

2 September 2013

Danske Daily

Market movers today

- **The conflict in Syria continues to be the main focus** but military action looks set to be delayed until 9 September (see more below). The developments in Emerging Markets will also continue to attract attention.
- **In the euro area we will get final manufacturing PMIs today.** The figures for Italy and Spain are expected to increase substantially, as the euro flash PMI increased more than suggested by the development in the German and French numbers.
- **ECB executive board member Coeure speaks in Berlin** at the conference ‘ECB and its OMT programme’ ahead of the ECB meeting later this week.
- US markets are closed for Labor Day ahead of an otherwise busy calendar with ISM manufacturing due to be released tomorrow and the decisive August employment report on Friday.
- **In Norway and Sweden manufacturing PMIs are due for release.** *For more on Scandi markets see page 2.*

Selected market news

President Obama has decided to seek congressional authorisation for military action against Syria. Obama said he is prepared to take military action but he would ask Congress to support the move when it comes back into session on 9 September although lawmakers could be called back earlier. The decision came after military chiefs advised that “our capacity to execute this mission is not time-sensitive; it will be effective tomorrow, or next week, or one month from now”. Secretary of State John Kerry said that the administration’s tests for use of the chemical weapon sarin in Syria had proved positive and added that “the case [for a military attack] gets stronger by the day”.

China’s official manufacturing PMI in August improved more than expected to 51.0 from 50.3 in July, see [Flash Comment](#). The details were strong with new orders improving to 52.4 from 50.6, suggesting continued improvement in the coming months. The manufacturing PMI suggests China has started a moderate recovery.

In Japan the capital expenditure data for Q2 released this morning was much stronger than expected. As these data are the main new input in the first revision of Q2 GDP, they suggest that GDP growth for Q2 is poised to be revised substantially higher. This also increases the likelihood that the consumption tax in Japan will be raised as planned next year. Over the weekend it was reported that most members on a panel advising the government on the consumption tax favoured increasing the tax as planned.

The likely delay for any strike on Syria has eased investors’ fears and oil prices declined to trade around USD113/bbl. The stronger-than-expected Chinese PMI figure also helped short-term risk appetite and Asian equities are trading higher this morning.

Angela Merkel remains the favourite to win the 22 September federal elections after she sparred with her main challenger Peer Steinbrueck on the only televised debate yesterday and spot polls taken after the debate were split on the winner (see [Bloomberg](#)).

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1633.0	↓ -0.32	
S&P500 fut (chng from close)	1643.2	↑ 0.73	
Nikkei	13580.1	↑ 1.43	
Hang Seng	22141.7	↑ 1.89	
	17:00	07:30	+/- bp
US 2y gov	0.39	0.40	↑ 1.2
US 10y gov	2.75	2.78	↑ 2.9
iTraxx Europe (IG)	107	108	↑ 0.4
iTraxx Xover (Non IG)	434	436	↑ 2.1
			+/- %
EUR/USD	1.318	1.320	↑ 0.14
USD/JPY	98.230	98.640	↑ 0.42
EUR/CHF	1.23	1.23	↑ 0.13
EUR/GBP	0.852	0.849	↓ -0.38
EUR/SEK	8.746	8.742	↓ -0.05
EUR/NOK	8.07	8.08	↑ 0.07
			USD
Oil Brent, USD	114.9	113.0	↓ -1.65
Gold, USD	1396.9	1391.9	↓ -0.36

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 shows 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

- [Research Finnish economy: Focus on structural reforms](#)
- [Flash comment – Denmark: Danish economy starts growing again](#)
- [Strategy: Double whammy of EM crisis and Syria](#)
- [Weekly Focus](#)

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Scandi markets today

In **Norway** the PMI is expected to bounce back to 52.0 as the export industry should have better times ahead with clear signs of a global upswing and a sharply weaker krone. Further deterioration in the PMI would suggest that the slowdown in oil-related industries is more serious than we are assuming.

In **Sweden** the main focus today will be on manufacturing PMIs and we expect to see a continued improvement from 51.3 in July to 52.0 in August.

Fixed income markets

Core fixed income markets ended last week with a firmer tone as general risk appetite weakened amid rising geo-political risks. In our view, the US bond markets are closer to fair levels and we believe that the improving data, September tapering, and Summers being the next Fed Chairman are all broadly priced in by now. Hence, we continue to expect to see stabilisation in the Treasury markets. For the coming week, it will be about Syria and NFP on Friday for the US markets. While the risk appetite is probably going to be affected by the situation in Syria, the event is likely a short-term thing. NFP is likely going to support that the Fed will start tapering in September.

Turning to Europe, we believe there is still more potential for long-end rates to be pushed higher as the recovery progresses and we prefer being underweight EUR rates versus USD rates in the 5-10Y segments of the curve, as we do not believe that the markets are yet pricing in much of a recovery in Europe. Meanwhile, the short end is going to remain anchored by the ECB, where the members will keep repeating the weak forward guidance for some time. Draghi will mention it again on Thursday, but without getting too explicit, although still sounding dovish enough to put moderately downward pressure on rates (sub 5Y) and VOL. There are still plenty of reasons to sound dovish. Just take a look at the weak loan flows or sharply declining inflation as a few examples.

There is no supply in the EUR govie space today. Focus will centre on the release of the manufacturing PMIs in Ireland, Italy and Spain. The peripherals ended last week on a slightly negative note and another uptick in PMIs should yield some support as we start the week.

FX markets

This morning we have JPY under pressure as Prime Minister Abe is getting backing for his sales tax plan, which should pave the way for a continuation of the loose Japanese monetary policy. The postponement of any attack on Syria after the news from Obama that he looking for the support of the Congress has also added to weaken JPY.

The USD support has continued this morning as the stabilisation in EM markets lasted for yet another day making strong FX intervention (selling of USD) by EM central banks less likely and as Fed tapering moves closer.

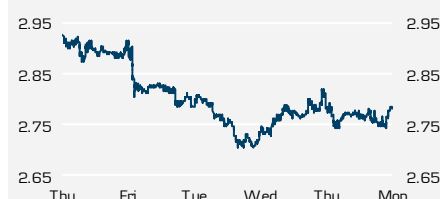
The latest IMM data showed that in the week ending 27 August speculative accounts continued to add to long EUR positions against USD. Net long EUR positions now account for 16.1% of open interest up from 14.7% last week. In other words the euro is now becoming more and more exposed to negative news. We continue to see the risk skewed to the downside for EUR/USD this autumn.

US S&P500 future



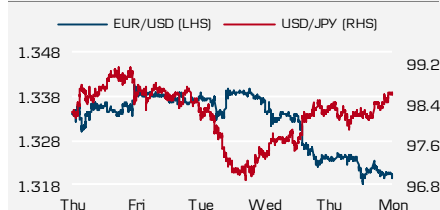
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

Monday, September 2, 2013

				Period	Danske Bank	Consensus	Previous
-	JPY	Capital spending	y/y	2nd quarter		-2.1%	-3.9%
-	GBP	Funding for Lending Scheme usage and lending data publication		2nd quarter			
8:30	SEK	PMI manufacturing	Index	Aug			51.3
8:45	ITL	PMI manufacturing	Index	Aug	51.4		50.4
9:00	NOK	Manufacturing PMI	Index	Aug	52.0		47.5
9:15	ESP	PMI manufacturing	Index	Aug		50.5	49.8
9:30	CHF	PMI manufacturing	Index	Aug		55.2	57.4
9:50	FRF	PMI manufacturing, final	Index	Aug		49.7	49.7
9:55	DEM	PMI manufacturing, final	Index	Aug	52.0	52.0	52.0
10:00	EUR	PMI manufacturing, final	Index	Aug	51.3	51.3	51.3
10:00	NOK	Credit indicator (C2)	y/y	Jul	6.3%		6.3%
10:30	GBP	PMI manufacturing	Index	Aug		55.0	54.6
10:30	EUR	ECB's Coeure speaks in Berlin					

Source: Bloomberg and Danske Bank Markets

Today's market data: 02 September 2013

STOCKS



	Close	+/-
DJSTOXX50	2671	-0.9%
OM XC20	552	-10%
OM XS30	1214	-0.8%
OSE BX	497	-10%
DOW JONES	14810	-0.2%
NASDAQ	3590	-0.8%
S&P500	1633	-0.3%
NIKKEI (07:30)	13580	-0.9%

FX & COMMODITIES

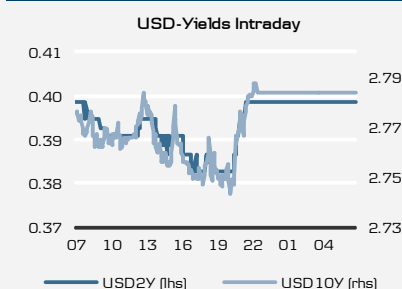


	17:00	07:30	+/-
EUR			
USD	13183	132.02	0.19
JPY	129.48	130.22	0.74
GBP	85.23	84.90	-0.33
NOK	807.21	807.79	0.58
SEK	874.62	874.19	-0.43
DKK	745.98	745.99	0.01
PLN	426.74	427.11	0.37
USD			
JPY	98.23	98.64	0.41
GBP	154.66	155.50	0.84
CHF	93.27	93.25	-0.02

	Gold, \$	Oil, Brent, \$
07:30	1391.91	113.00
1day	-3.24	-1.01
1month	80.16	4.05
Year-t-date	-283.44	1.89
CRB		
1M future	291.16	521.86
1day	-2.63	-0.77
1month	7.39	2.28
Year-t-date	-3.85	-8.54

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

YIELDS & INTEREST RATES

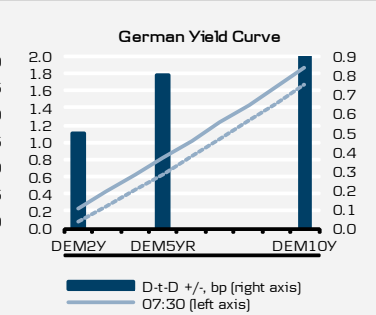
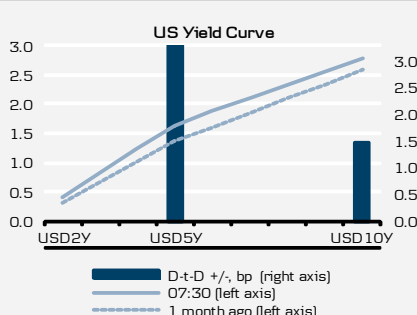
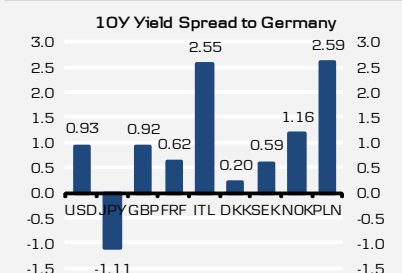


	Policy Rate	3M	Spread, bp
USD	0.25	0.26	1
EUR	0.50	0.22	-28
GBP	0.50	0.52	2
DKK	0.20	0.28	8
SEK	1.00	1.22	22
NOK	1.50	1.70	20
PLN	2.50	2.60	10

	17:00	07:30	+/-, bp
USD 10Y	2.75	2.78	3
USD 30Y	3.70	3.70	0
JPY 10Y	0.72	0.74	2
DEM			
DEM 10Y	1.85	1.85	0
DKK 10Y	2.04	2.05	1
SEK 10Y	2.47	2.45	-2
NOK 10Y	3.02	3.02	0
PLN 10Y	4.07	4.45	37

* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

* As of closing previous trading day



Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	108	2	11
HiVol	160	1	7
Xover (N-IG)	436	11	36
Finan. Sr.	151	3	15
Finan. Sub.	229	5	13
Non-finan.	24	1	-4

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	07:30	+/-
USD 10Y	19	22	3
JPY 10Y	0	0	0
EUR			
EUR 10Y	31	32	1
DKK 10Y	41	41	0
SEK 10Y	45	45	0
NOK 10Y	45	45	0

* As of closing previous trading day

** Ask price

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