

16 February 2016

# Danske Daily

## Market Movers

- Although we have postponed our expectations for a first BoE hike to Q1 17 (see also *BoE Review: BoE is not 'Fed light'*, 4 February 2016), we are still monitoring the key economic figures closely. We expect that CPI inflation (due on Tuesday) increased to 0.4% y/y in January, mainly due to base effects and that CPI core inflation being unchanged at 1.4% y/y.
- Today, the German ZEW expectations for January are due to be released. Due to increased global market uncertainty, we expect the figure to drop sharply. This is also in line with the decrease in the Sentix expectations, which also reflects investor confidence, and is usually a good leading indicator for the ZEW expectations (*see chart*). If this market uncertainty persists, it could end up being a drag on economic growth in 2016 and, in that case, we would have to revise our forecast of a reacceleration in growth.
- In the US, focus will be on Empire manufacturing and the NAHB housing index.
- In Scandinavia, focus will be on Norwegian GDP, where we expect growth to be flat q/q. *See Scandi markets, page 2*, 16 February 2016.

## Selected Market News

Oil prices continued to recover overnight and Brent is now trading just below USD35 a barrel since Thursday's low. Risk appetite is better and there are media reports that Saudi's influential oil minister, Ali al-Naimi, will meet with his colleagues from Qatar, Russia and Venezuela today in Doha to discuss possible production cuts to bolster the oil price. It is doubtful whether any agreement can be reached. As late as last week, Russia said it would defend its market share. But given the current price oil level and the more positive risk appetite this week, we could still see some upside for oil today. Higher oil prices could also add some upside to inflation expectations in the market. Despite the rally in risk appetite yesterday, 5Y5Y inflation swap market inflation expectations are still close to the bottom both in the euro area and the US.

The positive market sentiment from the US and European session has been carried over to Asia and many markets are heading for the biggest two-day gains since 2010. Chinese stock markets have taken the lead up more than 3% after new data showed that credit and money growth were very strong in January. Both 'aggregate financing' and 'new yuan loans' were much higher than expected, according to surveys conducted by Bloomberg. The data is by most analysts seen as supporting a recovery in the Chinese economy and a consequence of both monetary policy and government pressure on banks to step up lending, though some of the jump in yuan loans is likely to be due to banks moving funding in foreign currency to local currency.

Finally, note that Mario Draghi yesterday expressed a firm commitment to act should market turmoil threaten the transmission of easy monetary policy into the financial system. The market is fully priced for a 10bp cut at the March ECB meeting.

## Market overview

	07:30	1 day +/- %
S&P500 (close)	1864.8	↑ 1.95
S&P500 fut (chng from close)	1890.5	↑ 1.73
Nikkei	16079.7	↑ 0.36
Hang Seng	19135.3	↑ 1.15
	17:00	07:30 +/- bp
US 2y gov	0.00	0.73 ↑ 72.6
US 10y gov	0.00	1.78 ↑ ###
iTraxx Europe (IG)	115	114 ↓ -0.5
iTraxx Xover (Non IG)	450	452 ↑ 2.2
		+/- %
EUR/USD	1.115	1.116 ↑ 0.04
USD/JPY	114.510	114.540 ↑ 0.03
EUR/CHF	1.10	1.10 ↑ 0.08
EUR/GBP	0.772	0.773 ↑ 0.20
EUR/SEK	9.482	9.467 ↓ -0.15
EUR/NOK	9.64	9.60 ↓ -0.40
		USD
Oil Brent, USD	33.7	34.8 ↑ 3.20
Gold, USD	1203.6	1196.9 ↓ -0.56

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

- Scandi Markets Ahead* (15 Feb 2016)]
- IMM positioning* (15 Feb 2016)
- Yield forecast update*

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## Scandi Markets

We expect Norwegian Mainland-GDP growth to have slowed further to 0.0% q/q in Q4 15. Private consumption grew slightly more quickly in Q4 15, and both public sector demand and housing investment are holding firm. On the other hand, business investment probably continued its decline, and we know that net exports will have made a clearly negative contribution to GDP in Q4. As usual, a shortage of data spells considerable uncertainty about developments in the country's relatively large service sector, but a cross-check of both employment and unemployment points to more or less flat growth. This would be somewhat weaker than Norges Bank's projections and so help cement a rate cut in March.

## Fixed Income Markets

With equities rebounding and credit indices reversing the recent weeks' risk sell-off, the fixed income market is following suit with tighter sovereign bond spreads and money market credit spreads also reversing. However, both are still at elevated levels and focus is thus how solid the risk rebound is with 2016 so far being characterised by very short-lived rebounds. With only Tier-2 data due to be released today, central bank policy response should continue as a dominant theme with Draghi yesterday expressing a firm commitment to act should market turmoil threaten the transmission of easy monetary policy into the financial system.

Today, the German Constitutional Court is having another hearing regarding the OMT programme, but we do not expect this to affect the current QE programme or expansion possibilities after the *European Court of Justice* (ECJ) in June last year confirmed OMT to be compatible with EU law and ECB competences.

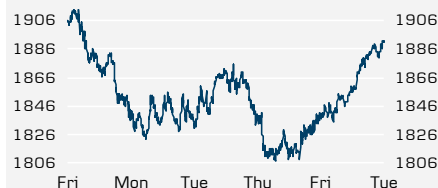
Austria is apparently looking to issue a new 10Y government bond through a syndicated deal. It is not yet confirmed by the *Austrian Debt Office* when looking at its website. Given that the Austrian Debt Office has indicated in its funding review that it plans to launch at least two syndicated deals this year given that the funding requirement has risen from EUR18bn in 2015 to EUR20-22bn, it is likely that the deal will come sooner rather than later. Furthermore, it could be a dual tranche as the Debt Office is apparently exploring the possibility of launching a 30Y bond as well.

Given that both The Netherlands and Austria are possibly coming to the market with new 10Y bonds, we would expect that Finland will also soon be in the market. The Netherlands has scheduled a new 10Y deal for March. As issuance is picking up and markets are gradually normalising, we should see the Bund ASW spread tighten and move back into the 30-40bp trading range, which has been the trading range since early 2015.

## FX Markets

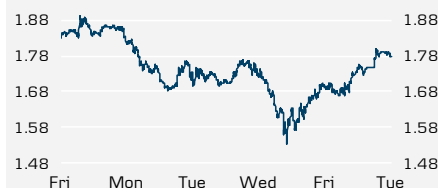
EUR/NOK remains highly driven by global risk sentiment, well illustrated by the statistic that the cross and the VIX – also known as the 'index of fear' – this year on average have moved in the same direction on nine out of 10 days. The reasons for this lie both in the EUR's status as a preferred funding currency and in global growth worries being an important driver of the oil price. When risk sentiment has tumbled this year the EUR has strengthened, while oil prices have weighed on the NOK. Both have contributed in sending EUR/NOK higher.

### 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

Indeed, a breakdown of the 2Y EUR-NOK swap spread shows that while 2Y NOK Swap rates have been relatively stable, the ECB repricing would itself warrant a lower EUR/NOK. However, this effect has been dominated by the former ‘risk channel’. While risk appetite has stabilized over the past few days, we remain cautious on risk assets in the very near term (see *Strategy – Central bank fatigue and the risk of a systemic crisis*, 12 February 2016). Consequently, with our expectations for Norwegian GDP to disappoint today, there could well be an opportunity to go against the past few days’ move lower in EUR/NOK.

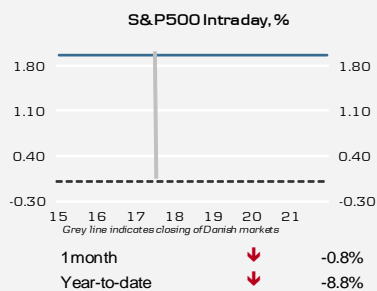
## Key figures and events

Tuesday, February 16, 2016					Period	Danske Bank	Consensus	Previous
6:30	NOK	Consumer confidence	Net. bal.	1st quarter			-10.0	-11.3
10:00	NOK	GDP (mainland)	q/q y/y	4th quarter	0.0% 0.8%	0.1%	0.2%	
10:00	NOK	GDP (total)	q/q	4th quarter		-0.6%	1.8%	
10:30	GBP	PPI - input	m/m y/y	Jan		-1.3% -8.7%	-0.8% -10.8%	
10:30	GBP	PPI - output	m/m y/y	Jan		-0.2% -0.9%	-0.2% -1.2%	
10:30	GBP	CPI	m/m y/y	Jan	-0.6% 0.4%	-0.7% 0.3%	0.1% 0.2%	
10:30	GBP	CPI core	y/y	Jan	1.4%	1.3%	1.4%	
11:00	DEM	ZEW current situation	Index	Feb		55.0	59.7	
11:00	DEM	ZEW expectations	Index	Feb	-2.0	0.0	10.2	
14:30	USD	Fed's Harker (non-voter, hawkish) speaks						
14:30	USD	Empire Manufacturing PMI	Index	Feb		-10.0	-19.4	
16:00	USD	NAHB Housing Market Index	Index	Feb		60.0	60.0	
16:30	USD	Fed's Kashkari (non-voter, unknown) speaks						
22:00	USD	TICS international capital flow, Net inflow	USD bn	Dec			-3.2	

Source: Bloomberg, Danske Bank Markets

## Today's market data: 16 February 2016

## STOCKS



	Close		+/-
DJSTOXX50	2723	<span style="color:green">↑</span>	2.7%
OMXC20	906	<span style="color:green">↑</span>	5.3%
OMXS30	1336	<span style="color:green">↑</span>	3.8%
OSE BX	539	<span style="color:green">↑</span>	3.2%
DOW JONES	15974	<span style="color:green">↑</span>	2.0%
NASDAQ	4338	<span style="color:green">↑</span>	1.7%
S&P500	1865	<span style="color:green">↑</span>	2.0%
NIKKEI (07:30)	16080	<span style="color:green">↑</span>	2.7%

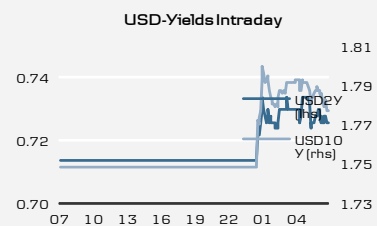
## FX &amp; COMMODITIES



EUR	17:00	07:30	+/-
USD	111.53	111.58	<span style="color:green">↑</span> 0.05
JPY	127.71	127.80	<span style="color:green">↑</span> 0.09
GBP	77.18	77.33	<span style="color:green">↑</span> 0.16
NOK	964.07	960.21	<span style="color:red">↓</span> -3.86
SEK	948.15	946.73	<span style="color:red">↓</span> -1.42
DKK	746.41	746.46	<span style="color:green">↑</span> 0.05
PLN	439.76	439.58	<span style="color:red">↓</span> -0.18
USD	17:00	07:30	+/-
JPY	114.51	114.54	<span style="color:green">↑</span> 0.03
GBP	144.52	144.27	<span style="color:red">↓</span> -0.25
CHF	98.77	98.81	<span style="color:green">↑</span> 0.04

	Gold, \$	Oil, Brent, \$
07:30	1196.85	34.80
1day	<span style="color:red">↓</span> -12.51	<span style="color:green">↑</span> 1.41
1month	<span style="color:green">↑</span> 107.97	<span style="color:green">↑</span> 5.86
Year-t-date	<span style="color:green">↑</span> 135.43	<span style="color:red">↓</span> -2.48
	CRB 1M future	CRB, Raw Industrials
07:30	160.36	421.89
1day	<span style="color:green">↑</span> 5.35	<span style="color:green">↑</span> 0.37
1month	<span style="color:green">↑</span> 0.43	<span style="color:green">↑</span> 12.73
Year-t-date	<span style="color:red">↓</span> -15.78	<span style="color:green">↑</span> 17.18

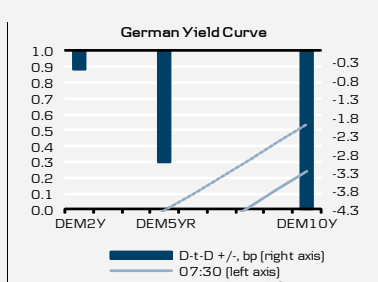
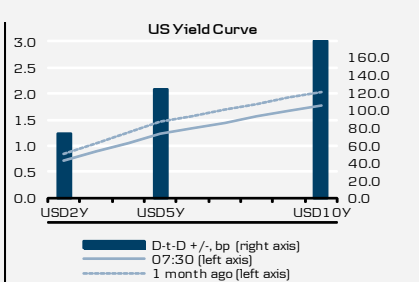
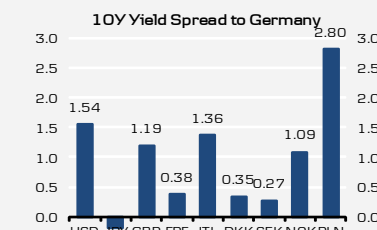
## YIELDS &amp; INTEREST RATES



	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	-0.08	-13
SEK	-0.35	-0.44	-9
NOK	0.75	1.08	33
PLN	1.50	1.59	9

	17:00	07:30	+/-, bp
USD 10Y	0.00	1.78	<span style="color:green">↑</span> 178
USD 30Y	0.00	2.63	<span style="color:red">↓</span> 263
JPY 10Y	0.09	0.05	<span style="color:red">↓</span> -4
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.28	0.24	<span style="color:red">↓</span> -4
DKK 10Y	0.64	0.59	<span style="color:red">↓</span> -5
SEK 10Y	0.45	0.51	<span style="color:green">↑</span> 6
NOK 10Y	1.32	1.32	<span style="color:green">↑</span> 0
PLN 10Y	3.08	3.04	<span style="color:red">↓</span> -4

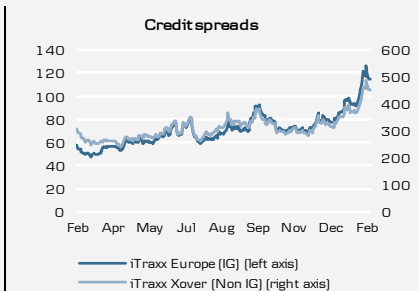
\* As of closing previous trading day



**Credit spread, iTraxx s. 11\***

	07:30	1day	1month
Europe (IG)	114	<span style="color:red">↓</span> -1	<span style="color:green">↑</span> 17
HiVol	145	<span style="color:green">↑</span> 0	<span style="color:green">↑</span> 12
Xover (N-IG)	452	<span style="color:red">↓</span> 0	<span style="color:green">↑</span> 62
Finan. Sr.	122	<span style="color:red">↓</span> -1	<span style="color:green">↑</span> 31
Finan. Sub.	286	<span style="color:red">↓</span> -2	<span style="color:green">↑</span> 85
Non-finan.			

\* Ask price



**Swap Spread, bp\*\***

	17:00	07:30	+/-
USD 10Y			
JPY 10Y		-14	
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	38	38	<span style="color:red">↓</span> 0
SEK 10Y	45	41	<span style="color:red">↓</span> -4
NOK 10Y	70	70	<span style="color:green">↑</span> 0

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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