DANSKE RESEARCH

Danske Bank

Investment Research – General Market Conditions

19 June 2009

Weekly Focus

Doubts creeping in

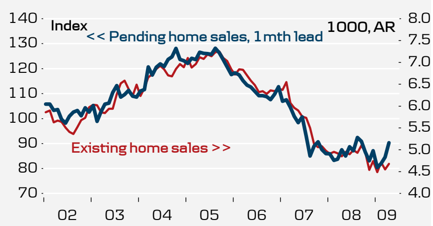
Global update

- Doubts over the global recovery set in during the week leading to a correction in most markets. However, data continue to support the case for recovery as positive surprises still outnumber negative ones. We view the change in markets as a correction to a trend of higher equity prices and bond yields.
- While US industrial production for April disappointed, rising leading indicators and falling jobless claims suggest the end of the US recession is near. Housing starts show signs of bottoming.
- The World Bank revised up its growth forecast for China and Bank of Japan raised its expectations for the Japanese economy.
- The German ZEW index rose strongly again taking confidence to the highest level since 2006. Bank of England is becoming more positive – we look for a rate hike in Q2 10.
- Swedish industrial production has been set back 10 years and Sweden could very well be the last to leave the recession.
- Norges Bank cut rates but will hike in Q1 10.

Market movers ahead

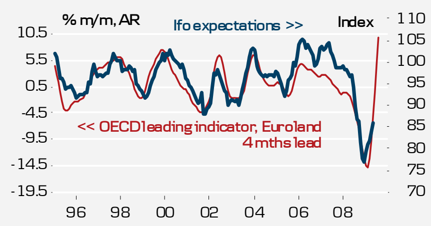
- Focus next week will be on the FOMC meeting. Fed is likely to sound more positive, but at the same time stress that rates will be on hold for a long period.
- German Ifo and Flash PMI are on the agenda in Euroland. We look for further improvement as signalled by OECD's leading indicator (see chart below).
- Swedish manufacturing confidence to follow PMI higher as production decline is starting to ease.
- OECD releases Economic Outlook with new growth forecasts.

US home sales to rise in May



Source@ Reuters Ecowin & Danske Markets

OECD LEI points to strong rise in ifo



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Global update: Doubts creeping in

Market correction and doubts over recovery

During the past week we have seen a correction to the recent trend in most financial markets: after rising for some time, we saw declines in equity prices, bond yields and commodity prices. Credit spreads have widened somewhat. A general decline in risk appetite set in. One interpretation is that doubts are setting in over the strength of the recovery. This is probably due to the recent new headwinds of rising oil prices and bond yields which, as we wrote last week, could make it difficult for the recovery to continue into next year when all the stimuli fade and the inventory correction is over.

Data flow still supports short-term recovery thesis

As the decline in risky assets has set in, it has in some way reinforced the impression that the economy has disappointed. It is, however, more the market focus that have changed rather than the data picture. On balance, the data flow has continued to show improvement:

- In the US, the Philadelphia Fed manufacturing survey surprised on the upside and the index for future new orders rose to the highest level since 2003. The leading indicator from the Conference Board showed the strongest two-month increase since 2001. A further decline in jobless claims also added to evidence that the recession is nearing its end.
- US housing starts surprised on the upside giving further support to the case that housing in the US is starting to stabilise. Home sales have also stabilised recently.
- The German ZEW index rose further to its highest level since 2006. Although questioned by many as it surveys financial analysts, the ZEW index has in the past been a quite good leading indicator.
- UK unemployment numbers were better than expected for the third month in a row (see UK).

These data have come on top of recent positive surprises in US non-farm payrolls, US ISM index and US retail sales. OECD leading indicators continue to point to a strong turnaround in many countries. And car sales globally have recovered decently in recent months.

Of course there have also been negative surprises: US industrial production fell more than expected in April and UK retail sales fell back in May. On balance, though, data is still supporting the case for recovery.

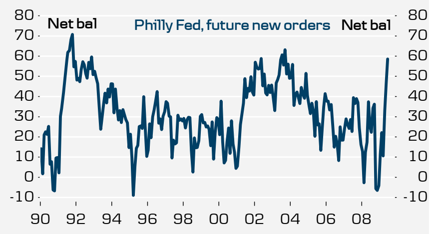
World Bank raised forecast for Chinese economy

During the week the World Bank revised up its forecast for the Chinese economy to 7.2% in 2009 from its previous estimate of 6.5% made in March. The World Bank recommended that further stimuli – if proved necessary – would be delayed to 2010. Although revised higher, the World Bank's forecast is still lower than our own forecast of 7.9% but higher than both IMF and OECD which expect 6.5% and 6.3%, respectively. The revision comes on the back of a string of strong data from China where domestic infrastructure investment and improving real estate market is boosting growth. Exports are still very subdued.

Recent turnaround likely to be correction rather than new trend

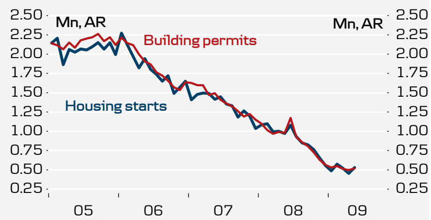
We believe there will be a time when doubts over the recovery in 2010 will set in. But we think it is too early. We believe the coming quarters will continue to provide more positive than negative surprises. We see the turnaround mostly as a correction to a market that had got a little ahead of itself rather than a reversal of the trend. When positions have been cleared out and the data continues to improve, we believe we will see a resumption of the rising trend in equity markets and bond yields.

Philly Fed shows rising optimism



Source: Reuters Ecowin

US housing starts stabilising



Source: Reuters Ecowin

German ZEW index gaining further

Source: Reuters Ecowin

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Market movers ahead

Global

- In **USA** all eyes will be on the FOMC meeting and the interest rate decision Wednesday. The meeting will be a balance act. On the one hand there are members of the FOMC who fear that inflation expectations will run rampant unless the FOMC states that they are ready with exit strategies. On the other hand, other members worry about the markets aggressive expectations for interest rate increases. We expect that the FOMC will sound more optimistic on the economic outlook but at the same time stress that interest rates will be on hold for a prolonged period as inflationary pressures will be absent for a long time ahead. We do not expect any significant changes in the quantitative easing policies. In addition the next week will offer more data on the housing market and durable goods orders.
- Next week we get an abundance of **Euroland** confidence indicators. Monday starts with the Ifo index, which is estimated to show the same pattern as the ZEW – i.e. a strong improvement in expectations and a modest improvement in current conditions. Tuesday will deliver PMI for Euroland, Germany and France and we also get the Belgian leading indicator. Essentially we expect everything to rise strongly. Germany will benefit the most from the recovery in Asia and we project that German PMI will increase more than French PMI. Manufacturing PMIs are also expected to increase more sharply than service PMIs. Manufacturing is harder hit by the downturn and will benefit the most from the rebound.
- It will be a relatively quite week in **Asia**. Main focus will release of Japan's May foreign trade data on Wednesday . We expect Japans export to continue to improve while import volumes should continue to decline on the back of weak domestic demand and inventory cuts. Export appears to be back as the main engine for Japans growth driven mainly by recovering exports to the rest of Asia. We expect the Japans seasonal adjusted trade balance to shift back into surplus for the first time since July last year.

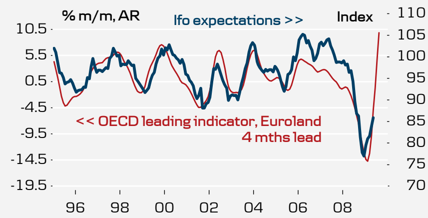
Scandi

- We will see some confidence data in **Sweden** the upcoming week and it is reasonable to assume improvement in line with international trends. We should also not forget the developments in Latvia. The pending IMF decision on whether or not to pay out a loan instalment to the Latvian government will be followed closely, and there will be a continued heightened risk alert in Sweden.
- The only key figure of interest in **Norway** is unemployment for April. We look for a rise to 3.3% from 3.2% in March which is in line with consensus. Like everywhere else unemployment is rising, but the level is still very low in Norway.

US existing home sales to rise

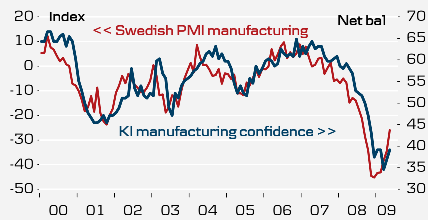
Source: Reuters EcoWin

Ifo expectations to rise further



Source: Reuters EcoWin

Swedish confidence to rise further



Source: Reuters EcoWin

Market movers ahead

Global movers				Event		Period	Danske	Consensus	Previous
Mon	22-Jun	10:00	DEM	IFO-indicator (current conditions)	Index	Jun	**83.3**	*83.1*	82.5
Tue	23-Jun	10:00	EUR	PMI Manufacturing, preliminary	Index	Jun	**43.8**	*42.0*	40.7
		11:00	G7	OECD Economic Outlook					
		16:00	USD	House price index	m/m	May		*-0.3%*	-1.1%
		16:00	USD	Existing home sales	m. (m/m)	May	**4.71 (0.7%)**	*4.80 (2.6%)*	4.68 (2.9%)
Wed	24-Jun	14:30	USD	Durable goods orders	m/m	May		*-0.8%*	1.9%
		16:00	USD	New home sales	1000 (m/m)	May		*360 (2.3%)*	352 (0.3%)
		20:15	USD	FOMC meeting	%		**0.13**	*0.13*	0.13
Fri	26-Jun	-	DEM	Inflation (HICP), preliminary	m/m|å/å	Jun	0.2%|-0.1%	0.2%|-0.1%	-0.1%|0.0%
		14:30	USD	Privatforbrug	m/m	May	0.3%	0.4%	-0.1%
		14:30	USD	Privatforbrugsindikator	y/y	May			0.4%
		14:30	USD	Privatforbrugsdeflator (kerne)	m/m|å/å	May	0.2%|1.9%	0.1%|1.8%	0.3%|1.9%
Scandi movers				**Event**		**Period**	**Danske**	**Consensus**	**Previous**
Wed	24-Jun	10:00	NOK	Unemployment s.a. (LFS)	%	Apr	3.3%	3.3%	3.2%
Thu	25-Jun	9:15	SEK	Manufacturing confidence	Index	Jun	**-25**	*-30*	-34
		9:30	SEK	Consumer confidence	Index	Jun	**-9.0**	*-8.8*	-11.0
		9:30	SEK	PPI (incl. export- and importprices)	m/m|å/å	May	**0.1%|3.6%**	*0.0%|3.5%*	-0.9%|3.2%
Fri	26-Jun	9:30	SEK	Trade balance	SEK bn	May	**8.5**		8.4

Source: Bloomberg, Danske Markets

Financial views

Equities

- We maintain a positive view on equities in the medium term. Risk appetite has returned and our five point trigger list (from February 2009) for a stock market recovery has almost been completely fulfilled; we are consequently looking for new triggers.
- To underpin further market recovery in the coming months, we are looking for (a) final demand pick-up, (b) coverage of underweight positions, (c) mid-cycle valuation focus, and (d) weaker deflationary impulses.

Fixed income

- Global: The rising trend in bond yields expected to continue on a three- to six-month horizon based on continued improving macro conditions, increased risk appetite and heavy supply. The US is expected to underperform Euroland.
- Intra-Euro: We are neutral in peripherals (Italy, Greece and Spain) versus Germany. On longer maturities, we still prefer France and Finland to Germany.
- Scandi: We are underweight 10Y Danish government bonds against Euroland and swaps, but overweight 2Y Danish government bonds. We are overweight Swedish government bonds versus Germany in the 5Y area. We have closed our long position in the long end of the NOK government curve relative to Germany. We have a changed to an overweight on Danish 30Y callable mortgages bonds versus both swaps and government bonds. We remain underweight in non-callables versus government bonds apart from 4'10.

Credit

- During the past couple of months credit has enjoyed a very strong spell across the sectors and capital structure and spreads have tightened significantly. At the same time the activity in the primary market continues to be at a record high as more and more companies turn to the capital markets instead of the banks for funding. The ongoing strength in the primary market is a consequence of an asset allocation shift into credit, we believe.
- We question the pace and sustainability of this massive rally and in recent weeks sellers have re-emerged in the credit market putting CDS spreads under some pressure. The macroeconomic outlook is still challenging and defaults are currently increasing. A while ago we moved to overweight based on the large liquidity and risk premiums for credit. Both these premiums have now been reduced substantially and we therefore recommend a neutral positioning.

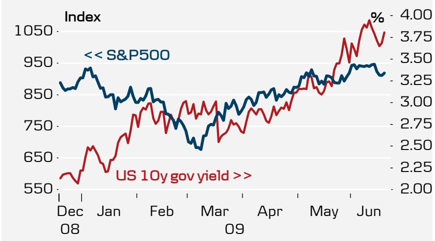
FX

- EUR/USD is set to drift lower in the short run, but to continue upwards in the medium term. Important drivers for EUR/USD are equities as a proxy for risk and most recently oil prices. EUR/GBP is heading down as sterling is supported by positive economic data and a normalisation in financial conditions. However, watch out for a possible correction after the latest move. Carry can keep on performing, while defensive currencies will face headwinds.
- Swedish krona and Norwegian krone both have solid potential against the euro. Currently, however, risk aversion and event risks (monetary policy changes and the Baltics) are still too high to see the Scandies exploit their full potential. The Danish krone is attractive (e.g. against Swiss franc) due to sound carry.

Commodities

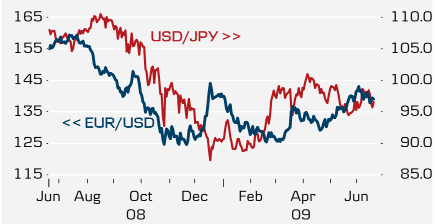
- Base metals like copper and zinc continue to perform fuelled by heavy Chinese buying and global growth optimism. Oil prices have continued to rise over the past week to above USD72/bbl.
- Sentiment is very strong in commodities at the moment but the short-term risk of a correction is growing. In our view, the market is neglecting near-term weakness such as weak oil demand and huge stocks in base metals. However, in six months' time, we expect a new leg up in prices when the different market balances are expected to tighten for real.

Equities and US 10Y yield



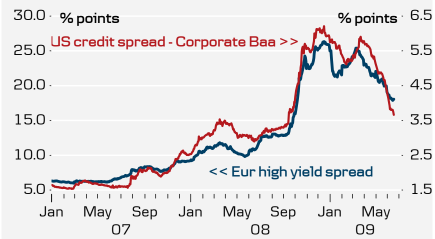
Sources: Reuters Ecowin

EUR/USD and USD/JPY



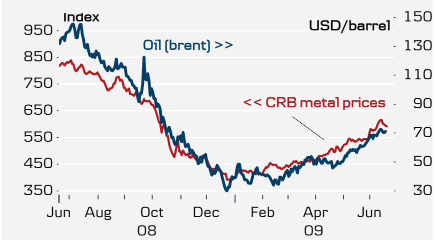
Sources: Reuters Ecowin

Credit spreads



Sources: Reuters Ecowin

Commodity prices



Sources: Reuters Ecowin

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Equities. New risks, new opportunities

New targets

Last week we lifted our market targets and we now anticipate a global market potential of 15% despite our concerns about the development in the coming months, as new risks are emerging. However, these new risks are in our opinion counterbalanced by ‘new opportunities’ as valuation might become a market theme.

Yields are not a real worry

One of our greatest fears is that second-round effects of housing deflation and production slack will emerge. And we are not alone here: *In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.* ***FOMC meeting statement April 09.***

A rather confusing argument has started among investors regarding the level of bond yields. In our view, any discussion about higher bond yields starts and ends with the central bank’s policy action, and with the statement above in hand, it is unlikely that the Fed will raise its rates before the economic recovery is solidly underway.

New risks: Output price deceleration

Stronger downward pressure on output prices is currently building up, and according to our models for output prices (consumer as well as capital goods prices), sharp output price deceleration should be anticipated as a consequence of the weak volume development, production slack and stronger global competition. Much of the sales price moderation in the pipeline is possible for companies to cope with without strong margin pressure. The reason is that, compared with last year, companies’ energy, salary and other input costs have moderated significantly. Still, deflationary pressures could surprise and become a real threat in many industries.

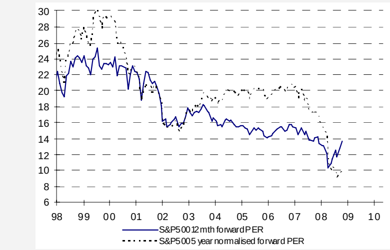
Still…

Nevertheless, these pressures are, in our view, counterbalanced by easing of job and housing deflation, and we expect the stock market to applaud signals that these price pressures are easing off. In H2 09 we expect slowing of job cuts and hence stabilisation of personal incomes together with house price stabilisation, which could remove a lot of fear of continued deflation. Still, the output price moderation we are forecasting for H2 09 could become the next major challenge for the stock market, which again could postpone job cut moderation and house price stabilisation.

New opportunities: Attractive mid cycle valuation

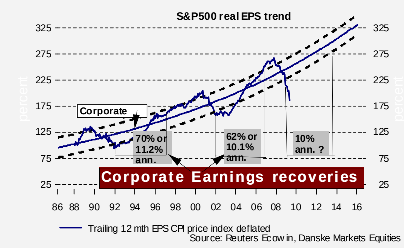
We expect to soon see an end to the EPS downgrades. This should render expected future earnings more trustworthy, and again make market valuation a stronger driver of the stock market. Both in Europe and in the US, we are now seeing less negative earnings revisions for 2009/10. If we use mid-cycle earnings (or recent five-year average EPS) as a guide to what investors will look to pay for their stock portfolios, we see that S&P500 P/E levels are closer to 10 than the 14 if we use expected earnings over the coming 12 months. This is an attractive market valuation, as investors should remember that: a) the risk free rates (10-year T-notes) were yielding 13-14% p.a. at the start of the 1980s vs. current yields of close to four; b) the corporate earnings crash experienced in 2008 has made the earnings base extraordinary low! A positive market trigger would therefore be if investors start to price in a normal shape for the US earnings trend. We find it difficult not to argue for a 10% annualised growth trend as a likely scenario, as the unusually high financials provisions and write-down activity in 2008 has created a very low base from which the recovery will start. And although some would argue that the new credit regimes will take years to overcome for the indebted US economy, a potential US export boom to BRIC and OPEC could be an important factor to counterbalance the effect of a long-term weaker US economy. In short, it is highly likely that the next step in the market recovery is the normalisation of long-term earnings expectations.

Capital goods output price deflation



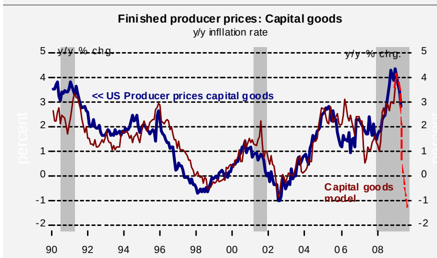
Source: Reuters Ecowin, Danske Markets Equities

S&P500 EPS:
Far below the 25y earnings trend



Source: Reuters Ecowin, Danske Markets Equities

S&P500 Mid cycle P/E as low as 10



Source: Reuters Ecowin, Danske Markets Equities

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Fixed Income: New yield forecasts: Look for more yield increases

Recent market developments

Long yields in both the US and Germany have moved up sharply over the past month. Economic news has surprised on the upside, and it is becoming increasingly evident that the worst of the economic downturn is probably behind us. Meanwhile, stock markets have risen and so has risk appetite on financial markets. Most recently, there has been speculation about potential rate hikes from the Federal Reserve (Fed) over the coming quarters. The market currently expects the Fed to hike rates by about 1% over the next 12 months.

The European Central Bank (ECB) stayed on hold in June, while presenting details about its planned covered bond purchases. Good economic news and higher US yields have pushed European yields upwards, and expectations of ECB rate hikes over the next year have been growing.

Key events of the week

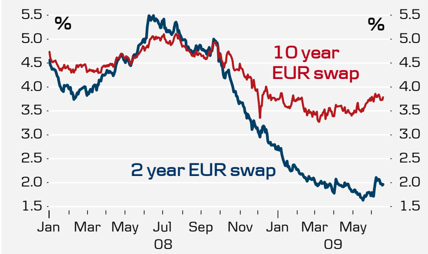
- The FOMC meeting will be the most important event in the US. However, market participants will also focus on housing market data.
- In the eurozone focus will be on Ifo, PMI and German inflation data.
- Still focus on large bond supply. Auctions due in US 2Y, 5Y and 7Y Treasuries in the week ahead.

Central banks and bond yields

The **Fed** will probably maintain the Fed Funds rate at 0-0.25% for a long time, and we believe that financial markets are pricing in far too aggressive rate hikes at the moment. Inflation is low and there is plenty of spare capacity in the economy, so there is no need for rate hikes in the very near future. We would not rule out further quantitative easing by the Fed, following the recent sharp increase in yields, though we consider it more likely that the Fed will simply try to talk yields down, for instance, by emphasising once again that the Fed Funds rate will remain unchanged for a long period.

In the very short term, we see a risk of a downward correction in yields, but longer term, we expect the massive supply of government bonds and the continued improvement in the economic outlook to drive **US long yields** upward.

EUR swap rates

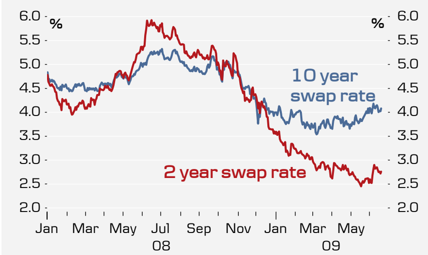


Source: Ecowin

The **ECB** lowered its benchmark policy rate by another 25bp to 1% in May and is probably done cutting rates. We expect the bank to start buying covered bonds next month. While this move will probably mark the end of the current easing cycle, ECB rate hikes are still a long way off. The market's expectations of further rate cuts in H1 09 seem mistaken. The turnaround has only just begun, inflation is likely to remain low, and there is plenty of slack in the economy. We expect benchmark rates to stay unchanged for a relatively long period.

Short term, we do not rule out the possibility of a correction in European yields, and any fluctuations in risk appetite – not least, in relation to central and eastern Europe (CEE) – could continue to substantially affect German long yields. However, higher US yields and an improved economic outlook should send **eurozone yields** up over time, although the increase in yields will be more moderate in the eurozone than in the US.

Danish swap rates



Source: Ecowin

Danish yields

The Danish central bank, Danmarks Nationalbank, is likely to narrow the rate spread to the eurozone by a further 20bp (two 10bp cuts) over the coming quarters before going on hold. Cibor rates are expected to trend further down in response to the rate cuts and continued normalisation of the Danish money market. While spreads between longer-term market rates in Denmark and the eurozone could narrow slightly, we expect general rate and yield increases to dominate, and Danish rates and yields will probably increase.

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Foreign exchange: Central banks centre stage

Central banks have turned the spotlight onto the FX market in the past week. The *Bank of Japan* kicked things off. As expected, it left its key rate unchanged at 0.1%, and no new monetary policy measures were announced. On the other hand, marginal optimism could be detected even here, although the bank's first rate increase is still a long way off. But it was not the BoJ meeting that pushed up the JPY at the beginning of the week, rather the setback to risk appetite. We nevertheless reckon that risk appetite and belief in the recovery will return to the market, and so there is still the prospect of a weaker JPY as renewed demand for JPY funding picks up.

There was also a rate meeting at the Swiss National Bank during the week, but it was somewhat less exciting than the previous one in March, as the three-month LIBOR target was left unchanged and the SNB did not intervene in the FX market, merely reiterating the previous message that it wishes to avoid a stronger CHF. Thus the 'SNB put' is still in place, and we expect the SNB to continue to hold a ceiling over the CHF/DKK. (Read more in the Switzerland article.)

Norges Bank too had a rate meeting during the week. Surprisingly, its key rate was lowered by 25bp to 1.25%, and the immediate reaction was a fall in the NOK. However, the NOK soon bounced back when it was clear that the bank's interest rate path had actually been revised up by 25bp and that this was very clearly its final rate cut. Norges Bank still expects its first hike to come in early spring next year. Now that the central bank has finished lowering interest rates, we reckon that the market will begin to focus on Norway's strong fundamentals, and it will probably be one of the first G10 countries to put interest rates up again. So, despite the rate cut, we still see value in the NOK.

Although the next Riksbank decision will not be announced until 2 July, we expect the market to focus on the outcome during the coming week. Further rate cuts are unlikely in Sweden given the more positive outlook for the global economy and the way that the sharp contraction in the Swedish economy in the last two quarters has not continued into Q2. *On the other hand, we expect the Riksbank to repeat that its first rate increase is a very long way off (2011)*. This stands in stark contrast to the market, which is anticipating a hike early in 2010. We reckon that the fixed income market will revise its expectations, which could put further pressure on the SEK. The currency is already being watched closely by investors worried about developments in the Baltic States. In the short term, therefore, we recommend caution when it comes to long SEK positions. However, it should be stressed that, based on the fundamentals, based on our short- and long-term models, and based on other cyclical currencies, the SEK is heavily undervalued, which is reflected in our 3M, 6M and 12M exchange rate forecasts.

Fed sets agenda for USD

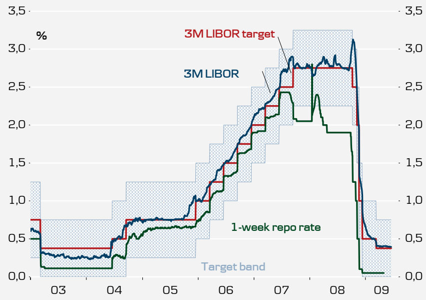
In the coming week it will be the Federal Reserve's turn to hold a rate-setting meeting (see more detailed discussion in the USA article). We do not expect any major changes at the meeting. However, the USD may come under pressure if the Fed manages to get long-term yields to correct back down after the past month's sharp increases through changes in its bond buyback programme. However, we doubt that it will simply earmark further funds for quantitative easing. Some market participants have also speculated that the Fed will attempt to talk interest rate expectations in the money market back down by 'promising' to keep interest rates low for a set period à la Bank of Canada. As this is something we would never expect to hear from the ECB (well-known for 'never pre-committing'), comments along these lines could also have a negative impact on the USD.

Finally, it is worth taking a look at the UK. For some time we have been arguing in favour of a stronger GBP due to better data. The Bank of England released the minutes of its last monetary policy meeting during the week. These were more upbeat than expected, and we now reckon that the *BoE will begin to raise interest rates again in Q2 next year*, which supports our positive view of the GBP even after its recent rally.

Key events of the week ahead

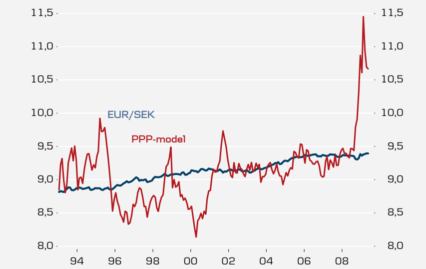
- FOMC meeting (Wednesday)
- Ifo indicator in Germany (Monday)
- Euroland PMI (Tuesday)

SNB rates still low



Source: EcoWin

SEK under pressure



Source: EcoWin

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Danske Bank

Denmark: Consumption has reached the bottom

Car sales have stabilised after a period in freefall, while figures for Dankort payment card purchases showed a small increase in May compared with the previous month. Thus the past week's figures join a stream of data all pointing towards nascent stabilisation in consumption following a period of extremely bleak statistics in this area.

Car sales beginning to stabilise

In the week before Statistics Denmark is due to publish its car sales figures for May, the Danish Car Importers Association (DBI) has released its own figures for car sales during the month. The DBI publishes only non-seasonally-adjusted annual growth rates, which makes it difficult to discern the current trend. However, we have seasonally adjusted the figures ourselves and broken the data down into months, and this reveals a slight increase in car sales of around 2.6% from April to May. However, it should be stressed that the figures from the DBI do not tally completely with those from Statistics Denmark, and so this May figure needs to be taken with a pinch of salt.

Looking at developments in the slightly longer term, however, it is somewhat more justifiable to talk about a reasonably stable *low* level of car sales. Just 8,500-9,000 cars have been sold each month since last autumn, which is well down on early 2008 when around 14,000 cars a month were being sold to households and businesses (as company cars).

The drop in car sales is of course a result of the huge economic and financial crisis that has hit the Danish economy, especially since last September. Car sales are highly cyclical, and it is not surprising that we are seeing a very strong reaction here. The fact that car sales have not continued to tumble in 2009 despite rising unemployment is due to low interest rates and tax reductions (for middle-rate taxpayers). It is important to stress that car sales in May were not affected by the release of SP pension savings. These are only being paid out now, and there has been a clear tendency not to count chickens in the Danish economy. Thus the release of SP pension savings is only expected to have an impact from June onwards.

Even then, there is no reason to expect a marked increase in car sales when this money is paid out. Economic uncertainty is still rife, and so few will dare to invest in new wheels at this time. In addition, the average SP payout will finance only a modest proportion of the price of a new car, so it is not a given that car sales will be particularly affected by the release of these savings.

Small rise in Dankort purchases

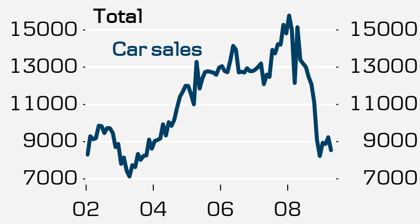
Dankort payment card purchases have fallen sharply over the past year, reflecting the downturn in consumption during the period. Purchases in May were down 5% on the same month last year, which is a huge drop by historical standards.

Looking solely at the change from April to May, however, there was a slight improvement. It therefore appears that the dramatic downturn in consumption in H2 08 and the first part of this year is losing steam and could even be reversing.

Key events of the week ahead

- Consumer expectations for June (Monday) – given the slightly brighter outlook for the Danish economy, we anticipate a small rise from -4.7 in April to -4 in May
- Provisional new car registrations for May (Thursday) – we expect a small rise of 2.6% m/m

Car sales have stabilised



Source: Statistics Denmark

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Sweden: A lost decade

Years before industrial production will recuperate

We have now got US industrial output data through May and data from Euroland and Sweden for April. Generally speaking, Q2 has started with a further decline in output; in the US the drop in May was in fact a bit steeper than in April

Albeit with some notable exceptions, recent data generally show a somewhat slower pace of decline than was the case around the turn of the year, but it is still a matter of declining production as we enter the second quarter. Another common observation is that order flows show somewhat clearer signs of stabilisation than is the case for output. There are some differences between markets, but for Sweden one could at least say that the dramatic fall has come to an end. It is therefore easy to reach the conclusion that what we are seeing is simply a continued reduction of inventories in Swedish industry. In fact, several surveys – i.a. the NIER's business survey and Swedish PMI – suggest that manufacturers still regard inventory levels as too high.

In other words, it might very well be that production will continue to slide for a while, but provided that demand does not take another step down again, there will eventually be a stabilisation of production as well. That conclusion is quite trivial and not what really deserves attention. The crucial question is if demand will turn up – and above all how fast. A pretty distinct recovery would indeed be helpful, but in our minds far from certain at least if we are talking about a sustained rapid recovery. This is important for a very specific reason. The most remarkable thing about the above data is not what has happened with orders or production over the last few months. Take a look at the chart to the right. The really remarkable thing is that the accumulated rise in industrial production over a full decade has been erased during just a little more than a year. So, it could take a while (to say the least) to recuperate the production levels of old. Sharp declines are often succeeded by rapid corrections, but will such a correction – if it occurs – be sustained, that's the question. We must admit that we are not entirely convinced. Rather, we suspect that the sharp contraction over the past year or so has structural ramifications, basically we believe there are reasons why future potential growth will prove to be lower than what has been perceived to be the case during the latest 10-15 years. This also means that NAIRU has shifted up.

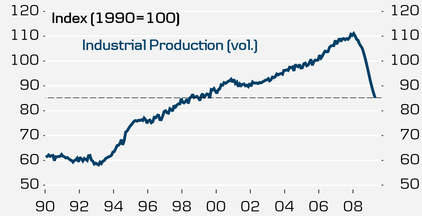
For Sweden this is an important issue. Even if production in many markets has fallen by 20-25%, production capacity has not. It is true that employment is declining substantially, but physical capital is still there. This is obvious from data on capacity utilisation (record low), which points to a long period of subdued (global) demand for investment goods.

Some 80% of Sweden manufacturing output is exported. EMU plus North America accounts for some 50% of the total export market (EU-North America for around 65%). 35% of output is investment goods and when adding industrial intermediate goods the share reaches about 70%. Weak investment demand is a typical disadvantage for Sweden simply because of the high dependence on exports of such goods. This is exactly what IMF is talking about in its recent evaluation of the Swedish economy, warning that Sweden could be among the last to get out of the recession. It might be true that the IMF does not rank among the first to spot cyclical turning points, but in this case we do believe it has a point.

Key events of the week

- June Business and Consumer confidence are published on Thursday (09.30 CET) and we expect tepid upticks during the coming few months.
- SEK is not providing enough momentum to push producer prices up much further (Thursday, 09.30 CET)
- Trade balance disappointed in April, some consolation might be provided in May (Friday, 09.30 CET).

Industrial Production



Source: Statistics Sweden

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Norway: Rates hit bottom

Norges Bank cautious – again

Norges Bank lowered its key rate by 25bp during the week despite acknowledging that the outlook has brightened somewhat recently. Slightly stronger demand nevertheless prompted the bank to revise up its interest rate path slightly relative to the March report. The signals are now unambiguously that interest rates have bottomed out and that the first rate increase will come in “late winter”.

Norges Bank is sceptical about the signals of economic recovery currently being put out by financial markets, but concedes in the editorial to the monetary policy report that “if the most optimistic among [financial market participants] should prove to be right, the recovery may be stronger and occur more rapidly than we assume”. We are among these optimists for the following reasons:

- We expect growth among Norway’s trading partners in 2010 to be almost 1.5pp higher than Norges Bank is assuming
- This also reduces much of the downside risk from oil prices and oil investment mentioned by Norges Bank
- The investment survey for the oil industry suggests that oil investment could be NOK 8-12bn higher than Norges Bank is assuming
- The savings ratio has already hit a 30-year high, so we expect consumption growth to pick up from as early as H2 this year
- The recovery in global financial markets has been much faster than we expected, and this will result in a positive feedback loop between financial markets and the real economy

When it comes to this last point, it is worth noting that the sharp deterioration in liquidity spreads, credit spreads, equity prices and so on in September precipitated the synchronised global economic downturn starting in Q4. But it was only when Norwegian businesses reported a marked downturn in activity in November that Norges Bank reacted. We reckon that history will repeat itself – only the other way around. Thus it will only be when the recovery in financial markets results in better indicators for the real economy that Norges Bank will respond. We still expect the first rate increase to come no later than March and that interest rates will be raised more frequently over the next couple of years than the market expects.

First rate increase in March

The only significant release in Norway during the week is AKU/LFS unemployment for April. We expect joblessness to continue to tick up at a moderate rate from 3.2% in March to 3.3% in April. The rise in unemployment in Norway has actually been much weaker than many anticipated at the beginning of the year. For example, Norges Bank has revised down its forecast for unemployment this year from 4.25% in March to 3.5% in June!

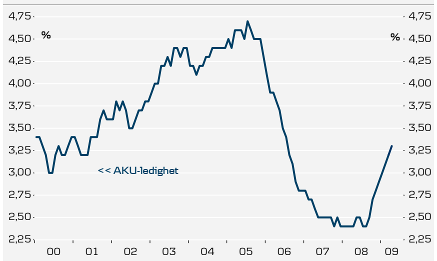
This is partly because the downturn in the Norwegian economy has been milder than expected, but this cannot be the sole explanation. It appears that many Norwegian businesses are very reluctant to reduce their workforce too far. This may be due to lessons learned over the past couple of years, with many industries having big problems sourcing skilled labour. Businesses that are not on the brink of bankruptcy may therefore be willing to bear the short-term cost of over-employment in order to reduce recruitment costs once the economy picks up.

The easing of monetary policy worldwide needs to be reversed in order to stop inflation expectations from taking off. Although the fixed income market has already begun to take account of this, we still believe that rate increases will come quicker than the market currently anticipates.

Key events of the week ahead

- We expect AKU/LFS unemployment to climb from 3.2% in March to 3.3% in April

AKU Unemployment



Source: Reuters EcoWin, Statistics Norway

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USA: Exit strategy or not?

Data still pointing upwards

Despite a fall in the NAHB housing index, both housing starts and building permits picked up. The coming week brings more information on the state of the housing market in the form of home sales in May and the FHFA house price index for April.

The past week also brought another uplifting sign from the labour market, with the number of continuing unemployment claims falling by 148,000 – the biggest decrease since November 2001 and the first since January this year. There may be a number of technical factors behind this surprisingly big drop, such as problems with the seasonal adjustment, but if this trend continues, it looks as if there will be another good employment report in June.

In industry, the shutdowns in the automotive sector continue to muddy the picture. Two of the regional PMIs – the Philly Fed and Empire State – have been released to date. Taken together, they suggest a largely unchanged ISM in June. However, we expect industry, and so the ISM, to continue to pick up in the coming months as the manufacturing sector closes the gap between production and demand.

FOMC meeting a balancing act

The market is currently pricing in rate increases of more than 75bp from the Federal Reserve over the next 12 months, but we think this is too aggressive. Although we expect the economy to improve in the coming quarters, continued growth in unemployment, still high idle capacity in the economy and low underlying inflation will keep the central bank on the sidelines until the second half of next year.

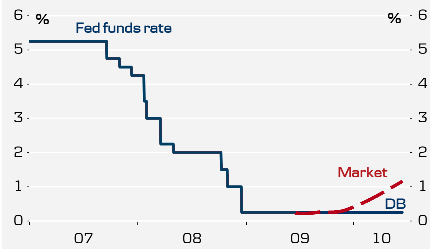
The FOMC will be performing something of a balancing act at its meeting on 23-24 June. On the one hand, we expect it to share our view of the market's interest rate expectations. On the other, some FOMC members fear that inflation expectations will pick up if the Fed does not make it clear that it is prepared to implement exit strategies as soon as necessary. We expect the Fed to stress once again that it will keep the funds rate low for a long time to come. We also expect a more upbeat tone when it comes to the economic outlook. In this context, the Fed may choose to insert a sentence about exit strategies, which were not mentioned at all at the April meeting.

Another important topic is the Fed's quantitative easing. We expect the Fed to keep the overall size of its existing purchase programmes in the mortgage and government bond markets unchanged. However, the Fed is likely to choose to extend the current programme for government bonds, which expires in August. There has also been talk of changes in the composition of these purchases, with the Fed acquiring more government bonds and fewer mortgage-backed securities, but we expect the Fed to stick to the current ratio.

Key events of the week ahead

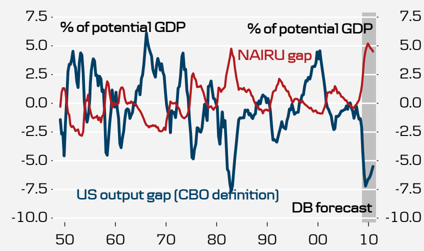
- Sales of existing homes (Tuesday)
- FHFA house price index for April (Tuesday)
- Durable goods orders (Wednesday)
- Sales of new homes (Wednesday)
- FOMC interest rate decision (Wednesday)
- Fed's Fisher speaks (Friday)
- University of Michigan consumer sentiment (Friday)

Market pricing in rate increases...



Source : Bloomberg, Danske Markets

... but high idle capacity will keep Fed on the sidelines



Source: Reuters Ecowin, Danske Markets

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Euroland: Confidence jumps

ZEW jumps higher – The rest should follow

The ZEW economic expectations indicator increased sharply to 44.8 in June (consensus 35.0) from 31.1. Forecasts from 40 analysts ranged from 25 to 45. We were the outlier on the upside. It is quite normal for the ZEW expectations index to improve quite sharply, as survey participants start almost simultaneously to believe that the macroeconomic situation will improve in six months. The sharp increase in expectations brings the expectations index up to the highest level since May 2006 and well above the average level, which is around 26.

Next week we get an abundance of confidence indicators. Monday starts with the Ifo index, which is estimated to show the same pattern as the ZEW – i.e. a strong improvement in expectations and a modest improvement in current conditions. Several indicators – including the OECD leading indicator – confirms that Ifo expectations should rise sharply. However, the improvement might be somewhat less pronounced than for ZEW, as has been the case in the last couple of months. This reflects the difference in survey participants, as financial analysts (ZEW) seems to have become more convinced of a rebound than firms (Ifo) are of a more favourable business situation.

Tuesday will deliver PMI for Euroland, Germany and France and we also get German consumer sentiment and the Belgian leading indicator. Essentially we expect everything to rise strongly. Germany will benefit the most from the recovery in Asia and we project that German PMI will increase slightly more than French PMI, albeit from a lower level. Manufacturing PMIs are also expected to increase more sharply than service PMIs. Manufacturing is harder hit by the downturn and will now benefit the most from the rebound.

The rest of the week is somewhat more quiet. Wednesday we receive Italian consumer confidence and Friday French consumer confidence data are out too. Consumer confidence is about to recover across Euroland, but it will likely be quite fragile. Consumers will remain very concerned about rising unemployment and sliding house prices for quite a while.

The sharp increase in business expectations strengthens our case that we will experience a strong rebound in Q3 with quite sharp increases in industrial production. Thereafter Euroland is projected to see more modest growth as many countries will struggle with large government deficits, high unemployment and further declines in house prices.

The sun rises in the far east

A quarter of the euro area's exports has evaporated – and imports have suffered the same fate. Euroland exports declined 1.3% in April and are now 24.3% lower than a year ago. Imports fell as much as 2.7% and are also down precisely 24.3%. Germany – the world's largest exporter – has been hit particularly hard by the crisis because of a pro-cyclical export mix with an abundance of investment goods and motor vehicles. We believe that exports have been in a stabilisation phase since February after having been in freefall.

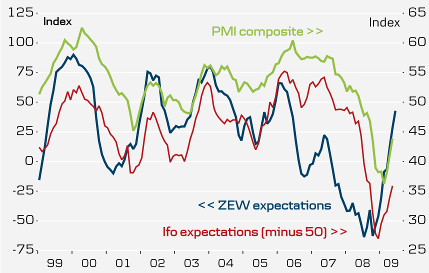
We project that exports will start to increase in the coming months. This would be in line with the modest rebound we have seen in German manufacturing non-euro area export orders. The improvement in exports will be driven by Asia, where we currently see strong signs of a rebound. Indeed, exports to both China and the rest of Asia (excluding Japan) have increased quite sharply in the past three months. Exports to Japan only started to improve slightly in April. Asia accounts for approximately a fifth of Euroland exports.

It is the trade with Eastern Europe that is particularly hard hit. In the first four months of the year, exports to Russia declined 34% and imports from Russia fell as much as 41% compared with the same period last year (which is partly explained by the decline in energy prices). There are signs of stabilisation or even a recovery in Eastern Europe, which will certainly be a relief for Euroland, but risks in the region remain high with several countries currently in a very bad state. Eastern Europe accounts for slightly less than a fifth of Euroland exports.

Key events of the week ahead

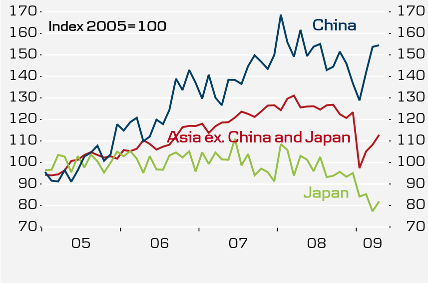
- Ifo (Monday) – The expectations index is projected to show a sharp increase - though not quite as pronounced as for ZEW. Current conditions increase moderately.
- PMI (Tuesday) – Expect to see increases across the board and look for strong signals from German manufacturing and new orders.
- German flash HICP (during the week) turns negative in June
- Industrial new orders (Thursday) – look for a stabilisation in April data

Confidence rebounds



Source: Reuters EcoWin

Exports to Asia rebounds



Source: Reuters EcoWin

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Asia: Upward revisions of growth ahead

World Bank revises up growth forecast for China

The news from Asia continues to be overwhelmingly positive. Most recently the World Bank has revised up its forecast for Chinese GDP growth in 2009 from just 6.5% to 7.2%. We reckon that the bank will have to revise its forecast up further, as we find it a little on the low side, especially given the very strong figures for May released to date. Judging from industrial production, it looks as if GDP will grow by more than 10% q/q AR in Q2 (see *Flash Comment – China: GDP growth could exceed 10% later this year*). We are therefore now considering revising up our own forecast for Chinese GDP growth in 2009, which currently stands at 7.9%.

The World Bank's upward revision of its China forecast is probably only the first of a stream of upward revisions of forecasts for the Asian economies, where the economic recovery is currently most obvious. This can currently also be seen in European exports, where Asia is one of the few rays of light at present (see *Flash Comment – Euroland: A quarter of foreign trade has evaporated*).

BoJ sees signs of stabilisation in the economy

There were no big surprises at the Bank of Japan's monetary policy meeting during the week. The most important development was a further slight upward revision of the bank's assessment of the Japanese economy (see *Flash Comment – Japan: BoJ slightly more positive on the economy*). However, it was only a marginal change relative to the previous meeting in May, when the main message – reiterated this time around – was that the economy is bottoming out. The next big step in the BoJ's assessment of the economy will be when it says that the economy is once again *expanding*. We do not expect this to happen until the end of Q3.

No dramatic developments are anticipated on the monetary policy front in Japan. There is no need for further unconventional easing, and so the debate will instead focus on how the existing unconventional measures will be phased out. This debate in turn will not be very dramatic, as the BoJ's unconventional monetary policy easing has been much more modest in scope than in some other countries. We do not expect to see the BoJ raising interest rates until the middle of next year.

Exports climbing, but only moderately

Japan will release trade figures for May in the coming week, one of the last countries in Asia to do so. The overall picture in Asia is that exports have moved off bottom but are still climbing only moderately. As for Japan, we expect a small increase in exports for the third month in a row of just under 3% m/m. Meanwhile we expect imports to fall by around 3.5% m/m due to continued destocking and dwindling domestic investment activity. Together this would result in a seasonally adjusted trade surplus for the first time since June last year.

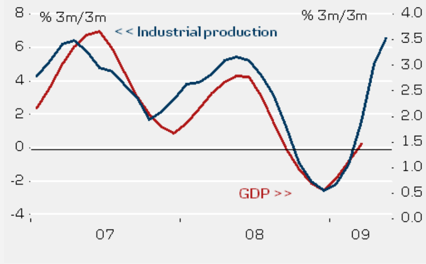
Inflation falls further in Japan

We expect Japanese consumer prices to fall sharply by 0.9% y/y in May after a more modest decrease of just 0.1% y/y in April. However, it is primarily base effects from rising energy prices that are behind the big drop in the annual rate of inflation. As can be seen from the chart, consumer prices have stopped falling in recent months, due not least to energy prices having begun to rise again. Core inflation and wages are still falling quite rapidly, due partly to a still very weak labour market. Although consumer prices have stabilised in recent months, it is therefore still too early to completely write off the risk of deflation in Japan.

Key events of the week ahead

- South Korean trade data for the first 20 days of June (Monday) – first indication of how Asia will pan out in June
- Japanese foreign trade figures for May (Wednesday)
- Japanese consumer prices for May (Friday)

Industrial production signals GDP growth in China

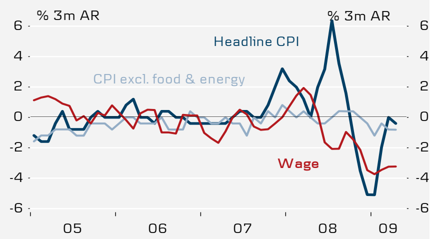


Source: Reuters EcoWin

Only moderate growth in exports to date

Source: Reuters EcoWin

Consumer prices no longer falling in Japan



Source: Reuters EcoWin, Danske Bank

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UK: BoE to hike in Q2 10

Bank of England: "News mostly encouraging"

The minutes from the MPC meeting on 4 June revealed a slightly more positive Bank of England (BoE). BoE hence provided a long list of more positive comments:

- Conditions in financial markets had continued to improve
- PMI data suggested the pace of contraction was slowing
- Decline in consumption in Q2 looked to be smaller than BoE had previously anticipated
- The housing market showed signs of stabilisation
- Labour market indicators provided evidence that unemployment was beginning to rise more slowly

BoE actually pointed to the **possibility of a positive feedback loop**. "Such positive developments had the potential to reinforce each other. Evidence of better-than-expected near-term demand and output could encourage firms to maintain the size of their workforces rather than shed labour aggressively. A more muted rise in unemployment, combined with signs of stabilisation in the housing market, could also bolster household confidence and temper the need for increased precautionary saving. And such developments had the potential to limit the size of losses to which UK banks were exposed, improving their willingness and ability to lend."

To balance the more positive signals, BoE **still highlights the medium-term downside risks** and the fragility of the economy, though. BoE concludes that overall, the risk of a continued sharp contraction in output in the near term had receded somewhat. However, there was no reason to conclude that the medium-term outlook for the economy, and thus inflation, had changed materially since the Inflation Report had been finalised.

BoE had a vague – but new – comment on exit strategy: "The Committee would continue to monitor inflation expectations and other measures of its credibility when assessing the appropriate stance of monetary policy... it would also continue to communicate…that it could and **would tighten policy once the current exceptional degree of monetary stimulus was no longer warranted**". Based on the recent strong data and more positive BoE, we now expect the tightening cycle to start in Q2 10. We look for 50bp hike followed by further tightening in the second half of 2010.

Labour market surprised again – retail sales disappointed

In the past week **unemployment** data provided more evidence to the thesis that job cuts are easing. Unemployment rose much less than expected by 39k in May (consensus 60k), down from 49.6k in April. It was the third month in a row in which unemployment rose by less than expected and suggests that job cuts have been more front-end loaded in this recession, possibly as a consequence of the extreme pressure on all companies when the financial crisis was at its worst.

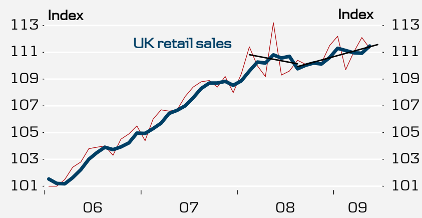
Retail sales, however, disappointed in May, falling 0.6% m/m (consensus +0.3%). The trend is still slightly up in retail sales but at a very subdued pace.

CPI fell less than expected in May to 2.2%% y/y (consensus 2.0%) down from 2.3%% in April. Core inflation actually rose to 1.6% from 1.5% in April. The sticky inflation may be due to a stronger feedback from the strong depreciation of the GBP over the past year. Easing the inflation concerns a bit, though, was a further decline in wage growth in May which excluding bonuses fell to 2.7% – the lowest level since 1997.

Key events of the week

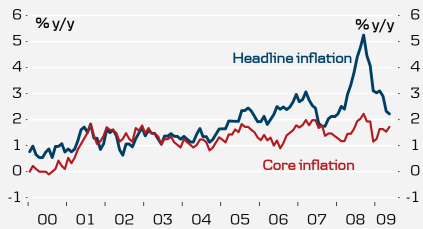
- Rightmove house prices (Monday) and Nationwide house prices (day not specified). Both indices have risen recently, pointing to housing stabilisation
- BBA loans for house purchases (Tuesday)
- Distributive Trades Survey (Wednesday)

UK retail sales stalled in May



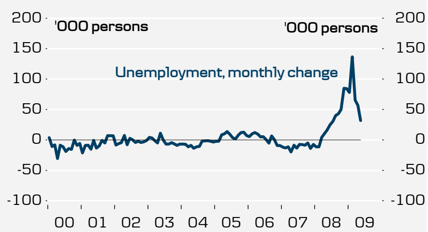
Source: Reuters Ecowin

UK inflation falling slower than expected – core resilient



Source: Reuters Ecowin

Unemployment rising at slower pace



Source: Reuters Ecowin

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Switzerland: More of the same

SNB reiterates its monetary policy stance

The Swiss National Bank (SNB) did not use its Q2 monetary policy meeting to communicate any changes to monetary policy, but left the three-month LIBOR target unchanged at 0.25% and maintained already implemented unconventional measures.

Hence, the initial market reaction was rather muted with short-term interest rates marginally lower and CHF somewhat stronger – potentially driven by profit-taking (loss-reduction), as the market is likely to have been long EUR/CHF prior to the meeting. However, after having tested and been rejected at the 1.5008 low from 15 June, EUR/CHF was bid higher to break back above 1.51. Neither the SNB nor BIS would confirm that it was intervention, but news agencies did report rumours that the SNB had been checking rates.

Deflation scares remain with the SNB – though less acute

As expected, the SNB weighed an improved global economic and financial outlook against weak domestic growth and absent price pressures to conclude that there was no need to change monetary policy. Hence, the SNB stated that it will: (i) continue to provide ample liquidity to the market via its repo facilities (seeking to drive the three-month LIBOR closer to target), (ii) continue to purchase privately issued CHF bonds (the SNB has already bought around CHF2.5bn in mortgage bonds and CHF300m in corporate bonds), and (iii) continue to "take firm action to prevent an appreciation of the Swiss franc against the euro."

The SNB did not change its GDP forecast and only lifted its inflation forecast profile marginally to reflect the rise in oil prices since March. Hence, the SNB is still looking for the economy to contract throughout 2009 before returning to positive growth rates in 2010, and for inflationary pressures to remain more or less absent for the next three years. However, despite maintaining a negative outlook on growth and inflation, the SNB did emphasise that some of the risks that it saw at the last monetary policy meeting have been reduced. This is very important, as it indicates that the probability attached to a 'depressionary' scenario has been reduced, making it much less likely that further unconventional measures will be taken.

The time window is closing for further monetary easing

With our positive expectations for the global economy, and the sustainability of the current recovery, we believe that the window is closing on the SNB to ease monetary policy further. Given that the SNB did introduce new unconventional measures at Thursday's meeting, we believe it is unlikely that further steps will be taken. That said, we also do not believe that the economic outlook warrants any immediate tightening of monetary policy and we therefore look for the three-month LIBOR target to remain at 0.25% going well into 2010 and for the SNB to continue to provide liquidity at 0.05%.

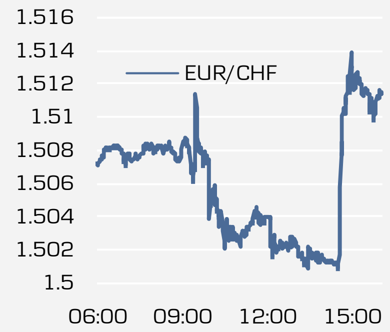
EUR/CHF looks range-bound for now

If there ever were any doubts, the SNB has assured that the 'SNB-put' remains in place and that the SNB will continue to act to prevent a potential appreciation of the Swiss franc against the euro. We remain confident that the SNB will in fact be successful in securing a floor below EUR/CHF (with 1.50 looking quite robust), although one should keep in mind that the SNB has been quite explicit about not wanting to intervene at a specific level. As fundamental drivers meanwhile appear to be putting downward pressure on the cross (EUR/CHF has traded flat despite a 40% rally in equities), we expect EUR/CHF to remain range-bound for now. In the longer term, we expect the SNB to be less active in the FX market – both verbally and actively – but still look for a gradual depreciation of CHF driven by a cyclical improvement in global markets.

Key events of the week

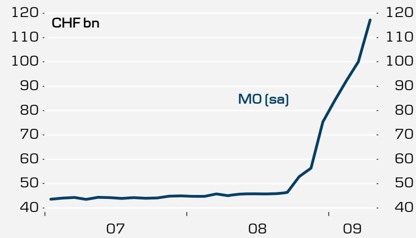
- Trade balance for May (Tuesday)
- SNB's Roth speaks in Geneva (Wednesday)
- KOF's leading indicator covering June (Friday)

EUR/CHF around the SNB meeting



Source: Danske Markets

Explosive money growth as the SNB has moved to QE



Source: Reuters EcoWin

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Macroeconomic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Exports[1]	Imports[1]	Inflation[1]	Unemploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2008	-1.1	-0.1	1.1	-3.6	0.3	2.2	3.7	3.4	1.8	2.7	32.9	2.0
	2009	-2.4	-2.5	1.8	-8.8	-0.2	-5.5	-6.3	1.4	3.3	-1.2	31.7	0.9
	2010	0.8	2.3	1.6	-5.3	0.1	1.9	1.5	1.9	4.4	-1.4	30.3	0.9
Sweden	2008	-0.2	-0.2	1.3	3.5	-0.7	1.7	3.0	3.4	6.2	3.0	37.4	7.2
	2009	-4.6	-1.9	1.9	-13.7	-1.4	-17.4	-19.9	-0.3	10.0	-5.0	39.7	6.7
	2010	0.8	0.7	3.8	-5.5	-0.3	0.5	-1.1	0.9	12.0	-2.0	42.7	7.2
Norway	2008	2.0	1.3	3.7	3.3	0.9	0.8	4.3	3.8	2.6	8.0	26.0	19.0
	2009	-1.0	0.3	4.8	-6.6	-0.5	-3.3	-4.1	1.9	3.9	12.0	26.0	24.9
	2010	2.4	3.2	4.9	1.3	0.0	1.0	2.1	2.2	4.4	13.9	26.0	24.8

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Exports[1]	Imports[1]	Inflation[1]	Unemploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euroland	2008	0.6	0.4	1.9	-0.3	0.1	0.9	1.0	3.3	7.6	-1.9	69.3	-0.8
	2009	-3.9	-0.6	1.7	-8.7	-0.4	-12.9	-10.1	0.4	9.6	-4.8	77.2	-1.7
	2010	2.0	0.6	2.4	3.2	0.2	2.4	5.1	1.3	10.8	-5.5	82.3	-1.5
Germany	2008	1.3	-0.6	1.9	2.6	0.1	3.5	5.5	2.9	7.4	-0.5	63.0	7.1
	2009	-5.4	0.2	1.9	-4.0	-0.4	0.2	2.5	0.3	8.4	-3.5	67.0	5.2
	2010	2.4	1.2	1.9	1.5	0.2	4.0	4.5	1.1	9.7	-5.5	72.0	5.4
France	2008	0.8	0.8	1.4	0.5	0.0	2.0	1.8	3.3	7.8	-2.9	66.0	-1.6
	2009	-2.1	-0.4	1.6	-3.8	-0.3	-0.3	-0.4	0.4	8.6	-5.0	71.0	-1.4
	2010	1.9	1.6	1.4	2.1	0.2	2.9	2.9	1.3	9.1	-6.0	78.0	-1.6
Italy	2008	-0.3	-0.6	1.2	-1.5	0.0	0.3	-1.5	3.6	7.0	-2.6	103.0	-2.6
	2009	-4.6	0.2	1.2	-4.8	-0.3	-0.6	-0.9	0.8	8.5	-4.0	107.0	-2.1
	2010	1.6	0.3	1.0	2.0	0.2	2.0	2.4	1.9	9.1	-4.5	111.0	-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	0.0	18.2	-8.5	47.0	-6.0
	2010	1.4	0.2	3.5	-3.0	0.2	5.5	2.5	1.4	21.0	-9.5	56.0	-6.0
Finland	2008	0.9	2.0	1.7	1.0	-0.6	-1.1	-1.3	4.1	6.4	4.2	33.4	2.5
	2009	-3.5	-0.8	1.5	-11.0	0.0	-12.0	-9.5	1.0	7.6	0.0	38.0	1.6
	2010	1.0	1.0	1.5	-2.0	0.0	4.0	2.5	1.3	8.5	-3.0	43.0	2.1

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Exports[1]	Imports[1]	Inflation[1]	Unemploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2008	1.1	0.2	2.9	-5.0	-0.2	6.2	-3.5	3.8	5.8	-3.2	69.0	-4.7
	2009	-2.4	-0.5	0.8	-19.4	-0.2	-11.9	-14.5	-0.9	9.2	-13.1	82.0	-2.5
	2010	2.6	1.9	2.4	1.0	0.9	5.2	5.9	2.4	9.6	-9.0	88.0	-3.5
Japan	2008	-0.7	0.6	0.8	-4.8	-0.2	1.9	0.9	1.5	4.0	-5.6	196.0	3.3
	2009	-6.2	-1.7	1.7	-16.7	-0.4	-27.0	-13.1	-0.6	5.3	-9.8	212.0	2.4
	2010	3.2	1.3	1.6	1.8	0.2	19.3	1.1	0.2	5.2	-8.0	220.0	3.6
UK	2008	0.7	1.7	3.3	-4.0	0.0	0.5	1.2	3.7	2.8	-2.5	50.1	-3.6
	2009	-2.7	-0.3	1.5	-0.3	0.0	-3.6	0.0	2.3	5.0	-8.8	60.0	-3.4
	2010	1.0	1.6	2.0	2.2	0.0	4.6	4.9	1.5	6.4	-9.6	68.0	-2.9
Switzerland	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.

Danske Bank

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	19-Jun	0.13	1.74	4.08	138.9	-	535.9
	+3m	0.13	1.85	4.40	139	-	536
	+6m	0.13	2.20	4.60	144	-	517
	+12m	0.13	2.70	5.00	140	-	533
EUR	19-Jun	1.00	1.94	3.81	-	138.9	744.5
	+3m	1.00	2.00	3.95	-	139	745.0
	+6m	1.00	2.15	4.10	-	144	745.0
	+12m	1.00	2.75	4.30	-	140	746.0
JPY	19-Jun	0.10	0.70	1.41	134.8	97.1	5.52
	+3m	0.10	0.70	1.55	139	100	5.36
	+6m	0.10	0.80	1.70	151	105	4.93
	+12m	0.10	1.05	1.95	151	108	4.94
GBP	19-Jun	0.50	2.35	4.26	85.0	163.4	875.8
	+3m	0.50	2.30	4.40	84.0	165	887
	+6m	0.50	2.60	4.65	82.0	176	909
	+12m	1.00	3.20	4.90	78.0	179	956
CHF	19-Jun	0.25	0.85	2.76	151.2	108.8	492.4
	+3m	0.25	0.90	2.90	152	109	490
	+6m	0.25	0.95	2.90	154	107	484
	+12m	0.25	1.35	3.00	158	113	472
DKK	19-Jun	1.55	2.69	4.08	744.5	535.9	-
	+3m	1.45	2.60	4.25	745.0	536	-
	+6m	1.35	2.60	4.40	745.0	517	-
	+12m	1.35	3.10	4.55	746.0	533	-
SEK	19-Jun	0.50	1.65	3.80	1103.0	793.9	67.5
	+3m	0.50	1.50	3.90	1050	755	71.0
	+6m	0.50	1.60	4.05	1020	708	73.0
	+12m	0.50	2.30	4.50	1000	714	74.6
NOK	19-Jun	1.25	2.83	4.73	889.5	640.3	83.7
	+3m	1.50	3.00	4.50	850	612	87.6
	+6m	1.50	3.25	4.70	830	576	89.8
	+12m	2.00	4.05	4.90	820	586	91.0
PLN	19-Jun	3.75	4.97	5.70	453.6	326.5	164.1
	+3m	3.50	5.00	5.85	450	324	166
	+6m	3.50	5.20	6.00	455	316	164
	+12m	3.50	5.80	6.20	460	329	162

Equity markets

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

Commodities

		2009				Average	
	19-Jun	Q1	Q2	Q3	Q4	2009	2010
ICE Brent	72	46	60	68	73	62	75
Aluminium	1,642	1,401	1,525	1,550	1,600	1,519	2,000
Copper	4,970	3,494	4,700	5,000	5,400	4,649	5,350
Nickel	1,563	1,208	1,475	1,500	1,500	1,421	1,775
Gold	933	909	930	920	940	925	930
CBOT Wheat*	566	548	560	600	660	592	700
CBOT Corn*	427	377	400	450	480	427	480

Source: Danske Markets

Danske Bank

Calendar

Key Data and Events in Week 26

Monday, June 22, 2009				Period	Danske Bank	*Consensus*	Previous
1:01	GBP	Rightmove House Prices	m/m|y/y	Jun			2.4%|-6.2%
1:50	JPY	BSI Large Manufacturing	q/q	2nd quarter			-66.0%
1:50	JPY	BSI All industri	q/q	2nd quarter			-51.3%
9:30	DKK	Consumer confidence	Net balance	Jun	**-4.0**	*-2.5*	-4.7
10:00	DEM	IFO-indicator (current conditions)	Index	Jun	**83.3**	*83.1*	82.5
10:00	DEM	IFO-indicator (expectations)	Index	Jun	**87.7**	*87.0*	85.9
10:00	DEM	IFO-indicator (business climate)	Index	May	**85.5**	*85.0*	84.2
14:00	EUR	ECB's Trichet speaks					
18:40	USD	Fed's Lockhart (voter, neutral) speaks					

Tuesday, June 23, 2009				Period	Danske Bank	*Consensus*	Previous
7:00	JPY	Leading Economic Index, final	Index	Apr			76.5
8:10	DEM	GfK Consumer Survey	Index	Jul		*2.5*	2.5
8:15	CHF	Trade balance	CHF bn	May			2.56 (rev. 2.55)
8:45	FRF	Household consumption	m/m|y/y	May		*-0.3%|-0.6%*	0.7%|0.6%
8:45	FRF	INSEE, Business climate indicator	Index	Jun		*74*	72
9:00	EUR	ECB's Bini Smaghi speaks					
9:00	FRF	PMI Manufacturing, preliminary	Index	Jun	**45.9**	*45.0*	43.3
9:00	FRF	PMI Services, preliminary	Index	May	**50.1**	*48.5*	48.3
9:30	DEM	PMI Manufacturing, prelinary	Index	Jun	**43.0**	*40.9*	39.6
9:30	DEM	PMI Services, preliminary	Index	Jun	**46.7**	*46.0*	45.2
10:00	EUR	PMI Manufacturing, preliminary	Index	Jun	**43.8**	*42.0*	40.7
10:00	EUR	PMI Service, preliminary	Index	Jun	**46.7**	*45.6*	44.8
11:00	G7	OECD Economic Outlook					
12:00	EUR	ECB's Ordonez speaks					
15:00	EUR	ECB's Weber speaks					
15:00	BEF	Business Confidence		Jun	**-24.8**		-27.6
16:00	USD	House price index	m/m	May		*-0.3%*	-1.1%
16:00	USD	Existing home sales	m. (m/m)	May	**4.71 (0.7%)**	*4.80 (2.6%)*	4.68 (2.9%)

Wednesday, June 24, 2009				Period	Danske Bank	*Consensus*	Previous
1:50	JPY	Merchnds Trade balance	JPY bn	May	**30**	*220.0*	69.0
1:50	JPY	Adjusted Merchnds Trade balance	JPY bn	May	**100**	*250.0*	-52.2
9:30	ITL	Consumer confidence	Index	Jun		*104.7*	104.9
10:00	NOK	Unemployment s.a. (LFS)	%	Apr	**3.3%**	*3.3%*	3.2%
12:00	EUR	Balance of payments	EUR bn	Apr			-6.5
13:00	USD	MBA mortgage applications	%				-15.8
14:30	USD	Durable goods orders	m/m	May		*-0.9%*	1.9%
16:00	USD	New home sales	1000 (m/m)	May	**350 (-0.7%)**	*360 (2.3%)*	352 (0.3%)
20:15	USD	FOMC meeting	%		**0.13**	*0.13*	0.13

Source: Danske Markets

Danske Bank

Calendar - continued

Thursday, June 25, 2009				Period	Danske Bank	Consensus	Previous
9:00	EUR	ECB's Bini Smaghi speaks					
9:15	SEK	Manufacturing confidence	Index	Jun	**-25**	*-30*	-34
9:30	SEK	Consumer confidence	Index	Jun	**-9.0**	*-8.8*	-11.0
9:30	SEK	PPI (incl. export- and importprices)	m/m|y/y	May	**0.1%|3.6%**	*0.0%|3.5%*	-0.9%|3.2%
9:30	DKK	New car sales, s.a. (Private households)	m/m	May	**2.6%**		-7.6%
9:30	ITL	Business confidence	Index	Jun		*69.5*	68.7
10:00	PLN	Retail sales	y/y	May	**-2.2%**	*-0.1%*	1.0%
10:00	PLN	Unemployment	%	May	**10.8%**	*10.8%*	11.0%
11:00	EUR	Industrial new orders	m/m|y/y	Apr	**-0.4%|..**	*0.0%|-33.9%*	-0.8%|-26.9%
14:30	USD	GDP, final	q/q ann.	1st quarter	**-5.7%**	*-5.7%*	-5.7%
14:30	USD	Personal Consumption	q/q ann.	1st quarter	**1.5%**	*1.5%*	1.5%
14:30	USD	GDP Price Deflator	%	1st quarter	**2.8%**	*2.8%*	2.8%
14:30	USD	Core PCE	%	1st quarter			1.5
14:30	USD	Initial jobless claims	1000				608
16:00	USD	Fed's Bernanke (voter, neutral) speaks					

Friday, June 26, 2009				Period	Danske Bank	Consensus	Previous
-	DEM	Inflation (HICP), preliminary	m/m|y/y	Jun	**0.2%|-0.1%**	*0.2%|-0.1%*	-0.1%|0.0%
1:30	JPY	CPI - Tokyo	y/y	Jun		*-1.3%*	-0.8%
1:30	JPY	CPI - Tokyo Ex Fresh Food	y/y	Jun		*-1.0%*	-0.7%
1:30	JPY	CPI - National	y/y	May	**-0.9%**	*-1.1%*	-0.1%
1:30	JPY	CPI - National Ex. Fresh Food	y/y	May	**-0.9%**	*-1.1%*	-0.1%
1:50	JPY	All Industry Activity Index	m/m	Apr		*2.1%*	-2.4%
8:45	FRF	GDP, final	q/q|y/y	1st quarter		*-1.2%|3.2%*	-1.2%|-3.2%
8:50	FRF	Consumer confidence	Net bal.	Jun		*-39*	-40
9:30	SEK	Trade balance	SEK bn	May	**8.5**		8.4
11:30	CHF	KOF Swiss leading indicator	Index	Jun	**-1.78**		-1.86
14:30	USD	Personal income	m/m	May	**-0.1%**	*0.3%*	0.5%
14:30	USD	Personal spending	m/m	May	**0.3%**	*0.4%*	-0.1%
14:30	USD	Private consumption expenditure	y/y	May			0.4%
14:30	USD	PCE core - deflator	m/m|y/y	May	**0.2%|1.9%**	*0.1%|1.8%*	0.3%|1.9%
16:00	USD	University of Michigan Confidence, final	Index	Jun	**69.2**	*69.0*	69.0
19:00	USD	Fed's Fisher (non-voter, neutral) speaks					

During the week				Period	Danske Bank	Consensus	Previous
Mon 22 - 30	GBP	Nationwide House Prices	m/m|y/y	Jun		*0.2%|-10.1%*	-1.2%|-11.3%
Tue 23 - 27	GBP	CBI Distributive Trades Report					
Thu 25 - 02	NOK	Retail sales, s.a.	m/m|y/y	May			

Source: Danske Markets

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