

Danske Daily

Market Movers

- **The flash estimate for euro-area HICP inflation in November is due for release and we expect headline inflation to increase to 0.2% y/y.** The increase should be driven by the volatile food and energy price inflation, whereas we estimate that core inflation will fall slightly to 1.0% after jumping to 1.1% in October, which was the highest in more than two years. The higher core inflation has mainly been driven by higher goods-price inflation but the euro appreciation during mid-2015 suggests the trend will reverse next year.
- **In the US the ADP job report will be out ahead of Friday's non-farm payrolls. Also, the Fed releases its Beige Book.** A range of Fed speakers including Yellen who will likely reiterate the recent message that the US economy is ready for the first rate hike.
- **Bank of Canada (BoC) is set to keep rates unchanged at today's meeting.** Canada is struggling at these levels for oil but BoC is set to get some help in adjusting to the new lower-oil-price environment from Fed hikes set to lift USD/CAD near term.
- **We expect the National Bank of Poland to maintain the policy rate at 1.5%.**
- **Danish currency reserve figures due for release, see *Scandi Markets*.**

Selected Market News

In the run-up to the December meeting the Fed is facing an aggravated dilemma: against expectations the US ISM manufacturing declined to 48.6 in November from 50.1 last month. This is the lowest level since June 2009 and the first time since 2012 the index fell below 50. Moreover, subcomponents were also weak overall. The weak ISM manufacturing report clearly puts the Fed in a difficult position. On the one hand, it has never increased rates when ISM manufacturing has been this low, on the other, the domestic part of the economy is clearly generating jobs. The focus in the US is now on Thursday's ISM non-manufacturing report and Friday's jobs report: **we still expect both to come out at levels that would allow the Fed to hike in December**, see *Weak ISM manufacturing in November puts Fed in difficult position*, 1 December. Last night, Fed's Evans stroke a dovish tone albeit it still seems he can accept a hike in December as long as the rate path is gradual. **Indeed, the rate path seems the most important 'battleground' for the FOMC at the moment** as the Fed needs to convince the market that the hiking cycle this time round will be exceptionally shallow in a historical comparison in order to not slay any signs of inflation returning.

Sentiment is mixed this morning with little overall direction for equities in the Asian session. A strong Australian GDP report has lifted AUD/USD further overnight, while USD/CAD came under pressure yesterday after dire GDP figures. The latter puts some pressure on BoC ahead of the rate decision this afternoon but we still look for unchanged rates today. **The oil price continues to edge lower as market attention is drawn to the OPEC meeting on Friday:** the cartel looks set to keep production at elevated levels and thus likely to offer little respite to a still well-supplied market. Brent is now not far from the August low (42.70), which could be broken if OPEC keeps the price war alive and EUR/USD takes another dive on ECB-Fed near term.

Market overview

| | 07:30 | 1 day +/- % | |
|------------------------------|---------|-------------|---------|
| S&P500 (close) | 2102.6 | ↑ 1.07 | |
| S&P500 fut (chng from close) | 2100.0 | ↑ 0.00 | |
| Nikkei | 19961.7 | ↓ -0.25 | |
| Hang Seng | 22480.6 | ↑ 0.44 | |
| | 17:00 | 07:30 | |
| | | +/- bp | |
| US 2y gov | 0.91 | 0.93 | ↑ 2.0 |
| US 10y gov | 2.16 | 2.17 | ↑ 0.9 |
| iTraxx Europe (IG) | 70 | 70 | ↑ 0.1 |
| iTraxx Xover (Non IG) | 288 | 289 | ↑ 0.8 |
| | | | +/- % |
| EUR/USD | 1.061 | 1.061 | ↑ 0.00 |
| USD/JPY | 122.830 | 123.060 | ↑ 0.19 |
| EUR/CHF | 1.09 | 1.09 | ↓ -0.17 |
| EUR/GBP | 0.705 | 0.704 | ↓ -0.02 |
| EUR/SEK | 9.229 | 9.234 | ↑ 0.05 |
| EUR/NOK | 9.19 | 9.17 | ↓ -0.25 |
| Oil Brent, USD | 44.3 | 44.3 | ↓ -0.07 |
| Gold, USD | 1066.7 | 1067.9 | ↑ 0.11 |

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

- *Weak ISM manufacturing in November puts Fed in difficult position*
- *Chinese PMIs a mixed bag but still in line with stabilisation - more rate cuts in the pipeline*
- *IMM Positioning: Investors add further bearish EUR/USD bets*

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Scandi Markets

Denmark. Today the Danish central bank will publish currency reserves data for November. The reserves have attracted considerable attention after soaring in February but have since fallen steadily and are now approaching more normal levels. However, the latest signals from the ECB that it is likely to extend and expand its QE programme will presumably have stemmed the outflow of currency.

Fixed Income Markets

Schatz yields dropped to a new all-time low yesterday despite the MNI story that stated that it might be difficult for Draghi to persuade the ECB Governing Council to do more than a 10bp cut. Expectations remain unchanged going into Thursday. Weak US ISM manufacturing also added to the FI bid with Treasury yields dropping across the curve. In the EUR govie market Portugal was the top performer again with the 10Y dropping another 5bp. The spread to Italy is now back at the tightest level since October.

In Denmark focus is on the tap auction in the new '2Y' benchmark DGB 0.25% Nov'18 and the 10Y benchmark DGB 1.75% Nov'25. We expect the DMO to sell close to DKK5bn worth of bonds. We see only limited value in DGB 0.25% 11/18, given the low outright level and the flatness of the spread to OBL 1% 10/18. Also, the bond has performed against Cita, as well as DGB 2.5% '16 and DGB 4% '17. However, the 10Y is attractive given the steep yield curve and a solid spread to Bunds, see *Auction of 2Y and 10Y DGBs: 2Y bond looks too expensive*, 1 December. Note also that Finland today will start issuing USD-denominated t-bills with maturity date on 18 May. The Finnish state treasury is aiming to issue about USD3bn.

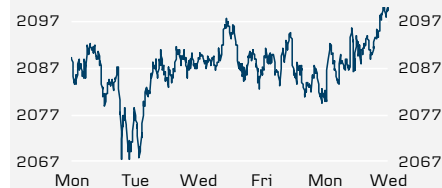
FX Markets

EUR/SEK continues to flirt with the sub-9.20 level following the violent sell-off in the aftermath of Monday's Swedish GDP report. We still think the Riksbank will be alert to prevent a fast move lower but the board will be tested on this proposition when the ECB is set to ease tomorrow. The AUD and NZD recovered somewhat yesterday after the RBA kept rates unchanged and we expect the BoC to follow suit with no changes to its policy rate today but still see USD/CAD higher short term as Fed starts hiking.

We expect the National Bank of Poland to keep its benchmark rate unchanged at 1.5% today. While inflation is still negative, it is clearly on an upward trend. Furthermore, the Polish economy is growing at healthy rates with capacity utilisation nearing pre-2008 highs and unemployment down to 7.5%, well below OECD's NAIRU estimate of 10%. In addition, we also think the central bank will stay put ahead on the appointment of eight out of 10 monetary policy committee members in January and February.

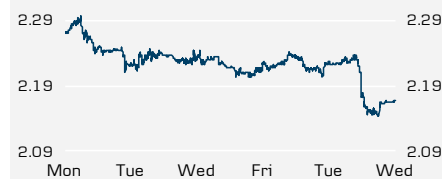
IMM positioning data released yesterday revealed another build in bearish EUR bets, sending speculative positioning in the single currency to the most bearish level since early June, see *IMM Positioning: Investors add further bearish EUR/USD bets*, 1 December.

US S&P500 future



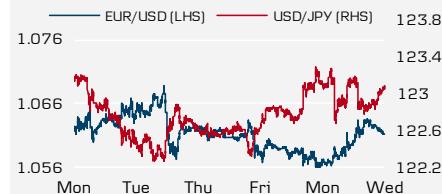
Source: Danske Bank Markets

US 10y gov yield



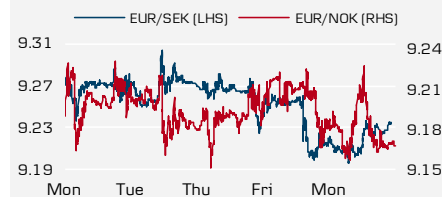
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

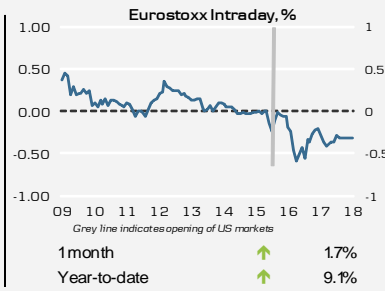
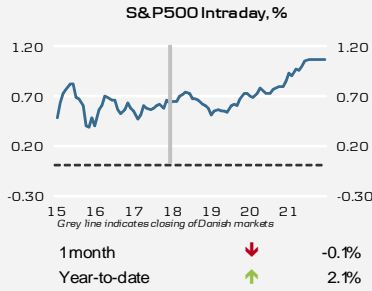
Key figures and events

| Wednesday, December 2, 2015 | | | Period | Danske Bank | Consensus | Previous |
|-----------------------------|-----|--|---------|-------------|-------------|-------------|
| - | PLN | Polish central bank rate decision | % | 1.5% | 1.5% | 1.5% |
| 1:30 | AUD | GDP | q/q y/y | 3rd quarter | 0.7% 2.3% | 0.2% 2.0% |
| 2:00 | USD | Fed's Brainard (voter, dovish) speaks | | | | |
| 9:00 | DKK | House and apartment prices | | | | |
| 9:30 | SEK | Current account | SEK bn | 3rd quarter | | 58.4 |
| 10:30 | GBP | PMI construction | Index | Nov | 58.6 | 58.8 |
| 11:00 | EUR | PPI | m/m y/y | Oct | -3.2% -0.4% | -3.1% -0.3% |
| 11:00 | EUR | HICP - core, flash estimate | % | Nov | 1.0% | 1.1% |
| 11:00 | EUR | HICP, flash estimate | y/y | Nov | 0.2% | 0.3% |
| 13:00 | USD | MBA Mortgage Applications | % | | | -3.2% |
| 14:10 | USD | Fed's Lockhart (voter, neutral) speaks | | | | |
| 14:15 | USD | ADP employment | 1000 | Nov | 190 | 182 |
| 14:30 | USD | Unit labour cost, final | q/q | 3rd quarter | 1.0% | 1.4% |
| 16:00 | DKK | Currency reserves | DKK bn | Nov | 466.6 | 491.6 |
| 16:00 | CAD | Bank of Canada rate decision | % | 0.5% | 0.5% | 0.5% |
| 16:30 | USD | DOE U.S. crude oil inventories | K | | | 961 |
| 18:25 | USD | Fed's chair Yellen speaks | | | | |
| 21:40 | USD | Fed's Williams (voter, neutral) speaks | | | | |

Source: Bloomberg, Danske Bank Markets

Today's market data: 02 December 2015

STOCKS



| | Close | | +/- |
|------------------|-------|---|-------|
| DJUSTOXX50 | 3277 | ↓ | -0.3% |
| OMXC20 | 1020 | ↑ | 0.5% |
| OMXS30 | 1531 | ↓ | -0.4% |
| OSE BX | 632 | ↑ | 0.6% |
| DOW JONES | | | |
| DOW JONES | 17888 | ↑ | 1.0% |
| NASDAQ | 5156 | ↑ | 0.9% |
| S&P500 | 2103 | ↑ | 1.1% |
| NIKKEI (07:30) | 19962 | ↓ | -0.3% |

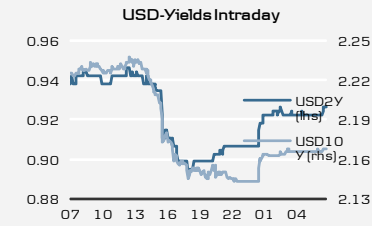
FX & COMMODITIES



| EUR | 17:00 | 07:30 | +/- |
|------------|--------|--------|---------|
| USD | 106.12 | 106.12 | ↑ 0.00 |
| JPY | 130.35 | 130.60 | ↑ 0.25 |
| GBP | 70.45 | 70.44 | ↓ -0.01 |
| NOK | 919.06 | 916.79 | ↓ -2.27 |
| SEK | 922.89 | 923.39 | ↑ 0.50 |
| DKK | 745.99 | 745.98 | ↓ -0.01 |
| PLN | 428.35 | 428.12 | ↓ -0.23 |
| USD | | | |
| JPY | 122.83 | 123.06 | ↑ 0.23 |
| GBP | 150.62 | 150.65 | ↑ 0.03 |
| CHF | 102.87 | 102.70 | ↓ -0.17 |

| | Close | | +/- |
|-------------|---------|---------|----------|
| Gold, \$ | 1067.86 | | 44.28 |
| 1 day | ↓ | -1.44 | ↓ -0.16 |
| 1 month | ↓ | -65.98 | ↓ -4.51 |
| Year-t-date | ↓ | -117.00 | ↓ -13.05 |
| CRB | | | |
| CRB, Raw | 184.39 | | 400.71 |
| 1M future | 1.85 | ↑ | 0.75 |
| 1 month | ↓ | -10.52 | ↓ -13.57 |
| Year-t-date | ↓ | -45.56 | ↓ -91.40 |

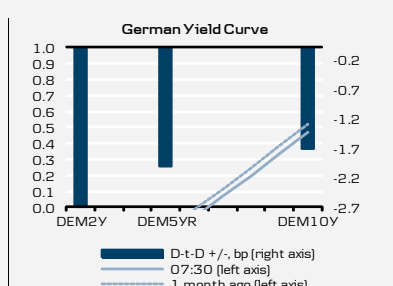
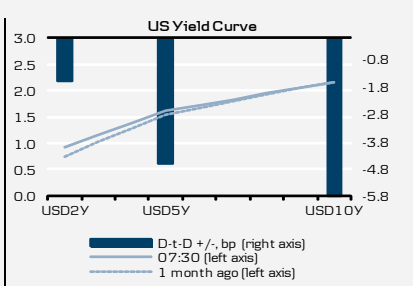
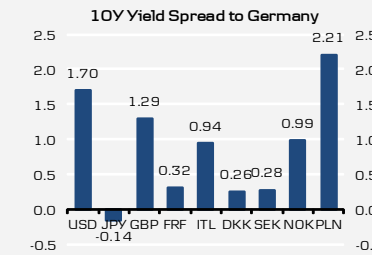
YIELDS & INTEREST RATES



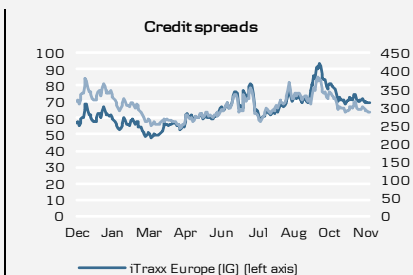
| | Policy Rate | 3M | Spread, bp |
|-----|-------------|-------|------------|
| USD | 0.25 | 0.42 | 17 |
| EUR | 0.05 | -0.12 | -17 |
| GBP | 0.50 | 0.57 | 7 |
| DKK | 0.05 | -0.16 | -21 |
| SEK | -0.35 | -0.41 | -6 |
| NOK | 0.75 | 1.15 | 40 |
| PLN | 1.50 | 1.63 | 13 |

| | 17:00 | 07:30 | +/-, bp |
|---------------------------------|-------|-------|---------|
| USD 10Y | 2.16 | 2.17 | ↑ 1 |
| USD 30Y | 2.93 | 2.92 | ↓ 0 |
| JPY 10Y | 0.30 | 0.33 | ↑ 3 |
| 07:30(-1)* 17:00 +/-, bp | | | |
| DEM 10Y | 0.49 | 0.46 | ↓ -2 |
| DKK 10Y | 0.75 | 0.72 | ↓ -3 |
| SEK 10Y | 0.76 | 0.75 | ↓ -1 |
| NOK 10Y | 1.46 | 1.46 | ↑ 0 |
| PLN 10Y | 2.73 | 2.67 | ↓ -5 |

* As of closing previous trading day



| | 07:30 | 1 day | 1 month |
|-------------------|-------|-------|---------|
| Europe (IG) | 70 | ↓ 0 | ↓ -1 |
| HiVol | 87 | ↓ -2 | ↑ 2 |
| Xover (N-IG) | 289 | ↓ 0 | ↓ -10 |
| Finan. Sr. | | | |
| Finan. Sr. | 68 | ↓ 0 | ↓ -1 |
| Finan. Sub. | 146 | ↓ 0 | ↓ -5 |
| Non-finan. | | | |



| | 17:00 | 07:30 | +/- |
|-----------------------------|-------|-------|------|
| USD 10Y | | | |
| JPY 10Y | -13 | -12 | ↑ 2 |
| 07:30(-1)* 17:00 +/- | | | |
| EUR 10Y | 0 | 15 | ↑ 15 |
| DKK 10Y | 37 | 36 | ↓ -1 |
| SEK 10Y | 46 | 45 | ↓ -1 |
| NOK 10Y | 61 | 62 | ↑ 1 |

* As of closing previous trading day

** Ask price

* Ask price

Source: Bloomberg, Danske Bank Markets

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