Weekly Focus

27 March – 3 April 2009

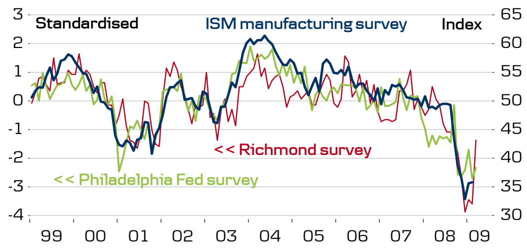
Spring is coming

The past week offered a bit more encouraging news on the macro front, which suggests that we may indeed be moving slowly away from the abyss. Starting in the US both existing home sales, house prices and durable goods orders delivered positive surprises. The regional business survey from Richmond also showed a marked increase which may be a pre-warning of a more marked turnaround in ISM soon. Other regional surveys have delivered a more mixed message, though, which means the rise in Richmond should be taken with a grain of salt. But overall the signs are well in line with our expectation of a recovery in ISM over the next 3-6 months as inventories have reached very low levels and demand is starting to improve slowly.

Even in Euroland Flash PMI for March surprised to the upside as it managed to rise. The most encouraging point was a quite strong rise in the order-inventory balance which tends to lead actual production. The ifo expectations index – another good leading indicator – also rose for the third month in a row. Next week PMI data is released globally and we will follow up on these in our *Monitor: Global Business Cycle Watch*.

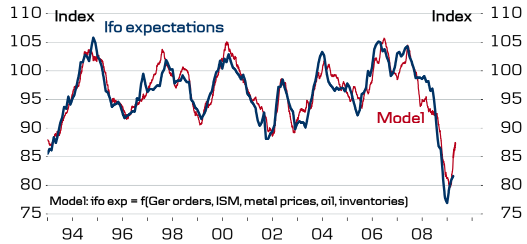
As data improves it will become more tricky for central banks to do more quantitative easing. We still think the situation is dire enough for ECB to deliver a 50bp cut next week and also see a likelihood of some kind of "credit easing" in May or June. But the window for further easing will likely close during the summer months. Since easing from central banks has been a key factor for the low government bond yields, it will put more upward pressure on bond yields if central banks start to signal that they will step to the sideline to see how the stimulus works through the economy. Not least given the still very heavy supply coming to the market which may find it more difficult to find a home.

ISM recovery likely in coming months



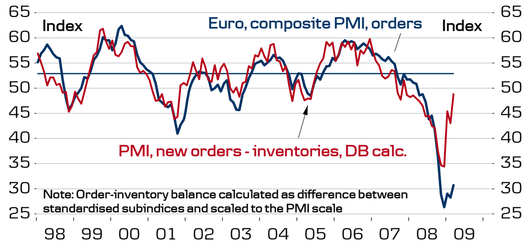
Source: Reuters Ecowin

Ifo expectations up – and model point to further rises in the pipeline



Source: Reuters Ecowin

Euro PMI rising



Source: Reuters Ecowin

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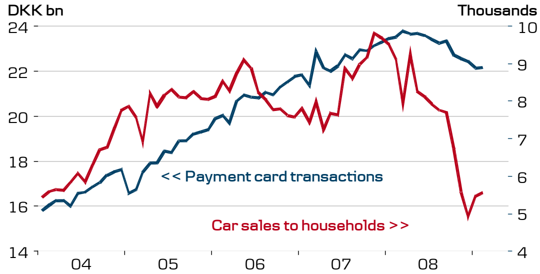
Nascent signs of stabilisation?

In spite of the sharp rise in unemployment in February, the outlook seems to be brightening a bit, with more positive news emerging than we have got used to in recent months.

The past week has seen the first tentative signs of consumer spending beginning to bottom out, as the value of Dankort payment card transactions was unchanged from January to February and car sales edged up slightly. True, both of these developments were subdued, starting out from very low levels, and we all know that one swallow does not make a summer. But stabilisation has got to start somewhere, and it might well be consumer spending. Private consumption has indeed received a helping hand this year. Short interest rates have plummeted since December 2008 and look likely to decline again in the coming week if the ECB cuts its benchmark rates by 50bp as expected and the Danish central bank, the NB, follows suit, narrowing the rate spread to the eurozone by another 25bp. That would take the Danish key interest rate down to 1.5% – its lowest level since the NB was created in 1818. Consumer spending is also being supported by the tax cuts worth almost DKK5bn introduced as of 1 January 2009. And, of course, lower inflation and still decent wage increases are also having an impact. Danish consumers have indeed become very cautious, so consumer spending has dropped to a very low level, but it no longer seems to be plummeting as it has done over the past year. This is good news amidst the current gloom and doom.

The coming week will make us wiser about the development in consumer spending, when retails sales data are published. Retail sales rose in January, and although we look for a modest decline in February, there should be no cause for alarm.

First signs of spring



Source: Statistics Denmark

Key events of the week ahead

- Quite a few data releases are due in the coming week. Tuesday will see the release of business confidence data for manufacturing, services and small- and medium-sized enterprises. We expect a modest improvement in manufacturing confidence. Moreover, it will be interesting to see the revised Q4 GDP numbers, which are also due in the week ahead.
- We will also keep an eye on the retail sales and industrial production data due out in the coming week, although the most exciting data release will no doubt be the central bank's rate decision on Thursday.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 31	9:30	DKK	GDP, final	q/q|y/y	4th quarter			-2.0%|-3.9%
Tue 31	9:30	DKK	Confidence indicator, industry	Index	Mar			-34
Wed 01	9:30	DKK	Retail sales, volume	m/m|y/y	Feb	-0.25%| ..		1.3%|-6.1%
Wed 01	11:00	DKK	Danish PMI	Index	Mar			26.5
Thu 02	16:00	DKK	Currency reserves	DKK bn	Mar			235.7
Fri 03	9:30	DKK	Industrial production	m/m	Feb			-1.8%

Sweden

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New National Institute for Economic Research forecasts

Despite its being consistently "behind the curve" in terms of forecast accuracy over the past two years, we still hold the NIER (National Institute for Economic Research) in high esteem as possessing the most thorough and detailed knowledge of data and substantial econometrical capabilities.

Given the current unique global and Swedish economic situations, the institute's insights are especially valuable, particularly regarding its assessment of the most appropriate monetary policy response at this time. Early indications seem to show that the NIER will not suggest any unconventional measures. However, we feel they may be necessary in order to prevent deflation risks getting out of control.

Any indications suggesting the possibility of more unconventional measures should be taken very seriously. Certainly, such moves will have been thoroughly communicated to the Riksbank beforehand.

NIER December forecast (Aug f/c)

	2008	2009	2010
GDP	**0,8** (1,2)	**-0,9** (-0,1)	**1,9** (2,2)
Employment	**1,0** (1,0)	**-2,0** (-1,5)	**-1,1** (-0,6)
CPIF	**2,7** (2,8)	**1,1** (2,1)	**0,7** (1,6)
Repo rate (year-end)	**2,0** (3,25)	**1,0** (2,0)	**1,0** (2,0)
Public savings (% of GDP)	**2,2**	**-1,3**	**-2,5**

Source: ***National Institute for Economic Research***

Key events in the week ahead

- The Economic tendency survey (including business and household confidence) will be published by the NIER in conjunction with its new forecasts for the Swedish economy.
- The Swedish PMI survey for March will be presented.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Tue 31	9:00	SEK	Consumer confidence	Index	Mar	**-14.0**		-14.6
Tue 31	9:30	SEK	Manufacturing Confidence	Index	Mar	**-35**		-35
Wed 01	8:30	SEK	PMI	Index	Mar	**34.0**		33.9

Norway

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Spend or save?

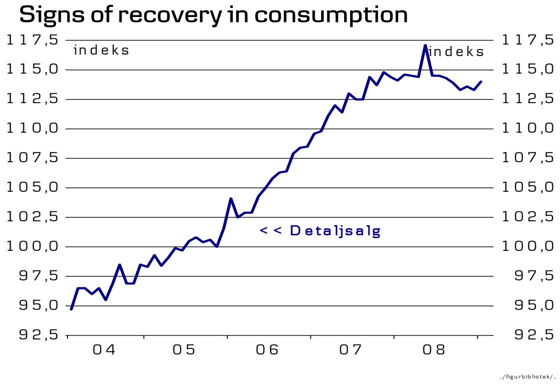
Norges Bank took most people by surprise by indicating that its key policy rate, the sight deposit rate, could drop down towards 1% towards the end of the year. As usual, the bank's interest rate path is based on its view of the medium-term outlook for growth and inflation. In line with most forecasters, Norges Bank now anticipates a contraction in the Norwegian economy this year.

Uncertainty about economic developments is now extreme, as Norges Bank points out in the monetary policy report. However, it may be interesting to look more closely at how sensitive the interest rate projections are to moderate changes in economic parameters. For example, Norges Bank presented an alternative interest rate path where private consumption reacts more strongly than in the baseline scenario. In this alternative scenario, mainland growth is 0.5pp higher than in the baseline scenario for 2009, which would probably require 1-1.5pp higher growth in private consumption. According to the bank, interest rates would then bottom out at around 1.75% in June, 75bp higher than in the baseline scenario.

In the baseline scenario, Norges Bank assumes that the whole of the rise in household real disposable income in 2009 (this is not specified, but Statistics Norway is predicting around 5%) is used to increase saving, resulting in zero growth in consumption. Obviously an assumption like this about saving behaviour is extremely uncertain, and our intention is merely to illustrate how sensitive the interest rate path is to such assumptions.

The most important economic data in the coming week will therefore be the retail sales figures for February. After a weak autumn, there was a strong rebound in January, driven by fantastic sales of sporting equipment. We expect the trend towards higher spending to continue and predict growth in retail sales of 0.3% m/m.

Signs of recovery in consumption



Source: EcoWin

Key events of the week ahead

- Monday brings retail sales figures for February. We predict growth of 0.3% m/m.
- We forecast credit growth fell to 9.4% in February.
- We expect the PMI to bounce back to 37.5 in March.
- Registered unemployment continues to climb. We look for a rate of 2.9% in March.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 30	10:00	NOK	Retail sales, s.a.	m/m|y/y	Feb	**0.3%|-0.2%**		1.1%|0.6%
Tue 31	10:00	NOK	Credit indicator (C2)	y/y	Feb	**9.4%**		9.7%
Thu 02	9:00	NOK	PMI	Index	Mar	**37.5**		36.4
Thu 02	10:00	NOK	Unemployment s.a. (LFS)	%	Mar	**2.9**		2.7

Euroland

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Positive signals from PMI and Ifo

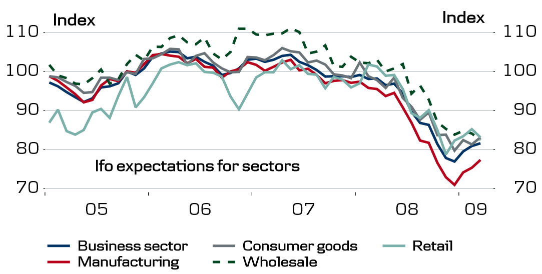
This week we got positive signals from both Euroland PMI and German Ifo. The data gives support to other signals of a global manufacturing recovery during spring and summer. The data still points to negative GDP growth but confirms that some stabilisation will take place during the coming quarters.

Euroland PMI surprised to the upside with the composite PMI rising in March, while consensus expectations were for Euroland PMI to be unchanged. The details were also positive as the order-inventory balance increased further, pointing to more improvement in the coming months.

The German Ifo index fell again in March, but the expectations index rose for the third month in a row, which confirms the positive signs that we also got from the German ZEW indicator last week. The expectations index is the most interesting part of the index, as it is a good leading indicator. It comes from a very low level, though, and still points to negative growth. The Ifo current conditions index fell as expected, but the current condition index tends to be a lagging indicator and is as such not that interesting. Looking ahead we expect ifo to improve slowly over the coming year.

Despite the less negative readings for the PMI and Ifo they still indicate that the crisis will continue for a long time and further action from the ECB is still needed. We continue to look for a 50bp cut to 1.0% on Thursday. After that there is a high probability that ECB will follow up with credit easing through a further expansion of eligible collateral and/or buying of commercial paper. The window for further easing likely closes around summer as more signs of improvement in the global economy will have arrived by then. The gradual rise in surveys is expected to put upward pressure on yields over coming months and quarters.

Positive signals from Ifo expectations



Source: EcoWin

This week's events

- Main event is *ECB meeting* Thursday. We look for a 50bp cut in line with the consensus.
- Euroland *Flash CPI* – due out Tuesday – is expected to fall below 1% for the first time in 10 years, but this is mainly due to base effects from lower oil prices.
- Other data releases are *final PMI* and euro-zone *unemployment rate*.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Mon 30 - 05	-	DEM	Retail sales, real s.a.	m/m|y/y	Feb		-0.2%| ..	-0.9%|-1.3%
Mon 30	9:00	ESP	Inflation (HICP), preliminary	m/m|y/y	Mar			
Mon 30	11:00	EUR	Consumer confidence	Net balanc	Mar	-33	-33	-33
Mon 30	11:00	EUR	Economic Confidence	Index	Mar	65.6	65.8	65.4
Mon 30	11:00	EUR	Business confidence	Net balanc	Mar	-36	-35	-36
Tue 31	9:50	DEM	Unemployment rate	%	Mar	8.0	8.0	7.9
Tue 31	11:00	EUR	CPI Flash estimate	m/m|y/y	Mar	..|0.6%	.. | 0.9%	.. | 1.2%
Tue 31	11:00	ITL	Inflation (HICP), preliminary	m/m|y/y	Mar		1.2%|1.1%	0.2%|1.5%
Wed 01	9:50	FRF	PMI Manufacturing, final	Index	Mar	36.3	36.3	36.3
Wed 01	9:55	DEM	PMI Manufacturing, final	Index	Mar	32.4	32.4	32.4
Wed 01	10:00	EUR	Unemployment	%	Feb	8.3	8.3	8.2
Wed 01	10:00	EUR	PMI Manufacturing, final	Index	Mar	34.0	34.0	34.0
Thu 02	13:45	EUR	ECB Announces Interest Rates	%		1.00	1.00	1.50
Thu 02	14:30	EUR	ECB Press Conference					
Fri 03	9:50	FRF	PMI Services, final	Index	Mar	42.9	42.9	42.9
Fri 03	9:55	DEM	PMI Services, final	Index	Mar	41.7	41.7	41.7
Fri 03	10:00	EUR	PMI Services, final	Index	Mar	40.1	40.1	40.1

Switzerland

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Consensus on economic outlook

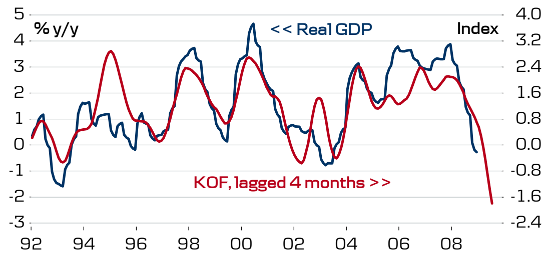
The market has gradually come to fully discount a markedly weaker growth profile for the Swiss economy, and the past week saw the last of the big forecasters, the KOF institute, revising its projections sharply down. Rather than a drop in real GDP of 0.5% in 2009, it now anticipates contraction of 2.4%, closely in line with the recently downgraded forecasts from the Swiss National Bank and the Swiss government (SECO).

The KOF's leading indicator published on Friday also confirmed the expected sharp slowdown in growth. The index fell from -1.37 to -1.79, the lowest since its launch in 1991 and consistent with a drop in real GDP of more than 2% y/y by mid 2009.

However, the market's main focus will remain on messages from the SNB. While the recently published quarterly bulletin elaborated on the bank's view of the Swiss economy and the reasons for the easing of monetary policy at its March meeting, it did not offer a great deal of new information. The SNB is still signalling – particularly through its inflation forecast – that monetary policy will be kept highly expansionary for some time to come, and governor Jean-Pierre Roth took the opportunity once again during the week to stress that the bank will still intervene to counter potential appreciation of the CHF.

EUR/CHF is still trading mainly above 1.52, and we expect the SNB to keep a ceiling over the CHF around this level. We therefore expect the SNB to continue to communicate an intention to stamp on any CHF strengthening. The next scheduled SNB speech is on Thursday when Philipp Hildebrand speaks in Berne.

KOF leading indicator hits new low



Source: Reuters EcoWin

Key events of the week ahead

- Thursday, 10.00 CET: Philipp Hildebrand speaks in Berne. Attention continues to centre on any comments concerning the SNB's intervention in the FX market.
- Friday, 09.15 CET: Inflation figures for March. The consensus expectation is a decrease in inflation to 0%, but a further decrease is already discounted in the market, and the SNB itself is predicting a rate of -0.5% this year.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 31	10:00	CHF	UBS consumption indicator	Index	Feb			0.985
Wed 01	9:30	CHF	PMI	Index	Mar			32.6
Thu 02	10:00	CHF	SNB's Hildebrand speaks in Bern					
Fri 03	9:15	CHF	CPI	m/m|y/y	Mar			0.2%|0.2%

UK

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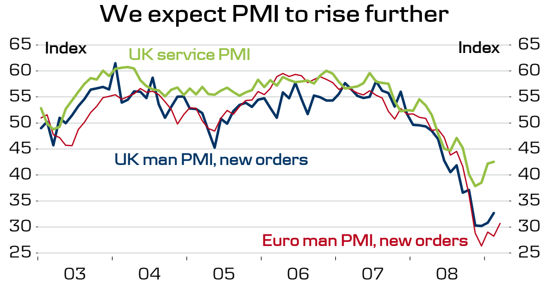
Pressure on UK bonds likely to continue

The big surprise over the past week was a rise in inflation in February to 3.2% from 3.0% in January. Consensus had expected a decline to 2.6%. The disappointment was mainly due to a rise in core inflation from 1.3% to 1.6%. The rise is probably related to the heavy discounts that took place in December and January. Core inflation dropped very strongly in these months and the rebound in February is probably more a 'normalisation' of prices. This pattern fits well with the retail sales data also out last week. After showing nice gains in December and January, retail sales slipped back in February. Consumers seem to have responded to the discounts by increasing spending and now that prices have normalised, spending has fallen back again. The good news in this is that it probably means retailers have been reducing inventories. Production has fallen very steeply while demand has stabilised slightly. Now that inventories have been drawn down, the production decline is likely to taper off. This should lead to a recovery in surveys such as PMI which measure the change in production rather than the level. This is also what we saw in Euroland in the past week where the inventory index fell further while new orders recovered further. Next week we expect to see a similar rise in UK PMI. Data for home loan approvals from BBA this week showed an increase for the third month in a row. This may be an early sign of a stabilisation in the housing market as also suggested by some other indicators – for example the RICS housing survey.

The inflation data stoked fears that the weak GBP was fuelling inflation through higher import prices. This triggered a sell-off in the UK gilt market sending bond yields higher. On Wednesday a 40-year UK gilt auction failed as it fell short of finding enough buyers. It was the first failed auction in seven years. The CEO of the Debt Management Office said that "yields at these levels, especially at the long end, are not all that attractive to pension funds…it could be that yields may need to adjust accordingly". We very much agree that yields at these levels are not attractive for pension funds – or for any other investor. It is becoming evident that yields in the US and the UK are kept artificially low by Fed and BoE and the day they stop buying everyone knows that yields will have to go higher. We believe UK yields will have to rise further over the coming quarters – also as a consequence of better growth signals globally.

In the currency market EUR/GBP continues to trade around 94 and is likely to do so in the short term. In the longer term, we still believe it is a very asymmetric game, though, and expect EUR/GBP to fall. When surveys turn better and BoE stops quantitative easing, it should take some of the pressure off the GBP.

We expect PMI to rise further



Source: Ecowin

This week's events

- Tuesday: Mortgage approvals expected to rise and give tentative signs of stabilisation in home sales.
- Wednesday: PMI manufacturing is expected to rise to 35.3 in March from 34.7 in February.
- Friday: PMI service is expected to rise to 44 from 43.2.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 30	10:30	GBP	Mortgage approvals	'000	Feb		*34*	31
Tue 31	1:01	GBP	Gfk Consumer confidence	Index	Mar		*-36*	-35
Wed 01 - 09	-	GBP	HBOS House Prices	m/m|3M/y	Mar		*-1.8%|-17.4%*	-2.3%|-17.7%
Wed 01	10:30	GBP	PMI Manufacturing	Index	Mar	**35.3**	*35.0*	34.7
Thu 02	10:30	GBP	PMI Construction	Index	Mar		*27.8*	27.8
Fri 03	10:30	GBP	PMI Services	Index	Mar	**44.0**	*43.5*	43.2

USA

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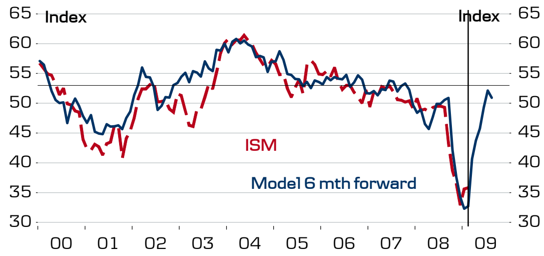
Geithner's plan offers real incentive for private investors

Treasury Secretary Timothy Geithner revealed more about the Obama administration's plan to restore financial stability during the week. He announced details of a key part of the plan, the Public-Private Investment Program (PPIP), which aims to get toxic assets and bad real estate loans off the balance sheets of banks and other financial institutions. When the plan was first unveiled back in February, the Treasury Secretary was heavily criticised for not providing enough information on how the PPIP in particular would be implemented, including how private investors would be attracted to the programme. Based on the information presented during the week, we believe that private investors have a real incentive to put capital into the public-private investment funds.

The PPIP is divided into a number of parts (see *Flash Comment – USA: More details of financial rescue plan*), but the common denominator for the design of the various investment funds is that it is the government that takes the greatest risk. The idea is that the government and private investors inject equal amounts of capital into the funds, and the government then leverages this capital by issuing non-recourse loans secured against the fund's assets. The unique aspect of non-recourse loans is that, in the event of default, the lender can take over the asset put up as security for the loan, but does not have the right to any further compensation if the value of the asset is not enough to cover the loan. As we see it, the greatest challenge therefore lies not in attracting private capital into the funds but in getting the banks to sell their bad loans and assets on to the funds. We are cautiously optimistic and believe that the programme will ultimately prove an important factor in the normalisation of credit markets.

The coming week brings two of the most important economic releases in the US: the ISM survey and the employment report for March. The regional PMI indices have been a mixed bag, but, taking into account the underlying improvement we anticipate, we expect the ISM index to rise from 35.8 to 36.5. This level is still consistent with marked negative growth rates in the economy in Q1. Given the sharp contraction of the economy, the labour market has been under immense pressure, and this picture is expected to continue in the March employment report. We predict a decrease in employment of 630,000 and an increase in unemployment from 8.1% to 8.4%. Thus employment is continuing to fall rapidly, but at a decreasing rate, and we expect the decline to become gradually more moderate in the coming months.

We predict a further rise in ISM



Source: EcoWin and Danske Bank

Key events of the week ahead

- Tuesday: Conference Board consumer confidence.
- Wednesday: ISM for the manufacturing sector, ADP data and auto sales for March.
- Friday: Employment report and non manufacturing ISM.
- Speeches from several FOMC members, the most important coming from Ben Bernanke on Friday. Also keep an eye on the G20 summit on Thursday.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 31	15:00	USD	Fed's Stern (non-voter, hawk) speaks					
Tue 31	15:45	USD	Chicago PMI	Index	Mar		*34.5*	34.2
Tue 31	16:00	USD	Consumer confidence	Index	Mar	**29.0**	*28.0*	25.0
Tue 31	19:00	USD	Fed's Plosser (non-voter, hawk) speaks					
Wed 01	-	USD	Total Vehicle Sales	m	Mar		*9.3*	9.1
Wed 01	13:00	USD	MBA mortgage applications					32.2%
Wed 01	16:00	USD	ISM	Index	Mar	**36.5**	*35.5*	35.8
Wed 01	16:00	USD	ISM prices paid	Index	Mar		*32.5*	29.0
Wed 01	16:00	USD	Pending home sales	m/m	Feb		*-1.6%*	-7.7%
Wed 01	16:00	USD	Construction spending	m/m	Feb		*-2.0%*	-3.3%
Thu 02	14:30	USD	Initial jobless claims	1000				652
Thu 02	16:00	USD	Factory Orders	m/m	Feb		*-1.3%*	-1.9%
Fri 03	14:30	USD	Nonfarm payroll	1000	Mar	**-630**	*-657*	-651
Fri 03	14:30	USD	Unemployment	%	Mar	**8.4**	*8.5*	8.1
Fri 03	14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Mar		*0.2%|..*	0.2%|3.6%
Fri 03	16:00	USD	ISM non-manufacturing	Index	Mar	**42.5**	*41.9*	41.6
Fri 03	18:00	USD	Fed's Bernanke (voter, neutral) speaks					

Asia

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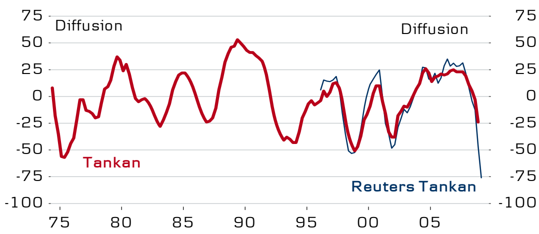
China hedging its bets at G20 summit

China's goal for the G20 summit in London on Thursday will be to begin a process which fundamentally reforms the international financial system. In this respect China is effectively hedging its bets at present. On the one hand, China is paving the way for an international financial system where a reformed IMF in which China wields greater influence is restored to a more central role in the international financial system. Chairman of the People's Bank of China Zhou Xiaochuan's controversial proposal to replace the USD with a new international currency (logically the IMF's SDR) as international reserve currency can be viewed as a step in this direction. Unlike Japan and the EU, China has yet to announce how much it will help to increase the IMF's resources, mainly because China is calling for more influence in the IMF in return for more loans to it. On the other hand, China and Asia's bargaining position is currently being boosted by them having launched a parallel process in the form of the Chiang Mai Initiative, which is the first step towards an independent Asian monetary fund. The CMI is ultimately an expression of Asian dissatisfaction with the IMF in its current form, and of the region currently having the resources to go its own way should it feel the need. The recently announced reforms of the IMF's loan facilities are largely an attempt to counter Asian criticism of the fund.

In Japan, the coming week will see a sharp focus on the release of the Bank of Japan's Tankan business confidence survey for Q1. The main index for large manufacturing enterprises will probably fall to its lowest-ever level in the wake of the collapse in Japanese manufacturing exports (see chart). We expect the decline in business confidence to have been much less pronounced in the service sector, and expectations for the coming quarter will probably also be slightly less negative. Although financial markets have traditionally attached considerable importance to the Tankan, there will probably be more real new information in the industrial production figures for February and manufacturing PMI also released during the week. Here we expect the picture to show a degree of stabilisation. There is particular reason to keep an eye on the production plans for March and April published together with the industrial production figures, as these tend to be a good indicator for future output. The provisional production plans for March showed that, for the first time in many months, Japanese manufacturers are planning to increase production in March. We expect industrial production to edge up in Q2 from the painfully low levels of Q1, partly because the motor industry is stepping up production again slightly after bringing stocks down to more sensible levels.

Tankan for large manufacturing enterprises



Source: Reuters Ecowin

Key events of the week ahead

- In China, we expect the CLSA and NBS PMIs for the manufacturing sector to show that the improvement in the Chinese economy has continued into March.
- In Japan, we expect the figures for industrial production on Monday and the Nomura/JMMA PMI for the manufacturing sector on Tuesday to show the first slight signs of stabilisation in industry. The Tankan for Q1 on Friday may very well drop to its lowest level ever.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Mon 30	1:50	JPY	Industrial production, preliminary	m/m|y/y	Feb	**-8.5%| ..**	*-9.1%| ..*	-10.2%|-31.0%
Tue 31	1:15	JPY	Nomura/JMMA Manufacturing PMI	Index	Mar	**33.0**		31.6
Tue 31	1:30	JPY	Household Spending	y/y	Feb		*-4.7%*	-5.9%
Tue 31	1:30	JPY	Jobless Rate	%	Feb	**4.4**	*4.3*	4.1
Tue 31	1:30	JPY	Job-to-applicant ratio		Feb		*0.64*	0.67
Tue 31	7:00	JPY	Housing starts	y/y	Feb		*-17.6%*	-18.7%
Tue 31	7:00	JPY	Small business confidence	Index	Mar			25.0
Wed 01 - 07	-	JPY	Official Reserve Assets	b.. USD	Apr			1009.4
Wed 01	1:50	JPY	Tankan Large Manufacturers Index	Index	1st quarter	**-58**	*-55*	-24
Wed 01	1:50	JPY	Tankan Large Manufacturers Outlook	Index	1st quarter	**-51**	*-52*	-36
Thu 02	1:50	JPY	Monetary Base	y/y	Mar			6.4%

Fixed income

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Rate cut but no quantitative easing from ECB

German yields are currently being driven mainly by movements in US yields and equity markets, as shown in the chart below left. The close link between Danish and German yields means that much the same factors are governing long Danish yields at present, and this will probably remain the case in the week ahead.

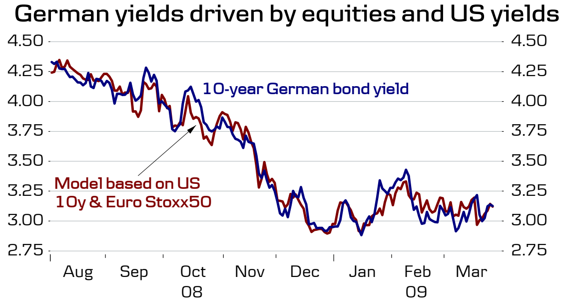
In Euroland, focus will be on the inflation figures for March and, not least, the ECB meeting on Thursday. There is a broad consensus that the ECB will cut the refi rate by 50bp, but there is disagreement about the deposit rate. We expect the ECB to lower it to 0.25%, but neither an unchanged 0.5% nor a zero rate can be ruled out. The ECB may, for example, choose to reduce the deposit rate to zero but keep the overnight market rate higher, say around 0.25%. Since the ECB has allowed the overnight market rate to fall considerably below the refi rate, the deposit rate has been much more important than before, forming a floor under the overnight market rate. The drop in overnight market rates has helped to pull down money market rates like the 3M EURIBOR.

We expect this week's rate cut to be the last from the ECB, but the bank will undoubtedly stress that interest rates will remain low for a very long time, and we do not expect the actual interest rate decision to have any major impact on long-term yields. Instead the focus will be on the issue of quantitative easing of monetary policy in Euroland. We do not expect any quantitative easing from the ECB on Thursday, but Jean-Claude Trichet will doubtless be bombarded with questions about quantitative easing at the press conference, with his answers being analysed to the nth degree. Besides rate cuts, another possibility is a lengthening of the ECB's refinancing operations, perhaps to 12 months with full allotment.

Back home in Denmark, the Nationalbank will cut its benchmark rate 25bp further than the ECB cuts the refi rate, whatever the ECB does. Currency is flooding into the Nationalbank's FX reserves, which have now been restored after last year's big outflows. There is therefore scope for narrowing the policy rate spread to Euroland on Thursday. If the influx of currency continues, further narrowing in May can definitely not be ruled out. Short money market rates like the 3M CIBOR are expected to fall significantly in the Nationalbank's wake.

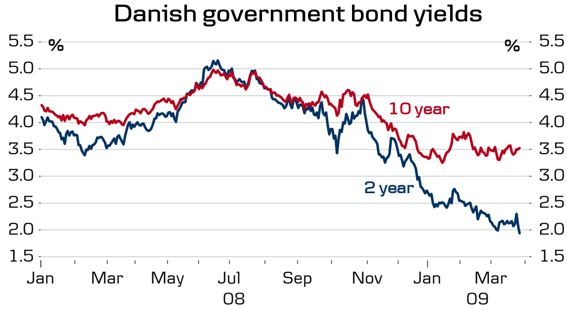
In the US, there are a couple of heavyweights on the agenda in the form of the ISM survey and the employment report. We anticipate healthy recovery in the ISM index in the coming months, but it will probably only edge up in March. In the longer term, recovery in business confidence indicators like the ISM are crucial to our expectation of higher yields. The ISM will be one of the first places where we see the light at the end of the tunnel. The situation in the labour market, however, is still utterly bleak, with big falls in employment and rapidly rising unemployment.

German yields driven by equities and US yields



Source: EcoWin

Danish government bond yields



Source: EcoWin

Foreign exchange

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Passing the buck

One of the biggest exogenous influences on exchange rates right now is coming from the side effects of the quantitative easing now in full swing at a number of central banks. The markets are nervous that the Fed, BoE, SNB, BoJ and maybe even the BoC and the Riksbank in Sweden will flood the markets with their own currency in order to provide the greatest possible monetary policy stimulus. A weaker currency boosts competitiveness and is therefore, if not desirable, at least not entirely undesirable at a time when inflation fears have temporarily been pushed into the background. The result could be 'competitive devaluation', where central banks simply pass the buck to one another. The People's Bank of China, which is miles away from printing money to buy up government bonds and sits on the world's largest holdings of US assets, is understandably nervous about its huge reserves falling in value, and this was one of the big stories of the week. Its proposal to reshape global currency reserves in line with the IMF's special drawing rights (SDR) basket, where the USD's share is 'only' 44%, would trigger massive sales of USD and could send the USD into freefall. Sensitivity to this was seen on Wednesday when US Treasury Secretary Timothy Geithner was misquoted as saying that he was "open to the idea", which immediately caused the USD to fall by around 1% against other major currencies. We think it unlikely that the USD will lose its status as the world's preferred reserve currency in the short or medium term, but in the very long term there is nothing that automatically guarantees or fundamentally requires that no less than two-thirds of the world's reserves should be printed in the "*money factory*".

Turning to incoming data, there are a few releases in the coming week that investors with FX exposure could usefully keep an eye on. The markets are currently on the lookout for signs of a turnaround both financially and economically, and the global confidence indicators published on Monday and Tuesday could provide a taste of consumers' take on the future and so their future propensity to consume. We expect to see a break with the recent negative trend in the US, while confidence among European consumers is set to remain at rock bottom, so this may well push the USD/DKK slightly higher. Early on Wednesday we will see possibly the bleakest Tankan report for many years, probably painting an almost depression-like picture of a Japanese economy where exports have nose-dived and output has virtually collapsed. A really bad Tankan could send the JPY down, and we expect the JPY/DKK to settle into trading below 5.50 going forward. Thursday is all about the central banks, with the ECB expected to cut its benchmark rate by 50bp to 1.0% and the Nationalbank in Denmark responding with a 75bp cut to 1.50%, so further narrowing the policy rate spread. We expect the ECB to stick to its relatively soft rhetoric, but as usual there will be no commitment to further action. We see a good chance of the EUR running into stormy weather immediately after the interest rate decision and, not least, the ensuing press conference, where it is unlikely that Jean-Claude Trichet will be very hawkish, having just cut interest rates to their lowest level in the ECB's history, and the growth outlook being anything but encouraging. The Nationalbank, on the other hand, will not comment on its rate cut, which follows another month of solid inflows into its FX reserves. The bank's governor, Torben Nielsen, said on 18 March that the bank would like to get its FX reserves back up to DKK250bn. Our estimates suggest that the bank is already there, so there is nothing in the way of a rate cut. In fact Danish interbank rates are still so high that the Nationalbank could carry on building up its reserves, so we expect the policy rate spread to narrow further during the summer. The last noteworthy event of the coming week is the employment report in the US, which is normally capable of sparking significant currency movements in the event of a surprise. Our forecast is downbeat (-630k), and we reckon that the market is most sensitive to a positive surprise, which could send the USD up against other currencies.

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	-1,3	0,0	0,6	-2,7	0,3	1,9	4,1	3,4	1,8	3,0	30,3	1,7
	2009	-0,7	-1,1	1,6	-3,5	0,0	-0,3	-0,6	1,3	2,4	-0,5	28,5	1,4
	2010	0,5	1,5	1,6	-1,4	0,1	1,4	2,3	1,9	3,8	-1,0	26,7	1,6
Sweden	2008	-0,2	-1,9	1,3	3,5	-0,7	1,7	3,0	3,4	4,6	3,0	31,0	7,2
	2009	-4,6	-2,0	1,9	-13,7	-1,4	-17,4	-19,9	-0,2	10,0	-5,0	34,0	6,7
	2010	0,8	0,7	3,8	-5,5	-0,3	0,5	-1,1	1,6	12,0	-2,0	35,0	7,2
Norway	2008	1,5	1,5	3,4	3,3	0,9	0,5	5,5	3,8	2,6	8,0	26,0	16,2
	2009	-0,3	0,1	4,0	-3,7	-0,1	0,3	1,4	2,3	3,7	12,0	26,0	26,9
	2010	1,8	1,9	4,3	0,8	0,0	1,6	2,3	2,7	4,1	13,9	26,0	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-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
Holland	2008	2,3	1,8	1,0	6,0	0,1	4,0	5,0	2,3	3,0	-2,9	45,0	7,2
	2009	-2,2	0,0	2,0	-2,0	-0,4	1,0	1,0	0,8	3,8	-3,3	47,0	7,0
	2010	0,5	0,5	1,7	2,0	0,2	3,5	3,2	1,7	4,2	-3,0	45,0	6,5
Finland	2008	0,9	2,0	1,7	1,0	-0,6	-1,1	-1,3	4,1	6,4	4,2	33,0	2,5
	2009	-3,0	-0,5	1,5	-8,0	0,0	-10,0	-6,0	1,0	7,5	0,0	32,0	1,8
	2010	0,5	0,5	1,5	1,0	0,0	0,0	0,0	1,6	8,7	-3,0	32,0	1,0

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	-5,0	-0,2	1,7	-6,4	-0,3	-27,7	-12,6	-0,9	4,5	-3,8	183,0	2,2
	2010	2,8	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	27-mar	0,13	1,48	2,92	135,5	-	549,9
	+3m	0,13	1,60	3,45	124	-	601
	+6m	0,13	1,65	3,75	120	-	621
	+12m	0,13	2,15	4,30	122	-	611
EUR	27-mar	1,50	1,92	3,45	-	135,5	744,9
	+3m	1,00	2,00	3,45	-	124	745,0
	+6m	1,00	2,05	3,60	-	120	745,0
	+12m	1,00	2,50	3,85	-	122	746,0
JPY	27-mar	0,10	0,75	1,32	132,8	98,0	5,61
	+3m	0,10	0,70	1,40	122	98	6,11
	+6m	0,10	0,75	1,70	120	100	6,21
	+12m	0,10	1,05	1,95	128	105	5,83
GBP	27-mar	0,50	2,20	3,68	94,1	143,9	791,5
	+3m	0,50	1,50	3,40	94,0	132	793
	+6m	0,50	1,50	3,50	90,0	133	828
	+12m	0,50	2,25	4,00	80,0	153	933
CHF	27-mar	0,38	0,82	2,58	152,8	112,8	487,4
	+3m	0,25	0,85	2,40	152	123	490
	+6m	0,25	0,90	2,40	154	128	484
	+12m	0,25	1,30	2,65	158	130	472
DKK	27-mar	2,25	2,74	3,71	744,9	549,9	-
	+3m	1,50	2,65	3,65	745,0	601	-
	+6m	1,50	2,55	3,80	745,0	621	-
	+12m	1,40	2,90	4,05	746,0	611	-
SEK	27-mar	1,00	1,42	3,38	1080,3	797,5	69,0
	+3m	0,25	1,25	2,90	1100	887	67,7
	+6m	0,25	1,45	3,20	1060	883	70,3
	+12m	0,25	1,70	3,70	980	803	76,1
NOK	27-mar	2,00	2,71	4,39	877,9	648,0	84,9
	+3m	1,75	2,70	4,00	860	694	86,6
	+6m	1,75	2,70	4,10	830	692	89,8
	+12m	1,75	3,20	4,50	820	672	91,0
PLN	27-mar	3,75	4,35	5,23	457,2	337,5	162,9
	+3m	3,50	4,70	5,00	480	387	155
	+6m	3,25	4,60	4,90	490	408	152
	+12m	3,25	4,50	4,80	495	406	151

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	
	27-mar	Q1	Q2	Q3	Q3	2008	2009
ICE Brent	53	42	48	54	62	99	52
Aluminium	1.443	1.300	1.400	1.400	1.600	2.624	1.425
Copper	4.085	3.300	3.500	3.500	3.800	6.897	3.525
Nickel	1.105	1.150	1.200	1.300	1.500	1.770	1.288
Gold	0	0	0	0	0	0	0
CBOT Wheat*	0	0	0	0	0	0	0
CBOT Corn*	515	580	620	660	700	804	640

* Note: US$/bushel

Key data and events (1)

Monday, March 30, 2009				Period	Danske Bank	Consensus	Previous
1:50	JPY	Industrial production, preliminary	m/m|y/y	Feb	**-8.5%| ..**	*-9.1%| ..*	-10.2%|-31.0%
9:00	ESP	Inflation (HICP), preliminary	m/m|y/y	Mar			
10:00	NOK	Retail sales, s.a.	m/m|y/y	Feb	**0.3%|-0.2%**		1.1%|0.6%
10:30	GBP	Mortgage approvals	'000	Feb		*34*	31
11:00	EUR	Consumer confidence	Net balanc	Mar	**-33**	*-33*	-33
11:00	EUR	Economic Confidence	Index	Mar	**65.6**	*65.8*	65.4
11:00	EUR	Business confidence	Net balanc	Mar	**-36**	*-35*	-36
18:40	USD	Fed's Lockhart (voter, neutral) speaks					

Tuesday, March 31, 2009				Period	Danske Bank	Consensus	Previous
1:01	GBP	Gfk Consumer confidence	Index	Mar		*-36*	-35
1:15	JPY	Nomura/JMMA Manufacturing PMI	Index	Mar	**33.0**		31.6
1:30	JPY	Jobless Rate	%	Feb	**4.4**	*4.3*	4.1
1:30	JPY	Job-to-applicant ratio		Feb		*0.64*	0.67
1:30	JPY	Household Spending	y/y	Feb		*-4.7%*	-5.9%
7:00	JPY	Small business confidence	Index	Mar			25.0
7:00	JPY	Housing starts	y/y	Feb		*-17.6%*	-18.7%
9:00	SEK	Consumer confidence	Index	Mar	**-14.0**		-14.6
9:30	DKK	GDP, final	q/q|y/y	4th quarter			-2.0%|-3.9%
9:30	SEK	Manufacturing Confidence	Index	Mar	**-35**		-35
9:30	DKK	Confidence indicator, industry	Index	Mar			-34
9:50	DEM	Unemployment rate	%	Mar	**8.0**	*8.0*	7.9
10:00	CHF	UBS consumption indicator	Index	Feb			0.985
10:00	NOK	Credit indicator (C2)	y/y	Feb	**9.4%**		9.7%
11:00	EUR	CPI Flash estimate	m/m|y/y	Mar	**..| 0.6%**	*.. | 0.9%*	.. | 1.2%
11:00	ITL	Inflation (HICP), preliminary	m/m|y/y	Mar		*1.2%|1.1%*	0.2%|1.5%
14:30	CAD	GDP	m/m	Jan		*-0.6%*	-1.0%
15:00	USD	Fed's Stern (non-voter, hawk) speaks					
15:45	USD	Chicago PMI	Index	Mar		*34.5*	34.2
16:00	USD	Consumer confidence	Index	Mar	**29.0**	*28.0*	25.0
19:00	USD	Fed's Plosser (non-voter, hawk) speaks					
23:45	NZD	Business confidence	Index	Mar			-41.2

Wednesday, April 1, 2009				Period	Danske Bank	Consensus	Previous
-	USD	Total Vehicle Sales	m	Mar		*9.3*	9.1
1:50	JPY	Tankan Large Manufacturers Index	Index	1st quarter	**-58**	*-55*	-24
1:50	JPY	Tankan Large Manufacturers Outlook	Index	1st quarter	**-51**	*-52*	-36
2:30	AUD	Retail sales	m/m	Feb		*-0.5%*	0.2%
4:30	CNY	PMI Manufacturing (CLSA)	Index	Mar	**49.0**		45.1
8:30	SEK	PMI	Index	Mar	**34.0**		33.9
9:30	CHF	PMI	Index	Mar			32.6
9:30	DKK	Retail sales, volume	m/m|y/y	Feb	**-0.25% | ..**		1.3%|-6.1%
9:50	FRF	PMI Manufacturing, final	Index	Mar	**36.3**	*36.3*	36.3
9:55	DEM	PMI Manufacturing, final	Index	Mar	**32.4**	*32.4*	32.4
10:00	EUR	PMI Manufacturing, final	Index	Mar	**34.0**	*34.0*	34.0
10:00	EUR	Unemployment	%	Feb	**8.3**	*8.3*	8.2
10:30	GBP	PMI Manufacturing	Index	Mar	**35.3**	*35.0*	34.7
11:00	DKK	Danish PMI	Index	Mar			26.5
13:00	USD	MBA mortgage applications					32.2%
16:00	USD	ISM	Index	Mar	**36.5**	*35.5*	35.8
16:00	USD	ISM prices paid	Index	Mar		*32.5*	29.0
16:00	USD	Pending home sales	m/m	Feb		*-1.6%*	-7.7%
16:00	USD	Construction spending	m/m	Feb		*-2.0%*	-3.3%

Key data and events (2)

Thursday, April 2, 2009				Period	Danske Bank	Consensus	Previous
-	GLO	G20 Meeting					
1:50	JPY	Monetary Base	y/y	Mar			6.4%
2:30	AUD	Trade balance	AUD bn	Feb		*0.7*	0.97
9:00	NOK	PMI	Index	Mar	**37.5**		36.4
10:00	NOK	Unemployment s.a. (LFS)	%	Mar	**2.9**		2.7
10:00	CHF	SNB's Hildebrand speaks in Bern					
10:30	GBP	PMI Construction	Index	Mar		*27.8*	27.8
13:45	EUR	ECB Announces Interest Rates	%		**1.00**	*1.00*	1.50
14:30	EUR	ECB Press Conference					
14:30	USD	Initial jobless claims	1000				652
16:00	USD	Factory Orders	m/m	Feb		*-1.3%*	-1.9%
16:00	DKK	Currency reserves	DKK bn	Mar			235.7

Friday, April 3, 2009				Period	Danske Bank	Consensus	Previous
9:15	CHF	CPI	m/m|y/y	Mar			0.2%|0.2%
9:30	DKK	Industrial production	m/m	Feb			-1.8%
9:50	FRF	PMI Services, final	Index	Mar	**42.9**	*42.9*	42.9
9:55	DEM	PMI Services, final	Index	Mar	**41.7**	*41.7*	41.7
10:00	EUR	PMI Services, final	Index	Mar	**40.1**	*40.1*	40.1
10:30	GBP	PMI Services	Index	Mar	**44.0**	*43.5*	43.2
14:30	USD	Nonfarm payroll	1000	Mar	**-630**	*-657*	-651
14:30	USD	Unemployment	%	Mar	**8.4**	*8.5*	8.1
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Mar		*0.2%|..*	0.2%|3.6%
16:00	USD	ISM non-manufacturing	Index	Mar	**42.5**	*41.9*	41.6
18:00	USD	Fed's Bernanke (voter, neutral) speaks					

During the week				Period	Danske Bank	Consensus	Previous
Mon 30 - 05	DEM	Retail sales, real s.a.	m/m|y/y	Feb		*-0.2%| ..*	-0.9%|-1.3%
Wed 01 - 07	JPY	Official Reserve Assets	b.. USD	Apr			1009.4
Wed 01 - 09	GBP	HBOS House Prices	m/m|3M/y	Mar		*-1.8%|-17.4%*	-2.3%|-17.7%
Sat 04	CNY	PMI Manufacturing (NBS)	Index	Mar	**52.0**		49.0

The editors do not guarantee the accurateness of figures, hours or dates stated above
For furher information, call (+45) 45 12 85 22..

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