DANSKE RESEARCH

Danske Markets

Investment Research — General Market Conditions

29 May 2009

Weekly Focus

A mixed bag

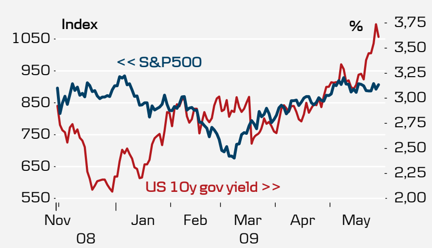
Global Update

- US data were a mixed bag over the past week. While regional business surveys and consumer confidence improved further, the housing data were mixed.
- German IFO data disappointed on the surface, but the forward-looking expectations index improved for the fifth month in a row.
- Asia continues to impress. This time Japanese industrial production and exports rose further and production plans point to a marked recovery of production during Q2 and Q3.
- Swedish GDP fell markedly in Q1, although not as much as feared.
- Bond markets took centre stage as downgrade fears and stronger data led to further increases in bond yields. This dented the positive impact on the equity markets from stronger growth signals.

Market movers ahead

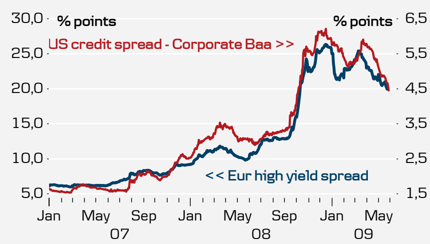
- A big week in US is coming up with both ISM and non-farm payrolls. We look for further positive surprises in ISM while payrolls is likely to show a further big decline.
- In Europe focus turns to the ECB meeting. Rates are expected to be unchanged, but ECB will likely announce details on how the non-standard measures will be implemented
- In Denmark numbers for the currency reserve should show a further increase and we expect Danmarks Nationalbank to narrow the spread to Euroland by a further 10bp.

Higher bond yields was a challenge to equities...



Source: Reuters Ecowin

... while credit continued to perform



Source: Reuters Ecowin

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Global update: More positive data

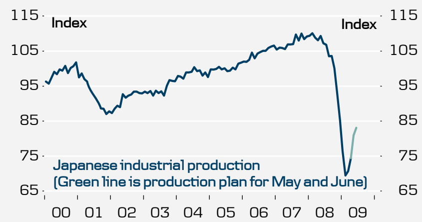
Growth signals improved further – not least in Asia

The past week offered more evidence that a healing of the global economy is taking place. In US the regional business surveys from Richmond and Dallas rose further, pointing to improvements in the US manufacturing sector. And consumer confidence surprised markedly on the upside, rising from 40.8 to 54.9. The cumulated increase in consumer confidence over the last two months is the biggest since 1974. US labour market data also gave signals that the worst is probably behind us in terms of job losses. The job component in the consumer confidence report (jobs plentiful minus jobs hard to get) improved for the second month in a row and the weekly jobless claims fell a bit further.

US housing data was a bit mixed this week, though. House prices from FHFA fell by back by 1.1% in April. And the Case/Shiller house price index – which contrary to the FHFA series also capture distressed sales – continued its relentless decline in April. We expect house prices to drift lower throughout the year before stabilising next year. On a more positive note, home sales look to be stabilising with both existing and new home sales rising a bit in April. The stabilisation is probably driven by a marked increase of affordability stemming from the decline in house prices and mortgage rates.

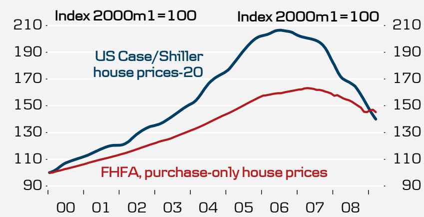
In Euroland the German ifo disappointed on the surface but the details in the report were more encouraging. The forward-looking part of ifo – the expectations subindex – rose for the fifth month in a row (see *Flash Comment*). In Asia, Japanese exports data rose for the second month in a row adding to the picture of a much faster turnaround in the Japanese economy than generally expected. Industrial production also rose strongly and production plans point to further increases in coming months (see *Flash Comment*). We look for growth to become positive already in Q3 as demand is rising and at the same time need to rebuild depleted inventories.

Japanese production rebounding from low levels



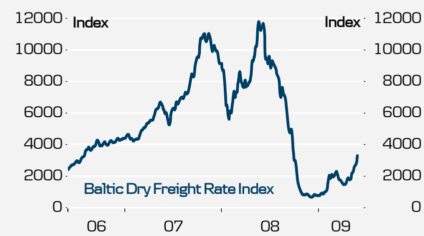
Source: Reuters Ecowin

US house prices dissapointed in April



Source: Reuters Ecowin

Rising freight rates indicate rising world trade



Source: Reuters Ecowin

Bond sell off created jitters in the equity market

The continued positive data flow gave more impetus to recovery trades in the beginning of the week: Equity prices rose further, credit spreads narrowed and bond yields rose. Commodity prices continued higher as oil reached USD64 per barrel. The Baltic Freight index has also risen further to the highest level since October last year – a further indication that global trade is picking up again. The positive sentiment in equity markets was dented later in the week, though, as the focus turned to the strong rise in US bond yields – these accelerated late Wednesday with the 10-year yield reaching 3.74%, taking the cumulated increas

e this year to 165bp. Inflation fears are also starting to get some attention as oil prices continue higher. The gold price – often seen as a hedge against inflation – is back up to the highest level in three months.

Downgrade fears added to bond market sell off

On top of better data, the bond market is being challenged by massive supply and downgrade fears in the market after S&P put UK on negative outlook. Market participants immediately got worried over a potential downgrade of US as debt levels could easily rise to 100% of GDP over the coming years unless the budget deficit comes down in the years to come. Both Moody's and S&P have reiterated, though, that the outlook for US is stable. We believe the downgrade fears are a bit exaggerated as US benefits from being the world's reserve currency. And even if US should be downgraded it would probably not be punished materially. If "competing" bond markets are also downgraded, an AA+ rating could suddenly become the new "safe haven". The downgrade fears could easily continue in the market, though, and be another excuse for selling US bonds which will most likely see higher yields anyway during 2009 as data improves and the huge supply has to be absorbed. Inflation fears could also get more focus as the economy recovers and investors get the jitters over the large sums printed and poured into the US economy.

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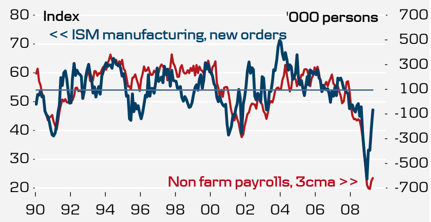
Market movers ahead

Global

- In the **US** the coming week a stream of important data, starting with the ISM index for the manufacturing sector on Monday. We expect the index to continue to climb in May, and it could very well break through the expansion threshold of 50 towards the end of the summer. The May employment report is also released in the coming week. We should now have put the biggest falls in employment behind us and are looking forward to positive growth in employment towards the end of the year. In the short term the picture is muddled somewhat by the motor industry, with the two giants Chrysler and GM shedding vast numbers of jobs in the coming months.
- In **Euroland** the main event is the ECB meeting on Thursday. The refinancing rate will be kept unchanged at 1.0 % and it will be kept at this low level until the recovery is so mature that the ECB starts to hike rates. We expect that ECB's assessment of the economic situation has become slightly more positive, although the growth forecast for 2009 as a whole will be dragged down by the enormous drop in economic activity in Q1. Much more interesting are the details we will get on how the non-standard measures announced at the last council meeting will be implemented.
- In **Asia** focus next week will be on the release of China's two manufacturing PMIs on Monday. While we do believe that the underlying picture remains an improving economy, we do not rule out the possibility that we could see a small decline in the NBS PMI due to distortions in seasonality adjustment. On Monday 1 June the semi-annual Strategic Economic Dialogue meeting will start in Beijing. However, compared to earlier summits there will probably be little drama. Geithner will probably reiterate the US administration wishes for a more flexible and stronger CNY, but will not push the issue aggressively.
- In **Denmark** Danmarks Nationalbank will announce on Wednesday that the foreign-exchange reserve has increased further in April. We are confident that the voluminous reserve and a strong DKK soon will lead to a narrowing of the spread to the ECB, but the exact timing is uncertain. Accordingly, we expect a 10 bp cut to 0.55 % either Wednesday which would be convenient prior to the weekly market operations or Thursday where the outcome of the ECB rate decision will be known (Friday is a Danish bank holiday).
- Very light agenda in **Sweden** in terms of macro data the upcoming week. All attention on the Swedish market is likely to be directed towards developments in the Baltic countries. The risk of devaluation looms large and any signals of such an eventuality are likely to move Swedish short yields lower and EUR/SEK higher.
- In **Norway** focus turns to PMI and consumer confidence where we expect further rises.

US: Decline in payrolls should taper off soon

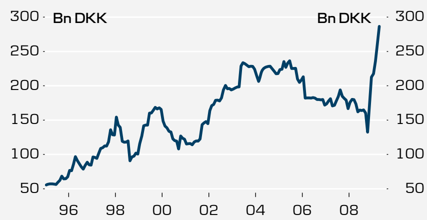


Source: Reuters Ecowin

US: ISM to continue higher in coming months

Source: Reuters Ecowin

DK currency reserve to rise furthter



Source: Reuters Ecowin

Market movers ahead

Global movers				Event		Period	Danske	Consensus	Previous
Mon	01-Jun	04:30	CNY	CLSA Manufacturing PMI	Index	May	53.0		53.5
		14:30	USD	Personal spending/core PCE	m/m	Apr	0.3%/1.9%	-0.2%/0.2%	-0.2%/0.2%
		16:00	**USD**	**ISM manufacturing**	Index	May	42.6	42.0	40.1
Tue	02-Jun	16:00	USD	Pending home sales	m/m	Apr	0.30%	0.3%	3.2%
			USD	Total vehicle sales		May		9.5M	9.3M
			EUR	Unemployment rate		Apr	9.0%	9.1%	8.9%
Wed	03-Jun	14:15	USD	ADP employment	Change	May		-555k	-491k
		16:00	USD	ISM non-manufacturing	Index	May	45.5	45.0	43.7
Thu	04-Jun	13:00	GBP	Bank of England announces rates			0.5%	0.5%	0.5%
		13.45/14:30	**EUR**	**ECB meeting**	%		1.0%	1.0%	1.0%
		14:30	USD	Jobless claims	k				623k
Fri	05-Jun	14:30	**USD**	**Non-farm payrolls**	Change	May	-570	-530k	-539k
		14:30	USD	Unemployment rate	%	May	9.3%	9.2%	8.9%

Scandi movers				Event		Period	Danske	Consensus	Previous
Mon	01-Jun	08:30	SEK	PMI survey	Index	May			38.8
Tue	02-Jun	07:00	NOK	Consumer confidence	Index	Q2			-11.1
		09:00	NOK	PMI	Index	May	**42.1**		39.8
		10:00	NOK	Credit indicator			**8.5%**		**8.8%**
		16:00	DKK	Currency reserves	**Bn**	May			286.4
Fri	05-Jun	10:00	NOK	Industrial production, man	m/m|y/y	Apr			-1.6%/-2.7%

Source: Bloomberg and Danske Markets

Danske Markets

Financial views

Equities

- We continue to have a positive view on equities in the medium term. However, the "easy" part of the gains is behind us, and the road from here will be more bumpy. The market will need confirmation that the recovery is real, and more drivers have to join in, including a further stabilisation in US housing, further healing of credit markets and improvement in earnings expectations.

Fixed income

- Global: Bond yields are expected to rise on a three- to six-month horizon based on improving macro conditions, rise in risk appetite and heavy supply. US to underperform Euroland in sell-off.
- Intra-Euro: We have just taken profit on our overweight in peripherals (Italy, Greece and Spain) versus Germany and now stand sidelined. On longer maturities we still prefer France and Finland to Germany.
- Scandi: We have closed our underweight long Danish government bonds versus Finland in the 10Y area, but we still have an overweight in Swedish government bonds versus Germany in the 5Y area. We recommend overweight of Norwegian govies versus Germany in 10y segment. We have a neutral weight on Danish mortgages versus government bonds in all segments (callable, Capped Floaters and non-callable) except the non-callable mortgage bonds with a maturity below one year where we have an overweight. .

Credit

- During the past couple of months credit has enjoyed a very strong spell across the sectors and capital structure and spreads have tightened significantly. At the same time the activity in the primary market continues to be at a record-high as more and more companies (are able to) turn to the capital markets instead of the banks for funding. The strong sentiment is largely the result of a significant improvement in the conditions in the money market and lower volatility.
- We question the sustainability of this massive rally as the pace is simply too fast in our view. The macroeconomic outlook is still challenging and defaults are currently increasing. A while ago we moved to overweight based on the large liquidity and risk premiums for credit. Both these premiums have now been reduced substantially and we go from overweight to neutral.

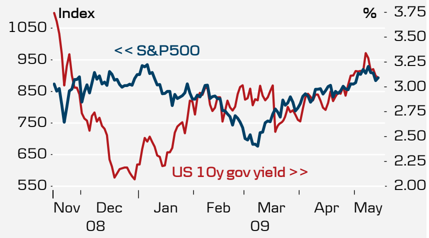
FX

- EUR/USD is set to drift lower in the short run, but to continue upwards in the medium term. Important drivers for EUR/USD are equities as a proxy for risk and most recently oil prices. EUR/GBP is heading down as sterling is supported by positive economic data. USD/JPY will probably break above 100 in the near term. Carry can keep on performing, while defensive currencies will face additional headwind.
- Swedish krona and Norwegian krone both have solid potential against the euro. Currently however, risk aversion is still too high to see the Scandies exploit their full potential. The Danish krone is attractive (e.g. against Swiss franc) due to sound carry.

Commodities

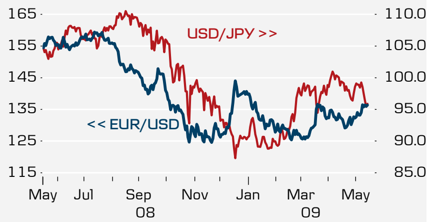
- Base metals like copper and zinc continue to perform fuelled by heavy Chinese buying and global growth optimism. Oil prices have continued to rise the past week to USD65 per barrel
- However, we argue that short term the risk of a correction is growing. In our view the market is neglecting near-term weakness like weak oil demand and huge stocks in base metals. However, looking six months ahead we expect a new leg up in prices when the different market balances are expected to tighten for real.

Equities and US 10y yield



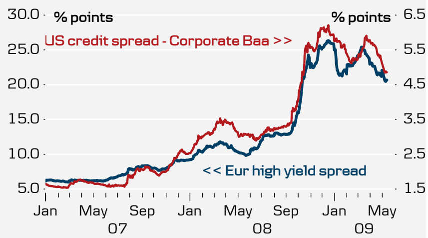
Sources: Reuters Ecowin

EUR/USD and USD/JPY



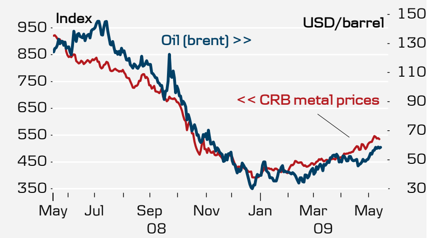
Sources: Reuters Ecowin

Credit spreads



Sources: Reuters Ecowin

Commodity prices



Sources: Reuters Ecowin

Danske Markets

Equities: Mind the gap

Long-term confidence is recovering

Last week's US consumer confidence boost was good news for the stock market. The data show that US households – together with investors and businesses worldwide – are less worried about 'the system collapse' that hit the financial markets after last autumn's Lehman Bros. default. The stock market conditions following the 2007-09 credit crisis differ in this sense from the two global economic crises (start 90s and start 00s). The latter two did not hit the 'system confidence' like the current credit crisis has done. System confidence or, when we use consumer confidence, 'the expectations index' has moved fairly close to the 100 index mean since 1990, with a recession trough around 50. During the credit crisis this index fell to 30, an unusually strong drop in long-term confidence. What May's US consumer confidence shows is that this mistrust has now returned to the 'usual' recession-like levels. In other words, the driving factor behind the stock market recovery since March is that consumers, investors and businesses have moved from a high to a low probability of the horrifying Depression/Credit crunch scenario.

Strong market recoveries need high short-term confidence

In the US consumer confidence report there are two components behind the overall confidence number, the Expectations index as mentioned above, and the Present situation index. The present situation index was subdued in May, at similar low levels as experienced in the start of the 90s. If you compare the stock market with these two components behind the overall confidence numbers, one sticking effect is revealed. Since 1990 the stock market has had its finest moments when the Present situation index exceeds the long-term confidence expectations. In the short term we anticipate that there is a little further to go on an expectations recovery.

Mind the gap

In our view the long-term confidence recovery could bring us up to around a S&P500 level of 950. However, the key to further expansion for S&P500 will be the small real economic improvements within housing, private consumption and capex expected in H2 09. Currently corporate visibility when it comes to future sales and earnings is viewed as very low as e.g. shown by the quarterly US CEO confidence indicator (see chart), but we will soon have to shift focus away from the 'system confidence' recovery to the real economic recovery. And without the latter, the stock market will surely start a new negative correction. Mind the gap!

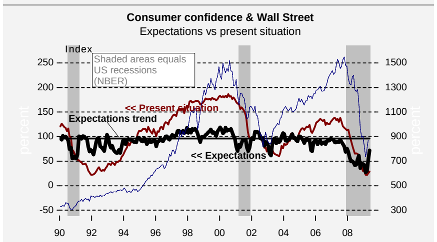
Buy on setbacks despite risk of W shaped business cycle

Still, in our view it is only a matter of time before the economic trough has been passed – for real. Whether it will be a multi-year economic recovery or only a two quarter expansion is still unknown. The challenges that US consumers are facing when it comes to long-term debt burdens are very high, and without the very lax monetary policy for a considerable time, the credit conditions may deteriorate in a very damaging way for Wall Street. Our view, however, is still that on a 12-month basis the stock market will recover further before these challenges turn into headwind. Stock market corrections due to the gap described above will in our view only open a window of opportunities for new long positions in global stock markets.

Key events of the week ahead

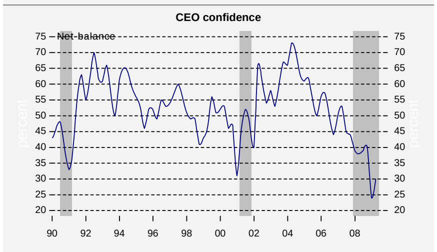
- US ISM reports, May
- US vehicle sales, May
- US job report, May

Wall St. looks for the economic trough



Source: Reuters Ecowin, Danske Markets Equities

Very low CEO confidence



Source: Reuters Ecowin, Danske Markets Equities

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Fixed Income: Strong forces at play

Numerous themes in fixed income markets

Numerous themes are attracting attention in fixed income markets, the most important being:

- The nascent economic recovery
- The large supply of government bonds (especially in the US) and the issue of whether foreign central banks will continue to purchase US Treasuries
- The sharp rise in long-term US mortgage rates, with its major spillover into swap rates and bond yields
- The downgrading of AAA sovereign ratings, with the focus in the first instance on the UK, but other countries too are coming under the magnifying glass

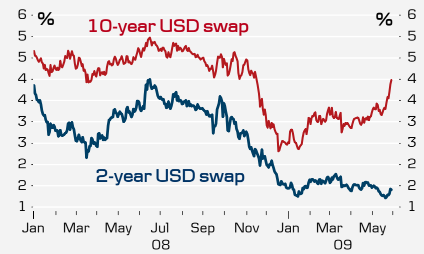
- Risk appetite is still important for yields, but US mortgage rates may also be crucial
- The most important US releases are the ISM survey, the employment report and retail sales
- In Euroland, attention will centre on the ECB meeting
- The US Treasury will resume its auctions on 9 June, announcing volumes on 4 June

The nascent economic recovery

The economic recovery rolls on. Industrial activity is clearly picking up and will continue to do so. Attention is centring on the worst now being over in the US housing and labour markets. The most important releases in the US in the coming fortnight are the ISM survey, the employment report and retail sales.

In Euroland, attention will be on the ECB meeting. Like the market, we do not expect any rate changes. Interest will focus instead on the press conference and the promised details of the EUR 60bn covered bond purchase programme.

USD swap rates



Source: EcoWin

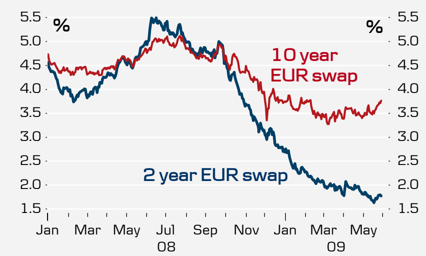
Foreign central bank purchases of US Treasuries

There is a real focus on the supply of US Treasuries. For example, the announcement of the amount offered (over USD 100bn) led to a sharp rise in yields on 21 May. The actual auctions went well, however, and foreign central banks bought a considerable slice. Fears that foreign central banks will stop buying US Treasuries have therefore receded. The next US auctions are on 9-11 June for 3Y, 10Y and 30Y maturities. Volumes will be set on Thursday 4 June.

Spillover from mortgage market

The Federal Reserve is buying up large numbers of MBSs, which has kept down yields on these securities. However, US mortgage rates have climbed sharply recently, which is worrying in itself. If US mortgage rates continue to rise rapidly, this could threaten the nascent economic recovery and the improved risk appetite we have seen in recent months. The other effect has been that buyers of MBSs have typically hedged their interest rate exposure using swaps. The rise in mortgage rates therefore spilled over particularly into swap rates, but also into Treasury yields, pushing them up. It is uncertain how far and in which direction this effect will move yields in the coming days, but there will be a sharp focus on the mortgage market.

EUR swap rates



Source: EcoWin

Downgrades of AAA debt in developed nations?

The decision by rating agency Standard & Poor's to revise the UK's credit outlook from stable to negative has sparked fears that more countries, led by the UK, could be booted out of the elite AAA club following the departure of Spain in January and Ireland in March.

The downgrading of UK debt at some point cannot be ruled out, but we find it very difficult to imagine any imminent rating change for the likes of the US, France and Germany, and this is supported by the latest statements from the rating agencies. Denmark is one of the healthiest economies in the world, and there is no reason to expect its rating to change.

FX: EUR/USD – a tough nut to crack

Less euro-negative factors, fewer dollar-positive factors

Recognising that euro-negative factors have decreased in both amount and likely impact while the same has happened to dollar-positive factors, we have this week raised our EUR/USD forecast. To reflect the changed outlook, *we have adjusted our EUR/USD forecast upwards to 1.36 (1.32) on a 1-month horizon, 1.38 (1.26) at three months, 1.44 (1.22) at six months and 1.40 (1.25) at 12 months (previous forecasts in parentheses).*

In the short run, it seems like EUR/USD has risen too far and too fast. Even though oil prices have risen sharply (despite high inventories and the fact that much of the rise is driven by speculation that emerging Asia will show demand soon) and global equity prices have continued higher, albeit at a somewhat slower pace, the rise in EUR/USD cannot fully be explained by movements in other asset classes. Relative interest rates continue to favour the dollar relative to the euro, but the correlation between rates and FX is currently low. Important to note though is that USD has been surrounded by negative sentiment due to concerns on the US debt situation that was questioned by markets after S&P put UK's debt on negative outlook on 21 May. We do not think the US on a negative credit outlook will take the dollar much lower as the current pricing has already taken that into account. The euro-negative factors such as Euroland's exposure to Central and Eastern European countries in terms of bank lending and exports have not been priced yet. *We expect therefore to see a downward correction in EUR/USD in the short run.*

In the medium to longer run we expect EUR/USD to go slightly higher. This is partly based on experience from when the financial crisis peaked. When oil bottomed below USD 34 per barrel in December EUR/USD fell to 1.25. After a short-lived spike to 1.40 around New Year, EUR/USD again touched 1.25 when global equity prices reached a low, close to 40% below the current level. In other words, we have seen what it takes to take EUR/USD to extremes and we believe both things are unlikely to be repeated. *Looking beyond the 3-month horizon, we believe oil prices will tick gradually higher and as investors become even more certain that the economic and financial distress is truly in the past, equity prices will most likely also perform well. In our view, this is likely to coincide with a rise in EUR/USD.*

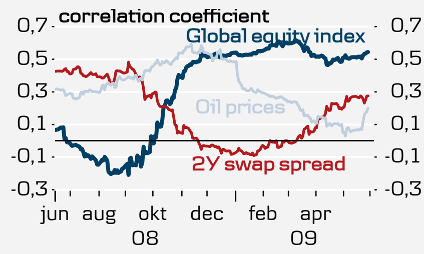
Currently, there is a heated debate about the sustainability of the US budget deficit, the massive government bond issuance and if the US can maintain its top credit rating. Talk that central banks are diversifying away from USD is also adding fuel to the fire. So far we have not been convinced that the deficit is unsustainable; the auctions have been received well and rating agencies have affirmed that the US' credit rating is not under immediate review. There is furthermore no evidence in hard data that central banks are reducing dollar holdings. *We acknowledge that markets are concerned about these issues, which are clearly dollar-negative, but we do not think they will be the most influential factors going forward.*

In our view, most key data releases are global, which is important when trying to detect the likely FX implication. This means that even though we get a positive data surprise from the US, which ideally should be USD positive, the market views it as a recovery signal likely to confirm the global bettering, which is not positive for USD as a safe-haven currency. A good example was the much better-than-expected US consumer confidence numbers earlier in the week that sent USD lower against for example EUR, AUD and NZD. Positive data surprises (or even less bad-than-feared data releases) can also give support to still stretched SEK and NOK.

Key events in the weeks ahead

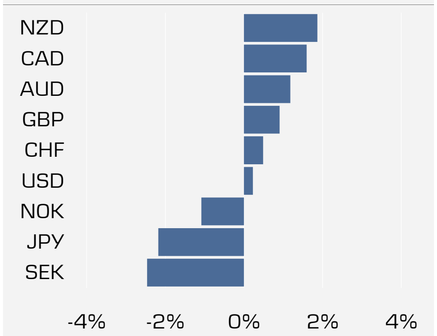
- US government bond auctions
- ECB rate announcement (Thursday 4 June)
- Baltic situation
- Rise in correlation with FX and oil prices

EUR/USD correlations, 100D MAV



Source: Danske Markets

1-week spot changes against EUR



Source: Danske Markets

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Danske Markets

Commodities: Fresh boom in the oil market

OPEC leaves production unchanged

As the market expected, OPEC decided during the week to leave production – or more correctly its quotas – unchanged at 24.845 mb/d. OPEC has already lowered its quotas by 4.2 mb/d, although it has implemented only around 80% of the cuts announced. Given OPEC's track record, however, this is actually a high level of quota compliance.

When assessing the size of global oil stocks, the market often looks at forward demand cover: the number of days' oil consumption held in stock. In March this hit a record-high 62.4 days, 8 days more than a year ago and well above the average of around 52 days for the period 2004-08. Given these large stocks, it may seem surprising that oil prices are continuing to climb almost daily. US oil is now trading above USD 63/bbl, up from USD 34/bbl in February. In the light of global oil stocks, it is very difficult to justify such a high price, and the same applies when it comes to the current state of demand.

OPEC tightening the market ahead

Speculation has quickly been blamed for the surge in oil prices, but this is a rather hasty conclusion: what is actually happening is that the market is looking ahead. Like us, the market is currently discounting the following scenario:

First, OPEC is expected to keep production low for the rest of this year, which means that global oil stocks will now begin to fall sharply. We have already seen a slight decrease in the weekly data from the US, and global stocks will almost inevitably nose-dive during Q3 and Q4. This is the scenario that the market is discounting. In other words, it is turning a blind eye to the current imbalance in the market due to high stock levels.

Second, the market has become more upbeat about global demand. It is beginning to believe that we are on the way out of the global recession and have seen the worst in terms of the downturn in demand for oil. Optimism has been fuelled not least by the encouraging figures for China, which is particularly important for the entire commodities market.

Finally, the market has seriously started to focus on the supply side. Despite recent years' high oil prices, which would previously have led to many new projects, non-OPEC production is expected to decline this year. Over the past six months, low prices and the financial crisis have also seriously begun to put a dent in the oil companies' investment plans for the coming years. It is estimated that these plans have been scaled back by more than 20% this year. At present there is a great deal of idle production capacity in OPEC, not a shortage of capacity. But if we see a fresh upswing in global demand and investment remains in a low gear, this idle capacity could be taken into use over a number of years. In other words, there is a risk that we will see a repeat of 2008 when there was a sudden shortage of production capacity.

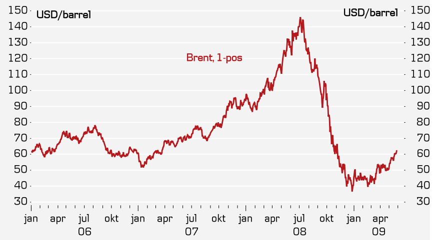
Higher oil prices in Q4

Although we argued in favour of higher oil prices earlier this year, we reckon that the latest increases have come a little too quickly. There may therefore be a minor correction on the way. Looking ahead to Q4, though, we believe that OPEC will succeed in tightening the market and bringing down stocks, and so we expect prices to rise to USD 70/bbl in Q4.

Key events of the fortnight ahead

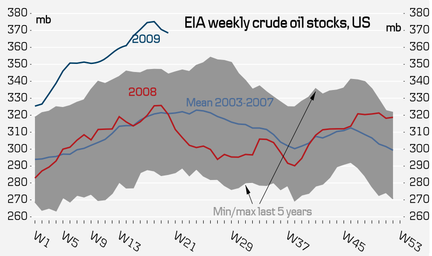
- EIA weekly oil stocks report (Wednesdays)
- IGC monthly report

Oil prices continue to climb...



Source: EcoWin

...despite large stocks



Source: EcoWin

Danske Markets

Denmark: Solid rise in business confidence

Statistics Denmark has now released its business confidence indicators for May. In April we began to see the first signs of confidence picking up, and recent months' developments abroad led us to expect that it would improve further in May, which is exactly what happened. The indicator for the manufacturing sector climbed sharply from -33 to -23. So there is no doubt that manufacturing is still under immense pressure, as the index is still deep in negative territory, but the pressure is easing and we are beginning to see the first signs of a turnaround.

We have also seen a clear rebound in the service sector, although the confidence indicator did not change radically from April to May, edging up from -16 to -15.

Construction has been the hardest hit of the three sectors, but here too confidence is slowly moving away from the edge of the precipice. The turnaround is less clear here, though, and there is probably reason to expect a further downturn in this part of the economy despite the sharp fall in interest rates in recent months (construction is highly interest-sensitive).

Crisis losing momentum

There is no doubt that Danish industry has been hit hard by the global crisis, but the rate at which the economy is contracting is now slowing, giving us real hope of an appreciable rebound in output in H2 this year. There are still many elements of uncertainty in the Danish economy and so we cannot say with any certainty that change is imminent, but the latest data support this view. Even if production does begin to recover in H2, that is not to say that, for example, the labour market will also start to pick up. Although the pessimism is lifting, industry is still very downbeat, which means that many large investment projects are being postponed or abandoned altogether. This spells reduced investment and, unfortunately, relatively rapid growth in unemployment.

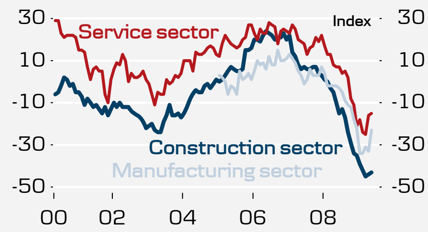
But growth will pick up only slowly

As a result, growth will pick up only slowly. As Danish businesses have built up a substantial productivity lag in recent years, it will be a long time before the increase in output necessitates recruitment. That there is a long way to go before we see a turnaround in the labour market is confirmed by the latest confidence indicators, with all sectors of Danish industry indicating a need for fewer staff.

Key events of the fortnight ahead

- April retail sales (2 June) – we expect a slight fall of 0.5% m/m
- April industrial production and orders (8 June)
- May bankruptcies and repossessions (8 June)
- Current account (9 June) – we forecast a surplus of DKK 5bn
- Consumer and net prices (10 June) – we predict inflation of 1.1% y/y (0.2% m/m)

Business confidence on the rebound



Source: Statistics Denmark

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Sweden: Time for reflection

Events in the weeks ahead

The coming weeks are not as packed with interesting events – at least planned events – as last week, which is why we believe that financial markets will take time to digest some of the recent events. Nonetheless, on Monday we receive PMI, which we believe is more sensitive to shifts in economic developments than, for example, the National Institute for Economic Research's (NIER) surveys. Over the last few months we have found it increasingly satisfying to see that at least the order component has rebounded and managed to pull the overall PMI index up with it. This goes very well with our belief of a stabilisation during H2 and a subsequent upturn in economic activity. Our real forecasts imply that as early as late summer, PMI should exceed the threshold level of 50, effectively indicating consecutive growth in industrial production. Looking further into the future we expect inflation to be much of a non-event. The recent hike in oil price and the weak SEK has probably lifted inflation estimates over the last few weeks and should come as no surprise. We will also receive industrial data for April, which is expected to rebound as indicated by i.a. PMI and the NIER:s business survey.

Last week through the mirror glass

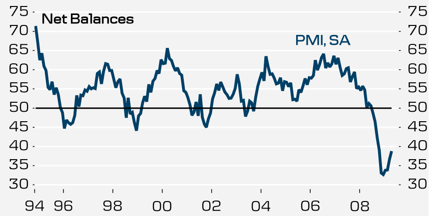
GDP data was anything but uplifting. Household consumption and business sector investments virtually plummeted. However, there are a lot of other things to consider when looking through the horrific headline number of –6.5% y/y. For instance, Statistics Sweden's (SCB) decision to revert to the "old" seasonal adjustment procedure means that the consecutive growth rate was not as bad as feared. Also, a major contributor to the low outcome was the inventory component, which no matter how you view the outcome, must be regarded as positive going forward. This is probably the main impetus for the improvement seen in PMI data over the last few months.

Last week's first take on growth in Q2 proved a mixed bag. On the one hand, the trade balance seems a bit too low to reach a level consistent with our forecast for the second quarter. But on the other hand, should retail sales continue at current growth levels in May and June, our already optimistic consumption forecast will prove much too negative. But we are a bit less convinced that such strong developments will take place. Despite being calendar adjusted, the April outcome demonstrates strong effects from last year's early Easter holiday. This does not seem to have passed unnoticed by the SCB/HUI either, since they referred to calendar (and weather) effects when explaining the strong outcome.

Key events of the week

- PMI expected to continue on its upward trajectory.
- Current Account is much of a non-event since most of its details can be found in the N/A data from last week.
- The budget balance should deteriorate as tax receipts fall and costs increase.
- Inflation should fall further...
- ...whereas industrial production is expected to improve

PMI on the rise



Source: Reuters Ecowin

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Danske Markets

Norway: Counting down to next policy meeting

Labour and housing markets are stabilising...

The past week brought further evidence of the rebound in the Norwegian economy. This time around, the good news came from labour market data, although they are normally considered a lagging indicator. Seasonally-adjusted unemployment was unchanged in May, and the number of unemployed people increased only by 1,500. In the first four months of 2009, the jobless number rose on average by 5,000 a month.

This could be the first sign of Norway's active fiscal policy having an effect. Note, in this connection, that the revised government budget published on 15 May was even more expansionary than the original budget. Real underlying spending growth is 6.75%, with oil money expected to lift mainland GDP by 2.4%.

The housing market is also showing clear signs of stabilising. Non-seasonally adjusted housing prices have increased by 10% since they bottomed out. Low interest rates and easier credit standards are beginning to have a real impact on the housing market.

...but no new signals from Norges Bank

However, we have seen no new signals from Norges Bank over the past month. Hence, the Financial Stability report made rather disturbing reading. Norges Bank was very clear about the situation of the banking industry; it simply believes that the banks need more capital.

The report was seen as one of the reasons why the Norwegian krone came under pressure in the past week. This is no doubt correct, although the situation of the Norwegian banks is probably not much different from the situation elsewhere in Europe. What is special, though, is Norway's strong macroeconomic fundamentals.

We have believed for a long time that Norges Bank's easing cycle has ended. Especially jobless numbers seem to support this view. And, in fact, the new and more positive economic conditions report published in the past week showed that Statistics Norway now shares our view. Also supporting our view is the fall in NIBOR rates relative to benchmark policy rates over the past month. We have also noted that a number of other analysts now begin to indicate that rates may have bottomed out.

Important indicators due ahead of policy meeting on 17 June

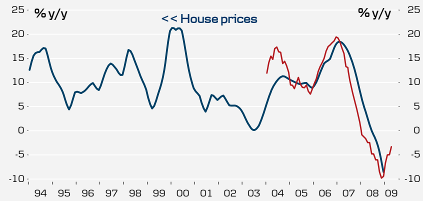
The next two weeks will see the release of a number of interesting indicators, including the credit indicator, PMI, inflation numbers, consumer confidence and industrial production. We expect indicators to show that the economy is beginning to stabilise and that underlying inflation has remained quite high, given the economic conditions. The underlying inflation rate will likely increase to 2.8% y/y.

The forthcoming indicators will be important in the context of the monetary policy meeting on 17 June. We believe that Norges Bank will stay on hold, while signalling a 50/50 risk of a final rate cut some time in Q3..

Key events of the week ahead

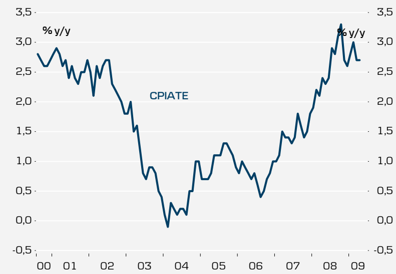
- Inflation expected to stay relatively high
- Look for further rebound in PMI
- Credit growth expected to slow

Housing market is stabilising



Source: Ecowin

Underlying inflation



Source: Ecowin

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US: Important fortnight ahead

Mixed data from the housing market

We have had rather mixed signals from the housing market in recent weeks. While data for activity in the housing market, home sales and housing starts continue to show signs of stabilisation, house prices have been more subdued. The S&P/Case-Shiller index continued to fall at a largely unchanged pace in March, and the FHFA (OFHEO) index also fell back slightly after two months on the up.

We were taken by surprise when the house price indices rose in February, as this was somewhat earlier than we had anticipated. In the light of the latest data, it seems that at best prices will stabilise, and we would not be surprised to see further falls in the months ahead. Foreclosures are on the rise and the stock of unsold homes remains high, which would argue against an upward trend in house prices at this stage. That said, the huge decrease in interest rates and record-low housing burden will probably mean that prices fall more slowly than we foresaw back in the autumn.

Stream of important data in the coming fortnight

The most important indicators of activity in the US economy are all due in the next fortnight.

First out is the ISM index for the manufacturing sector, released on Monday. As mentioned in previous analyses, we expect the index to continue to climb in the coming months, and it may very well break through the expansion threshold of 50 towards the end of summer. Production has fallen so far behind demand that there has been a sharp reduction in inventories. If businesses continue to cut back production at the current rate, the gap between supply and demand will widen and rapid destocking will continue. We therefore expect businesses to adjust production as underlying demand stabilises, which will lift the ISM index. The improvement in financial markets is an independent factor that may accelerate the expected rebound in the ISM.

The May employment report is also released in the coming week. We should now have put the biggest falls in employment behind us and look forward to positive growth in employment towards the end of the year. In the short term the picture is muddled somewhat by the motor industry, with the two giants Chrysler and GM shedding vast numbers of jobs in the coming months. We have already seen an increase in the number of initial jobless claims due to Chrysler's redundancies, and GM's production shutdown over the summer, running for 11 weeks from early May, may impact temporarily on both the unemployment statistics and growth in industrial production.

The following week brings retail sales data. We expect the boost to household disposable income from fiscal easing to be sufficient to lift consumption in May, and we therefore expect an increase in retail sales after the disappointing figures for March and April.

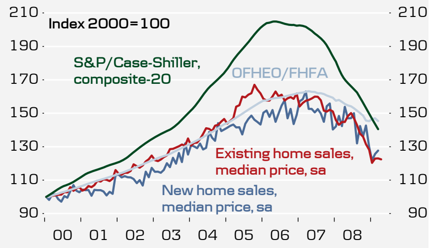
Fed's quantitative easing back in the spotlight

Following the rise in mortgage rates this week, the focus is back on the possibility of the Fed further stepping up its quantitative easing. Based on the minutes of the last FOMC meeting, this possibility can definitely not be ruled out. Our main scenario still assumes that the improvement in economic indicators will keep the Fed on the sidelines, but we cannot rule out a reaction if mortgage rates continue to climb at the current rate. There will therefore be particular interest in FOMC members' speeches in the coming weeks ahead of the next FOMC meeting on 24 June.

Key events of the fortnight ahead

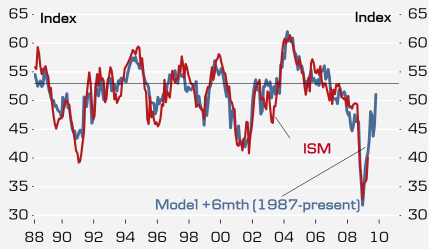
- ISM manufacturing (1 June)
- ISM services (3 June)
- Ben Bernanke speaks (4 June)
- Employment report (5 June)
- Fed's Beige Book (10 June)
- Retail sales (11 June)
- Fed's Fisher speaks (11 June)
- Michigan consumer sentiment (12 June)

House prices fall back again



Source: Reuters EcoWin

ISM on the rebound



Source: Reuters EcoWin, Danske Bank

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Danske Markets

Euroland: Confidence returns

Confidence indicators signal improvements

In the past two weeks we have received an abundance of confidence indicators signalling that we are moving away from the abyss.

Euroland PMI so far signals that production is falling at a slowing pace, but it is heading towards 50, which signals expansion. The very sharp increase in the manufacturing new order-inventory balance to a record high level, which is the result of very low stocks and an easing in the pace of decline in new orders, signals a quick rebound in PMI in the coming months. We thus believe that manufacturing PMI will rise above 50 as early as August and could continue to increase promptly to levels above 55 in the autumn.

Other confidence indicators confirm that sentiment in Euroland is improving. The forward-looking expectations components of both ZEW and Ifo have increased sharply in May. The Ifo current conditions index fell back slightly, but this index tends to lag and thus says more about the past than the future.

Consumer confidence has also started to recover across Euroland. Consumers are particularly downbeat about the job market, but are becoming more positive about the economic situation. In France unemployment expectations hit a record high in May although overall consumer confidence improved. The dreadful employment situation will hold consumer confidence back somewhat in most countries. Nevertheless we expect that the positive trend in confidence indicators will continue in the coming months though it should be emphasized that the risk of an unexpected setback is higher than usual.

The Euribor-EONIA spread, which is a good measure of confidence in the banking sector, has come down significantly since mid-March. This spread, which measures the difference between the unsecured 3 months interbank interest rate and a "no-risk" 3 months interest rate, hit an all-time high in the days after the collapse of Lehmann Brothers. The spread is still well above its pre-crisis level, but has narrowed significantly since early March. As the financial crisis slowly ebbs away and uncertainty declines we will see positive spill-over effects on the real economy as the tightening of credit standards comes to an end.

ECB embarks on credit easing

On Thursday 4 June the ECB's Governing Council gathers for its monthly meeting. We expect that the refinancing rate will be kept unchanged at 1.0 % and that it will be kept at this low level until the recovery is so mature that the ECB starts to hike rates, which is likely to be at least a year from now. We expect that ECB's assessment of the economic situation to have become slightly more positive, although the growth forecast for 2009 as a whole will be dragged down by the enormous drop in economic activity in Q1.

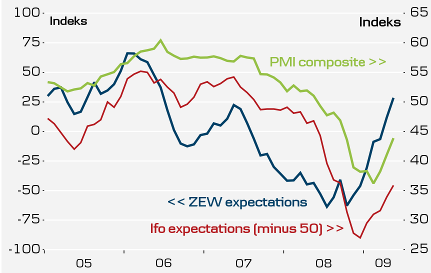
Much more interesting are the details we should get on how the non-standard measures announced at the last council meeting will be implemented. We are eager to hear more about the announced credit easing (The ECB will embark on buying covered bonds for about EUR 60bn).

Credit easing entails the risk of allocative distortions in terms of company size, sectors and regions. Covered bonds are more widely used in Germany than in most other member states, and it will be particularly interesting to see how the ECB chooses to deal with this. The German Pfandbrief market amounts to a third of the total Euroland covered bond market while Spain accounts for almost 30% and France almost 15%.

Key events of the week

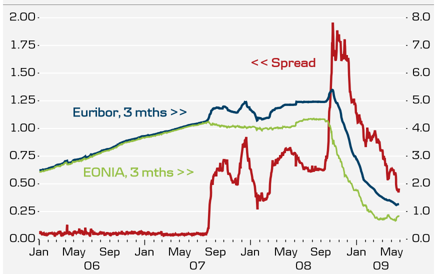
- ECB governing Council Meeting [4 June]. The refinancing rate is likely to be kept unchanged at 1.0 %.
- Revised Q1 GDP with details [3 June].
- German industrial orders [8 June] and exports [9 June] in April may give an early indication of a rebound.

Confidence is improving sharply



Source: Ecowin

Interbank confidence on the rise



Source: Ecowin

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Danske Markets

Japan too now seems to have turned the corner

Strong growth in Japan over the summer

In Asia there are more and more signs that the worst is over and that economic activity is now growing quite strongly following the massive downturn that kicked in for real in Q4 last year. Most positive is that there are now clear signs of a turnaround in the Japanese economy. Both manufacturing production and exports rose in April for the second month in a row, and all the signs are that this trend will continue with undiminished strength in the coming months (see *Flash Comment – Japan: Manufacturing recovery is gaining strength*). Although manufacturing production is rising again, Japanese manufacturers' stocks are still falling at a record rate, which suggests that there is masses of scope to step up production in the coming months.

We now believe that GDP growth will turn positive as early as Q2 and will be above trend in Q3 (around 1.5% q/q). In contrast to what is a clear consensus, we believe that Japan will have high growth rates in the early phase of the recovery, probably outperforming both Euroland and the USA on growth during this phase. The recent strong rebound in the manufacturing PMI would certainly support this. This more positive news from Japan is a big plus for the rest of Asia. Although it is still primarily exports that are driving the recovery in demand, Japanese imports have also now begun to climb again as manufacturers begin to step up their activity.

Spotlight back on China in the coming fortnight

China will be back in the spotlight in the coming fortnight, which sees the release of the most important data for May. Monday brings the two Chinese manufacturing PMIs for May from CLSA and the National Bureau of Statistics (NBS). The latter has generally been somewhat stronger than the CLSA index in recent months. Part of the reason may be differences in seasonal adjustments. The NBS index seems to have had a tendency to rise in March and April followed by a decrease in May. We should therefore not be surprised if there is a small fall in the NBS index. We still think that the overall picture painted by Chinese data will be of continued improvement in the economy. Electricity production data suggests that growth in industrial production will accelerate from 7.3% y/y in April to 8.7% y/y in May. We expect Chinese exports to continue to improve in May, but we may see markedly reduced credit growth following the extraordinarily high growth rates at the beginning of the year.

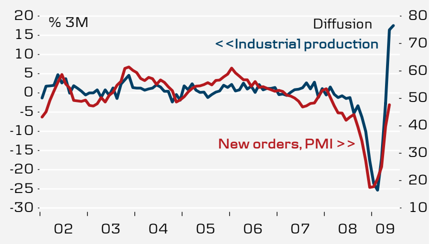
Prospect of undramatic US-China summit

China and the USA are holding their twice-yearly economic summit on 1-2 June to discuss their most pressing economic issues. This will be Tim Geithner's first trip to China as Treasury Secretary. However, the stage is set for relatively little drama, with the Chinese having at least the same scope to teach the Americans a thing or two about sound economic policy as the Americans have traditionally had at these meetings. The Americans will probably repeat their request for a stronger and more flexible CNY, but deep down they are very happy with what the Chinese have already delivered, not least in the form of fiscal easing. The request for a stronger CNY is not therefore an urgent one. Not least because the Chinese will also be asking for continued stability-oriented policy with low budget deficits and a stable USD and inflation in return for continuing to invest the bulk of their foreign exchange reserves in US bonds.

Key events of the fortnight ahead

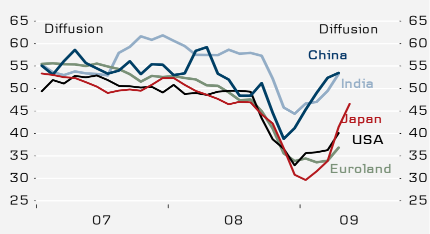
- **US-China economic summit** (1-2 June)
- **China:** NBS and CLSA PMIs (1 June), consumer prices (10 June), trade balance (11 June), industrial production (12 June)
- **Japan:** Balance of payments (8 June), Economic Watchers Survey (8 June), revised Q1 GDP (11 June)

Strong rebound in Japanese manufacturing



Source: Reuters EcoWin

Manufacturing PMIs: Japan outperforms USA and Euroland



Source: Reuters EcoWin, Danske Bank

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UK: From stable to negative

S&P puts UK on negative credit outlook

The almost inevitable happened on Thursday last week: S&P downgraded its medium-term outlook on the UK's AAA rating on its debt to "negative" from "stable" for the first time since the credit ratings agency started analysing UK public finances in 1978. The warning was based on a forecast that UK net government debt risked approaching 100% of national income and staying at that level. The rating agency affirmed however its AAA long-term and A-1+ short-term sovereign credit ratings.

One is tempted to say '…and so what?' A rise in debt-to-GDP of this magnitude might not be compatible with a top credit rating but it surely isn't the end of the world and the consequences are definitely countable. A downgrade will only have financial implications if it leads to altered investor behaviour, which we find highly unlikely. We see very few investors who will be forced to sell sterling-denominated assets in the event of the UK only having an AA rating. The downgraded was also calmly received in markets; even though government yields and spreads on credit default swaps rose modestly, the pound managed to appreciate against most currencies on the day and has in fact to continued to strengthen against other major currencies.

PMIs will continue higher

Purchasing Managers Indices (PMIs), typically a good predictor or actual production in various industrial segments, have improved in recent months, albeit from very depressed levels. While the outlook for construction remains bleak, a quicker-than-anticipated improvement has occurred in manufacturing while the service sector outlook is very close to showing signs of expansion again. We expect to see further progress in PMIs in the coming week, although the speed of improvement may slow after the strong advancement in recent months. Our expectation is that these numbers will be well received in the market and interpreted that the recovery is imminent.

BoE not likely to announce further purchases

In early May, Bank of England took us - and several other forecasters - by surprise when it announced Gilt purchases for an additional GBP 25bn in its Asset Purchase Facility, taking total buying up to not less that GBP125bn. Our rationale was that we had already seen some effect of the previous purchases and money market tensions had eased considerably. Also in comparison, the Fed has announced purchases for USD 300bn (around GBP 187bn), and can therefore buy far less of outstanding Treasuries than BoE can of outstanding Gilts. In other words, the British attempt to boost monetary stimulus was already pretty huge. Accordingly, we see an even smaller need for the BoE to announce further Gilt purchases at the June meeting. The rate announcement is in itself a triviality; the UK base rate is likely to remain at 0.5% over the coming year.

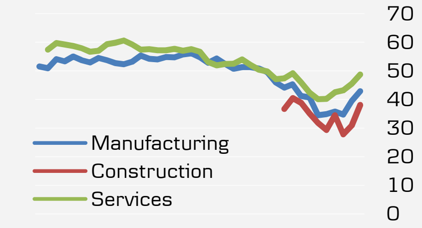
Strong GBP performance

As measured over the past two weeks, sterling has outperformed most other G10 currencies, a move that has been in line with our forecast. UK data has continued to surprise on the upside and risk sentiment has favoured the oversold pound. We would be surprised if this strong performance continues at the same speed, as the recent week's rally also should be seen in connection with some negative events that occurred before and took sterling weaker. We still see sterling potential in the medium term horizon though, and expect EUR/GBP to slide below 0.85 by year-end and approach 0.80 in one year's time.

Key events of the week

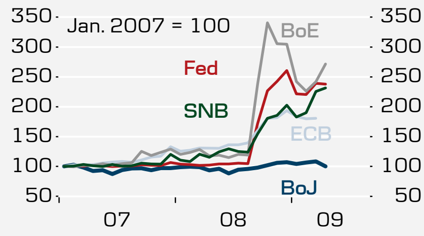
- PMI manufacturing (Monday 01 June)
- PMI construction and mortgage approvals (Tuesday 02 June)
- PMI services (Wednesday 03 June)
- Bank of England rate announcement (Thursday 04 June)
- RICS house price balance (Tuesday 09 June)
- Industrial and manufacturing production (Wednesday 10 June)

UK PMIs



Source: Reuters Ecowin

Central bank balance sheets



Source: Reuters Ecowin

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Switzerland: Weak GDP and CPI data ahead

Stagnating KOF and surprising employment

The past couple of weeks have seen some interesting data on the Swiss economy. Most surprising were the employment statistics, which revealed an increase of 0.8% y/y. Even seasonally adjusted, Swiss employment rose by 0.1% q/q in Q1. Drilling down a little into the statistics, we can see that it is the tertiary sector that has been hiring, while the secondary sector has been firing, as suggested by movements in the employment index in the PMI survey, which has fallen in recent months. The employment statistics also include forward-looking indicators such as vacancies, which continue to fall, supporting our general expectation of a marked deterioration in the Swiss labour market this year and so a big increase in unemployment.

Friday also brought the KOF leading indicator, which for the first time since summer 2007 did not fall month-on-month. The leading index remained unchanged at minus 1.86, which continues to indicate a sharp decline in overall activity, but also signals that the deceleration in activity may have stabilised.

Weak GDP and inflation figures ahead

The coming week brings two important releases in Switzerland: Q1 GDP on Tuesday and May consumer prices on Friday. Activity data for Q1 have generally been weak: the KOF leading indicator hit a new low, exports have been under pressure, consumer confidence has nosedived and anecdotal data paint the picture of a sharp cyclical downturn. In general, therefore, we expect that the slowdown in activity will gain markedly in strength in Q1 and that the Swiss economy, which fared relatively well in the early stages of the global recession, will to some extent catch up with the economic downturn seen in Euroland.

However, GDP data are published well in arrears and are by their very nature retrospective. Of greater interest, therefore, will probably be Friday's inflation figures. The consensus expectation in the market is for a rise in consumer prices of 0.1% from April to May, corresponding to an annual rate of inflation of minus 1%. These figures are important as the Swiss National Bank's current highly expansionary monetary policy stance is largely a reflection of deflation fears, and the next quarterly monetary policy meeting is drawing near (on June 18).

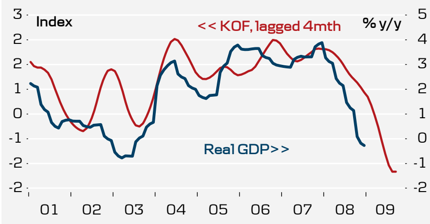
Continued high correlation between Swiss franc and equities

The Swiss franc continues to trade stably against the Danish krone in the 4.90-4.97 range, although we saw the market testing its lower bound a week ago when the euro came into demand and EUR/USD briefly broke through 1.40. The level around 4.90 has proved seriously tough for CHF/DKK to crack, although CHF did briefly dip down to 4.89. Despite relatively limited fluctuations in the Swiss franc, sensitivity to general risk appetite in the market remains high, and the correlation between CHF/DKK and the equity market is still above 50%, although this is slightly lower than last autumn's peak. Looking in isolation at sensitivity to the S&P 500 index, a 10% rise in that index currently equates to a 1.3% decrease in CHF/DKK. On the other hand, the correlation with relative interest rates is still very low. We expect CHF/DKK to continue to trade in the 4.90-4.97 range in the short term, but we will probably see larger movements in the run-up to the SNB monetary policy meeting on June 18.

Key events for the fortnight ahead

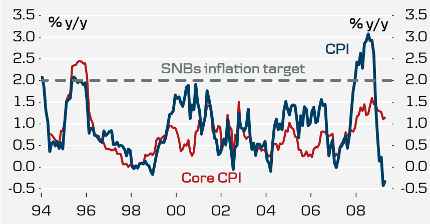
- Q1 GDP (2 June)
- May CPI (5 June)
- May unemployment (8 June)

KOF shows signs of stabilisation...



Source: Reuters EcoWin

Still no inflationary pressure



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	-1.1	-0.1	1.1	-3.6	0.3	2.2	3.7	3.4	1.8	2.7	32.9	2.0
	2009	-2.4	-2.5	1.8	-8.8	-0.2	-5.5	-6.3	1.4	3.3	-1.2	31.7	0.9
	2010	0.8	2.3	1.6	-5.3	0.1	1.9	1.5	1.9	4.4	-1.4	30.3	0.9
Sweden	2008	-0.2	-0.2	1.3	3.5	-0.7	1.7	3.0	3.4	6.2	3.0	37.4	7.2
	2009	-4.6	-1.9	1.9	-13.7	-1.4	-17.4	-19.9	-0.3	10.0	-5.0	39.7	6.7
	2010	0.8	0.7	3.8	-5.5	-0.3	0.5	-1.1	0.9	12.0	-2.0	42.7	7.2
Norway	2008	2.0	1.3	3.7	3.3	0.9	0.8	4.3	3.8	2.6	8.0	26.0	19.0
	2009	-1.0	0.3	4.8	-6.6	-0.5	-3.3	-4.1	1.9	3.9	12.0	26.0	24.9
	2010	2.4	3.2	4.9	1.3	0.0	1.0	2.1	2.2	4.4	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	0.7	0.5	2.0	0.6	-0.1	1.7	1.7	3.3	7.7	-1.8	67.0	-0.4
	2009	-2.7	-0.5	2.3	-6.0	0.0	-10.1	-7.3	0.5	8.9	-3.0	68.0	-0.1
	2010	0.8	0.4	2.5	0.6	0.1	2.4	2.8	1.3	9.5	-3.1	68.0	0.0
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	-2.8	0.2	1.9	-4.0	-0.4	0.2	2.5	0.5	8.1	-2.9	63.0	5.2
	2010	0.8	1.2	1.9	1.5	0.2	4.0	4.5	1.3	8.7	-4.1	63.0	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	-2.4	-0.4	1.6	-3.8	-0.3	-0.3	-0.4	0.7	8.2	-4.2	69.0	-1.4
	2010	1.1	1.6	1.4	2.1	0.2	2.9	2.9	1.6	8.7	-4.1	69.0	-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	-2.6	0.2	1.2	-4.8	-0.3	-0.6	-0.9	1.0	8.2	-3.6	105.0	-2.1
	2010	0.2	0.3	1.0	2.0	0.2	2.0	2.4	1.9	8.5	-3.7	103.0	-2.5
Spain	2008	0.9	1.1	4.0	-2.5	0.0	3.2	0.7	4.4	11.0	-1.6	38.0	-10.0
	2009	-2.9	-0.4	4.5	-9.0	-0.4	3.5	-2.0	1.7	14.4	-2.9	41.0	-7.0
	2010	0.4	0.2	3.5	-3.0	0.2	5.5	2.5	1.5	15.0	-5.5	45.0	-6.0
Finland	2008	0.9	2.0	1.7	1.0	-0.6	-1.1	-1.3	4.1	6.4	4.2	33.4	2.5
	2009	-3.5	-0.8	1.5	-11.0	0.0	-12.0	-9.5	1.0	7.6	0.0	38.0	1.6
	2010	1.0	1.0	1.5	-2.0	0.0	4.0	2.5	1.3	8.5	-3.0	43.0	2.1

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	1.1	0.2	2.9	-3.9	-0.2	6.2	-3.4	3.8	5.8	-3.2	61.9	-4.0
	2009	-2.7	-0.8	3.0	-13.0	-2.3	-14.1	-9.5	-0.8	8.8	-12.0	77.0	-3.0
	2010	2.5	1.8	6.4	0.4	3.3	0.5	5.4	2.5	9.1	-6.0	79.0	-3.8
Japan	2008	-0.7	0.7	0.8	-4.8	-0.1	1.9	1.1	1.6	4.1	-1.4	182.0	3.2
	2009	-5.7	-0.2	1.7	-6.4	-0.3	-27.7	-12.6	-0.9	4.5	-3.8	183.0	2.2
	2010	2.9	1.4	1.8	2.1	0.1	18.5	1.1	-0.1	5.5	-3.9	183.0	2.9
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	-0.6	2.4	1.5	2.4	2.6	1.3	40.4	8.0
	2009	-0.8	-0.5	0.9	-3.7	1.2	-1.9	1.1	0.9	3.6	0.6	40.5	8.7
	2010	0.9	0.7	1.4	1.7	0.0	3.2	2.3	1.0	3.8	-1.5	44.1	9.8

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	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	29-May	0.13	1.37	3.91	139.9	-	532.3
	+3m	0.13	1.45	3.60	138	-	540
	+6m	0.13	1.55	3.85	144	-	517
	+12m	0.13	1.90	4.10	140	-	533
EUR	29-May	1.00	1.77	3.73	-	139.9	744.4
	+3m	1.00	1.70	3.60	-	138	745.0
	+6m	1.00	1.85	3.75	-	144	745.0
	+12m	1.00	2.40	4.10	-	140	746.0
JPY	29-May	0.10	0.67	1.41	135.3	96.7	5.50
	+3m	0.10	0.70	1.55	138	100	5.40
	+6m	0.10	0.80	1.75	151	105	4.93
	+12m	0.10	1.05	1.95	151	108	4.94
GBP	29-May	0.50	1.94	3.99	87.3	160.3	853.1
	+3m	0.50	2.00	4.00	87.0	159	856
	+6m	0.50	2.50	4.30	85.0	169	876
	+12m	0.50	2.60	4.70	80.0	175	933
CHF	29-May	0.25	0.79	2.82	151.2	108.1	492.3
	+3m	0.25	0.75	2.55	152	110	490
	+6m	0.25	0.80	2.65	154	107	484
	+12m	0.25	1.25	2.85	158	113	472
DKK	29-May	1.65	2.56	4.02	744.4	532.3	-
	+3m	1.55	2.45	3.90	745.0	540	-
	+6m	1.45	2.50	4.05	745.0	517	-
	+12m	1.35	2.95	4.35	746.0	533	-
SEK	29-May	0.50	1.59	3.90	1071.5	766.0	69.5
	+3m	0.50	1.50	3.80	1050	761	71.0
	+6m	0.50	1.60	4.05	1020	708	73.0
	+12m	0.50	2.20	4.50	1000	714	74.6
NOK	29-May	1.50	2.85	4.71	896.5	641.1	83.0
	+3m	1.50	2.80	4.30	850	616	87.6
	+6m	1.50	2.95	4.45	830	576	89.8
	+12m	1.50	3.50	4.80	820	586	91.0
PLN	29-May	3.75	4.78	5.64	450.6	322.2	165.2
	+3m	3.50	4.70	5.45	450	326	166
	+6m	3.50	4.75	5.65	455	316	164
	+12m	3.50	5.00	6.00	460	329	162

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				Average	
	29-May	Q1	Q2	Q3	Q4	2009	2010
ICE Brent	65	46	54	56	66	55	70
Aluminium	1,415	1,401	1,500	1,500	1,600	1,500	2,000
Copper	4,750	3,494	4,600	4,600	4,800	4,374	5,250
Nickel	1,475	1,208	1,475	1,500	1,500	1,421	1,750
Gold	968	909	900	900	880	897	898
CBOT Wheat*	636	548	560	600	660	592	700
CBOT Corn*	431	377	400	450	480	427	480

Source: Danske Markets

Calendar

Monday, June 1, 2009				Period	Danske Bank	*Consensus*	Previous
-	DKK	Whit Monday					
-	CNY	SED summit between US and China					
3:00	CNY	NBS Manufacturing PMI	Index	May	**53.0**		53.5
3:30	AUD	Retail sales		Apr		*0.5%*	2.2%
4:30	CNY	CLSA Manufacturing PMI	Index	May	**52.0**		50.1
8:30	SEK	PMI	Index	May			38.8
9:50	FRF	PMI Manufacturing, final	Index	May	**43.2**	*43.1*	43.1
9:55	DEM	PMI Manufacturing, final	Index	May	**39.2**	*39.1*	39.1
10:00	EUR	PMI Manufacturing, final	Index	May	**40.6**	*40.5*	40.5
10:30	GBP	PMI, Manufacturing	index	May		*44.0*	42.9
11:00	DKK	Danish PMI	Index	May			33.8
14:30	USD	Personal income	m/m	Apr	**-0.1%**	*-0.2%*	-0.3%
14:30	USD	Personal spending	m/m	Apr	**-0.2%**	*-0.2%*	-0.2%
14:30	USD	Private consumption expenditure	y/y	Apr	**0.4%**	*0.3%*	0.6%
14:30	USD	PCE core - deflator	m/m|y/y	Apr	**0.3%|1.9%**	*0.2%|1.9%*	0.2%|1.8%
16:00	USD	ISM	Index	May	**42.6**	*42.0*	40.1
16:00	USD	ISM prices paid	Index	May		*35.0*	32.0
16:00	USD	Construction spending	m/m	Apr		*-1.8%*	0.3%
18:40	USD	Fed's Lockhart (voter, neutral) speaks					

Tuesday, June 2, 2009				Period	Danske Bank	*Consensus*	Previous
-	USD	Total Vehicle Sales	m	May		*9.5*	9.3
-	CNY	SED summit between US and China					
1:50	JPY	Monetary Base	y/y	May			8.2%
6:30	AUD	RBA interest rate announcement		Jun	**3.00%**	*3.00%*	3.00%
7:00	NOK	Consumer confidence, s.a.	Index	2nd quarter			-11.1
7:45	CHF	GDP	q/q|y/y	1st quarter		*-1.5%|-1.6%*	-0.3%|-0.6%
9:00	NOK	PMI	Index	May	**42.1**		39.8
9:30	CHF	PMI	Index	May		*36.5*	34.7
9:30	DKK	Retail sales, volume	m/m|y/y	Apr	**-0.5%|-6.8%**		0.0%|-5.4%
10:00	NOK	Credit indicator (C2)	y/y	Apr	**8.5%**		8.8%
10:00	NOK	Inflation expectations (Norges Bank)		2nd quarter			
10:30	GBP	Mortgage approvals	1000	Apr		*40*	39
10:30	GBP	PMI, Construction	Index	May		*39.0*	38.1
11:00	EUR	Unemployment	%	Apr	**9.0**	*9.1*	8.9
16:00	USD	Pending home sales	m/m	Apr	**0.3%**		3.2%
16:00	DKK	Currency reserves	DKK bn	May			286.4

Wednesday, June 3, 2009				Period	Danske Bank	*Consensus*	Previous
1:01	GBP	Consumer Confidence	Index	May			50
3:30	AUD	GDP	q/q|y/y	1st quarter		*-0.2%|-0.4%*	-0.5%|0.3%
9:50	FRF	PMI Services, final	Index	May	**47.7**	*47.6*	47.6
9:55	DEM	PMI Services, final	Index	May	**46.1**	*46.0*	46.0
10:00	EUR	PMI Services, final	Index	May	**44.8**	*44.7*	44.7
10:30	GBP	PMI, Services	Index	May		*49.5*	48.7
11:00	EUR	PPI	m/m|y/y	Apr		*-0.9%|-4.6%*	-0.7%|-3.1%
11:00	EUR	GDP, s.a., preliminary	q/q|y/y	1st quarter		*-2.5%|-4.6%*	-2.5%|-4.6%
13:00	USD	MBA mortgage applications	%				-14.2
16:00	USD	ISM non-manufacturing	Index	May	**45.5**	*45.0*	43.7
16:00	USD	Factory Orders	m/m	Apr		*0.5%*	-0.9%
20:30	USD	Fed's Hoenig (non-voter, hawk) speaks					

Source: Danske Markets

Danske Markets

Calendar - continued

Thursday, June 4, 2009				Period	Danske Bank	*Consensus*	Previous
1:50	JPY	Capital Spending	y/y	1st quarter			-17.3%
8:45	FRF	Unemployment	%	1st quarter		*8.6*	8.2
11:00	EUR	Retail sales	m/m|y/y	Apr		*-0.2%|-3.1%*	-0.6%|-4.2%
13:00	GBP	BoE rate announcement	%		**0.5**	*0.5*	0.5
13:45	EUR	ECB rate announcement	%		**1.00**	*1.00*	1.00
13:50	USD	Fed's Pianalto (non-voter, neutral) speaks					
14:00	USD	Fed's Dudly (voter, neutral) speaks					
14:30	EUR	ECB press conference					
14:30	USD	Unit labour cost, final	q/q	1st quarter		*2.9%*	3.3%
14:30	USD	Initial jobless claims	1000				623
14:45	USD	Fed's Bernanke (voter, neutral) speaks					
16:50	EUR	ECB's Gonzales-Paramo speaks					

Friday, June 5, 2009				Period	Danske Bank	*Consensus*	Previous
-	DKK	Constitution Day					
9:15	CHF	CPI	m/m|y/y	May		*0.1%|-1.0%*	0.9%|-0.3%
9:50	EUR	ECB's Trichet speaks					
10:00	NOK	Manufacturing Production, nsa.	m/m|y/y	Apr			-1.6%|-2.7%
10:30	GBP	PPI - Output	m/m|y/y	May			0.6%|1.2%
14:30	USD	Nonfarm payroll	1000	May	**-570**	*-530*	-539
14:30	USD	Unemployment	%	May	**9.3**	*9.2*	8.9
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	May		*0.2%|3.0%*	0.1%|3.2%
14:30	EUR	ECB's Starks speaks					
16:30	NOK	Norges Bank's Gjedrem speaks					
20:15	USD	Fed's Rosengren (non-voter, dove) speaks					
21:00	USD	Consumer credit	bn. USD	Apr		*-6.0*	-11.1

During the week				Period	Danske Bank	*Consensus*	Previous
Mon 01 - 05	GBP	Halifax house prices	m/m|y/y	May		*-1.5%|-17.1%*	-1.7%|-17.7%
Thu 04 - 10	JPY	Offical reserve assets	USD bn	May			1011.5

Source: Danske Markets

Calendar

Monday, June 8, 2009				Period	Danske Bank	*Consensus*	Previous
-	JPY	Eco watchers survey: Current	Index	May			34.2
-	JPY	Eco watchers survey: Outlook	Index	May			39.7
1:50	JPY	Money supply M2+CD	y/y	May			2.6%
1:50	JPY	Adjusted Current account s.a.	JPY bn	Apr			902.3
1:50	JPY	Current account s.a.	JPY bn	Apr			1485.6
1:50	JPY	Trade balance, BOP basis	JPY bn	Apr			132.9
1:50	JPY	Bank Lending	y/y	May			3.4%
7:45	CHF	Unemployment (sa)		May			3.4%
9:30	DKK	Industrial production	m/m	Apr			-2.4%
12:00	DEM	Factory orders	mm/|y/y	Apr			3.3%|-26.7%
18:40	USD	Fed's Lockhart (voter, neutral) speaks					

Tuesday, June 9, 2009				Period	Danske Bank	*Consensus*	Previous
1:01	GBP	RICS House Price Balance	Index	May			-59.9%
3:30	AUD	NAB business confidence	Index	May			-14
7:00	JPY	Leading Economic Index, preliminary	Index	Apr			76.3
8:00	DEM	Exports	m/m	Apr			0.7%
8:45	DEM	Trade balance	EUR bn	Apr			-4.9
9:30	DKK	Trade Balance	DKK bn	Apr	**5.0**		3.8
10:00	EUR	ECB's Liikanen speaks					
12:00	DEM	Industrial production	m/m/|y/y	Apr			0.0%|-20.4%

Wednesday, June 10, 2009				Period	Danske Bank	*Consensus*	Previous
1:50	JPY	Machine orders	m/m|y/y	Apr			-1.3%|22.2%
1:50	JPY	Domestic CGPI	m/m	May			-0.4%|-3.8%
4:00	CNY	PPI	y/y	May			-6.6%
4:00	CNY	CPI	y/y	May	**-1.7%**		-1.5%
8:00	DEM	HICP, final	m/m | y/y	May	**-0.2%|-0.1%**		-0.2%|-0.1%
8:45	FRF	Industrial Production	m/m|y/y	Apr			-1.4%|-16.1%
9:00	ESP	Inflation (HICP), final	m/m|y/y	May			1.0%|-0.1%
9:30	DKK	CPI	m/m|y/y	May	**0.2%|1.1%**		-0.1%|1.4%
9:30	DKK	HICP	m/m|y/y	May	**0.1%|0.9%**		-0.1%|1.1%
9:30	SEK	Industrial production	m/m|y/y	Apr			-2.8%|-22.9%
9:30	SEK	Activity index	Index	Apr			97.5
10:00	NOK	Consumer prices	m/m|y/y	May	**0.0%|2.8%**		0.2%|2.9%
10:00	NOK	Core inflation(CPI-ATE)	m/m|y/y	May	**0.2%|2.8%**		0.3%|2.7%
10:00	NOK	Producer prices, incl. Oil	y/y	May			-4.7%
10:00	ITL	Industrial production	m/m|y/y	Apr			-4.6%|-23.8%
10:30	GBP	Trade balance	GBP bln.	Apr			2,537
10:30	GBP	Industrial Production	m/m|y/y	Apr			-0.6%|-12.4%
10:30	GBP	Manufacturing production	m/m|y/y	Apr			-0.1%|-12.9%
11:00	ITL	GDP, final	q/q|y/y	1st quarter			-1.9%|-2.9%
13:00	USD	MBA mortgage applications					
14:30	USD	Trade balance	USD bn	Apr			-27.6
20:00	USD	Budget statement	USD bn	May			-165.9
20:00	USD	Beige Book					
23:00	NZD	Reserve Bank of New Zealand (cash rate decision)		Jun	**2.25%**	*2.25%*	2.50%

Source: Danske Markets

Danske Markets

Calendar - continued

Thursday, June 11, 2009				Period	Danske Bank	*Consensus*	Previous
-	CNY	Trade balance	USD bn	May			13.14
-	JPY	GDP,final	q/q	1st quarter			-4.0%
1:50	JPY	GDP Deflator, final	y/y	1st quarter			1.1%
3:30	AUD	Employment change	1000	May			27.3
4:00	CNY	Fixed assets investments	y/y	May	**31.0%**		30.5%
8:30	NOK	Norges Bank Monetary Policy Conference					
9:30	SEK	CPI	m/m|y/y	May			0.2%|-0.1%
9:30	SEK	Underlying inflation, UND1X	m/m|y/y	May			0.3%|1.4%
14:30	USD	Retail sales	m/m	May			-0.4%
14:30	USD	Retail sales less autos	m/m	May			-0.5%
14:30	USD	Initial jobless claims	1000				
17:00	USD	Fed's Fisher (non-voter, neutral) speaks					
19:05	USD	Fed's Lockhart (voter, neutral) speaks					

Friday, June 12, 2009				Period	Danske Bank	*Consensus*	Previous
-	USD	US treasury's Geithner speaks at G8 meeting					
0:45	NZD	Retail sales	m/m	Apr			-0.4%
4:00	CNY	Retail sales value	y/y	May			14.8%
4:00	CNY	Industrial production	y/y	May	**8.7%**		7.3%
4:00	CNY	Retail sales value	y/y	May			14.8%
6:30	JPY	Industrial production, final	m/m|y/y	Apr			5.2%|
7:00	JPY	Consumer sentiment survey	Index	May			33.2
8:45	FRF	HICP	m/m|y/y	May			0.1%|0.1%
11:00	EUR	Industrial production	m/m|y/y	Apr	**-0.5%|**		-2.0%|-20.2%
14:30	USD	Import prices	m/m|y/y	May			1.6%|-16.3%
16:00	USD	University of Michigan Confidence, preliminary	Index	Jun			

During the week				Period	Danske Bank	*Consensus*	Previous
Thu 04 - 10	JPY	Offical reserve assets	USD bn	May			1011.5
Thu 11 - 15	CNY	Money supply M2	y/y	May			26.0%
Sat 13	USD	US treasury's Geithner speaks at G8 meeting					

Source: Danske Markets

Danske Markets

Disclosure

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