06 November 2015

Danske Daily

Market Movers

- The October employment report will be released today. Job growth slowed to just below 140,000 on average in September and August, which in our view is below the pace (>150,000) needed for the Fed to initiate the hiking cycle. We estimate that job growth increased to 170,000 in October and that the unemployment rate was steady.
- The hourly earnings measure will be important as well. Wage inflation has been relatively subdued despite the impressive decline in the unemployment rate. This has raised doubt whether the unemployment rate is a good measure of the 'real' amount of slack in the labour market. If wage inflation starts to accelerate, it would be an important sign that the labour market has indeed become tight and would strengthen the case for a near-term Fed funds rate hike.
- In the UK industrial production data are in focus but after the dovish message from the BoE yesterday the impact should be relatively small.
- Budget balance figures in Sweden and manufacturing production in Norway, see *Scandi Markets*.

Selected Market News

Even though yesterday's weekly jobless claims data are from November and do not affect the all-important October labour marker report out today they were monitored closely. The data showed that initial claims rose by 16k, which brings the 4-week average to 263k. Furthermore, the challenger survey showed that 50.4k job cuts were announced in October which is 1.3% lower than a year ago. All in all, these preliminary data point to healthy job growth also in November.

The market is now pricing a close to 65% probability of a hike in December, and if our forecast (+170k) is correct for today's non-farm payrolls that probability could go up further. Also remember that the Fed likes to prepare the market and does not like to surprise. Hence, a higher probability of a December rate hike could in fact be self-reinforcing pushing the probability even higher.

Two-year US Treasury yields are now at the highest level this year at 0.82% but note that US swap yields are still below the level at the beginning of the year. Hence, the swap spread has tightened strongly. In the 10Y segment swap yields are now more than 11bp below the Treasury yield, which is quite extraordinary. This collapse and inversion in swaps spreads probably reflect some fundamental factors like bond selling from EM central banks and hedging of a heavy corporate issuance calendar (receiving swaps). However, it might also reflect that the liquidity of US treasuries has weakened and that trading operations have less appetite or power to go against this 'extraordinary' move in swap spreads.

This morning we had more encouraging news out of China after the PMI data early this week pointed to a stabilisation in the economy. Car sales rose 11.3% in October, the highest monthly rise in seven months. The higher car sales comes after the government in October slashed taxes on car purchases to support demand.

Market overview

		07:30		1 day +/-,%
S&P500 (close)		2099.9	↓	-0.11
S&P500 fut (chng from close)		2093.0	↓	-0.05
Nikkei		19270.5	↑	0.81
Hang Seng		22893.3	↓	-0.68
	17:00	07:30		+/-, bp
US 2y gov	0.85	0.82	↓	-2.8
US 10y gov	2.25	2.23	↓	-2.0
iTraxx Europe (IG)	71	71	↑	0.4
iTraxx Xover (Non IG)	291	292	↑	1.3
				+/-, %
EUR/USD	1.087	1.088	↑	0.10
USD/JPY	121.570	121.820	↑	0.21
EUR/CHF	1.08	1.08	↑	0.10
EUR/GBP	0.713	0.716	↑	0.45
EUR/SEK	9.392	9.391	↓	-0.02
EUR/NOK	9.30	9.31	↑	0.08
				USD
Oil Brent, USD	48.3	48.3	↑	0.17
Gold, USD	1107.4	1109.7	↑	0.21

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

- *Norges Bank update*
- *Bank of England review*

Chief Analyst, Head of Fixed Income Research
Arne Lohmann Rasmussen
+45 45 12 85 32
arr@danskebank.dk

Scandi Markets

Today **Sweden**'s National Debt Office releases the October net borrowing requirement, the first 'test' of the brand new forecast. It forecasts a requirement of SEK3.9bn and there is no reason to expect a deviation so short after the new forecast's release. The more important question is whether the NDO's surprisingly modest forecast for next year will suffice given soaring immigration costs and new demands from AF (labour market board). There is reason for some skepticism about to what extent raising tax revenues will be able to cover rising expenditures. That question will not, however, be answered today.

In **Norway** industrial and manufacturing production are due for release. The recent stabilisation in the PMI indicator points to a positive m/m reading (DB + 0.5% m/m) in manufacturing production in September after the relative sharp fall in August. Together with the Norges Bank press release yesterday it will further support the view that Norges Bank will not cut rates in December.

Fixed Income Markets

The US curve is going into today's pivotal employment report with 5Y UST yields at the highest level since late July and a December Fed lift-off being priced with around 65%. In that sense, today's report is having a very binary outcome for FI markets as a number below, say, 125k (or significant down revision) offers a big reversal of latest increases in rates. These movements could be even stronger in EUR markets as a cancelled Fed hike would scale up expectations for even stronger ECB actions in December without the help from a stronger USD FX. Obviously, a strong (or neutral) report should give more confirmation of the FOMC strategy of coupling a 'live' December meeting and data dependence. Expect the front of the Fed funds curve to price a December hike around 80% in case of a strong report.

Belgium is up for review by Moody's tonight. We do not expect a rating change, see page 10 in our *Government Bonds Weekly*.

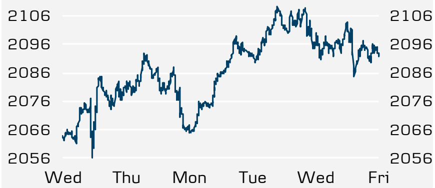
FX Markets

Norges Bank kept rates unchanged as expected yesterday, see *Norges Bank review: Rates unchanged, easing bias reiterated,* and following the decision, we saw a relief rally in the NOK as some had expected a clear hint of a December cut. In our view, however, this is NOT a game changer and it is not a trigger for continued NOK appreciation: we maintain our view that EUR/NOK risks remain skewed to the upside in the coming months on seasonality and the potential for more NB easing being priced in ahead of the December meeting. We have lifted our 1M and 3M EUR/NOK forecasts to 9.40.

Bank of England stroke a dovish tone at yesterday's meeting and sent GBP crosses lower: while keeping policy measures unchanged. The MPC now expects the strong GBP to weigh on inflation for longer. Fundamentally, we still think that the market's pricing of BoE is too dovish - even if the more negative outlook for CPI inflation indeed is a threat to our call for a bank rate increase in February 2016. We expect EUR/GBP to trade gradually lower in the coming 3-6 months and emphasise that the cross could temporarily undershoot our forecasts around the time of the first BoE hike.

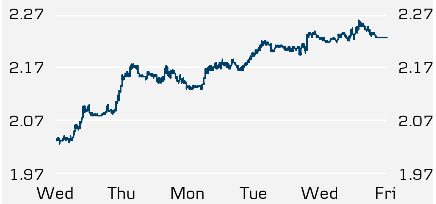
In *What US investors think and how we differ* we discuss our take on the stance of US investors; notably many expect EUR/USD to fall sharply near term but we believe that it will be 'sell the rumour, buy the fact' when the Fed hikes and the ECB eases. Moreover, we expect EUR/USD to rise sharply in 2016 on valuations and a closing European output gap.

US S&P500 future



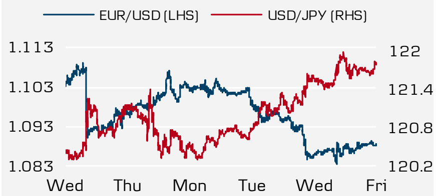
Source: Danske Bank Markets

US 10y gov yield



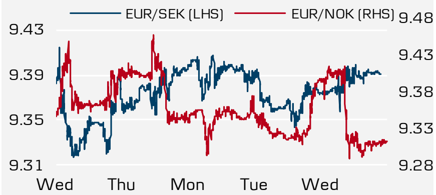
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

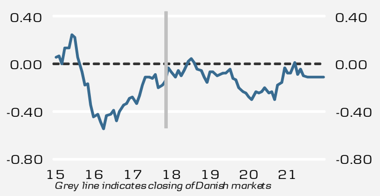
Friday, November 6, 2015				Period	Danske Bank	*Consensus*	Previous
-	EUR	European Union severeign debt may be published by Mo					
-	EUR	Moody's may publish Belgium's debt rating					
6:00	JPY	Leading economic index, preliminary	Index	Sep		*101.9*	103.5
8:00	DEM	Industrial production	m/m|y/y	Sep	**0.5%|...**	*0.5%|1.3%*	-1.2%|2.3%
9:00	DKK	Industrial production	m/m	Sep	**-2.5%**		2.7%
9:30	SEK	Average house prices	SEK m	Oct			2.456m
9:30	SEK	Budget balance	SEK bn	Oct			4.8b
10:00	NOK	Manufacturing production	m/m|y/y	Sep	**0.0%|...**	*0.0%|...*	-0.4%|-7.4%
10:00	NOK	Industrial production	m/m|y/y	Sep			1.7%|3.1%
10:30	GBP	Industrial production	m/m|y/y	Sep	**-0.1%|1.5%**	*-0.1%|1.3%*	1.0%|1.9%
10:30	GBP	Manufacturing production	m/m|y/y	Sep	**0.8%|-0.5%**	*0.5%|-0.7%*	0.5%|-0.8%
10:30	GBP	Trade balance	GBP mio.	Sep		*-2870*	-3268
14:30	USD	Unemployment	%	Oct	**5.1%**	*5.1%*	5.1%
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Oct		*0.2%|2.3%*	0.0%|2.2%
14:30	USD	Private payrolls	1000	Oct	**160k**	*165k*	118k
14:30	USD	Manufacturing payrolls	1000	Oct		*-1k*	-9k
14:30	USD	Non farm payrolls	1000	Oct	**170k**	*180k*	142k
14:30	CAD	Net change in full time employment	1000	Oct			-61.9
14:30	USD	Average weekly hours	Hours	Oct		*34.5*	34.5
15:00	USD	Fed's Bullard (non-voter, hawkish) speaks					
21:00	USD	Consumer credit	USD bn	Sep		*17.750b*	16.018b
22:15	USD	Fed's Brainard (voter, dovish) speaks					
Night	CNY	Currency reserves	USD bn	Oct		*3470.0b*	3514.1b

Source: Bloomberg, Danske Bank Markets

Today's market data: 06 November 2015

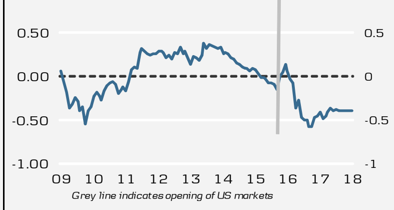
STOCKS

S&P500 Intraday, %



1month	↑	6.1%
Year-to-date	↑	2.0%

Eurostoxx Intraday, %

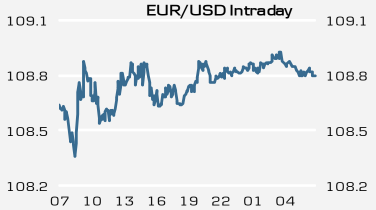


1month	↑	5.3%
Year-to-date	↑	8.2%

	Close		+/-
DJSTOXX50	3251	↓	-0.4%
OMXC20	973	↑	1.1%
OMXS30	1523	↓	-0.4%
OSE BX	629	↓	-0.8%
	Close		*+/-*
DOW JONES	17863	↓	0.0%
NASDAQ	5128	↓	-0.3%
S&P500	2100	↓	-0.1%
NIKKEI (07:30)	19270	↓	-0.4%

FX & COMMODITIES

EUR/USD Intraday



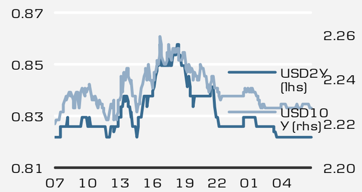
1month	↓	-3.91
Year-to-date	↓	-12.17

EUR	*17:00*	*07:30*		*+/-*
USD	108.70	108.81	↑	0.11
JPY	132.14	132.55	↑	0.41
GBP	71.28	71.60	↑	0.32
NOK	930.42	931.17	↑	0.75
SEK	939.20	939.05	↓	-0.15
DKK	746.01	745.93	↓	-0.08
PLN	424.70	425.24	↑	0.54
USD	*17:00*	*07:30*		*+/-*
JPY	121.57	121.82	↑	0.25
GBP	152.49	151.96	↓	-0.53
CHF	99.61	99.61	↑	0.00

		Gold, $		**Oil, Brent, $**
07:30		1109.68		48.34
1day	↑	5.82	↑	0.36
1month	↓	-37.56	↓	-3.58
Year-t-date	↓	-75.18	↓	-8.99
		CRB 1M future		**CRB, Raw Industrials**
07:30		192.44		411.52
1day	↓	-1.70	↓	-0.98
1month	↓	-7.70	↓	-20.55
Year-t-date	↓	-37.52	↓	-80.59

YIELDS & INTEREST RATES

USD-Yields Intraday

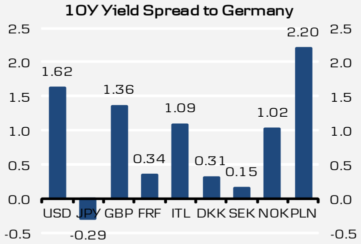


	Policy Rate	**3M**	**Spread, bp**
USD	0.25	0.34	9
EUR	0.05	-0.07	-12
GBP	0.50	0.58	8
DKK	0.05	-0.14	-19
SEK	-0.35	-0.35	0
NOK	0.75	1.09	34
PLN	1.50	1.63	13

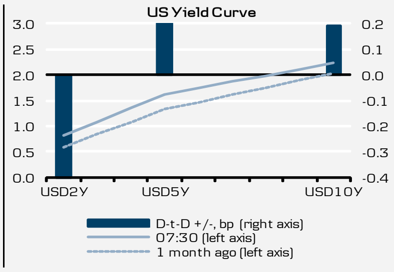
	17:00	*07:30*		*+/-, bp*
USD 10Y	2.25	2.23	↓	-2
USD 30Y	3.01	2.99	↓	-2
JPY 10Y	0.32	0.32	↑	0
	*07:30(-1)**	*17:00*		*+/-, bp*
DEM 10Y	0.60	0.60	↑	0
DKK 10Y	0.99	0.92	↓	-7
SEK 10Y	0.70	0.76	↑	6
NOK 10Y	1.63	1.63	↑	0
PLN 10Y	2.80	2.81	↑	1

* As of closing previous trading day

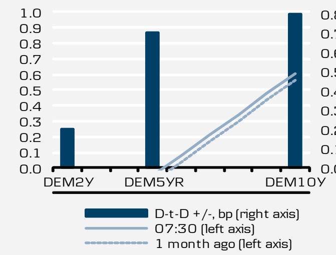
10Y Yield Spread to Germany



US Yield Curve



German Yield Curve

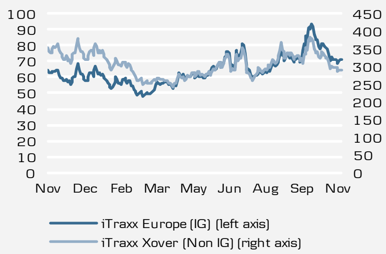


Credit spread, iTraxx s. 11*

	07:30		1day		1month
Europe (IG)	71	↑	0	↓	-15
HiVol	80	↑	1	↓	-5
Xover (N-IG)	292	↓	0	↓	-56
Finan. Sr.	69	↑	0	↓	-17
Finan. Sub.	149	↑	0	↓	-29
Non-finan.					

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	*07:30*		*+/-*
USD 10Y				
JPY 10Y	-15	-12	↑	4
	*07:30(-1)**	*17:00*		*+/-*
EUR 10Y	0	17	↑	17
DKK 10Y	36	35	↓	-1
SEK 10Y	42	40	↓	-2
NOK 10Y	67	64	↓	-3

* 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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