

# Danske Daily

## Market Movers

- The October ISM manufacturing and non-manufacturing surveys will be in focus today. The order-inventory balance suggests that we could see further weakness in the manufacturing ISM in October and on average the regional PMIs also point to continued weakness in the manufacturing sector. We expect another decline in the ISM for October to 49.6, which would be the weakest since November 2012. A reading below 50 will certainly question the current 50/50 pricing of a Fed lift-off in December.
- Today, October PMI figures for the periphery countries will be released. Information from the flash PMI figures last week suggests that the Spanish and Italian manufacturing PMIs will both rebound slightly after the drop in September. Note that despite the drop last month, Italian and Spanish PMIs remain at their highest level since the start of 2011.
- The most important event this week will be the US October employment report released on Friday. Job growth slowed to just below 140,000 on average in September and August, which in our view is below the pace (>150,000) needed for the Fed to initiate the hiking cycle. We estimate that job growth increased to 170,000 in October and the unemployment rate held steady. In Scandinavia attention turns to the Norges Bank meeting on Thursday.
- In Scandinavia we will see the release of Norwegian credit indicator and PMI. In Sweden the PMI indicator is expected to rise from 53.4 to 54.0, see *Scandi Markets*.

## Selected Market News

Yesterday, China published the official PMI indicator for October. It showed an unchanged reading of 49.8 compared to consensus that had expected a small rise to 50.0. It was the third month in a row with the indicator below 50. Note also that the employment component remained well below 50. The official service PMI was also released and it showed a small drop to 53.1 from 53.4 in September. The private Caixin PMI released this morning also stayed below 50 in October but showed a monthly rise from 47.3 to 48.2, actually the biggest monthly rise in 15 months, which in our view is quite encouraging. See also *Flash Comment: China - PMI signals bottom in Chinese economy*, that we published this morning.

In an otherwise 'dovish' interview on Saturday ECB President Draghi said: 'We will see whether further stimulus is necessary. This is an open question'. On cutting the depo rate and amending QE at the same time, Draghi responded that 'I would say that it is too early to make that judgement'. His remarks put a small question mark to further ECB easing and European fixed income might react slightly negatively this morning.

US Chicago PMI showed a rebound to 56.2 from 48.7 on Friday. In ISM adjusted terms it suggests an increase in the ISM to 55.9! The survey has been very volatile lately but overall it is one of the surveys with the best correlation with the ISM. Taking all factors into account including other PMIs, we nevertheless estimate that the ISM (out tonight) dipped just below 50 in October.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	2079.4	↓	-0.48
S&P500 fut (chng from close)	2064.9	↓	-0.42
Nikkei	18687.9	↓	-2.07
Hang Seng	22460.6	↓	-0.79
	17:00	07:30	+/- bp
US 2y gov	0.73	0.73	↓ -0.4
US 10y gov	2.16	2.13	↓ -2.7
iTraxx Europe (IG)	71	71	↑ 0.3
iTraxx Xover (Non IG)	298	299	↑ 1.1
			+/- %
EUR/USD	1.104	1.104	↓ -0.07
USD/JPY	120.680	120.400	↓ -0.23
EUR/CHF	1.09	1.09	↓ -0.01
EUR/GBP	0.715	0.715	↑ 0.02
EUR/SEK	9.373	9.403	↑ 0.31
EUR/NOK	9.35	9.35	↑ 0.06
			USD
Oil Brent, USD	49.4	49.6	↑ 0.51
Gold, USD	1140.4	1141.9	↑ 0.14

### 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](#)
- [CBR rate decision](#)

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## Scandi Markets

**Norway.** The surprise increase in the PMI to 47.3 in September may mean that the manufacturing downturn is slowing, which is good news for the economy, especially if the trend change is confirmed. Consensus is expecting a drop to 46.5.

## Fixed Income Markets

A few lines from the Draghi interview released Saturday are likely to weigh on the market at opening. In an otherwise ‘dovish’ interview Draghi said: ‘We will see whether further stimulus is necessary. This is an open question’. On cutting the depo rate and amending QE at the same time Draghi responded that ‘I would say that it is too early to make that judgement’, see full interview [here](#). We still think ECB will do both in December and that any deviation from Draghi’s pre-commitment would be punished severely by the market. Although it is possible that Draghi could get some help from Yellen hiking in December (which would weaken the EUR further), the ECB will have to show its hand first at the 3 December meeting followed by the FOMC on 16 December.

Keep an eye on the first release of peripheral flash PMIs today. Both Italian and Spanish manufacturing PMIs weakened a bit from elevated levels in September and a further decrease should add to the ECB’s concerns. The main release this week will be the US payrolls on Friday, where a strong report should push the pricing further in the direction of a December hike.

This week’s issuance is biased towards the long end in the EUR govie market and starts with Austria tapping the 25s and 34s tomorrow. On Thursday France will continue with the prefunding of next year with a tap in 25s, 26s and the 31s. Spain will tap in the 25s and the 44s, reducing the likelihood of an imminent 30Y deal, see [Government Bond Weekly](#) for details.

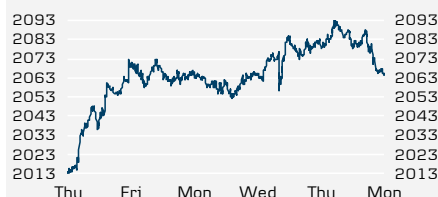
## FX Markets

In a week that will see both the US job report and policy meetings at the Bank of England and Norges Bank, focus today will be on PMIs and notably we expect to see a week in which US data could surprise on the downside to be kicked off by a below-consensus reading on the ISM manufacturing survey; this could pave the way for a small rebound in EUR/USD this week. In the Scandi region, the Norges Bank meeting will take centre stage and last week’s decision by the Swedish Riksbank to expand the QE scheme following growing expectations of more action from the ECB certainly puts some pressure on the Norwegians; that said, we still do not look for any more cuts as we see manufacturing activity bottoming. EUR/NOK could be vulnerable short term if we are right that NB will refrain from signalling more cuts. Similarly, last week’s hints from the Riksbank also suggest that the central bank is willing to allow EUR/SEK to stay in the lower end of the 9.30-60 range for now.

In contrast with our expectations, the Bank of Japan (BoJ) kept its monetary policy unchanged last week. In our view, the updated stance from the BoJ suggests the bar for additional easing is ‘very high’ and we now expect the BoJ to continue its current QE programme with an annual target of JPY80trn until 2017. We have lowered our USD/JPY forecasts slightly, as the prospects of additional BoJ easing have declined and now target USD/JPY at 121 in 1M, 122 in 3M and 123 in 6-12M.

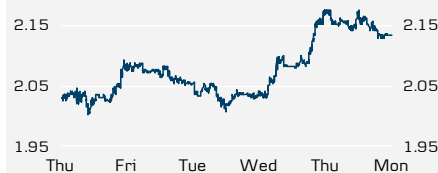
Similarly, Russia’s central bank kept its key rate unchanged on Friday at 11.0%, while the split consensus expected a 50bp cut, as we did. The main reason given by the central bank for holding rates was ‘persistent substantial inflation risks’. While the CBR stated that the balance between inflation risks and the risks of the economy cooling remained

### US S&P500 future



Source: Danske Bank Markets

### US 10y gov yield



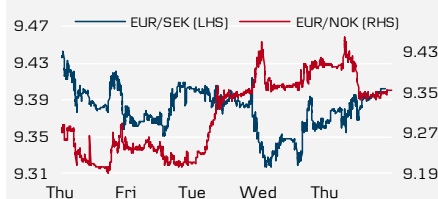
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

unchanged, we see this as representing another U-turn in its actions, as the CBR is now clearly focusing on inflation again and becoming less focused on the economy. We continue to see a 50bp rate cut in December but near term the RUB will be driven more by sentiment towards emerging market assets than by marginal changes in the oil price. Elsewhere in the EM sphere, focus will be on the fallout from the Turkish election.

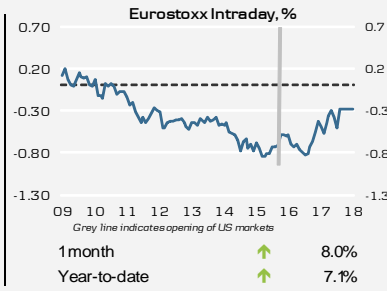
**Key figures and events**

Monday, November 2, 2015			Period	Danske Bank	Consensus	Previous
-	EUR	ECB's Lautenschlaeger speaks in Frankfurt				
-	JPY	Official reserves assets	USD bn			1248.9b
2:35	JPY	Nikkei Manufacturing PMI, final	Index			52.5
2:45	CNY	Caixin Manufacturing PMI	Index		47.6	47.2
8:30	SEK	PMI manufacturing	Index	54.0	54.0	53.3
9:00	NOK	PMI manufacturing	Index		46.5	47.3
9:15	CHF	Retail sales	y/y			-0.3%
9:15	ESP	PMI manufacturing	Index	52.5	51.8	51.7
9:30	CHF	PMI manufacturing	Index			49.5
9:45	ITL	PMI manufacturing	Index	53.5		52.7
9:50	FRF	PMI manufacturing, final	Index	50.7	50.7	50.7
9:55	DEM	PMI manufacturing, final	Index	51.6	51.6	51.6
10:00	NOK	Credit indicator (C2)	y/y	5.7%	5.7%	5.8%
10:00	EUR	PMI manufacturing, final	Index	52.0	52.0	52.0
10:30	GBP	PMI manufacturing	Index	51.5	51.2	51.5
15:45	EUR	ECB publishes monthly asset purchases				
15:45	USD	Markit manufacturing PMI, final	Index		54.1	54.0
16:00	USD	Construction spending	m/m		0.5%	0.7%
16:00	USD	ISM manufacturing	Index	49.6	50.0	50.2
16:00	USD	ISM prices paid	Index			38.0
18:00	USD	Fed's Williams (voter, dovish) speaks				

Source: Bloomberg, Danske Bank Markets

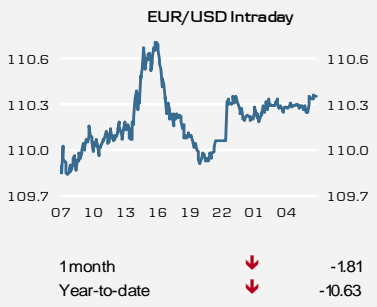
Today's market data: 02 November 2015

STOCKS



	Close		+/-
DJUSTOXX50	3216	↓	-0.3%
OMXC20	938	↓	-0.4%
OMXS30	1499	↑	0.2%
OSE BX	615	↓	0.0%
<b>Close</b>			
DOW JONES	17664	↓	-0.5%
NASDAQ	5054	↓	-0.4%
S&P500	2079	↓	-0.5%
NIKKEI (07:30)	18688	↓	-0.3%

FX & COMMODITIES

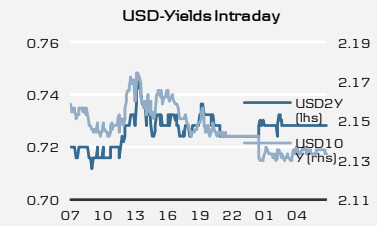


EUR	17:00	07:30	+/-
USD	110.43	110.35	↓ -0.08
JPY	132.27	132.86	↓ -0.41
GBP	71.46	71.48	↑ 0.02
NOK	934.83	935.41	↑ 0.58
SEK	937.31	940.26	↑ 2.95
DKK	745.79	745.81	↑ 0.02
PLN	425.39	425.25	↓ -0.14
USD	17:00	07:30	+/-
JPY	120.68	120.40	↓ -0.28
GBP	154.53	154.38	↓ -0.15
CHF	98.55	98.61	↑ 0.06

	07:30	1day	1month	Year-t-date	Oil, Brent, \$
Gold, \$	1141.94	↓ -0.22	↑ 3.12	↓ -42.92	49.64
CRB 1M future	195.61	↑ 1.45	↑ 1.50	↓ -34.35	414.28
CRB, Raw Industrials					0.54
					-20.74
					-77.83

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

YIELDS & INTEREST RATES

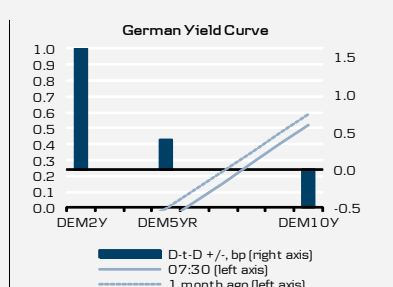
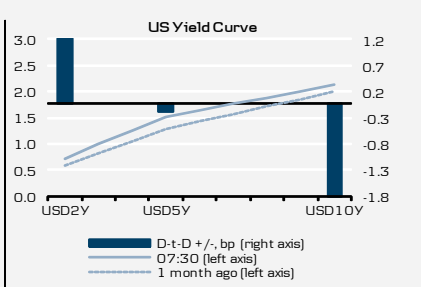
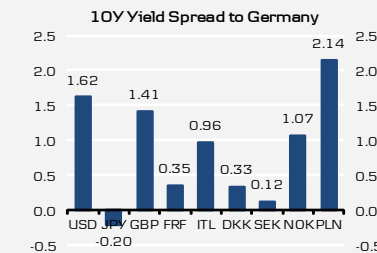


	Policy Rate	3M	Spread, bp
USD	0.25	0.33	8
EUR	0.05	-0.07	-12
GBP	0.50	0.58	8
DKK	0.05	-0.12	-17
SEK	-0.35	-0.32	3
NOK	0.75	1.09	34
PLN	1.50	1.63	13

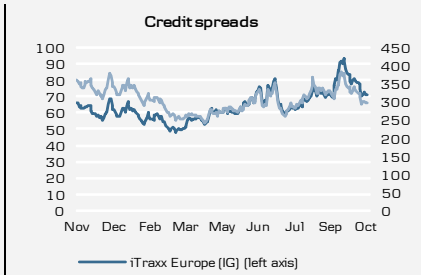
	17:00	07:30	+/-, bp
USD 10Y	2.16	2.13	↓ -3
USD 30Y	2.95	2.91	↓ -4
JPY 10Y	0.31	0.31	↑ 0
<b>07:30(-1)* 17:00</b>			
DEM 10Y	0.52	0.53	↑ 1
DKK 10Y	0.93	0.87	↓ -6
SEK 10Y	0.62	0.65	↑ 4
NOK 10Y	1.59	1.59	↑ 0
PLN 10Y	2.69	2.66	↓ -4

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

\* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	71	↓ 0	↓ -21
HiVol	84	↑ 0	↓ -5
Xover (N-IG)	299	↓ 0	↓ -78
<b>Finan. Sr.</b>			
Finan. Sub.	70	↓ 0	↓ -26
Non-finan.	151	↓ 0	↓ -46



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-8	-7	↑ 1
<b>07:30(-1)* 17:00</b>			
EUR 10Y	0	18	↑ 18
DKK 10Y	38	38	↑ 1
SEK 10Y	41	41	↓ 0
NOK 10Y	70	70	↑ 0

\* Ask price

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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