

20 March 2013

Danske Daily

Key news

- The situation in Cyprus has intensified after the Cypriot parliament yesterday voted down the controversial deal to tax bank deposits. There are media reports of possible capital controls being imposed.
- The Cyprus situation is worrying investors and it has increased global risk aversion. That said, the global stock markets are holding up fairly well and the US stock markets ended yesterday's trading more or less flat on the day, while Asian stock generally are moderately higher this morning.

Markets Overnight

The crisis in Cyprus continues. Yesterday the Cypriot parliament failed to pass the bailout deal with the EU. As a consequence, the local banks are still closed and so is the local stock market. Cyprus is heading for a make or break situation and there is no doubt that the credibility of the EU and the euro economic policy process have been seriously dented.

Somewhat alarming media reports overnight indicate that the Cyprus government is working with EU officials to impose capital controls. This would be very unwelcome news as it underscores the seriousness of the situation. Needless to say that free movement of capital is at the core of the EU internal markets and capital controls in Cyprus would be an extreme measure. It is equally worrying that Cypriot Prime Minister Mavrides overnight has said that the government is 'considering nationalising pensions'.

Volatility in the global financial markets has increased this week as a consequence of the crisis in Cyprus. That said, the reaction has been less extreme than could have been feared. For example, the US stock markets ended yesterday's trading more or less flat on the day and this morning Asian stock markets are generally trading higher.

While the global stock markets have been fairly calm, the Cyprus crisis has had somewhat of a bigger impact on the global currency markets, where particularly the euro continues to weaken on worries about Cyprus. This morning the euro is close to a four-month low against the US dollar.

Investors also continue to look towards safe assets and as a consequence US Treasury bond yields continue to inch down, while peripheral European bond markets have been under some pressure. That said, there is certainly no panic in the European bond markets.

Market movers today:

- Focus continues to be on Cyprus
- UK Chancellor Osborne presents the 2013 budget
- EU and ECB top officials have planned speeches today. Any comments on the situation in Cyprus?

Market overview

		07:30		1 day +/-, %
S&P500 ^(close)		1548.3	↓	-0.24
S&P500 fut (chg from close)		1540.7	↓	-0.10
Nikkei		12468.2	↑	2.03
Hang Seng		22203.1	↑	0.73
	17:00	07:30		+/-, bp
US 2y gov	0.23	0.24	↑	0.8
US 10y gov	1.90	1.90	↓	-0.1
iTraxx Europe (IG)	115	121	↑	5.8
iTraxx Xover (Non IG)	428	429	↑	0.4
				+/-, %
EUR/USD	1.290	1.288	↓	-0.18
USD/JPY	94.830	95.050	↑	0.23
EUR/CHF	1.22	1.22	↑	0.08
EUR/GBP	0.853	0.853	↑	0.07
EUR/SEK	8.328	8.326	↓	-0.02
EUR/NOK	7.52	7.52	↓	-0.07
				USD
Oil Brent, USD	108.3	107.9	↓	-0.36
Gold, USD	1613.0	1613.5	↑	0.03

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. We do not expect any changes to the pace of asset purchases or the forward guidance on the first Fed funds rate hike at the FOMC meeting tonight but it is nevertheless interesting (for details see *FOMC preview: QE programme in focus*). In particular, the meeting will include a review of the QE programme and three questions are likely on the agenda. First, what are the costs of expanding the balance sheets compared to the benefits. Second, what determines when the Fed will scale down its purchases. Third, asset sales could be postponed or completely cancelled compared to the guidelines laid out in the June 2011 exit strategy. How much information we will get in the statement, the economic projections and at the press conference is uncertain but the meeting has the potential to be a market mover.

In Europe Cyprus remains in focus. It remains unclear what a final rescue package will look like. Russia has now been included in the negotiations and a vote is not expected until Thursday or Friday. In the UK, Chancellor Osborne will present the 2013 budget to the Parliament. We do not expect him to show any deviation from the current austerity plan. Much attention will be paid to a potential change to the Bank of England remit. Furthermore, we expect modifications of the Funding for Lending scheme skewed towards business lending being presented at the same time. On the same day MPC minutes from the March meeting will be published. The February minutes showed a minority of three members voting for more QE and we expect that this was the same at the March meeting.

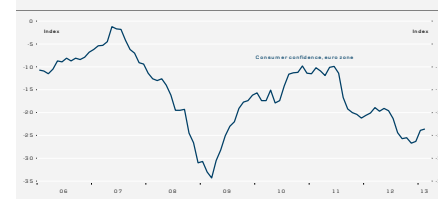
Fixed income markets. Even though Cyprus dominates the risk sentiment these days, the FOMC meeting tonight could move the market. With the discussion of 'potential costs and risks arising from further asset purchases' at the January meeting, we saw how sensitive the market is to potential changes in the QE programme. Although we expect Bernanke to be very balanced in his tone at the press conference tonight, there is no doubt in our minds that the market will scrutinise every word. We see risks skewed towards negative surprises and sell-offs on overly weight on unintended distortions and exit indications. Yields on 10Y Treasuries are now in the middle of the past trading range and, from a technical point of view, there is room for an increase following the meeting. Today Sweden will tap SEK 3.5bn of the Mar-19 bond and Germany will add EUR 4bn to the Feb-23.

The **FX market** is pricing an increasing probability of a negative tail-risk in Europe from the situation in Cyprus - e.g. contagion to European banks from banks failing in Cyprus, a euro exit etc. This has pushed EUR/USD below 1.29 and the euro is unlikely to find many buyers today as the FOMC meeting holds the potential to display the different views on the Fed's QE within the FOMC. Short positions are becoming more stretched but most likely there is room for trading accounts to add if no solution is found in Cyprus or if the FOMC signals a higher probability of an early QE exit.

Scandi Daily

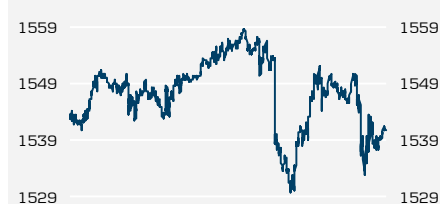
The Board of Governors at **Danmarks Nationalbank (DN)**, headed by new governor Lars Rohde, will present DN's Q1 Monetary Review today at a live press conference scheduled for 10:35 CET. We do not expect any major market-moving news from DN but the event should nonetheless be interesting as it will be governor Lars Rohde's first major public appearance after taking over on 1 February. Furthermore, it will be the first time DN presents its Monetary Review at a live press conference, which marks a welcome improvement in communication from DN.

The European consumer is not happy



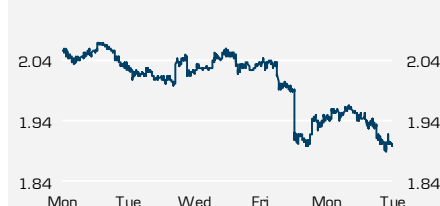
Source: Reuters EcoWin

US S&P500 future



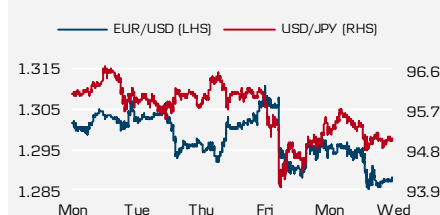
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

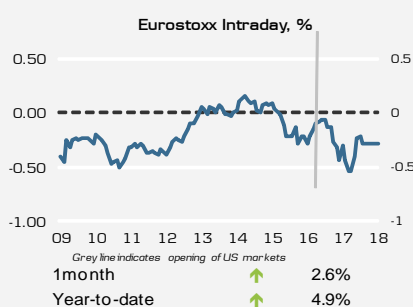
Wednesday, March 20, 2013

				Period	Danske Bank	Consensus	Previous
-	GBP	Chancellor Osborne present 2013 budget					
9:00	DKK	Consumer confidence	Net. bal.	Mar	-2.0	-2.0	-2.0
10:00	EUR	Current account	EUR bn	Jan			13.9
10:30	GBP	Minutes from MPC meeting					
10:30	GBP	Jobless Claims Change	1,000	Feb		-5.0	-12.5
10:30	GBP	Average Earnings	3Ms/YoY	Jan		1.5%	1.4%
10:30	GBP	ILO Unemployment rate	%	Jan		7.8%	7.8%
11:00	EUR	ECB announces allotment in 7-day (USD)					
12:00	USD	MBA Mortgage Applications		Mar			
12:30	EUR	Olli Rehn speaks on European proposal on next step to reinforce EMU					
13:30	EUR	ECB's Asmussens speaks in Frankfurt					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Mar		-23.0	-23.6
19:00	USD	FOMC statement					
19:30	USD	Fed's Bernanke (chairman, neutral) holds press conference					
22:45	NZD	GDP	q/q y/y	4th quarter		0.9% 2.3%	0.2% 2.0%

Source: Bloomberg, Danske Bank Markets

Today's market data: 20 March 2013

STOCKS



	Close	+/-
DJSTOXX50	2703	↓ -0.3%
OM XC20	545	↑ 0.2%
OM XS30	1196	↓ -1.1%
OSE BX	477	↓ -0.3%
	Close	+/-
DOW JONES	14456	↑ 0.0%
NASDAQ	3229	↓ -0.3%
S&P 500	1548	↓ -0.2%
NIKKEI (07:30)	12468	↓ -0.3%

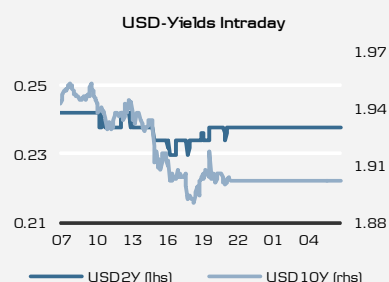
FX & COMMODITIES



	17:00	07:30	+/-
EUR			
USD	128.98	128.75	↓ -0.23
JPY	122.31	122.38	↑ 0.07
GBP	85.26	85.32	↑ 0.06
NOK	752.05	751.50	↓ -0.55
SEK	832.76	832.61	↓ -0.15
DKK	745.47	745.33	↓ -0.14
PLN	415.80	416.48	↑ 0.68
USD			
JPY	94.83	95.05	↑ 0.22
GBP	151.28	150.90	↓ -0.38
CHF	94.53	94.77	↑ 0.24

	Gold, \$	Oil, Brent, \$
07:30	1613.53	107.93
1day	↑ 0.78	↑ 0.48
1month	↑ 48.98	↓ -7.67
Year-t-date	↓ -6182	↓ -3.18
	CRB 1M future	CRB, Raw Industrials
07:30	293.13	540.13
1day	↓ -1.31	↓ -0.53
1month	↓ -3.46	↓ -4.82
Year-t-date	↓ -1.88	↑ 9.73

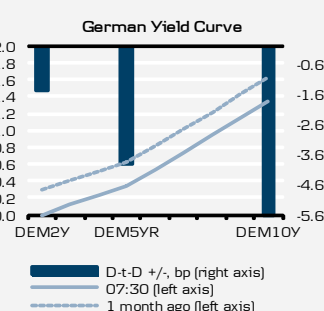
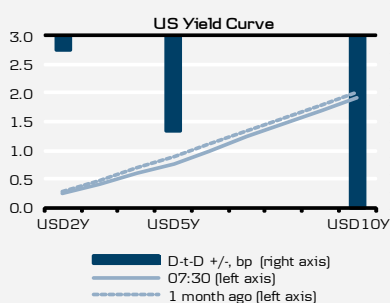
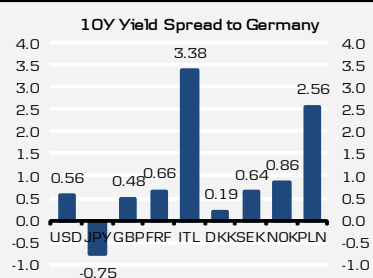
YIELDS & INTEREST RATES



	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	3.29	4

	17:00	07:30	+/-, bp
USD 10Y	190	190	↓ 0
USD 30Y	3.13	3.13	↓ 0
JPY 10Y	0.60	0.60	↑ 0
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	140	135	↓ -5
DKK 10Y	159	153	↓ -6
SEK 10Y	2.01	1.98	↓ -3
NOK 10Y	2.21	2.21	↑ 0
PLN 10Y	3.84	3.90	↑ 6

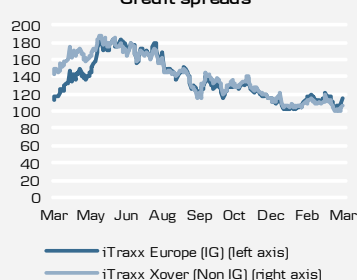
* As of closing previous trading day



Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	121	↑ 11	↑ 9
HiVol	164	↑ 3	↓ -6
Xover (N-IG)	429	↑ 13	↓ -8
Finan. Sr.	163	↑ 10	↑ 20
Finan. Sub.	281	↑ 17	↑ 33
Non-finan.	35	↑ 0	↓ -6

Credit spreads



Swap Spread, bp**

	17:00	07:30	+/-
USD 10Y			
JPY 10Y	11	13	↑ 2
	07:30(-1)*	17:00	+/-
EUR 10Y	0	12	↑ 12
DKK 10Y	29	32	↑ 3
SEK 10Y	28	30	↑ 2
NOK 10Y	48	41	↓ -7

* As of closing previous trading day

** Ask price

* Ask price

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Danske Daily is updated on a daily basis.

First date of publication

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