

19 January 2016

Danske Daily

Market Movers

- **In the UK, focus is on CPI inflation in December.** We estimate that CPI inflation was unchanged at +0.1% y/y in December, while CPI core inflation declined to 1.1% y/y from 1.2% y/y in November.
- **Also, BoE governor Mark Carney speaks today which may attract a lot of attention.** More and more analysts have begun to push their expectations for the first BoE hike from Q2 to Q4 as BoE seems less and less 'Fed light'. It could be interesting to hear what Carney has to say since the minutes from the January meeting did not really contain any news. There is a lot to talk about: The poor risk appetite, the large current account deficit, Brexit, the weaker GBP and the large drop in the oil price.
- German ZEW expectations for January are due today. **After having seen a rebound in the ZEW expectations index the past two months, we expect it to drop back again due to the pressure on global risk sentiment at the start of the year.** Moreover, the ZEW expectations indicator has historically been highly correlated with the Sentix investor confidence index, which dropped in January.
- **We expect the Central Bank of Turkey to leave the policy rate unchanged at 7.50%.**

Selected Market News

Several Chinese data were released overnight, which overall were to the soft side. GDP rose 1.6% q/q (6.4% q/q annualised) below the expectations of 1.8% q/q. GDP was 6.8% higher in Q4 15 compared to Q4 14. Full-year growth in 2015 was 6.9%, the lowest since 1990 but in line with the government's target of about 7%. Nominal GDP growth was 6%, the lowest since 1999. The monthly data for December were a bit weaker than expected. In December, industrial production grew 5.9% y/y down from 6.2% y/y in November. In terms of monthly growth, industrial production grew 0.4% m/m in December from 0.6% m/m in November. The 3-month moving average has stabilised but at a low level, suggesting that although the industrial sector is still struggling, there are some signs that the easing measures taken by PBoC in 2015 have helped. Retail sales increased by 11.1% y/y in December. **We still look for another 25bp interest rate cut soon as well as a cut in the reserve requirement ratio of 50bp** as PBoC will aim to underpin growth and give relief to the debt burden in the companies.

While Asia is flashing mostly green this morning, risk is that the weaker-than-expected Chinese data will continue to weigh on risk sentiment. At the time of writing, the Chinese Shanghai and Shenzhen indices are up 2.4% and 2.2%, respectively. Nikkei is slightly down. The CNY was fixed at 6.5596, largely unchanged since yesterday. **S&P500 futures suggest that we should see a small pickup in the US** after US markets were closed yesterday due to Martin Luther King Day.

BoE's Vlieghe spoke yesterday. Vlieghe is a relatively new member of the BoE's Monetary Policy Committee but has already put himself in the dovish camp. Overall he 'does not believe the conditions are in place to warrant a rise in Bank Rate'.

Market overview

	07:30	1 day +/- %
S&P500 (close)	1880.3	↓ -2.16
S&P500 fut (chng from close)	1892.9	↑ 0.95
Nikkei	17015.4	↑ 0.35
Hang Seng	19499.8	↑ 1.36
	17:00	07:30 +/- bp
US 2y gov	0.00	0.86 ↑ 86.2
US 10y gov	0.00	2.07 ↑ ###
iTraxx Europe (IG)	97	98 ↑ 0.6
iTraxx Xover (Non IG)	387	390 ↑ 2.7
		+/- %
EUR/USD	1.088	1.088 ↓ -0.05
USD/JPY	117.360	117.800 ↑ 0.37
EUR/CHF	1.09	1.10 ↑ 0.16
EUR/GBP	0.762	0.762 ↓ -0.05
EUR/SEK	9.347	9.337 ↓ -0.10
EUR/NOK	9.69	9.67 ↓ -0.22
Oil Brent, USD	28.8	29.1 ↑ 1.04
Gold, USD	1089.2	1088.7 ↓ -0.04

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

- [FX Forecast Update: Living with lower oil and weaker China](#)

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Scandi Markets

A leak to Reuters suggests that the King/Goodfriend review of the Riksbank proposes to change the target variable from CPI to CPIF, which in practice is already the case. More important (and possibly a market mover) may be that the report is said to suggest that Riksbank could deviate from the target for certain periods if deemed necessary. There are no details yet, however, so we have to wait for the release at 11:30 CET to get a clearer idea if this really has any implications or not.

Fixed Income Markets

Inflation markets have started 2016 with big declines from already low levels. Inflation prints are priced to average 2016 in negative territory (-0.2%), only consistent with further declines in oil and/or declines in core inflation. Using the oil forward market as a guide for oil developments, it requires core inflation to drop 0.5pp from the current level of 0.9%. It highlights the pricing of a very subdued inflation outlook (also in longer tenors with 5y5y below 1.60%) and although one can understand the limited willingness to catch a falling knife, it seems way too subdued and offers opportunities, in our view.

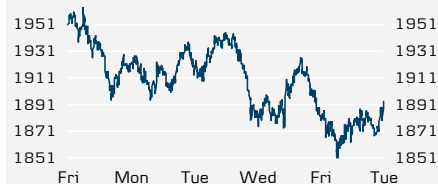
Finland is coming to the market in a small tap of EUR1.5bn in 5Y RFGB and 30Y RFGB. We expect a fairly modest demand as Finland is 'attracting' some negative press regarding the soft budget outlook as well as increased debt burden. Most recently the Finnish government has been out stating that the rise in structural unemployment is one of the most serious challenges for the Finnish economy.

FX Markets

Yesterday we published our monthly FX Forecast Update in which we incorporate the impact of recent China and oil jitters into our FX views. The largest revisions were made to our GBP, SEK and NOK forecasts, acknowledging that vis-à-vis the single currency these are likely to trade on a weaker note near term than previously anticipated, see *FX Forecast Update: Living with lower oil and weaker China*, 18 January, for details. Regarding EUR/USD, we continue to see the cross staying within the 1.05-1.10 range on a 1-3M horizon but stress that the key story for 2016 will be that of a EUR/USD rebound as cyclical, valuation, flows and positioning are set to be supportive of the cross; we still project the pair at 1.16 in 12M.

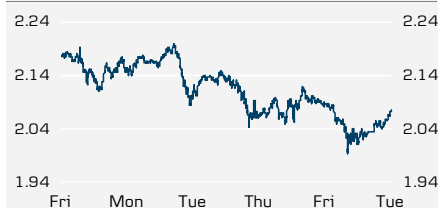
Following a relatively quiet start to the week, today's UK inflation data could potentially be a catalyst for the GBP given the BoE's recent focus on the impact of oil on price formation. Also watch out for a rate decision in Turkey; we look for unchanged rates today.

US S&P500 future



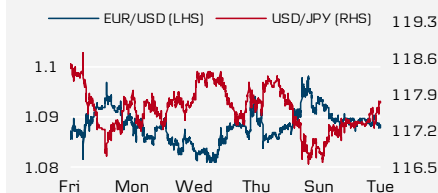
Source: Danske Bank Markets

US 10y gov yield



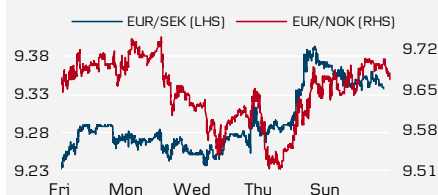
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

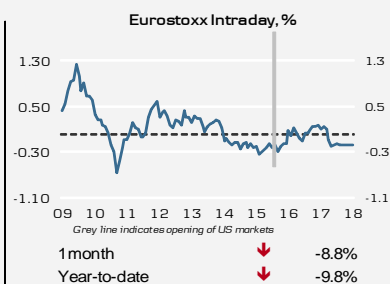
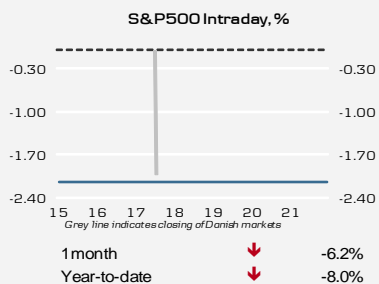
Key figures and events

Tuesday, January 19, 2016				Period	Danske Bank	Consensus	Previous
3:00	CNY	Real GDP	q/q y/y	4th quarter		1.8% 6.9%	1.8% 6.9%
3:00	CNY	Fixed assets investments	y/y	Dec		10.2%	10.2%
3:00	CNY	Industrial production	y/y	Dec		6.0%	6.2%
3:00	CNY	Retail sales	y/y	Dec		11.3%	11.2%
8:00	DEM	HICP, final	m/m y/y	Dec	0.0% 0.2%	0.0% 0.2%	0.0% 0.2%
10:00	EUR	Current account	EUR bn	Nov			20.4
10:30	GBP	PPI - input	m/m y/y	Dec		-1.5% -11.5%	-1.6% -13.1%
10:30	GBP	PPI - output	m/m y/y	Dec		-0.2% -1.2%	-0.2% -1.5%
10:30	GBP	CPI	m/m y/y	Dec	0.0% 0.1%	0.0% 0.1%	0.0% 0.1%
10:30	GBP	CPI core	y/y	Dec	1.1%	1.2%	1.2%
11:00	DEM	ZEW current situation	Index	Jan	52.0	53.0	55.0
11:00	DEM	ZEW expectations	Index	Jan	5.0	7.8	16.1
13:00	TRY	Central Bank of Turkey rate decision	%		7.5%	7.5%	7.5%
13:00	GBP	BoE governor Mark Carney speaks in London					
16:00	USD	NAHB Housing Market Index	Index	Jan		61.0	61.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Nov			68.9
22:45	NZD	CPI	q/q y/y	4th quarter		-0.2% 0.3%	0.3% 0.4%

Source: Bloomberg, Danske Bank Markets

Today's market data: 19 January 2016

STOCKS



	Close		+/-
DJSTOXX50	2796	↓	-0.2%
OMXC20	920	↑	0.1%
OMXS30	1306	↑	0.1%
OSE BX	528	↓	-1.3%
	Close		+/-
DOW JONES	15988	↓	-2.4%
NASDAQ	4488	↓	-2.7%
S&P500	1880	↓	-2.2%
NIKKEI (07:30)	17015	↓	-0.2%

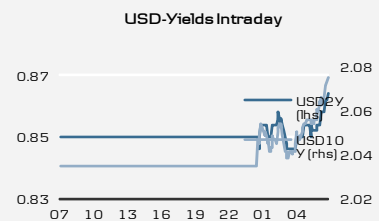
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	108.84	108.79	↓ -0.05
JPY	127.74	128.16	↑ 0.42
GBP	76.22	76.18	↓ -0.04
NOK	968.90	966.74	↓ -2.16
SEK	934.68	933.70	↓ -0.98
DKK	746.31	746.32	↑ 0.01
PLN	446.01	445.78	↓ -0.23
USD	17:00	07:30	+/-
JPY	117.36	117.80	↑ 0.44
GBP	142.80	142.81	↑ 0.01
CHF	100.58	100.79	↑ 0.21

	Close		+/-
Gold, \$	1088.73		
Oil, Brent, \$	29.10		
1day	↓ -0.17	↑	0.55
1month	↑ 22.58	↓	-7.78
Year-t-date	↑ 27.31	↓	-8.18
CRB	1M future	CRB, Raw	Industrials
07:30	159.93		407.82
1day	↓ -3.19	↑	0.00
1month	↓ -12.22	↑	6.80
Year-t-date	↓ -16.21	↑	3.11

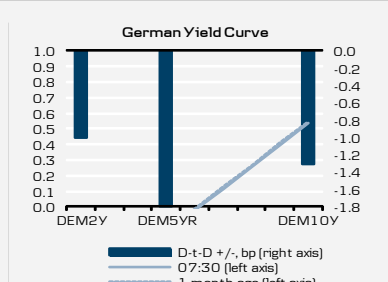
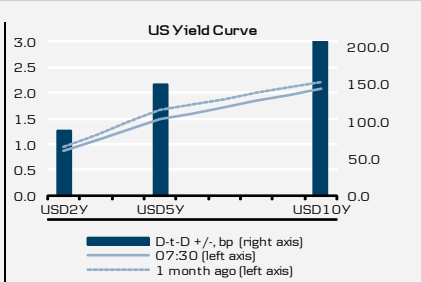
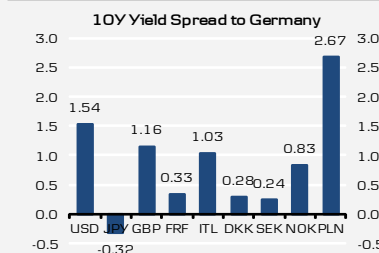
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.14	-19
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.30	5
NOK	0.75	1.19	44
PLN	1.50	1.60	10

	17:00	07:30	+/-, bp
USD 10Y	0.00	2.07	↑ 207
USD 30Y	0.00	2.85	↑ 285
JPY 10Y	0.21	0.22	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.55	0.54	↓ -1
DKK 10Y	0.91	0.82	↓ -9
SEK 10Y	0.75	0.77	↑ 2
NOK 10Y	1.37	1.37	↑ 0
PLN 10Y	3.10	3.21	↑ 11

* As of closing previous trading day

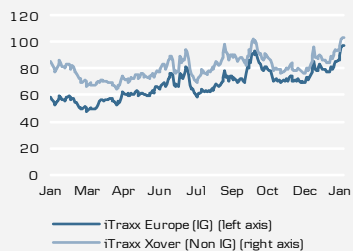


Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	98	↑ 0	↑ 15
HiVol	135	↑ 1	↑ 26
Xover (N-IG)	390	↑ 1	↑ 51
Finan. Sr.	91	↑ 0	↑ 13
Finan. Sub.	201	↑ 2	↑ 36
Non-finan.			

* Ask price

Creditspreads



Swap Spread, bp**

	17:00	07:30	+/-
USD 10Y			
JPY 10Y		-15	
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	38	38	↓ 0
SEK 10Y	39	40	↑ 1
NOK 10Y	60	59	↓ -1

* 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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