

04 December 2014

Danske Daily

Market movers today

- The main event is the **ECB meeting**. We expect the ECB to keep the powder dry as it waits for the take-up of the TLTRO in mid-December but for Draghi to sound as dovish as he can without actually easing and indications of further easing will be followed closely. The ECB's two contingencies for more easing should not have been triggered, as it still believes the current easing measures are enough to boost the balance sheet and the medium-term outlook for inflation expectations should not have worsened enough to warrant more easing, see *ECB Preview*, 2 December 2014.
- Bank of England** is also expected to remain on hold. Although data in the UK have generally been a bit soft and the latest inflation report from Bank of England showed a risk that inflation could fall below 1% within six months, the minutes from the latest MPC meeting still showed a 7-2 vote to keep interest rates steady.
- In the **US initial jobless claims** are expected to decline after a rise last week. However, there could be some upside risk, as the ADP private employment estimate for November was below consensus. This also indicates some downside risk to our above consensus call for Friday's payrolls growth, see *US labour market: improvement to continue*, 2 December 2014. Fed's Mester (voter, hawkish) and Brainard (voter, dovish) will both speak today.
- In **Norway** the Q4 oil investment survey is due for release.

Selected market news

In Sweden the government's budget proposal failed the voting in Riksdag yesterday and there will be new elections on 22 March. The market reaction was limited, although EUR/SEK against expectations fell a bit ahead of the budget vote. The short-term strengthening of the SEK despite political uncertainty probably reflects that the severe political crisis is not about the fiscal stance per se but rather the influence of the Sweden Democrats on the budget area pertaining to immigration and international aid. In addition, the economic policy could become less left-wing, which - relatively speaking - would probably be good news for the economy and the SEK.

Ahead of the ECB meeting today EUR/USD is trading around the lowest level since summer 2012, while 10Y Spanish and Italian yields are below 2% in anticipation of further easing from the ECB (see more on page two).

Asian stocks are higher and USD/JPY is trading close to 120 after polls by Japanese news organisations suggested a strong win for Prime Minister Shinzo Abe and a new mandate for 'Abenomics' at the 14 December election.

In the US Fed members expressed a hawkish stance overnight. Richard Fisher said that the 'considerable time' phase isn't meaningful, while Charles Plosser said the FOMC is 'too sensitive' about the market reaction to the statement. However, they are both considered very hawkish and as such their comments matter less.

Market overview

	07:30	1 day +/- %
S&P500 (close)	2074.3	↑ 0.38
S&P500 fut (chng from close)	2073.7	↑ 0.05
Nikkei	17877.1	↑ 0.88
Hang Seng	23652.1	↑ 0.95
	17:00	07:30 +/- bp
US 2y gov	0.55	0.55 ↑ 0.0
US 10y gov	2.30	2.28 ↓ -1.8
iTraxx Europe (IG)	57	57 ↑ 0.2
iTraxx Xover (Non IG)	317	318 ↑ 0.7
		+/- %
EUR/USD	1.231	1.230 ↓ -0.10
USD/JPY	119.640	119.900 ↑ 0.22
EUR/CHF	1.20	1.20 ↑ 0.02
EUR/GBP	0.784	0.785 ↑ 0.14
EUR/SEK	9.268	9.263 ↓ -0.05
EUR/NOK	8.66	8.67 ↑ 0.01
Oil Brent, USD	71.3	70.3 ↓ -1.39
Gold, USD	1213.6	1207.2 ↓ -0.53

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 for 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

- Sweden: Government crisis*, 3 December
- ECB Preview: ECB's timeline is tricky - isn't it?*, 3 December
- ECB Preview: Dovish ECB waits for the December TLTRO*, 2 December

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Scandi markets

Norway. For most market participants, the most important release today will be the Q4 oil investment survey. However, we believe it will be equally interesting to see Statistics Norway's oil investment forecast published at the same time, which takes account of not only cost inflation (or deflation) but also investments that have not been reported (e.g. on the major new Johan Sverdrup field). We expect the forecast to indicate a fall in oil investment of 10-12% in 2015. If so, this would reduce the risk of a sharp downward revision of Norges Bank's projections for oil investment and GDP growth next year.

Sweden has a full-blown political crisis. SDP/Greens PM Lofven yesterday said it will on 29 December announce an extra (new) general election on 22 March after the Riksdag voted for the opposition's budget bill instead of the government's. The political race has already started as the Conservatives said they will hold a political conference to announce a new party leader on 10 January, earlier than previously announced. Although the domestic political scene is very dramatic, this is not the case for economic policies. The Alliance budget is probably more growth-friendly with less emphasis on tax hikes. In addition, as both the SDP and the Alliance parties are strongly in favour of stable government finances, we see no risk of budget slippage. Today the Riksbank will release the second Stability Report of the year. Last time it pointed to bank risks associated with household debt. That said, however, it is the FSA that has the say in these matters and it has a less strict view.

Fixed income markets

Spain will tap in the 3, 6 and 10y segment today. Together with other peripheral countries Spain has performed strongly the past couple of weeks both outright and against Germany and at the same time the curve 10y30 has flattened strongly. Given the strong risk sentiment, demand should be strong but given that it is ECB day, some investors might be sidelined. Note that it might be the last auction in Spain, as it not unlikely that Spain will cancel the last auction on 18 December.

France will tap the markets in the 9, 11 and 13y segment today. It will be the last French auction this year. We expect that some EUR6bn will be tapped.

Over the past week in particular the periphery has rallied at the prospect of further easing and a decent probability of government purchases is priced in by now. Hence, a very soft stance from Draghi is needed to avoid spooking the market. We recommend a cautious stance on EGBs going into today's ECB meeting. For more see our preview with EGB comments, *ECB Preview: Dovish ECB waits for the December TLTRO*.

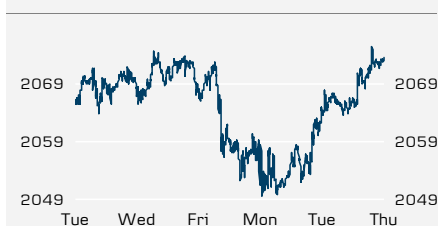
See also *Scandi Strategy 2015: Converging growth, low for longer and carry* and *Danske Bank Fixed Income and FX Top Trades 2015*, published yesterday.

FX markets

In the global FX markets, today's ECB meeting will take centre stage. We do not expect the ECB to announce further easing measures but we believe that Draghi once again will be able to please investors with some very dovish comments. The EUR dropped yesterday against all G10 currencies and it might bounce a little if we are right that the ECB will not announce more easing today. However, given our call for yet another strong US labour market report tomorrow where we expect non-farm payrolls to increase by 240K, we expect any bounce in EUR/USD to be short lived.

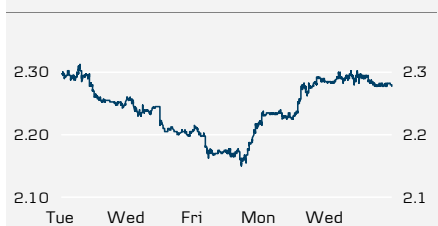
We also expect Bank of England to keep its monetary policy unchanged at today's interest rate meeting. This is fully in line with the market's expectation and should not

US S&P500 future



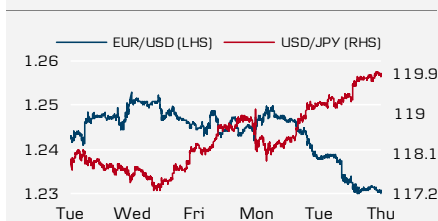
Source: Bloomberg, Danske Bank Markets

US 10y gov yield



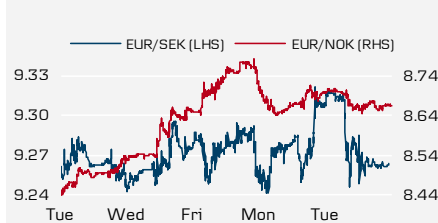
Source: Bloomberg, Danske Bank Markets

Global FX



Source: Bloomberg, Danske Bank Markets

Scandi FX



Source: Bloomberg, Danske Bank Markets

have any impact on the GBP. The GBP appreciated against all G10 currencies yesterday on the back of a higher-than-expected service PMI, which bounced back after two months of decline. Overall, the fast recovery in PMIs supports our view that the UK economy will continue to expand at a solid pace in the coming quarters driven by consumption and investments, which should pave the way for a further decline in EUR/GBP. We target EUR/GBP at 0.76 in 6M but stress that there is a risk that this target could be reached earlier than we expect.

In the Scandi FX markets, the Norwegian Q4 oil investment survey and Statistics Norway's oil investment forecast will be directional for the NOK today. Overall, we expect the survey to indicate a fall in oil investment of 10-12% in 2015, which should ease expectations that Norges Bank will cut rates in December and provide some support to the NOK. Yesterday, we revised our FX forecast for EUR/SEK and EUR/NOK. We have maintained our outlook for the Norwegian economy and fundamentally we remain bearish on EUR/NOK in 2015. However, given the collapse in the oil price, which we did not expect, we have lifted our EUR/NOK forecasts to 8.80 in 1M from 8.50, 8.70 in 3M (from 8.45), 8.50 in 6M (8.25) and 8.20 in 12M (8.00). In respect of the SEK, our 2014 and 2015 GDP growth forecasts for Sweden have been lowered to 1.9% and 1.7% respectively from 2.2% and 2.6% respectively previously and in the light of a weaker outlook for the Swedish economy, we also revised our EUR/SEK forecasts higher to 9.40 in 1M from 9.20, 9.30 in 3M (from 9.10), 9.20 in 6M (9.00) and 9.00 in 12M (8.90).

Key figures and events

Thursday, December 4, 2014				Period	Danske Bank	Consensus	Previous
7:30	FRF	ILO unemployment	%	3rd quarter			10.20%
8:30	SEK	PMI services	Index	Nov			
9:00	DKK	Bankruptcies (s.a.)	Number	Nov			407
9:00	DKK	Enforced sales (s.a.)	Number	Nov			298
13:00	GBP	BoE announces asset purchase target	GBP bn	Dec			375
13:00	GBP	BoE rate announcement	%		0.50%	0.50%	0.50%
13:45	EUR	ECB announces refi rate	%		0.05%	0.05%	0.05%
13:45	EUR	ECB announces deposit rate	%		-0.20%	-0.20%	-0.20%
14:30	EUR	ECB's Draghi holds press conference					
14:30	USD	Initial jobless claims	1000				
14:30	USD	Fed's Mester (voter, hawkish) speaks					
18:30	USD	Fed's Brainard (voter, dovish) speaks					

Source: Bloomberg, Danske Bank Markets

Today's market data: 04 December 2014

STOCKS



	Close		+/-
DJSTOXX50	3091	↑	0.4%
OMXC20	768	↑	0.2%
OMXS30	1465	↑	1.0%
OSE BX	575	↑	0.8%
DOW JONES	17913	↑	0.2%
NASDAQ	4774	↑	0.4%
S&P500	2074	↑	0.4%
NIKKEI (07:30)	17877	↑	0.4%

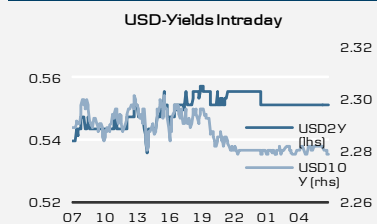
FX & COMMODITIES



	17:00	07:30	+/-
EUR			
USD	123.14	123.02	↓ -0.12
JPY	147.33	147.49	↑ 0.16
GBP	78.37	78.48	↑ 0.11
NOK	866.45	866.56	↑ 0.11
SEK	926.80	926.33	↓ -0.47
DKK	744.05	744.04	↓ -0.01
PLN	415.15	415.28	↑ 0.13
USD			
JPY	119.64	119.90	↑ 0.26
GBP	157.13	156.74	↓ -0.39
CHF	97.70	97.82	↑ 0.12

	Close		+/-
Gold, \$	1207.17		
1day	-2.25	↑	0.35
1month	38.82	↓	-12.55
Year-t-date	152	↓	-40.53
Oil, Brent, \$	70.27		
1day	-0.29	↑	0.46
1month	-14.45	↓	-2.87
Year-t-date	-27.13	↓	-28.87
CRB, Raw Industrials	503.87		
1day	-0.29	↑	0.46
1month	-14.45	↓	-2.87
Year-t-date	-27.13	↓	-28.87

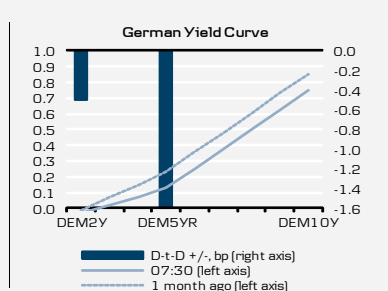
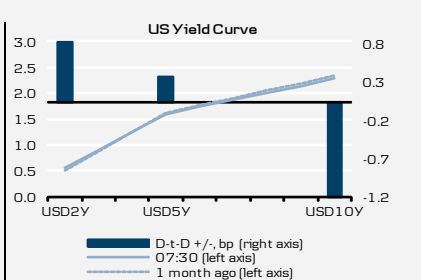
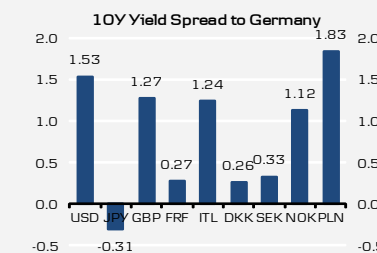
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.25	0.23	-2
EUR	0.05	0.08	3
GBP	0.50	0.55	5
DKK	0.20	0.31	11
SEK	0.00	0.27	27
NOK	1.50	1.64	14
PLN	2.00	1.96	-4

	17:00	07:30	+/-, bp
USD 10Y	2.30	2.28	↓ -2
USD 30Y	3.01	2.99	↓ -2
JPY 10Y	0.44	0.44	↑ 0
DEM 10Y	0.75	0.75	↑ 0
DKK 10Y	1.01	1.01	↓ 0
SEK 10Y	1.09	1.08	↓ -1
NOK 10Y	1.87	1.87	↑ 0
PLN 10Y	2.51	2.58	↑ 7

* As of closing previous trading day

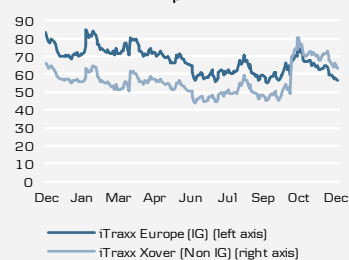


Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	57	↓ 0	↓ -10
HiVol	69	↑ 1	↓ -8
Xover (N-IG)	318	↓ -1	↓ -49
Finan. Sr.	59	↓ 0	↓ -10
Finan. Sub.	137	↑ 1	↓ -26
Non-finan.			

* Ask price

Creditspreads



Swap Spread, bp**

	17:00	07:30	+/-
USD 10Y	13	14	↑ 1
JPY 10Y			
EUR 10Y	0	13	↑ 13
DKK 10Y	23	23	↓ 0
SEK 10Y	29	28	↓ -2
NOK 10Y	31	32	↑ 1

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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