

Danske Daily

Market Movers

- **German HICP inflation**, which is released ahead of the euro area figure tomorrow, should be dragged down by the oil price decline and we expect it to reach -0.3% y/y in September. The pressure on Draghi for further easing has intensified lately and should increase further on indications that euro area inflation is falling back into deflationary territory (see *Euro Area Deflation Monitor*).
- We expect the **US Conference Board's measure of consumer confidence** to decline to 95.0 in September from an elevated 101.5, thereby mirroring the decline in the University of Michigan's confidence measure. Important will be the labour market differential (jobs plentiful less jobs hard to get), which increased an impressive 7.5 points in August.
- **Norwegian retail sales** are released today and will provide an important clue on whether private consumption continues to hold up. The **Danish government 2016 budget proposal** is presented at 10:00 CET. See *Scandi markets, page 2*.

Selected Market News

Mixed messages from Fed officials. Yesterday, New York Fed President Dudley, who is seen as an important swing voter, told the audience at a WSJ event that the Fed remains on track to raise interest rates later this year, thus echoing remarks made by Fed Chair Yellen last week. While noting that the economy was doing 'pretty well', Dudley also said that international events had created some uncertainty on the US outlook. Furthermore he said that the first hike could come in October but also cautioned that Fed decisions would be dependent on data, rather than the calendar. As expected, Chicago Fed President Evans took a more dovish view, calling for rates to stay near zero until mid-2016. In contrast, San Francisco Fed President is in the opposite camp, stating yesterday that 'just a little bit' more data would convince him that a hike is needed and that he expected the normalisation process to begin this year.

In our view, the Fed remains on track for lift-off in December, given our view that China is not in for a hard landing and that the upturn in the US is relatively robust. We expect that the Fed will continue the hiking cycle next year at a pace of three to four hikes in 2016.

Equity markets continue lower, catalysed by weak Chinese data. The nervous sentiment for risky assets continues this week and yesterday's downbeat data on Chinese industrial profits showing an 8.8% decline in August added to the negative tone. The major indices closed the day lower, e.g. Euro Stoxx50 down 2.4%, S&P down 2.6%, led by declines in the energy and materials sectors. This morning Asian bourses are trading with significant losses. The next major Chinese data releases are the PMIs due on Thursday. However, they are unlikely to provide much comfort to markets, as we look for slight declines in the official manufacturing PMI (from 49.7 to 49.5) as well as in the Caixin service PMI (from 51.5 to 51.0).

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1881.8	↓ -2.57	
S&P500 fut (chng from close)	1871.0	↓ -0.06	
Nikkei	16989.6	↓ -3.72	
Hang Seng	20426.7	↓ -3.59	
	17:00	07:30	+/- bp
US 2y gov	0.68	0.65	↓ -3.5
US 10y gov	2.12	2.07	↓ -5.7
iTraxx Europe (IG)	89	91	↑ 2.2
iTraxx Xover (Non IG)	368	376	↑ 7.8
			+/- %
EUR/USD	1.120	1.127	↑ 0.58
USD/JPY	119.910	119.440	↓ -0.39
EUR/CHF	1.09	1.09	↑ 0.12
EUR/GBP	0.738	0.743	↑ 0.64
EUR/SEK	9.492	9.503	↑ 0.12
EUR/NOK	9.58	9.60	↑ 0.18
			USD
Oil Brent, USD	47.6	47.4	↓ -0.42
Gold, USD	1133.4	1129.8	↓ -0.32

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

- *US Labour Market Monitor: Slower job growth not an obstacle for the Fed*
- *IMM Positioning: Room for JPY downside, CHF upside*

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Scandi Markets

Norway. Private consumption has held up quite well to date despite the lower oil price and rising unemployment, presumably thanks to lower interest rates. Consumer confidence, however, has now fallen to its lowest level since the financial crisis and retail sales have been moving sideways for a couple of months, so the August data (due at 10.00 CET) for the latter will be important in gauging whether the tide has actually turned. A drop in private consumption and housing demand would result in a deeper and longer-lasting downturn in the Norwegian economy. We expect retail sales to show moderate growth of 0.3% m/m, in line with consensus. We regard the risk to be tilted to the downside.

In **Denmark** the government presents its budget proposal for 2016 at 10:00 CET. Some of the content has already been leaked. The government proposes to tighten by 0.3% of GDP in order to avoid violating the so-called budget law stating that the structural deficit must not exceed 0.5% of GDP. The structural deficit is expected to be 0.4% of GDP next year, i.e. 0.1pp below the limit. Government consumption is planned to increase by 0.3% next year. A new budget outlook was published yesterday at 20:00 CET.

We expect manufacturing confidence to climb to -5 in September from -7 in August, which should be seen as a normalisation as manufacturing confidence has been subdued for a long time. However, the current slowdown in China and emerging markets is a downside risk to our forecast.

Fixed Income Markets

On the data front the German HICP inflation is in focus and we expect the oil price decline has pushed it down to -0.3% y/y in September. Also the figure for Spain and Belgium should give us an indication of whether euro area HICP is back in deflation when released on Wednesday. We think so.

Month-end flows could also play a role in the coming two sessions with Belgium and Austria set to be the biggest beneficiaries. The overall duration increase amounts to 0.08 this month, see [details](#). Month-end coincides with quarter-end and furthermore 1 October marks the deadline for the implementation of new euro area bank regulation (LCR) which could lead to increased quarter-end window dressing.

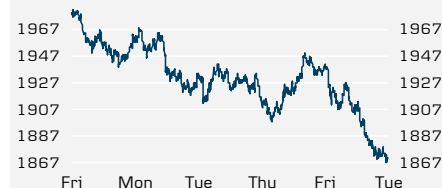
In the primary market Italy is printing EUR3.5-5bn in the BTPS May-20 and the Dec-25 plus EUR2.5-3bn in the Dec-22 Floater. The 10Y in Italy has performed well recently and we prefer the 5Y. However, we still see better value in Spain - also after yesterday's 6bp outperformance versus Italy.

In Scandinavia Denmark is issuing 3 and 6M bills. This should attract some attention both due to the very attractive pricing and furthermore we think the Danish DMO will be interested in selling a decent size ahead of the comeback to the primary market of Danish government bonds on 7 October. The short-dated Danish paper is very attractive for foreigners yielding around 35-40bp when swapped into USD (CCS or FX fwd). It is AAA paper that is yielding substantially higher than US T-bills that are around 0bp.

FX Markets

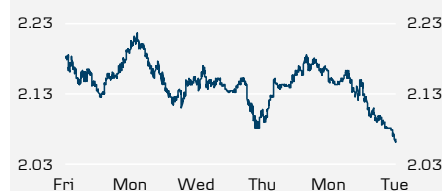
EUR/SEK rose sharply on Monday following weaker-than-expected August retail sales, which plunged to 1.0% y/y after rising 6.1% y/y in July. The weak data are probably weather related as bad weather in July was followed by better weather in August. In addition, August trade balance fell to SEK-3.6bn from SEK-0.3bn. We expect resistance in EUR/SEK to come in ahead of 9.60, which is the top of the recent trading range.

US S&P500 future



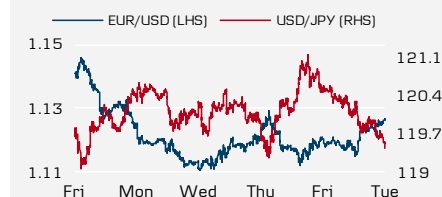
Source: Danske Bank Markets

US 10y gov yield



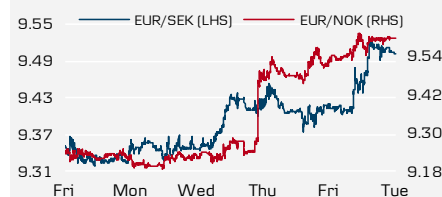
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

EUR/NOK reached an intra-day high at 9.6170 before consolidating. The market is pricing in a further full 25bp rate cut by Norges Bank in June next year, which is probably fair given the continuing downside risks to the Norwegian economy. With the oil price trading on the soft side and a fragile risk appetite, we believe it is too early to call a definitive top in EUR/NOK.

In the majors, EUR/USD continues to trade in familiar ranges between 1.08 and 1.15 without any clear trend. We expect this to be case in the coming weeks.

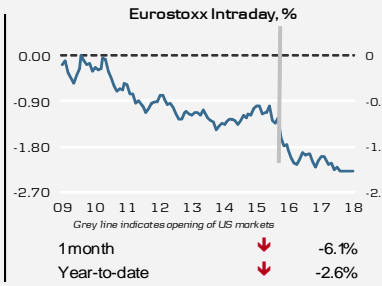
Key figures and events

Tuesday, September 29, 2015					Period	Danske Bank	Consensus	Previous
9:00	DKK	Industrial confidence	Index	Sep	-5			-7
9:00	ESP	HICP, preliminary	m/m y/y	Sep	.- 0.8%	0.9% 0.7%		-0.4% 0.5%
9:00	ESP	Retail Sales	y/y	Aug				4.1%
10:00	NOK	Retail sales, s.a.	m/m	Aug	0.3%	0.3%		0.5%
10:00	DKK	Danish Government present Budget proposal for 2016						
10:30	GBP	Mortgage approvals	1000	Sep		70K		68.8K
10:30	GBP	Broad money M4	m/m y/y	Aug				1.0% 0.6%
11:00	EUR	Business climate indicator	Net bal.	Sep		0.2		0.2
11:00	EUR	Industrial confidence	Net bal.	Sep		-3.8		-3.7
11:00	EUR	Economic confidence	Index	Sep		104.0		104.2
11:00	EUR	Consumer confidence, final	Net bal.	Sep		-7.1		-7.1
11:00	EUR	Service confidence	Net bal.	Sep		10.0		10.2
14:00	DEM	HICP, preliminary	m/m y/y	Sep	.- 0.3%	-0.2% 0.1%		0.0% 0.1%
15:00	USD	S&P Case Shiller House prices	Index	Jul		182.2		180.9
16:00	USD	Conference Board consumer confidence	Index	Sep	95.0	96.0		101.5

Source: Bloomberg, Danske Bank Markets

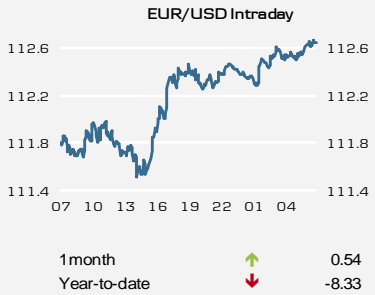
Today's market data: 29 September 2015

STOCKS



	Close		+/-
DJSTOXX50	2926	↓	-2.3%
OMXC20	929	↓	-1.3%
OMXS30	1389	↓	-2.1%
OSE BX	571	↓	-1.6%
	Close		+/-
DOW JONES	16002	↓	-1.9%
NASDAQ	4544	↓	-3.0%
S&P500	1882	↓	-2.6%
NIKKEI (07:30)	16990	↓	-2.3%

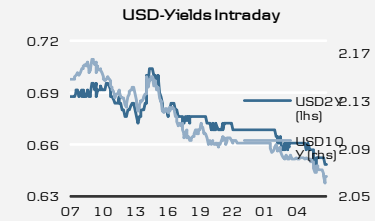
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	112.00	112.65	↑ 0.65
JPY	134.30	134.55	↑ 0.25
GBP	73.79	74.26	↑ 0.47
NOK	958.39	960.07	↑ 1.68
SEK	949.18	950.34	↑ 1.16
DKK	746.02	746.00	↓ -0.02
PLN	424.02	424.41	↑ 0.39
USD	17:00	07:30	+/-
JPY	119.91	119.44	↓ -0.47
GBP	151.79	151.69	↓ -0.10
CHF	97.60	97.16	↓ -0.44

	07:30	Gold, \$	Oil, Brent, \$
		129.80	47.35
1day	↓	-2.17	↑ 0.01
1month	↓	-3.75	↓ -2.70
Year-t-date	↓	-55.06	↓ -9.98
	07:30	CRB 1M future	CRB, Raw Industrials
		192.80	433.28
1day	↓	-2.91	↓ -0.25
1month	↓	-4.30	↓ -6.76
Year-t-date	↓	-37.15	↓ -58.83

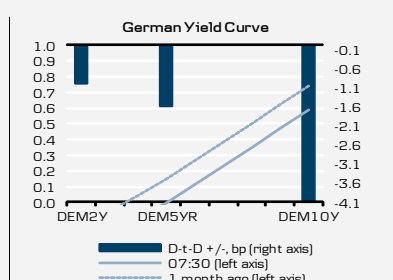
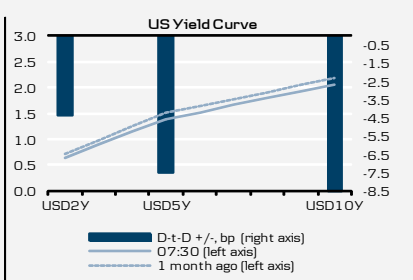
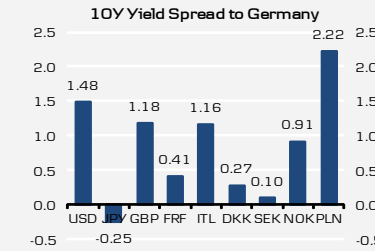
YIELDS & INTEREST RATES



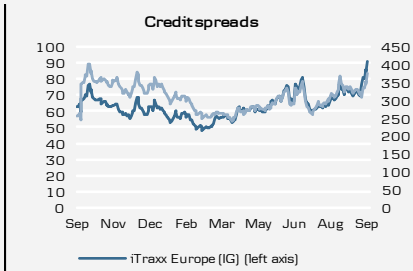
	Policy Rate	3M	Spread, bp
USD	0.25	0.33	8
EUR	0.05	-0.04	-9
GBP	0.50	0.58	8
DKK	0.05	-0.03	-8
SEK	-0.35	-0.29	6
NOK	0.75	1.07	32
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.12	2.07	↓ -6
USD 30Y	2.91	2.85	↓ -6
JPY 10Y	0.36	0.34	↓ -2
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.63	0.61	↓ -2
DKK 10Y	0.92	0.88	↓ -4
SEK 10Y	0.73	0.70	↓ -3
NOK 10Y	1.50	1.50	0
PLN 10Y	2.85	2.81	↓ -4

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	91	↑ 2	↑ 19
HIVol	93	↑ 9	↑ 24
Xover (N-IG)	376	↑ 6	↑ 51
Finan. Sr.	98	↑ 1	↑ 15
Finan. Sub.	198	↑ 3	↑ 32
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-4	-3	↑ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	35	37	↑ 2
SEK 10Y	45	47	↑ 2
NOK 10Y	65	66	↑ 1

* 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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