Weekly Focus

8-15 August 2008

Focus shifting back to growth

European bond markets have been remarkable this year as focus has shifted back and forth between financial crisis/weak growth and inflation. In the first quarter, focus was entirely on the acceleration in the financial crisis. The Fed was cutting rates aggressively and by the end of the first quarter the European market was pricing in 100bp of rate cuts from the ECB within a year.

In the second quarter, things swung dramatically the other way. Financial markets calmed while oil prices rose substantially. This shifted focus 180 degrees onto inflation, which suddenly became the main worry and prompted the ECB to announce a July hike. Within three months, the market went from pricing 100bp of cuts to 100bp of hikes within the next year.

Now we are in the third quarter, and the pendulum is shifting back toward a focus on growth. Oil and other commodity prices have retreated, dampening inflation worries. At the same time, the data in Euroland have weakened substantially – most notably in Germany, where indicators now suggest the economy could be on the brink of recession. This is what sparked the sudden shift in ECB rhetoric at the meeting on Thursday, when it softened its assessment of the growth outlook. The market, meanwhile, is now again pricing in a rate cut next year, and going forward we expect market focus to remain on the weak growth situation. In our view, rising unemployment and more soft surveys will result in the market pricing in more rate cuts – and hence bond yields should fall further and the yield curve should steepen again. This will be reflected in our revised yield forecast next week.

Market pricing of ECB change over 1 year

German bond yields heading down again

Euro 2-10 curve should steepen further

Editor in Chief: Chief Economist Steen Bocian, + 45 45 12 85 31, stbo@danskebank.dk
Internet: www.danskebank.dk/danskeanalyse

Danske Bank

Denmark

Steen Bocian, Chief Economist, +45 45 12 85 31, stbo@danskebank.dk

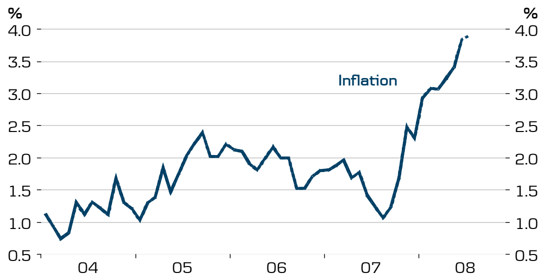
Inflation still rising, but pressure set to ease soon

Inflation has risen rapidly over the past year. Last August inflation was a very modest 1.1%, but soaring prices for food and energy, in particular, have since pushed inflation up sharply, with a June rate of 3.8%. In recent months, however, the tide has turned in the global commodities markets, and this could pave the way for much lower inflation in Denmark in a few months' time. Monday's inflation figures for July will nevertheless show a continued escalation in inflation – we forecast a rate of 3.9%. Petrol prices peaked at the beginning of July with a list price of almost DKK 12 for a litre of 95 unleaded, so commodities markets will still have been helping to pump up inflation.

Since the beginning of August, petrol prices have eased slightly to DKK 11.07 per litre. This is still high, of course, but the decrease in energy prices will continue to bring down inflation for a few months. Food prices are also falling on the world market, but here the feed-through to consumer prices is typically somewhat slower, so this is unlikely to have any appreciable impact on Danish inflation within the next few months. All in all, therefore, there is the prospect of lower Danish inflation, but it will take a little time for this to show up in the data. Just how far inflation falls will depend on how domestic wage and price pressures pans out.

Lower inflation is good news for the Danish economy, as it will provide scope for slightly stronger private consumption than we have seen over the past year, when consumption has come under considerable pressure. However, it is worth remembering that real wages have continued to grow despite spiralling inflation.

Inflation continues to climb



Key events of the week ahead

- Monday brings inflation figures for July. We forecast an increase to 3.9% y/y, but inflation is now close to peaking.
- Monday also sees figures for the trade balance and current account. Exports have been one of the few positive surprises in the Danish economy over the last six months, and it will be interesting to see the figures for June, as the slowdown in Europe is becoming more and more apparent, and this should show up in the Danish data.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 11	9:30	DKK	Trade Balance sa, ex ship	DKK bn	Jun	**3**	*2.8*	2.9
Mon 11	9:30	DKK	Current account	DKK bn	Jun	**4.2**	*3.8*	3.3
Mon 11	9:30	DKK	Industrial production sa, ex. Ships	m/m	Jun			-3.9%
Mon 11	9:30	DKK	CPI	m/m|y/y	Jul	**-0.3%|3.9%**	*-0.4%|4.0%*	0.3%|3.8%
Mon 11	9:30	DKK	HICP	m/m|y/y	Jul	**-0.3%|4.3%**	*-0.4%|4.3%*	0.4%|4.2%

Sweden

Roger Josefsson, Senior Economist, +46 8 568 805 58, roger.josefsson@danskebank.se

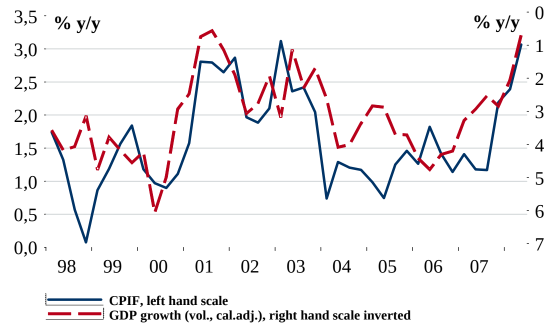
Stagflation misnomer

Let us first assert our view on what many commentators term “stagflation” or “stagflation light”: Sweden is not in, nor heading for, stagflation – neither the light, nor the wholegrain, nor any other version. What Sweden is currently experiencing are the effects of a slowdown under an established inflation targeting regime.

In other words, expectations of higher interest rates combined with a wish to preserve profits and incomes mean that economic activity decreases to the extent that input prices start to come under downward pressure and inflation – ultimately – retreats. The lags in this process mean that we are likely to see low growth and high inflation simultaneously (and vice versa). In the graph below we have plotted growth and inflation developments since the inflation targeting regime was established. With some slight exaggeration one could say that when inflation is at its peak, growth is at its nadir.

The vital assumption if the chain of events outlined above is to materialise is that the inflation targeting regime is credible. The Riksbank is apparently not entirely convinced that the inflation targeting regime is established, which is why it believes that economic agents will react as they once did (ie, as if there was no inflation target) – passing higher costs and wages on in a never-ending wage-inflation spiral. Such an environment paired with a stagnating economy is where “real” stagflation emerges. However, the remedy to such an ill is very simple – conclude academics and monetary policy makers drawing on the experiences of the (late) 1970s and early 1980s: Hike rates to root out inflation and excessive wage expectations. These are the fundamental arguments used by the majority of the Riksbank executive board. The dichotomy between the majority and the minority is indeed of a fundamental character. We do not believe that the low GDP outcome outweighs the high inflation outcome (and inflation expectations). The majority want proof that their stagflation fears are not justified – inflation and inflation expectations need to come down before they have a change of heart. This will not be the case in September – so a hike is probable.

A strange combo



Key events of the week ahead

- Industrial data, activity index and the National Labour Market Board’s unemployment rate are not key data, especially as Q2 GDP numbers are already out.
- Outcomes that seem considerably out of line with the GDP data might, however, attract some interest, since they could suggest revisions to the next announcement of Q2 GDP (12 September).

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 12	10:00	SEK	Nat. labour market board, Unemployment	%	Jul	**3.0**	*3.0*	2.8
Thu 14	9:30	SEK	Industrial production	m/m|y/y	Jun		*-0.7%|-1.1%*	-1.0%|-5.0%
Fri 15	9:30	SEK	Activity index	Index	Jun			123.6

Norway

Arne Lohmann Rasmussen, Senior Analyst, +45 45 12 85 32, arne.lohmann@danskebank.dk

Higher inflation, but balanced message from Norges Bank

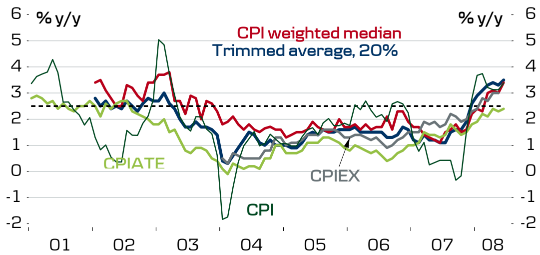
We are entering a very exciting week in the Norwegian market, with inflation figures on August 11 and a monetary policy decision on August13. As regards the CPI numbers on Monday, we expect that underlying inflation, CPIATE, will jump from 2.4% to 2.6%. Risk is skewed to the upside, however, and an outcome of 2.7% or even higher is also a clear possibility.

The main culprit behind higher inflation is an expected jump in food prices in July. Norwegian food prices are largely determined by the price agreement between Norwegian farmers and the government (jorbruksopgjøret). The latest agreement resulted in a significant price hike in wholesale food prices that came into effect on July 1st. This is why we expect that food and beverage prices jumped 2% m/m in July. The increase will add 0.2 percentage points to core inflation. However, a bigger price hike certainly cannot be ruled out, as imported wholesale prices have surged and retailers' costs are on the rise. Another uncertainty is airline fares. Due to a new method of measuring airline fares that was launched in May 2007, monthly volatility has been very high. After dropping 23% m/m in May, prices rose 26% m/m in June, first cutting then boosting inflation by approx 0.2 percentage points. We have assumed stable prices in July, but possible fuel surcharges and the summer season mean the risk is also on the upside here. Finally, clothing and shoe prices are expected to drop 7% m/m due to sales, but this component is very difficult to forecast. Rents might also rise more than expected.

Total CPI is expected to rise from 3.4% to 4%, mainly due to higher electricity prices. Statistics Norway will publish the CPIATE and headline CPI numbers at 10.00 CET, but remember that Norges Bank will publish the two new alternative inflation indicators, CPI trimmed mean and CPI weighted median, at 10.30 CET. These latter two indicators have played an increasing role in the conduct of monetary policy in Norway in the past 12 months. The alternative measures are expected to rise to 3.9% from 3.5%, and to 3.7% from 3.4% for the CPI trimmed mean and the CPI weighted median, respectively.

There is also a monetary policy meeting at Norges Bank in the coming week. Anything but unchanged rates given the strategy outlook in the latest monetary policy outlook would be a surprise. Hence, most of the focus will be on the accompanying press release. Basically, we are confident that Norges bank will continue to stress the upside risk to inflation as its main concern. However, we have to admit that a "dovish" message similar to the one from the ECB this week cannot be completely ruled out. Even though the market is already pricing a "dovish" Norges Bank, an even softer interpretation of the central bank by the market could be the result. Since the last monetary policy meeting we have seen commodity prices dropping, weaker growth indicators for the global economy and significantly reduced rate hike expectations abroad. The tone from Norges Bank will, of course, be dependent on the July inflation numbers on Monday.

Inflation indicators to jump further in July



Key events of the week ahead

- Norwegian underlying inflation, CPIATE, to jump from 2.4% to 2.6%, fuelled by higher food prices.
- Headline inflation to hit at least 4%. Other indicators of inflation will also rise strongly.
- Norges Bank widely expected to keep rates on hold. All focus on the accompanying press release.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 11	10:00	NOK	Consumer prices	m/m|y/y	Jul	**0.4%|4.0%**	*0.2%|4.0%*	0.2%|3.4%
Mon 11	10:00	NOK	Core inflation(CPI-ATE)	m/m|y/y	Jul	**-0.1%|2.6%**	*-0.1%|2.6%*	0.0%|2.4%
Mon 11	10:00	NOK	Producer prices, incl oil	m/m|y/y	Jul			4.8%|29.3%
Wed 13	10:00	NOK	Retail sales, s.a.	m/m|y/y	Jun	**0.5%|1.5%**	*0.0%|0.8%*	1.2%|6.1%
Wed 13	14:00	NOK	Norges Banks monetary policy meeting	%		**5.75**	*5.75*	5.75
Fri 15	10:00	NOK	Trade balance	NOK bn	Jul		*38.5*	37.1

Euroland

Allan von Mehren, Chief Analyst, +45 45 12 80 55, alvo@danskebank.dk

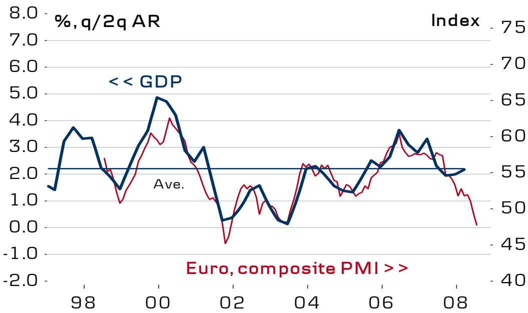
"Profit warning" from ECB

After the recent weakening of data it was a matter of *when* and not *if* the ECB would soften its assessment of the growth outlook. The ECB has until recently hung on to a quite rosy view of the Euroland economy – despite the massive headwinds piling up this year. But reality has finally caught up with ECB, and it decided to change its assessment of the economy at the rate meeting on Thursday. The ECB said that "downside risks to growth have materialised", which clearly points to a downward revision to the growth projection when it is published in connection with the September meeting.

So what tilted the bank? We believe the sudden shift in the German economy over recent months has been decisive. During the spring the German ifo survey held on to quite decent levels, and this underpinned the ECB's more positive view despite the weakening seen in many other countries, particularly Italy and Spain. Over the past few months the German ifo index has dropped significantly, and Germany has shifted from "last man standing" to "last man falling". The weakness in the ifo has been confirmed by hard data such as factory orders and industrial production. These developments show once again just how important an indicator the German ifo is for general sentiment on the Euroland economy – not least at the ECB.

The ECB will likely come under increasing pressure in the coming quarters, as growth appears set to continue to look soft and a new phase of the slowdown with rising unemployment will likely unfold. If commodity prices stay down, inflation should peak soon, and focus will return to growth. We continue to believe the ECB will stay sidelined, as it still sees medium-term price pressures from money expansion and globalisation. Nevertheless, the probability of rate cuts has increased. We expect the markets to price in 2-3 rate cuts (currently one cut is priced) over the coming months, and hence see scope for a further decline in bond yields. Next week, focus will be on Q2 GDP numbers, which will likely be weak. It has already been leaked that German GDP will fall around 1% q/q, and Italy (first to report) reported a decline of 0.3% q/q for Q2 on Friday.

Euroland GDP set for sharp weakening



Key events of the week ahead

- Thursday: German and Euroland GDP. Germany is expected at -1.0%, as indicated by leaks recently. After weak Italian GDP we see downside risks to Euroland as a whole.
- Thursday: Euroland inflation released. Final data which include core inflation. Headline expected in line with Flash at 4.1%. Core seen unchanged at 1.8%

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 11	8:45	FRF	Industrial production	m/m|y/y	Jun		*0.6%|0.5%*	1.4%|3.2%
Mon 11	10:00	ITL	HICP, final	m/m|y/y	Jul		*-0.5%|4.1%*	-0.5%|4.1%
Tue 12	8:45	FRF	CPI - EU Harmonised	m/m|y/y	Jul		*-0.2%|4.1%*	0.4%|4.0%
Wed 13	9:00	ESP	CPI - EU harmonised	m/m|y/y	Jul			0.6%|5.1%
Wed 13	11:00	EUR	Industrial production	m/m|y/y	Jun		*0.1%|0.4%*	-1.9%|-0.6%
Thu 14	8:00	DEM	GDP, preliminary	q/q|y/y	2nd quarter	**-0.9%|..**	*-0.8%|1.7%*	
Thu 14	8:30	FRF	Bank of France Business Sentiment	Index	Jul		*94*	95
Thu 14	8:45	FRF	GDP, preliminary	q/q|y/y	2nd quarter			0.1%|1.6%
Thu 14	9:00	ESP	GDP, preliminary	q/q|y/y	2nd quarter			0.3%|2.7%
Thu 14	10:00	EUR	ECB monthly report		Aug			
Thu 14	11:00	EUR	CPI, preliminary	m/m|y/y	Jul	**-0.1%|4.1%**	*-0.1%|4.1%*	0.4%|4.0%
Thu 14	11:00	EUR	GDP, preliminary	q/q|y/y	2nd quarter	**-0.3%|...**	*-0.2%|1.5%*	0.7%|2.1%
Thu 14	11:00	EUR	Core CPI	y/y	Jul	**1.8%**	*1.8%*	1.8%
Thu 14	16:00	DEM	Consumer prices, final	m/m|y/y	Jul		*0.6%|3.3%*	0.6%|3.3%
Thu 14	16:00	DEM	Consumer prices - EU harmonised, final	m/m|y/y	Jul		*0.6%|3.4%*	0.6%|3.4%

Switzerland

Kasper Kirkegaard, Analyst, +45 4543 7018, kaki@danskebank.dk
Niels Blomquist, Assistant Analyst, +45 4542 8157, niblo@danskebank.dk

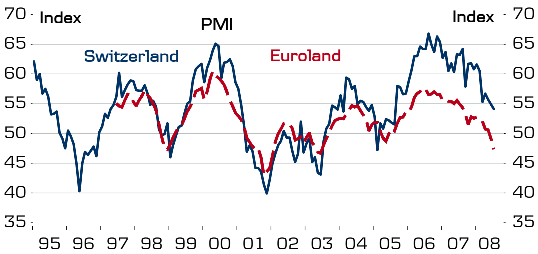
Swiss economy treading water

Monday brought us the PMI for July. The overall index confirmed our view of the Swiss economy, namely that a downturn is on its way. The index fell from 54.9 in June to 54.1 in July, its lowest level for three years, although the drop was not as steep as the market had anticipated. Looking ahead, there is reason to expect the index to approach the watershed level of 50. Switzerland is a small, open economy highly dependent on developments in the global – and in particular the European – economy. The European economy's current woes will inevitably impact negatively on Swiss growth. However, that being said, a PMI reading of 54.1 is a high reading in global terms and still points to economic expansion.

Friday saw the release of the Swiss employment report for July. There was little here of note – the labour market is still treading water. Unemployment is still relatively low at 2.5%, and the ratio of vacancies to unemployed – a forward-looking indicator – is still at its highest since 2003, which could indicate that there is still relatively robust demand for labour. However, a global – and domestic – slowdown will naturally exert upward pressure on Swiss unemployment.

There is little in the economic calendar in the coming week. Thursday brings consumer confidence data for July, and it will be interesting to see if these confirm the trend suggested by the latest figures for the KOF leading indicator, where the private consumption sector, in particular, pulled down the overall index.

PMI in Switzerland points downwards – but not as much as in Euroland



Key events of the week ahead

- SECO's consumer confidence survey for July will be released on Thursday.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Thu 14	7:45	CHF	SECO consumer climate	Net bal.	Jul		-6	2

UK

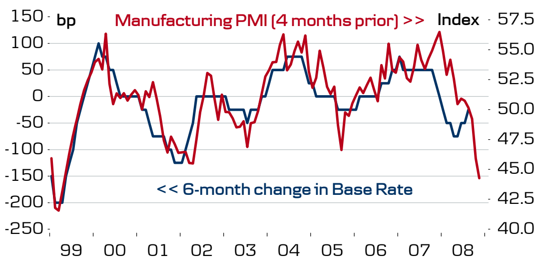
Allan von Mehren, Chief Analyst, +45 4512 80 55 , alvo@danskebank.dk
John Hydeskov, Senior FX Analyst, +45 4512 8497, johy@danskebank.dk

Inflation Report coming up – will Bank of England soften as well?

If BoE Governor Mervyn King had not already gone grey, the recent uncomfortably high inflation figures and worrying growth outlook would have done the trick. CPI inflation is expected to rise to 5%, and a flurry of gloomy economic data in recent months has highlighted that the UK economy is weakening on all fronts. The minutes from last month's BoE monetary policy meeting clearly showed how split the MPC is: Über-hawk Besley voted for a 25bp hike, super-dove Blanchflower opted for a 25bp cut, while the remaining seven members preferred to keep the base rate unchanged at 5.00%. Is there a possibility that some members might shift to the hawkish camp of Besley? The answer is, regrettably, 'yes'. Fighting inflation is the BoEs top priority – and a nationalised bank, a housing market recession and a sagging retail sector do not alter this mandate. Some members (perhaps Sentence or even the Governor himself) might be tempted to fire a 'warning-shot' à la ECB in July to demonstrate commitment and to avoid being mauled afterwards for not anchoring inflation expectations properly. The Governor, who is regarded as slightly hawkish, has previously put himself in the minority and will probably do so again if necessary. Opting for higher rates would, in our view, be a clear policy mistake.

Is there then any chance that Blanchflower could convince some members that the easing cycle needs to be resumed to counter a British recession? Hopefully, the answer is also 'yes' here. Energy prices are rapidly normalising, and deteriorating growth prospects are helping to curb inflationary pressures in the medium term. Some members (perhaps Gieve, who has previously joined Blanchflower, or the new chief economist Dale, who has US experiences fresh in his memory) may see the light and opt for a rate cut. The result, of course, could be an even deeper split in the MPC. Meanwhile, the next Inflation Report due on 13 August should provide a path for inflation given current rates in the market. It will also give a sense of how serious the BoE sees the economic picture at the moment. We agree with the current market pricing of BoE rate cuts of about 50bp over the next 12M. Thereafter, we expect the base rate to be lowered further in order to address real economic problems. As a result, we see the base rate being lowered to 4.00% by the end of 2009.

Weak economy points to rate cuts



Key events of the week ahead

- Tuesday: RICS house price survey will likely stay at a very weak level.
- Tuesday: CPI data will likely show a further rise – to 4.2% from 3.8% – due to base effects. It will be some time before inflation falls back.
- Wednesday: Inflation Report is the market mover of the week (see above)
- Wednesday: Unemployment numbers will likely show another increase of close to 20k

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Mon 11	10:30	GBP	PPI - Output	m/m|y/y	Jul		0.5%|10.3%	0.9%|10.0%
Mon 11	10:30	GBP	Trade balance	GBP bn	Jun		-4.200	-4.248
Tue 12	1:01	GBP	RICS House Price Balance	%	Jul		-87.0	-88.0
Tue 12	1:01	GBP	BRC Retail Sales Monitor		Jul			
Tue 12	10:30	GBP	CPI	m/m|y/y	Jul		-0.2%|4.2%	0.7%|3.8%
Wed 13	10:30	GBP	Jobless Claims, change	'000	Jul		17.0	15.5
Wed 13	10:30	GBP	Average Earnings, ex bouns	3Ms/YoY	Jun		3.7%	3.8%
Wed 13	11:30	GBP	Inflation report		2nd quarter			

USA

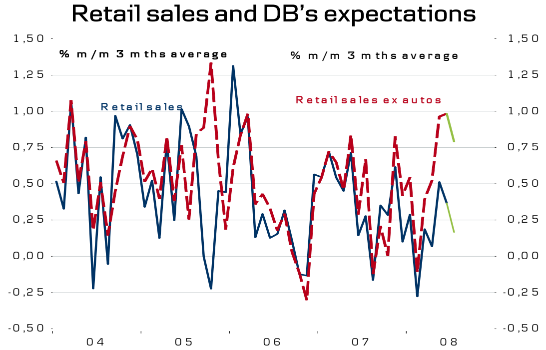
Signe Roed-Frederiksen, Senior Analyst, +45 45 12 82 29, sroe@danskebank.dk

Retail sales grinding to a halt

During the past week, the focus has mainly been on Tuesday's FOMC meeting of the US Federal Reserve, which did not, however, deliver any major surprises. In the statement accompanying the meeting, FOMC members expressed a balanced view on the downside risks to growth and upside risks to inflation. Given the continued fall in house prices, rising unemployment, financial market turbulence and the fall in commodity prices over the past two weeks, which will help to dampen inflation, we continue to believe that the Fed will stay on hold well into 2009 (*Flash Comment – FOMC: firmly on hold*).

The coming week will se the release of both inflation and growth data. The effects of the US tax rebates fed through to the economy faster than we had expected, so consumer spending is also likely to slow down earlier than anticipated. Wednesday's retail sales data for July will give us an idea of how the US consumer is doing. We expect retail sales to fall 0.4% on the month, mostly because car sales dropped significantly in July. If retail sales come out as expected, we doubt the USA will see positive real consumer spending growth in Q3. On the inflation front, we expect consumer prices to increase by 0.4% m/m. Core inflation (ex food and energy) has so far been moderate, showing very few signs of second-round effects, and we expect this trend to continue in July.

Retail sales and DB's expectations



Key events of the week ahead

- Wednesday: Look for a fall in retail sales in July, driven mainly by weak car sales.
- Thursday: Core inflation likely to remain moderate in July, at 0.2% m/m.
- Friday: Industrial production growth expected to slow to 0.1% m/m.
- Friday: We expect a modest rise to 61.8 in the University of Michigan consumer confidence index.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Tue 12	14:30	USD	Trade balance	USD bn	Jun		*-61.5*	-59.8
Tue 12	20:00	USD	Budget statement	USD bn	Jul		*-69.2*	-36.4
Wed 13	13:00	USD	MBA mortgage applications					
Wed 13	14:30	USD	Import prices	m/m|y/y	Jul		*1.0%|20.7%*	2.6%|20.5%
Wed 13	14:30	USD	Retail sales	m/m	Jul	**-0.4%**	*0.2%*	0.1%
Wed 13	14:30	USD	Retail sales less autos	m/m	Jul	**0.5%**	*0.6%*	0.8%
Thu 14	14:30	USD	CPI	m/m|y/y	Jul	**0.4%|5.1%**	*0.4%|5.2%*	1.1%|5.0%
Thu 14	14:30	USD	CPI ex. food & energy	m/m|y/y	Jul	**0.2%|2.4%**	*0.2%|2.4%*	0.3%|2.4%
Thu 14	14:30	USD	Initial jobless claims	1000				
Thu 14	20:30	USD	Fed's Stern (voter, hawk) speaks					
Fri 15	14:30	USD	Empire Manufacturing	Index	Aug		*-4.5*	-4.9
Fri 15	15:15	USD	Industrial production	m/m	Jul	**0.1%**	*0.0%*	0.5%
Fri 15	15:15	USD	Capacity utilization	%	Jul		*79.8*	79.9
Fri 15	16:00	USD	University of Michigan Confidence, preliminary	Index	Aug	**61.8**	*62.0*	61.2
Fri 15	18:30	USD	Fed's Evans (non-voter, neutral) speaks					

Asia

Flemming J. Nielsen, Senior Analyst, +45 45 12 85 35, flemm@danskebank.dk

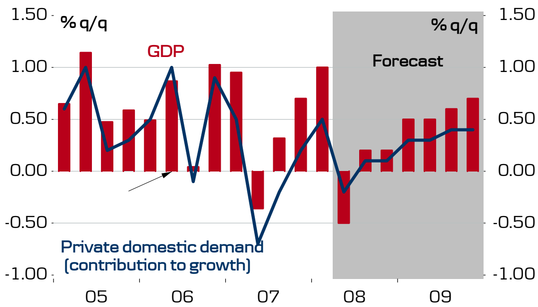
Sharp downturn in Japanese economy in Q2

Hogging the limelight in Japan in the coming week will be the GDP figures for Q2, which will undoubtedly confirm a sharp downturn in the economy. We reckon that GDP will fall 0.5% q/q, dragged down primarily by weaker private consumption and exports. We expect exports to fall 2.5% q/q at constant prices, with net exports reducing GDP growth by 0.4 percentage points. Private consumption will probably drop 0.5% q/q, lopping a good 0.2pp more off GDP growth. The only slight ray of sunshine we are counting on is investment, which we expect to increase slightly thanks to higher housing investment. The outlook for Q3 also looks weak, although the recent drop in oil prices means that private consumption could pick up a little. As investment will probably be weaker in Q3, a second quarter of negative growth can definitely not be ruled out. Our current forecast is positive growth of 0.2% q/q, but there is much to suggest that we may be forced to revise this down.

The Japanese government is also now starting to react to the weak economic data and is expected to table a stimulus package in the coming week. This will probably consist mainly of subsidies for the sectors hit hardest by higher oil prices, in particular transport and agriculture, and are hardly likely to have any great direct economic impact. Due to falling tax revenue, however, there is growing pressure on the government both to drop its target of getting the primary budget balance into the black in 2011 and to lift the JPY 30tr ceiling on bond issues. The Japanese cabinet was reshuffled during the week, and the focus is increasingly on possible elections to the lower house, which have to be held by September 2009.

With the Olympics getting under way, China will be very much in the spotlight in the week ahead. A wide range of data for June will also be released during the week. We expect consumer price inflation to again fall slightly, from 7.1% y/y in May to 6.8% y/y in June, confirming that Chinese inflation has peaked. A conviction that inflation has probably peaked has given the Chinese administration more scope to buoy growth, and there was effectively a slight easing of monetary policy during the week (see *Flash Comment – China: No need for more tightening*).

Sharp downturn in the Japanese economy



Key events of the week ahead

- Tuesday sees Chinese consumer price data for June, which are expected to show another slight drop in inflation.
- Wednesday brings Japanese GDP figures for Q2, which will confirm a substantial downturn in the economy (see above).
- The week will also see Chinese trade figures for June. The PMI suggests a slowdown in export growth.
- The Japanese government will probably announce a stimulus package during the week.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 11 - 14	-	CNY	Trade balance	USD bn	Jul		*20.25*	21.35
Mon 11 - 15	-	CNY	Actual FDI YTD	y/y	Jul			44.6%
Mon 11	4:00	CNY	PPI	y/y	Jul		*9.0*	8.8
Mon 11	8:00	JPY	Machine Tool Orders, preliminary	y/y	Jul			-2.5%
Tue 12	1:50	JPY	Domestic CGPI	m/m|y/y	Jul		*0.8%|5.7%*	0.8%|5.6%
Tue 12	4:00	CNY	CPI	y/y	Jul	**6.8%**	*6.5%*	7.1%
Tue 12	6:30	JPY	Industrial production, final	m/m|y/y	Jun			-2.0%|0.2%
Tue 12	7:00	JPY	Consumer confidence, households	Index	Jul		*32.0*	32.6
Wed 13 - 18	-	CNY	Money supply M2	y/y	Jul		*17.1%*	17.4%
Wed 13	1:50	JPY	Current Account Total	JPY bn	Jun		*490.2*	2000.6
Wed 13	1:50	JPY	Trade balance - BOP basis	JPY bn	Jun		*293.6*	529.4
Wed 13	1:50	JPY	GDP, preliminary	q/q|y/y	2nd quarter	**-0.5%|-2.2%**	*-0.6%|-2.3%*	1.0%|4.0%
Wed 13	1:50	JPY	GDP Deflator, preliminary	y/y	2nd quarter		*-1.5%*	-1.5%
Wed 13	4:00	CNY	Retail sales	y/y	Jul		*22.5%*	23.0%
Thu 14	1:50	JPY	Tertiary Industry Index	m/m	Jul		*-0.3%*	-0.2%
Thu 14	4:00	CNY	Industrial production	y/y	Jul		*16.0%*	16.0%
Fri 15	4:00	CNY	Fixed assets investments, Urban (YTD)	y/y	Jul		*26.6%*	26.8%
Sun 17 - 22	-	JPY	Nationwide dept. store sales	y/y	Jul			-7.6%

Foreign exchange

John Hydeskov, Senior Analyst, +45 45 12 84 97, johy@danskebank.dk

A central bank chief's unbearable lightness of being

Do we really have to wait until 2009 before a major central bank changes its rates? Probably yes, as the five largest central banks, the Fed, ECB, BoJ, BoE and BoC, all seem to be trapped between rising inflation on the back of high energy and commodity prices, and a real economic outlook that appears to be deteriorating faster than you can spell stagflation. Thus we expect that the key central bank chiefs will meet with the members of their respective monetary policy committees month after month just to decide that current interest rates are probably appropriate for ensuring that inflation expectations do not run amok and that the conditions for economic growth do not become too difficult. Truth be told, no-one knows – with any great degree of certainty – if the current level of interest rates is in fact appropriate, and nor are central banks shy about highlighting the substantial degree of uncertainty that surrounds the forecasts upon which their monetary decisions are based. Only time will tell whether interest rate levels are appropriate.

For any serious change in interest rates one needs to look down under. Australia and New Zealand, which at 7.25% and 8%, respectively, have the highest key rates in G10, are preparing for a period of declining interest rates. The reasons include a normalisation of commodity prices, which is a drag on these commodity-heavy economies, and generally poorer growth outlooks. Rate cuts will very probably be most pronounced in New Zealand, while it is not entirely sure that Australia will cut this year, although the RBA has begun to flag that this will be the direction going forward. The prospect of rate cuts has already lessened the attraction of carry trades, as the interest rate advantage of being positioned in AUD and NZD after borrowing in lower yielding currencies is now less.

The outlook in Sweden and Norway is still for tighter monetary policy, mainly due to increasing inflation. The somewhat surer bet is that Sweden's Riksbank will hike this year, probably as early as next month, though one cannot rule out Norges Bank hiking its already high level of interest rates before the end of the year. Even after a hike of 25bp to 4.75%, Sweden's key rate would still be a solid percentage point below the current Norwegian rate of 5.75%. A hike in Switzerland also seems plausible, indicating a commitment to anchoring inflation expectations.

Until clearer signals emerge on future monetary policy in G10, currency crosses may lack direction. Exchange rates can also be affected by other factors for shorter or longer periods, such as energy and commodity prices, peripheral economic data, stock markets or general risk appetite – and the result may well be widespread range trading in which the absence of trends is both noteworthy and at times frustrating. Nevertheless, opportunities still exist, though one should go for lower but more numerous profits with limited losses.

Fixed Income

Peter Possing Andersen, tel.: +45 4513 7019, pa@danskebank.dk,

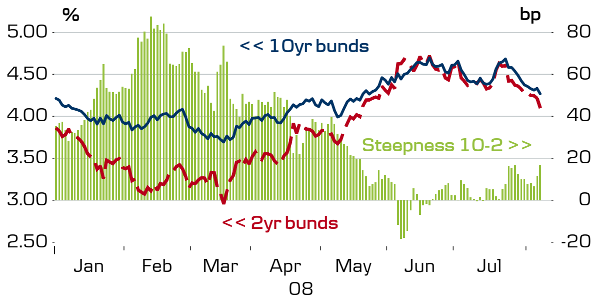
Weak data and falling commodity prices drive European yields lower

In Europe, the trend of falling yields and steeper curves continued over the past week. Thus 2-year yields have fallen by 16bp, while 10-year yields have fallen by 8bp since last Friday. The driving theme behind the decline in yields is still sliding commodity prices and weak economic data, which increasingly indicate a downturn in Europe. Over the summer this has led the market to seriously revise down its expectations of more rate hikes from the ECB.

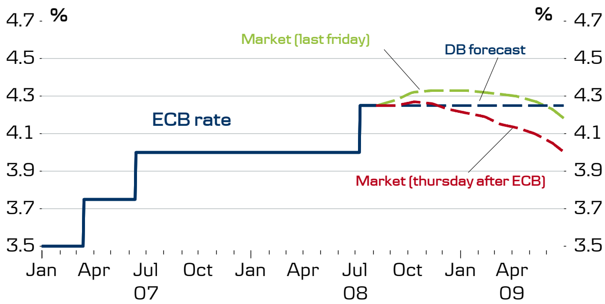
As expected, Trichet kept interest rates unchanged at 4.25% and restated inflation worries at Thursday's rate meeting. The central bank chief did, however, acknowledge that the growth picture looked weaker. This prompted the market to further tone down its interest rate expectations: there are now no expectations of further rate hikes before the end of the year, while rate cuts are beginning to be gently priced in during 2009 (see graph below).

Looking ahead, the conditions are still in place for lower yields and steeper curves in Europe. The economic data due in the coming week suggest that market focus will remain on the growth slowdown. In Europe, the key releases will be GDP numbers for Germany and Euroland (Thursday) – both are expected to confirm a lacklustre Q2. As there is also the risk of a negative surprise from US retail sales in July (Wednesday), further downward pressure on yields could be on the cards in the week ahead – especially if commodities continue to decline.

Moderately steeper curve, lower yields in Europe



Expectations on ECB revised down



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	1,7	2,3	1,6	5,9	-0,3	1,9	3,8	1,7	2,8	4,8	27	1,2
	2008	1,0	1,7	1,6	0,5	-0,1	3,4	4,1	3,4	1,8	4,5	22	1,0
	2009	0,8	0,8	1,7	0,1	0,0	3,1	3,4	2,6	2,1	3,3	18	0,6
Sweden	2007	2,7	3,0	1,1	8,0	0,7	6,0	9,7	2,2	4,6	2,4	42	8,4
	2008	1,8	1,7	0,9	5,2	-1,0	5,8	4,3	3,6	6,2	2,4	37	8,3
	2009	1,6	1,2	1,3	-0,6	-0,2	2,6	0,8	2,1	7,4	2,4	35	9,1
Norway	2007	3,7	6,5	3,6	9,5	-0,3	2,7	8,8	0,7	2,5	8,0	26	18,1
	2008	3,1	2,8	3,2	3,2	1,1	3,1	5,9	3,8	2,6	12,0	26	23,5
	2009	2,7	2,8	2,8	4,6	0,0	3,5	4,8	2,7	2,7	13,9	26	22,4

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	1,6	2,3	4,3	-0,1	6,0	5,2	2,8	7,4	-0,8	67	-0,8
	2008	1,4	0,7	1,2	2,2	0,1	2,9	2,2	3,8	7,2	-1,0	65	-0,5
	2009	1,2	0,9	1,5	0,9	0,1	3,0	2,7	2,5	7,4	-1,2	65	-0,7
Germany	2007	2,7	-0,2	1,9	5,6	-0,1	8,5	5,5	2,9	8,3	-0,5	65	5,8
	2008	1,6	0,6	0,7	1,7	0,2	5,1	3,3	3,1	7,5	-0,5	64	6,5
	2009	1,1	1,1	1,1	0,5	0,0	5,0	3,9	2,2	7,5	-0,2	64	6,3
France	2007	1,9	1,9	2,0	4,1	-0,2	3,5	6,6	2,0	8,0	-2,3	63	-2,3
	2008	1,6	1,6	0,9	2,2	0,2	3,1	4,0	3,5	7,9	-2,7	62	-2,3
	2009	1,4	1,4	1,3	1,5	0,0	2,5	3,9	3,1	7,6	-3,0	62	-2,3
Italy	2007	1,8	1,7	0,8	2,8	0,0	2,5	1,8	2,6	5,9	-2,6	105	-1,7
	2008	0,5	0,6	0,7	0,5	0,0	1,5	2,3	3,7	6,2	-2,5	103	-2,4
	2009	0,8	0,8	0,8	0,5	-0,1	2,5	2,8	2,1	6,5	-2,7	102	-2,5
Spain	2007	3,8	3,2	5,1	6,4	-0,4	5,5	6,8	3,4	8,0	1,5	37	-9,0
	2008	1,4	0,5	5,1	0,0	0,0	4,0	3,3	4,5	9,0	0,7	35	-10,0
	2009	2,4	1,1	5,1	-2,5	0,0	4,5	2,8	2,3	9,5	-0,3	35	-10,0
Holland	2007	3,0	1,8	3,2	4,8	-0,1	6,0	5,5	2,4	3,3	0,0	60	7,0
	2008	2,2	1,7	0,6	3,2	0,1	4,6	4,8	2,3	2,9	0,0	59	6,5
	2009	1,9	1,8	0,4	2,8	-0,1	3,5	5,4	1,7	2,8	0,0	60	6,5
Finland	2007	4,4	3,7	0,8	7,6	0,1	5,5	4,8	2,5	6,9	5,3	35	4,1
	2008	2,6	2,7	0,5	3,5	0,0	2,0	1,5	3,8	6,3	4,7	33	3,8
	2009	2,1	2,3	1,0	2,0	0,0	2,5	2,0	2,5	6,2	3,9	31	3,8

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	2,0	-1,8	-0,3	8,0	1,9	2,9	4,6	-1,2	60	-5,5
	2008	1,5	1,6	2,4	-4,3	-0,2	6,3	-2,1	4,4	5,4	-3,5	61	-4,5
	2009	1,5	0,8	2,0	-1,2	0,1	7,3	1,3	2,6	6,0	-2,5	61	-3,1
Japan	2007	2,0	1,4	0,7	-0,5	-0,1	8,6	1,8	0,0	3,8	-3,4	180	4,1
	2008	1,5	1,1	0,5	-0,4	0,0	5,9	-0,7	1,7	4,0	-3,4	182	4,0
	2009	1,6	1,2	1,1	0,6	0,0	4,2	1,1	0,8	4,0	-3,3	183	4,2
UK	2007	3,1	3,1	1,9	4,1	0,0	4,2	-2,0	2,3	3,0	-2,5	43	-3,3
	2008	1,6	1,3	2,3	4,2	-0,2	3,8	3,5	2,6	2,8	-2,5	43	-4,1
	2009	1,6	1,3	2,4	3,0	0,0	3,4	3,0	2,1	3,0	-2,5	43	-4,0
Switzer-land	2007	3,1	2,1	0,1	2,7	0,1	10,0	5,2	0,7	2,8	-0,2	55	15,1
	2008	1,7	1,8	0,5	0,4	0,0	3,8	4,5	2,8	2,6	0,0	54	13,9
	2009	1,6	1,6	0,6	1,7	0,0	4,7	5,2	1,9	2,7	0,0	53	14,9

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	08-aug	2,00	3,42	4,70	151,6	-	492,0
	+3m	2,00	3,20	4,60	160	-	466
	+6m	2,00	3,05	4,50	155	-	481
	+12m	2,00	3,40	4,60	150	-	497
EUR	08-aug	4,25	4,76	4,76	-	151,6	746,0
	+3m	4,25	5,15	4,95	-	160	746,0
	+6m	4,25	5,00	4,80	-	155	746,0
	+12m	4,25	4,80	4,65	-	150	746,0
JPY	08-aug	0,50	1,01	1,65	166,7	109,9	4,47
	+3m	0,50	1,15	1,80	168	105	4,44
	+6m	0,50	1,15	1,80	155	100	4,81
	+12m	0,50	1,30	1,90	150	100	4,97
GBP	08-aug	5,00	5,41	5,11	78,6	192,8	948,6
	+3m	5,00	5,90	5,50	82,0	195	910
	+6m	5,00	5,50	5,40	80,0	194	933
	+12m	4,50	5,00	5,10	78,0	192	956
CHF	08-aug	2,75	3,00	3,46	162,7	107,3	458,5
	+3m	3,00	3,30	3,70	160	100	466
	+6m	3,00	3,10	3,55	158	102	472
	+12m	3,00	2,90	3,40	156	104	478
DKK	08-aug	4,60	5,17	4,96	746,0	492,0	-
	+3m	4,60	5,55	5,15	746,0	466	-
	+6m	4,60	5,30	5,00	746,0	481	-
	+12m	4,60	5,05	4,85	746,0	497	-
SEK	08-aug	4,50	5,11	4,99	938,4	618,9	79,5
	+3m	4,75	6,15	5,75	925	578	80,6
	+6m	4,75	5,75	5,75	920	594	81,1
	+12m	4,50	5,15	5,40	920	613	81,1
NOK	08-aug	5,75	6,36	5,63	798,6	526,7	93,4
	+3m	5,75	6,70	5,80	790	494	94,4
	+6m	5,75	6,60	5,65	775	500	96,3
	+12m	5,75	6,40	5,50	775	517	96,3
PLN	08-aug	6,00	6,31	5,92	326,2	215,1	228,7
	+3m	6,00	6,60	6,20	340	213	219
	+6m	6,00	6,50	6,10	340	219	219
	+12m	6,00	6,40	6,00	345	230	216

Equity markets

Regional	Risk	Price trend 3 mth.	Price trend 12 mth.	Regional recommen-dations
USA	Low	-5% to +5%	+5% to +10%	Overweight
Japan	High	-5% to +5%	+5% to +10%	Neutral
Emerging markets (USD)	High	-5% to +5%	+5% to +10%	Underweight
Pan-Europe (EUR)	Low	-5% to +5%	+5% to +10%	Neutral
Nordics				
Denmark	Average	-5% to +5%	+5% to +10%	Neutral
Sweden	High	-5% to +5%	+5% to +10%	Overweight
Norway	High	-5% to +5%	+5% to +10%	Neutral

Commodities

		2008 - average				Average	
	07-aug	Q1	Q2	Q3	Q4	2008	2009
ICE Brent	124	96	122.7	127	124	116	128
Aluminium	2.934	2.779	2.995	3.100	3.300	3.044	3.400
Copper	7.900	7.741	8.309	8.100	8.300	8.113	8.600
Gold	901	924	897	910	930	915	900
CBOT Wheat*	792	1.026	838	830	840	884	900
CBOT Corn*	582	527	630	600	600	589	710

* Note: US$/bushel

Key data and events

Monday, August 11, 2008				Period	Danske Bank	Consensus	Previous
4:00	CNY	PPI	y/y	Jul		9.0	8.8
8:00	JPY	Machine Tool Orders, preliminary	y/y	Jul			-2.5%
8:45	FRF	Industrial production	m/m|y/y	Jun		0.6%|0.5%	1.4%|3.2%
9:30	DKK	Trade Balance sa, ex ship	DKK bn	Jun	**3**	2.8	2.9
9:30	DKK	Current account	DKK bn	Jun	**4.2**	3.8	3.3
9:30	DKK	Industrial production sa, ex. Ships	m/m	Jun			-3.9%
9:30	DKK	CPI	m/m|y/y	Jul	**-0.3%|3.9%**	-0.4%|4.0%	0.3%|3.8%
9:30	DKK	HICP	m/m|y/y	Jul	**-0.3%|4.3%**	-0.4%|4.3%	0.4%|4.2%
10:00	NOK	Consumer prices	m/m|y/y	Jul	**0.4%|4.0%**	0.2%|4.0%	0.2%|3.4%
10:00	NOK	Core inflation(CPI-ATE)	m/m|y/y	Jul	**-0.1%|2.6%**	-0.1%|2.6%	0.0%|2.4%
10:00	NOK	Producer prices, incl oil	m/m|y/y	Jul			4.8%|29.3%
10:00	ITL	HICP, final	m/m|y/y	Jul		-0.5%|4.1%	-0.5%|4.1%
10:30	GBP	PPI - Output	m/m|y/y	Jul		0.5%|10.3%	0.9%|10.0%
10:30	GBP	Trade balance	GBP bn	Jun		-4.200	-4.248

Tuesday, August 12, 2008				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS House Price Balance	%	Jul		-87.0	-88.0
1:01	GBP	BRC Retail Sales Monitor		Jul			
1:50	JPY	Domestic CGPI	m/m|y/y	Jul		0.8%|5.7%	0.8%|5.6%
4:00	CNY	CPI	y/y	Jul	**6.8%**	6.5%	7.1%
6:30	JPY	Industrial production, final	m/m|y/y	Jun			-2.0%|0.2%
7:00	JPY	Consumer confidence, households	Index	Jul		32.0	32.6
8:45	FRF	CPI - EU Harmonised	m/m|y/y	Jul		-0.2%|4.1%	0.4%|4.0%
10:00	SEK	Nat. labour market board, Unemployment	%	Jul	**3.0**	3.0	2.8
10:30	GBP	CPI	m/m|y/y	Jul		-0.2%|4.2%	0.7%|3.8%
14:30	USD	Trade balance	USD bn	Jun		-61.5	-59.8
20:00	USD	Budget statement	USD bn	Jul		-69.2	-36.4

Wednesday, August 13, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	GDP, preliminary	q/q|y/y	2nd quarter	**-0.5%|-2.2%**	-0.6%|-2.3%	1.0%|4.0%
1:50	JPY	GDP Deflator, preliminary	y/y	2nd quarter		-1.5%	-1.5%
1:50	JPY	Current Account Total	JPY bn	Jun		490.2	2000.6
1:50	JPY	Trade balance - BOP basis	JPY bn	Jun		293.6	529.4
4:00	CNY	Retail sales	y/y	Jul		22.5%	23.0%
9:00	ESP	CPI - EU harmonised	m/m|y/y	Jul			0.6%|5.1%
10:00	NOK	Retail sales, s.a.	m/m|y/y	Jun	**0.5%|1.5%**	0.0%|0.8%	1.2%|6.1%
10:30	GBP	Jobless Claims, change	'000	Jul		17.0	15.5
10:30	GBP	Average Earnings, ex bouns	3Ms/YoY	Jun		3.7%	3.8%
11:00	EUR	Industrial production	m/m|y/y	Jun		0.1%|0.4%	-1.9%|-0.6%
11:30	GBP	Inflation report		2nd quarter			
13:00	USD	MBA mortgage applications					
14:00	NOK	Norges Banks monetary policy meeting	%		**5.75**	5.75	5.75
14:30	USD	Import prices	m/m|y/y	Jul		1.0%|20.7%	2.6%|20.5%
14:30	USD	Retail sales	m/m	Jul	**-0.4%**	0.2%	0.1%
14:30	USD	Retail sales less autos	m/m	Jul	**0.5%**	0.6%	0.8%

Thursday, August 14, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	Tertiary Industry Index	m/m	Jul		-0.3%	-0.2%
4:00	CNY	Industrial production	y/y	Jul		16.0%	16.0%
7:45	CHF	SECO consumer climate	Net bal.	Jul		-6	2
8:00	DEM	GDP, preliminary	q/q|y/y	2nd quarter	**-0.9%|..**	-0.8%|1.7%	
8:30	FRF	Bank of France Business Sentiment	Index	Jul		94	95
8:45	FRF	GDP, preliminary	q/q|y/y	2nd quarter			0.1%|1.6%
9:00	ESP	GDP, preliminary	q/q|y/y	2nd quarter			0.3%|2.7%
9:30	SEK	Industrial production	m/m|y/y	Jun		-0.7%|-1.1%	-1.0%|-5.0%
10:00	EUR	ECB monthly report		Aug			
11:00	EUR	CPI, preliminary	m/m|y/y	Jul	**-0.1%|4.1%**	-0.1%|4.1%	0.4%|4.0%
11:00	EUR	GDP, preliminary	q/q|y/y	2nd quarter	**-0.3%|...**	-0.2%|1.5%	0.7%|2.1%
11:00	EUR	Core CPI	y/y	Jul	**1.8%**	1.8%	1.8%
14:30	USD	CPI	m/m|y/y	Jul	**0.4%|5.1%**	0.4%|5.2%	1.1%|5.0%
14:30	USD	CPI ex. food & energy	m/m|y/y	Jul	**0.2%|2.4%**	0.2%|2.4%	0.3%|2.4%
14:30	USD	Initial jobless claims	1000				
16:00	DEM	Consumer prices, final	m/m|y/y	Jul		0.6%|3.3%	0.6%|3.3%
16:00	DEM	Consumer prices - EU harmonised, final	m/m|y/y	Jul		0.6%|3.4%	0.6%|3.4%
20:30	USD	Fed's Stern (voter, hawk) speaks					

Key data and events

Friday, August 15, 2008				Period	Danske Bank	*Consensus*	Previous
4:00	CNY	Fixed assets investments, Urban (YTD)	y/y	Jul		*26.6%*	26.8%
9:30	SEK	Activity index	Index	Jun			123.6
10:00	NOK	Trade balance	NOK bn	Jul		*38.5*	37.1
14:30	USD	Empire Manufacturing	Index	Aug		*-4.5*	-4.9
15:15	USD	Industrial production	m/m	Jul	**0.1%**	*0.0%*	0.5%
15:15	USD	Capacity utilization	%	Jul		*79.8*	79.9
16:00	USD	University of Michigan Confidence, preliminary	Index	Aug	**61.8**	*62.0*	61.2
18:30	USD	Fed's Evans (non-voter, neutral) speaks					

During the week				Period	Danske Bank	*Consensus*	Previous
Mon 11 - 14	CNY	Trade balance	USD bn	Jul		*20.25*	21.35
Mon 11 - 15	CNY	Actual FDI YTD	y/y	Jul			44.6%
Wed 13 - 18	CNY	Money supply M2	y/y	Jul		*17.1%*	17.4%
Sun 17 - 22	JPY	Nationwide dept. store sales	y/y	Jul			-7.6%

The editors do not guarantee the accurateness of figures, hours or dates stated above
For furher information, call +45 33 44 05 30.

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.