

Weekly Focus

19-26 September 2008

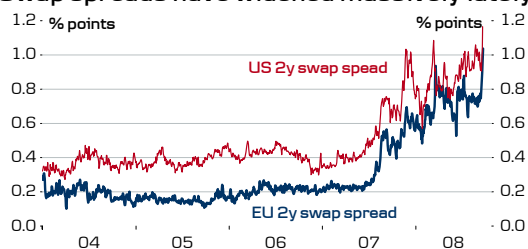
Credit spreads



Equities at depressed levels



Swap spreads have widened massively lately



Crisis measures taken to new level

It has been a hectic week with a series of ad hoc measures taken by the US authorities aimed at securing stability in the financial system. Attempt to save the financial system has now been taken to another level, with the Treasury and the Fed apparently now targeting the entire financial system by setting up a fund to take over bad assets from financial companies' balance sheets and creating a federal insurance scheme for investors in money market mutual funds. The authorities are now targeting the root of the problems in the financial system and the move could potentially mark a turning point in the financial crisis, as the uncertainty over potential future losses on "toxic" bank assets will be markedly reduced.

By setting up a fund to take over toxic assets, fear of additional bankruptcies among the major banks would diminish. Market prices for many of these toxic assets have been depressed by forced selling, which stems from funds having to liquidate assets to raise capital or because the funds simply collapsed and had to sell all their assets. Falling share prices have also made it more difficult for the banks to raise capital and have led to downgrades. The downgrades implied that even more capital had to be raised while at the same time making it even more difficult to do so. This vicious circle has been a threat to the whole financial system. We will continue to see losses related to the overall economic downturn, but fears of a total financial meltdown should diminish if these measures pass through Congress. This would obviously be positive for risky assets such as credit and equities, while bonds would suffer as the flight to safety winds down.

The intervention raises moral hazard issues, as it implies a bail out on a grander scale in which the taxpayers take over the risk of the toxic assets. However, if current prices on these assets are excessively depressed because of panic selling the measure could also turn out to be profitable.

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Denmark

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Danish economy under pressure, but...

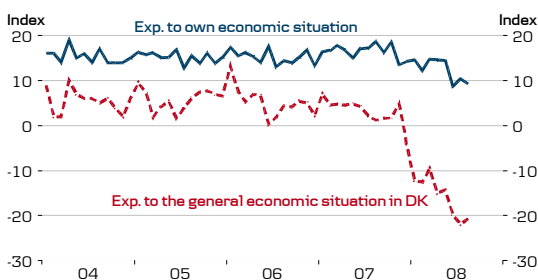
In these uncertain times, it can be useful to have access to professional and well-founded analyses of the economic situation, and Denmark's central bank (Nationalbanken) has just published its quarterly report for Q3, which includes a forecast for the Danish economy through to 2010. The report paints a picture of a clear economic slowdown, but also of a solid underlying economy where rising unemployment per se is not a big worry, as unemployment is currently below a level considered sustainable in the longer term. Economic structures remain strong in Denmark, and so the slowdown does not give the central bank any major cause for concern - it is to a large extent a matter of the normalisation of the economy after several years of over-performance.

We share Nationalbanken's fundamental view of the Danish economy: it is in somewhat better shape than generally thought, and a degree of cooling is not a problem as such. This is not to say that we will not be affected by the global downturn and the fallout of the financial crisis. Indeed, the central bank is not exactly looking through rose-tinted spectacles: it forecasts that the number of unemployed will rise to almost 100,000 in 2010, and expects economic growth to remain low throughout the forecast period - but not disastrously so.

Naturally the central bank also has an eye on the housing market. Like us, though, it is taking a reasonably balanced view of price movements in the coming years. There is no doubt that house prices will fall further, but we are unlikely to see any drastic drops from quarter to quarter. The housing market traditionally responds sluggishly, meaning that price falls tend to be slow and prolonged rather than short and sharp.

We will be publishing an updated forecast for the Danish economy before the end of the month, but we do not anticipate any major changes compared to our previous forecast in June.

Danes worrying about the neighbours



Key events of the week ahead

- The most important economic data in the coming week are for consumer confidence, which has been under immense pressure over the past year on the back of falling house prices, rising inflation and the financial crisis. However, it is mainly other people's finances that are worrying the Danes - our view of our own finances is far less bleak. We expect this trend to continue in September.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Wed 24	9:30	DKK Consumer confidence	Index	Sep	-13.5	-12.2

Sweden

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Declining growth and inflation expectations could increase calls to cut

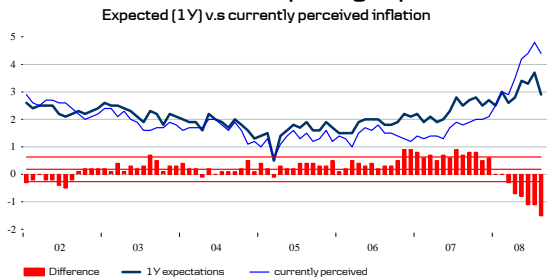
Given recent events, one could believe that the discussion in the Riksbank minutes is out of date. Nevertheless, it is worth mentioning that Ingves, Öberg and Svensson (hawks) largely focus on the present situation, ie, high inflation, inflation expectations and cost pressures, while Nyberg, Rosenberg and Wikman-Parak, in contrast, focus on the future, saying that the negative outlook for growth (which could worsen) should result in lower inflation – therefore it is not necessary to wait for a fall before acting. We have considerable sympathy for the latter standpoint, and indeed dove calls to ease policy cannot be far off.

As we see it, the financial and real economies are two sides of the same coin. The turmoil hitting the financial system can hardly not have negative effects on the real economy, and Sweden is, of course, being affected, both directly via, eg, higher financing costs for consumers and businesses, and indirectly as an open economy facing slower global growth. This is why we believe (like most) that the Riksbank will have to ease substantially, meaning a period of markedly steeper yield curves could be close at hand.

While we are aware that market focus is not really on economic data right now, we would still note a couple of things. The NIER monthly business and consumer surveys are due next week. All indicators have weakened quite sharply in recent months, and there is a risk of more bad news for manufacturing. PMI and the NIER manufacturing confidence indicator are historically quite well correlated, with some lead for the PMI. In the past two months the PMI has declined more than 4 points to 46.4. This is below the trough in 2003 (47.8) and not far from the 2001 low (45.0), when the NIER indicator reached -20 and -23, respectively. The current PMI suggests that there is a downside risk of at least 6-7 points from the latest reading of -12. Also worth noting is inflation expectations in the consumer confidence survey. Last month, 1-year expectations fell from 3.7% to 2.9%. Households have a well founded view on current inflation, as the average spread between perceived and actual inflation is only 0.3pp (ie, slight exaggeration of actual inflation).

Perceived inflation is in turn relatively well correlated with expected inflation – and last month’s drop in expectations was indeed mirrored in a decline in perceived current inflation. Over time (since 2002), expectations have been higher than current perceptions (0.2pp on average). In recent months, however, this has reversed, with the negative spread even widening to reach a record -1.5 pp last month. So it seems that the average household sees the current high rate of inflation as partly a temporary problem. This could also be a sign that expectations are on their way down.

Perceived inflation outpacing expectations



Key events of the week ahead

- NIER to release business and consumer surveys. We expect to see a further decline in confidence and inflation expectations.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Wed 24	9:15	SEK Consumer confidence	Index	Sep	-17.0	-16.5
Thu 25	9:30	SEK PPI (incl. export- and importprices)	m/mly/y	Aug	-0.1% 3.6%	0.7% 3.3%
Thu 25	9:30	SEK Trade balance	SEK bn	Aug		9.4

Norway

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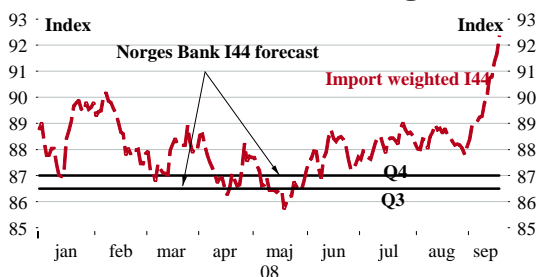
Norges Bank meeting overshadowed by global financial turmoil

Norges Bank is scheduled to meet in the coming week, and anything other than unchanged rates would be a major surprise. Despite a fundamentally robust economy buoyed up by strong oil-related investment activity, the global financial and economic crisis has definitely not left the Norwegian economy unscathed. New housing starts and commercial construction are under severe pressure, and there is no doubt that the Norwegian construction sector is rapidly slowing. Private consumption, too, is showing signs of weakness, with the consumption of goods up just a modest 1.4% y/y in July. In other words, both companies and households in Norway have reacted to the high level of interest rates and the pronounced tightening of credit that has followed in the wake of the financial crisis in recent months. The slowdown in Norway was clear to see in the very limited economic growth in H1.

Economic numbers are, however, being sidelined at present by the global financial crisis, and we will keep a close eye on how Norges Bank assesses the impact of the current crisis on the Norwegian economy and financial market. The global growth outlook has without doubt deteriorated since the last interest rate meeting. Moreover, inflationary pressures stemming from commodity prices have eased considerably following major falls in oil prices and exchange-traded foodstuffs. Uncertainty on the global economy and clear signs of a slowdown in Norway strongly indicate no more rate hikes from Norges Bank. Further, any need for tightening is being more than sufficiently met by the commercial banks, which once again are starting to pass on their high funding costs to their customers.

On the other hand, this does not mean that Norges Bank will soon cut. Underlying inflation rose by 2.8% y/y in August, and is now 0.4 percentage points above Norges Bank's forecast. Furthermore, there is a risk that underlying inflation could tick higher in the coming months, and it is likely that Norges Bank will express concern about the effect on inflation of the Norwegian krone weakening in recent months. Currency weakness increases the risk that imported inflation could begin to rise from the current low level of around zero. If this were to happen it would mean a further jump in total inflation. The trade-weighted NOK has weakened by almost 6% since the end of August, which could make the new KPIEX price indicator values - to be announced in connection with the meeting - of some interest.

Weaker NOK a concern for Norges Bank



Key events of the week ahead

- Norges Bank expected to keep rates on hold at 5.75%. Focus on how the bank views weak global growth and the financial crisis versus inflationary pressures in the Norwegian economy, a weaker NOK and high money market rates.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Wed 24	10:00	NOK Unemployment s.a. (LF5)	%	2.6	2.6	2.6
Wed 24	14:00	NOK Norges Banks monetary policy meeting	%	5.75	5.75	5.75

Euroland

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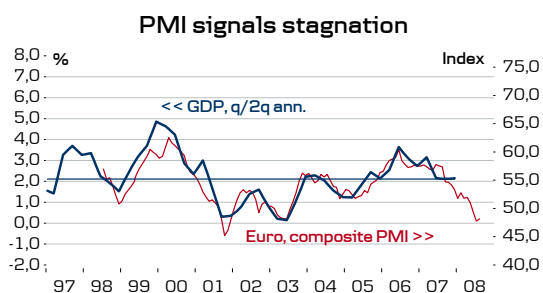
Euroland inflation softens

There was little in the way of new data on the Euroland economy in the past week. The final figure for headline inflation in August was 3.8% y/y, which is a clear decrease from the peak of 4.0% seen in June and July. The detailed figures revealed the first signs of the anticipated rise in core inflation, although around half of the increase from 1.7% y/y in July to 1.9% in August can be put down to the summer sales coming earlier this year. We expect headline inflation to fall further in the coming months. Oil prices have fallen, and base effects (high oil and food prices last year) will begin to make their mark.

Other figures during the week showed that growth in labour costs slowed to 2.7% y/y in Q2 from an upwardly revised 3.5% y/y in Q1. However, labour cost data tend to fluctuate widely, and as they allow for the number of working days, the q/q change is particularly uncertain this time around due to Easter falling early this year.

The coming week brings news on business confidence. The important PMI figures are released on Tuesday. In line with consensus, we expect the index for the manufacturing sector to edge down from 47.6 to 47.3, corresponding to a decrease in output, and the index for the service sector to fall from 48.5 to 48.0. The overall PMI is therefore expected to slip from 48.2 to 47.9, signalling continued very weak growth of around 0.1% q/q in Euroland GDP. The German Ifo index is due out on Wednesday. In line with consensus, we expect a drop to 94 from 94.8 in August.

All in all, the data in the past week and the week ahead allow the ECB slightly more elbow room in terms of tackling the weak growth outlook. Inflationary pressure seems to be easing, making it easier for the ECB to shift its focus from inflation to growth. However, we expect it to be some time before the ECB is ready to cut its rates, and suggest March and June 2009 as the most likely timing. However, the slide in oil prices may mean that the ECB acts sooner.



Key events of the week ahead

- Tuesday: PMI for the manufacturing sector is expected to edge down from 47.6 to 47.3, and PMI for the service sector to fall from 48.5 to 48.0.
- Wednesday: In line with consensus, we expect the German Ifo index to drop to 94 from 94.8 in August.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Tue 23	9:00	FRF PMI service, preliminary	Index		47.8	48.0
Tue 23	9:30	ITL Consumer confidence	m/m		98.5	99.5
Tue 23	9:30	DEM PMI services, preliminary	Index		50.8	51.4
Tue 23	10:00	EUR PMI Service, preliminary	Index	48.0	48.0	48.5
Tue 23	10:00	EUR PMI Composite, preliminary	Index	47.9	48.0	48.2
Tue 23	10:00	EUR PMI Manufacturing, preliminary	Index	47.3	47.3	47.6
Tue 23	11:00	EUR Industrial new orders	m/mly/y		-0.7% -3.9%	-0.3% -7.4%
Wed 24	9:30	ITL Business confidence	Index		83.5	83.5
Wed 24	10:00	EUR Balance of payments	EUR bn			-8.2
Wed 24	10:00	DEM IFO- Business climate	Index		94.1	94.8
Wed 24	10:00	DEM IFO- Current Assessment	Index		101.9	103.2
Wed 24	10:00	DEM IFO- Expectations	Index		87.3	87.0
Thu 25	10:00	EUR M3 Money supply	y/y (3m MA)		9.3%	9.6%
Fri 26 - 29	-	DEM CPI, preliminary	m/mly/y		-0.2% 2.8%	-0.3% 3.1%
Fri 26 - 29	-	DEM HICP, preliminary	m/m y/y		-0.1% 3.1%	-0.4% 3.3%
Fri 26	8:00	DEM Import prices	m/mly/y		-1.0% 9.1%	0.6% 9.3%
Fri 26	8:45	FRF GDP, final	q/qly/y	2nd quarter	-0.3% 1.1%	-0.3% 1.1%

Switzerland

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Focus on stability

The Swiss National Bank (SNB) kept its 3M LIBOR target at 2.75% and the fluctuation band at 2.25-3.25% at its Q3 meeting on Thursday. Market reaction was muted, as the outcome had been expected and the market was more focused on global events.

The tone in the accompanying statement remained neutral, with the SNB expounding on its decision by saying that, "...medium-term price stability is ensured. Moreover, in view of the major uncertainties relating to both the global economy and the fallout from the international financial crisis, the SNB considers that a prudent attitude is appropriate and that the current monetary policy course should be retained." The SNB also elected to maintain the growth forecast from June's quarterly report, and thus still expects that real GDP growth will be between 1.5% and 2.0% in 2008. This surprises us slightly, as the growth outlook for Euroland has deteriorated since the previous monetary policy meeting in June. On the other hand, the SNB tweaked its inflation forecast, and now expects inflation to fall a little more slowly in 2009 than previously thought, though the medium-term inflation forecast remains unchanged. The SNB still expects that inflation will drop below its 2% target next year, which should create some scope for an easing of monetary policy, although we still are of the view that the SNB will not cut interest rates until Q2 09.

Thursday's meeting was heavily overshadowed by events on global financial markets. Prior to its monetary policy meeting, the SNB announced that it, along with a number of other central banks spearheaded by the US Federal Reserve, had taken steps to ensure additional dollar liquidity to banks that did not have direct access to the US market. The move came after increasing liquidity problems in the money markets, and the SNB has now raised total dollar repo auctions from USD 12bn to USD 27bn.

The only economic number out of Switzerland in the coming week is the KOF leading indicator for September, which is expected to show yet another fall. However, focus is at present not on the economic data, but on developments in the global financial crisis. If the US authorities do push through the measures that are currently being discussed in the media, they could put some pressure on the Swiss franc, which has already lost a little ground to the euro following the recent improvement in global equity markets.

Equities continue to drive the Swiss franc



Key events of the week ahead

- Friday at 11:30: KOF indicator for September.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Fri 26	11:30	CHF KOF Swiss leading indicator	Index	Sep	0.55	0.68

UK

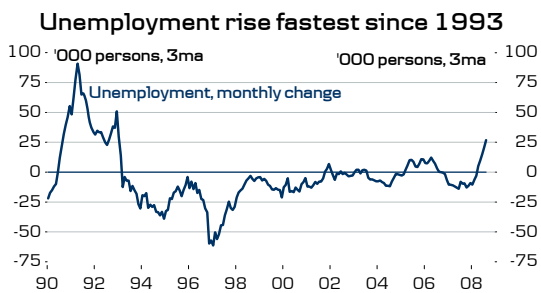
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Labour market softening

Data in the past week confirmed that the slowdown in UK is broadening. Unemployment is now rising at the fastest rate since 1993 (see chart), adding to headwinds for consumers and the housing market. The misery for consumers is confirmed in many surveys and was also evident from the Bank of England's Bank's Agents' survey. Official retail sales figures were again stronger than expected, though the numbers still point to a marked slowdown in consumption growth in Q3. The CBI industrial orders data painted a weak picture of developments in the industrial sector, showing a decline in the order index from -13 to -26. However, the industrial slowdown was already indicated by weak PMI data, so the survey did not really provide much new information.

On the inflation front, CPI data disappointed, rising more strongly than expected to 4.7% in August from 4.4% in July. The high inflation rate is of course very uncomfortable for the BoE, which is why it is not able to help the ailing economy by reducing interest rates. However, the main factor behind the current high inflation numbers is the past rise in commodity prices. Core inflation is rising at 2.0%, and thus is not above the BoE inflation target of 2%. Further, there are no signs of second-round effects on wage growth, which has been broadly stable over the past 3 years at around 3.75%. Falling commodity prices should also ease some of BoE concerns, as this will take headline inflation down to the level of core inflation over time.

Given the severe strains in the financial system and the decline of commodity prices, there is a chance that the BoE could ease policy earlier than our current forecast of an initial cut in February next year. There is also a risk it could cut more than the 100bp in total we forecast for next year. The market is already pricing this in, though.



Key events of the week ahead

- Monday: Rightmove house price index for September. Will give first indication of prices for this month.
- Tuesday: BBA loans for house purchase will likely show continued weak housing activity.
- Wednesday: CBI distributive trades report. Already at very subdued levels, it is expected to be largely unchanged.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 22	1:01	GBP Rightmove House Prices	m/mly/y	Sep		-2.3% -4.8%
Tue 23	10:30	GBP BBA Loans for House Purchase		Aug		22448
Wed 24	12:00	GBP CBI Distributive Trades Report		Sep		
Thu 25	-	GBP Nationwide House Prices	m/mly/y	Sep	-1.5% -12.6%	-1.9% -10.5%

USA

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Here comes the cavalry

Turmoil on the financial markets reaching new heights made for a hectic week that saw a steady stream of financial institutions hit the wall (see [Research: The financial crisis - what's next?](#)). Following Lehman Brothers filing for Chapter 11 bankruptcy protection, the Federal Reserve's rescue of insurer giant AIG, and a Fed-led coordinated intervention by major central banks to ease concerns in the dollar money market, the US authorities are apparently now planning to take their most drastic step yet in this crisis, according to various news media.

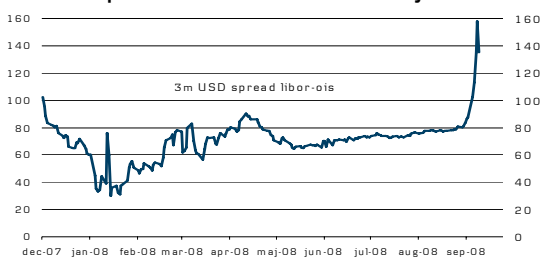
While the details are still unclear, according to media reports the two main measures are:

- A) Setting up a state-owned entity that would take over problematic assets from bank balance sheets.
- B) A deposit guarantee for investors in US money market funds similar to the one that applies to normal bank deposits.

Such a measure has been seen in previous financial crises: In the US, the most recent example was the setting up of the RTC in 1989 in the wake of the Savings & Loans crisis. If the government manages to calm the market's fears of further losses in the financial sector and resolve the confidence issues between money market participants, the measure could have the potential to turn the financial crisis around (see [Flash Comment - USA: targeting the entire financial system](#)).

In principle, the setting up of such a state-owned entity would mean that the risk associated with the financial assets taken over will be shifted away from the banks and over to the US taxpayer. That said, it is by no means certain that such a fund will necessarily suffer a loss. The government will likely demand that it unburdens the banks of their risky assets at a discount to the current market price (which probably already reflects a degree of panic), and this increases the probability that the assets can later be sold at a profit. In addition, a state-owned entity will have the chance to hold the assets to maturity, which means a profit if the rate of default turns out to be less than what the market is currently pricing (the opposite would of course lead to a loss). As we said, the details of the plan have still not been announced, but likely will be over the weekend. No matter what, the plan will be the all-dominating event of the week ahead.

Attempt to calm turmoil in money market



Key events of the week ahead

- Tuesday: We expect a fall of 0.2% m/m in the OFHEO home price index
- Wednesday: Bernanke addresses Congress on the outlook for the US economy
- Wednesday: Existing home sales will be stable at 4.99 million AR.
- Thursday: We expect new home sales to fall by 1% m/m in August.

Date	Time	Event	Period	DanskeBank	Consensus	Previous	
Mon 22	17:30	USD Fed's Fisher (voter, neutral) speaks on US economy					
Tue 23	16:00	USD House Price Index (OFHEO)	m/m	Jul	-0.2%	-0.2%	0.0%
Wed 24	16:00	USD Fed's Bernanke (voter, neutral) speaks					
Wed 24	16:00	USD Existing home sales	m	Aug	4.99	4.95	5.00
Thu 25	14:30	USD Durable goods orders	m/m	Aug		-1.4%	1.3%
Thu 25	14:30	USD Initial jobless claims	1000				
Thu 25	16:00	USD New home sales	1000	Aug	510	515	515
Thu 25	16:40	USD Fed's Evans (non-voter, neutral), ECB's Gonzalez-Paramo give welcoming remarks					
Thu 25	18:00	USD Fed's Bernanke (voter, neutral), Paulson testify on Fannie takeover					
Thu 25	19:00	USD Fed's Warsh (voter, dove) speaks					
Fri 26	1:30	USD Fed's Fisher (voter, neutral) speaks					
Fri 26	14:30	USD GDP, final	q/q ann.	2nd quarter		3.3%	3.3%
Fri 26	14:30	USD Personal Consumption, final	q/q ann.	2nd quarter		1.7%	1.7%
Fri 26	14:30	USD GDP Price Deflator, final	q/q	2nd quarter		1.2%	1.2%
Fri 26	14:30	USD PCE core, final	q/q	2nd quarter			2.1%
Fri 26	16:00	USD University of Michigan Confidence, final	Index	Sep		71.5	73.1
Fri 26	16:00	USD St. Luis Fed's Bullard speaks					

Asia

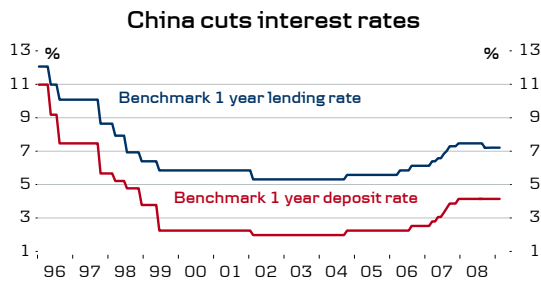
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China shifts focus from inflation to growth

By surprisingly cutting its leading borrowing rate, the Chinese government has in the past week sent a clear signal that focus has shifted from fighting inflation to stimulating growth (see [Flash Comment - China: China cuts lending rate by 27bp](#)). The shift was prompted firstly because inflation has fallen sharply in recent months and could very well drop to around 3% in 2009. Second, the Chinese economy is clearly slowing, and while it is still uncertain how pronounced the slowdown will be, the global financial turmoil presumably convinced the government that the risk was for a hard landing if it did not immediately ease.

The Chinese central bank's rate cut will presumably soon point the way for other Asian central banks. Given the recent falls in oil and commodity prices, it looks like inflation could peak in Q3. Coupled with the current weak economic outlook, this means that the majority of Asian central banks will now go on hold and begin to cut rates as soon as early 2009. Slowing growth and the prospect of rate cuts means a weak outlook for many Asian currencies over the coming 3 to 6 months, when we expect further Asian currency weakness relative to the dollar (see [Emerging Markets Briefer - Running out of safe havens](#)). Most vulnerable are currencies like the Korean won and the Indian rupee due to relatively poor current accounts.

In Japan, focus will be centred on the appointment of a new prime minister on Monday. All indications are that former foreign minister Taro Aso will be the new chairman of LDP and hence PM. Aso's appointment would likely signal further fiscal easing, as he championed this key issue in the internal LDP vote. There is also increasing speculation that if he wins Aso will quickly call an election to the lower house, and the Japanese press is now pencilling in 26 October as a likely date. However, a new election is unlikely to solve much. The LDP will probably lose its more than two-thirds majority and thus have an even harder time governing given the opposition's majority in the upper house. Political stalemate will therefore remain a reality.



Key events of the week ahead

- In Japan, the LDP will choose a new chairman and hence PM. Taro Aso is favourite. Economic data due include the current account on Thursday and consumer prices Friday.
- Nothing of note data-wise out of China in the coming week.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Wed 10 - 15	-	CNY Trade balance	USD bn	Aug	23.55	25.30
Mon 22	1:50	JPY All Industry Activity Index	m/m	Jul	0.8%	-0.9%
Mon 22	1:50	JPY BoJ Board Minutes	Aug			
Fri 26	1:30	JPY CPI - Tokyo	y/y	Aug	1.2%	1.3%
Fri 26	1:30	JPY CPI - National	y/y	Aug	1.7%	2.1%
Fri 26	1:30	JPY CPI - National Ex. Fresh Food	y/y	Aug	2.0%	2.4%

FX

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Giant trash can or just what the doctor ordered?

Currency movements during the week were rather wild once again. The start of the week brought a clear flight to quality, with the CHF and especially the JPY strengthening on the back of the collapse of Lehman Brothers, the last-minute bailout of insurance giant AIG and the nosedive in global equity markets, among other things. However, this was a continuation of an existing negative news flow, and the week ended with more positive news with the potential to boost sentiment in FX markets in the coming weeks, although they are still expected to be highly volatile.

US authorities are considering setting up a fund to put a floor under the financial crisis. Based on experience from the Savings and Loan crisis 20 years ago, the idea is to create a fund in which to place assets that the market does not currently want to buy and that constitute loss-making positions on banks' balance sheets. News that such a fund could be on the doorstep was warmly welcomed by the markets: global equities rocketed, and some have even begun to hear the fat lady singing, though this is far from certain.

But are the US authorities merely building a giant trash can where all kinds of unsaleable and worthless securities will end up being stored indefinitely? According to the Treasury and the Fed the answer is a clear no – the fund is needed to avert further escalation of the crisis and is intended only as a stop-gap remedy for market abnormality. Their stance is that they cannot afford to stay on the sidelines, that the consequences of inaction would be even worse.

This initiative confirms our view that the US authorities are doing everything possible to stop the financial crisis from causing further damage. They are building a last line of defence in an attempt to resolve what has been dubbed the biggest crisis since the crash of 1929. What started as some seemingly negligible defaults in an almost insignificant backwater of the US housing market has grown, via a liquidity crisis, to present genuine credibility and solvency problems. The authorities' position is that they may have underestimated the true extent of the crisis, but that they have at no time been unwilling to contribute to a solution. They are now attempting to establish a market for illiquid securities, and we view this positively.

The new initiative, if it turns out as expected, is good news for the USD in the short and medium term. The USD has rallied against most currencies, and we expect this to continue, as there is the potential to limit the damage to the real economy and put economic growth back on track. In the longer term, and here we are talking several years ahead, the initiative is not good news for the USD. The USA cannot take a lot of major liabilities onto its balance sheet without this having consequences. A weaker balance sheet will *ceteris paribus* result in the downward revision of a country's currency. Thus the long-term equilibrium level for the USD is expected to fall, although this should not be an issue right now.

Fixed income

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Turning point in the financial crisis

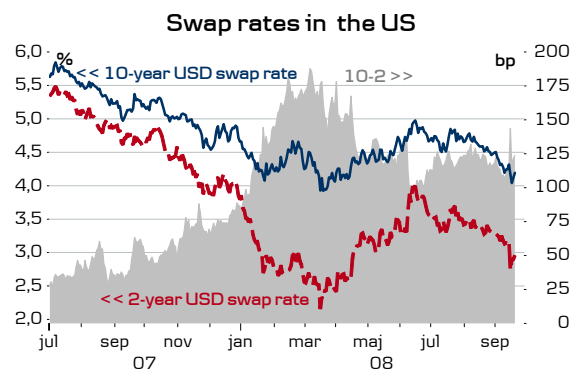
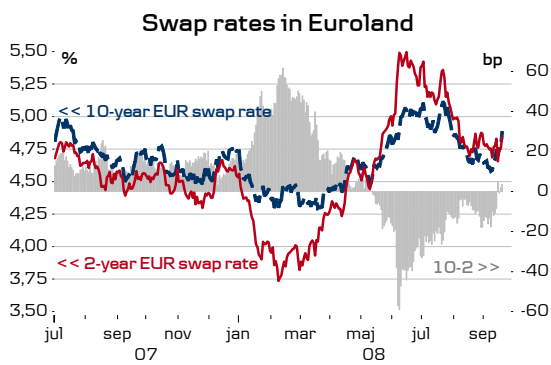
The financial crisis continues to totally dominate the financial markets at the moment. However, for the first time in months there is hope that the turning point is at hand.

Whereas recent measures have been an attempt to put out fires (saving US mortgage giants Fannie Mae and Freddie Mac, and the central bank's takeover of ailing insurer AIG), steps have now been announced to tackle the root cause of the financial crisis.

The US government is working on a plan to shift bad loans off the balance sheets of financial companies and place them in a public entity - a solution that has been used before in similar crises. In addition, there is speculation about an insurance scheme for money market funds. This comes after a major money market fund suffered huge losses on Lehman Brothers debt, severely shaking faith in money market funds, which are normally viewed as the safest place for money after bank deposits and short government bonds.

Market reaction to the news has been very positive, with risk appetite making a sudden and pronounced return. Yields are up and swap spreads (difference between government yields and swap rates) down.

There is really not much point discussing forthcoming economic events - they will be completely overshadowed by the US government's rescue plan. The plan is expected to be finalised over the weekend, and it may be announced as early as Sunday. The rescue package will set the agenda for the coming week. We believe the US authorities will not dare disappoint the markets, and expect a positive reception of the plan. Hence, the stage could be set for rising yields in the week ahead.



Commodities

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Marginal production costs could halt commodity slide

Global commodity exchanges have roller-coastered in recent weeks, though the ride has mostly been downhill due to the uncertainty stemming from the financial crisis that has wreaked havoc in global financial markets.

The financial crisis ups the risk that the global economy will move closer to recession, which would unequivocally be negative for commodity demand. The financial crisis has also set enormous focus on which banks and hedge funds trade in the commodity markets. Both Lehman Brothers and AIG are/were major players. AIG, for example, has its own commodity index that is run in cooperation with Dow Jones. The collapse of these institutions naturally stokes fears that there may be long positions in the market that will be forcibly closed down – and the general view is most probably that there are long positions. Both institutions have sold a mountain of swaps and other commodity derivatives to customer, which they have then delta-hedged in the market, ie, positioned for higher prices to cover their risk in relation to customers, who are paid if prices rise.

However, the financial crisis has perhaps also demonstrated that the commodity market is actually more robust than many thought. Had one known beforehand that the financial crisis would reach the heights it has in recent weeks with the serious consequences that could spell for economic growth, then the fall in commodity prices is in fact less than one might have feared/hoped ahead of such severe market turmoil.

One of the reasons we have not seen the market collapse is perhaps that we are approaching the marginal production cost of, for example, oil. Some in the oil industry suggest that even a price of USD 90/barrel would see marginal projects begin to be shelved. One result of the current crisis could be that even projects with a considerably lower break-even point would find it hard to obtain funding, as the tighter credit policies of banks could also hit oil investments, especially if prices slide below USD 90 for an extended period. This means therefore that production outside OPEC could once again disappoint in the coming years. Furthermore, a number of OPEC national budgets and current accounts are dependent on a rather high oil price. Venezuela and Nigeria top the list, needing an oil price of at least USD 94 and USD 68 for their countries' finances to add up. Going forward, there is therefore much to suggest that OPEC will attempt to support an oil price of around USD100/barrel.

Nevertheless, we are of course fully aware that the current crisis could have some very negative effects on the global economy. We will therefore revise down a number of our commodity price forecasts for the rest of 2008 and 2009 in connection with the next publication of *Commodity Monthly* at the start of October. Essentially, though, we believe that prices will begin to tick up again on most commodities in 2009. We would therefore recommend using the recent sharp falls to lock in commodity exposure in 2009.

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

Macro forecast, Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ptym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euroland	2007	2,6	1,6	2,3	4,3	-0,1	6,0	5,2	2,8	7,4	-0,8	67	-0,8
	2008	1,3	0,4	1,7	1,4	0,1	2,9	2,2	3,6	7,4	-1,1	65	-0,5
	2009	0,7	0,6	2,2	-1,2	0,0	1,5	1,1	2,6	7,8	-1,5	65	-0,7
Germany	2007	2,7	-0,2	1,9	5,6	-0,1	8,5	5,5	2,9	8,3	-0,5	65	5,8
	2008	1,3	0,4	0,6	2,6	0,1	3,2	2,5	3,3	7,8	-0,5	64	6,0
	2009	0,5	0,5	0,7	0,1	-0,1	2,0	1,5	2,4	8,1	-0,2	64	6,3
France	2007	1,9	1,9	2,0	4,1	-0,2	3,5	6,6	2,0	8,0	-2,3	63	-2,3
	2008	0,9	1,1	1,4	0,5	0,0	1,5	1,8	3,5	7,8	-2,7	62	-2,3
	2009	0,7	1,2	1,5	0,2	0,1	2,0	2,0	3,1	8,0	-3,0	62	-2,3
Italy	2007	1,8	1,7	0,8	2,8	0,0	2,5	1,8	2,6	5,9	-2,6	105	-1,7
	2008	0,0	-0,6	1,2	-0,3	0,0	0,3	-0,8	3,7	6,2	-2,5	103	-2,4
	2009	0,4	0,3	1,2	-1,0	-0,1	0,6	-0,2	2,2	6,5	-2,7	102	-2,5
Spain	2007	3,8	3,2	5,1	6,4	-0,4	5,5	6,8	3,4	8,0	1,5	37	-9,0
	2008	1,3	1,2	4,0	-1,0	0,0	2,5	1,7	4,5	9,0	0,7	35	-10,0
	2009	0,4	1,2	4,0	-3,0	0,0	2,5	1,5	2,3	9,5	-0,3	35	-8,0
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	1,7	0,5	1,2	1,0	0,1	2,5	2,0	2,3	3,0	0,0	59	6,5
	2009	1,2	0,6	1,2	1,5	-0,1	2,5	2,0	1,7	3,2	0,0	59	6,5
Finland	2007	4,5	3,2	1,3	8,3	0,1	8,2	6,6	2,5	6,9	5,3	35	5,3
	2008	2,6	2,4	1,6	4,0	0,0	2,0	1,5	3,9	6,3	4,7	33	4,0
	2009	1,8	2,8	1,8	0,0	0,0	2,5	2,0	2,5	6,3	3,9	31	3,0

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	2007	2,0	2,8	2,1	-1,8	-0,4	8,4	2,2	2,9	4,6	-1,2	60	-5,3
	2008	1,9	0,9	2,4	-3,3	-0,2	9,2	-2,5	4,8	5,6	-2,7	60	-5,0
	2009	1,5	0,4	2,1	-0,3	0,1	6,0	-1,1	3,3	6,7	-3,3	61	-3,1
Japan	2007	2,0	1,4	0,7	-0,5	-0,1	8,6	1,7	0,0	3,8	-3,4	180	4,1
	2008	0,7	0,7	0,4	-2,4	0,0	6,0	0,4	1,6	4,1	-3,6	182	4,0
	2009	1,3	1,0	1,1	0,0	0,0	4,4	1,5	0,8	4,2	-4,0	183	4,2
UK	2007	3,1	3,1	1,9	4,1	0,0	4,2	-2,0	2,3	3,0	-2,5	43	-3,3
	2008	1,4	1,3	2,3	4,2	-0,2	3,8	3,5	3,8	2,8	-2,5	43	-4,1
	2009	0,6	1,3	2,4	3,0	0,0	3,4	3,0	2,8	3,0	-2,5	43	-4,0
Switzer-land	2007	3,3	2,1	-1,1	5,7	-1,4	9,4	5,9	0,7	2,8	1,3	55	16,8
	2008	1,9	1,9	-0,5	-0,5	0,4	3,8	3,6	2,5	2,5	0,3	54	9,4
	2009	1,5	1,5	0,6	0,7	0,4	4,2	4,9	1,5	2,6	0,1	53	10,3

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	19-sep	2,00	3,12	4,23	142,0	-	525,5
	+3m	2,00	2,90	4,15	140	-	533
	+6m	2,00	3,15	4,25	135	-	553
	+12m	2,00	3,60	4,55	135	-	553
EUR	19-sep	4,25	4,90	4,86	-	142,0	746,1
	+3m	4,25	4,45	4,55	-	140	746,0
	+6m	4,00	4,00	4,30	-	135	746,0
	+12m	3,75	4,30	4,40	-	135	746,0
JPY	19-sep	0,50	1,04	1,68	152,5	107,4	4,89
	+3m	0,50	0,90	1,65	147	105	5,07
	+6m	0,50	1,00	1,70	142	105	5,25
	+12m	0,50	1,30	1,85	147	105	5,07
GBP	19-sep	5,00	5,51	5,14	79,0	179,6	943,9
	+3m	4,75	4,90	4,80	82,0	171	910
	+6m	4,50	4,40	4,85	80,0	169	933
	+12m	4,00	4,60	4,90	78,0	179	956
CHF	19-sep	2,75	2,85	3,42	159,4	112,3	467,9
	+3m	2,75	2,65	3,20	158	113	472
	+6m	2,75	2,50	3,10	158	117	472
	+12m	2,50	2,75	3,25	156	116	478
DKK	19-sep	4,60	5,28	5,08	746,1	525,5	-
	+3m	4,60	4,85	4,70	746,0	533	-
	+6m	4,35	4,40	4,45	746,0	553	-
	+12m	4,10	4,50	4,50	746,0	553	-
SEK	19-sep	4,75	4,85	4,69	957,0	674,0	78,0
	+3m	4,75	4,45	4,50	950	679	78,5
	+6m	4,50	3,95	4,30	945	700	78,9
	+12m	4,00	3,95	4,30	940	696	79,4
NOK	19-sep	5,75	6,34	5,52	827,3	582,7	90,2
	+3m	5,75	6,40	5,55	800	571	93,3
	+6m	5,75	6,30	5,50	790	585	94,4
	+12m	5,75	6,40	5,70	780	578	95,6
PLN	19-sep	6,00	6,12	5,39	331,8	233,6	224,9
	+3m	6,00	6,60	6,20	340	243	219
	+6m	5,75	6,50	6,10	340	252	219
	+12m	5,50	6,40	6,00	345	256	216

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

Commodities							
		2008 - average				Average	
	19-sep	Q1	Q2	Q3	Q4	2008	2009
ICE Brent	96	97	123	120	118	114	126
Aluminium	2.495	2.779	2.995	2.920	2.900	2.899	3.150
Copper	6.749	7.741	8.309	7.900	7.800	7.938	8.125
Gold	834	924	897	870	850	885	858
CBOT Wheat*	703	1.026	838	790	830	871	870
CBOT Corn*	534	527	630	590	600	587	638

* Note: US\$/bushel

Key data and events (1)

Monday, September 22, 2008				Period	Danske Bank	Consensus	Previous
1:01	GBP	Rightmove House Prices	m/mly/y	Sep			-2.3% -4.8%
1:50	JPY	All Industry Activity Index	m/m	Jul		0.8%	-0.9%
1:50	JPY	BoJ Board Minutes		Aug			
14:30	CAD	Retail sales	m/m	Jul		0.3%	0.5%
17:30	USD	Fed's Fisher (voter, neutral) speaks on US economy					

Tuesday, September 23, 2008				Period	Danske Bank	Consensus	Previous
9:00	FRF	PMI service, preliminary	Index	Sep		47.8	48.0
9:30	DEM	PMI services, preliminary	Index	Sep		50.8	51.4
9:30	ITL	Consumer confidence	m/m	Sep		98.5	99.5
10:00	EUR	PMI Service, preliminary	Index	Sep	48.0	48.0	48.5
10:00	EUR	PMI Composite, preliminary	Index	Sep	47.9	48.0	48.2
10:00	EUR	PMI Manufacturing, preliminary	Index	Sep	47.3	47.3	47.6
10:30	GBP	BBA Loans for House Purchase		Aug			22448
11:00	EUR	Industrial new orders	m/mly/y	Jul		-0.7% -3.9%	-0.3% -7.4%
13:00	CAD	CPI	m/mly/y	Aug		-0.1% .	0.3% 3.4%
16:00	USD	House Price Index (OFHEO)	m/m	Jul	-0.2%	-0.2%	0.0%

Wednesday, September 24, 2008				Period	Danske Bank	Consensus	Previous
-	PLN	Monetary Policy Council meets	%		6.00%	6.00%	6.00%
9:15	SEK	Consumer confidence	Index	Sep		-17.0	-16.5
9:30	DKK	Consumer confidence	Index	Sep		-13.5	-12.2
9:30	ITL	Business confidence	Index	Sep		83.5	83.5
10:00	NOK	Unemployment s.a. (LFS)	%	Jul	2.6	2.6	2.6
10:00	DEM	IFO- Business climate	Index	Sep		94.1	94.8
10:00	DEM	IFO- Current Assessment	Index	Sep		101.9	103.2
10:00	DEM	IFO- Expectations	Index	Sep		87.3	87.0
10:00	EUR	Balance of payments	EUR bn	Jul			-8.2
12:00	GBP	CBI Distributive Trades Report		Sep			
14:00	NOK	Norges Banks monetary policy meeting	%		5.75	5.75	5.75
16:00	USD	Existing home sales	m	Aug	4.99	4.95	5.00
16:00	USD	Fed's Bernanke (voter, neutral) speaks					

Thursday, September 25, 2008				Period	Danske Bank	Consensus	Previous
-	GBP	Nationwide House Prices	m/mly/y	Sep		-1.5% -12.6%	-1.9% -10.5%
3:30	AUD	Reserve Bank semi-annual financial stability report		Sep			
9:30	SEK	PPI (incl. export- and importprices)	m/mly/y	Aug		-0.1% 3.6%	0.7% 3.3%
9:30	SEK	Trade balance	SEK bn	Aug			9.4
10:00	EUR	M3 Money supply	y/y (3m MA)	Aug		9.3%	9.6%
14:30	USD	Durable goods orders	m/m	Aug		-1.4%	1.3%
14:30	USD	Initial jobless claims	1000				
16:00	USD	New home sales	1000	Aug	510	515	515
16:40	USD	Fed's Evans (non-voter, neutral), ECB's Gonzalez-Paramo give welcoming remarks					
18:00	USD	Fed's Bernanke (voter, neutral), Paulson testify on Fannie takeover					
19:00	USD	Fed's Warsh (voter, dove) speaks					

Friday, September 26, 2008				Period	Danske Bank	Consensus	Previous
0:45	NZD	GDP	q/qly/y	2nd quarter		-0.4% 0.6%	-0.3% 1.9%
1:30	JPY	CPI - Tokyo	y/y	Aug		1.2%	1.3%
1:30	JPY	CPI - National	y/y	Aug	1.7%	2.1%	2.3%
1:30	JPY	CPI - National Ex. Fresh Food	y/y	Aug	2.0%	2.4%	2.4%
1:30	USD	Fed's Fisher (voter, neutral) speaks					
8:00	DEM	Import prices	m/mly/y	Sep		-1.0% 9.1%	0.6% 9.3%
8:45	FRF	GDP, final	q/qly/y	2nd quarter		-0.3% 1.1%	-0.3% 1.1%
11:30	CHF	KOF Swiss leading indicator	Index	Sep		0.55	0.68
14:30	USD	GDP, final	q/q ann.	2nd quarter		3.3%	3.3%
14:30	USD	Personal Consumption, final	q/q ann.	2nd quarter		1.7%	1.7%
14:30	USD	GDP Price Deflator, final	q/q	2nd quarter		1.2%	1.2%
14:30	USD	PCE core, final	q/q	2nd quarter			2.1%
16:00	USD	University of Michigan Confidence, final	Index	Sep		71.5	73.1
16:00	USD	St. Luis Fed's Bullard speaks					

Key data and events (2)

During the week			Period	Danske Bank	Consensus	Previous
Wed 10 - 15	CNY	Trade balance	USD bn	Aug	23.55	25.30
Fri 26 - 29	DEM	CPI, preliminary	m/m y/y	Sep	-0.2% 2.8%	-0.3% 3.1%
Fri 26 - 29	DEM	HICP, preliminary	m/m y/y	Sep	-0.1% 3.1%	-0.4% 3.3%

The editors do not guarantee the accurateness of figures, hours or dates stated above
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First date of publication

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