

Danske Daily

Market Movers

- **Key event today will be the FOMC meeting.** We expect the Fed to keep the federal funds rate target unchanged at 0.25-0.50% but focus will be on the accompanying statement, see *Fed unlikely to risk tightening too much, too quickly*, 25 January. We stress that we expect the Fed to make an attempt to be dovish by communicating implicitly that it will skip March as a possible hiking month and remain on hold in the current environment. Indeed, the Fed will not risk tightening too much but it will be a challenge to not disappoint with markets pricing only one full hike this year.
- **Reserve Bank of New Zealand policy meeting this evening:** we – and consensus – expect the cash rate to be kept unchanged at 2.50%.
- **ECB's Mersch and Lautenschlager will be speaking today** but are unlikely to talk down expectations that the ECB is prepared to cut again in March.
- **Swedish confidence survey results out,** see *Scandi Markets*.

Selected Market News

The gyrations in risk appetite continue. Crude oil is back above the USD30/bl mark but down from yesterday's highs this morning and equity markets are mixed in Asia with Chinese indices down while Japan is posting decent gains. Industrial profits out of China overnight showed a 4.7% y/y drop in December, souring sentiment regarding the Chinese outlook once again. Australian CPI figures were released this morning, generally surprising marginally on the upside, thus sending AUD/USD a tad higher. While the US Markit services PMI posted a slightly larger than expected drop on Tuesday afternoon, data showing consumer confidence held up reasonably well in January despite the recent market jitters, which helped prop up sentiment overall, and the US session ended the day with 1-2% gains; Treasury yields 2-3bp lower.

We stress that if the Fed fails to soothe the markets in its statement today – which may be difficult considering the already dovish market pricing – there is a risk of higher money-market rates and some USD strength to go with it in the near term.

Separately, in Sweden, the risk of Riksbank intervention remains on the agenda following the recent move lower in EUR/SEK, albeit with the cross trading just off 9.30 we are still somewhat off the levels (possibly around 9.10-9.00) where the central bank would likely be activated. While intervention is a veritable minefield for a central bank to enter, it may nevertheless come to the fore given the Riksbank's sole focus on the inflation target and given that most agree the SEK is fundamentally undervalued (on PPP measures). We continue to see EUR/SEK around 9.30 in 1-3M supported by a February rate cut in Sweden but see a gradual move lower in the cross further out on Swedish growth outperformance.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1903.6	↑	1.41
S&P500 fut (chng from close)	1888.6	↓	-0.39
Nikkei	17168.7	↑	2.75
Hang Seng	19035.2	↑	0.92
	17:00	07:30	+/- bp
US 2y gov	0.86	0.85	↓ -1.0
US 10y gov	2.01	1.99	↓ -2.8
iTraxx Europe (IG)	93	93	↓ -0.1
iTraxx Xover (Non IG)	371	373	↑ 1.6
			+/- %
EUR/USD	1.084	1.086	↑ 0.18
USD/JPY	118.500	118.320	↓ -0.15
EUR/CHF	1.10	1.10	↑ 0.06
EUR/GBP	0.757	0.758	↑ 0.12
EUR/SEK	9.281	9.293	↑ 0.13
EUR/NOK	9.45	9.45	↑ 0.01
			USD
Oil Brent, USD	31.4	31.8	↑ 1.31
Gold, USD	1116.9	1120.4	↑ 0.31

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

- [Market Guide: January 2016](#)
- [Commodities Market Guide: Global growth concerns hit commodity prices](#)
- [Fixed Income Strategy: Norges Bank to sell NOK3bn in NGB NST 473, 4.50%, 22 May 2019](#)

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Scandi Markets

Sweden. Is the Riksbank secretly hoping for bad NIER data today? The conspirator argument being that inflation has more or less decoupled from growth-related data, while the SEK tends to appreciate (depreciate) with good (bad) real macro data. Annoyingly so for an inflation-hunting Riksbank. NIER indicators have so far painted a rather rosy outlook for the real economy but it may be that the recent market turmoil has weighed on sentiment. Regarding the inflation part of the survey, it remains to be seen if retailers are still as bullish as last time when it comes to price plans. Households' one-year inflation expectations have been at 1.9% lately but the question is whether these will drop on the back of the recent drop in the oil price.

Fixed Income Markets

Despite a strong recovery in US equities that tracked the oil bounce, fixed-income markets managed to maintain the gains and 2Y German yields set (yet another) record low level of -46bp in an otherwise quiet session. Focus now turns to the results of the FOMC meeting and how the Fed will react to the past week's tightening of financial conditions and economic uncertainty. Going into the meeting, the market's verdict seems pretty clear: 2Y accumulated rate increases implied by the US curve have now declined to 62bp (1st minus 8th ED contract) - the lowest level since December 2013 - and down 40bp in 2016. It thus suggests that Fed communication needs to turn significantly to meet pricing and there is definitely a risk that the FOMC statement does not deliver according to this.

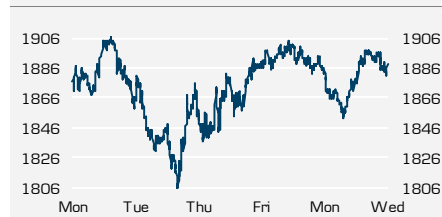
Germany is tapping EUR1bn in the 30Y benchmark (DBR 2.5% 08/46)t today; demand at the German auctions in 2016 has been modest so far and we expect more of the same today. However, this is more a reflection of solid liquidity in the secondary market and investors not needing the auctions in order to buy German government bonds. Norway is tapping in the 3Y benchmark; the auction should be rather uneventful.

FX Markets

Global risk sentiment continues to set the tone in FX markets both directly and indirectly via the correlation with commodity prices. While most currencies in the G10 sphere have lost footing against the EUR lately, it is noteworthy that the CHF has been one of the biggest losers. EUR/CHF has now firmly broken through the 1.10 level for the first time since the brief breach in September. Interestingly, EUR/CHF has not been under any significant pressure following the ECB signal that more easing lies ahead although the SNB has limited rate options left. This suggests that the possibility of the SNB using the so-called 'nuclear' option, i.e. to expand the amount of sight deposits charged negative, remains a threat that the market does not want to test the need for. We continue to see EUR/CHF head gradually higher, still targeting 1.15 in 12M.

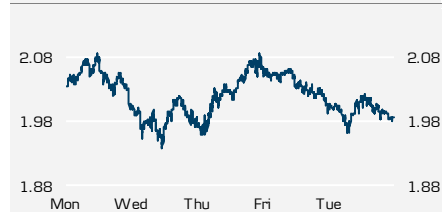
On the back of the 're-re-collapse' in the oil price and global financial turmoil we think the Fed will leave the federal funds target range unchanged and deliver a dovish message in the released statement. As markets now only price in one hike for 2016 any indications of March being a 'live' meeting would be interpreted hawkish. In terms of EUR/USD 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. Indeed, we stress that there is a clear risk that the Fed will not be able to deliver a message today that is soft enough considering the dovish market pricing and thus that risks to EUR/USD are on the downside near term.

US S&P500 future



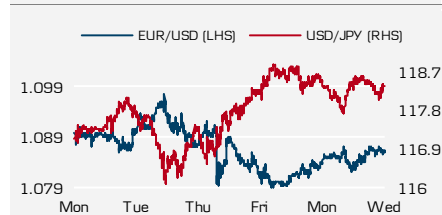
Source: Danske Bank Markets

US 10y gov yield



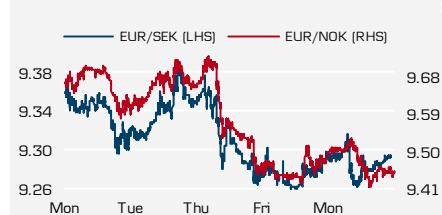
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

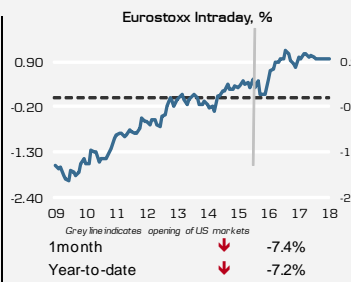
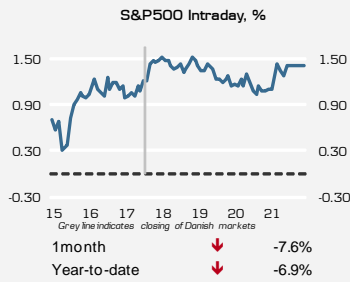
Key figures and events

Wednesday, January 27, 2016					Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m y/y	Dec	0.6% ..	0.4% 1.9%	0.4% 2.3%	
1:30	AUD	CPI	q/q y/y	4th quarter		0.3% 1.6%	0.5% 1.5%	
2:30	CNY	Industrial profits	y/y	Dec			-1.4%	
6:00	JPY	Small business confidence	Index	Jan		48.5	48.3	
8:00	GBP	Nationwide house prices	m/m y/y	Jan		0.6% 4.8%	0.8% 4.5%	
8:00	DEM	GfK consumer confidence	Net. Bal.	Feb		9.3	9.4	
8:45	FRF	Consumer confidence	Index	Jan		96.0	96.0	
9:00	SEK	Consumer confidence	Index	Jan		97.0	98.7	
9:00	SEK	Economic Tendency Survey	Index	Jan		108.0	110.1	
9:00	SEK	Manufacturing confidence	Index	Jan		110.0	114.3	
9:30	SEK	NIER economic forecasts						
10:00	ITL	Business confidence	Index	Jan			104.1	
12:00	EUR	ECB's Mersch speaks in Munich						
13:00	USD	MBA Mortgage Applications	%				9.0%	
14:00	EUR	ECB's Lautenschlaeger speaks in Frankfurt						
16:00	USD	New home sales	1000 (m/m)	Dec		500	490.0 (4.3%)	
16:30	USD	DOE U.S. crude oil inventories	K				3979	
20:00	USD	FOMC meeting	%		0.5%	0.5%	0.5%	
21:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		2.5%	2.5%	2.5%	
22:45	NZD	Trade balance	NZD M	Dec		-131	-779	
14:30	CAD	Retail sales	m/m	Oct			-0.5%	
14:30	CAD	GDP	m/m y/y	Oct			-0.5% 0.0%	

Source: Bloomberg, Danske Bank Markets

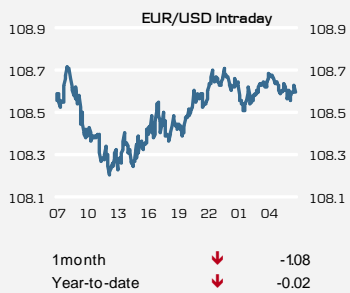
Today's market data: 27 January 2016

STOCKS



	Close	±	%
DJSTOXX50	2877	↑	0.9%
OMXC20	962	↑	0.2%
OMXS30	1376	↑	1.6%
OSE BX	551	↑	0.7%
Close			
DOW JONES	16167	↑	1.8%
NASDAQ	4568	↑	1.1%
S&P 500	1904	↑	1.4%
NIKKEI (07:30)	17169	↑	0.9%

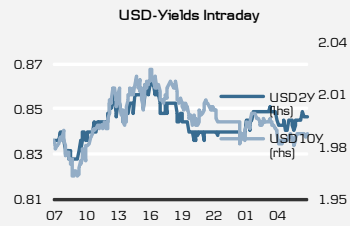
FX & COMMODITIES



	17:00	07:30	±	%
EUR				
USD	108.41	108.60	↑	0.19
JPY	128.46	128.50	↑	0.04
GBP	75.66	75.75	↑	0.09
NOK	944.89	944.96	↑	0.07
SEK	928.13	929.34	↑	1.21
DKK	746.22	746.25	↑	0.03
PLN	446.37	445.07	↓	-1.30
USD	17:00	07:30	±	%
JPY	118.50	118.32	↓	-0.15
GBP	143.28	143.37	↑	0.09
CHF	101.83	101.70	↓	-0.13

	07:30	±	%
Gold, \$	120.37		
Brent, \$	31.79		
1day	↑	0.45	↓ -0.01
1month	↑	44.22	↓ -6.10
Year-t-date	↑	58.95	↓ -5.49
CRB			
1M future	162.68		
CRB, Raw Industrials	411.89		
1day	↑	2.22	↑ 0.86
1month	↓	-13.41	↑ 9.03
Year-t-date	↓	-13.47	↑ 7.18

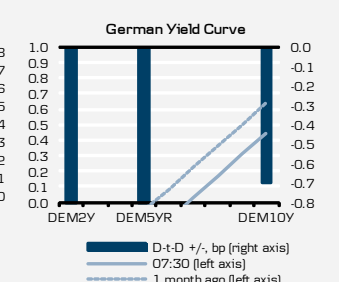
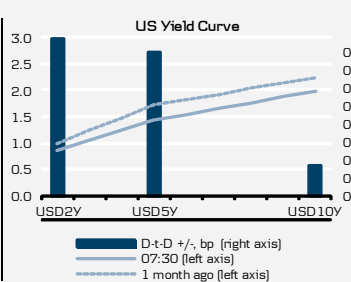
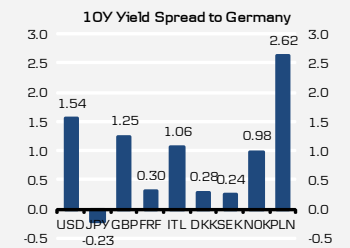
YIELDS & INTEREST RATES



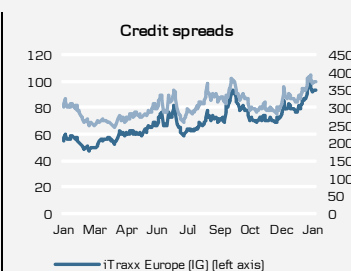
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.16	-21
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.29	6
NOK	0.75	1.20	45
PLN	1.50	1.60	10

	17:00	07:30	±, bp
USD 10Y	2.01	1.99	↓ -3
USD 30Y	2.80	2.78	↓ -2
JPY 10Y	0.22	0.22	↑ 0
07:30(-1)* 17:00 ±, bp			
DEM 10Y	0.45	0.45	↓ -1
DKK 10Y	0.80	0.73	↓ -7
SEK 10Y	0.71	0.69	↓ -2
NOK 10Y	1.43	1.43	↑ 0
PLN 10Y	3.34	3.24	↓ -10

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	93	↓ 0	↑ 13
HIVol	127	↑ 0	↑ 25
Xover (N-IG)	373	↑ 0	↑ 47
Finan. Sr.			
Finan. Sr.	90	↓ 0	↑ 15
Finan. Sub.	195	↓ -1	↑ 40
Non-finan.			



	17:00	07:30	±	%
USD 10Y				
JPY 10Y	-13	-13	↓	0
07:30(-1)* 17:00 ±				
EUR 10Y	0	17	↑	17
DKK 10Y	31	32	↑	1
SEK 10Y	42	41	↓	-1
NOK 10Y	65	66	↑	1

* Ask price

* 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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First date of publication

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