03 September 2010

# Weekly Focus

## A Sense of relief

### Market movers ahead

- There is little in the way of US events or data that can seriously be expected to move markets, partly because Monday is Labor Day.
- Can the German upswing continue despite the problems stateside? There is much speculation about this at present, so it will be worth keeping an eye on the figures for German manufacturing orders and output. The UK and Japanese central banks are holding rate-setting meetings, but we do not see either being particularly exciting.
- The US, China and big European economies will be releasing foreign trade data during the week, which could also say something about whether the familiar pattern is persisting, with Asia as growth engine and Europe as its big supplier.

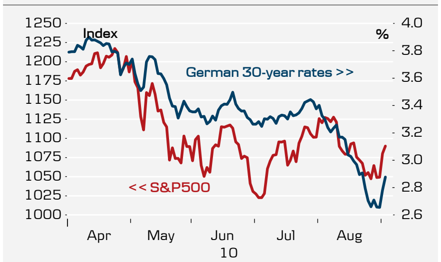
### Global update

- The sense of relief was tangible as incoming data painted a slightly brighter picture than in previous weeks. The strong ISM figures in particular confirm that the risk of a really hard landing in the US is relatively small.
- In Europe, we had evidence that the upswing is becoming broader-based, and the PMI data from China indicates that the recent downturn in manufacturing there is over. On the other hand, the Bank of Japan disappointed with its not particularly ambitious easing of monetary conditions.

### Focus

- Markets have interpreted statements from the Fed as signalling further easing of monetary policy. Reading its statements closely, however, this easing will only come if the economy deteriorates further. That is a realistic possibility, but we reckon that there is ‘only’ a 40% chance of further easing.

**Relief but not euphoria**




*Source: Reuters EcoWin and Danske Markets*

**A way to go before Fed eases again**

| Last datapoint before rate cut | Threshold | Current |
|---|---|---|
| ISM | <50 | 56.3 |
| Unemployment rate, 3M change | >+0.3 | -0.4 |
| Private payrolls, 3M average change | <0K | +51K |
| Real personal spending, 3M change AR | <1.5% | 2.0% |
| Michigan 5yr inflation expectations, 6M change | <-0.3 | +0.1 |

*Source: Reuters EcoWin and Danske Markets*

**Contents**



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# Market movers ahead

## Global

- The coming week should be relatively quiet in terms of **US** data releases, as markets will be closed on Monday for Labor Day. Over recent months, imports have rebounded faster than exports, furthering US trade imbalances. Therefore focus will be on Thursday's release of trade balance figures, and whether imports are slowing down. In addition, we will be looking at the initial jobless claims, as there is still widespread uncertainty about the state of the US labour market. Furthermore, the Fed's Beige Book is due to be published, followed by next week's only Fed speech – Minneapolis Fed's Kocherlakota (non-voter) later on Wednesday.

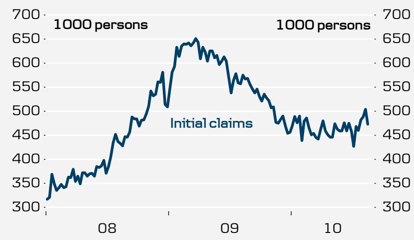
- In **Euroland** markets will focus on German manufacturing orders on Tuesday. German PMI new orders indicate that manufacturing orders will increase at a slowing pace dragged down by export orders. We expect a 0.6% m/m increase in July following a 3.2% m/m increase in June. This is enough to indicate that German industrial production has kept momentum well into Q3 despite the US slowdown. Keep an eye on export orders though. Export orders increased sharply in June, so a negative reading in July would not be that surprising, but could nevertheless cause some alarm in the market. German industrial production due to be released on Wednesday is expected to show a 1.8% m/m increase in July following a 0.6% decline in June.

- The policy meeting at the Bank of England is likely to spur little action in the market. The August Inflation Report saw the bank lower its GDP and inflation forecasts alike, but the VAT hike to take effect from January implies that CPI inflation is likely to overshoot the 2% target for an extended period. Recent data out of the **UK** has been mixed: while Q2 GDP figures came in on the strong side relative to expectations, the August PMIs proved somewhat weak. Also, the all-important housing market has seen signs of a deterioration lately. On the whole, we think the MPC will leave both the bank rate and the size of its asset purchase programme unchanged in September.

- **Switzerland** seems to be heading for a very quiet week data-wise. There are no central bank speeches on the agenda and the only indicator of interest is the August unemployment numbers, which are expected to show a modest decline. The jobless data is not likely to attract much attention from the financial markets.

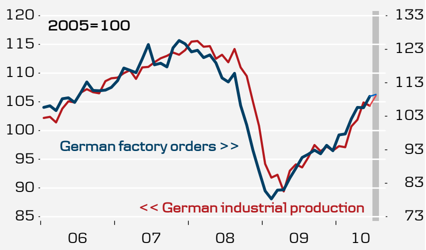
- In **Japan** focus next week will be on the BoJ monetary meeting on 6-7 September. BoJ's additional quantitative easing announced in connection with its emergency meeting last week appears so far to have been ineffective in stemming the appreciation of JPY. Nonetheless, we do not expect BoJ to announce new easing measures at this week's monetary meeting as it would be an indirect acknowledgement that it did too little last week. However, BoJ could talk tough and start to prepare the market for further quantitative easing down the road. Hence, it appears that the only tool available to stem the strong JPY in the short run is direct intervention in the FX market. In **China** foreign data for August will be released this week. China's exports have been surprisingly resilient in recent months but we suspect this is partly due to frontloading of exports to take advantage of the expiry of export tax rebates in mid-July. Hence, there will probably be some payback in exports in coming months.

**US: Initial jobless claims**



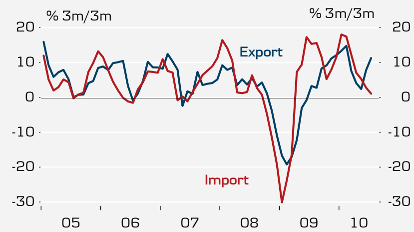

*Source: Reuters Ecowin*

**German production keeps momentum**




*Source: Reuters Ecowin and Danske Marekts*

**China's exports have been surprisingly resilient**

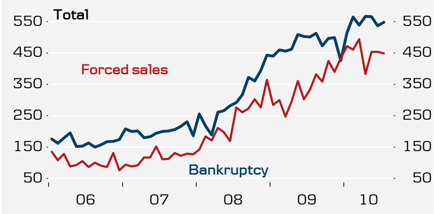



*Source: Reuters Ecowin*

## Scandies

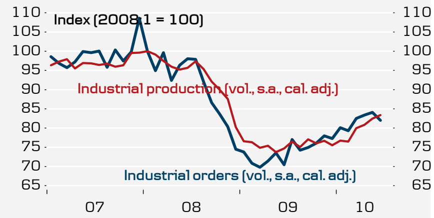
- **Denmark** is heading for a heavy data calendar. Monday will see the release of insolvencies and foreclosures for August 2010 and Tuesday the publication of industrial production and new orders for July 2010, while current account numbers for July 2010 are due out on Wednesday. We expect a current account surplus of DKK8.6bn. Finishing off the week's releases will be the consumer and net retail price indices for August 2010, which are due out on Friday. We expect consumer price inflation for August to come out at 2.2% y/y (0.1% m/m).
- In **Sweden** the week ahead is inflation week. In a not-too-distant past, this would be the monthly highlight of financial markets (bar salary disbursements on the 25th). However, the financial crisis has harshly pushed inflation into the back seat and let growth data take to the driver's seat instead. Since we are a flexible lot of analysts, we let that shift of grace pass more or less (hmm…) unnoticed. Nonetheless we expect CPI to reach 1.0% y/y and CPIF to come in at 1.5% y/y
- Instead, the main event is the upcoming industrial data, which is unfortunately notoriously volatile which is why a single outcome is no do-or-die event for our (or any other) outlook. That said, we believe that industrial data should enter a less buoyant phase and given the low import growth over the past couple of months, there are some indications that this will indeed materialise.
- Although indicators out of **Norway** have come in on the strong side recently, we do not expect a strong upward move in inflation numbers in the short term. Slowing wage growth and stronger productivity growth should contain cost-driven inflation for several months to come. However, a modest weakening of the Norwegian krone since May caused by the global financial turmoil could push imported inflation upwards during the autumn. Inflation trends have been largely in line with expectations over the summer, although the monthly inflation numbers have fluctuated a little. The August inflation data will probably also come out much in line with expectations, with core inflation set to increase to 1.4% y/y. After growing 3.3% m/m in June, industrial production could be set for a slowdown in July. However, although we expect industrial production to decline by 1.5% in July, the underlying growth in industrial activity should continue to point upwards. This outlook is supported by the July PMI data and the improvement in industrial orders in Q2 10.

**Insolvencies and foreclosures set to stabilise in Denmark**



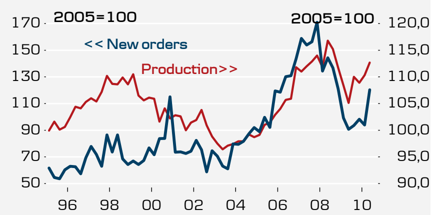

*Source: Reuters Ecowin*

**Swedish industrial data entering a new phase?**




*Source: Statistics Sweden*

**Norway: Industrial recovery**




*Source: Reuters EcoWin*

**Market movers ahead**

| Global movers | | | | Event | | Period | Danske | Consensus | Previous |
|---|---|---|---|---|---|---|---|---|---|
| Thur | 09-Sep | 13:00 | GBP | BoE rate announcement | % | Sep | **0.5** | *0.5* | 0.5 |
| **Scandi movers** | | | | **Event** | | **Period** | **Danske** | **Consensus** | **Previous** |
| Fri | 10-Sep | 10:00 | NOK | Core inflation(CPI-ATE) | m/m\|y/y | Aug | **-0.1%\|1.4%** | *-0.1%\|1.4%* | -0.6%\|1.3% |

*Source: Bloomberg and Danske Markets*

# Global update

## Relief

Following a wall of discouraging data recently things turned more upbeat this week, as we received positive surprises from both the US and China coupled with a continued flow of solid eurozone data.

There is little doubt that the US remains in a slowdown phase. However, the data published so far this week suggest that the slowdown remains orderly and limits the risk of an outright recession. This is very important information for the market, which has become increasingly nervous over recent weeks. Both equities and bond yields are trading higher.

While market sentiment is likely to remain fragile in the near term, there are signs that news flow could become less one-sided going forward. First, the improvement in pending home sales and weekly retail data suggests that things are falling apart. Second, there may be some important information in the improvement in the Chinese PMI, as China was leading the recent turnaround in global industry. Indeed, it would be important for global financial markets if signs of a turn in China mature.

## US – less bad data

For once, this week offered some comfort in terms of data. Most importantly the *manufacturing ISM for August* surprised on the upside by rising to 56.3 from 55.5 in July, with very strong details on employment. We continue to expect a slowdown in the manufacturing sector with ISM reaching close to 50 by year-end. The report highlights that the slowdown remains orderly and the risk of a very hard landing is still limited.

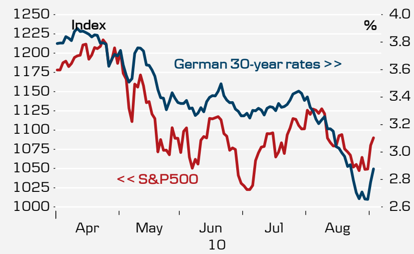
Initial claims data moved lower for a second week. This follows a period of elevated readings through late-July and early-August, which was probably caused by temporary factors and seasonal distortions – but nevertheless added concerns in the market. Initial claims are now back in the range that has been prevalent since early this year. While this still indicates that the job recovery remains very moderate, it highlights that the economy continues to expand.

Pending home sales for July offered the first signs of bottoming out in US housing indicators following the expiry of the first-time-home-buyer tax credit. We believe it is likely that this piece of data will signal a general trough among housing indicators. However, we should not expect any fast pick-up in housing turnover and building activity given the current slow flow of mortgage applications for purchases.

ICSC retail sales data indicated that consumers ramped up spending in August. Hence, we should expect some good news to arrive with the August retail sales report.

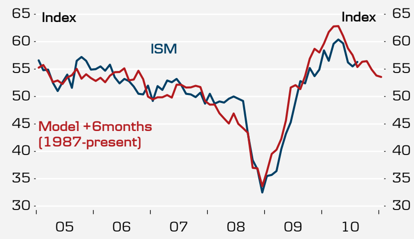
Finally, the Fed released its *minutes from the August meeting*. This confirmed what we already knew from post-Fed meeting speeches – that the decision to reinvest mortgage proceeds was made to maintain the status quo and not to provide further stimulus. The FOMC's minutes leave us little wiser on the threshold for potential additional quantitative easing. However, we currently believe that there is a 40% probability that the Fed will resume large-scale asset purchases in Treasuries (see *Research US – Fed up with QEII*).

**Relief in the markets**



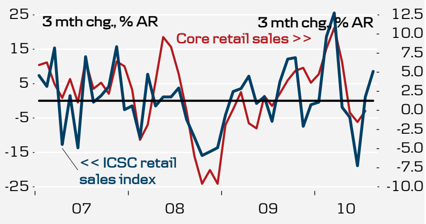

*Source: Reuters Ecowin and Danske Markets*

**ISM rose in August, but trend is down**



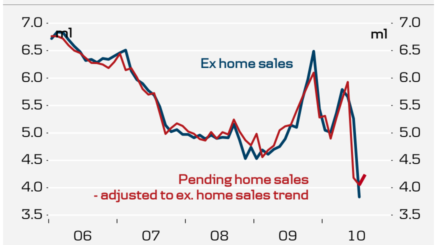

*Source: Reuters Ecowin and Danske Markets*

**Encouraging retail data**




*Source: Reuters Ecowin and Danske Markets*

**Pending home sales finally turned**

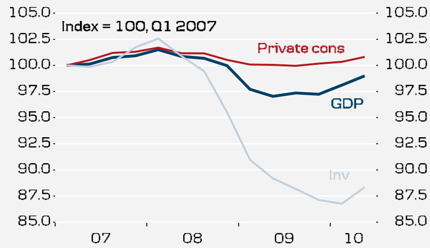



*Source: Reuters Ecowin and Danske Markets*

## Euro area – recovery becoming broader based

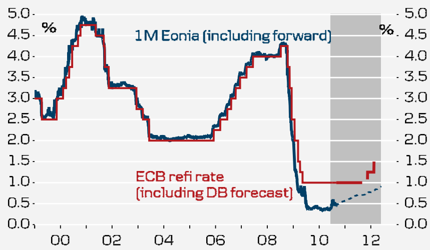
This week Eurostat released a breakdown of Q2 euro area growth and there was some encouraging news. First, Q1 was revised up to 0.3% q/q (1.9% y/y) from 0.2% q/q (1.7% y/y). Furthermore, Q2 details show significant contribution from consumption and investment – the service sector also recovered. It is positive that the recovery is becoming more resilient to external shocks as domestic demand has begun to pick up. Private consumption increased 0.5% q/q in Q2 and has now been growing for three quarters in a row. Investments also grew strongly in Q2 (1.9% q/q) while the contribution from inventories is fading. Besides GDP, we received August PMI data. Flash estimates were known, but final data brought some revisions. It is notable that French Manufacturing was revised up to 55.1 from 54.7. The ECB Governing Council delivered the expected as it extended the period of full allotment until at least Q1 11. There was a minor change in the terms relating the three-month tenders in Q4. Up until now, the rate on these tenders was fixed at the level of the refi-rate (1%). In Q4 these tenders will have a fixed rate corresponding to the average rate of the weekly seven days MROs. Read more here: *Flash Comment - ECB meeting: A double dip is not on the cards*

**Final demand catching up**




*Source: Danske Markets*

**No hikes any time soon**



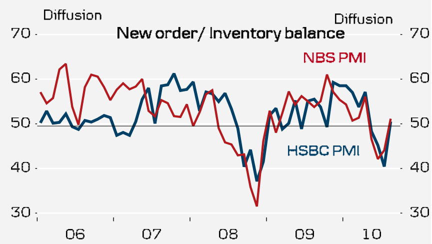

*Source: Danske Markets*

## Asia – BoJ expands QE to stem yen appreciation

Last week the Bank of Japan (BoJ) expanded its quantitative easing in connection with an unscheduled emergency meeting. The BoJ introduced a new JPY10trn lending facility with a six-month maturity in addition to the JPY20trn three-month liquidity facility introduced in December last year. However, the BoJ's move was certainly not aggressive and slightly disappointing and so far it does not appear that it will be enough to stem further appreciation of the yen. Should the yen continue to appreciate it looks increasingly likely that Japan will intervene directly in the FX Market. In Japan the decision to intervene is a political decision and intervention has become a major theme in the current leadership contest within the ruling Democratic Party of Japan and Ichiro Ozawa, the challenger to PM Kan in the leadership contest has close to promised that Japan will intervene in the FX market if he wins the election. Despite industrial production in July increasing slightly more than expected, the overall picture remains that growth in industrial activity has slowed substantially.

In China there are signs that the slowdown in industrial activity is coming to an end. Both China's two manufacturing PMIs improved in August and the details were very strong with the new orders improving markedly and the inventory component declining. Hence, the new order-inventory-balance improved substantially. Therefore, it appears that manufacturing activity in China is bottoming out and should start to improve again in Q4. In the rest of Asia PMIs continued to decline in August, but as China has led the rest of Asia since late-2008, the improvement in China's PMI might be a sign that PMIs in the rest of Asia are close to bottoming out.

**Manufacturing PMIs in China suggest improvement in Q4**




*Source: Reuters Ecowin and Markit*

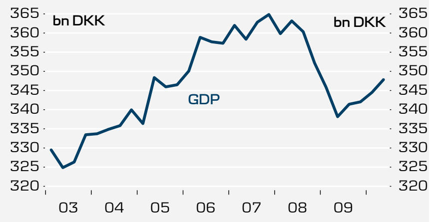
# Scandi Update

## Denmark – healthy recovery but from weak starting point

In the past week, Statistics Denmark has published GDP data for Q2 10. Following the serious financial market crisis in late 2008 and H1 09, the Danish economy has been on a positive growth track, driven by both consumer and public spending, exports and, most recently, the inventory cycle. The positive trend continued in Q2 10, with sequential growth of 1.0% and year-on-year growth of 2.8% – a rather strong performance by the Danish economy.

However, although the Danish economy has grown by 2.8% since it bottomed in Q2 09, there is still some way to go before GDP growth will return to pre-crisis rates. In fact, GDP is still running 4.7% below its Q4 07 level.

Danish GDP growth is back on track




Source: EcoWin

Economic growth in Q2 was driven by a combination of public spending, investment and stock-building. On the other hand, consumer spending declined and net exports were a drag on growth. Also, investment growth was driven, not least, by one-off spending on drillings rigs. So, the Q2 GDP data seem a little less impressive when we look at the growth drivers. Stock-building and public spending cannot continue to drive GDP growth.

As mentioned, consumer spending declined in Q2 10. This was not surprising given recent trends in ‘Dankort’ payment card transactions and retail sales. It was slightly surprising, though, that the cost of goods sold actually increased. Consumer spending in Q2 was running 4.8% below its Q4 07 peak.

Meanwhile, healthy export growth has delivered a handsome boost to GDP growth. Exports are benefiting from good growth in the economies of Denmark’s most important trade partners at the moment, including Germany and Sweden. Also, the weakening of the euro has boosted Denmark’s competitiveness. However, the improvement in exports was overshadowed by an increase in imports of no less than 5.5% q/q. Note, though, that import growth should be viewed in the context of the one-off investment in drilling rigs.

Danish employment, ex leave of absence, grew by 10,000 in Q2 10. This is really good news for the labour market, since job growth will have to take over as the key driver of economic growth as the temporary stimuli from the inventory cycle and public spending ebb off.

## Sweden – Riksbank rift, balanced forecasts

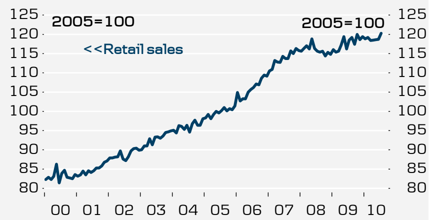
Even though we do not agree much with the Riksbank’s forecasts, we feel its revisions were quite modest given the strong outcomes (yes, actually) since the latest update in June. The US economy has indeed weakened, but the Riksbank’s forecasts had already taken some of that weakening into account. Regarding Europe, outcomes have been considerably stronger than expected, which has meant that the Riksbank has revised its world market and exports forecast slightly upwards. At the same time, outcomes from the Swedish economy have been stronger than the Rikbank’s forecasts. This might all have added up to a quite hefty upward revision to both growth and inflation (note for instance the NIER’s recently published forecast), but the Riksbank takes a more cautious approach. The Riksbank's GDP revisions almost cancel each other out and inflation is only downgraded a notch, probably due to a stronger SEK than previously expected.

But what was really interesting about the Riksbank's meeting was the fact that a rift in opinion has emerged between the 'academics' (Svensson and Ekholm) on one hand and the 'pragmatics' (Ingves, Överg, Nyberg and Wickman-Parak) on the other. Both Svensson and Ekholm advocate a much flatter repo rate curve: "around one percentage point lower" than what the base scenario implies. They cite an apparent weakening of the US economy and stronger SEK as the main reasons for their reservations. Should Ingves (or two of the other members) change his mind, we could be in for one of the most dramatic changes in monetary policy stance ever seen. However, dramatic as it seems, such a shift would only help to align the Riksbank to current market pricing and be more or less in line with Danske Bank forecasts.

## Norway – consumer spending has picked up

Consumer spending in Norway has been in the doldrums for several months, but retail sales grew 1.4% in July 2010. However, retail sales numbers are volatile, so we should be cautious to conclude – based on a single observation – that that the trend of recent months has been broken. Nonetheless, we believe that two conclusions can be drawn after the release of the July numbers. First, retail sales in July were up 1.7% on their Q2 average, which means consumer spending could deliver a significant contribution to Q3 GDP growth. Second, the data illustrates how dangerous it is to base forecasts on moderate consumption growth at a time of strong growth in household real income. With low unemployment, record-high housing prices, record-low real interest rates and a wealthy public sector, there is probably a limit to how high the Norwegian savings ratio could go. Furthermore, there is a risk that a breach of the trend of consumer sentiment could trigger a fall in the savings ratio, leading to higher growth in consumption than income for a period. This should be viewed in the context of household credit growth having overtaken income growth, which means that the household debt ratio is again moving upwards. So, interest rates trends do have an impact on the Norwegian economy.

**Consumers still alive and kicking**




*Source: Reuters EcoWin*

# Focus - US: Fed up with QEII

## Quantitative easing II not a done deal

As we have highlighted earlier markets seems to have over-interpreted the dovishness of the latest FOMC statement. Information received since the release has generally painted a less worrying message than the impression obtained from the statement. In particular, the balance sheet status quo reasoning for reinvesting the MBS and agency proceeds has been stressed several times, most recently in the FOMC minutes.

A key takeaway from Bernanke's speech at the Jackson Hole conference was of the three policy options mentioned for further easing, (1) carry out additional purchases of longer-term securities, (2) modify the Committee's communication, and (3) reduce the interest paid on excess reserves, with a cost-benefit analysis favouring the first option. The key question is what could trigger such purchases and when this might happen.

## Agreement will take time

Firstly, it is worth highlighting the internal disagreement within the FOMC committee. While Bernanke is on the dovish side of the camp, other members seem more hesitant, as indicated by the following extracts from the FOMC minutes

"A few thought that the economic effects of reinvesting principal from agency debt and MBS likely would be quite small"

"A few members worried that reinvesting principal from agency debt and MBS in Treasury securities could send an inappropriate signal to investors about the Committee's readiness to resume large-scale asset purchases".

This implies that it will take some time for the FOMC to agree on implementing additional QE. Hence, any major policy actions are not likely before we get closer to year-end, with the December meeting likely the earliest candidate.

## What could trigger the Fed

Whether the Fed will eventually introduce further QE is a close call. In order to better judge what the triggers could be, we have taken a look at the "usual" key indicators. As we do not expect the current slowdown to spiral into a recession we think the best benchmark are the slowdowns in 2002 and 1995.

In late 2002, just before the easing cycle was resumed, the labour market was weak with private payrolls printing negative numbers and the unemployment rate rising. At the same time, the manufacturing sector was slowing but not dramatically and the ISM had dipped just below 50. In our view this is probably the period which most resembles the current, suggesting that developments in the labour market will be key.

In mid 1995 just before the first Fed funds rate cut, the manufacturing sector was in a significant slowdown with the ISM at 45.9. Opposite, the labour market and private consumption was holding up.

### Key points

- Markets over interpreted the August FOMC statement - QEII is still not a done deal
- Whether we will get a new round of easing is a close call, but it will take time for the FOMC to agree.
- We think it will take a continued weakening in the labour market, an ISM below 50 or a significant decline in inflation expectations to trigger the Fed
- Generally we attach a 40% probability of a new round of treasury purchases

### Triggers for QEII

| Last datapoint before rate cut | Threshold | Current |
|---|---|---|
| ISM | <50 | 56.3 |
| Unemployment rate, 3M change | >+0.3 | -0.4 |
| Private payrolls, 3M average change | <0K | +51K |
| Real personal spending, 3M change AR | <1.5% | 2.0% |
| Michigan 5yr inflation expectations, 6M change | <-0.3 | +0.1 |

*Source; Ecowin and Danske Markets*

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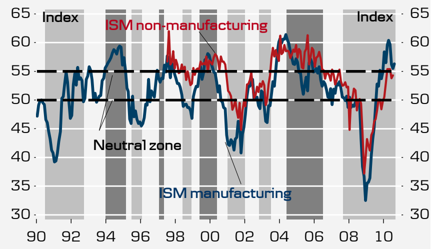
This suggests that a more significant deterioration in the manufacturing sector, with the ISM falling below 50, and/or a continued slowdown in the labour market with average private payrolls growth at zero and rising unemployment are likely triggers. Another potential trigger could be a substantial decline in inflation and inflation expectations.

Further, Bernanke's speech at the Jackson Hole conference highlighted that a key element in his expectations of a continued recovery is private consumption growth. Hence a large disappointments in retail sales and personal spending could also tilt the balance towards more easing.

The hurdle might be higher this time around, as there is more disagreement on whether additional easing will have an effect compared with a situation where the Fed could use the standard interest rate instrument. On the other hand, given that employment is high and fiscal policy is close to impotent, the doves in the committee are likely more positive towards using monetary policy to secure a sustained recovery.

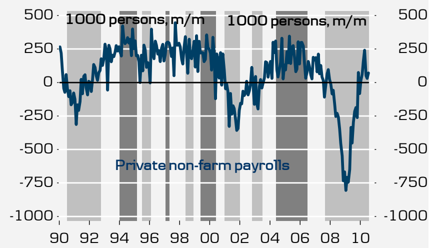
Overall, we attach a 40% probability that one of the above triggers will be activated, leading to a new round of treasury purchases. In that event, we expect the intervention to be large-scale, as the Fed would want to secure a positive market reaction.

**ISM is still clearly above the Fed's trigger point for a rate cut**



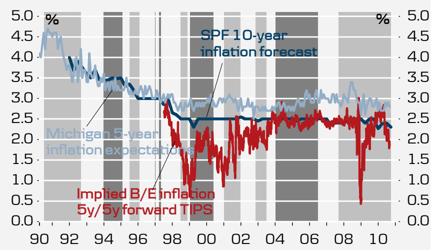

*Source: EcoWin and Danske Bank. Note: Dark (light) shading indicates periods of tightening (easing)*

**Private payrolls are getting closer to the zero threshold**




*Source: EcoWin and Danske Bank. Note: Dark (light) shading indicates periods of tightening (easing)*

**So far limited signs of a declining inflation expectations**




*Source: EcoWin and Danske Bank. Note: Dark (light) shading indicates periods of tightening (easing)*

# Equities: Heading for soft landing

## Signs that the US industrial slowdown is soft and not hard!

**August's positive surprise on the US ISM Manufacturing PMI indicates that we are heading for a soft landing. Near term, we therefore anticipate that global stock markets will price the mid-cycle slowdown if indications are received that the global consumer cycle uptrend is intact. Still, before returning to a more bullish expectation for market performance in the rest of 2010, we need more information that confirms the strength in especially the US economy. We reiterate our flat market performance of S&P500 at 1075 year-end.**

The US manufacturing ISM PMI came out at 56.3 vs. Bloomberg consensus of 52.8. This indicates a strengthening of the activity trend in Q3 and NOT the softness that the 'Philly' Fed suggested. Production and employment indexes are higher along with inventories increasing at reasonable pace. The all-important new orders are only slightly lower. The new orders to inventory ratio suggests that ISM will slow to 52-53 in the next couple of months which would be clearly within the framework of a mid-cycle slowdown and NOT a double-dip recession.

## US ISM vs. other key global leads

The mid-cycle slowdown framework is also underpinned by both Chinese PMI for August and European data like German Ifo. In our view, it is the pace of the slowdown that defines the stock market's fear of a hard landing. In that context we are now receiving key leads for global industrial production that suggest a softer downturn, which leaves room for stable global stock markets. The signal from Chinese PMI has been one of slowdown, although August Chinese PMI was better than expected, but we still anticipate a slowdown in US ISM PMI to match the slowing in the Chinese PMI. US PMI has moved lower vs. German Ifo. Hence a new question arises on the back of the ISM; is German industry in fact leading the global industrial cycle?

## Global industrial activity vs. performance of cyclicals and defensives

The global PMI reports support a neutral weighting of cyclicals to defensives. Following the release of ISM manufacturing for August, we remain however only cautious optimists on cyclicals' performance in the coming months as a global softening will occur, but within a mid-cycle slowing framework. Should we see signs of a job market recovery and an acceleration of the global consumer cycle, we may begin to favour consumption-related industry groups in the European and Nordic regions.

## Slow week on macro data, although Chinese activity remains in focus

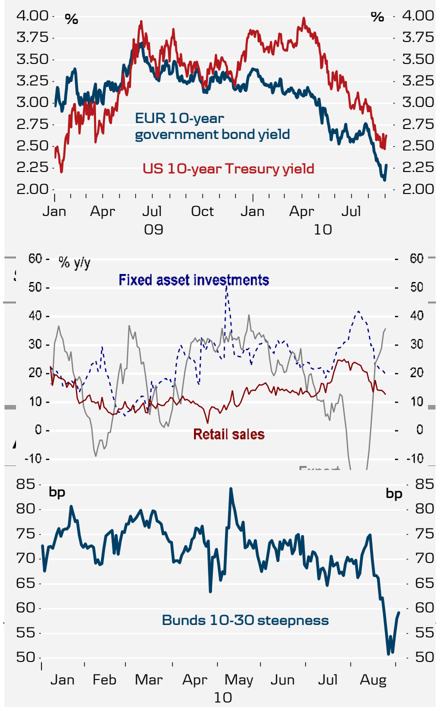
We focus on **Chinese Exports y/y for August (10 Sep.)** that will provide indications of activity in OECD. **Chinese Imports y/y for August (10 Sep.)** will give insight in conditions for more specific areas of the global industry cycle, namely commodities and capital goods.

**Key events of the week**

- Chinese Exports Y/Y Aug.
- Chinese Imports Y/Y Aug.
- US Jobless Claims
- Fed's Beige Book

*Danske Markets Equities*

**Bond markets taking a breather**




*Source: Reuters Ecowin*

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# Fixed Income: Taking a breather

## Better economic data push long rates higher

Following the round of continuously disappointing data out of the US in August, markets adjusted their expectations, to price in a considerable slowdown in global growth. This week, the newsflow has been less one-sided. In particular, the US ISM manufacturing index surprised positively by showing an increase in August despite consensus expectations of a pronounced decline. Data on US home sales and retail sales have shown improvement this week as well. The positive data flow has pushed 10-year yields in both the US and Germany higher this week while two-year yields remain gridlocked by central banks. The ECB did nothing to change market expectations at its policy meeting this week. The announcement of full allotment had been widely anticipated following Weber's comments last week.

**Key events of the week ahead**

- German factory orders and industrial production
- Fed's Beige Book
- US 3-year, 10-year and 30-year treasury auctions
- Germany to sell 2-year notes
- Portugal to sell bonds

## Hedging flows are easing

Recent movements in bond markets indicate that the downward pressure on rates from ALM flows is fading. These flows have been an important factor amplifying August's decline in long bond yields, as the significant decline in yields sent pension funds and life insurance companies hunting for yield and duration to fulfil regulation requirements. This led to a major flattening of the 10-30 curve starting in mid-August. However, the German 10-30 curve has bear steepened in the past few days, suggesting that duration and convexity hedging flows are easing. Historical experience suggests that, if bond yields start to increase, these flows are likely to reverse, which tends to speed up corrections.

## A quiet week ahead

With no major data releases scheduled next week and the US markets closed on Monday, there are no obvious triggers to reverse the current upward trend in bond yields. One thing worth keeping an eye on is the risk of Japanese FX intervention, which could send a potential large inflow into US treasuries. Otherwise, the week will be dominated by auctions with the US, Germany and Portugal selling bonds and notes.

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# FX: 20% growth since 2007

## World's largest financial market grows 20% in three years

The Bank for International Settlements (BIS) published its latest *Triennial Central Bank Survey* of the FX market on Wednesday, which draws on data from 53 central banks for transactions in the month of April. The survey reveals that the market has continued to grow strongly, with a 20% increase in overall turnover since 2007 to a mind-boggling USD4,000bn – a day! This means that the FX market is still the largest and most liquid financial market.

FX swaps (agreements to exchange two currencies and then swap them back again at a later date) remain the most widely used instrument with 44% of the market and daily turnover of USD1,765bn. Next come spot transactions (binding currency transactions generally with settlement after two working days) with a share of 37%, and outright forwards (binding agreements on the future purchase or sale of currency) at 12%. However, there has been a tendency since 2007 for the market to become 'more simple', with the greatest growth in turnover for spot transactions (+48%) and outright forwards (+31%), and only a small increase in FX swaps (+3%) and even a slight decrease in options (-2%).

## A global market centred on the dollar and traded out of London

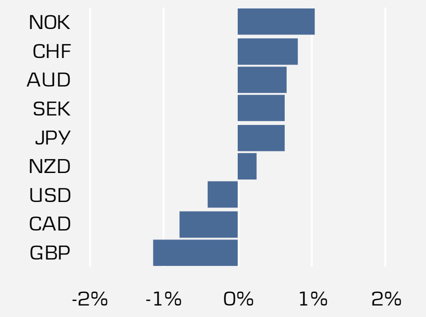
The FX market is becoming ever more global, with more than 65% of transactions now cross-border. USD is still the most heavily traded currency with 42% of the market, but has continued to lose ground to EUR since the latter's launch in 1999. EUR now has a market share of almost 20%, followed by JPY (just under 10%) and GBP (6%), while DKK has just 0.3% of the market. By way of comparison, Denmark accounts for 0.45% of the global equity market and 0.5% of global GDP. The currencies with the greatest growth in turnover are AUD and CAD, with TRY and KRW leading the way among emerging markets. The UK is still the heart of the FX market, with 37% of turnover thanks to London's status as a global financial centre. Next up are the US (18%) and Japan (6%), while the survey gives Denmark a surprisingly high market share of 2.4%, corresponding to average daily turnover of USD120.5bn in April.

## Week ahead – four central bank meetings coming up

While next week will start quietly on Monday with the US closed and few things on the calendar, the following days hold no fewer than four monetary policy meetings. The Reserve Bank of Australia (Tuesday) is expected to leave rates unchanged, but given recent strong data the statement may lay the foundation for an early October or November hike – boosting the AUD further. The statement from the Bank of Japan meeting will also attract attention on Tuesday, though further easing to weaken the JPY is not expected after the measures announced last week proved ineffective. Wednesday holds the Bank of Canada rate decision; the bank will be looking to normalise rates further from the current historically low levels, though the recent deterioration in economic data makes the timing uncertain. The statement is likely to be dovish, so any upside to the CAD in the event of a hike would be limited. The Bank of England on Thursday should be a non-event, with the policy rate and asset purchase programme left at their current level.

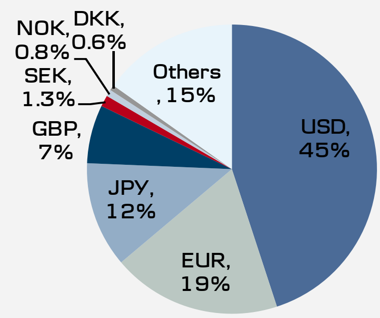
Summing up, the meetings should underline that Australian fundamentals are still in a league of their own, and further AUD strength may be in the pipeline if risk sentiment proves sustainable. While we do not expect further action from the BoJ, the yen and the question of intervention will stay in focus with USD/JPY hovering around a 15-year low.

**1-week change vs. EUR**



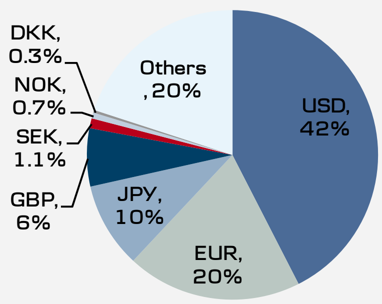

*Source: Bloomberg*

**Turnover by currency (April 2001)**




*Source: BIS*

**Turnover by currency (April 2010)**




*Source: Reuters EcoWin*

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# Commodities: Sell-off paused

## Improved manufacturing sentiment provides support – but expect further setbacks in Q3

The sell-off in commodities initiated by the stream of downbeat economic data over the summer period now appears to have come to a temporary halt. Recent data releases, notably this week's PMIs out of the US and China posting better-than-expected readings, have been supporting sentiment in not least base metals and energy markets. Meanwhile, gold has risen on investment demand as ETF physical gold holdings have soared to new record highs.

Overall, we think the recent improvement in sentiment will prove short-lived however and that further price setbacks could be seen before year-end: the mid-cycle slowdown will doubtlessly continue and this could cause sell-offs in commodities every now and then. But importantly, the new thing is that the slowdown may be more moderate and thus the landing a little softer than feared just a few weeks ago.

Also, grains prices have ticked higher once again as a range of weather-related news spurred worries over this season's yields. Notably, meat prices have hit a 20-year high as emerging-market demand has coincided with a drop in production in the US and Australia. This has once again fuelled speculation that soaring prices of agricultural products could fuel inflation. We still do not view a new global food crisis or an "agflation" scenario as very likely but emerging markets could be hit relatively hard, fuelling concerns about rising food inflation.

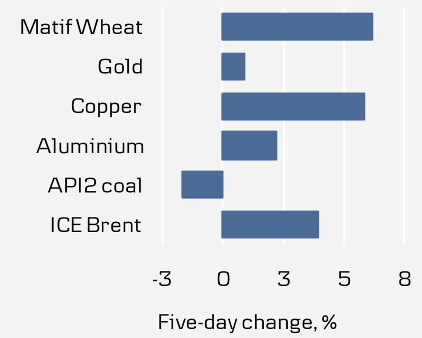
## Crucial data releases in sight: oil-market reports, Chinese trade data, and USDA

The coming week will see a range of important releases in commodity markets. Oil-market reports from the US Department of Energy, OPEC and the International Energy Agency are due and should particularly cast more light on the developments in OECD stocks. In the first half of the year, we have been somewhat disappointed by the lack of decline in OECD forward demand cover. The latest US figures on oil inventories have added to the bearish stream of news on the US oil market after a strong start to the driving season. However, a Bloomberg survey this week highlighted that while OPEC production likely declined in August, all member countries are producing more than quota permit. The cartel will meet in October but focus is likely to be on compliance and the outlook for demand; quota are likely to be kept unchanged at the levels set in 2008 in wake of the credit crisis.

China's August trade data could also be a market mover next week. In July, imports fell back markedly whereas exports roared ahead, leading the trade balance to improve considerably. Notably, imports of crude oil and aluminium fell whereas buying of copper and corn rose. Following the appreciation of the yuan late June, USD/CNY has risen lately, thereby causing an improvement in Chinese competitiveness. This could - everything else equal - induce a further decline in imports which may hurt the base metals relatively hard. Data on credit extension in China and house prices are also key in judging whether the property boom in major cities will be in for a moderation rather than an abrupt collapse.

Finally, the monthly WASDE report from the US Department of Agriculture could see further cutbacks in forecasts for global grain production this year. Flooding in Pakistan, dry weather in Argentina, Australia and the US alike, and excessive rain during the European harvest could lead to a decline in grain inventories.

### Weekly changes

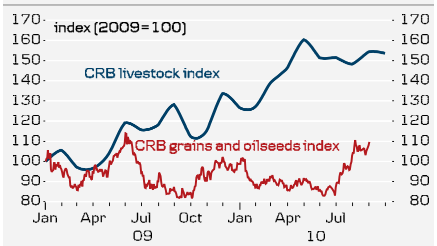



*Source: Bloomberg, Danske Markets.*

### Week ahead

- Wed: EIA Short-Term Energy Outlook
- Thu: OPEC monthly report
- Fri: IEA OIL Market Report, Chinese trade data , USDA WASDE report

### Grains and livestock prices




*Source: EcoWin, Danske Markets.*

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# Credit

## Market commentary

The strong ISM Manufacturing numbers from the US that were released on Wednesday marked a turnaround in both equity and CDS markets as they eased fears among investors that the economy is heading for a double-dip. The important US payroll report on Friday will give us the next indication.

The iTraxx investment grade index tightened 5bp after the ISM figures were released and the Crossover index tightened some 10bp. Cash credit remains well bid in the absence of significant new supply and we continue to be of the view that credit offers an attractive alternative for many investors compared with the depressed government bond yields and uncertain equity markets. 'BBB' cash spreads currently trade approximately 100bp wider than before the crisis hit in 2007 and with underlying yields lower today compared with 2007 the relative attractiveness of credit remains in our opinion.

### The primary market

Primary market activity for non-financial companies remains relatively subdued but we think it will pick up shortly. On the other hand, banks have lately been taking advantage of the strong investor appetite for covered bonds and several deals came to the market during the week – with more expected in the coming weeks. Senior unsecured issuance has been somewhat cannibalised by the issuance of covered bonds but we have seen some issues from European banks (see table).

Going forward, we expect issuance to pick up further and we also think that investor appetite is strong enough to absorb the new supply without causing spreads to widen significantly.

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

| Name | Rating | Coupon | Maturity | Currency | Size | Bond spread on issue date, (bp)* |
|---|---|---|---|---|---|---|
| Lloyds Bank | Aa3/A+ | Fixed | 5Y | EUR | 1.25bn | 200 |
| BBVA | Aa2/AA | FRN | 2Y | EUR | 1.0bn | 155 |
| Telefonica | Baa1/A- | Fixed | 7Y | EUR | TBD | 150 |
| Continental | B1/B | Fixed | 7Y | EUR | 0.75bn | TBD |
| Pohjola Bank | Aa2/AA- | Fixed | 7Y | EUR | 0.75bn | 90 |
| Rabobank | Aaa/AAA | FRN | 3Y | EUR | 0.5bn | 45 |

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

*Source: Danske Markets & Bloomberg*

**iTraxx Europe (5Y CDS)**


*Source: Markit*

**iTraxx Crossover (5Y CDS)**


*Source: Markit*

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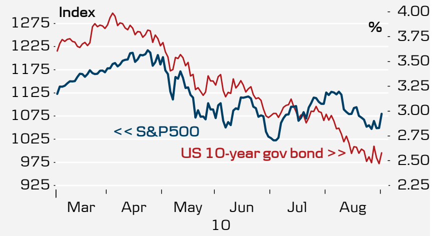
# Financial views

## Equities

- The mid-cycle slowdown is now a fact as proven by the latest key numbers. With this scenario in mind we recommend investors to take advantage of the extremely strong cash flows generated by the companies and invest in defensive high yield stocks. We believe that a) it is an investment style that will outperform in a stock market moving sideways, b) yield should be viewed in a broader context and not only as dividends as investors will prefer FCF outside the dividend payout season. We have cut our +10% end-year 2010 expectation to flat performance as we fear that it will take a little longer than earlier anticipated to move through the current slowdown phase. We now highlight Financials and Defensives as overweight segments against underweight in Cyclicals.

Equities and US 10Y yield

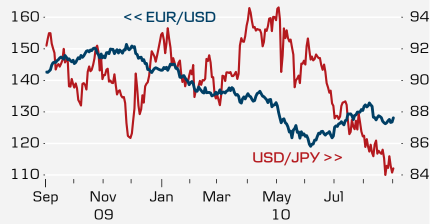



Source: Reuters Ecowin

## Fixed Income

- **Global:** Fundamentally we are in a slowdown phase with the outlook for continued weakening in global leading indicators, low inflation, dovish central banks and possibly more QE favouring a downward trend in yields. That said, strong ALM flows have taken bond yields to very low levels and there are signs that yields are finding a short-term bottom.

EUR/USD and USD/JPY

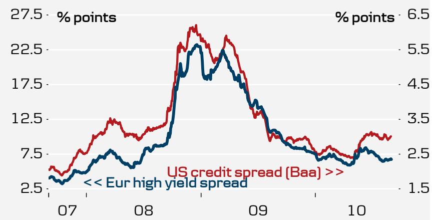



Source: Reuters Ecowin

## Credit

- Strong ISM numbers caused a spread tightening during the week. We remain of the opinion that credit is a good place to be invested in the coming months. Companies are still acting conservatively with modest investments and focus on cost cutting although the challenging economic outlook will pose a challenge for topline growth. In the coming months activity in the primary market is likely to pick up and we think that the market is ready to absorb the new supply.
- As such we are positive on credit for the moment. In the longer term, however, it is inevitable that companies will feel the negative effect from the austerity measures currently being undertaken around Europe.

Credit spreads

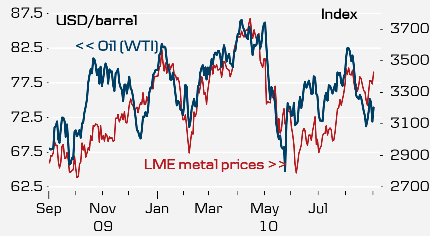



Source: Reuters Ecowin

## FX outlook

- The currency market remains driven primarily by risk sentiment. With markets still concerned about the economic outlook, demand also remains for the safe havens CHF and JPY. We see a high probability of even lower levels in EUR/CHF and EUR/JPY, but note that intervention has become an election theme in Japan increasing the likelihood of further BoJ action – watch the upside. EUR/USD is expected to stay in its 1.25-1.30 range, but we still see short-term risks skewed to the lower bound.
- SEK has held up despite faltering risk appetite as momentum in economic data has been strong. The Riksbank has delivered another hike and more are in the pipeline. Hence, the downwards trend remains in EUR/SEK – but positioning is stretched. NOK will likely benefit from improving economic data and favourable relative interest rates, but seems poised to continue to underperform SEK.

Commodity prices




Source: Reuters Ecowin

## Commodities

- The sell-off in commodities has been paused - for now - as economic data have surprised on the upside. Oil is again trading in the upper end of the USD70-80 range as manufacturing growth looks set to slow more moderately than previously forecast and off-shore drilling restrictions support. Base metals have benefitted from increasing belief in the strength of the business cycle, and wheat has been lifted by new supply concerns. We still look for commodities to test lower levels in Q3 but see potential going into 2011.

# 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 | 3.9 |
| | 2010 | 1.5 | 2.8 | 1.6 | -6.9 | 0.8 | 2.6 | 1.4 | 2.2 | 4.1 | -5.6 | 42.1 | 4.1 |
| | 2011 | 1.8 | 2.3 | 0.5 | 1.2 | 0.2 | 3.9 | 3.9 | 1.8 | 4.0 | -4.5 | 46.5 | 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 | 2.7 | 2.2 | 1.5 | 2.3 | 1.1 | 9.1 | 11.3 | 1.3 | 9.3 | -3.5 | 43.6 | 6.3 |
| | 2011 | 1.5 | 1.4 | 1.3 | 1.8 | 0.0 | 3.3 | 3.2 | 2.1 | 10.1 | -4.1 | 47.2 | 6.6 |
| 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 | 3.9 | 2.7 | -7.2 | 0.8 | 1.1 | 1.9 | 2.5 | 3.3 | 12.0 | 26.0 | 24.9 |
| | 2011 | 3.1 | 4.2 | 2.3 | 3.8 | 0.1 | 0.3 | 5.5 | 1.7 | 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 | -0.5 | 2.3 | -10.8 | -0.8 | -12.6 | -11.4 | 0.3 | 9.4 | -6.3 | 78.7 | -0.7 |
| | 2010 | 1.3 | 0.1 | 1.4 | -2.0 | 0.4 | 7.9 | 5.8 | 1.4 | 9.8 | -6.7 | 84.8 | -0.3 |
| | 2011 | 2.1 | 1.2 | 1.1 | 3.8 | 0.0 | 5.4 | 4.6 | 1.6 | 9.5 | -6.0 | 88.5 | -0.2 |
| Germany | 2009 | -4.9 | -0.1 | 3.4 | -13.5 | 0.4 | -14.5 | -9.5 | 0.2 | 7.5 | -3.5 | 73.0 | 4.0 |
| | 2010 | 1.9 | -1.0 | 2.1 | 9.9 | 0.1 | 8.9 | 8.8 | 1.0 | 8.1 | -5.0 | 76.5 | 3.7 |
| | 2011 | 2.7 | 1.7 | 1.4 | 7.4 | 0.0 | 7.0 | 6.7 | 1.2 | 7.6 | -3.0 | 79.0 | 3.2 |
| France | 2009 | -2.6 | 0.7 | 2.8 | -7.0 | -1.6 | -10.7 | -9.8 | 0.1 | 9.4 | -8.3 | 78.0 | -2.3 |
| | 2010 | 1.6 | 1.3 | 1.7 | -1.0 | 0.3 | 7.9 | 5.9 | 1.2 | 10.0 | -8.5 | 82.0 | -2.5 |
| | 2011 | 1.8 | 1.4 | 1.0 | 4.2 | 0.1 | 6.2 | 6.2 | 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 | 1.3 | 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 | -5.1 | 5.0 | -15.5 | 0.0 | -12.0 | -18.2 | -0.3 | 18.1 | -11.2 | 54.3 | -5.2 |
| | 2010 | -0.3 | -0.5 | 1.8 | -5.6 | 0.0 | 7.2 | 4.6 | 0.9 | 20.1 | -10.0 | 66.0 | -4.1 |
| | 2011 | 1.0 | 0.7 | 0.2 | 0.2 | 0.0 | 6.1 | 4.1 | 1.9 | 19.8 | -8.5 | 73.0 | -3.2 |
| Finland | 2009 | -7.8 | -2.1 | 0.7 | -13.4 | 0.0 | -24.3 | -22.3 | 0.0 | 8.2 | -2.2 | 44.0 | 1.4 |
| | 2010 | 1.8 | 1.0 | 0.5 | -3.0 | 0.0 | 4.0 | 3.5 | 1.4 | 9.0 | -3.9 | 49.5 | 1.4 |
| | 2011 | 2.5 | 1.5 | 0.0 | 4.0 | 0.0 | 8.0 | 5.0 | 2.0 | 8.6 | -3.3 | 52.0 | 2.2 |

## 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 | -9.9 | 83.8 | -3.0 |
| | 2010 | 2.8 | 1.5 | 0.9 | 4.1 | 1.4 | 12.1 | 12.2 | 1.7 | 9.7 | -9.2 | 92.0 | -3.4 |
| | 2011 | 2.5 | 2.3 | -0.2 | 7.5 | -0.2 | 8.8 | 6.2 | 1.8 | 9.3 | -7.0 | 90.7 | -3.2 |
| 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 | 3.3 | 2.2 | 1.6 | -1.1 | -0.1 | 23.7 | 2.6 | -1.0 | 4.3 | -5.2 | 220.4 | 3.4 |
| | 2011 | 2.1 | 1.7 | 1.0 | 2.5 | 0.0 | 5.4 | 5.4 | 0.1 | - | - | - | 3.0 |
| China | 2009 | 8.7 | - | - | - | - | - | - | -0.7 | 4.3 | -3.3 | 23.6 | 5.8 |
| | 2010 | 10.2 | - | - | - | - | - | - | 3.3 | 4.0 | -2.2 | 20.5 | 4.8 |
| | 2011 | 9.5 | - | - | - | - | - | - | 3.5 | 4.0 | -2.2 | 20.5 | 5.5 |
| 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 | 1.3 | 0.9 | 3.0 | -2.0 | 1.1 | 4.4 | 0.9 | 3.2 | 8.0 | -10.7 | 80.3 | -2.0 |
| | 2011 | 2.3 | 2.6 | 2.2 | 2.2 | 1.3 | 6.9 | 5.0 | 2.1 | 8.1 | -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 | 03-Sep | 0.13 | 0.29 | 0.69 | 2.61 | 128.2 | - | 580.6 |
| | +3m | 0.13 | 0.35 | 0.65 | 2.60 | 124 | - | 601 |
| | +6m | 0.13 | 0.35 | 0.75 | 2.75 | 127 | - | 587 |
| | +12m | 0.13 | 0.35 | 1.05 | 3.00 | 132 | - | 565 |
| EUR | 03-Sep | 1.00 | 0.88 | 1.29 | 2.52 | - | 128.2 | 744.5 |
| | +3m | 1.00 | 0.80 | 1.30 | 2.55 | - | 124 | 745.0 |
| | +6m | 1.00 | 0.85 | 1.35 | 2.60 | - | 127 | 745.0 |
| | +12m | 1.00 | 1.00 | 1.75 | 3.05 | - | 132 | 746.0 |
| JPY | 03-Sep | 0.10 | 0.23 | 0.43 | 1.18 | 108.0 | 84.3 | 6.89 |
| | +3m | 0.10 | 0.24 | 0.40 | 1.00 | 107 | 86 | 6.96 |
| | +6m | 0.10 | 0.24 | 0.40 | 1.00 | 112 | 88 | 6.65 |
| | +12m | 0.10 | 0.30 | 0.70 | 1.40 | 126 | 95 | 5.92 |
| GBP | 03-Sep | 0.50 | 0.73 | 1.26 | 3.04 | 83.1 | 154.3 | 895.7 |
| | +3m | 0.50 | 0.70 | 1.15 | 2.80 | 84.0 | 148 | 887 |
| | +6m | 0.50 | 0.70 | 1.10 | 2.80 | 85.0 | 149 | 876 |
| | +12m | 0.50 | 0.75 | 1.50 | 3.10 | 82.0 | 161 | 910 |
| CHF | 03-Sep | 0.25 | 0.17 | 0.52 | 1.70 | 129.9 | 101.3 | 573.1 |
| | +3m | 0.25 | 0.25 | 0.55 | 1.60 | 132 | 106 | 564 |
| | +6m | 0.25 | 0.25 | 0.65 | 1.60 | 134 | 106 | 556 |
| | +12m | 0.75 | 0.75 | 1.35 | 2.10 | 138 | 105 | 541 |
| DKK | 03-Sep | 1.05 | 1.15 | 1.61 | 2.69 | 744.5 | 580.6 | - |
| | +3m | 1.05 | 1.05 | 1.65 | 2.75 | 745 | 601 | - |
| | +6m | 1.05 | 1.10 | 1.65 | 2.75 | 745 | 587 | - |
| | +12m | 1.05 | 1.25 | 2.05 | 3.20 | 746 | 565 | - |
| SEK | 03-Sep | 0.50 | 1.07 | 1.77 | 2.69 | 929.8 | 725.0 | 80.1 |
| | +3m | 1.00 | 0.80 | 1.85 | 2.80 | 930 | 750 | 80.1 |
| | +6m | 1.25 | 1.30 | 2.15 | 2.85 | 900 | 709 | 82.8 |
| | +12m | 1.75 | 1.90 | 2.60 | 3.30 | 920 | 697 | 81.1 |
| NOK | 03-Sep | 2.00 | 2.70 | 3.11 | 3.87 | 787.8 | 614.3 | 94.5 |
| | +3m | 2.00 | 2.65 | 3.05 | 3.75 | 780 | 629 | 95.5 |
| | +6m | 2.25 | 2.90 | 3.30 | 3.80 | 775 | 610 | 96.1 |
| | +12m | 2.50 | 3.15 | 3.55 | 4.25 | 775 | 587 | 96.3 |

## Equity markets

| Regional | Risk | Price trend 3 mth. | Price trend 12 mth. | Regional recommen-dations |
|---|---|---|---|---|
| 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01-Sep | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2010 | 2011 |
| NYMEX WTI | 73 | 81 | 81 | 74 | 82 | 85 | 87 | 89 | 91 | 79 | 88 |
| ICE Brent | 75 | 79 | 81 | 75 | 82 | 84 | 86 | 88 | 90 | 79 | 87 |
| Copper | 7,559 | 7,274 | 7,072 | 7,000 | 7,500 | 8,000 | 8,400 | 8,600 | 8,700 | 7,211 | 8,425 |
| Zinc | 2,127 | 2,307 | 2,067 | 1,900 | 2,000 | 2,100 | 2,150 | 2,200 | 2,250 | 2,069 | 2,175 |
| Nickel/1000 | 21 | 20 | 23 | 21 | 22 | 22 | 23 | 23 | 24 | 21 | 23 |
| Steel | 501 | 464 | 491 | 460 | 475 | 500 | 510 | 530 | 550 | 473 | 523 |
| Aluminium | 2,080 | 2,199 | 2,131 | 2,000 | 2,100 | 2,150 | 2,200 | 2,250 | 2,300 | 2,107 | 2,225 |
| Gold | 1,251 | 1,110 | 1,194 | 1,250 | 1,200 | 1,150 | 1,100 | 1,050 | 1,000 | 1,189 | 1,075 |
| Matif Mill Wheat | 228 | 126 | 131 | 190 | 175 | 150 | 155 | 160 | 165 | 155 | 158 |
| CBOT Wheat | 696 | 518 | 490 | 681 | 642 | 572 | 591 | 610 | 630 | 583 | 601 |
| CBOT Corn | 428 | 389 | 379 | 400 | 420 | 440 | 460 | 470 | 480 | 397 | 463 |
| CBOT Soybeans | 1,010 | 969 | 932 | 1,000 | 1,010 | 1,020 | 1,030 | 1,040 | 1,050 | 978 | 1,035 |

**Interest rate forecasts will be revised mid August. Source: Danske Markets*

# Calendar

| Monday, September 6, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | USD | Labor Day - Market closed | | | | | |

| Tuesday, September 7, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | JPY | BoJ Monetary Policy Announcement | % | | **0.10** | *0.10* | 0.10 |
| 1:01 | GBP | BRC August Retail Sales Monitor | | Aug | | | |
| 6:30 | NOK | Consumer Confidence | Index | 3rd quarter | | | 15.8 |
| 6:30 | AUD | RBA monetary policy meeting | | | **4.50%** | *4.50%* | 4.50% |
| 7:00 | JPY | Leading Economic Index, preliminary | Index | Jul | | *98.2* | 99.0 |
| 7:45 | CHF | Unemployment, s.a. | % | Aug | | *3.7* | 3.8 |
| 9:30 | DKK | Industrial production | m/m | Jul | | | 1.2% |
| 9:30 | SEK | Budget balance | bn. | Aug | | | 12.5 |
| 10:00 | NOK | Manufacturing Production, s.a. | m/m\|y/y | Jul | **-1.5%\|...** | *-0.5%\|...* | 3.3%\|7.2% |
| 10:00 | NOK | Industrial Production | m/m\|y/y | Jul | | | -1.7%\|-4.4% |
| 11:00 | EUR | ECB Announces Allotment in 7-Day Refinancing Tender | EUR bn. | | | | |
| 12:00 | DEM | Factory Orders | m/m\|y/y | Jul | **0.6%\|...** | *0.6%\|20.8%* | 3.2%\|24.6% |

| Wednesday, September 8, 2010 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | GBP | NIESR GDP Estimate | % | Aug | | | 0.9 |
| 1:50 | JPY | Money supply M2+CD | y/y | Aug | | *2.6%* | 2.7% |
| 1:50 | JPY | Bank Lending | y/y | Aug | | | -1.7% |
| 1:50 | JPY | Machine orders | m/m\|y/y | Jul | | *2.0%\|8.1%* | 1.6%\|-2.2% |
| 1:50 | JPY | Current Account Total s.a. | JPY bn | Jul | | *1362.9* | 1362.1 |
| 7:00 | JPY | Eco Watchers Survey: Current | Index | Aug | | *49.9* | 49.8 |
| 8:00 | DEM | Trade balance | EUR bn | Jul | | *13.0* | 14.1 |
| 8:45 | FRF | Trade Balance | EUR bn. | Jul | | *-4.2* | -3.8 |
| 9:30 | DKK | Current account | DKK bn | Jul | **8.6** | | 8.5 |
| 9:30 | DKK | Trade Balance | DKK bn | Jul | | | 4.8 |
| 9:30 | SEK | GDP | q/q\|y/y | 2nd quarter | **1.2%\|3.7%** | *1.2%\|3.7%* | 1.2%\|3.7% |
| 10:30 | GBP | Industrial Production | m/m\|y/y | Jul | | *0.4%\|2.0%* | -0.5%\|1.3% |
| 10:30 | GBP | Manufacturing production | m/m\|y/y | Jul | | *0.3%\|4.9%* | 0.3%\|4.1% |
| 12:00 | DEM | Industrial production | mm/\|y/y | Jul | **1.8%\|...** | *1.0%\|12.5%* | -0.6%\|10.9% |
| 13:00 | USD | MBA mortgage applications | % | | | | 2.7 |
| 15:00 | CAD | Bank of Canada Rate decission | Avg. yield | | **1.00%** | *1.00%* | 0.75% |
| 16:00 | CAD | Ivey PMI | index | Aug | | *56* | 54 |
| 20:00 | USD | Fed's Beige Book | | | | | |
| 20:30 | USD | Fed's Kocherlakota (non-voter, neutral) speaks | | | | | |
| 21:00 | USD | Consumer credit | bn. USD | Jul | | *-5.4* | -1.3 |

*Source: Danske Markets*

## Calendar - continued

| Thursday, September 9, 2010 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 1:50 | JPY | BSI Large Manufacturing | q/q | 3rd quarter | | | 10.0 |
| 1:50 | JPY | BSI All Industry | q/q | 3rd quarter | | | 4.0 |
| 3:30 | AUD | Employment change | k | Aug | | *25.0* | 23.5 |
| 7:00 | JPY | Consumer sentiment survey | Index | Aug | | | 43.4 |
| 8:00 | DEM | Inflation (HICP) | m/m\|y/y | Aug | **0.0%\|0.9%** | *0.0%\|0.9%* | 0.0%\|0.9% |
| 9:30 | SEK | CPI | m/m\|y/y | Aug | **0.1%\|1.0%** | *0.1%\|1.0%* | -0.3%\|1.1% |
| 9:30 | SEK | SW CPI - CPIF | m/m\|y/y | Aug | **0.1%\|1.5%** | *0.0%\|1.5%* | -0.3%\|1.7% |
| 10:00 | EUR | ECB monthly report | | Sep | | | |
| 10:30 | GBP | Trade balance | GBP mln. | Jul | | | -3260 |
| 13:00 | GBP | BoE Asset Purchase Target | Bln. | Sep | | *200* | 200 |
| 13:00 | GBP | BoE rate announcement | % | Sep | **0.5** | *0.5* | 0.5 |
| 14:30 | USD | Initial jobless claims | 1000 | | | *470* | 472 |
| 14:30 | USD | Trade balance | USD bn | Jul | | *-47.8* | -49.9 |
| 14:30 | CAD | Merchandise trade | bn CAD | Jul | | *-1.0* | -1.1 |

| Friday, September 10, 2010 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| - | JPY | Cabinet Office Monthly Economic Report | | | | | |
| - | CNY | Trade balance | USD bn | Aug | | *26.70* | 28.73 |
| - | CNY | Total Export | y/y | Aug | | *33.1%* | 38.1% |
| - | CNY | Total Import | y/y | Aug | | *26.2%* | 22.7% |
| 1:50 | JPY | GDP, final | q/q\|ann. | 2nd quarter | | *0.4%\|1.5%* | 0.1%\|0.4% |
| 1:50 | JPY | Domestic CGPI | m/m\|y/y | Aug | | *-0.1%\|-0.2%* | -0.1%\|-0.1% |
| 8:45 | FRF | Industrial production | m/m\|y/y | Jul | | *0.7%\|5.0%* | -1.7%\|5.7% |
| 8:45 | FRF | Manufacturing Production | m/m\|y/y | Jul | | | -1.3%\|5.0% |
| 9:30 | DKK | CPI | m/m\|y/y | Aug | | *0.1%\|2.2%* | 0.0%\|2.3% |
| 9:30 | SEK | Industrial production | m/m\|y/y | Jul | **...\|9.5%** | | 1.1%\|12.0% |
| 9:30 | SEK | Industrial orders | m/m\|y/y | Jul | | | |
| 10:00 | SEK | Statistics Sweden, Unemployment | % | Aug | | | |
| 10:00 | NOK | Consumer Prices | m/m\|y/y | Aug | **-0.1%\|2.1%** | *-0.2%\|2.0%* | -0.5%\|1.9% |
| 10:00 | NOK | Core inflation(CPI-ATE) | m/m\|y/y | Aug | **-0.1%\|1.4%** | *-0.1%\|1.4%* | -0.6%\|1.3% |
| 10:00 | NOK | Producer prices, incl. Oil | m/m\|y/y | Aug | | | 0.0%\|18.1% |
| 10:00 | ITL | Industrial production | m/m\|y/y | Jul | | *0.2%\|...* | 0.6%\|8.1% |
| 10:30 | GBP | PPI - Output | m/m\|y/y | Aug | | *0.1%\|4.8%* | 0.1%\|5.0% |
| 11:00 | ITL | GDP, final | q/q\|y/y | 2nd quarter | | *0.4%\|1.1%* | 0.5%\|... |
| 13:00 | CAD | Unemployment rate | | Aug | | *8.0%* | 8.0% |
| 13:00 | CAD | Net change in employment | | Aug | | *17800* | -9300 |

| During the week | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| Fri 03 - 10 | GBP | Halifax house prices | m/m\|y/y | Aug | | *-0.4%\|4.4%* | 0.6%\|4.9% |

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*Source: Danske Markets*

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