

Danske Daily

Market movers today

- **We look for a slight increase in today's German ZEW index for June to 34.8 from 33.1.** The index has been trending lower for some months but the more positive global newsflow is expected to lead to more positive expectations for Germany.
- **UK CPI is expected to decline slightly from 1.8% in May to 1.7% in June.** Inflation has trended lower since the peak in 2011 and is not putting pressure on the Bank of England. But given the rapid decline in unemployment and recent hawkish comments from BoE governor Carney, the market will be sensitive to any upside surprises.
- **Later today the US will also release inflation for June.** We expect it to rise to 1.9% from 1.8% in May. Core inflation has bottomed and has come increasingly into focus as the downward risk to inflation that the Fed has mentioned is fading fast. The question is whether the Fed will acknowledge this already in Wednesday's FOMC statement.
- **US also releases housing permits and starts.** The data are quite volatile and rose strongly in April. Hence we look for a small decline in May (weaker than consensus). However, the trend seem to be turning higher as also indicated by a decent rise in the US NAHB housing survey yesterday.
- **On top of the above data, developments in Iraq and Ukraine will be on the radar screen today.**

Selected market news

Stock markets rose slightly yesterday but overall markets are fairly calm ahead of the FOMC meeting tomorrow.

Foreign direct investment to China surprisingly fell 6.7% y/y in May (consensus +3.2%) down from +3.4% in April. The news has weighed a bit on Emerging Markets stocks led by Chinese shares, which have had a strong run over recent months. EM assets may also face some headwinds if the discussion of the first Fed hike intensifies.

Russia cut the gas supplies to Ukraine on Monday in another move adding an economic dimension to the conflict, *FT*.

US data surprised to the upside yesterday as manufacturing production rose more than expected in May, the New York Empire index rose to its highest level since 2010 and NAHB housing survey increased more than expected in June. The data provides more evidence that the US is seeing a broad-based recovery in Q2.

IMF yesterday cut its US growth forecast to 2.0% for this year from the previous estimate of 2.8%. The forecast for next year was kept at 3.0%. IMF also recommended that the Fed keep rates on hold until the second half of 2015 and that the Fed should hold more frequent press conferences following the meetings.

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1937.8	↑	0.08
S&P500 fut (chng from close)	1932.2	↑	0.16
Nikkei	14986.5	↑	0.36
Hang Seng	23170.3	↓	-0.56
	17:00	07:30	+/- bp
US 2y gov	0.46	0.47	↑ 1.6
US 10y gov	2.59	2.59	↓ -0.6
iTraxx Europe (IG)	61	61	↑ 0.4
iTraxx Xover (Non IG)	239	240	↑ 1.1
			+/- %
EUR/USD	1.357	1.356	↓ -0.07
USD/JPY	101.810	101.970	↑ 0.16
EUR/CHF	1.22	1.22	↑ 0.04
EUR/GBP	0.799	0.799	↑ 0.01
EUR/SEK	8.995	8.989	↓ -0.06
EUR/NOK	8.13	8.12	↓ -0.05
			USD
Oil Brent, USD	112.7	112.6	↓ -0.12
Gold, USD	1275.6	1265.2	↓ -0.82

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

Scandi markets today

In **Sweden** the PES unemployment rate is due to be released. It is expected to decline to 3.9% in May from 4.1% in April. Note though that it is not seasonally adjusted.

Fixed Income markets

In the EUR govie market, we will have to wait until tomorrow for the auction activity to kick off with taps from Spain (17s and 19s) and Germany (24s). In the T-bills market, Spain, Greece and Belgium will be printing today. Note that the Netherlands yesterday issued 4M bills at a negative yield. We would not be surprised to see the Schatz yield go below zero as excess liquidity bounces – an effect that will be intensified in September following the TLTRO.

In Scandinavia, Denmark will be tapping the Nov-19 and Nov-25. Denmark has underperformed recently partly due to large supply and also due to the fact that the Danish central bank de facto has delivered two independent rate hikes relative to the ECB of a total of 25bp (15bp in April and 10bp in June). It is not unusual for Denmark to underperform in H1. Lower supply in H2 and pressure on the Danish central bank to cut again suggests that the current entry level is attractive.

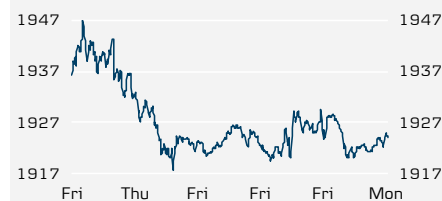
FX markets

It has been relatively quiet on the FX market so far this week. AUD trades nearly 0.5% lower against USD this morning as the Reserve Bank of Australia kept rates unchanged and posted a relatively dovish statement following its rate meeting. However, AUD remains significantly overbought against USD, NZD and CAD according to our short-term financial models and we doubt that we are in for further strong performance in 2014 as we expect the RBA to be on hold for the rest of the year.

EUR/GBP corrected a bit higher yesterday following the strong sell-off last week as some profit taking probably temporarily provides support to the cross. So far our short-term financial model can fully explain the move lower in EUR/GBP primarily driven by a widening of the two-year swap rate spread. The model indicates a fair value estimate of 0.7935 but in our view it should not be long before EUR/GBP declines further as there is still room for higher UK money market rates.

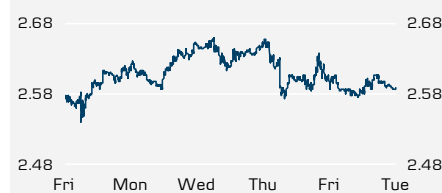
Today's UK and US inflation figures have the potential to support both GBP and USD relative to EUR if the numbers surprise on the upside. However, the market will probably be in wait-and-see mode ahead of the FOMC meeting and not least the minutes from the latest Bank of England meeting on 4-5 June meeting. Recent comments from BoE Governor Mark Carney suggest that the central bank might consider raising rates this year and the minutes tomorrow will be scrutinised for indications that the balance of the board is tipping towards a rate hike. If so, this will weigh further on EUR/GBP.

US S&P500 future



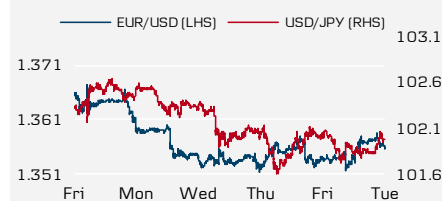
Source: Danske Bank Markets

US 10y gov yield



Source: Danske Bank Markets

Global FX



Source: Danske Bank Markets

Scandi FX



Source: Danske Bank Markets

Key figures and events

Tuesday, June 17, 2014							
				Period	Danske Bank	Consensus	Previous
8:00	SEK	PES Unemployment	%	May			4.10%
10:30	GBP	PPI - Input	m/m/y	May	0.0%	-4.3%	-1.10% -5.50%
10:30	GBP	PPI - Output	m/m/y	May	0.1%	0.6%	0.00% 0.60%
10:30	GBP	CPI	m/m/y	May	0.1%	1.7%	0.40% 1.80%
11:00	DEM	ZEW current situation	Index	Jun	63.7	62.1	62.1
11:00	DEM	ZEW expectations	Index	Jun	34.8	35.0	33.1
11:15	EUR	ECB announces allotment in 7-day (MRD)					
14:30	USD	Building permits	1000 (m/m)	May	1041 (-1.70%)	1070 (1.00%)	1059 (5.90%)
14:30	USD	Housing starts	1000 (m/m)	May	1062 (-0.90%)	1036 (-3.40%)	1072 (13.20%)
14:30	USD	CPI	m/m/y	May	0.20%	2.00%	0.20% 1.90%
14:30	USD	CPI - core	m/m/y	May	0.20%	1.90%	0.20% 1.80%

Source: Bloomberg and Danske Bank Markets

Today's market data: 17 June 2014

STOCKS



	Close		+/-
DJSTOXX50	3045	↓	-0.4%
OMXC20	742	↑	0.2%
OMXS30	1383	↓	-0.5%
OSE BX	621	↓	-0.4%
Close +/-			
DOW JONES	16781	↑	0.0%
NASDAQ	4321	↑	0.2%
S&P500	1938	↑	0.1%
NIKKEI (07:30)	14986	↓	-0.4%

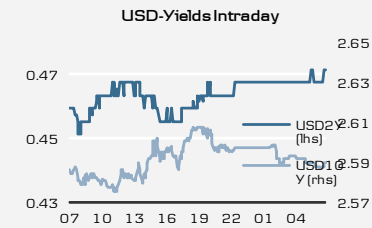
FX & COMMODITIES



EUR	17:00	07:30		+/-
USD	135.69	135.60	↓	-0.09
JPY	138.15	138.27	↑	0.12
GBP	79.89	79.90	↑	0.01
NOK	812.74	812.32	↓	-0.42
SEK	899.49	898.92	↓	-0.57
DKK	745.62	745.73	↑	0.11
PLN	414.26	414.29	↑	0.03
USD				
JPY	101.81	101.97	↑	0.16
GBP	169.85	169.73	↓	-0.12
CHF	89.73	89.82	↑	0.09

	07:30		+/-	Oil, Brent, \$
Gold, \$	1265.16			112.59
1 day	↓	-6.72	↓	-0.35
1 month	↓	-28.30	↑	2.84
Year-t-date	↑	59.51	↑	1.79
CRB				
1M future	309.83			531.80
1 day	↓	-0.16	↓	-1.44
1 month	↑	3.90	↓	-11.93
Year-t-date	↑	29.66	↓	-0.94

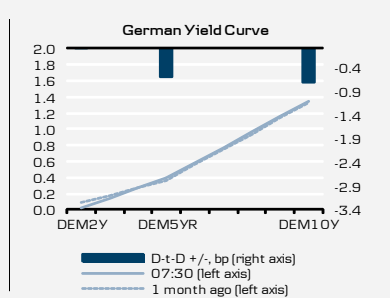
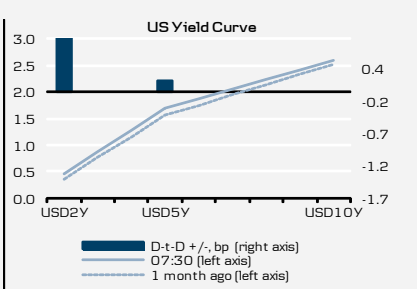
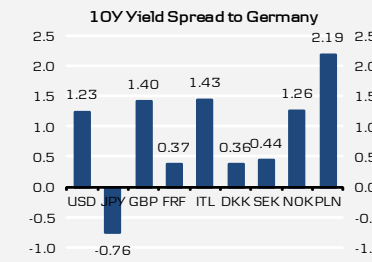
YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.25	0.23	-2
EUR	0.15	0.22	7
GBP	0.50	0.56	6
DKK	0.20	0.37	17
SEK	0.75	0.87	12
NOK	1.50	1.83	33
PLN	2.50	2.58	8

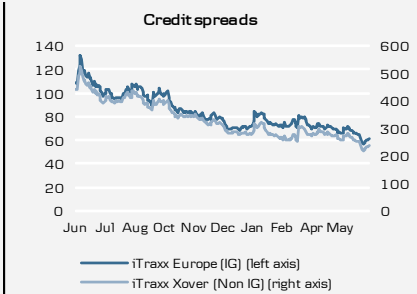
	17:00	07:30		+/-, bp
USD 10Y	2.59	2.59	↓	-1
USD 30Y	3.40	3.39	↓	-1
JPY 10Y	0.60	0.59	↓	-1
07:30(-1)* 17:00 +/-, bp				
DEM 10Y	1.36	1.35	↓	-1
DKK 10Y	1.72	1.72	↓	0
SEK 10Y	1.82	1.79	↓	-3
NOK 10Y	2.61	2.61	↑	0
PLN 10Y	3.51	3.54	↑	2

* As of closing previous trading day



Credit spread, iTraxx s. 11*

	07:30	1 day	1 month
Europe (IG)	61	↑ 0	↓ -8
HiVol	74	↑ 0	↓ -10
Xover (N-IG)	240	↑ 0	↓ -35
Finan. Sr.			
Finan. Sub.	63	↓ 0	↓ -17
Non-finan.	98	↑ 0	↓ -29



Swap Spread, bp**

	17:00	07:30		+/-
USD 10Y				
JPY 10Y	10	10	↑	0
07:30(-1)* 17:00 +/-				
EUR 10Y	0	15	↑	15
DKK 10Y	19	18	↓	-1
SEK 10Y	14	13	↓	-1
NOK 10Y	36	35	↓	0

* As of closing previous trading day

** Ask price