

Danske Daily

Market Movers

- We expect Mario Draghi to express a patient view at the ECB meeting today, as he needs to balance the views of the doves as well as the hawks. The very low oil price and in particular falling inflation expectations are threats to our expectation that the ECB has delivered the end of easing. However, given that the market already prices in a relatively high probability of additional rate cuts, today's meeting could be a disappointment if Draghi does not point to further rate cuts. For details, see *ECB preview: two camps – both with stronger arguments* (19 January).
- Before the ECB policy announcement, the final euro-zone inflation numbers for December will also be released. We expect the December figure to be unchanged at 0.2% y/y but note that we still expect inflation to increase to 0.5% y/y in January.
- The weekly US oil inventory data will be in focus for the oil market oil as over-supply remains a strong negative factor for the oil price.
- In Denmark, consumer confidence data for January will be released.

Selected Market News

It has been a relatively quiet session overnight in terms of news releases and growth concerns and poor risk appetite continues to dominate financial markets. The negative momentum in risk assets eased during the US session and the SP500 index closed 1.2% lower after being down as much as 3.6% at some point. Yields on 10-year US treasuries have dropped nearly 30bp since the beginning of this year and dropped below 2% and temporarily touched 1.94% last night before bouncing some basis points higher along with a rebound in equities. In Asia this morning, sentiment is once again turning weak and most regional indices are trading in the red.

Inflation expectations are tumbling along with stock markets and investors are looking towards the major central banks for support and responses to the recent oil price declines and falling growth and inflation expectations. 5Y5Y break-even inflations trade at 1.92% in the US and 1.575% in the euro area adding pressure on the major central banks' credibility. Today, Draghi will be tested in the hot seat. As mentioned above, we think there is a risk that he might disappoint given the market's pricing of additional rate cuts. However, even if he manages to deliver, it is highly questionable whether the ECB alone has the ammunition and ability to reverse the negative sentiment on its own. Hence, after today's ECB meeting, focus will turn to the FOMC meeting on 27 January and the Bank of Japan's (BoJ) meeting on 29 January. In respect of the BoJ, the probability of additional easing has increased on rising concerns that the 'shunto' spring wage negotiations may disappoint and as yen appreciation and the lower oil price weakens the near-term inflation outlook. Bank of Japan Governor Kuroda this morning re-iterated that the BoJ has sufficient tools for more easing and is watching carefully the effect of markets on the economy and prices.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1859.3	↓	-1.17
S&P500 fut (chng from close)	1854.7	↓	-0.01
Nikkei	16067.4	↓	-2.12
Hang Seng	18568.2	↓	-1.68
	17:00	07:30	+/- bp
US 2y gov	0.81	0.82	↑ 1.6
US 10y gov	1.96	1.99	↑ 2.9
iTraxx Europe (IG)	99	99	↑ 0.6
iTraxx Xover (Non IG)	395	397	↑ 2.0
			+/- %
EUR/USD	1.090	1.090	↓ -0.02
USD/JPY	116.350	116.770	↑ 0.36
EUR/CHF	1.09	1.09	↓ 0.02
EUR/GBP	0.769	0.768	↓ -0.14
EUR/SEK	9.375	9.363	↓ -0.12
EUR/NOK	9.71	9.69	↓ -0.19
Oil Brent, USD	27.7	27.8	↑ 0.69
Gold, USD	1102.0	1102.4	↑ 0.03

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 preview: two camps - both with stronger arguments*

Senior Analyst

Morten Helt
+45 45 12 85 18
mohe@danskebank.dk

Scandi Markets

In **Denmark**, consumer confidence data for January will be released. Despite falling sharply since March 2015, the indicator remains high but the turmoil in financial markets at the start of 2016 may have affected consumers' expectations. We expect the indicator to fall from 6.1 in December to 5.0 in January. Confidence is generally strong in January and petrol prices have fallen further but we expect the financial turmoil to outweigh these factors.

Fixed Income Markets

The 2016 poor risk sentiment continues to feed into the fixed income market with 10Y Germany yields dropping to 0.48% and even bigger rate declines in the US curve now pushing Fed hike pricing to December (Dec-16 Fed funds rate has now dropped 30bp in 2016 alone). In these volatile periods, markets will look to central banks for comfort (the 'central bank put') and this is also what will be the focus at today's ECB meeting with expectations for Draghi to express a worried tone, opening the door for more easing. However, we continue to think that the bar for further ECB easing is somewhat higher than priced into the market (13bp of a deposit cut now priced into 1Y horizon), but visibility is currently very low and uncertainty is high, which we also think will be Draghi's main message today.

Today, Spain is launching a new 3Y benchmark and tapping in the old 15Y benchmark. It plans to sell between EUR3.5bn and EUR4.5bn tomorrow, with the bulk in the new 3Y benchmark. We doubt there will be much new issue premium for the new 3Y benchmark, as it is being sold through an auction rather than a syndicated deal. After the auction, the Spanish Tesoro will have fulfilled 14% of funding for 2016. Furthermore, France is selling medium-term bonds (5-10Y) as well as inflation-linked bonds. With the current pricing, we expect to see solid demand for the French linkers given the low BEI rates

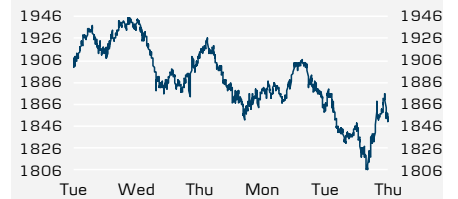
FX Markets

The ECB is in focus and if we are right that Draghi will disappoint today by not being willing to signal the need for another deposit rate cut, EUR crosses should see some support post the meeting. We thus look for a test of 1.10 in EUR/USD during the press conference. We still expect that the cross will edge back into the 1.05-1.10 range near term as the market may have gotten a little ahead of itself on pricing the Fed very dovishly now; we maintain however that crucially this will be followed by a rebound in the cross to 1.16 in 12M.

The Bank of Canada kept rates unchanged yesterday (as we indeed called for; analysts and market split) and policy statement was rather neutral: this notes the drop in oil and financial vulnerabilities of course and downgrades GDP outlook but stresses that the positive impact of fiscal measures are not incl. in this forecast. All in all, the BoC is likely to be on hold for the foreseeable future, and we believe that it will take a further drop in oil or a significant change in Fed stance to being more dovish to make the BoC cut. While fair to see USD/CAD drop here, we still expect an uptick in the cross ahead as the Fed is now priced very soft and this should help Canadian rebalancing to a world of lower oil for longer.

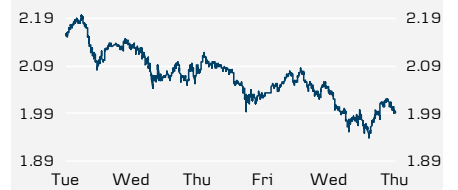
Separately, USD/RUB broke the 81 level yesterday as oil stayed under pressure and on signs political pressure for the central bank of Russia to cut rates is mounting. We still look for unchanged policy rates in January due to the inflationary pressure Russia is experiencing as one of the few countries globally.

US S&P500 future



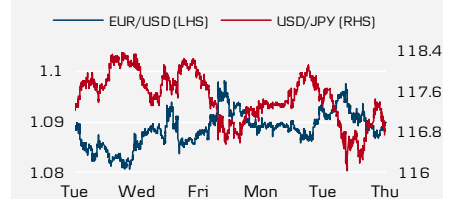
Source: Danske Bank Markets

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, January 21, 2016					Period	Danske Bank	Consensus	Previous
8:45	FRF	Business confidence	Index	Jan		102.0	101.0	
9:00	DKK	Consumer confidence	Net. bal.	Jan	5.0	6.3	6.1	
11:00	EUR	HICP	m/m y/y	Dec	... 0.2%	0.0% 0.2%	-0.1% 0.2%	
11:00	EUR	HICP - core, final	%	Dec	0.9%	0.9%	0.9%	
13:45	EUR	ECB's Draghi speaks at press conference						
13:45	EUR	ECB announces refi rate	%		0.05%	0.05%	0.05%	
13:45	EUR	ECB announces deposit rate	%		-0.30%	-0.30%	-0.30%	
14:30	USD	Initial jobless claims	1000			280	284	
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jan	-5.5	-5.8	-5.7	
17:00	USD	DOE U.S. crude oil inventories	K				234	

Source: Bloomberg, Danske Bank Markets

Today's market data: 21 January 2016

STOCKS



	Close		+/-
DJSTOXX50	2739	↓	-3.3%
OMXC20	901	↓	-3.3%
OMXS30	1291	↓	-3.1%
OSE BX	518	↓	-4.7%
	Close		+/-
DOW JONES	15767	↓	-1.6%
NASDAQ	4472	↓	-0.1%
S&P500	1859	↓	-1.2%
NIKKEI (07:30)	16067	↓	-3.3%

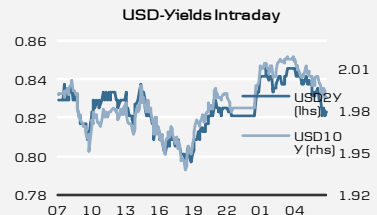
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	109.02	109.00	↓ -0.02
JPY	126.85	127.27	↑ 0.42
GBP	76.89	76.78	↓ -0.11
NOK	971.06	969.26	↓ -1.80
SEK	937.45	936.29	↓ -1.16
DKK	746.40	746.37	↓ -0.03
PLN	450.32	448.89	↓ -1.43
USD	17:00	07:30	+/-
JPY	116.35	116.77	↑ 0.42
GBP	141.78	141.95	↑ 0.17
CHF	100.31	100.35	↑ 0.04

	Gold, \$	Oil, Brent, \$
07:30	1102.36	27.84
1day	↑ 1.43	↓ -0.04
1month	↑ 24.04	↓ -8.51
Year-t-date	↑ 40.94	↓ -9.44
	CRB 1M future	CRB, Raw Industrials
07:30	156.32	410.27
1day	↓ -3.16	↑ 0.85
1month	↓ -16.10	↑ 9.25
Year-t-date	↓ -19.83	↑ 5.56

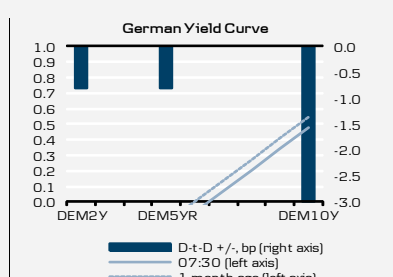
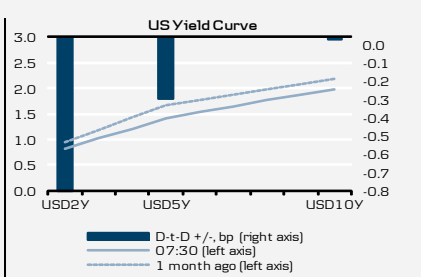
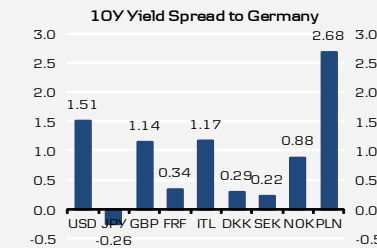
YIELDS & INTEREST RATES



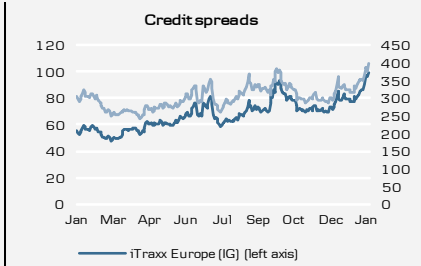
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.14	-19
GBP	0.50	0.59	9
DKK	0.05	-0.06	-11
SEK	-0.35	-0.29	6
NOK	0.75	1.18	43
PLN	1.50	1.60	10

	17:00	07:30	+/-, bp
USD 10Y	1.96	1.99	↑ 3
USD 30Y	2.73	2.76	↑ 3
JPY 10Y	0.22	0.22	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.51	0.49	↓ -3
DKK 10Y	0.87	0.77	↓ -10
SEK 10Y	0.80	0.70	↓ -10
NOK 10Y	1.36	1.36	↑ 0
PLN 10Y	3.13	3.17	↑ 3

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	99	↑ 0	↑ 17
HiVol	128	↓ -11	↑ 20
Xover (N-IG)	397	↑ 0	↑ 58
Finan. Sr.	96	↑ 1	↑ 18
Finan. Sub.	216	↑ 3	↑ 53
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-14	-14	↑ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0	17	↑ 17
DKK 10Y	38	38	↑ 1
SEK 10Y	39	41	↑ 2
NOK 10Y	60	63	↑ 3

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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.