

01 February 2016

# Danske Daily

## Market Movers

- **Main event today is US ISM manufacturing.** We look for a stabilisation of the index after several months of decline. If it stabilizes or rises slightly it should support risk assets as it would dampen the fear of recession. Regional surveys and PMI have been a bit mixed with some showing sharp improvement (like Chicago PMI on Friday), while others have been very weak (such as Empire and Dallas index).
- **US core PCE deflator** is the Fed's favourite measure of inflation. We look for it to rise 0.1% m/m pushing the y/y rate up to 1.4% in December from 1.3% in November.
- In the US the **presidential primaries** are kicked off today in Iowa, see *FT*.
- **UK PMI manufacturing** is expected to stay unchanged at 51.9 in December.
- On the central bank front ECB president **Mario Draghi** speaks in EU Parliament at 17.00 CET, while Fed vice president **Stanley Fischer** (voter, neutral) speaks tonight.
- Focus the rest of the week will be on US non-farm payrolls, US ISM non-manufacturing and Bank of England meeting.
- In Scandi it's time for **PMI in Sweden and Norway**.

## Selected Market News

**Stock markets had a very strong finish last week** as easing from Bank of Japan and better-than-expected earnings from Microsoft fuelled the sharpest one-day rally since 8 September. A marked increase in Chicago PMI on Friday also reduced US recession fears that have been running high in the markets lately.

**Chinese PMI data overnight sent conflicting signals** as the private Caixin manufacturing PMI is pointing to moderate recovery (in line with our expectations), whereas the official NBS manufacturing PMI hit the lowest level in two and a half years, see *China: It's getting worse... no wait it's getting better*, 1 February. The Caixin PMI manufacturing index beat expectations rising to 48.4 in January (consensus 48.1) from 48.2 in December and the new orders sub-index rose to the highest level since June last year. The official NBS PMI manufacturing on the other hand fell to 49.4 (consensus 49.6) from 49.7 in December. Looking at other data we would be inclined to put more weight on the signal from the Caixin PMI. Import data have pointed to recovery lately and the big credit burst last year is normally followed by higher activity.

**The market reaction to the PMI data has been muted.** Chinese stocks are slightly lower, while the S&P500 future is holding on to the strong gains from Friday. Market sentiment about China is still too negative in our view but probably downbeat due to the policy mismanagement on the stock market and bad communication on CNY policy.

**The oil price is slightly lower from Friday but still above USD35 per barrel (Brent).**

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	1940.2	↑	2.48
S&P500 fut (chng from close)	1928.5	↓	-0.08
Nikkei	17861.4	↑	1.96
Hang Seng	19535.8	↓	-0.75
	17:00	07:30	+/-, bp
US 2y gov	0.77	0.77	↑ 0.0
US 10y gov	1.92	1.92	↓ 0.0
iTraxx Europe (IG)	92	93	↑ 0.4
iTraxx Xover (Non IG)	369	371	↑ 1.7
			+/-, %
EUR/USD	1.082	1.085	↑ 0.28
USD/JPY	120.990	121.300	↑ 0.26
EUR/CHF	1.11	1.11	↑ 0.07
EUR/GBP	0.764	0.761	↓ -0.40
EUR/SEK	9.282	9.300	↑ 0.19
EUR/NOK	9.43	9.41	↓ -0.23
			USD
Oil Brent, USD	34.7	35.4	↑ 1.96
Gold, USD	1117.0	1121.7	↑ 0.43

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

- *China PMI: it's getting worse...no wait, it's getting better*

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## Scandi Markets

It is time for PMI manufacturing in Scandi as well. In Sweden it rose to a robust 56.0 in December and consensus is for an unchanged level in January. In Norway, on the other hand, manufacturing is struggling from the woes in the oil sector and PMI is expected to decline to 46.0 from 46.8.

## Fixed Income Markets

The widespread rally in fixed income markets rates continues driven by global concerns of growth and inflation creation. While the 'risk-off cocktail' of declining equity markets and a low oil price was stable the past week, the rate declines have been helped by central bank expectations accelerating after the interest rate cut in Japan to negative territory. ECB forwards have never been at lower levels with the ECB deposit rate being fully priced at -50bp, the UK money market curve has inverted as the market judges Bank Rate cuts in 2016 as more likely than hikes and the implied market probability of a 2016 Fed hike is 80% (see [graph](#)). However, we think the front-end rally in EUR has limited room to go and recommend to go out to the 5Y area for received positions.

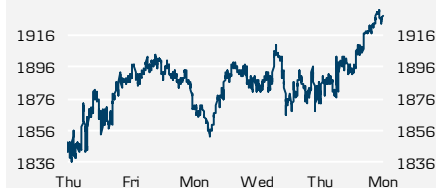
## FX Markets

Markets rallied on Friday following Bank of Japan's move into negative territory and commitment to do more. We see the Japanese step as providing further ammunition to our view that risk sentiment, particularly in Western markets, will stabilise. We expect USD/JPY to trade with a bid tone testing higher highs and higher lows. However, we would warn against too much action being priced for the ECB where the market is already looking for 2 times 10bp of rate cuts over 12M.

News over the weekend suggests that the British Prime Minister David Cameron is moving closer to securing a renegotiated EU deal for Britain ahead of the EU summit on 18-19 February. Donald Tusk, European Council president, indicated that he would circulate a draft British deal to EU capitals on Tuesday. British negotiations with the EU are likely to go down to the wires ahead of the EU summit. GBP-crosses are currently consolidating after the substantial underperformance over the past months. We expect EUR/GBP to remain choppy and trendless near term where 'Brexit' risks continue to weigh on GBP. However, we expect a gradual downtrend in EUR/GBP to emerge over coming months as Cameron is likely to secure a deal that should raise the prospects of the UK voting to stay in the EU.

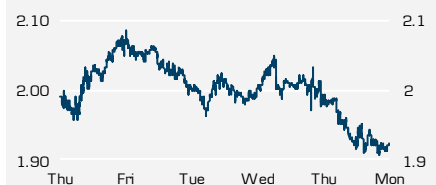
China fixed USD/CNY slightly higher but continues the trend of fixing substantially below where the market closed on Friday. We expect the upward pressure on USD/CNY and USD/CNH to remain on capital outflows. In Scandies, EUR/NOK has moved slightly lower following the BoJ move as the oil price continued its march higher. With the recent oil rally, EUR/NOK may have slightly more room to the downside. Still, we would warn about becoming overly positive on the NOK given the 35 figures down-move over the past weeks and the substantial downside risks to the Norwegian economy.

### US S&P500 future



Source: Danske Bank Markets

### US 10y gov yield



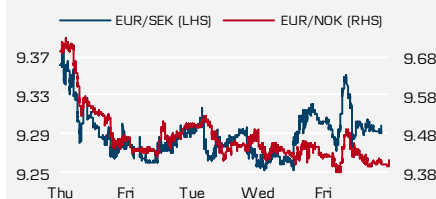
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

## Key figures and events

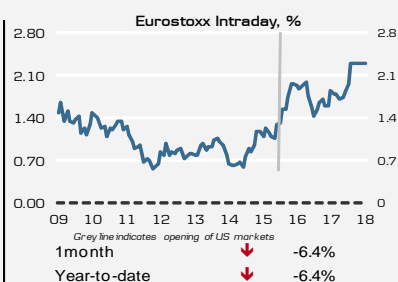
## Monday, February 1, 2016

				Period	Danske Bank	Consensus	Previous
8:30	SEK	PMI manufacturing	Index	Jan		56.0	56.0
9:00	NOK	PMI manufacturing	Index	Jan		46.0	46.8
9:15	ESP	PMI manufacturing	Index	Jan	52.0	52.5	53.0
9:30	CHF	PMI manufacturing	Index	Jan		51.1	52.1
9:45	ITL	PMI manufacturing	Index	Jan	54.7	54.8	55.6
9:50	FRF	PMI manufacturing, final	Index	Jan		50.0	50.0
9:55	DEM	PMI manufacturing, final	Index	Jan		52.1	52.1
10:00	EUR	PMI manufacturing, final	Index	Jan		52.3	52.3
10:15	EUR	ECB's Coeure speaks in Budapest					
10:30	GBP	Mortgage approvals	1000	Dec		69.6	70.4
10:30	GBP	Broad money M4	m/mly/y	Dec			0.4% 0.5%
10:30	GBP	PMI manufacturing	Index	Jan	51.9	51.8	51.9
14:30	USD	PCE core inflation	m/mly/y	Dec	0.1% 1.4%	0.1% 1.4%	0.1% 1.3%
14:30	USD	PCE inflation	m/mly/y	Dec	-0.1% 0.6%	0.0% 0.6%	0.0% 0.4%
14:30	USD	Personal income	m/m	Dec		0.2%	0.3%
14:30	USD	Personal spending	m/m	Dec		0.1%	0.3%
15:45	USD	Markit manufacturing PMI, final	Index	Jan		52.7	52.7
16:00	USD	Construction spending	m/m	Dec		0.6%	-0.4%
16:00	USD	ISM manufacturing	Index	Jan	48.5	48.5	48.2
16:00	USD	ISM prices paid	Index	Jan		35.0	33.5
17:00	EUR	ECB's Draghi speaks in EU parliament					
19:00	USD	Fed's S.Fischer (voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

# Today's market data: 01 February 2016

## STOCKS



	Close	±	%
DJSTOXX50	2902	↑	2.3%
OM XC20	973	↑	2.5%
OM XS30	1356	↑	17%
OSE BX	561	↑	16%
DOW JONES	16466	↑	2.5%
NASDAQ	4614	↑	2.4%
S&P500	1940	↑	2.5%
NIKKEI (07:30)	17861	↑	2.3%

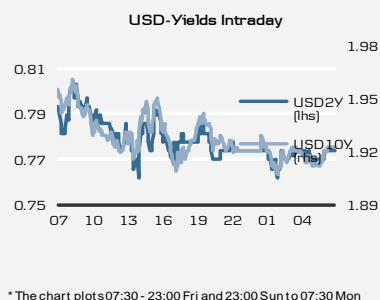
## FX & COMMODITIES



EUR	17:00	07:30	±
USD	108.18	108.48	↑ 0.30
JPY	130.89	131.58	↑ 0.69
GBP	76.38	76.08	↓ -0.31
NOK	943.36	941.23	↓ -2.13
SEK	928.22	930.02	↑ 1.80
DKK	746.21	746.26	↑ 0.05
PLN	441.88	442.21	↑ 0.33
USD	17:00	07:30	±
JPY	120.99	121.30	↑ 0.31
GBP	141.63	142.59	↑ 0.96
CHF	102.38	102.17	↓ -0.21

	Gold, \$	Oil, Brent, \$
07:30	121.72	35.37
1day	↑ 3.55	↓ -0.62
1month	↑ 60.30	↓ -191
Year-t-date	↑ 60.30	↓ -191
	CRB 1M future	CRB, Raw Industrials
07:30	166.75	416.91
1day	↑ 153	↑ 3.07
1month	↓ -9.39	↑ 14.01
Year-t-date	↓ -9.39	↑ 12.20

## YIELDS & INTEREST RATES

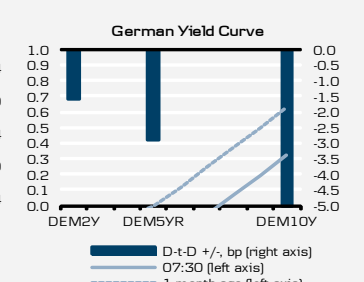
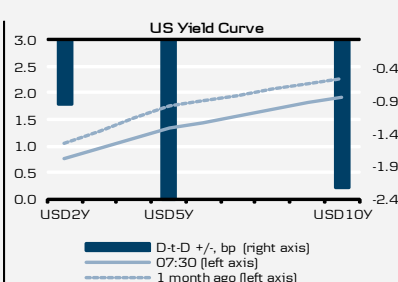
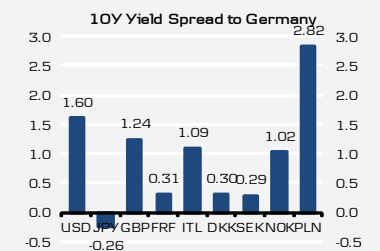


	Policy Rate	3M	Spread, bp
USD	0.50	0.61	11
EUR	0.05	-0.16	-21
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.32	3
NOK	0.75	1.17	42
PLN	1.50	1.60	10

	17:00	07:30	±, bp
USD 10Y	1.92	1.92	0
USD 30Y	2.73	2.75	2
JPY 10Y	0.10	0.07	-3
	07:30 (-1)*	17:00	±, bp
DEM 10Y	0.38	0.34	↓ -4
DKK 10Y	0.69	0.63	↓ -6
SEK 10Y	0.66	0.62	↓ -4
NOK 10Y	1.34	1.34	0
PLN 10Y	3.19	3.15	↓ -4

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

\* As of closing previous trading day

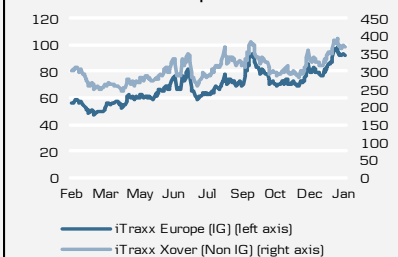


## Credit spread, iTraxx s. 11\*

	07:30	1day	1month
Europe (IG)	93	↑ 0	↑ 15
HiVol	126	↑ 0	↑ 23
Xover (N-IG)	371	↑ 0	↑ 55
Finan. Sr.	92	↓ 0	↑ 15
Finan. Sub.	209	↑ 0	↑ 52
Non-finan.			

\* Ask price

## Credit spreads



## Swap Spread, bp\*\*

	17:00	07:30	±
USD 10Y			
JPY 10Y	-13	-12	↑ 1
	07:30 (-1)*	17:00	±
EUR 10Y	0	18	↑ 18
DKK 10Y	32	35	↑ 3
SEK 10Y	42	43	↑ 1
NOK 10Y	65	66	↑ 1

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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