

11 March 2016

Danske Daily

Market Movers

- Today's data calendar is very thin and **the focus is still on markets digesting yesterday's easing package from the ECB (see below).**
- In the **UK**, trade balance and construction output figures are due. The releases will give us more insight into the state of the economy in the beginning of the year but these releases have in our view lost some importance on the back of 'Brexit' uncertainties. In **Canada** the labour market report is due for release. For *Scandi Markets* see page 2.

Selected Market News

Yesterday, the **ECB announced a large 'package' of easing measures** (see *ECB's easing package and markets zig-zag*). The package was more comprehensive than market expectations and initially received a very positive market reaction. This, however, suddenly changed when President Draghi during the Q&A session said that he does not expect more rate cuts.

The monetary policy announcement shows that the ECB's focus is shifting from the interest, currency channel to the bank-lending, credit channel. In our view, this is an important move, as the bank-lending channel plays a crucial role in the transmission of the monetary policy in the euro area where bank lending intermediated around 80% of credit flows. Based on this, we expect that the announced easing measures will support the recovery and that it has bought the ECB some time before additional easing will be required. From a longer-term perspective, it is still likely that the ECB will extend the QE purchases beyond March 2017, as inflation has not picked up sufficiently, partly due to our expectation of a gradually stronger effective EUR during 2016.

Danmarks Nationalbank decided not to follow the ECB and kept the interest rate unchanged at -65bp. Over the past week, EUR/DKK has dropped back below the central rate again and we do not expect that DN will allow EUR/DKK to fall below 7.45. If EUR/DKK depreciates further, DN will probably cut the interest rates on certificates of deposit to -0.75%, which is the lower bound on the policy rate, and step up FX interventions. DN can sell unlimited amounts of DKK when foreign exchange is flowing into Denmark (see *DN stays put despite ECB easing package*).

In the US initial jobless claims fell to 259k from 277k. This is the lowest level since October and is another figure in the line showing that the US labour market continues to perform well. As we are past the ECB meeting the next key event is Wednesday's Fed meeting.

In Zurich, **Riksbank** Governor Jochnick reiterated the Riksbank's preparedness to fight off substantial SEK strength. The comments come amid speculations as to the continued willingness of the Riksbank to protect the SEK from strengthening too fast on the back of Skingsley's comments Wednesday (see FX section).

Market overview

		07:30		1 day +/- %
S&P500 (close)		1989.6	↑	0.02
S&P500 fut (chng from close)		1993.5	↑	0.71
Nikkei		16934.7	↑	0.49
Hang Seng		20123.6	↑	0.70
	17:00	07:30		+/- bp
US 2y gov	0.93	0.94	↑	0.9
US 10y gov	1.94	1.95	↑	0.5
iTraxx Europe (IG)	85	86	↑	0.4
iTraxx Xover (Non IG)	356	359	↑	2.9
				+/- %
EUR/USD	1.114	1.118	↑	0.32
USD/JPY	113.490	113.460	↓	-0.03
EUR/CHF	1.10	1.10	↓	-0.07
EUR/GBP	0.779	0.783	↑	0.42
EUR/SEK	9.348	9.349	↑	0.01
EUR/NOK	9.49	9.49	↓	-0.05
				USD
Oil Brent, USD	40.1	40.8	↑	1.87
Gold, USD	1263.9	1274.7	↑	0.86

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

- *ECB's easing package and market zig-zag*
- *Denmark: DN stays put despite ECB easing package*
- *Chinese export not as weak as it seems*

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Scandi Markets

Apart from the SCB's release of **Swedish** house prices – which is not very thoroughly dissected – it is an empty calendar in Scandinavia.

Fixed Income Markets

Yesterday turned out to be a rather volatile day for global fixed income markets, especially after Draghi announced that the ECB had absolutely no plans to cut rates further. Hence, we have seen a **re-pricing of the short end of the curve** as the market adapted to the new -0.40% 'bottom' for policy rates. The re-pricing weighed on the whole curve and the long-end suffered as well.

However, **we do not believe that we are in for a long bear-market in the European fixed income market**. The step-up in QE and the attractive TLTROs mean that we will continue to see a 'hunt for yield' in the EGB market and even more 'yield compression'. Furthermore, the reaction does not reflect a step-up in risk-appetite given that European equity markets also traded in red. Hence, we see no reason to change our view that e.g. periphery bonds offer value and that the yield-curve in Germany could flatten further the next couple of months as investors 'move out on the curve' to get a positive yield.

Today, we could be in for more volatility as the market digests the ECB news but focus will also be on the **Italian auctions** where the treasury will sell up to EUR7.5bn. Most focus will of course be on the new 7Y BTP 0.95% Mar-23, where the treasury will sell for EUR3.5-4.0bn. The treasury will also tap the 3Y and the 15Y BTPs. Despite yesterday's fixed Income sell-off Italy tightened slightly against Germany and considering the steepness of the BTP curve and the step-up in the ECB QE purchases we believe the auctions will go rather smoothly and that the new 7Y will be received well.

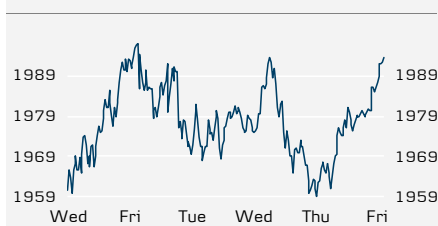
Finally, **Finland and Greece are up for review** by Fitch. We do not expect any changes to either the outlook or the rating. Recent macroeconomic data and the labour market deal in Finland should limit the downside on the Finnish rating.

FX Markets

EUR/USD initially moved lower on the back of the ECB announcement as the boost to risk appetite dominated the move higher in short-end EUR rates, but this was later reversed after Draghi effectively ruled out further rate cuts and EUR/USD surged through 1.11 after the initial drop below 1.0850. The fact that the ECB did not take this opportunity to implement a two-tiered deposit system is a fundamental EUR positive, as it suggests this potential source of downside to the currency via continued downward pressure on the money-market rates has been taken off the table (for now, at least). Thus, rather than attempting to fight disinflation by bringing about currency weakness, the ECB now appears to target rather forcefully fixing the bank-lending channel, i.e. credit volumes rather than the price hereof directly (i.e. interest rates). Indeed, in our view it is increasingly difficult for the ECB to bring about further EUR/USD downside. **Going forward the key sources of potential downside in the cross are set to derive from a continued improvement in risk sentiment and/or markets pricing in Fed hikes more aggressively**. While this could lend support to USD near term, we maintain that EUR/USD will be range-bound on a 1-3M horizon around the 1.10 level and headed higher thereafter still targeting 1.16 in 12M.

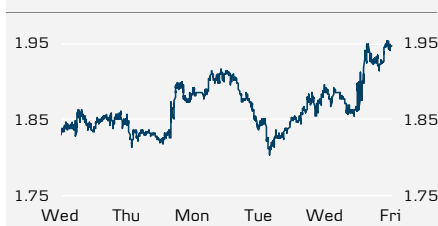
We have argued that **EUR/SEK** should trade 9.30-9.50, that is, in the upper end of the bigger 9.10-9.50 range but Riksbank Skingsley's comment Wednesday represents something new. For sure, Stefan Ingves and Kerstin af Jochnick may not share her view but if there is a marginal shift within the Executive Board in favour of not reacting to

US S&P500 future



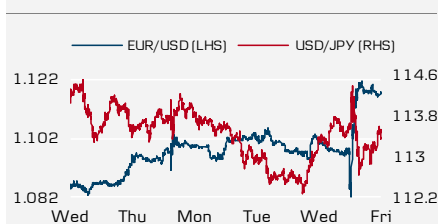
Source: Danske Bank Markets

US 10y gov yield



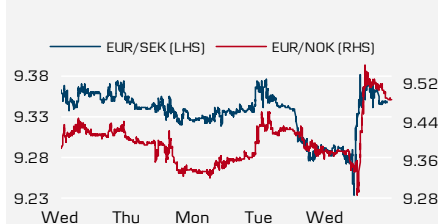
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

every forecast error and to be more tolerant toward a stronger SEK, it should be slightly positive for the outlook for the SEK as well compared to how it was before. Given that the constructive Swedish macro backdrop prevails, and we think that it will, EUR/SEK should edge lower and to the extent that the RB is ok with that, the fair range has shifted down as well, say to 9.15-9.40.

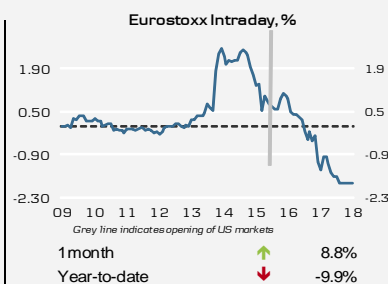
Key figures and events

Friday, March 11, 2016			Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Andorra's debt rating				
-	EUR	Moody's may publish EU's debt rating				
-	EUR	Fitch may publish Finland's debt rating				
-	EUR	Fitch may publish Greece's debt rating				
-	PLN	Polish central bank rate decision	%	1.5%	1.5%	1.5%
0:50	JPY	BSI Large all industry	q/q	1st quarter		460.0%
8:00	DEM	HICP	m/mly/y	Feb	... -0.2%	0.4% -0.2%
9:00	ESP	HICP	m/mly/y	Feb	... -0.9%	-0.4% -0.9%
9:30	SEK	Average house prices	SEK m	Feb		2.717
10:00	ITL	Industrial production	m/mly/y	Jan	0.8% ...	-0.7% -1.0%
10:30	GBP	Construction output	m/mly/y	Jan	0.4% -1.4%	1.5% 0.5%
10:30	GBP	Trade balance	GBP mio.	Jan	-3000	-2709
14:30	USD	Import prices	m/mly/y	Feb	-0.8% -6.5%	-1.1% -6.2%
14:30	CAD	Net change in full time employment	1000	Feb		5.6

Source: Bloomberg, Danske Bank Markets

Today's market data: 11 March 2016

STOCKS



	Close	+/-
DJSTOXX50	2793	↓ -1.8%
OMXC20	962	↓ -0.9%
OMXS30	1385	↓ -1.0%
OSE BX	582	↓ -0.1%
DOW JONES	16995	↓ 0.0%
NASDAQ	4662	↓ -0.3%
S&P500	1990	↑ 0.0%
NIKKEI (07:30)	16935	↓ -1.8%

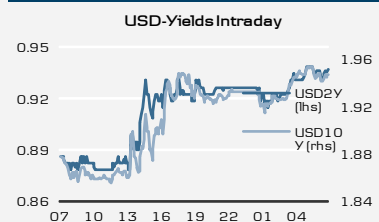
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	111.39	111.75	↑ 0.36
JPY	126.42	126.78	↑ 0.36
GBP	77.95	78.27	↑ 0.32
NOK	949.43	948.96	↓ -0.47
SEK	934.77	934.91	↑ 0.14
DKK	745.97	746.05	↑ 0.08
PLN	433.13	432.95	↓ -0.18
USD	17:00	07:30	+/-
JPY	113.49	113.46	↓ -0.03
GBP	142.91	142.78	↓ -0.13
CHF	98.89	98.51	↓ -0.38

	Close	+/-
Gold, \$	1274.70	↑ 0.75
Oil, Brent, \$	40.80	↑ 10.74
CRB	171.89	↑ 32.23
CRB, Raw Industrials	436.94	↑ 8.57
1M future	16.88	↑ 14.11
1day	-0.33	↑ 3.52
1month	28.00	↑ 0.75
Year-t-date	213.28	↑ 3.52

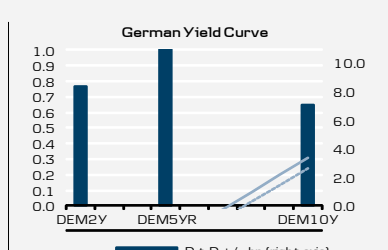
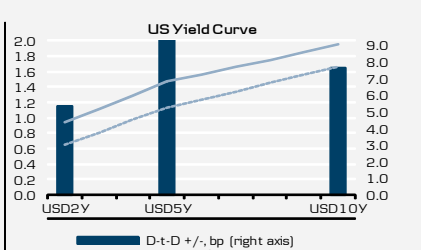
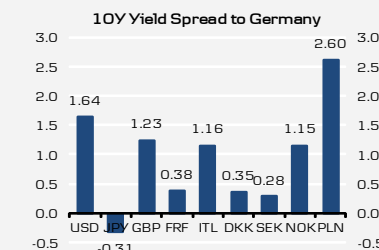
YIELDS & INTEREST RATES



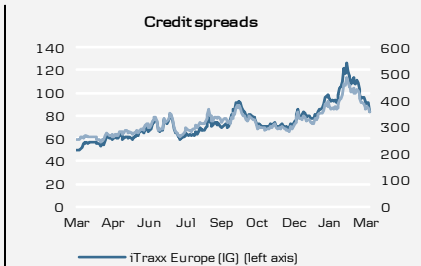
	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.00	-0.23	-23
GBP	0.50	0.59	9
DKK	0.05	-0.08	-13
SEK	-0.50	-0.47	3
NOK	0.75	1.02	27
PLN	1.50	1.57	7

	17:00	07:30	+/-, bp
USD 10Y	1.94	1.95	↑ 1
USD 30Y	2.71	2.70	↓ -1
JPY 10Y	-0.02	-0.01	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.24	0.32	↑ 8
DKK 10Y	0.59	0.67	↑ 8
SEK 10Y	0.52	0.59	↑ 7
NOK 10Y	1.46	1.46	0
PLN 10Y	2.92	2.91	↓ -1

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	86	↓ -1	↓ -40
HiVol	110	↑ 0	↓ -40
Xover (N-IG)	359	↑ 0	↓ -128
Finan. Sr.	94	↓ -1	↓ -44
Finan. Sub.	208	↓ -4	↓ -117
Non-finan.			



	17:00	07:30	+/-
USD 10Y	-16	-16	↓ -1
JPY 10Y	-16	-16	↓ -1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	19	↑ 19
DKK 10Y	38	35	↓ -3
SEK 10Y	43	42	↓ -1
NOK 10Y	62	57	↓ -5

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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