

Danske Daily

Key news

- FOMC statement contained few changes and caused limited market reaction.
- We have an interesting day ahead of us with focus on the Riksbank meeting, UK Q3 GDP, euro area M3 growth and US durable goods.

Markets Overnight

As expected, there were **virtually no changes to the October FOMC statement**. The Fed will continue to purchase USD40bn in mortgage-backed securities each month and continue the current 'twist' programme. The Fed reiterated that it will proceed with its asset purchases and potentially scale these up until the labour market improves substantially. The description of household spending was upped slightly, stating that consumption has advanced a bit more quickly but this was countered by downgrade in the language of business fixed investments. Although **there were no indications in the statement that the Fed is moving closer to an Evans rule, we nevertheless think that this will be the next step from the FOMC**. The biggest obstacle is to find consensus within the FOMC on the relevant variables to target and the thresholds that would trigger a fed funds rate hike. The main challenge lies in the variable that captures the state of the labour market. We think the Fed will eventually use some sort of adjusted unemployment rate, which takes into account both developments in the labour force and unemployment as target. This is a work in progress and we expect it to take some time before the FOMC is ready to announce its new rule. The **release prompted very limited market reaction**, see also *FOMC meeting: a non-event*, 24 October.

Despite the release of lower-than-expected leading indicators in Europe yesterday, markets shook off the negative sentiment from the early hours, see *PMI and Ifo continue to signal recession*, 24 October. The positive sentiment carried over to the **US stock market** supported by improving new home sales. Despite this S&P 500 closed down by 0.3%, after a sell-off in the final hour. **Asian stock markets** are trading with no clear direction this morning. In the **US bond market** yields on longer matured Treasuries increased a bit after the FOMC meeting, with the 10-year yield trading just below 1.80% this morning. In the **FX market** EUR/USD is this morning trading at 1.298.

The Reserve Bank of New Zealand kept rates unchanged and did not signal further easing. NZD gained following the announcement.

Mario Draghi yesterday, while confronting the German Bundestag, gave **a little more colour on why the ECB introduced the OMT and how it expects to implement it**. Draghi said: 'Interest rates do not have to be identical across the euro area but it is unacceptable if major differences arise from broken capital markets or the perception of a euro area break-up', see full *Draghi speech*.

Market movers today:

- SEK: Riksbank meeting
- UK: Q3 GDP
- EUR: M3 money supply
- US: Durable goods
- Q3 earnings: Apple, Santander

Market overview

		07:30	1 day +/- %	
S&P500 (close)		1408.8	↓ -0.31	
S&P500 fut (chg from close)		1408.0	↑ 0.19	
Nikkei		8987.9	↑ 0.37	
Hang Seng		21760.2	↓ -0.02	
		17:00	07:30	+/-, bp
US 2y gov	0.29	0.29	↑	0.8
US 10y gov	1.79	1.80	↑	1.1
iTraxx Europe (IG)	128	129	↑	0.8
iTraxx Xover (Non IG)	525	531	↑	6.0
				+/-, %
EUR/USD	1.296	1.299	↑	0.20
USD/JPY	79.830	79.990	↑	0.20
EUR/CHF	1.21	1.21	↓	-0.01
EUR/GBP	0.809	0.809	↑	0.06
EUR/SEK	8.673	8.663	↓	-0.12
EUR/NOK	7.45	7.45	↓	-0.03
				USD
Oil Brent, USD	108.0	108.2	↑	0.20
Gold, USD	1705.4	1707.5	↑	0.12

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: We expect UK GDP growth to increase 0.6% q/q in Q3. The rebound is mainly driven by Jubilee holiday related disruptions in Q2 and we expect growth to fall back to 0.1% q/q in Q4. In the euro area it is a light calendar but we expect M3 money supply growth to increase to 3.2% y/y. In the US we expect to see an increase in the durable goods orders headline, reclaiming some of the lost ground, as a decline in the volatile defence and aircraft orders was the primary reason for last month's headline drop. More importantly though, is the reading on capital goods orders and shipments outside aircraft and defence as this is a good indicator of business CAPEX. Recent months have shown a virtual collapse in core capital goods orders and if our forecast of a modest pickup in business investments in Q4 shall prove right, we will soon need to see better data.

Fixed income: European PMI and German Ifo data clearly disappointed yesterday, while US releases are slightly more encouraging suggesting a moderate recovery. There is room for a US steeper curve down the road. Meanwhile, the 10-year treasury yield continues to move around the upper part of the current range. In Europe the fact that we are only seeing stabilisation in data might fuel speculation that more rate cuts may be needed.

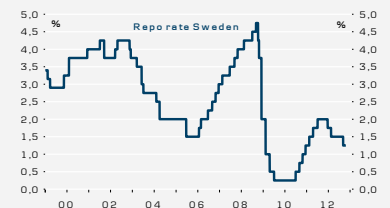
FX markets: Sterling got some tailwind yesterday ahead of today's GDP release that is expected to show that the UK finally pulled out of recession. However, growth is fuelled by temporary factors like the Olympics and we expect any Sterling strength to be short-lived. Otherwise the big event will be the Riksbank announcement this morning. We expect unchanged rates after the somewhat surprising comments regarding bubbles from central bank governor Ingves last week. It might give some support to SEK, not least as the market is pricing a cut-probability equivalent to 10bp today. However, we doubt we will see any big move lower in EUR/SEK today. It seems like SEK is currently trading more on risk appetite than a few months ago and furthermore we are pretty convinced that the market will continue to price in rate cuts in Sweden, also after today's meeting. Finally, we certainly do not rule out a rate cut today. Yesterday's numbers for example were once again very weak, underlining that the Swedish economy in fact needs more stimuli.

Scandi Daily

Denmark: EUR/DKK is now trading just below 7.46, a level that earlier has triggered intervention from the Danish Central Bank and subsequent rate hikes. Hence, as always we keep an eye on the screens at 16.00 CET when Danish rate changes are normally announced. However, we doubt, given the decreased uncertainty regarding the European debt crisis, that we have seen any significant currency outflow from Denmark lately. Hence, we do not expect a Danish rate hike today despite the latest move higher in EUR/DKK. In general we doubt that the Danish Central Bank is in any hurry to hike rates.

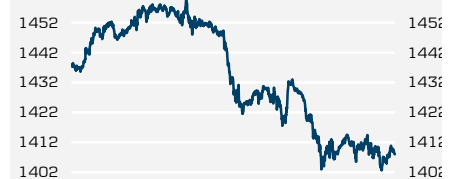
Today's big event in **Sweden** is the Riksbank's rate announcement (and monetary policy report) due for release at 09:30 CET. Until last week when governor Ingves expressed considerable concern about Swedish households' high debt ratio, most analysts (we included) and the market were looking for a rate cut. Ingves's article was, however, interpreted as a strong signal that he is unwilling to ease further, which is why expectations were scaled back significantly. In practice, this is yet another example of the Riksbank's tendency of conveying confusing messages, leaving people quite uncertain about what to expect. Recent data have been very disappointing, showing that the economy is declining fast, so the door for a rate cut remains open.

Rate decision in Sweden today



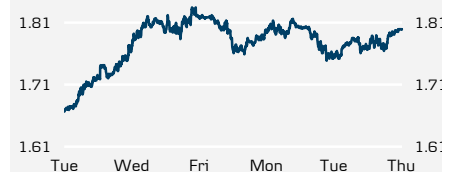
Source: Reuters EcoWin

US S&P500 future



Source: Danske Markets

US 10y gov yield



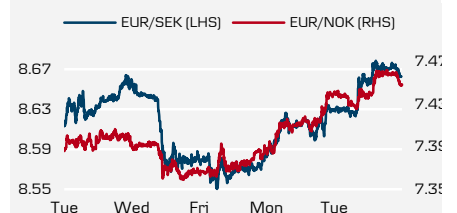
Source: Danske Markets

Global FX



Source: Danske Markets

Scandi FX



Source: Danske Markets

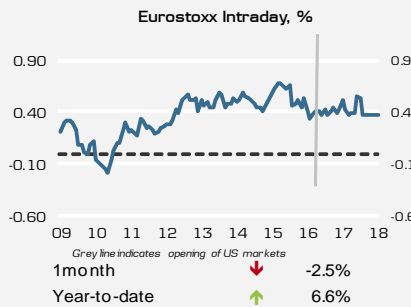
Key figures and events

Thursday, October 25, 2012			Period	Danske Bank	Consensus	Previous
-	OTH	Earnings: Daimler, Sandvik, Banco Santander, Metso, Procter & Gamble, ABB, Amazon.com, Apple				
9:30	SEK	Riksbank, Rate decision	%	1.25%	1.25%	1.25%
9:30	SEK	PPI	m/m y/y	Sep	-0.2% -1.4%	-0.5% -1.9%
10:00	EUR	M3 money supply	y/y	Sep	3.2	3.0%
10:30	GBP	GDP, first estimate	q/q y/y	3rd quarter	0.6% -0.5%	0.6% -0.5%
14:30	USD	Durable goods orders	m/m	Sep	6.9%	6.8%
14:30	USD	Initial jobless claims	1000			339
16:00	USD	Pending home sales	m/m y/y	Sep	2.7% ..	2.0% ..
23:45	NZD	Trade balance	NZL.m	Sep		-850

Source: Bloomberg and Danske Bank

Today's market data: 25 October 2012

STOCKS



Index	Close	Change	%
DJSTOXX50	2525	↑	0.4%
OM XC20	497	↓	-0.2%
OM XS30	1050	↑	0.2%
OSE BX	440	↑	0.0%
DOW JONES	13077	↓	-0.2%
NASDAQ	2982	↓	-0.3%
S&P 500	1409	↓	-0.3%
NIKKEI (07:30)	8988	↑	0.4%

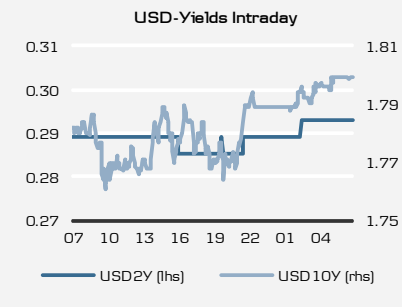
FX & COMMODITIES



EUR	17:00	07:30	Change	%
USD	129.59	129.85	↑	0.26
JPY	103.45	103.87	↑	0.42
GBP	80.89	80.93	↑	0.05
NOK	745.00	744.77	↓	-0.23
SEK	867.31	866.27	↓	-0.14
DKK	745.91	745.93	↑	0.02
PLN	414.81	415.73	↑	0.92
USD	17:00	07:30	Change	%
JPY	79.83	79.99	↑	0.16
GBP	160.21	160.44	↑	0.23
CHF	93.35	93.15	↓	-0.20

Oil, Brent, \$	Gold, \$
07:30	1707.50
1day	↑ 5.55
1month	↓ -53.15
Year-t-date	↑ 143.80
CRB, 1M future	CRB, Raw Industrials
07:30	297.69
1day	↓ -2.19
1month	↓ -9.02
Year-t-date	↓ -7.61

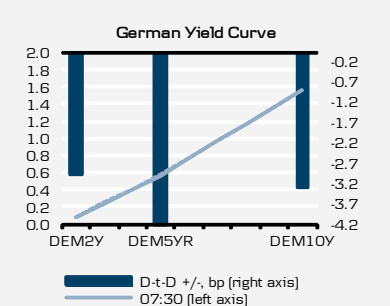
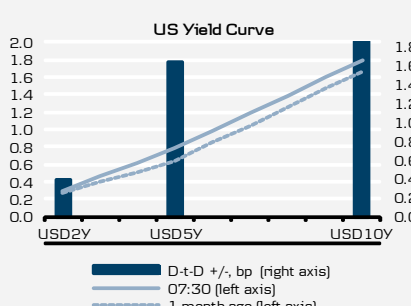
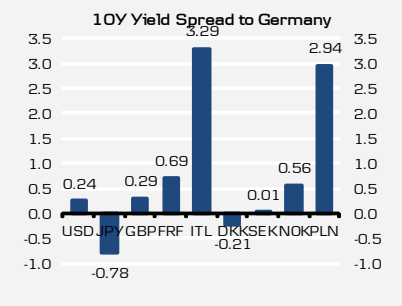
YIELDS & INTEREST RATES



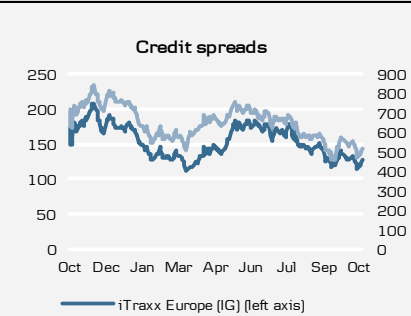
Policy Rate	3M	Spread, bp
USD	0.25	0.31
EUR	0.75	0.20
GBP	0.50	0.53
DKK	0.20	0.34
SEK	1.25	1.48
NOK	1.50	1.87
PLN	4.75	4.65

Yield	17:00	07:30	Change	bp
USD 10Y	1.79	1.80	↑	1
USD 30Y	2.94	2.96	↑	2
JPY 10Y	0.78	0.77	↓	0
07:30(-1)*	17:00	Change	bp	
DEM 10Y	1.59	1.57	↓	-2
DKK 10Y	1.37	1.36	↓	-1
SEK 10Y	1.63	1.57	↓	-6
NOK 10Y	2.12	2.12	↑	0
PLN 10Y	4.49	4.50	↑	1

* As of closing previous trading day



Credit spread, iTraxx s. 11*	07:30	1day	1month
Europe (IG)	129	↓ -1	↓ -7
HiVol	198	↓ -1	↓ -5
Xover (N-IG)	531	↑ 4	↓ -27
Finan. Sr.	183	↓ -1	↓ -23
Finan. Sub.	304	↓ -4	↓ -31
Non-finan.	116	↑ 2	↓ -2



Swap Spread, bp**	17:00	07:30	Change
USD 10Y	4	4	↓ 0
JPY 10Y		3	
07:30(-1)*	17:00	Change	
EUR 10Y	27	26	↓ -1
DKK 10Y	63	63	↓ -1
SEK 10Y	53	54	↑ 1
NOK 10Y	115	116	↑ 1

* As of closing previous trading day

** Ask price

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First date of publication

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