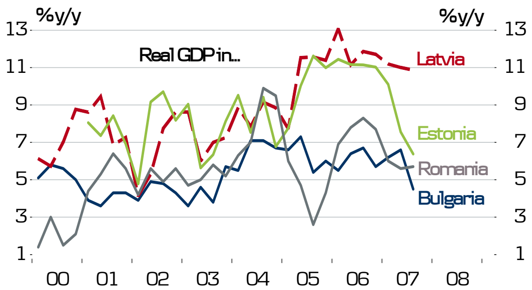
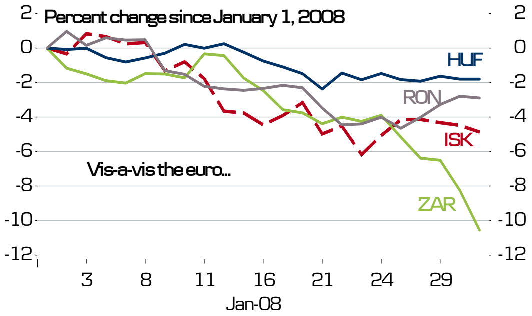
Weekly Focus

04 – 11 February, 2008

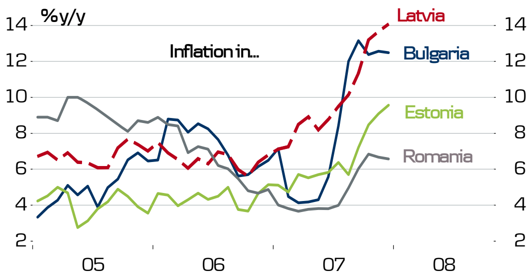
Growth rates have been very high...



C/A deficits have worsened...



Inflation out of control?



Credit crisis weighs on credit ratings

It is one thing running large current account deficits and being highly leveraged in a world where money is cheap and the global economy is in good shape. It is another thing being a "liquidity eater" in the present environment where credit conditions have worsened and the outlook for the global economy has turned decidedly negative. In such an environment there are no doubts that the most leveraged financial institutions, companies and countries are under pressure.

This is also the case for credit ratings. Hence, since the outbreak of the credit crunch, the rating agencies have become somewhat aggressive in their rating actions. A good example is the Baltic states, Romania and Bulgaria, which are all struggling with large external imbalances and therefore are relatively more at risk in the present global financial environment than the countries with more sound external balances.

This week, rating agency Standard & Poor's downgraded Lithuania's sovereign rating by one notch and maintained its negative outlook on the rating. Fitch Ratings followed suit and changed its ratings outlook to "negative" from "stable" for Estonia, Latvia, Romania and Bulgaria.

This week's negative rating actions are unlikely to be the last negative news on the rating front this year and we are expecting more downgrades during the year – most at risk are the Baltic states, Romania and Bulgaria, but, in addition, Hungary seems to have moved back onto the radar screen of the rating agencies, as well as eg, countries like Kazakhstan and Iceland, with their very leveraged financial sectors.

Editor in Chief: Chief Economist Steen Bocian, + 45 45 12 85 31, stbo@danskebank.dk
Web: http://www.danskebank.com/danskeresearch

Danske Bank

Denmark

Frank Øland Hansen, Senior Economist, +45 45 12 85 26, franh@danskebank.dk

Housing prices continue to correct

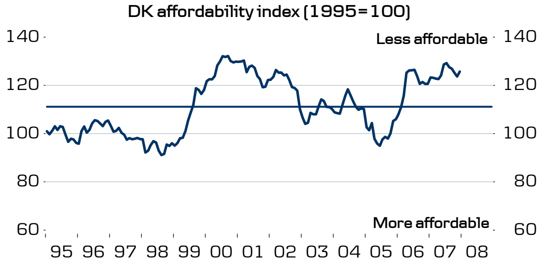
Revised sales figures for housing were released this week by the Association of Danish Mortgage Banks (Realkreditrådet). The new figures, which give a better impression of housing market developments, show that sales activity has not fallen as much as the earlier numbers implied. The number of house sales has fallen just 6% in the past year, while apartment sales have fallen 18%. In other words, the housing market has not stalled, which was the impression given by the earlier figures.

The new figures do, however, show the first ever (small) fall in house prices nationwide. House prices fell 0.5% in Q4, while the earlier figures showed an increase of 0.1%. Price falls on apartments in Copenhagen, which is the epicentre of the ongoing price correction, have also gained a little more pace. Prices here have fallen 19.5% since their peak in Q3 06.

To assess whether or not there is any prospect of further price corrections in the housing market, we have looked at developments in housing affordability. Affordability, estimated as housing expenses after taxes and allowances relative to disposable income, shows that it is still expensive to be a first-time buyer. The recent decline in interest rates has helped. Nevertheless, the burden of buying a house is still 13% above the average for the period since 1995. A correction of 13% across the country does not appear to be on the cards, but could come about by prices remaining unchanged for a period of three years, allowing the correction to happen via the increase in disposable income. Historically speaking, a real price fall of 13% is nothing dramatic. However, the current slowdown in the housing market differs from previous episodes by not being driven by political intervention, and thus one should be cautious when making comparisons.

As regards apartments, the burden on owners has fallen somewhat since the peak in 2006, and it now looks like the correction in apartment prices is about half way. However, it is far from certain that apartment prices in the capital will fall a further 20%. Remember, too, that other factors, including interest rates, also play a part in determining the affordability of housing. Thus the fall in interest rates and the tax cuts scheduled for this year and next will help bring the affordability of housing into balance. Furthermore, the introduction of interest-only loans in October 2003 may have pushed the affordability balance point higher. Nevertheless, the burden on apartment owners indicates that the correction may last for some time yet.

Housing burden still high



Key events of the week ahead

- Industrial production for December will be released on Wednesday. We expect a rise of 0.5%.
- Bankruptcies and home repossessions in January will also come on Wednesday. We are expecting a modest increase.
- Current account numbers for December are due on Friday, and we expect an overall surplus of DKK 22bn for 2007.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Wed 06	9:30	DKK	Industrial production sa ex ships	m/m	Dec	**0.5%**		-2.9%
Fri 08	9:30	DKK	Trade Balance	DKK bn	Dec	**3.0**		1.7
Fri 08	9:30	DKK	Current Account	DKK bn.	Dec	**1.0**		1.7

Sweden

Roger Josefsson, +46 (0)8 568 805 58, roger.josefsson@danskebank.se

GDP slowdown is entering the next phase

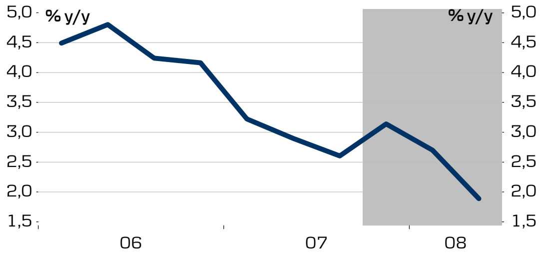
Diligent readers of the “W*eekly Focus”* know that we have been pessimistic about Swedish growth prospects for the last year or so. You will be surprised – or perhaps even worried – to see that we are tentatively expecting a sort of "dead cat bounce" in Q4.

But have no fear. If a brief bounce is indeed on the cards, it will be the result of a hefty slowing of imports. After the strong inventory building in Q3, we were expecting a swift slowing of imports growth vis-à-vis exports, which would be a sign of de-stocking in the export industry. The size of the (possible) temporary bounce is thus very dependent on how much companies have been able to clear their shelves. One strong indication of how this is coming along will be received on 13 February when industrial stocks are presented.

We have now received most of the information needed to roughly calculate the demand side of GDP. In short, exports should be more or less stable at a low 5% y/y in Q4. Consumption growth continues to recede and has fallen to approximately 2.5% y/y. From the statistics on hours worked we have come to the conclusion that public consumption will jump back in Q4. We do not have any new statistics on investments but given the very drastic slowing of investments in Q3 we think that there is a rather high probability for a rebound in this sector as well. All in all, when adding the components, we tentatively believe that GDP growth will come in at 3% y/y. However, given the large insecurity surrounding investments growth and the stock contribution, we would like to await these data for a more thorough calculation of our Q4 GDP estimate.

The week ahead will also reveal some data regarding the supply-side of GDP. It will be of high interest since the numbers released this far are actually indicating a GDP growth some way above 3% y/y.

GDP, seasonally and calendar adjusted



Key events of the week ahead

- Industrial orders and production together with the GDP indicator the Activity Index will provide yet another piece of the national accounts puzzle.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Thu 07	9:30	SEK	Budget balance	SEK bn.	Jan			-84.8
Fri 08	9:30	SEK	Industrial production	m/m|y/y	Dec		*0.2%|0.8%*	2.3%|4.2%
Fri 08	9:30	SEK	Industrial orders	m/m|y/y	Dec			0.1%|0.3%

Norway

Arne Lohmann Rasmussen, Senior Analyst, +45 3342 8532, arne.lohmann@danskebank.dk

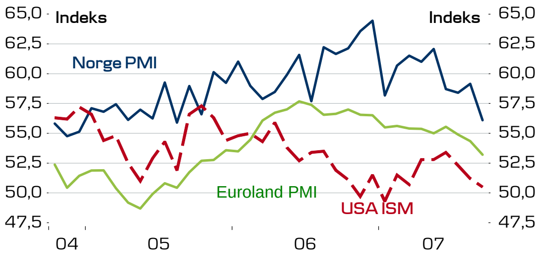
How hard has Norwegian manufacturing been hit by the global slowdown?

The coming week brings data from the manufacturing sector which can give us an idea of how hard Norwegian manufacturing has been hit by the global slowdown. We have already seen the Norwegian PMI drop back slightly from its peak, although we are still well above the 50 level which would indicate stagnation. We expect the PMI to slip from 54.4 in December to 53.6 in January.

On the other hand, we predict a rebound in manufacturing output, which fell by 1.2% in November but is expected to climb by 0.6% in December, corresponding to an increase of 2.4% y/y. Generally speaking, we are not too worried about Norwegian manufacturing in 2008. Earnings are still phenomenally high, and order books packed. Remember that Norwegian manufacturing is heavily exposed to investment activity in the oil sector, a sector which is not exactly facing big problems with demand either in Norway or abroad. Even if oil prices were to plummet by USD 20/bbl, it would still be highly attractive for the oil companies to invest. The ongoing slowdown in the US economy in particular is therefore not expected to have any great impact on Norwegian manufacturing.

As ever, though, these tier 2 data are not expected to attract any great attention in the financial markets. The focus will instead be on the inflation figures in the week beginning 11 February. The Norwegian media are currently awash with tales of rising food prices. Combined with wage growth of almost 6%, high energy prices and rising rents, this suggests that inflation will hit Norges Bank's inflation target this year. By way of comparison, Norges Bank does not expect this to happen until 2010. We expect underlying inflation to climb from 1.8% in December to 2.1-2.2% in January.

Norwegian PMI has fallen too



Key events of the week ahead

- Prospect of a rebound in manufacturing after a weak November.
- On the other hand, the PMI for January is expected to drop to 53.6 – mirroring global developments, only at a higher level.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 04	9:00	NOK	PMI	Index	Jan	**52.6**	*53.9*	54.4
Thu 07	10:00	NOK	Industrial production, nsa	y/y	Dec			
Thu 07	10:00	NOK	Manufacturing Production, nsa.	m/m	Dec	**0.6%**	*0.6%*	-1.2%

Euroland and Switzerland

Allan von Mehren, Chief Analyst, +45 4512 8055, alvo@danskebank.dk

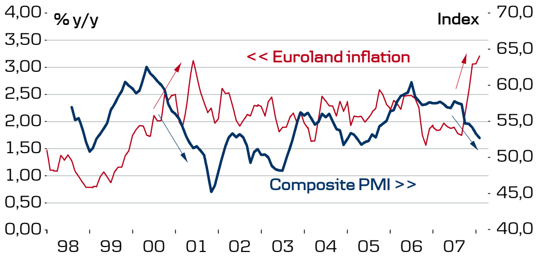
ECB boxed in by high inflation – for now

After all the action being in the US in the past week, eyes will now turn to Euroland and the ECB. The past weeks' data have shown more of the same, with data fitting well with the "stagflation" theme.

1. High inflation: Flash CPI hit a new high in January at a rising 3.2% y/y and inflation expectations coming from the consumer survey are still high.
2. Weaker consumption: The high inflation is hurting consumers – with confidence in households now falling rapidly. Consumers have a gloomier assessment of their financial situation and are more pessimistic on the outlook for the economy. German retail sales also looked very weak in December, finishing with a soft fourth quarter. Despite a still-healthy labour market, consumers are getting squeezed from high prices on food and energy, which are eroding real income growth.
3. Still strong labour market but signs of softening: Unemployment fell more than expected in Germany but the growth in employment has softened a bit and vacancies have gone down over the last year. This normally signals a turnaround in the labour market.

The situation is very similar to early 2001. Back then, the US economy was slowing fast and high inflation was pushing down Euroland consumption. The ECB stayed hawkish for a long time but still ended up cutting rates in May 2001 – only five months after it signalled more hikes. We think the ECB is boxed in for now by the high inflation and the upcoming wage negotiations. Hence, they will likely keep a hawkish tone at next week's press conference. GDP growth will soften further, though, and inflation will start to come down soon. This will pave the way for two rate cuts of 25bp later this year – in line with current market pricing.

"Stagflation" environment similar to 2001



Events this week

- ECB meeting Thursday: Expect the ECB to keep its hawkish rhetoric, highlighting the importance of avoiding second-round effects on inflation but acknowledging downside risks to growth.
- German orders and IP: Orders are very volatile and after a strong reading in November we forecast a drop in December. Industrial production on the other hand will likely show a rebound from the decline last month.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 05	10:00	EUR	Euroland Service PMI, final	Index	Jan		*52.0*	52.0
Tue 05	11:00	EUR	Retail sales	m/m|y/y	Dec		*0.3%|-0.6%*	-0.5%|-1.4%
Thu 07	8:45	FRF	Trade Balance	EUR bn.	Dec		*-4.2*	-4.8
Thu 07	12:00	DEM	Factory orders	m/m|y/y	Dec		*-2.0%|11.1%*	3.4%|13.6%
Thu 07	13:45	EUR	ECB Meeting - rate announcement	%		**4.0**	*4.0*	4.0
Fri 08	8:00	DEM	Trade balance	EUR bn	Dec		*16.8*	19.3
Fri 08	12:00	DEM	Industrial production	mm/|y/y	Dec		*1.0%|4.1%*	-0.9%|3.5%

UK

Arne Lohmann Rasmussen, Senior Analyst, +45 45128532, arne.lohmann@danskebank.dk

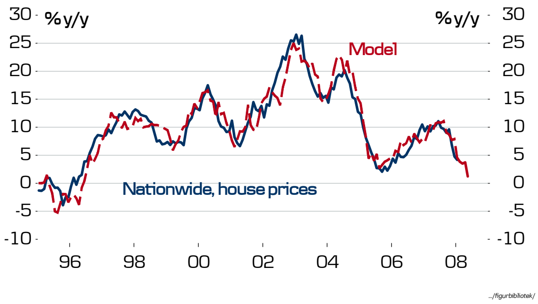
Bank of England to make a "small" cut

Analysts are in full agreement that the Bank of England will cut its leading rate by 25bp to 5.25% in the coming week. Given the economic data and the crisis in the financial sector, one could be forgiven for thinking that the monetary policy committee might follow the example of the US Federal Reserve and take a more aggressive approach – perhaps cutting by 50bp.

We doubt that the more aggressive line will materialise, however. When reading the minutes of the January MPC meeting it quickly becomes clear that the committee is rather concerned about inflation in the coming months. The short-term outlook for inflation is described as having worsened considerably, and concern is expressed that inflation expectations among households are increasing. By reading the outlook for inflation in the UK, one could almost have the heretical thought that the BoE is closer to hiking than cutting interest rates.

However, the news-stream from the global economy and, not least, the UK housing market clearly shows that the economy is slowing. Indeed recent news has been far from uplifting. In January, manufacturing PMI fell to a level close to stagflation, and the closely followed RICS survey of the housing market is pointing steeply down, having fallen in December to its lowest level since 1992. The number of new mortgage applications is also on a downward slope, and is currently at 1995 levels. Our short-term house price model, which is partly based on these variables, indicates that house price growth is heading for its lowest level since 1996. We expect that house price growth will, in fact, turn negative in 2008.

UK house prices still under pressure



Key events of the week ahead

- The Bank of England is expected to cut interest rates by 25bp at Thursday's meeting
- PMI for services and the construction sector. Will they also point south, just like manufacturing?

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 04	10:30	GBP	PMI Contruction	Index	Jan			56.0
Tue 05	10:30	GBP	PMI services	Index	Jan		*52.0*	52.4
Wed 06	1:01	GBP	Nationwide Consumer Confidence	Index	Jan			85
Wed 06	16:30	GBP	Leading Indicator Index		Dec			-0.3%
Wed 06	16:30	GBP	Coincident indicator index	m/m	Jan			0.2%
Thu 07	10:30	GBP	Industrial Production	m/m|y/y	Dec		*0.2%|1.0%*	-0.1%|0.4%
Thu 07	10:30	GBP	Manufacturing production	m/m|y/y	Dec		*0.1%|0.3%*	-0.1%|0.1%
Thu 07	13:00	GBP	BoE rate announcement	%		**5.25**	*5.25*	5.50
Fri 08	1:01	GBP	NIESR GDP Estimate	%	Jan			0.5

USA

Peter Possing Andersen, Analytiker, +45 45 13 70 19, pa@danskebank.dk

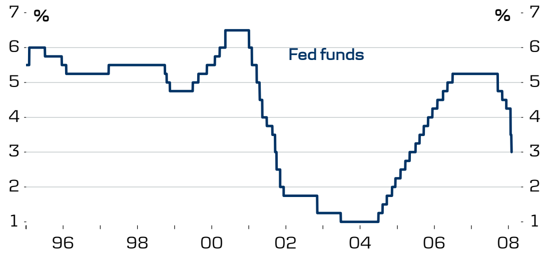
Fed cuts again – and there is more in the pipeline

Following a two-day policy meeting, the Federal Reserve Committee (FOMC) decided Wednesday night to cut the Fed funds rate by a further 50bp to 3%. With this action, the full amount of easing over the past two weeks adds up to an historic high of 125bp, leaving little doubt that the Fed has put monetary easing on a fast track.

Comparing the recent scale and speed of US monetary policy easing with incoming economic data, there is no doubt that the central bank is ahead of the game compared to what has been usual. Although labour market, industry and consumer data have become weaker recently, the general picture from macro data is still not consistent with the economy being in a recession. Even so, the FOMC has been acting very aggressively. We perceive this as a signal that the Fed is concerned about systemic risks in the financial sector and is operating with a very negative risk scenario for the economy – a scenario which the central bank is willing to insure strongly against.

While we continue to believe that the odds are in favour of the US economy avoiding a recession, the general data picture is likely to remain soft enough to keep recession fears alive throughout H1. With the combination of more soft data ahead and no immediate relief in sight for the problems surrounding the financial sector, we expect the FOMC to take full insurance against a recession in the coming months. This will most likely involve a real policy rate close to zero, corresponding to a Fed funds rate in the 2.0%-2.5% range. As recent behaviour suggests, the central bank rather prefers doing too much than too little in the current situation. Hence, the FOMC is expected to settle at the lower end of this range, easing to a terminal rate of 2% as early as June. As regards to the exact path of easing, it remains largely a question of the state of the financial markets and incoming data. For now we expect 50bp easing on the March meeting followed by a 25bp easing on the April and June meetings. That said, further inter-meeting cuts cannot be ruled out.

Fed cuts 125bp within eight days



Key events of the week ahead

- Tuesday – We expect the non-manufacturing ISM composite to decline by one index point to 52.2 from 53.2.
- Wednesday – Unit labour costs increased by 2.1% q/q AR in Q4. This leaves the annual rate at 1.0%.
- Several Fed speakers during the week.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 04	16:00	USD	Factory Orders	m/m	Dec		*2.1%*	1.5%
Mon 04	17:20	USD	Fed's Kroszner (voter, neutral) speaks on mortgage regulation					
Tue 05	16:00	USD	ISM (NAPM) non-manufacturing	Index	Jan	**52.2**	*52.5*	53.2
Tue 05	18:15	USD	Fed's Lacker (non-voter, hawk) speaks on the economy					
Wed 06	14:30	USD	Unit labour cost (preliminary)	q/q AR|y/y	4th quarter	**2.1%|1.0%**	*3.1%|..*	-2.0%|3.0%
Wed 06	16:00	USD	Fed's Lacker (non-voter, hawk) speaks					
Wed 06	18:30	USD	Fed's Kroszner (voter, neutral) speaks on motgage regulation					
Wed 06	19:40	USD	Fed's Plosser (voter, hawk) speaks on the economy					
Thu 07	14:30	USD	Initial jobless claims	1000				375
Thu 07	14:30	USD	Fed's Lockhart (non-voter, neutral) speaks					
Thu 07	16:00	USD	Pending home sales	m/m	Dec		*-1.0%*	-2.6%
Thu 07	19:00	USD	Fed's Fisher (voter, neutral) speaks on economic stability					
Thu 07	21:00	USD	Consumer credit	bn. USD	Dec		*7.2*	15.4
Fri 08	6:25	USD	Fed's Yellen (non-voter, dove) speaks on the economy					
Fri 08	19:00	USD	Fed's Lockhart (non-voter, neutral) speaks on the financial markets and the economy					

Asia

Flemming J. Nielsen, Senior Analyst, +45 45128535, flemm@danskebank.dk

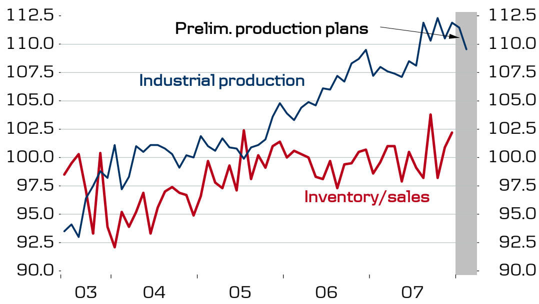
Strong growth, but signs of crisis spreading to Asia

South Korea and the Philippines were among the first Asian countries to report GDP growth for Q4 07. Both countries saw stronger than expected Q4 growth that was higher than their respective Q3 figures. In South Korea, GDP growth rose to 5.5% y/y in Q4 from 5.2% y/y in Q3, while in the Philippines, GDP growth rose to 7.4% y/y from 6.6% y/y. For now then, it would seem that the weaker growth in the US has not had that much impact on the Asian economies.

The key question is, of course, whether or not the positive trends in Asia can continue. There are emerging signs that it will become increasingly difficult to maintain momentum in the Asian economies in early 2008. This may be particularly true for Japan, where the latest foreign trade numbers showed a decline in exports of more than 10% m/m in December, driven largely by a substantial slowdown in exports to the US. Furthermore, weaker export growth appears to be hitting industrial production, which has levelled off lately, and to judge by production plans may well be on its way down in early 2008.

Does this mean that Asian industry is beginning to lose steam? Asian export growth will without doubt slacken its pace in 2008, and this also means that GDP growth will fall a little in Asia this year. In our view, however, the growth slowdown in Asia will not be dramatic as long as the US does not slide into an outright recession. Domestic demand in most Asian countries remains robust, and this will presumably be indirectly stimulated by the rate cuts in the US. In any case, the recent aggressive cuts in the US will provide some scope for rate cuts in a number of Asian countries. In the past week, the Philippines cut its leading rate by 25bp to 5%, and in South Korea, India and Indonesia the expectation is that the next movement in rates will be down. Moreover, public finances in Asia (with the important exception of India) are generally good, so there would be room for fiscal easing. Both South Korea and Indonesia are, in fact, already planning to ease fiscal policy in 2008.

Industrial production slowing in Japan



Key events of the week ahead

- Focus in Japan in the coming week will mainly be on machinery orders for December, which will provide some hint of developments in business investments and exports.
- PMI indicators for industry in China will be released over the coming weeks.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Wed 06	6:00	JPY	Leading Economic Index, preliminary	%	Dec		*40.0*	18.2
Thu 07	7:00	JPY	Machine tool orders, preliminary	y/y	Jan			3.7%
Fri 08	0:50	JPY	Machine orders	m/m	Dec		*-0.9%*	-2.8%
Fri 08	0:50	JPY	Money supply M2+CD	y/y	Jan		*2.1%*	2.1%
Fri 08	6:00	JPY	Eco Watchers survey: current	Index	Jan		*35.5*	36.6
Fri 08	6:00	JPY	Eco Watchers survey: outlook	Index	Jan			37.0

Foreign exchange

Teis Knuthsen, Chief Analyst, +45 45 12 84 95, tekn@danskebank.dk

L, U or V?

While January has generally been characterised by extreme movements on the financial markets, the most liquid currency crosses have remained relatively stable. The movement that has occurred is, meanwhile, consistent with what could be expected given a combination of a global slowdown and a financial crisis. Among the 10 largest currencies, USD and NOK have performed the worst, falling around 1.5% against EUR. Not surprisingly, the top two performers have been JPY and CHF, which have risen around 2.5%. EUR/AUD, which is normally notoriously sensitive to fluctuations in the economy, has remained largely unchanged over the month. Casting a wider glance towards the emerging markets, fluctuations have been a little greater, with the two weakest performers, ZAR and ISK, falling approximately 6% against EUR. While one might argue about the scale of these movements, the direction is hardly surprising.

We have received a number of questions about how the volatility of recent weeks affects our FX forecasts. Basically, we see no reason for any major changes. We have had three main messages of late (see, e.g., *FX Forecast Update*, 7 January, 2008): **First, we have expected a further fall in USD**. This remains our view, and data out of the US in the past month have simply increased our fears of a severe slowdown in the US economy. **Second, we have expected JPY to strengthen**. Movements in both USD/JPY and EUR/JPY in January have reinforced our belief that this trend can continue. Third, we believe that **the combination of an economic slowdown and a financial crisis indicates rising risk aversion and volatility**. We believe these drivers still have some steam left and would generally advise a cautious approach to risk. The final point is the reason for our expectation of further CHF strengthening against EUR and DKK. Hence, our basic view on the markets has not changed much in recent weeks.

While the markets have been driven by negative news and fear in January, there may be a temporary respite in February. We have deliberately underlined “temporary”, as we expect the respite to be a short-lived phenomenon. A correction could pull USD/JPY up towards 110, but would also probably send EUR/NOK below 8.0 again. Sterling has emerged stronger from the unrest of the past two weeks, but this is most likely mainly due to expectations on Euroland, in particular, being reduced. Therefore, going forward, it is likely that EUR/GBP will again rise towards 0.76 and GBP/DKK will head down towards 9.80. We still expect that EUR/USD will go above 1.50.

Looking further ahead, the critical issue is whether one believes in an **L** (down and sideways without an upswing), **U** (lengthy downturn) or **V** (fast down, fast up) scenario for the global economy. Most market participants appear to expect an upswing – both in the US and globally – around the middle of the year. If this pans out, one should soon position for rising yields and equities, a stronger USD and generally positive carry in the FX market. However, we still view it as too early to place these bets, and anticipate a further fall in expectations for the global economy over the spring. Our concerns are perhaps best expressed in our forecast that the Fed will cut US interest rates all the way down to 2%. We will publish new FX forecasts on Monday 4 February.

Fixed Income

Jesper Fischer-Nielsen, Senior Analyst, +45 45 12 85 18, jfis@danskebank.dk
Peter Lildholdt, Senior Analyst, +45 45 12 85 16, lild@danskebank.dk

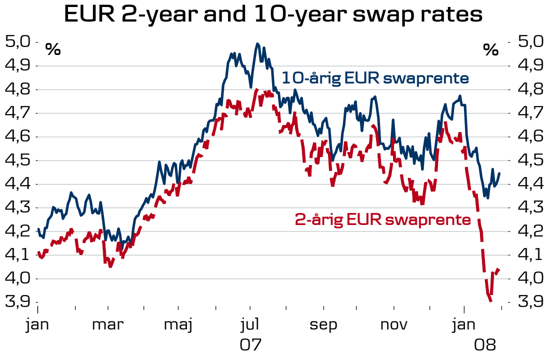
Equity market in the driving seat

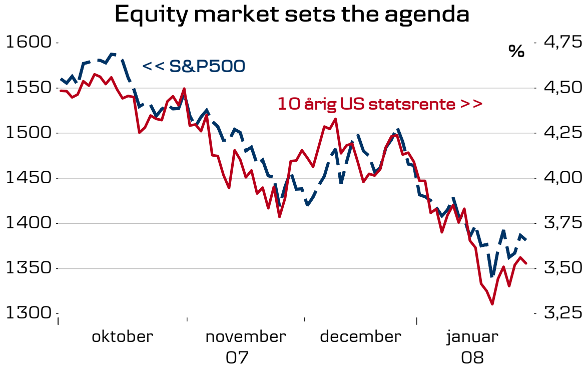
Risk appetite and equity markets have been setting the agenda for fixed income markets, and this trend will likely continue in the coming week. Monolines – bond insurers – have come under the spotlight in recent weeks, and news from this quarter could quickly become the focus of market attention. For a description of monolines, why they are being hit at the moment, and why they are so important for other financial markets, see our note *Credit Strategy Update: Monoline Bond insurers – What now?*

The week ahead is rather quiet when it comes to US economic data, though the weekly new jobless claims data and total registered unemployment could be interesting. After some surprisingly low numbers in recent weeks, the latest figures showed a sharp increase in the number of jobless, which further fuelled the already considerable fears in the market of a US recession. Another high number that would lend credence to the picture of a deteriorating labour market would presumably cause yields to fall further.

Otherwise, the coming week will be dominated by the ECB meeting on Thursday. The general consensus is that the ECB will not change rates at this meeting, so focus will instead be on the press meeting afterwards. The US central bank has cut its key interest rate by 125bp since the last ECB meeting at the start of January, and the money market now expects 2-3 rate cuts from the ECB in the coming year. However, there has not been much news on the economic data front for the ECB. Confidence indicators are slowly ticking down, but remain healthy, inflation is far above target and consumption is suffering. Meanwhile, the wage negotiations that the ECB is currently following closely are as yet unsettled.

We doubt the ECB will open the door to anything at all at the upcoming meeting. The tone will remain hawkish, in line with what was said in January – any softening of ECB rhetoric will only come once the wage negotiations have been concluded. However, the financial markets will doubtless be going through ECB statements with a fine-toothed comb to find even the slightest hint of softening. In our view, this scrutiny will prove fruitless. Any signs of an economic slowdown would have to be much more apparent in the data before the ECB would consider a softer approach. We do not expect this to happen until the summer, and have settled on the September meeting as the one that will produce the first interest rate cut from the ECB in this cycle.





Commodities

Arne Lohmann Rasmussen, Senior Analyst, +45 45128532, arne.lohmann@danskebank.dk

No helping hand for the global economy from OPEC

OPEC met in Vienna on 1 February. Despite calls from President Bush, among others, to increase oil production, the oil cartel elected to keep the production quota unchanged for its 10 members at 29,673 million barrels a day. Angola and Iraq have no quotas.

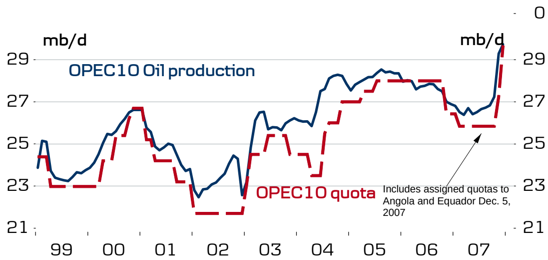
The OPEC action once again underlines the gulf there is between OPEC on the one side and, for example, the oil consumers' organisation, the International Energy Agency (IEA), on the other. OPEC harbours – at least on the surface – a deep fear that the global economy is heading for a major slowdown, which is a view the IEA definitely does not share. The IEA continues to foresee strong demand for oil in 2008, primarily due to further Emerging Market demand.

OPEC's decision was, as such, not that surprising, given OPEC's announcements in recent weeks. But it once again highlights that OPEC's job is not to save the global economy. Basically, OPEC is of the view that it is better to limit production and keep prices up, even though this increases the risk of a downturn in the global economy and thus ultimately in the demand for oil.

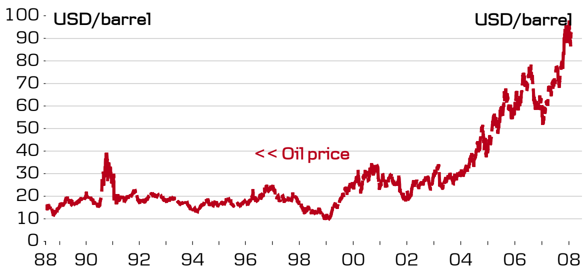
We have long argued that an oil price above $100 a barrel is not sustainable. Our forecast indicates an oil price around the current levels for Q1 08 and around $80 a barrel in Q2 08. However, we are beginning to fear that OPEC may become even more aggressive in the coming months in order to avoid a further fall in prices in Q2, when demand traditionally falls. The risk is therefore that oil inventories will continue to decline in the coming months due to still-strong demand in Emerging Markets and overly low OPEC production. In other words, our forecasts, which indicate prices falling by around $10 from the current levels over the summer, may be far too pessimistic. In reality, record prices may be on the way – not least when optimism returns to the financial markets.

If the substantial stimulation applied to the US economy of late actually works, OPEC could very well be wrong-footed – just as it was in early 2004, when the cartel failed to foresee the heavy demand from China that year and kept production far too low.

OPEC keeps production quotas unchanged



OPEC supporting oil prices



Equities

Morten Kongshaug, Chief Analyst, +45 45 12 80 57, mokon@danskebank.dk

No “quick fix” from Fed

Fed is facing headwinds in its attempt to gain confidence in the financial markets and on Wall Street. Our view is that it takes time and that stocks need to move closer to the US activity trough in household consumption and housing before they will start the typical rally that follows a recession-like sell-off experienced in January 08. This makes the stock market very data dependent both on a macro and a micro level. We reiterate our view that S&P500 at 1350 is a fair price in three months. Our year-end target is 1500!

Fed action is one of the pillars to secure a market recovery in the coming months, but Fed will have to struggle to re-gain the confidence of the financial markets. In our view the headwind that Fed is facing has three legs: **a)** Fed’s policy easing continues to be seen as a sign of economic and systemic crisis which, for a period, means a higher ex-ante equity risk premium (ERP), **b)** A US banking system, which is currently tightening credit conditions on, e.g., prime housing loans in a way not seen since the 90-91 recession. **c)** Time. It takes time for the rate cuts to work, and the financial markets need to see some results before confidence is re-gained.

In this Fed easing cycle, it is not only normal short to medium-termed business cycle risks (including a standard V-shaped recession) that drive the central bank. Fears of a banking system collapse (and hence a long-term crisis period for the US economy – the L shape) is a reason behind Fed’s very aggressive moves in recent days when Fed, in total, cut its key rate by an unusual 1.25%. The stock-to-bond price relationship has since 2002-2003 been discounting that lower bond yields in an already low yield environment indicate something unusual, which is not only explained by the strength of the business cycle. In periods since 2003 when 10 year governments in, eg, the Eurozone have moved lower, stocks have reacted negatively. Currently, our bond traders say that fixed income rates are trading ‘on the back of stocks’. In our view this describes very well why the Fed’s rate cut is not a clear market positive. Fed’s policy takes time to work for the economy and for the market. We will simply have to await signs that Fed’s policy move is working.

In our view, the negative two-year bond-to-stock price correlation is a clear indication that investors are seeing a higher risk of a systemic factor like, eg, the *deflation scare* in 2003 when bond yields went to unusually low levels. A systemic risk factor is now again at play, this time the risk of a US banking collapse, which, although we have a hard time believing in it, is making it difficult for central bank policy to have an immediate impact on the stock market. The stock market needs confirmation that the systemic risk has again been diminished before Fed’s policy is likely to be a real positive market driver. Micro news that confirms good health of the US financial sector or macro news that confirms better health of the US housing market are in this connection key events..

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	2007	1,9	2,1	1,7	5,1	-0,1	3,1	4,2	1,7	3,5	4,4	25	1,2
	2008	1,7	1,7	2,0	2,5	-0,1	4,3	4,5	1,7	3,3	3,8	20	1,1
	2009	1,3	1,6	1,8	2,4	0,0	4,1	4,9	1,9	3,7	3,2	16	0,8
Sweden	2007	3,0	3,1	0,5	8,0	0,8	5,7	8,9	2,2	6,2	2,3	43,8	6,5
	2008	1,9	2,0	0,9	-0,9	-1,2	3,7	-0,4	2,6	7,1	2,3	41,1	7,7
	2009	2,4	1,7	1,4	-2,9	-0,4	5,1	1,3	1,1	7,9	1,7	39,4	9,0
Norway	2007	3,7	6,2	3,2	6,9	-0,4	2,7	6,2	1,0	2,7	12,0	26	17,5
	2008	3,9	4,3	3,1	5,7	0,8	1,6	4,3	2,4	2,6	13,9	24	20,2
	2009	3,2	4,2	3,0	3,6	0,8	1,0	5,3	2,5	2,5	15,0	20	18,1

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	2007	2,6	1,5	2,0	4,7	-0,1	6,5	5,7	2,1	7,4	-0,8	67	-0,8
	2008	1,6	1,4	2,0	2,5	-0,1	4,0	4,0	2,5	7,0	-0,8	65	-0,3
	2009	1,8	1,7	1,9	2,0	0,1	5,5	5,0	2,0	6,8	-0,8	64	-0,5
Germany	2007	2,7	-0,1	1,8	5,5	-0,1	9,0	6,0	2,2	9,1	-0,5	65	5,8
	2008	1,8	0,8	1,5	2,5	0,0	6,0	4,0	1,6	8,3	0,2	64	5,8
	2009	1,7	1,3	1,5	2,0	0,0	6,5	4,0	1,5	8,0	0,4	64	6,0
France	2007	1,9	2,0	1,9	4,0	-0,2	4,0	7,1	1,3	8,0	-2,3	63	-2,3
	2008	1,8	1,8	1,7	3,0	0,0	4,0	4,7	1,5	7,7	-2,2	62	-2,3
	2009	1,8	2,0	1,7	2,5	0,0	4,0	4,0	1,5	7,5	-2,3	61	-2,3
Italy	2007	1,8	1,8	0,7	2,7	0,0	3,0	2,3	1,9	5,9	-2,6	105	-1,7
	2008	1,2	1,1	1,3	1,7	0,0	2,0	3,0	2,0	5,7	-2,0	103	-1,7
	2009	1,2	1,1	1,2	1,7	0,0	2,0	2,5	1,9	5,7	-2,2	102	-1,7
Spain	2007	3,9	3,5	5,2	6,3	-0,4	6,0	7,3	2,7	8,0	1,5	37	-9,0
	2008	2,9	2,5	4,0	4,5	0,0	4,5	5,0	2,9	8,2	1,0	35	-9,5
	2009	2,7	2,0	3,5	3,0	0,0	4,0	4,0	2,3	8,8	0,0	35	-9,0
Holland	2007	3,0	1,9	3,1	4,7	-0,1	6,5	6,0	1,7	3,3	0,0	60	7,0
	2008	2,4	1,9	1,4	4,0	-0,1	5,5	5,5	2,0	2,9	0,0	59	6,5
	2009	2,2	2,0	0,8	3,3	0,0	5,0	5,5	1,8	2,8	0,0	60	6,5
Finland	2007	4,2	3,0	1,4	4,6	0,3	9,0	4,0	2,5	6,6	4,0	38	6,0
	2008	3,0	2,5	1,6	3,3	0,0	6,0	5,5	2,6	6,3	4,4	37	6,0
	2009	2,7	2,3	1,8	2,5	0,0	5,0	4,0	2,0	6,1	4,2	36	6,0

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	2007	2,2	2,9	2,1	-1,8	-0,3	7,9	2,0	2,9	4,6	-1,2	60	-5,6
	2008	1,8	1,8	2,5	-2,9	-0,1	8,5	1,7	3,1	5,1	-2,6	60	-4,3
	2009	2,4	2,2	2,0	1,6	0,1	6,7	3,7	2,3	5,4	-1,5	59	-4,2
Japan	2007	1,7	1,6	0,8	-3,1	-0,1	7,4	2,4	0,1	3,8	-2,7	179	5,0
	2008	1,6	1,5	0,9	3,0	-0,1	5,5	4,2	0,4	3,6	-3,0	178	5,0
	2009	2,1	1,9	1,2	3,4	0,0	5,7	5,3	0,7	3,3	-2,7	178	4,8
UK	2007	3,0	3,1	1,9	5,5	0,3	-4,0	-2,0	2,8	3,0	-2,5	43	-3,3
	2008	2,2	2,1	2,1	2,0	0,0	6,0	5,0	3,0	3,2	-2,5	43	-4,1
	2009	2,3	2,1	2,1	3,0	0,0	5,0	5,0	2,3	3,3	-2,5	43	-4,0
Switzer-land	2007	2,7	1,9	-0,5	3,8	0,1	10,1	9,8	1,1	3,3	-0,2	55	16,0
	2008	2,4	2,3	0,1	2,7	0,0	7,5	6,6	0,5	2,7	0,0	54	16,5
	2009	1,9	1,9	0,0	3,3	0,0	4,7	4,5	1,1	2,5	0,0	53	17,0

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	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	01-feb	3,00	2,81	4,23	148,8	-	500,9
	+3m	2,50	3,40	4,45	152	-	491
	+6m	2,00	3,15	4,30	150	-	497
	+12m	2,00	3,75	4,70	140	-	533
EUR	01-feb	4,00	3,95	4,37	-	148,8	745,3
	+3m	4,00	4,30	4,50	-	152	746,0
	+6m	4,00	4,15	4,45	-	150	746,0
	+12m	3,50	3,95	4,40	-	140	746,0
JPY	01-feb	0,50	0,83	1,61	158,3	106,4	4,71
	+3m	0,50	0,95	1,65	160	105	4,66
	+6m	0,50	1,00	1,70	150	100	4,97
	+12m	0,75	1,35	1,90	147	105	5,07
GBP	01-feb	5,50	4,94	4,98	74,8	199,1	997,0
	+3m	5,00	4,90	4,90	75,5	201	988
	+6m	4,75	4,90	4,75	74,0	209	1008
	+12m	4,50	4,90	4,80	72,0	201	1036
CHF	01-feb	2,75	2,53	3,24	160,6	107,9	464,1
	+3m	2,75	2,80	3,20	163	107	458
	+6m	2,75	2,70	3,20	162	108	460
	+12m	2,50	2,60	3,15	160	114	466
DKK	01-feb	4,25	4,16	4,49	745,3	500,9	-
	+3m	4,25	4,50	4,65	746,0	491	-
	+6m	4,25	4,35	4,60	746,0	497	-
	+12m	3,75	4,20	4,55	746,0	533	-
SEK	01-feb	4,00	4,16	4,56	946,7	636,2	78,7
	+3m	4,00	4,30	4,60	935	615	79,8
	+6m	4,00	4,00	4,45	930	620	80,2
	+12m	3,50	4,30	4,60	940	671	79,4
NOK	01-feb	5,25	5,40	5,25	802,9	539,6	92,8
	+3m	5,50	5,50	5,60	780	513	95,6
	+6m	5,50	5,50	5,60	775	517	96,3
	+12m	5,50	5,25	5,60	775	554	96,3
PLN	01-feb	5,25	3,27	5,62	359,8	241,8	207,2
	+3m	5,00	6,20	5,60	370	243	202
	+6m	5,25	5,90	5,75	370	247	202
	+12m	5,50	7,05	6,85	370	264	202

Equity markets

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

Key data and events

Monday, February 4, 2008				Period	Danske Bank	Consensus	Previous
9:00	NOK	PMI	Index	Jan	**52.6**	*53.9*	54.4
10:30	GBP	PMI Contruction	Index	Jan			56.0
16:00	USD	Factory Orders	m/m	Dec		*2.1%*	1.5%
17:20	USD	Fed's Kroszner (voter, neutral) speaks on mortgage regulation					
22:45	NZD	Private Wages ex Overtime	q/q	4th quarter		*0.8%*	0.9%

Tuesday, February 5, 2008				Period	Danske Bank	Consensus	Previous
-	RUB	CPI	m/m	Jan	**2.3%**		1.1%
1:30	AUD	Retail sales	m/m	Dec		*0.6%*	0.8%
4:30	AUD	Reserve Bank of Australia (cash rate target decision)		Feb	**7.00%**	*7.00%*	6.75%
10:00	EUR	Euroland Service PMI, final	Index	Jan		*52.0*	52.0
10:30	GBP	PMI services	Index	Jan		*52.0*	52.4
11:00	EUR	Retail sales	m/m|y/y	Dec		*0.3%|-0.6%*	-0.5%|-1.4%
16:00	USD	ISM (NAPM) non-manufacturing	Index	Jan	**52.2**	*52.5*	53.2
18:15	USD	Fed's Lacker (non-voter, hawk) speaks on the economy					

Wednesday, February 6, 2008				Period	Danske Bank	Consensus	Previous
1:01	GBP	Nationwide Consumer Confidence	Index	Jan			85
6:00	JPY	Leading Economic Index, preliminary	%	Dec		*40.0*	18.2
9:30	DKK	Industrial production sa ex ships	m/m	Dec	**0.5%**		-2.9%
14:30	USD	Unit labour cost (preliminary)	q/q AR|y/y	4th quarter	**2.1%|1.0%**	*3.1%|..*	-2.0%|3.0%
16:00	USD	Fed's Lacker (non-voter, hawk) speaks					
16:30	GBP	Leading Indicator Index		Dec			-0.3%
16:30	GBP	Coincident indicator index	m/m	Jan			0.2%
18:30	USD	Fed's Kroszner (voter, neutral) speaks on motgage regulation					
19:40	USD	Fed's Plosser (voter, hawk) speaks on the economy					
22:45	NZD	Unemployment rate		4th quarter		*3.6%*	3.5%

Thursday, February 7, 2008				Period	Danske Bank	Consensus	Previous
7:00	JPY	Machine tool orders, preliminary	y/y	Jan			3.7%
7:45	CHF	Unemployment	%	Jan		*2.8*	2.8
8:00	EEK	CPI	m/m|y/y	Jan	**1.3%|10.0%**		0.7%|9.6%
8:45	FRF	Trade Balance	EUR bn.	Dec		*-4.2*	-4.8
9:30	SEK	Budget balance	SEK bn.	Jan			-84.8
10:00	NOK	Industrial production, nsa	y/y	Dec			
10:00	NOK	Manufacturing Production, nsa.	m/m	Dec	**0.6%**	*0.6%*	-1.2%
10:30	GBP	Industrial Production	m/m|y/y	Dec		*0.2%|1.0%*	-0.1%|0.4%
10:30	GBP	Manufacturing production	m/m|y/y	Dec		*0.1%|0.3%*	-0.1%|0.1%
12:00	DEM	Factory orders	m/m|y/y	Dec		*-2.0%|11.1%*	3.4%|13.6%
13:00	GBP	BoE rate announcement	%		**5.25**	*5.25*	5.50
13:45	EUR	ECB Meeting - rate announcement	%		**4.0**	*4.0*	4.0
14:30	USD	Fed's Lockhart (non-voter, neutral) speaks					
14:30	USD	Initial jobless claims	1000				375
16:00	USD	Pending home sales	m/m	Dec		*-1.0%*	-2.6%
19:00	USD	Fed's Fisher (voter, neutral) speaks on economic stability					
21:00	USD	Consumer credit	bn. USD	Dec		*7.2*	15.4

Friday, February 8, 2008				Period	Danske Bank	Consensus	Previous
0:50	JPY	Machine orders	m/m	Dec		*-0.9%*	-2.8%
0:50	JPY	Money supply M2+CD	y/y	Jan		*2.1%*	2.1%
1:01	GBP	NIESR GDP Estimate	%	Jan			0.5
6:00	JPY	Eco Watchers survey: current	Index	Jan		*35.5*	36.6
6:00	JPY	Eco Watchers survey: outlook	Index	Jan			37.0
6:25	USD	Fed's Yellen (non-voter, dove) speaks on the economy					
7:45	CHF	CPI	m/m|y/y	Jan		*-0.5%|2.2%*	0.2%|2.0%
8:00	DEM	Trade balance	EUR bn	Dec		*16.8*	19.3
9:30	DKK	Trade Balance	DKK bn	Dec	**3.0**		1.7
9:30	DKK	Current Account	DKK bn.	Dec	**1.0**		1.7
9:30	SEK	Industrial production	m/m|y/y	Dec		*0.2%|0.8%*	2.3%|4.2%
9:30	SEK	Industrial orders	m/m|y/y	Dec			0.1%|0.3%
12:00	LVL	CPI	m/m|y/y	Jan	**2.0%|14.8%**		0.7%|14.1%
12:00	DEM	Industrial production	mm/|y/y	Dec		*1.0%|4.1%*	-0.9%|3.5%
13:00	CAD	Unemployment rate		Jan		*5.9%*	5.9%
19:00	USD	Fed's Lockhart (non-voter, neutral) speaks on the financial markets and the economy					

During the week				Period	Danske Bank	Consensus	Previous

The editors do not guarantee the accurateness of figures, hours or dates stated above
For furher information, call +45 45 12 85 22.

This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority.

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high quality research based on research objectivity and independence. These procedures are documented in the Danske Bank Research Policy. Employees within the Danske Bank Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and to the Compliance Officer. Danske Bank Research departments are organised independently from and do not report to other Danske Bank business areas. Research analysts are remunerated in part based on the over-all profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or dept capital transactions.

Danske Bank research reports are prepared in accordance with the Danish Society of Investment Professionals' Ethical rules and the Recommendations of the Danish Securities Dealers Association.

Financial models and/or methodology used in this report
Calculations and presentations in this report are based on standard econometric tools and methodology as well as publicly available statistics for each individual country. Documentation can be obtained from the above named authors upon request.

Risk warning
Major risks connected with recommendations or opinions in this report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

First date of publication
Please see the front page of this research report.

Disclaimer
This publication has been prepared by Danske Bank for information purposes only. It is not an offer or solicitation of any offer to purchase or sell any financial instrument. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Danske Bank, its affiliates or staff, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives), of any issuer mentioned herein. Danske Bank's research ana-lysts are not permitted to invest in securities under coverage in their research sector.

This publication is not intended for private customers in the UK or any person in the US. Danske Bank A/S is regulated by the FSA for the conduct of designated investment business in the UK and is a member of the London Stock Exchange.

Copyright (©) Danske Bank A/S. All rights reserved. This publication is protected by copyright and may not be reproduced in whole or in part without permission.