

Danske Daily

Market Movers

- Today is the big manufacturing PMI day in **Europe**. On the back of the fall in the euro area PMI figures last week, the direction of change for Spain and Italy is already set and we expect to see a solid decline for both countries. We also get **euro area unemployment figures** where we expect the downward tendency to continue.
- This afternoon **ECB's** Lautenschlaeger speaks in New York. ECB speeches will continue to get a lot of attention going into the 10 March ECB meeting as markets look for hints as to how the central bank can ease policy further amid collapsing inflation expectations and realised inflation prints (see *Euro area core inflation fell in February*, 29 February).
- We expect the **UK** manufacturing PMI to show a small decline, suggesting that the economy might slow down somewhat in the coming quarters. We do, however, expect levels to remain relatively high and well above 50, thus pointing to positive growth.
- **In the US** ISM manufacturing is due and we estimate the index increased to 48.6 (from 48.2). As wider credit spreads and tighter financial conditions will be a negative for the manufacturing sector (which is still struggling with a strong USD, weak manufacturing globally and low oil investments), we expect ISM manufacturing to be suppressed over coming months. Today we will also get the final manufacturing PMI print for February. Finally, today is 'Super Tuesday' in the primary elections.
- In the **Scandis** we will get manufacturing PMI releases in Norway and Sweden. In Denmark the monthly FX reserves figure from Nationalbanken will catch attention. See *Scandi Markets*.

Selected Market News

Yesterday **China** added to stimulus after the Asian close by cutting the reserve requirement ratio by 50bp, thereby increasing expectations that more easing is to come (see *China adds to stimulus*, 29 February). This morning, these expectations got more fuel as Chinese manufacturing PMI figures disappointed. We had expected a slight increase in both the official and the private Caixin index but instead both indices dropped by 0.4 index points. While the manufacturing releases may have been distorted by seasonal factors (i.e. the Lunar New Year holiday in February), the services PMI release (less vulnerable to the holiday) also disappointed reaching the lowest level since 2009.

As expected the **Reserve Bank of Australia** left the cash rate target unchanged at 2.00% at this morning's March meeting. The monetary policy statement was left close to unchanged and re-iterated the central bank's explicit easing bias.

This morning the **Fed's Dudley** (voter, dovish) said that he so far has only marked down his forecast for US growth 'very modestly' emphasising transitory drags on growth from Q4 15. Dudley did, however, express concern as to the drop in inflation expectations and the rise to 'downside risks'.

In Japan capital investment-, company profits- and household spending figures all surprised to the downside countering the optimism from a drop in unemployment.

Market overview

		07:30	1 day +/-,%
S&P500 (close)		1932.2	↓ -0.81
S&P500 fut (chng from close)		1925.5	↓ -0.21
Nikkei		16069.0	↑ 0.26
Hang Seng		19224.8	↑ 0.59
		17:00	07:30
			+/-, bp
US 2y gov	0.80	0.78	↓ -1.8
US 10y gov	1.74	1.72	↓ -2.1
iTraxx Europe (IG)	100	100	↑ 0.3
iTraxx Xover (Non IG)	408	410	↑ 1.6
			+/-, %
EUR/USD	1.087	1.088	↑ 0.16
USD/JPY	112.800	112.790	↓ -0.01
EUR/CHF	1.08	1.09	↑ 0.30
EUR/GBP	0.780	0.781	↑ 0.04
EUR/SEK	9.328	9.322	↓ -0.06
EUR/NOK	9.47	9.45	↓ -0.18
			USD
Oil Brent, USD	36.0	36.8	↑ 2.17
Gold, USD	1232.4	1243.9	↑ 0.93

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

- [China adds to stimulus - cuts reserve requirement ratio](#)
- [Euro area core inflation fell in February - additional pressure on ECB](#)
- [US Labour Market Monitor - slower jobs growth but not a disaster](#)
- [Weekly Focus: all eyes on China and the US labour market report](#)
- [IMM Positioning Update](#)

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@Danske_Research

Analyst

Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.dk

Scandi Markets

In Denmark Danmarks Nationalbank will publish currency reserves data for February. Following the central bank raising its key rate in January, the outflow of currency fell to its lowest point since March 2015 and it will be interesting to see whether this continued in February.

In Sweden we receive manufacturing PMI, which has remained stable around 55 indicating decent growth and we would be surprised to see a large drop at the current juncture. That said, PMI has been anything but a stable indicator over the last few years, which is why we advise readers to be careful not to read too much into any particular outcome.

In Norway NIMA will publish the February manufacturing PMI data. Although volatile from month to month, the PMI has trended up since August and has pointed to a slightly slower decline in industrial activity. This has been confirmed by hard data for industrial production, so it will be exciting to see whether the PMI continues its upward trend.

Fixed Income Markets

There is plenty of activity in the European government bond market. Finland is expected to launch a new 10Y benchmark **and Belgium is expected to launch a new 30Y benchmark both through syndicated deals.** The peripheral government bonds continue to perform with Portugal leading the way: 10Y Portugal is now back below 3% and thus we expect Portugal to do a small tap auction next week ahead of the ECB meeting on 10 March. This week Spain will launch a new 5Y bond on Thursday as well as tapping in the 15Y benchmark and the 10Y linker. Bulk part of the issuance will be done in new 5Y bond as the Spanish debt office will sell up to EUR4.5bn in the new 5Y and 15Y benchmarks and up to EUR 0.75bn in the linker.

Finally, Norway will tap up to NOK4bn in the new 10Y benchmark on Wednesday but despite that there is plenty of NOK risk coming to the market this week and next week. The Norwegian government bonds are set to see more demand from investors and the spread to EU peers is expected to tighten modestly. Given the solid spread and with 10Y Germany fast approaching 0%, we expect good demand for the Norwegian government bonds.

FX Markets

Generally, the **EUR** has weakened against major currencies on the back of weak HICP numbers in the euro zone, prompting speculation that the ECB will have to revise down its inflation forecast further and loosen monetary policy more aggressively. EUR/USD has fallen by almost half a figure this week, while the Scandi currencies have strengthened against the common currency. Furthermore, the SEK was supported by very strong Q4 GDP numbers showing that the Swedish economy grew 1.3% q/q and 4.5% y/y. Exports grew strongly along with consumer spending but generally growth was rather broad based. The DKK has also strengthened against the EUR and is now below the central parity. EUR-crosses peaked on 11 February but have since edged lower as risk appetite has stabilised. We expect EUR-crosses, led by EUR/USD and EUR/SEK, to trade with a heavy tone into the ECB meeting on 10 March. We expect a 10bp rate cut, the introduction of two-tier deposit and front-loading of QE, roughly in line with market expectations but risks are skewed towards a more aggressive step.

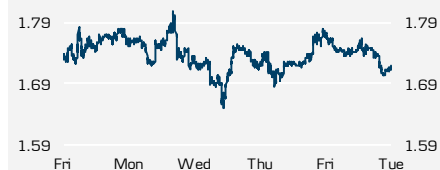
In China, the authorities lowered the reserve requirement ratio (RRR) by 0.5%, which prompted a weakening in the **CNY**. It will be interesting to see if this sets off renewed pressure on the CNY and capital outflows. If so PBoC will likely drain liquidity again in

US S&P500 future



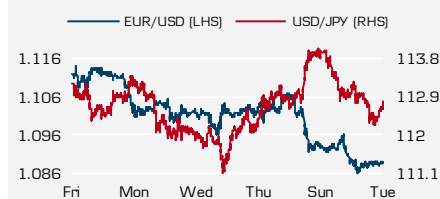
Source: Danske Bank Markets

US 10y gov yield



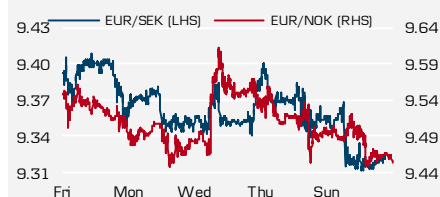
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

the CNH money market to raise the cost of betting against the CNY and CNH. China is likely to supplement easing with more fiscal stimulus. We also look for further rate cuts but China will probably wait and see how the currency market reacts to the cut in the RRR before cutting rates as well. Further monetary easing will continue depreciation pressure on the CNY and we look for a rise in USD/CNY to 7.00 in 12M. However, we do not look for bigger devaluation and China will step in if and when currency movements become disorderly.

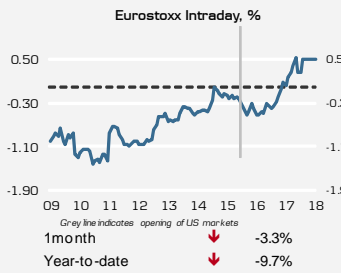
Key figures and events

Tuesday, March 1, 2016					Period	Danske Bank	Consensus	Previous
8:30	SEK	PMI manufacturing	Index	Feb				55.5
9:00	NOK	PMI manufacturing	Index	Feb				49.2
9:15	CHF	Retail sales	y/y	Jan				-1.6%
9:15	ESP	PMI manufacturing	Index	Feb	54.2	53.9		55.4
9:30	CHF	PMI manufacturing	Index	Feb		49.7		50.0
9:45	ITL	PMI manufacturing	Index	Feb	52.2	52.2		53.2
9:50	FRF	PMI manufacturing	Index	Feb	50.3			50.3
9:55	DEM	PMI manufacturing	Index	Feb	50.2	50.2		50.2
9:55	DEM	Unemployment	%	Feb		6.2%		6.2%
10:00	EUR	PMI manufacturing	Index	Feb	51.0	51.0		51.0
10:30	GBP	PMI manufacturing	Index	Feb		52.3		52.9
11:00	EUR	Unemployment	%	Jan	10.3%	10.4%		10.4%
11:00	ITL	GDP	y/y					-0.4%
14:30	CAD	GDP	m/m y/y	Dec		0.1% 0.0%		0.3% 0.2%
15:05	EUR	ECB's Lautenschlaeger speaks in New York						
15:45	USD	Markit manufacturing PMI, final	Index	Feb		51.2		51.0
16:00	DKK	Currency reserves	DKK bn	Feb				430.1
16:00	USD	Construction spending	m/m	Jan		0.5%		0.1%
16:00	USD	ISM manufacturing	Index	Feb	48.6	48.6		48.2
16:00	USD	ISM prices paid	Index	Feb		35.0		33.5

Source: Bloomberg, Danske Bank Markets

Today's market data: 01 March 2016

STOCKS



	Close	Δ	%
DJSTOXX50	2798	↑	0.5%
OMXC20	948	↑	0.1%
OMXS30	1373	↑	0.1%
OSE BX	573	↑	1%
Close			
DOW JONES	16517	↓	-0.7%
NASDAQ	4558	↓	-0.7%
S&P 500	1932	↓	-0.8%
NIKKEI (07:30)	16069	↑	0.5%

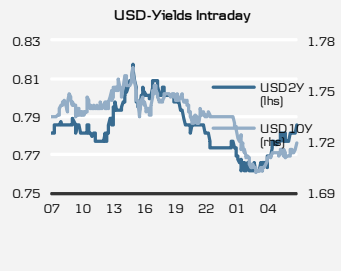
FX & COMMODITIES



	17:00	07:30	Δ	%
EUR				
USD	108.66	108.83	↑	0.17
JPY	122.57	122.76	↑	0.19
GBP	78.03	78.06	↑	0.03
NOK	947.10	945.43	↓	-0.167
SEK	932.80	932.23	↓	-0.57
DKK	745.92	745.93	↑	0.01
PLN	434.77	434.58	↓	-0.19
USD				
JPY	112.80	112.79	↓	-0.01
GBP	139.26	139.42	↑	0.16
CHF	99.62	99.76	↑	0.14

	07:30	Δ	%
Gold, \$	1243.87		
1day	5.13	↑	0.21
1month	115.47	↑	2.54
Year-t-date	182.45	↓	-0.50
Oil, Brent, \$	36.78		
1day	0.21	↑	0.57
1month	2.54	↑	6.91
Year-t-date	-0.50	↓	-1.36
CRB, 1M future	163.22		
1day	155	↑	0.39
1month	-0.27	↑	5.22
Year-t-date	-12.93	↑	17.42
CRB, Raw Industrials	422.13		
1day	0.39	↑	0.09
1month	5.22	↑	1.24
Year-t-date	17.42	↑	4.35

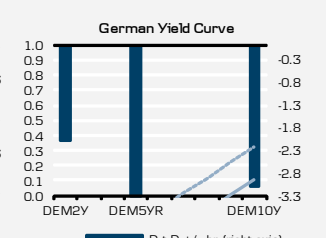
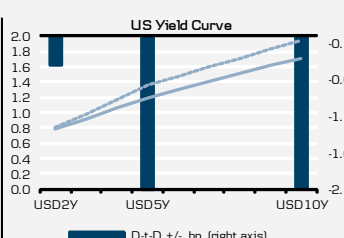
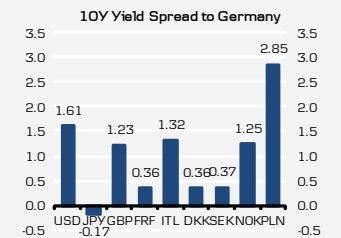
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.64	14
EUR	0.05	-0.21	-26
GBP	0.50	0.59	9
DKK	0.05	-0.09	-14
SEK	-0.50	-0.51	-1
NOK	0.75	1.05	30
PLN	1.50	1.58	8

	17:00	07:30	Δ	%
USD 10Y	1.74	1.72	↓	-2
USD 30Y	2.60	2.60	↓	-1
JPY 10Y	-0.06	-0.06	↓	0
7:30(-1)* 17:00				
DEM 10Y	0.14	0.11	↓	-3
DKK 10Y	0.52	0.47	↓	-6
SEK 10Y	0.48	0.47	↓	-1
NOK 10Y	1.35	1.35	↑	0
PLN 10Y	2.96	2.94	↓	-2

* As of closing previous trading day

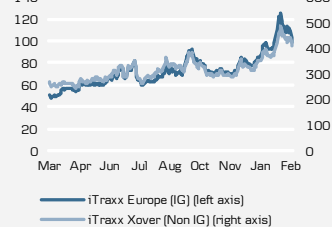


Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	100	↓ 0	↑ 6
HiVol	126	↑ 0	↑ 0
Xover (N-IG)	410	↓ -1	↑ 36
Finan. Sr.	111	↑ 0	↑ 16
Finan. Sub.	245	↓ -1	↑ 25
Non-finan.			

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	07:30	Δ	%
USD 10Y				
JPY 10Y	-17	-15	↑	2
07:30(-1)* 17:00				
EUR 10Y	0	18	↑	18
DKK 10Y	39	39	↓	0
SEK 10Y	43	42	↓	0
NOK 10Y	63	62	↓	-1

* As of closing previous trading day

** Ask price

7:30(-1) og 17:00 refers to the previous (trade) day

Source: Bloomberg, Danske Bank Markets

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First date of publication

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