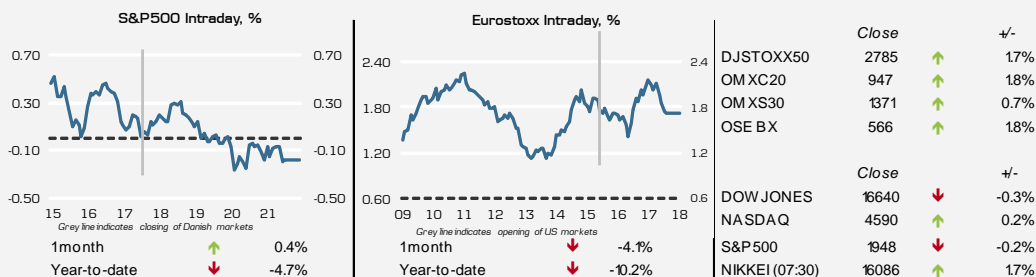
Key figures and events

Monday, February 29, 2016					Period	Danske Bank	Consensus	Previous
8:00	DEM	Retail sales	m/m y/y	Jan		0.3% ...	0.3% ...	0.6% 1.5%
9:00	DKK	Gross unemployment s.a.	K (%)	Jan		120 (4.5%)		120 (4.5%)
9:00	DKK	GDP, preliminary	q/q y/y	4th quarter		0.6% 1.0%		-0.4% ...
9:30	SEK	GDP	q/q y/y	4th quarter		0.7% 3.4%		0.8% 3.9%
9:30	SEK	Wages (blue collars/white collars)	y/y	Dec				2.5%
10:00	NOK	Retail sales, s.a.	m/m	Jan		0.7%	0.6%	-1.3%
10:00	NOK	Credit indicator (C2)	y/y	Jan		5.2%	5.1%	5.3%
10:00	NOK	Norges Bank's daily FX purchases	m	Mar				-900
10:30	GBP	Broad money M4	m/m y/y	Jan				-0.2% 0.2%
10:30	GBP	Mortgage approvals	1000	Jan			73.7	70.8
11:00	ITL	HICP, preliminary	m/m y/y	Feb			-0.1% 0.1%	-2.2% 0.4%
11:00	EUR	HICP - core, preliminary	%	Feb		0.8%	0.9%	1.0%
11:00	EUR	CPI, preliminary	y/y	Feb		-0.1%	0.0%	0.3%
12:00	EUR	Portugal, GDP, final	q/q y/y	4th quarter				0.2% 1.2%
15:45	USD	Chicago PMI	Index	Feb			53.0	55.6
16:00	USD	Pending home sales	m/m y/y	Jan			0.8% 3.9%	0.1% 3.1%

Source: Bloomberg, Danske Bank Markets

Today's market data: 29 February 2016

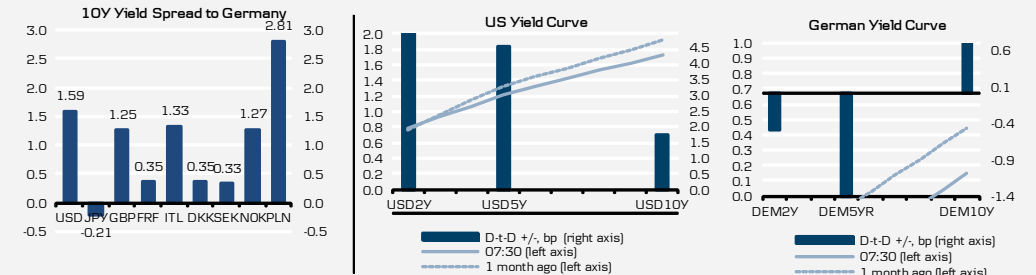
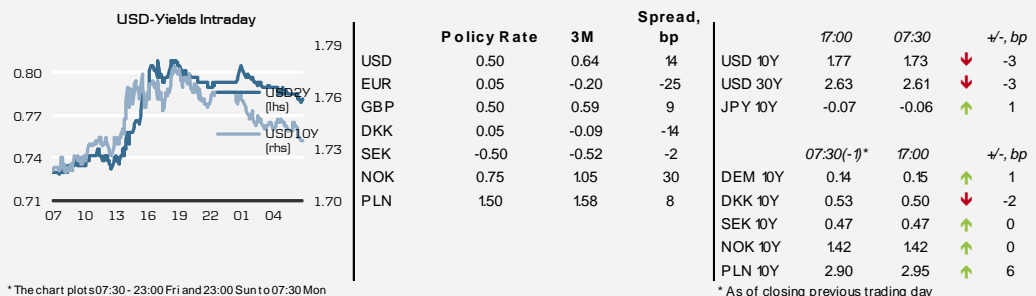
STOCKS



FX & COMMODITIES



YIELDS & INTEREST RATES

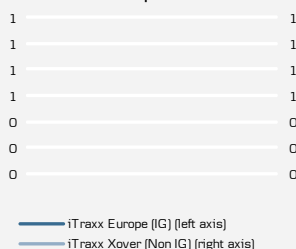


Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	105	↓ -1	↑ 11
HiVol	132	↑ 0	↑ 6
Xover (N-IG)	429	↑ 1	↑ 56
Finan. Sr.	116	↓ -1	↑ 21
Finan. Sub.	261	↓ 0	↑ 41
Non-finan.			

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	07:30	Δ	%
USD 10Y	-17	-16	↑	1
JPY 10Y				
EUR 10Y	0			
DKK 10Y	39	39	↓	0
SEK 10Y	44	45	↑	0
NOK 10Y	64	62	↓	-2

* As of closing previous trading day

** Ask price

7:30(-1) og 17:00 refers to the previous (trade) day

Source: Bloomberg, Danske Bank Markets

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