Danske Daily

March 06, 2009

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Today's key points

- **US stock markets dropped more than 4% yesterday led by a sell-off in financials. The negative sentiment carried over to the Asian session, where the main indices are trading in the red this morning.**

- **US Treasuries rallied and the long end of the curve in particular saw large price increases, as the BoE's announcement to buy corporate and sovereign debt sparked speculation that the Fed may buy longer-maturity government securities**

- **Focus today is on the US employment report released at 14:30, where we expect a 650k decline in non-farm employment. Norwegian manufacturing production is due at 10:00 and a couple of Fed speeches are due later on: Plosser at 16:00 and Dudley at 17:15.**

Markets Overnight

US equity markets tumbled and the S&P500 index fell 4.25% to the lowest level since 1996, while the Dow Jones index fell 4.09%. The drop in stock prices was led by a sell-off in financials after Moody's said it may cut JPMorgan Chase & Co.'s credit rating. JPMorgan, Wells Fargo, and Bank of America all dropped by more than 10%, while Citigroup fell below USD1. The negative sentiment has carried over to Asia and the main Asian indices have fallen overnight, though slightly less than in the US. The Nikkei 225 index is, at the time of writing, down by 3%.

Following yesterday's 50bp interest rate cut by both the ECB and the Bank of England (BoE), bonds rallied in the US – naturally also supported by the drop in equity markets. The BoE's move towards quantitative easing and the announcement that it will purchase government and corporate dept prompted speculation that the Federal Reserve may purchase longer-maturity government securities and the long end of the Treasury curve rallied strongly. The yield on 10-year notes dropped 16bp and the yield on the 30-year notes 18bp. Treasuries have fallen slightly in Asian trade overnight.

On the commodity market, the oil price corrected lower in yesterday's trade following the large increase on Wednesday. Crude oil for April delivery fell below USD44/bbl and has traded broadly sideways overnight.

The euro depreciated strongly in yesterday's trade, following the ECB rate cut, and EUR/USD dropped shortly below 1.25, but has corrected higher overnight to trade in the 1.255-1.260 range. Meanwhile, the defensive currencies have strengthened on the sell-off in equity markets, with USD/JPY trading just above 98 and EUR/CHF just above 1.46. The Scandies have seen further pressure and EUR/SEK is trading at a new high just below 11.70.

Today's events				Period	Our forecast	Consensus	Latest
08:00	EEK	CPI	y/y	Feb	3.8%		4.1%
09:15	CHF	CPI	m/m|y/y	Feb			-0.8%|0.1%
09:30	DKK	Industrial production	m/m	Jan	-1.5%		-0.1%
10:00	NOK	Manufacturing Production, nsa.	m/m|y/y	Jan	-2.0%|-4.8%	-2.3%|-4.8%	-2.4%|-1.3%
10:30	GBP	PPI - Output	m/m|y/y	Feb		0.2%|3.1%	0.1%|3.5%
12:00	LVL	Industrial production	y/y	Jan	-17.7%		-14.2%
14:30	USD	Nonfarm payroll	1000	Feb	-650	-625	-598
14:30	USD	Unemployment	%	Feb	7.9	7.9	7.6
14:30	USD	Average hourly earnings, non-farm	m/m	Feb	0.2%	0.3%	0.3%
21:00	USD	Consumer credit	bn. USD	Jan		-3.9	-6.6

Global Daily

The main event today is the US employment report due to be released at 14:30. In line with consensus we forecast that non-farm employment declined by 650,000 and that unemployment rose to 7.9% in February from 7.6% in January. Average hourly earnings are estimated to post a 3.8% annual increase, suggesting little deflationary risks in the wage-setting process.

Late in the afternoon a couple of Fed speeches are on the agenda. At 16:00 Philadelphia Fed President Plosser (hawk, non-voter) speaks on the financial system. About one hour later at 17:15 the newly appointed New York Fed President Dudley speaks on financial turmoil. Tonight at 21:00 consumer credit data for January is due. Further contraction is expected.

In the European fixed income markets the message from the ECB yesterday could very well change the curve dynamics going forward. The ECB's low growth projections imply that policy normalisation now seems further away. This is has already been benefiting the longer maturities. So far we have been in favour of curve steepeners, but going forward the outlook for the yield curve is more unclear. After seeing that the Bank of England will buy long bonds – as announced in its policy statement yesterday – the market may increasingly price a likelihood that this could happen in Euroland as well. Hence it has become a more two-way game in the curve trade and we believe one should be more careful in curve steepeners. For the outright level of yields, we see a little more downside but overall the majority of the yield decline is likely to be behind us.

The euro came under heavy pressure yesterday, following ECB's 50bp rate cut, and EUR/USD dropped temporarily below 1.25. Interestingly, the pair stabilised in the late US session, despite plummeting equity markets, which proves how difficult it is currently to break the approximate 1.25-1.30 range. We still look for EUR/USD to break meaningfully below 1.25 in the coming months, though, as the ECB will lower rates further and as CEE uncertainty remains high. If non-farm payrolls surprise negatively today we would continue to look for the 'inverse' reaction on FX market – i.e. for EUR/USD to move lower on negative US data surprises, as these continue to set the tone for overall risk sentiment. Meanwhile, we also note the CHF and equity markets appear to have re-coupled for now. However, with the first quarter SNB meeting coming up on Thursday and a high probability of the SNB adopting non-standard measures, we would look for EUR/CHF to correct higher – unless the sell-off in equity markets continues at the current speed.

Scandi Daily

Yesterday, SEK came under heavy selling pressure. First Riksbank's Öberg scared the market by being very downbeat on the Swedish growth outlook. Later in the day Moody's announced a negative outlook for the Swedish banking sector partly due to its exposure to the Baltics. EUR/SEK jumped a stunning 25 big figures yesterday to 11.68. Considering that risk appetite has nose-dived in global markets with US stock markets down more than 4% we could easily see EUR/SEK higher today.

We also noted another interesting thing yesterday. EUR/NOK managed to stay relatively stable at 8.92 despite the spike in EUR/SEK. It underlines that the market is now capable of – contrary to what we saw at Christmas time – trading the two volatile Scandi currencies independently. However, today we should see some weak manufacturing numbers out of Norway. Manufacturing production is expected to drop 4.8% y/y. Together with the weak risk picture it might weigh on the NOK today. The numbers should also reinforce our long-held view that also Norges bank will slash rates by 50bp on 25 March. However, the Norwegian economy still looks better than Euroland and the spread widening in the short-end curve against Euroland is definitely fair. We expect it to continue over the coming days.

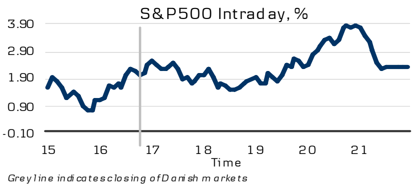
Fixed Income				
	17:00	*07:30*		*+/-, bp*
USD 10Y	2.89	2.98	↑	9
USD 30Y	3.56	3.67	↑	11
JPY 10Y	1.32	1.32	↑	0
	*07:30(-1)**	*17:00*		*+/-, bp*
DEM 10Y	3.05	3.01	↓	-3
DKK 10Y	3.45	3.42	↓	-4
SEK 10Y	2.81	2.79	↓	-3
NOK 10Y	3.81	3.80	↓	-1
PLN 10Y	6.31	6.29	↓	-2

* As of closing previous trading day

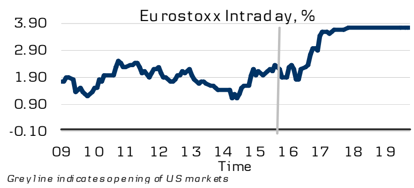
FX				
EUR	*17:00*	*07:30*		*+/-*
USD	125.48	125.89	↑	0.41
JPY	123.27	125.20	↑	1.93
GBP	88.85	89.07	↑	0.22
NOK	890.34	887.62	↓	-2.72
SEK	1165.37	1141.74	↓	-23.63
DKK	745.07	745.08	↑	0.01
PLN	472.73	467.99	↓	-4.73
USD	*17:00*	*07:30*		*+/-*
JPY	98.22	99.46	↑	1.24
GBP	141.23	141.35	↑	0.13
CHF	117.49	117.43	↓	-0.06

Today's market data

STOCKS



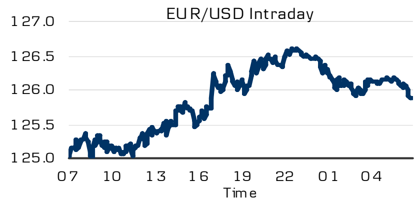
1 month	↓	-18.0%
Year-to-date	↓	-23.3%



1 month	↓	-16.8%
Year-to-date	↓	-19.6%

	Close		+/-
DJSTOXX50	1705	↓	-1.7%
OMXC20	229	↓	-4.3%
OMXS30	630	↓	-2.7%
OSE BX	211	↓	-3.9%
	Close		+/-
DOW JONES	6876	↓	-2.4%
NASDAQ	1354	↓	-2.4%
S&P500	713	↓	-2.8%
NIKKEI (07:30)	7433	↑	2.0%

FX & COMMODITIES



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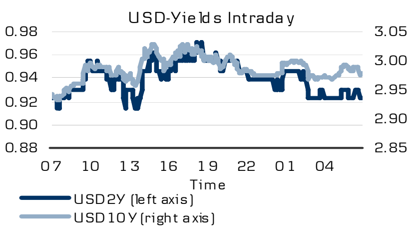
		Gold, $		Oil, Brent, $
07:30		913.15		45.71
1 day	↑	8.77	↓	-0.79
1 month	↑	0.72	↓	-1.13
Year-t-date	↑	33.22	↓	-0.26
		CRB 1M future		CRB, Raw Industrials
07:30		209.29		333.81
1 day	↓	-2.16	↑	1.41
1 month	↓	-12.05	↓	-8.07
Year-t-date	↓	-20.25	↑	3.60

YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.25	1.28	103
EUR	1.50	1.76	26
GBP	0.50	1.99	149
DKK	2.25	3.63	138
SEK	1.00	1.19	19
NOK	2.50	3.21	71
PLN	4.00	4.40	40

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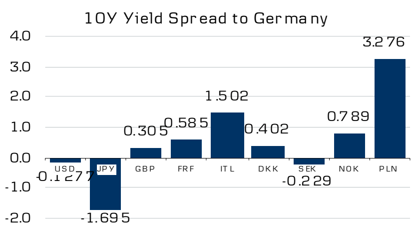
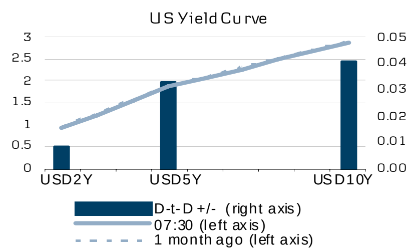
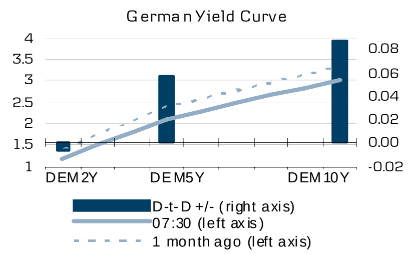
* As of closing previous trading day







Credit spread, iTraxx s. 10*

	07:30		1 day		1 month
Europe	354	↓	0	↑	54
HiVol	396	↓	-22	↑	39
Crossover	1193	↑	24	↑	339
Finan. Sr.	162	↓	-14	↑	37
Finan. Sub.	310	↓	-32	↑	127
Non-finan.	374	↑	1	↑	5

* Ask price

Swap Rates**

	17:00	*07:30*		*+/-, bp*
USD 10Y	3.18	3.28	↑	10
JPY 10Y	1.25	1.27	↑	2
	*07:30(-1)**	*17:00*		*+/-, bp*
EUR 10Y	3.43	3.36	↓	-7
DKK 10Y	3.71	3.64	↓	-8
SEK 10Y	3.14	3.13	↓	-1
NOK 10Y	4.32	4.31	↓	-1
PLN 10Y	5.27	5.09	↓	-18

* As of closing previous trading day
** Ask price

Swap Spread, bp**

	17:00	*07:30*		*+/-*
USD 10Y	30	32	↑	1
JPY 10Y	-5	-3	↑	1
	*07:30(-1)**	*17:00*		*+/-*
EUR 10Y	38	35	↓	-4
DKK 10Y	0	-7	↓	-7
SEK 10Y	32	35	↑	3
NOK 10Y	52	52	↓	0

* As of closing previous trading day
** Ask price

Source: Bloomberg *7:30(-1) og 17:00 refers to the previous (trade) day*

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First date of publication

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