

Weekly Focus

November 9-16, 2007

Currency regimes may be tested

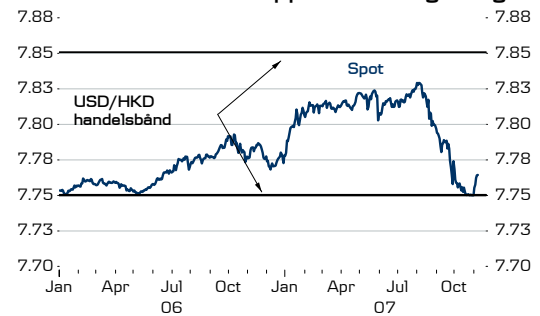
The USD has to some extent lost its safe-haven status in connection with the ongoing financial market turmoil. In part due to the weaker USD and lower interest rates in the US we are probably heading for a period when currency regimes around the world will be increasingly questioned.

Most obvious, of course, will be the countries that fully or partly peg their currencies to the USD - which is primarily a number of countries in Asia and the Middle East. In Asia there has been speculation in recent weeks on a major revaluation of the Chinese CNY and a widening of the fluctuation band for HKD.

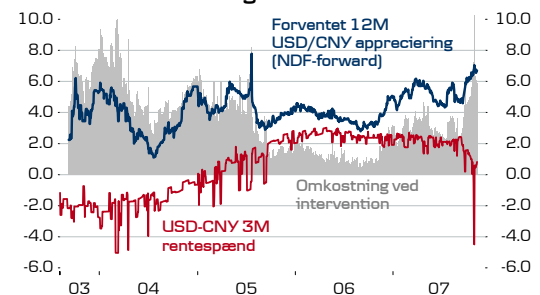
Put simply, the costs of maintaining the link to USD have been rising. First, it is becoming less and less compatible with the price stability goals of many countries. Second, the cost of accumulating foreign currency reserves in US assets is increasing as the USD weakens and US interest rates fall (see figure).

In eastern Europe too, a number of currency pegs are being increasingly questioned. Here, though, the problem is more one of overvalued currencies tied to an ever strengthening EUR. The Baltic currencies are an example of this, and particularly in Lithuania and Latvia the interest rate spread has widened considerably of late due to market fears of devaluation.

Can the unthinkable happen for Hong Kong?

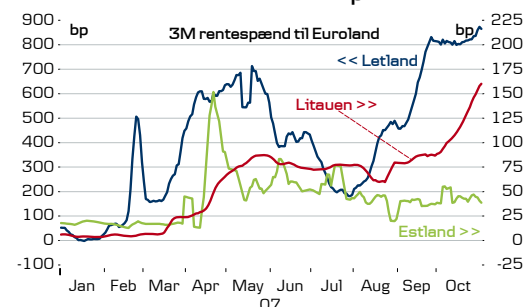


Cost of dollar-peg and intervention are increasing for China



Note: Graph shows cost of sterilised intervention where the currency is placed in the US money market and the liquidity effect in China is neutralised by issuing short government papers

Baltic currencies under pressure



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Denmark

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Parliamentary election on Tuesday

Top of the agenda in the coming week is, of course, the general election. According to the latest opinion polls, the outlook is for the current government to continue – but based on a hotchpotch parliamentary majority consisting of the Danish People’s Party and New Alliance.

The Danish People’s Party and New Alliance have few obvious commonalities – and hence one could well imagine a rather deadlocked political situation once the election is over. Just how significant this will be with respect to passing, for instance, economic reforms is difficult to say before the final composition of the parliament is known.

Should the outcome of the election be that the government can form a majority with either the Danish People’s Party and New Alliance, or with the Social-Liberal party and New Alliance, this will likely open the door wider to, for example, a further cut in taxes than if the majority can only be formed with the Danish People’s Party and New Alliance.

While the opinion polls currently indicate that the present government can continue in one form or another, the “don’t knows” are key, as a swing against the government here in the final days of the campaign could easily increase the chances of a regime shift. The alternative government would probably consist of the Social Democrats and the Social-Liberal Party supported by the left wing and perhaps the New Alliance, which has still not stated which side it would support.

A change of government would probably herald some changes in economic policy. But given what has been said during the election campaign, there is a limit to how extensive the changes might be. Most recently, the opposition has pledged to spare homeowners, meaning there will not really be adequate financing for some of the campaign’s grander promises. Hence, there are limits to how much of what the opposition has promised can be rolled out in practice unless it decides to raise property taxes after all or push through unfunded measures. Therefore, the most likely outcome is that economic policy will continue largely unchanged, and this is why financial markets are generally ignoring the election. From a financial perspective, whether one side or the other triumphs, the differences will not actually be that great.

Very low inflation



Key events of the week ahead

- Monday sees the release of October’s inflation data. We estimate that inflation will rise a little from the current extremely low level. While food prices and wage pressures are on the up, there has been no additional inflationary pressure in the Danish economy.
- General election on Tuesday.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 12 - 16	-	DKK CPI	m/mly/y	Oct	0.17% 1.5%	0.5% 1.2%
Mon 12	9:30	DKK HICP	m/mly/y	Oct	0.2% 1.3%	0.7% 1.2%

Sweden

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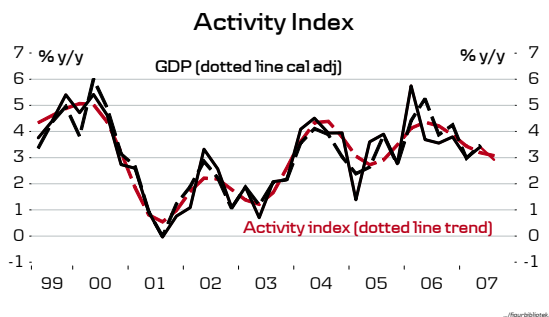
Activity Index posts further slowing

We recently received the GDP indicator, the Activity Index, for September. With a full third quarter's worth of data the Activity Index indicated growth just below 3% y/y. This fits well with our forecast of 2.5% y/y.

However, it is important to take into account that the normally very reliable Activity Index has performed quite poorly over the last few quarters, exaggerating as well as underestimating growth by more than half a percentage point.

Summing up preliminary data for Q3 it is very hard to reach the 3% y/y mark, but that of course excludes developments in inventory data.

We continue to forecast growth below the Riksbank's path over the coming two quarters. However, for this to make a considerable impact on the Riksbank, we believe it must be accompanied by a marked slowing of the labour market (or alternatively growth numbers in the coming months must come in lower and thus indicate a dramatically lower resource utilisation).



Key events of the week ahead

- In our opinion, the labour force survey is currently providing the most important input to the Riksbank's near-term actions. Should employment growth indeed slow, the Riksbank will not be able to hike rates in February as envisaged by the latest monetary policy report.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 12	9:30	SEK CPI	m/mly/y	Oct		
Mon 12	9:30	SEK Underlying inflation, UNDI1X	m/mly/y	Oct		

Norway

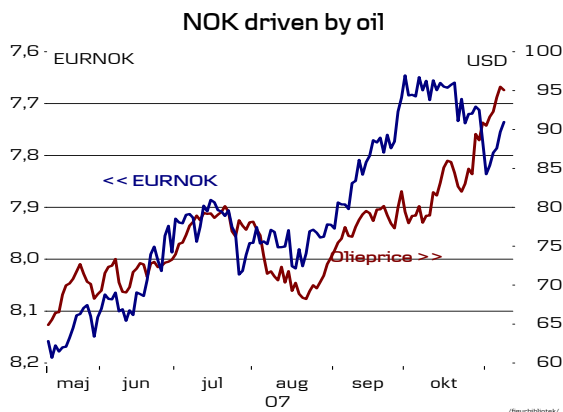
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Sustained investment boom in oil?

The weakening of the krone that followed in the wake of the monetary policy meeting on 31 October has been turned around in the past week. The reason appears to be a new surge in oil prices, which increases investor interest in buying NOK. As outlined in the "Commodities" section this week, we have just revised up our forecast on oil prices. We expect that oil will pass the magical \$100 mark before the end of the year, and we see the average price of oil at \$83/barrel next year - this is more than 20% above the latest consensus estimate from Reuters.

Given the above, we have, as described last week, revised down our forecast for Norwegian interest rates next year. We have on several occasions warned of the correlation between oil prices, the NOK exchange rate and Norwegian interest rates. The immediate connection points to a lower path for interest rates, as a stronger NOK will quickly result in lower imported inflation. On the other hand, the high price of oil is a reflection of global oil production capacity being too low. As this will likely increase global oil investments, the result will be a significant demand effect in the Norwegian economy a little further down the line. This may eventually increase cost-driven inflation in Norway, especially as capacity utilisation is so high.

The annual International Energy Agency report, which was released in the past week, emphasised that the underlying balance in the oil market could remain tight for the next seven or eight years. Aside from the direct effect, ie that Norway as an oil exporter will feel this as a significant improvement to its terms of trade, the analysis also suggests that the current oil investment boom could last longer than many expect. This will have a great deal of importance for future developments in the Norwegian economy and hence for interest rates, exchange rates, equity valuations and the like.



Key events of the week ahead

- No economic data of importance.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Thu 15	10:00	NOK Trade balance	Oct			29.2

Euroland and Switzerland

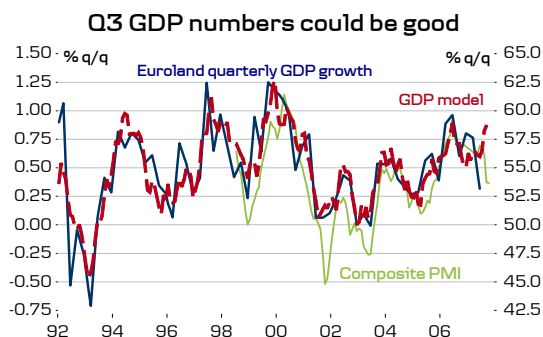
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Healthy Q3 GDP numbers on the way

Focus in the coming week will be on the GDP numbers for Q3. Normally, GDP growth follows business confidence quite closely, and hence the slide in business confidence in recent months could hint at somewhat weak GDP numbers. However, many other factors suggest that growth will be healthy. First, the construction sector will again pick up after the major tumble in the spring. Second, net exports have so far escaped being seriously hurt by the strong euro. And finally, industrial production has been very strong in Q3. Put all these factors together and the indication is for growth of close to 1% compared to Q2.

Still, the credit crisis will probably dampen growth a little - not least in the financial sector, where sentiment has been very subdued and where some areas have come to a standstill. Moreover, one cannot rule out some impact on the other sectors, including retail, which seems to have suffered somewhat from the gloomy mood. The trend that was forming for a particularly solid Q3 for private consumption has been weakened a little of late. Overall, we expect France to be the strongest performer, and to some extent Germany and Spain, while the Italian economy continues to look less than convincing.

Inflation in October will also be on the agenda in the coming week, with a number of inflation figures from several of the euro zone countries and a final estimate for inflation in Euroland as a whole. The flash estimate showed, rather surprisingly, a rise in inflation to 2.6% y/y, although there is a risk that this might be revised down to 2.5%. Food and energy prices are pushing headline inflation up, while core inflation will probably remain largely unchanged.



Key events of the week ahead

- GDP numbers for Q3 from several of the euro zone countries. We are generally expecting healthy numbers - especially from France
- Several October inflation figures. Possibility of a minor downward revision of the flash estimate for Euroland as a whole from 2.6% to 2.5%
- ECB's monthly report.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 13	8:45	FRF CPI	m/mly/y	0.2% 1.9%	0.3% 2.0%	0.1% 1.5%
Tue 13	11:00	EUR Industrial production	m/mly/y	-0.3% 4.6%	-0.2% 4.7%	1.2% 4.3%
Tue 13	11:00	DEM ZEW economic sentiment	Index	-22	-20	-18.1
Tue 13	11:00	DEM ZEW survey current situation	Index	69	66.9	70.2
Wed 14	8:00	DEM GDP	q/qly/y	0.8% 2.6%	0.7% 2.5%	0.3% 2.5%
Wed 14	8:45	FRF GDP	q/qly/y	0.8% 2.1%	0.7% 2.0%	0.3% 1.3%
Wed 14	9:00	ESP CPI	m/mly/y			0.3% 2.7%
Wed 14	9:00	ESP GDP	q/qly/y	0.8% 3.9%		0.9% 4.0%
Wed 14	11:00	EUR GDP, s.a.	q/qly/y	0.7% 2.6%	0.6% 2.5%	0.3% 2.5%
Thu 15	8:00	DEM Consumer prices	m/mly/y			0.2% 2.4%
Thu 15	10:00	EUR ECB monthly report				
Thu 15	11:00	EUR Inflation (MUICP)	m/mly/y		0.5% 2.6%	0.4% 2.6%
Thu 15	11:00	EUR MUICP core	m/mly/y	.. 1.9%	.. 1.9%	.. 1.8%
Thu 15 - 21	-	CHF Producer & Import prices	m/mly/y			
Thu 15 - 26	-	CHF Retail sales, Nominal (adj.)	y/y			
Thu 15	11:00	CHF ZEW survey	y/y			-16.0

Baltics

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Baltic crisis worsens

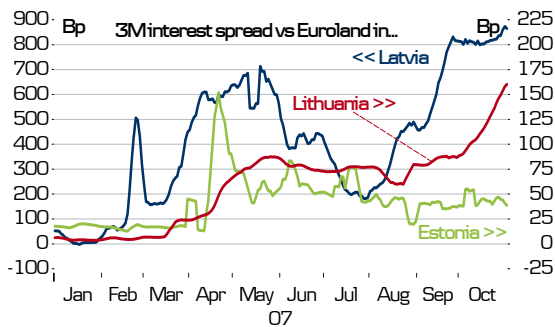
The economic and political situation in the Baltics has worsened further. This week we received new inflation numbers for Latvia and Estonia that show that inflation continues to rise in the Baltic states. All three Baltic states are likely to have double-digit inflation in 2008. Furthermore, the political situation has worsened, especially in Latvia after the Latvian Prime Minister, Aigars Kalvitis, this week announced that he will step down as Prime Minister on 5 December.

The worsening of the crisis has been mostly visible in the Lithuanian markets. Lithuania's three-month money market rates have risen by nearly 175bp since mid-September on the back of increased devaluation fears. The situation in Lithuania is not being helped by the fact that there is less than one year to general elections in the country and Prime Minister, Gediminas Kirkilas, does not have many options to push through economic reforms given his weak minority government.

The worsening of the situation in the Baltic states comes at the worst time possible. Over the last couple of weeks the global credit crunch has intensified, which is hardly good news for the Baltic economies that are struggling with overvalued asset markets and huge current account deficits.

Looking ahead, there is clearly a risk that financial unrest in the Baltic markets will intensify further and a hard landing for the Baltic economies seems more and more likely.

Interest rates in the Baltics



Key events of the week ahead

- Current account data will be out on Tuesday for Lithuania. We expect a small improvement to -EUR 162m., mostly due to seasonal factors.
- We expect Estonia's GDP on Tuesday to be 6.8% y/y, down from 7.6%.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 13	8:00	EK GDP	y/y	3rd quarter	6.8%	7.6%

US

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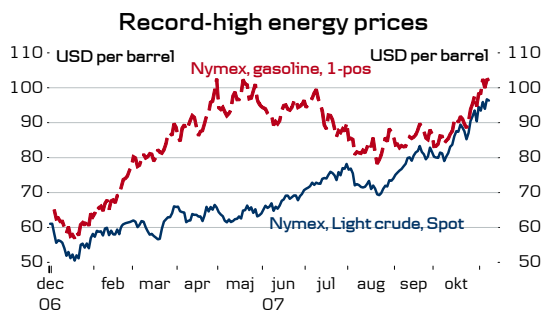
Energy prices push up inflation and pull down growth

Oil prices hit a new record high this week with New York's main contract surging to USD 98.62/bbl on Wednesday - not far from the magical USD 100 mark. Energy prices are now a real cause for concern for the coming quarters given the prospects of higher inflation and slower growth.

On the inflation side, the effect will be evident as early as in the coming week when October consumer prices are released. A month-on-month increase in consumer prices of 0.4% combined with strong base effects from last year's low energy prices will lead to a jump in annualised inflation from 2.8% in September to 3.6% in October. Inflation will climb further in Q4, to above 4% y/y.

Rising inflation will hit the real incomes of US households, putting a damper on consumption in the coming quarters. If oil prices remain in the USD 90-100/bbl range for the rest of the year, we estimate that energy prices could cut real income growth by about 1½pp in Q4 and ½pp in Q1 2008. By way of comparison, the effect of this energy price shock will be slightly less pronounced than the one in Q2 this year in the wake of the petrol price increases in the spring, and only half as great as the effect of Hurricane Katrina. That said, households will still face considerable erosion of their purchasing power.

Moreover, the rise in energy prices comes at a somewhat inconvenient time for the US economy, which is already burdened by the slowdown in the housing market and turmoil in the financial markets. Overall, the prospects are that economic growth will slow down significantly to below 2% in the quarters around New Year. The combination of a slowdown in growth and high inflation will put the Fed in a dilemma. Historically, the Fed has tended to support growth in such situations. Moreover, as core inflation (excluding energy and food) has declined over the year, one cannot rule out the risk that the Fed could come under pressure to cut interest rates further next year.



Key events of the week ahead

- Wednesday - PPI excl. energy and food expected to climb 0.2% m/m.
- Wednesday - Retail sales will come out fairly well with an increase of 0.2% m/m and 0.4% m/m excl. cars.
- Thursday - Consumer prices excl. energy and food will rise by 0.2% m/m.
- Thursday - The Philadelphia Fed index of business activity will decline slightly from 6.8 to 6.0.

Date	Time	Event	Period	Danske Bank	Consensus	Previous	
Mon 12	-	USD Veterans' Day - Market closed					
Tue 13	19:00	USD Fed's Kroszner (voter, hawk) speaks					
Tue 13	20:00	USD Monthly Budget statement	USD bn		-55.0	-49.3	
Tue 13	21:00	USD Pending home sales	m/m		-2.5%	-6.5%	
Tue 13	23:00	USD ABC Consumer confidence	Index				
Wed 14	10:00	USD Fed's Fisher (non-voter, neutral) speaks					
Wed 14	14:30	USD PPI	m/mly/y	Oct	0.5% 6.5%	0.3% 6.3%	1.1% 4.4%
Wed 14	14:30	USD PPI ex food and energy	m/mly/y	Oct	0.2% 2.7%	0.2% 2.6%	0.1% 2.0%
Wed 14	14:30	USD Advanced Retail sales	m/mly/y	Oct	0.2% 5.2%	0.2% .	0.6% 5.0%
Wed 14	14:30	USD Retail sales less autos	m/mly/y	Oct	0.4% 6.0%	0.3% .	0.4% 5.1%
Wed 14	15:10	USD Fed's Bernanke (voter, neutral) speaks					
Thu 15	14:30	USD CPI	m/mly/y	Oct	0.4% 3.6%	0.3% 3.5%	0.3% 2.8%
Thu 15	14:30	USD Initial jobless claims	1000		318	317	
Thu 15	14:30	USD CPI ex. food & energy	m/mly/y	Oct	0.2% 2.2%	0.2% 2.2%	0.2% 2.1%
Thu 15	14:30	USD Empire Manufacturing		Nov	20.0	28.8	
Thu 15	18:00	USD Philadelphia Fed.	Index	Nov	6.0	6.1	6.8
Thu 15	19:30	USD Fed's Hoenig (voter, neutral) speaks					
Fri 16	15:00	USD Total TIC flows		Sep		163.0	
Fri 16	15:15	USD Industrial production	m/m	Oct	0.1%	0.1%	0.1%
Fri 16	15:15	USD Capacity utilization		Oct		82.0%	82.1%
Fri 16	16:00	USD Fed's Lockhart (non-voter, neutral) speaks					

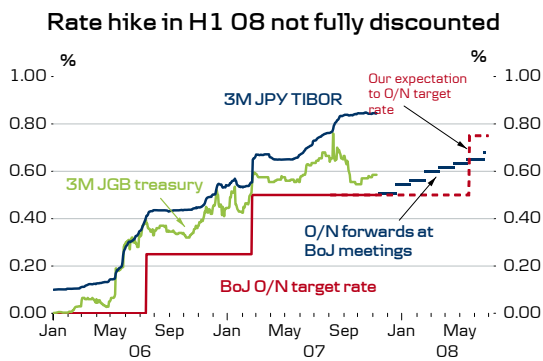
Asia

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Stronger growth in Q3 but BoJ still on hold

In the week ahead, focus in Asia will be on the monetary policy meeting of the Bank of Japan (BoJ) and the release of Q3 GDP in Japan. Both GDP and the result of the monetary policy meeting will be published on 13 November. We forecast an increase in Q3 GDP by 0.4% q/q after a decline of -0.3% q/q in Q2. The up-tick in Q3 growth is primarily expected to be driven by stronger private business investment and continued positive development in exports. Conversely, private consumption and, in particular, residential construction will put a dampener on Q3 growth. However, our biggest concern for Japan is the prospects for Q4. We have not yet seen clear signs of a reversal in private consumption. On the contrary, in light of the most recent disappointing unemployment and employment data, it has become increasingly difficult to believe in a significant improvement in private consumption in Q4. Moreover, residential construction is likely to further curtail growth in Q4, which means that very strong business investment and exports are required to maintain Q3 growth in Q4. Basically, we believe that Q4 GDP growth will decelerate to 0.3% q/q. However, the risks to this forecast are mainly on the downside as they are based on a minor increase in private consumption in Q4.

The BoJ is expected to keep its key interest rate unchanged at 0.5% at next week's monetary policy meeting. This is the predominant view. As it appears from the chart below, the market has discounted a probability of around 0% that rates will be raised. Focus will therefore primarily be on any signals concerning the timing of the next rate hike. In our view, the BoJ toned down the importance of the weaker domestic economy at its most recent meeting. It is therefore not impossible that the BoJ may soften its stance and recognise that the timing of the next interest rate increase is not just dependent on international developments but will also be contingent on the renewed strength of especially private consumption. On the back of the most recent poor economic data, the market now only expects one single rate increase in 2008 overall. The market is putting the probability of a rate hike by the end of Q2 08 at just over 50% (see chart).



Key events of the week ahead

- GDP expected to increase by 0.4% q/q in Q3 based on strong exports and business investment.
- The BoJ expected to keep rates unchanged at 0.5% at its monetary policy meeting.

Date	Time	Event	Period	Danske Bank	Consensus	Previous	
Fri 09 - 16	-	CNY Trade balance	USD bn			23.9	
Fri 09 - 16	-	CNY Total Export	y/y			22.8%	
Fri 09 - 16	-	CNY Total Import	y/y			16.1%	
Fri 09 - 16	-	CNY Money Supply M1	%			22.1	
Fri 09 - 16	-	CNY Money supply M2	%			18.5	
Mon 12	0:50	JPY Domestic CGPI	m/mly/y		0.2% 2.3%	-0.1% 1.7%	
Mon 12	0:50	JPY Current Account Total	JPY bn		2650.2	2081.0	
Mon 12	3:00	CNY PPI	y/y			2.7%	
Mon 12	5:00	JPY BoJ Monetary Policy Meeting					
Tue 13	-	JPY BoJ Monetary Policy Announcement					
Tue 13	0:50	JPY GDP, preliminary	Q/Q	3rd quarter	0.4%	0.5%	-0.3%
Tue 13	0:50	JPY GDP, annualized	q/q	3rd quarter	1.7%	1.9%	-1.2%
Tue 13	3:00	CNY CPI	%	Oct	6.1	6.3	6.2
Wed 14	3:00	CNY Retail sales value		Oct			
Thu 15	3:00	CNY Industrial production		Oct	18.5%	18.5%	18.9%
Fri 16	3:00	CNY Fixed assets investments Urban	y/y	Oct			

Fixed Income

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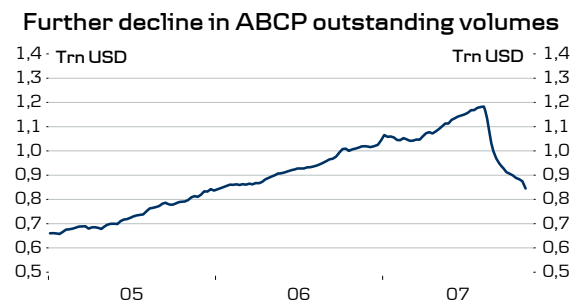
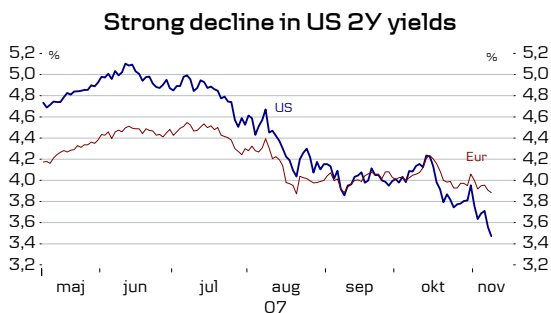
Financial turmoil and stagflation

Another week and another round of bad news from the financial industry that sent financial shares tumbling again, credit spreads wider and yields lower. Below is a brief overview of the bad news:

- **Bank reports** have shown that big names like Citigroup and Merrill Lynch had far bigger losses from sub-prime related assets than they first announced. It is as much the fact that they did not the truth to begin with as the loss itself that is problematic.
- **Bond insurers** have also been in the limelight. Bond insurers secure higher ratings for issuers by insuring the payments. This way issuers get access to the AAA market where the investor pool is much bigger. Fitch is currently reviewing their AAA rating. A downgrade could have negative spill over effects on the products they have insured.
- **Rising risk of asset fire sales** as the losses on some CDOs are reaching critical levels and leading to technical default (when value goes below certain threshold).
- **Commercial Mortgage Backed Securities (CMBS)** - the next shoe to drop? Market players are increasingly betting on CMBS to be the next place with big losses as credit gets tightened.
- **Outstanding volume in ABCP market** continues to decline and actually accelerated in the past week highlighting the continued problems of SIVs and conduits to finance their portfolios.

On the positive side Wall Street brought an article Friday that bankers are accelerating the creation of a rescue plan for a group of struggling investment funds. Bankers from Citigroup Inc., Bank of America Corp. and J.P. Morgan Chase & Co. have been working for weeks to put together a super-fund, backed by as much as USD 100 billion, to prevent a fire sale of assets by the funds, known as structured investment vehicles. Just recently there has been speculation whether the creation had stalled but apparently a detailed plan could be in place within a week.

This week we also got news from the central banks. ECB repeated its statement this week that it sees upside risks to inflation but downside risks to growth - a stagflationary environment created by strong rises in oil and food prices. With Fed more focused on the downside risks to growth US continues to outperform Euro-land. We think yields have gone quite far now and made valuation a bit rich with the market pricing additional 75bp of Fed cuts and more or less no chance of more ECB hikes.



Commodities

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Oil: USD 100/barrel is not sustainable

The question on everyone's lips in the oil market in recent weeks has been: 'When will oil pass the magical \$100 mark?' Our view is that this will happen before the end of the year. The next question is then whether this price will hold throughout 2008. We expect the average price of oil in 2008 to again set a record, but at \$83/barrel. Hence, we do not see a price of \$100 being sustainable in the medium term. As we have written earlier, the main reason that oil prices have increased so much in recent months is that OPEC, in principle, is producing too little oil relative to demand - not least over the winter period. Nevertheless, \$83/barrel is still a record-high price for the year as a whole. In 2006, prices averaged \$65/barrel, while so far this year the price has averaged \$69.3, meaning our expected average next year represents an increase of 27% (vs 2006) and 19% (vs 2007). Note that our forecast average price is some considerable way above consensus. According to Reuters, the median consensus figure is \$68.50, meaning our forecast is 21.5% higher.

Our forecast is essentially based on the oil market being rather tight again in 2008. This means that once again OPEC will be the key to prices going forward - and the cartel will continue to try to gain compensation for the weak dollar and to test the limits of the global economy with respect to how high oil prices can go.

On the other hand, we believe that some of the factors that have sent oil close to \$100/barrel in recent months will be less potent in 2008. The dollar will remain weak and support commodities, but the weakening trend in the dollar is not expected to last. Meanwhile, the outlook is for global growth to be lower in 2008 than this year, and this may help ease the acute tightness in the market. In a couple of months' time, focus will be directed towards the demand vacuum that typically occurs between winter and the driving season. Hence, we estimate that oil prices will move down towards \$90/barrel again in Q1 and a little further down in Q2 and Q3. In contrast to what happened this year, we expect that OPEC, despite the rhetoric, will not want inventories to fall in Q2 and Q3. However, when the cold winds of winter begin to blow next year, we expect that oil prices will again begin to tick up.

OPEC looks increasingly likely to repeat this year's performance next year - ie, produce too little oil during the winter and once again drain stockpiles. Should this scenario unfold, it is not improbable that oil prices will (again) pass the magical \$100 mark. Note that we use Dated Brent as the benchmark in our forecast, and this is expected to trade about \$4 below the WTI front month contract.

Otherwise, if we were to highlight a theme in 2008, it would be "spare capacity". In our view, the market will focus closely on how much spare capacity OPEC really has, both now and in the future. In connection with this, it is worth noting that the International Energy Agency, IEA, published its World Energy Outlook 2007 in the past week. The IEA is rather gloomy in its predictions, and directly states that a supply crunch with sharply rising prices in the course of the next 7-8 years cannot be ruled out.

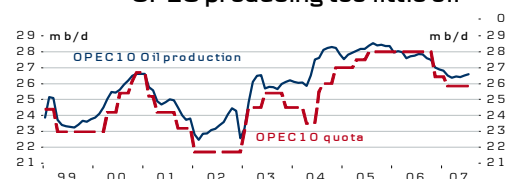
New and previous oil forecast: Danske Bank

Dated Brent

	Q1	Q2	Q3	Q4	Average	Consensus*
2005	48	52	62	57	54,5	
2006	62	70	70	60	65,2	
2007	58	69	75	92	73,2	69,0
2008	90	78	78	85	82,8	68,5

*) Consensus from Reuters November 8th, 2007

OPEC producing too little oil



Equities

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The stock market is, in more than one sense, at a crossroads

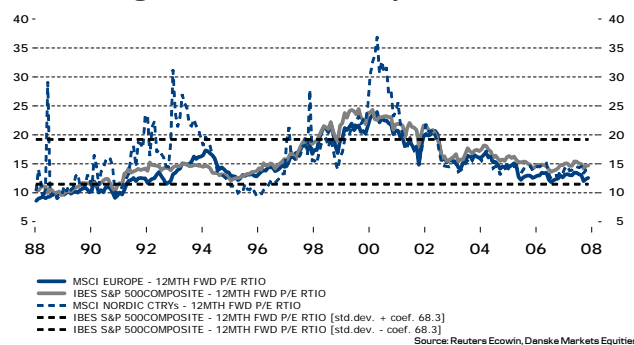
When we say that the equity markets are at the moment in more than one sense at a crossroads, we think of two things in particular. Firstly, the US housing crisis is currently exported to a global economic slowdown via the US dollar and via the credit crisis' negative effect on the global commercial banking credit willingness. For equity markets, though, this is counterbalanced by continued strong BRIC country activity and overall attractive stock market valuation. Secondly, there is clearly scope for revaluation of stocks or a significant price to earnings multiple expansion. This window is opening due to low fixed income yields and a surprisingly stable corporate earnings development in recent years. Still, the equity market has shown little willingness to de-couple from earnings performance as the sluggish market performance of 2007 clearly indicates.

If we look closer at the first argument for being at a crossroads, we expect to see a mild and not hard downturn for the global economy as indicated by our economists. But when looking at the BRIC countries (Brazil, Russia, India and China) these are still showing strength. When looking at both short cycle indicators (industrial production and leads) and long cycle indicators, this country group continues to look strong. The stock market tends to exaggerate the importance of BRIC, but this country group is nevertheless neither now nor within the next five years going to prevent a global downturn. It is simply not large enough to match the importance of the OECD. Further, the Chinese economy is moving towards overheating as indicated by both stocks and land prices and the PBoC is likely to seek control over both assets and goods inflation and the activity development via tighter rates and bank reserve requirements.

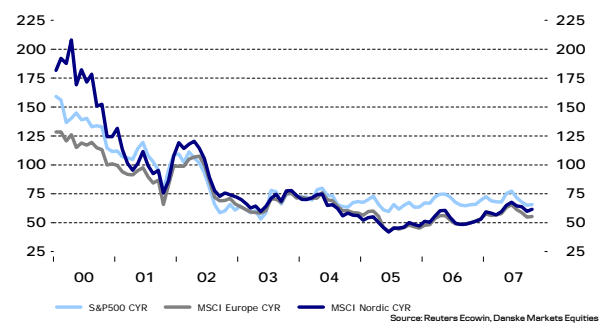
Turning to the second argument, we believe that there is considerable potential for multiple expansion building up. The reason is, and this is also what our model suggests, that bond yields are low and recent years' corporate earnings volatility has fallen.

To conclude, we see little upside for global stock markets for the rest of the year, and expect +5% to 10% for the coming 12 months.

Valuation is good relative to history



... and other asset classes such as bonds



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-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2006	3,5	3,1	1,5	13,0	0,6	10,1	14,4	1,9	4,5	4,7	30	2,6
	2007	1,9	2,1	1,7	5,1	-0,1	3,1	4,2	1,7	3,5	4,4	25	1,2
	2008	1,7	1,7	2,0	2,5	-0,1	4,3	4,5	2,1	3,3	3,8	20	1,3
Sweden	2006	4,4	2,8	1,8	8,2	0,0	9,1	7,8	1,4	5,4	2,2	62,0	7,2
	2007	2,8	2,5	1,3	9,1	0,4	3,8	6,0	2,2	4,6	2,0	60,0	6,4
	2008	2,8	2,4	0,8	1,5	-0,4	4,6	1,9	1,9	5,4	2,0	63,0	7,5
Norway	2006	2,8	4,4	3,3	7,3	0,5	1,6	8,1	2,3	3,5	8,0	26	33,0
	2007	3,7	6,2	3,2	6,9	-0,4	2,7	6,2	1,0	2,7	12,0	26	17,5
	2008	3,9	4,3	3,1	5,7	0,8	1,6	4,3	1,4	2,6	13,9	26	20,2

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-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euroland	2006	2,8	1,8	2,0	5,0	0,2	8,5	7,9	2,1	7,8	-2,8	65	-0,3
	2007	2,6	1,8	2,0	6,0	-0,3	8,5	7,5	2,1	7,1	-1,5	65	-0,8
	2008	2,2	2,2	2,2	4,0	-0,2	6,0	6,0	2,1	6,8	-1,0	65	-0,3
Germany	2006	2,7	0,8	1,8	5,8	0,3	11,0	10,1	1,7	10,8	-1,7	68	4,7
	2007	2,5	1,0	1,5	7,5	-0,1	9,0	7,0	1,9	9,0	-0,5	65	5,6
	2008	2,2	2,2	1,5	4,0	0,0	7,0	7,0	1,2	8,5	0,0	64	5,7
France	2006	2,1	2,6	1,9	3,8	-0,3	7,9	8,1	1,9	9,0	-2,5	64	-2,0
	2007	2,4	2,7	1,9	3,5	-0,2	7,0	6,0	1,3	8,1	-2,2	63	-2,3
	2008	2,2	2,0	1,7	3,0	0,0	6,0	5,0	1,5	7,5	-1,8	62	-2,0
Italy	2006	1,9	1,5	-0,3	2,5	0,1	5,7	4,2	2,1	7,0	-4,4	107	-2,0
	2007	1,9	1,5	0,7	3,5	0,0	6,0	5,1	1,8	6,5	-2,6	105	-1,5
	2008	1,6	1,7	1,3	3,0	0,0	5,0	5,0	1,9	6,0	-2,0	103	-1,5
Spain	2006	3,9	3,7	4,4	6,0	-0,1	6,0	8,6	3,9	8,4	1,8	40	-8,5
	2007	3,7	3,5	4,5	6,0	-0,4	6,0	8,2	2,7	8,0	1,5	37	-9,0
	2008	3,5	3,5	4,5	5,0	0,0	5,0	8,0	2,5	7,8	1,5	35	-9,5
Holland	2006	2,9	-1,2	8,6	6,7	0,0	7,0	6,8	1,8	4,4	49,0	57	10,0
	2007	2,8	1,7	2,2	4,0	-0,1	6,0	6,0	1,5	4,0	48,0	60	9,0
	2008	2,6	2,5	2,0	4,0	-0,1	5,0	6,0	1,5	3,5	46,0	59	9,0
Finland	2006	5,0	3,3	1,0	4,1	-0,1	10,7	8,3	1,6	8,1	3,3	39	4,7
	2007	4,2	4,0	1,3	3,0	0,3	6,0	4,0	2,1	7,1	3,0	38	4,5
	2008	3,0	3,0	1,8	5,0	0,0	8,0	7,0	1,3	7,2	2,0	38	6,0

Macro forecast, Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2006	2,9	3,1	1,8	2,9	0,1	8,4	5,9	3,2	4,6	-2,3	62	-6,2
	2007	2,1	3,0	1,8	-1,6	-0,2	6,3	2,6	2,8	4,6	-1,3	60	-6,1
	2008	2,4	2,6	2,2	1,8	0,1	7,2	5,5	2,6	4,7	-0,8	58	-5,9
Japan	2006	2,2	0,9	0,9	6,5	0,1	9,6	4,5	0,2	4,1	-5,5	170	3,9
	2007	2,3	1,2	1,0	7,0	-0,1	12,0	10,0	0,0	3,7	-5,5	169	2,8
	2008	1,9	1,0	1,0	6,0	-0,1	10,0	8,0	0,4	3,5	-5,5	169	2,8
UK	2006	2,8	2,0	2,4	6,5	0,4	11,6	11,8	2,3	3,0	-2,5	44	-2,6
	2007	2,8	3,1	2,6	4,1	0,0	2,5	4,1	2,8	3,0	-2,5	43	-3,3
	2008	2,7	2,7	2,3	4,2	-0,2	3,8	3,5	2,4	3,0	-2,5	43	-4,1
Switzer-land	2006	2,7	1,9	-0,5	3,8	0,1	10,1	9,8	1,1	3,3	-0,2	55	16,0
	2007	2,4	2,3	0,1	2,7	0,0	7,5	6,6	0,5	2,7	0,0	54	16,5
	2008	1,9	1,9	0,0	3,3	0,0	4,7	4,5	1,1	2,5	0,0	53	17,0

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets							
		Key int. rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	09-nov	4,50	4,24	5,00	147,0	-	507,2
	+3m	4,50	4,50	4,80	148	-	504
	+6m	4,50	4,40	4,70	150	-	497
	+12m	4,50	4,35	4,70	138	-	541
EUR	09-nov	4,00	4,37	4,51	-	147,0	745,5
	+3m	4,00	4,60	4,75	-	148	746,0
	+6m	4,25	4,55	4,70	-	150	746,0
	+12m	4,50	4,45	4,60	-	138	746,0
JPY	09-nov	0,50	0,99	1,70	163,4	111,2	4,56
	+3m	0,50	1,00	1,75	168	115	4,44
	+6m	0,75	1,20	1,85	173	115	4,31
	+12m	1,00	1,50	2,10	163	118	4,58
GBP	09-nov	5,75	5,57	5,26	69,6	211,1	1070,5
	+3m	5,75	5,60	5,50	71,0	206	1051
	+6m	5,50	5,60	5,50	72,0	208	1036
	+12m	5,25	5,40	5,40	72,0	192	1036
CHF	09-nov	2,75	2,91	3,29	164,9	112,2	452,2
	+3m	2,75	3,05	3,40	169	114	441
	+6m	3,00	3,10	3,35	170	113	439
	+12m	3,00	3,10	3,30	168	122	444
DKK	09-nov	4,25	4,57	4,66	745,5	507,2	-
	+3m	4,25	4,75	4,85	746,0	504	-
	+6m	4,50	4,70	4,80	746,0	497	-
	+12m	4,75	4,60	4,70	746,0	541	-
SEK	09-nov	4,00	4,60	4,77	927,7	631,2	80,4
	+3m	4,00	4,45	4,70	920	622	81,1
	+6m	4,00	4,35	4,60	920	613	81,1
	+12m	4,00	4,30	4,55	930	674	80,2
NOK	09-nov	5,00	5,59	5,49	780,3	531,0	95,5
	+3m	5,25	5,90	5,80	770	520	96,9
	+6m	5,50	5,90	5,80	775	517	96,3
	+12m	5,50	5,70	5,70	775	562	96,3
PLN	09-nov	4,75	5,83	5,59	363,4	247,3	205,1
	+3m	5,00	5,60	5,80	360	243	207
	+6m	5,25	5,90	6,20	360	240	207
	+12m	5,50	6,15	6,40	370	268	202

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

Key data and events (1)

Monday, November 12, 2007			Period	Danske Bank	Consensus	Previous
-	USD	Veterans' Day - Market closed				
0:50	JPY	Domestic CGPI	m/mly/y		0.2% 2.3%	-0.1% 1.7%
0:50	JPY	Current Account Total	JPY bn		2650.2	2081.0
1:30	AUD	Reserve Bank Quarterly Monetary Policy Statement				
3:00	CNY	PPI	y/y			2.7%
5:00	JPY	BoJ Monetary Policy Meeting				
9:30	SEK	CPI	m/mly/y			
9:30	SEK	Underlying inflation, UND1X	m/mly/y			
9:30	DKK	HICP	m/mly/y	0.2% 1.3%		0.7% 1.2%
10:30	GBP	PPI - Input	m/mly/y		1.5% 7.2%	3.2% 6.4%
10:30	GBP	PPI - Output	m/mly/y		0.1% 3.3%	0.1% 2.7%
10:30	GBP	PPI - Output core	m/mly/y		.. 2.3%	0.2% 2.2%
10:30	GBP	DCLG House Prices	y/y			11.4%

Tuesday, November 13, 2007			Period	Danske Bank	Consensus	Previous
-	JPY	BoJ Monetary Policy Announcement		0.5%	0.5%	0.5%
0:50	JPY	GDP, preliminary	Q/Q	0.4%	0.5%	-0.3%
0:50	JPY	GDP, annualized	q/q	1.7%	1.9%	-1.2%
1:01	GBP	RICS House Prices	y/y			-14.6%
3:00	CNY	CPI	%	6.1	6.3	6.2
8:00	EEK	GDP	y/y	6.8%		7.6%
8:45	FRF	CPI	m/mly/y	0.2% 1.9%	0.3% 2.0%	0.1% 1.5%
10:30	GBP	CPI	m/mly/y		0.3% 1.9%	0.1% 1.8%
10:30	GBP	RPI Inflation	m/mly/y		0.4% 4.2%	0.3% 3.9%
11:00	DEM	ZEW economic sentiment	Index	-22	-20	-18.1
11:00	DEM	ZEW survey current situation	Index	69	66.9	70.2
11:00	EUR	Industrial production	m/mly/y	-0.3% 4.6%	-0.2% 4.7%	1.2% 4.3%
14:00	PLN	Current account	Euro mil	-1000	-720	-637
14:00	PLN	Trade balance	EUR mil	-785	-538	-289
14:00	PLN	Exports growth	y/y	14.8%		
14:00	PLN	Imports growth	y/y	18.5%		
19:00	USD	Fed's Kroszner (voter, hawk) speaks				
20:00	USD	Monthly Budget statement	USD bn		-55.0	-49.3
21:00	USD	Pending home sales	m/m		-2.5%	-6.5%
22:45	NZD	Producer Prices (q/q)	Input/Output		1.1% 1.1%	1.3% 1.2%
23:00	USD	ABC Consumer confidence	Index			

Wednesday, November 14, 2007			Period	Danske Bank	Consensus	Previous
1:30	AUD	Wage Cost Index	q/qly/y		1.0% 4.2%	1.1% 4.0%
3:00	CNY	Retail sales value				
8:00	DEM	GDP	q/qly/y	0.8% 2.6%	0.7% 2.5%	0.3% 2.5%
8:45	FRF	GDP	q/qly/y	0.8% 2.1%	0.7% 2.0%	0.3% 1.3%
9:00	ESP	GDP	q/qly/y	0.8% 3.9%		0.9% 4.0%
9:00	ESP	CPI	m/mly/y			0.3% 2.7%
10:00	USD	Fed's Fisher (non-voter, neutral) speaks				
10:30	GBP	Claimant count rate				2.6%
10:30	GBP	Jobless claims change			-6.0k	-12.8k
10:30	GBP	Average Earnings incl bonus	3Ms/YoY			
10:30	GBP	Average Earnings ex bonus	3Ms/YoY		3.8%	3.7%
10:30	GBP	ILO Unemployment rate	%		5.4%	5.4%
10:30	GBP	Manufacturing unit wage costs				0.2%
11:00	EUR	GDP, s.a.	q/qly/y	0.7% 2.6%	0.6% 2.5%	0.3% 2.5%
11:30	GBP	Inflation report				
13:00	GBP	BoE quarterly inflation report				
14:00	PLN	CPI	y/y	3.0%	2.9%	2.3%
14:00	PLN	Money supply	y/y	16.2%		
14:30	USD	PPI	m/mly/y	0.5% 6.5%	0.3% 6.3%	1.1% 4.4%
14:30	USD	PPI ex food and energy	m/mly/y	0.2% 2.7%	0.2% 2.6%	0.1% 2.0%
14:30	USD	Advanced Retail sales	m/mly/y	0.2% 5.2%	0.2% .	0.6% 5.0%
14:30	USD	Retail sales less autos	m/mly/y	0.4% 6.0%	0.3% .	0.4% 5.1%
15:10	USD	Fed's Bernanke (voter, neutral) speaks				
22:45	NZD	Retail sales	m/m		0.5%	0.2%

Key data and events (2)

Thursday, November 15, 2007			Period	Danske Bank	Consensus	Previous	
-	OPC	OPEC publishes monthly oil market report	Nov				
-	RUB	Industrial production trend	y/y	Oct	3.8%	4.1%	3.0%
0:01	NZD	PMI		Oct			54.6
3:00	CNY	Industrial production		Oct	18.5%	18.5%	18.9%
8:00	DEM	Consumer prices	m/m/y/y	Oct			0.2% 2.4%
10:00	EUR	ECB monthly report		Nov			
10:00	NOK	Trade balance	NOK bn	Oct			29.2
10:30	GBP	Retail Sales	m/m/y/y	Oct		0.0% 4.8%	0.6% 6.3%
11:00	CHF	ZEW survey	y/y	Sep			-16.0
11:00	EUR	Inflation (MUICP)	m/m/y/y	Oct		0.5% 2.6%	0.4% 2.6%
11:00	EUR	MUICP core	m/m/y/y	Oct	.. 1.9%	.. 1.9%	.. 1.8%
14:30	USD	CPI	m/m/y/y	Oct	0.4% 3.6%	0.3% 3.5%	0.3% 2.8%
14:30	USD	Initial jobless claims	1000				318
14:30	USD	CPI ex. food & energy	m/m/y/y	Oct	0.2% 2.2%	0.2% 2.2%	0.2% 2.1%
14:30	USD	Empire Manufacturing		Nov			20.0
18:00	USD	Philadelphia Fed.	Index	Nov	6.0	6.1	6.8
19:30	USD	Fed's Hoenig (voter, neutral) speaks					

Friday, November 16, 2007			Period	Danske Bank	Consensus	Previous	
3:00	CNY	Fixed assets investments Urban	y/y	Oct			
14:00	PLN	Wages	y/y	Oct	8.7%	9.2%	9.5%
14:00	PLN	Employment	y/y	Oct	4.8%	4.7%	4.7%
15:00	USD	Total TIC flows		Sep			163.0
15:15	USD	Industrial production	m/m	Oct	0.1%	0.1%	0.1%
15:15	USD	Capacity utilization		Oct		82.0%	82.1%
16:00	USD	Fed's Lockhart (non-voter, neutral) speaks					

During the week			Period	Danske Bank	Consensus	Previous	
Fri 09 - 16	CNY	Trade balance	USD bn	Oct			23.9
Fri 09 - 16	CNY	Total Export	y/y	Oct			22.8%
Fri 09 - 16	CNY	Total Import	y/y	Oct			16.1%
Fri 09 - 16	CNY	Money Supply M1	%	Oct			22.1
Fri 09 - 16	CNY	Money supply M2	%	Oct			18.5
Mon 12 - 16	DKK	CPI	m/m/y/y	Oct	0.17% 1.5%		0.5% 1.2%
Thu 15 - 21	CHF	Producer & Import prices	m/m/y/y	Oct			
Thu 15 - 26	CHF	Retail sales, Nominal (adj.)	y/y	Sep			
Sat 17 - 18	OPC	Third OPEC Summit - Riyadh		Nov			

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