

Danske Daily

Market Movers

- Focus is on US CPI inflation for September. The headline figure should move into deflation but core CPI is expected to be unchanged at 1.8% y/y. Yesterday's US PPI numbers were low showing deflation in the core PPI for September of -0.3% m/m. This suggests that the strong USD continues to hold down price pressure in the goods producing industry.
- US initial jobless claims are due for release and should stay within recent ranges.
- A number of Fed speeches today including comments from Bullard (non-voter, hawkish), Dudley (voter, dovish) and Mester (non-voter, hawkish).
- **Norwegian foreign trade data** and **Swedish unemployment figures** are the Scandi highlights today, see *Scandi Markets*.

Selected Market News

Weak earnings and data raise concerns about the strength of the US consumer.

Yesterday a downbeat earnings forecast from Wal-Mart weighed on overall sentiment. The US retailer predicted a 12% decline in profits next year, due to investments, higher wages and lower prices. Earlier in the day, the September retail sales report had disappointed, showing an increase of 0.1% (consensus: 0.2%, Danske Bank: 0.0%). Furthermore, the slight increase was driven by auto sales; excluding the latter, retail sales declined by 0.3% in September and August's reading was revised down to 0.0% (0.2%). We look for private consumption growth around 2.5% q/q AR in the current and coming quarters.

ECB's Constancio talked about a potential spill over from the ECB/Fed monetary policy divergence. Speaking in Hong Kong, the ECB vice president said that the diverging monetary policy between the US and the euro zone could have greater global repercussions than in the past. Furthermore, a Fed hike would have a bigger impact due to emerging markets being integrated in the global economy to an unprecedented degree (see [link](#)).

Significant front-end gains in US treasuries. Apart from the weak sentiment and the retail sales report, the gains were also driven by yesterday's PPI report showing deflation in the core figure for September of -0.3% m/m (consensus: +0.1%, August: +0.1%). Treasury 2-10Y yields declined 6-7bp, causing the 10Y to break back below 2%.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1994.2	↓ -0.47	
S&P500 fut (chng from close)	1996.9	↑ 0.65	
Nikkei	18130.0	↑ 1.34	
Hang Seng	22925.6	↑ 2.16	
	17:00	07:30	
		+/- bp	
US 2y gov	0.56	0.56	↓ -0.4
US 10y gov	2.00	1.99	↓ -1.1
iTraxx Europe (IG)	81	82	↑ 0.8
iTraxx Xover (Non IG)	339	344	↑ 4.4
			+/- %
EUR/USD	1.144	1.149	↑ 0.41
USD/JPY	119.250	118.920	↓ -0.28
EUR/CHF	1.09	1.09	↑ 0.02
EUR/GBP	0.741	0.742	↑ 0.14
EUR/SEK	9.305	9.317	↑ 0.13
EUR/NOK	9.27	9.26	↓ -0.19
			USD
Oil Brent, USD	49.1	49.3	↑ 0.51
Gold, USD	1177.1	1185.1	↑ 0.68

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

- [US retail sales slow in September](#)
- [UK: Slower wage growth not a sign of weakness in the labour market](#)

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Scandi Markets

Norway. No Tier-1 data today but the foreign trade figures for September will include the quarterly price and volume indices for exports and imports, which may tell us a little more about the outlook for growth and inflation. Prices for imported consumer goods (at the border) could give us a clearer picture of what we can expect from import prices (in the stores) in the coming months. The weakening of the NOK over the summer points to a further rise in these prices. Meanwhile the volume indices for mainland exports could contain information on the growth contribution from the export sector given the combination of global slowdown and the weaker NOK. Norges Bank's bank lending survey for Q3 should reveal how weaker growth prospects, market turmoil and slightly higher funding costs have affected the credit policies of banks. Continued relaxed lending practices have played an important role in reducing the effect of the lower oil price on the Norwegian economy and any tightening of these practices would be bad news for many firms and so increase the downside risk to the economy.

Sweden. September labour market figures today. Unemployment has dropped surprisingly sharply in the past couple of months. We suspect that this is not a sign of a soaring economy as employment and hours growth are slowing but rather a sharp drop in labour force growth during the summer months, which seems strange. Hence, although we forecast 'good' numbers today, be prepared that the drop in unemployment may have been caused by problems estimating the labour force and that a recoil is possible. A bad number is more likely to have impact on Riksbank pricing than a good one.

Fixed Income Markets

The weak US retail sales report yesterday pushed 10Y US Treasury yields below 2% yet again and it now stands a few bp from the Sep NFP intra-day lows (which also marks the lowest point since the spring sell-off). Thus another factor pushing down core EUR rates. We think the rally in core EUR rates has further to go and see most value in the 5s10s flatteners where we still see too steep curves compared to the outright rate level (see *chart*).

This week's wave of peripheral supply is coming to an end with Spain tapping EUR3.5-4.5 in the Apr-18, the Oct-25 and the Jul-30. We did see a bit of concession towards the end of the session yesterday. The Apr-18s are looking attractive on the curve and the 10-15 steepness in Spain remains attractive relative to Italy. The Spanish Tesoro is well ahead with this year's funding with around 89% done after today's tap.

France has already achieved this year's target and today's tap marks the beginning of the prefunding for next year. France is tapping EUR7-8bn in the Apr-18s, the Nov-20s and the Apr-22s plus EUR1-1.5bn in linkers (Jul-19, Jul-23 and Jul-24). The net cash flow looks very favourable for France in the remainder of this year.

FX Markets

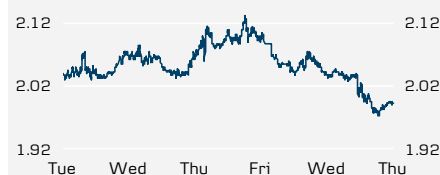
In FX markets the USD continues to weaken with the DXY index now down roughly 2.5% in October alone. Yesterday's move lower was not least driven by the weak retail sales report, which adds to the chain of recent poor US economic releases that have driven market expectations for the first Fed hike into mid 2016. With yesterday's release markets have now priced out any probability of an October hike. With respect to the EUR/USD we still expect the cross to range trade in the coming months before the first Fed hike will induce a slight dip in the cross at the start of next year. Importantly, however, we still do not expect the cross to move anywhere close to parity as we only

US S&P500 future



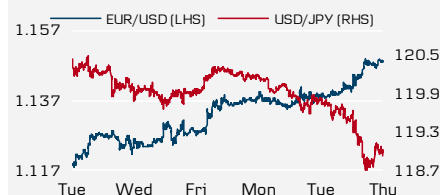
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

pencil in a mere extension of ECB QE and as markets will continue to price in a shallow hiking cycle from the US.

With respect to our quantitative models, FX volatility generally trades in neutral territory across the board. Especially implied volatility on short dated options has declined substantially causing a flattening of volatility curves – most notably in EUR/Scandi and USD/Scandi crosses where short dated FX options up to the 1M tenor are borderline cheap according to our volatility valuation model. Turning to our spot monitor, the NOK remains significantly undervalued vis-à-vis the EUR and SEK. Notably, however, the two Scandies both remain expensive relative to the USD with USD/SEK and USD/NOK trading below our short-term financial model estimates of 8.2329 and 8.2190, respectively. Fundamentally, we remain medium- to long-term bullish on the NOK and think the current low levels in NOK/SEK combined with a cheap option skew offer an attractive opportunity from a risk/reward perspective to gradually build up long NOK/SEK positions via options.

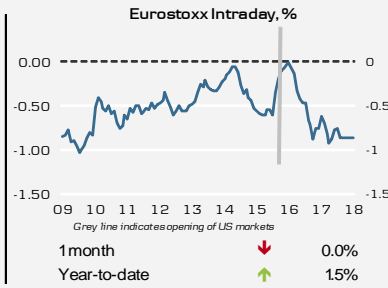
Key figures and events

Thursday, October 15, 2015				Period	Danske Bank	Consensus	Previous
9:30	SEK	Unemployment s.a.	%	Sep	7.0%		7.0%
9:30	SEK	Unemployment trend	%	Sep	7.1%		7.2%
9:30	SEK	Unemployment	%	Sep	6.5%		6.4%
10:00	NOK	Trade balance	NOK bn	Sep			20.8b
14:30	USD	CPI	m/m y/y	Sep		-0.2% -0.2%	-0.1% 0.2%
14:30	USD	CPI - core	m/m y/y	Sep		0.1% 1.8%	0.1% 1.8%
14:30	USD	Initial jobless claims	1000				263k
14:30	USD	Empire Manufacturing PMI	Index	Oct		-7.5	-14.7
16:00	EUR	EU summit in Brussels					
16:30	USD	Fed's Bullard (non-voter, hawkish) speaks					
16:30	USD	Fed's Dudley (voter, dovish) speaks					
17:00	USD	DOE U.S. crude oil Inventories	K				3073k
22:30	USD	Fed's Mester (non-voter, hawkish) speaks					
23:45	NZD	CPI	q/q y/y	3rd quarter		0.2% 0.3%	0.4% 0.4%

Source: Bloomberg, Danske Bank Markets

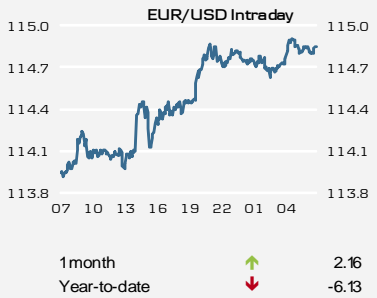
Today's market data: 15 October 2015

STOCKS



	Close		+/-
DJUSTOXX50	3049	↓	-0.9%
OMXC20	908	↓	-2.5%
OMXS30	1443	↓	-1.2%
OSE BX	608	↓	-0.3%
Close +/-			
DOW JONES	16925	↓	-0.9%
NASDAQ	4783	↓	-0.3%
S&P500	1994	↓	-0.5%
NIKKEI (07:30)	18130	↓	-0.9%

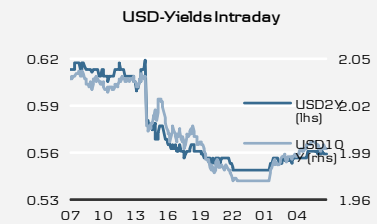
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	114.38	114.85	↑ 0.47
JPY	136.40	136.58	↑ 0.18
GBP	74.11	74.21	↑ 0.10
NOK	927.45	925.70	↓ -1.75
SEK	930.49	931.74	↑ 1.25
DKK	746.13	746.17	↑ 0.04
PLN	423.18	422.67	↓ -0.51
USD	17:00	07:30	+/-
JPY	119.25	118.92	↓ -0.33
GBP	154.35	154.76	↑ 0.41
CHF	95.24	94.88	↓ -0.36

	07:30	Gold, \$	Oil, Brent, \$
	1185.10	49.30	
1 day	↑ 0.97	↑ 0.15	
1 month	↑ 79.85	↑ 2.67	
Year-t-date	↑ 0.24	↓ -8.03	
CRB, Raw Industrials			
	1M future	CRB, Raw Industrials	
	199.83	425.59	
1 day	↑ 0.37	↓ -0.84	
1 month	↑ 3.81	↓ -18.31	
Year-t-date	↓ -30.13	↓ -66.52	

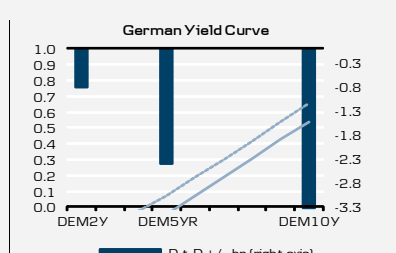
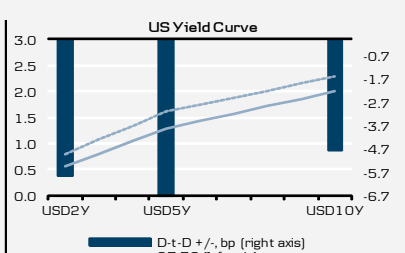
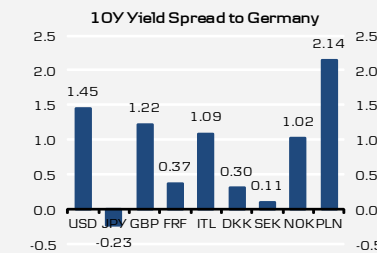
YIELDS & INTEREST RATES



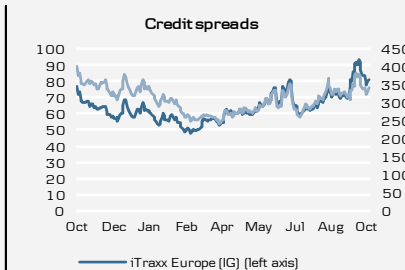
	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.05	-10
GBP	0.50	0.58	8
DKK	0.05	-0.07	-12
SEK	-0.35	-0.30	5
NOK	0.75	1.12	37
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.00	1.99	↓ -1
USD 30Y	2.86	2.85	↓ -1
JPY 10Y	0.31	0.31	↑ 0
07:30(-1)* 17:00 +/-, bp			
DEM 10Y	0.57	0.55	↓ -3
DKK 10Y	0.94	0.86	↓ -9
SEK 10Y	0.69	0.65	↓ -4
NOK 10Y	1.56	1.56	↑ 0
PLN 10Y	2.75	2.69	↓ -7

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1 day	1 month
Europe (IG)	82	↑ 0	↑ 9
HiVol	81	↑ 3	↑ 11
Xover (N-IG)	344	↑ 3	↑ 11
Finan. Sr.	82	↑ 0	↓ 0
Finan. Sub.	172	↑ 1	↑ 6
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-5	-5	↓ 0
07:30(-1)* 17:00 +/-			
EUR 10Y	0	18	↑ 18
DKK 10Y	37	39	↑ 1
SEK 10Y	44	45	↑ 1
NOK 10Y	71	71	↑ 1

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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First date of publication

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