

# Weekly Focus

## Squaring positions

### Global update

- Year-end position squaring is widening sovereign spreads in peripheral Euroland countries. In combination with the abundance of liquidity this is driving short bond yields to very low levels.
- OECD has revised up its 2010 outlook.
- US October data have been mixed, but with important signs of more progress among consumers. Unusually bad weather has probably had some temporary negative impact. In summary data continue to point to a solid Q4.
- Japan published very strong Q3 GDP growth of 4.2% q/q AR showing the strongest performance among G7 countries so far.

### Market movers ahead

- The main event in US are the FOMC minutes. Home sales, durable orders and consumer confidence are forecast to show progress. House prices are on the agenda as well. Thursday is closed due to Thanksgiving and Friday is likely to be quiet.
- In Euroland flash PMI and German Ifo will continue up, while the M3 growth will decline further. Euroland industrial new orders will be published as well.
- In Japan CPI and unemployment will be released. Focus will remain on the appreciation pressure on the Asian currencies.
- In Sweden Q3 GDP will confirm that the recession has ended and show strong growth of 0.8 q/q %. Retail sales, manufacturing confidence and PPI will attract attention as well.
- In Norway mainland GDP is likely to show impressive growth of 1.4% q/q.

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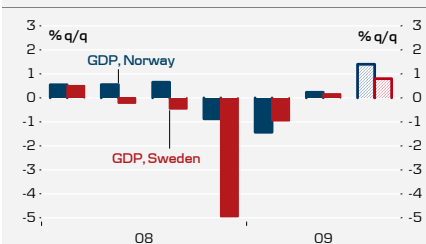
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Flash PMI and ifo in Euroland



Source: Reuters Ecowin & Danske Markets

Strong Q3 GDP in Sweden and Norway



Source: Reuters Ecowin & Danske Markets

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# Global update: Squaring positions

## Year-end risk reduction helps drive yields lower

At 0.69% the 2-year US bond yield is only 5bp from the low point during the crisis reached a year ago. 3-Month t-bill rates are again trading around 0%.

Mainly two factors are behind this development. First of all, investors and banks are most likely reducing risk towards year-end putting money in cash or highly liquid products. The risk reduction is also showing up in some risky assets such as peripheral bonds in the euro area. Especially Greece has been hit hard, but other countries also see their spread widening slightly. Greece is a story on its own as doubts are increasing over the sustainability of its public finances. The budget deficit is expected to be higher than 12% in 2010 for the second year in a row and the government debt is expected at 125% in 2010 and rising fast. Interest rate payments alone are 5% of GDP. If confidence in the Greek situation slides there is a risk of a negative spiral of rising yields adding to the interest payments of the government, which makes it even harder to improve the public finances.

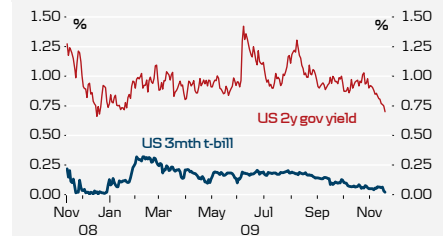
A second factor behind the sharp decline in t-bill rates and short bond yields are the continued dovish signals from leading Fed members such as Chairman Ben Bernanke and vice chairman Donald Kohn. As economic data have been a bit mixed this week with both housing starts and industrial production disappointing, expectations of Fed hikes are being postponed further. Retail sales ex autos were also a bit softer than expected, although the details still point to improvement in underlying retail sales growth (see *Flash Comment – US: More progress among consumers*).

## OECD revising global growth outlook higher - again

OECD published its Economic Outlook this week and upgraded its view of the global growth outlook. After having been fairly pessimistic on the global economy for some time (at least compared to our own assessment) OECD now takes the consequence of better data. It now expects growth in the US next year of 2.5% up from a previous estimate of 0.9%. It is still below our forecast of 3.2%, but the difference is much smaller. In Euroland we still have a more upbeat view than OECD reflecting expectations of stronger growth mainly in the next two quarters. The main difference between OECD and us is the estimate of how strong the impact will be from the inventory cycle. We believe this is a major factor behind the turnaround and a reason why OECD underestimates the pace of growth in the short term.

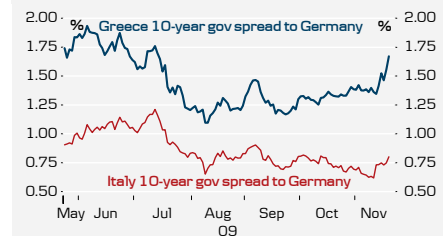
The inventory cycle is a global phenomenon and has been a strong driver behind the collapse in world trade. For some time companies were mainly producing out of inventories and did not order materials from suppliers abroad. Hence world trade collapsed. With inventories very lean at most levels of the supply chain, companies are starting to increase orders, which shows up in rising world trade. We expect the inventory cycle to run for at least another couple of quarters and therefore expect more of the same of what we saw in Q3. The latest country to report strong Q3 data was Japan. At 4.8% q/q annualised Japan has turned from underperformer to outperformer in the developed world. This is partly because Japan is highly exposed to world trade and partly because Japan benefits strongly from robust activity in Asia. However, domestic demand in Japan has also improved driven by higher capital expenditure which is a very positive signal for sustainability (see *Flash Comment – Japan: From underperformer to outperformer*).

### US 2y yields and 3-month t-bill falling towards year-end



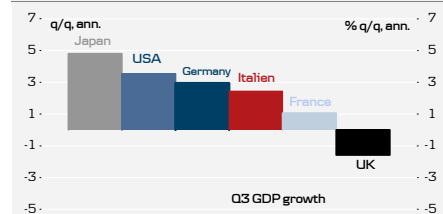
Source: Reuters Ecowin

### Risk reduction and doubts over Greek sustainability are widening the spread



Source: Reuters Ecowin

### Japan the outperformer in Q3 among developed countries



Source: Reuters Ecowin

### OECD revised forecasts higher

% y/y	2009		2010	
	Danske Bank	OECD	Danske Bank	OECD
USA	-2.3	-2.5 (-2.8)	3.2	2.5 (0.9)
Euroland	-3.7	-4.0 (-4.8)	2.2	0.9 (0.0)
Japan	-5.3	-5.3 (-6.8)	3.0	1.8 (0.7)
China	8.5	8.3 (7.7)	9.5	10.2 (9.3)

Note: Previous OECD forecasts in parenthesis  
Source: Reuters Ecowin

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# Market movers ahead

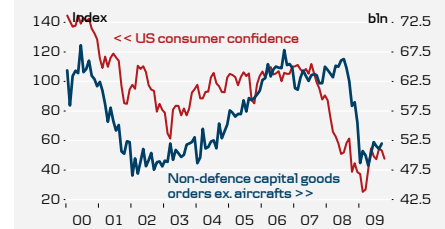
## Global

- In the US the main event is the FOMC minutes from the 4 November meeting, where focus will be on the revised economic projections and the committee's discussion about any future unwinding of alternative easing measures. We look for improving data in home sales, consumer confidence and spending for October. Revised Q3 GDP will be lowered to 3% from 3.5% q/q AR. House prices will attract some attention too.
- In Euroland M3 data is due out on Thursday. If the monthly loan flows improve, this will give some comfort to the ECB ahead of the important December meeting. M3 growth will decline sharply from 1.8% to 0.4% y/y due to base effects. The release of flash PMIs for Euroland, Germany and France are projected to show further improvements. The Ifo index should show that the German economy is still improving. Expectations are set to increase further and the current conditions index should begin to improve more strongly. Euroland industrial new orders are likely to show a modest increase following three months of strong growth.
- In Japan consumer prices and unemployment will be released next week. We expect the unemployment data to confirm that the unemployment rate has probably already peaked on the back of very solid growth in both Q2 and Q3. Otherwise the appreciation pressure on Asian currencies will remain in focus and it cannot be ruled out that some Asian countries will soon start to announce some controls on capital inflows to stem the recent appreciation pressure.

## Scandi

- In Norway we forecast impressive growth in mainland GDP of 1.4% q/q driven by public and private spending. That said, GDP should still remain below the level a year ago.
- In Sweden Q3 GDP is the main event. Manufacturing confidence for November and retail sales for October are also on the agenda.

US consumer confidence and orders



Source: Danske Markets

German ifo and Euro PMI



Source: Danske Markets

## Market movers ahead

Global movers			Event	Period	Danske	Consensus	Previous	
Mon	23-Nov	10:00	EUR PMI Manufacturing, Preliminary	Index	Nov	52.1	51.3	50.7
		16:00	USD Existing home sales	m (m/m)	Oct	5.73 (3.0%)	5.70 (2.3%)	5.57 (9.4%)
Tue	24-Nov	10:00	DEM IFO-indicator, Business Climate	Index	Nov	92.8	92.5	91.9
		14:30	USD Personal spending	m/m	Oct	0.7%	0.5%	-0.5%
Wed	25-Nov	16:00	USD New home sales	1000	Oct	415 (3.3%)	408 (1.4%)	402 (-3.6%)
		20:00	USD Minutes from FOMC meeting					
Thu	26-Nov	-	DEM Inflation (HICP)	m/ml/y	Nov	0.4%		0.1% 0.1%
		10:00	EUR M3 Money supply	y/y	Oct	0.4%	0.7%	1.8%
Fri	27-Nov	11:30	CHF KOF Swiss leading indicator	Index	Nov		1.85	1.45
Scandi movers			Event	Period	Danske	Consensus	Previous	
Tue	24-Nov	10:00	NOK GDP (mainland)	q/q	3rd quarter	1.4%		0.3%
Fri	27-Nov	9:30	SEK GDP	q/qly/y	3rd quarter	0.8% -4.5%		0.2% -6.0%
		9:30	SEK Retail sales	m/ml/y	Oct	4.0%		0.2% 2.7%

Source: Bloomberg and Danske Markets

# Financial views

## Equities

- We have moved close to our fair value target and anticipate headwinds to take over from tailwinds when it comes to further uptrends. We recommend investors exploit a usual year-end rally to prepare for a rollercoaster in 2010. This involves the following reallocation shifts: (a) move into high quality, (b) move into high yield, (c) move out of high beta, and (d) reduce in Financials & Industrials. If investors buy stocks vs. risk-free assets in Q4 09, it should be because they (a) are underweighted stocks, and/or (b) hold a long-term horizon. Otherwise, further exposure to global and local stock markets could be added at more attractive conditions than currently.

## Fixed Income

- Global:** We recommend reducing exposure towards year-end. Position squaring has pushed short yields lower. In the short term, yields will trade in the current range until more solid news regarding the tightening of monetary policy emerges. Our medium-term view is for further increases in yields on a sustainable recovery in the global economy, high supply and the beginning of the phasing-out of central bank measures.
- Intra-Euro:** We still recommend underweighting Spain, Greece and Portugal and on longer maturities, we are long Germany, Italy and the Netherlands.
- Scandi:** We look for a flatter curve in the 3-10Y segment for the longer horizon. In Danish mortgages, we overweight 30Y callables vs. both swaps and govies. We are long 3Y and 5Y Danish non-callables. In Sweden, we favour receiving the front end of the curve. We look for a steeper FRA curve in the 2010 vs. 2011 segment and we like to pay 5y5y fwd swaps against EUR. In Norway, we recommend long positions in longer-dated govies against either swaps or Bunds.

## Credit

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

## FX Outlook

- The peak in EUR/USD is still ahead as the dollar-negative factors dominate in the short and medium term. Rising equity and commodity prices are negative for the dollar, which tends to lose against the euro by the end of the year. GBP strength may be delayed due to a dovish BoE but GBP has solid potential ahead. JPY seems in our view too strong in the current economic upswing. We are positive on high-yielders.
- Scandi currencies continue to have potential but commercial interest is abating and liquidity is becoming thinner. SEK is backed by buoyant equity markets and a less tense situation in Latvia than previously, while NOK is supported by higher rates, a higher oil price and a milder downturn than elsewhere. Long NOK positions are crowded.

## Commodities

- Global optimism has sent both oil and base metals higher and we still see some upside potential going forward. We expect a test of USD90/bbl and USD7,000/t for copper within three months. The risk of a soft patch in the economy mid-2010 could, however, lead to largely sideways trading in commodities in Q2 and Q3 next year.

