

19 April 2016

Danske Daily

Market Movers

- In the **euro area**, we get data for the German economic sentiment indicator ZEW expectations, which we expect to remain at the current low level as indicated by the Sentix investor confidence. Despite the additional easing from the ECB in March, investors seem worried about the economic outlook and whether the central banks have started to lose their power.
- In the **US**, March figures on housing starts and building permits are due for release. We look for the recovery of the US housing market to continue.
- In the **UK**, everything continues to be driven by the upcoming EU in/out referendum. Today Chancellor of the Exchequer, George Osborne, is questioned by the House of Commons Treasury Committee about the cost/benefit of the EU membership ahead of the EU in/out referendum. BoE Governor Carney speaks at the parliament's Economic Affairs Committee.

Selected Market News

The market reaction to the failed talks between OPEC and non-OPEC countries was relatively modest. Following a brief drop at market opening, Brent crude rose back up to USD43/bl on Monday. This indicates that unless outright production cuts are brought to the table OPEC's leverage over the oil price is minimal. The strike among oil workers in Kuwait also got some attention in light of this move, but in our opinion this should be viewed as an insignificant temporary disruption. Hence, we still look for the price of Brent crude to average USD46/bl in Q4 16 and USD52/bl in 2017.

Risk sentiment held up relatively well. The US equity market closed higher and this morning Asian stock markets are rising as well. Moreover, in the fixed income market, the German 10Y yield increased 3bp as the market tested the April highs.

Despite the relatively positive risk sentiment, EUR/USD moved higher. However, we still think there may be downside risks to the EUR in the run up to the UK referendum, as investor appetite for the common currency is likely to wane as a Brexit on 23 June would be negative for the euro area and the EUR. Over the weekend, the IMF spring meetings highlighted Brexit as one of the major global risks that could weigh on financial markets.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2094.3	↑	0.65
S&P500 fut (chng from close)	2087.5	↑	0.04
Nikkei	16812.6	↑	3.30
Hang Seng	21286.5	↑	0.59
	17:00	07:30	+/- bp
US 2y gov	0.74	0.75	↑ 1.2
US 10y gov	1.78	1.77	↓ -0.2
iTraxx Europe (IG)	72	72	↑ 0.3
iTraxx Xover (Non IG)	309	310	↑ 0.2
			+/- %
EUR/USD	1.132	1.132	↑ 0.01
USD/JPY	108.760	109.040	↑ 0.26
EUR/CHF	1.09	1.09	↑ 0.01
EUR/GBP	0.794	0.791	↓ -0.29
EUR/SEK	9.208	9.184	↓ -0.25
EUR/NOK	9.30	9.29	↓ -0.13
			USD
Oil Brent, USD	42.2	42.8	↑ 1.42
Gold, USD	1234.2	1233.3	↓ -0.07

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

[ECB Preview: Re-opening the door to rate cuts](#)

[Flash Comment: Futile Doha talks won't freeze oil price recovery](#)

[Follow us on Twitter for the latest on macroeconomic and financial market developments.](#)



@Danske_Research

Chief Analyst

Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskebank.dk

Scandi Markets

No key data releases in the Scandi markets today.

Fixed Income Markets

Today it is worth keeping an eye on the ECB's Bank Lending Survey. Have recent easing measures had an impact on the demand for loans? The survey deserves extra attention ahead of the upcoming TLTROs as lending to non-financials will determine the individual banks' lending rates. Draghi has often cited the outcome of this survey and he is set to be confronted with the result on Thursday. See our ECB preview *Re-opening the door to rate cuts*, 18 April, for more.

Speaking of ECB, the QE purchases in the second week of April also suggested that the increase is almost entirely done in the public sector bonds - see *chart*.

The supply biased towards the long continues today as Italy is set to launch a new 20Y (Sep-36) via syndication. This is just two months after Italy launched a new 30Y and the fact that it launches this bond in a week where Spain is also coming in the long end highlights the DMO's desire to increase the average maturity on outstanding debt.

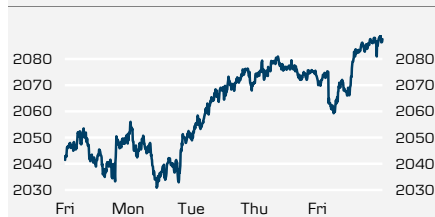
Core EUR FI started the week on a weak note despite the falling oil price. The German 10Y yield increased 3bp as the market tested the April highs. Portugal was once again the top performer tightening 7bp versus core in the 10Y. The spread has now tightened close to 40bp since the supply-related weakness at the beginning of this month. Portugal, and other markets for that matter, seem increasingly sensitive to supply while the persistent ECB buying is driving performance between the supply-driven spikes in the spread to core. The next focal point for Portugal is coming up with the DBRS rating review on 29 April.

FX Markets

In the majors, yesterday's session saw some quite interesting price actions as both EUR/USD and USD/JPY bounced higher along with an increase in equities and the oil price. While it is too early to conclude, it might be an indication that the correlation between EUR/USD and risk assets is fading and that the correlation between the EUR and JPY is doing the same. We can at least find a few good arguments why it is only natural that the EUR's status as a safe haven should weaken now. First of all, the ECB has abandoned the currency war indicating that it will not pursue higher inflation through a weaker currency (for now at least). Moreover, it is fair to assume that investors' appetite for the common currency is likely to wane as a Brexit on 23 June would be a negative for the euro area and the EUR. While it is not our main scenario that the EUR will suffer significantly in the event of a Brexit, risks are clearly skewed towards a lower EUR/USD in this scenario. In any case, we still expect the cross to see downward pressure in the coming months driven by relative rates and we target 1.12 in 1-3M.

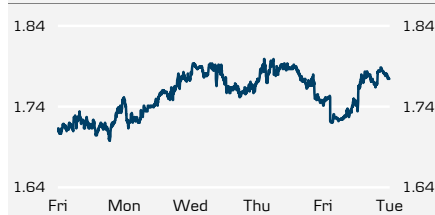
Today, both BoE Governor Carney and Chancellor of the Exchequer George Osborne are scheduled to speak – the latter is questioned by the House of Commons Treasury Committee about the cost/benefit of EU membership. Both speeches might attract some attention as everything continues to be driven by the upcoming EU in/out referendum in the UK. EUR/GBP fell yesterday and tested the lowest levels since 1 April. However, the cross remains substantially oversold according to our short-term financial model and we estimate that a Brexit risk premium in the magnitude of 4.5pp currently is priced into the spot. We forecast EUR/GBP at 0.80 in 1M and think it may inch even higher ahead of the referendum day.

US S&P500 future



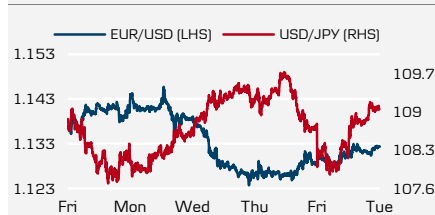
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

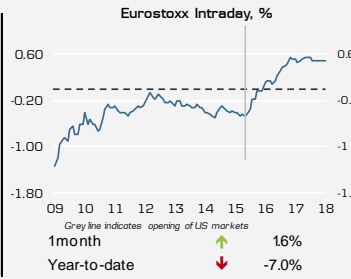
Key figures and events

Tuesday, April 19, 2016			Period	Danske Bank	Consensus	Previous
-	GBP	Osborne questioned by Treasury committee on EU Vote				
1:00	USD	Fed's Rosengren (voter, dovish) speaks				
10:00	EUR	Current account	EUR bn	Feb		25.4
11:00	DEM	ZEW current situation	Index	Apr	50.3	50.3
11:00	DEM	ZEW expectations	Index	Apr	4.5	8.0
14:30	USD	Building permits	1000 (m/m)	Mar		1200
14:30	USD	Housing starts	1000 (m/m)	Mar		1170
16:35	GBP	BoE governor Mark Carney speaks in parliament				1177.0 (-2.2%)
						1178.0 (5.2%)

Source: Bloomberg, Danske Bank Markets

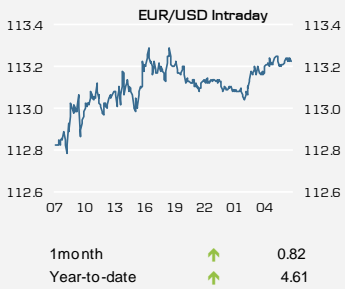
Today's market data: 19 April 2016

STOCKS



	Close		+/-
DJSTOXX50	2882	↑	0.5%
OMXC20	961	↑	0.5%
OMXS30	1382	↑	0.0%
OSE BX	585	↑	0.1%
Close +/-			
DOW JONES	18004	↑	0.6%
NASDAQ	4960	↑	0.4%
S&P500	2094	↑	0.7%
NIKKEI (07:30)	16813	↑	0.5%

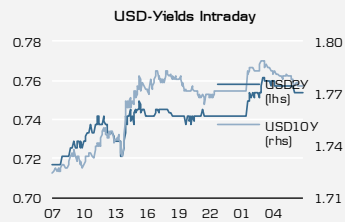
FX & COMMODITIES



	17:00	07:30	+/-
EUR			
USD	113.22	113.23	↑ 0.01
JPY	123.13	123.47	↑ 0.34
GBP	79.37	79.13	↓ -0.23
NOK	930.36	929.17	↓ -1.19
SEK	920.75	918.41	↓ -2.34
DKK	744.14	744.24	↑ 0.10
PLN	430.82	430.87	↑ 0.05
USD			
JPY	108.76	109.04	↑ 0.28
GBP	142.65	143.09	↑ 0.44
CHF	96.37	96.36	↓ -0.01

	07:30		+/-
Gold, \$			
07:30	1233.33		
1day	↑ 0.84	↓	-0.12
1month	↓ -2199	↑	1.59
Year-t-date	↑ 17191	↑	5.51
Oil, Brent, \$			
07:30	42.79		
1day	↓ -0.12		
1month	↑ 1.59		
Year-t-date	↑ 5.51		
CRB, 1M future			
07:30	174.11		
1day	↑ 0.48	↑	0.93
1month	↓ -2.23	↑	13.26
Year-t-date	↓ -2.03	↑	47.26
CRB, Raw Industrials			
07:30	45197		
1day	↑ 0.93		
1month	↑ 13.26		
Year-t-date	↑ 47.26		

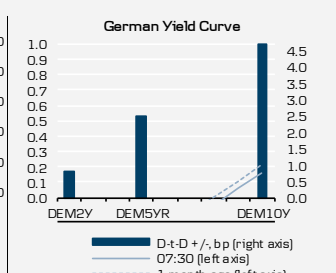
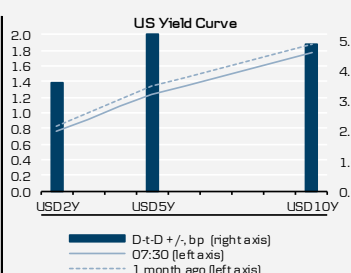
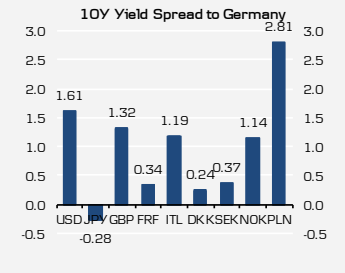
YIELDS & INTEREST RATES



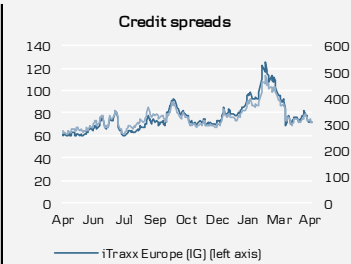
	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.00	-0.25	-25
GBP	0.50	0.59	9
DKK	0.05	-0.10	-15
SEK	-0.50	-0.41	9
NOK	0.50	0.98	48
PLN	1.50	1.57	7

	17:00	07:30	+/-, bp
USD 10Y	178	177	↓ 0
USD 30Y	2.59	2.58	↓ -1
JPY 10Y	-0.11	-0.12	↓ -1
07:30(-1)* 17:00 +/-, bp			
DEM 10Y	0.11	0.16	↑ 4
DKK 10Y	0.37	0.41	↑ 4
SEK 10Y	0.54	0.53	↓ -2
NOK 10Y	1.30	1.30	↑ 0
PLN 10Y	2.97	2.97	↓ 0

* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	72	↓ 0	↑ 1
HiVol	79	↑ 0	↓ -14
Xover (N-IG)	310	↓ -1	↑ 14
Finan. Sr.	88	↓ 0	↑ 0
Finan. Sub.	194	↓ -2	↓ -5
Non-finan.			



	17:00	07:30	+/-
Swap Spread, bp**			
USD 10Y			
JPY 10Y	-15	-14	↑ 1
07:30(-1)* 17:00 +/-			
EUR 10Y	0	22	↑ 22
DKK 10Y	40	39	↓ -1
SEK 10Y	49	47	↓ -2
NOK 10Y	59	60	↑ 2

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

Disclosure

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank').

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request..

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors upon request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Danske Daily is updated on a daily basis.

First date of publication

Please see the front page of this research report for the first date of publication. Price-related data is calculated using the closing price from the day before publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to "U.S. institutional investors" as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to "U.S. institutional investors".

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA, but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.