

Weekly Focus

Dovish Fed keeps all options open

Market Movers ahead

- In the euro area all eyes will be on the EU-summit on Monday, where the main focus is expected to be the fiscal pact and Greece. However, without a conclusion on the PSI negotiations, it will be difficult to make progress with Greece.
- In the US we expect the rise in non-farm payrolls to have eased slightly (135K in January from 200K) partly due to seasonal factors. ISM manufacturing is expected to continue to edge higher in January.
- In Japan data are expected to confirm that the activity rebounded in December, but it will not be enough to compensate for an overall dismal Q4.
- In Norway and Sweden the manufacturing PMIs are expected to rebound slightly in January in line with already released flash PMIs from the Euro area.

Global Update

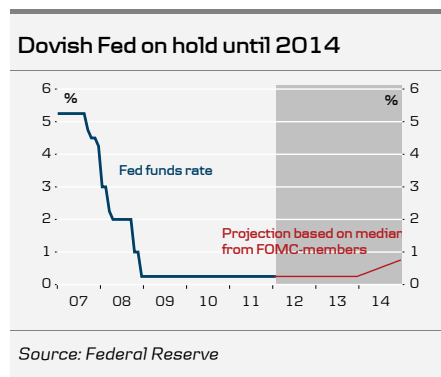
- The Fed statement was surprisingly dovish in light of recent encouraging US data. We now do not expect Fed to hike the fed funds rate until mid-2014.
- In the euro area better-than-expected PMIs suggest that the recession will be relatively mild.
- Japan's trade balance showed a deficit for 2011 as a whole and the current account surplus appears to be disappearing faster than expected. This development makes Japan more vulnerable to spill over from the debt crisis.
- In Sweden both trade balance and retail sales point to a marked slowdown in growth in Q4.

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Financial views			
Major indices			
	27-Jan	3M	12M
10yr EUR swap	2.33	2.35	2.80
EUR/USD	131	126	134
	27-Jan	6M	12-24M
S&P500	1315	5%-10%	> 15%

Read more on page 17

Source: Danske Bank



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Important disclosures and certifications are contained from page 21 of this report.

Market movers ahead

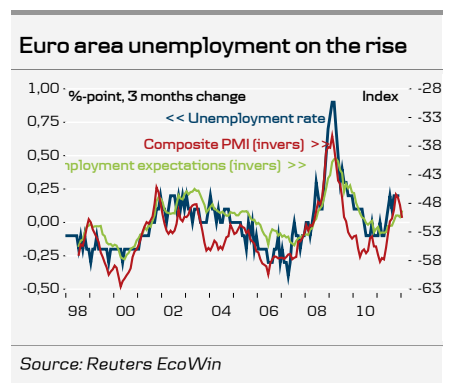
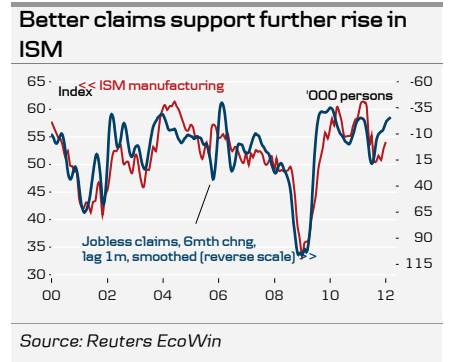
Global

- In the US it is time for the big data week with both ISM manufacturing and non-farm payrolls. We expect ISM manufacturing to grind higher again to 55.0 from 53.9, which is slightly higher than consensus at 54.5. Jobless claims have continued lower and point to continued improvement into 2012. Historically these have had a good correlation with ISM manufacturing.

Non-farm payrolls are expected to rise 135k in January after 200k in December. This will keep payrolls on a 3m average around 150k, slightly up from the average in previous months at 140k. A few factors will affect payrolls negatively. Firstly, the weather was mild in December, which gave a boost to construction payrolls. We believe this will be reversed in January. Secondly, government employment was slightly above the recent trend and we look for some payback here as well. Finally, our model based on ISM indices and jobless claims only points to job growth around 100k as service ISM employment is still fairly subdued. So we choose to stay on the conservative side on the payrolls estimate.

Other data of interest next week will be ISM service, core PCE, personal spending, house prices and car sales.

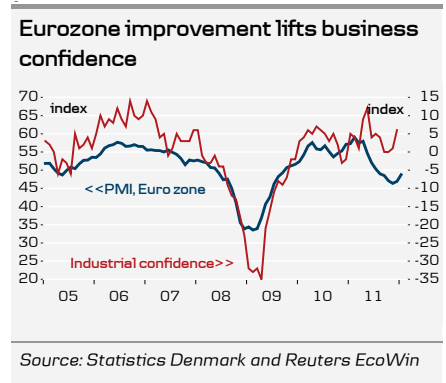
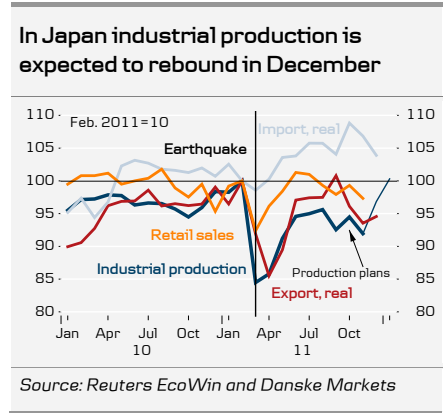
- In **Euroland** the week is kicked off with the EU summit on Monday focusing on the finer details of the fiscal pact. The Troika was expected to deliver a report on Greece ahead of the meeting but this may not be ready in time. It is also not clear whether a deal on Greek PSI will have been reached, in which case there is little room for progress on Greece at this summit. German inflation is projected to decline further from 2.1% in January to 2.0%. The decline in inflation will give the ECB some comfort that there is room for its extensive easing policy. German retail sales are expected to have rebounded in December following a slump in November, while the rebound in Euro area retail sales is likely to be less convincing. German unemployment may have fallen further from 6.8% to 6.7% in January. Euro area unemployment on the other hand could increase from 10.3% to 10.4% in December. Final PMIs are likely to confirm the improvements seen in flash PMIs with some potential for small upward revisions. In addition, the European Commission's confidence indicators for January will most likely confirm that the year has started with a notable improvement in confidence albeit from low levels.
- The **UK** calendar is pretty thin for the coming week with only PMI indicators and Nationwide house prices to pay attention to. While the former should be okay, the latter will most likely not give anything to cheer about. Markets will be in a wait-and-see mode ahead of the BoE meeting on 9 February.
- In **Switzerland**, focus will be on activity data as retail sales and the January PMI survey will be published. Market attention on Switzerland has eased somewhat following stable EUR/CHF trading since the resignation of SNB's Hildebrand. The Swiss franc remains strong – with EUR/CHF just above 1.2050 – but the minimum target was never really tested as some had feared. We continue to expect EUR/CHF to trade above the SNB floor over the coming quarters.



- In **Japan** most remaining economic data for December will be released on Tuesday. Overall the December number is expected to show some rebound on the back of the relatively dismal November. Part of the explanation for the weak November was a negative impact from the flooding in Thailand on particularly Japan's export and industrial production. Production plans suggest that industrial production rebounded around 3.5% m/m in November. Resilient production plans also suggest that the JMMA manufacturing PMI in January improved slightly to 51.0 from 50.2 in the previous month. Finally, the unemployment rate is expected to have remained unchanged at 4.5% in December. Despite our expectations of relatively upbeat December numbers, it will not be enough to change the overall picture of a dismal Q4 11, where we expect GDP growth to have been just 0.7% q/q AR.
- **China** will be back from Chinese New Year holiday next week. The most interesting release will be the NBS manufacturing PMI. In line with the flash estimate for the HSBC manufacturing PMI we expect it to be largely unchanged at 50.1 in January.

Scandi

- In **Denmark**, the coming week brings business confidence indicators in the form of the business tendency surveys for the manufacturing, service and construction sectors for January. We expect manufacturing sentiment to mirror that in the eurozone, which improved in January, heralding a brighter outlook for exports. More specifically, we predict that the manufacturing indicator will climb from 6 in December to 7 in January. Similarly, we expect the indicator for the service sector to rise from -1 to 0, and the indicator for the construction sector from -23 to -18. The less downbeat mood in the construction sector is due particularly to the winter so far turning out milder than usual.
- In **Sweden**, the week ahead will be something of a recovery period for all analysts worn out by last week's flood of interesting data. We will meet PMI on Wednesday (at 08:30 CET) and that same day, car registrations will also be published. PMI might be somewhat of a market mover since a continued upward rebound is expected due to the overall improved market sentiment during the past few weeks.
- In **Norway**, the week will give us a clearer picture of how the economy performed around New Year. Based on Christmas trading data, we expect retail sales to climb by only a moderate 0.2% m/m in December, but this would still be enough for retail sales to grow 0.9% q/q in Q4 as a whole, with the result that private consumption makes a solid contribution to Q4 GDP growth. Global manufacturing indicators seem to have turned now that the stock correction is almost over, so we expect the PMI to climb to 48.5 in January and to eliminate much of the downside risk related to a serious downturn in the export industry. We also expect the labour market data from the labour force survey (LFS) and the Norwegian Labour and Welfare Administration (NAV) to confirm that unemployment remains low, while employment growth has slowed slightly and the number of vacancies is growing somewhat less quickly than last year. While many businesses have become more cautious, demand in some parts of industry is sufficiently strong that manpower will need to be increased for output to keep up. Finally, we expect banks' tighter credit policies to begin to put a damper on credit growth to both households and businesses, but we still expect overall credit growth to be higher than GDP growth, leading to an increase in the debt-to-GDP ratio.



Market Movers ahead

Global movers			Event	Period	Danske	Consensus	Previous	
Mon	30-Jan	-	DEM	CPI, preliminary	m/m y/y	Jan	-0.5% 2.0%	0.7% 2.1%
		11:00	EUR	Consumer confidence, final	Net balance	Jan	-20.6	-20.6
		11:00	EUR	Economic Confidence	Net balance	Jan	93.5	93.3
		11:00	EUR	Industrial Confidence	Net balance	Jan	-7.2	-7.1
		14:30	USD	Personal spending	m/m	Dec	0.1%	0.1%
		14:30	USD	PCE core - deflator	m/m y/y	Dec	0.1% 1.7%	0.1% 1.7%
		15:00	EUR	EU Summit - Meeting starts 15.00, press conference following the meeting]				
Tue	31-Jan	0:50	JPY	Industrial production, preliminary	m/m y/y	Dec	2.9% -5.0%	-2.7% -4.2%
		9:55	DEM	Unemployment rate	%	Jan	6.7	6.8
		11:00	EUR	Unemployment rate	%	Dec	10.4	10.3
		15:00	USD	S&P/CaseShiller Composite-20	y/y	Nov	-3.21%	-3.40%
Wed	01-Feb	2:00	CNY	NBS PMI Manufacturing	Index	Jan	50.1	49.6
		10:30	GBP	PMI Manufacturing	index	Jan	49.8	49.6
		16:00	USD	ISM Manufacturing	Index	Jan	55.0	54.5
Fri	03-Feb	11:00	EUR	Retail sales	m/m y/y	Dec	0.3% ...	-0.8% -2.4%
		14:30	USD	Change in Nonfarm payroll	1000	Jan	135	148
		16:00	USD	ISM non-manufacturing Composite	Index	Jan	53.3	52.6
		During the week	Thu 26 - 31	GBP	Nationwide House Prices	m/m y/y	Jan	--
Scandi movers			Event	Period	Danske	Consensus	Previous	
Tue	31-Jan	10:00	NOK	Credit indicator (C2)	y/y	Dec	6.4%	6.6%
Wed	01-Feb	8:30	SEK	PMI	Index	Jan		48.9
		9:00	NOK	PMI	index	Jan	48.5	46.6

Source: Bloomberg and Danske Markets

Global Update: Fed signals low rates for long

Fed surprises, no signs of slowing in early 2012

The Fed surprised the market by announcing that rates are expected to be exceptionally low at least until late 2014 – almost three years from now! This was one year later than we expected. However, exceptionally low does not necessarily mean unchanged rates; 11 out of 18 members see the rate higher than the current rate in late 2014, which was a bit of a surprise. There is a wide dispersion between Fed members’ estimates of the first hike with three members wanting a rate hike already in 2012, while two members want to wait until 2016.

The Fed also announced a new explicit longer-run goal for inflation at 2%. This is slightly higher than the previous longer-run projection of inflation at 1.75%-2% that was part of the economic projections, but not stated as explicit goal. Despite the recent improvement in the economy the Fed is still very cautious on the outlook in the statement. The Fed sees modest growth in the coming quarters and still significant downside risks to the outlook. The Fed also gave the inflation outlook a dovish twist by removing the sentence that it will pay close attention to inflation and inflation expectations.

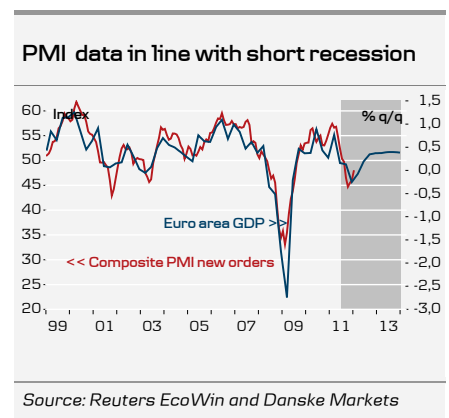
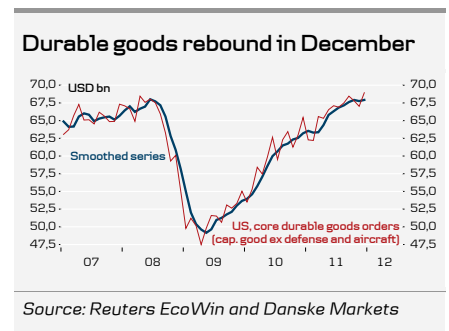
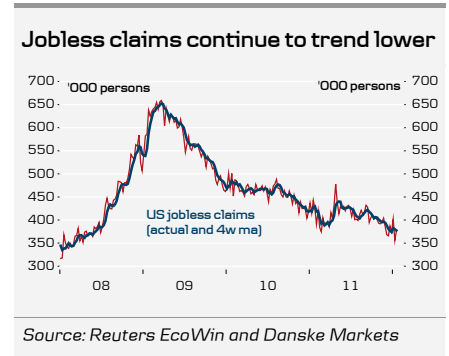
The more dovish statement may be due to a change in voting rights with three hawks (who are no longer voters) replaced by only one hawk, Jeffrey Lacker, who dissented. The projections reveal a more hawkish tilt among non-voters. Based on the new FOMC projections, we now look for the first rate hike in mid-2014 (instead of late 2013).

The data flow continued to be robust signalling continued growth in the beginning of 2012 – no sign of slowing as many analysts are predicting. Jobless claims are still on a decent downward trend despite rising a little more than expected to 377k. Durable goods orders also finished 2011 on a stronger note rising 3.0% in December. It does not change the fact that Q4 capital spending will be very soft but it is a good start to Q1. Housing data were a little weaker than expected, but this comes after some very strong months and hence the trend is still for improvement in housing – something that we expect will give strong support to the recovery in 2012.

Euro area: Euro area recession will be mild

This week both euro area PMIs and Ifo data were released and both surprised positively. Euro area composite PMI rose to 50.4 from 48.3, which means that we are back above the boom-bust level. Manufacturing PMI rose to 48.7 in January from 46.9 in December. It is somewhat comforting that the PMIs seemed to have bottomed out in October/November and that we will not experience the same deterioration as we did in 2008/2009. The new orders components have started to increase as well. Manufacturing new orders rose to 46.4 from 43.5 and new export orders climbed to 48.2 from 45.4. Confidence also increased sharply in the service sector to 50.5 from 48.8, see *Euro area: PMIs signal that worst is over* published on 24 January 2012.

Despite the fact that the PMI numbers surprised positively, they signal around zero growth. The improvement supports our view that the sharpest drop in production happened in Q4. We expect negative growth in Q4 of 0.3% q/q and 0.1% in Q1, see *Euro area: Recession expected to be short* published on 23 January 2012.



The Ifo expectations also increased again in January and it appears that it bottomed out in October. Expectations surprisingly increased from 98.4 in December to 100.9. This level is around the average value for this index. Ifo current conditions decreased slightly to 116.3 in January from 116.7. The current condition index has remained remarkably resilient. The aggregate Ifo business climate increased to 108.3 from 107.3. The better-than-expected data release adds upside risk to our estimate of zero growth q/q in Q1 in Germany. We forecast German growth in 2012 of 0.8% and 1.9% in 2013, see *Flash Comment: Ifo improving again* published on 25 January 2012.

The negotiations on the PSI between IIF and the Greek government continued this week and an agreement seems to be on the cards. Greek media reports suggested at the end of the week that the average coupon on the new bonds would be around 3.75%, but this has not been confirmed. A solution ahead of next week's summit would surely be welcomed by the euro area leaders.

Japan's trade balance in deficit in 2011

Japan's seasonally adjusted trade balance in December showed a deficit for the ninth month in a row and for 2011 as a whole the trade balance was in deficit. We estimate that for 2011 as a whole the surplus on the goods and service balance deteriorated markedly to -0.4% of GDP from 1.6% of GDP in 2010. However, as Japan still has considerable investment income from its assets abroad, Japan's current account is still expected to show a surplus close to 2% of GDP in 2011, down from 3.6% of GDP in 2010. We expect Japan current account surplus to decline further this year to just 1.5%.

The most important explanation for the deterioration in Japan's trade balance in 2011 is the surge in Japan's import of natural gas to replace the loss of energy supplies from the nuclear plants that have been closed down in the wake of the earthquake and tsunami last year. As there currently are no plans to restart these nuclear plants, it appears that the negative impact on Japan's trade balance will last several years and might be permanent. The strong yen and weaker global growth are also important explanations for the recent decline in the current account surplus. Finally, it is important to remember that Japan's demographics are poised to eventually push the country's current account into deficit, as an increasing share of pensioners in the Japanese society start to use their substantial savings. Because of the substantial saving surplus there has so far been little negative spill over from the European debt crisis despite Japan's gross debt fast approaching a whopping 240% of GDP. However, with this saving surplus now declining fast, the risk of a possible spill over from the debt crisis is increasing.

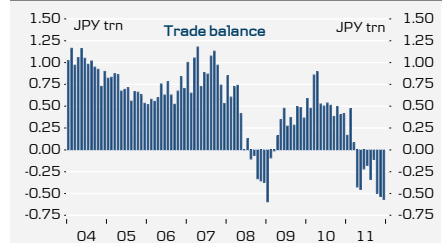
Bank of Japan (BoJ) as expected did not announce additional QE at last week's monetary meeting. BoJ has still utilized less than 60% of the current JPY20trn ceiling for its assets purchases, so there is ample room for BoJ to continue to expand its balance sheet. In addition, the depreciation in the effective JPY exchange rate so far this year has also taken some pressure off BoJ. Hence, it now appears that BoJ will not expand its asset purchases unless the economy deteriorates further.

Ifo current conditions remains resilient – expectations bottomed in



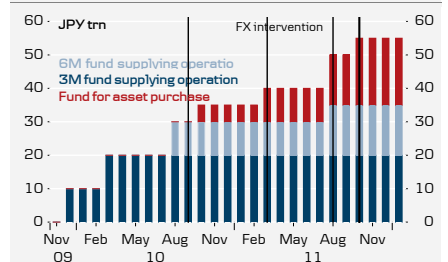
Source: Reuters EcoWin and Danske Markets

Japan's trade balance in deficit



Source: Reuters EcoWin

No additional QE from BoJ



Source: Bank of Japan and Danske Markets

Scandi Update

Denmark – Unemployment down

The number of jobless fell by 1,100 to 160,500 in December – its lowest level since April last year and 4,800 lower than at the start of 2011. Note that this decrease in unemployment was not due to an increase in employment: from Q4 10 to Q3 11 employment excluding leave fell by 24,000 people. Altogether, then, the labour force has shrunk and fewer people are participating in the labour market than a year ago. There is the prospect of limited economic growth in 2012, and we do not think this will be enough to create new jobs. On balance, we expect employment to decrease by 10-15,000 people this year and – all else equal – unemployment to increase correspondingly.

Consumers were slightly less downbeat in January than in December, with the confidence indicator climbing from -9.8 to -7. This was mainly because interest in purchasing consumer durables normally rises in January, but also because consumers have grown less pessimistic about the general economic situation one year ahead relative to today.

The OECD published its latest report on the Danish economy during the week. By and large it contained no big surprises, and the OECD's expectations are pretty much in line with our own recently updated forecasts in *Nordic Outlook*. In general, the OECD believes that the Danish economy has a strong foundation.

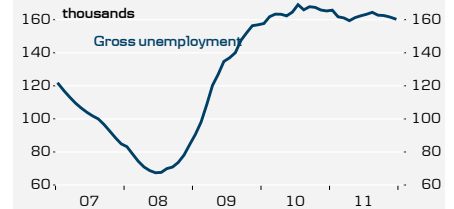
Sweden – Support to our 'way-below-consensus' forecast

All data released in the past week came in worse than even we had expected. Both trade balance and retail sales point to a marked slowdown in growth Q4 11. Our 'ex ante' GDP forecast – that caused quite a stir when published – was a -1% q/q change. This has been rendered obsolete and indications are towards to an outcome closer to -1.5% q/q (or even worse). This is the result of the December trade balance coming in at its lowest level (for December) since 1990 and retail sales not quite living up to our hopes of 2% y/y growth in December. The conclusion is clear and already apparent in comments from other (public) forecasters such as the National Institute for Economic Research: Swedish growth projections, even with a rather positive tilt on the consecutive growth rates going forward, are rapidly approaching recession status for FY 2012. To us, the data can only be viewed as another set of strong arguments for the Riksbank cutting rates over the coming few meetings.

Norway – Housing bubble?

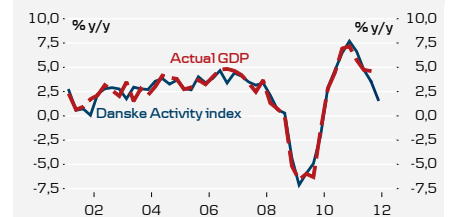
There has been heated debate in recent about a possible housing bubble in Norway. Real house prices deflated by consumer prices have risen sharply in recent years, which might indicate a bubble. This argument can to some extent be countered by looking at real prices deflated by wages instead. Measured in this way, real house prices are half what they were in the 1930s and well below the historical average. Another way of looking at it is to compare house prices with output. Logic dictates that when GDP per capita in Norway is almost twice as high as in, say, Sweden, house prices too should be almost twice as high. The chart alongside shows that house prices in Norway have outpaced GDP by 12% since 1998, which is considerably less than in Denmark and, in particular, Sweden.

Unemployment dropped in December



Source: Statistics Denmark

Danske activity index point to deceleration



Source: Danske Bank calculations

House prices relative to GDP



Source: Reuters EcoWin, Danske Markets

Latest research from Danske Bank

25/1 Flash Comment - FOMC: Fed on hold till mid-2014

The Fed surprised the market by announcing that rates are expected to be exceptionally low at least through late 2014 - almost three years from now!

25/1 Flash Comment: Ifo improving again

The Ifo expectations increased again. It appears that the forward-looking Ifo index bottomed out in October.

24/1 Research - Asia: Room to ease

Slower growth and lower inflationary pressure have created room for monetary and fiscal easing across Asia. This is expected to support a gradual recovery in 2012.

24/1 Flash Comment - Euro area: PMIs signal that worst is over

Euro area PMIs surprised positively again in January. Composite PMI rose to 50.4 from 48.3, which means we are back above the boom-bust level.

24/1 Flash Comment - FOMC preview: Historical change in communication

When Fed announces rates and presents new projections on Wednesday, it will mark a historical day in Fed communication.

23/1 Research: Euro area - Recession expected to be short

There are significant headwinds to the euro area economies at the moment and most indicators currently signal that the euro area is in the middle of a recession.

Interest rates: Fed Dovish

FOMC took the markets by surprise

Newsflow has mainly been positive throughout the week, as data indicate an ongoing recovery in the US and a mild recession in the eurozone. This supported the risk sentiment in general, but has not pushed international rates higher.

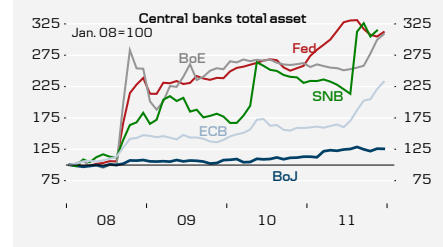
A key reason for this was the FOMC meeting, where the Fed guided rate expectations lower. However, as the members' projections revealed a high degree of dispersion, the read on the individual projections is less dovish than the FOMC statement suggested. Markets have reacted and re-priced. Hence, the pricing of a first hike in the Fed Funds rate is pushed out on the Fed Funds Future curve from mid-2014 to late-2014. Further, it caused some bullish flattening of the US 2-10 spot swap curve. However, the 2-10 curve was less affected in forward space, reflecting that markets view the policies as being accommodative for growth eventually.

In reality, the Fed's actions reflect a more accommodative monetary policy stance, which in conjunction with recent more accommodative actions of the ECB and other major central banks should support a more benign market environment. Markets will be awash with cash for the next years and the major central banks are really not in a hurry to hike policy rates.

If the global monetary easing is viewed as supportive for growth, it should also be supportive for risk sentiment going forward. In that sense, it helps to see better-than-anticipated data being released this week. Hence the case for steeper yield curves is still building in the US and partly in Europe too. Due to the central bank outlook, we prefer to be positioned for steeper curves in forward space rather than spot.

The key near-term risk is related to the developments in Greece and the debt restructuring negotiations. Even if an agreement is reached, it will hardly be consistent with a sustainable outlook for Greece, unless official holders of Greek bonds participate in the loss-sharing. And even if that happens, the risk is building of a collapse of the ruling PASOK party ahead of the elections this spring. And then there is the contagion risk – especially to Portugal, which looks increasingly fragile.

Monetary policies more accommodative



Source: Reuters EcoWin

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FX: The Bernanke 'put' is back

The FOMC meeting was not expected to be the market mover it turned out to be. However, if the Fed was looking to send bond yields lower, it certainly succeeded. The yield on 10-year government bonds is back below 2% and the dollar is weaker.

The currency market is, however, mainly driven by short-term interest rates and you would probably have to be a bond trader to get truly excited about whether the Fed signals a first rate hike in mid-2014, early 2014, or late 2013. In our view, what is more important for the currency market is the return of the Bernanke 'put'.

The term was coined during Alan Greenspan's period as Fed Chairman where the 'Greenspan put' referred to the fact that monetary policy was expected to be eased when financial markets faced a bigger sell-off. In other words, having Greenspan as chairman of the Fed was viewed as almost as good as owning a put option on the stock market. A somewhat similar approach to monetary policy was continued with Bernanke as head of the Fed, but during 2011 investors began to question the value of the 'Bernanke put'. The Fed had eased monetary policy significantly following the Great Recession, but especially the Fed's two rounds of asset purchases (QE) had triggered criticism. As global recession fears rose during late 2011, the question was therefore being asked whether the political pressure on the Fed, and the diverging views inside the FOMC, had removed the possibility for another round of QE.

This is not a question that is being asked anymore. Bernanke made it fairly clear that monetary policy will be eased if the economy begins to slow again. This reduces, at least partly, the tail-risks on the global economy and as such should be supportive for risk sentiment.

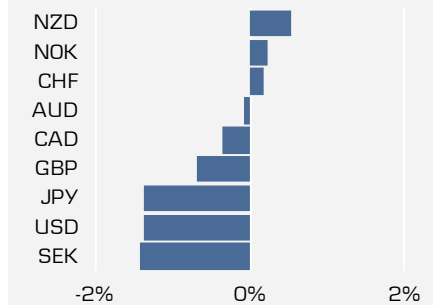
As we wrote in the last *Weekly Focus*, the arguments for being long the dollar have faded going into 2012 and the return of the 'Bernanke put' only confirms our expectation of a structural dollar downtrend. Not least against the commodity currencies, but also against the stronger cyclical EM currencies. The outlook against the euro is less certain, though.

Eurozone debt risks remain elevated and relative rates continue to signal a flat or slightly falling EUR/USD from here. However, going into 2012, the market was already positioned for a bigger euro depreciation, which has so far not materialised. This leaves potential for position unwinding to support EUR/USD further and we see increased arguments in favour of the 13 January low of 1.2624 being the low for this quarter.

As a result, we are considering revising our current forecast. We have long expected EUR/USD to end 2012 higher than current spot (forecasting 1.34 in 12M), but also thought that ECB easing and significant debt roll-over risks in southern Europe would sustain pressure on the euro during Q1. This is reflected in our three-month forecast of 1.26 which we now, however, view as too low. In other words, the timing of the dollar reversal has surprised us, but we agree with the underlying trend.

That we are less concerned about EUR/USD downside is not only the result of the changed Fed communication, but also a result of the bigger-than-expected impact the three-year ECB liquidity has had on European government bonds. The hope was that some of the ECB money would find its way into the bond market and with five-year yields falling from near 8% to below 5% in Italy and from near 6.5% to below 4% in Spain, it certainly appears it has.

1-week spot change against EUR



Source: Bloomberg

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Credit: The January effect

Market commentary

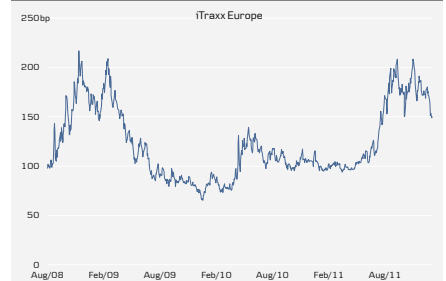
The notion of a 2012 January rally was supported by a general tightening trend across the various indices. As such the iTraxx Main is now trading around +147bp, some 7bp tighter during the week. The iTraxx Crossover is 33bp tighter, now reading 615bp. This week's spread tightening has been fuelled by an overweight of positive surprises from both US and EU macro indicators, combined with a decent start to the Q4 earnings season. In the Nordic region we saw decent reports from Nordea, Investor AB and Nokia, while SKF, SCA and Ericsson's Q4 results disappointed. According to Bloomberg, so far some 63% of the Q4 earnings reports in the US have surprised on the upside in terms of EPS. In Europe, the corresponding number is only 44% so far.

Risk sentiment surrounding financials also got a boost from an article in the Financial Times, which indicated that France and Germany were contemplating a relaxation of the Basel III rules and the timing of implementation. This theme helped boost the Senior Financials index to its current level of 218bp, some 10bp tighter over the week.

We caution that there are still plenty of risks out there that could rapidly suck the life out of investor appetite. Several Greek politicians have demonstrated unwillingness to tighten the austerity belt further, which could endanger the troika's willingness to release the next tranche of support. This is vital if Greece wants to avoid a hard default by 20 March, when some EUR14.4bn of government debt matures. At the same time pressure is mounting from the IMF on the ECB to share the fate of PSI and accept haircuts on Greek government bonds. Pressure is also rising for Portuguese rates, which are weighed down by the downgrade to High Yield status from S&P, coupled with talks about the need for further bail-outs or public debt investor haircuts.

Positive risk sentiment is still paving the way for decent new issuance activity. In the Nordic region, Finnish nuclear power generator TVO issued a EUR500m seven-year deal and Swedbank issued a EUR1bn five-year senior unsecured bond. Outside of the Nordic region, the week also offered primary activity from EIB and KfW and in the corporate space French issuers continue to be active with longer-dated benchmark size deals from Alstom and Bouygues. In the sterling market, BMW successfully printed a 750m deal.

iTraxx Europe (investment grade)



Source: Bloomberg and Danske Markets

iTraxx Crossover (high yield)



Source: Bloomberg and Danske Markets

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Equities: Financials on the mend

Overweight Financials on budding bank recovery

This week we shift course with respect to bank stocks in Europe. We now recommend that investors overweight both Nordic and European banks due to a) attractive valuations, with e.g. European banks' P/BV at just over 0.5, b) a growing tailwind from the German and global economy, and c) the ECB's 3-year LTRO, the significance of which has still not been fully realised by investors. Given that Financials account for just over 20% of the total European equity market, our new view on the sector means that we now recommend overweighting European equities vs. US equities.

Major uncertainties in Europe kept Financials subdued in Q4

When we changed tack at the end of September last year and began to recommend buying equities after the dip in July-September, there was no doubt that fears of the eurozone collapsing, new regulatory requirements for the bank sector and a nascent freeze-up in the European financial system were a dangerous cocktail for Financials in particular.

Our view at that time was that there was clearly more value in buying equity sectors that were dependent on the global economy than there was in whether or not Greece got an IMF/EU handout to help it make the payments on its government's debt. We recommended starting with Industrials, Oil & Gas, Healthcare plus US and EM equities. This strategy has proved very sensible. Financials have risen by around 15% since their lows, but remain at the 82 index mark compared with 100 on 1 July 2011. Investors who, for example, bought European Oil & Gas equities are now at the 107 index mark relative to 1 July 2011. In other words, Financials have performed significantly more poorly than cyclicals, in particular, since the market bottomed in late September and through Q4 2011.

Uncertainty remains, but the ECB has the right medicine

One factor changing our thoughts on European financial equities is that the ECB under Draghi's leadership has found the key to easing the considerable pressure on bank liquidity and solvency that was created by the turbulence in 2011. This has happened via one initiative in particular: LTRO – 3-year repo funding. The introduction of LTRO in December has been central to redressing the increasing freeze-up in euro interbank liquidity and European funding markets. The distribution of “long money” via LTRO has meant that: 1) banks have issued more bonds in January than in all of Q3 and Q4 together, 2) banks that did not necessarily need more funding have used LTRO for ‘carry’ positions in short Spanish/Italian government bonds, causing yields to tumble.

New global expansion getting closer

Further support to bank stocks also comes from the renewed economic growth that US/China data, in particular, have highlighted recently. We expect that the US/China data will give a helping hand to the weak eurozone economy in 2012, and that both the Nordic countries and especially Germany will follow the new, more positive economic trends. Bank stocks are among the types of equities that do best when the economy turns the corner from slowdown to nascent recovery.

Market and Financials still at risk

The risk for bank equities in 2012 is of course that the euro debt crisis continues and that the PIIGS nations do not push through reforms. Here Greece is not as important as e.g. Portugal and/or Spain/Italy. The latter need to reform their competitiveness and debt payments if we are to avoid future tensions in the eurozone. Furthermore, we face a new test of the eurozone's economy in that credit is clearly tightening as a result of bank pressure to deleverage in H1 2012.

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Financial views

Equities

- We upgrade Nordic & European Financials to overweight. The sector was the main victim of the sovereign debt crisis escalation in H2 11, but attractive valuation relative to other sectors and long-term funding support from the ECB via the three-year LTRO should see investor fears of a troublesome recapitalisation to meet new regulatory standards abate during H1 12. This new call also has consequences for our regional standings. We lift Europe to overweight and reduce US to underweight.
- We still expect the stock market to move higher over both three and 12 months, as implied ERPs are too high in our base case of 'slow growth but no recession'. We recommend overweighting EU/Emerging markets stocks, Industrials (including transportation), Financials and Healthcare sectors.

Fixed income

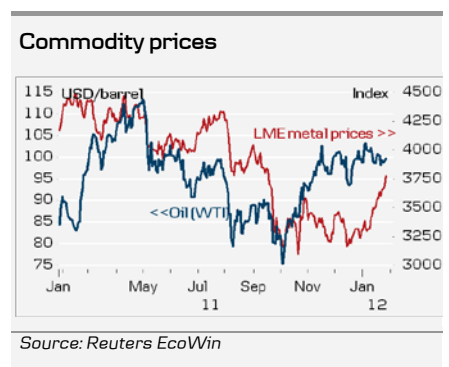
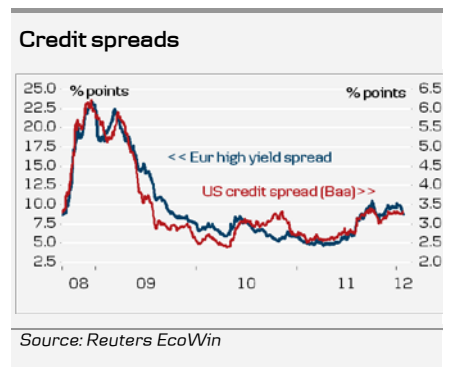
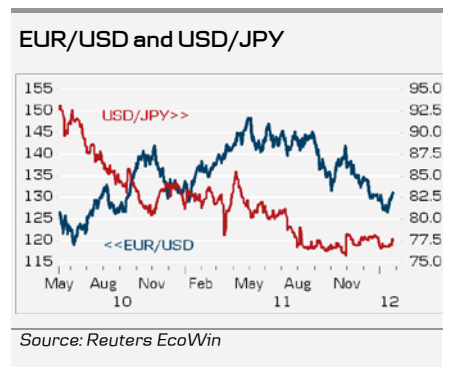
- Two-year EUR swap rates have further downside potential, as we expect Euribor fixings to decline further. Ten-year rates have declined significantly recently and we expect longer-dated EUR rates to be range bound. In our view, an improved macro picture in the US should gradually lift US rates, especially for long maturities. We continue to prefer underweighting US bonds to German bonds and we like 2-10 curve steepeners.
- We are long on Germany, the Netherlands and Finland and neutral on Italy and Spain. We are overweight in Scandinavia versus Euroland.

Credit

- Pressure on European banks eased a bit this week, on the back of liquidity measures from central banks. This, coupled with speculation that France and Germany are considering a relaxation of the Basel III rules, caused Financials spreads to tighten this week. We are also starting to see senior unsecured printing from financials, this week exemplified by a EUR1bn five-year issue from Swedbank.
- The market climate is still rather uncertain however, and we continue to recommend a conservative investment approach. We expect Nordic non-financial credits to maintain their relative safe-harbour status. For financials, we prefer the short end and we think the large Nordic banks are among the safest in Europe due to their limited direct exposure to the periphery countries.

FX outlook

- EUR/USD has pushed sharply higher over the past week, and the bottom may have been reached; risky assets continue to perform, downside risks stemming from the euro debt crisis have decreased, and the Fed will keep rates low for the foreseeable future. Hence, the unwinding of EUR shorts looks set to continue going forward. Sterling is likely to weaken alongside the dollar, though prospects for an increase in the BoE asset purchase programme in February is an additional risk factor for GBP.



- This week's batch of Swedish macro data has raised the odds of a Riksbank cut next month and from that perspective, the correction higher in EUR/SEK may have further to run. The NOK remains supported by the elevated oil price and currently looks less vulnerable than the SEK, considering also that Norges Bank is likely to stay on hold.

Commodities

- Oil prices are currently very strong, buoyed by improving risk sentiment and given the current geopolitical tensions between Iran and Western countries. However, other commodities are seeing support from growing recovery signs in the US and China.
- We remain cautious in the short to medium term but are more positive in the medium/longer term (6-12M), as we think the market is pricing in a too negative growth outlook.

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	2011	1.1	-0.5	-0.4	0.1	0.4	7.3	5.7	2.8	6.2	-4.1	46.5	6.5
	2012	1.0	0.9	0.6	3.4	0.0	1.2	2.1	2.1	6.5	-5.4	42.3	5.1
	2013	1.0	1.1	0.3	-0.6	0.0	3.3	2.6	1.9	6.9	-3.1	44.3	5.3
Sweden	2011	4.3	1.3	1.6	5.9	0.5	8.0	5.6	3.0	7.4	0.1	38.6	7.7
	2012	-1.4	-0.2	-0.4	0.8	-1.3	-2.4	-2.6	0.7	7.9	-0.9	38.7	7.6
	2013	1.5	1.3	0.7	1.1	0.3	3.1	3.1	0.9	8.8	-1.1	38.9	7.8
Norway	2011	2.6	2.3	0.8	7.6	-0.4	0.0	2.1	1.3	3.3	-	-	-
	2012	3.0	3.6	2.1	6.1	-0.5	2.6	4.5	1.3	3.2	-	-	-
	2013	3.2	4.0	2.5	3.5	0.0	1.0	4.8	1.8	3.1	-	-	-

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	2011	1.5	0.1	0.1	1.5	0.2	6.8	4.6	2.7	10.1	-4.4	88.5	-0.2
	2012	0.3	-0.3	-0.1	-2.3	0.0	2.6	0.7	2.1	10.6	-3.5	90.8	0.1
	2013	1.5	0.9	0.0	3.0	0.0	4.1	3.4	1.7	10.5	-3.8	91.0	0.2
Germany	2011	3.0	1.3	1.2	6.5	-0.1	8.8	7.7	2.5	7.1	-1.3	81.8	5.1
	2012	0.8	0.7	0.6	-0.2	0.0	5.2	5.2	1.8	7.2	-1.1	81.1	4.5
	2013	1.9	1.6	0.4	4.4	0.0	4.6	5.0	1.8	7.0	-0.8	79.8	4.3
France	2011	1.6	0.2	0.8	2.6	-1.1	4.5	5.4	2.3	9.3	-5.9	85.6	-3.2
	2012	0.4	0.2	0.3	0.5	2.3	2.4	1.8	1.8	9.7	-5.5	89.4	-3.0
	2013	1.6	1.6	0.4	3.1	0.1	4.0	3.9	1.5	9.6	-5.3	92.0	-2.9
Italy	2011	0.4	0.4	-0.3	-1.0	-0.2	6.6	1.3	2.9	8.3	-4.1	120.5	-3.6
	2012	-0.5	-0.3	-0.3	-2.1	-0.7	3.8	1.9	2.0	8.8	-2.4	120.7	-3.1
	2013	0.9	0.9	0.0	1.7	0.0	4.1	4.1	2.0	9.0	-1.3	119.5	-2.4
Spain	2011	0.7	0.0	-1.3	-4.1	0.1	9.1	2.0	3.0	21.0	-6.6	69.8	-2.9
	2012	0.1	-0.3	-1.1	-0.9	0.4	3.9	2.5	1.2	21.3	-5.9	74.0	-2.5
	2013	1.0	0.7	0.0	2.8	0.0	4.6	4.4	1.4	21.0	-5.3	78.0	-2.5
Finland	2011	2.6	3.4	0.8	5.0	-	-3.0	-2.0	3.3	7.8	-1.6	51.0	-0.3
	2012	-1.0	1.2	0.5	-2.0	-	-3.0	-1.5	2.6	8.0	-1.2	54.0	-0.5
	2013	1.5	1.5	0.5	0.0	-	2.0	1.5	2.0	8.0	0.0	56.0	0.5

Macro forecast, Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2011	1.7	2.2	-2.1	6.7	-0.2	7.0	5.1	3.1	8.9	-10.6	100.0	-3.1
	2012	2.5	2.2	-1.6	8.2	0.2	7.8	6.2	2.3	8.3	-11.4	105.0	-2.1
	2013	2.6	2.3	-1.2	9.1	0.0	7.6	6.8	1.7	7.9	-9.3	109.0	-1.7
Japan	2011	-0.8	-0.3	2.0	0.1	0.1	0.6	6.0	-0.3	4.5	-10.2	233.0	2.0
	2012	2.5	1.3	0.9	3.6	0.0	6.8	4.9	-0.1	4.3	-9.0	238.0	1.5
	2013	1.6	1.0	1.1	2.1	-	7.8	5.2	0.2	4.2	-7.0	243.0	1.9
China	2011	9.0	-	-	-	-	-	-	5.4	4.3	-1.7	33.0	2.9
	2012	8.5	-	-	-	-	-	-	3.2	4.0	-1.1	26.8	3.1
	2013	9.1	-	-	-	-	-	-	3.1	-	-0.4	22.2	3.4
UK	2010	1.8	1.0	1.5	2.6	1.3	6.2	8.5	3.3	7.9	-9.9	80.3	-3.2
	2011	0.4	-1.1	1.7	-1.8	-0.3	5.2	0.6	4.5	8.0	-8.0	88.2	-3.0
	2012	0.6	2.0	-0.7	2.8	-0.1	5.0	7.3	2.4	7.8	-	-	-3.7

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	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	27-Jan	0.25	0.55	0.52	2.04	131.1	-	567.3
	+3m	0.25	0.35	0.50	2.35	126	-	590
	+6m	0.25	0.35	0.45	2.65	130	-	572
	+12m	0.25	0.35	0.50	2.90	134	-	555
EUR	27-Jan	1.00	1.14	1.15	2.33	-	131.1	743.4
	+3m	1.00	0.90	1.05	2.35	-	126	743.0
	+6m	1.00	0.70	1.00	2.55	-	130	743.0
	+12m	1.00	0.65	1.00	2.80	-	134	744.0
JPY	27-Jan	0.10	0.20	0.36	0.97	101.1	77.2	7.35
	+3m	0.10	0.20	0.40	1.00	96	76	7.74
	+6m	0.10	0.20	0.35	1.20	97	75	7.66
	+12m	0.10	0.20	0.35	1.25	104	78	7.15
GBP	27-Jan	0.50	1.09	1.21	2.34	83.6	156.8	889.4
	+3m	0.50	0.95	1.35	2.50	82.0	154	906
	+6m	0.50	0.90	1.40	2.70	86.0	151	864
	+12m	0.50	0.85	1.50	2.90	88.0	152	845
CHF	27-Jan	0.00	0.07	0.09	1.13	120.6	92.1	616.3
	+3m	0.00	0.05	0.10	1.15	121	96	614
	+6m	0.00	0.05	0.15	1.40	126	97	590
	+12m	0.00	0.05	0.25	1.70	126	94	590
DKK	27-Jan	0.70	1.00	1.10	2.30	743.4	567.3	-
	+3m	0.70	0.80	0.90	2.20	743	590	-
	+6m	0.70	0.70	0.95	2.50	743	572	-
	+12m	0.70	0.70	1.00	2.80	744	555	-
SEK	27-Jan	1.75	2.59	1.86	2.40	889.2	678.5	83.6
	+3m	1.25	1.85	1.35	2.10	900	714	82.6
	+6m	1.00	1.40	1.15	2.15	870	669	85.4
	+12m	0.50	0.80	1.05	2.35	850	634	87.5
NOK	27-Jan	1.75	2.74	2.69	3.58	765.3	584.0	97.1
	+3m	1.75	2.60	2.65	3.60	760	603	97.8
	+6m	1.75	2.60	2.70	3.80	755	581	98.4
	+12m	2.00	2.85	3.00	4.05	750	560	99.2

Equity markets

Regional	Risk	Price trend 6 mth.	Price trend 12-24 mth.	Regional recommendations
USA	Low	5%-10%	>15%	Underweight
Japan	Low	5%-10%	>15%	Underweight
Emerging markets (USD)	High	10%-15%	>15%	Overweight
Pan-Europe (EUR)	High	10%-15%	>15%	Overweight
Nordics	High	10%-15%	>15%	Overweight

Commodities

	27-Jan	2012				2013				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013
NYMEX WTI	100	101	104	107	109	110	114	114	117	105	114
ICE Brent	111	111	114	115	117	118	120	120	122	114	120
Copper	8,644	8,500	9,000	9,000	9,200	9,200	9,200	9,500	9,600	8,925	9,375
Zinc	2,200	2,100	2,300	2,300	2,350	2,400	2,400	2,400	2,400	2,263	2,400
Nickel/1000	22	22	22	23	23	24	24	25	25	22	24
Steel	520	540	550	550	560	565	570	570	570	550	569
Aluminium	2,284	2,200	2,300	2,300	2,300	2,300	2,300	2,400	2,400	2,275	2,350
Gold	1,724	1,700	1,700	1,700	1,750	1,750	1,750	1,800	1,850	1,713	1,788
Matif Mill Wheat	209	210	222	222	220	225	225	225	225	219	225
CBOT Wheat	653	786	810	690	703	745	745	745	745	747	745
CBOT Corn	640	672	680	695	690	725	730	735	740	684	733
CBOT Soybeans	1,222	1,250	1,355	1,356	1,350	1,355	1,360	1,370	1,380	1,328	1,366

Source: Danske Markets

Calendar

Key Data and Events in Week 5

Monday, January 30, 2012				Period	Danske Bank	Consensus	Previous
-	DEM	CPI, preliminary	m/m y/y	Jan		-0.5% 2.0%	0.7% 2.1%
-	OTH	Earnings: Sumitomo Mitsui Financial Group					
-	DEM	HICP, preliminary	m/m y/y	Jan	... 2.2%	-0.4% 2.4%	0.7% 2.3%
9:00	DKK	Confidence indicator, industry	Index	Jan	7		6
9:00	ESP	GDP, preliminary	q/q y/y	4th quarter	-0.2% ...		0.0% 0.8%
9:00	DKK	Confidence indicator, construction	Index	Jan	-18		-23
9:00	DKK	Confidence indicator, service	Index	Jan	0		-1
9:30	SEK	Wages (blue collars/white collars)	y/y	Nov			2.3%
11:00	EUR	Consumer confidence, final	Net balanc	Jan		-20.6	-20.6
11:00	EUR	Economic Confidence	Net balance	Jan		93.5	93.3
11:00	EUR	Industrial Confidence	Net balanc	Jan		-7.2	-7.1
14:30	USD	Personal income	m/m	Dec		0.4%	0.1%
14:30	USD	Personal spending	m/m	Dec		0.1%	0.1%
14:30	USD	PCE Deflator	y/y	Dec			2.5%
14:30	USD	PCE core - deflator	m/m y/y	Dec		0.1% 1.7%	0.1% 1.7%
15:00	EUR	EU Summit - Meeting starts 15.00, press conference following the meeting]					
15:30	EUR	ECB announces bond purchases (SMP)					
Tuesday, January 31, 2012				Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Banco Santander, Exxon Mobil, Eli Lilly, Atlas Copco, UPS, Amazon.com, Pfizer					
0:15	JPY	Markit/JMMA Manufacturing PMI	Index	Jan			50.2
0:30	JPY	Job-to-applicant ratio		Dec		0.70	0.69
0:30	JPY	Overall Household Spending	y/y	Dec		-0.1%	-3.2%
0:30	JPY	Unemployment rate	%	Dec	4.5	4.5	4.5
0:50	JPY	Industrial production, preliminary	m/m y/y	Dec		2.9% -5.0%	-2.7% -4.2%
1:01	GBP	Gfk Consumer confidence	index	Jan		-32	-33
6:00	JPY	Housing starts	y/y	Dec		-1.5%	-0.3%
6:00	JPY	Small business confidence	Index	Jan			45.6
8:45	FRF	Consumer spending	m/m y/y	Dec			-0.1% -2.1%
9:00	DKK	Property Sales		Nov			
9:00	ESP	HICP, preliminary	y/y	Jan			2.4%
9:55	DEM	Unemployment rate	%	Jan	6.7	6.8	6.8
10:00	NOK	Credit indicator (C2)	y/y	Dec	6.4%		6.6%
10:00	NOK	Retail sales, s.a.	m/m y/y	Dec	0.2% 2.9%		0.1% 0.9%
10:30	GBP	Mortgage Approvals	1.000	Dec			52.9
10:30	GBP	Broad money M4	m/m y/y	Dec			-0.6% -2.6%
11:00	EUR	Unemployment rate	%	Dec	10.4	10.4	10.3
14:30	USD	Employment cost index		4th quarter		0.4%	0.3%
15:00	USD	S&P/CaseShiller Composite-20	y/y	Nov		-3.21%	-3.40%
15:45	USD	Chicago PMI	Index	Jan		63.0	62.5
16:00	USD	Consumer confidence	Index	Jan		68.0	64.5

Source: Danske Markets

Calendar - continued

Wednesday, February 1, 2012			Period	Danske Bank	Consensus	Previous	
-	OTH	Earnings: Sandvik, Fortum, Whirlpool, Fiat					
2:00	CNY	NBS PMI Manufacturing	Index	Jan	50.1	49.6	50.3
2:30	JPY	Labor Cash Earnings	y/y	Dec		-0.4%	-0.2%
3:30	CNY	HSCB PMI Manufacturing	Index	Jan			48.7
8:30	SEK	PMI	Index	Jan			48.9
9:00	DKK	Retail sales	m/m y/y	Dec			-0.5% -1.8%
9:00	NOK	PMI	index	Jan	48.5		46.6
9:15	CHF	Retail sales, real	y/y	Dec			1.8%
9:30	CHF	PMI Manufacturing	Index	Jan		51.0	50.7
9:50	FRF	PMI Manufacturing, final	Index	Jan	48.5		48.5
9:55	DEM	PMI Manufacturing, final	Index	Jan	50.9	50.9	50.9
10:00	EUR	PMI Manufacturing, final	Index	Jan	48.7	48.7	48.7
10:00	NOK	Unemployment (AKU)	%	Nov	3.3		3.3
10:30	GBP	PMI Manufacturing	index	Jan		49.8	49.6
11:00	EUR	CPI Estimate	y/y	Jan	2.6	2.7	2.8
13:00	USD	MBA Mortgage Applications					-5.0%
14:30	USD	Fed's Plosser (non-voter, hawk) speaks					
16:00	USD	Construction spending	m/m	Dec		0.7%	1.2%
16:00	USD	ISM Manufacturing	Index	Jan	55.0	54.5	53.9
16:00	USD	ISM prices paid	Index	Jan		50.0	47.5
23:00	USD	Total Vehicle Sales	m	Jan		13.60	13.52
Thursday, February 2, 2012			Period	Danske Bank	Consensus	Previous	
-	OTH	Earnings: Deutsche Bank, Sony, Shell, Unilever, Viacom, Novo Nordisk					
0:50	JPY	Monetary Base	y/y	Jan			13.5%
8:00	CHF	Trade balance	CHF bn.	Dec			2.95
10:00	NOK	Unemployment	%	Jan	2.8		2.4
10:30	GBP	PMI Construction	index	Jan			53.2
11:00	EUR	PPI	m/m y/y	Dec		-0.1% 4.4%	0.2% 5.3%
14:30	USD	Unit labour cost, preliminary	q/q	4th quarter		1.0%	-2.5%
14:30	USD	Initial jobless claims	1000				
15:00	USD	Fed's Evans (non-voter, dove) speaks					
16:00	DKK	Currency reserves	DKK bn	Jan			481.7
16:00	USD	Fed's Bernanke (voter, neutral) speaks					

Source: Danske Markets

Calendar - continued

Friday, February 3, 2012			Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Volvo, BT Group, TDC				
1:15	USD	Fed's Fisher (voter., hawk) speaks				
3:00	CNY	HSBC PMI Services	Index			52.5
9:50	FRF	PMI Services, final	Index	51.7		51.7
9:55	DEM	PMI Services, final	Index	54.5		54.5
10:00	EUR	PMI Composite, final	Index	50.4		50.4
10:00	EUR	PMI Services, final	Index	50.5	50.5	50.5
10:30	GBP	PMI Service	index		53.0	54.0
11:00	ITL	HICP, preliminary	m/m y/y		-1.8% 3.4%	0.3% 3.7%
11:00	EUR	Retail sales	m/m y/y	0.3% ...		-0.8% -2.4%
14:30	USD	Change in Nonfarm payroll	1000	135	148	200
14:30	USD	Change in Private Payrolls	1000		174	212
14:30	USD	Change in Manufacturing Payrolls	1000		10	23
14:30	USD	Unemployment Rate	%		8.5	8.5
14:30	USD	Average hourly earnings	m/m y/y		0.2% ...	0.2% 2.1%
14:30	USD	Average Weekly Hours	hours		34.4	34.4
16:00	USD	ISM non-manufacturing Composite	Index		53.3	52.6
16:00	USD	Factory Orders	m/m		1.1%	1.8%

During the week			Period	Danske Bank	Consensus	Previous
Mon 16 - 20	GBP	Nationwide Consumer Confidence	index			40
Thu 26 - 31	GBP	Nationwide House Prices	m/m y/y			-0.2% 1.0%
Wed 01 - 08	GBP	Halifax house prices	m/m y/y			-0.9% -1.3%
Wed 01 - 07	JPY	Official Reserve Assets	USD bn.			1295.8
Fri 03 - 05	CNY	Leading Index	Index			100.18

The editors do not guarantee the accurateness of figures, hours or dates stated above
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Source: Danske Markets

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