

# Danske Daily

## Market Movers

- **Today, the Bank of England sets the Bank Rate and communicates the target for its asset purchases.** They are expected to be maintained at 0.50% and GBP375bn, respectively. We expect the vote count to be 8-1, as Ian McCafferty will probably continue to vote for a hike due to the strong development of the labour market. Based on BoE governor Carney's very dovish speech, we already know that the BoE is likely to take another dovish stance. The new Inflation Report is also set to attract attention since we will get more precise information about how the latest developments in the global economy and financial markets have affected the BoE's view on the economy in terms of growth, unemployment and inflations forecasts.
- **ECB President Mario Draghi will speaking at 09:00 CET.** We expect him to maintain a dovish stance, echoing remarks made in speeches last week and on Monday that the ECB will 'review and possibly reconsider' its monetary policy in March. We expect a 10bp cut in the deposit rate at the meeting in March.
- A range of data is released from the US today, including **initial jobless claims, factory orders and durable goods orders.**

## Selected Market News

**Dovish Dudley interview weighing on the USD and US rates.** In an MNI interview, New York Fed President Dudley noted that financial conditions have tightened considerably in the weeks since the US Federal Reserve raised interest rates and monetary policy makers will have to take that into consideration should that phenomenon persist. Based on recent speeches, it would appear that a dovish shift has taken place within the FOMC, though this has yet to be confirmed by Fed Chair Yellen, who will be speaking next week.

**Oil rallies despite rise in inventories.** The WTI crude oil price rallied to levels well above USD32/barrel yesterday, despite data released by the Energy Information Administration (EIA) showing a surprisingly large rise in US inventories. According to the EIA data, crude oil inventories rose 7.8m barrels last week, well above expectations for a 4.8m increase. However, the significant and broad-based USD weakening appears to have offset this, with EUR/USD breaking above 1.11 in the US trading session.

**US economic data raise fears of a more broad-based slowdown.** Earlier in the day, a downbeat ISM service report had weighed on sentiment, showing signs of negative spill-over from the struggling manufacturing sector. The headline declined to 53.5 (prior 55.8, survey 55.1), the lowest since February 2014, and sub-components also showed weakness, with employment much lower at 52.1 (56.3), business activity at 53.9 (59.5) and new orders at 56.5 (58.9).

**US equities pare losses, driven by a rebound in oil.** While the soft ISM non-manufacturing report weighed on sentiment early in yesterday's US trading session, equities later recovered driven by the rebound in the oil price and the USD weakness. This morning, Asian equities are also generally higher, except the Nikkei index, which appears to have taken its cue from the slide in the USD/JPY exchange rate.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	1912.5	↑	0.50
S&P500 fut (chng from close)	1916.5	↑	0.42
Nikkei	17056.0	↓	-0.79
Hang Seng	19212.9	↑	1.17
	17:00	07:30	+/- bp
US 2y gov	0.69	0.73	↑ 3.2
US 10y gov	1.83	1.89	↑ 5.7
iTraxx Europe (IG)	103	104	↑ 1.5
iTraxx Xover (Non IG)	399	400	↑ 1.2
			+/- %
EUR/USD	1.107	1.108	↑ 0.13
USD/JPY	117.750	117.970	↑ 0.19
EUR/CHF	1.11	1.11	↑ 0.02
EUR/GBP	0.758	0.761	↑ 0.31
EUR/SEK	9.370	9.358	↓ -0.13
EUR/NOK	9.54	9.48	↓ -0.65
			USD
Oil Brent, USD	34.0	35.3	↑ 3.76
Gold, USD	1139.5	1142.7	↑ 0.28

### 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

- *Why EUR/USD is set to rally in 2016: Now is the time to prepare!*

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## Scandi Markets

There are no scheduled events today.

## Fixed Income Markets

The weak US ISM non-manufacturing reading yesterday paints a picture of a broader US slowdown than just the manufacturing sector and is another indicator that the FOMC might stay on hold for some time together with tighter financial conditions, subdued core inflation, subdued wage inflation and very low market inflation expectations. The US money market curve rallied another 6bp – and compared with the curve just seven weeks ago after the hike, rates have declined 65bp in the Dec-17 maturity. We thus discount the first full hike in Q3 17 and market implied probability of a 2016 hike has dropped to around 60% (see *chart*). Although pricing action suggest some overshooting, we think it is too early to go against the subdued pricing and we will wait for some stabilisation in data and the communication response from core FOMC members before positioning for higher US rates.

Ireland is going to the polls on 26 February as the Irish PM Enda Kenny has called a general election. The polls indicate that the coalition government between Fine Gael and Labour will not be able to hold on to a absolute majority and that the election could be very ‘muddled’ as we have seen in both Portugal and Spain. See more in *our short preview on the Irish election* from 21 January. The potential uncertain election outcome combined with the current market turmoil has been bad for the Irish government bonds - as investors are looking at what happened in Spain and Portugal. However, there are some significant differences to the situation in both Spain and Portugal and one of the key differences is that Ireland has a much smaller funding need in 2016 relative to both Spain and Portugal.

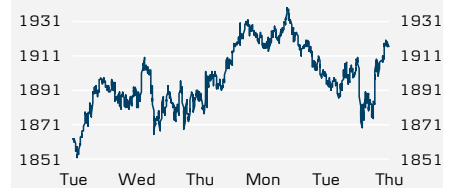
Today's issuance in the European government bond market is coming from France and Spain. France is tapping in the 10Y and 20Y segment, while Spain is tapping both in nominals (10Y and 20Y) and linkers (4Y). Given the decent demand for the 30Y BTPS, there should be some spill-over effect on the Spanish tap auction today, even though there should be no ‘new issue premium’ similar to the syndicated deals. Looking at the slope of the curves relative to the outright level for yields in the front end of the curve, there should also be decent demand for the 20Y segment.

## FX Markets

The USD fell broadly on Wednesday on the back of a weak US ISM non-manufacturing, which dropped to 53.5 in January from 55.8 in December. US rates markets rallied sharply, which was the driver behind the significant USD sell-off. Commodity currencies like NZD and CAD led the rally versus USD, whereas USD/JPY is back below the levels where Bank of Japan (BoJ) moved to negative rates last Friday. Technically, EUR/USD broke important resistance levels at first 1.1000 and next 1.1050, which provides additional top-side risks ahead of 1.15. GBP/USD rallied in sympathy on better than expected UK data. Today, we have the all-important Bank of England Inflation Report which will set the tone for markets. We look for more GBP strength ahead in coming weeks both versus the USD and EUR.

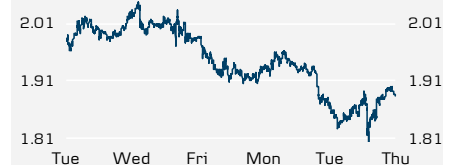
In Scandies, EUR/SEK remains bid where the market ignores strong Swedish data (January PMI Services rose to 59.3 from 58.0) and focuses on the risks of further Riksbank action. We believe that 9.40 will hold in EUR/SEK ahead of the Riksbank meeting next Thursday but we should edge higher if the central bank cuts by 10bp as we expect up towards 9.50.

### US S&P500 future



Source: Danske Bank Markets

### US 10y gov yield



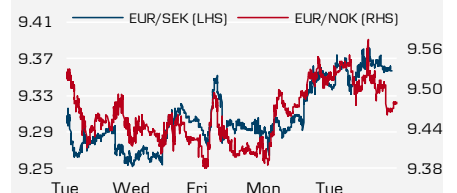
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

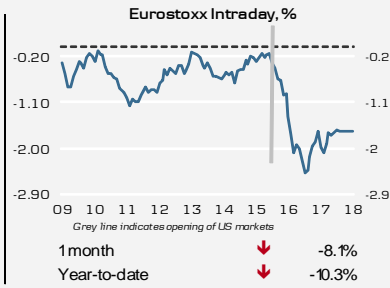
Key figures and events

Thursday, February 4, 2016			Period	Danske Bank	Consensus	Previous
9:00	EUR	ECB's Draghi speaks in Frankfurt				
10:00	EUR	ECB Publishes Economic Bulletin				
13:00	EUR	ECB's Mersch speaks in Zurich				
13:00	GBP	BoE rate announcement	%	<b>0.50%</b>	0.50%	0.50%
13:00	GBP	BoE announces asset purchase target	GBP bn	<b>375</b>	375	375
13:00	GBP	BoE minutes				
13:00	GBP	BoE Inflation Report				
14:30	USD	Unit labour cost, preliminary	q/q		4.0%	1.8%
14:30	USD	Initial jobless claims	1000		283	278
16:00	USD	Durable goods orders, final	m/m			-5.1%
16:00	USD	Factory orders	m/m		-2.1%	-0.2%

Source: Bloomberg, Danske Bank Markets

Today's market data: 04 February 2016

STOCKS



	Close		+/-
DJUSTOXX50	2782	↓	-1.7%
OMXC20	923	↓	-4.3%
OMXS30	1305	↓	-1.1%
OSE BX	540	↑	0.2%
<b>Close</b>			
DOW JONES	16337	↑	1.1%
NASDAQ	4504	↓	-0.3%
S&P500	1913	↑	0.5%
NIKKEI (07:30)	17056	↓	-1.7%

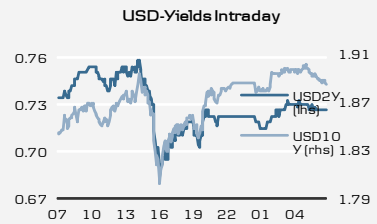
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	110.70	110.84	↑ 0.14
JPY	130.35	130.76	↑ 0.41
GBP	75.84	76.08	↑ 0.24
NOK	954.03	947.85	↓ -6.18
SEK	937.04	935.80	↓ -1.24
DKK	746.33	746.31	↓ -0.02
PLN	442.40	441.76	↓ -0.64
<b>USD</b>	<b>17:00</b>	<b>07:30</b>	<b>+/-</b>
JPY	117.75	117.97	↑ 0.22
GBP	145.97	145.70	↓ -0.27
CHF	100.67	100.56	↓ -0.11

	Gold, \$	Oil, Brent, \$
07:30	1142.74	35.32
1 day	↑ 0.09	↑ 0.28
1 month	↑ 68.18	↓ -1.90
Year-t-date	↑ 81.32	↓ -1.96
<b>CRB</b>		
	<b>1M future</b>	<b>CRB, Raw Industrials</b>
07:30	164.19	421.31
1 day	↑ 4.01	↑ 1.26
1 month	↓ -10.30	↑ 16.60
Year-t-date	↓ -11.96	↑ 16.60

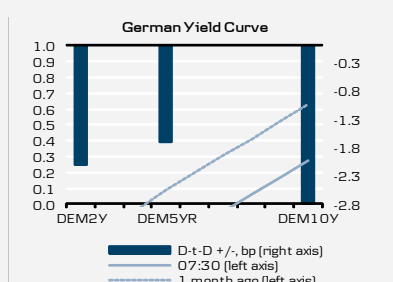
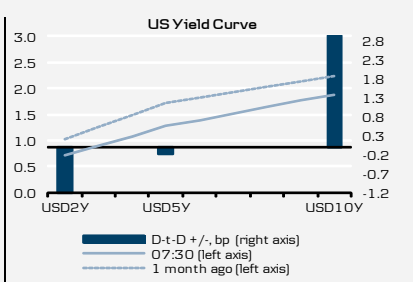
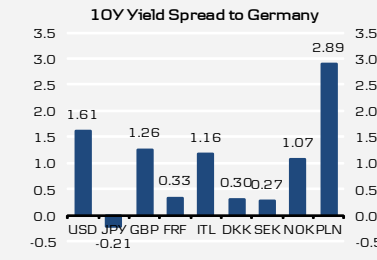
YIELDS & INTEREST RATES



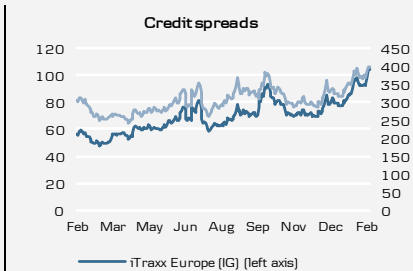
	Policy Rate	3M	Spread, bp
USD	0.50	0.62	12
EUR	0.05	-0.16	-21
GBP	0.50	0.59	9
DKK	0.05	-0.07	-12
SEK	-0.35	-0.35	0
NOK	0.75	1.13	38
PLN	1.50	1.59	9

	17:00	07:30	+/-, bp
USD 10Y	1.83	1.89	↑ 6
USD 30Y	2.66	2.72	↑ 6
JPY 10Y	0.07	0.06	↓ 0
<b>07:30(-1)* 17:00</b>			
DEM 10Y	0.30	0.28	↓ -3
DKK 10Y	0.68	0.58	↓ -10
SEK 10Y	0.59	0.55	↓ -4
NOK 10Y	1.34	1.34	↑ 0
PLN 10Y	3.19	3.16	↓ -2

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	104	↑ 1	↑ 23
HiVol	138	↑ 0	↑ 25
Xover (N-IG)	400	↓ -1	↑ 68
<b>Finan. Sr.</b>			
Finan. Sub.	105	↑ 1	↑ 25
Non-finan.	241	↑ 3	↑ 75



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-13	-14	↓ -1
<b>07:30(-1)* 17:00</b>			
EUR 10Y	0	19	↑ 19
DKK 10Y	34	35	↑ 1
SEK 10Y	42	42	↑ 0
NOK 10Y	66	68	↑ 2

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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