06 November 2009

Weekly Focus

More short-term strength

Global update

- Global PMI increased to 55.7 in October indicating a further strengthening of global growth in the next couple of quarters.
- Signs of a recovery in domestic demand are emerging, but the markets are still questioning the sustainability of the recovery in the developed countries.
- BoE expanded asset purchases slightly less than expected and was slightly more optimistic in its rhetoric on the economy. BoE is not likely to deliver more QE.
- ECB kept rates on hold and was slightly more hawkish than expected. Trichet signalled that the 12-month auction in December could be the last with full allotment.
- Fed made no changes to its policy and continued to signal exceptionally low rates for an extended period.

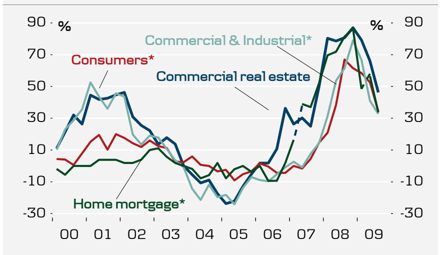
Market movers ahead

- In US focus LVRQ)HG¶V6HQLRU/RDQ2IILFHU2SLQLRQVXUYH\DQG0LFKLJDQ&RQ confidence.
- In Euroland Q3 GDP, IP and ZEW are on the agenda.
- Asia will have a busy week, with most important indicators being published in China.
- In Sweden CPI and industrial data are on the agenda.
- In Norway CPI and PPI data as well as a couple of Gjedrem speeches will attract attention.

Global PMI higher in November

Source: Reuters Ecowin and Danske Bank

Will US credit tightening slow further?



Source: Reuters Ecowin and Danske Bank

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Global update: Short-term strength

Still upbeat

Global leading indicators continue to look strong (see *Global Business Cycle Monitor, October*). Global PMI climbed further to 55.7, the highest level since June 2007, indicating global growth above trend. OECD leading indicators are also rising sharply pointing to more strength in coming 3-6 months. However, some of the very early indicators such as the order-inventory balances from the PMI statistics are starting to level off, which is in line with our expectation that global growth will level off after Q1 2010. On the positive side in the short term is also the sharp pick-up in US home sales. Although partly boosted by the tax credit for first-time buyers it will help to clear inventories fast.

Sustainability indicators also improving – although more mixed

PMI and leading indicators tell us something about the short-term growth picture, but do not say much about the sustainability of the pick-up. As we expect leading indicators to peak around March/April due to the dynamics of the inventory cycle, the market will increasingly look for signs that final demand growth picks up.

We believe we need to see US consumption growth around 2% in 2010 for growth to be sustained. For this to happen a) employment growth must pick up, b) oil prices must not ULVHWRRPXFKDQGWRRIDVWVHHODVWZHHN¶V:HHNO\)RFXVDQGFWKHVDYI not rise too fast. During the past weeks we have seen some encouraging signs, although not all indicators support the sustainability case.

On the positive side we note the following:

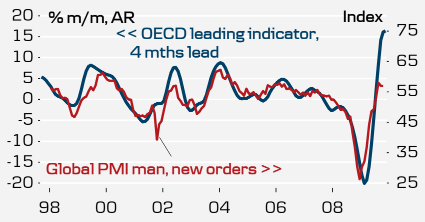
- US consumption growth excluding cars rose around 2% in Q3. Hence the improvement has not (as some suggest) been entirely due to the cash-for-clunkers scheme boosting car sales. It seems that the effect of the tax cuts during spring has come with a delay giving a boost to consumption in H2 2009.
- Car sales in October rose stronger than expected to 10.45m vehicles up from 9.2m vehicles in September. Hence fears that car sales would fall back sharply after the cash-for-clunkers scheme ran out have so far been dismissed. On the contrary, the data suggest an improvement in the underlying trend.
- Employment indicators are starting to improve. The ISM employment index posted a decent rise from 46.2 in September to 53.1 in October and the weekly jobless claims continue the downward trend falling to 512k this week. It peaked at 674k in March.

It has not all been positive, though.

- Consumer confidence fell back in October and continues to be at a very low level. Although the correlation with private consumption is not very close, it still suggests that consumers are very vulnerable .
- Oil prices have pushed higher to USD80 during the past month. As we wrote in Weekly Focus last week we are getting worried that the global growth pick-up fuels a self-destructive rise in oil prices leading to a renewed set back in US consumption early next year.

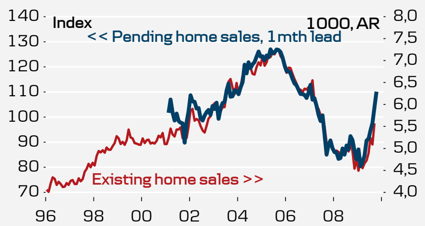
On balance we are still cautiously optimistic that the kick-start of the economy will trigger job growth and make the recovery sustainable. With risky assets having risen sharply this year this will become increasingly important.

Global PMI and leading indicator



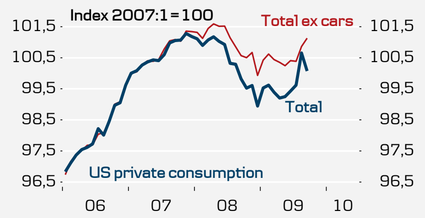
Source: Reuters Ecowin

Sharp rise in US home sales helping to clear inventories



Source: Reuters Ecowin

US consumption picking up – also outside cars



Source: Reuters Ecowin

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Market movers ahead

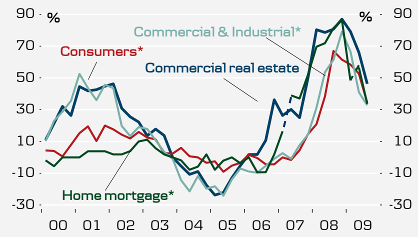
Global

- **US:** The Q4 Senior Loan Officer Opinion Survey is the most important event, as it will provide information about the development in US credit conditions. Apart from that the preliminary Michigan survey for November is the only key figure of interest.
- **Euroland:** Third quarter GDP figures out of Europe are expected to arrive at a solid 0.4% q/q, with France and Germany likely to outperform the Euroland composite. Industrial production data for October are expected to be solid with a 1.6% m/m progress in Germany and a 1.4% m/m reading in Euroland. ZEW will be the first important sentiment indicator for November. We look for a small decline to 54.4 from 56.0 driven partly by the setback in DAX.
- In **Asia** China will be in focus next week, when most important economic data for October will be released. Chinese growth appears to be accelerating slightly again into Q4 on the back of both stronger exports and some improvement in manufacturing investments. Deflationary pressure continues to ease, but the year-on-year increase in consumer prices will remain in negative territory in October.

Scandi

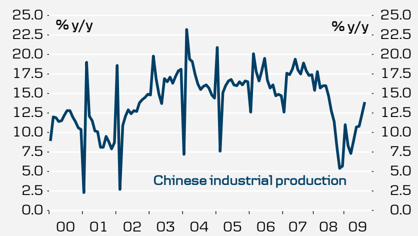
- In **Denmark** the current account deficit for September, CPI for October and Q3 construction data are due next week.
- There will be CPI and industrial data for October in **Sweden**, but neither is likely to have much market impact.
- In **Norway** October CPI as well as a couple of Gjedrem speeches will attract attention. We look for underlying inflation to be unchanged at 2.4% in October.

Will US credit tightening slow further?



Source: Reuters Ecowin

Focus on Chinese data next week



Source: Reuters Ecowin

Market movers ahead

Global movers				Event		Period	Danske	Consensus	Previous
Mon	09-Nov	-	USD	Senior Loan Officer Survey Q4 2009					
Tue	10-Nov	11:00	DEM	ZEW economic sentiment	Index	Nov		55	56
Wed	11-Nov	3:00	CNY	Retail sales value	y/y	Oct		15.7%	15.5%
		3:00	CNY	Fixed assets investments	y/y	Oct		33.5%	33.3%
		3:00	CNY	Industrial production	y/y	Oct		9.5%	8.7%
Fri	13-Nov	11:00	EUR	Inflation	m/m|y/y	Oct		0.3%|-0.1%	0.0%|-0.3%
		16:00	USD	University of Michigan Confidence, preliminary	Index	Nov	**69.8**	71.0	70.6

Scandi movers				Event		Period	Danske	Consensus	Previous
Tue	10-Nov	9:30	SEK	Industrial production	m/m|y/y	Sep		-0.4%|-19.7%	-2.9%|-20.9%
		10:00	NOK	Consumer prices	m/m|y/y	Oct		0.1%|0.9%	0.8%|1.2%
Thu	12-Nov	9:30	SEK	CPI	m/m|y/y	Oct	**0.2%|-1.5%**	0.2%|-1.6%	0.3%|-1.6%

Source: Bloomberg and Danske Markets

Financial views

Equities

- We maintain our positive focus on equities for the next three months on positive surprises in Q3 earnings driven by cost cutting, financial healing and stronger commodity prices. The key for a continuation of the strong positive trend for the global equity market is that signs of a maturing upswing emerge. The main focus in that context will be job and investment data. We anticipate that signs of a strengthening US job market will drive stocks up in the coming months, although we still fear that the upswing will soon lose momentum.

Fixed Income

- Global: In the short term, we believe that yields will remain in the current trading range until more solid news regarding economic recovery and the tightening of monetary policy emerges. At the same time, commercial and central bank buying continue to support bonds. Our medium-term view is for further increases in yields on a sustainable recovery in the global economy, high supply and the beginning of the phasing-out of central bank measures.
- Intra-Euro: We still recommend underweighting Spain, Greece and Portugal and on longer maturities, we are long Germany, Italy and the Netherlands.
- Scandi: We look for a flatter curve in the 3-10Y segment for the longer horizon. In Danish mortgages we overweight 30Y callables vs. both swaps and govies. In Sweden we favour receiving the front end of the curve. We look for a relatively steeper mortgage curve vs. govies and we like to pay 5y5y fwd swaps against EUR. In Norway we recommend long positions in longer-dated govies against either swaps or Bunds.

Credit

- Cash credit continues to be well bid and spreads remain resilient despite ongoing supply in the primary market. Abundant liquidity and continued inflow into the asset class will continue to support investment grade spreads. On a six-month+ horizon the relatively low absolute yields may reduce inflow and, coupled with ongoing supply pressure, spreads may come under pressure. We are negative on high yields as the very challenging fundamentals are no longer adequately compensated for in spreads.

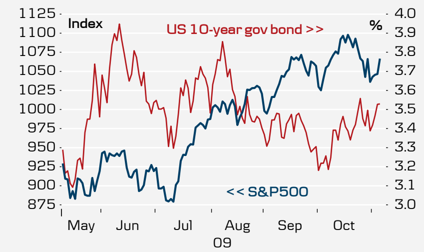
FX Outlook

- The peak in EUR/USD is, in our view, still ahead of us as the dollar-negative factors dominate in the short and medium term. Rising equity and commodity prices are negative for the dollar and the dollar is surrounded by negative sentiment due to the massive US deficit and central bank diversification. GBP has strong potential ahead. We think that we have seen the last quantitative easing from BoE. JPY seems in our view too strong in the current economic upswing. We are positive on high-yielders.
- The Riksbank has started to move away from its dovish stance, and the Latvian budget has finally been passed. Hence, two major obstacles to SEK appreciation have been removed. The Norwegian krona is expected to continue its strong performance supported by a high oil price, a strong macro picture and rate hikes. Both SEK and NOK are expected to benefit from risk appetite, but the market already being long Scandies poses a risk of a correction.

Commodities

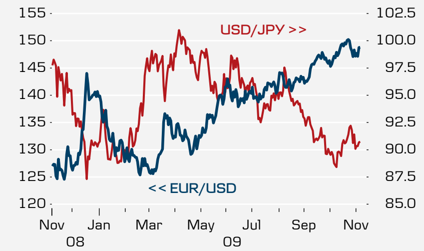
- Global optimism has sent oil higher and, given our global growth view, we still see upside risk for commodities going forward. We expect a test of USD90 a barrel and USD7,000 a tonne for copper in three months.

Equities and US 10Y yield



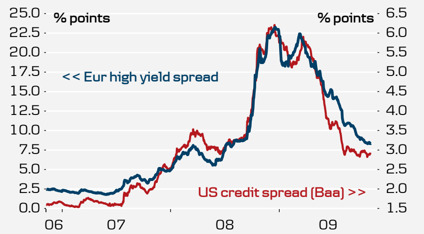
Source: Reuters Ecowin

EUR/USD and USD/JPY



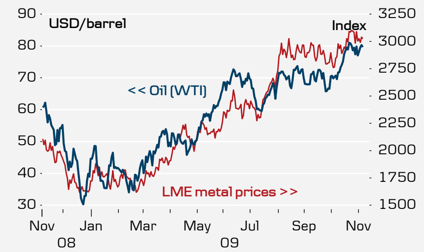
Source: Reuters Ecowin

Credit spreads



Source: Reuters Ecowin

Commodity prices



Source: Reuters Ecowin

Fixed Income: Demand versus supply

Central banks managed to keep rates in check

A dovish Fed sent 2-year yields lower in the US and more puzzling, 10-year yields moved slightly higher. Markets had obviously priced in some probability that the FOMC would make more substantial changes to the statement while the actual changes were minor. This leaves the US 2-10y curve at its steepest since July.

The ECB on the other hand was a tad more hawkish than at the last meeting. The ECB has turned more positive on the economic situation and indicated that the 12-month LTRO in December will be the last. Despite these more hawkish tunes, the 2y yield barely moved. We will probably have to wait for the December meeting to get a larger change in market expectations. We expect the ECB to put a spread on the coming 12-month auction, which will be announced at the December meeting. This is likely to be interpreted as a clear hint that rate hikes are moving closer.

Firmer evidence is needed to push yields higher

Yields have been trading in a relatively tight range over the past weeks and both German and US 10y yields are now approaching the upper limit in this range. Neither central banks nor a major positive surprise in the US manufacturing ISM earlier in the week were able to push yields through the upper boundary.

In our view, one trigger for a move higher in yields from here is more firm evidence of the sustainability of the current recovery. Markets are not paying much attention to improvements in short-term activity indicators such as the ISM, but have turned their focus to indicators of underlying demand such as consumption, investments and developments in the labour market. We expect further improvement in these VXVWDLQDELOLW\LQGLFDWRUV WR HPHUJH RYHU WKH FRPLQJ PRQWKV the long-term view on rates thus remains unchanged: We expect economic data to continue to chip away at the double-dip story and point to a more sustained recovery in economic activity. Coupled with our expectations for extraordinary policy measures being phased out, we maintain our view that yield increases are on the horizon.

Supply back in focus

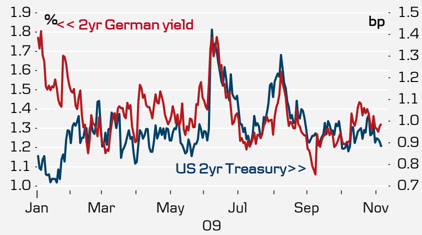
Another big joker is the supply and demand balance. So far there has been solid demand for government bonds despite the surge in issuance. The rise in risk aversion, the weak dollar and subsequent surge in Asian currency reserves coupled with buying by commercial banks and central banks mean demand for bonds has been firm.

The coming week will see a stream of supply in the US, which will be the first Treasury auctions since the Fed ended its purchase programme. Particularly interesting will be the auctions in the long end of the curve, of USD25bn in 10-year notes and USD16bn in 30-year notes, given the growing volume of long-duration Treasury debt issuance. The big question is whether foreign and domestic demand for US treasuries will continue at an HTXDOO\VWURQJ IRRWLQJ 7KHUH LV VWLOO D VROLG IORZ LQWR $VLDQ FHQWUDO EDQNV¶FXUUHQF\ reserves, which suggests that demand from this side should continue to look firm. Another round of well-received auctions this week would lend some support to bonds. On the other hand, weak auction results next week could very well trigger a spike in long-term yields.

Key events of the week

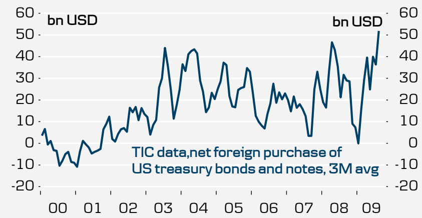
- US senior loan officer survey
- German ZEW and Euroland GDP
- US Treasury auctions

Central banks kept rate hike expectations in check



Source: Reuters Ecowin

Will foreign demand keep supporting US treasury bonds



Source: Reuters Ecowin

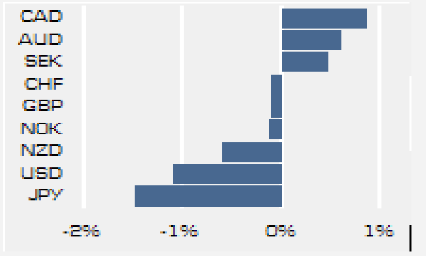
Foreign exchange: Central banks talk exit strategy

Bank of England announces end to quantitative easing

In the past week, the Bank of England has announced that it will be continuing with its quantitative easing for the next three months. The purchase of gilts was increased by GBP25bn to GBP200bn. This was only half of what had been expected beforehand in the market. But, more importantly, we then heard a more positive tone from the British. The Bank of England said in its press statement that the indicators of consumption and confidence suggest that an increase in economic activity will soon be visible.

:HVKDUH%R(¶YLHZSRLQW DQG ORRNLQJ DKHDG WKUHH PRQWKV WKHUH ZLO need for further quantitative easing. This also means that a large downside risk has been UHPRYHG IURP WKH SRXQG DQG WKH PDUNHW FDQ RQFH DJDLQ EHJLQ WR IRFX And in that light we still consider the pound to be undervalued. We expect EUR/GBP to fall to 86 over the next six months.

Weekly change against EUR

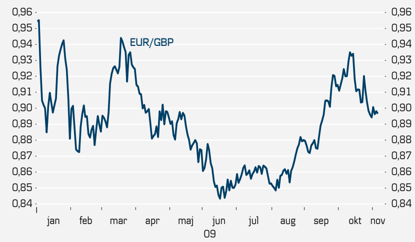


Source: Ecowin

Relative monetary policy points to higher EUR/USD in short term

At the ECB meeting last week, ECB President Trichet signalled that it will soon be time to withdraw some of the currently cheap liquidity. We therefore believe that the 12-month auction in December will be the last in this round and that a spread will be added. We are still expecting auctions in 2010, but with a shorter duration. The time of extremely cheap liquidity in the euro area is therefore slowly running out. The announcement from FOMC, on the other hand, was that interest rates will still be kept extraordinarily low for an H[WHQGHG SHULRG¶ $OWKRXJK)20& KDV DOVR SKDVHG RXW LWV SXUFKDVH RI bonds, it has to be said that the Fed is still particularly aggressive in its interest rate policy 7KXV WKHUH LV QRWKLQJ LQ WKH SDVW ZHHN¶V HYHQWV WKDW LQ RXU YLHZ VKRXOG FDXVH investors to drop the dollar as a funding currency.

QE in UK drawing to an end ... good for GBP



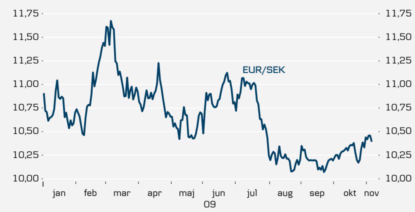
Source: Ecowin

In other words, for the next three months, the relative interest rate policy will still be to the disadvantage of the dollar. We believe that it is only a matter of time before EUR/USD again tops the 1.50 level and that it will reach 1.55 in the next three months.

Finally some positive news for SEK

The Swedish krona has been under pressure in recent months. But in the past week we finally had some good news. The Riksbank announced that it will now only be offering liquidity to the banks with a positive interest rate spread. This is the first step away from the current particularly expansive Swedish monetary policy. The Riksbank also talked about the risk of a housing bubble in light of the high house price rises in Sweden at the PRPHQW 7KH 5LNVEDQN¶V DQQRXQFHPHQWV VKRXOG SHUVXDGH WKH PDUNHW WKDW LQ VSLWH RI everything, the Swedish krona is not destined to be a low-interest currency for all eternity. We also had the Latvian budget adopted in a first reading in the Latvian parliament. Thus, two major risk factors have been removed from the Swedish krona, and we believe that the Swedish krona will enjoy further success in the coming weeks.

Finally some good news for SEK



Source: Ecowin

No foreign exchange news from G20 meeting in Scotland

Just like the G20 meeting in Pittsburgh in September, we are not expecting any substantial foreign exchange DQQRXQFHPHQWV IURP WKH ZHHNHQG¶V *PHHWLQJ LQ Scotland (6-7 November). Vague statements that foreign exchange rates will reflect fundamental conditions are probably the best that we can expect.

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Denmark: Consumption pick-up slow in coming

Statistics Denmark published retail sales figures for September in the past week. The numbers demonstrated a fall of 1.7% compared to the previous month when seasonally adjusted and corrected for price changes. Unfortunately, the outcome was no surprise. Sales using Dankort (Danish debit card), which were released earlier, had indicated a substantial fall in retail sales in September.

It is nonetheless worth noting that retail sales have now fallen relatively steeply for two months in a row, and are clearly lower than when consumer pessimism was at its height in December.

Danes have more money in their pockets

The Danes have had significantly more money in their pockets this year thanks to tax cuts, wage hikes, declining interest rates and payouts from the SP pension fund. Further tax cuts are on the cards after New Year, and consumer confidence has risen considerably over the course of this year. Nevertheless, consumers are continuing to save rather than spend. Part of the reason for this is the tax cuts scheduled for 2010, as the cuts make it particularly attractive for many people to pay in all they can afford to pension schemes this year. Salaried workers and self-employed people who have the option are presumably also electing to postpone as much income as possible to next year.

On the other hand, this means there should be a chance of consumption rising after New Year. The stabilisation of the housing market is also very positive for the consumption outlook. History shows that there is a very close correlation between how much Danes consume and the value of their homes.

Retail sales were probably boosted in October by the old analogue TV signal being switched off from 1 November. The problem can be solved by buying a relatively cheap digital box, but some people have probably been tempted to buy a new television instead. The effect of this may of course stretch into November, as it was just in the past couple of days that viewers were actually affected.

Bankruptcies at 30-year high

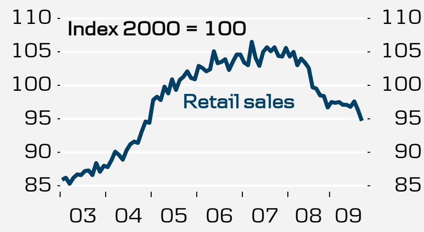
We have also received data on bankruptcies in October. After a period when the number of bankruptcies remained relatively stable following the very pronounced increases in 2008 and early 2009, the number of forced sales has risen quite sharply in October. In all, 537 bankruptcies were declared in October compared to 490 in September ± we had expected an increase to 525. The number of bankruptcies is now at its highest level since the statistic was first tracked in 1979.

7KH PDUNHG LQFUHDVH LQ WKH QXPEHU RI EDQNUXSWFLHV SUREDEO\ FRLQFLGHV ZLWK FRPSDQLHV¶ options for regularly postponing VAT and corporate tax payments being phased out. Making repayments to the government can put already squeezed companies under additional pressure, which suggests further increases in the number of bankruptcies.

Key events of the week

- Balance of payments (provisional figures) September 2009 (Monday). We expect a surplus of DKK 5.2bn.
- External trade with goods (provisional figures) September 2009 (Monday). We expect a surplus of DKK 4.75bn.
- Consumer price index of net retail prices October 2009 (Tuesday). We expect inflation of 0.15% m/m, 1.2% y/y.
- Indices of average earnings in the public sector Q3 2009 (Thursday).
- Building construction Q3 2009. (Friday)

Retail sales continue to fall



Source: Statistics Denmark

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US: Fed stays cool amid more signs of recovery

More signs of recovery...

This week brought further positive signals on the progress of the US economic recovery. Once again it was the housing and manufacturing sectors that delivered the good news, while the information from the service sector was more mixed.

Following a disappointing reading in September, the US manufacturing index resumed its ascending trend in October, increasing from 52.6 in September to 55.7. Hence, the manufacturing sector continues to gain momentum, underpinning our expectations for solid growth rates around 4% AR in the current quarter and into early next year.

The strong reading on manufacturing was unfortunately not mirrored in the corresponding survey for the non-manufacturing sector, which failed to improve on the headline. However, this was mostly due to a disappointing reading on the employment prospects, while the activity-related components on balance improved. The relatively low reading on the non-manufacturing ISM suggest that the recovery is still in a fragile phase with final demand remaining on a relatively moderate trajectory.

That said, there was some positive news on this issue from other places. Firstly, total vehicle sales showed unexpected strength (up 14%) following a month of negative payback from the cash for clunkers incentive. It has been a big question how car sales would behave in the aftermath of the cash for clunkers incentives, but so far news has been encouraging suggesting that car sales will be less of a drag than expected on Q4 consumption. Secondly, pending home sales increased further indicating that existing home sales will continue up in the coming months.

...but we still need the jobs

While there is little doubt that the economy will deliver a relatively strong performance in the next couple of quarters, it remains an open question how sustainable the growth path will be as long as job losses continues. We continue to expect that non-farm payrolls will reach close to zero late this year and that job creation will return next year. Indeed this is a very important element in our expectation that consumption spending will see a moderate recovery next year.

Fed stays focused on the output gap

7K)HPHHWLQJDWWKH)HGWKLVZHHNOHIWWKHFKDUDFWHULVDWLRQRI the economy and the monetary policy outlook. The FOMC remains very concerned about the deflationary consequences of the huge slack in the economy and continues to signal that interest rates will remain exceptionally low for an extended period. Although we are relatively optimistic on the US recovery in 2010 we do not see any Fed hikes before Q4 next year. Moreover it will probably take yet a while before the central bank starts to make major changes in its language.

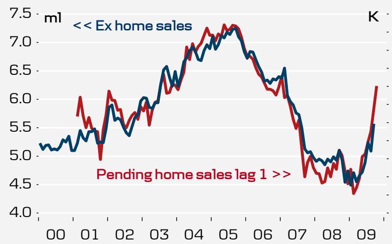
Next week: Credit survey and consumer confidence

Next week will be relatively quiet. A few less important Fed members are delivering VSHHFKHVEXWPRUHLPSRUWDQWOZHH[SHFWWKH)HG¶V6HQLRU/RDQ2IILFHU2SLQLRQ6XUYH\ to be released. The FOMC members probably had the survey at hand at the policy meeting this week, and with a note in the statement that credit remained tight one should maybe not expect too much improvement in the numbers. Finally, the preliminary Michigan consumer confidence for November is due.

Key events of the week

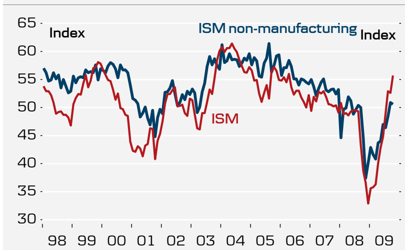
- Senior Loan Officer Opinion Survey (during the week, but probably Monday)
- Michigan consumer confidence (Friday)

Home sales continue up



Source: Ecowin and Danske Markets

Mixed message from ISM surveys



Source: Ecowin and Danske Markets

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Asia: China picks up the pace

China will be grabbing much of the attention in the coming week, as all the key Chinese GDWDIRU2FWREHUDUHVFKHGXOHGIRUUHOHDVH6HSWHPEHU¶VGDWDRXWR strong, and indicated that growth had picked up again towards the end of Q3 after slowing somewhat in the wake of the extraordinarily fast pace of growth in Q2. This picture has been provisionally confirmed by strong industrial PMIs for October (see *Flash Comment - China: The recovery gains strength*).

Exports provide new boost to China's economy

According to our calculations, Chinese economic growth was almost halved in Q3 to around 8% q/q AR from just over 16% q/q AR, meaning Chinese growth was close to its long-term trend in Q3.

China does not publish quarterly national accounts numbers divided into the various components of demand. However, we estimate that investment only rose marginally in Q3 relative to Q2, where investments soared by 45% q/q AR in the wake of the massive fiscal stimulus package. On the other hand, exports have picked up. Real exports rose by a solid 8% q/q in Q3 after rising by just about 2% q/q in the previous quarter, and so net exports are once again making a positive contribution to growth in China. So far, private consumption appears to have slowed just marginally.

The strong number in September suggests that Chinese GDP growth is again accelerating slightly. As can be seen in the figure on the right, we expect that GDP growth will again move above 10% q/q AR in Q4 this year. This is largely due to strong export growth, with exports to the US and Europe now also on the rise. In addition, there are signs that investment is accelerating and is more broadly based. Industrial investments, in particular, appear to have again picked up in recent months.

Chinese inflation heading higher

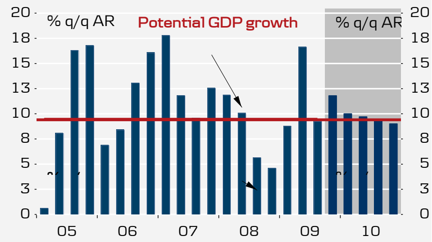
The global financial crisis never really freed up much spare production capacity in China. As can be seen in the chart on the right, it was only in the second half of 2008 that growth fell significantly below what we consider as sustainable for the Chinese economy in the long term, and much of what was lost has already been regained in 2009. Given the limited spare production capacity, major monetary and fiscal stimulus packages therefore present a much greater risk of higher inflation here than similar packages elsewhere.

While year-on-year inflation is still negative in China ± and presumably will remain so in October ± underlying inflation is already around 2% y/y. That said, there have been signs of a stabilisation around this level in recent months (see figure). We expect that year-on-year inflation will turn positive by December this year at the latest, and that it could very well climb close to 3% y/y by the end of Q1 next year. 3% is generally viewed as the critical level for the Peoples Bank of China (PBOC), and this is why we reckon that the PBOC will begin to seriously tighten monetary policy in the course of Q1 2010. With exports recovering, we are also of the view that China will gradually adopt a more constructive attitude to letting its currency strengthen relative to the US dollar.

Key events of the week

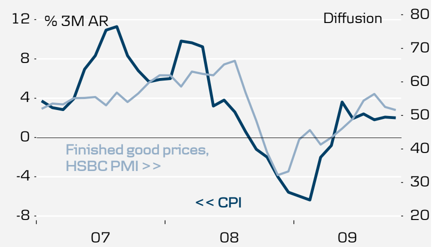
- Japanese balance of payments for September (Tuesday)
- China to release industrial production, retail sales, consumer prices, capital investments and trade figures for October (Wednesday)
- China will also publish money supply and lending figures for October during the week.
- Japanese machinery orders for September (Wednesday)

Chinese GDP growth picking up again



Source: Reuters Ecowin and Danske Markets

Deflation pressure easing



Source: Reuters Ecowin and Markit

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UK: BoE firing the last bullet

Improving indicators will put end to further BoE easing

Bank of England (BoE) most likely fired the last bullet this week when it increased its asset purchase programme by GBP25bn to GBP200bn (see *Statement*). It was slightly less than the GBP50bn expected by consensus.

%R(QRWHVWKDW³FRQWLQXHGWRIDOOLQ4EXWWKDW³DQXPEHURILQGLFDWV DQGFRQILGHQFHVXJJHVWWKDWDSLFNXSLQHFRQRPLFDFWLYLW\PDVRRQEHH

7KLVZDVLQGHHGWUXHZKHQORRNLQJDWWKHPMZHHN¶VGDWD PMI for both manufacturing and service rose further reaching levels pointing to above trend growth rates. Industrial production also rebounded 1.6% m/m in September suggesting that at least some of the weakness in August was related to longer holidays in order to clear inventories. With external as well as internal demand starting to rise and inventory depletion continuing the way is paved for further production increases in coming months.

On the positive side we also saw a decent rise in car sales in October leading to an annual increase of 31.6%. The pickup is mostly due to a car scrappage scheme as seen in many other countries, but it will underpin auto production going forward.

Bond yields higher and support to GBP

The upbeat indicators and a less aggressive BoE gave rise to a rise in 10y bond yields of 20bp during the past week to 3.86%, the highest level since July. BoE has bought around 25-30% of the outstanding amount of gilts, but with the asset purchase programme coming to an end, a major support to the gilt market is starting to fade. All along we have EHHQ ZRUULHG DERXW KRZ WKH ERQG PDUNHW ZRXOG UHDFW ZKHQ %R(¶V SXU halt and not least what would happen if BoE at some point decides to withdraw liquidity by selling gilts in the market. We still believe that BoE underestimates the operational difficulties in getting rid of GBP200bn worth of bonds. We believe the upward pressure on UK bond yields will continue over the coming months.

The strong data and less dovish BoE also gave slight support to GBP. EUR/GBP stayed below 90 and look headed lower with BoE becoming less of a supportive factor. The joker is whether ECB will sharpen it rhetoric soon (there were some indications at 7KXUVGD\¶V PHHWLQJ

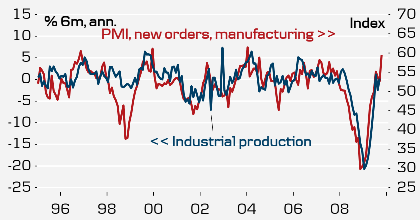
Focus on unemployment and inflation report next week

:H ZLOO JHW PRUH RQ WKH %R(¶V decision when it releases the November inflation UHSRUW :H H[SHFW %R(WR PLUURU WKLV ZHHN¶V SROLF\VWDWHPHQW DQG D improvement in forward-looking indicators. The unemployment figures will also be interesting. Monthly increases in unemployment have so far leveled off sharply from 120k in early 2009 to currently around 20k. We expect job losses to taper off further in FRPLQJTXDUWHUVEXWQH[WZHHN¶VQXPEHULVOLNHOWRVKRZDQRWKHUULVHRIDURXQGN

Key events of the week

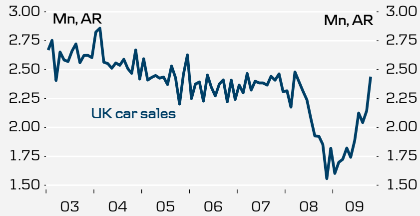
- RICS house price balance (Tuesday). We look for a further increase
- Unemployment (Wednesday). We expect another rise of 20k in line with consensus
- BoE Inflation Report (Wednesday).

More signs of manufacturing rebound



Source: Reuters Ecowin

UK car sales rebounding strongly



Source: ReutersEcowin

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Switzerland: A nervous market?

Interesting developments in the foreign exchange market

In spite of the fact that the Swiss franc is still trading in the narrow 1.5077-1.5244 post-August range against the euro, price action in the foreign exchange market have been LQWHUHVWLQJUHFHQWO7KXVWKHRSWLRQVPDUNHWLQFOXGHVDPXFKKLJ exchange rate movements in the Swiss franc than was the case just a few weeks ago. This may seem remarkable given the low volatility and continued range trading in EUR/CHF, but it presumably reflects a generally diminishing risk appetite in the market. As markets EHFRPH QHUYRXV WKH SULFH RI µLQVXUDQFH¶DJDLQVW ODUJH HFKDQJH U increases as well.

+RZHYHU WKH PDUNHW KDV QRW RQO\EHJXQ WR IDFWRU LQ D KLJKHU SUREDELOLW\RI µELJ¶ exchange rate movements, but has also turned its focus towards a stronger franc. Consequently, for the first time since the Swiss National Bank intervened in March, it has become more expensive to position for a strengthening of the Swiss franc in the options market than for a weakening. In other words, the FX market is now factoring in a higher probability of a large appreciation of the franc against the euro than a large depreciation. While this may seem strange given the SNBs dedicated policy to curb a potential appreciation, one should note that several market analysts have now begun to incorporate a stronger franc into their forecasts. Hence, the once so strong consensus that the franc will weaken has become less pronounced.

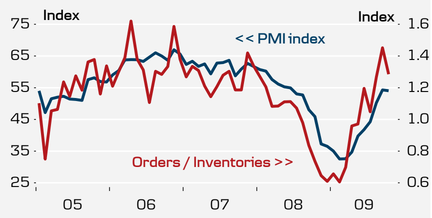
Recovery in the manufacturing sector maturing

The month of October brought a slight fall in the PMI index (survey of purchasing managers in the manufacturing sector) ± one of the main leading indicators of overall economic activity. However, the PMI index still suggests steady growth and if we consider the subindexes, there are signs that the positive inventory cycle will also support Industrial growth in the coming months. The difference between new orders and the inventory index thus remains positive. However, there are signs that the recovery in manufacturing is maturing, as evidenced by an improvement in the mid-cycle indicators for employment and production. The growth in the Swiss manufacturing sector is thus mirroring the global trend, see *Business Cycle Monitor: More signals of strong growth*, though Switzerland is probably slightly ahead in the recovery.

Key events of the week ahead

- ZEW indicator (Thursday)
- SNB's Thomas Jordan speaking in Geneva (Thursday)
- Manufacturing and import prices (Friday)

Activity indicators



Source: Reuters EcoWin

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Macroeconomic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2008	-1.2	-0.1	1.5	-5.0	0.2	2.3	3.5	3.4	1.8	3.6	33.3	2.2
	2009	-4.5	-5.0	2.2	-12.9	-1.5	-10.0	-13.6	1.5	3.5	-2.6	38.3	1.4
	2010	1.6	2.3	1.4	-2.1	0.7	2.8	5.0	2.1	5.2	-5.2	45.1	1.0
Sweden	2008	-0.4	-0.2	1.5	2.7	-0.6	1.9	3.0	2.2	6.1	2.5	37.5	8.3
	2009	-5.1	-1.2	1.0	-17.2	-1.2	-14.7	-16.3	-0.2	8.7	-1.3	39.6	7.0
	2010	0.8	1.3	1.0	-6.3	0.0	2.4	-0.5	1.4	11.4	-2.7	43.5	7.6
Norway	2008	2.1	1.2	3.8	3.8	0.7	1.3	4.4	3.8	2.5	8.0	26.0	19.0
	2009	-1.0	0.1	6.1	-4.1	-1.3	-7.6	-11.5	2.0	3.3	12.0	26.0	24.9
	2010	3.3	3.8	4.8	2.7	0.8	0.2	2.8	1.4	3.7	13.9	26.0	24.8

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euroland	2008	0.6	0.3	2.2	-0.7	0.1	1.1	1.1	3.3	7.6	-1.9	69.3	-0.8
	2009	-3.7	-0.3	2.3	-9.5	-0.7	-13.5	-11.9	0.3	9.4	-4.7	77.1	-1.7
	2010	2.2	0.6	2.1	3.2	0.3	6.1	4.9	1.2	10.0	-5.2	82.1	-1.5
Germany	2008	1.3	-0.6	1.9	2.6	0.1	3.5	5.5	2.9	7.4	-0.5	63.0	7.1
	2009	-4.8	0.2	1.9	-4.0	-0.4	0.2	2.5	0.3	8.2	-3.5	67.0	5.2
	2010	2.6	1.2	1.9	1.5	0.2	4.0	4.5	1.1	8.5	-5.5	72.0	5.4
France	2008	0.8	0.8	1.4	0.5	0.0	2.0	1.8	3.3	7.8	-2.9	66.0	-1.6
	2009	-1.8	-0.4	1.6	-3.8	-0.3	-0.3	-0.4	0.4	8.6	-5.0	71.0	-1.4
	2010	2.1	1.6	1.4	2.1	0.2	2.9	2.9	1.3	9.1	-6.0	78.0	-1.6
Italy	2008	-0.3	-0.6	1.2	-1.5	0.0	0.3	-1.5	3.6	7.0	-2.6	103.0	-2.6
	2009	-4.5	0.2	1.2	-4.8	-0.3	-0.6	-0.9	0.8	8.5	-4.0	107.0	-2.1
	2010	1.7	0.3	1.0	2.0	0.2	2.0	2.4	1.9	9.1	-4.5	111.0	-2.5
Spain	2008	1.2	0.1	5.3	-3.0	0.0	0.7	-2.5	4.1	11.3	-3.8	38.0	-10.0
	2009	-3.5	-4.7	3.4	-12.0	-0.2	-19.0	-21.0	0.0	18.9	-9.5	47.0	-6.0
	2010	0.3	-1.0	2.0	-2.4	0.1	10.8	4.1	1.4	21.0	-9.0	56.0	-6.0
Finland	2008	1.0	1.9	2.0	0.3	-0.6	7.3	7.0	4.1	6.4	4.2	33.4	2.4
	2009	-6.2	-2.8	1.0	-12.0	0.0	-23.0	-20.0	0.0	8.9	-2.8	41.5	0.6
	2010	1.0	0.2	0.0	-3.0	0.0	5.0	2.5	1.2	10.0	-4.2	49.0	1.1

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2008	0.4	-0.2	3.1	-5.1	-0.3	5.4	-3.2	3.8	5.8	-3.2	69.0	-4.9
	2009	-2.4	-0.6	2.0	-17.8	-0.7	-10.7	-14.8	-0.3	9.2	-11.2	81.0	-2.7
	2010	3.2	1.5	2.8	8.2	0.8	5.5	5.8	2.2	9.6	-9.6	87.0	-2.9
Japan	2008	-0.7	0.6	0.8	-5.1	-0.2	2.0	0.9	1.5	4.0	-5.6	196.0	3.3
	2009	-5.3	-1.2	0.7	-12.0	-0.4	-24.5	-15.8	-1.2	5.2	-9.8	212.0	2.4
	2010	3.0	1.4	0.9	1.7	0.2	18.2	1.1	-0.5	5.2	-8.0	220.0	3.6
UK	2008	0.7	1.7	3.3	-4.0	0.0	0.5	1.2	3.7	2.8	-2.5	50.1	-3.6
	2009	-2.7	-0.3	1.5	-0.3	0.0	-3.6	0.0	2.3	5.0	-8.8	60.0	-3.4
	2010	1.0	1.6	2.0	2.2	0.0	4.6	4.9	1.5	6.4	-9.6	68.0	-2.9
Switzer-land	2008	1.6	1.7	0.0	-1.7	-0.4	2.3	-0.2	2.4	2.6	0.9	42.0	9.2
	2009	-2.7	0.2	2.3	-6.4	1.2	-11.7	-7.4	-0.5	3.9	-1.5	40.7	7.6
	2010	1.0	0.5	1.5	-0.5	-0.2	1.3	-1.1	0.7	5.1	-2.5	43.5	8.1

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets

		Key int. rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	06-Nov	0.13	0.28	1.24	3.69	149.0	-	499.6
	+3m	0.13	0.30	1.50	3.80	155	-	481
	+6m	0.13	0.30	1.70	4.20	150	-	497
	+12m	0.13	0.50	2.30	4.40	145	-	514
EUR	06-Nov	1.00	0.72	1.84	3.61	-	149.0	744.2
	+3m	1.00	0.90	1.90	3.55	-	155	745.0
	+6m	1.00	1.20	2.10	3.70	-	150	745.0
	+12m	1.50	1.80	2.80	4.05	-	145	746.0
JPY	06-Nov	0.10	0.32	0.59	1.57	134.9	90.6	5.52
	+3m	0.10	0.35	0.60	1.55	143	93	5.21
	+6m	0.10	0.30	0.65	1.65	145	96	5.14
	+12m	0.10	0.30	1.00	1.90	148	101	5.04
GBP	06-Nov	0.50	0.60	2.04	4.10	89.7	166.0	829.5
	+3m	0.50	0.65	1.90	3.85	90.0	172	828
	+6m	0.50	0.75	2.05	4.00	86.0	174	866
	+12m	1.00	1.40	2.70	4.45	80.0	181	933
CHF	06-Nov	0.25	0.26	0.88	2.56	151.2	101.5	492.3
	+3m	0.25	0.30	0.90	2.60	152	98	492
	+6m	0.25	0.30	1.15	2.70	152	101	490
	+12m	0.50	0.60	1.45	2.85	156	108	478
DKK	06-Nov	1.25	1.56	2.45	3.90	744.2	499.6	-
	+3m	1.25	1.60	2.60	3.80	745	481	-
	+6m	1.25	1.80	2.70	3.95	745	497	-
	+12m	1.75	2.30	3.25	4.35	746	514	-
SEK	06-Nov	0.25	0.48	1.65	3.57	1038.0	696.9	71.7
	+3m	0.25	0.60	1.80	3.80	1010	652	73.8
	+6m	0.25	0.60	1.95	4.15	980	653	76.0
	+12m	1.00	1.25	2.80	4.65	960	662	77.7
NOK	06-Nov	1.50	2.06	3.49	4.69	842.3	565.5	88.4
	+3m	1.50	2.25	3.80	4.75	820	529	90.9
	+6m	2.00	2.50	4.20	4.90	810	540	92.0
	+12m	2.75	3.50	5.00	5.25	800	552	93.3
PLN	06-Nov	3.50	4.09	5.03	5.66	424.8	285.2	175.2
	+3m	3.50	4.10	5.00	5.85	410	265	182
	+6m	3.50	4.10	5.20	6.10	405	270	184
	+12m	3.50	4.10	5.80	6.35	400	276	187

Equity markets

Regional	Risk	Price trend 3 mth.	Price trend 12 mth.	Regional recommen-dations
USA	Low	-5% to +5%	More than +10%	Overweight
Japan	High	-5% to +5%	More than +10%	Neutral
Emerging markets (USD)	High	-5% to +5%	More than +10%	Underweight
Pan-Europe (EUR)	Low	-5% to +5%	More than +10%	Overweight
Nordics				
Sweden	Average	-5% to +5%	More than +10%	Neutral
Norway	High	-5% to +5%	More than +10%	Neutral
Denmark	High	-5% to +5%	More than +10%	Neutral

Commodities

		2009				2010				Average	
	06-Nov	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2009	2010
ICE Brent	79	46	60	69	77	81	82	82	84	63	82
Aluminium	1,925	1,401	1,526	1,836	1,900	1,900	2,000	2,000	2,100	1,666	2,000
Copper	6,531	3,478	4,685	5,856	6,500	6,700	6,800	6,900	7,200	5,130	6,900
Zinc	2,219	1,204	1,503	1,780	2,000	2,100	2,200	2,200	2,400	1,622	2,225
Gold	1,094	909	922	961	1,050	1,075	1,050	1,000	980	961	1,026
CBOT Wheat	512	614	620	511	550	575	600	600	625	574	600
CBOT Corn	376	417	431	332	375	400	425	425	450	389	425

Source: Danske Markets

Calendar

Key Data and Events in Week 46

Monday, November 9, 2009				Period	Danske Bank	*Consensus*	Previous
-	USD	Senior Loan Officer Survey Q4 2009					
8:00	DEM	Trade balance	EUR bn	Sep		11.2	8.1
9:30	DKK	Current account	DKK bn	Sep	**5.2**		5.0
9:30	DKK	Trade Balance	DKK bn	Sep	**4.75**		4.6
12:00	DEM	Industrial production	mm/|y/y	Sep	**1.6%|**	1.2%|-13.8%	1.7%|-16.8%
19:00	USD	Treasury auction, 3yr treasuries, 40bn USD	Bln USD				
20:15	EUR	ECB's Stark Speaks on monetary policy before, during and after the crisis,in Tuebingen, Germany					

Tuesday, November 10, 2009				Period	Danske Bank	*Consensus*	Previous
-	JPY	Eco watchers survey: Current	Index	Oct			43.1
-	OTH	Earnings - Vodafone					
0:50	JPY	Current Account Total	JPY bn (s.a.)	Sep		1510.0 (1320.1)	1171.2 (1233.6)
0:50	JPY	Money supply M2+CD	y/y	Oct			3.0%
0:50	JPY	Bank Lending	y/y	Oct			1.6%
0:50	JPY	Eco watchers survey: Outlook	Index	Oct			44.5
1:00	USD	FED's Tarullo (voter, neutral) Speaks on Financial Regulation in New York					
1:01	GBP	BRC Sales Monitor		Oct			
1:01	GBP	RICS House Price Balance	Index	Oct			22.0%
1:30	AUD	Business confidence	Index	Oct			14
8:00	DEM	Inflation (HICP)	m/m | y/y	Oct		0.2%|0.0%	0.2%|0.0%
8:45	FRF	Industrial production	m/m|y/y	Sep		1.0%|-9.0%	1.8%|-10.8%
8:45	FRF	Manufacturing production	m/m|y/y	Sep		1.2%|	1.9%|-11.5%
9:30	DKK	CPI	m/m|y/y	Oct	**0.15%|1.2%**		0.2%|0.8%
9:30	DKK	HICP	m/m|y/y	Oct			0.2%|0.5%
9:30	SEK	Industrial production	m/m|y/y	Sep		-0.4%|-19.7%	-2.9%|-20.9%
9:30	SEK	Industrial orders	m/m|y/y	Sep			-4.2%|-18.1%
9:30	SEK	Activity index	%	Sep			102.8
10:00	NOK	Consumer prices	m/m|y/y	Oct	**0.2%|1.0%**	0.1%|0.9%	0.8%|1.2%
10:00	NOK	Producer prices,		Oct			-6.0%|6.7%
10:00	ITL	Industrial production	m/m|y/y	Sep		-4.5%|-13.8%	7.0%|-14.5%
10:00	NOK	Core inflation	y/y	Oct	**0.2%|2.5%**	0.1%2.3%	1.1%|2.4%
10:30	GBP	Trade balance	GBP bln.	Oct			-2318
11:00	EUR	ZEW economic sentiment		Nov			56.9
11:00	DEM	ZEW economic sentiment	Index	Nov		55	56
11:00	DEM	ZEW Current Situation	Index	Nov		-69.5	-72.2
15:15	USD	Fed's Lockhart (voter, neutral) speaks					
16:00	USD	Fed's Yellen (voter, dove) speaks					
17:15	USD	Fed's Rosengren (non-voter, dove) speaks					
17:30	NOK	Speech by Jan F. Qvigstad at The Norwegian Acadamy of Science and Letters					
19:00	USD	Treasury auction, 10yr treasuries, 25bn USD	Bln USD				
21:30	USD	FED's Tarullo (voter, neutral) Speaks on Resolution Authority in New York					

Wednesday, November 11, 2009				Period	Danske Bank	*Consensus*	Previous
-	USD	Veterans' Day - Market closed (Nov. 11)					
-	CNY	Trade balance	USD bn	Oct		19.05	12.93
-	CNY	Total Export	y/y	Oct		-12.8%	-15.2%
-	CNY	Total Import	y/y	Oct		-0.6%	-3.5%
0:50	JPY	Machine orders	m/m|y/y	Sep		4.1%|-26.3%	0.5%|-26.5%
1:30	USD	Fed's Fisher (non-voter, neutral) speaks					
3:00	CNY	PPI	y/y	Oct		-5.2%	-7.0%
3:00	CNY	CPI	y/y	Oct	**-0.5%**	-0.4%	-0.8%
3:00	CNY	Retail sales value	y/y	Oct	**15.8%**	15.7%	15.5%
3:00	CNY	Fixed assets investments	y/y	Oct	**33.6%**	33.5%	33.3%
3:00	CNY	Industrial production	y/y	Oct	**16.1%**	13.9%	15.2%
10:00	SEK	Nat. labour market board, Unemployment	%	Oct	**5.1**		5.3
10:30	GBP	Unemployment rate	%	Oct		8.0	7.9
10:30	GBP	Jobless Claims Change	1000	Oct		20.0	20.8
10:30	GBP	Average Earnings	3Ms/YoY	Sep		1.8%	1.9%
18:00	EUR	ECB's Weber Speaks on Regulation in Hohenheim, Germany					
22:45	NZD	Retail sales		Sep		0.4%	1.1%

Source: Danske Markets

Calendar - continued

Thursday, November 12, 2009				Period	Danske Bank	*Consensus*	Previous
-	NOK	Speech by Svein Gjedrem at Norsk Industri					
-	OTH	Earnings - Wal-Mart					
0:50	JPY	Domestic CGPI	m/m|y/y	Oct		-0.1%|-6.0%	0.1%|-7.9%
1:30	AUD	Employment		Oct		-10.0k	40.6k
9:00	ESP	GDP, Preliminary	q/q|y/y	3rd quarter		-0.4%|-4.1%	-1.1%|-4.2%
9:30	SEK	CPI	m/m|y/y	Oct	**0.2%|-1.5%**	0.2%|-1.6%	0.3%|-1.6%
9:30	SEK	Underlying inflation, CPIF	m/m|y/y	Oct	**0.3%|1.8%**	0.2%|1.7%	0.4%|1.4%
11:00	CHF	ZEW survey	Index	Nov			65.0
11:00	EUR	Industrial production	m/m|y/y	Sep	**1.1%|**	0.5%|-14.1%	0.9%|-15.4%
13:00	USD	MBA mortgage applications	%				8.2
14:30	USD	Initial jobless claims	1000				
14:30	CAD	New housing price index	m/m	Sep		0.2%	0.1%
18:00	CHF	SNB's Thomas Jordan speaks in Geneva					
19:00	USD	Treasury auction, 30yr bonds, 16bn USD	Bln USD				
20:00	USD	Budget statement	USD bn	Oct		-150.0	-155.5
20:00	EUR	ECB's Trichet Speaks in Frankfurt					

Friday, November 13, 2009				Period	Danske Bank	*Consensus*	Previous
-	NOK	Speech by Svein Gjedrem in Lillehammer					
-	OTH	Earnings - AP Møller Maersk					
5:30	JPY	Industrial production, final	m/m|y/y	Sep			1.4%|-18.9%
6:00	JPY	Consumer sentiment survey	Index	Oct		40.5	40.7
8:00	DEM	GDP	q/q|y/y	3rd quarter	**0.7%|**	0.8%|-5.0%	0.3%|-7.1%
8:45	FRF	Inflation (HICP)	m/m|y/y	Oct		0.1%|-0.2%	-0.2%|-0.4%
8:50	FRF	GDP, Preliminary	q/q|y/y	3rd quarter		0.6%|-1.9%	0.3%|-2.8%
9:00	ESP	Inflation (HICP)	m/m|y/y	Oct		0.7%|-0.6%	-0.2%|-0.6%
9:15	CHF	Producer & Import prices	m/m|y/y	Oct			0.2%|-4.9%
10:00	ITL	GDP	q/q|y/y	3rd quarter		0.8%|-4.4%	-0.5%|-6.0%
11:00	EUR	Inflation	m/m|y/y	Oct		0.3%|-0.1%	0.0%|-0.3%
11:00	EUR	CPI - Core	y/y	Oct		1.2%	1.2%
11:00	EUR	GDP, s.a.	q/q|y/y	3rd quarter	**0.4%|**	0.6%|-3.9%	-0.2%|-4.8%
14:15	EUR	ECB's Weber Speaks in Berlin					
14:30	CAD	Merchandise trade balance	bn CAD	Sep			-2.0
14:30	USD	Trade balance	USD bn	Sep		-31.9	-30.7
14:30	USD	Import prices	m/m|y/y	Oct		1.0%|-5.6%	0.1%|-12.0%
16:00	USD	University of Michigan Confidence, preliminary	Index	Nov	**69.8**	71.0	70.6
16:30	EUR	Noyer Participates in policy panel - Should monetary policy prevent bubbles?					
17:30	USD	Fed's Evans (voter, neutral) speaks					

During the week				Period	Danske Bank	*Consensus*	Previous
Mon 02 - 09	JPY	Official Reserve Assets	USD bn	Oct			1053.0
Wed 11 - 13	CNY	Wholesale Prices	y/y	Oct			16.0%
Wed 11 - 13	CNY	Money supply M2	y/y	Oct		29.5%	29.3%

Source: Danske Markets

Disclosure

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