

# Danske Daily

## Market Movers

- **It is all about the ECB today. We expect Draghi to deliver a new ‘menu’ of aggressive monetary easing consisting of:** a 20bp deposit rate cut accompanied by a two-tier deposit rate system, stronger forward guidance plus an QE extension to December 2016 and an expansion of the monthly purchases to EUR75bn, see *ECB Preview: Time to fulfil the high expectations*, 27 November, for details. Fixed income markets are aggressively priced ahead of the meeting with at least some 15bp rate cut pencilled in for today. Importantly, we expect the December package to be the end of the easing cycle as we look for a strong euro-area recovery in 2016. **The rate announcement will be at 13:45 CET and Draghi’s press conference will start at 14:30 CET.**
- **In the US, the ISM non-manufacturing index is expected to decrease a little to 58 from the October figure of 59.1.** This is still a very high level indicating that the domestic part of the economy is in good shape. If the services sector holds up reasonably well, this should pave the way for the Fed despite the dire manufacturing ISM earlier this week. Note also that Fed’s Yellen and Fischer will be speaking today.
- **Swedish and Norwegian central-bankers set to speak**, see *Scandi Markets*.

## Selected Market News

**Fed’s Yellen last night confirmed her readiness to hike this month.** Crucially, the Fed chair clearly signalled that she prefers to get started on policy normalisation now and then possibly move relatively slowly on rates thereafter. Yellen made a range of key observations: (i) the US labour market continues to tighten and that this will continue, (ii) the underlying inflation pressure is higher than PCE core inflation suggests as it is held back by temporary factors such as a strong USD and lower commodity prices, (iii) the FOMC is not that worried about development abroad and welcomes more easing from China and (iv) the so-called ‘neutral rate’ will be key in the hiking cycle but as there is great uncertainty regarding the former, the cycle will be highly data dependent, i.e. Yellen keeps the door open for both a more hawkish and a dovish cycle. Our view is still four hikes next year but the December ‘dots’ could be taken down to deliver a ‘dovish hike’ to ensure the US money-market curves does not steepen too swiftly.

**The market continues to price around 75% probability of a first Fed hike this month** but, following Yellen’s comments, US equities came under pressure, oil sold off to hit new year lows, the USD (DXY) index rose above 100 and US Treasury yields ended up a few bps with gains concentrated in the short end. **Oil prices later recovered somewhat on speculation that Saudi Arabia might be willing to cut production at the OPEC meeting on Friday** provided other OPEC members cut too. This would be a significant surprise and a marked change in Saudi (and OPEC) production policy which has recently aimed at maintaining market share to price out notably US shale producers. **Bank of Canada, as expected, kept rates unchanged at 0.50% yesterday**, stressing that a weaker CAD is still needed in order for the economy to go through the ‘complex adjustment’ that not least the low oil price has brought about. BoC is now awaiting the expansionary effects of past easing, a ongoing US recovery and another uptick in USD/CAD as Fed hikes.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	2079.5	↓ -1.10	
S&P500 fut (chng from close)	2084.0	↑ 0.12	
Nikkei	19957.0	↑ 0.09	
Hang Seng	22457.5	↓ -0.10	
	17:00	07:30	+/- bp
US 2y gov	0.93	0.94	↑ 0.4
US 10y gov	2.18	2.19	↑ 0.4
iTraxx Europe (IG)	69	69	↑ 0.2
iTraxx Xover (Non IG)	285	286	↑ 0.5
			+/- %
EUR/USD	1.057	1.059	↑ 0.15
USD/JPY	123.470	123.470	↑ 0.00
EUR/CHF	1.09	1.08	↓ -0.63
EUR/GBP	0.707	0.710	↑ 0.29
EUR/SEK	9.201	9.211	↑ 0.11
EUR/NOK	9.14	9.15	↑ 0.11
			USD
Oil Brent, USD	43.6	43.3	↓ -0.71
Gold, USD	1056.2	1053.2	↓ -0.28

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

- *Euro area: lower core inflation supports our call for aggressive ECB easing tomorrow*
- *ECB conference call: Has Draghi delivered the end-of-easing and how to trade it?*

Senior Analyst  
Christin Tuxen  
+45 45 13 78 67  
tux@danskebank.dk

## Scandi Markets

**Sweden.** The Riksbank's Per Jansson is due to hold a speech with the intriguing title 'Time to improve the inflation target?', which is published at 08:00 CET. The theme does not seem like a coincidence given the fact that Mr King's and Mr Goodfriend's evaluation of the Riksbank is now ready (deadline was set to 30 November) and will be official on 19 January. According to the instructions the two should look at secondary targets in a flexible inflation targeting regime and to what extent a central bank should take financial stability into account when conducting monetary policy, among many other things. While Jansson will not reveal their conclusions he may well give his view on these matters. At 08:30 we get services PMI that has hovered above the 10-year average (55) for most of the past two years and has showed a slight improvement during the second half of 2015.

**Denmark.** In November the FX reserve declined DKK7.7bn to DKK483.9bn, from DKK492bn in October. Thus the pace of FX intervention has slowed in October and November compared with Q2. The next focal point for the Danish central bank will be the ECB meeting today. This could potentially trigger an inflow into Denmark and appreciation pressure on the DKK. However, our view is that the Danish central bank as a first line of defence will 'just' intervene in the FX market and not mirror the rate cut. However, the clear slowdown in the selling of foreign currency underlines that an inflow should certainly not be ruled out.

## Fixed Income Markets

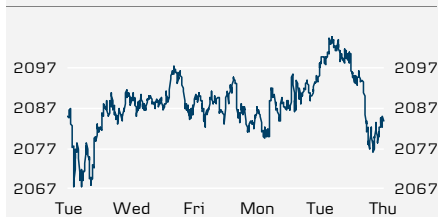
Finally, the day of the December ECB meeting has arrived and expectations are high. We are thus entering the ECB day with expectations derived from market pricing being at 2015 highs with 1y1y Eonia at -37bp, 2y Germany -45bp and 10y Italy-Germany spread at 92bp (all setting lows yesterday). The other side of that coin is that room for disappointment is indeed present and especially the pricing in the money market (25bp in total priced in Q4 2016) looks excessive in our view.

In the EUR govie market Spain and France will be coming to the market before we get the verdict from Draghi. Spain is tapping EUR3-4bn in the Jul-20, Oct-25 and the Jul-30 plus EUR0.25-0.75bn in the Nov-24 linker. France is doing a small tap of just EUR3.5-4.5bn in the May-24, Apr-35 and the Apr-41. Both auctions should be well bid due to the value of the primary dealer repurchase options over both the ECB meeting and US non-farm.

## FX Markets

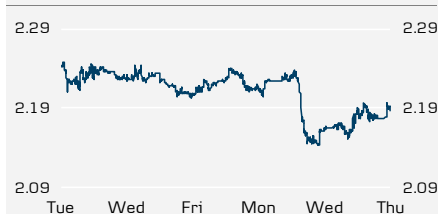
With market expectations high going into today's ECB meeting the risk of a disappointment in FX markets is clearly omnipresent. If we are right that this will be the ECB's big bazooka version 2, we should see EUR/USD test the 2015 low around 1.0450. A Fed hike could then further add to the downside later in the month but the aggressiveness of the ECB move should ensure that this is the end of ECB easing. EUR/Scandies including DKK should come under pressure as well and we expect notably the Riksbank to partially mirror the ECB later this month whereas Norges Bank will likely stay put. Denmark is set to use intervention to defend the EUR/DKK peg. However, last week's *IMM data* revealed that speculative positioning in the single currency rose to the most bearish level since early June, thus arguably making it increasingly difficult for the euro to fall further. And, if the ECB fails to deliver today, we will most certainly see a spike in EUR/USD back towards the 1.10 level depending on Draghi's exact signals regarding future policy in this outcome.

### US S&P500 future



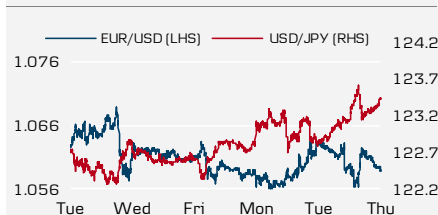
Source: Danske Bank Markets

### US 10y gov yield



Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

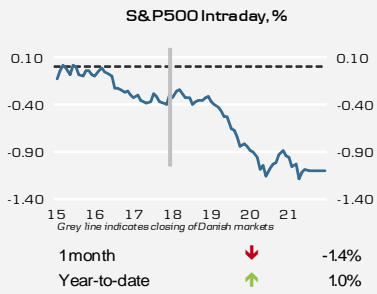
Key figures and events

Thursday, December 3, 2015					Period	Danske Bank	Consensus	Previous
1:30	AUD	Trade balance	AUD m	Oct	-2600	-2500	-2317	
2:35	JPY	Markit PMI services	Index	Nov			52.2	
7:30	FRF	ILO unemployment	%	3rd quarter		10.4%	10.3%	
8:30	SEK	PMI services	Index	Nov	58.0		57.5	
9:15	ESP	PMI services	Index	Nov	56.4		55.9	
9:45	ITL	PMI services	Index	Nov	53.9		53.4	
9:50	FRF	PMI services, final	Index	Nov	51.3	51.3	51.3	
9:55	DEM	PMI services, final	Index	Nov	55.6	55.6	55.6	
10:00	EUR	PMI composite, final	Index	Nov			54.4	
10:00	EUR	PMI services, final	Index	Nov	54.6	54.6	54.6	
10:30	GBP	PMI services	Index	Nov	55.0	55.0	54.9	
10:30	GBP	PMI composite	Index	Nov			55.4	
11:00	EUR	Retail sales	m/m y/y	Oct	0.2% ..	0.2% 2.8%	-0.1% 2.9%	
11:15	NOK	Norway's Olsen speaks in Kristiansund						
13:45	EUR	ECB announces refi rate	%		0.05%	0.05%	0.05%	
13:45	EUR	ECB announces deposit rate	%		-0.40%	-0.30%	-0.20%	
14:30	USD	Initial jobless claims	1000				260	
14:30	EUR	ECB's Draghi speaks at press conference						
14:40	USD	Fed's Mester (non-voter, hawkish) speaks						
15:45	USD	Markit service PMI, final	Index	Nov			56.5	
15:45	USD	Markit composite PMI, final	Index	Nov			56.1	
16:00	USD	Fed's chair Yellen speaks						
16:00	USD	ISM non-manufacturing	Index	Nov	58.0	58.0	59.1	
16:00	USD	Durable goods orders, final	m/m	Oct			3.0%	
16:00	USD	Factory orders	m/m	Oct		1.0%	-1.0%	
19:10	USD	Fed's S.Fischer (voter, neutral) speaks						

Source: Bloomberg, Danske Bank Markets

Today's market data: 03 December 2015

STOCKS



	Close		+/-
DJUSTOXX50	3277	↑	0.0%
OMXC20	1025	↑	0.6%
OMXS30	1534	↑	0.2%
OSE BX	633	↑	0.0%
<b>DOW JONES</b>			
DOW JONES	17730	↓	-0.9%
NASDAQ	5123	↓	-0.6%
S&P500	2080	↓	-1.1%
NIKKEI (07:30)	19957	↑	0.0%

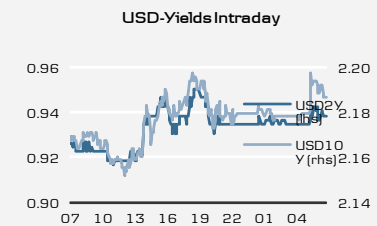
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	105.72	105.88	↑ 0.16
JPY	130.54	130.73	↑ 0.19
GBP	70.74	70.95	↑ 0.21
NOK	914.31	915.34	↑ 1.03
SEK	920.07	921.10	↑ 1.03
DKK	745.92	745.91	↓ -0.01
PLN	427.84	427.51	↓ -0.33
<b>USD</b>			
JPY	123.47	123.47	↑ 0.00
GBP	149.45	149.24	↓ -0.21
CHF	102.86	102.05	↓ -0.81

	Close		+/-
<b>Oil, Brent, \$</b>			
07:30	1053.20		43.29
1 day	↓ -0.50	↑	0.80
1 month	↓ -64.59	↓	-7.25
Year-t-date	↓ -131.66	↓	-14.04
<b>CRB</b>			
1M future	180.85		400.31
1 day	↓ -3.55	↓	-0.40
1 month	↓ -16.71	↓	-13.25
Year-t-date	↓ -49.11	↓	-91.80
<b>CRB, Raw Industrials</b>			

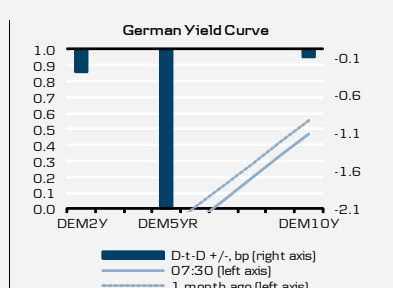
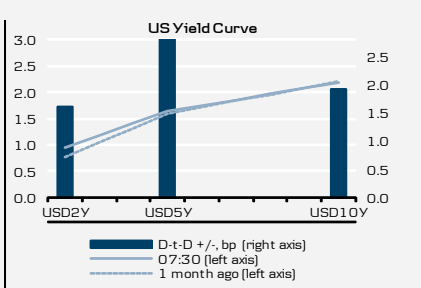
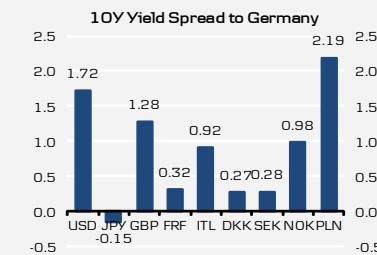
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.25	0.42	17
EUR	0.05	-0.12	-17
GBP	0.50	0.57	7
DKK	0.05	-0.17	-22
SEK	-0.35	-0.43	-8
NOK	0.75	1.16	41
PLN	1.50	1.62	12

	17:00	07:30	+/-, bp
USD 10Y	2.18	2.19	↑ 0
USD 30Y	2.93	2.92	↓ -1
JPY 10Y	0.32	0.32	↑ 0
<b>07:30(-1)* 17:00 +/-, bp</b>			
DEM 10Y	0.47	0.47	↑ 0
DKK 10Y	0.80	0.74	↓ -6
SEK 10Y	0.76	0.75	↓ -1
NOK 10Y	1.45	1.45	↑ 0
PLN 10Y	2.68	2.66	↓ -1

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	69	↓ 0	↓ 0
HiVol	87	↑ 0	↑ 5
Xover (N-IG)	286	↓ -1	↓ -5
<b>Finan. Sr.</b>			
Finan. Sr.	67	↓ 0	↓ -1
Finan. Sub.	143	↓ -1	↓ -6
<b>Non-finan.</b>			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-11	-11	↑ 1
<b>07:30(-1)* 17:00 +/-</b>			
EUR 10Y	0	14	↑ 14
DKK 10Y	35	35	↓ 0
SEK 10Y	44	43	↓ -2
NOK 10Y	62	62	↑ 1

\* As of closing previous trading day

\*\* Ask price

\* Ask price

## Disclosure

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank').

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors upon request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Danske Daily is updated on a daily basis.

### First date of publication

Please see the front page of this research report for the first date of publication. Price-related data is calculated using the closing price from the day before publication.

## General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to "U.S. institutional investors" as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to "U.S. institutional investors".

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA, but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.