

# Danske Daily

## Market Movers

- US GDP data are likely to show a significant slowdown in growth in Q3. We estimate that the drag from net exports and slower inventory accumulation will push GDP growth to 1.5% q/q AR despite still solid growth in private consumption of 3.2% q/q AR. We expect Q3 to mark the low point of GDP growth this year and look for a return to above 2% growth next year.
- In the euro area it is time for consumer and economic confidence data for the euro zone. In Germany we will have the early October CPI data from the German federal states in the morning and the pan-German number in the afternoon. HICP inflation, which is released ahead of the euro area figure on Friday, should move back into positive territory and we forecast a rate of 0.1% y/y up from -0.2% y/y in September.
- In Sweden retail sales is on the agenda. See *Scandi Markets*.

## Selected Market News

Last night the Fed sent a clear message in its October FOMC statement: a hike at the December FOMC meeting is a real option and whether we will see the first rate hike in December or next year depends upon the data.

In its forward guidance the Fed is now flagging a clear tightening bias as its wording was changed to 'In determining whether it will be appropriate to RAISE the target range at its NEXT meeting...' from 'In determining HOW LONG to MAINTAIN this target range...'

The conditions remain unchanged 'when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.'

Further, the reference that 'Recent global economic and financial developments may restrain economic activity' was removed from the statement, which now only says that the FOMC is 'monitoring' global financial and economic developments.

We continue to place the highest odds on a January rate hike from the Fed as we believe that the weakness in the manufacturing sector will keep the Fed in a wait-and-see mode at the December meeting. The market now attaches a higher probability, currently 45% compared to the pre meeting 30%, for a rate hike in December and a full 25bp hike is priced by April. 10Y US yields rose 4bp on the release and 2Y a few bp more. The more hawkish Fed did not scare the US stock market that actually rallied on the higher oil price, the result from Apple and on an improved earnings outlook for banks if rates go up.

The low oil price has been an important factor in pushing global yields lower this year but yesterday the crude oil price rose USD2 a barrel to around USD49 a barrel as oil stocks rose less than expected in the US and as refinery demand surprised on the upside.

According to Bloomberg the Chinese Communist party will lower its growth target from 7.0% to 6.5% in the new five-year plan as a four-day communist gathering comes to an end today. A lower target should be expected by the market and is probably still on the optimistic side.

## Market overview

	07:30	1 day +/- %	
S&P500 (close)	2090.4	↑ 1.18	
S&P500 fut (chng from close)	2078.1	↓ -0.31	
Nikkei	18945.3	↑ 0.22	
Hang Seng	22926.4	↓ -0.13	
	17:00	07:30	
		+/- bp	
US 2y gov	0.63	0.70	↑ 7.4
US 10y gov	2.05	2.09	↑ 3.2
iTraxx Europe (IG)	72	72	↑ 0.2
iTraxx Xover (Non IG)	299	299	↑ 0.4
			+/- %
EUR/USD	1.107	1.094	↓ -1.17
USD/JPY	120.530	120.770	↑ 0.20
EUR/CHF	1.09	1.09	↓ -0.30
EUR/GBP	0.723	0.717	↓ -0.78
EUR/SEK	9.319	9.345	↑ 0.28
EUR/NOK	9.37	9.36	↓ -0.04
			USD
Oil Brent, USD	49.1	48.8	↓ -0.47
Gold, USD	1179.6	1161.4	↓ -1.54

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

- FOMC meeting - shifting to a tightening bias*

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## Scandi Markets

In Sweden it is time for retail sales and we expect a continued loss of momentum, which might further support the view that the Riksbank has not yet completed its easing cycle. In Denmark we will have a T-bill auction, where we expect decent demand.

## Fixed Income Markets

A ‘hawkish’ FOMC message triggered a front lead sell-off in the US curve last night with both 2Y and 5Y Treasuries jumping 8-9bp over the day. Yields were higher going into the FOMC after a soft 5Y auction earlier in the day. From the statement it is clear that the door remains open for a December hike or as the FOMC puts it ‘in determining whether it will be appropriate to RAISE the target rate at its NEXT meeting’. The next two payroll reports and also the employment cost index for Q3 released on Friday will be key for the December decision, in our view. Today’s session will be very interesting as the EUR and US curves have decoupled following the ECB meeting and today the strength of the ‘Draghi put’ will be tested.

In the primary market Italy is doing its usual month-end tap in 5Y and 10Y plus floaters. Supply will be biased towards the new 5Y (0.65%, Nov-20) with EUR3.5-4.0bn being tapped in this bond out of a total of EUR6.25-7.75bn. Italy has been well supported by ECB QE2/rate cut being the main driver, although growth figures are also picking up. Hence, we expect good demand at the auction. Italy will have achieved 83% of this year’s issuance after this tap.

The Danish debt office is tapping in the December and March T-bills. The DMO has a target for the outstanding amount of DKK30bn for end-2015. So far it has issued DKK17bn but of this DKK8bn will mature on 1 December 2015. Despite the forthcoming supply we expect decent demand as the Danish T-bills provide a healthy pick-up to EU peers, US T-bills and bonds, and UK T-bills, when swapped into foreign currency. See our preview [here](#).

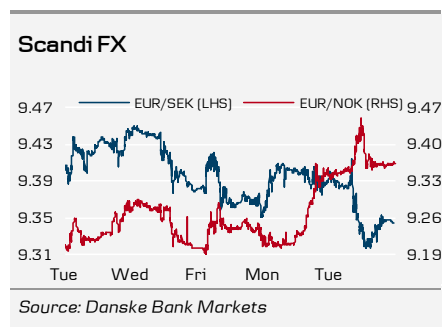
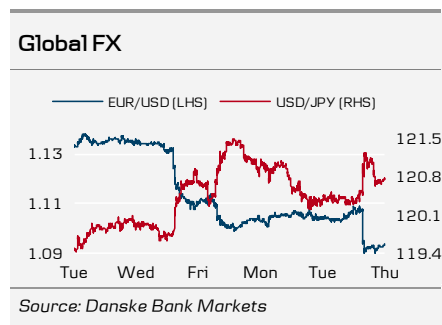
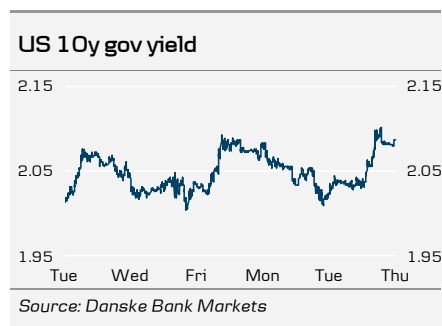
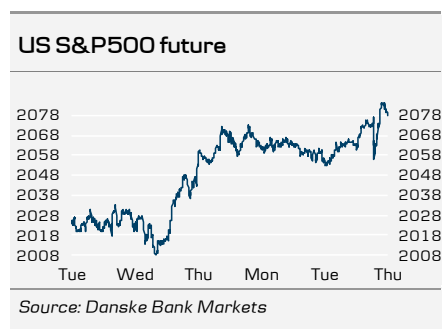
In Sweden there was bond-friendly news yesterday. A much lower issuance target from the debt office was announced and the Riksbank expanded the QE programme by SEK65bn and put forward a soft monetary policy report. For more see our update [here](#).

## FX Markets

Yesterday was a very eventful day in the FX markets with the main focus on the Scandies first and the FOMC and the USD after.

The Riksbank meeting showed just how additional easing can be interpreted hawkish by FX markets as the Riksbank’s decision to lower the short-end of its KIX-projection (i.e. stronger SEK) suggested a higher tolerance for a somewhat stronger SEK in the near term. Yet overall, the Riksbank still emphasised the importance of fighting SEK-strength – especially if the appreciation is driven by easier monetary policy from other central banks (not least the ECB). A contributing factor to the SEK ending the day lower was also likely the coinciding series of disappointing data out of Norway which - together with the Riksbank’s decision to ease further – led markets to price in a higher probability of further Norges Bank rate cuts, thereby attracting short NOK/SEK bets. With respect to the SEK we do not consider yesterday’s announcement to be a game-changer as such and we maintain our call for a December rate cut of 10bp. We also still think that 9.30-9.60 remains a fair range to play for EUR/SEK, albeit with a bias to the lower end of the range.

The hawkish tone from the FOMC yesterday sent US rates higher and EUR/USD lower. While our macroeconomist still places higher odds on a January hike, December has



come in play again catching EUR/USD bears' attention. From a historical/statistical perspective, however, yesterday's move lower in the cross seems overdone relative to the move in relative rates, the oil price and global risk sentiment. According to our short-term financial models, EUR/USD should have dropped by only roughly 50 pips on the release and not by the actual 1.5 figures. Adding to this, we have previously seen how the cross becomes vulnerable to the upside when momentum loses pace and investors take profit. We expect this vulnerability to remain a risk factor, especially as we think speculative EUR/USD positioning has returned to stretched short levels post the dovish ECB and hawkish Fed surprises over the past week.

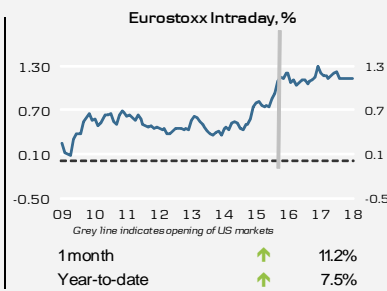
### Key figures and events

Thursday, October 29, 2015				Period	Danske Bank	Consensus	Previous
0:50	JPY	Industrial production, preliminary	m/mly/y	Sep		-0.5% -2.6%	-1.2% -0.4%
8:00	GBP	Nationwide house prices	m/mly/y	Oct		0.5% 3.8%	0.5% 3.8%
9:00	ESP	HICP, preliminary	m/mly/y	Oct	.. -0.9%	0.3% -0.9%	0.4% -1.1%
9:00	ESP	Retail Sales	y/y	Sep		3.0%	3.1%
9:00	DKK	Confidence indicator, industry, s.a.	Net balance	Oct	-6		-7
9:00	DKK	Gross unemployment s.a.	K [%]	Sep	120.8 (4.5%)		120.8 (4.5%)
9:30	SEK	Retail sales s.a.	m/mly/y	Sep	1.0% 3.0%	0.4% 2.9%	-1.7% 1.0%
9:55	DEM	Unemployment	%	Oct	6.4%	6.4%	6.4%
10:30	GBP	Broad money M4	m/mly/y	Sep			-0.4% -0.1%
10:30	GBP	Mortgage approvals	1000	Sep		72.2	71.0
11:00	EUR	Business climate indicator	Net bal.	Oct		0.3	0.3
11:00	EUR	Industrial confidence	Net bal.	Oct		-3.0	-2.2
11:00	EUR	Economic confidence	Index	Oct		105.0	105.6
11:00	EUR	Consumer confidence, final	Net bal.	Oct		-7.7	-7.7
11:00	EUR	Service confidence	Net bal.	Oct		11.9	12.4
13:30	USD	Initial jobless claims	1000				259
13:30	USD	GDP, first release	q/q ann.	3rd quarter	1.5%	1.7%	3.9%
13:30	USD	Personal consumption, first release	q/q	3rd quarter	3.2%	3.3%	3.6%
13:30	USD	PCE core, first release	q/q	3rd quarter		1.4%	1.9%
13:30	USD	GDP price deflator, first release	q/q	3rd quarter		1.4%	2.1%
14:00	DEM	HICP, preliminary	m/mly/y	Oct	.. 0.1%	-0.1% 0.1%	-0.3% -0.2%
14:10	USD	Fed's Lockhart (voter, dovish) speaks					
15:00	USD	Pending home sales	m/mly/y	Sep		1.0% 7.2%	-1.4% 6.7%

Source: Bloomberg, Danske Bank Markets

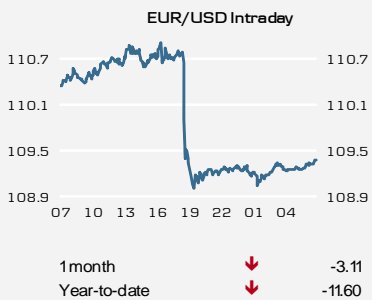
Today's market data: 29 October 2015

STOCKS



	Close		+/-
DJUSTOXX50	3229	↑	1.1%
OMXC20	971	↑	1.3%
OMXS30	1500	↑	0.8%
OSE BX	623	↑	1.1%
<b>Close</b>			
DOW JONES	17780	↑	1.1%
NASDAQ	5096	↑	1.3%
S&P500	2090	↑	1.2%
NIKKEI (07:30)	18945	↑	1.1%

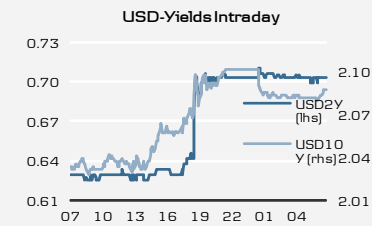
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	110.67	109.38	↓ -1.29
JPY	133.39	132.10	↓ -1.29
GBP	72.25	71.69	↓ -0.56
NOK	936.69	936.36	↓ -0.33
SEK	931.92	934.50	↑ 2.58
DKK	746.04	745.93	↓ -0.11
PLN	428.47	428.45	↓ -0.02
USD	17:00	07:30	+/-
JPY	120.53	120.77	↑ 0.24
GBP	153.17	152.57	↓ -0.60
CHF	98.51	99.37	↑ 0.86

	Gold, \$	Oil, Brent, \$
07:30	1161.42	48.83
1 day	↑ 5.32	↓ -0.22
1 month	↑ 33.97	↑ 0.60
Year-t-date	↓ -23.44	↓ -8.50
	CRB 1M future	CRB, Raw Industrials
07:30	195.07	417.67
1 day	↑ 3.74	↓ -1.76
1 month	↑ 1.50	↓ -15.61
Year-t-date	↓ -34.88	↓ -74.44

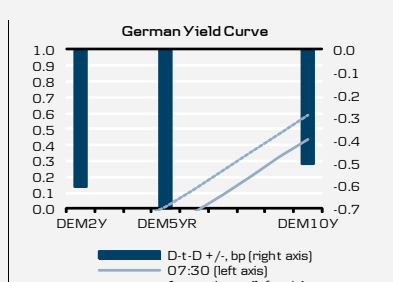
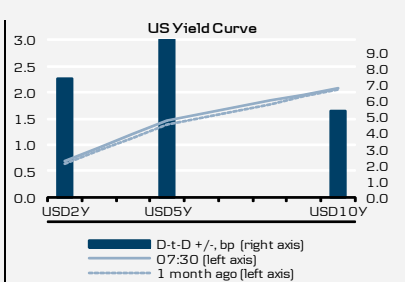
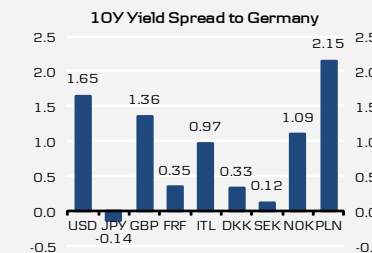
YIELDS & INTEREST RATES



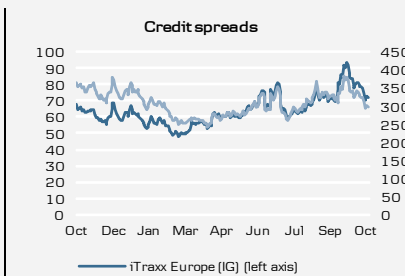
	Policy Rate	3M	Spread, bp
USD	0.25	0.32	7
EUR	0.05	-0.07	-12
GBP	0.50	0.58	8
DKK	0.05	-0.10	-15
SEK	-0.35	-0.32	3
NOK	0.75	1.10	35
PLN	1.50	1.63	13

	17:00	07:30	+/-, bp
USD 10Y	2.05	2.09	↑ 3
USD 30Y	2.88	2.87	↓ -1
JPY 10Y	0.29	0.30	↑ 1
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.44	0.44	↓ 0
DKK 10Y	0.85	0.78	↓ -7
SEK 10Y	0.64	0.56	↓ -8
NOK 10Y	1.53	1.53	↑ 0
PLN 10Y	2.61	2.59	↓ -2

\* As of closing previous trading day



	07:30	1 day	1 month
Europe (IG)	72	↓ 0	↓ -20
HiVol	74	↓ 0	↓ -20
Xover (N-IG)	299	↓ -1	↓ -83
Finan. Sr.	70	↓ 0	↓ -28
Finan. Sub.	148	↓ -1	↓ -51
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-7	-6	↑ 0
	07:30(-1)*	17:00	+/-
EUR 10Y	0	19	↑ 19
DKK 10Y	39	38	↓ -1
SEK 10Y	42	41	↓ -1
NOK 10Y	64	71	↑ 7

\* As of closing previous trading day

\*\* Ask price

\* Ask price

Source: Bloomberg, Danske Bank Markets

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