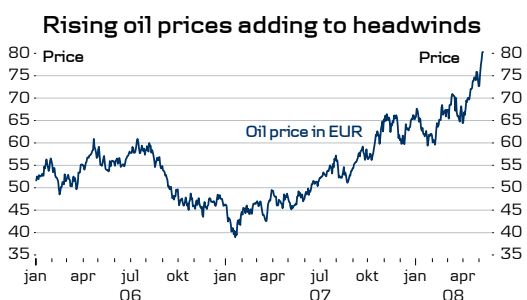
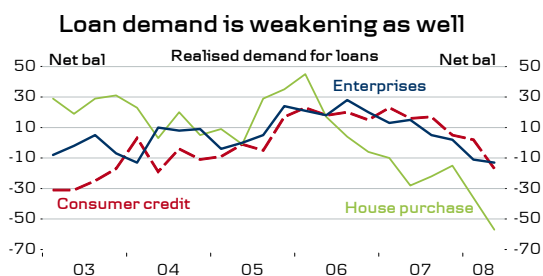
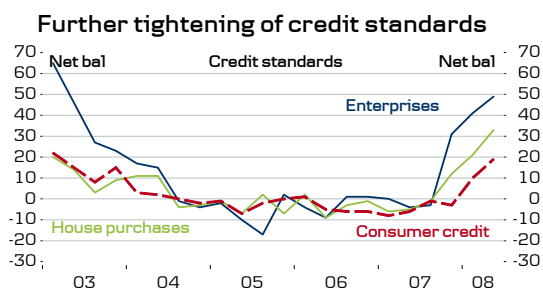


# Weekly Focus

May 9-16, 2008



## Headwinds keep building

The past week brought more news of how the “credit crunch” between banks is spreading to the real economy. The ECB’s lending survey showed further tightening of credit standards across the board: enterprises, consumers and homebuyers are all facing tighter credit availability. Meanwhile, demand for credit is weakening across all sectors, and hence painting a picture of weaker investment activity and consumer demand. The data also point to the housing downturn continuing in Euroland. Credit standards are likely to have been tightened most in the most vulnerable countries, such as Spain and Ireland, but there are no country details in the report. Further tightening in Euroland is no big surprise, as it mirrors similar developments in the US and UK. Nonetheless, it contributes to a picture of tightening credit availability at a global level.

The numbers explain why the ECB struck a more cautious note in yesterday’s press statement with regard to credit ([see Flash Comment – ECB keeps neutral stance](#)). Interestingly, credit tightening is being driven mostly by a more negative outlook for economic activity, although the effect of rising cost of capital is also increasing in the survey. The survey highlights the downside risks to growth, and underpins our expectations of weaker investment spending in coming quarters. This will contribute to further slowing in the second half of the year.

Rising oil prices are another headwind to growth, and they are having a considerable impact on private consumption. The latest Euroland retail sales came in very weak, and this weakness is likely to continue as credit is tightened and the labour market starts to soften. Pressure on the ECB to cut rates will mount, but the great unknown is inflation. If oil prices rise further, inflation could rise to 4% by the autumn, which would make it very hard for ECB to deliver the cuts we currently include in our forecast.

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Danske Bank

# Denmark

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## Oil, food and interest rates squeezing consumers

Rising oil and food prices, a falling USD and increasing interest rates have made the economic slowdown sharper than it would otherwise have been. We would still have been talking about overheating today had oil prices, the USD and interest rates been at the same levels as they were a year ago. Growth in the Danish economy could then have been up around 1.7-1.8% this year and next. Growth would have been mainly held back by capacity constraints and a shortage of skilled labour. Furthermore, according to our model, an additional 10,000 people would have been in work by the end of 2009. The slowdown is not all bad news, as staying in such a high gear would have hurt our competitiveness – still, oil at USD 120/bbl and a USD/DKK exchange rate of 4.86 are not exactly what the doctor ordered. It would naturally have been better if domestic consumption had been curbed in time, perhaps by tightening fiscal policy.

The rising cost of food, energy and credit means that consumers will be stepping harder on the brakes both this year and next. The higher cost of these products is set to knock a solid percentage point off consumption growth in 2008 and 2009. This is something that can really be felt, and consumer confidence has also dropped sharply in the last six months, although there is still no reason to believe that Danish consumption will collapse.

It is especially the increase in oil prices that has hurt Danish consumers. Had oil prices been static, consumption growth could have been in excess of 3% this year. On the other hand, the increase in oil prices is good news for the current account, where oil exports are making an additional contribution of DKK 11bn a year, and for the government budget, where the price rises of the past year translate into an extra DKK 18bn a year. However, the resulting downturn in the economy means that the net effect on the current account and the budget surplus is somewhat less.

Looking ahead, there are more risk factors than usual. Energy and food costs may continue to climb. Interest rates will doubtless come back down, but the question is when. It is far from certain that short-term rates will fall in time to gladden the many Danes who will have their mortgage rates adjusted at the end of the year. This will largely depend on when the financial crisis eases. There is also uncertainty about the housing market. How far will house prices fall – and how hard will this hit mortgage equity withdrawal? There are many sources of uncertainty, but it is important to remember that Danish consumers are well-cushioned, and with the prospect of healthy wage growth and further tax cuts to come, so we do not expect any dramatic downturn in consumption.

### The impact of oil prices etc

|  | GDP         |             | Consumption |             |
|--|-------------|-------------|-------------|-------------|
|  | 2008        | 2009        | 2008        | 2009        |
| Forecast:  | 1.4         | 1.3         | 2.4         | 1.4         |
| Impact:  |             |             |             |             |
| Oil price increase                                     | -0.2        | -0.3        | -0.7        | -0.8        |
| US dollar fall   | -0.1        | -0.1        | -0.1        | -0.1        |
| Interest rate increase                                 | 0.0         | -0.1        | -0.1        | -0.1        |
| <b>Total effect:</b>                                   | <b>-0.3</b> | <b>-0.5</b> | <b>-0.9</b> | <b>-1.0</b> |
| Forecast without oil, dollar and interest rate changes | 1.7         | 1.8         | 3.3         | 2.4         |

Source: Own calculations using Mona macro model

### Key events of the week ahead

- Wednesday brings consumer prices for April. We predict inflation of 3.2%.

| Date   | Time | Event    | Period  | Danske Bank | Consensus | Previous  |
|--------|------|----------|---------|-------------|-----------|-----------|
| Tue 13 | 9:30 | DKK CPI  | m/mly/y | Apr         | 0.3% 3.2% | 0.4% 3.1% |
| Tue 13 | 9:30 | DKK HICP | m/mly/y | Apr         | 0.3% 3.3% | 0.5% 3.3% |

# Sweden

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## Mixed bag of confidence data clouds the outlook

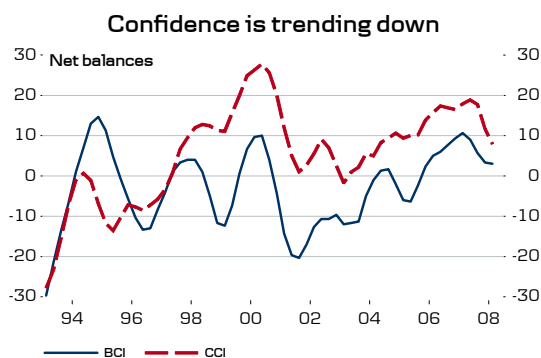
The release of the NIER (National Institute for Economic Research) quarterly business confidence (BCI) and the monthly household confidence surveys (CCI), together with the Swedish PMI survey published a few days later, did not disperse the clouds surrounding future developments.

**BCI:** The stronger than consensus outcome reflected an upturn in orders' expectations within the investment goods industry, and a strong improvement of orders within the consumer goods industry. Most other variables and segments continue to weaken. One noticeable change from the last quarterly survey is the rapid deterioration in the construction industry, where the index fell almost nine points, indicating considerably weaker construction investments. Other things to keep an eye on going forward are the continued weakening of employment plans and elevated expectations on prices.

**PMI:** To some extent the results from the BCI were reflected in the PMI survey where production held up quite well (incl. production plans), as did price expectations. However, the weakening of the employment plans and much weaker opinion on the backlog of orders resulted in an overall PMI that deteriorated much more dramatically than that of the BCI.

**CCI:** The weaker than consensus outcome is driven by households' views on macro-economic developments, growth prospects and labour market etc. Mirroring the business survey, inflation expectations are up a notch from last month (March 2.8% vs February 2.5%). The CCI should, however, be interpreted with caution since it does not perform particularly well as an indicator of consumption.

**Conclusions:** A stronger than expected headline number on BCI was counteracted by a weak PMI and CCI, which explains why financial markets did not react much to the above data. To us, the details seem grimmer. Many important sub-components, orders, employment plans etc, continue to show a deterioration. Somewhat puzzling, households seem considerably less optimistic than companies on almost all accounts. At some point, this divergence should diminish, and judging from history it could very well be the business sector that is in for a slowdown.



### Key events of the week ahead

- Inflation data together with some less important labour statistics and industrial data are being published next week.
- Given the Riksbank's outspoken focus on inflation outcomes (and their impact on inflation expectations) CPI and CPIX will be even more interesting than usual.

| Date   | Time  | Event                                      | Period   | DanskeBank | Consensus | Previous  |
|--------|-------|--|----------|------------|-----------|-----------|
| Tue 13 | 9:30  | SEK Underlying inflation, UND1X            | m/mly/y  | 0.2% 2.2%  | 0.5% 2.3% | 0.9% 2.3% |
| Tue 13 | 9:30  | SEK CPI                                    | m/mly/y  | 0.5% 3.3%  | 0.5% 3.4% | 0.9% 3.4% |
| Tue 13 | 10:00 | SEK Nat. labour market board, Unemployment | %        | 3.0        | 3.1       | 3.2       |
| Wed 14 | 9:30  | SEK House prices                           | m.n. SEK |            |           | 1.872     |

# Norway

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## Painted into a corner

The past week has provided a warning that the summer and autumn could prove problematic for Norges Bank. While parts of the housing market are teetering on the brink, private consumption is going nowhere, banks are tightening their credit standards, inflation is still climbing.

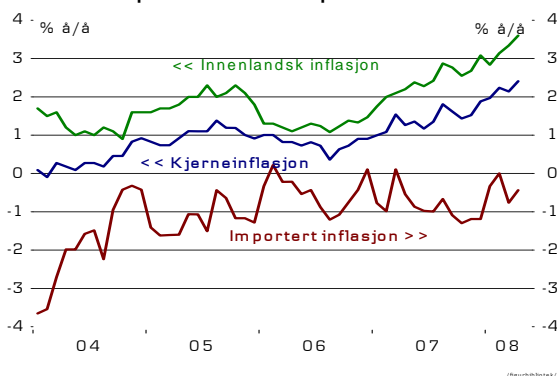
We are now convinced that underlying inflation will pass Norges Bank's 2.5% target as early as June. In the editorial of the March monetary policy report, the bank's governor, Svein Gjedrem, wrote: "A particularly adverse situation would arise if high price and cost inflation in Norway occurs in tandem with weaker sales of Norwegian export goods and a fall in commodity prices. In such a situation, Norges Bank will have to give dominant weight to keeping inflation expectations close to target."

The market's interpretation of this has been that Norges Bank will raise interest rates further despite a weaker growth outlook if inflation is higher than anticipated. However, we think that Norwegian interest rates have now peaked. It is important to remember that Norges Bank is not a pure "inflation nutter". We have recently been through a period where inflation was well below target, yet Norges Bank raised its rates only gradually. The explanation for this was that the output gap was growing, which meant that inflationary pressures could be expected to mount further ahead. We are now seeing that this was a (more than) correct assumption.

All of the international organisations are now predicting weak growth in the global economy for a long time to come, and there are clear signs that interest rates are beginning to hurt consumption growth and the housing market in Norway. In such a situation, it is not a problem for Norges Bank if inflation is somewhat above target, provided that the market is fully confident that growth will slow sufficiently for inflationary pressures to subside.

The conclusion is therefore clear. If we are correct that growth will slow but inflation will remain high, interest rates will be unchanged for the rest of this year. If inflation remains high but growth does not slow sufficiently, interest rates will be raised further. And if growth slows (a lot) and inflation falls, interest rates will be cut this year. It should also be remembered that money market rates are currently more than 1pp above the bank's key rate (the sight deposit rate).

### Where is private consumption headed?



### Key events of the week ahead

- No significant economic data are due out in Norway this week.

| Date   | Time  | Event             | Period | DanskeBank | Consensus | Previous |
|--------|-------|-------------------|--------|------------|-----------|----------|
| Thu 15 | 10:00 | NOK Trade balance | NOK bn | Apr        |           | 39.1     |

# Euroland

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## Oil prices the joker in the pack for inflation

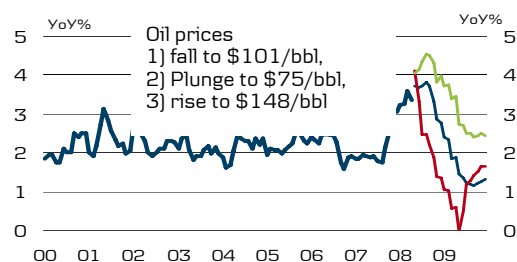
It has been an eventful week in Euroland, with a rate-setting meeting at the ECB and news that the current strong headwinds are increasingly affecting the economy.

As expected, the ECB decided to leave its leading rates unchanged, and also the tone of Jean-Claude Trichet's presentation was largely unchanged from the previous meeting in April. The decision was reached on the basis of the risks to price stability on the one hand and further clear signs of moderate economic growth in Europe on the other. At the same time, the ECB is seeing the first signs of the financial crisis leading to tightening of banks' credit standards.

Retail sales in Euroland are currently undergoing their worst period since the recession of 1992-93. This was confirmed by the March figures, which showed a drop of 0.4% m/m and 1.1% y/y. German manufacturing orders also fell for the fourth straight month, dropping 0.6% m/m in March. On the other hand, German industrial production made a good start to 2008, climbing 1.1% q/q in Q1. However, we expect growth to slow in the coming quarters as the strong headwinds (a still strong EUR, slower global growth, higher oil and food prices, and credit tightening) make their mark on the economy.

It is in the first instance the rise in oil and food prices, and in the second the risk of higher wage growth, that pose a threat to price stability. Inflation in Euroland was 3.6% in March and 3.3% in April, and we expect it to move up another notch during the summer. Given the latest increases in oil prices, though, there is a risk of inflation climbing even further. However, there is a great deal of uncertainty about oil prices. We have produced two scenarios which illustrate just how sensitive inflation is to oil prices, and so highlight one of the key elements of uncertainty in the ECB's balancing act. If oil prices continue to climb, inflation will rise above 4% in the coming months, peaking in late summer and early autumn at 4.5%. If, on the other hand, oil prices fall rapidly from their current high levels, we will see a very sharp decrease in inflation through to summer 2009.

**Inflation heavily dependent on oil prices**



### Key events of the week ahead

- Euroland GDP for Q1. We expect an increase of 0.5% q/q, in line with consensus.
- Final April HICP for Germany. Like consensus, we expect an increase of 2.6% y/y and -0.3 m/m.
- Euroland core inflation. We expect an increase of 1.9% y/y, which is a tad lower than consensus.

| Date   | Time  | Event                     | Period  | DanskeBank  | Consensus  | Previous    |
|--------|-------|---------------------------|---------|-------------|------------|-------------|
| Mon 12 | 10:00 | ITL Industrial production | m/mly/y | Mar         | 0.0% -0.9% | -0.2% -0.8% |
| Tue 13 | 9:00  | ESP HICP                  | m/mly/y | Apr         |            | 0.9% 4.2%   |
| Wed 14 | 8:40  | FRF HICP                  | m/mly/y | Apr         | 0.4% 3.4%  | 0.8% 3.5%   |
| Wed 14 | 9:00  | ESP GDP, preliminary      | q/qly/y | 1st quarter |            | 0.8% 3.5%   |
| Wed 14 | 10:00 | ITL HICP, final           | m/mly/y | Apr         | 0.5% 3.5%  | 1.6% 3.6%   |
| Wed 14 | 11:00 | EUR Industrial production | m/mly/y | Mar         | -0.2% 2.4% | 0.3% 3.1%   |
| Thu 15 | 8:00  | DEM GDP, preliminary      | q/qly/y | 1st quarter | 0.7% 1.8%  | 0.3% 1.8%   |
| Thu 15 | 8:00  | DEM HICP, final           | m/mly/y | Apr         | -0.3% 2.6% | 0.5% 2.6%   |
| Thu 15 | 8:45  | FRF GDP                   | q/qly/y | 1st quarter | 0.4% 1.9%  | 0.4% 2.1%   |
| Thu 15 | 10:00 | EUR ECB monthly report    |         | May         |            |             |
| Thu 15 | 11:00 | EUR CPI                   | m/mly/y | Apr         | 0.3% 3.3%  | 1.0% 3.6%   |
| Thu 15 | 11:00 | EUR Core CPI              | y/y     | Apr         | 2.0%       | 2.0%        |
| Thu 15 | 11:00 | EUR GDP, s.a.             | q/qly/y | 1st quarter | 0.5% 1.9%  | 0.4% 2.2%   |
| Fri 16 | 11:00 | EUR Trade Balance         | EUR bn  | Mar         |            | 2.1         |

# Switzerland

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## Falling KOF and rising unemployment

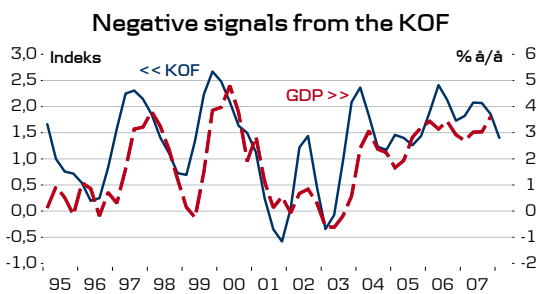
The past week has brought a raft of fresh data from the Swiss economy, and far from all of it positive.

The slide in the KOF leading indicator continued to accelerate, with a drop from 1.54 (1.40 rev.) to 1.20. The KOF indicator is normally a good guide to movements in GDP, and it has now been trending downwards since August last year. As in previous quarters, confidence is particularly low in the financial sector. Confidence in the economy as a whole, excluding the financial and construction sectors, has also begun to falter, although it is still sending positive signals.

The labour market report for April revealed an increase in unemployment to 2.6% from 2.5% in March. This is the first time that unemployment has risen since April 2005, and there is no reason to believe that this is a one-off. UBS, the country's biggest bank, has just announced plans to cut its workforce due to losses from the sub-prime crisis, and higher oil prices will put pressure on corporate earnings going forward. Both factors will in all probability make their mark on future unemployment statistics. That said, the Swiss labour market is still strong.

Turning to the good news, consumer price inflation fell from 2.6% y/y in March to 2.3% y/y in April. As in the previous month, it was mainly oil products that pushed up consumer prices; core inflation was just 1.3% y/y. Thus inflation is heading towards the Swiss National Bank's target of 2% y/y, as predicted in the bank's latest inflation forecast in March. Thomas Jordan from the bank's governing board spoke during the week on the impact of the financial crisis on the Swiss economy, but offered little new. The SNB believes that interest rates are currently "appropriate".

We still expect that the slowdown will be much milder in Switzerland than in Euroland, as is reflected in our latest exchange rate forecast, where we expect CHF to appreciate against DKK to 4.72 on a 3M horizon, 4.78 at 6M and 4.91 at 12M.



### Key events of the week ahead

- Thursday brings retail sales data for March. The February figures surprised with a sharp increase, so it will be exciting to see whether Swiss consumers are still unperturbed by the turmoil in the financial sector.
- Thursday also sees another speech from the SNB's Thomas Jordan.

| Date   | Time  | Event                     | Period | DanskeBank | Consensus | Previous |
|--------|-------|---------------------------|--------|------------|-----------|----------|
| Thu 15 | 11:00 | CHF SNB's Jordan speaks   |        |            |           |          |
| Fri 16 | 9:15  | CHF Retail sales, Nominal | y/y    | Mar        |           | 3.3      |

# US

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## Will expensive oil burn tax cheques?

US tax authorities last week began paying out USD 106bn to consumers as part of the government's fiscal stimulus package. Payouts will stretch over almost three months and mean individual taxpayers receiving a cheque of either USD 300 or USD 600. Around 130 million people will have received a cheque by the middle of July.

The tax rebates were passed by Congress and the Bush administration in February in the hope that they would help mitigate the current financial and economic crisis. While there is little doubt the cheques will have a positive effect on consumption, there is much disagreement and uncertainty about the scale of the effect. One area of uncertainty is how much of the tax rebate will be added to savings. Studies looking at the most recent similar tax rebate, which occurred in 2001, suggested that between 20% and 60% of the tax rebate went directly to consumption. We expect that around a third of the tax rebate will be seen in consumption within six to nine months.

Another question is how much of the tax rebate will be eaten up by the recent increases in food and energy prices. This depends to some extent on the timescale one is looking at. When looking only at the period May to July, when the payouts will be made, food and energy prices equate to just 19% of the tax rebate. However, the effect on consumption will presumably stretch over both Q2 and Q3, at least. Assuming this, around 39% of the tax rebate will be eaten up by higher energy and food prices. Finally, as much as 73% of the tax rebate would be eroded if one considers the whole of 2008.

The conclusion is that the tax rebates will almost certainly boost consumption growth – perhaps significantly – over the summer, despite the increase in food and energy prices. However, looking over the year as a whole, much of the effect will be countered by the price increases in food and energy. That said, this does not mean that the tax package will not help – without it, consumption and hence the economy would have been hit even harder.

### Tax rebates vs. food and energy prices

|         | Tax rebate | 'Tax' from food & energy prices |        |       | Net tax relief | Erosion % |
|---------|------------|---------------------------------|--------|-------|----------------|-----------|
|         |            | Food                            | Energy | Total |                |           |
|         |            | --- USD bln ---                 |        |       |                |           |
| Q1      |            | 3.48                            | 1.52   | 5.00  | -5.00          |           |
| Q2      | 85.62      | 6.49                            | 9.30   | 15.78 | 69.83          |           |
| Q3      | 20.38      | 9.63                            | 15.98  | 25.60 | -5.22          |           |
| Q4      |            | 12.79                           | 18.42  | 31.22 | -31.22         |           |
| May-Jul | 106.00     | 7.53                            | 12.82  | 20.35 | 85.65          | 19%       |
| Q2/Q3   | 106.00     | 16.12                           | 25.27  | 41.39 | 64.61          | 39%       |
| 2008    | 106.00     | 32.39                           | 45.21  | 77.60 | 28.40          | 73%       |

Source: Danske Bank calculations, IRS, Bloomberg and Ecwin  
 Note: Calculation based on consumption and price levels from Dec 2007.

### Key events of the week ahead

- Most important are the release of retail sales and consumer prices.
- Still too early to expect any tax-rebate effect on retail sales. We expect overall retail sales growth in April to be -0.3 % m/m and +0.1 % m/m excl. cars.
- Inflation will still be high in April at 0.4% m/m, or 4.0% y/y.

| Date   | Time  | Event  | Period  | Danske Bank | Consensus | Previous       |
|--------|-------|--|---------|-------------|-----------|----------------|
| Mon 12 | 15:15 | USD Fed's Evans (non-voter, neutral) speaks        |         |             |           |                |
| Mon 12 | 20:00 | USD Budget statement                               | USD bn  |             | 157.5     | 177.7          |
| Tue 13 | 1:15  | USD Fed's Lockhart (non-voter, neutral) speaks     |         |             |           |                |
| Tue 13 | 12:10 | USD Fed's Pianaletto (voter, neutral) speaks       |         |             |           |                |
| Tue 13 | 14:20 | USD Chairman Bernanke (voter, neutral) speaks      |         |             |           |                |
| Tue 13 | 14:30 | USD Import prices                                  | m/mly/y |             | 1.5% ..   | 2.8% 14.8%     |
| Tue 13 | 14:30 | USD Retail sales                                   | m/m     | -0.3%       | -0.1%     | 0.2%           |
| Tue 13 | 14:30 | USD Retail sales less autos                        | m/m     | 0.1%        | 0.2%      | 0.1%           |
| Tue 13 | 15:15 | USD Fed's Warsh (voter, dove) speaks               |         |             |           |                |
| Tue 13 | 17:00 | USD Fed's Plosser (voter, hawk) speaks             |         |             |           |                |
| Tue 13 | 19:00 | USD Fed's Yellen (non-voter, dove) speaks          |         |             |           |                |
| Tue 13 | 19:00 | USD Fed's Hoenig (non-voter, neutral) speaks       |         |             |           |                |
| Tue 13 | 19:30 | USD Fed's Fisher (voter, neutral) speaks           |         |             |           |                |
| Wed 14 | 13:00 | USD MBA mortgage applications                      | %       |             |           | 15.6           |
| Wed 14 | 14:30 | USD CPI  | m/mly/y | 0.4% 4.0%   | 0.3% 3.9% | 0.3% 4.0%      |
| Wed 14 | 14:30 | USD CPI ex. food & energy                          | m/mly/y | 0.2% 2.4%   | 0.2% 2.4% | 0.2% 2.4%      |
| Wed 14 | 14:30 | USD Fed's Rosengren (non-voter, dove) speaks       |         |             |           |                |
| Wed 14 | 15:15 | USD Fed's Kroszner (voter, neutral) speaks         |         |             |           |                |
| Wed 14 | 18:00 | USD Fed's Lockhart (non-voter, neutral) speaks     |         |             |           |                |
| Thu 15 | 14:30 | USD Initial jobless claims                         | 1 000   |             |           | 365            |
| Thu 15 | 14:30 | USD Empire Manufacturing                           | Index   |             | 1.0       | 0.6            |
| Thu 15 | 15:15 | USD Industrial production                          | m/m     | -0.2%       | -0.2%     | 0.3%           |
| Thu 15 | 15:15 | USD Capacity utilization                           | %       | 80.3        | 80.2      | 80.5           |
| Thu 15 | 15:15 | USD Fed's Evans (non-voter, neutral) speaks        |         |             |           |                |
| Thu 15 | 15:30 | USD Chairman Bernanke (voter, neutral) speak       |         |             |           |                |
| Thu 15 | 16:00 | USD Philadelphia Fed.                              | Index   | -1.8        | -2.0      | -2.4.9         |
| Thu 15 | 19:00 | USD NAHB Housing Market Index                      | Index   | 20          | 20        | 20             |
| Fri 16 | 14:30 | USD Housing starts                                 | 1 000   |             | 940       | 947            |
| Fri 16 | 14:30 | USD Building Permits                               | 1 000   |             | 915       | 927 (928 rev.) |
| Fri 16 | 16:00 | USD University of Michigan Confidence, preliminary | Index   | 63.0        | 62.8      | 62.6           |
| Sat 17 | 15:00 | USD Fed's Lockhart (non-voter, neutral) speak      |         |             |           |                |

# Asia

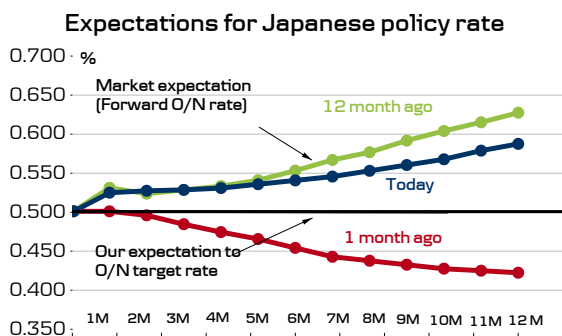
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## Surprisingly strong Japanese growth in Q1

Interest in Japan in the coming week will centre on the publication of the Q1 GDP figures. We predict GDP growth of 0.7% q/q in Q1, driven primarily by growth in housing investment (0.3pp), and further strong growth in net exports (0.2pp). We expect private consumption to grow by 0.5% q/q (boosting GDP growth by just over 0.1pp), which is slightly better than in Q4, but this is still the weakest part of the Japanese economy. The GDP growth of 0.9% q/q in Q4 was surprisingly strong, and we cannot rule out the possibility of this figure being revised downwards - in particular we are a little sceptical about the extraordinarily strong business investment initially reported for Q4.

Although Q1 is therefore looking quite healthy, it is important to stress that Japanese growth is set to weaken from here, dropping to around 0.3% q/q in H2 as export growth slows and the temporary boost from higher housing investment evaporates.

The past month has seen a marked shift in the market's interest rate expectations. The market now thinks that the next step from the Bank of Japan is most likely to be an increase in interest rates rather than a decrease, which was what much of the market believed in April (see chart). This shift comes on the back of economic data suggesting that Japanese growth has not collapsed after all, and a surprisingly strong rise in inflation to 1.2% y/y. Although we think the BoJ will indeed raise its rates in mid-2009, we believe the market has overreacted to the latest inflation figures. Inflation is still well within the BoJ's target range of 0-2%, and core inflation excluding energy and food is still a modest 0.1% y/y. We also expect inflation to drop back to 0.6% in 2009 as oil and food prices stabilise. As we have stressed before, we do not see inflation as a serious limiting factor for Japanese monetary policy. We believe that growth, not inflation, will be the key to the timing of the next interest rate hike in Japan.



### Key events of the week ahead

- Monday brings Chinese inflation figures for April. We expect a slight drop due to falling food prices.
- Friday brings Q1 GDP data for Japan. We predict robust GDP growth of 0.7% q/q.
- The coming week also brings Chinese trade figures for April, which will finally give us an opportunity to assess the underlying strength of Chinese exports, as both the February and March figures were affected by the winter storms.

| Date        | Time | Event                             | Period  | Danske Bank | Consensus  | Previous     |
|-------------|------|-----------------------------------|---------|-------------|------------|--------------|
| Mon 12 - 15 | -    | CNY Trade balance                 | USD bn  | Apr         | 15.50      | 13.41        |
| Mon 12 - 15 | -    | CNY Total Export                  | y/y     | Apr         | 20.3%      | 30.6%        |
| Mon 12 - 15 | -    | CNY Total Import                  | y/y     | Apr         | 26.0%      | 24.6%        |
| Mon 12      | 1:50 | JPY Money supply M2 + CD          | y/y     | Apr         | 2.2%       | 2.2%         |
| Mon 12      | 1:50 | JPY Bank Lending incl trust       | y/y     | Apr         | 1.2%       | 1.1%         |
| Mon 12      | 4:00 | CNY CPI                           | %       | Apr         | 8.2        | 8.3          |
| Mon 12      | 7:00 | JPY Eco watchers survey, current  | Index   | Apr         |            | 36.9         |
| Mon 12 - 15 | 8:15 | CNY Money Supply M1               | %       | Apr         |            | 18.3         |
| Mon 12 - 15 | 8:15 | CNY Money supply M2               | %       | Apr         | 16.2       | 16.3         |
| Tue 13      | 4:00 | CNY Retail sales value            | y/y     | Apr         | 21.1%      | 21.5%        |
| Wed 14      | 1:50 | JPY Domestic CGPI                 | m/mly/y | Apr         | 0.5% 3.6%  | 0.5% 3.9%    |
| Wed 14      | 1:50 | JPY Adjusted current account s.a. | JPY bn  | Mar         | 1959.7     | 1461.1       |
| Wed 14      | 4:00 | CNY Industrial production         | y/y     | Apr         | 17.5%      | 17.8%        |
| Thu 15      | 1:50 | JPY Machine orders                | m/mly/y | Mar         | -5.2% 1.5% | -12.7% -2.4% |
| Fri 16      | 1:50 | JPY GDP, preliminary              | q/q     | 1st quarter | 0.7%       | 0.9%         |
| Fri 16      | 1:50 | JPY GDP Deflator, preliminary     | y/y     | 1st quarter | -1.5%      | -1.3%        |
| Fri 16      | 1:50 | JPY Capacity utilization, final   | m/m     | Mar         |            | 1.8%         |
| Fri 16      | 6:30 | JPY Industrial production, final  | m/mly/y | Mar         |            | -3.1% -0.4%  |
| Fri 16      | 7:00 | JPY Consumer confidence           | Index   | Apr         |            | 37.0         |

# Foreign exchange

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## Has EUR/USD peaked?

**More grief than glad tidings** has generally been what the past week's economic data have brought. Euroland retail sales, Spanish consumer confidence and pending home sales in the US all fell to all-time lows, while the French trade deficit rose to a record high. The UK saw falling activity in the service sector and weakening consumer confidence. Meanwhile, Germany, Norway, Sweden and Hungary experienced declining industrial production, and in Australia, New Zealand and Switzerland unemployment rose.

More bad news than good is reflective of an economic cycle that is continuing to weaken. This is true of the industrial cycle, but even more so of consumption and housing. Industrial cycles are normally quite short (6-9 months), while housing cycles are long. The good news is that lower activity is often followed by falling inflation, and indeed inflation receded this week in Ireland, Spain and Switzerland. Unfortunately (from the inflation perspective), the past week saw new records for energy prices, with oil above USD 124. Not only do rising oil prices mean upward pressure on inflation, they also undermine consumption. However, **rising oil prices should support NOK**, and we continue to expect EUR/NOK to fall to 7.75.

From an FX perspective, economic cycles have an impact at a number of levels. **In a declining economic cycle, AUD, CAD and GBP normally underperform CHF, EUR and JPY** (see, eg, [FX and the business cycle](#), 12 December 2007). This is of course a *ceteris paribus* postulation, but we nevertheless use it to shape our general stance. After the latest correction, we again expect that EUR/CHF is on the way down, towards 1.58 (CHF/DKK towards 4.72) in the first leg. Meanwhile, relative developments are often easier to relate to. The past week saw the clearest deterioration of the **New Zealand** labour market for almost 10 years. This, along with a number of other indicators, presents a relatively clear picture of an economy rapidly slowing. As was the case with GBP earlier, our view is that the **combination of an overvalued currency, a substantial current account deficit and a turnaround in the monetary policy cycle points to a significant weakening of NZD** in the coming months.

The impression of more bad news flowing out of Euroland than the US these days is also something that has not escaped the attention of FX markets, and after having reached a top of 1.6018, **EUR/USD** has fallen back to 1.5350 (USD/DKK has risen from 4.65 to 4.85). We have previously argued that a shift in expectations for the respective economic cycles should cause a fall in EUR/USD around the middle of the year. The question then is if the turnaround is now materialising. Unfortunately, the answer is not clear cut. We are pretty sure the eurozone's economy is deteriorating, and still expect that the ECB will cut interest rates after the summer holidays. However, we are less sure that the US is over the worst, even though the fiscal stimulus package will support consumption in the coming 2-3 months. The short version is that one should expect considerable noise on the line in the coming weeks, with the chance of a technically-based movement all the way down to 1.48 (USD/DKK 5.04). Following our target of 1.60 being reached in April, we have cut our 3M forecast to 1.55, and 6M forecast to 1.50. Our 1-year forecast remains at 1.50 (see [Struggling between greed and fear](#), 5 May 2008).

# Fixed Income

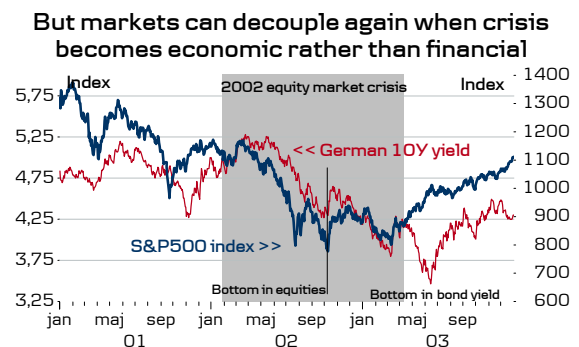
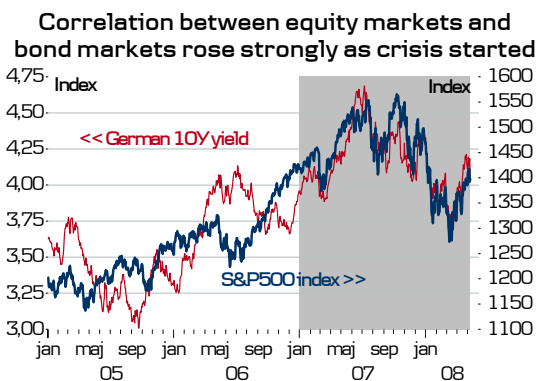
Allan von Mehren, Chief Analyst, +45 45 12 80 55, alvo@danskebank.dk

## Risk appetite still the main driver – but it may change

A classic symptom of being in a financial crisis is that markets become highly correlated. One factor drives everything – and that is risk appetite. A calming of the financial crisis – as we have seen lately – leads to increased risk appetite, and a shift from risk-free assets into risky assets. This means a shift out of government bonds into equities and credit markets, which leads to higher bond yields, rising equity prices and lower credit spreads. Another reason why bond yields rise with the shift into risky assets is that market conditions start to drive the macro-economy, whereas the feedback loop normally runs the other way. Hence, when market turmoil goes up it increases downside risks to growth, and leads to expectations of rate cuts. The Fed has clearly demonstrated that financial developments can dictate their actions: when panic was greatest, it cut aggressively – when calm returned the Fed sharply scaled back its cuts. Remember that market expectations swung from a cut of 100bp at one meeting to almost no cut at the next meeting – all within 4 weeks, and because financial markets had calmed down. As can be seen in the charts below, the correlation between bond yields and equities rose significantly in early 2007, when the first signs of distress from sub-prime investments surfaced, and it has stayed high since. Does this mean that yields cannot fall if equity prices rise?

Yes – as long as the financial crisis is driving the markets. However, this may be about to change. Consensus is increasingly saying that the worst of the financial crisis is over – and while we still see risks ahead, we generally agree. However, in our view, focus is increasingly turning away from the financial crisis and towards the economic crisis. The Fed may well cut rates further, not because financial markets are in distress, but because unemployment continues to rise. The ECB is expected to start cutting due to weaker growth, and not because of financial distress. This difference is important, as it means that correlations will likely weaken again at some point. This was the case in the 2002 financial crisis, when equities tanked because of earnings fraud combined with high valuations. But even when equities hit bottom in October 2002, bond yields continued to fall because central banks continued to cut rates, as growth was still struggling, and this led to further considerable declines in bond yields. In fact, 10-year German bond yields fell around 1 percentage point further in the period after S&P500 bottomed and the ECB cut rates by 125bp.

In the very short term, however, risk appetite will likely still be the main driver for bond markets, and hence developments in the coming weeks will be driven the faith of equity markets. We will also get some important US data next week: retail sales, CPI, and the Philly Fed survey. In Euroland, final CPI numbers for April are due. Hence, volatility will likely be high in the short term, but we think the direction for yields will eventually be lower again as the economic crisis increasingly spreads to Europe and other regions.



# Commodities

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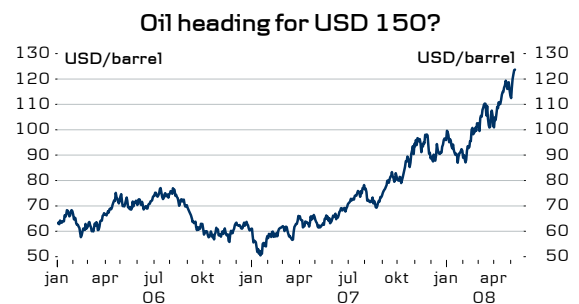
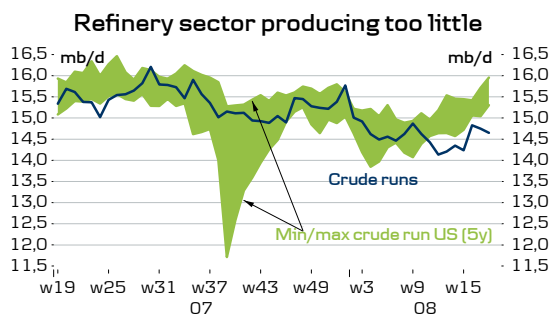
## The sky's the limit

As we recently wrote in *Commodity Monthly*, we believe there are a number of supply-side factors that are sending oil prices higher at the moment, including major production problems in Nigeria (strikes and sabotage), and the apparent stagnation of production in Russia.

In reality, though, increasing oil prices may to a greater extent be the result of demand-side issues this time. The past month has seen a rise in optimism with regard to the US economy: unemployment is not rising as fast as feared, and "tax cheques" are beginning to drop into US mailboxes. This has stoked market fears that the so-called driving season, which starts at the end of May, will not be as weak as expected earlier.

Capacity utilisation at US refineries is already quite low. The combination of low margins (low crack spread) and maintenance programmes has reduced the production of both petrol and distillates (diesel/heating oil). The consequence of this is that demand for crude oil has actually been low in recent months, which is also reflected in healthy crude oil inventories. Hence, the problem is not a lack of crude oil right here and now, but rather that pressure on the refinery sector may increase in the coming months. US petrol stocks have been falling steeply during the spring despite slightly lower demand this year compared to last. With the driving season about to get into gear – and perhaps surprise on the upside – the entire energy complex risks becoming even more squeezed in the coming weeks. One thing that makes us a little nervous – from the consumer's point of view – is an isolated increase in petrol prices (increasing crack spread). Petrol prices normally rise relative to oil prices over the summer. This has not yet happened this year, but the risk remains. If the crack spread develops as in 2007, this alone might equate to petrol prices increasing by up to USD 15-20 extra a barrel. If this happens it will cause petrol production to jump, and so the comfortable inventory situation for crude oil could rapidly deteriorate. It is this fear that is contributing to oil prices setting new records daily.

So what should we expect of oil prices in the coming months? We see a clear risk that the peak has not yet been reached for either oil or petrol prices. Oil at USD 150/barrel seemed crazy just a few months ago, but suddenly it is being viewed as a serious possibility by the market. In reality, there is a risk that oil prices will continue to rise until the market becomes convinced that demand will be seriously hurt. However, as long as both China and much of the Middle East have price controls that shield consumers from the higher prices on global markets, the risk is that oil prices will continue to surge in the coming months.



# Equities

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## US Q1 earnings: Almost over the first hurdle

The US Q1 reporting season has been going on for more than one month, and is now slowly drawing to a close, with more than 400 companies in the US S&P500 index having reported. With less than 70 S&P500 companies left to report, the earnings growth rate has so far averaged -13.1% y/y, and so a third consecutive quarter of negative growth seems inevitable. Looking one quarter further ahead, Q2 08 is also currently expected to deliver negative earnings growth (consensus), while Q3 is forecast to be the first quarter to deliver positive earnings growth rates in a year (consensus).

There is one sector in particular that has been responsible for the very negative growth rate - Financials. The financial sector has been hard hit by what we have previously termed the three-in-one crisis, and indeed relatively large write-downs in the US financial sector have continued in Q1. Given the harsh environment for Financials (as was also the case in Q3/Q4 07), earnings growth here is expected to come out somewhere around -76% y/y in Q1. Another sector with negative earnings growth in Q1 is Consumer Discretionary, which underlines that the US consumption slowdown is indeed having an impact, particularly on the cyclical part of the consumer-sensitive sectors. If one were to correct for the very negative contribution to earnings growth from Financials, earnings growth in Q1 would be 11%.

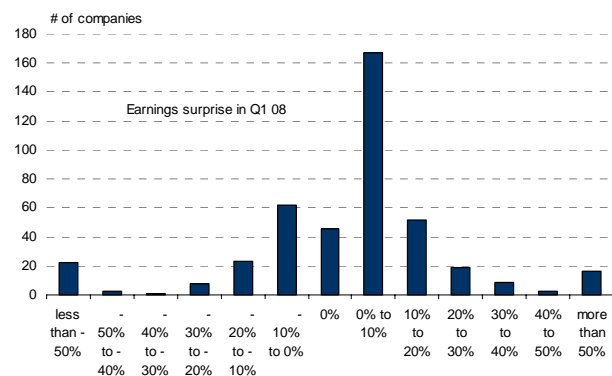
Turning to earning surprises in this reporting season, more companies have surprised the market positively than negatively. Currently, around 62% of companies who have reported have surprised positively, while around 28% have surprised negatively. That said, the number of companies surprising very negatively has been higher than the number of companies surprising very positively, and as can be seen in the chart below, there is a very large hump in the range 0% to 10% surprise on earnings.

So, in conclusion, the US corporate sector is almost through the first quarter with what we would characterize as reasonable results that did not surprise consensus that much. Still, as we have argued before, we are of the opinion that current consensus estimates on S&P500 are too high for the remainder of the year, and we expect earnings growth to end at around 4%-5% y/y rather than the current expectation for 2008 of 10% y/y. Although we continue to see room for further negative revisions in earnings, we believe that these is already priced into the current valuation of equities, and partly because of this we continue to see further upside in equity markets on a three-month horizon.

### Consensus expectations for EPS growth on S&P500

|                          | EPS growth, % y/y, Bottom Up |        |       |       |
|--------------------------|------------------------------|--------|-------|-------|
|                          | Q1-08                        | Q2-08  | Q3-08 | Q4-08 |
| Total                    | -12.6%                       | -5.1%  | 15.8% | 69.1% |
| Consumer Discretionary   | -7.1%                        | -0.8%  | 45.1% | 32.5% |
| Consumer Staples         | 15.6%                        | 9.3%   | 8.9%  | 10.9% |
| Energy                   | 27.9%                        | 10.4%  | 20.0% | 3.4%  |
| Financials               | -76.9%                       | -49.0% | 14.5% | 292%  |
| Health Care              | 9.8%                         | 12.4%  | 11.0% | 23.9% |
| Industrials              | 5.9%                         | 5.7%   | 6.0%  | 5.8%  |
| Information Technology   | 12.3%                        | 23.3%  | 19.1% | 15.9% |
| Materials                | 10.1%                        | 6.3%   | 0.8%  | 23.0% |
| Telecommunications Serv. | 23.6%                        | 33.4%  | 29.1% | 34.4% |
| Utilities                | 14.1%                        | 20.5%  | 4.7%  | 13.0% |

### Distribution of earnings surprises in S&P500



# Macroeconomic forecast

## Macro forecast, Scandinavia

|         | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Stock build. <sup>2</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Unem-ptym. <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|---------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| Denmark | 2007 | 1,8              | 2,5                        | 1,7                       | 6,7                     | -0,2                      | 3,7                   | 6,1                   | 1,7                     | 2,9                     | 4,1                        | 25                       | 1,1                       |
|         | 2008 | 1,4              | 2,4                        | 1,7                       | 2,6                     | -0,1                      | 3,4                   | 4,5                   | 3,1                     | 2,0                     | 3,2                        | 20                       | 0,6                       |
|         | 2009 | 1,3              | 1,4                        | 1,6                       | 0,6                     | 0,1                       | 2,8                   | 2,8                   | 2,4                     | 2,5                     | 2,3                        | 17                       | 0,6                       |
| Sweden  | 2007 | 2,7              | 3,2                        | 1,0                       | 8,3                     | 0,7                       | 5,8                   | 9,7                   | 2,2                     | 6,2                     | 3,1                        | 42,0                     | 8,3                       |
|         | 2008 | 1,8              | 1,7                        | 1,0                       | 3,5                     | -0,7                      | 5,3                   | 4,5                   | 2,9                     | 6,2                     | 2,9                        | 37,7                     | 8,2                       |
|         | 2009 | 1,6              | 1,0                        | 1,8                       | 0,4                     | -0,4                      | 3,8                   | 2,4                   | 1,5                     | 6,8                     | 2,3                        | 35,5                     | 8,3                       |
| Norway  | 2007 | 3,5              | 6,4                        | 3,2                       | 9,6                     | -1,3                      | 3,2                   | 8,6                   | 0,8                     | 2,5                     | 8,0                        | 26                       | 19,3                      |
|         | 2008 | 3,5              | 4,6                        | 2,8                       | 10,9                    | -0,2                      | 3,7                   | 9,2                   | 4,4                     | 3,3                     | 12,0                       | 26                       | 20,6                      |
|         | 2009 | 2,9              | 4,1                        | 2,8                       | 2,6                     | 0,0                       | 3,4                   | 4,8                   | 2,2                     | 3,4                     | 13,9                       | 26                       | 18,2                      |

## Macro forecast, Euroland

|          | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Stock build. <sup>2</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Unem-ptym. <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|----------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| Euroland | 2007 | 2,6              | 1,4                        | 2,1                       | 4,8                     | -0,1                      | 6,0                   | 5,2                   | 2,8                     | 7,4                     | -0,8                       | 67                       | -0,8                      |
|          | 2008 | 1,4              | 1,2                        | 1,2                       | 1,7                     | 0,1                       | 3,1                   | 3,3                   | 2,8                     | 7,1                     | -0,8                       | 65                       | -0,3                      |
|          | 2009 | 1,5              | 1,5                        | 1,5                       | 1,5                     | 0,0                       | 4,0                   | 4,9                   | 1,9                     | 7,4                     | -0,8                       | 64                       | -0,5                      |
| Germany  | 2007 | 2,7              | -0,2                       | 1,9                       | 5,6                     | -0,1                      | 8,5                   | 5,5                   | 2,9                     | 9,1                     | -0,5                       | 65                       | 5,8                       |
|          | 2008 | 1,6              | 0,6                        | 0,7                       | 1,7                     | 0,2                       | 5,1                   | 3,3                   | 1,9                     | 8,3                     | 0,2                        | 64                       | 5,8                       |
|          | 2009 | 1,4              | 1,1                        | 1,1                       | 1,5                     | -0,1                      | 5,0                   | 3,9                   | 1,4                     | 8,0                     | 0,4                        | 64                       | 6,0                       |
| 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                   | 1,8                     | 7,7                     | -2,2                       | 62                       | -2,3                      |
|          | 2009 | 1,5              | 1,8                        | 1,3                       | 2,0                     | -0,1                      | 2,5                   | 3,9                   | 1,4                     | 7,5                     | -2,3                       | 61                       | -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 | 1,0              | 0,9                        | 0,5                       | 0,9                     | 0,2                       | 1,1                   | 2,3                   | 2,3                     | 5,7                     | -2,0                       | 103                      | -1,7                      |
|          | 2009 | 0,9              | 0,9                        | 0,8                       | 1,2                     | -0,1                      | 0,5                   | 2,4                   | 1,8                     | 5,7                     | -2,2                       | 102                      | -1,7                      |
| Spain    | 2007 | 3,9              | 3,4                        | 5,3                       | 6,4                     | -0,4                      | 5,5                   | 6,8                   | 3,4                     | 8,0                     | 1,5                        | 37                       | -9,0                      |
|          | 2008 | 2,7              | 2,3                        | 3,2                       | 3,7                     | 0,2                       | 3,6                   | 4,3                   | 3,2                     | 8,2                     | 1,0                        | 35                       | -9,5                      |
|          | 2009 | 2,4              | 1,8                        | 3,1                       | 2,5                     | -0,1                      | 2,5                   | 3,9                   | 2,3                     | 8,8                     | 0,0                        | 35                       | -9,0                      |
| 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                       | 4,8                   | 4,1                   | 2,5                     | 6,9                     | 5,3                        | 35                       | 4,6                       |
|          | 2008 | 2,6              | 2,5                        | 1,5                       | 3,0                     | 0,0                       | 2,5                   | 2,0                   | 3,3                     | 6,5                     | 4,7                        | 33                       | 4,5                       |
|          | 2009 | 2,5              | 2,5                        | 1,5                       | 2,0                     | 0,0                       | 3,0                   | 2,5                   | 2,2                     | 6,2                     | 3,9                        | 31                       | 4,5                       |

## Macro forecast, Global

|              | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Stock build. <sup>2</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Unem-ptym. <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|--------------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| 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 | 1,2              | 1,4                        | 2,4                       | -6,1                    | -0,4                      | 7,2                   | -2,2                  | 3,9                     | 5,3                     | -3,5                       | 61                       | -3,0                      |
|              | 2009 | 1,5              | 1,2                        | 2,0                       | -2,8                    | 0,0                       | 7,4                   | 1,0                   | 2,2                     | 6,0                     | -2,5                       | 61                       | -1,2                      |
| Japan        | 2007 | 2,1              | 1,4                        | 0,8                       | -3,1                    | -0,2                      | 7,8                   | 1,8                   | 0,0                     | 3,8                     | -3,3                       | 180                      | 5,0                       |
|              | 2008 | 1,4              | 1,1                        | 0,9                       | 2,0                     | 0,1                       | 5,0                   | 3,8                   | 1,2                     | 3,8                     | -3,8                       | 182                      | 4,8                       |
|              | 2009 | 1,7              | 1,5                        | 1,2                       | 2,5                     | 0,0                       | 5,4                   | 4,4                   | 0,6                     | 3,6                     | -3,5                       | 183                      | 5,0                       |
| 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                   | 1,9                     | 2,6                     | 0,0                        | 54                       | 13,9                      |
|              | 2009 | 1,6              | 1,6                        | 0,6                       | 1,7                     | 0,0                       | 4,7                   | 5,2                   | 1,1                     | 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                    | 09-maj | 2,00          | 3,00            | 4,34             | 154,6           | -               | 482,7           |
|                        | +3m    | 1,75          | 2,80            | 4,30             | 155             | -               | 481             |
|                        | +6m    | 1,75          | 2,85            | 4,30             | 150             | -               | 497             |
|                        | +12m   | 1,75          | 3,25            | 4,50             | 150             | -               | 497             |
| EUR                    | 09-maj | 4,00          | 4,42            | 4,49             | -               | 154,6           | 746,2           |
|                        | +3m    | 4,00          | 4,20            | 4,45             | -               | 155             | 746,0           |
|                        | +6m    | 3,75          | 3,95            | 4,30             | -               | 150             | 746,0           |
|                        | +12m   | 3,25          | 3,50            | 4,10             | -               | 150             | 746,0           |
| JPY                    | 09-maj | 0,50          | 1,10            | 1,75             | 159,5           | 103,2           | 4,68            |
|                        | +3m    | 0,50          | 1,05            | 1,80             | 158             | 102             | 4,72            |
|                        | +6m    | 0,50          | 1,15            | 1,85             | 150             | 100             | 4,97            |
|                        | +12m   | 0,50          | 1,30            | 2,00             | 150             | 100             | 4,97            |
| GBP                    | 09-maj | 5,00          | 5,20            | 5,06             | 79,1            | 195,4           | 943,1           |
|                        | +3m    | 4,75          | 4,90            | 4,90             | 82,0            | 189             | 910             |
|                        | +6m    | 4,50          | 4,80            | 4,80             | 80,0            | 188             | 933             |
|                        | +12m   | 4,25          | 4,50            | 4,60             | 75,0            | 200             | 995             |
| CHF                    | 09-maj | 2,75          | 2,96            | 3,44             | 161,4           | 104,4           | 462,4           |
|                        | +3m    | 2,75          | 2,85            | 3,40             | 158             | 102             | 472             |
|                        | +6m    | 2,75          | 2,70            | 3,30             | 156             | 104             | 478             |
|                        | +12m   | 2,25          | 2,40            | 3,20             | 152             | 101             | 491             |
| DKK                    | 09-maj | 4,25          | 4,65            | 4,61             | 746,2           | 482,7           | -               |
|                        | +3m    | 4,25          | 4,45            | 4,55             | 746,0           | 481             | -               |
|                        | +6m    | 4,00          | 4,10            | 4,40             | 746,0           | 497             | -               |
|                        | +12m   | 3,50          | 3,60            | 4,15             | 746,0           | 497             | -               |
| SEK                    | 09-maj | 4,25          | 4,63            | 4,70             | 929,5           | 601,2           | 80,3            |
|                        | +3m    | 4,25          | 4,40            | 4,60             | 925             | 597             | 80,6            |
|                        | +6m    | 4,25          | 4,25            | 4,45             | 920             | 613             | 81,1            |
|                        | +12m   | 3,75          | 3,70            | 4,30             | 920             | 613             | 81,1            |
| NOK                    | 09-maj | 5,50          | 6,11            | 5,32             | 786,3           | 508,6           | 94,9            |
|                        | +3m    | 5,50          | 6,20            | 5,40             | 780             | 503             | 95,6            |
|                        | +6m    | 5,50          | 6,00            | 5,30             | 775             | 517             | 96,3            |
|                        | +12m   | 5,50          | 5,80            | 5,30             | 775             | 517             | 96,3            |
| PLN                    | 09-maj | 5,75          | 6,29            | 5,78             | 341,1           | 220,6           | 218,8           |
|                        | +3m    | 5,75          | 6,20            | 5,60             | 350             | 226             | 213             |
|                        | +6m    | 5,75          | 5,90            | 5,75             | 355             | 237             | 210             |
|                        | +12m   | 5,75          | 7,05            | 6,85             | 360             | 240             | 207             |

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

| Commodities |            |                |       |       |       |         |       |
|-------------|------------|----------------|-------|-------|-------|---------|-------|
|             | 08-05-2008 | 2008 - average |       |       |       | Average |       |
|             |            | Q1             | Q2    | Q3    | Q4    | 2008    | 2009  |
| ICE Brent   | 125        | 96             | 114   | 117   | 114   | 110     | 105   |
| Aluminium   | 2.875      | 2.779          | 3.000 | 3.025 | 3.050 | 2.964   | 3.100 |
| Copper      | 8.300      | 7.741          | 8.600 | 8.700 | 8.800 | 8.460   | 8.900 |
| Gold        | 883        | 924            | 880   | 900   | 910   | 904     | 930   |
| CBOT Wheat* | 839        | 1.026          | 830   | 870   | 900   | 907     | 1.050 |
| CBOT Corn*  | 639        | 527            | 610   | 630   | 650   | 604     | 660   |

\* Note: US\$/bushel

# Key data and events

| Monday, May 12, 2008 |     |   |         |     | Period | Danske Bank | Consensus   | Previous |
|----------------------|-----|---|---------|-----|--------|-------------|-------------|----------|
| 1:50                 | JPY | Money supply M2+CD                      | y/y     | Apr |        | 2.2%        | 2.2%        |          |
| 1:50                 | JPY | Bank Lending incl trust                 | y/y     | Apr |        | 1.2%        | 1.1%        |          |
| 4:00                 | CNY | CPI                                     | %       | Apr |        | 8.2         | 8.3         |          |
| 7:00                 | JPY | Eco watchers survey, current            | Index   | Apr |        |             | 36.9        |          |
| 10:00                | ITL | Industrial production                   | m/mly/y | Mar |        | 0.0% -0.9%  | -0.2% -0.8% |          |
| 10:30                | GBP | PPI - Input                             | m/mly/y | Apr |        | 1.4% 2.1.5% | 1.8% 2.0.6% |          |
| 10:30                | GBP | PPI - Output                            | m/mly/y | Apr |        | 0.6% 6.4%   | 0.9% 6.2%   |          |
| 10:30                | GBP | PPI - Output core                       | m/mly/y | Apr |        | 0.3% 3.2%   | 0.3% 3.1%   |          |
| 10:30                | GBP | Total trade balance                     | GBP bln | Mar |        | -4400       | -4439       |          |
| 10:30                | GBP | Visible Trade balance                   | GBP bn  | Mar |        | -7500       | -7487       |          |
| 10:30                | GBP | Trade balance Non EU                    | GBP bn  | Mar |        |             | -4023       |          |
| 15:15                | USD | Fed's Evans (non-voter, neutral) speaks |         |     |        |             |             |          |
| 20:00                | USD | Budget statement                        | USD bn  | Apr |        | 157.5       | 177.7       |          |

| Tuesday, May 13, 2008 |     |  |         |     | Period    | Danske Bank | Consensus  | Previous |
|-----------------------|-----|--|---------|-----|-----------|-------------|------------|----------|
| 1:01                  | GBP | RICS House Price Balance                   | %       | Apr |           | -80.0       | -78.5      |          |
| 1:01                  | GBP | BRC April Retail Sales Monitor             |         |     |           |             |            |          |
| 1:15                  | USD | Fed's Lockhart (non-voter, neutral) speaks |         |     |           |             |            |          |
| 4:00                  | CNY | Retail sales value                         | y/y     | Apr |           | 21.1%       | 21.5%      |          |
| 9:00                  | ESP | HICP                                       | m/mly/y | Apr |           |             | 0.9% 4.2%  |          |
| 9:30                  | SEK | Underlying inflation, UND1X                | m/mly/y | Apr | 0.2% 2.2% | 0.5% 2.3%   | 0.9% 2.3%  |          |
| 9:30                  | SEK | CPI  | m/mly/y | Apr | 0.5% 3.3% | 0.5% 3.4%   | 0.9% 3.4%  |          |
| 9:30                  | DKK | CPI  | m/mly/y | Apr | 0.3% 3.2% |             | 0.4% 3.1%  |          |
| 9:30                  | DKK | HICP                                       | m/mly/y | Apr | 0.3% 3.3% |             | 0.5% 3.3%  |          |
| 10:00                 | SEK | Nat. labour market board, Unemployment     | %       | Apr | 3.0       | 3.1         | 3.2        |          |
| 10:30                 | GBP | CPI  | m/mly/y | Apr |           | 0.5% 2.6%   | 0.4% 2.5%  |          |
| 10:30                 | GBP | CPI core                                   | y/y     | Apr |           | 1.3%        | 1.2%       |          |
| 10:30                 | GBP | Retail Price Index                         | m/mly/y | Apr |           | 0.5% 3.8%   | 0.3% 3.8%  |          |
| 10:30                 | GBP | RPI ex mortgage interest payments          | y/y     | Apr |           | 3.6%        | 3.5%       |          |
| 10:30                 | GBP | DCLG House Prices                          | y/y     | Mar |           | 3.9%        | 6.7%       |          |
| 12:10                 | USD | Fed's Pinalto (voter, neutral) speaks      |         |     |           |             |            |          |
| 14:20                 | USD | Chairman Bernanke (voter, neutral) speaks  |         |     |           |             |            |          |
| 14:30                 | USD | Import prices                              | m/mly/y | May |           | 1.5% .      | 2.8% 14.8% |          |
| 14:30                 | USD | Retail sales                               | m/m     | May | -0.3%     | -0.1%       | 0.2%       |          |
| 14:30                 | USD | Retail sales less autos                    | m/m     | May | 0.1%      | 0.2%        | 0.1%       |          |
| 15:15                 | USD | Fed's Warsh (voter, dove) speaks           |         |     |           |             |            |          |
| 17:00                 | USD | Fed's Plosser (voter, hawk) speaks         |         |     |           |             |            |          |
| 19:00                 | USD | Fed's Yellen (non-voter, dove) speaks      |         |     |           |             |            |          |
| 19:00                 | USD | Fed's Hoenig (non-voter, neutral) speaks   |         |     |           |             |            |          |
| 19:30                 | USD | Fed's Fisher (voter, neutral) speaks       |         |     |           |             |            |          |

| Wednesday, May 14, 2008 |     |  |         |             | Period    | Danske Bank | Consensus | Previous |
|-------------------------|-----|--|---------|-------------|-----------|-------------|-----------|----------|
| 1:50                    | JPY | Domestic CGPI                              | m/mly/y | Apr         |           | 0.5% 3.6%   | 0.5% 3.9% |          |
| 1:50                    | JPY | Adjusted current account s.a.              | JPY bn  | Mar         |           | 1959.7      | 1461.1    |          |
| 4:00                    | CNY | Industrial production                      | y/y     | Apr         |           | 17.5%       | 17.8%     |          |
| 8:40                    | FRF | HICP                                       | m/mly/y | Apr         |           | 0.4% 3.4%   | 0.8% 3.5% |          |
| 9:00                    | ESP | GDP, preliminary                           | q/qly/y | 1st quarter |           |             | 0.8% 3.5% |          |
| 9:30                    | SEK | House prices                               | mn. SEK | Apr         |           |             | 1.872     |          |
| 10:00                   | ITL | HICP, final                                | m/mly/y | Apr         |           | 0.5% 3.5%   | 1.6% 3.6% |          |
| 10:30                   | GBP | Claimant Count Rate                        | %       | Apr         |           | 2.5         | 2.5       |          |
| 10:30                   | GBP | Jobless claims change                      | '000    | Apr         |           | 0.0         | -1.2      |          |
| 10:30                   | GBP | Average Earnings inc bonus                 | 3Ms/YoY | Mar         |           | 3.7%        | 3.7%      |          |
| 10:30                   | GBP | Average Earnings ex bonus                  | 3Ms/YoY | Mar         |           | 3.8%        | 3.8%      |          |
| 10:30                   | GBP | ILO unemployment rate                      | %       | Mar         |           | 5.2         | 5.2       |          |
| 10:30                   | GBP | Manufacturing unit wage costs              | 3msly/y | Mar         |           |             | 0.8%      |          |
| 11:00                   | EUR | Industrial production                      | m/mly/y | Mar         |           | -0.2% 2.4%  | 0.3% 3.1% |          |
| 11:30                   | GBP | BoE quarterly inflation report             |         |             |           |             |           |          |
| 13:00                   | USD | MBA mortgage applications                  | %       |             |           |             | 15.6      |          |
| 14:30                   | USD | CPI  | m/mly/y | Apr         | 0.4% 4.0% | 0.3% 3.9%   | 0.3% 4.0% |          |
| 14:30                   | USD | CPI ex. food & energy                      | m/mly/y | Apr         | 0.2% 2.4% | 0.2% 2.4%   | 0.2% 2.4% |          |
| 14:30                   | USD | Fed's Rosengren (non-voter, dove) speaks   |         |             |           |             |           |          |
| 15:15                   | USD | Fed's Kroszner (voter, neutral) speaks     |         |             |           |             |           |          |
| 18:00                   | USD | Fed's Lockhart (non-voter, neutral) speaks |         |             |           |             |           |          |

# Key data and events

| Thursday, May 15, 2008 |     |  |           | Period      | Danske Bank      | Consensus  | Previous     |
|------------------------|-----|--|-----------|-------------|------------------|------------|--------------|
| 1:50                   | JPY | Machine orders                           | m/mly/y   | Mar         |                  | -5.2% 1.5% | -12.7% -2.4% |
| 8:00                   | DEM | HICP, final                              | m/m   y/y | Apr         |                  | -0.3% 2.6% | 0.5% 2.6%    |
| 8:00                   | DEM | GDP, preliminary                         | q/qly/y   | 1st quarter |                  | 0.7% 1.8%  | 0.3% 1.8%    |
| 8:45                   | FRF | GDP                                      | q/qly/y   | 1st quarter |                  | 0.4% 1.9%  | 0.4% 2.1%    |
| 10:00                  | EUR | ECB monthly report                       |           | May         |                  |            |              |
| 10:00                  | NOK | Trade balance                            | NOK bn    | Apr         |                  |            | 39.1         |
| 11:00                  | EUR | CPI                                      | m/mly/y   | Apr         |                  | 0.3% 3.3%  | 1.0% 3.6%    |
| 11:00                  | EUR | Core CPI                                 | y/y       | Apr         |                  | 2.0%       | 2.0%         |
| 11:00                  | EUR | GDP, s.a.                                | q/qly/y   | 1st quarter | <b>0.5% 1.9%</b> | 0.5% 1.9%  | 0.4% 2.2%    |
| 11:00                  | CHF | SNB's Jordan speaks                      |           |             |                  |            |              |
| 14:00                  | PLN | Current account                          | EUR mil   | Mar         | <b>-2024</b>     | -1500      | -1324        |
| 14:00                  | PLN | CPI                                      | y/y       | Apr         | <b>4.0%</b>      | 4.0%       | 4.1%         |
| 14:30                  | USD | Initial jobless claims                   | 1000      |             |                  |            | 365          |
| 14:30                  | USD | Empire Manufacturing Index               |           | May         |                  | 1.0        | 0.6          |
| 15:15                  | USD | Industrial production                    | m/m       | Apr         | <b>-0.2%</b>     | -0.2%      | 0.3%         |
| 15:15                  | USD | Capacity utilization                     | %         | Apr         | <b>80.3</b>      | 80.2       | 80.5         |
| 15:15                  | USD | Fed's Evans (non-voter, neutral) speaks  |           |             |                  |            |              |
| 15:30                  | USD | Chairman Bernanke (voter, neutral) speak |           |             |                  |            |              |
| 16:00                  | USD | Philadelphia Fed.                        | Index     | May         | <b>-18</b>       | -20.0      | -24.9        |
| 19:00                  | USD | NAHB Housing Market Index                | Index     | May         | <b>20</b>        | 20         | 20           |

| Friday, May 16, 2008 |     |  |         | Period      | Danske Bank | Consensus | Previous       |
|----------------------|-----|--|---------|-------------|-------------|-----------|----------------|
| 1:50                 | JPY | GDP, preliminary                               | q/q     | 1st quarter | <b>0.7%</b> | 0.6%      | 0.9%           |
| 1:50                 | JPY | GDP Deflator, preliminary                      | y/y     | 1st quarter |             | -1.5%     | -1.3%          |
| 1:50                 | JPY | Capacity utilization, final                    | m/m     | Mar         |             |           | 1.8%           |
| 6:30                 | JPY | Industrial production, final                   | m/mly/y | Mar         |             |           | -3.1% -0.4%    |
| 7:00                 | JPY | Consumer confidence                            | Index   | Apr         |             |           | 37.0           |
| 9:15                 | CHF | Retail sales, Nominal                          | y/y     | Mar         |             |           | 3.3            |
| 11:00                | EUR | Trade Balance                                  | EUR bn  | Mar         |             |           | 2.1            |
| 14:30                | USD | Housing starts                                 | 1000    | Apr         |             | 940       | 947            |
| 14:30                | USD | Building Permits                               | 1000    | Apr         |             | 915       | 927 (928 rev.) |
| 16:00                | USD | University of Michigan Confidence, preliminary | Index   | May         | <b>63.0</b> | 62.8      | 62.6           |

| During the week |     |   |        | Period | Danske Bank | Consensus | Previous |
|-----------------|-----|---|--------|--------|-------------|-----------|----------|
| Mon 12 - 15     | CNY | Trade balance                             | USD bn | Apr    |             | 15.50     | 13.41    |
| Mon 12 - 15     | CNY | Total Export                              | y/y    | Apr    |             | 20.3%     | 30.6%    |
| Mon 12 - 15     | CNY | Total Import                              | y/y    | Apr    |             | 26.0%     | 24.6%    |
| Mon 12 - 15     | CNY | Money Supply M1                           | %      | Apr    |             |           | 18.3     |
| Mon 12 - 15     | CNY | Money supply M2                           | %      | Apr    |             | 16.2      | 16.3     |
| Sat 17          | USD | Fed's Lockhart (non-voter, neutral) speak |        |        |             |           |          |

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