

Weekly Focus

15-22 February 2008

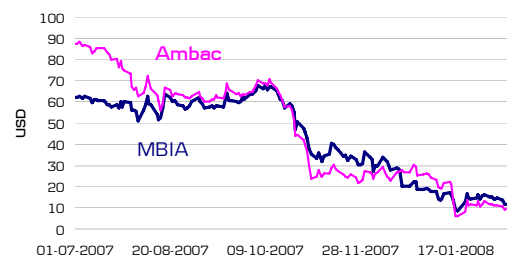
Financial concerns persist

The troubles facing the bond insurers, also called monoliners keep mounting, and further downgrades keep looming on the horizon. Warren Buffett's offer last week to be paid for taking over responsibility for USD 800bn in municipal bonds did little to ease concerns. The primary source of the current stress among monoliners is their exposure to mortgage-backed securities - not their exposure to municipal bonds. Reports that investors have begun to shun Auction Rate Securities, ARS, which constitute around USD 330bn of the USD 2,200bn municipal bond market, is yet another indication that perceived risks of further downgrades among monoliners are on the rise.

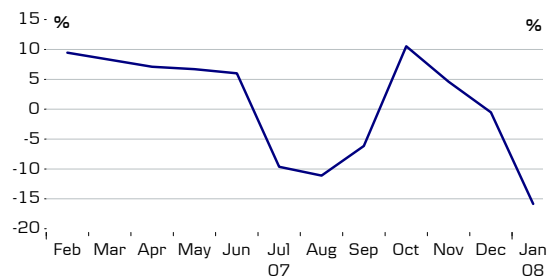
Leveraged loans to finance buyouts, LBOs, have been a burden for many banks since last summer. However, the prices of these loans in secondary markets have started to decline. Last week, S&P warned that a growing number of leveraged loans are in danger of breaching covenants or defaulting. Any relief to banks' balance sheets from the LBO front are unlikely in the near term. Against this background of persistent concerns, credit spreads keep widening.

The reports last week on 'material weakness' relating to the valuation of AIG's CDS portfolio highlight that independent auditors will be particularly thorough in their auditing of the 2007 annual reports for financial institutions. In the coming weeks, similar news stories may therefore emerge as the auditing processes for the annual reports progress. In the short term, this may pull down sentiment on financials.

Share prices of monoliners



CSFB leveraged loan index, world, annualised three-month total returns



Credit spreads keep widening



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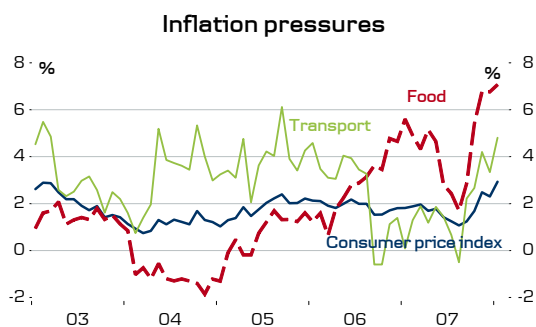
Inflationary pressures building

Inflation rose, rather surprisingly, to 2.9% in January from 2.3% in December; we had expected a somewhat smaller increase. Inflation is now at its highest level since March 2003, and while some of the increase may reverse in the next few months, the January figure causes further concerns that the tight labour market is beginning to push domestic, market-driven inflation higher.

Food and energy continue to be the main drivers of inflation. Food prices have risen by a whopping 7.1% in the past year, which is considerably higher than in the rest of Europe. This excessive increase in food prices has led to speculation that competition in Denmark is weak in certain categories of goods, and the competition authorities, at the request of the Consumer Council, are now investigating food prices. We expect the pace of increase in food prices to fall back to around 4.0% in the course of 2008, provided that global harvests are better than last year. The very high price of rice, grains and other basic foodstuffs should boost supply, as it is possible to expand the amount of land under cultivation, and in many parts of the world there is also considerable potential to increase productivity. At the same time, it is expected that the global economic slowdown will somewhat dampen demand growth.

Inflation corrected for non-prepared foodstuffs and energy has also risen quite markedly. Core inflation is now running at 2.4% compared to 2.1% in December. One need look no further back than September 2007 to find core inflation as low as 1.4%, and all the way back to summer 2003 to find higher core inflation than at present. It is therefore very clear that domestic wage pressures and the continuingly disappointing developments in productivity have begun to have an impact on prices.

Rising inflation is, to an extent, likely to undermine purchasing power in the Danish economy, and this, of course, is not good news for consumption growth. Hence, there is some indication that real wage growth will be less than we had previously assumed. However, we believe that inflation will ease towards the end of the year as the rate of increase in food and energy prices slows. Furthermore, some of the increase in inflation in January was due to unusually high electricity prices, and this contribution may reverse as early as April.



Key events of the week ahead

- No important economic data scheduled.

Sweden

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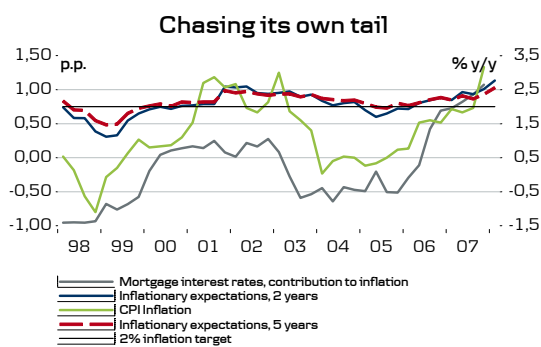
Oops, we did it again...

The Swedish Riksbank has done it again. Surprised the financial markets that is. For the third time in less than a year, the Riksbank has completely acted against market expectations. One conclusion, and probably the most obvious, is that either market analysts as a group (and ourselves included) have gone bananas and are not fit for our tasks. The other, and hopefully more correct explanation is that the Riksbank's communication policy is a complete failure.

But this aside, what are the Riksbank's arguments for hiking rates? Well, with the risk of coming across as ironic or even vengeful, we are actually not sure. We, and the Riksbank, have concluded that since the December meeting all outcomes, with only one exception, have been weaker than earlier expected by the Riksbank. This is true for both international and domestic data. The exception is inflation expectations, which rose quite dramatically at an aggregated level in the latest reading. This also seems to be the variable that the Riksbank uses when defending its decision in interviews etc.

On an academic level, we agree with the Riksbank. Higher inflation expectations are indeed troublesome, and should provide a very good argument for hiking rates per se. However, the measures of inflation expectations that currently exist are deceptively flawed. Not only do they pertain to headline inflation (which includes the Riksbank's own actions), but they are evidently a result of current inflation rather than a measure of "true" inflation expectations.

If the Riksbank is now starting to focus more explicitly on inflation expectations, the result will be, in former Governor Heikensten's own words, a Riksbank "chasing its own tail". That is, CPI inflation expectations are a function of the Riksbank's own policy actions via the mortgage interest rate component in CPI. To us this is the recipe for a pro-cyclical monetary policy, and will only serve to deepen and prolong the current slowdown.



Key events of the week ahead

- Inflation, of course, is the key event this week.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 19	9:30	SEK CPI	m/mly/y	-0.3% 3.7%	-0.5% 3.6%	0.2% 3.5%
Tue 19	9:30	SEK Underlying inflation	m/mly/y	-0.4% 2.5%	-0.7% 2.2%	0.1% 2.0%

Norway

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Strong growth in 2007

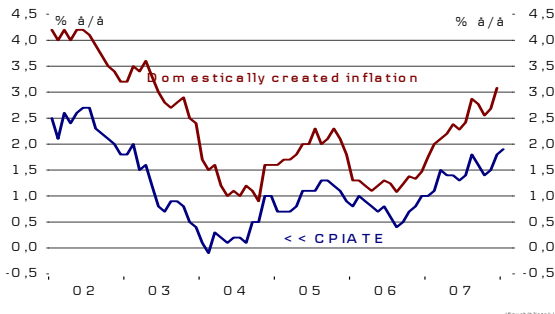
The week's big event is the release of GDP figures for Q4. We anticipate mainland (non-oil) growth of 1.3% q/q. Adjusted for the drop in power production in Q4, which was supply-driven rather than demand-driven, growth was probably as high as 1.5%. This underlines how the positive effects from high oil investment and income-driven private consumption are continuing to outweigh the negative effects from lower global growth.

With employment growth in excess of 1.5% q/q, this means that productivity growth slowed sharply towards the end of last year. Combined with wage growth of around 6%, this suggests a continued increase in cost-push inflation in 2008.

This was also a key point in Norges Bank governor Svein Gjedrem's annual address during the week. Wage growth much higher than productivity growth will trigger a need for higher interest rates to keep inflation from spiralling out of control. The signals from Gjedrem are unmistakable: Norges Bank will not hesitate to raise interest rates even in a situation of lower global rates if inflationary pressures mount. Industry will have to cope with a stronger NOK as a result, but the bank does not expect this to be overly problematic. This scuppers the argument that Norges Bank will be afraid to repeat the mistakes of 2002 and will therefore cut interest rates in line with other central banks.

As a result, we are maintaining our forecast of an interest rate hike in Q2 and a drop in the EUR/NOK (stronger NOK) in the coming months.

Cost-push inflation on its way



Key events of the week ahead

- Thursday brings GDP figures for Q4. We predict mainland growth of 1.3%.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Thu 21	10:00	NOK GDP (total)	q/q/y 4th quarter		0.8%.	1.4%.
Thu 21	10:00	NOK GDP (mainland)	q/q/y 4th quarter	1.3% 6.4%	1.0%.	1.9%.

Euroland

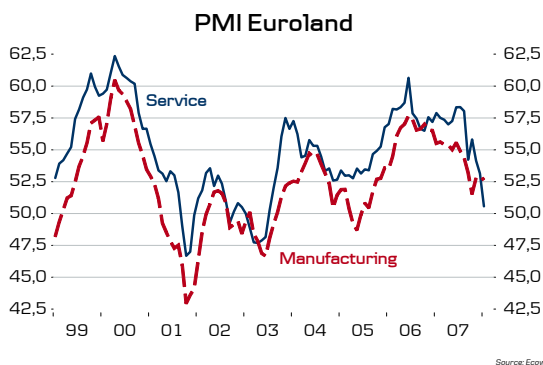
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PMI - will the slide continue?

Service PMI fell sharply in both Euroland and the US last month. The data was collected at the same time as the financial turmoil was raging in January. This, naturally, gives rise to the question: How much was due to sentiment, and how much was due to a real deterioration in the economic outlook for service companies? Traditionally, an economic downturn starts in industry and then spreads to the service sector. Are things different this time around due to the problems in the financial sector (part of the service sector), and is the downturn in service PMI a precursor to a slide in manufacturing PMI?

We are unlikely to get the answers to these questions in the coming week, but we will at least be considerably wiser when the preliminary PMIs for Euroland are released. We expect a small reversal in service PMI after the sharp fall in January. Industry still looks fairly solid, and we expect a largely unchanged PMI for manufacturing. Supporting this call are very strong German industrial orders and still buoyant exports. We therefore do not expect that PMI will suggest any imminent rate cuts from the ECB. Nevertheless, there is considerable uncertainty surrounding the numbers, which could have considerable significance for the financial markets if they deliver a surprise.

In the longer term, however, we expect that the PMIs will continue to deteriorate, going below 50 in the course of the spring/summer. The deterioration will come on the back of negative external impacts, lower export growth, slowing investment growth and the current slowdown in consumption. Deteriorating PMIs will help push the ECB towards initiating the rate cuts we forecast. A poorer economic outlook and the considerable softening of ECB rhetoric last week have prompted us to revise our expectations on monetary policy in Euroland and Denmark. We now expect three rate cuts this year, starting in June.



Key events of the week ahead

- Friday: The PMI for service and manufacturing are without doubt the week's most interesting event in Euroland. French and Belgian business confidence will also be published on Thursday.
- No important data from Switzerland this week.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Wed 20	9:00	ESP GDP final	q/q/y	4th quarter		0.8% 3.5%
Thu 21	8:45	FRF HICP	m/m/y	Jan	-0.1% 3.1%	0.4% 2.8%
Thu 21	9:30	ITL Consumer confidence	Index	Feb		102.2
Fri 22	8:45	FRF Household consumption	m/m/y	Jan	-0.5% 3.1%	2.0% 3.9%
Fri 22	8:45	FRF Business confidence indicator	Index	Feb		108
Fri 22	10:00	EUR Euroland PMI manufacturing	Index	Feb	52.6	52.3
Fri 22	10:00	EUR Euroland Service PMI	Index	Feb	51.2	50.2
Fri 22	11:00	ITL HICP, final	m/m/y	Jan	-0.8% 3.1%	0.3% 2.8%
Fri 22	15:00	BEF Business Confidence	Index	Feb		-1.6
Mon 18	9:15	CHF Retail sales, Nominal	y/y	Dec	6.3%	2.9%
Thu 21	8:15	CHF Trade balance	bn CHF	Jan		0.20
Thu 21	9:15	CHF Producer & Import prices	m/m/y	Jan		-0.1% 3.0

UK

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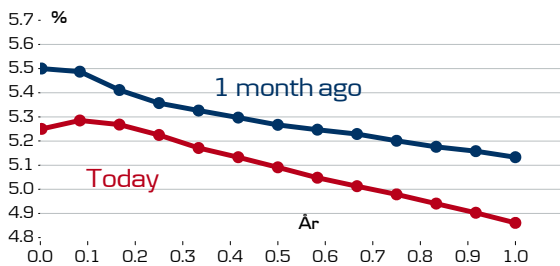
BoE awaiting tangible proof of British slowdown

The past week was chock-a-block with important economic events in the UK. On Monday, producer price data for January showed that UK companies had hiked prices by the highest annual rate since 1991. Tuesday's inflation data came in lower than expected, but still demonstrated that consumer prices are on an upward path. The RICS survey on Wednesday revealed that the housing market has not been in a worse state since the last recession in 1992. Also on Wednesday, the Bank of England's (BoE) inflation report failed to confirm current market pricing that indicates a 1% cut in UK interest rates over the next 12 months. Overall, these outcomes were not surprising, and we are left with a picture of an economy that is experiencing rising consumer prices, falling house prices and with a central bank that for now is more focused on price pressures than the gathering gloom on growth.

We expect that the BoE will cut interest rates from the current 5.25% to 4.50% in the course of this year. The minutes of the monetary policy meeting 6-7 February, which are due for release on Wednesday, will perhaps shed some light on the bank's current focus and its assessment of what the most important risk factors are going forward. The minutes are, however, not expected to contain any surprises, as they have in the meantime been overtaken by the inflation report.

Currency-wise, we still expect that GBP will weaken to reflect the real state of the UK's economy. Basically, we therefore recommend selling GBP against currencies that are fundamentally undervalued, eg, JPY, or have the potential to strengthen because of monetary tightening, eg, NOK or AUD.

UK house prices still under pressure



Key events of the week ahead

- Wednesday - BoE Minutes: The fully expected cut in interest rates does not require much explanation. The market will focus on the vote split and the risks the MPC is currently focusing on.
- Thursday - Retail sales: A small decline expected in the month-on-month figures, though the year-on-year figures will increase relative to the previous month. However, we see a downside risk to the outcome due to falling consumer confidence.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 18	1:01	GBP Rightmove House Prices	m/mly/y	Feb		-0.8% 3.4%
Wed 20	10:30	GBP Public Finances (PSNCR)	bn. GBP	Jan	-19.0	17.0
Wed 20	10:30	GBP Public Sector Net Borrowing	bn. GBP	Jan	-9.8	7.8
Wed 20	10:30	GBP Broad money M4	m/mly/y	Jan	0.7% 11.8%	1.5% 12.3%
Wed 20	10:30	GBP BoE Minutes				
Wed 20	10:30	GBP M4 Lending, preliminary	bill	Jan		17.4
Wed 20	12:00	GBP CBI Industrial Trends Survey		Feb		
Thu 21	10:30	GBP Retail Sales	m/mly/y	Jan	-0.1% 4.5%	-0.4% 2.7%

USA

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Still on the edge of – but not in – recession

Economic data in the past week have not changed the picture of the US economy still being on the edge of, but not in, an actual recession. The latest data from the end of last year saw Q4 GDP growth revised up to just below 1.0% q/q AR from 0.6% q/q AR. This was due, in particular, to stronger-than-expected net exports in December – in other words, the economy was not in recession in Q4. Data from the new year are still painting a very unclear picture. While service ISM and the labour market report have pointed towards negative growth, the weekly labour market data and manufacturing ISM indicate modest positive growth. Finally, last week's retail sales report was better than expected. Despite this, however, real private consumption growth will probably be negative in January. So a very mixed picture overall.

Going forward, one should not expect much clarification from the economic data in the coming months. So expect fears of recession to continue for much of H1 08. Meanwhile, we still maintain that the US economy will manage to avoid recession – not least because of the economic stimulus package that was approved by President Bush in the past week. The tax refunds might begin to be paid out as early as in May, which means the package will start to be felt at the end of Q2, and will give a major boost to growth in Q3. On top of this comes the aggressive rate cuts from the central bank, which will have an effect in H2 08.

The key event in the coming week will be the release of the minutes of the monetary policy meetings on 22 and 31 January. The minutes will include updated economic forecasts from the members of the Fed. The outlook here is for a significant downward revision of the prospects for growth compared to the October forecast. In his speech to the US Senate on Thursday, Fed chief Ben Bernanke continued to signal further rate cuts, and he emphasised that the risks are mainly directed at lower growth and instability in the financial system. We expect a similar tone in the minutes. Apart from the minutes, the other attention-grabbers will be data on home construction and the business confidence indicator from the Philadelphia Fed. With the slowdown in growth clearly in focus, the consumer price report will presumably attract less attention. Generally speaking, there is not much prospect of any major surprises in the coming week's data.

Philly Fed again to track ISM or the reverse?



Key events of the week ahead

- Monday – NAHB housing index unchanged at 19
- Wednesday – Headline CPI inflation has peaked for now, with January data showing 0.2% m/m or 4.1% y/y. Core stable at 0.2% m/m and 2.4% y/y
- Wednesday – Housing starts and building permits to confirm further slowdown in housing.
- Wednesday – Minutes from the January 22 and 31 FOMC meetings. No surprises expected.
- Philly Fed business index will recover to -9

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 18	-	USD Presidents' Day - Market closed				
Tue 19	15:00	USD Fed's Stern (voter, hawk) speaks				
Tue 19	19:00	USD NAHB Housing Market Index	Index	Feb	19	19
Wed 20	13:00	USD MBA mortgage applications				
Wed 20	14:30	USD CPI	m/m y/y	Jan	0.2% 4.1%	0.3% 4.1%
Wed 20	14:30	USD CPI ex. food & energy	m/m y/y	Jan	0.2% 2.4%	0.2% 2.4%
Wed 20	14:30	USD Housing starts	'000	Jan	1010	1006
Wed 20	14:30	USD Building Permits	'000	Jan	1040	1068
Wed 20	19:30	USD Fed's Poole (non-voter, hawk) speaks				
Wed 20	20:00	USD Minutes from FOMC meeting				
Thu 21	14:30	USD Initial jobless claims	1000		345	348
Thu 21	16:00	USD Leading indicator		Jan	-0.1%	-0.2%
Thu 21	16:00	USD Philadelphia Fed.	Index	Feb	-9	-10.0

Asia

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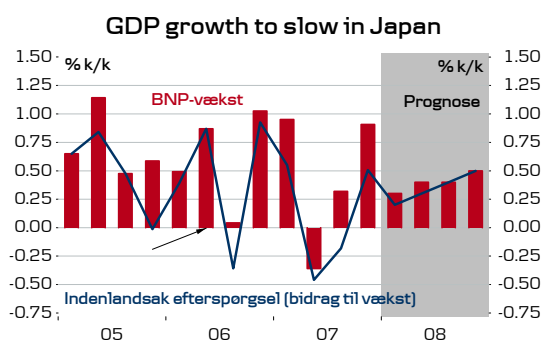
Japanese growth surprisingly strong in Q4 but set to slow

As we flagged in Weekly Focus last week, the Japanese economy performed far better than many feared in Q4. Growth exceeded all expectations, accelerating hard from 0.3% q/q to 0.9% q/q. However, the Japanese economy remains heavily dependent on exports and the global economy. The growth in Q4 was driven primarily by exports and business investment, whereas private consumption remained weak. Net exports and business investment contributed 0.4pp and 0.5pp to q/q growth, while private consumption contributed just 0.1pp.

It is therefore important to stress that the Japanese economy is still highly sensitive to global growth, and so we will see a significant slow down in GDP growth in H1 (see chart). Both business investment and net exports will contribute far less than in Q4, and there is a risk that private consumption will be even weaker than in Q4 and maybe even turn negative in Q1.

On the plus side, growth in housing construction will begin to buoy growth in the coming quarters. Tighter building regulations caused housing investment to plummet by almost 10% in Q4, knocking 0.3pp off q/q GDP growth. In Q1 (and again in Q2), housing construction will probably boost growth by the same amount. All in all, this probably means that the Japanese economy will navigate H1 fairly safely, albeit with a certain slowdown in exports and business investment. We forecast growth of 0.3% q/q in Q1 and 0.4% q/q in Q2, which is around the trend rate for Japan.

We believe that growth significantly below trend would be needed for the Bank of Japan to consider lowering interest rates. Our growth scenario suggests that the BoJ will leave its key rate unchanged. We still believe that the next movement in the key rate in Japan will be upwards, which could come as early as the end of this year should there be clear signs of stabilisation in the global economy. As expected, the BoJ left both its key rate and its assessment of the Japanese economy unchanged at the monetary policy meeting on 15 February. This means that there is still a cautious tightening bias, but the BoJ is keeping all of its options open, including the possibility of weaker growth triggering a rate cut.



Key events of the week ahead

- China's consumer prices are due out on Monday. We expect inflation to climb from 6.5% y/y in December to 7.2% y/y in January due to higher food prices in the wake of the harsh winter in China.
- Both China and Japan will be releasing trade figures for January during the week. The focus will be on any signs of export growth faltering.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Fri 15 - 19	-	CNY Money supply M2	%	Jan		16.7
Fri 15 - 21	-	CNY Wholesale prices	y/y	Jan		7.6%
Mon 18 - 21	-	CNY Trade balance	USD bn	Jan	17.00	22.69
Mon 18	0:50	JPY Tertiary Industry Index	m/m	Dec	-0.2%	0.1%
Mon 18	3:00	CNY PPI	y/y	Jan	5.7%	5.4%
Mon 18	6:00	JPY Leading Economic Index, final		Dec	45.5%	40.0%
Tue 19	3:00	CNY CPI	y/y	Jan	7.2%	7.0%
Tue 19	6:30	JPY Nationwide Department sales	y/y	Jan		-2.3%
Wed 20	0:50	JPY BoJ Board Minutes, January meeting				
Thu 21	0:50	JPY Adjusted Merchandise Trade balance	JPY bn	Jan	926.6	642.5
Thu 21	0:50	JPY All Industry Activity Index	m/m	Dec	0.3%	-0.5%

Fixed Income

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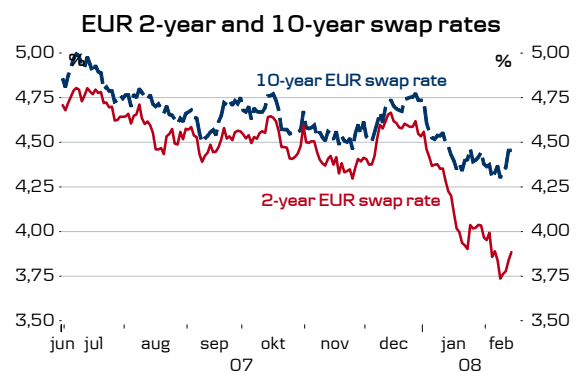
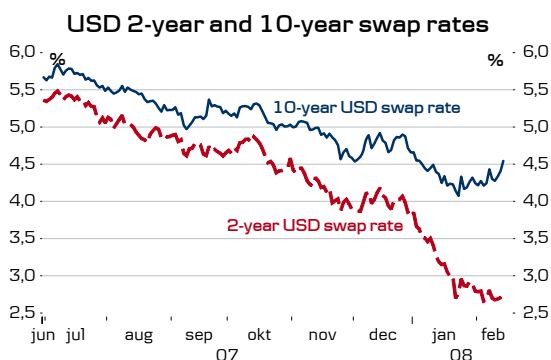
Detail to come on why the Fed cut so massively

Fixed income markets have calmed a little in the past couple of weeks, and the slide in yields appears to have come to a halt – at least for now. Nevertheless, sentiment could change rapidly, as the equity market or news from the financial sector – for example on monoliners – could have a swift and significant impact on the fixed income markets.

There are a number of interesting economic events in the week ahead. After the service PMI falls in Euro-land and service ISM falls in the US last month, there is likely to be strong focus on the coming week's PMI numbers for Euro-land. Will the fall continue, or will there be a rebound? And will the outcome have an effect on the manufacturing sector? The PMI numbers are without doubt the most interesting event on the calendar for Euro-land, and together with the US data - in particular the latest FOMC minutes - will set the agenda for fixed income markets in Europe – equity markets permitting.

Inflation and housing data, together with the latest FOMC minutes, are also due for release in the coming week. The minutes should be a particularly interesting read this time around as they will cover both the regular meeting at the end of January (50bp rate cut) and the extraordinary inter-meeting cut of 75bp on 22 January. The minutes should provide a better understanding of the US central bank's very aggressive actions.

Economic news since the latest FOMC meeting has, to some extent, supported the Fed's actions, but it will still be very interesting to read what has worried the Fed so much. The minutes should also give some indication of how much more we can expect from the US central bank. We forecast that the Fed will cut interest rates by a further 50bp at the next meeting in March and by an additional 50bp in Q2, bringing the Federal funds target rate down to 2.0% by the summer.



Foreign exchange

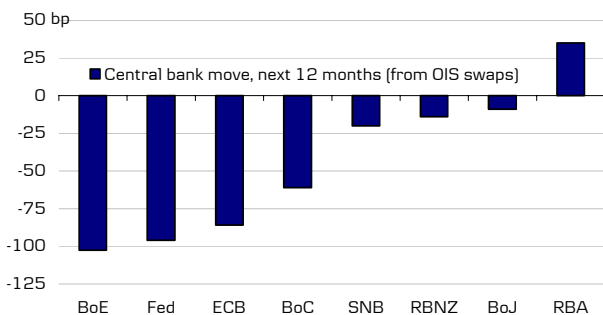
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Central bank rates – up or down?

The world's central banks implicitly stated this week that they will themselves set the agenda with regards to prioritising inflation or growth. And the message was clear: They do not wish to lose control of price developments despite the outlook for a global economic slowdown. Market pricing of interest rate changes, which has lately been based on growth considerations, is currently extreme and rather volatile. This may give rise to major movements in exchange rates if focus returns to price stability.

Sweden's Riksbank was the most clear in communicating its focus on inflation by hiking the repo rate by 25bp to 4.25%, despite significant indications of slowing growth. The reason for the rate hike was simply the greatest increase in the broad inflation index in 14 years, and the highest growth in underlying inflation since 2003. The market interpreted the Riksbank's willingness to hike rates as a sign that Norges Bank would do the same in the spring. The Bank of England has stated that the financial markets are currently pricing in too many rate cuts, but also that rates would fall slightly to avoid excessively low inflation, which is also damaging. The European central bank (ECB) has been softening its rhetoric lately and is now no longer preparing to hike, but neither has it at any point confirmed the recent aggressive pricing in the market. The Bank of Japan can afford to relax a little after the past week's solid growth figures for Q4 07, which demolished all rumours of recession. Meanwhile, the Swiss central bank can shelter behind the ECB and wait to see which way the wind blows. "Down under" to Australia, the RBA is in the process of hiking to dampen inflation, while the RBNZ is leaning more towards cutting interest rates, which are the highest in G10. On the other side of the Atlantic, the US Fed seems firmly committed to preventing a recession, while Canada is expected to largely follow the same route, as it is being hit by the US slowdown.

The figure below reveals that the market expects international policy rates to fall in general. This is largely based on growth considerations and not so much on inflation, which is above most of the central banks' comfort levels. However, market expectations are constantly changing and this can have considerable consequences for the exchange rates. Should the central banks begin to credibly communicate that they will not react to outlooks of weak growth but only to price stability, this could mean major currency shifts. While this is not our main scenario, it is, nevertheless, something that should not be ignored in a good FX forecast. Our latest FX forecast can be found in [FX Crossroads](#).



Commodities

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Tight scrap availability puts copper on course to test new highs

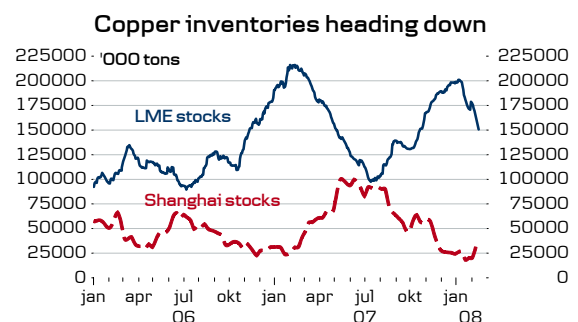
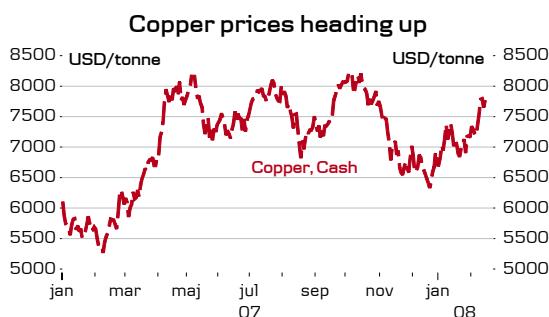
Copper is generally a highly cyclical metal, but it is difficult to see any signs of economic recession when looking at copper prices. Since bottoming in mid-December, copper prices have surged by USD 300 a tonne, or more than 20%. As discussed in previous notes, metal prices started plummeting as early as in September and October as a precursor of the slowdown in the US economy. Now that the US central bank has launched its very aggressive policy action, metals have begun to anticipate the good times ahead.

However, in the case of copper, this is not just a case of "the joy of anticipation". Copper fundamentals are very strong at the moment, and we would not be surprised to see copper prices move even higher in the coming months and perhaps test new highs.

The big problem facing the copper market is the continued gap between mine supply and refined copper demand. Market participants estimate the shortfall in copper supply at close to 3m tonnes in 2007, compared to 2.1m tonnes in 2006. This gap was filled by an increase in secondary refined copper production and inventory draw-downs. Hence, the big question is if the shortfall in mine production could be filled by increased use of scrap and by inventory draw-downs again in 2008.

Secondary production as a proportion of total production rose to a 10-year high of 15.3% in 2007 says the International Copper Study Group (ISCG). However, a slowdown in the European economy would not only hit the demand for copper but also scrap copper availability. Scrap generating activity in Europe has been generally sluggish in recent years, perhaps reflecting modest scrap availability. Light scrap is already being heavily recycled. When refined copper prices increase as they have done recently, scrap prices would normally increase less fast, but that is not what has happened this time around, perhaps reflecting very tight US scrap availability.

But copper concentrate stocks are also low, as are refined copper inventories. Although inventories are not as low as in mid-2006, they are still running close to the critical levels where the market becomes very sensitive to just the slightest disruption in production. That is why the coming months might see copper prices move higher in spite of the negative signals from the global economy.



Equities

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What could make the market rise again?

Many of our customers are asking what it would take to make the market resume its long-term upward trend. The upward trend came to an abrupt halt in summer 2007, and was followed by a 15-20% tumble in share prices across regions and national boundaries. So what would put the market back on track?

An end to recession fixation. The equity market would have to start focusing on factors other than the state of the US economy. At the present time, the equity market is more or less fixated on a single issue: the depth and length of the US economic crisis. What could happen is that investors again buy equities, not because the issue of a US recession gets resolved, but because focus broadens to include the equity market's yield characteristics, or perhaps areas of the market with little sensitivity to the US economy will again begin to dominate market direction. In our view, however, it will still take some time before the market abandons its current fixation.

Realism about the future. We have repeatedly emphasised that companies and analysts are overly optimistic about 2008/2009 corporate earnings given the economic slowdown that can now also be seen outside the US. But even if a severe global slowdown can be avoided, a shortage of spare production capacity, combined with rising wage and price inflation, means we expect lower earnings growth in 2008/2009 than was the average for 2003-2007. Equity analysts' slipping grasp on reality seems well demonstrated by the fact that they foresee earnings growth for US S&P500 companies (excl. financials) of 14-15% in 2008, compared to 8% in 2007 and 12% in 2006, while in the same breath they express fears of a US recession, which usually means corporate earnings falling by 10%-20%.

Economic rescue plan begins to work. Both the US central bank's interest rate cuts and finance minister Paulsen's tax relief plan are now actively helping to avert a lengthy economic crisis in the US. Private consumption in the US will receive a boost in May, equivalent to between 0.5% and 0.75% of GDP via the so-called tax cheques in Paulsen's plan. However, the rescue plan is no quick fix solution for the equity market, which fears the reasons behind the intervention. In other words, investors will have to see that the rescue plan actually has an effect on the US housing market and private consumption before the equity market can rise on the back of government and central bank measures. We expect that this will not happen before May at the earliest. Until then, the equity market will need help from other quarters, such as falling energy prices, to help sentiment in the cyclical sectors.

Fears of a financial freeze-up ease. The financial crisis kicked off in summer 2007, and has dominated the equity market agenda since. Hence, there is much to suggest that a solution to the financial crisis could produce greater optimism in the equity market. A stabilisation of the housing market would be a key precondition for this. When US housing market activity begins to stabilise, the root cause of the financial crisis will probably disappear. We expect that the worst of the housing market slowdown will be over by the end of H1 08. At the present time, however, we fear the tightening of bank credit standards that is now coming on the heels of the financial crisis. And here we believe we may not yet have seen the worst.

Overall, we do not expect that the equity market will resume its long-term upward trend anytime soon. It will take time for the above "solutions" to take effect, and until then the equity market will be marked by uncertainty and carry the risk that it may again fall to revisit the bottoms experienced in January 2008.

Macroeconomic forecast

Macro forecast, Scandinavia

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2007	1,9	2,1	1,7	5,1	-0,1	3,1	4,2	1,7	3,5	4,4	25	1,2
	2008	1,7	1,7	2,0	2,5	-0,1	4,3	4,5	1,7	3,3	3,8	20	1,1
	2009	1,3	1,6	1,8	2,4	0,0	4,1	4,9	1,9	3,7	3,2	16	0,8
Sweden	2007	3,0	3,1	0,5	8,0	0,8	5,7	8,9	2,2	6,2	2,3	43,8	6,5
	2008	1,9	2,0	0,9	-0,9	-1,2	3,7	-0,4	2,6	7,1	2,3	41,1	7,7
	2009	2,4	1,7	1,4	-2,9	-0,4	5,1	1,3	1,1	7,9	1,7	39,4	9,0
Norway	2007	3,7	6,2	3,2	6,9	-0,4	2,7	6,2	1,0	2,7	12,0	26	17,5
	2008	3,9	4,3	3,1	5,7	0,8	1,6	4,3	2,4	2,6	13,9	24	20,2
	2009	3,2	4,2	3,0	3,6	0,8	1,0	5,3	2,5	2,5	15,0	20	18,1

Macro forecast, Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euroland	2007	2,6	1,5	2,0	4,7	-0,1	6,5	5,7	2,1	7,4	-0,8	67	-0,8
	2008	1,6	1,4	2,0	2,5	-0,1	4,0	4,0	2,5	7,0	-0,8	65	-0,3
	2009	1,8	1,7	1,9	2,0	0,1	5,5	5,0	2,0	6,8	-0,8	64	-0,5
Germany	2007	2,7	-0,1	1,8	5,5	-0,1	9,0	6,0	2,2	9,1	-0,5	65	5,8
	2008	1,8	0,8	1,5	2,5	0,0	6,0	4,0	1,6	8,3	0,2	64	5,8
	2009	1,7	1,3	1,5	2,0	0,0	6,5	4,0	1,5	8,0	0,4	64	6,0
France	2007	1,9	2,0	1,9	4,0	-0,2	4,0	7,1	1,3	8,0	-2,3	63	-2,3
	2008	1,8	1,8	1,7	3,0	0,0	4,0	4,7	1,5	7,7	-2,2	62	-2,3
	2009	1,8	2,0	1,7	2,5	0,0	4,0	4,0	1,5	7,5	-2,3	61	-2,3
Italy	2007	1,8	1,8	0,7	2,7	0,0	3,0	2,3	1,9	5,9	-2,6	105	-1,7
	2008	1,2	1,1	1,3	1,7	0,0	2,0	3,0	2,0	5,7	-2,0	103	-1,7
	2009	1,2	1,1	1,2	1,7	0,0	2,0	2,5	1,9	5,7	-2,2	102	-1,7
Spain	2007	3,9	3,5	5,2	6,3	-0,4	6,0	7,3	2,7	8,0	1,5	37	-9,0
	2008	2,9	2,5	4,0	4,5	0,0	4,5	5,0	2,9	8,2	1,0	35	-9,5
	2009	2,7	2,0	3,5	3,0	0,0	4,0	4,0	2,3	8,8	0,0	35	-9,0
Holland	2007	3,0	1,9	3,1	4,7	-0,1	6,5	6,0	1,7	3,3	0,0	60	7,0
	2008	2,4	1,9	1,4	4,0	-0,1	5,5	5,5	2,0	2,9	0,0	59	6,5
	2009	2,2	2,0	0,8	3,3	0,0	5,0	5,5	1,8	2,8	0,0	60	6,5
Finland	2007	4,2	3,0	1,4	4,6	0,3	9,0	4,0	2,5	6,6	4,0	38	6,0
	2008	3,0	2,5	1,6	3,3	0,0	6,0	5,5	2,6	6,3	4,4	37	6,0
	2009	2,7	2,3	1,8	2,5	0,0	5,0	4,0	2,0	6,1	4,2	36	6,0

Macro forecast, Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2007	2,2	2,9	2,1	-1,8	-0,3	7,9	2,0	2,9	4,6	-1,2	60	-5,6
	2008	1,8	1,8	2,5	-2,9	-0,1	8,5	1,7	3,1	5,1	-2,6	60	-4,3
	2009	2,4	2,2	2,0	1,6	0,1	6,7	3,7	2,3	5,4	-1,5	59	-4,2
Japan	2007	1,7	1,6	0,8	-3,1	-0,1	7,4	2,4	0,1	3,8	-2,7	179	5,0
	2008	1,6	1,5	0,9	3,0	-0,1	5,5	4,2	0,4	3,6	-3,0	178	5,0
	2009	2,1	1,9	1,2	3,4	0,0	5,7	5,3	0,7	3,3	-2,7	178	4,8
UK	2007	3,0	3,1	1,9	5,5	0,3	-4,0	-2,0	2,8	3,0	-2,5	43	-3,3
	2008	2,2	2,1	2,1	2,0	0,0	6,0	5,0	3,0	3,2	-2,5	43	-4,1
	2009	2,3	2,1	2,1	3,0	0,0	5,0	5,0	2,3	3,3	-2,5	43	-4,0
Switzer-land	2007	2,7	1,9	-0,5	3,8	0,1	10,1	9,8	1,1	3,3	-0,2	55	16,0
	2008	2,4	2,3	0,1	2,7	0,0	7,5	6,6	0,5	2,7	0,0	54	16,5
	2009	1,9	1,9	0,0	3,3	0,0	4,7	4,5	1,1	2,5	0,0	53	17,0

Source: OECD and Danske Bank. 1) %/y. 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	15-feb	3,00	2,76	4,56	146,6	-	508,6
	+3m	2,50	2,65	4,15	152	-	491
	+6m	2,00	2,70	4,20	150	-	497
	+12m	2,00	3,05	4,45	140	-	533
EUR	15-feb	4,00	3,89	4,46	-	146,6	745,5
	+3m	4,00	3,95	4,30	-	152	746,0
	+6m	3,75	3,60	4,15	-	150	746,0
	+12m	3,25	3,40	4,15	-	140	746,0
JPY	15-feb	0,50	0,89	1,65	158,5	108,2	4,70
	+3m	0,50	0,80	1,60	158	104	4,72
	+6m	0,50	0,90	1,65	150	100	4,97
	+12m	0,75	1,25	1,85	147	105	5,07
GBP	15-feb	5,25	4,96	5,13	74,4	197,1	1002,6
	+3m	5,25	4,90	4,90	77,0	197	969
	+6m	5,00	4,80	4,80	78,0	192	956
	+12m	4,50	4,50	4,60	74,0	189	1008
CHF	15-feb	2,75	2,53	3,31	160,8	109,7	463,7
	+3m	2,75	2,55	3,20	160	105	466
	+6m	2,75	2,45	3,10	158	105	472
	+12m	2,50	2,60	3,20	157	112	475
DKK	15-feb	4,25	4,11	4,58	745,5	508,6	-
	+3m	4,25	4,10	4,40	746,0	491	-
	+6m	4,00	3,75	4,30	746,0	497	-
	+12m	3,50	3,60	4,30	746,0	533	-
SEK	15-feb	4,00	4,41	4,80	932,9	636,5	79,9
	+3m	4,00	4,00	4,55	945	622	78,9
	+6m	4,00	3,55	4,35	935	623	79,8
	+12m	3,50	3,45	4,35	935	668	79,8
NOK	15-feb	5,25	5,60	5,33	792,2	540,6	94,1
	+3m	5,50	5,60	5,40	780	513	95,6
	+6m	5,50	5,40	5,30	775	517	96,3
	+12m	5,50	5,20	5,30	775	554	96,3
PLN	15-feb	5,25	5,90	5,78	358,7	244,7	207,9
	+3m	5,50	6,20	5,60	365	240	204
	+6m	5,50	5,90	5,75	370	247	202
	+12m	5,50	7,05	6,85	370	264	202

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

Key data and events (1)

Monday, February 18, 2008			Period	Danske Bank	Consensus	Previous
-	USD	Presidents' Day - Market closed				
0:50	JPY	Tertiary Industry Index	m/m		-0.2%	0.1%
1:01	GBP	Rightmove House Prices	m/m y/y			-0.8% 3.4%
3:00	CNY	PPI	y/y		5.7%	5.4%
6:00	JPY	Leading Economic Index, final			45.5%	40.0%
9:15	CHF	Retail sales, Nominal	y/y		6.3%	2.9%

Tuesday, February 19, 2008			Period	Danske Bank	Consensus	Previous
1:30	AUD	Minutes from RBA February meeting				
3:00	CNY	CPI	y/y	7.2%	7.0%	6.5%
6:30	JPY	Nationwide Department sales	y/y			-2.3%
9:30	SEK	CPI	m/m y/y	-0.3% 3.7%	-0.5% 3.6%	0.2% 3.5%
9:30	SEK	Underlying inflation	m/m y/y	-0.4% 2.5%	-0.7% 2.2%	0.1% 2.0%
13:00	CAD	CPI	m/m y/y		-0.1% 2.3%	0.1% 2.4%
13:00	CAD	CPI core	m/m y/y		0.1% 1.4%	-0.3% 1.5%
14:00	PLN	Producer prices	y/y	2.1%	2.1%	2.5%
14:00	PLN	Industrial production	y/y	5.2%	5.6%	6.2%
15:00	USD	Fed's Stern (voter, hawk) speaks				
19:00	USD	NAHB Housing Market Index	Index	19	19	19

Wednesday, February 20, 2008			Period	Danske Bank	Consensus	Previous
0:50	JPY	BoJ Board Minutes, January meeting				
8:00	EEK	Producer prices	y/y	8.1%		8.7%
9:00	ESP	GDP final	q/q y/y			0.8% 3.5%
10:30	GBP	M4 Lending, preliminary	bill			17.4
10:30	GBP	BoE Minutes				
10:30	GBP	Public Finances (PSNCR)	bn. GBP		-19.0	17.0
10:30	GBP	Public Sector Net Borrowing	bn. GBP		-9.8	7.8
10:30	GBP	Broad money M4	m/m y/y		0.7% 11.8%	1.5% 12.3%
12:00	GBP	CBI Industrial Trends Survey				
13:00	USD	MBA mortgage applications				
14:30	USD	CPI	m/m y/y	0.2% 4.1%	0.3% 4.1%	0.3% 4.1%
14:30	USD	CPI ex. food & energy	m/m y/y	0.2% 2.4%	0.2% 2.4%	0.2% 2.4%
14:30	USD	Housing starts	'000		1010	1006
14:30	USD	Building Permits	'000		1040	1068
19:30	USD	Fed's Poole (non-voter, hawk) speaks				
20:00	USD	Minutes from FOMC meeting				

Thursday, February 21, 2008			Period	Danske Bank	Consensus	Previous
-	RUB	Real wages	y/y	16.3%	15.2%	16.2%
-	RUB	Unemployment	%	6.2	6.2	6.1
-	RUB	Disposable income			10.0%	9.4%
-	RUB	Retail sales	y/y		15.5%	16.7%
-	RUB	PPI	y/y	25.8%	25.5%	25.1%
-	RUB	Foreign reserves	bn USD			481.0
0:50	JPY	Adjusted Merchandise Trade balance	JPY bn		926.6	642.5
0:50	JPY	All Industry Activity Index	m/m		0.3%	-0.5%
8:15	CHF	Trade balance	bn CHF			0.20
8:45	FRF	HICP	m/m y/y		-0.1% 3.1%	0.4% 2.8%
9:15	CHF	Producer & Import prices	m/m y/y			-0.1% 3.0
9:30	ITL	Consumer confidence	Index			102.2
10:00	NOK	GDP (total)	q/q y/y		0.8% .	1.4% .
10:00	NOK	GDP (mainland)	q/q y/y	1.3% 6.4%	1.0% .	1.9% .
10:30	GBP	Retail Sales	m/m y/y		-0.1% 4.5%	-0.4% 2.7%
12:00	LVL	Producer prices	y/y	10.3%		13.1%
14:30	USD	Initial jobless claims	1000		345	348
16:00	USD	Leading indicator			-0.1%	-0.2%
16:00	USD	Philadelphia Fed.	Index	-9	-10.0	-20.9

Key data and events (2)

Friday, February 22, 2008			Period	Danske Bank	Consensus	Previous
-	RUB	Money supply				
8:00	EEK	Gross wages	y/y 4th quarter			20.2%
8:45	FRF	Household consumption	m/m/y/y Jan		-0.5% 3.1%	2.0% 3.9%
8:45	FRF	Business confidence indicator	Index Feb		108	109
10:00	EUR	Euroland PMI manufacturing	Index Feb	52.6	52.3	52.8
10:00	EUR	Euroland Service PMI	Index Feb	51.2	50.2	50.6
10:00	LTL	Industrial production	% Jan			7.2
11:00	ITL	HICP, final	m/m/y/y Jan		-0.8% 3.1%	0.3% 2.8%
14:30	CAD	Retail sales	m/m Dec		0.6%	0.7%
15:00	BEF	Business Confidence	Index Feb		-1.6	-0.8

During the week			Period	Danske Bank	Consensus	Previous
Fri 15 - 19	CNY	Money supply M2	% Jan			16.7
Fri 15 - 21	CNY	Wholesale prices	y/y Jan			7.6%
Mon 18 - 21	CNY	Trade balance	USD bn Jan		17.00	22.69

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