29 October 2010

# Weekly Focus

## Much ado in the week ahead

### Market Movers ahead

- The Fed is likely to reveal a new programme of quantitative easing, which is almost certain to move global markets one way or another.
- Other central banks will also make announcements, including ECB, BoE and BoJ, which has moved its next meeting to this week so it is ready to respond to the Fed.
- On top of that, we will get major economic news from ISM/PMI figures, the monthly US employment report, and the US mid-term elections.

### Global Update

- Expectations of the coming QE in the US moderated this week, limiting the risk that the Fed disappoints.
- Sovereign spreads widened in Europe as concerns grew over Greece and Ireland.
- Central banks in Sweden and Norway lowered their interest rate trajectories, but Sweden and Denmark hiked current rates.

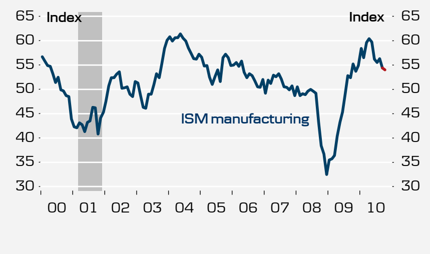
### Focus

- The likely Republican victory in the US mid-term election will make political decisions more difficult, which could be good news for stocks.
- We take a look at the euro money market and what might happen to short-term rates as the ECB prepares its exit from non-standard measures.

**Contents**

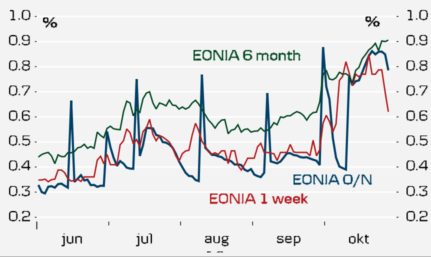


**The US economy continues to slow**




*Source: Reuters EcoWin*

**EUR rates normalising**




*Source: Reuters EcoWin*

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# Market movers ahead

## Global

- In the **US**, the coming week is heavy in economic data and events. Most important will be the FOMC meeting on 2-3 November. We expect the Fed to engage in a new round of quantitative easing. The statement is likely to leave the ultimate amount of treasury purchases open-ended and conditional on economic and inflationary developments (see *Research US: Fed QE2 - not much more to gain*).

  Further, the ISM index will be released on Monday and the Employment report Friday. So far, regional PMI surveys have in general improved this month, but remain on average at a low level. We expect a further, but modest, decline in the ISM manufacturing index in October to 54.0 from 54.4. However, we expect the new order/inventory differential to improve from the miserable September level.

  The employment report is likely to show a continued modest increase in non-farm payrolls of 60,000 and 80,000 in private payrolls. The distortion from Census hiring should diminish substantially, but government job growth is nevertheless expected to continue in negative territory for some months as local governments struggle to meet their budgets.

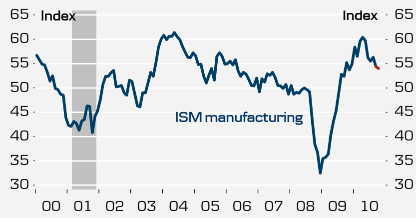
  Finally, Tuesday November 2 is the day of the US mid-term election. See the focus article in this publication for more information.

- Most important event in **Asia** next week is the Bank of Japan's monetary meeting on November 4-5. This monetary meeting has been pulled one week forward. The official reason is that BoJ will discuss purchases of exchange traded funds and real estate trusts as part of BoJ's newly created JPY5trn fund to buy government bonds and private sector assets like corporate bonds and commercial papers. The main purpose without doubt is that BoJ wants to be able to respond to any action from the Fed and particularly the impact on the yen will be important for BoJ's action. In our view BoJ will eventually expand its quantitative easing. We think that BOJ's newly created JPY5trn fund will be expanded, but we think it will only happen in connection with this week's monetary meeting if the quantitative easing announced by the Fed is substantially more aggressive than currently expected by the market.

  **China** will next week release both of its manufacturing PMIs for October. We expect a slight deterioration in the official NBS manufacturing PMI, but this is solely due to seasonal distortions. We expect the HSBC manufacturing PMI to improve slightly in October suggesting that growth will again start to improve in Q4.

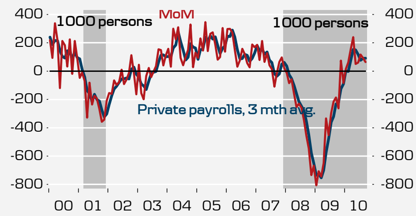
- In the **Euro area** all attention will be on the ECB Governing Council meeting. This week's data on monetary developments and bank lending together with the increased demand for liquidity in the 3-month LTRO paint a picture of a healing banking sector, but also show that the financial sector is not back to normal yet. Against this background the ECB will keep the door open and will not commit itself to when to stop with full allotment at its refinancing operations. Trichet is likely to say something relatively downbeat on exchange rates and also make a point on the reform of the stability and growth pact, which the ECB finds too soft. Needless to say interest rates will be kept unchanged.

**We expect the ISM index to continue lower but at a moderate pace**



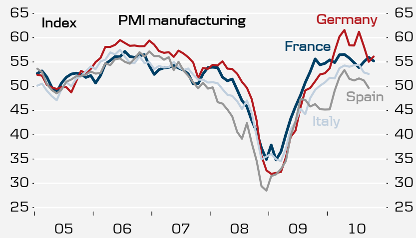

*Source: Reuters Ecowin and Danske Markets*

**October data are likely to show sustained moderate job growth**



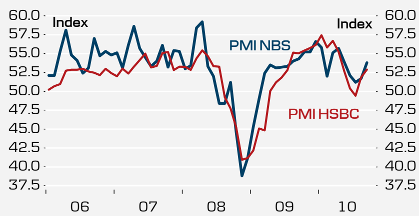

*Source: Reuters Ecowin and Danske Markets*

**Softness in Southern Europe**




*Source: Reuters Ecowin*

**Chinese PMI's to confirm reacceleration in growth in Q4**




*Source: Reuters Ecowin and Danske Markets*

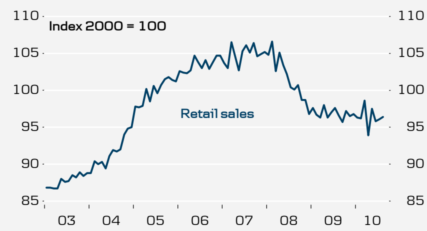
Apart from the ECB meeting not much is scheduled. PMIs are likely to show that the Spanish economy is weakening while the message on Italy should be somewhat more upbeat. We estimate that euro area retail sales increased 0.3% in September following a soft August.

- The big question in **UK** markets is whether the Bank of England will follow the Fed and apply additional monetary stimulus. Even though advance Q3 GDP surprised on the upside, we still see pretty good chance that the BoE will increase the asset purchase target by GBP50bn as the economic outlook remains bleak, driven down by the government's austerity measures. BoE entering a second round of quantitative easing will most likely send UK yields lower and the pound weaker. We expect the PMIs to fall slightly over the week, though still indicating expansion.
- We expect **Swiss** markets to trade mainly on global events in the coming week, in spite of the release of October CPI and PMI data, as well as speeches by SNB's Jordan and Danthine,. Not least would we expect EUR/CHF to trade higher should the FOMC meeting trigger renewed dollar weakness. That said, it will be interesting to follow the SNB speeches for any comments on monetary policy, as there has been somewhat of an information vacuum lately

## Scandi

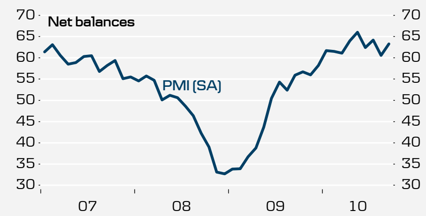
- Next week will be busy in terms of incoming data in **Denmark**. Monday will see the release of September retail sales. We expect an increase of 0.1%. Thursday brings purchases and sales by firms in September, which, among other things, provide insight into the firms' sales abroad and hence total exports. Consumer credit for Q3 2010 is also released on Thursday as are bankruptcies and forced sales in October. Finally, we will get data for industrial production and new orders in September.
- In **Sweden**, the things to catch our attention during this week are PMI and the September budget outcome. Not much to create a fuss in financial markets either.
- There are a number of key figures out of **Norway** next week. The PMI for October and the September figures for Manufacturing production are likely to confirm that activity in Norwegian industry is still growing, albeit at a moderate pace. In particular, we look for a correction in the production figures after the plunge in August. However, the credit figures will probably be of greater interest. Last month it appeared that household credit growth was slowing somewhat, and Norges Bank's lending survey showed that banks reported falling demand for mortgage loans. However, this doesn't fit with the overall picture of solid sales rate for new and existing homes. Hence, we expect the September figures to show that household debt rose faster than disposable income for the third consecutive quarter, meaning that the debt ratio increases further. Household credit growth seems to be considered to be moderate, despite the low interest rates. But since the debt ratio for Norwegian households is already very high, we believe that the threshold for credit growth is around five percent (to stabilize debt ratios). Although unemployment in Norway appears to have peaked, the latest figures for unemployment from NAV and LFS were a bit confusing. We agree that the previous LFS unemployment measure was suspiciously low, and expect a stabilization to 3.5% in September.

**Retail sales bumping along**




*Source: Statistics Denmark*

**PMI levelling out?**




*Source: Reuters Ecowin*

## Market movers ahead

| Global movers | | | | Event | | Period | Danske | Consensus | Previous |
|---|---|---|---|---|---|---|---|---|---|
| Mon | 01-Nov | 2:00 | CNY | NBS Manufacturing PMI | Index | Oct | | *53.8* | 53.8 |
| | | 3:30 | CNY | HSBC Manufacturing PMI | Index | Oct | | | 52.9 |
| | | 15:00 | USD | ISM | Index | Oct | **54.0** | *54.0* | 54.4 |
| Tue | 02-Nov | - | USD | US Midterm election | | | | | |
| Wed | 03-Nov | 20:15 | USD | FOMC meeting | | | **0.25%** | *0.25%* | 0.25% |
| Thu | 04-Nov | 12:00 | GBP | BoE rate announcement | % | | **0.5%** | *0.5%* | 0.5% |
| | | 13:00 | GBP | BoE Asset Purchase Target | £ bn. | Nov | **250** | *200* | 200 |
| | | 13:45 | EUR | ECB announces Interest Rates | | | **1.0%** | *1.0%* | 1.0% |
| Fri | 05-Nov | - | JPY | BoJ Monetary Policy Announcement | % | | **0.10** | *0.10* | 0.10 |
| | | 11:00 | EUR | Retail sales | m/m\|y/y | Sep | **0.3%\|** | *0.1%\|1.4%* | -0.4%\|0.8% |
| | | 13:30 | USD | Nonfarm payroll | 1000 | Oct | **60** | *70* | -95 |

| Scandi movers | | | | Event | | Period | Danske | Consensus | Previous |
|---|---|---|---|---|---|---|---|---|---|
| Mon | 01-Nov | 8:00 | NOK | Norwegian PMI | Index | Oct | **53.2** | | 52.8 |
| | | 8:30 | SEK | Swedish PMI | Index | Oct | | | 63.3 |
| | | 9:30 | DKK | Retail sales | m/m\|y/y | Sep | **0.1%\|...** | | 0.4%\|-0.7% |
| | | 10:00 | NOK | Credit indicator (C2) | y/y | Sep | **5.5%** | | 5.1% |
| Wed | 03-Nov | 10:00 | NOK | Unemployment s.a. (LFS) | % | Aug | **3.4%** | | 3.3% |
| Thu | 04-Nov | 9:30 | DKK | Industrial production | m/m\|y/y | Sep | | | -6.6\|... |

*Source: Bloomberg and Danske Markets*

# Global update

Expectations of massive quantitative easing from the Fed have declined somewhat, which has resulted in some risk reversion with a small setback in stocks and EUR/USD.

Sovereign spreads in Europe have widened during the week as the market has been increasingly concerned about the risk of a Greek default. This was initially triggered by PIMCO saying that Greece would default in three years.

German retail sales disappointed big time, but this is at odds with the broader picture of the German economy, so we tend to see this as a temporary phenomenon.

## US: speculation about Fed QE2 continues

Over the past week there have been numerous media reports on the likely shaping of Fed's quantitative easing programme, version 2. Several have pointed to a measured purchase approach, with the Fed buying Treasury bonds worth a few hundred billion dollars over several months. In addition to the recent Fed speeches emphasizing the gradual approach, this week's articles have further helped to cut back market expectations about the size of the purchase programme.

Economic data received this week confirm that economic activity likely remained below trend in the third quarter. The report on durable goods orders showed a significant slowdown in core capital goods orders and shipments in September suggesting that business investment in capital goods has cooled off from the strong growth rates in the first half of the year. Further, housing data remain volatile due to the tax credit distortions, but home sales in general showed improvement albeit from very low levels. Finally, initial jobless claims continued lower last week and broke below the lower bound of the range that has been in place since early this year. There has been a bit of confusion as to whether the drop is the result of seasonal factors distorting data. We will have to wait for next week's data to be certain, but if the current level is sustained it is definitely good news for the labour market.

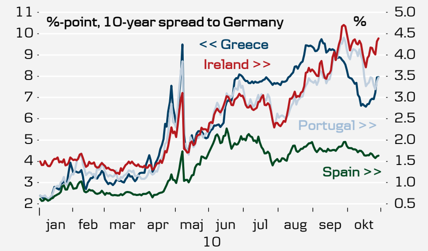
## Euro area sovereign spreads widen again

Sovereign spreads have widened during the week as the market has been increasingly concerned about the risk of a Greek default after PIMCO said that Greece would default in three years and the Greek government revised its growth forecast for 2011 down to -3.0%. Markets also reacted negatively to the Irish government's announcement of need for further fiscal tightening. ECB started buying government bonds on Thursday.

German retail sales disappointed big time with a 2.3% drop m/m in September against consensus expectations of a 0.5% m/m increase. This is somewhat concerning, but is misaligned with the general picture of a German recovery that has a lot of momentum and unemployment that is still in decline (albeit slowing).

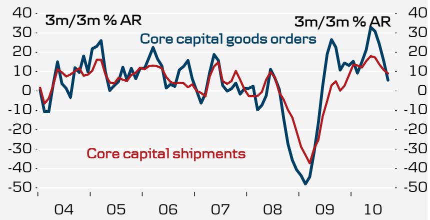
At the 3-month long-term refinancing operation (LTRO) this week EUR42.5bn was allotted. This is EUR19.3bn more than matured from the 3-month LTRO that was allotted in July. The strong interest in this auction was anticipated, as this is the first to roll over year turn. This increases excess liquidity from around EUR45bn to around EUR65bn and has put some downward pressure on EONIA rates. EONIA O/N fell from 0.86% on 26

**Sovereign spreads have widened**



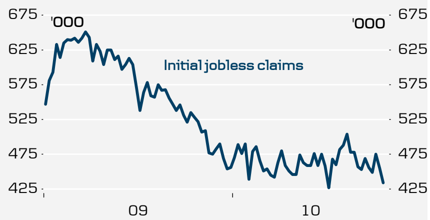

*Source: Reuters Ecowin and Danske Markets*

**US CAPEX growth is cooling down**



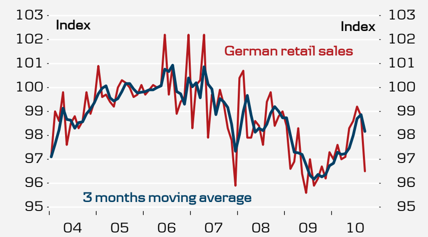

*Source: Reuters Ecowin and Danske Markets*

**Good news from the US labour market**




*Source: Reuters Ecowin and Danske Markets*

**German retail sales dropped**



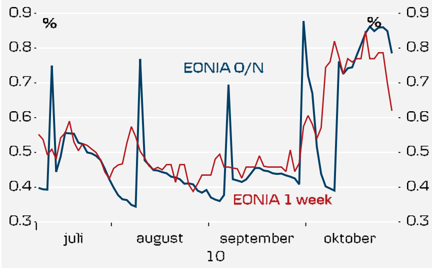

*Source: Reuters Ecowin and Danske Markets*

October to 0.79% on 28 October, while the decline was more pronounced in the one week EONIA, which fell from 0.79% to 0.62%.

The ECB bank lending survey showed further tightening of credit standards for loans to enterprises, while net changes in credit standards on both loans for house purchase and consumer credit reached a neutral stance in Q3 10, after more than two years of continued tightening. M3 annual growth declined to 1.0% from 1.1%.

All in all this week's data confirm that banks are slowly recovering from the crisis, but credit tightening remains tight. Against that background we believe that a cautious ECB will give the banks another three months (Q1 2011) with full allotment.

**EONIA has declined**

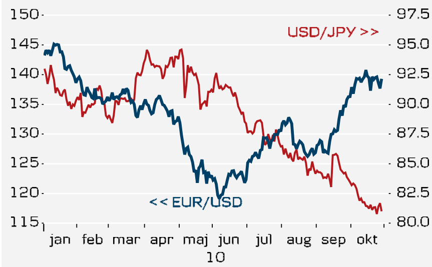



*Source: Reuters Ecowin*

## Something for everybody at the G20 meeting

At the G20 finance and central bank governors meeting on 22-23 October there was something for everybody, but without any real commitments from any countries. Avoiding competitive devaluations and a promise that exchange rates eventually should be flexible and market determined was just a repeat of promises made at previous G20 meetings. Japan probably feels that the statement that "excess volatility" should be avoided among the major currencies legitimated its recent intervention in the foreign exchange market. The most important development is probably that negotiations are increasingly focusing on targets for current accounts, although the G20 countries have so far only been able to agree on "indicative targets". China has earlier indicated some willingness to accept longer-term targets for the current account, and the 4% limit that has so far been suggested is actually not far from what the Chinese leadership believes is achievable. At least it is a sign that the US and China are trying to find a compromise to avoid total failure at the heads of state G20-meeting.

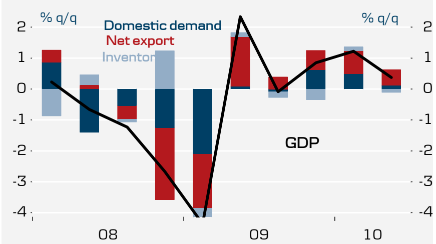
**Excess volatility**




*Source: Reuters Ecowin*

As expected, Bank of Japan (BOJ) did not announce further quantitative easing in connection with last week's monetary meeting. However, BOJ did announce it will push its next monetary meeting one week forward to 4-5 November, just one day after Fed's important meeting. The main purpose without doubt is that BoJ wants to be able to respond to any action from the Fed and particularly the impact on the yen will be important for BoJ's action. In our view Japan is unlikely to intervene in the foreign exchange market ahead of the G20 heads of state meeting on 11 November and for that reason further quantitative easing will probably be the only way Japan will be able to respond in the short run. We think that BOJ's newly created JPY5trn fund to purchase government bonds, corporate bonds and commercial papers will eventually be expanded, but we think it will only happen in connection with this week's monetary meeting if the quantitative easing announced by the Fed is substantially more aggressive than currently expected by the market.

**Slowing growth in Japan**




*Source: Reuters Ecowin*

BoJ as expected revised its growth forecast for fiscal year 2010 (ending in March 2011) lower to 2.1% from previously 2.6% mainly on the back of expectations of a weak Q4 2010 and Q1 2011. However, BOJ maintained its inflation forecast for fiscal 2011 at 0.1% and expects inflation to increase slightly to 0.6% in fiscal 2012.

# Scandi Update

## Denmark – Lacklustre business sentiment

This week Statistics Denmark released confidence indicators for October for construction, manufacturing and the service sector. The confidence indicators are particularly interesting, because they provide valuable insight into the business sector's take on the current economic climate in a situation when considerable uncertainty still lingers over the sustainability of the Danish economic recovery.

The indicators showed a fall in business optimism in Danish industry from September to October. The construction sector fell back to a very downbeat level of -33, manufacturing dropped from +5 to +1, while the service sector was unchanged at +4.

Thus, the general picture is one of a lacklustre mood in the business sector. Overall, business confidence – calculated as the weighted sum of the three confidence indicators – remains in negative territory – with the construction sector as the main culprit.

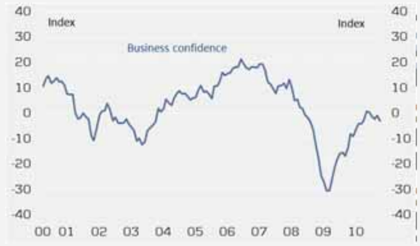
In the aggregate, business confidence fell from -0.9 in September to -2.9 in October. This means that business confidence overall has been in negative territory over the past four months after a brief recovery during the spring when business confidence only just crept over 0.

Against this backdrop, we have to realise that Danish industry has not become more optimistic about whether we are on track for a sustainable recovery – rather the opposite unfortunately. The new data indicate that economic growth in Denmark is shifting down a gear, and hence concerns over the sustainability of the recovery of the Danish economy are very much alive.

This week also brought data for gross unemployment. Slightly disappointingly, they showed a rise of 2,500 persons from August to September. The increase follows a sharp fall in August, but it should be noted that the early summer months showed a sharp increase. Actually, the situation is probably that unemployment has been on a gentle uptrend in 2010, but that the data were distorted by technical issues in the summer.

Unemployment is probably close to peaking this time round. However, there are no signs that we will see a substantial decline in joblessness for the time being. The most recent business confidence data showed slightly declining expectations of employment in the private sector, and in the public sector, the official political stance is pointing towards fewer jobs. The number of job ads also remains low.

**Business confidence still in negative territory**




*Source: Statistics Denmark and own calculations*

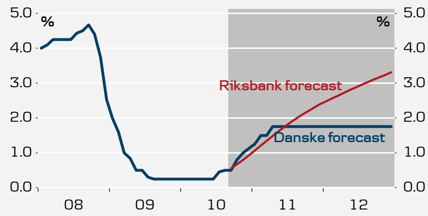
## Sweden – potato, potatoe

Ever since the Riksbank started to hike back in July, Governor Ingves has repeatedly underlined that Swedish monetary policy is based on Swedish economic conditions. Risks concerning the international recovery have been acknowledged, but given the impressive strength in Swedish data, higher rates are appropriate. In addition, at least some board members have indicated a preference for "leaning against the wind" due a continued rapid increase in mortgage lending and elevated house prices.

However, by lowering the rate path, the actual (initial) effect of the repo rate hike was in fact to lower (market) rates. So, unless the market reassesses the future policy stance, monetary policy has in fact become more relaxed. Furthermore, the consistency between the Riksbank's international and Swedish macro forecasts, which are all revised higher/stronger, and monetary policy is not fully evident.

We suspect that the reason why the Riksbank came out softer than expected is to be found in a special study in the monetary policy report. In one of these studies the Riksbank acknowledges the fact that market pricing (implicit forward rates) of international policy rates, for instance in the euro area, the US and the UK are markedly lower than the policy path assumed by the Riksbank. The Riksbank then simulates the implications for Sweden if international central banks were to conduct monetary policy in line with implicit forward rates while the Riksbank hikes according to its own forecast. In quantitative terms, forward rates are some 40bp below the main forecast for international policy rates. The primary result would of course be a stronger SEK during the forecast period and lower inflation. This in turn motivates slower rate hikes leading to a secondary positive effect on growth and unemployment. Of course, this implicitly means that unless the Riksbank adjusts its repo rate response function accordingly, the net effect would be clearly negative for inflation, demand and unemployment and the key-vehicle is a much stronger SEK.

**Riksbank approaching the truth...**




*Sources: Riskbank and Danske Bank*

## Norway – Norges Bank lowers interest rate path

As widely expected, Norges Bank kept its monetary policy rate unchanged at 2.0% at this week's monetary policy meeting. Hence, all focus was on the accompanying Monetary Policy Report and the press release.

The focal point in the Monetary Policy Report was the new interest rate path. 2011 is revised down by 27bp, 2012 by 11bp, but 2012 is actually revised up by 6bp. Hence, the rate path is primarily revised lower in 2011 and the end-point in 2013 is actually higher. Norges Bank has pencilled in the first rate hike over the summer of 2011 compared with December/January in the June rapport. It was a bit of a surprise that Norges Bank does not see the first rate hike before the summer next year.

However, if we compare with the surprise revisions made by the Riksbank last week, we believe the Norges Bank revisions were less pronounced, not least as the end-point was actually revised higher. Furthermore, the revisions were very much expected by the market. However, the fact that the next rate hike was pencilled in this late gives the report a dovish flavour.

Revisions to the interest rate path are primarily made due to a significant lower inflation forecast. The underlying inflation measure CPIXE is revised from 2.0% in 2011 in the previous report to 1.5% in this report.

Earlier, we argued that Norges Bank would hike rates in March when the next monetary policy report is set to be published. However, it now seems that Norges Bank will not hike rates before it sees actual inflation moving higher. It will in other words be less “pre-emptive” than previously expected. Therefore, now we do not expect the next rate hike before Q2 next year. It could be either at the May or June meeting. Hence, if anything we see a risk of Norges Bank hiking earlier than its current forecast implies.

As a consequence, we revise our EUR/NOK marginally higher to 8.00 on a three-month horizon and to 7.90 on a six-month horizon from 7.90 and 7.80 previously, respectively.

# Focus - US: Mid-term election primer

## It looks like a landslide victory for the Republican Party

Where the 435 members of the House face election every two years, the hundred senators (two from each state, independent of size) serve for six years, with overlapping terms. At the moment all major polls suggest that the Democrats will lose their majority in the House – hereby losing their current 40 seat lead. In the Senate 37 seats are up for election (19 currently held by Democrats, 18 held by Republicans). Here, the race is expected to be much tighter, with most major polling units predicting a very narrow win for the Democrats – landing on a 1-2 seat majority.

The party of the sitting President often ends up being the loser in the mid-term elections, particularly in a President's first term. This will probably be further enhanced by many of the groups who supported Obama two years ago, such as African Americans and young voters, historically showing relatively lower turnout rates at mid-term elections than in presidential years.

The Democratic party is also expected to pay heavily for the consequences of the financial crisis, with unemployment at almost 10 percent, and government debt building at an alarming rate. This has made many Americans doubt that the Obama administration's strategy of e.g. large stimulus packages has been the right one. Particularly the so called Tea-party movement, which has grown increasingly powerful within the Republican party, continues to advocate the opposite – campaigning for a smaller government and further tax cuts.

All in all, a so-called divided government, with different parties controlling Congress and the presidency, has become a likely outcome of Tuesday's election. This situation is, however, nothing new to American politics. For 38 out of the last 60 years the President and the majority of the House have been from different parties, and particularly during the 1980s and 1990s this was the norm. However, it can prove an unfriendly environment, and effectively shut down the legislative process, as seen when president Bill Clinton was faced with a Republican-controlled Congress in the mid 90s. If the US, come Tuesday, ends up having a split Congress under a Democratic president, it will be the first time this has happened since World War II.

It is not easy to say anything certain about the implications of a split Congress for the coming two year's political decisions. However, on balance we think that it will mean a more difficult environment for implementing strict regulation of the financial sector, less inclination to raise corporate taxes and it will probably be more difficult to agree on a new round of major fiscal stimulus. That said, we do expect the new Congress to agree on extending the 2001 and 2003 Bush tax cuts, which would otherwise expire in January 2011. According to CBO's estimates and our own calculations, if the Bush tax cuts are allowed to expire this would result in a drag on GDP growth of 0.6-1.5pp in 2011.

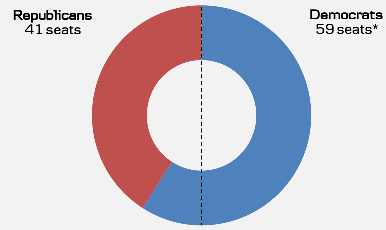
### Market implications of elections: Is history a guide?

With a divided government a likely outcome of the mid-term elections, a natural question to ask is whether this may have implications for investor risk appetite. A divided government may complicate political matters, and the composition of Congress may

**Key points**

- On 2 November Americans will go to the ballot box to vote in the mid-term election. All 435 members of the House of Representatives are up for election, whereas only 37 out of a 100 senate seats are contested.
- The most recent polls suggest that the Democrats could lose the majority in both chambers of Congress, but may just manage to hang on to the Senate.
- A so-called divided government, with different parties controlling Congress and the presidency, has become a likely outcome. This is, however, nothing new.
- We have looked at past experiences with a divided government and equity market performance. Although the result should be taken with a grain of salt, it highlights that a divided government does not necessarily lead to weaker performance in risky assets.

**Current Senate**




*Source: Real Clear Politics for The WSJ. *the 2 independent senators support the Democrats* affect investor expectations about both fiscal policy and possible regulation measures. But what are the implications for the markets? We studied post-WWII data of the composition of Congress after each election throughout the years from 1945-2010 and held them against the performance of the S&P 500 index from the date of inauguration (Jan-20 in odd years) to the next Congress.

Interestingly, periods with the White House controlled by a Democrat and Congress controlled by the Republicans – a situation that is likely to be in place from 20 January 2011 - have seen the best average equity market performance. One important caveat is, however, that this result is heavily influenced by the fact that the period 1995-99, during which President Clinton faced a Republican-controlled Congress, coincided with the technology equity market boom.

When looking solely at the party controlling Congress, equities have performed better during periods of Republican control than in periods of Democratic Congress majority. This could indicate that from the point of view of investors, a Republican-controlled Congress is generally seen as less likely to put through legislation that is hostile to business, both in terms of tax policies, but also in terms of regulation issues. In the current situation, with financial sector regulation issues likely to remain high on the agenda in 2011-12, a Republican-controlled Congress could be seen as less likely to enact further measures to tighten regulation.

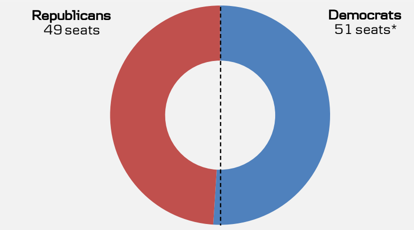
We do emphasize, however, that these results should be taken with a "grain of salt", as financial markets are driven by a wide range of factors, with politics only one factor. Nevertheless, the results do highlight the fact that a divided government does not necessarily lead to weaker performance in risky assets.

**S&P500 performance (%y/y) by party controlling Congress/White House**

| | D President | R President | Avg. by Congress |
|---|---|---|---|
| D Congress | 8.4% | 4.2% | **6.2%** |
| R Congress | 17.3% | 13.0% | **15.7%** |
| Split Congress | N/A | 4.0 | **3.6%** |
| **Avg. by Presidency** | **10.9%** | **6.4%** | |

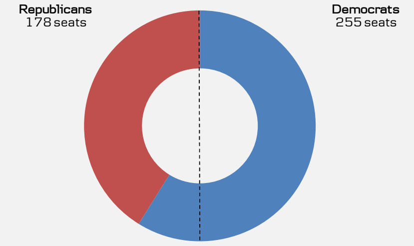
*Source: Danske Markets, Ecowin*

**Projected Senate**



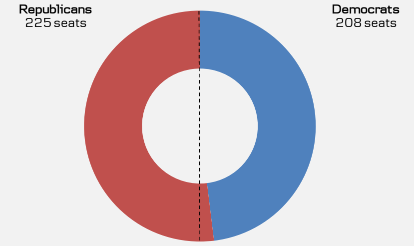

*Source: Real Clear Politics for The WSJ. *the 2 independent senators support the Democrats*

**Current House of Representatives**




*Source: Real Clear Politics for The WSJ*

**Projected House of Representatives**




*Source: Real Clear Politics for The WSJ*

**A major drag on growth if the Bush tax cuts are not extended**

| | 2011 | 2012 |
|---|---|---|
| Impact on GDP growth, percentage points | -0.6 to -1.5 | -0.3 to -0.7 |

*Source: CBO and Danske Markets*

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# Focus - EUR: Excess liquidity and money market rates

In this focus article we first look at upcoming key events for excess liquidity and discuss implications for money market rates. Then we give a brief overview of the subcomponents in the analysis of the euro area liquidity conditions.

## Normalisation of excess liquidity and rates

Excess liquidity in the euro area has fallen from more than EUR300bn in June to below EUR50bn for a brief period and as a result EONIA and Euribor rates have increased sharply. It has also increased uncertainty about the future developments in short market rates and thus the focus on the developments in liquidity conditions. On October 27 the ECB allotted EUR42.5bn in a three-month long-term refinancing operation (LTRO). This was EUR19.3bn more than the EUR23.2bn that matured from the three-month LTRO that was allotted in July. This has increased excess liquidity from around EUR45bn to about EUR65bn and this has put some downward pressure on EONIA rates. EONIA O/N fell from 0.86% on October 26 to 0.85% on October 27, while the decline was more pronounced in the one week EONIA, which fell from 0.79% to 0.70%.

## A few key dates

### Frontloading

In recent maintenance periods we have seen EONIA rates moving down at the end of the maintenance period, reflecting that banks tend to frontload their fulfilment of reserve requirements. At the beginning of this maintenance period banks' current account holdings have only been about EUR16bn higher than the average reserve requirement compared with around EUR50bn in the previous maintenance periods. The downward drift in EONIA O/N, as we move toward November 9, is thus likely to be significantly less pronounced than previously seen – a few quick "back of the envelope" calculations indicate that we should not expect more than 3-4 basis points.

### The last extra-long operations mature

Another key date is December 23, when the last 12-month LTRO matures. This LTRO totalled EUR97bn and although a 13 day bridge operation is scheduled we could see a further drain in excess liquidity as we saw when the previous 12-month operations matured in June and September and a resulting further normalisation in money market rates. Indeed EONIA O/N could move close to 1% in the last days of the year.

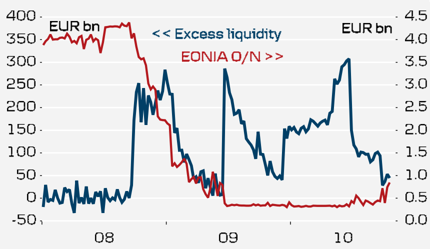
## Next step in the ECB exit strategy

While the FED is discussing further easing the ECB remains focused on its exit strategy. The natural next step for the ECB in its exit strategy is to move from full allotment back to fixed allotment on its refinancing operations. Indeed the ECB sees the decline in excess liquidity as a sign of progressive normalisation in the banking sector (which is a precondition for the ECB to go ahead with its exit).

### Key events

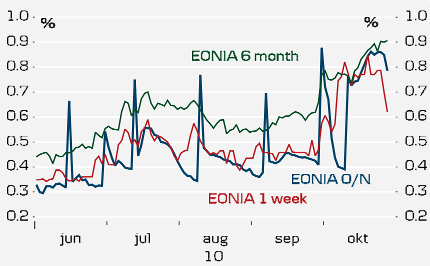
- **9 November** – EONIA O/N could decline as we move toward the end of maintenance period.
- **2 December** –ECB may announce full allotment until April 12.
- **23 December** – The last 12-month operation matures.
- **3 March 2011** – The ECB may announce shift to fixed allotment.

### Excess liquidity has dropped




*Source: Reuters Ecowin and own calculations*

### Money-market rates normalising




*Source: Reuters Ecowin*

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But Trichet has also called for banks to take appropriate measures to reinforce their balance sheet. So the ECB seem to be concerned that although the sector as a whole is healing there are still individual banks that are not yet ready to cope with an exit from non-standard liquidity measures.

At the current juncture it appears that it is only Bundesbank president Axel Weber who favours an immediate end to non-standard measures. We thus expect that the ECB to keep the exit strategy on pause for a while. We anticipate that Trichet will announce at the press conference on December 2 that they will continue to provide full allotment at long-term refinancing operations (one and three months) in January, February and March and at the main refinancing operations at least until the end of next year's third refinancing period on 12 April 2011. The shift to fixed allotment will then be announced at the Governing Council meeting on 3 March 2011. The forward market is currently pricing EONIA at 0.97% at mid-April, so this is not far from being aligned with our expectations.

We expect that the ECB will begin its hiking cycle with a 25bp hike in November 2011. A month ago this call was well off compared with the market pricing, but after the recent rate increases the market is now pricing a 50% change for a hike before end-2011.

## Excess liquidity and its subcomponents

Below is a short description of the main drivers of developments in the banks excess liquidity. Excess liquidity is calculated as the surplus of liquidity supply over liquidity demand.

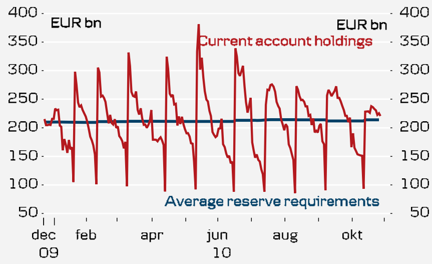
### Liquidity supply

The liquidity supply in the euro system mainly consists of the ECB's main refinancing operations (MRO) and long-term refinancing operations (LTRO). Prior to the financial crisis these auctions where variable rate fixed allotment tenders – i.e. the ECB decided the amount to be allotted. Since October 2008 there has been full allotment at all auctions – i.e. the banks decide how much liquidity they want. The demand for liquidity at LTROs has fallen dramatically as the duration of the longest LTROs has fallen from one year to three months as part of the ECB's exit strategy for non-standard measures.

Other operations (OT), including the euro liquidity effect of the foreign exchange swap operations, also affect total liquidity supply and is included in total open market operations. The ECB also displays the liquidity effect of the covered bond portfolio under open market operations.

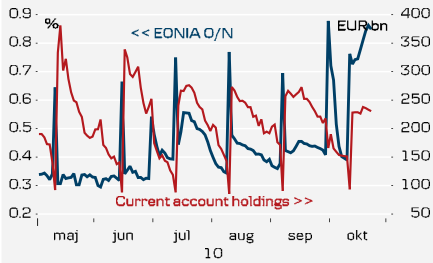
The ECB announced a benchmark allotment for the MROs, both at the time of the announcement and the allotment. When the ECB returns to fixed allotment the ECB calculations of the benchmark allotment will again form the basis for the amount offered at the weekly auctions. The amount offered at the three-month LTROs was fixed at EUR50bn prior to the crisis. There was no one-month LTRO prior to the crisis and it is likely to be phased out when the ECB shifts to fixed allotment. The termination of the one-month LTROs in itself should not have any significant market impact.

**Bank's tend to frontload…**



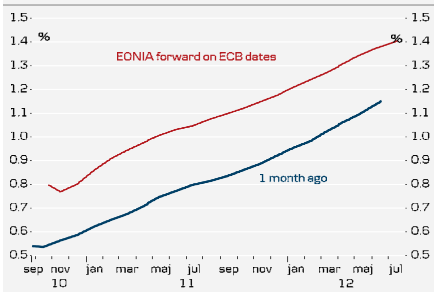

*Source: Reuters Ecowin*

**…leading EONIA O/N to drift down during the maintenance period**



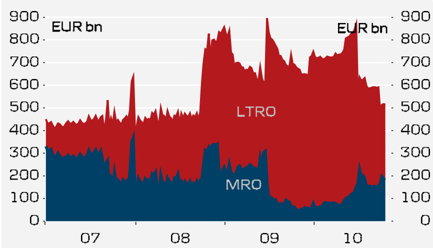

*Source: Reuters Ecowin*

**EONIA forward better aligned with our expectations**




*Source: Reuters Ecowin and own calculations*

**Liquidity supply**




*Source: Reuters Ecowin*

## Liquidity need

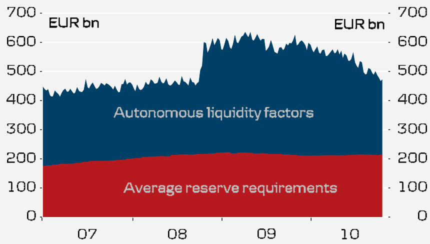
The liquidity need arises from two subcomponents namely reserve requirements and autonomous factors.

The reserve requirements that banks are obliged to hold need to be fulfilled for each maintenance period. Banks current account holdings can deviate from the average reserve requirements on a daily basis. Indeed, there is a tendency for banks, on aggregate, to frontload their fulfilment of the reserve requirements, which in recent maintenance periods have led EONIA to drift downward during the maintenance period.

The autonomous factors are largely out of the ECB's control. These are: 1) Banknotes in circulation; 2) Government deposits at some Eurosystem central banks; and 3) The investment portfolio of euro area central banks. The ECB publishes its forecast for the average autonomous factors up to the day preceding the settlement of the subsequent MRO each time an MRO is announced. The ECB is able to forecast around 70-75% of the change in the autonomous factors. The ECB's forecast of autonomous factors is published as part of the ECB's *liquidity analysis*. In the calculation of the net liquidity requirement, the securities market programme is deducted from the autonomous factors.

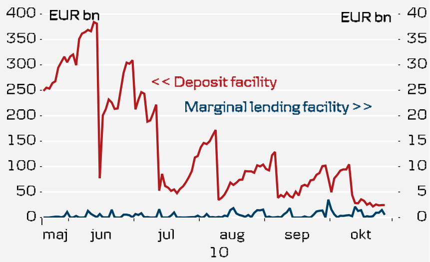
If banks have a liquidity imbalance they can deposit funds in the deposit facility or lend through the marginal lending facility. The use of the deposit facility has tended to increase during the maintenance period mirroring the frontloading of reserve requirement fulfilment. The use of the marginal lending facility has been very modest and with no clear pattern over the maintenance period.

**Liquidity need**




Source: Reuters Ecowin

**Use of deposit and lending facility**




Source: Reuters Ecowin

# Fixed Income: Has the bear market begun?

## Bond yields higher for a third week

The sell-off in the bond market continued for a third week – still with little sign of stabilisation. Two-year yields are back at April levels and 10-year yields have taken back much of the decline since mid July.

However, this week the losses were not only to blame on the normalisation of the European money market. Long bond yields in the US also rose as long positions were squared out ahead of next week's FOMC meeting. In fact, position squaring has been the name of the game in equity and currency markets as well. We suspect that the questionnaire about the size and the impact of QE that the Fed has posted to the primary dealers has reinforced the sell-off, as it indicates that the central bank is still not firmly decided about exactly how to implement the next round of QEII.

## Correction leaves room for lower yields, but not new lows

In the long end we continue to see this as a correction. There are still too many forces in play adding downward pressure on long bond yields, such as the ongoing softening of leading indicators, low inflation and the upcoming Fed QEII to convince us that a bear market has begun. We believe that the correction has left the market more square, which leaves room for lower long bond yields ahead in both the US and Germany.

That said, it is now much less likely that new lows will be reached in German bond yields – in particular in the short end. Even though excess liquidity increased in the 3M LTRO this week and very shorted dated EONIA rates moved lower, there was only a marginal effect on the 2-year German bond yield. It is now very clear that the market is pricing full normalisation during H1 and with a 6M LTRO expiring in November and the final 1Y LTRO expiring in December, it is very difficult to see 2-year yields moving much below 1% again. On the other hand, the upside is limited, as the forward curve is now pricing EONIA O/N at 1% in early Q2.

## Danish central bank hikes again

For a second time this month the Danish central bank hiked the current account and the deposit rate by 10bp to 0.6% and 0.7% respectively. The official rate was kept unchanged at 1.05%. The hike arrives with no particular signs of pressure on DKK, but is obviously a response to the rising money market rates in the Eurozone over the past weeks. With very short-dated EONIA rates moving lower the overnight spread is again in favour of DKK, which should keep the central bank sidelined for now. However, if EONIA rates move higher again – which could be the case when the next LTROs expire – further hikes cannot be ruled out.

## Heavy week ahead: ISM, payrolls, FOMC and ECB

The coming week is heavy in terms of data and events, with ISM, non-farm, FOMC and ECB meetings scheduled. While none of these events are marginal, the FOMC will take centre stage. On the back of the recent weeks' correction the Fed is not expected to disappoint the markets. We think the risk is for lower long bond yields.

**Key events of the week ahead**

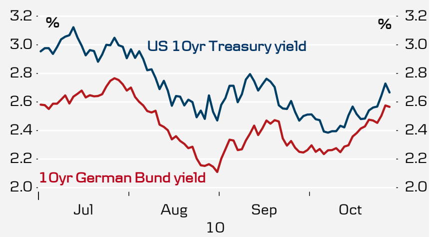
Main events:

- US ISM manufacturing (Mon)
- US ISM non-manufacturing (Wed)
- FOMC meeting (Wed)
- ECB meeting (Thu)
- BoE meeting (Thu)
- Non-farm payrolls (Fri)

Bond supply:

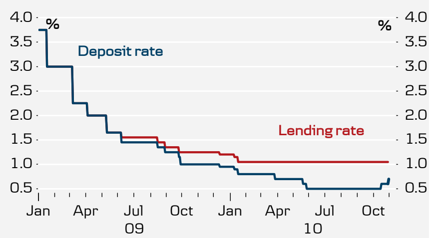
- Finland EUR1.5bn '20 and '40 (Tue)
- Germany EUR5bn 5-yr (Wed)
- Spain 2016 bonds (Thu)
- US 10yr TIPS (Thu)

**Long bond yields higher in US and Germany**




*Source: Danske Markets and ecowin*

**Danish central bank hiked again**




*Source: Danske Markets and ecowin*

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# FX: Hell Week - 5 ½ days of endurance

## Midterm elections, FOMC, ECB, BoE, BoJ & nonfarm payrolls

For a Navy Seal the defining event of BUD/S training is the 5 ½ days of brutal, cold, wet and near sleepless training known as 'hell week'. While in a different universe altogether, the coming week will nonetheless prove enduring for the risk-averse investor - with US mid-term elections (Tuesday), FOMC meeting (Wednesday), ECB and BoE meeting (Thursday), and BoJ meeting and US non-farm payrolls (Friday). Add to this the fact that both the FOMC and BoE could very well set the direction for monetary policy in the core economies for, at least, the coming quarters and you have a recipe for market volatility.

## How much have QE2 expectations been scaled back?

The pivotal event will undoubtedly be the FOMC meeting, where the question is still not whether the Fed will announce a second round of asset purchases (clearly it will), but rather what framework will be used this time around; a 'big splash' purchase or 'small drip' buying, as some have dubbed the alternatives.

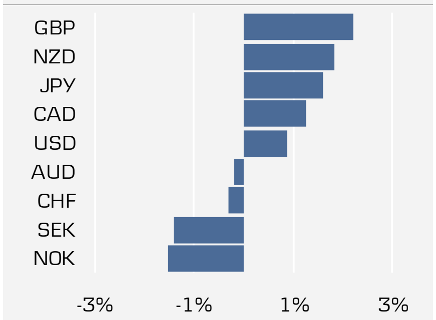
A month and a half ago - when the market truly began pricing QE2 - the consensus expectation appeared to be for a 'big splash'; i.e. the announcement of a large treasury purchase programme at the November meeting. Unsurprisingly, the dollar weakened in the weeks that followed, while at the same time risky assets and bonds rallied. However, events such as: (i) WSJ articles indicating purchases of a just few hundred billons, (ii) a strong UK Q3 GDP report reducing the likelihood of renewed Gilt purchases by the BoE, and (iii) a questionnaire apparently sent to market participants by the Fed asking about expected buying (but limiting the highest answer to be a cumulated USD1,000bn over six months) are likely to have seen the market scale back QE2 expectations. This is at least what the past weeks' rise in treasury yields and dollar rebound indicate. Hence, the risk of the Fed 'disappointing' - by announcing less QE2 than expected - appears to be lower now than it was a few weeks ago; as also illustrated by three out of seven analysts surveyed by Reuters indicating that they do not expect QE2 to bring down the 10-year treasury yield.

## Confirmation of QE2 to trigger renewed dollar weakness

While the range of possible outcomes at Wednesday's meeting is large, we expect the dollar to weaken on the majority of these. That is, we expect the knee-jerk reaction as the Fed announces its second round of quantitative easing to be that of lower yields, higher stock prices, and a higher EUR/USD. With QE2 expectations having been scaled back, we suspect that it will take a quite small asset purchase programme to trigger a dollar rebound – though of course with the market being very short the dollar, such a rebound could be violent, and hence a tail-risk that one needs to factor in. Should the dollar rebound on Wednesday we would consider it attractive levels to hedge dollar income, not least since the ECB meeting on Thursday is likely to see Trichet maintain a relative hawkish stance - emphasizing the current divide between the ECB and the Fed.

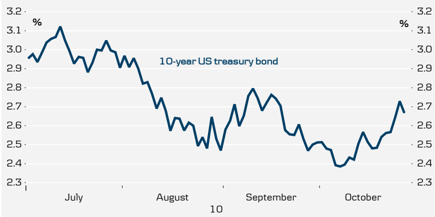
A weaker dollar would also likely see weaker Sterling, though there are reasons other than the outlook of Fed easing to expect a higher EUR/GBP. That is, our UK economist sees a good probability that the BoE will launch its own QE2 programme on Thursday, which - as it opposed to the Fed's is not expected in the market - could trigger a quite strong Sterling sell-off.

**FX changes vs. EUR over the past week**




*Source: Bloomberg*

**Markets scaling back QE expectations?**




*Source: Reuters EcoWin*

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# Commodities: Super-cycle resumed?

The past week has generally seen commodities trading higher although it is worth noting that support from EUR/USD has waned. Key to the direction for commodities from here is next week's Fed meeting as the markets expect to get clarification as to the extent and timing of more quantitative easing.

We have just published new commodity-price forecasts, see *Commodities Monthly*; some highlights are given below. Overall, we remain bullish on commodities in 2011 on tighter market balances and a weaker dollar.

## New price forecasts: market balances tightening

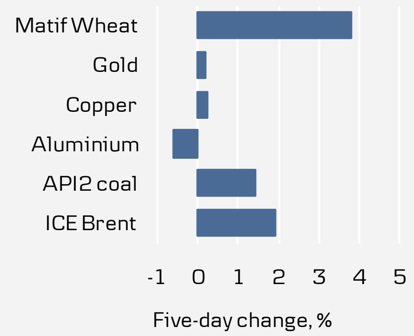
While the business cycle has been supportive for most commodities since mid-2009 when the global economy started to recover from the recession, the IMF in its latest World Economic Outlook (WEO), published early-October, revived the idea of a "commodities super-cycle" – not least for industrial metals. The fact that growth going forward is projected to come primarily from emerging markets where activity is markedly more commodity-intensive than elsewhere coupled with concerns that supply may not be able to keep up – as output usually adjusts only very slowly – is potentially creating a "perfect storm" – i.e. a combination of supply and demand driving prices higher still.

While long-term scarcity is one likely driver of supply constraints for the mineral industry, the IMF highlights that the main factors include long implementation lags for discovery, exploration and investment in the metals sector. In addition, the existence of technological and geological limitations is crucial for metals such as copper and tin whereas environmental policies may hinder expansion of production capacity within the lead and aluminium industries. IMF estimates that prices of base metals are only halfway through the current super-cycle, which was likely initiated just prior to the start of the new millennium and thus concludes that the balance of risks for metals prices in particular may lie persistently on the upside for years to come.

The notion that the Great Recession constituted little more than a temporary halt to a commodities super-cycle also received a lot of attention during the annual gathering of the base-metals community for LME week in early-October. However, we are not uncritical of subscribers to the super-cycle theory. Global demand could still take a hit – for example as extraordinary policy stimuli are eventually removed – and/or suffer from an extended period of below-trend growth. Also, the supply response may be quicker this time round compared with history, due to technological advances.

Notwithstanding, we remain bullish on the commodity complex as a whole going into 2011, partly on supply-demand fundamentals and partly due to the fact that our FX strategists now look for dollar weakness on a one- to 12-month horizon; see *FX Forecast Update*. We have thus pencilled in slightly higher oil prices and see Brent trading at USD82/barrel (previously USD80/barrel) on average in Q4 and close to USD88/barrel (previously USD86/barrel) in 2011. Setbacks on fading leading indicators should still be expected in Q4. As commodities will likely continue to shadow dollar movements to a large degree, key events to look out for in the near future include the Fed meeting on 3 November and G20 meeting on 11-12 November, as both should shed more light on where the dollar is heading from here.

### Weekly changes

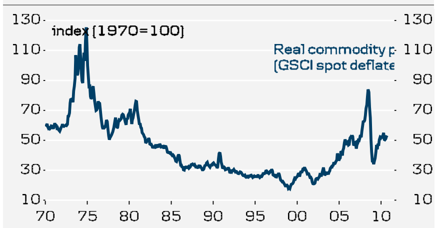



*Source: Bloomberg, Danske Markets.*

### Commodity calendar

- Mon: US ISM manufacturing
- Wed: Fed meeting, US auto sales
- Thu: ECB meeting
- Fri: US non-farm payrolls

### Real commodity prices




*Source: EcoWin, Danske Markets.*

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# Credit - Uneventful

## Market commentary

We have not got much to report this week, due to it being quiet in terms of news flow for the credit market. CDS indices are slightly tighter with the investment grade index, iTraxx Europe, currently trading at 98 basis points and the high yield index, Crossover, trading at 460bp.

The Q3 reporting season continues. The large Nordic banks that have reported this week (DnB, SEB and Nordea) have continued from where Swedbank and Handelsbanken left off last week, with reports showing improving asset quality. Among the corporates the strong momentum continues – particularly in earnings – and we generally see continued strong cash generation. Cash balances are therefore further strengthened and this further fuels worries about increasing shareholder initiatives (dividends, share buybacks, M&A, etc).

## The primary market

The previous week was quiet in terms of primary market activity, but this week has been busier and we have seen several new issues. From the Nordic region, Nykredit Bank has issued a 5Y fixed bond at 135bp over swap that tightened substantially after it was issued.

**Table 1. Selected new issues during the week**

| Name | Rating | Coupon | Maturity | Currency | Size | Bond spread on issue date, (bp)* |
|---|---|---|---|---|---|---|
| Nykredit Bank | A1/A+ | Fixed | 5Y | EUR | 0.5bn | 135 |
| Intesa SanPaolo | A2/A+ | Fixed | 8Y | EUR | 1.25bn | Gov +175 |
| Bank of Ireland (Gov.Guar) | Aa2/AA- | Fixed | 2.5Y | EUR | 0.75bn | 420 |
| Banco Populare LT2 | A3/BBB+ | Fixed | 10Y | EUR | 1.0bn | 320 |
| Bouygues | NA/A- | Fixed | 9Y | EUR | 1.0bn | 92 |
| Deutsche Bahn | Aa1/AA | Fixed | 12Y | EUR | 0.5bn | 46 |

*Note: Ratings are Moody's and S&P. * Mid-Swaps for Fixed, Discount Margin for floating*

*Source: Danske Markets & Bloomberg*

**iTraxx Europe (investment grade)**


*Source: Bloomberg & Danske Markets*

**iTraxx Crossover (high yield)**


*Source: Bloomberg & Danske Markets*

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# Financial views

## Equities

- We are now halfway through the US reporting season with, so far, positive surprises for earnings (especially Financials). Despite this, we do not expect Q3 earnings to start a new wave of positive profit estimate revisions like seen in the aftermath of the Q1 and Q2 reporting seasons. Surprisingly, profit margins are still expanding in Q3 but with muted output prices and a slowdown in sales volumes, it is only a matter of months before profit estimates for 2011 will start to be revised lower. In the short term, we anticipate market headwinds coming from continued soft job and housing markets, weak small business and consumer confidence , industrial slowdown and in the short term the likely outcome of the US mid-term elections, which leaves the US political system in a deadlock at a critical time for the US economy. We reiterate our recommendation to overweight financials and defensives against cyclical. Furthermore, we expect a soft stock market in the near term which could bring down global stocks by 5-10%.

## Fixed income

- We do not think that the current correction in the bond market will continue. The EONIA market has stabilised, the Fed is on the move with QE II and European/US PMI data are expected to weaken a tad further toward year-end. Hence, we expect long bond yields to move lower again in the coming months. That said, we may not see new lows in German bond yields due to the normalisation in the EONIA market. We expect a trough in bond yields early next year and forecast rising yields throughout 2011 as economic growth reaccelerates.

- Intra-Euroland and Scandi: We are long Germany and Italy versus Spain and France. We also recommend buying T-bills issued from Italy, Ireland, Greece, Portugal and Spain. We are overweight Scandinavia versus Euroland.

## Credit

- We remain of the opinion that credit is a good place to be invested. Companies are still acting conservatively with modest investments and focus on cost-cutting although we believe that event risk is on the rise as companies embark on more shareholder-friendly actions.

- We remain positive on credit for the moment, but it is becoming mainly a carry play as the spread tightening we have seen makes the upside smaller. Primary market activity is high and we expect more in the coming weeks before we close off for the year in December.

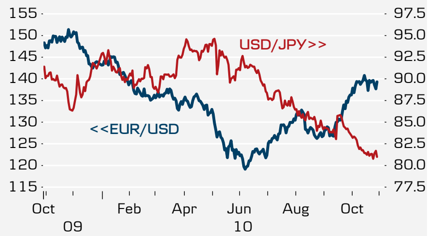
## FX outlook

- While the range of possible outcomes at Wednesday's FOMC meeting is large, we expect the dollar to weaken on the majority of these. That is, we expect the knee-jerk reaction as the Fed announces QE2 to be that of a higher EUR/USD. With QE2 expectations having been scaled back, we suspect that it will take a quite small asset purchase programme to trigger a dollar rebound – though of course with the market being very short the dollar, such a rebound could be violent. Hence, overall we still look for a weaker dollar, Sterling and Swiss franc in the short term, while there should be potential for a renewed appreciation of AUD, NZD and CAD.

**Equities and US 10Y yield**

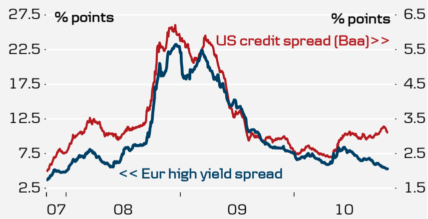

*Source: Reuters Ecowin*

**EUR/USD and USD/JPY**



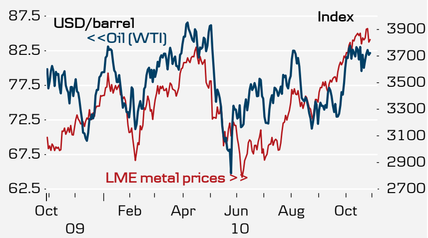

*Source: Reuters Ecowin*

**Credit spreads**




*Source: Reuters Ecowin*

**Commodity prices**




*Source: Reuters Ecowin*

- Both Norway and Sweden revised lower their rate paths this week. In general they stroke a more dovish rhetoric and especially the Riksbank is now increasingly putting weight on currency developments. However, we still expect the Riksbank to hike once again in December, whereas Norges bank will not hike before May next year at the earliest. Both NOK and SEK have been suffering in the aftermath of the monetary policy meetings and though we expect both EUR/NOK and EUR/SEK to trade lower on a three-month horizon, utmost cautiousness is warranted as stop-loss levels are currently being triggered in both crosses.

## Commodities

- The past week has generally seen commodities trading higher although it is worth noting that support from EUR/USD has waned. Overall, we remain bullish on commodities in 2011 on tighter market balances and a weaker dollar.

# 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 | 2009 | -4.7 | -4.6 | 3.4 | -13.0 | -1.7 | -10.2 | -13.2 | 1.3 | 3.6 | -3.0 | 38.0 | 4.0 |
| | 2010 | 2.1 | 3.1 | 2.4 | -4.8 | 1.0 | 3.7 | 3.6 | 2.3 | 4.1 | -5.0 | 43.0 | 4.3 |
| | 2011 | 1.6 | 2.1 | 1.0 | 1.3 | 0.4 | 3.7 | 4.7 | 1.9 | 3.9 | -4.4 | 45.1 | 4.1 |
| Sweden | 2009 | -5.1 | -0.8 | 1.7 | -16.0 | -1.5 | -12.4 | -13.2 | -0.3 | 8.4 | -2.1 | 38.9 | 7.2 |
| | 2010 | 4.6 | 2.8 | 1.6 | 5.5 | 1.7 | 10.9 | 12.3 | 1.2 | 8.8 | -3.5 | 43.6 | 6.5 |
| | 2011 | 1.5 | 1.4 | 0.2 | 4.0 | -0.1 | 2.0 | 2.2 | 2.1 | 9.2 | -4.1 | 47.2 | 7.0 |
| Norway | 2009 | -1.6 | 0.2 | 4.8 | -7.9 | -2.1 | -3.9 | -10.3 | 2.1 | 3.1 | 8.0 | 26.0 | 19.0 |
| | 2010 | 1.8 | 3.0 | 3.0 | -2.9 | 1.5 | -0.6 | 6.2 | 2.5 | 3.4 | 12.0 | 26.0 | 24.9 |
| | 2011 | 2.9 | 4.1 | 2.1 | 7.4 | 0.3 | -0.3 | 3.8 | 1.6 | 3.2 | 10.0 | - | 17.0 |

## Macro forecast, Euroland

| | Year | GDP[1] | Private cons.[1] | Public cons.[1] | Fixed inv.[1] | Stock build.[2] | Ex-ports[1] | Im-ports[1] | Infla-tion[1] | Unem-ploym.[3] | Public budget[4] | Public debt[4] | Current acc.[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Euroland | 2009 | -4.0 | -1.1 | 2.5 | -11.3 | -0.7 | -12.8 | -11.5 | 0.3 | 9.4 | -6.3 | 78.7 | -0.7 |
| | 2010 | 1.7 | 0.8 | 1.1 | -0.5 | 1.2 | 9.6 | 10.0 | 1.5 | 10.0 | -6.7 | 84.8 | -0.3 |
| | 2011 | 2.0 | 1.2 | 1.0 | 3.2 | 0.1 | 5.9 | 5.2 | 1.6 | 9.8 | -6.0 | 88.5 | -0.2 |
| Germany | 2009 | -4.7 | -0.1 | 2.9 | -12.0 | 0.4 | -14.3 | -9.4 | 0.2 | 7.5 | -3.5 | 73.0 | 4.0 |
| | 2010 | 3.2 | 0.0 | 3.0 | 9.7 | 0.1 | 14.0 | 13.2 | 1.0 | 8.1 | -5.0 | 76.5 | 3.7 |
| | 2011 | 2.5 | 1.9 | 1.4 | 6.9 | 0.0 | 7.6 | 8.6 | 1.2 | 7.6 | -3.0 | 79.0 | 3.2 |
| France | 2009 | -2.5 | 0.6 | 2.8 | -7.0 | -1.9 | -12.2 | -10.6 | 0.1 | 9.4 | -8.3 | 78.0 | -2.3 |
| | 2010 | 1.7 | 1.7 | 1.6 | -1.3 | 0.4 | 9.5 | 7.6 | 1.2 | 10.0 | -8.5 | 82.0 | -2.5 |
| | 2011 | 2.1 | 1.7 | 1.2 | 4.2 | 0.2 | 7.0 | 6.8 | 1.5 | 9.7 | -7.0 | 87.0 | -2.2 |
| Italy | 2009 | -5.1 | -1.6 | 1.6 | -13.1 | -0.3 | -19.2 | -15.2 | 0.7 | 7.8 | -5.3 | 114.6 | -2.2 |
| | 2010 | 1.2 | 0.9 | 1.3 | 0.1 | 0.2 | 8.0 | 6.0 | 1.9 | 8.6 | -5.0 | 116.0 | -2.0 |
| | 2011 | 2.0 | 1.0 | 1.0 | 5.2 | 0.1 | 8.4 | 7.2 | 2.0 | 8.3 | -4.5 | 117.5 | -1.7 |
| Spain | 2009 | -3.7 | -4.3 | 3.2 | -15.5 | 0.0 | -11.6 | -17.8 | -0.3 | 18.1 | -11.2 | 54.3 | -5.2 |
| | 2010 | -0.2 | 1.6 | 0.6 | -6.0 | 0.1 | 8.8 | 7.1 | 0.9 | 20.1 | -10.0 | 66.0 | -4.1 |
| | 2011 | 0.7 | 0.7 | 0.3 | 0.5 | 0.0 | 5.6 | 4.5 | 1.9 | 19.8 | -8.5 | 73.0 | -3.2 |
| Finland | 2009 | -8.0 | -1.9 | 1.2 | -14.7 | 0.0 | -20.3 | -18.1 | 0.0 | 8.2 | -2.2 | 44.0 | 1.3 |
| | 2010 | 3.1 | 2.3 | 0.3 | -1.0 | 0.0 | 4.5 | 3.5 | 1.3 | 8.5 | -3.1 | 49.0 | 1.4 |
| | 2011 | 2.5 | 1.5 | 0.0 | 5.0 | 0.0 | 6.5 | 4.0 | 2.3 | 7.8 | -1.5 | 51.0 | 1.9 |

## 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 | 2009 | -2.6 | -1.2 | 1.6 | -18.3 | -0.6 | -9.5 | -13.8 | -0.3 | 9.3 | -10.0 | 84.6 | -2.7 |
| | 2010 | 2.6 | 1.6 | 0.8 | 3.3 | 1.3 | 11.6 | 12.6 | 1.7 | 9.7 | -10.3 | 91.0 | -3.4 |
| | 2011 | 2.3 | 2.3 | -0.2 | 6.6 | -0.2 | 7.9 | 5.9 | 1.7 | 9.3 | -8.8 | 95.7 | -3.3 |
| Japan | 2009 | -5.2 | -1.1 | 1.6 | -14.4 | -0.3 | -24.1 | -16.9 | -1.4 | 4.7 | -8.0 | 220.0 | 2.8 |
| | 2010 | 3.1 | 2.2 | 1.6 | -1.1 | -0.1 | 23.7 | 2.6 | -1.2 | 4.3 | -5.2 | 220.4 | 2.8 |
| | 2011 | 1.8 | 1.7 | 1.0 | 2.5 | 0.0 | 5.4 | 5.4 | -0.3 | - | - | - | 2.1 |
| China | 2009 | 8.7 | - | - | - | - | - | - | -0.7 | 4.3 | -3.3 | 23.6 | 5.8 |
| | 2010 | 9.9 | - | - | - | - | - | - | 3.1 | 4.0 | -2.2 | 20.5 | 6.2 |
| | 2011 | 9.0 | - | - | - | - | - | - | 3.2 | 4.0 | -2.2 | 20.5 | 6.5 |
| UK | 2009 | -4.9 | -3.2 | 2.8 | -14.9 | -1.2 | -10.6 | -13.3 | 2.2 | 7.6 | -10.4 | 68.6 | -1.3 |
| | 2010 | 1.1 | 1.9 | 1.0 | -2.0 | 1.1 | 6.0 | 0.9 | 2.9 | 8.0 | -10.7 | 80.3 | -2.0 |
| | 2011 | 1.7 | 1.2 | 0.5 | 2.2 | 1.3 | 3.5 | 5.0 | 2.3 | 7.8 | -8.8 | 88.2 | -1.2 |
| Switzer-land | 2009 | -1.5 | 1.2 | 2.5 | -3.7 | 1.0 | -9.3 | -5.7 | -0.5 | 3.7 | 1.4 | 38.8 | 8.3 |
| | 2010 | 2.0 | 1.8 | 0.5 | 2.1 | -0.7 | 7.0 | 5.0 | 1.0 | 3.8 | -1.0 | 40.0 | 9.0 |
| | 2011 | 1.7 | 1.6 | 1.0 | 1.5 | -0.2 | 4.0 | 4.0 | 1.2 | 3.5 | -0.5 | 39.0 | 10.0 |

*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 | 29-Oct | 0.13 | 0.29 | 0.52 | 2.72 | 138.3 | - | 539.4 |
| | +3m | 0.13 | 0.30 | 0.55 | 2.35 | 145 | - | 514 |
| | +6m | 0.13 | 0.30 | 0.55 | 2.85 | 148 | - | 504 |
| | +12m | 0.13 | 0.30 | 0.80 | 3.20 | 150 | - | 497 |
| EUR | 29-Oct | 1.00 | 1.05 | 1.58 | 2.83 | - | 138.3 | 745.7 |
| | +3m | 1.00 | 0.90 | 1.45 | 2.35 | - | 145 | 746.0 |
| | +6m | 1.00 | 1.00 | 1.60 | 2.60 | - | 148 | 746.0 |
| | +12m | 1.00 | 1.10 | 1.75 | 3.05 | - | 150 | 746.0 |
| JPY | 29-Oct | 0.10 | 0.20 | 0.38 | 1.01 | 111.7 | 80.8 | 6.68 |
| | +3m | 0.10 | 0.20 | 0.35 | 0.85 | 113 | 78 | 6.60 |
| | +6m | 0.10 | 0.20 | 0.40 | 1.20 | 118 | 80 | 6.32 |
| | +12m | 0.10 | 0.20 | 0.50 | 1.40 | 128 | 85 | 5.83 |
| GBP | 29-Oct | 0.50 | 0.74 | 1.30 | 3.22 | 86.9 | 159.0 | 857.8 |
| | +3m | 0.50 | 0.70 | 1.15 | 2.80 | 90.0 | 161 | 829 |
| | +6m | 0.50 | 0.70 | 1.10 | 2.95 | 92.0 | 161 | 811 |
| | +12m | 0.50 | 0.70 | 1.50 | 3.10 | 86.0 | 174 | 867 |
| CHF | 29-Oct | 0.25 | 0.17 | 0.54 | 1.86 | 136.8 | 98.9 | 545.3 |
| | +3m | 0.25 | 0.25 | 0.50 | 1.72 | 134 | 92 | 557 |
| | +6m | 0.25 | 0.25 | 0.80 | 2.07 | 132 | 89 | 565 |
| | +12m | 0.75 | 0.75 | 1.30 | 2.47 | 136 | 91 | 549 |
| DKK | 29-Oct | 1.05 | 1.22 | 1.92 | 3.01 | 745.7 | 539.4 | - |
| | +3m | 1.05 | 1.15 | 1.80 | 2.50 | 746 | 514 | - |
| | +6m | 1.05 | 1.25 | 1.90 | 2.75 | 746 | 504 | - |
| | +12m | 1.05 | 1.35 | 2.05 | 3.20 | 746 | 497 | - |
| SEK | 29-Oct | 1.00 | 1.53 | 2.08 | 3.10 | 938.8 | 679.0 | 79.4 |
| | +3m | 1.25 | 1.75 | 2.60 | 2.95 | 900 | 621 | 82.9 |
| | +6m | 1.50 | 1.90 | 2.70 | 3.25 | 910 | 615 | 82.0 |
| | +12m | 2.00 | 2.40 | 2.60 | 3.50 | 920 | 613 | 81.1 |
| NOK | 29-Oct | 2.00 | 2.52 | 2.91 | 4.03 | 821.4 | 594.1 | 90.8 |
| | +3m | 2.00 | 2.50 | 3.50 | 4.20 | 800 | 552 | 93.3 |
| | +6m | 2.25 | 2.75 | 3.90 | 4.30 | 790 | 534 | 94.4 |
| | +12m | 2.50 | 3.00 | 4.00 | 4.40 | 780 | 520 | 95.6 |

## Equity markets

| Regional | Risk | Price trend 3 mth. | Price trend 12 mth. | Regional recommendations |
|---|---|---|---|---|
| USA | Low | -5% to +5% | 0% to +10% | Underweight |
| Japan | High | -5% to +5% | 0% to +10% | Neutral |
| Emerging markets (USD) | High | -5% to +5% | 0% to +10% | Overweight |
| Pan-Europe (EUR) | Low | -5% to +5% | 0% to +10% | Neutral |
| **Nordics** | | | | |
| Sweden | Average | -5% to +5% | 0% to +10% | Neutral |
| Norway | High | -5% to +5% | 0% to +10% | Neutral |
| Denmark | High | -5% to +5% | 0% to +10% | Neutral |

## Commodities

| | | 2010 | | | | 2011 | | | | Average | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 27-Oct | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2010 | 2011 |
| NYMEX WTI | 82 | 81 | 81 | 78 | 81 | 83 | 86 | 89 | 91 | 80 | 87 |
| ICE Brent | 83 | 79 | 81 | 78 | 82 | 84 | 87 | 90 | 92 | 80 | 88 |
| Copper | 8,357 | 7,274 | 7,072 | 7,291 | 8,500 | 8,600 | 8,700 | 8,800 | 8,900 | 7,534 | 8,750 |
| Zinc | 2,545 | 2,307 | 2,067 | 2,046 | 2,500 | 2,505 | 2,510 | 2,515 | 2,520 | 2,230 | 2,513 |
| Nickel/1000 | 23 | 20 | 23 | 21 | 23 | 24 | 24 | 25 | 25 | 22 | 24 |
| Steel | 493 | 464 | 491 | 478 | 490 | 500 | 510 | 530 | 550 | 481 | 523 |
| Aluminium | 2,360 | 2,199 | 2,131 | 2,114 | 2,350 | 2,400 | 2,400 | 2,400 | 2,400 | 2,198 | 2,400 |
| Gold | 1,334 | 1,110 | 1,194 | 1,229 | 1,350 | 1,350 | 1,325 | 1,300 | 1,275 | 1,221 | 1,313 |
| Matif Mill Wheat | 217 | 126 | 131 | 203 | 200 | 175 | 170 | 160 | 165 | 165 | 168 |
| CBOT Wheat | 692 | 518 | 490 | 679 | 685 | 613 | 608 | 576 | 598 | 593 | 598 |
| CBOT Corn | 568 | 389 | 379 | 435 | 575 | 580 | 585 | 590 | 595 | 444 | 588 |
| CBOT Soybeans | 1,207 | 969 | 932 | 1,024 | 1,200 | 1,225 | 1,250 | 1,275 | 1,300 | 1,031 | 1,263 |

*Source: Danske Markets*

# Calendar

## Key Data and Events in Week 44

| Monday, November 1, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| 2:00 | CNY | NBS Manufacturing PMI | Index | Oct | | *53.8* | 53.8 |
| 3:30 | CNY | HSBC Manufacturing PMI | Index | Oct | | | 52.9 |
| 8:00 | NOK | Norwegian PMI | Index | Oct | **53.2** | | 52.8 |
| 8:30 | SEK | Swedish PMI | Index | Oct | | | 63.3 |
| 9:30 | DKK | Retail sales | m/m\|y/y | Sep | **0.1%\|...** | | 0.4%\|-0.7% |
| 9:30 | CHF | PMI | Index | Oct | | *59.2* | 59.7 |
| 9:50 | FRF | PMI Manufacturing, final | Index | Oct | **55.2** | | 55.2 |
| 10:00 | NOK | Credit indicator (C2) | y/y | Sep | **5.5%** | | 5.1% |
| 10:30 | GBP | PMI manufacturing | Index | Oct | **52.8** | *53.0* | 53.4 |
| 11:00 | DKK | Danish PMI | Index | Oct | | | 50.6 |
| 11:15 | EUR | ECB announces 7-day tender allotment | | | | | |
| 13:30 | USD | Personal income | m/m | Sep | **0.3%** | *0.3%* | 0.5% |
| 13:30 | USD | Personal Spending | m/m | Sep | **0.2%** | *0.4%* | 0.4% |
| 13:30 | USD | Private consumption expenditure | y/y | Sep | **1.5%** | *1.4%* | 1.5% |
| 13:30 | USD | PCE core - deflator | m/m\|y/y | Sep | **0.1%\|1.4%** | *0.1%\|1.4%* | 0.1%\|1.4% |
| 15:00 | USD | ISM | Index | Oct | **54.0** | *54.0* | 54.4 |
| 15:00 | USD | ISM prices paid | Index | Oct | | *70.5* | 70.5 |

| Tuesday, November 2, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | USD | US Midterm election | | | | | |
| 0:50 | JPY | Monetary Base | y/y | Oct | | | 5.8% |
| 4:30 | AUD | RBA interest rate decision | | | **4.50%** | *4.50%* | 4.50% |
| 9:15 | ESP | Manufacturing PMI | Index | Oct | **49.2** | | 49.6 |
| 9:15 | CHF | Retail sales (real) | y/y | Sep | | | 0.5% |
| 9:30 | GBP | PMI construction | Index | Oct | **53.0** | *53.0* | 53.8 |
| 9:45 | ITL | PMI | Index | Oct | **52.2** | *52.6* | 56.6 |
| 9:55 | DEM | PMI Manufacturing, final | Index | Oct | **56.3** | *56.1* | 56.1 |
| 10:00 | EUR | PMI Manufacturing, final | Index | Oct | **54.2** | *54.1* | 54.1 |
| 15:00 | DKK | Currency reserves (Change) | DKK bn | Oct | | | 2.2 |

| Wednesday, November 3, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| 9:30 | GBP | PMI services | Index | Oct | **52.5** | *52.6* | 52.8 |
| 10:00 | NOK | Unemployment s.a. (LFS) | % | Aug | **3.4%** | | 3.3% |
| 12:00 | USD | MBA mortgage applications | | | | | |
| 15:00 | USD | ISM non-manufacturing | Index | Oct | **53.0** | *53.5* | 53.2 |
| 15:00 | USD | Factory Orders | m/m | Sep | | *0.7%* | -0.5% |
| 17:15 | CHF | SNB's Jordan speaks in Zurich | | | | | |
| 20:15 | USD | FOMC meeting | | | **0.25%** | *0.25%* | 0.25% |
| 22:45 | NZD | Employment change | | 3rd quarter | | *0.5%\|1.2%* | -0.3%\|-0.1% |

*Source: Danske Markets*

## Calendar - continued

| Thursday, November 4, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| 1:30 | AUD | Retail sales (sa) | m/m | Sep | | | 0.5% |
| 9:00 | EUR | PMI Composite, final | Index | Oct | **53.4** | *53.4* | 53.4 |
| 9:00 | EUR | PMI Services, final | Index | Oct | **53.1** | *53.2* | 53.2 |
| 9:15 | ESP | Service PMI | Index | Oct | **47.4** | | 47.9 |
| 9:15 | CHF | CPI | m/m\|y/y | Oct | | *0.6%\|0.3%* | 0.0%\|0.3% |
| 9:45 | ITL | Service PMI | Index | Oct | **51.0** | *50.3* | 51.3 |
| 9:50 | FRF | PMI Services, final | Index | Oct | **55.1** | | 55.3 |
| 9:55 | DEM | PMI Services, final | Index | Oct | **56.6** | *56.6* | 56.6 |
| 12:00 | GBP | BoE rate announcement | % | | **0.5%** | *0.5%* | 0.5% |
| 13:00 | GBP | BoE Asset Purchase Target | £ bn. | Nov | **250** | *200* | 200 |
| 13:30 | USD | Unit labour cost, preliminary | q/q | 3rd quarter | | *1.0%* | 1.1% |
| 13:45 | EUR | ECB announces Interest Rates | | | **1.0%** | *1.0%* | 1.0% |
| 14:30 | EUR | ECB news conference | | | | | |
| 14:30 | USD | Initial jobless claims | 1000 | | | | |
| 15:00 | CAD | Ivey PMI | index | Oct | | | 70.3 |
| 18:00 | CHF | SNB's Danthine speaks in Geneva | | | | | |

| Friday, November 5, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | JPY | BoJ Monetary Policy Announcement | % | | **0.10** | *0.10* | 0.10 |
| 1:30 | AUD | RBA quarterly monetary policy statement | | | | | |
| 8:30 | SEK | Budget Balance | bn. | Oct | | | -15.4 |
| 9:30 | DKK | Industrial production | m/m\|y/y | Sep | | | -6.6\|... |
| 9:30 | GBP | PPI - Output | m/m\|y/y | Oct | | *0.2%\|4.4%* | 0.3%\|4.4% |
| 10:00 | NOK | Manufacturing Production sa. | y/y | Sep | **1.0%\|...** | | -2.0%\|2.6% |
| 10:00 | NOK | Industrial production | y/y | Sep | | | -4.7%\|-13.0% |
| 11:00 | DEM | Manufacturing orders SA | m/m\|y/y | Sep | | *-0.2%\|18.6%* | 3.4%\|20.3% |
| 11:00 | EUR | Retail sales | m/m\|y/y | Sep | **0.3%\|** | *0.1%\|1.4%* | -0.4%\|0.8% |
| 12:00 | CAD | Unemployment rate | | Oct | | *8.0%* | 8.0% |
| 12:00 | CAD | Net change in employment | | Oct | | *10000* | -6600 |
| 13:30 | USD | Fed's Plosser (non-voter, hawk) speaks | | | | | |
| 13:30 | USD | Nonfarm payroll | 1000 | Oct | **60** | *70* | -95 |
| 13:30 | USD | Private payrolls | 1000 | Oct | **80** | *86* | 64 |
| 13:30 | USD | Unemployment | % | Oct | **9.6%** | *9.6%* | 9.6% |
| 14:30 | USD | Fed's Hoenig (voter, hawk) speaks | | | | | |
| 15:00 | USD | Pending home sales | m/m\|y/y | Sep | | *3.3%\|...* | 4.3%\|-18.4% |
| 16:15 | USD | Fed's Fisher (non-voter, hawk) speaks | | | | | |
| 18:20 | USD | Fed's Bullard (voter, neutral) speaks | | | | | |
| 19:00 | USD | Fed's Bernanke (voter, neutral) speaks | | | | | |
| 21:15 | USD | Fed's Lacker (non-voter, hawk) speaks | | | | | |

| During the week | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| Tue 02 - 06 | GBP | Halifax house prices | m/m\|y/y | Oct | | *0.3%\|0.6%* | -3.6%\|2.6% |
| Sat 06 | USD | Fed's Evans (non-voter, neutral) speaks | | | | | |
| Sat 06 | USD | Fed's Kocherlakota (non-voter, neutral) speaks | | | | | |
| Sat 06 | USD | Fed's Bernanke (voter, neutral) speaks | | | | | |

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*Source: Danske Markets*

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