

03 March 2016

Danske Daily

Market Movers

- **After several days of focus on the global manufacturing sector focus today turns to the service sector outlooks.** While we look for a drop in service PMIs in Spain and Italy, we expect the final **euro area** print to stay unchanged at 53.0. In terms of January retail sales in the **euro area** we expect a moderate increase due to the lower oil price, progress in the labour market as well as solid consumer confidence.
- Note that yesterday we revised our **euro area GDP growth forecast for 2016** considerably lower from 1.8% to 1.5% (consensus 1.6%). The downward revision is mainly due to external factors that add uncertainty and hence are headwinds to business investments, while also keeping export growth subdued (see *Weaker euro growth due to external factors*, 2 March).
- **In the UK** we expect the service PMI survey to show a small decline, suggesting that the UK economy might slow down somewhat in the coming quarters. However, we expect levels to remain decent and well above 50, thus pointing to positive growth.
- **In the US**, the ISM non-manufacturing is due and it will be interesting to see whether the decline in the index over the past three months has continued in February. The service Markit PMI came out very weak last week with a decline of 3.7 points to 49.8, which places downside risk on ISM non-manufacturing. We estimate the index declined to 52.9, indicating a slower but still solid growth in the service sector. We will also get the final releases of service PMIs and durable goods as well as the weekly jobless claims figures.

Selected Market News

US ADP data yesterday suggested that private payrolls increased 214,000 in February. Although the ADP release does not have a perfect fit with actual NFP, it does give upside risks to our below consensus call of 160K in total payrolls on Friday. Not long after the release **Fed's Williams** (non-voter, neutral) expressed that he only expects the rate path to be changed 'slightly' at the upcoming Fed March meeting as 'the big picture has not changed'. Amid falling US recession fears **short US rates** have taken another move higher with 2Y US swap rates completing a 15bp rise in only four days.

The release of the **Fed's Beige Book** (based on information collected before 22 February) suggests that while most of the US economy continues to expand at a moderate pace, wage growth within the economy varies considerably 'from flat to strong'.

Danmarks Nationalbank purchased DKK8.4bn in FX intervention in February, which was slightly higher than indicated by the net position. Intervention likely took place in the first half of the month when EUR/DKK traded at an elevated level. With the recent drop in the cross below the central rate it makes it a close call if Nationalbanken in our base case will mirror a 10bp rate cut from the ECB next week.

As expected the **Spanish** parliament rejected the Socialist Party's government proposal (see Fixed Income Markets for more details).

Market overview

	07:30	1 day +/-,%	
S&P500 (close)	1986.5	↑	0.41
S&P500 fut (chng from close)	1986.9	↑	0.17
Nikkei	16924.3	↑	1.06
Hang Seng	19932.2	↓	-0.36
	17:00	07:30	+/-, bp
US 2y gov	0.86	0.86	↓ -0.4
US 10y gov	1.86	1.85	↓ -1.2
iTraxx Europe (IG)	96	97	↑ 1.0
iTraxx Xover (Non IG)	391	393	↑ 1.3
			+/-, %
EUR/USD	1.083	1.086	↑ 0.31
USD/JPY	114.020	114.150	↑ 0.11
EUR/CHF	1.08	1.08	↑ 0.05
EUR/GBP	0.770	0.771	↑ 0.22
EUR/SEK	9.361	9.352	↓ -0.10
EUR/NOK	9.42	9.41	↓ -0.07
			USD
Oil Brent, USD	37.1	36.9	↓ -0.48
Gold, USD	1235.5	1239.8	↑ 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

- *FX intervention continued in Denmark*
- *Weaker euro growth due to external factors*
- *Eastern European economies powering ahead for now*

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Scandi Markets

In **Sweden**, we expect resilient domestic demand to keep service PMIs at elevated levels.

Real Estate **Norway** will release house prices for February.

Fixed Income Markets

There has been pressure on both **Spain and Italy** albeit for different reasons. In **Spain**, political uncertainty dominates as the Socialists and Cuidadanos failed in their first attempt to form a government as the acting PM Rajoy as well as the anti-austerity group Podemos blocked the alliance. There is set to be a second vote on Friday but given the statements from both Rajoy and Podemos, the Socialists are unlikely to form a government with Cuidadanos. Then the negotiations will begin again but a solution will have to be found by the beginning of May, otherwise a new election will be called - most likely on 26 June. On top of this, the EU commission is likely to be holding firm on the Spanish budget targets as country reports are being prepared by the EU commission and countries have to present plans for ongoing fiscal consolidation regardless of the political situation.

In **Italy** the focus is on the combination of banks holding Italian government bonds as well as bad loans - both are very high relative to EU peers such as Spain, France and Germany. If limits to how many sovereign bonds banks can hold were to be introduced, this could have serious implications for BTPS in the longer run. The Italian PM Renzi has been out stating that Italy would veto any changes to banks' holdings of sovereign bonds.

So given the negative sentiment surrounding both Spain and Italy, the **Spanish auction** today is going to be very interesting in terms of demand. It is launching a new 5Y bond as well as tapping in the 15Y and linker segments. There is the political uncertainty on the one hand and more easing from the ECB on the other - we expect the ECB and QE to 'win' and that demand will be good, if it allows a new issue premium.

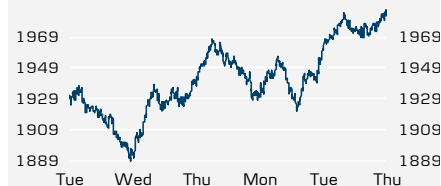
In **Scandinavia** we had fairly decent auctions from Norway. Sweden and Denmark. Norway sold NOK4bn in the 10Y segment with a bid-to-cover of 2, while Denmark sold some DKK 3.2bn, which was lower than what we had expected but it had bids for almost DKK10bn and wisely chose not to 'saturate' demand at the auction. We still see all three markets as undervalued relative to EU peers (such as Germany).

FX Markets

Yesterday, the US ADP job report surprised on the upside which may suggest that the non-farm payroll number on Friday may turn out stronger than expected as well. The solid ADP report lent further support to the **USD**, which now trades at its strongest level in almost a month. Today, the most important economic release is non-manufacturing ISM. Last month's weak readings fuelled significant USD weakness, so a strong number could stimulate further speculations of a 2016 Fed hike, thereby supporting recent USD strength. Otherwise FX markets will be looking forward to Friday's job report, where the most important number to watch is the wage growth more than the employment number (unless the employment number surprises significantly in either direction). **Emerging market currencies** are starting to feel the squeeze from the Fed re-pricing and it could be a start of more pronounced weakness if US data continue to be strong and a Fed hike becomes more likely.

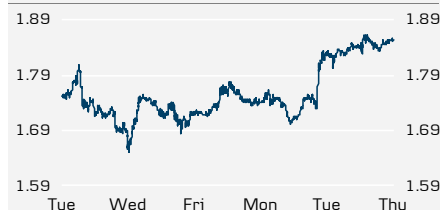
Also the **EUR** remains under pressure as ECB officials show little interest in dampening market expectations about next week's meeting - in trade-weighted terms the currency is

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

now close to the weakest level in three months. We expect the EUR to continue to trade on a heavy note going into next week's ECB meeting.

In the **FX options universe** short-dated volatilities have generally increased as March's series of major central bank meetings is moving closer. In particular, implied volatility on EUR and JPY crosses looks expensive with 2W EUR/JPY at-the-money volatility being most expensive, which seems fair given the expectations of additional ECB and BoJ easing. Moreover, 3-12M tenors generally continue to look expensive across majors and Scandi crosses. Especially GBP volatility with maturities beyond the EU referendum on 23 June is very expensive according to our models due to the 'Brexit' risk premium.

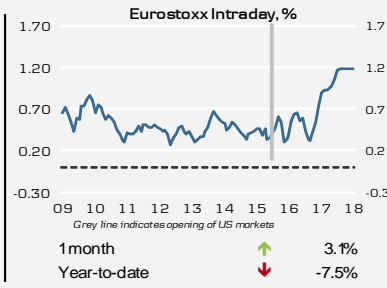
Key figures and events

Thursday, March 3, 2016					Period	Danske Bank	Consensus	Previous
8:30	SEK	PMI services	Index	Feb				59.3
9:15	ESP	PMI services	Index	Feb	53.1	53.7		54.6
9:45	ITL	PMI services	Index	Feb	52.3	52.8		53.6
9:50	FRF	PMI services	Index	Feb	49.8			49.8
9:55	DEM	PMI services	Index	Feb	55.1	55.1		55.1
10:00	EUR	PMI composite	Index	Feb	52.7	52.7		52.7
10:00	EUR	PMI services	Index	Feb	53.0	53.0		53.0
10:30	GBP	PMI services	Index	Feb		55.0		55.6
10:30	GBP	PMI composite	Index	Feb				56.1
11:00	EUR	Retail sales	m/m y/y	Jan	0.3% ...	0.1% 1.2%		0.3% 1.4%
14:30	USD	Initial jobless claims	1000					272
14:30	USD	Unit labour cost, final	q/q	4th quarter		4.8%		4.5%
15:45	USD	Markit service PMI, final	Index	Feb		49.8		49.8
15:45	USD	Markit composite PMI, final	Index	Feb				50.1
16:00	USD	Capital goods orders, non-defense ex air, final	%	Jan				3.9%
16:00	USD	Durable goods orders, final	m/m	Jan				4.9%
16:00	USD	Factory orders	m/m	Jan		1.4%		-2.9%
16:00	USD	ISM non-manufacturing	Index	Feb	52.9	53.5		53.5

Source: Bloomberg, Danske Bank Markets

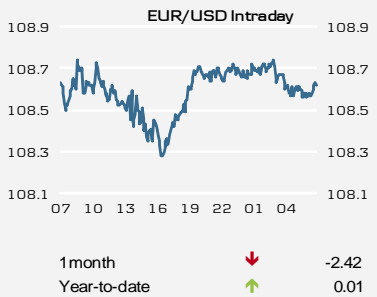
Today's market data: 03 March 2016

STOCKS



	Close		+/-
DJUSTOXX50	2868	↑	1.2%
OMXC20	964	↑	0.3%
OMXS30	1384	↓	-0.6%
OSE BX	571	↓	-0.7%
Close +/-			
DOW JONES	16899	↑	0.2%
NASDAQ	4703	↑	0.3%
S&P500	1986	↑	0.4%
NIKKEI (07:30)	16924	↑	1.2%

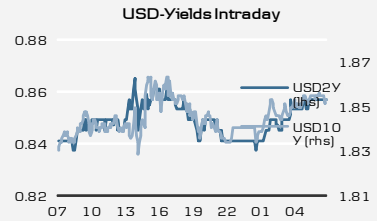
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	108.29	108.63	↑ 0.34
JPY	123.48	123.99	↑ 0.51
GBP	76.96	77.13	↑ 0.17
NOK	941.94	941.29	↓ -0.65
SEK	936.14	935.22	↓ -0.92
DKK	745.87	745.80	↓ -0.07
PLN	433.07	431.74	↓ -1.33
USD	17:00	07:30	+/-
JPY	114.02	114.15	↑ 0.13
GBP	140.72	140.83	↑ 0.11
CHF	100.00	99.74	↓ -0.26

	Gold, \$	Oil, Brent, \$
07:30	1239.79	36.94
1day	↓ -0.19	↑ 0.01
1month	↑ 97.14	↑ 190
Year-t-date	↑ 178.37	↓ -0.34
	CRB 1M future	CRB, Raw Industrials
07:30	164.62	422.60
1day	↑ 0.75	↑ 0.47
1month	↑ 0.43	↑ 4.90
Year-t-date	↓ -11.53	↑ 17.89

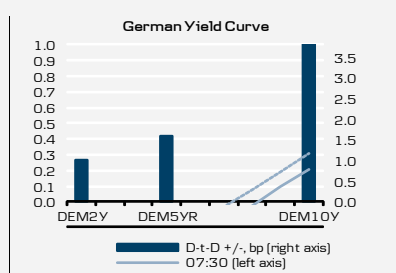
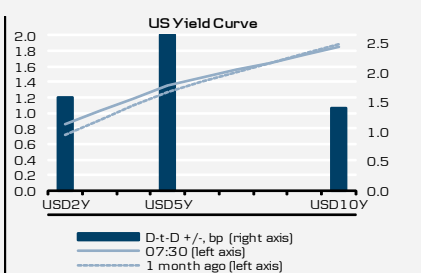
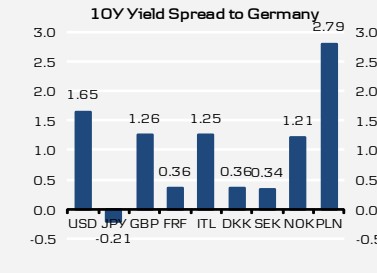
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.05	-0.21	-26
GBP	0.50	0.59	9
DKK	0.05	-0.10	-15
SEK	-0.50	-0.49	1
NOK	0.75	1.05	30
PLN	1.50	1.58	8

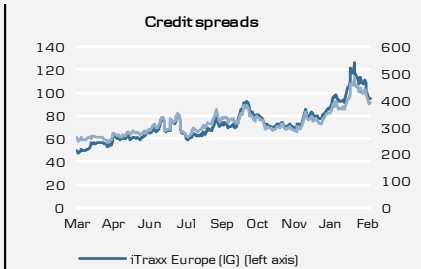
	17:00	07:30	+/-, bp
USD 10Y	1.86	1.85	↓ -1
USD 30Y	2.71	2.69	↓ -2
JPY 10Y	-0.03	-0.01	↑ 2
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.17	0.20	↑ 4
DKK 10Y	0.56	0.57	↑ 1
SEK 10Y	0.48	0.55	↑ 6
NOK 10Y	1.42	1.42	↑ 0
PLN 10Y	2.97	3.00	↑ 3

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	97	↓ 0	↓ -7
HiVol	120	↑ 0	↓ -18
Xover (N-IG)	393	↓ 0	↓ -8
Finan. Sr.			
Finan. Sr.	102	↓ 0	↓ -2
Finan. Sub.	218	↓ -2	↓ -21
Non-finan.			

* Ask price



iTraxx Europe (IG) (left axis)
iTraxx Xover (Non IG) (right axis)

	17:00	07:30	+/-
USD 10Y	-16	-15	↑ 1
JPY 10Y	-16	-15	↑ 1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	15	↑ 15
DKK 10Y	39	38	↓ -1
SEK 10Y	43	41	↓ -1
NOK 10Y	62	61	↓ -2

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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