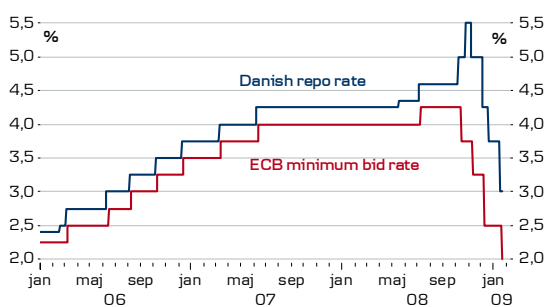


Weekly Focus

23-30 January 2009

Euro No has a cost during a financial crisis...



Source Reuters Ecowin

...though pressure against DKK has eased



Source Reuters Ecowin

Yes lead is shrinking again

Denmark: (%)	Dec-08	Jan-09
yes.....	43.8	41.1
maybe yes.....	7.8	9.6
maybe no.....	7.5	7.3
no.....	38.0	39.8
don't know.....	2.9	2.2
"yes" lead.....	6.1	3.5

Source Statistics Denmark for Danske Bank

Danes to vote on euro in 2010

It now looks pretty likely that the Danes will be asked to vote on euro membership in 2010. Prime Minister Anders Fogh Rasmussen said in the past week that he had a plan for how Denmark could make its way into the euro. The PM intends to call a euro vote when the Lisbon Treaty has been adopted, following a second referendum in Ireland. This probably means a Danish vote could be held in 2010, the PM believes.

Rasmussen's plan implies that the Socialist People's party (SF) is changing its position on euro membership and supporting a Yes. This would prepare the ground for a referendum and raise the likelihood of a Yes outcome. The SF drew 13% of the vote in the latest election, and a Gallup poll conducted last summer shows 53% of SF voters opposing euro membership, with 10% undecided. As such, the SF's backing of the euro would go a long way towards securing a Yes.

SF Chairman Villy Søvndal also suggested in the past week that a euro vote could be held in 2010. To back a Yes vote, the SF requires that the euro should be changed to give a higher priority to jobs, counteract speculation and encourage green investment. However, the SF's demands are pretty vaguely stated, and it should be possible to find a way of meeting them in time for a referendum to be held next year.

During the financial crisis, it has become evident that pursuing a fixed exchange rate policy without going the whole hog comes at a cost. And as hardly anyone believes Denmark should give up its fixed exchange rate, it is hard to see why Denmark should remain outside the euro. And, in fact, euro sentiment in Denmark has become far more positive during the current crisis, though the Yes lead already seems to be shrinking again.

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Denmark

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Waiting for 2008 house prices

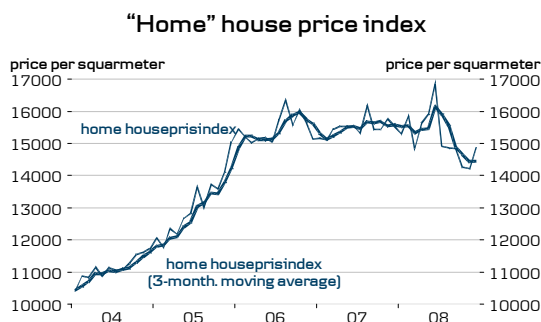
The Association of Danish Mortgage Banks is due to publish its fourth-quarter housing price statistics on Tuesday. The data are awaited with some anxiety due to a flow of bad Q4 economic news that could potentially have sent house prices plummeting.

The sharp deterioration in the economic climate over the autumn of 2008 could have discouraged already-reluctant home buyers. Potential house buyers who continued the search for their dream home experienced sharply rising and heavily fluctuating mortgage rates. So, obviously, the housing market had a rough ride last autumn. That is why we expect Tuesday's data to show a significant drop in both house prices and trading activity in Q4.

It is important to bear in mind that the price statistics published by the Association of Danish Mortgage Banks do not give us the full picture of developments in Q4 2008. This is because the price of a home is recorded in the statistics as of the date when the mortgage loan is taken up - not the date when the sales contract is signed. Not least in the current market environment, quite a long time might elapse from the signing of the sales contract until payment is made and the loan proceeds are paid to the buyer. Hence, some of the trades appearing in the Q4 mortgage statistics might have taken place earlier.

Together with "Home" estate agents, Danske Bank publishes a monthly report on the development in house prices. Although the data do not cover the entire housing market, the latest figures - from December - clearly show that the downturn in housing prices accelerated during autumn. "Home's" house price index thus showed a drop in housing prices of 4.1% in Q4 2008 from the previous quarter. If these data mirror the development in the overall housing market, we could see the largest drop in prices since the housing price statistics was introduced 14 years ago.

As such, there is little doubt that the housing market is destined to get worse before it gets better. Our current forecast sees a drop in house prices of 6.5% in 2009 and 4.5% in 2010, so a housing market recovery will probably not take off until in 2011. That said, help is coming: mortgage rates are falling and are expected to continue doing so, decent pay increases are expected, taxes will be cut in 2009 - and a potential tax reform could even boost the tax cuts.



Source: "home" and Danske Bank

Key events of the week ahead

- 27 January: Q4 house prices from the Association of Danish Mortgage Banks. Look for a total drop in prices of 4% (y/y) in 2008.
- 29 January: December unemployment numbers. We expect a rise in the number of unemployed people of 5,000 to 2.0% of the labour force.
- 29 January: January industrial confidence. Manufacturing industry has been hard hit by the global crisis, and we expect the index to fall to -25.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Thu 29	-	DKK Business confidence manufacturing	Index	Jan	-25	-22
Thu 29	9:30	DKK Unemployment, s.a.	%	Dec	2.0	1.9

Sweden

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First interesting set of data for 2009

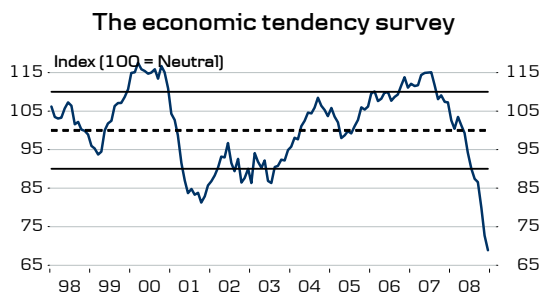
Although it will be interesting indeed to see what the final data for 2008 reveals, especially from a GDP-growth perspective, we are more curious about the National Institute for Economic Research (NIER) survey data being published... With the most acute stages of the financial crisis out of the way, how have households - and more importantly - companies, reacted?

We would be surprised not to see any stabilisation in the data, particularly in the business survey. The SEK has been weak for some time, implying that the export industry, at least in relative terms, should experience some relief. Furthermore, there is some evidence of improvement on credit markets.

For both the household and the business surveys, there is also a common positive: prices have come down drastically on input goods and financing. Raw materials and consumer goods are considerably cheaper today than only a few months ago, and this should also work for a less pessimistic outlook - particularly since price statistics show that export prices are still holding up relatively well. In short, the purchasing power of both households and companies is ameliorating by the day.

That said, we are of course *not* expecting a complete rebound in economic activity during the coming few months - order stocks are still very depressed, and inventories have boomed. Also, needless to say, even though credit markets have improved somewhat, they are still far from normal.

We expect both business and consumer confidence to remain in line with previous outcomes (N.B. it is the quarterly business survey that is being published), and might even see a slight improvement. This, in turn, implies that the economic tendency (NIER GDP-indicator) will continue to indicate that the situation is "much weaker than normal".



Key events of the week ahead

- Some of the final primary data for GDP-calculations will be published during the week: PPI, trade balance and retail sales.
- In addition, the National Institute for Economic Research will be publishing the consumer and business surveys for January.
- Also, Household lending and wage statistics will hit screens towards the end of the week.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 26	9:30	SEK Trade balance	SEK bn Dec	7.5		6.1
Tue 27	9:30	SEK PPI (incl. export- and importprices)	m/mly/y Dec		-0.2% 4.4%	0.7% 4.6%
Wed 28	9:30	SEK Retail sales	m/mly/y Dec	-1.5%	-0.4% -0.6%	-0.1%
Thu 29	9:30	SEK Consumer confidence	Index Jan	-22	-23.5	-23.4
Thu 29	9:30	SEK NIER's Business survey, qtr 4	4th quarter	-35		-19
Fri 30	9:30	SEK Wages (blue collars/white collars)	y/y Nov			

Norway

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Labour market deteriorating

The economic downturn in Norway has not yet triggered any dramatic rise in unemployment numbers. However, a flow of reports from the media and other anecdotal evidence suggest that the weakening accelerated in January. So, we will keep a watchful eye on the registered unemployment numbers from the job offices due out on 29 January. The data are not seasonally adjusted, and the unemployment rate normally rises by 0.2%-points in January. However, we expect a far larger increase in the jobless rate from 2.0% to 2.6%, with the seasonally-adjusted number of jobless people likely to grow by almost 10,000. Seasonally-adjusted unemployment numbers (Labour Force Survey) are also due in the coming week, but they are heavily delayed and date back to November. We expect the LFS data to show an increase in the unemployment rate from 2.7% to 2.8%.

The projected rise in unemployment will probably be the focus of the large-scale fiscal package due to be presented on 26 January. Some of the measures of the package were leaked to the press in the past week. Overall, the package will most likely aim to slow down the rise in unemployment through public investment and spending and perhaps also via tax cuts.

We have also heard reports about a forthcoming Norwegian bank package, but the government has said that any bank measures would not be launched in connection with the fiscal measures due in the coming week.

As we wrote in last week's issue of *Weekly Focus*, the Norwegian packages - unlike those in most other countries - will not cause an increase in government bond issuance. Hence, from a strategic point of view, we expect primarily the long-term yield spread to widen relative to Germany and other European countries.



Key events of the week ahead

- Non-seasonally adjusted unemployment rate expected to surge from 2.2% to 2.6%.
- December retail sales likely to have grown by 0.3% m/m.
- Credit growth expected to have slowed from 10.9% y/y to 10.5% y/y in December.

Date	Time	Event	Period	Danske Bank	Consensus	Previous	
Mon 26	10:45	NOK Fiscal stimuli package					
Wed 28	10:00	NOK Unemployment s.a. (LFS)	%	Nov	2.8	2.8	2.7
Fri 30	10:00	NOK Retail sales, s.a.	m/mly/y	Dec	0.3% 0.7%	-1.0% -0.6%	0.8% -0.6%
Fri 30	10:00	NOK Norges Bank purchase of foreign currency	mn.	Jun	250		0

Euroland

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PMI stabilising – but at a record low

The Euroland PMI data surprised on the upside in the past week. Both we and consensus had expected the PMI it to decline further from December’s record low, but the data, in fact, showed a marginal improvement from 38.2 to 38.5. This hid a modest increase in both manufacturing (to 34.5 from 33.9) and services PMI (to 42.5 from 42.1). The composite German PMI data weakened further (from 39.5 to 38.0), partly reflecting Germany’s strong dependence on foreign demand, while the composite French PMI showed a decent increase from 37.6 to 40.8.

The still extremely weak PMI data point towards a deep and long European recession. Therefore, we will have to slash our growth forecast for Euroland to roughly -1.7% for 2009, and the ECB will need to similarly adjust its December forecast. As such, we still expect the ECB to cut its key interest rate by 50bp at the March meeting (Trichet de facto ruled out a rate cut at the meeting in February, when he said the next important meeting was in March).

The coming week will see the release of inflation numbers for Euroland (Friday). We expect inflation to slow further to 1.3% y/y in January from 1.6% in December, mainly because of lower oil and food prices. Inflation is also being pulled down by low demand, which limits the scope for companies to pass on cost increases to consumers. The German Ifo indicator of business confidence is due out on Tuesday. In line with consensus, we expect the business climate index to retreat to 81.4 from 82.6 in December. The business climate indicator will likely be pulled down by further deterioration in the current conditions index (down to 85.0 from 88.8), while the expectations index is likely to rise to 78.0 (still a very low level) from 76.7. If it materialises, the expected pick-up in the expectations index will be very important, as it will indicate that the dramatic economic slowdown is ebbing. Together with monetary and fiscal policy measures, an improvement in the expectations index could hold out the hope of a cautious recovery in H2 2009.



Key events of the week ahead

- Tuesday: German Ifo expectations index projected to rise from 76.7 to 78.0.
- Thursday: German unemployment. Look for an increase to 7.6% from 7.5%.
- Friday: Euroland HICP. We expect a decline to 1.3% from 1.6% in December.

Also, the week ahead will bring German inflation numbers (Tuesday) and French consumer confidence data (Wednesday). Thursday will see the release of Euroland M3 and also a “non-policy” meeting at the ECB. A number of statements are expected in that connection. German retail sales data are due out Friday.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 27 - 30	-	DEM Inflation (HICP), preliminary	m/m y/y		-0.2% 1.2%	0.4% 1.1%
Tue 27	9:30	ITL Consumer confidence	Index			99.6
Tue 27	10:00	EUR Balance of payments	EUR bn			-6.4
Tue 27	10:00	DEM IFO-indicator	Index	81.4	81.0	82.6
Tue 27	10:00	DEM IFO-indicator, expectations	Index	78.0		76.8
Wed 28	8:10	DEM GfK Consumer Confidence	Index		1.9	2.1
Wed 28	8:45	FRF Consumer confidence	Index		-45	-44
Wed 28	9:30	ITL Business confidence	Index		65.0	66.6
Thu 29	9:55	DEM Unemployment rate	%	7.6	7.7	7.6
Thu 29	10:00	EUR M3 Money supply	y/y			
Thu 29	11:00	EUR Consumer confidence	Index		-31	-30
Thu 29	11:00	EUR Industrial confidence	Index		-35	-33
Fri 30	-	DEM Retail sales, real s.a.	m/m y/y		1.0%	0.7% -3.0%
Fri 30	9:00	ESP Inflation (HICP), preliminary	m/m y/y			.. 1.5%
Fri 30	11:00	EUR Unemployment	%		7.9	7.8
Fri 30	11:00	EUR CPI Flash estimate	y/y	1.3%	1.4%	1.6%

Switzerland

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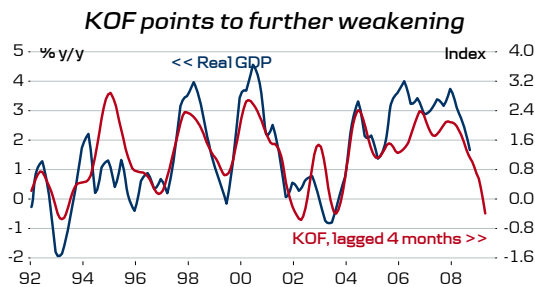
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Continued downturn in Swiss economy and CHF weakening

Vice-chairman of the Swiss National Bank (SNB), Philipp Hildebrand, commented during the week on the bank's monetary policy options. He echoed previous comments from fellow governing board member, Thomas Jordan, that the SNB can still ease monetary policy even though it has already lowered the repo rate practically to zero. He specifically mentioned the possibility of purchasing government and corporate bonds and extending the terms for repo transactions. Hildebrand also mentioned the possibility of intervening in the currency market, saying that, where necessary, the SNB could "sell an unlimited amount of Swiss francs against foreign currency in order to prevent an appreciation of the Swiss franc or even to bring about a devaluation of the national currency." Immediately after this speech, the CHF/DKK fell from 5.04 to around 4.96.

Given the negative growth outlook for the Swiss economy and the beginnings of deflation fears, we consider it highly likely that the SNB will ease monetary policy further – probably also through alternative channels. The risk of this easing involving intervention in the currency market will increase the risk premium for the CHF and could therefore put a ceiling on how high the CHF/DKK can rise. We expect the CHF/DKK to trade at around 5.03 in three months.

The coming week sees the publication of the KOF leading indicator on Wednesday. We expect a further decrease from -0.39 to -0.7 (the lowest since the series began in 1991), which points to very weak production through to the summer. The weak picture of the economy will be confirmed by the UBS consumption indicator, which we expect to fall from 1.0 to 0.7.



Key events of the week ahead

- Tuesday: UBS consumption indicator. We expect the indicator to fall from 1.0 to 0.7.
- Wednesday: KOF's leading indicator is expected to fall from -0.39 to -0.7.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 27	10:00	CHF Consumption indicator	Dec	0.700		0.963
Wed 28	11:30	CHF KOF Swiss leading indicator	Index Jan	-1.00	-0.58	-0.39

USA

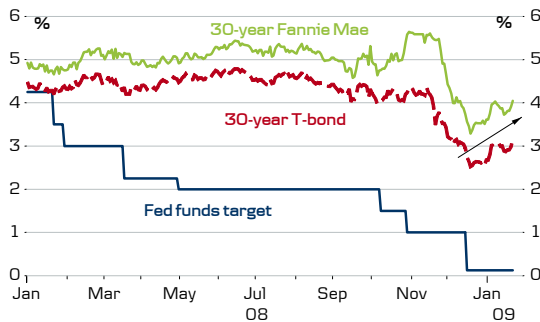
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Focus on growth data and FOMC meeting

Economic data from the USA over the past 3-4 months have been historically weak. The coming week is anxiously awaited with the first estimate of Q4 GDP on Friday. We expect activity to decrease by 6.5% q/q AR, making it the worst quarter for the US economy since the recession in 1980. There is the prospect of further – but more moderate – contraction in the current quarter, but we expect the economy to stabilise in Q2. The coming week also brings data for durable goods orders and sales of new and existing homes in December, and Chicago business sentiment.

The big event of the week, though, is the monetary policy meeting at the Fed. Given all the weak growth data and another round of bad news from the bank sector in the past week, there is no prospect of any change in the central bank rate. The Fed will leave it in the interval 0-0.25% and continue to signal that it will stay at this unusually low level for some time. The focus will therefore be on whether further quantitative easing of monetary policy is in the offing. The recent rise in long-term yields on both Treasuries and mortgage-backed securities may give the Fed cause for concern and so an argument in favour of further quantitative easing. This might include further purchases of mortgage-backed securities, corporate bonds or Treasuries.

Recent rise in yields may give Fed cause for concern



Key events of the week ahead

- Wednesday: The message from the FOMC meeting will be that interest rates are set to remain low for a long time. Interest will centre on whether further quantitative easing is on the cards.
- Friday: We expect GDP to surprise on the downside by falling 6.5% q/q AR (consensus 5.0% q/q AR).
- Housing data on Monday and Thursday.
- Risk of a rise in the Chicago PMI on Friday.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 26	16:00	USD Existing home sales	m	4.49 (0.0%)	4.40 [-2.0%]	4.49 (-8.6%)
Mon 26	16:00	USD Leading indicator	Dec		-0.3%	-0.4%
Tue 27	16:00	USD Consumer confidence	Index	40	38.9	38.0
Wed 28	13:00	USD MBA Mortgage Applications				
Wed 28	20:15	USD FOMC meeting		0-0.25%	0-0.25%	0-0.25%
Thu 29	14:30	USD Initial jobless claims	1000			
Thu 29	14:30	USD Durable goods orders	m/m		-2.0%	-1.5%
Thu 29	16:00	USD New home sales	1000	392 (-3.6%)	400 [-1.7%]	407 (-2.9%)
Fri 30	14:30	USD GDP	q/q ann.	-6.5%	-5.0%	-0.5%
Fri 30	14:30	USD Personal Consumption	q/q ann.	-3.6%		-3.8%
Fri 30	14:30	USD GDP Price Deflator	4th quarter		0.4%	3.9%
Fri 30	16:00	USD Chicago PMI	Index	36	34.2	35.1
Fri 30	16:00	USD University of Michigan Confidence, final	Index	62	61.9	61.9

Asia

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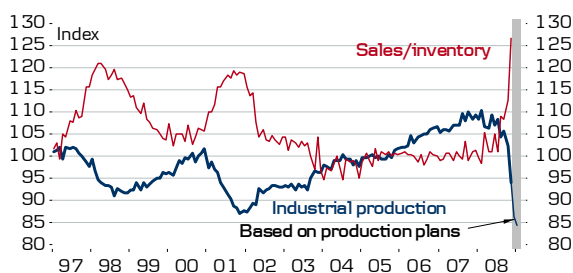
Bank of Japan now sees real risk of deflation

As expected, the Bank of Japan (BoJ) left its key rate unchanged at 0.1% at the monetary policy meeting during the week. More interesting was that the bank revised down its forecasts for both growth and inflation. For the current fiscal year (FY 2008), which runs until the end of March, the BoJ has revised its growth forecast down from 0.1% to -1.8% (Danske Bank: -1.4%), and for FY 2009 the BoJ has slashed its forecast from 0.6% to -2.0% (Danske Bank: -1.1%). Thus the BoJ's growth forecasts are now even more negative than our own projections, so we can hardly accuse the bank of being overoptimistic. That said, it should be noted that the uncertainty in our projections is primarily on the downside. First, we have assumed a positive effect on private consumption from the tax reductions included in the planned easing of fiscal policy. However, it looks likely that the opposition will successfully delay the introduction of the tax cuts, and the effect of the fiscal policy stimulus package will be at the very least diminished and in the worst case non-existent. Second, destocking may well drag down growth in H1 09 more than we anticipated. Despite the sharp drop in industrial production in Q4, it has not been possible to reduce stocks, not least in the motor industry. Toyota, for example, has announced that it will shut down production completely for a few days in both January and February to bring down stock levels.

The BoJ also now sees a real risk of Japan being pushed back into deflation. The bank expects prices to fall in both FY 2009 [-1.1%] and FY 2010 [-0.4%]. All in all, then, the BoJ's latest forecasts paint a pretty bleak picture of the Japanese economy. Interest rates are no longer in the bank's armoury. The BoJ believes that a slightly positive interest rate will help keep the money market functioning, so we will not be seeing further rate cuts, and the effect would in any case be very limited. The BoJ will therefore be forced increasingly into a kind of quantitative easing, where the focus will be more on maintaining credit flows to the private sector and increasing the BoJ's balance sheet. One sign of the bank moving in this direction is that it is now to start buying up commercial paper and maybe also corporate bonds at a later date.

In China, GDP growth slowed roughly in line with our expectations from 9.0% y/y in Q3 to 6.8% y/y in Q4. Despite this, China is one of the few places where the data for December have not been unambiguously negative and where we do not currently feel under any pressure to revise our growth forecasts down further. The manufacturing PMIs, industrial production and, not least, lending growth have indicated in December that the Chinese economy is about to bottom out. This also suggests that China may be one of the first economies to escape from the current downturn.

Need to cut stocks in Japan



Key events of the week ahead

- In Japan, Tuesday sees the publication of the minutes of the 19 December monetary policy meeting, and Friday brings figures for unemployment and inflation.
- In China and the rest of Asia, the coming week will be dominated by the Chinese New Year celebrations and so no big news is scheduled for the week.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 27	0:50	JPY BoJ Board Minutes				
Thu 29	0:50	JPY Retail trade	m/m y/y		-0.8% -1.6%	-0.1% -0.9%
Fri 30	0:15	JPY Nomura/JMMA Manufacturing PMI	Index			30.8
Fri 30	0:30	JPY Jobless Rate	%		4.1	3.9
Fri 30	0:30	JPY Job-to-applicant ratio			0.73	0.76
Fri 30	0:30	JPY Household Spending	y/y		-3.6%	-0.5%
Fri 30	0:30	JPY CPI - Tokyo	y/y		0.6%	0.7%
Fri 30	0:30	JPY CPI - Tokyo Ex Fresh Food	y/y		0.6%	0.8%
Fri 30	0:30	JPY CPI - National	y/y		0.4%	1.0%
Fri 30	0:30	JPY CPI - National Ex. Fresh Food	y/y		0.3%	1.0%
Fri 30	0:50	JPY Industrial production, preliminary	m/m y/y		-9.0% -20.0%	-8.5% -16.6%
Fri 30	6:00	JPY Housing starts	y/y			0.0%

FX

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Three important stories from the past week

The Norwegian krone got off to a tremendous start in 2009 and has so far appreciated by 8% against the Danish krone in spite of the price of a barrel of oil fluctuating heavily between USD33 and USD50. There are no specific drivers, but almost everyone agrees that the weakening of NOK towards the end of 2008 was unjust, and a number of analysts have pointed to the large potential of NOK. The Swedish krona has not yet seen such a sharp appreciation – possibly because Swedish data have surprised on the downside and equity markets have been under pressure, but analysts generally agree that there is a decent strengthening in store for the SEK, too. Is there really further potential? In our view, yes, absolutely. Liquidity conditions in the Scandinavian markets are still not good, and an improvement in liquidity, combined with favourable stock market developments, could potentially send both the NOK and especially the SEK up by 5-8%. Also, growing investor fears of further downgrades of euro member credit ratings could help push up SEK/DKK and NOK/DKK, given the healthy public finances in Scandinavia.

Wednesday's downgrade of Portugal suggests that investors' concern could prove well founded. Following in the footsteps of Greece and Spain, Portugal became the third eurozone country to be downgraded in only two weeks. This is negative for the euro, for several reasons. First, the downgrades reflect concern that certain euro members have got into an economic mess, as they are violating the Maastricht Treaty conditions – the foundations of the EMU co-operation. Second, as discussed in the latest issue of *FX Crossroads* ([FX Crossroads - Imbalances on the agenda](#)), the recent downgrades have caused a divergence between member countries. In addition to the negative trend in credit ratings, most recently we have also seen growing differences in funding costs (in terms of long interest rates) and higher risk premiums (in terms of CDS spreads), especially for debt issues by Greece and Ireland. The larger the differences, the harder it will be to conduct a common monetary policy. This, we believe, is also mirrored in the euro's weakening recently, and we have therefore included the divergence between euro member countries as a factor in our short- and medium-term forecasts.

In spite of +30% movements in several major currency crosses and historically high volatility, 2008 did not see much currency intervention (not even verbally) by the major central banks, and the Reserve Bank of Australia was the only one to take action. However, the past few days have brought political comments on no less than four G10 currencies. In the US, Treasury Secretary nominee Tim Geithner, on Wednesday, first disappointed those who had been waiting for him to refer to a "strong dollar policy", but then remedied this, when he stated, "a strong dollar is in America's national interest". Nonetheless, we are still waiting for the newly inaugurated Obama administration to signal its fundamental views on the dollar more clearly. In Switzerland, the SNB's Hildebrand on Wednesday referred to the option to take alternative measures to ease monetary policy, including the possibility of intervening in FX markets – following previous comments by Jordan and Roth. The new in Hildebrand's comments was that he mentioned the possibility of unlimited sales of the Swiss franc and the possibility of unlimited purchases of foreign currencies at a fixed exchange rate. This could put a ceiling on a potential appreciation of the Swiss franc. The Japanese yen has strengthened significantly during the past year, and given the Japanese currency's current strength (and the collapse of Japanese exports), intervention by the BoJ is, of course, a possibility. In fact, Finance Minister Nakagawa said recently in response to a question about the possibility of intervention: "I should not comment on it. But we should always be thinking about doing what may be necessary." Also, an unnamed source at G7 said to Reuters about the G7 meeting in Rome on 14 February: "Normally we talk about the dollar, yen, and the euro, but this time we'll be talking about the pound as well". He added that verbal intervention might be considered (the pound has lost more than 20% over the past year). All this suggests intervention could become a bigger issue in FX markets this year than last year.

Fixed income

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EUR swap curve steepens further

Two-year EUR swap rates have continued to tumble in recent days. The equivalent government yield has also fallen slightly, but the swap spread has also narrowed, giving the biggest movement in two-year swap rates. 10-year swap rates have been propped up by higher long US yields and have been more or less unchanged in recent days. There is particular concern about a rapidly growing supply of US Treasuries due to the deterioration in the economy, Barack Obama's expansionary fiscal policy package, and the bailout packages for the financial sector, which have been behind the rise in long US yields in the past week.

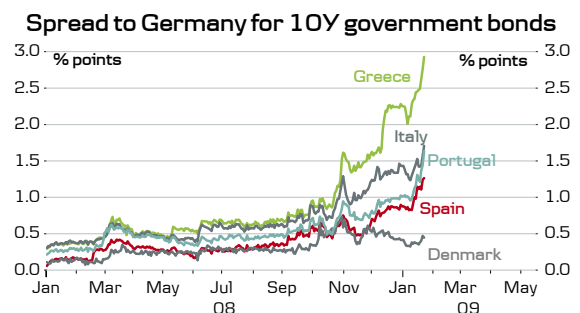
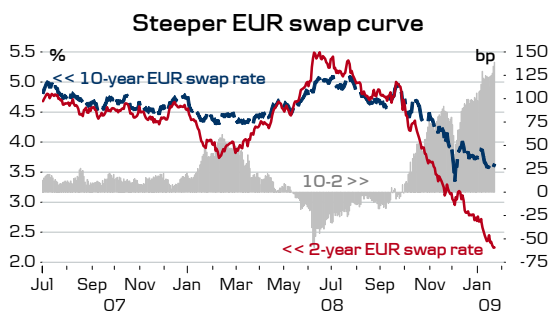
This may well be a dominant theme in fixed income markets in the coming week too, and this will feed through to yields in Europe in the same way as in the past week. The combination of lower 2-year EUR swap rates and more or less unchanged 10-year EUR swap rates has caused the yield curve to steepen further.

The focus in Euroland during the coming week will be on German inflation figures, money supply and credit data, and the German Ifo index. In the USA, interest will centre on the FOMC meeting. Interest rates will not be going anywhere, but the meeting could still have a major effect on the fixed income markets. The announcement of further quantitative easing, such as an increase in purchases of mortgage-backed securities, could have a big impact on US yields, with a knock-on effect on yields in Euroland and Denmark.

Another theme attracting plenty of attention at the moment is the possibility, or risk, of one or more countries leaving the euro. As can be seen from the chart below right, yield spreads between the core euro countries (not least Germany) and the more peripheral countries have exploded recently. The spread between Denmark and Germany has also widened, but to a much lesser extent.

The rating agencies are currently downgrading their ratings for the weakest countries' central government debt. For example, S&P has recently revised its ratings for Spain, Greece, Portugal and Ireland. There is also a growing focus on these countries' imbalances, not least their fast-growing public deficits.

This has fuelled speculation that one or more countries may feel the need, or be forced, to default on their debt and/or leave the euro. On the one hand, it seems highly unlikely that any would leave the euro, not least because the cost of doing so would be enormous. On the other, 2008 has taught us never to say never. With 10-year yields in Greece and Ireland almost 3 points higher than the equivalent German yields, the market clearly thinks this is a possibility.



Commodities

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Heavy stockpiling

Most people have been surprised how quickly the downturn in the global economy arrived in Q4. We are probably looking at a global recession during the quarter not seen since the early 1980s, and things may very well end up even worse. It is primarily commodities-intensive sectors such as construction, steel and the motor industry where output has dropped sharply. The weak growth is reflected in record-low PMI data for the global economy.

But in recent months the commodities market has not just been hit by a marked drop in demand: the supply of many commodities has also been reined in. For a change, OPEC has actually delivered on its own quotas: the production cuts due to be made on 1 November are now in place, and there is much to suggest that the additional reductions decided on in mid-December are now being implemented. There are even reports that Saudi Arabia, OPEC's most important producer, is now pumping out less than 8 mb/d, which is even less than its quota permits. But oil is, of course, a special case, as we have the OPEC cartel as a stabilising factor, able to decrease production to bolster prices.

With other commodities, price formation is different. In principle, the price of a commodity should be the same as the marginal cost, and the most expensive good for which there is demand will determine the price in the market. But with the sharp slide in prices over the last six months, prices are now well below marginal cost for many commodities. Leading consulting firm CRU believes that in the aluminium sector up to 60% of smelting plants are now running at a loss. Cash flow is also under severe pressure in the zinc, lead and nickel industries. Markedly lower prices, dwindling demand and limited liquidity have meant that we are now seeing sharp production cuts for a wide range of commodities, including zinc, nickel, steel and, not least, aluminium. CRU estimates that more than 13% of 2009 aluminium production has now been cut, and world steel production fell by 24% in December.

But these production cuts have clearly come too late in the case of both aluminium and oil. Aluminium stocks have exploded recently. According to CRU, stocks were equivalent to 73 days' consumption in Q4, up from 53 days in Q3, and this stockpiling has continued undiminished in the current quarter. Oil stocks are also growing, and large amounts of oil are now also being stored at sea.

These large stocks mean that today's "low" prices can be expected to persist for some time despite the current steep slide in the supply of many commodities. As stocks come down, we can expect prices to begin to tick up again. But we will probably need to wait until summer and see some form of stabilisation of global economic growth before prices seriously start to move away from current levels. The next issue of our publication *Commodity Monthly* will look more closely at the significance of this stockpiling for our commodity forecasts.

Equities

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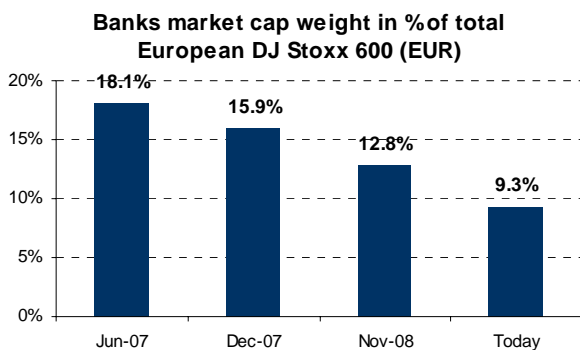
Equity market is clear: the zombies must go!

Last Tuesday the *International Herald Tribune* carried an article by Poul Krugman, winner of the 2008 Nobel Prize in Economic Sciences, entitled "Wall Street voodoo". Here the Princeton professor questioned the sense of continuing to inject government money into the US bank sector without also taking control. His argument is that many of the biggest US banks are already among the living dead – zombies – due to their massive overinvestment in structured mortgage credit and other bonds. He says that there is no point delaying the pain by using tax dollars to keep these banks afloat without clearing their balance sheets of toxic debt, and that the longer the US authorities persist with bailout packages that do not give them full control of these zombie banks, the more these banks will be able to damage the economy by not playing an active role in the supply of credit in society.

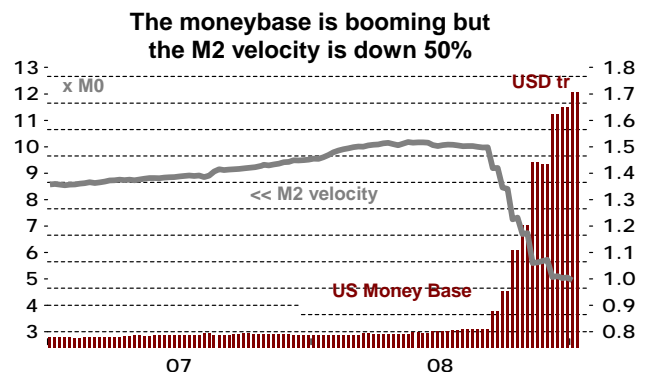
To make our position totally clear, we believe, of course, that nationalisation should only be resorted to in extreme cases. The financial centres in the USA and the UK have been hit hardest by the financial crisis and so government intervention has been essential. Nevertheless, Krugman's idea is hard to shake off. After almost 18 months of financial crisis, the bank sector's influence on overall market performance is greatly reduced. Having accounted for around 18% of the market before the crisis, it now makes up just 9%. So from a pure market perspective it might be a good idea to nationalise banks whose equity is already so low that they are unlikely to survive the write-downs of toxic debt that have to be expected in the coming years whatever happens. Shareholder-unfriendly intervention where governments inject new equity (controlling stakes) into zombie banks would have been a heresy until very recently, and when the banks mean as little for the overall equity market as they do now, there are other considerations that should take precedence.

In our view, consideration for the other companies in the equity market is now more important than what is good for bank stocks. The supply of credit needs to be restored rapidly to avoid a lengthy crisis in the non-financial part of the global economy. Until this happens, the important US housing market will probably not stabilise, as also the outlook for housing markets worldwide remains uncertain for a long time to come. In Japan it took a decade to realise what was needed to get the banking system working again in the 1990s, and there is an urgent need to get this depressing picture off our backs and get credit supply up and running again in the US and the rest of the world. As illustrated below, the US bank crisis is now stopping banks from actually using the massive capital boost from the Federal Reserve to issue loans to businesses and households. Bank of America, Citibank and RBS have all published Q4 statements that have shocked the equity market with further astronomical losses on their credit portfolios. Barack Obama faces some tough choices when it comes to getting the bank system back on its feet, but we reckon that the political establishment in Washington is ready to take off the kid gloves. The zombies need to go so that the economy and the equity market can exploit the otherwise attractive conditions for recovery now to be found.

The banks' importance for the equity market is greatly reduced



Problems with the supply of credit: not enough of Fed's stimuli have been transmitted to the economy



Source: Reuters Ecowin, Danske Markets Equities

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-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2008	-0,8	0,7	0,3	-1,7	0,3	3,5	5,8	3,4	1,8	3,0	30	1,7
	2009	-0,7	-1,1	1,6	-3,5	0,0	-0,3	-0,6	1,1	2,4	-0,5	29	1,4
	2010	0,5	1,5	1,6	-1,5	0,1	1,4	2,3	1,9	3,8	-1,0	27	1,6
Sweden	2008	0,5	0,6	0,9	3,0	-0,4	2,6	3,6	3,5	7,2	2,6	37	7,2
	2009	-1,7	-1,0	2,8	-7,0	-0,9	-2,9	-4,1	0,8	8,8	1,1	36	7,9
	2010	2,8	0,8	3,4	1,5	-0,1	3,4	1,1	1,2	9,0	0,1	35	8,8
Norway	2008	1,5	1,5	3,4	3,3	0,9	0,5	5,5	3,8	2,6	8,0	26	16,2
	2009	-0,3	0,1	4,0	-3,7	-0,1	0,3	1,4	2,3	3,7	12,0	26	26,9
	2010	1,8	1,9	4,3	0,8	0,0	1,6	2,3	2,7	4,1	13,9	26	27,0

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-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euroland	2008	1,0	0,3	1,5	1,5	-0,1	3,0	2,6	3,3	7,5	-1,8	67	-0,4
	2009	-0,7	0,5	2,0	-3,7	-0,4	-1,5	-1,1	0,9	8,5	-3,0	68	-0,1
	2010	1,2	1,1	1,8	-0,2	0,2	1,8	1,8	1,9	9,0	-3,1	68	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	6,4
	2009	-0,8	0,2	1,9	-4,0	-0,4	0,2	2,5	0,5	8,1	-1,5	63	6,0
	2010	1,2	1,2	1,9	1,5	0,2	4,0	4,5	1,3	8,7	-1,3	63	6,1
France	2008	0,8	0,8	1,4	0,5	0,0	2,0	1,8	3,3	7,8	-2,9	66	-1,6
	2009	-0,4	-0,4	1,6	-3,8	-0,3	-0,3	-0,4	0,7	8,2	-4,2	69	-1,4
	2010	1,5	1,6	1,4	2,1	0,2	2,9	2,9	1,6	8,7	-4,1	69	-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	-2,6
	2009	-0,6	0,2	1,2	-4,8	-0,3	-0,6	-0,9	1,0	8,2	-3,6	105	-2,1
	2010	0,6	0,3	1,0	2,0	0,2	2,0	2,4	1,9	8,5	-3,7	103	-2,5
Spain	2008	1,2	1,1	4,0	-2,5	0,0	3,2	0,7	4,4	11,0	-1,6	36	-10,0
	2009	-0,9	-0,4	4,5	-9,0	-0,4	3,5	-2,0	1,7	14,4	-2,9	38	-7,0
	2010	0,8	0,2	3,5	-3,0	0,2	5,5	2,5	2,3	15,0	-5,5	38	-6,0
Holland	2008	2,3	1,8	1,0	6,0	0,1	4,0	5,0	2,3	3,0	-2,9	45	7,2
	2009	-0,2	0,0	2,0	-2,0	-0,4	1,0	1,0	0,8	3,8	-3,3	47	7,0
	2010	0,9	0,5	1,7	2,0	0,2	3,5	3,2	1,7	4,2	-3,0	45	6,5
Finland	2008	2,2	3,2	1,5	0,0	0,0	4,5	2,0	4,0	6,3	3,2	33	3,0
	2009	0,3	2,0	1,7	-2,0	-0,1	2,1	2,4	1,4	7,0	2,4	32	2,5
	2010	1,2	1,8	1,3	1,7	0,0	4,8	5,0	1,6	7,0	1,9	32	2,5

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-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2008	1,3	0,3	2,8	-3,1	-0,3	7,5	-3,3	4,0	5,7	-3,2	62	-4,2
	2009	-0,5	-0,8	2,7	-7,3	0,1	-5,7	-7,7	0,2	8,0	-7,0	69	-2,4
	2010	2,4	2,6	2,8	3,5	0,3	2,4	5,8	2,4	8,5	-6,5	73	-4,7
Japan	2008	0,1	0,8	0,5	-3,8	0,0	4,9	0,6	1,6	4,1	-1,4	182	3,8
	2009	-0,7	0,7	0,8	-2,3	-0,1	-3,4	0,9	-0,6	4,4	-3,3	183	4,3
	2010	0,4	0,9	1,6	0,9	0,0	1,9	1,0	-0,5	4,4	-3,8	183	3,9
UK	2008	0,9	1,8	2,0	-3,3	-0,2	0,5	0,6	3,7	2,8	-2,5	50	-2,8
	2009	-0,9	-0,2	2,0	-0,2	0,0	-2,4	-0,5	1,7	3,8	-5,6	55	-2,6
	2010	1,2	1,6	1,0	2,2	0,0	3,6	4,3	1,9	5,0	-6,5	60	-1,8
Switzer-land	2008	1,8	1,9	-0,8	-0,2	-0,6	4,7	2,5	2,6	2,5	1,1	41	8,3
	2009	0,1	0,9	1,0	-2,7	0,4	1,4	2,9	1,3	2,9	0,1	40	9,4
	2010	1,4	1,2	1,3	1,3	0,1	3,3	3,7	1,3	3,3	-0,3	40	10,6

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	23-jan	0,13	1,41	2,71	128,3	-	580,6
	+3m	0,13	1,25	2,65	124	-	601
	+6m	0,13	1,35	3,40	124	-	602
	+12m	0,13	1,90	4,25	128	-	583
EUR	23-jan	2,00	2,20	3,64	-	128,3	745,3
	+3m	1,50	2,10	3,40	-	124	745,0
	+6m	1,50	2,30	3,60	-	124	746,0
	+12m	1,50	2,75	3,90	-	128	746,0
JPY	23-jan	0,10	0,74	1,21	113,3	88,3	6,58
	+3m	0,10	0,80	1,35	112	90	6,65
	+6m	0,10	0,80	1,60	117	94	6,38
	+12m	0,10	1,15	2,00	123	96	6,07
GBP	23-jan	1,50	2,11	3,72	93,9	136,8	794,1
	+3m	1,00	2,15	3,40	90,0	138	828
	+6m	1,00	2,10	3,50	88,0	141	848
	+12m	1,00	2,50	4,20	84,0	152	888
CHF	23-jan	0,50	0,91	2,47	149,2	116,2	499,5
	+3m	0,50	0,80	2,40	148	119	503
	+6m	0,50	1,00	2,45	150	121	497
	+12m	0,50	1,40	2,70	154	120	484
DKK	23-jan	3,00	3,12	3,87	745,3	580,6	-
	+3m	2,25	2,70	3,55	745,0	601	-
	+6m	2,25	2,90	3,75	746,0	602	-
	+12m	2,00	3,15	4,05	746,0	583	-
SEK	23-jan	2,00	1,70	3,24	1076,0	838,6	69,3
	+3m	1,50	1,55	3,20	1050	847	71,0
	+6m	1,00	1,65	3,40	1010	815	73,9
	+12m	1,00	2,20	3,85	960	750	77,7
NOK	23-jan	3,00	2,72	4,26	907,5	707,1	82,1
	+3m	2,50	2,70	4,00	910	734	81,9
	+6m	1,75	2,70	4,10	880	710	84,8
	+12m	1,75	3,20	4,50	850	664	87,8
PLN	23-jan	5,00	4,23	4,79	439,1	342,2	169,7
	+3m	3,75	4,70	5,00	419	338	178
	+6m	3,50	4,60	4,90	422	340	177
	+12m	3,00	4,50	4,80	425	332	176

Equity markets

Regional	Risk	Price trend 3 mth.	Price trend 12 mth.	Regional recommendations
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

	15-jan	2009				Average	
		Q1	Q2	Q3	Q3	2008	2009
ICE Brent	42	50	52	64	72	99	60
Aluminium	1.516	1.800	2.000	2.200	2.300	2.624	2.075
Copper	3.245	3.600	4.000	4.500	4.600	6.897	4.175
Nickel	10.725	12.000	12.000	14.000	15.000	22.135	13.250
Gold	819	810	820	820	820	872	818
CBOT Wheat*	564	580	620	660	700	804	640
CBOT Corn*	372	450	500	530	550	580	508

Key data and events (1)

Monday, January 26, 2009

			Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Caterpillar Inc., Texas Instruments, American Express Co., Halliburton Co.				
9:30	SEK	Trade balance	SEK bn	7.5		6.1
10:45	NOK	Fiscal stimuli package				
16:00	USD	Existing home sales	m	4.49 (0.0%)	4.40 (-2.0%)	4.49 (-8.6%)
16:00	USD	Leading indicator	Dec		-0.3%	-0.4%

Tuesday, January 27, 2009

			Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Nomura Holdings Inc, Siemens AG, E*Trade Financial Corp, Norfolk Financial Corp				
-	OTH	Earnings: United States Steel Corp, Sun Microsystems Inc, Lexmark International Inc				
0:50	JPY	BoJ Board Minutes				
1:30	AUD	NAB business confidence	Index			-30
9:30	ITL	Consumer confidence	Index			99.6
9:30	SEK	PPI (incl. export- and importprices)	m/m/y/y		-0.2% 4.4%	0.7% 4.6%
10:00	EUR	Balance of payments	EUR bn			-6.4
10:00	DEM	IFO-indicator	Index	81.4	81.0	82.6
10:00	CHF	Consumption indicator	Dec	0.700		0.963
10:00	DEM	IFO-indicator, expectations	Index	78.0		76.8
12:00	GBP	CBI Distributive Trades Report	Jan			
16:00	USD	Consumer confidence	Index	40	38.9	38.0

Wednesday, January 28, 2009

			Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Boieng Co, Wells Fargo & Co, AT&T Inc, ConocoPhillips, Canon Inc, Pfizer Inc				
1:30	AUD	CPI	q/q/y/y	4th quarter	-0.4% 3.6%	1.2% 5.0%
8:10	DEM	GfK Consumer Confidence	Index	Feb	1.9	2.1
8:45	FRF	Consumer confidence	Index	Jan	-45	-44
9:30	ITL	Business confidence	Index	Jan	65.0	66.6
9:30	SEK	Retail sales	m/m/y/y	Dec	-1.5%	-0.4% -0.6%
10:00	NOK	Unemployment s.a. (LFS)	%	Nov	2.8	2.7
11:30	CHF	KOF Swiss leading indicator	Index	Jan	-1.00	-0.58
13:00	USD	MBA Mortgage Applications				
20:15	USD	FOMC meeting		0-0.25%	0-0.25%	0-0.25%
21:00	NZD	Reserve Bank of New Zealand (cash rate decision)	Jan	4.00%	4.00%	5.00%

Thursday, January 29, 2009

			Period	Danske Bank	Consensus	Previous
-	DKK	Business confidence manufacturing	Index	Jan	-25	-22
-	OTH	Earnings: Sony Corp, 3M Co, Eli Lilly & Co, Ford Motor Co, Royal Dutch Shell PLC, Amazon.com Inc				
0:50	JPY	Retail trade	m/m/y/y	Dec	-0.8% -1.6%	-0.1% -0.9%
9:30	SEK	Consumer confidence	Index	Jan	-22	-23.4
9:30	DKK	Unemployment, s.a.	%	Dec	2.0	1.9
9:30	SEK	NIER's Business survey, qtr 4		4th quarter	-35	-19
9:55	DEM	Unemployment rate	%	Dec	7.6	7.6
10:00	EUR	M3 Money supply	y/y	Dec		
11:00	EUR	Consumer confidence	Index	Jan	-31	-30
11:00	EUR	Industrial confidence	Index	Jan	-35	-33
14:30	USD	Initial jobless claims	1000			
14:30	USD	Durable goods orders	m/m	Dec	-2.0%	-1.5%
16:00	USD	New home sales	1000	Dec	392 (-3.6%)	400 (-1.7%)
						407 (-2.9%)

Key data and events (2)

Friday, January 30, 2009			Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales, real s.a.	m/m/y/y		1.0%	0.7% -3.0%
-	OTH	Earnings: Honda Motor Co Ltd, Exxon Mobile Corp				
0:15	JPY	Nomura/JMMA Manufacturing PMI	Index			30.8
0:30	JPY	Jobless Rate	%		4.1	3.9
0:30	JPY	Job-to-applicant ratio			0.73	0.76
0:30	JPY	Household Spending	y/y		-3.6%	-0.5%
0:30	JPY	CPI - Tokyo	y/y		0.6%	0.7%
0:30	JPY	CPI - Tokyo Ex Fresh Food	y/y		0.6%	0.8%
0:30	JPY	CPI - National	y/y		0.4%	1.0%
0:30	JPY	CPI - National Ex. Fresh Food	y/y		0.3%	1.0%
0:50	JPY	Industrial production, preliminary	m/m/y/y		-9.0% -20.0%	-8.5% -16.6%
1:01	GBP	Gfk Consumer confidence	Index		-34	-33
6:00	JPY	Housing starts	y/y			0.0%
9:00	ESP	Inflation (HICP), preliminary	m/m/y/y			.. 1.5%
9:30	SEK	Wages (blue collars/white collars)	y/y			
10:00	NOK	Norges Bank purchase of foreign currency	mn.		250	0
10:00	NOK	Retail sales, s.a.	m/m/y/y	0.3% 0.7%	-1.0% -0.6%	0.8% -0.6%
10:30	GBP	Net Consumer Credit	GBP bn		0.7	0.8
10:30	GBP	Mortgage Approvals	1000		27	27
11:00	EUR	CPI Flash estimate	y/y		1.3%	1.4%
11:00	EUR	Unemployment	%		7.9	7.8
14:30	USD	GDP	q/q ann.	4th quarter	-6.5%	-5.0%
14:30	USD	Personal Consumption	q/q ann.	4th quarter	-3.6%	-3.8%
14:30	USD	GDP Price Deflator		4th quarter		0.4%
14:30	CAD	GDP	m/m	Nov		-0.1%
16:00	USD	Chicago PMI	Index	Jan	36	34.2
16:00	USD	University of Michigan Confidence, final	Index	Jan	62	61.9

During the week			Period	Danske Bank	Consensus	Previous
Mon 26 - 30	GBP	Nationwide House Prices	m/m/y/y		-1.8% -16.7%	-2.5% -15.9%
Tue 27 - 30	DEM	Inflation (HICP), preliminary	m/m y/y		-0.2% 1.2%	0.4% 1.1%
Wed 28 - 30	CNY	Leading Index	Index			96.76

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