

Danske Daily

Key news

- US consumer confidence and house prices higher, but a weak Chicago PMI points to a weak ISM today
- Triggers for further quantitative easing remain unclear following FOMC minutes
- Risk recovers in Asia following choppy markets yesterday
- JPY and CHF in demand, AUD lifted by strong Australian GDP numbers

Markets Overnight

It is not only bad news out of the US; consumer confidence moved higher (53.5 vs. 50.7 expected) and house prices increased more than expected in June. These numbers were partly overshadowed, however, by a significant drop in the Chicago PMI (from 62.3 to 56.7). Overall the regional PMIs suggest a sharp decline in the US ISM index today - where we look for a drop to 53.6 - and hence a strong H2 slowdown in manufacturing.

US stocks closed on a cautious note following a difficult month. Equity markets on both sides of the Atlantic traded broadly sideways yesterday to close with minor gains; the S&P500 index 0.04% higher. **Risk sentiment has picked up in Asia overnight** following a decent Chinese PMI release, with gains across the main indices and US stock futures rebounding.

The FOMC minutes confirmed what we knew from last week's Fed speeches. The decision to reinvest mortgage proceeds was made to maintain the status quo, as the tightening implied by a passive balance sheet reduction was not judged prudent given the weaker economic outlook. Hence, the decision was *not* made to signal to markets that additional stimulus has been agreed upon, and the minutes leave us little wiser on what the threshold is for further QE. Guided by Bernanke's Jackson Hole speech, consumer spending and the labour market are key, but even if data continue to disappoint, we believe disagreement within the committee will defer any policy action until after the September meeting (see *Flash Comment*).

Improved risk sentiment was not enough to keep **US treasuries** from extending Monday's gains, and the yield curve from flattening further. Yields have now fully reversed Friday's rise with the 10-year back below 2.50% and the 30-year back below 3.55%. Improved sentiment overnight has seen yields correct slightly higher though.

On the **FX market** safe-haven currencies remain in demand. USD/JPY moved temporarily back below 84 yesterday and has thus fully reversed Friday's spike - proving that the additional easing introduced by the Bank of Japan is not enough to stabilise the yen. EUR/CHF posted fresh lows after breaking below 1.29. AUD is higher after GDP data showed that the Australian economy reaccelerated in Q2.

Market movers today:

- Manufacturing PMIs are released in Europe and the US
- USD: ISM expected to decline further (16:00 CET)
- Fed speeches from Duke, Fisher, and Evans

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1049.3	↑	0.04
S&P500 fut (chng from close)	1056.8	↑	0.81
Nikkei	8899.2	↑	0.85
Hang Seng	20616.7	↑	0.39
	17:00	07:30	+/-, bp
US 2y gov	0.49	0.49	↑ 0.0
US 10y gov	2.49	2.50	↑ 0.9
iTraxx Europe (IG)	111	118	↑ 6.6
iTraxx Xover (Non IG)	446	532	↑ 86.1
			+/-, %
EUR/USD	1.270	1.270	↓ -0.01
USD/JPY	84.000	84.380	↑ 0.45
EUR/CHF	1.29	1.29	↑ 0.08
EUR/GBP	0.828	0.826	↓ -0.30
EUR/SEK	9.368	9.350	↓ -0.20
EUR/NOK	8.00	7.97	↓ -0.39
			USD
Oil Brent, USD	76.4	75.1	↓ -1.64
Gold, USD	1246.3	1247.6	↑ 0.10

Note:

* The iTraxx Europe Index show the spread development for the most liquid investment grade CDS contracts in the euro credit market.

**The iTraxx Europe Crossover show the spread development of the most liquid non-investment grade CDS contracts in the euro credit market.

Source: Bloomberg

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Global Daily

Focus today: Main event today is the release of the US ISM manufacturing index. Regional manufacturing indices as well as our fundamental analysis indicate that manufacturing growth slowed further in August. We look for a 53.6 reading – slightly above consensus. Later in the day vehicle sales will provide a first gauge about the strength of consumer spending in August. Finally, the speeches from Fed’s Duke, Fisher and Evans will be interesting as they might provide more information about Fed thinking on the QE issue.

Fixed income markets: While the flow pressure on the long end has eased somewhat, bond yields have not really been able to correct higher, as risk sentiment has been under pressure so far this week. The main event in the bond markets today is the release of the US manufacturing ISM. We see risk tilted a bit upside compared to consensus, but doubt that this will have much impact on the bond market. Generally, risk sentiment continues to be very important for the long end. A setback in equity markets could still trigger an acceleration of the flow into long maturity fixed income and send yields lower.

FX markets: We continue to see the risk-channel dominating the market response to US data released. That is, a much-better-than-expected ISM reading may not lead to a drop in EUR/USD as risky assets will likely rally, while a weak ISM reading could see EUR/USD move lower on safe-haven flows. The strong Australian GDP release (+1.2% q/q) underscores the strong cyclical position of the Australian economy. While markets are pricing a lower probability of a rate cut in Australia after the release, we still see the outlook as biased towards further tightening and look for further AUD outperformance against both NZD and CAD.

Scandi Daily

Denmark: July retail sales (another monthly decline expected) followed by August PMI.

Sweden: We expect Swedish PMI to drop slightly from elevated levels (64.2) as the order-inventory spread signals an increased risk of a correction in the headline number. This morning the National Institute of Economic Research will present a new forecast. Last time (late June) NIER upped prospects for 2010, but at the same time moderated its view on 2011. It also scaled down its unemployment forecast somewhat and generally saw benign inflation pressure. Today, we largely expect that picture to hold. The most interesting may instead be how the risks to the outlook are perceived. Previously the debt problems in PIIGS countries were a threat to growth, but this may now have shifted to weakness in US economic performance.

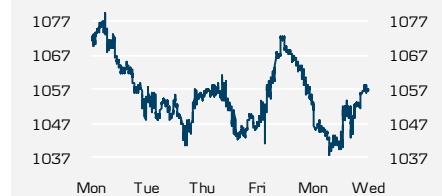
Norway: Today will see the release of the PMI indicator for August. In line with global indicators we expect a setback and the headline number is expected to fall from 54.9 in July to 52.5 in August (consensus 54.0). If we are right it might weigh slightly on NOK. Yesterday, Norges Bank said it will purchase foreign currency equivalent to NOK470m a day in September, which also creates NOK selling pressure. That said, look out for the general risk picture, which is the most important factor for EUR/NOK at the moment.

Manufacturing ISM to slow further



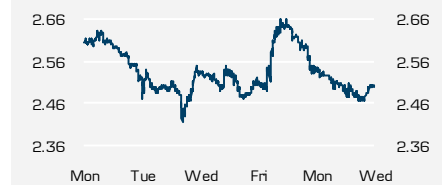
Source: Reuters Ecowin

US S&P500 future



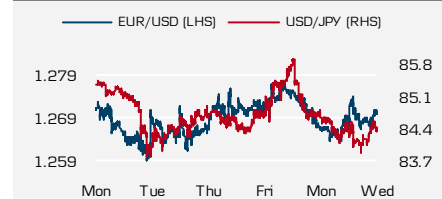
Source: Danske Markets

US 10y gov yield



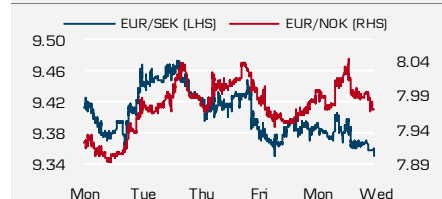
Source: Danske Markets

Global FX



Source: Danske Markets

Scandi FX



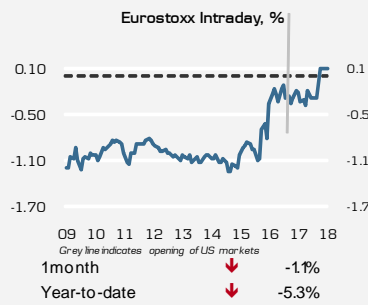
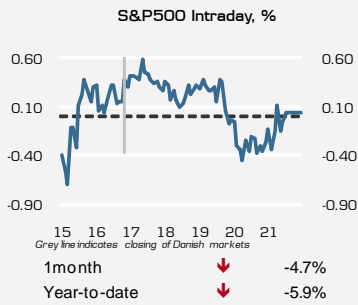
Source: Danske Markets

Key figures and events

Wednesday, September 1, 2010				Period	Danske Bank	Consensus	Previous
8:30	SEK	Swedish PMI	Index	Aug			64.2
9:00	NOK	PMI	Index	Aug	52.5	54.0	54.9
9:30	DKK	Retail sales	m/m y/y	Jul	-0.5% ...		-1.4% 0.2%
9:30	CHF	PMI	Index	Aug		65.9	66.9
9:55	DEM	PMI, manufacturing	Index	Aug	58.2	58.2	58.2
10:00	EUR	PMI, manufacturing	Index	Aug	55	55	
10:30	GBP	PMI manufacturing	Index	Aug		57	57.3
11:00	DKK	Danish PMI	Index	Aug			50.7
13:00	USD	MBA mortgage applications					
16:00	USD	ISM prices paid	Index	Aug	57.5	56.0	57.5
16:00	USD	ISM	Index	Aug	53.6	52.8	55.5
16:45	USD	Fed's Duke (voter, neutral) speaks					
19:40	USD	Fed's Fisher (non-voter, hawk) speaks					
23:00	USD	Total Vehicle Sales	m	Aug		11.6	11.85
23:15	USD	Fed's Evans (non-voter, neutral) speaks					

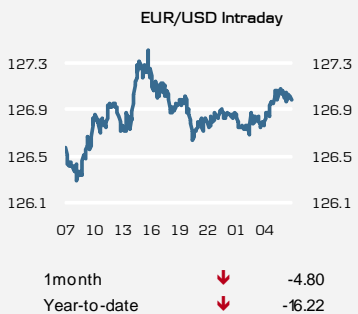
Today's market data: 01 September 2010

STOCKS



Index	Close	Change	%
DJSTOXX50	2450	↑	0.1%
OMXC20	396	↑	0.7%
OMXS30	1012	↑	0.3%
OSE BX	353	↑	0.0%
DOW JONES	10015	↑	0.1%
NASDAQ	2114	↓	-0.3%
S&P500	1049	↑	0.0%
NIKKEI (07:30)	8899	↑	0.1%

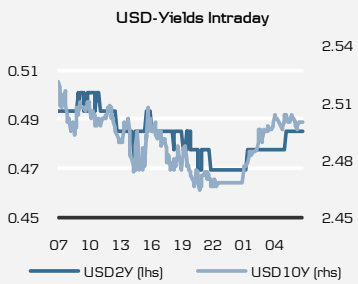
FX & COMMODITIES



EUR	17:00	07:30	Change
USD	127.00	126.99	↓ -0.01
JPY	106.68	107.15	↑ 0.47
GBP	82.80	82.55	↓ -0.25
NOK	799.96	796.81	↓ -3.15
SEK	936.81	934.95	↓ -1.86
DKK	744.45	744.45	↑ 0.00
PLN	399.82	400.25	↑ 0.43
USD	17:00	07:30	Change
JPY	84.00	84.38	↑ 0.38
GBP	153.38	153.83	↑ 0.45
CHF	10150	10158	↑ 0.08

Oil, Brent, \$	07:30	Change
Oil, Brent, \$	1247.60	↑ 0.48
1day	0.15	↑
1month	66.60	↓ -3.06
Year-t-date	150.65	↓ -2.81
CRB, Raw Industrials	07:30	Change
CRB, Raw Industrials	264.19	↑ 0.94
1day	-3.57	↑
1month	-10.16	↑ 17.32
Year-t-date	-19.19	↑ 20.79

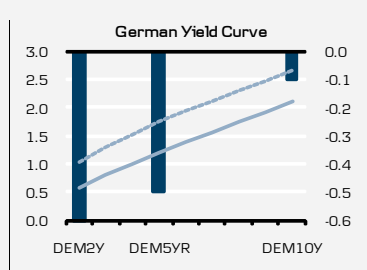
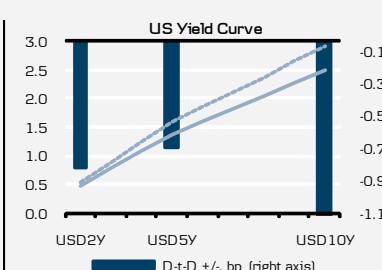
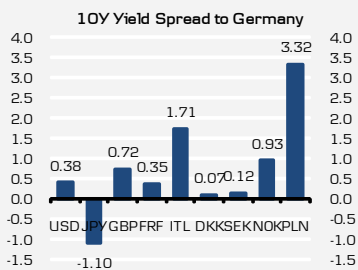
YIELDS & INTEREST RATES



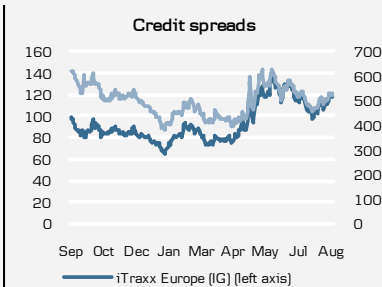
Policy Rate	3M	Spread, bp	
USD	0.25	0.30	5
EUR	1.00	0.89	-11
GBP	0.50	0.73	23
DKK	1.05	1.14	9
SEK	0.50	1.06	56
NOK	2.00	2.66	66
PLN	3.50	3.71	21

Yield	17:00	07:30	Change
USD 10Y	2.49	2.50	↑ 1
USD 30Y	3.55	3.54	↓ -1
JPY 10Y	0.97	1.02	↑ 5
Yield	07:30(-1)*	17:00	Change
DEM 10Y	2.12	2.11	↓ -1
DKK 10Y	2.28	2.18	↓ -10
SEK 10Y	2.22	2.23	↑ 1
NOK 10Y	3.05	3.05	↑ 0
PLN 10Y	5.41	5.44	↑ 3

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1day	1month
Europe (IG)	118	↑ 0	↑ 18
HiVol	180	↑ 2	↑ 33
Xover (N-IG)	532	↑ 5	↑ 73
Finan. Sr.	143	↑ 1	↑ 36
Finan. Sub.	212	↑ 2	↑ 45
Non-finan.	212	↑ 2	↑ 45



Swap Spread, bp**	17:00	07:30	Change
USD 10Y	1	2	↑ 1
JPY 10Y	9	9	↑ 0
Swap Spread, bp**	07:30(-1)*	17:00	Change
EUR 10Y	19	23	↑ 4
DKK 10Y	32	32	↑ 0
SEK 10Y	26	26	↑ 0
NOK 10Y	58	56	↓ -1

* As of closing previous trading day

** Ask price

Disclosure

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First date of publication

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