

19 March 2013

# Danske Daily

## Key news

- Cyprus remains on top of the agenda but global stock markets recover on hope that the situation is contained. In general it seems that the global markets have resumed 'risk-on' trading.
- Today Haruhiko Kuroda takes over as new Bank of Japan governor and the Federal Reserve starts a two-policy meeting.

## Markets Overnight

The situation in Cyprus remains firmly on top of the agenda in the global financial markets. However, the market reaction to the highly unorthodox and in our view also dangerous EU/IMF bailout of Cyprus has been surprisingly limited. After initially selling off yesterday Asian stock markets this morning are trading higher and in general it seems like investors for now do not fear a major negative fallout from the Cyprus bailout. See our *Flash Comments* on the Cyprus situation [here](#) and [here](#).

The fear obviously has been (and still is) that the controversial proposal for a deposit tax on *all* bank deposits in Cyprus would trigger a *bank run* not only in Cyprus but also unnerve depositors in other troubled eurozone countries. That luckily has not happened and it hence seems that the general perception among depositors in other countries and investors is that Cyprus is a '*special case*' and that the likelihood of a similar deposit tax in other countries is very small.

This is most likely the reason why we in general see a resumption of '*risk-on*' trade this morning. Asian stocks are generally higher, the dollar and the yen are weakening, the euro is rebounding and commodity prices are also higher.

The relatively fast recovery in the global markets from the 'Cyprus shock' should also be seen in the light of the expectation that both the Bank of Japan and the Federal Reserve would undertake measures to *offset* any negative fallout from the European situation. In that regard it should be noted that the Fed starts a two-day policy meeting today and Bank of Japan Governor Shirakawa steps down today. New governor Kuroda is expected to aggressively ease monetary policy to achieve Bank of Japan's new 2% inflation target.

While markets so far have recovered nicely, the situation in Cyprus remains highly uncertain. The parliament has still not voted on the bailout deal – the vote was postponed both on Sunday and yesterday. As a consequence Cyprus's banks remain closed and it is obvious that that is *not* a sustainable situation. Furthermore, it should be noted that there are some news reports that the parliament might *not* pass the controversial bailout, which obviously heightens the risk of a disorderly sovereign default of Cyprus. So even though the markets' very calm reaction to the situation gives reason for optimism, it is still far too early to say that the crisis in Cyprus has been resolved and there is certainly still a risk of negative spill-over to the global markets.

## Market movers today:

- All eyes remain on Cyprus
- Will anybody look at the German ZEW indicator?

## Market overview

|                              | 07:30   | 1 day +/-, %   |
|------------------------------|---------|----------------|
| S&P500 (close)               | 1552.1  | ↓ -0.55        |
| S&P500 fut (chng from close) | 1546.7  | ↓ -0.01        |
| Nikkei                       | 12468.2 | ↑ 2.03         |
| Hang Seng                    | 22080.5 | ↓ -0.01        |
|                              | 17:00   | 07:30 +/-, bp  |
| US 2y gov                    | 0.25    | 0.24 ↓ -0.4    |
| US 10y gov                   | 1.96    | 1.94 ↓ -1.1    |
| iTraxx Europe (IG)           | 109     | 109 ↑ 0.3      |
| iTraxx Xover (Non IG)        | 414     | 415 ↑ 0.5      |
|                              |         | +/-, %         |
| EUR/USD                      | 1.297   | 1.294 ↓ -0.22  |
| USD/JPY                      | 94.990  | 95.430 ↑ 0.46  |
| EUR/CHF                      | 1.22    | 1.23 ↑ 0.03    |
| EUR/GBP                      | 0.858   | 0.857 ↓ -0.10  |
| EUR/SEK                      | 8.340   | 8.334 ↓ -0.07  |
| EUR/NOK                      | 7.50    | 7.50 ↓ -0.03   |
|                              |         | USD            |
| Oil Brent, USD               | 109.3   | 109.3 ↓ -0.05  |
| Gold, USD                    | 1607.7  | 1604.9 ↓ -0.17 |

### 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

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## Global Daily

**Focus today.** Cyprus will once again be the centre of attention as markets await the final result of the rescue package. Elsewhere, Weidmann, Schäuble, Knot and Lagarde speak in Frankfurt this morning. In terms of data we expect the German ZEW index to surprise to the upside. In the US we expect housing starts and permits to rebound from the January decline.

**Fixed income markets.** Monday's initial market response to the Cypriot rescue package was clear risk-off with a rally in core fixed income markets and wider periphery spreads. However, as the day progressed the risk-off move eased and Bunds ended up only 5bp lower and 10Y Ireland, Italy and Spain 4bp wider. This appears to reflect a view that a resolution of the implementation issues in Cyprus will be found in the relatively near term, while in the longer term the region's crisis management framework remains intact. But with the great uncertainty of the deal and the ratification process in the Cypriot parliament, this assessment could easily change. The surprising initial proposal of introducing losses to insured depositors clearly shows that the outcome of the political process indeed is unpredictable. Today Denmark will print Nov-23 and Nov-39 (amounts unknown) and the Netherlands will issue a new 10Y of at least EUR5bn.

**FX markets.** EUR/USD relatively calm overnight but still around the 1.2950 level as the euro so far appears to have shrugged off the initial worst from the Cyprus bailout set-up. Today focus will remain on Cyprus and whether the parliament will pass the bailout; this uncertainty could continue to weigh on EUR today. AUD and NZD slightly lower on comments from RBA and New Zealand's finance minister, respectively: the former confirmed it is on hold for now but with an easing bias still, whereas Bill English once again noted that while the kiwi is uncomfortably strong there is little authorities can do about it. Otherwise markets will today likely gear up for Bernanke and the Fed press conference tomorrow.

## Scandi Daily

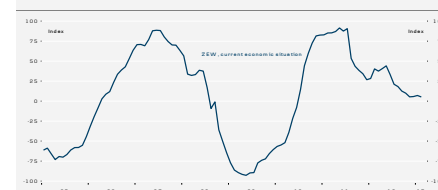
This morning we published updated economic forecasts on the **Danish** economy. We expect the Danish economy to grow 0.4% in 2013 and 1.5% in 2014, see the Danish version of the forecast report *Research Danmark: Vækst – ingen job* for more details. The English version will be part of Nordic Outlook due for publication on Thursday.

### Key figures and events

| Tuesday, March 19, 2013 |     |   | Period     | Danske Bank | Consensus  | Previous    |
|-------------------------|-----|---|------------|-------------|------------|-------------|
| 10:00                   | ITL | Industrial production                                 | m/m/y/y    | Jan         |            | 0.4% -6.6%  |
| 10:30                   | GBP | PPI - input   | m/m/y/y    | Feb         | 1.6% 0.8%  | 1.3% 1.8%   |
| 10:30                   | GBP | PPI - output  | m/m/y/y    | Feb         | 0.3% 1.8%  | 0.2% 2.0%   |
| 10:30                   | GBP | CPI   | m/m/y/y    | Feb         | 0.7% 2.8%  | -0.5% 2.7%  |
| 11:00                   | EUR | Weidmann, Schäuble, Knot & Lagarde speak in Frankfurt |            |             |            |             |
| 11:00                   | DEM | ZEW economic sentiment                                | Index      | Mar         | 48.7       | 47.5        |
| 11:00                   | DEM | ZEW current situation                                 | Index      | Mar         | 7.0        | 6.0         |
| 11:15                   | EUR | ECB announces allotment in 7-day (MRO)                |            |             |            | 5.2         |
| 13:30                   | USD | Housing starts  | 1000 (m/m) | Feb         | 908 (2.0%) | 915 (2.8%)  |
| 13:30                   | USD | Building Permits                                      | 1000 (m/m) | Feb         | 918 (1.5%) | 924 (2.2%)  |
|                         |     |   |            |             |            | 925 (-8.5%) |
|                         |     |   |            |             |            | 904 (-0.6%) |

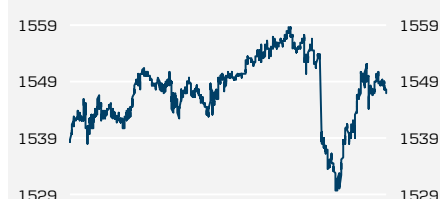
Source: Bloomberg, Danske Bank Markets

### Finally a recovery in ZEW?



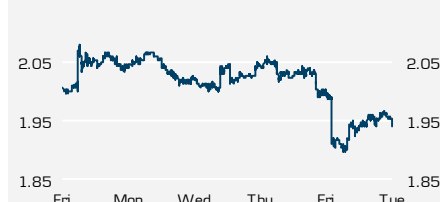
Source: Reuters EcoWin

### US S&P500 future



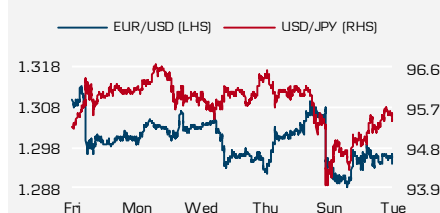
Source: Danske Bank Markets

### US 10y gov yield



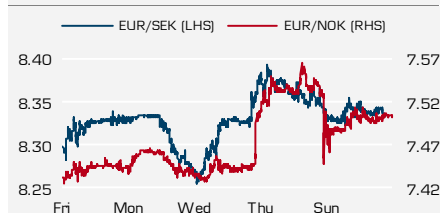
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

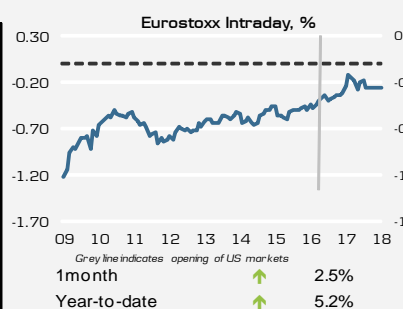
### Scandi FX



Source: Danske Bank Markets

## Today's market data: 19 March 2013

## STOCKS



|                | Close | +/-     |
|----------------|-------|---------|
| DJSTOXX50      | 2711  | ↓ -0.3% |
| OMXC20         | 544   | ↓ -2.0% |
| OMXS30         | 1210  | ↓ -0.6% |
| OSE BX         | 479   | ↓ -0.3% |
|                |       |         |
|                | Close | +/-     |
| DOW JONES      | 14452 | ↓ -0.4% |
| NASDAQ         | 3238  | ↓ -0.4% |
| S&P500         | 1552  | ↓ -0.6% |
| NIKKEI (07:30) | 12468 | ↓ -0.3% |

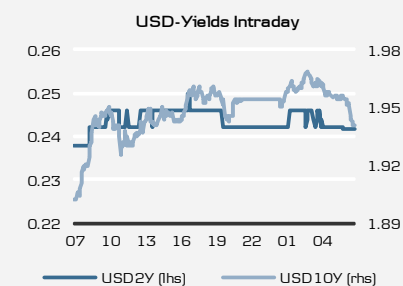
## FX &amp; COMMODITIES



|            | 17:00  | 07:30  | +/-     |
|------------|--------|--------|---------|
| <b>EUR</b> |        |        |         |
| USD        | 129.69 | 129.40 | ↓ -0.29 |
| JPY        | 123.19 | 123.48 | ↑ 0.29  |
| GBP        | 85.78  | 85.69  | ↓ -0.09 |
| NOK        | 750.01 | 749.82 | ↓ -0.19 |
| SEK        | 833.98 | 833.42 | ↓ -0.56 |
| DKK        | 745.51 | 745.48 | ↓ -0.03 |
| PLN        | 414.95 | 415.25 | ↑ 0.30  |
| <b>USD</b> |        |        |         |
| JPY        | 94.99  | 95.43  | ↑ 0.44  |
| GBP        | 151.20 | 151.00 | ↓ -0.20 |
| CHF        | 94.43  | 94.67  | ↑ 0.24  |

|             | Gold, \$ | Oil, Brent, \$       |
|-------------|----------|----------------------|
| 07:30       | 1604.91  | 109.25               |
| 1day        | ↓ -0.72  | ↓ -0.26              |
| 1month      | ↓ -0.14  | ↓ -8.27              |
| Year-t-date | ↓ -70.44 | ↓ -186               |
|             |          |                      |
|             | CRB      | CRB, Raw Industrials |
| 07:30       | 294.45   | 540.66               |
| 1day        | ↓ -1.99  | ↓ -3.47              |
| 1month      | ↓ -3.94  | ↓ -3.71              |
| Year-t-date | ↓ -0.56  | ↑ 10.26              |

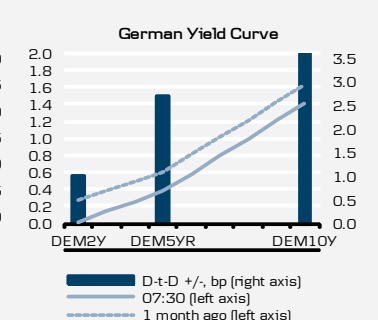
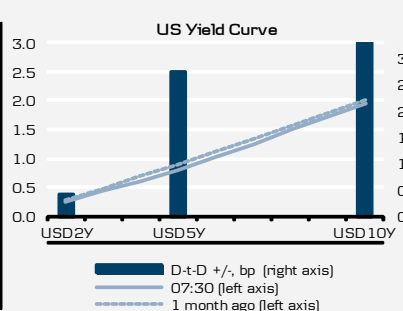
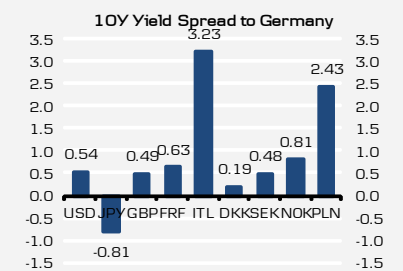
## YIELDS &amp; INTEREST RATES



|     | Policy Rate | 3M   | Spread, bp |
|-----|-------------|------|------------|
| USD | 0.25        | 0.28 | 3          |
| EUR | 0.75        | 0.21 | -54        |
| GBP | 0.50        | 0.51 | 1          |
| DKK | 0.30        | 0.27 | -3         |
| SEK | 100         | 124  | 24         |
| NOK | 150         | 185  | 35         |
| PLN | 3.25        | 3.30 | 5          |

|         | 17:00      | 07:30 | +/-, bp |
|---------|------------|-------|---------|
| USD 10Y | 196        | 194   | ↓ -1    |
| USD 30Y | 3.18       | 3.17  | ↓ -1    |
| JPY 10Y | 0.60       | 0.60  | ↑ 0     |
|         |            |       |         |
|         | 07:30(-1)* | 17:00 | +/-, bp |
| DEM 10Y | 137        | 141   | ↑ 3     |
| DKK 10Y | 155        | 159   | ↑ 4     |
| SEK 10Y | 194        | 189   | ↓ -5    |
| NOK 10Y | 2.21       | 2.21  | ↑ 0     |
| PLN 10Y | 3.84       | 3.84  | ↓ 0     |

\* As of closing previous trading day



## Credit spread, iTraxx s. 11\*

|              | 07:30 | 1day | 1month |
|--------------|-------|------|--------|
| Europe (IG)  | 109   | ↑ 4  | ↓ -2   |
| HiVol        | 160   | ↑ 3  | ↓ -11  |
| Xover (N-IG) | 415   | ↑ 12 | ↓ -22  |
|              |       |      |        |
| Finan. Sr.   | 153   | ↑ 9  | ↑ 10   |
| Finan. Sub.  | 261   | ↑ 15 | ↑ 16   |
| Non-finan.   | 35    | ↑ 1  | ↓ -6   |

\* Ask price

## Credit spreads



## Swap Spread, bp\*\*

|         | 17:00      | 07:30 | +/-  |
|---------|------------|-------|------|
| USD 10Y |            |       |      |
| JPY 10Y | 10         | 11    | ↑ 1  |
|         |            |       |      |
|         | 07:30(-1)* | 17:00 | +/-  |
| EUR 10Y | 0          |       |      |
| DKK 10Y | 27         | 29    | ↑ 3  |
| SEK 10Y | 31         | 29    | ↓ -1 |
| NOK 10Y | 46         | 48    | ↑ 2  |

\* As of closing previous trading day

\*\* Ask price

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