

Danske Daily

Market movers today

- **Euro Flash inflation** is expected to drop to -0.1% y/y for December from 0.3% y/y in November. It is mostly driven by energy prices as core inflation is expected to be flat at 0.7% y/y. We expect euro inflation to be in negative territory until this autumn, which clearly raises the risk of a de-anchoring of inflation expectations. It thus seems clear that the ECB has to respond and there is a rising probability that it will announce QE in government bonds at the coming meeting on 22 January.
- **US ADP payrolls** will give a hint of the official payroll number on Friday. In November the ADP number deviated sharply from the official payroll number as it fell to 208k from 233k. This stood in sharp contrast to the rise in the official payrolls, which rose to 321k from 243k. This is part of the reason why we look for a downside surprise in Friday's payrolls as it seems like an outlier compared to other indicators (see *Monitor - US labour market - Downside risk to December payrolls*, 6 January 2015). The ADP number is expected by consensus to rise to 225k in December.
- **The latest Fed minutes** are published tonight. It will be interesting given the removal of 'considerable time'. For now, though, consensus of a June hike seems to be building, which should also be reflected in the minutes.
- Danish property price data are published. *For more on Scandi markets see page 2.*

Selected market news

Still no end in sight to the collapse in the oil price. After dropping 6% on Monday, Brent oil futures fell another 4% yesterday. The oil price has fallen some 30% since 27 November when OPEC decided not to cut production, adding to concerns about excess surplus. Yesterday, Saudi Arabia's King Abdullah addressed the challenges posed by the low oil price in a speech read for him but he provided no indication that the world's largest crude exporter is about to cut supplies (see *Bloomberg*). In contrast, the kingdom seems keen on maintaining its market share and announced further discounts to US and European buyers on Monday. While US oil drillers appear to react to the decline in prices by laying down rigs, output is still projected to rise as efficiency has increased (see *Bloomberg*). Moreover, EIA data released today are expected to show another increase in US stockpiles, which should support the current downward trend in the oil price.

Risky assets extend declines, economic data offer no comfort. While the lower oil price should provide a boost to global consumers, for now it seems to be stoking deflation fears and weighing on energy producers. In fixed income markets, core government bonds rallied further and in the US, energy sector shares led indices lower on Tuesday, taking them to a fifth consecutive day of losses. Moreover, economic data added to the negative sentiment, as the ISM non-manufacturing declined more than expected to 56.2 (consensus 58.0, previous 59.3). The decline should be taken with a pinch of salt, however, as the index appears to have been artificially high compared to other indicators for some time. Furthermore, the levels of both the headline and the subcomponents are still decent.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	2002.6	↓ -0.89	
S&P500 fut (chng from close)	1998.9	↑ 0.23	
Nikkei	16867.4	↓ -0.09	
Hang Seng	23505.0	↑ 0.08	
	17:00	07:30	+/- bp
US 2y gov	0.62	0.63	↑ 1.2
US 10y gov	1.97	1.95	↓ -1.9
iTraxx Europe (IG)	66	67	↑ 0.3
iTraxx Xover (Non IG)	365	367	↑ 2.2
			+/- %
EUR/USD	1.192	1.188	↓ -0.38
USD/JPY	118.720	118.940	↑ 0.19
EUR/CHF	1.20	1.20	↑ 0.01
EUR/GBP	0.786	0.785	↓ -0.16
EUR/SEK	9.424	9.421	↓ -0.04
EUR/NOK	9.16	9.22	↑ 0.61
			USD
Oil Brent, USD	51.7	50.6	↓ -2.13
Gold, USD	1208.0	1215.0	↑ 0.58

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

- *Monitor: US labour market - downside risk to December payrolls*, 6 January 2016

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Scandi markets

Statistics **Denmark** is publishing its nationwide house and apartment price indices for October. Other housing market statistics from different sources indicate that both house and apartment prices increased in October. Although the figures from Statistics Denmark come with a lag, they are still worth keeping an eye on as they are more accurate. We also get news from the Danish labour market as Statistics Denmark is publishing its new employees statistics for October. December figures for bankruptcies and repossessions are also due for release.

Fixed income markets

The fixed income rally in core markets continues and yesterday non-core markets could not follow suit. The level of the Bund yield is now looking stretched from a fundamental point of view but fundamentals do not matter as long as the market is just tuned in on the lower oil price, implying low growth and inflation for the next 5-10 years. Fundamentally this is wrong but that is the trend. As long as the oil price has not troughed and Greece is a worry, Bunds could continue to rally and curves could flatten more. Judging from yesterday's price dynamics it certainly looks as if the long-end steepener trades in EUR swaps are a pain trade.

Further, the market seems pretty sensitive to US data – i.e. small negative data surprises put a lot of downward pressure on US rates. The markets will be probably be challenged by the Fed Minutes tonight, which could add some upward pressure to rates in the short end. We have booked profit on the recommended 2/10 USD as the performance has come very fast, see *Strategy: Book 45bp profit on top trade for 2015 – 2/10 flattener in USD swaps*, 6 January 2015. Currently we prefer a more sidelined approach to the US market.

In the government bond market this year's primary market activity is kicked off today with expected syndicated transactions from Belgium in a new 10Y and from Ireland that is launching a new 7Y. Also Germany is coming to the market with a EUR5bn tap in the Dec-16 Schatz.

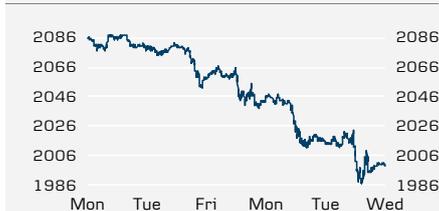
The Danish DMO also kicks off this year's issuance of DGBs by tapping in DGB 2.5% '16 and DGB 1.75% '25. We expect around DKK5bn to be sold as the DMO will probably try to utilise the current drop in rates. See preview here: *Strategy: Auction of 2Y and 10Y Danish government bonds*, 6 January 2015.

FX markets

EUR/USD continued to decline overnight as several factors currently weigh on the euro. The recent re-acceleration of the trend lower has in particular been triggered by increased concerns that Greece might leave the euro and speculations that the ECB is moving closer to a large scale government bond purchase programme. However, other factors such as the declining oil price and, not least, a worsening outlook for the Russian economy also weigh on the currency. Markets are now pricing the risk of a Russian default at close to 1:3 on a five-year horizon and while a default is not our main scenario, the risk of a Russian default in itself is EUR negative given the unconstructive consequences of this for, notably, the European banking sector.

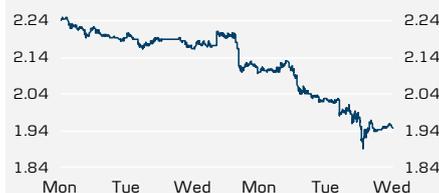
The bearish EUR sentiment is also visible in the latest IMM data (see *IMM positioning: Bearish EUR bets back at 'Whatever it takes' levels*, 6 January), which show that speculative short EUR positions are now back at the same level seen in the summer of 2012 when Draghi delivered his famous 'Whatever it takes' speech. The aggregate bullish USD bets increased further last week close to an all time high and the extremely speculative short EUR/USD positioning indeed suggests that correction risk is 'high'.

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

However, we expect the EUR to decline further in the near term – especially against the USD – as the FX market will continue to price Greek and Russian risks and as the oil price continues to fall. Yesterday, we lifted our target and stop-loss levels on our long USD/CHF position in Danske Bank’s FX Trading Portfolio as we prefer to stay long USD against EUR currencies going forward.

Key figures and events

Wednesday, January 7, 2015				Period	Danske Bank	Consensus	Previous
9:00	DKK	Employment	K (%)	Oct			
9:00	DKK	Bankruptcies (s.a.)	Number	Dec			416
9:00	DKK	Enforced sales (s.a.)	Number	Dec			268
9:00	DKK	House prices (Statistics Denmark)	3m/3m 3m/YoY	Oct			0.7% 3.4%
9:00	DKK	Apartment prices (Statistics Denmark)	3m/3m 3m/YoY	Oct			0.9% 8.4
9:00	CHF	Foreign currency reserves	CHF bn	Dec		472	462.4
9:55	DEM	Unemployment	%	Dec	6.60%		6.60%
11:00	EUR	Unemployment	%	Nov	11.50%		11.50%
11:00	EUR	CPI - core, preliminary	%	Dec	0.7%		0.70%
11:00	EUR	CPI, preliminary	y/y	Dec	-0.1%		0.3%
14:15	USD	ADP employment	1000	Dec			208K
14:30	USD	Trade balance	USD bn	Nov			-434.0
20:00	USD	Minutes from FOMC Meeting December					

Source: Bloomberg, Danske Bank Markets

Today's market data: 07 January 2015

STOCKS



	Close		+/-
DJSTOXX50	2897	↓	-0.8%
OMXC20	744	↓	-0.6%
OMXS30	1455	↓	-0.6%
OSE BX	570	↑	0.8%
	Close		+/-
DOW JONES	17372	↓	-0.7%
NASDAQ	4593	↓	-1.3%
S&P500	2003	↓	-0.9%
NIKKEI (07:30)	16867	↓	-0.8%

FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	119.21	118.76	↓ -0.45
JPY	141.53	141.26	↓ -0.27
GBP	78.59	78.46	↓ -0.13
NOK	916.25	921.81	↑ 5.56
SEK	942.44	942.06	↓ -0.38
DKK	744.14	744.14	↑ 0.00
PLN	431.39	431.92	↑ 0.53
USD	17:00	07:30	+/-
JPY	118.72	118.94	↑ 0.22
GBP	151.70	151.37	↓ -0.33
CHF	100.75	101.13	↑ 0.38

	Close		+/-
Gold, \$	1214.99		50.62
1day	↓	-3.45	↓ -0.48
1month	↑	22.48	↓ -18.45
Year-t-date	↑	30.13	↓ -6.71
CRB	1M future	CRB, Raw	CRB, Raw
	225.38	Industrials	490.21
1day	↓	-1.34	↓ -2.25
1month	↓	-26.95	↓ -13.46
Year-t-date	↓	-4.57	↓ -1.90

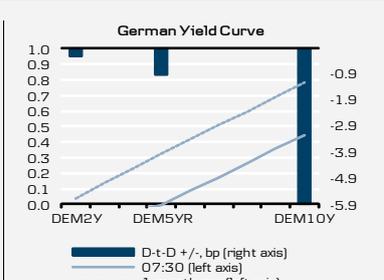
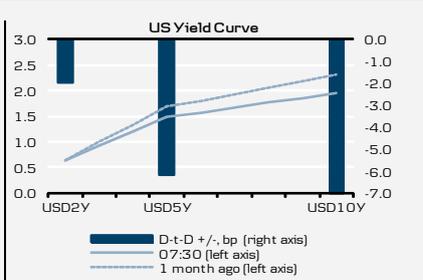
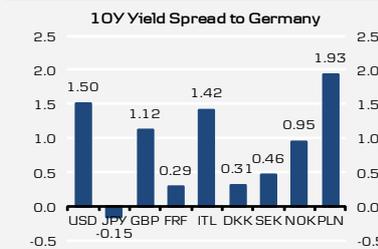
YIELDS & INTEREST RATES



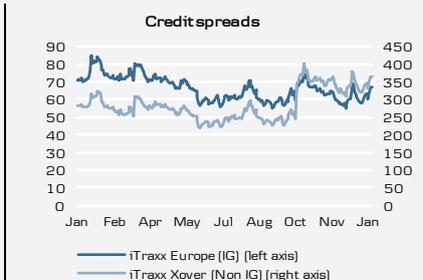
	Policy Rate	3M	Spread, bp
USD	0.25	0.25	0
EUR	0.05	0.07	2
GBP	0.50	0.56	6
DKK	0.20	0.29	9
SEK	0.00	0.27	27
NOK	1.25	1.43	18
PLN	2.00	1.96	-4

	17:00	07:30	+/-, bp
USD 10Y	1.97	1.95	↓ -2
USD 30Y	2.54	2.51	↓ -3
JPY 10Y	0.29	0.30	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.51	0.46	↓ -5
DKK 10Y	0.80	0.76	↓ -4
SEK 10Y	0.90	0.00	↓ -90
NOK 10Y	1.39	1.39	↑ 0
PLN 10Y	2.38	2.38	↑ 0

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1day	1month
Europe (IG)	67	↓ 0	↑ 10
HiVol	71	↑ 1	↑ 6
Xover (N-IG)	367	↑ 0	↑ 49
Finan. Sr.	73	↓ 0	↑ 14
Finan. Sub.	166	↓ 0	↑ 30
Non-finan.			



Swap Spread, bp**	17:00	07:30	+/-
USD 10Y			
JPY 10Y	11	11	↑ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0	18	↑ 18
DKK 10Y	26	27	↑ 1
SEK 10Y	29	29	↓ 0
NOK 10Y	31	31	↑ 1

* As of closing previous trading day

** Ask price

Source: Bloomberg, Danske Bank Markets

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