

# Danske Daily

## Market Movers

- Today it is time for the euro area HICP inflation numbers for October. After the drop back into deflation territory in September, we expect the figure to reverse back into inflation and forecast a rate of 0.1% y/y. Gasoline prices declined again in October and we forecast the energy price component to be broadly unchanged. Instead we look for an increase in core inflation to 1.0% y/y from 0.9% y/y in September due to both higher service and goods price inflation. Our forecasts are above consensus and after the higher-than-expected German numbers yesterday the risk might be skewed towards even higher numbers.
- Fed's preferred measure for wages, the employment cost index, for Q3 will be published today. Consensus is looking for a rebound in wage growth to 0.6% q/q after the dip to 0.2% in Q2. The Fed's preferred inflation measure, PCE inflation, is also released. We expect core PCE to increase 0.2% m/m taking annual core inflation to 1.4%. We look for another monthly decline in headline inflation of -0.1% m/m and annual PCE inflation of 0.2% y/y. University of Michigan consumer confidence and Chicago PMI are due for release as well.
- Norwegian labour market data and daily purchases in November of NOK by Norges Bank, see *Scandi Markets*.

## Selected Market News

Bank of Japan did not add extra stimuli at the monetary meeting policy overnight. Hence, the current programme that implies that the BoJ purchases government bonds at an annual pace of about JPY80trn is unchanged. The board voted 8-1 for the unchanged continuation of the programme. The market was basically split before the announcement. The market seems to conclude that the easing has just been postponed considering that e.g. USD/JPY and Nikkei are now higher than before the announcement.

We share the view of further JPY weakness ahead against the USD as US and Japanese monetary policy are still on a divergent path. Before the BoJ announcement CPI data revealed zero inflation in September and that core inflation in Tokyo dropped 0.2% y/y in October. Hence, further BoJ easing is certainly still possible.

Yesterday the market digested the latest news from the FOMC and global fixed income markets came under renewed pressure. 10Y Germany ended the day higher 9bp higher at 0.53% and in the US the money market continued to bring forward the first rate hike so basically the market is pricing a 50/50 probability of a December cut. Historically, the FOMC does not like to surprise the market, so if it intends to move in December or January the current market pricing is probably satisfactory. Note that the US curve 2Y10Y actually steepened some 6bp yesterday as the losses were concentrated in the long end of the curve. The prospect for higher rates also weighed on global equity markets with both European and US indices ending the day in red.

The US economy grew 1.5% q/q AR in Q3, marginally below consensus. However, the details revealed a significant drag from inventories of 1.4 percentage point, so below the surface the numbers were actually stronger and the outlook for Q4 is promising.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	2089.4	↓ -0.04	
S&P500 fut (chng from close)	2092.8	↑ 0.47	
Nikkei	19098.7	↑ 0.86	
Hang Seng	22799.0	↓ -0.09	
	17:00	07:30	
		+/- bp	
US 2y gov	0.72	0.72	↑ 0.0
US 10y gov	2.16	2.16	↑ 0.2
iTraxx Europe (IG)	71	71	↑ 0.3
iTraxx Xover (Non IG)	299	301	↑ 2.0
			+/- %
EUR/USD	1.097	1.098	↑ 0.14
USD/JPY	121.100	120.950	↓ -0.12
EUR/CHF	1.09	1.09	↓ -0.04
EUR/GBP	0.717	0.717	↓ -0.03
EUR/SEK	9.374	9.377	↑ 0.04
EUR/NOK	9.40	9.40	↑ 0.05
			USD
Oil Brent, USD	49.1	48.6	↓ -1.02
Gold, USD	1150.4	1148.2	↓ -0.19

### 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

- *Turkey: another election, another inconclusive outcome?*

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## Scandi Markets

**Norway.** Our preferred measure of unemployment is the m/m change in gross unemployment from NAV, which includes those on job creation schemes. We reckon that the underlying trend is now a monthly increase of 1,300-1,400 people but we predict a rise of around 1,600 in September due to underreporting in August. This would indicate that unemployment is rising at roughly the same rate as before but still somewhat more slowly than Norges Bank assumed in the September monetary policy report and considerably less negative than the LFS-figures reported on Wednesday. We expect the registered unemployment rate to be unchanged at 2.9%. Based on the budget proposals for 2016, we expect Norges Bank to reduce its monthly purchases of NOK for the oil fund to NOK600m/day.

## Fixed Income Markets

Big change in sentiment yesterday with the FOMC-triggered sell-off extending throughout the European session. In the core the biggest move was in the 10Y with Bunds jumping 9bp and the yields are now back above 50bp. German inflation numbers came in a bit higher than expected, supporting our call for an increase in euro area HICP today up to +0.1% y/y. In the US the Employment Cost Index is the focal release with data being as important as ever with lift-off approaching.

It is the last session of the month today and that means extension flows are in focus. The aggregate duration extension in the EGB market amounts to 0.06 in October. The biggest beneficiary this month is set to be France. Finland will also get an index boost, with a country-specific duration increase of 0.16. In the periphery, Spain is the main beneficiary, with an increased weight in the EGB index, see *details*.

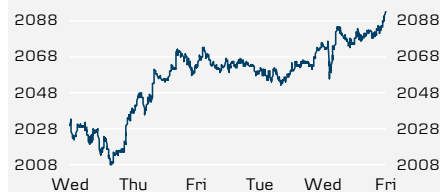
This Friday only the Netherlands is up for review by Moody's. We expect it to keep the AAA rating unchanged, see page 11 in our *Government Bond Weekly*. Note also that both Spain and France will announce details about next week's auction today.

## FX Markets

Going into the final day of the week we turn to our FX short-term financial models to get an overview of misalignments in G10 spot levels. We see the largest misalignments in the NOK-crosses and in particular EUR/NOK, which is trading 1.9 standard deviations above the model's suggested fair value estimate. However, our regression models are notoriously bad at capturing regime shifts and we believe the last months' widening of the NOK risk premium is the primary factor for the 'overbought' signal. Indeed, historically, the last months of the year are typically characterised by a worsening of NOK liquidity, which consequently tends to be a seasonal EUR/NOK supportive factor. Indeed, in the past 10 years EUR/NOK has on average moved 2.3% higher in November and December with a median appreciation of 1.5%. Adding to this, economic figures are still not suggesting that the Norwegian business cycle is close to turning around, which in our view will be the main trigger for NOK appreciation as Norges Bank can signal that no more cuts are needed. As a result, we expect that EUR/NOK in the coming months will continue to trade at elevated levels, around current spot, with the possibility of large intraday swings.

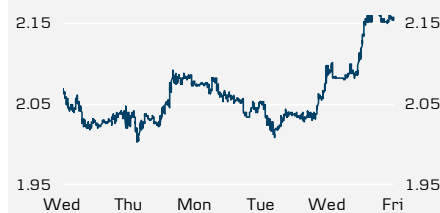
Noteworthy, despite a very eventful week in terms of data releases and central bank meetings, we do not see any significant misalignments in the majors with all crosses trading within a +/- 1 standard deviation from the models' suggested estimates. According to our models the fair value estimates for EUR/SEK, EUR/USD and USD/JPY are 9.339, 1.109 and 121.6, respectively.

### US S&P500 future



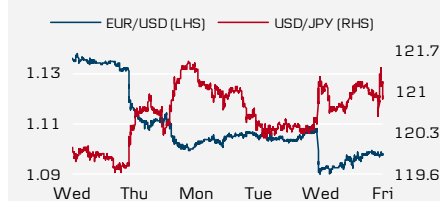
Source: Danske Bank Markets

### US 10y gov yield



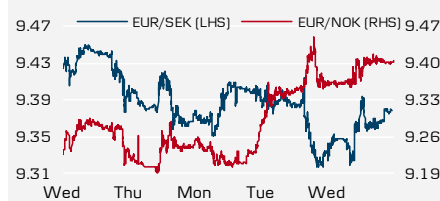
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

Key figures and events

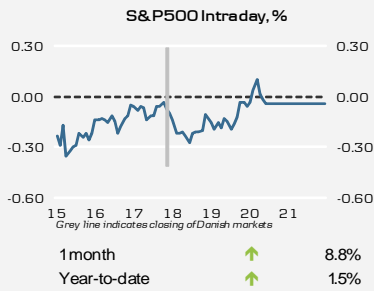
Friday, October 30, 2015

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Netherlands's debt rating					
-	JPY	BoJ annual rise in monetary base	trn		100	88	80
-	JPY	BoJ monetary policy announcement/Kuroda press conf					
0:30	JPY	Unemployment rate	%	Sep		3.4%	3.4%
0:30	JPY	Job-to-applicant ratio		Sep		1.24	1.23
0:30	JPY	CPI - national ex. fresh food	y/y	Sep		-0.2%	-0.1%
0:30	JPY	CPI - national ex. fresh food and energy	y/y	Sep		0.9%	0.8%
0:30	JPY	CPI - Tokyo	y/y	Oct		0.0%	-0.1%
0:30	JPY	CPI - Tokyo ex fresh food	y/y	Oct		-0.2%	-0.2%
0:30	JPY	Household spending	y/y	Sep		1.2%	2.9%
0:30	JPY	CPI - national	y/y	Sep		0.0%	0.2%
1:05	GBP	GfK consumer confidence	Index	Oct	2.0	4.0	3.0
6:00	JPY	Housing starts	y/y	Sep		6.4%	8.8%
8:45	FRF	Household consumption	m/m y/y	Sep		0.2% ...	0.0% 1.6%
9:00	ESP	GDP, preliminary	q/q y/y	3rd quarter	0.8% ...	0.8% 3.4%	1.0% 3.1%
9:30	SEK	Wages (blue collars/white collars)	y/y	Aug			2.2%
10:00	NOK	Norges Bank's daily FX purchases	m	Nov			-700
10:00	NOK	Unemployment	%	Oct		2.9%	2.9%
10:30	DEM	Retail sales	m/m y/y	Sep	0.3% ...	0.4% 3.4%	-0.6% 2.5%
11:00	EUR	Unemployment	%	Sep	11.0%	11.0%	11.0%
11:00	EUR	CPI - core, preliminary	%	Oct	1.0%	0.9%	0.9%
11:00	EUR	CPI, preliminary	y/y	Oct	0.1%	0.0%	-0.1%
11:00	ITL	HICP, preliminary	m/m y/y	Oct	... 0.2%		1.6% 0.2%
11:30	RUB	Central Bank of Russia rate decision	%		10.5%	11.0%	11.0%
13:30	USD	Employment cost index	m/m	3rd quarter		0.6%	0.2%
13:30	USD	PCE deflator	m/m y/y	Sep	-0.1% 0.2%	-0.1% 0.2%	0.0% 0.3%
13:30	USD	Personal income	m/m	Sep		0.2%	0.3%
13:30	USD	Personal spending	m/m	Sep		0.2%	0.4%
13:30	CAD	GDP	m/m y/y	Aug		0.1% ...	0.3% 0.8%
13:30	USD	PCE core	m/m y/y	Sep	0.2% 1.4%	0.2% 1.4%	0.1% 1.3%
14:45	USD	Chicago PMI	Index	Oct		49.5	48.7
15:00	USD	University of Michigan Confidence, final	Index	Oct		92.5	92.1
15:00	USD	Fed's Williams (voter, dovish) speaks					
16:25	USD	Fed's George (non-voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

Today's market data: 30 October 2015

STOCKS



	Close		+/-
DJUSTOXX50	3225	↓	-0.1%
OMXC20	942	↓	-2.9%
OMXS30	1496	↓	-0.3%
OSE BX	615	↓	-1.2%
<b>Close</b>			
DOW JONES	17756	↓	-0.1%
NASDAQ	5074	↓	-0.4%
S&P500	2089	↓	0.0%
NIKKEI (07:30)	19099	↓	-0.1%

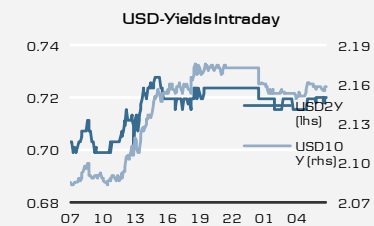
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	109.65	109.80	↑ 0.15
JPY	132.79	132.80	↑ 0.01
GBP	71.68	71.65	↓ -0.02
NOK	939.92	940.42	↑ 0.50
SEK	937.36	937.72	↑ 0.36
DKK	745.70	745.78	↑ 0.08
PLN	427.83	427.90	↑ 0.07
USD	17:00	07:30	+/-
JPY	121.10	120.95	↓ -0.15
GBP	152.98	153.23	↑ 0.25
CHF	99.13	98.96	↓ -0.17

	Gold, \$	Oil, Brent, \$
07:30	1148.20	48.62
1 day	↑ 2.25	↓ -0.18
1 month	↑ 33.13	↑ 0.25
Year-t-date	↓ -36.66	↓ -8.71
	CRB 1M future	CRB, Raw Industrials
07:30	194.16	417.67
1 day	↓ -0.92	↓ -1.76
1 month	↑ 0.39	↓ -15.61
Year-t-date	↓ -35.80	↓ -74.44

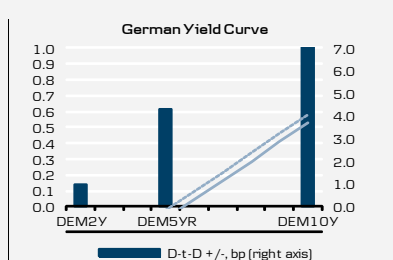
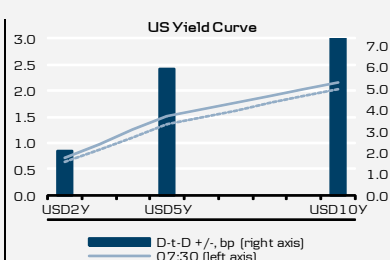
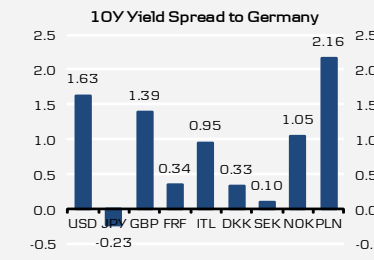
YIELDS & INTEREST RATES



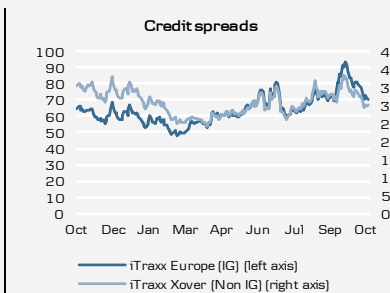
	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.07	-12
GBP	0.50	0.58	8
DKK	0.05	-0.10	-15
SEK	-0.35	-0.32	3
NOK	0.75	1.10	35
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.16	2.16	↑ 0
USD 30Y	2.95	2.96	↑ 1
JPY 10Y	0.30	0.30	↑ 0
<b>07:30(-1)* 17:00 +/-, bp</b>			
DEM 10Y	0.46	0.54	↑ 8
DKK 10Y	0.78	0.86	↑ 9
SEK 10Y	0.56	0.63	↑ 7
NOK 10Y	1.58	1.58	↑ 0
PLN 10Y	2.59	2.69	↑ 10

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	71	↓ 0	↓ -20
HIVol	83	↑ 9	↓ -9
Xover (N-IG)	301	↑ 1	↓ -75
<b>Finan. Sr.</b>			
Finan. Sr.	71	↑ 0	↓ -26
Finan. Sub.	151	↑ 1	↓ -48
<b>Non-finan.</b>			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-7	-8	↓ -1
<b>07:30(-1)* 17:00 +/-</b>			
EUR 10Y	0	18	↑ 18
DKK 10Y	41	39	↓ -2
SEK 10Y	44	41	↓ -3
NOK 10Y	71	70	↓ -1

\* As of closing previous trading day

\*\* Ask price

\* Ask price

Source: Bloomberg, Danske Bank Markets

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### First date of publication

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