

16 November 2015

# Danske Daily

## Market Movers

- Financial markets will open for the first time since the terrorist attack in Paris on Friday.
- ECB's Constancio, Draghi and Coeure will speak during the day and the market will keep an eye out for signals on monetary policy ahead of the next ECB meeting in December, where we expect the ECB to cut the deposit rate by 10bp and raise monthly bond purchases to EUR75bn.

## Selected Market News

Following the terrorist attack in Paris on Friday, the French defence ministry Sunday evening reported that 10 French fighter jets had hit targets in Syria including a command centre of the Islamic State in Raqqa. Both the oil price and gold price have risen 1%, reflecting uncertainty regarding the geopolitical situation in Europe and the Middle East.

On Friday the managing director of the International Monetary Fund (IMF), Christine Lagarde, issued a *statement* in which she endorses IMF staff findings that the RMB meets the requirements to be a freely usable currency and thus, along with already satisfying the export criterion, meets the criteria to be included in the SDR basket. RMB's inclusion in the SDR basket will be decided upon by IMF's executive board on 30 November.

The Japanese economy entered recession in Q3 as GDP fell 0.2% q/q, which was lower than the consensus expectation of a drop of 0.1% q/q, which led companies to reduce inventories and investments. Bank of Japan kept the policy unchanged at its October meeting but is scheduled to meet again on Thursday this week.

## Market overview

|                              |         | 07:30   | 1 day +/- % |
|------------------------------|---------|---------|-------------|
| S&P500 (close)               |         | 2023.0  | ↓ -1.12     |
| S&P500 fut (chng from close) |         | 2008.8  | ↓ -0.49     |
| Nikkei                       |         | 19390.1 | ↓ -1.06     |
| Hang Seng                    |         | 22037.8 | ↓ -1.60     |
|                              |         | 17:00   | 07:30       |
|                              |         |         | +/- bp      |
| US 2y gov                    | 0.85    | 0.82    | ↓ -2.8      |
| US 10y gov                   | 2.28    | 2.24    | ↓ -3.9      |
| iTraxx Europe (IG)           | 73      | 74      | ↑ 0.4       |
| iTraxx Xover (Non IG)        | 310     | 312     | ↑ 2.6       |
|                              |         |         | +/- %       |
| EUR/USD                      | 1.073   | 1.073   | ↓ -0.05     |
| USD/JPY                      | 122.820 | 122.440 | ↓ -0.31     |
| EUR/CHF                      | 1.08    | 1.08    | ↓ -0.11     |
| EUR/GBP                      | 0.706   | 0.705   | ↓ -0.15     |
| EUR/SEK                      | 9.339   | 9.338   | ↓ -0.01     |
| EUR/NOK                      | 9.34    | 9.34    | ↓ -0.07     |
|                              |         |         | USD         |
| Oil Brent, USD               | 43.7    | 44.8    | ↑ 2.38      |
| Gold, USD                    | 1082.2  | 1095.5  | ↑ 1.24      |

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

- Weekly Focus: December Fed hike looks like a done deal*

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## Scandi Markets

No key financial data releases in Scandinavia today.

## Fixed Income Markets

Core FI markets are set to be well supported in the risk-off environment that followed Friday's terrorist attack on France. However, these moves tend to be short-lived as fundamentals normally matter more. Currently, however, it is the central bank expectations that are the main driver.

In the periphery we expect PGBs to open 15-20bp tighter versus Italy on the back of Friday's DBRS verdict, which was both an unchanged rating and outlook. Up to the review market concerns had centred on the tail risk of a downgrade, which would result in Portugal not fulfilling the investment grade rating requirement for ECB's QE programme. The wording from DBRS was more upbeat than what we and the market expected. Our impression was going into the verdict that consensus had moved towards 'negative' outlook as being the 'base case', see our *FI Strategy note*, 13 November, on the DBRS rating. We expect the next DBRS review on Portugal to be in May 2016.

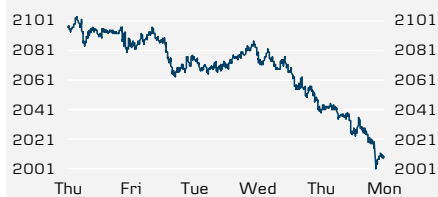
In Denmark, it is time for the yearly redemption in the government bond market with DKK76bn being returned. Furthermore, the Danish refinancing auctions of covered bonds will commence today. Danish mortgage banks will issue some DKK150bn in DKK-denominated 1Y-5Y covered bonds and EUR3.8bn in EUR-denominated covered bonds - a total of DKK172bn. Also this market is awash with cash as DKK212bn in DKK-denominated non-callables and EUR4.5bn in EUR-denominated covered bonds are maturing. The Danish non-callable curve is very steep relative to the DKK swap, DKK OIS, EU swap, EU OIS and German government curve and there is significant carry looking at forward rates. The non-callables are cheap relative to DKK swaps and DKK government bonds, as well as swapped into EUR, USD and GBP, see *November 2015 refinancing auctions*, 13 November.

## FX Markets

Risky assets will open today on a negative tone following the tragedy in Paris on Friday night. In FX markets, this should strengthen the JPY, CHF and to a lesser extent USD. On the margin, EUR/USD should fall but the impact is likely to be limited by the EUR's new safe-haven status where European equity sell-off tends to drive EUR/USD buying.

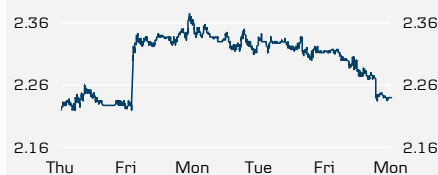
On Friday the IMF issued a statement by the fund's Managing Director Christine Lagarde that she supports the staff's findings that the RMB should be included in the Special Drawing Rights (SDR) alongside USD, EUR, GBP and JPY. The formal decision will be taken by the IMF's Executive Board on 30 November. Friday's statement is in line with our expectations as the RMB now also fulfils the SDR requirement of being 'freely usable' in addition to the export criterion. Christine Lagarde's statement is mildly supportive for the CNY and in particular CNH as it over time will boost central bank reserve holdings of the Chinese currency. Note that the IMF has previously stated that the valuation of the new SDR basket will not take place until 30 September 2016.

### US S&P500 future



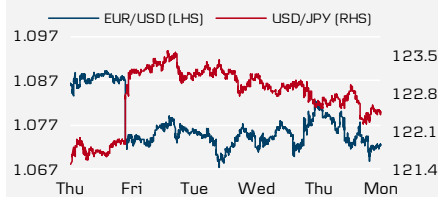
Source: Danske Bank Markets

### US 10y gov yield



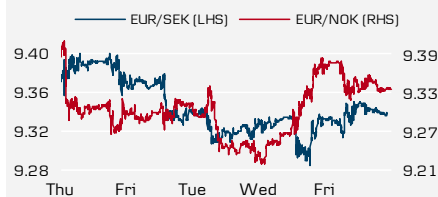
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

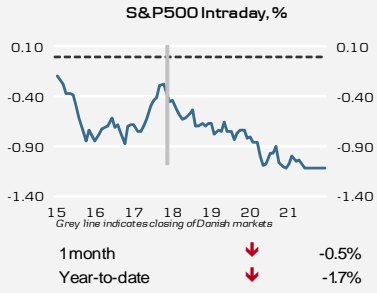
Key figures and events

| Monday, November 16, 2015 |     |                                      | Period   | Danske Bank | Consensus | Previous    |
|---------------------------|-----|--------------------------------------|----------|-------------|-----------|-------------|
| 0:50                      | JPY | GDP deflator, preliminary            | y/y      | 3rd quarter | 1.7%      | 1.5%        |
| 0:50                      | JPY | GDP, preliminary                     | q/q ann. | 3rd quarter | 0.0% 1.1% | -0.3% -1.2% |
| 1:01                      | GBP | Rightmove House Prices               | m/m y/y  | Nov         |           | 0.6% 5.6%   |
| 9:30                      | EUR | ECB's Constancio speaks in Frankfurt |          |             |           |             |
| 10:00                     | NOK | Trade balance                        | NOK bn   | Oct         |           | 15.5        |
| 11:00                     | EUR | CPI                                  | m/m y/y  | Oct         | 0.1% 0.0% | 0.2% 0.0%   |
| 11:00                     | EUR | CPI - core, final                    | %        | Oct         | 1.0%      | 1.0%        |
| 11:15                     | EUR | ECB's Draghi speaks in Madrid        |          |             |           |             |
| 14:30                     | USD | Empire Manufacturing PMI             | Index    | Nov         | -5.3      | -11.4       |
| 17:00                     | EUR | ECB's Coeure speaks in Paris         |          |             |           |             |

Source: Bloomberg, Danske Bank Markets

Today's market data: 16 November 2015

STOCKS



|                | Close |   | +/-   |
|----------------|-------|---|-------|
| DJUSTOXX50     | 3167  | ↓ | -0.8% |
| OMXC20         | 966   | ↓ | -1.1% |
| OMXS30         | 1476  | ↓ | -0.8% |
| OSE BX         | 609   | ↓ | -0.4% |
| <b>Close</b>   |       |   |       |
| DOW JONES      | 17245 | ↓ | -1.2% |
| NASDAQ         | 4928  | ↓ | -1.5% |
| S&P500         | 2023  | ↓ | -1.1% |
| NIKKEI (07:30) | 19390 | ↓ | -0.8% |

FX & COMMODITIES

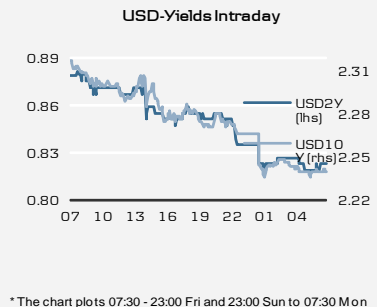


| EUR        | 17:00  | 07:30  | +/-     |
|------------|--------|--------|---------|
| USD        | 107.31 | 107.26 | ↓ -0.05 |
| JPY        | 131.80 | 131.33 | ↓ -0.47 |
| GBP        | 70.61  | 70.50  | ↓ -0.11 |
| NOK        | 934.46 | 933.81 | ↓ -0.65 |
| SEK        | 933.93 | 933.84 | ↓ -0.09 |
| DKK        | 746.13 | 746.10 | ↓ -0.03 |
| PLN        | 423.82 | 424.56 | ↑ 0.74  |
| <b>USD</b> |        |        |         |
| JPY        | 122.82 | 122.44 | ↓ -0.38 |
| GBP        | 151.97 | 152.14 | ↑ 0.17  |
| CHF        | 100.77 | 100.70 | ↓ -0.07 |

|                             | 07:30   |        | +/-      |
|-----------------------------|---------|--------|----------|
| <b>Gold, \$</b>             | 1095.52 |        | 44.76    |
| 1 day                       | ↑       | 1160   | ↑ 0.29   |
| 1 month                     | ↓       | -81.80 | ↓ -5.70  |
| Year-t-date                 | ↓       | -89.34 | ↓ -12.57 |
| <b>Oil, Brent, \$</b>       |         |        |          |
| CRB                         | 184.77  |        | 401.80   |
| 1M future                   | ↓       | -1.66  | ↑ 0.14   |
| 1 month                     | ↓       | -14.68 | ↓ -24.63 |
| Year-t-date                 | ↓       | -45.19 | ↓ -90.31 |
| <b>CRB, Raw Industrials</b> |         |        |          |

\* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

YIELDS & INTEREST RATES

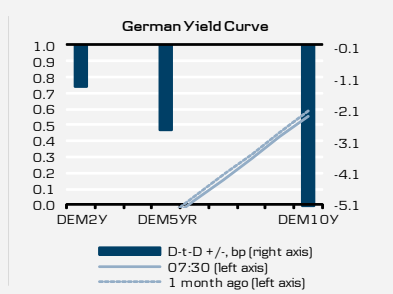
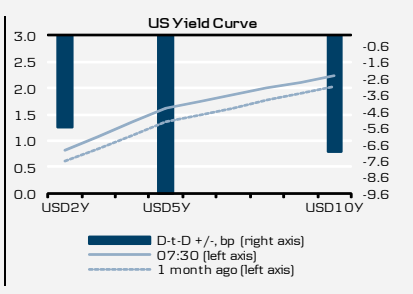
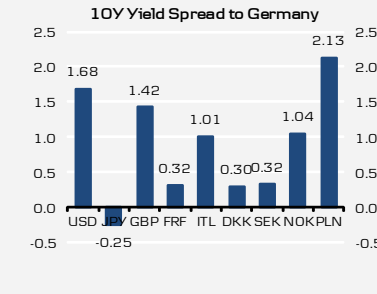


|     | Policy Rate | 3M    | Spread, bp |
|-----|-------------|-------|------------|
| USD | 0.25        | 0.36  | 11         |
| EUR | 0.05        | -0.08 | -13        |
| GBP | 0.50        | 0.58  | 8          |
| DKK | 0.05        | -0.15 | -20        |
| SEK | -0.35       | -0.36 | -1         |
| NOK | 0.75        | 1.16  | 41         |
| PLN | 1.50        | 1.63  | 13         |

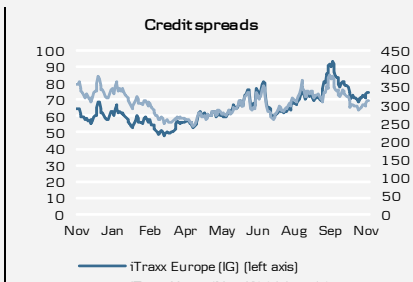
|                   | 17:00 | 07:30 | +/-, bp |
|-------------------|-------|-------|---------|
| USD 10Y           | 2.28  | 2.24  | ↓ -4    |
| USD 30Y           | 3.06  | 3.03  | ↓ -2    |
| JPY 10Y           | 0.31  | 0.31  | ↑ 0     |
| <b>07:30(-1)*</b> |       |       |         |
| DEM 10Y           | 0.61  | 0.57  | ↓ -4    |
| DKK 10Y           | 0.98  | 0.87  | ↓ -11   |
| SEK 10Y           | 0.93  | 0.89  | ↓ -4    |
| NOK 10Y           | 1.60  | 1.60  | ↑ 0     |
| PLN 10Y           | 2.74  | 2.68  | ↓ -6    |

\* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

\* As of closing previous trading day



|                   | 07:30 | 1 day | 1 month |
|-------------------|-------|-------|---------|
| Europe (IG)       | 74    | ↑ 0   | ↓ -6    |
| HiVol             | 87    | ↑ 0   | ↑ 7     |
| Xover (N-IG)      | 312   | ↑ 1   | ↓ -23   |
| <b>Finan. Sr.</b> |       |       |         |
| Finan. Sr.        | 76    | ↑ 0   | ↓ -3    |
| Finan. Sub.       | 160   | ↑ 0   | ↓ -8    |
| <b>Non-finan.</b> |       |       |         |



|                   | 17:00 | 07:30 | +/-  |
|-------------------|-------|-------|------|
| USD 10Y           |       |       |      |
| JPY 10Y           | -12   | -11   | ↑ 0  |
| <b>07:30(-1)*</b> |       |       |      |
| EUR 10Y           | 0     | 17    | ↑ 17 |
| DKK 10Y           | 34    | 35    | ↑ 1  |
| SEK 10Y           | 41    | 43    | ↑ 2  |
| NOK 10Y           | 57    | 56    | ↓ -1 |

\* Ask price

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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