

16 December 2015

Danske Daily

Market Movers

- **Today is the day when we and markets expect the Fed to start lift-off delivering the first rate hike in nine years, see *FOMC preview, we expect a dovish hike*, 14 December.** The Fed has been challenged over the past week by the lower oil price, another sell-off in equity markets and not least significant stress in the US high yield market. We believe the hike is signalled so clearly that it is too late for the Fed to refrain but we expect a very dovish one, as the ‘dots’ outlining the FOMC members’ forecast for the Fed funds rate are likely to show a subdued path of only three hikes in 2016. Fed chairman Janet Yellen is also likely to strike a cautious tone at the press conference adding to the dovish feeling. There may also be dissenters among the FOMC members.
- **The market is pricing around 80% probability of a hike** and slightly less than two hikes next year. However, it most likely reflects a probability that the Fed will be forced to stop early versus a scenario where it continues to hike 3-4 times.
- Before the Fed decision, we have **Euro Flash PMI this morning** with France and Germany releasing first before the Euro PMI is out at 10:00 CET. We expect a marginal increase in line with recent stabilisation of the key economic indicators. In general, we expect the European recovery to gather speed next year and we see the latest improvements as the start of this. Furthermore, it should be noted that the economic indicators have been quite resistant to the weakness in the Chinese economy. Final Euro CPI for December is released at 11:00 CET.

Selected Market News

Risk appetite improved a bit yesterday going into the FOMC meeting with equities climbing higher during the afternoon and US high yield spreads also narrowing slightly after strong spread widening in the previous trading days. Some stabilisation in the oil price has helped risk assets to recover from technically stretched low levels. Asian stock markets are also higher this morning.

The oil price has stabilised around USD38 per barrel on talks of an OPEC emergency meeting as the oil price got very close to the lows from the financial crisis in 2008. It is still too early though, to conclude that we have seen the bottom. If the price declines beyond the 2008 lows at USD36.2 per barrel it could trigger negative risk sentiment again.

In China the CNY has stabilised on signs of intervention in the onshore market yesterday and indications of intervention in the offshore market (CNH) this morning as the CNH-CNY spread has narrowed from 0.08 yesterday to now below 0.06. It might help ease fears of a big devaluation triggered on Friday when China introduced a CNY-currency basket used to evaluate the overall strength of the CNY.

Japanese Flash PMI manufacturing for December was broadly flat edging down to 52.5 from 52.6 in November. It is still a fairly robust level (average past three years is 51.6), which suggests that the past months’ improvement in industrial production was intact through the end of 2015.

Market overview				
	07:30	1 day +/- %		
S&P500 (close)	2043.4	↑	1.06	
S&P500 fut (chng from close)	2042.0	↑	0.24	
Nikkei	19037.4	↑	2.54	
Hang Seng	21722.7	↑	2.11	
	17:00	07:30		+/-, bp
US 2y gov	0.97	0.96	↓	-0.4
US 10y gov	2.27	2.26	↓	-0.9
iTraxx Europe (IG)	82	81	↓	-0.8
iTraxx Xover (Non IG)	339	336	↓	-2.6
				+/-, %
EUR/USD	1.093	1.094	↑	0.07
USD/JPY	121.650	121.910	↑	0.21
EUR/CHF	1.08	1.08	↑	0.08
EUR/GBP	0.726	0.727	↑	0.19
EUR/SEK	9.286	9.294	↑	0.09
EUR/NOK	9.50	9.49	↓	-0.03
				USD
Oil Brent, USD	38.3	38.3	↓	-0.16
Gold, USD	1061.2	1064.9	↑	0.35

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

- *FOMC preview, we expect a dovish hike*
- *UK: Base effects kick in - CPI inflation above 0% for the first time since July*
- *Riksbank stands pat - for now*

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Scandi Markets

There are no key movers in Scandi today. Markets will take their cue from global developments. Next event in Scandi will be the Norges Bank meeting tomorrow.

Fixed Income Markets

As we think that the FOMC statement and Janet Yellen's press conference will be very soft, the message of a 'dovish hike' should be welcomed by the market. We think the market rate increases should be modest and even a positive reaction in the US bond market should not be ruled out, especially if focus is on a possible lower level of the neutral real rate. The focus will be on the explicit guidance beyond the lift-off and the implicit hints from the economic projections and the 'dot plot'.

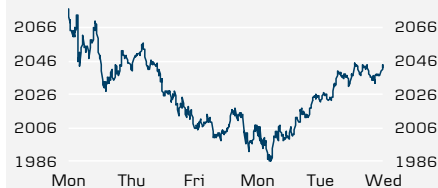
However, expectations for the second hike are priced very soft (40% for March, 50% for April and not fully priced until June) and the market is pricing close to two hikes for each of the next two years, whereas the FOMC dots are significantly above, even including our expectation of 2016 and 2017 down revisions in the median forecast tonight. This implies that there is still room for a re-pricing in a hawkish direction, in our view. In light of this and the general market expectation of a dovish Yellen, we think there is a flattening bias on the US curve and that the bar for a hawkish read tonight might not be that high.

FX Markets

Markets rallied on Tuesday as oil stabilised, triggering a self-off in EUR/USD. We expect the Fed to raise rates by 25bp today but to deliver a dovish hike (see above and Fed Lift-off Series #3 – FOMC Preview: we expect a dovish hike). The Fed rate hike and dovish non-US central banks should drive modest USD strength near term. We expect EUR/USD to trade lower ahead of year-end but we stress that the cross will stay in the 1.05-1.10 range in coming months.

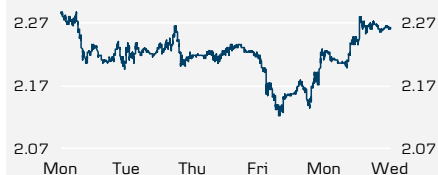
The Fed rate hike, even a dovish one, is likely to fuel modest weakness in the NOK versus the USD as US rate hikes will contrast with a very dovish Norges Bank on Thursday where the central bank will either promise a cut in March 2016 or actually cut interest rates by 25bp to 50bp. The Riksbank, as expected, kept interest rates unchanged on Tuesday and interestingly lowered its near-term forecasts for the trade-weighted SEK, the KIX. EUR/SEK traded lower after the decision and we continue to see EUR/SEK being stuck in a 9.10-9.30 range for the next couple of months, with an emphasis on the lower end of that range.

US S&P500 future



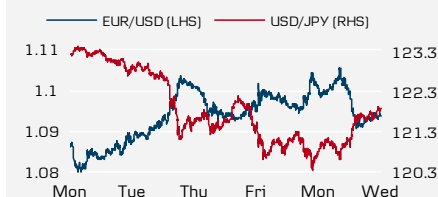
Source: Danske Bank Markets

US 10y gov yield



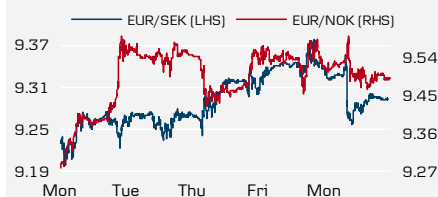
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

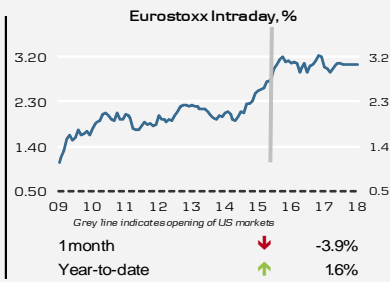
Key figures and events

Wednesday, December 16, 2015					Period	Danske Bank	Consensus	Previous
9:00	FRF	PMI manufacturing, preliminary	Index	Dec	50.2			50.6
9:00	FRF	PMI services, preliminary	Index	Dec	50.5			51.0
9:30	DEM	PMI manufacturing, preliminary	Index	Dec	53.5	52.5		52.9
9:30	DEM	PMI services, preliminary	Index	Dec	55.6	55.5		55.6
10:00	EUR	PMI manufacturing, preliminary	Index	Dec	53.0	52.5		52.8
10:00	EUR	PMI composite, preliminary	Index	Dec		54.2		54.2
10:00	EUR	PMI services, preliminary	Index	Dec	54.1	54.0		54.2
10:30	GBP	ILO Unemployment rate	%	Oct	5.3%	5.3%		5.3%
10:30	GBP	Average weekly earnings ex bonus (3M)	y/y	Oct	2.3%	2.3%		2.5%
10:30	GBP	Average weekly earnings (3M)	y/y	Oct		2.5%		3.0%
11:00	EUR	HICP inflation, final	m/m y/y	Nov	0.2%	-0.2% 0.1%		0.1% 0.1%
11:00	EUR	HICP - core inflation, final	%	Nov	0.9%	0.9%		0.9%
11:00	EUR	Trade balance	EUR bn	Oct				20.1
13:00	USD	MBA mortgage applications	%					1.2%
14:30	USD	Building permits	1000 (m/m)	Nov		1153		1161.0 (5.1%)
14:30	USD	Housing starts	1000 (m/m)	Nov		1140		1060.0 (-11.0%)
15:15	USD	Capacity utilization	%	Nov		77.4%		77.5%
15:15	USD	Industrial production	m/m	Nov		-0.1%		-0.2%
15:15	USD	Manufacturing production	m/m	Nov		0.1%		0.4%
15:45	USD	Markit manufacturing PMI, preliminary	Index	Dec		52.8		52.8
16:30	USD	DOE U.S. crude oil inventories	K					-3568
20:00	USD	FOMC rate announcement and statement	%		0.50%	0.50%		0.25%
20:00	USD	December projections materials (including the "dots")						
20:30	USD	Yellen press conference						
22:45	NZD	GDP	q/q y/y	3rd quarter		0.8% 2.3%		0.4% 2.4%

Source: Bloomberg, Danske Bank Markets

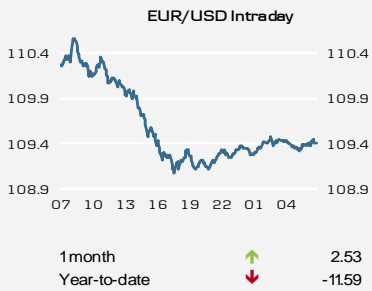
Today's market data: 16 December 2015

STOCKS



	Close		+/-
DJSTOXX50	3051	↑	3.1%
OMXC20	982	↑	2.0%
OMXS30	1426	↑	2.7%
OSE BX	602	↑	2.8%
	Close		+/-
DOW JONES	17525	↑	0.9%
NASDAQ	4995	↑	0.9%
S&P500	2043	↑	1.1%
NIKKEI (07:30)	19037	↑	3.1%

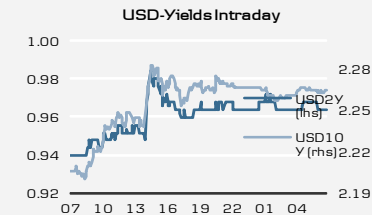
FX & COMMODITIES



	17:00	07:30		+/-
EUR				
USD	109.31	109.39	↑	0.08
JPY	132.98	133.36	↑	0.38
GBP	72.57	72.71	↑	0.14
NOK	949.51	949.18	↓	-0.33
SEK	928.57	929.38	↑	0.81
DKK	746.18	746.18	↑	0.00
PLN	433.34	431.07	↓	-2.27
USD				
JPY	121.65	121.91	↑	0.26
GBP	150.62	150.45	↓	-0.17
CHF	99.00	99.00	↑	0.00

	07:30		+/-
Gold, \$	1064.94		38.26
1day	↑	3.73	↓ -0.19
1month	↓	-17.81	↓ -6.30
Year-t-date	↓	-119.92	↓ -19.07
	07:30		+/-
CRB, Raw Industrials	174.23		401.11
1day	↓	-0.04	↓ -0.56
1month	↓	-11.19	↓ -0.69
Year-t-date	↓	-55.73	↓ -91.00

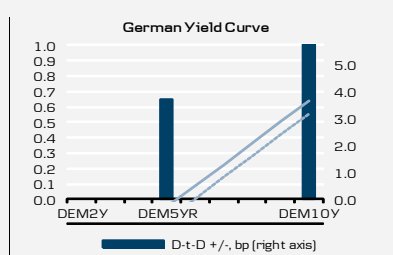
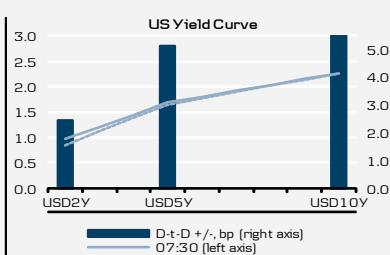
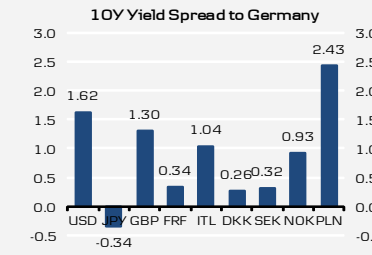
YIELDS & INTEREST RATES



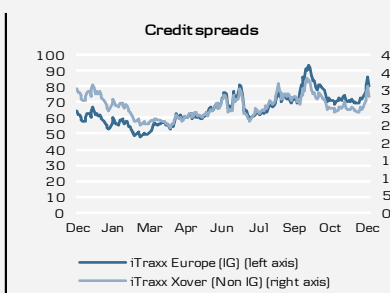
	Policy Rate	3M	Spread, bp
USD	0.25	0.52	27
EUR	0.05	-0.13	-18
GBP	0.50	0.58	8
DKK	0.05	-0.12	-17
SEK	-0.35	-0.38	-3
NOK	0.75	1.08	33
PLN	1.50	1.62	12

	17:00	07:30		+/-, bp
USD 10Y	2.27	2.26	↓	-1
USD 30Y	3.01	2.99	↓	-2
JPY 10Y	0.30	0.30	↓	0
	07:30(-1)*	17:00		+/-, bp
DEM 10Y	0.58	0.66	↑	8
DKK 10Y	0.91	0.93	↑	1
SEK 10Y	0.87	0.95	↑	8
NOK 10Y	1.57	1.57	↑	0
PLN 10Y	3.32	3.08	↓	-25

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	81	↓ -1	↑ 7
HiVol	90	↓ -15	↑ 0
Xover (N-IG)	336	↓ -5	↑ 21
Finan. Sr.	78	↓ -1	↑ 2
Finan. Sub.	163	↓ -4	↑ 2
Non-finan.			



	17:00	07:30		+/-
USD 10Y				
JPY 10Y	-10	-10	↑	0
	07:30(-1)*	17:00		+/-
EUR 10Y	0	14	↑	14
DKK 10Y	35	33	↓	-2
SEK 10Y	43	41	↓	-2
NOK 10Y	60	59	↓	-2

* As of closing previous trading day

** Ask price

* Ask price

Source: Bloomberg, Danske Bank Markets

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