

Danske Daily

Market movers today

- **Focus this week will be on the FOMC meeting on Wednesday.** The markets will be looking for signals as to the timing of the first rate hike, as a further decline in unemployment and a rise in inflation recently has put the issue on the agenda, see also *Research: Focus on first Fed hike to intensify*, 10 June 2014.
- Today focus will be on final euro inflation data and a string of US manufacturing and housing data.
- **In the euro area inflation for May is expected to be confirmed at 0.5% y/y.** Core inflation should also be unchanged at 0.7%.
- **The US empire index is expected to fall back slightly to 15 in June** after reaching a two-year high in May at 19. **US industrial production should rebound in May following a soft April reading.** It is forecast to rise 0.5% m/m, up from -0.6% in April.
- **Finally the US NAHB housing market index is expected to rise slightly to 47 from 45.** The index declined in the beginning of the year but has flattened out in the past couple of months. We believe housing is about to recover gradually again as the effect of last year's mortgage rate rise is expected to reverse as mortgage rates have come down again.
- There are no big Scandi movers today. *For more on Scandi markets see page 2.*

Selected market news

Financial markets are trading water ahead of the FOMC meeting on Wednesday. US stocks finished slightly higher on Friday but the futures market points to small losses in Asian trading this morning.

Apart from the Fed meeting, a rise in oil prices related to the territorial gains by Iraqi Sunni insurgents are causing some jitters. The Brent oil price rose on Friday to close to USD115 per barrel but has eased a bit to USD113 per barrel. Sunni insurgents made new gains in northern Iraq on Sunday although their push towards Baghdad appeared to slow amid mounting resistance from Shia militias, see *FT*.

In an interview with Süddeutsche Zeitung on Sunday, the rather outspoken ECB member Ewald Nowotny said the ECB stress tests “will be very strict, perhaps even too strict” and expressed fears the ECB might be “overdoing it”, see *article*. In the same interview, he dismissed discussions about ECB sovereign bond purchases saying the “ECB will not be dictated by the markets”.

Bank of England deputy governor Charles Bean said in a Sunday Times interview he would welcome the first rate hike as a symbolic step, see *Market News*.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1936.2	↑ 0.31	
S&P500 fut (chng from close)	1921.5	↓ -0.35	
Nikkei	14908.1	↓ -1.26	
Hang Seng	23304.6	↓ -0.06	
	17:00	07:30	+/- bp
US 2y gov	0.46	0.46	↑ 0.4
US 10y gov	2.62	2.59	↓ -2.9
iTraxx Europe (IG)	60	60	↑ 0.3
iTraxx Xover (Non IG)	234	235	↑ 1.1
			+/- %
EUR/USD	1.354	1.354	↑ 0.05
USD/JPY	102.090	101.760	↓ -0.32
EUR/CHF	1.22	1.22	↑ 0.02
EUR/GBP	0.798	0.798	↓ -0.04
EUR/SEK	8.994	9.001	↑ 0.08
EUR/NOK	8.12	8.12	↑ 0.01
			USD
Oil Brent, USD	113.1	113.1	↓ -0.06
Gold, USD	1274.3	1282.8	↑ 0.67

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

- *IMM positioning: Investors return to being net-short EUR*
- *Euro area deflation monitor*

Chief Analyst

Allan von Mehren
+45 45 12 80 55
alvo@danskebank.dk

Scandi markets today

There are no key events in Scandi today. See below for comment on Scandi FX developments.

Fixed income markets

With a fairly thin calendar early this week, we believe the fixed income markets will be looking forward to Wednesday's FOMC meeting already. The meeting will embed a revised economic outlook and new forecast for the fed funds futures rate. Despite the recent upward pressure on US rates, the money market curve is still relatively flat compared with FOMC guidance. Although growth has been much weaker, the labour market is becoming tighter and there are tentative signs of increasing inflation in the US. From this perspective, we see more upside than downside risk to US rates this week. The EUR curve is anchored in the front, where rates might go even lower as the EONIA fixing continues to decline. However, in the longer tenors, we think that the curve is likely to react somewhat to higher US rates. Hence, a hawkish FOMC could push further on the back of the recent EUR curve steepening.

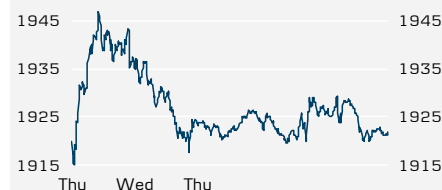
FX markets

SEK gained on Friday on the back of stronger-than-expected unemployment figures and EUR/SEK dropped below the 9.00 level. We still expect the Riksbank to cut its policy rate in July and think that it is still likely to the revise the rate path significantly lower. Hence, we still might see some upward pressure in EUR/SEK after the July meeting despite the recent monetary easing from the ECB and the subsequent move lower in EUR/SEK, while longer term we expect the krona to perform against the euro.

NOK/SEK also declined markedly in Friday's session and the cross now trades very close to our short-term financial model's fair value estimate of 1.106. From a fundamental point of view, we still like to be long NOK/SEK but we prefer to stay sidelined ahead of the interest rate meeting in Norges Bank on Thursday where we expect the bank to revise its interest rate path down which might temporary weigh on the NOK.

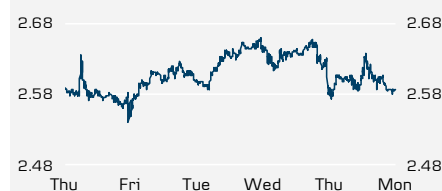
Sterling also gained tailwinds Friday on some very hawkish comments from Bank of England Governor Mark Carney, indicating that the BoE might consider raising rates this year. EUR/GBP dropped below the 0.80 level to the lowest level seen since November 2012, and in our updated FX forecasts we have moved forward some of the expected GBP strength. We now target EUR/GBP at 0.78 in 3M (0.80), 0.77 in 6M (0.79) and 0.76 in 12M (0.77).

US S&P500 future



Source: Danske Bank Markets

US 10y gov yield



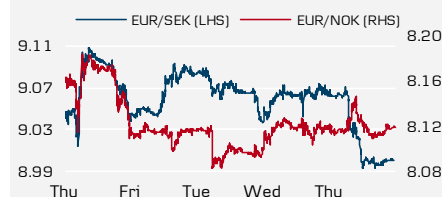
Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

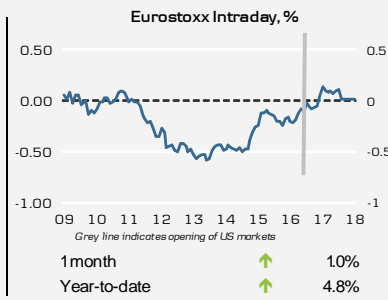
Key figures and events

Monday, June 16, 2014				Period	Danske Bank	Consensus	Previous
10:00	NOK	Trade balance	NOK bn	May			31.6
11:00	EUR	CPI, final	m/m/y	May	0.20% 0.50%	-0.10% 0.50%	0.20% 0.50%
11:00	EUR	CPI - core, final	%	May	0.70%	0.70%	0.70%
14:30	USD	Empire Manufacturing PMI	m/m	Jun		15.00	19.01
15:00	USD	TICS international capital flow, Net inflow	USD bn	Apr			-126.1
15:15	USD	Capacity utilization	%	May		78.80%	78.60%
15:15	USD	Industrial production	m/m	May	0.50%	0.50%	-0.60%
16:00	USD	NAHB Housing Market Index	Index	Jun	46.0	47.0	45.0

Source: Bloomberg and Danske Bank Markets

Today's market data: 16 June 2014

STOCKS



	Close		+/-
DJSTOXX50	3058	↑	0.0%
OMXC20	741	↓	-0.6%
OMXS30	1390	↓	-0.5%
OSE BX	623	↑	0.1%
DOW JONES			
DOW JONES	16776	↑	0.2%
NASDAQ	4311	↑	0.3%
S&P500	1936	↑	0.3%
NIKKEI (07:30)	14908	↑	0.0%

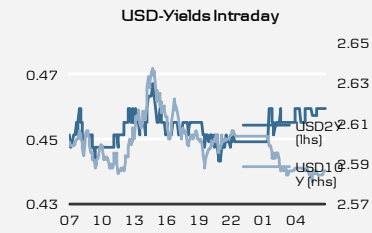
FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	135.36	135.43	↑ 0.07
JPY	138.18	137.82	↓ -0.36
GBP	79.78	79.75	↓ -0.03
NOK	811.86	811.93	↑ 0.07
SEK	899.38	900.14	↑ 0.76
DKK	745.85	745.86	↑ 0.01
PLN	411.96	413.79	↑ 1.83
USD			
JPY	102.09	101.76	↓ -0.33
GBP	169.67	169.82	↑ 0.15
CHF	89.97	89.93	↓ -0.04

	07:30		Oil, Brent, \$
Gold, \$	1282.76		113.07
1day	↑	5.87	↑ 0.61
1month	↓	-10.70	↑ 3.32
Year-t-date	↑	77.11	↑ 2.27
CRB			
CRB 1M future	309.98		533.24
1day	↑	1.37	↓ -2.31
1month	↑	4.06	↓ -10.26
Year-t-date	↑	29.81	↑ 0.50

YIELDS & INTEREST RATES

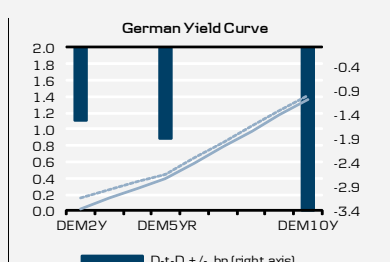
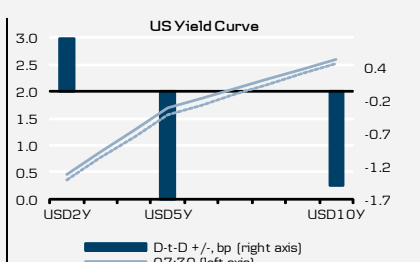
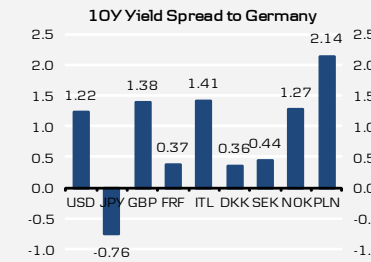


	Policy Rate	3M	Spread, bp
USD	0.25	0.23	-2
EUR	0.15	0.23	8
GBP	0.50	0.55	5
DKK	0.20	0.37	17
SEK	0.75	0.87	12
NOK	1.50	1.82	32
PLN	2.50	2.58	8

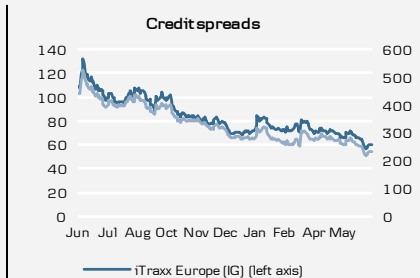
	17:00	07:30	+/-, bp
USD 10Y	2.62	2.59	↓ -3
USD 30Y	3.42	3.39	↓ -3
JPY 10Y	0.60	0.60	↓ 0
07:30(-1)*			
DEM 10Y	1.40	1.37	↓ -3
DKK 10Y	1.74	1.73	↓ -1
SEK 10Y	1.80	1.81	↑ 1
NOK 10Y	2.63	2.63	↑ 0
PLN 10Y	3.54	3.50	↓ -4

* 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)	60	↑ 0	↓ -10
HiVol	75	↓ 0	↓ -11
Xover (N-IG)	235	↑ 0	↓ -37
Finan. Sr.			
Finan. Sr.	61	↑ 0	↓ -18
Finan. Sub.	95	↓ 0	↓ -30
Non-finan.			



	17:00	07:30	+/-
USD 10Y			
JPY 10Y	10	10	↑ 0
07:30(-1)*			
EUR 10Y	0	16	↑ 16
DKK 10Y	18	19	↑ 1
SEK 10Y	12	14	↑ 2
NOK 10Y	36	35	↓ -1

* Ask price

* As of closing previous trading day

** Ask price

Disclosure

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank').

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors upon request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Danske Daily is updated on a daily basis.

First date of publication

Please see the front page of this research report for the first date of publication. Price-related data is calculated using the closing price from the day before publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to "U.S. institutional investors" as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to "U.S. institutional investors".

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA, but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.