

Danske Daily

Key news

- Risk appetite rises on strong US manufacturing report
- US stocks post a strong start to September, following a downbeat August
- US Treasuries sold off as investors flocked to risk
- Asian stocks are up this morning, though the US rally does not seem to carry over
- Market awaits the Riksbank and ECB meetings today

Markets Overnight

With the ISM index surprising on the upside, risk appetite gained traction yesterday. Despite recent weakness in regional PMIs, the ISM index rose to 56.3, beating market expectations. One of the bright spots was the employment index, which rose to the highest level since December 1983. While the forward-looking details continue to point to slowing growth, the reading indicates that the slowdown is not spinning out of control. See more details in the *Flash Comment*. Sentiment was also supported by the Chinese manufacturing report earlier in the day, see more details [here](#).

The already rising US stock market was supported by the strong US and Chinese manufacturing reports, causing the S&P500 index to end the day more than 2.5% higher. The decline in ADP payrolls was overlooked in yesterday's rally, which was the best start to September since 1998. The largest gains were seen among industrial and financial shares.

US Treasuries sold off as investors flocked to risk, leaving yields much higher and also causing the curve to reach the steepest level in a week. The yield on two-year Treasuries was up 3bp, while 10-year yields rose a massive 10bp. This morning, however, Treasuries have erased some of yesterday's losses, indicating that the flight to risk may not be over.

The improving risk sentiment has generally set the tone for the Asia session, though there are signs that the massive rally in US stocks is not carrying over. There are also some signs of profit-taking now, with the S&P500 index future trading lower.

Some of the latest risk aversion moves have been reversed on the FX market following the strong ISM indicator yesterday afternoon. For example, EUR/USD traded higher and the Scandies benefited as well. However, the largest gains were seen among the commodity currencies; NZD was supported by a strong dairy auction, New Zealand's main export. This morning, JPY is trading stronger.

Market movers today:

- CHF: Retail sales (09:15 CET)
- SEK: Riksbank meeting (09:30 CET)
- EUR: ECB meeting (13:45 CET)
- USD: Initial jobless claims (14:30 CET)

Market overview

	07:30	1 day +/- %	
S&P500 (close)	1080.3	↑	2.95
S&P500 fut (chg from close)	1077.3	↓	-0.41
Nikkei	8967.0	↑	0.45
Hang Seng	20886.1	↑	1.27
	17:00	07:30	+/- bp
US 2y gov	0.51	0.49	↓ -1.6
US 10y gov	2.59	2.56	↓ -3.7
iTraxx Europe (IG)	106	112	↑ 5.9
iTraxx Xover (Non IG)	424	507	↑ 83.3
			+/- %
EUR/USD	1.280	1.279	↓ -0.05
USD/JPY	84.560	84.170	↓ -0.46
EUR/CHF	1.30	1.30	↑ 0.01
EUR/GBP	0.828	0.828	↑ 0.02
EUR/SEK	9.319	9.348	↑ 0.31
EUR/NOK	7.91	7.93	↑ 0.19
			USD
Oil Brent, USD	76.6	76.1	↓ -0.60
Gold, USD	1243.3	1247.3	↑ 0.32

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: The main event is the ECB meeting. We expect the full allotment at all auctions to be extended until year-end and interest rates to be kept unchanged. As the risk of an economic downturn has increased we expect a softer tone at the press conference. Trichet is not going to announce new measures, but the door is still open. The staff growth forecast is expected to be revised upwards. In the US focus is on whether the recent decline in claims data is sustainable. Further, the pending home sales for July will provide a first gauge of housing turnover in August.

Fixed income markets: The long end of the German curve reacted significantly to yesterday's improvement in risk appetite. 30-year German bond yields rose by 13bp and the 10-30s steepened further. This is probably a sign that the ALM flows are slowing down. If risk appetite remains favourable this move could continue in the coming days. The yield on Bunds was pulled higher from the long end and the momentum is now becoming bearish along most of the German curve. We do not expect any big market movements from the ECB meeting. Probably the US claims and pending home sales data will be more important. Note there is bond supply from Spain (EUR3bn, 2015), France (EUR9bn, 2016-41) and the US (USD10bn 10-yr TIPS).

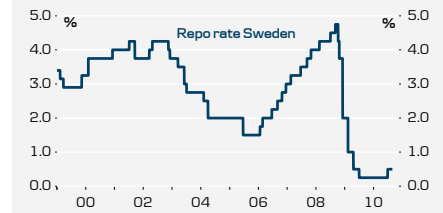
FX markets: Today the market will focus on the ECB meeting to see if the ECB is still optimistic after the more depressing numbers out of the US lately. The market will also look for information about the liquidity programmes going forward. In addition, the Riksbank will attract a lot of attention, also outside Scandinavia. Swiss Q2 GDP and retail sales data will be released today as well and together with tomorrow's CPI number this may give some indication of what to expect when the SNB meets in two weeks. Also note that despite the improvement in risk appetite, USD/JPY is still trading below the 85-level. This underlines that the JPY appreciation pressure is strong and that direct intervention in the market can still not be ruled out in the coming weeks.

Scandi Daily

Denmark: Data on Nationalbanken's foreign currency reserves will be released today.

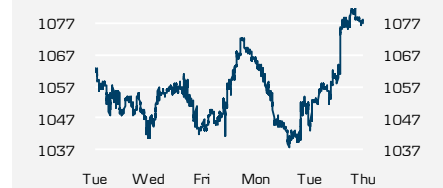
Sweden: Today's focus is on the rate announcement (and forecast) by the Riksbank (09.30). Basically all analysts (including ourselves) expect another 25bp hike. Also, we wouldn't be surprised if the Riksbank raises its growth estimates further, in line with other recent forecasters, eg, the National Institute of Economic Research that hiked its 2010 forecast by some 0.5 percentage points to 4% yesterday.

Riksbank rate decision today



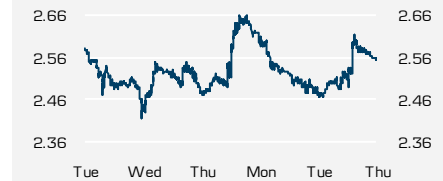
Source: Reuters Ecowin

US S&P500 future



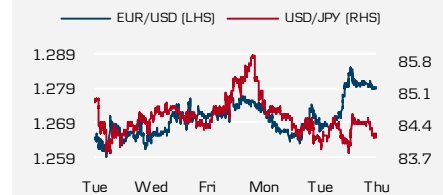
Source: Danske Markets

US 10y gov yield



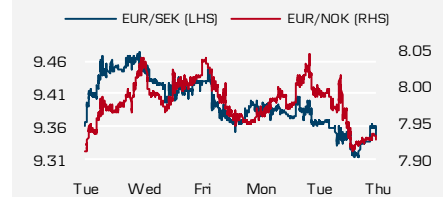
Source: Danske Markets

Global FX



Source: Danske Markets

Scandi FX



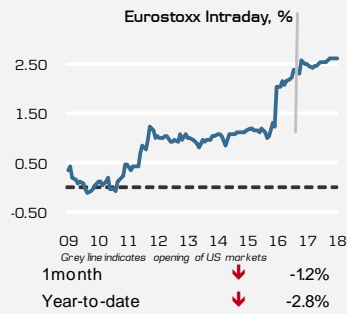
Source: Danske Markets

Key figures and events

Thursday, September 2, 2010				Period	Danske Bank	Consensus	Previous
9:15	CHF	Retail sales	v/y	Jul			0.9%
9:30	SEK	Riksbank, Rate decision	%	Sep	0.75	0.75	0.5
10:30	GBP	PMI construction	Index	Aug		53.2	54.1
11:00	EUR	Euroland PPI	m/mly/y	Jul		0.1% ...	0.3% 3.0%
11:00	EUR	GDP, preliminary	q/qly/y	2nd quarter	1.0% ...	1.0% 1.7%	1.0% 1.7%
13:45	EUR	ECB Announces Interest Rates	%		1.00%	1.00%	1.00%
14:30	USD	Unit labour cost, final	q/q	2nd quarter		1.20%	0.2%
14:30	USD	Initial jobless claims	1000			475	473
14:30	EUR	ECB press conference					
15:00	USD	Fed's Rosengren (voter, dove) & Pianalto (voter, neutral) speaks					
15:00	USD	Fed's Bernanke testifies at financia crisis inquiry commission					
16:00	USD	Factory Orders	m/m	Jul		0.20%	-1.2%
16:00	USD	Pending home sales	m/mly/y	Jul		-1.0% ...	-2.6% -20.1%
16:30	USD	ICSC chain store sales					2.80%
19:00	USD	US 10-year TIPS auction					

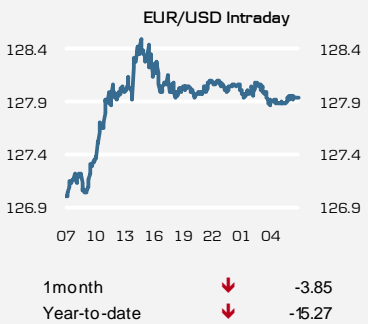
Today's market data: 02 September 2010

STOCKS



Index	Close	Change	%
DJSTOXX50	2514	↑	2.6%
OMXC20	409	↑	3.2%
OMXS30	1049	↑	3.7%
OSE BX	365	↑	0.0%
DOW JONES	10269	↑	2.5%
NASDAQ	2177	↑	3.0%
S&P500	1080	↑	3.0%
NIKKEI (07:30)	8967	↑	2.6%

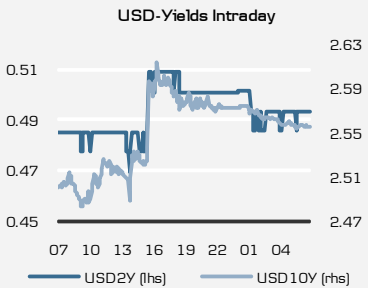
FX & COMMODITIES



EUR	17:00	07:30	Change
USD	128.00	127.94	-0.06
JPY	108.24	107.69	-0.55
GBP	82.83	82.84	0.01
NOK	790.99	792.53	1.54
SEK	931.93	934.83	2.90
DKK	744.48	744.50	0.02
PLN	397.16	396.84	-0.32
USD	17:00	07:30	Change
JPY	84.56	84.17	-0.39
GBP	154.56	154.45	-0.11
CHF	101.69	101.75	0.06

Oil, \$	Gold, \$	Brent, \$
07:30	1247.30	76.14
1day	↑ 3.00	↓ -0.21
1month	↑ 64.45	↓ -4.68
Year-t-date	↑ 150.35	↓ -1.79
CRB	CRB, Raw	
1M future	Industrials	
07:30	268.51	503.74
1day	↑ 4.32	↓ -0.54
1month	↓ -8.34	↑ 16.78
Year-t-date	↓ -14.87	↑ 20.25

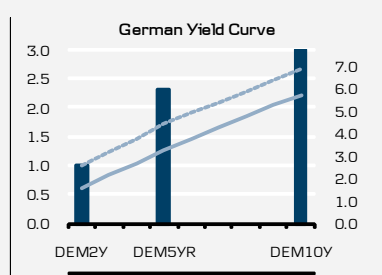
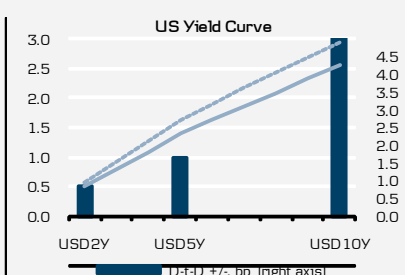
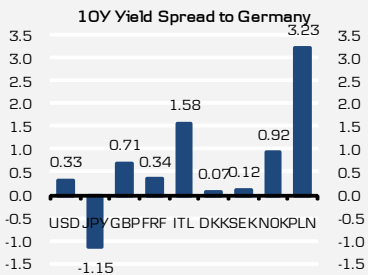
YIELDS & INTEREST RATES



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	1.15	10
SEK	0.50	1.06	56
NOK	2.00	2.68	68
PLN	3.50	3.71	21

Spread, bp	17:00	07:30	Change
USD 10Y	2.59	2.56	↓ -4
USD 30Y	3.67	3.63	↓ -4
JPY 10Y	1.03	1.07	↑ 4
07:30(-1)*	17:00	Change	
DEM 10Y	2.15	2.23	↑ 8
DKK 10Y	2.19	2.31	↑ 12
SEK 10Y	2.23	2.36	↑ 13
NOK 10Y	3.14	3.14	↑ 0
PLN 10Y	5.42	5.49	↑ 7

* As of closing previous trading day

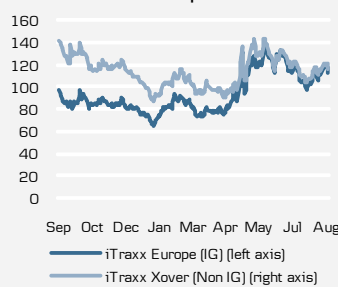


Credit spread, iTraxx s. 11*

	07:30	1day	1month
Europe (IG)	112	↓ -6	↑ 12
HiVol	170	↓ -10	↑ 24
Xover (N-IG)	507	↓ -24	↑ 49
Finan. Sr.	131	↓ -13	↑ 23
Finan. Sub.	199	↓ -13	↑ 33
Non-finan.	199	↓ -13	↑ 33

* Ask price

Credit spreads



Swap Spread, bp**

	17:00	07:30	Change
USD 10Y	2	1	↓ -1
JPY 10Y	9	9	↓ 0
07:30(-1)*	17:00	Change	
EUR 10Y	22	22	↓ 0
DKK 10Y	32	31	↓ -1
SEK 10Y	26	26	↓ -1
NOK 10Y	59	71	↑ 12

* As of closing previous trading day

** Ask price

Disclosure

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First date of publication

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