

# Danske Daily

## Market Movers

- Today's main event will be the FOMC monetary policy announcement. We expect the FOMC to keep the fed funds target rate unchanged at 0.25%-0.50%. This is widely expected and focus will instead be on the updated projections for the fed funds target rate (the so-called 'dots'). We expect the Fed to signal two or three hikes this year (down from four) and four hikes next year (unchanged). The Fed is likely to keep the door open for a June hike and given that markets have only priced in one hike both this year and next, we think it is likely that the Fed will be interpreted hawkishly. Our main scenario is that the Fed will stay on hold until September but the probability of a move in June and that the Fed will tighten monetary policy more than once in 2016 has increased due to the rebound in risk sentiment, continued improvement in the labour market and higher PCE core inflation. See *FOMC preview: Fed set to keep door open for a June hike*, 14 March, for details.
- Before the FOMC monetary policy announcement, we get another series of US data releases: US core CPI is expected to increase 0.2% m/m February and remain unchanged at 2.2% y/y. Industrial production data is expected to decline 0.3% m/m in February following a 0.9% increase in January.
- In the UK, we estimate both the unemployment rate (3M average) and the annual growth rate in average weekly earnings excluding bonuses (3M average) were unchanged in January at 5.1% and 2.0% y/y, respectively. We think wage growth has reached a bottom and we expect it to pick up gradually from here due to the tighter labour market. That said, it is likely that employment growth will slow in H1 16 due to slower economic growth amid 'Brexit' uncertainties.
- In Sweden, we get the quarterly, extended Prospera inflation expectations survey, while Danmarks Nationalbank will publish its Monetary Review. See *Scandi Markets*.

## Selected Market News

It has been relatively quiet overnight both in terms of news flow and market movements as investors remain cautious ahead of the FOMC meeting tonight. In the US, the S&P500 index ended 0.2% lower last night, while the Dow Jones index rose 0.1%. In Asia this morning trading is also mixed with Japanese equity markets down 0.8%, while Chinese equity indices trade in the range from -1% to +0.5%.

Bank of Japan Governor, Kuroda, this morning testified before the parliament on the Bank's semi-annual Report on Currency and Monetary Control. The statement did not contain any news compared to the information we got in connection with the monetary policy announcement yesterday when Kuroda underscored that the Bank stands ready to ease further if needed. However, when questioned by lawmakers about negative interest rates, Kuroda agreed that it would be theoretically possible to lower the interest rate to -0.5%. We still expect the Bank of Japan to eventually catch up on negative interest rates with European central banks and it to cut its key policy interest rate by 20bp in July to -0.3%.

## Market overview

	07:30	1 day +/-, %	
S&P500 (close)	2015.9	↓ -0.18	
S&P500 fut (chng from close)	2008.5	↑ 0.10	
Nikkei	17008.5	↓ -0.63	
Hang Seng	20244.7	↓ -0.22	
	17:00	07:30	
		+/-, bp	
US 2y gov	0.96	0.96	↑ 0.0
US 10y gov	1.95	1.95	↑ 0.2
iTraxx Europe (IG)	75	76	↑ 1.0
iTraxx Xover (Non IG)	328	330	↑ 2.3
			+/-, %
EUR/USD	1.111	1.110	↓ -0.07
USD/JPY	112.870	113.380	↑ 0.45
EUR/CHF	1.10	1.10	↑ 0.08
EUR/GBP	0.784	0.785	↑ 0.16
EUR/SEK	9.234	9.246	↑ 0.14
EUR/NOK	9.51	9.50	↓ -0.10
			USD
Oil Brent, USD	38.4	39.2	↑ 1.98
Gold, USD	1232.9	1233.0	↑ 0.01

### 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

- *FOMC preview: Fed set to keep door open for a June hike*
- *Norges Bank Preview: A 25bp cut and a dovish bias, limited EUR/NOK upside*

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## Scandi Markets

**Sweden.** The quarterly, extended Prospera inflation expectations survey is due at 08:00 CET. The big picture is that shorter-term (1-2y) expectations have turned around but the monthly (market participants only) survey shows a slight drop recently. Meanwhile, the longer-term (5y) expectations have stabilised at around 1.7-1.8% and here the monthly survey indicates a rise. So a mixed picture. If expectations were to fall it could make Riksbank Board members less tolerant to 'forecast errors' and vice versa.

**Denmark.** Danmarks Nationalbank will publish its Monetary Review for Q1 at 10:30 CET with its assessment of the current economic climate and the outlook for Denmark. In connection with the publication, central bank governor Lars Rohde hosts a press conference also at 10:30 CET including a Q&A session.

## Fixed Income Markets

We currently see heavy issuance in the EUR market from especially the corporate side and we have seen a tightening of the Bund asset swap spread as issuers in general are receivers in the swap. Anything but an unchanged fed funds target rate tonight would be a surprise. We think that the FOMC will keep the door open for a June hike and if we are correct, global FI markets could get some headwind tonight and tomorrow.

Today, the German Finanzagentur taps in the 10Y benchmark. We expect a decent demand as the bid-to-cover has been improving in recent auctions and as the ECB has stepped up its QE purchases.

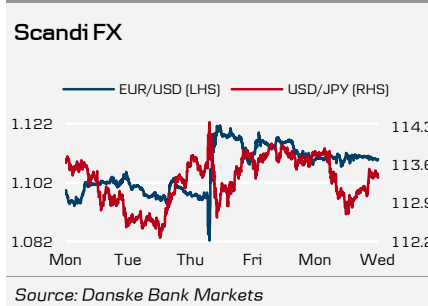
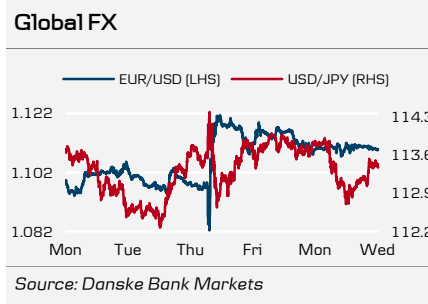
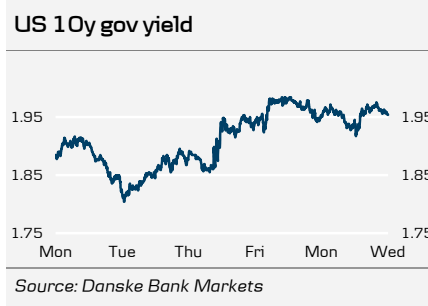
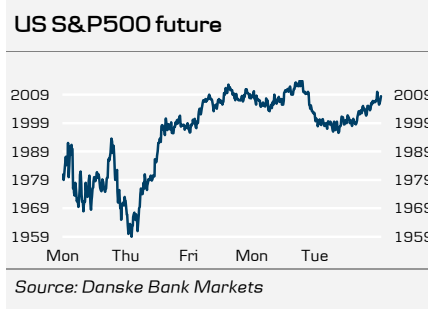
The Swedish debt office will be tapping in the Dec-20 and the Jun-32. We favour the 5Y segment of the Swedish curve given the steep money market curve. Outright currency exposure has also become more interesting after Riksbank's Skingsley last week said she is not in favour of FX intervention.

The Danish Debt Management Office is tapping in the DGB 0.25% Nov'18 and the DGB 1.75% Nov'25. We expect that it will sell DKK3bn to 4bn. The demand for DGBs at the regular tap auction is picking up after a modest start in 2016. Danish government bonds are in our view cheap relative to Euro peers and recently foreign investor interest for DGBs has changed and now seems to be rising again. We favour the 10Y bond or alternatively buy the DGB-18 against the DGB-17 given the steep Danish curve in the front. For more see our *DGB auction preview*, 14 March.

## FX Markets

We are probably in for relatively quiet European session in global FX markets as we await the FOMC meeting tonight. We think that the Fed will keep the door open for a rate hike in June and we think it is likely that the Fed will be interpreted hawkishly. This might be supportive for the USD in the short run. Overall, we believe that the recent improvement in risk sentiment and a likely more hawkish Fed will cap the top side in EUR/USD in the coming months. We continue to see EUR/USD in a 1.05-1.15 range in the coming months but still hold the view that EUR/USD will head substantially higher in 2016.

In the Scandi FX market, EUR/SEK has stabilised just below 9.25 after another decline yesterday on the back of the higher-than-expected Swedish inflation prints. We continue to see EUR/SEK being range bound in the coming months and although we have become slightly more bearish we see limited short-term upside potential for the SEK in the coming months. Yesterday we decided to close the last leg of our EUR/SEK position (a long put option with strike 9.00 and a time-to-maturity of 2.5 months) from our FX Top



Trades where we recommended buying a 6M EUR/SEK put option financed by selling a 3M EUR/SEK 9.10-9.50 strangle. As such, we see little probability of EUR/SEK falling to 9.00 within the coming two and a half months and thus the main rationale for taking an early profit on the put option was a balanced view of only little further downside potential for EUR/SEK in the short term combined with an increased cost (i.e. time delay) of keeping the position. For more details see *Danske Bank FX Top Trades - Take profit on EUR/SEK put financed by sold strangle*, 15 March.

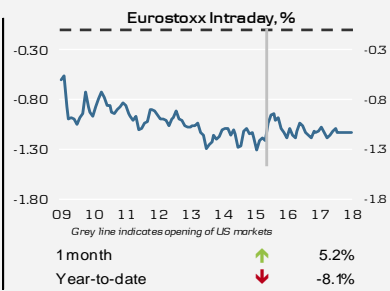
Key figures and events

Wednesday, March 16, 2016			Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations				
10:00	NOK	Trade balance	NOK bn			16.9
10:30	DKK	Danish Central Bank publishes Q1 outlook	1st quarter			
10:30	GBP	Unemployment rate (3M)	%	Jan	5.1%	5.1%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jan	2.0%	2.1%
10:30	GBP	Average weekly earnings (3M)	y/y	Jan		2.0%
10:30	GBP	Average weekly earnings (3M)	y/y	Jan		1.9%
12:00	USD	MBA Mortgage Applications	%			0.2%
13:30	USD	Building permits	1000 (m/m)	Feb		1201
13:30	USD	Housing starts	1000 (m/m)	Feb		1150
13:30	USD	CPI	m/m y/y	Feb		1202.0 (-0.2%)
13:30	USD	CPI - core	m/m y/y	Feb		1099.0 (-3.8%)
14:15	USD	Capacity utilization	%	Feb		-0.2% 0.9%
14:15	USD	Industrial production	m/m	Feb		76.9%
14:15	USD	Manufacturing production	m/m	Feb		77.1%
15:30	USD	DOE U.S. crude oil inventories	K	Feb		-0.2%
19:00	USD	FOMC meeting	%		0.50%	0.50%
19:00	USD	FOMC economic projections				0.9%
22:45	NZD	GDP	q/q y/y	4th quarter		0.7% 2.1%

Source: Bloomberg, Danske Bank Markets

Today's market data: 16 March 2016

STOCKS



Index	Close	Change	+/-
DJUSTOXX50	2848	↓	-1.1%
OMXC20	974	↓	-1.4%
OMXS30	1404	↓	-1.4%
OSE BX	583	↓	-1.1%
Index	Close	Change	+/-
DOW JONES	17252	↑	0.1%
NASDAQ	4729	↓	-0.5%
S&P500	2016	↓	-0.2%
NIKKEI (07:30)	17009	↓	-1.1%

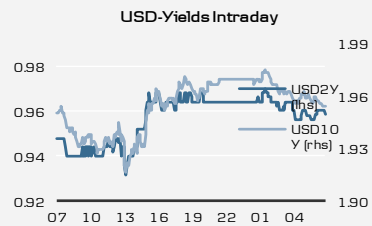
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	111.07	110.99	↓ -0.08
JPY	125.36	125.84	↑ 0.48
GBP	78.42	78.55	↑ 0.13
NOK	950.77	949.86	↓ -0.91
SEK	923.38	924.64	↑ 1.26
DKK	745.80	745.72	↓ -0.08
PLN	429.37	428.97	↓ -0.40
USD	17:00	07:30	+/-
JPY	112.87	113.38	↑ 0.51
GBP	141.63	141.31	↓ -0.32
CHF	98.61	98.75	↑ 0.14

Commodity	07:30	Change	+/-
Gold, \$	1233.03		
Oil, Brent, \$	39.19		
1 day	0.69	↑	0.45
1 month	32.59	↑	7.01
Year-t-date	171.61	↑	1.91
Commodity	07:30	Change	+/-
CRB	171.07		438.06
1M future	-1.31	↓	-0.04
1 month	12.21	↑	16.17
Year-t-date	-5.07	↓	33.35

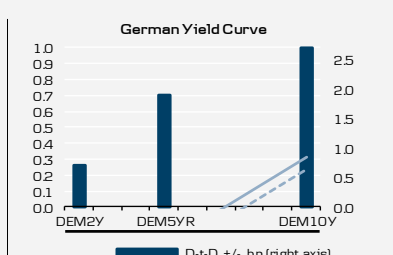
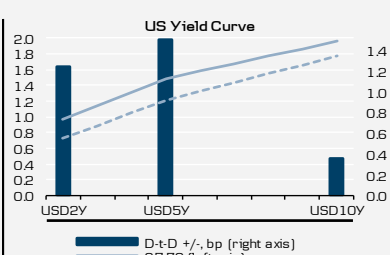
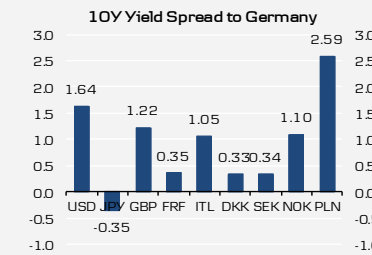
YIELDS & INTEREST RATES



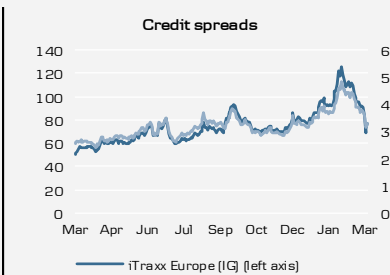
Policy Rate	3M	Spread, bp	
USD	0.50	0.64	14
EUR	0.00	-0.23	-23
GBP	0.50	0.59	9
DKK	0.05	-0.05	-10
SEK	-0.50	-0.46	4
NOK	0.75	1.01	26
PLN	1.50	1.57	7

Yield	17:00	07:30	+/-, bp
USD 10Y	1.95	1.95	↑ 0
USD 30Y	2.72	2.71	↓ 0
JPY 10Y	-0.01	-0.04	↓ -3
Yield	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.29	0.31	↑ 2
DKK 10Y	0.67	0.65	↓ -3
SEK 10Y	0.63	0.65	↑ 2
NOK 10Y	1.41	1.41	↑ 0
PLN 10Y	2.89	2.91	↑ 2

\* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1 day	1 month
Europe (IG)	76	↑ 1	↓ -38
HiVol	95	↑ 0	↓ -46
Xover (N-IG)	330	↑ 0	↓ -128
Finan. Sr.	84	↑ 1	↓ -39
Finan. Sub.	194	↑ 4	↓ -101
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-16	-15	↑ 1
Swap Spread, bp**	07:30(-1)*	17:00	+/-
EUR 10Y	0	20	↑ 20
DKK 10Y	39	35	↓ -3
SEK 10Y	46	42	↓ -4
NOK 10Y	59	59	↓ 0

\* As of closing previous trading day

\*\* Ask price

\* Ask price

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