

Danske Daily

- Today **German industrial production** for October will be released. We expect another month of weakness based on declines in factory orders, as there has recently been a lag from factory orders to industrial production. We do, however, still expect the figure to trend higher after the weak print in October. We also get data for the **December Sentix investor confidence**. On the back of the rebound in the November figure, we expect this to continue and forecast an increase in December. However, note that the survey poll is running at the end of this week implying that the number is very likely to be influenced by Thursday's ECB meeting.
- We expect **Chinese FX reserves** figures to show a drop of around USD50bn of which 70% is due to FX valuation as the EUR and GBP have weakened against the USD.
- Tonight the **US labour market conditions index** will be released. On the back of the non-farm payroll release, however, we think tonight's release will be less important in terms of the FOMC December decision.
- **In Scandinavia** focus will be on industrial production figures out of Denmark and Norway, see *Scandi Markets*.
- Sandwiched as it is between two weeks with key interest rate decisions from the ECB and the Fed, **the coming week** will likely be less eventful. That said, there are a number of important events on the agenda. In the UK, the BoE meets on Thursday. While we do not expect any rate changes, signals from the bank will be closely monitored for a first indication of whether it will hike in February as we predict.

Selected Market News

Friday's labour market report surprised marginally to the upside with a November increase in non-farm payrolls of 211K (plus an upward revision to the October figure) and an increase in the average hourly earnings of 0.2% m/m. The jobs report was the last key release ahead of the FOMC meeting on 15-16 December and in our view clears the path for the first Fed hike since 2006 see *November jobs report gives Yellen green light*, 4 December.

Over the weekend Fed's Bullard (hawk, voter next year) referred to the current policy stance as 'extreme' and stated that 'I continue to be an advocate for beginning policy normalisation'. Regarding the pace of the Fed hiking cycle Bullard emphasised that 'you have to take the committee at its word' when it refers to a gradual hiking cycle.

Friday's OPEC meeting showed how the cartel's struggle with market forces continues as the members 'retained production' close to current production levels, which is well above the production target. The oil price has subsequently dropped and we think the oil price will stay under some pressure near term as a first Fed hike continues to support USD crosses. We do, however, maintain that 2016 will see a gradual healing of the oil market in the sense that stock build will be reduced as non-OPEC producers scale back on a wider scale than has been the case this year.

In France, the far right wing party 'National Front' is set for a historical victory in the Sunday regional elections winning more than 30% of votes.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2091.7	↑	2.05
S&P500 fut (chng from close)	2086.0	↓	-0.11
Nikkei	19677.2	↑	0.89
Hang Seng	22306.8	↑	0.32
	17:00	07:30	+/- bp
US 2y gov	0.93	0.95	↑ 2.0
US 10y gov	2.30	2.29	↓ -1.2
iTraxx Europe (IG)	73	73	↑ 0.4
iTraxx Xover (Non IG)	300	301	↑ 1.3
			+/- %
EUR/USD	1.089	1.087	↓ -0.18
USD/JPY	123.180	123.290	↑ 0.09
EUR/CHF	1.09	1.08	↓ -0.25
EUR/GBP	0.721	0.720	↓ -0.15
EUR/SEK	9.241	9.230	↓ -0.11
EUR/NOK	9.28	9.28	↑ 0.00
			USD
Oil Brent, USD	43.6	42.7	↓ -2.06
Gold, USD	1085.1	1084.7	↓ -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

- *Weekly Focus: BoE centre stage in lull between ECB and Fed*
- *Draghi disappoints with a 'light menu' - but enough to mark end of easing*
- *US: November jobs report gives Yellen green light*

Analyst

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Scandi Markets

Norway. Industrial production climbed in September after falling almost without interruption since Easter. Given the state of oil investment and its effects on the supply sector, it is too early to conclude that the downturn in manufacturing and the Norwegian economy has come to an end. That said, the PMI is also indicating that activity stabilised during the autumn and the decline in orders seems to have levelled off. We therefore expect manufacturing production data today to show an increase of 0.2% m/m in October, which could mean that the worst of the headwinds are behind us.

Denmark. Indicators point to an increase in industrial production on Monday but the data have had a tendency recently to fluctuate widely from month to month.

Fixed Income Markets

After an action-packed last week we are in for a breather with the main events this week being the SNB and BOE monetary policy meetings on Thursday. On the data front, US retail sales on Friday is the most interesting although Friday's solid non-farm report should give the FOMC enough ammunition to hike next week. We remain cautious on duration ahead of the FOMC meeting.

The **issuance calendar** in the EGB market is very thin this week with only Germany being in the market with the first tap in the Dec-17 Schatz. Note that Italy has cancelled the auction scheduled for this week. The funding plans for 2016 have started to tick in. This week we get plans from Belgium (8 December) and Austria (10 December). For more on supply including outlook for 2016 and our 2016 Danske Research FI Top Trades see *Government Bonds Weekly: Top trades and 2016 supply outlook*.

In Scandinavia Sweden is tapping the 19 and 20 bonds. The 5Y segment suffered in Sweden after the ECB announcement that has taken a lot of pressure off the Riksbank and we have moved our Riksbank rate cut from December to April next year. The higher yield level should attract buyers but the uncertainty and volatility might deter some buyers ahead of year-end. In Norway we expect a tap in the 10Y segment.

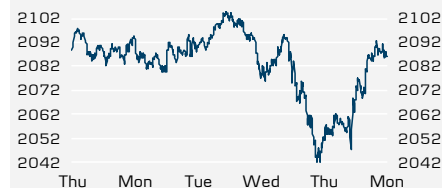
FX Markets

With yet another decent US labour market report released last week, it seems almost cemented that the Fed will increase interest rates on 16 December. We still expect the USD to rally somewhat and EUR/USD to fall going into the Fed meeting. However, as the ECB refrained from using the big bazooka last week and 'only' cut its deposit by 10bp, any speculation about EUR/USD in parity should be off the table now. Friday's price actions, when EUR/USD actually moved higher after the stronger than expected non-farm payroll data, in our view, underscore how stretched EUR/USD positioning currently is and, although positioning is no barrier for renewed EUR/USD downside, it usually increases short-term correction risks. This is yet another argument why it might be difficult for EUR/USD to fall significantly in the near term.

In the Scandi FX markets, Norges Bank's regional survey released Friday showed that the risk of second-round effects from the low oil price seems lower than in August. In our view, this should remove any needs for Norges Bank to be pre-emptive and we see this as the final nail in the coffin in respect of speculation whether Norges Bank will cut in December and we expect rates to be kept on hold. This should take away some of the upside risks to EUR/NOK given the little probability of further cuts in Norway and as ECB easing has been priced out of the market.

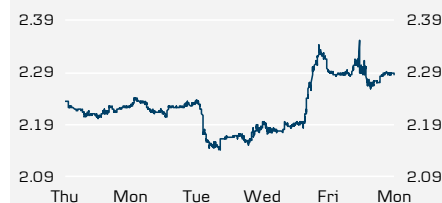
Following the ECB meeting on 3 December, we have changed our call for the Riksbank and now expect it to cut by 10bp to -0.45% in April (previously we called for a cut in

US S&P500 future



Source: Danske Bank Markets

US 10y gov yield



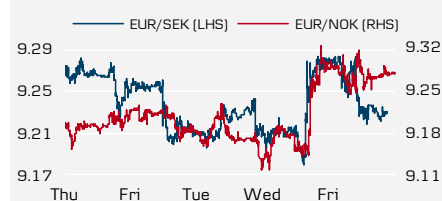
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

December). We have previously argued that the 9.30-9.60 would be a fair range for EUR/SEK in the short term. In light of better data and because we are delaying our estimate of a rate cut to April 2016, we believe a reasonable range for EUR/SEK over the next few months has shifted down to 9.10-9.50, with an emphasis on the lower part. Just as before, we argue that the SEK is fundamentally undervalued and we expect this to be corrected gradually by a lower EUR/SEK over the course of 2016

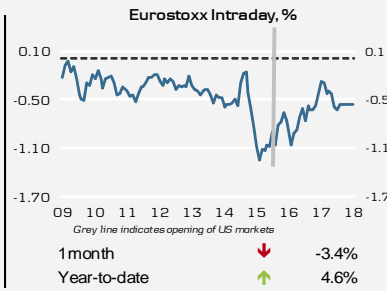
Key figures and events

Monday, December 7, 2015				Period	Danske Bank	Consensus	Previous
8:00	DEM	Industrial production	m/m/y/y	Oct	-0.4% ...	0.8% 0.5%	-1.1% 0.2%
9:00	DKK	Industrial production	m/m	Oct	2.4%	0.5%	-1.4%
9:00	CHF	Total sight deposits	CHF bn				468.4
9:30	SEK	Budget balance	SEK bn	Nov			1.1
10:00	NOK	Manufacturing production	m/m/y/y	Oct		-0.2% ...	0.9% -3.5%
10:00	NOK	Industrial production	m/m/y/y	Oct	0.2% ...		1.6% 2.0%
10:30	EUR	Sentix Investor Confidence	Index	Dec	17.8	17.0	15.1
15:00	EUR	Eurogroup meeting in Brussels					
15:45	EUR	ECB publishes monthly asset purchases					
16:00	USD	Fed's LMCI	m/m	Nov			1.6
18:30	USD	Fed's Bullard (non-voter, hawkish) speaks					
21:00	USD	Consumer credit	USD bn	Oct		18.0	28.918

Source: Bloomberg, Danske Bank Markets

Today's market data: 07 December 2015

STOCKS



Index	Close	Change	%
DJUSTOXX50	3143	Down	-0.6%
OMXC20	1006	Down	-0.1%
OMXS30	1485	Down	-1.1%
OSE BX	615	Down	-1.4%
DOW JONES	17848	Up	2.1%
NASDAQ	5142	Up	2.1%
S&P500	2092	Up	2.1%
NIKKEI (07:30)	19677	Down	-0.6%

FX & COMMODITIES

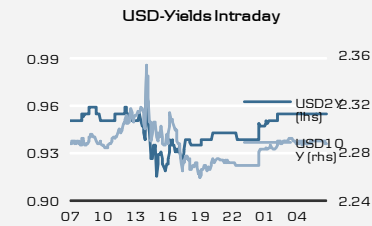


EUR	17:00	07:30	Change
USD	108.86	108.66	Down -0.20
JPY	134.09	133.96	Down -0.13
GBP	72.07	71.97	Down -0.11
NOK	927.81	927.84	Up 0.03
SEK	924.05	923.04	Down -1.01
DKK	746.04	745.99	Down -0.05
PLN	431.33	431.35	Up 0.02
USD	17:00	07:30	Change
JPY	123.18	123.29	Up 0.11
GBP	151.04	150.98	Down -0.06
CHF	99.91	99.85	Down -0.06

Oil, Brent, \$	Gold, \$
07:30	1084.70
1 day	Down -2.14
1 month	Down -5.10
Year-t-date	Down -100.16
CRB 1M future	CRB, Raw Industrials
07:30	183.24
1 day	Down -0.06
1 month	Down -7.79
Year-t-date	Down -46.72

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

YIELDS & INTEREST RATES

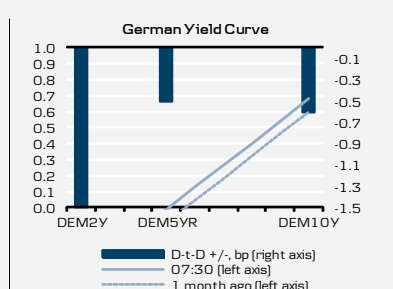
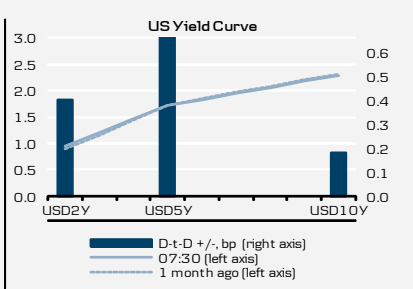
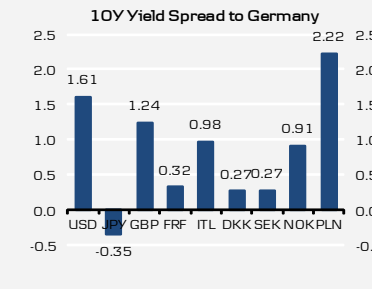


Policy Rate	3M	Spread, bp
USD	0.25	0.46
EUR	0.05	-0.11
GBP	0.50	0.57
DKK	0.05	-0.16
SEK	-0.35	-0.43
NOK	0.75	1.09
PLN	1.50	1.62

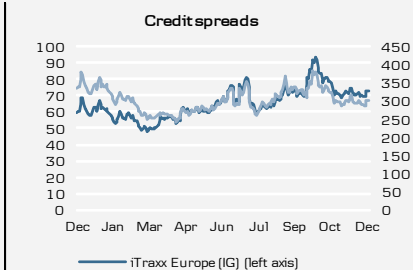
Yield	17:00	07:30	Change
USD 10Y	2.30	2.29	Down -1
USD 30Y	3.05	3.02	Down -3
JPY 10Y	0.34	0.33	Down -1
07:30(-1)* 17:00 +/-, bp			
DEM 10Y	0.68	0.69	Up 1
DKK 10Y	1.04	0.95	Down -9
SEK 10Y	0.88	0.96	Up 8
NOK 10Y	1.59	1.59	Up 0
PLN 10Y	2.83	2.90	Up 7

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

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1 day	1 month
Europe (IG)	73	Down 0	Up 1
HiVol	90	Up 0	Up 8
Xover (N-IG)	301	Down 0	Up 0
Finan. Sr.	72	Up 0	Up 1
Finan. Sub.	148	Down 0	Down -5
Non-finan.			



Swap Spread, bp**	17:00	07:30	Change
USD 10Y			
JPY 10Y	-11	-10	Up 1
07:30(-1)* 17:00 +/-			
EUR 10Y	0		
DKK 10Y	35	32	Down -3
SEK 10Y	48	39	Down -9
NOK 10Y	60	60	Up 0

* Ask price

* As of closing previous trading day

** Ask price

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First date of publication

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