

# Danske Daily

## Market Movers

- Federal Reserve chairwoman Janet Yellen will speak in New York tonight. After her Texas Fed's Kaplan is set to speak.
- The US Conference Board's consumer confidence index for March is released today. The index has been range-bound over the past year but is currently at the lower end of the range. We expect a rebound to 94, suggesting that consumers are still quite upbeat.
- M3 money supply and bank lending for February due today will give the first data point in determining the price on the ECB's new TLTRO II loan. The lending figures are relevant as the interest rate on the new TLTRO II loan is dependent on lending growth in the period from February 2016 to January 2018. If a bank exceeds its benchmark in the TLTRO II loan it will be charged a negative rate down to the deposit rate over the entire period of the loan. Note the seventh auction on the TLTRO I is scheduled for 30 March and could be a bit more interesting than the previous ones as the amount borrowed can be rolled over into the new TLTRO II.
- In Sweden, we receive trade balance data and retail sales data, see *Scandi Markets*.

## Selected Market News

US core PCE was 1.7% y/y in February, unchanged from 1.7% y/y and below our and the consensus expectation of 1.8% y/y. Although, on an unrounded basis, it was the highest core PCE inflation reading since January 2013, it marked the 46<sup>th</sup> consecutive month that inflation has undershot the Federal Reserve's 2% inflation target. Yesterday, Atlanta Fed cut its forecast for Q1 US GDP growth to 0.6% y/y from 1.4% y/y, which hints that the US economy might be looking at another quarter of weak growth.

The all important March job report is due on Friday and financial markets will look to see whether it will once again be strong enough to overshadow downbeat signals from other economic key figures and whether it will be strong enough to justify recent comments from Federal Reserve officials, which have been on the hawkish side talking up the probability of a next rate hike in the coming months.

Yesterday, oil and energy ministers from Oman and Indonesia pledged to attend the 17 April meeting in Doha. All OPEC members except Iran and Libya thus look set to join the meeting, where the production freeze accord from January will be on top of the agenda. The news does not look to have left a mark on the oil price – the price on Brent crude has inched below USD40/bl.

## Market overview

|                              |         | 07:30   | 1 day +/- % |
|------------------------------|---------|---------|-------------|
| S&P500 (close)               |         | 2037.1  | ↑ 0.05      |
| S&P500 fut (chng from close) |         | 2031.0  | ↑ 0.15      |
| Nikkei                       |         | 17070.7 | ↓ -0.37     |
| Hang Seng                    |         | 20292.0 | ↓ -0.26     |
|                              |         | 17:00   | 07:30       |
|                              |         |         | +/- bp      |
| US 2y gov                    | 0.86    | 0.88    | ↑ 1.4       |
| US 10y gov                   | 1.87    | 1.89    | ↑ 1.6       |
| iTraxx Europe (IG)           | 76      | 77      | ↑ 0.1       |
| iTraxx Xover (Non IG)        | 320     | 322     | ↑ 1.5       |
|                              |         |         | +/- %       |
| EUR/USD                      | 1.121   | 1.119   | ↓ -0.23     |
| USD/JPY                      | 113.270 | 113.620 | ↑ 0.31      |
| EUR/CHF                      | 1.09    | 1.09    | ↓ -0.07     |
| EUR/GBP                      | 0.787   | 0.786   | ↓ -0.13     |
| EUR/SEK                      | 9.286   | 9.274   | ↓ -0.13     |
| EUR/NOK                      | 9.45    | 9.45    | ↓ -0.05     |
|                              |         |         | USD         |
| Oil Brent, USD               | 39.9    | 40.0    | ↑ 0.30      |
| Gold, USD                    | 1220.1  | 1217.9  | ↓ -0.19     |

### 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

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## Scandi Markets

Swedish trade balance data and retail sales data are due today. We expect the trade balance to have risen a little, while retail sales should have come down somewhat.

## Fixed Income Markets

In terms of issuance this is set to be a quiet day after the long Easter weekend. The highlight of the week will be the new Italian 5Y bond tomorrow, where Italy will sell EUR3.0-3.5bn in the 0.45% Jun-21 bond. Italy will also tap in the 10Y and sell up to EUR1.5bn in the CCTeu 2022. Also tomorrow Germany will sell EUR4bn in the OBL-173 (Apr-21).

Belgium's introduction of a new bond maturing Jun-47 implies that Belgian bonds are set to be the biggest beneficiary of March's index extensions. Germany and Finland will also get an index boost, with a duration increase of 0.10 and 0.13, respectively. In the periphery we expect Spain to see the largest duration increase at 0.10. It is driven by the introduction of a new 30Y bond (EUR5.0bn SPGB Oct-46). For more see *FI Research: Large index extension to boost Belgium*, 23 March.

In Scandinavia focus will be on Sweden, where the SNDO tomorrow will tap EUR1.5bn in the 7Y and 10Y bonds. We continue to favour the 4Y-7Y segment of the Swedish curve given the steepness of the Swedish money market curve and the Riksbank QE purchases and we expect good demand for the 7Y bond. When the SNDO tapped in the 4Y bond two weeks ago it attracted bids for more than SEK18bn, which gave an impressive bid-to-cover of 5.2.

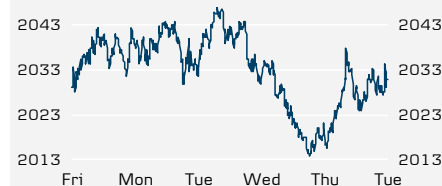
We should expect a marginal positive opening in the European fixed income market this morning after weak US spending data and a revision to Atlanta Fed's Q1 GDP forecast gave support to US treasuries last night.

## FX Markets

Overall our short-term financial models indicate that the USD is somewhat cheap as the Greenback has not followed US rates higher as much as a statistical and historical relationship would suggest. Looking at financial condition-indices, the December Fed hike has - despite higher US rates - now been more than 'unhiked' by the weaker USD and higher equities, which raises the question of when the next US hike is due. With the latest improvement in US economic data and with yesterday's multi-year high y/y PCE core inflation print in mind, Friday's non-farm payroll release will be an important piece of that puzzle.

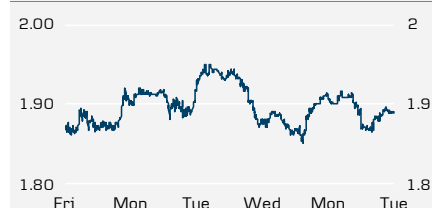
We maintain our call for September as the most likely month for the second Fed hike but the June-probability has significantly increased in recent weeks. For comparison markets price just one full hike in 2016. We do, however, maintain that all other factors but relative rates support a higher EUR/USD, which we therefore think will be held range bound in the coming months targeting the cross at 1.12 in 1M and 3M. In our view it will take a combination of a marked re-pricing of the Fed together with heightened 'Brexit' fears to send the cross below 1.10 in the near term (not our base case). Medium to long term we still look for the cross to edge gradually higher - primarily on valuation - and we forecast the cross at 1.18 in 12M.

### US S&P500 future



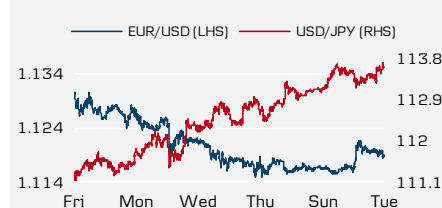
Source: Danske Bank Markets

### US 10y gov yield



Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

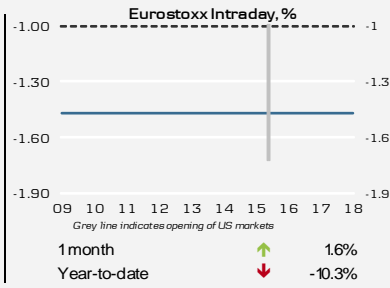
Key figures and events

| Tuesday, March 29, 2016 |     |   |         |     | Period      | Danske Bank | Consensus | Previous    |
|-------------------------|-----|---|---------|-----|-------------|-------------|-----------|-------------|
| 1:30                    | JPY | Household spending                            | y/y     | Feb |             |             |           | -3.1%       |
| 1:30                    | JPY | Unemployment rate                             | %       | Feb |             |             |           | 3.2%        |
| 1:30                    | JPY | Job-to-applicant ratio                        |         | Feb |             |             |           | 1.28        |
| 1:50                    | JPY | Large retailers' sales                        | y/y     | Feb |             |             |           | 0.9%        |
| 1:50                    | JPY | Retail trade                                  | m/m y/y | Feb |             |             |           | -0.4% -0.2% |
| 7:00                    | JPY | Small business confidence                     | Index   | Mar |             |             |           | 47.9        |
| 9:30                    | SEK | Retail sales s.a.                             | m/m y/y | Feb | <b>0.5%</b> | <b>4.3%</b> |           | 0.7% 4.0%   |
| 9:30                    | SEK | Household lending                             | y/y     | Feb |             |             |           | 7.5%        |
| 9:30                    | SEK | Trade balance                                 | SEK bn  | Feb | <b>2.5</b>  |             |           | 1.6         |
| 10:00                   | ITL | Business confidence                           | Index   | Mar |             |             |           | 102.0       |
| 10:00                   | EUR | Money supply (M3)                             | y/y     | Feb | <b>4.8%</b> |             |           | 5.0%        |
| 10:00                   | EUR | Loans to households (adj. for sales and sec.) | y/y     | Feb |             |             |           | 1.4%        |
| 10:00                   | EUR | Loans to NFCs (adj. for sales and sec.)       | y/y     | Feb |             |             |           | 0.6%        |
| 11:15                   | USD | Fed's Williams (non-voter, neutral) speaks    |         |     |             |             |           |             |
| 15:00                   | USD | S&P Case Shiller House prices                 | Index   | Jan |             |             |           | 182.8       |
| 16:00                   | USD | Conference Board consumer confidence          | Index   | Mar | <b>94.0</b> |             |           | 92.2        |

Source: Bloomberg, Danske Bank Markets

Today's market data: 29 March 2016

STOCKS



|                | Close |   | +/-   |
|----------------|-------|---|-------|
| DJUSTOXX50     | 2782  | ↓ | -1.5% |
| OMXC20         | 952   | ↑ | 0.2%  |
| OMXS30         | 1345  | ↓ | -1.7% |
| OSE BX         | 586   | ↓ | -0.5% |
|                |       |   |       |
|                | Close |   | +/-   |
| DOW JONES      | 17535 | ↑ | 0.1%  |
| NASDAQ         | 4767  | ↓ | -0.1% |
| S&P500         | 2037  | ↑ | 0.1%  |
| NIKKEI (07:30) | 17071 | ↓ | -1.5% |

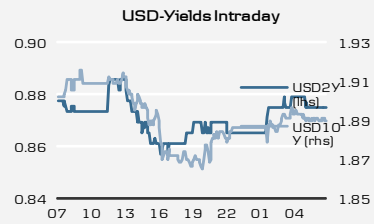
FX & COMMODITIES



| EUR | 17:00  | 07:30  | +/-     |
|-----|--------|--------|---------|
| USD | 112.14 | 111.88 | ↓ -0.26 |
| JPY | 127.02 | 127.12 | ↑ 0.10  |
| GBP | 78.70  | 78.60  | ↓ -0.10 |
| NOK | 945.01 | 944.52 | ↓ -0.49 |
| SEK | 928.57 | 927.38 | ↓ -1.19 |
| DKK | 745.55 | 745.59 | ↑ 0.04  |
| PLN | 424.67 | 424.97 | ↑ 0.30  |
| USD | 17:00  | 07:30  | +/-     |
| JPY | 113.27 | 113.62 | ↑ 0.35  |
| GBP | 142.48 | 142.34 | ↓ -0.14 |
| CHF | 97.30  | 97.45  | ↑ 0.15  |

|             | Gold, \$      | Oil, Brent, \$       |
|-------------|---------------|----------------------|
| 07:30       | 1217.85       | 39.97                |
| 1 day       | ↓ -3.94       | ↓ -0.30              |
| 1 month     | ↓ -20.89      | ↑ 4.00               |
| Year-t-date | ↑ 156.43      | ↑ 2.69               |
|             |               |                      |
|             | CRB 1M future | CRB, Raw Industrials |
| 07:30       | 172.57        | 443.02               |
| 1 day       | ↑ 0.39        | ↓ -1.07              |
| 1 month     | ↑ 9.35        | ↑ 21.28              |
| Year-t-date | ↓ -3.58       | ↑ 38.31              |

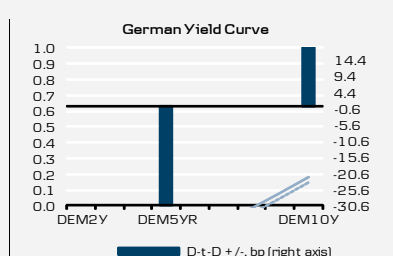
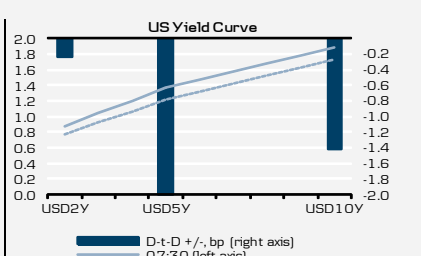
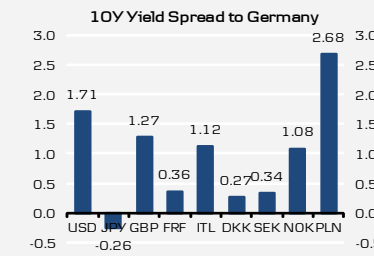
YIELDS & INTEREST RATES



|     | Policy Rate | 3M    | Spread, bp |
|-----|-------------|-------|------------|
| USD | 0.50        | 0.63  | 13         |
| EUR | 0.00        | -0.24 | -24        |
| GBP | 0.50        | 0.59  | 9          |
| DKK | 0.05        | -0.08 | -13        |
| SEK | -0.50       | -0.45 | 5          |
| NOK | 0.50        | 1.01  | 51         |
| PLN | 1.50        | 1.57  | 7          |

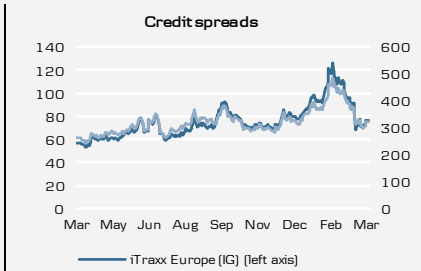
|         | 17:00      | 07:30 | +/-, bp |
|---------|------------|-------|---------|
| USD 10Y | 1.87       | 1.89  | ↑ 2     |
| USD 30Y | 2.65       | 2.66  | ↑ 1     |
| JPY 10Y | -0.08      | -0.08 | ↑ 0     |
|         |            |       |         |
|         | 07:30(-1)* | 17:00 | +/-, bp |
| DEM 10Y | 0.00       | 0.00  | ↑ 0     |
| DKK 10Y | 0.45       | 0.00  | ↓ -45   |
| SEK 10Y | 0.52       | 0.00  | ↓ -52   |
| NOK 10Y | 1.26       | 1.26  | ↑ 0     |
| PLN 10Y | 2.86       | 0.00  | ↓ -286  |

\* As of closing previous trading day



|              | 07:30 | 1 day | 1 month |
|--------------|-------|-------|---------|
| Europe (IG)  | 77    | ↓ 0   | ↓ -24   |
| HiVol        | 90    | ↓ 0   | ↓ -37   |
| Xover (N-IG) | 322   | ↓ 0   | ↓ -88   |
|              |       |       |         |
| Finan. Sr.   | 95    | ↓ 0   | ↓ -14   |
| Finan. Sub.  | 219   | ↓ 0   | ↓ -24   |
| Non-finan.   |       |       |         |

\* Ask price



|         | 17:00      | 07:30 | +/- |
|---------|------------|-------|-----|
| USD 10Y |            |       |     |
| JPY 10Y | -14        | -12   | ↑ 1 |
|         |            |       |     |
|         | 07:30(-1)* | 17:00 | +/- |
| EUR 10Y |            |       |     |
| DKK 10Y | 38         |       |     |
| SEK 10Y |            |       |     |
| NOK 10Y |            | 63    |     |

\* As of closing previous trading day

\*\* Ask price

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### First date of publication

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