

Danske Daily

Market Movers

- **In the euro area**, the calendar is crowded in terms of data releases and the week starts off with the German IFO expectations. So far, we have not seen any weakness in the indicator but we expect this development to be over and forecast a decline to 102.3. This is less than the recent sharp drop in ZEW expectations but more in line with the modest decline in the PMI figures. Besides the slowdown in emerging markets, the Volkswagen exhaust scandal is also to blame.
- At noon **ECB's Mersch will speak** in Brussels on 'The Challenges of Innovation'.
- In the **US**, new home sales for September will likely add to the recent series of data releases showing that the US housing market remains solid.
- **There are no important data releases in Scandinavia today**. Otherwise **focus this week** will very much be on central bank meetings with the Riksbank and the FOMC due Wednesday and Bank of Japan due Friday.

Selected Market News

Last Friday the **People Bank of China** announced a cut in the one-year lending rate and the one-year deposit rate by 25bp to 4.35% and 1.50%, respectively. Also, the cap on deposit rates was scrapped and the reserve requirement ratio was cut by 0.50pp. The decisions were in line with our expectation of further liberalisation of the Chinese financial markets and of further monetary stimulus, which also supports our view that the recent growth slowdown in the Chinese economy is likely to bottom in coming months. **This will remove some of the pressure on major central banks** to ease or postpone rate hikes as the negative impact of the Chinese growth slowdown has been an important factor in the recent deterioration in macroeconomic key figures in e.g. the US and Europe. Thursday's dovish ECB and Friday's announcement of additional easing by the PBoC have **given significant support to almost all risk assets**, not least stocks, credit, peripheral bonds and sovereign bonds. This morning close to all the **major Asian equity indices are trading in green territory**.

Going into the week where **China's leaders are to decide on a new five-year economic plan for the period 2016-2020**, Premier Li Keqiang has stated that they will not 'defend to the death' the goal of 7% economic growth this year but that 'the economy should operate within a reasonable range'.

According to Chinese officials, International Monetary Fund representatives have informed China that the **yuan** is likely to be included in the basket of **Special Drawing Rights** already this year. The basket is reviewed every five years.

In Poland, the veteran nationalist Kaczynski's Law and Justice party (PiS) has won Sunday's parliamentary election leading to the first change of government in almost a decade. The PiS campaign has been characterised by populist measures, euro-scepticism, critics of Moscow and promises to increase welfare spending. While the PiS-victory - according to exit polls - guarantees an outright majority in the lower house of parliament the PiS has not won enough seats to change the constitution.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2075.2	↑	1.10
S&P500 fut (chng from close)	2061.9	↓	-0.20
Nikkei	18950.2	↑	0.66
Hang Seng	23134.2	↓	-0.08
	17:00	07:30	+/-, bp
US 2y gov	0.63	0.63	↑ 0.4
US 10y gov	2.08	2.08	↓ -0.7
iTraxx Europe (IG)	71	71	↓ -0.1
iTraxx Xover (Non IG)	299	298	↓ -1.1
			+/-, %
EUR/USD	1.103	1.103	↑ 0.07
USD/JPY	121.170	121.110	↓ -0.05
EUR/CHF	1.08	1.08	↑ 0.14
EUR/GBP	0.718	0.720	↑ 0.20
EUR/SEK	9.369	9.371	↑ 0.02
EUR/NOK	9.24	9.24	↑ 0.02
Oil Brent, USD	47.9	48.1	↑ 0.48
Gold, USD	1163.4	1165.7	↑ 0.20

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: Two sputtering engines and one trying to restart*
- *ECB to cut the deposit rate further*
- *China cuts interest rates and reserve requirements*

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Fixed Income Markets

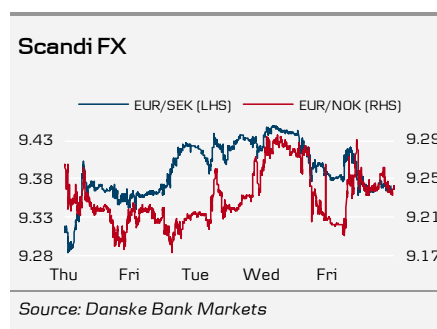
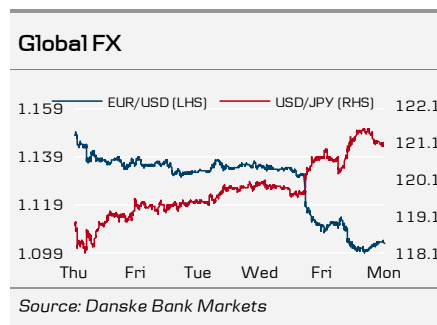
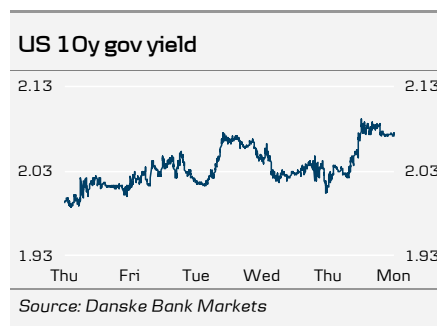
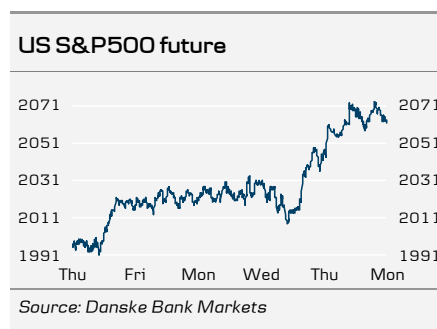
The pre-announcement of further ECB easing **fuelled the FI market last week** and the most interesting this week will be the response from the **national DMOs** and how they utilise the bid in the market. It is possible that Spain will use the strong support to finally launch a 30Y syndicated deal. We also expect Finland to announce a tap in the 10Y next week. The planned issuance this week includes Germany tapping the 10Y benchmark and Italy in the 5Y and 10Y.

We have for some time argued for lower real **EUR yields** and after Draghi did the same we probably have the big move behind us, although we still think the move has a bit further to go. 5Y periphery looks like an attractive low risk trade in this environment and we see value in Portugal after the recent underperformance to peers, see more in our *Government Bond Weekly*.

FX Markets

In the FX markets **EUR/USD** has temporarily breached the 1.10 level – for the first time in two months – thereby completing an almost 3.5 figure move lower since Thursday’s dovish ECB surprise. Adding to this, the People Bank of China’s announcement of additional easing on Friday supported risk sentiment even further and with the EUR’s status as a preferred funding currency this has been a further factor for EUR/USD weakness. Since the August market sell-off the EUR- and the CHF- correlations to global equities have been identical and moved in tandem. With the relative move in USD/CHF and our model beta estimates in mind, this suggests that roughly half of the move lower in EUR/USD since Thursday can be explained by improved risk sentiment and the other half by increased dovish expectations of future ECB monetary policy. We target EUR/USD at 1.10 in 1M and 1.08 in 3M but maintain the view of the cross edging higher in 2016 on medium-term fundamentals. We expect the cross to trade at 1.12 in 6M and 1.20 in 12M.

In the scandies, **EUR/NOK** remains caught in the 9.20-9.30 range. While EUR weakness has weighed on the cross, Friday’s drop in the oil price has been a positive factor for the cross via the NOK-leg. The drop in global rates has been a contributing factor for lower short-term NOK rates, as the probability of another Norges Bank cut has increased. The reason for this is that ‘foreign rates’ – one of the most important factors for changes to the Norges Bank rate path – now lie below Norges Bank’s September projection. Fundamentally we expect lower NOK-rates and seasonal factors to send EUR/NOK higher in the coming months forecasting 9.30 in both 1M and 3M.



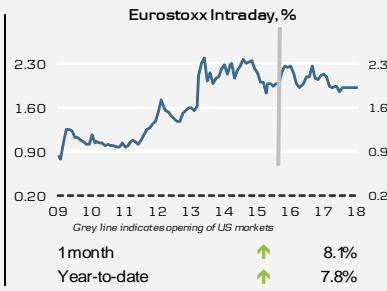
Key figures and events

Monday, October 26, 2015						Period	Danske Bank	Consensus	Previous
10:00	DEM	IFO - business climate	Index	Oct		107.8	107.8	108.5	
10:00	DEM	IFO - current assessment	Index	Oct		113.4	113.5	114.0	
10:00	DEM	IFO - expectations	Index	Oct		102.3	102.3	103.3	
11:45	EUR	ECB's Mersch speaks in Brussels							
15:00	USD	New home sales	1000 (m/m)	Sep			545	552 (5.7%)	
22:45	NZD	Trade balance	NZD M	Sep			-825	-1035	

Source: Bloomberg, Danske Bank Markets

Today's market data: 26 October 2015

STOCKS



	Close		+/-
DJUSTOXX50	3237	↑	1.9%
OMXC20	957	↑	2.1%
OMXS30	1507	↑	1.5%
OSE BX	624	↑	1.3%
<hr/>			
	Close		+/-
DOW JONES	17647	↑	0.9%
NASDAQ	5032	↑	2.3%
S&P500	2075	↑	1.1%
NIKKEI (07:30)	18950	↑	1.9%

FX & COMMODITIES

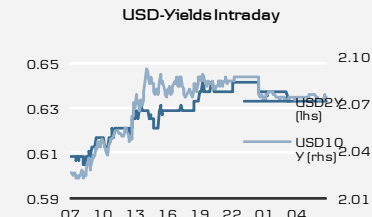


EUR	17:00	07:30	+/-
USD	110.25	110.33	↑ 0.08
JPY	133.59	133.62	↑ 0.03
GBP	71.83	71.98	↑ 0.14
NOK	923.90	924.06	↑ 0.16
SEK	936.90	937.10	↑ 0.20
DKK	746.00	746.02	↑ 0.02
PLN	425.41	425.30	↓ -0.11
USD	17:00	07:30	+/-
JPY	121.17	121.11	↓ -0.06
GBP	153.47	153.28	↓ -0.19
CHF	97.62	97.68	↑ 0.06

	07:30		Oil, Brent, \$
Gold, \$	1665.77		48.09
1 day	↑	1.11	↑ 0.10
1 month	↑	19.27	↓ -0.51
Year-t-date	↓	-19.19	↓ -9.24
<hr/>			
	07:30		CRB, Raw Industrials
CRB 1M future	193.71		420.44
1 day	↓	-1.90	↑ 0.68
1 month	↓	-2.00	↓ -13.82
Year-t-date	↓	-36.24	↓ -71.67

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

YIELDS & INTEREST RATES

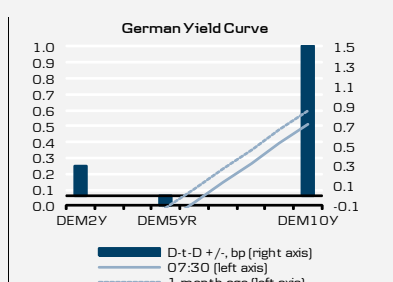
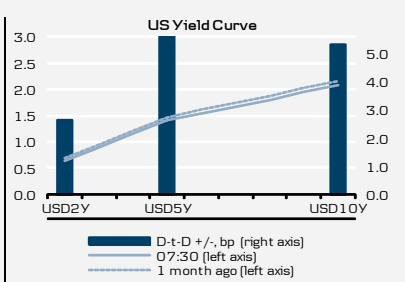
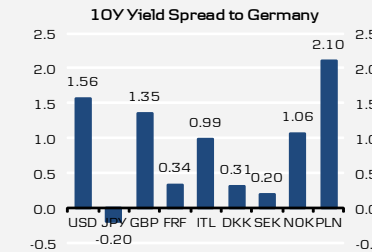


	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.06	-11
GBP	0.50	0.58	8
DKK	0.05	-0.08	-13
SEK	-0.35	-0.31	4
NOK	0.75	1.12	37
PLN	1.50	1.63	13

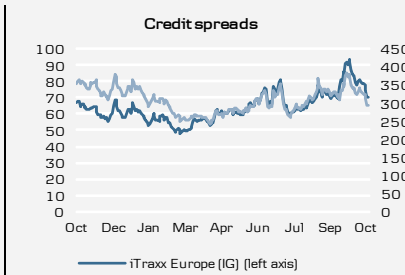
	17:00	07:30	+/-, bp
USD 10Y	2.08	2.08	↓ -1
USD 30Y	2.90	2.89	↓ -1
JPY 10Y	0.30	0.32	↑ 1
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	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.50	0.51	↑ 1
DKK 10Y	0.88	0.83	↓ -4
SEK 10Y	0.68	0.70	↑ 3
NOK 10Y	1.57	1.57	↑ 0
PLN 10Y	2.64	2.61	↓ -3

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	71	↓ -1	↓ -18
HiVol	76	↑ 0	↓ -8
Xover (N-IG)	298	↓ -2	↓ -71
<hr/>			
Finan. Sr.	69	↓ -1	↓ -27
Finan. Sub.	145	↓ 0	↓ -50
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-4	-4	↓ 0
<hr/>			
	07:30(-1)*	17:00	+/-
EUR 10Y	0	19	↑ 19
DKK 10Y	40	39	↓ 0
SEK 10Y	44	44	↑ 0
NOK 10Y	64	64	↓ 0

* Ask price

* 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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