

Danske Daily

Market Movers

- Focus will be on the release of euro area PMIs.** So far, the manufacturing PMI seems broadly unaffected by the weakness in emerging markets, even though we have had a couple of months with falling financial sentiment indicators (Sentix and ZEW). In line with the financial sentiment we expect a decline in the manufacturing PMI, which would also be consistent with the lower order-inventory balance and the recent weak German data. The German PMIs should decrease the most as the Volkswagen exhaust scandal is likely to add to the negative sentiment, whereas the French PMIs are set to be less affected as suggested by the recent improvement in French business surveys.
- US manufacturing PMI** is also released and consensus is for a broadly unchanged figure of 53 from 53.1 in September. Despite the fall in September the manufacturing PMI was still much higher than the manufacturing ISM, which came out at 50.2. The question, then, is whether there will still be a big gap between the two indices or whether they will converge. Weak export data for September suggest that the manufacturing sector is still under pressure from reduced global demand and a stronger dollar, so we see a slight risk of the PMI falling to a level closer to 50.
- In the euro area the inflation expectations in the **Survey of Professional Forecasters** are released and although we expect a decline in the longer-term inflation expectation it should not have a large market impact following the very dovish comment at yesterday's ECB meeting (see below).

Selected Market News

ECB president Draghi had a surprisingly dovish stance at yesterday's ECB meeting and even opened the door for a deposit rate cut. Draghi described the meeting as a 'work and assess' rather than a 'wait and see' meeting and explained that the ECB had tasked relevant committees to work on different instruments. He clearly signalled that the ECB is considering further easing at the upcoming meeting in December, where it will release updated inflation projections. **We have changed our view and now expect the ECB to cut the deposit rate by 10bp at the meeting in December,** to keep the door open for further rate cuts and at the same time announce an extension of the QE purchases beyond September 2016, see more in *ECB to cut the deposit rate further*.

We have also changed our view on Danmarks Nationalbank (DN) on the back of the dovish signal from the ECB. We now forecast DN to keep its policy rates unchanged on a 12M horizon – previously we expected it would hike the rate of interest on certificates by a total of 20bp on 6M. This also implies that we do not expect DN to mirror the expected interest rate cut from the ECB, see *Dovish ECB to keep Danish central bank on hold*.

The outlook for more ECB stimuli has supported risk sentiment and Asian stocks are higher this morning in line with the general rally in global equities.

Market overview

		07:30	1 day +/- %
S&P500 (close)		2052.5	↑ 1.66
S&P500 fut (chng from close)		2056.5	↑ 0.17
Nikkei		18844.2	↑ 2.21
Hang Seng		23152.0	↑ 1.34
		17:00	07:30
			+/- bp
US 2y gov	0.60	0.61	↑ 1.2
US 10y gov	2.04	2.03	↓ -0.7
iTraxx Europe (IG)	75	75	↓ -0.3
iTraxx Xover (Non IG)	316	314	↓ -2.1
			+/- %
EUR/USD	1.116	1.111	↓ -0.43
USD/JPY	120.380	120.630	↑ 0.21
EUR/CHF	1.08	1.08	↓ -0.25
EUR/GBP	0.724	0.721	↓ -0.39
EUR/SEK	9.399	9.383	↓ -0.16
EUR/NOK	9.24	9.20	↓ -0.37
			USD
Oil Brent, USD	48.3	48.3	↑ 0.17
Gold, USD	1167.9	1168.8	↑ 0.07

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 to cut the deposit rate further](#)
- [Dovish ECB to keep Danish central bank on hold](#)
- [UK Macro Monitor: Growth likely slowed in Q3 but still at trend](#)

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Fixed Income Markets

Draghi has once again cornered the ‘Hawks’ and managed to pre-announce additional easing. It seems that there is no way back for the ECB now – and we are now going for a 10bp rate in December plus an extension of the QE programme, see *ECB to cut the deposit rate further*.

The EONIA market is now pricing in around 9bp in additional cuts over the next year (5bp for December). If it cuts in December some probability of an additional cut should be priced in as the ECB wants to keep the door open for further easing if needed.

It is Friday and that means possible rating reviews. Spain and Italy are up for review by Fitch, while Germany and Austria are up for review by Moody’s. In our view, Spain is the only candidate for an upgrade of the rating/outlook. We see a chance of a one-notch upgrade or at least a positive outlook from Fitch (see page 10-13 in our *Government Bonds Weekly*).

The upcoming ECB easing raises the question how this will impact the Scandi central banks. We now expect DN to keep all its policy rates unchanged on 12M; hence, keeping the key policy rate at minus 0.75%. Should the additional ECB easing lead to renewed downward pressure on EUR/DKK, we expect DN to respond with FX intervention purchases to cap EUR/DKK around the level of 7.4500, see *Dovish ECB to keep Danish central bank on hold*.

FX Markets

EUR-crosses fell sharply following the ECB meeting with EUR/USD leading the way, while the EUR also fell sharply versus commodity currencies like the CAD and BRL as risk appetite rallied. We now expect the ECB to cut the deposit rate by 10bp to -30bp at its meeting in December, to keep the door open for further cuts and announce an extension of the QE purchases beyond September 2016. As a result, we have lowered our 1M and 3M EUR/USD forecasts to 1.10 and 1.08 respectively, as a further deposit rate cut is more EUR-negative compared to our previous call of an extension of the QE programme. However, we have maintained our 6M and 12M EUR/USD forecasts at 1.12 and 1.20 as medium-term fundamentals support a higher EUR/USD.

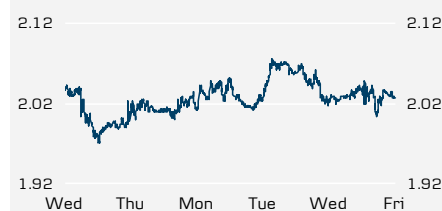
The ECB’s signals and the sharp sell-off in the EUR also triggered mild selling in EUR/Scandies. However, it is important to keep in mind that the ECB’s expected changes in monetary policy will have a profound impact on the monetary policy in Scandinavia. First, we expect that DN will keep its policy rates unchanged over the coming 12 months – hence, the policy rate stays at -75bp. If additional easing by the ECB triggers downward pressure on EUR/DKK, we expect DN to cap EUR/DKK around 7.4500 using FX intervention. Meanwhile, we expect the Riksbank to expand its current QE at the policy meeting on 28 October. For more details, see *Reading the Markets*, 22 October 2015. This will cap any downside in EUR/SEK ahead of the policy meeting.

US S&P500 future



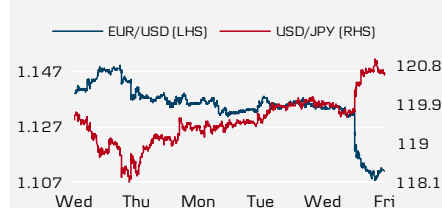
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

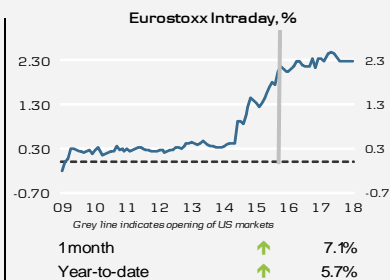
Key figures and events

Friday, October 23, 2015			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Germany's debt rating				
-	EUR	Fitch may publish Italy's debt rating				
-	EUR	Fitch may publish Spain's debt rating				
-	EUR	Moody's may publish Austria's debt rating				
-	EUR	Fitch may publish Cyprus's debt rating				
3:30	CNY	Property prices	y/y			
3:35	JPY	Nikkei Manufacturing PMI, preliminary	Index	Oct	50.5	51.0
7:00	JPY	Leading economic index, final	Index	Aug		103.5
9:00	FRF	PMI manufacturing, preliminary	Index	Oct	50.3	50.2
9:00	FRF	PMI services, preliminary	Index	Oct	51.6	51.8
9:00	ESP	Unemployment rate	%	3rd quarter	21.9%	22.4%
9:30	DEM	PMI manufacturing, preliminary	Index	Oct	51.0	51.8
9:30	DEM	PMI services, preliminary	Index	Oct	53.5	53.9
10:00	EUR	PMI manufacturing, preliminary	Index	Oct	51.0	51.8
10:00	EUR	PMI composite, preliminary	Index	Oct	52.9	53.5
10:00	EUR	PMI services, preliminary	Index	Oct	53.3	53.5
14:30	CAD	CPI	m/mly/y	Sep		0.0% 1.3%
15:45	USD	Markit manufacturing PMI, preliminary	Index	Oct	53.1	53.1

Source: Bloomberg, Danske Bank Markets

Today's market data: 23 October 2015

STOCKS



	Close		+/-
DJSTOXX50	3177	↑	2.3%
OMXC20	937	↑	0.7%
OMXS30	1484	↑	2.2%
OSE BX	616	↑	0.1%
	Close		+/-
DOW JONES	17489	↑	1.9%
NASDAQ	4920	↑	1.7%
S&P500	2053	↑	1.7%
NIKKEI (07:30)	18844	↑	2.3%

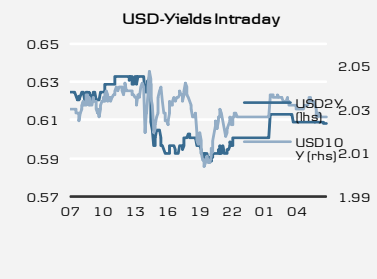
FX & COMMODITIES



	17:00	07:30		+/-
EUR				
USD	111.60	111.12	↓	-0.48
JPY	134.34	134.04	↓	-0.30
GBP	72.41	72.13	↓	-0.28
NOK	923.62	920.22	↓	-3.40
SEK	939.87	938.33	↓	-1.54
DKK	745.89	745.95	↑	0.06
PLN	426.83	425.21	↓	-1.62
USD				
JPY	120.38	120.63	↑	0.25
GBP	154.13	154.06	↓	-0.07
CHF	97.13	97.31	↑	0.18

	07:30		+/-
Gold, \$	168.78		48.33
1day	↑ 2.71	↑	0.25
1month	↑ 38.46	↑	0.58
Year-t-date	↓ -16.08	↓	-9.00
	07:30		+/-
CRB, Raw	195.61		419.76
1day	↑ 0.02	↓	-1.04
1month	↑ 3.23	↓	-17.45
Year-t-date	↓ -34.35	↓	-72.35

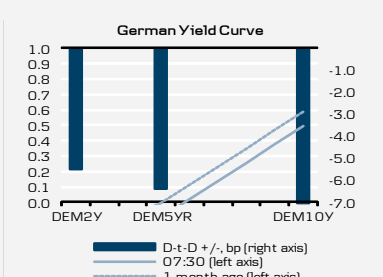
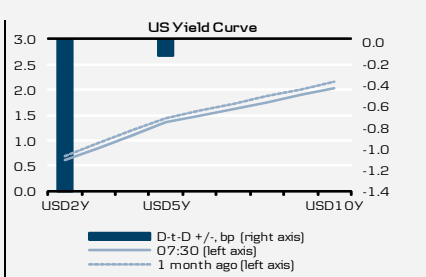
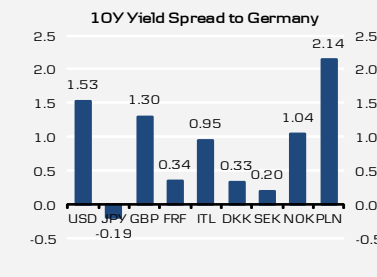
YIELDS & INTEREST RATES



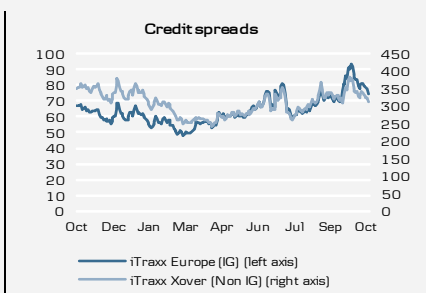
	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.05	-10
GBP	0.50	0.58	8
DKK	0.05	-0.05	-10
SEK	-0.35	-0.31	4
NOK	0.75	1.12	37
PLN	1.50	1.63	13

	17:00	07:30		+/-, bp
USD 10Y	2.04	2.03	↓	-1
USD 30Y	2.88	2.86	↓	-3
JPY 10Y	0.31	0.31	↓	0
	07:30(-1)*	17:00		+/-, bp
DEM 10Y	0.57	0.51	↓	-6
DKK 10Y	0.94	0.83	↓	-11
SEK 10Y	0.74	0.69	↓	-5
NOK 10Y	1.54	1.54	↑	0
PLN 10Y	2.71	2.63	↓	-8

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	75	↓ -1	↓ -6
HiVol	77	↓ -3	↑ 5
Xover (N-IG)	314	↓ -4	↓ -20
Finan. Sr.	72	↓ -1	↓ -16
Finan. Sub.	149	↓ -3	↓ -33
Non-finan.			



	17:00	07:30		+/-
USD 10Y				
JPY 10Y	-3	-3	↑	0
	07:30(-1)*	17:00		+/-
EUR 10Y	0	18	↑	18
DKK 10Y	37	40	↑	3
SEK 10Y	44	43	↓	0
NOK 10Y	65	64	↓	-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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