

Danske Daily

Market Movers

- It is a quiet start to week in terms of data releases and the market probably will continue to digest Friday's very strong US labour market report.
- In the euro area, focus will be on the October Sentix investor confidence and German trade balance data for September. We believe the Sentix investor confidence indicator has bottomed for now and expect a moderate increase as the financial stress has eased due to signs of stability in China and Mario Draghi surprising the markets by opening the door for a deposit rate cut. In terms of German trade balance data focus will be on exports and the impact of the weakness in emerging markets.
- During the week several FOMC members including Evans, Dudley and S. Fischer will speak. This will attract some attention and it will be interesting to hear their views on the economic outlook in the light of the strong US labour market data.
- In Scandinavia, focus this week will be on inflation with Norwegian October inflation prints due tomorrow, while Swedish Prospera inflation expectations and October inflation prints are due Wednesday and Thursday, respectively.

Selected Market News

US treasury yields moved markedly higher across the curve on Friday after the surprisingly strong US labour market report. Non-farm payrolls increased by 271,000 in October, well above both our expectation and consensus while the unemployment rate declined from 5.1% to 5.0% and will very soon fall below the low end of the Fed's projected NAIRU range (4.9%).

We have changed our Fed call and now expect it to deliver a 25bp rate hike at the December meeting. The market now prices close to a 85% probability of a hike in December depending on the level of Fed funds after the first hike and, in all senses, close to as much as the market can price it ahead of the December meeting. We look for four further hikes in 2016, in line with the median projection within the FOMC, i.e. in total five hikes before end-2016. The market has priced slightly below three hikes in total before end-2016 and thus the market is probably still capable of pricing in further rate hikes in 2016, putting further upside pressure on the short end of the US yield curve. Importantly, our new call on the Fed does not change our ECB view. We still look for an extension and expansion of the QE programme and deposit rate cut deeper into negative at the ECB December meeting. Hence, the market impact for European government bond yields should primarily be felt at the long end of the European curve, as the ECB is still capable of keeping shorter yields on a tight leash.

Chinese trade balance data released on Saturday revealed a record high trade surplus of USD61.46bn in October. However, data also showed that both exports and imports contracted on an annual basis in October. While the export sector continues to suffer from the emerging market slowdown and a strong CNY, the weak domestic demand implied by the 18.8% y/y decline in imports may keep pressure on for more domestic easing, although recent economic data indicate that the Chinese economy is likely to bottom out in Q4.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2099.2	↓ -0.03	
S&P500 fut (chng from close)	2095.8	↑ 0.10	
Nikkei	19618.9	↑ 1.83	
Hang Seng	22874.9	↑ 0.03	
	17:00	07:30	
		+/- bp	
US 2y gov	0.89	0.90	↑ 0.4
US 10y gov	2.33	2.34	↑ 0.7
iTraxx Europe (IG)	71	71	↑ 0.3
iTraxx Xover (Non IG)	293	295	↑ 2.0
			+/- %
EUR/USD	1.074	1.077	↑ 0.26
USD/JPY	123.190	123.270	↑ 0.06
EUR/CHF	1.08	1.08	↑ 0.09
EUR/GBP	0.713	0.714	↑ 0.26
EUR/SEK	9.374	9.369	↓ -0.05
EUR/NOK	9.30	9.30	↓ -0.02
			USD
Oil Brent, USD	47.7	47.9	↑ 0.55
Gold, USD	1087.6	1093.8	↑ 0.58

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: First Fed hike in December due to very strong job report](#)
- [Strategy: The global IP cycle is bottoming out](#)
- [Weekly Focus](#)

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Scandi Markets

No Scandi market events today.

Fixed Income Markets

FI markets are likely to remain focused on the implications of Friday's strong US labour market report. The market is currently pricing in around a 85% probability of a December rate hike, more than enough for the Fed to go ahead. The market prices that the Fed funds futures will be around 70bp higher end 2016 so slightly below three hikes of 25bp priced in total until end 2016. This is still slower than our forecast and the Fed projections that imply five hikes in total in 2015 and 2016, so the market is probably still capable of pricing in further rate hikes in 2016 putting further upside pressure on especially the short end of the US yield curve. However, it is still our view that the FOMC will be eager to tell the market that it has no plans to hike rates aggressively.

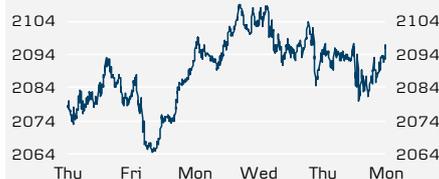
Friday's report does not change our ECB view. We still look for an extension and expansion of the QE programme and deposit rate cut deeper into negative at the ECB December meeting. Hence, the market impact for EGB yields should primarily be felt in the long end of the European curve. In the current environment we recommend to be neutral on EUR duration.

In the EUR government bond market Portugal could trade weak on the opening as the Socialist party ensured the backing from the Communists last night. Hence, PM Coelho is set to face a motion on Tuesday and there will be pressure on President Silva to appoint Socialist leader Costa to become the new PM. The Socialist plan includes a slower austerity implementation with the budget deficit set to go below 2% of GDP in 2018 (vs 2016 previously). The political turmoil is set to continue to weigh on PGBs this week as the situation remains fluid.

FX Markets

The USD rallied markedly on Friday supported by higher US interest rates. We now expect the Fed to deliver a 25bp rate hike at the December meeting and over the coming month we expect relative interest rates to drive the final leg of USD strength. This could lead to a test of the multi-year EUR/USD low at 1.0458. However, Fed rate hikes should be 'sell the rumour, buy the fact' for EUR/USD, in our view, as it has been over the recent Fed hiking cycles. The longer-term trajectory for EUR/USD is higher as the 'natural' flow in EUR/USD is the buying of EUR given the eurozone's large trade surplus and the likely closing of the eurozone's output gap in 2017. In USD/JPY, we could see a move up to 124 in the short term, while GBP/USD is likely to be more insulated given that this should raise expectations of an earlier than priced Bank of England rate hike. Short term, we expect higher US rates to pressure emerging markets and commodity currencies, although we believe the impact will be offset somewhat by the likely stabilisation in China.

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, November 9, 2015			Period	Danske Bank	Consensus	Previous
0:01	EUR	ECB's Coeure speaks in Brussels				
0:50	JPY	Official reserves assets	USD bn			1248.9
2:30	JPY	Labor cash earnings	y/y		0.5%	0.4%
8:00	DEM	Trade balance	EUR bn		21	15.4
9:00	DKK	Current account (nsa sa)	DKK bn	14.0 10.7	14.0 ...	16.1 13.4
9:00	DKK	Trade balance ex ships	DKK bn	5.5	6.0	5.6
9:00	DKK	Exports	m/m	0.0%		5.0%
9:30	SEK	Household consumption	m/m y/y		0.7% ...	-0.5% 1.4%
10:30	EUR	Sentix Investor Confidence	Index	13.2	12.7	11.7
15:00	EUR	Eurogroup meeting in Brussels				
16:00	USD	Fed's LMCI	m/m			0.0%
18:00	USD	Fed's Rosengren (non-voter, dovish) speaks				

Source: Bloomberg, Danske Bank Markets

Today's market data: 09 November 2015

STOCKS



	Close		+/-
DJSTOXX50	3254	↑	0.1%
OMXC20	981	↑	0.8%
OMXS30	1526	↑	0.2%
OSE BX	627	↓	-0.3%
Close +/-			
DOW JONES	17910	↑	0.3%
NASDAQ	5147	↑	0.4%
S&P500	2099	↓	0.0%
NIKKEI (07:30)	19619	↑	0.1%

FX & COMMODITIES

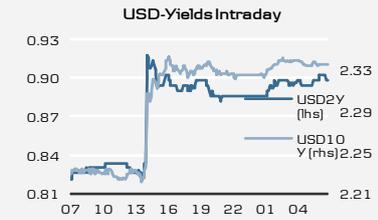


EUR	17:00	07:30	+/-
USD	107.41	107.69	↑ 0.28
JPY	132.32	132.75	↑ 0.43
GBP	71.25	71.43	↑ 0.18
NOK	930.25	930.07	↓ -0.18
SEK	937.39	936.93	↓ -0.46
DKK	745.99	745.99	↑ 0.00
PLN	426.17	427.24	↑ 1.07
USD	17:00	07:30	+/-
JPY	123.19	123.27	↑ 0.08
GBP	150.75	150.76	↑ 0.01
CHF	100.53	100.35	↓ -0.18

	07:30	1 day	1 month	Year-t-date	Oil, Brent, \$
Gold, \$	1093.82	4.02	-63.46	-91.04	47.94
CRB	19103	-1.40	-11.66	-38.92	410.12
CRB, Raw Industrials					-140
					-22.12
					-8199

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

YIELDS & INTEREST RATES

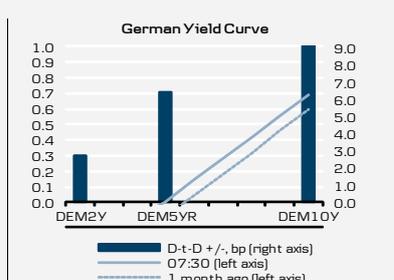
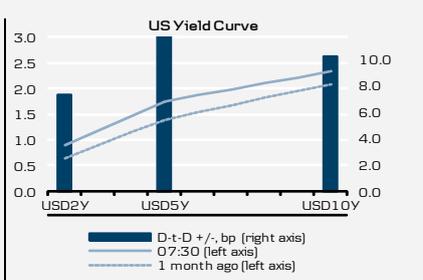
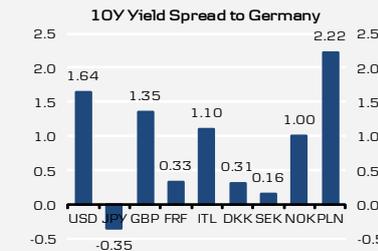


	Policy Rate	3M	Spread, bp
USD	0.25	0.34	9
EUR	0.05	-0.07	-12
GBP	0.50	0.58	8
DKK	0.05	-0.14	-19
SEK	-0.35	-0.36	-1
NOK	0.75	1.12	37
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.33	2.34	↑ 1
USD 30Y	3.09	3.09	↑ 0
JPY 10Y	0.32	0.34	↑ 2
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.60	0.69	↑ 9
DKK 10Y	0.99	1.01	↑ 2
SEK 10Y	0.77	0.85	↑ 9
NOK 10Y	1.69	1.69	↑ 0
PLN 10Y	2.80	2.92	↑ 12

* 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	1 day	1 month
Europe (IG)	71	↓ 0	↓ -10
HiVol	80	↑ 0	↑ 2
Xover (N-IG)	295	↑ 1	↓ -37
Finan. Sr.	69	↓ 0	↓ -12
Finan. Sub.	150	↓ 0	↓ -22
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-10	-9	↑ 1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	17	↑ 17
DKK 10Y	34	32	↓ -2
SEK 10Y	41	38	↓ -3
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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