17 March 2016

Danske Daily

Market Movers

- Following the FOMC meeting last night, this week's long list of central bank meetings continues with three meetings on the agenda today.
- We expect Norges Bank to cut its key rate by 25bp to 0.50% at the rate-setting meeting. We expect the rate path to be revised down, to a policy rate of 0.30% from Q4 16, indicating a c.80% probability of another rate cut before Q4 16. For more details, see *Scandi Markets* and *Norges Bank Preview: A 25bp cut and a dovish bias, limited EUR/NOK upside*, 14 March.
- We expect the Bank of England (BoE) to maintain the Bank Rate and the stock of purchased assets at 0.50% and GBP375bn, respectively. At the last meeting, the BoE made it clear that it is definitely not 'Fed light' as there are many reasons for it to stay on hold for a long time - subdued wage growth, the ECB's easing bias and Brexit uncertainties, to name a few.
- We expect the Swiss National Bank (SNB) to stay put as well. As the ECB effectively has ruled out more rate cuts, the pressure on SNB to deliver lower rates is limited. We think that the SNB will handle any unwanted CHF strength via intervention. We look for some limited downside near term in EUR/CHF but still expect it to move gradually higher towards 1.15 in 3-12M.

Selected Market News

As widely expected, the FOMC kept the federal funds target rate unchanged at 0.25%-0.50% last night. The projections and statement revealed a very dovish Fed, which was a surprise as we have seen an improvement in US data, a rebound in risk sentiment and higher-than-expected inflation prints recently. The median 'dot' for this year was lowered down to signalling two hikes (from four in December), while the median 'dot' for next year still signals four hikes. While the door is not yet closed for a hike in June, we (and so do the markets) think the probability has declined significantly after the meeting. We stick to our view that the Fed will stay on hold until September and only hike once this year, although we admit that it still seems more likely that the Fed will hike twice this year than not hike at all. See *FOMC review: Concerned Fed sends very dovish message to the markets*, 16 March, for details.

The USD declined after the FOMC meeting versus all major currencies. The DXY index is 1.4% lower from yesterday's high, while EUR/USD is testing new post-ECB highs above the 1.12 level.

More dovish central banks globally bode well for global risk assets in general and last night saw a solid rally in the fixed income markets, while the S&P 500 index rose 0.5%. The positive sentiment has also been carried over to the Asian session where all regional indices trade higher this morning.

Market overview

		07:30		1 day +/-,%
S&P500 (close)		2027.2	↑	0.56
S&P500 fut (chng from close)		2020.4	↑	0.15
Nikkei		16913.1	↓	-0.36
Hang Seng		20499.5	↑	1.19
	17:00	07:30		+/-, bp
US 2y gov	0.98	0.83	↓	-15.0
US 10y gov	1.99	1.89	↓	-9.4
iTraxx Europe (IG)	77	77	↑	0.6
iTraxx Xover (Non IG)	326	329	↑	2.7
				+/-, %
EUR/USD	1.107	1.122	↑	1.35
USD/JPY	113.660	112.150	↓	-1.33
EUR/CHF	1.09	1.10	↑	0.20
EUR/GBP	0.785	0.788	↑	0.38
EUR/SEK	9.212	9.233	↑	0.22
EUR/NOK	9.50	9.49	↓	-0.15
				USD
Oil Brent, USD	40.3	40.7	↑	0.82
Gold, USD	1229.6	1258.3	↑	2.33

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

- *Norges Bank Preview: A 25bp cut and a dovish bias, limited EUR/NOK upside*
- *FOMC review: Concerned Fed sends very dovish message*

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Scandi Markets

Norway. We expect Norges Bank (NB) to cut its key rate by 25bp and to adjust the interest rate path down by 8-9bp towards the end of 2016 so that it gives a close to 80% chance of a further cut during the year. At its meeting in December, NB indicated a roughly 60% chance of a rate cut at the March meeting and since then global forward rates have fallen, credit and money market premiums have increased and oil investment estimates have come down further. Growth last year has also been revised down, which could mean a larger output gap going into 2016. The chances of a rate reduction have therefore risen to 80%. The big question mark is therefore what signals NB will send about what happens next, especially whether it will say anything about the possibility of zero or negative rates. We think it would make sense to give itself as much room to manoeuvre as possible, making it unlikely to rule them either in or out. We reckon market pricing ahead of the meeting is sensible and so expect little reaction following the meeting.

We expect EUR/NOK to rise on the announcement. However, market pricing limits the upside potential. We still look for an eventually lower EUR/NOK in 2016, although we see the biggest potential in H2.

We have favoured the long-end of the NGB-curve for a while and even after the latest spread tightening against Bunds to around 105bp we see value in this part of the NGB curve.

Fixed Income Markets

The Fed came out more dovish than expected signalling just two rate hikes this year and we have seen a subsequent rally in US Treasuries and a bullish curve-steepening 2Y10Y. The Fed message is positive for risky assets and we expect further performance for periphery and semi-core bonds today. We now have 1) a step-up in the ECB QE, 2) a ‘dovish’ Fed and 3) possibly more BoJ easing at the same time. In other words, it bodes well for global FI markets this spring. In that respect remember that the net-cash flow turns very positive in the EGB market after Easter. For more on the Fed see *FOMC review: Concerned Fed sends very dovish message to the markets*, 16 March.

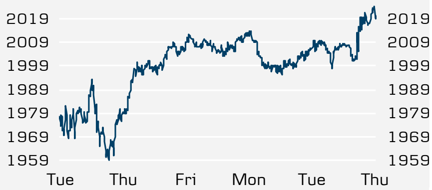
Today, the market will have to absorb supply from Spain and France. Spain will tap in the 3Y, 10Y and 16Y bonds. Note that only EUR2 to 3bn will be tapped. We look for good demand given the smaller auction size and the supportive Fed comments. Spain has recently widened slightly against Italy in the 10Y which should also attract investors. There was some focus on Catalonia yesterday, as S&P will come out with a ‘delayed’ rating update tomorrow, but we do not see the ‘Catalonian issue’ to derail risk-appetite.

France will tap around EUR 6-7bn in the market today in the Apr-20, Nov-20 and the Oct-22. Furthermore, a new 5Y linker will be opened and EUR1.5-2.0bn will be sold.

FX Markets

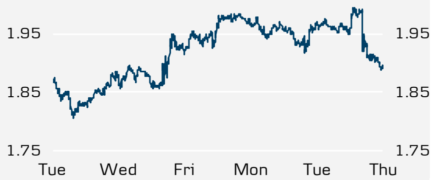
Needless to say, the surprisingly dovish message from the FOMC last night sent USD crosses lower across the board with EUR/USD testing new post-ECB highs above the 1.12 level. Indeed, this was not the day for the Fed re-pricing in a more hawkish direction we had been waiting for and the bold reaction higher in EUR/USD is in our view clearly testament to the sensitivity in the cross being higher to USD-negative factors than the opposite in the present environment, given that the cross is stretched on the downside on not least valuation measures; thus the boost to risk assets was not strong enough to drag the EUR (nowadays more of a safe haven then the USD) lower. With the Fed set to deliver merely a September hike this year in our view the case for USD upside looks

US S&P500 future



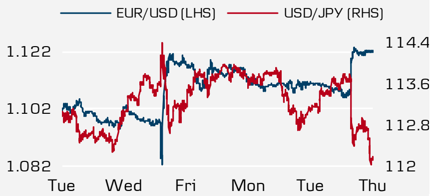
Source: Danske Bank Markets

US 10y gov yield



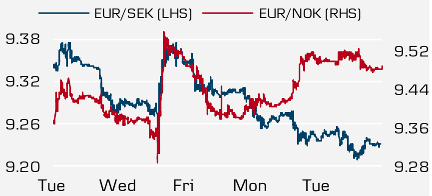
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

increasingly weak. What would it take for another firm dip below the 1.10 level then? In our view this requires a new significant uptick in US money-market rates, which could e.g. be brought about if the oil price shows firmer signs of stabilisation as this should dampen fears of a continued drop in US inflation expectations and of a financial shock arising from the US energy sector. In the absence of USD support from relative interest rates, we are likely in for range-trading in the 1.10-1.14 interval for the pair near term before a more sustained move higher further out (still looking for 1.16 in 12M).

In the Scandi FX market, focus will be on the Norges Bank meeting today where we look for a rate cut and see risk to the upside for EUR/NOK (see more in the Scandi Markets section above). Completely different is the situation in Sweden and Denmark where both currencies have rallied recently.

EUR/SEK fell further yesterday and temporarily dipped below 9.21. Since mid-February, EUR/SEK has dropped from above 9.50 to the sub 9.25 area. Higher-than-expected inflation prints in February and yesterday's quarterly Prospera inflation survey showing small upticks in the 1- and 2-year inflation expectations are factors that potentially might have increased the Riksbank's tolerance for SEK appreciation. Given that the macroeconomic backdrop prevails, a general improvement in risk appetite and not least Riksbank member Skingsley's comments, which have raised doubts about the Riksbank's tolerance for SEK appreciation, could provide solid conditions for further SEK appreciation. Hence, the Riksbank could very well be tested on interventions. We continue to expect EUR/SEK to be range-bound in the coming months and to the extent that the Riksbank is ok with a slightly stronger SEK, we think that the fair range for EUR/SEK has shifted down to 9.15-9.40.

EUR/DKK has trended downwards since the Danish central bank (DN) decided not to mirror ECB's rate cut last week. EUR/DDK has fallen from above central parity of 7.46038 to 7.4560 at present. We do not expect DN to allow EUR/DKK to fall below 7.45 and thus, if EUR/DKK depreciates further, DN will probably cut the interest rates on certificates of deposit to -0.75%, and step up FX interventions. DN can sell unlimited amounts of DKK when foreign exchange is flowing into Denmark.

Key figures and events

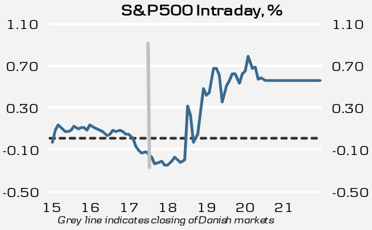
Thursday, March 17, 2016				Period	Danske Bank	*Consensus*	Previous
9:00	DKK	House prices (Association of Danish Mortgage Banks)	q/q|y/y	4th quarter			-0.6%|7.1%
9:30	CHF	3m LIBOR target (mid range)			**-0.75%**	*-0.75%*	-0.75%
9:30	SEK	Unemployment (n.s.a.|s.a.)	%	Feb	**7.5%|7.0%**	*7.4%*	7.5%|7.0%
10:00	NOK	Norges Banks monetary policy meeting	%		**0.50%**	*0.50%*	0.75%
11:00	EUR	HICP inflation, final	m/m|y/y	Feb	**...|-0.2%**	*0.1%|-0.2%*	-1.4%|-0.2%
11:00	EUR	HICP - core inflation, final	%	Feb	**0.7%**	*0.7%*	0.7%
11:00	EUR	Trade balance	EUR bn	Jan		*20*	21
13:00	GBP	BoE announces asset purchase target	GBP bn	Mar	**375**	*375*	375
13:00	GBP	BoE rate announcement	%		**0.50%**	*0.50%*	0.50%
13:00	GBP	BoE minutes					
13:30	USD	Current account	USD bn	4th quarter		*-114.5*	-124.1
13:30	USD	Initial jobless claims	1000				259

Source: Bloomberg, Danske Bank Markets

Today's market data: 17 March 2016

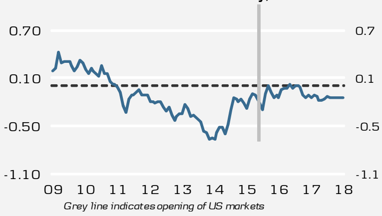
STOCKS

S&P500 Intraday, %



1month	↑	5.2%
Year-to-date	↓	-0.8%

Eurostoxx Intraday, %



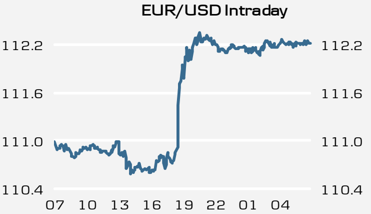
1month	↑	2.6%
Year-to-date	↓	-8.3%

	Close		*+/-*
DJSTOXX50	2844	↓	-0.2%
OMXC20	974	↓	0.0%
OMXS30	1393	↓	-0.8%
OSE BX	586	↑	0.6%

	Close		*+/-*
DOW JONES	17326	↑	0.4%
NASDAQ	4764	↑	0.7%
S&P500	2027	↑	0.6%
NIKKEI (07:30)	16913	↓	-0.2%

FX & COMMODITIES

EUR/USD Intraday



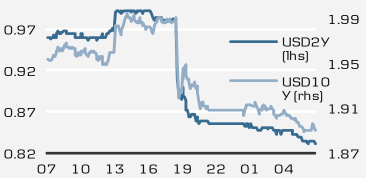
1month	↑	0.95
Year-to-date	↑	3.61

EUR	*17:00*	*07:30*		*+/-*
USD	110.74	112.23	↑	1.49
JPY	125.86	125.86	↑	0.00
GBP	78.52	78.82	↑	0.30
NOK	950.43	948.96	↓	-1.47
SEK	921.21	923.26	↑	2.05
DKK	745.61	745.59	↓	-0.02
PLN	429.14	428.96	↓	-0.18
USD	*17:00*	*07:30*		*+/-*
JPY	113.66	112.15	↓	-1.51
GBP	141.04	142.39	↑	1.35
CHF	98.87	97.75	↓	-1.12

		Gold, $		**Oil, Brent, $**
07:30		1258.26		40.65
1day	↓	-4.27	↑	0.32
1month	↑	49.66	↑	6.15
Year-t-date	↑	196.84	↑	3.37
		CRB 1M future		**CRB, Raw Industrials**
07:30		173.76		436.79
1day	↑	2.69	↓	-1.27
1month	↑	11.22	↑	16.13
Year-t-date	↓	-2.39	↑	32.08

YIELDS & INTEREST RATES

USD-Yields Intraday

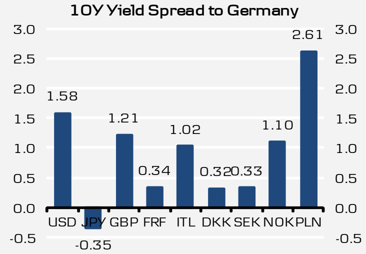


	Policy Rate	**3M**	**Spread, bp**
USD	0.50	0.64	14
EUR	0.00	-0.23	-23
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.50	-0.46	4
NOK	0.75	1.01	26
PLN	1.50	1.57	7

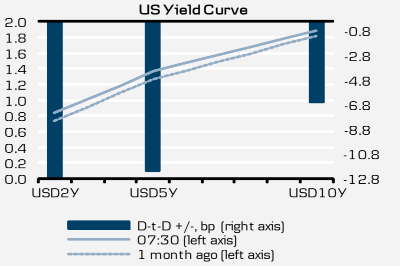
	17:00	*07:30*		*+/-, bp*
USD 10Y	1.99	1.89	↓	-9
USD 30Y	2.72	2.70	↓	-3
JPY 10Y	-0.08	-0.04	↑	4
	*07:30(-1)**	*17:00*		*+/-, bp*
DEM 10Y	0.31	0.29	↓	-2
DKK 10Y	0.64	0.61	↓	-4
SEK 10Y	0.66	0.63	↓	-3
NOK 10Y	1.41	1.41	↑	0
PLN 10Y	2.91	2.93	↑	2

* As of closing previous trading day

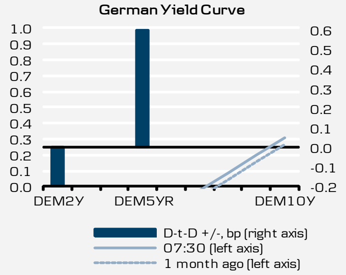
10Y Yield Spread to Germany



US Yield Curve



German Yield Curve

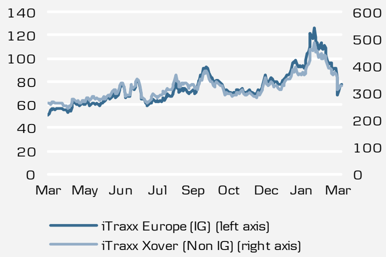


Credit spread, iTraxx s. 11*

	07:30		1day		1month
Europe (IG)	77	↑	0	↓	-33
HiVol	99	↑	0	↓	-43
Xover (N-IG)	329	↑	0	↓	-109
Finan. Sr.	85	↑	0	↓	-31
Finan. Sub.	207	↑	1	↓	-66
Non-finan.					

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	*07:30*		*+/-*
USD 10Y				
JPY 10Y	-15	-16	↓	-1
	*07:30(-1)**	*17:00*		*+/-*
EUR 10Y	0	23	↑	23
DKK 10Y	36	35	↓	-1
SEK 10Y	44	43	↓	-1
NOK 10Y	59	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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