

# Danske Daily

## Market Movers

- **In the US**, focus is on CPI inflation. While PCE core inflation (the Fed's target measure) is subdued significantly below the 2% target, CPI core inflation was 2.0% y/y in November. We estimate that CPI core inflation increased to 2.1% y/y in December.
- **In the UK**, the labour market report for November 2015 is due. Wage growth as measured by the annual growth rate in average weekly earnings excluding bonuses (3M average) has been weak in the recent reports and the coming report should not be any different. We estimate wage growth declined from 2.0% in October to 1.8% in November. We expect the unemployment rate (3M average) to be unchanged at 5.2%.
- **The Bank of Canada's** (BoC) rate decision might also attract some attention today. Following the latest oil price rout, markets are now pricing in more than a 50/50 chance of the BoC rate cut. We acknowledge that it is a close call, but we think the BoC will keep rates unchanged today as the weakening of the CAD should do a lot of the rebalancing work. One possibility is that the BoC could re-introduce a form of forward guidance as governor Poloz's predecessor, Carney, pursued with some success in order to anchor rate expectations.

## Selected Market News

US equity markets failed to sustain the rebound seen in the European session yesterday, and Asian markets are back in the red this morning as uncertainty about Chinese and global growth outlook and the continued fall in the oil price knocks down investors' risk appetite.

This morning, markets in Hong Kong are taking the lead and the Hong Kong dollar (HKD) fell to the weakest level since the Lehman collapse in 2007 at 7.82 versus USD while 12M USD/HKD FX forwards trade at 7.8850 and thus above the upper bar of the range at 7.85 guaranteed by the Hong Kong Monetary Authority (HKMA) under the existing exchange rate system. The sell-off in HKD is mainly driven by the weak sentiment toward Chinese assets, which remain a source of capital outflows and probably also some speculation that the fixed exchange regime versus USD will not last.

*The International Monetary Fund* (IMF) yesterday cut its world growth outlook from 3.6% to 3.4% in 2016 and from 3.8% to 3.6% in 2017. Overall, the IMF sees global growth risks tilted to the downside with a sharper-than-expected slowdown in China or further appreciation of the dollar and tighter global financing conditions as the main sources of risk.

On a similar less positive note, the International Energy Agency (IEA) yesterday in its monthly Oil Market Report, concluded that warm winter and weaker growth in emerging market economies, in particular in China, are the main factors behind the recent overproduction and the slide in the oil price. Moreover, Chinese oil demand declined in Q4 and demand growth is set to slow further in 2016, according to the IEA, suggesting that the oil price is likely to remain under pressure as long as uncertainty regarding the outlook for global growth is high. See *Commodities Strategy China's oil demand slipped in Q4 – growth to slow in 2016* (19 January) for details.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	1881.3	↑ 0.05	
S&P500 fut (chng from close)	1840.0	↓ -1.76	
Nikkei	16389.9	↓ -3.86	
Hang Seng	18998.7	↓ -3.24	
	17:00	07:30	
		+/- bp	
US 2y gov	0.87	0.83	↓ -4.5
US 10y gov	2.05	1.99	↓ -6.4
iTraxx Europe (IG)	96	96	↑ 0.3
iTraxx Xover (Non IG)	379	381	↑ 2.1
			+/- %
EUR/USD	1.090	1.096	↑ 0.59
USD/JPY	117.750	116.670	↓ -0.92
EUR/CHF	1.09	1.10	↑ 0.21
EUR/GBP	0.770	0.774	↑ 0.60
EUR/SEK	9.314	9.335	↑ 0.23
EUR/NOK	9.61	9.67	↑ 0.62
			USD
Oil Brent, USD	29.3	28.2	↓ -3.76
Gold, USD	1085.9	1091.7	↑ 0.53

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

- *ECB preview: two camps - both with stronger arguments*
  - *UK: Higher core inflation due to volatile air fares*
  - *Chinese data in line with stabilisation - not hard landing*
  - *Yield Forecast Update: China, oil and central banks set the direction for yields*
- (All from 19 January 2016)

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## Scandi Markets

No Scandi news today.

## Fixed Income Markets

Given that the market already prices in a relatively high probability of additional rate cuts, the ECB meeting on Thursday could be a disappointment if Draghi does not point to further rate cuts. Although nothing is priced in for January in terms of rate cuts, March is priced for a 5bp cut and a full 10bp cut is priced in for the July meeting. To keep the current pricing in place, Draghi needs to keep the door open for additional easing and express a worried tone regarding especially the inflation outlook in light of the declining oil price and uncertainty about the economic situation in China. Overall, a somewhat worried tone should imply markets are likely to continue to anticipate more easing from the ECB, as they did after the disappointment in December. (see our preview: [http://danskeanalyse.danskebank.dk/abo/FlashCommentECB190116/\\$file/FlashComment\\_ECB\\_190116.pdf](http://danskeanalyse.danskebank.dk/abo/FlashCommentECB190116/$file/FlashComment_ECB_190116.pdf))

Today, the Danish and Swedish Debt Office are in the market. Denmark is tapping in the 8Y linker and 10Y nominal bond. We expect to see better demand at this auction compared with the previous auctions in December and January. Given the decline in the BEI rates, the linker looks cheap given the longer-term expectations for a rise in energy prices. Sweden is tapping in the 10Y Bond, this should see good demand given the our expectations for more stimulus from the Riksbank in February

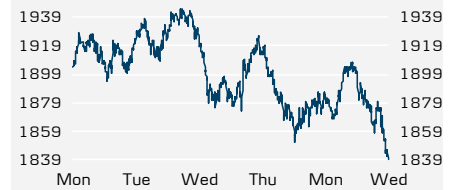
## FX Markets

GBP was again in focus yesterday among the majors. While the UK CPI figures actually came out on the strong side, temporary factors were at play and thus there is no sign of underlying inflationary pressures picking up, and, more importantly, BoE governor Carney delivered a rather dovish speech suggesting rate hikes are not yet on his mind. GBP/USD touched new cycle lows but we note that not least EUR/GBP looks overbought and in Danske Bank's FX Quant Strategy we thus recommended to position for a near-term dip via options.

In yesterday's *ECB Preview: two camps – both with stronger arguments*, we stressed that provided we are right that the ECB will disappoint this week by not being willing to signal the need for another deposit rate cut, EUR crosses should see some support post the meeting. We look for a test of 1.10 in EUR/USD on the back of the ECB meeting this week. We still expect the cross to edge back into the 1.05-1.10 range near term followed by a rebound to 1.16 in 12M.

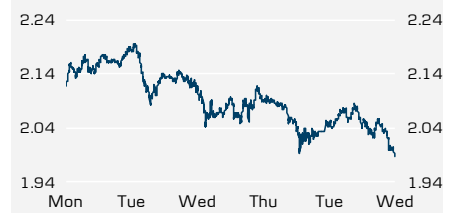
The main FX events today are the US CPI and Bank of Canada policy meeting: while a close call, we think the BoC will keep rates unchanged as the latest USD/CAD surge should do a lot of the rebalancing work. One possibility is that the BoC could re-introduce a form of forward guidance as governor Poloz's predecessor, Carney, pursued with some success in order to anchor rate expectations. While unchanged rates could send USD/CAD a tad lower near term, we still expect the cross to be supported by Fed hiking and oil prices that will stay low for longer.

### US S&P500 future



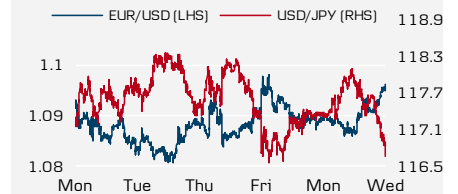
Source: Danske Bank Markets

### US 10y gov yield



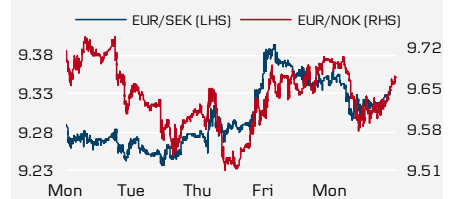
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

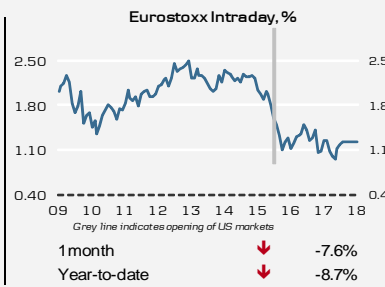
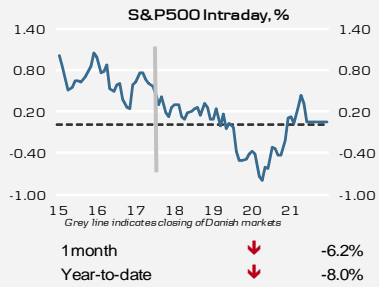
Key figures and events

Wednesday, January 20, 2016				Period	Danske Bank	Consensus	Previous
10:30	GBP	ILO Unemployment rate	%	Nov	<b>5.2%</b>	5.2%	5.2%
10:30	GBP	Average weekly earnings ex bonus (3M)	y/y	Nov		1.9%	2.0%
10:30	GBP	Average weekly earnings (3M)	y/y	Nov	<b>1.8%</b>	2.1%	2.4%
13:00	USD	MBA Mortgage Applications	%				21.3%
14:30	USD	Building permits	1000 (m/m)	Dec		1200	1282.0 (10.4%)
14:30	USD	Housing starts	1000 (m/m)	Dec		1195	1173.0 (10.5%)
14:30	USD	CPI	m/m y/y	Dec		0.0% 0.8%	0.0% 0.5%
14:30	USD	CPI - core	m/m y/y	Dec	<b>... 2.1%</b>	0.2% 2.1%	0.2% 2.0%
16:00	CAD	Bank of Canada rate decision	%		<b>0.5%</b>	0.25%	0.5%

Source: Bloomberg, Danske Bank Markets

Today's market data: 20 January 2016

STOCKS



	Close		+/-
DJSTOXX50	2831	↑	1.2%
OMXC20	932	↑	1.3%
OMXS30	1332	↑	2.0%
OSE BX	544	↑	2.9%
<b>Close +/-</b>			
DOW JONES	16016	↑	0.2%
NASDAQ	4477	↓	-0.3%
S&P500	1881	↑	0.1%
NIKKEI (07:30)	16390	↑	1.2%

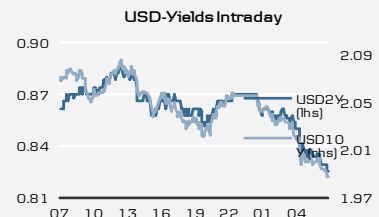
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	108.96	109.60	↑ 0.64
JPY	128.30	127.87	↓ -0.43
GBP	76.96	77.43	↑ 0.46
NOK	960.99	966.98	↑ 5.99
SEK	931.44	933.54	↑ 2.10
DKK	746.33	746.32	↓ -0.01
PLN	444.31	445.78	↑ 1.47
<b>USD</b>			
	17:00	07:30	+/-
JPY	117.75	116.67	↓ -1.08
GBP	141.58	141.54	↓ -0.04
CHF	100.36	99.99	↓ -0.37

	Gold, \$	Oil, Brent, \$
07:30	1091.68	28.19
1 day	↑ 4.37	↓ -0.57
1 month	↑ 25.53	↓ -8.69
Year-t-date	↑ 30.26	↓ -9.09
<b>CRB</b>		
	1M future	CRB, Raw Industrials
07:30	159.48	409.42
1 day	↓ -0.45	↑ 1.60
1 month	↓ -12.68	↑ 8.40
Year-t-date	↓ -16.66	↑ 4.71

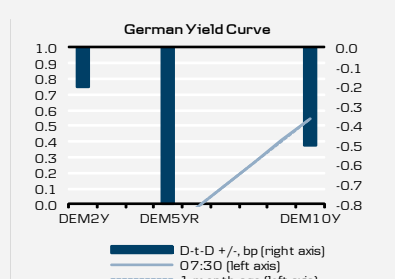
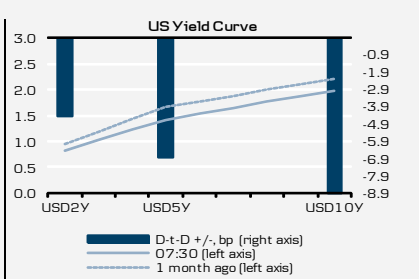
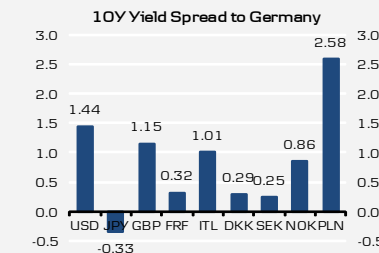
YIELDS & INTEREST RATES



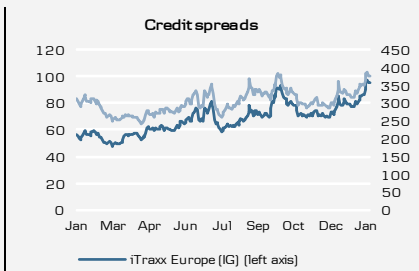
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.14	-19
GBP	0.50	0.59	9
DKK	0.05	-0.05	-10
SEK	-0.35	-0.31	4
NOK	0.75	1.19	44
PLN	1.50	1.60	10

	17:00	07:30	+/-, bp
USD 10Y	2.05	1.99	↓ -6
USD 30Y	2.82	2.76	↓ -6
JPY 10Y	0.23	0.22	↓ -1
<b>07:30(-1)* 17:00 +/-, bp</b>			
DEM 10Y	0.55	0.55	↓ 0
DKK 10Y	0.83	0.84	↑ 1
SEK 10Y	0.79	0.80	↑ 2
NOK 10Y	1.41	1.41	↑ 0
PLN 10Y	3.18	3.13	↓ -4

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	96	↓ 0	↑ 14
HiVol	127	↓ -9	↑ 19
Xover (N-IG)	381	↑ 0	↑ 41
<b>Finan. Sr.</b>			
Finan. Sr.	91	↑ 0	↑ 13
Finan. Sub.	199	↓ 0	↑ 35
<b>Non-finan.</b>			



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

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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