

19 October 2015

# Danske Daily

## Market Movers

- Besides this morning's Chinese data releases (see more below), the calendar is fairly thin, with US housing data released in the afternoon as the highlight.
- The **NAHB housing market index for October** is expected to be unchanged after climbing in September to 62, its highest level since 2006. Note that further US housing data are due for release later this week, including housing starts and building permits (Tuesday) and existing homes sales (Thursday). Generally speaking, we expect data to support the picture of a housing market that continues to benefit from a favourable mix of low interest rates and positive real income growth.
- Fed's Brainard (voter, dovish) and Lacker (voter, hawkish) are scheduled to speak but the topics are not related to the economic outlook or monetary policy.
- There are no data releases in Scandinavia today.

## Selected Market News

**Chinese data disappointed but show no signs of an economy collapsing.** A range of data was released in China this morning. Q3 GDP growth was in line with expectations, increasing 1.8% q/q (DBM estimate 1.5% q/q) and 6.9% y/y (consensus 6.8% y/y) but industrial production disappointed, falling to 5.7% y/y (August: 6.1%, consensus 6.0%). As a comparison, the low point for industrial production during the financial crisis in 2008 was 5.4%, so the industrial activity is comparable to this very weak period. The monthly change fell to 0.4% (August: 0.5%) so still no sign of recovery. Fixed asset investment (current prices) fell to 10.3% y/y year-to-date in September (August: 10.9%, consensus 10.8%), the lowest level in 15 years. Finally, China's retail sales showed an increase of 10.9% y/y in September (August: 10.8%, consensus 10.8% y/y).

**In our view, the Chinese data show a continued rebalancing of growth;** weaker industrial growth is compensated for by higher service sector activity, leaving GDP growth broadly flat. This has global implications, as the service sector is much less reliant on imports than the manufacturing sector. We expect Chinese GDP growth to be broadly flat around 1.8% q/q in Q4 (see *Chinese Q3 GDP in line with expectations but industrial growth continues to disappoint*, 19 October 2015).

**Last week's economic data were on the weak side;** in the US, September retail sales disappointed, suggesting that momentum in private consumption is slowing, while industrial production declined in Europe in August, in line with expectations. In China, trade data showed exports falling less but the decline in imports increased.

**However, global equity indices managed to eke out small gains.** In the US, stocks were up for the third week in a row, as the first batch of Q3 results were generally well received by investors. Furthermore, renewed concerns about the economic outlook have also casted doubt on whether the Fed will raise rates in 2015, which in itself may have supported risky assets. Last week, two Fed governors (Tarullo, Brainard) signalled unease about the economic outlook, preferring to wait for more solid evidence that inflation is moving higher before raising rates.

## Market overview

		07:30		1 day +/- %
S&P500 (close)		2033.1	↑	0.46
S&P500 fut (chng from close)		2020.8	↓	-0.23
Nikkei		18238.6	↓	-0.29
Hang Seng		23021.7	↓	-0.20
	17:00	07:30		+/-, bp
US 2y gov	0.61	0.60	↓	-0.4
US 10y gov	2.02	2.03	↑	0.3
iTraxx Europe (IG)	80	80	↑	0.2
iTraxx Xover (Non IG)	334	334	↑	0.2
				+/-, %
EUR/USD	1.137	1.137	↑	0.04
USD/JPY	119.270	119.320	↑	0.04
EUR/CHF	1.08	1.08	↑	0.23
EUR/GBP	0.736	0.736	↑	0.02
EUR/SEK	9.348	9.366	↑	0.19
EUR/NOK	9.22	9.21	↓	-0.09
				USD
Oil Brent, USD	49.7	50.3	↑	1.07
Gold, USD	1182.1	1173.1	↓	-0.76

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

- Weekly Focus: Spotlight on global manufacturing*
- FX Forecast Update: BoJ to reclaim driving seat - more easing in October*
- Chinese Q3 GDP in line with expectations but industrial growth continues to disappoint*

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## Scandi Markets

There are no data releases in Scandinavia today.

## Fixed Income Markets

With ECB QE2 looking increasingly likely, the question is whether we will see this boost to asset prices in both European bond and equity markets as was the case with the launch of QE in January (see [chart](#)). We think the current environment is constructive for European FI, also helped by the slowing EM outflows that imply less selling of core European FI from EM reserve managers. Thus, we stay constructive on EUR duration from 2Y and out, as we do not agree with the market pricing of further ECB depo cuts but that the pressure on the ECB to react should trigger a rally in core rates.

This week's issuance is set to slow down, as only Belgium and Germany are coming to the market, where last week was one of the busiest weeks of the year with gross issuance close to EUR30bn in the EGB market. There are no coupons or redemptions next week but in two weeks' time the cash flow will become significantly more positive and with ECB's frontloading of QE, we look for more spread compression between core and semi-core, even though we have already seen some performance.

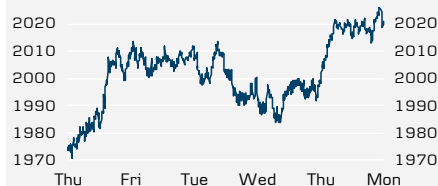
Today, Belgium is tapping in the 7Y, 10Y and 30Y bonds. As the tap is relatively modest, this should easily be absorbed. We prefer France relative to Belgium given the very tight spreads and better liquidity in French government bonds.

## FX Markets

On Friday, we published our latest [FX Forecast Update](#). The most significant change we made was regarding our short-term outlook for USD/JPY. We now expect that the BoJ will announce an increase in its target for its annual monetary base expansion to JPY 100trn from JPY80trn at the 30 October meeting. This should ensure short-term support for USD/JPY and we have revised our 1M and 3M forecasts higher to 124 (120 previously) and 125 (124) respectively. We continue see EUR/USD as range-bound between 1.10-1.16 over the coming months and higher over 6-12 months. We have lifted our 3-6 M EUR/USD forecasts higher to 1.12 from 1.10 and our 12M forecasts higher to 1.20 from 1.15 previously. Underlying forces, such as the eurozone's large trade surplus, support a stronger EUR in the medium term and we have reflected that in our forecasts.

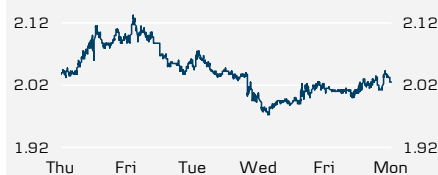
We have made no changes to our EUR/SEK and EUR/DKK forecasts where we continue to forecast EUR/SEK to trade at 9.40 at 1M and 3M. We believe that the short-term risk in EUR/NOK is to the upside as the market has priced out the probability of another Norges Bank rate cut in 2015. However, we have lowered our 1M and 3M EUR/NOK forecasts slightly to 9.30 from 9.40.

### US S&P500 future



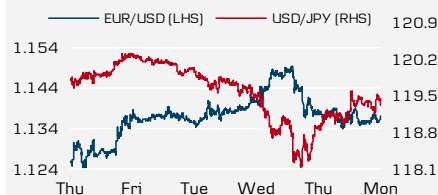
Source: Danske Bank Markets

### 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, October 19, 2015

				Period	Danske Bank	Consensus	Previous
1:01	GBP	Rightmove House Prices	m/m y/y	Oct			0.9% 6.4%
4:00	CNY	Industrial production	y/y	Sep	6.1%	6.0%	6.1%
4:00	CNY	Retail sales	y/y	Sep		10.8%	10.8%
4:00	CNY	Real GDP	q/q y/y	3rd quarter	1.5% 6.7%	1.8% 6.8%	1.7% 7.0%
4:00	CNY	Fixed assets investments	y/y	Sep		10.8%	10.9%
16:00	USD	NAHB Housing Market Index	Index	Oct		62.0	62.0
16:00	USD	Fed's Brainard (voter, dovish) speaks					
18:00	USD	Fed's Lacker (voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

# Today's market data: 19 October 2015

## STOCKS



	Close		+/-
DJSTOXX50	3127	↑	0.9%
OMXC20	934	↑	2.1%
OMXS30	1452	↓	-0.1%
OSE BX	614	↓	-0.2%
	Close		+/-
DOW JONES	17216	↑	0.4%
NASDAQ	4887	↑	0.3%
S&P500	2033	↑	0.5%
NIKKEI (07:30)	18239	↑	0.9%

## FX & COMMODITIES

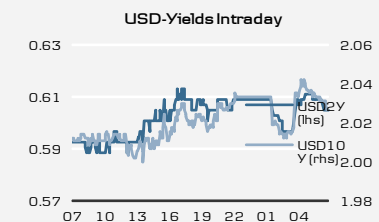


	17:00	07:30	+/-
<b>EUR</b>			
USD	113.67	113.71	↑ 0.04
JPY	135.58	135.67	↑ 0.09
GBP	73.63	73.64	↑ 0.02
NOK	921.52	920.69	↓ -0.83
SEK	934.81	936.58	↑ 1.77
DKK	745.96	745.96	↑ 0.00
PLN	423.75	423.63	↓ -0.12
<b>USD</b>			
JPY	119.27	119.32	↑ 0.05
GBP	154.39	154.40	↑ 0.01
CHF	95.23	95.41	↑ 0.18

	Gold, \$	Oil, Brent, \$
07:30	1173.13	50.25
1day	↓ -4.20	↓ -0.21
1month	↑ 34.11	↑ 2.78
Year-t-date	↓ -11.73	↓ -7.08
	CRB 1M future	CRB, Raw Industrials
07:30	199.45	425.38
1day	↑ 0.46	↓ -0.86
1month	↑ 5.26	↓ -17.01
Year-t-date	↓ -30.51	↓ -66.73

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

## YIELDS & INTEREST RATES

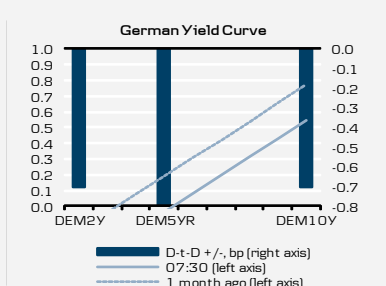
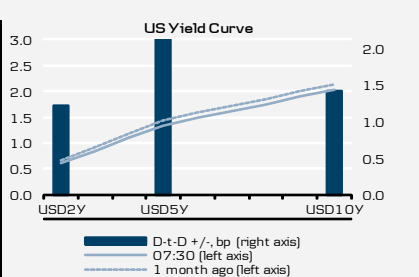
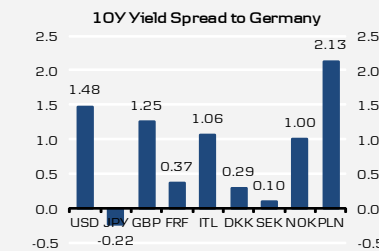


	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.05	-10
GBP	0.50	0.58	8
DKK	0.05	-0.07	-12
SEK	-0.35	-0.30	5
NOK	0.75	1.12	37
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.02	2.03	↑ 0
USD 30Y	2.86	2.88	↑ 2
JPY 10Y	0.32	0.33	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.56	0.55	↓ -1
DKK 10Y	0.92	0.84	↓ -7
SEK 10Y	0.64	0.64	↑ 1
NOK 10Y	1.55	1.55	↑ 0
PLN 10Y	2.66	2.68	↑ 2

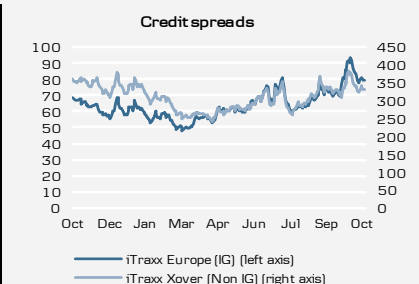
\* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

\* As of closing previous trading day



	07:30	1day	1month
Europe (IG)	80	↓ 0	↑ 3
HiVol	81	↓ 0	↑ 13
Xover (N-IG)	334	↓ -1	↑ 24
Finan. Sr.	79	↓ 0	↓ -7
Finan. Sub.	168	↓ 0	↓ -6
Non-finan.			

\* Ask price



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-5	-3	↑ 1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	19	↑ 19
DKK 10Y	40	39	↓ -1
SEK 10Y	46	47	↑ 1
NOK 10Y	70	70	↓ 0

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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