Weekly Focus

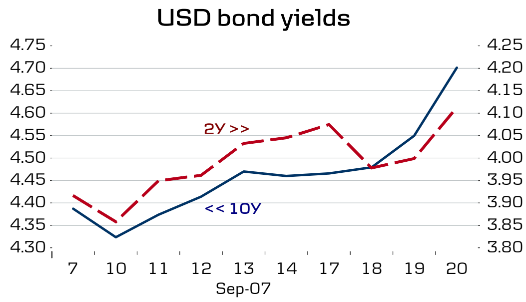
September 21-28, 2007

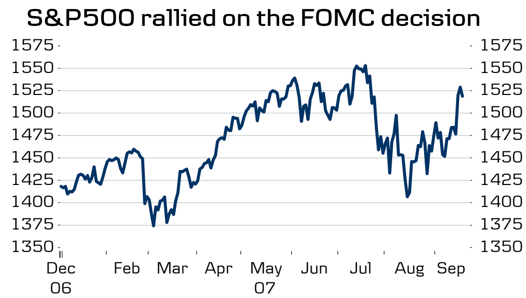
FOMC and the markets

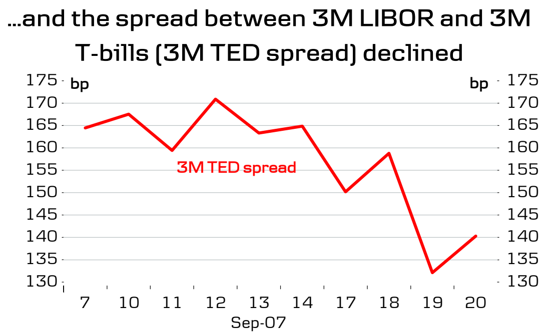
On Tuesday, FOMC surprised the markets by reducing the Federal funds rate by 50bp. By contrast, the markets' central expectation was for a 25bp cut. At first glance, the initial market reaction of lower interest rates across the maturity spectrum appears reasonable. FOMC communication ahead of the meeting had revealed a variety of views among FOMC members and market jitters no longer intensified. Consequently, the unanimous decision (all 10 voting FOMC members voted for a 50bp cut) gave the impression that the FOMC suddenly had become more worried about the economic outlook.

However, once the markets had digested the decision, and the statement in particular, a counter-directional steepener emerged, where short rates were lower but longer rates were higher. The FOMC statement indicated that the rate reduction was motivated by fears of an economic slowdown, induced by the housing market and disruptions in financial markets. At the same time, the FOMC maintained that inflation risks remain on their radar screen. Easing monetary policy in the face of inflationary pressures is not usually associated with the reaction pattern of a credible central bank. It could be argued that the FOMC has effectively demonstrated that it attaches relatively more weight to economic growth than to inflation. In light of this, it is not surprising to see market-based inflation expectations edge up. After all, import prices, food prices, unit labour costs and commodity prices are on the rise.

The broader impact of the FOMC decision was to improve risk appetite across the markets. Equity markets recovered back to `pre-crisis levels´ and the pressure in US money markets eased in the sense that the TED spread came down.







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Denmark

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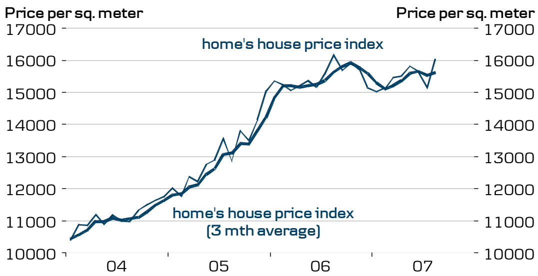
Housing market stable

The most interesting economic event in the past (rather quiet) week has perhaps been the new house price index developed by the Home estate agent chain. The new index provides an insight into developments on the housing market all the way up to August this year. This means much more precise and timely information on what is happening on the housing market, which is certainly of interest when the market, as now, stands at a crossroads.

Home's index showed that house prices have been largely stable over the past few months. The downturn seen at the end of 2006 and early 2007 has not been followed by further price falls. Hence, everything still seems to point to a relatively soft landing in the housing market after the hectic years since 2004.

The coming week is quite a busy one as regards economic data, and perhaps most interest will centre on the unemployment figures for August. Unemployment has repeatedly surprised positively in recent months, declining to 90,500, or 3.3% of the labour force, in July. We essentially believe that unemployment may well fall even further over the coming months, although a change in the seasonal pattern means we expect a small rise in August to 91,500. This, however, does not represent a real turnaround in the labour market – that will come towards the end of the year.

House prices stable



Key events of the week ahead

- Consumer confidence for September is out Tuesday. Consumer confidence has been falling over the past half-year and we expect the trend has continued in September, as the recent financial turmoil may have affected the Danes' view of the future
- Unemployment data will be released Thursday
- Finally, business confidence comes on Friday, and we expect a slight fall

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Tue 25	9:30	DKK	Consumer confidence	Index	Sep	**3**		5.3
Tue 25	9:30	DKK	New car sales, s.a. (Private households)		Aug			13851
Thu 27	9:30	DKK	Unemployment, s.a.	K (%)	Aug	**91.500 (3.3)**		90.500 (3.3)

Sweden

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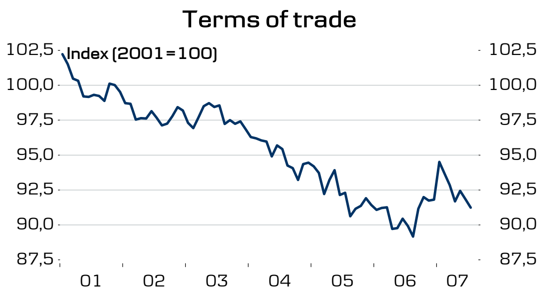
Riksbank in a tug-of-war

The minutes released last week made it clear that the Riksbank is currently in a tug of war between strong domestic data on the one hand, and risks in connection to global financial market woes on the other.

The Riksbank's resolution was to lay out an unchanged interest rate path, but the minutes emphasise domestic developments, which is probably a result of insecurity on current risks within the Riksbank. However, given that the Fed itself claims that the uncertainty is mainly due to increased risks to growth on the downside, we believe there are ample risks also to the Swedish economy.

Therefore we have chosen to alter our repo rate scenario somewhat. Instead of a Q1 hike, we now believe that the Riksbank might opt for a December hike using strong near-time domestic data as its main argument. Note also that this would not imply a significant deviation from the Riksbank's main scenario, which even before recent strong domestic data, could motivate a December hike.



Key events of the week ahead

- Confidence data will be very interesting to see, since it contains a lot of the recent turbulence in financial markets, but not the recent, and large, Fed cut. Thus it should provide interesting information on the effects on the real economy from recent turbulence
- PPI and trade balance data should continue to moderate relative to last year's outcomes

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Tue 25	9:30	SEK	Trade balance	SEK bn	Aug			8.3
Tue 25	9:30	SEK	PPI (incl. export- and importprices)	m/m|y/y	Aug		*0.2%|4.9%*	0.4%|5.5%
Wed 26	9:15	SEK	NIER's Business survey	Index	Sep		*4*	5
Wed 26	9:15	SEK	Consumer confidence		Sep		*19.0*	19.7

Norway

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Norges Bank to deliver the goods

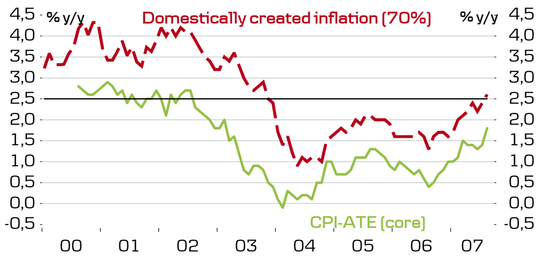
Norges Bank holds a rate-setting meeting during the week. Rarely has there been so much excitement about the outcome as there is this time around. There has been a bank run in the UK, the Federal Reserve has cut its rates, and the ECB has put monetary policy on hold for the time being. But in Norway we reckon it will be a case of business as usual, with the central bank increasing its policy rate by 25bp to 5.0%.

But how can Norges Bank raise interest rates in the midst of a financial crisis? Firstly, the Norwegian banks are not having liquidity problems. Most would agree that the Norwegian economy is as strong as an ox. Yes, we are seeing high fixings in the Norwegian market, but this is due primarily to the way Norwegian forward rates are defined relative to the dollar, and less to a lack of confidence in the banking system.

Secondly, Norges Bank is actually not the only one to be raising interest rates. The Swiss National Bank and the Riksbank in Sweden have both upped their rates during the current crisis. And we must not forget that the Norwegian economy is in fundamental need of higher interest rates. Growth accelerated in Q2, unemployment is at a record low, and all leading indicators suggest continued pressure in the labour market. And the growth outlook is almost frightening. Investment in the oil sector is at a record high, and with growth in real disposable incomes set to top 4% next year, the stage is set for the growth boom to continue into a fifth year in 2008. On top of this, inflation is beginning to show its teeth. Underlying inflation was 1.8% in August, and we are seeing more and more signs of low imported Chinese inflation being a thing of the past. Meanwhile, domestic inflation is continuing to climb, rising to 2.6% in August, and with wage growth running close to 6%, there is worse to come. There is also a minor inflation time-bomb waiting in the wings in the form of rents, which we reckon could now seriously begin to climb.

It should be stressed that Norges Bank could still opt to postpone a hike until its October meeting with a clear conscience. This would be in line with its interest-rate strategy. However, we are quite sure that the bank would then signal very clearly that a hike will follow in October by saying that it discussed a rate increase at the meeting. We see a 70% chance of a hike now and a 30% chance of no change. We therefore continue to recommend positioning for higher Norwegian interest rates.

Norwegian inflation on the up



Key events of the week ahead

- Incoming data will be overshadowed by Norges Bank's rate-setting meeting.
- Nevertheless we predict continued strong growth in retail sales 0.8% m/m (8.8 % y/y).
- AKU unemployment is expected to remain unchanged at 2.5%, while registered unemployment is expected to be 1.7% %.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Wed 26	14:00	NOK	Norges Banks monetary policy meeting			**5.00 %**	*5.00%*	4.75 %
Thu 27	10:00	NOK	Unemployment s.a. (LFS)	%	Sep	**1.7 %**	*1,8%*	2.0 %
Fri 28	10:00	NOK	Retail sales, s.a.	m/m|y/y	Aug	**0.8%|8.8%**	*0.6%|8.6%*	-2.3%|8.0%
Fri 28	10:00	NOK	Unemployment s.a. (AKU)	%	Jul	**2,5%**	*2,5%*	2.5%

Euroland and Switzerland

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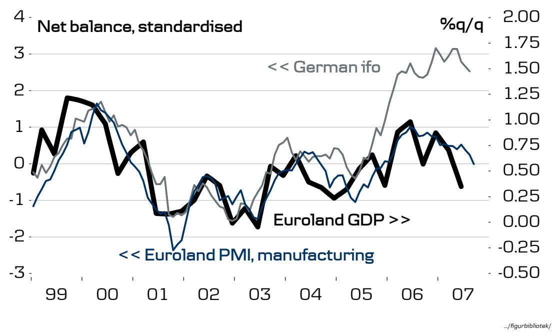
Will growth be hit by the financial market turmoil?

The coming week should be interesting, as we will receive some of the first indications of how much growth and business confidence in Euroland will be hit by the turmoil on the financial markets. While we have for some time been expecting growth to pick up a little in H2, the risk now is that companies and consumers will become a little more cautious and that growth will fail to accelerate. Business confidence simply remaining steady would be positive, as most business confidence indicators are signalling GDP growth some way above trend. Stable business confidence would mean considerable pressure on the ECB to hike rates again, and indeed we estimate that this pressure will be sufficient to force the ECB into hiking when/if calm returns to the markets. The first indications of the impact of the financial market turmoil were already visible on Friday – FLASH PMIs. However, they were released after the deadline for this publication, so our estimate may change depending on the outcome here.

Overall, though, we expect falling confidence. In particular, confidence indicators that focus heavily on expectations may fall, as expectations are likely to be more affected than actual production. One example of this could be ifo expectations, which usually react quickly – and occasionally incorrectly. Nevertheless, the financial markets are generally very focused on this sub-index. Indeed, this time around the markets have already anticipated poor future performance, and so if ifo expectations do not fall significantly over the coming months, the markets will almost certainly be forced to re-assess the chances of further rate hikes from the ECB. While we foresee a decline in ifo expectations this month, we doubt it will be great enough to justify the markets having completely priced out the chance of a hike. We are also expecting the Swiss KOF growth indicator to fall a little.

The first Euroland consumer prices for September – from the German provinces – may also arrive in the coming week. We expect a fair rise in inflation due to the rise in oil prices and given that oil prices fell last year (base effect).

Will business confidence fall further?



Key events of the week ahead

- Several business confidence indicators, of which German ifo will be the most important. In general, we are expecting indicators to fall, but mostly we are thinking about the ifo expectations index
- Consumer prices may arrive from German provinces. A rise in inflation from 2.0% to 2.6% could be on the cards
- Money supply from Euroland for July. Turmoil may have boosted M3 growth

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Mon 24 - 25	10:00	DEM	Import prices	m/m|y/y	Aug		*0.0%|0.2%*	0.3%|0.4%
Mon 24	11:00	EUR	Industrial Orders	m/m|y/y	Jul	**-1,0%|12,0%**	*-3,0%|10,5%*	4,4%|13,8%
Mon 24 - 28	12:00	EUR	Current account	EUR bn	2nd quarter			-3271
Mon 24	15:00	BEF	Business Confidence		Sep	**3,0**		3,3
Tue 25	8:45	FRF	Consumer Spending	m/m|y/y	Aug	**0,5%|1,1%**	*0,3%|0,9%*	
Tue 25	9:30	ITL	Consumer confidence	m/m	Sep		*105,8*	106,5
Tue 25	10:00	DEM	IFO-indicator	Index	Sep	**105,3**	*105,1*	105,8
Wed 26 - 29	-	DEM	CPI (Länder) prel.	y/y	Sep	**2,4%**	*2,3%*	1,9%
Wed 26	8:45	FRF	Business Confidence	Index	Sep	**109**	*108*	110
Wed 26	9:30	ITL	Business confidence	Index	Sep	**94,0**	*93,7*	94,2
Thu 27	9:55	DEM	Unemployment, change	'000	Sep	**-15**	*-20*	-15
Thu 27	10:00	EUR	M3 Money supply	y/y	Aug	**11,8%**	*11,6%*	11,7%
Fri 28	8:45	FRF	PPI	m/m|y/y	Aug	**0,0%|1,2%**	*0,1%|1,3%*	
Fri 28	11:00	EUR	Consumer confidence	Net balanc	Sep	**-3**	*-4*	-3
Fri 28	11:00	EUR	Business confidence	Net balanc	Sep	**4**	*4*	5
Fri 28	11:00	EUR	CPI Flash estimate	y/y	Sep	**2,2%**	*2,1%*	1,7%
Fri 28	11:00	ITL	CPI	m/m|y/y	Sep	**0,8%|1,8%**	*0,8%|1,8%*	-0,2%|1,7%
Wed 26	11:30	CHF	KOF Swiss leading indicator		Sep		*1.99*	2.06

UK

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King under fire

Mervyn King has been weathering probably the biggest storm of his term as governor of the Bank of England over the last couple of weeks. The BoE stood out at the beginning of the crisis in the global money market by sticking to the line that it is not the role of the central bank to provide liquidity in the money market beyond the usual day-to-day operations which all central banks perform.

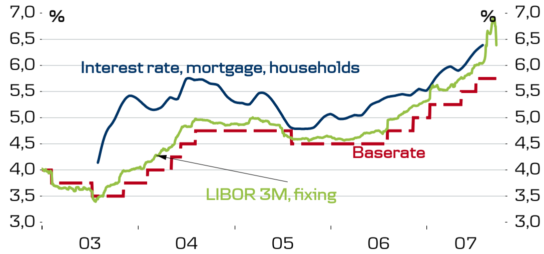
Unlike the ECB and the Federal Reserve, therefore, the Bank of England refused to inject extraordinary liquidity of a longer maturity (such as three months) into the market in order to improve financial institutions' access to liquidity. According to King, it was exclusively the role of the market to set prices for these longer maturities. Hence, only a week ago, he wrote that when central banks inject liquidity with a longer maturity, this undermines the market's ability to price risk. This increases the risk of moral hazard, and this is the same as to sow the seeds of a future financial crisis.

Within days, though, long queues were suddenly forming outside branches of Northern Rock and the BoE was announcing that it had thrown a liquidity safety net under Northern Rock. It had done exactly what it had warned others not to do! But it was of little help anyway. The first bank run in the UK for many years was a reality, and only after the Chancellor had guaranteed deposits did a semblance of calm fall over the masses. And subsequently the BoE has also been forced to inject liquidity of a longer maturity into the market.

The BoE's handling of the affair has prompted several commentators to call for Mervyn King's head on a plate. We reckon that he will survive for now, but there is no doubt that his reputation is now tarnished. And this is bad enough – after all, credibility is the central bank governor's greatest asset.

The consequence of the Northern Rock crisis will naturally be closer supervision of financial institutions, as the BoE has subsequently advocated. Far more interesting, though, is where UK interest rates are headed. Inflation is now under control, and there are several signs that the UK housing market is shifting down a gear (see, for example, our article "UK housing market slowing down", published during the week). If the financial crisis does begin to impact significantly on the real economy (the UK PMI is still very high), it is quite likely that there will be one or more interest rate cuts at the beginning of next year. For now, we are assuming a single cut on a 12-month view, which would bring the base rate down to 5.5%. But the risk is to the downside.

Big fixing problems in UK money market



Key events of the week ahead

- Nationwide house prices for September. The first figures since the financial crisis struck.
- Otherwise it will be interesting to watch developments at Northern Rock.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Tue 25	10:30	GBP	Total Business Investment (final)	q/q|y/y	2nd quarter			0.8%|7.4%
Wed 26	10:30	GBP	GDP, final	q/q|y/y	2nd quarter		*0.8%|3.0%*	0.8%|3.0%
Wed 26	10:30	GBP	Current Account	bn. GBP	2nd quarter		*-10.9*	-12.2
Thu 27	-	GBP	Nationwide House Prices	m/m|y/y	Sep			0.6%|9.6%
Thu 27	10:30	GBP	Index of Services	%	Jul			0.8
Thu 27	10:30	GBP	BBA Loans for House Purchase		Aug			66965
Fri 28	11:30	GBP	Gfk Consumer confidence	Index	Sep		*-6*	-4

Poland

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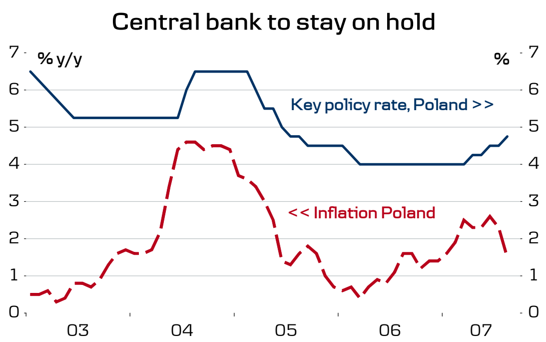
Central bank expected to stay on hold

An unchanged interest rate is on the cards when the National Bank of Poland's (NBP) monetary policy council meets during the week. Both we and consensus thus expect the key policy rate to remain at 4.75% following the meeting on Wednesday.

The low inflation number for August (1.5% y/y), which surprised on the downside, is below the NBP target and it should restrain the NBP from hiking the interest rate (see *Poland: Lower inflation rules out September rate hike*).

But inflationary pressure is on the rise, though, especially from accelerating wage growth pressures as well as strong domestic demand and higher food and energy prices. We therefore expect inflation to accelerate to 2.5% in the coming months, which could lead the Polish central bank to deliver, once again, a 25bp rate hike this autumn. Against this background we foresee a policy rate of 5.00% at the end of the year.



Key events of the week ahead

- We expect the NBP to keep its reference rate on hold at 4.75%.
- The labour market remains robust, and we expect that unemployment will drop further by 0.2%, reaching 12.0%. This should increase the accelerating wage growth further.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 24	14:00	PLN	Net core inflation	y/y	Aug	**1.2%**	*1.2%*	1.5%
Tue 25	10:00	PLN	Unemployment		Aug	**12.0%**	*12.0%*	12.2%
Wed 26	-	PLN	Monetary Policy Council meets			**4.75%**	*4.75%*	4.75%

USA

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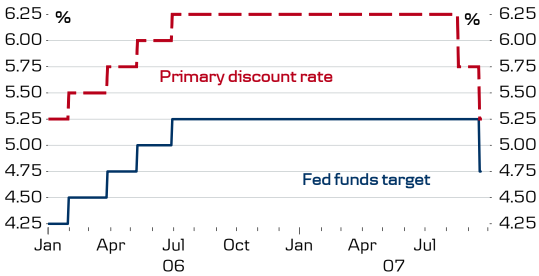
More rate cuts to come after Fed surprise?

The Federal Reserve surprised both us and the market by cutting both the Fed funds and the discount rate by 50bp at its monetary policy meeting in the past week (read more about the market implications in "Fixed Income"). According to the accompanying press statement, the sharp cut in interest rates was motivated by increasing fears in the central bank about the prospects for growth in light of the financial crisis currently prevailing (see "*Flash Comment - FOMC: Aggressive Fed easing*"). While it remains unclear just how hard the problems in the money and credit markets will hit growth, the aggressive move by the Fed presumably reflects a desire not to get left behind events. In other words, the Fed would rather run the risk of a little too much, a little too fast, rather than the reverse. Further, the Fed may have been concerned about the consequences of disappointing the markets, even though they were positioned for just a 25bp cut. Finally, the Fed may have been of the view that one deep cut of 50bp would have a greater impact than, eg, two times 25bp, with respect to loosening the knot in the money and credit markets.

The Fed's statement was rather unclear about the future and generally reflected considerable uncertainty. Hence, whether the Fed will be forced to deliver further rate cuts is still an open question. What the Fed does going forward will depend on whether the financial crisis blows over and also how the economic data develop. There is, however, no doubt that the Fed is keeping the door open for further cuts if the market situation does not improve, or if the data begin to show the credit woes spreading to economic growth. Given the somewhat dovish statement from the Fed and the continuing uncertainty about the situation in the money markets, we believe there is an imminent risk of yet another rate cut to 4.50% at the meeting on October 31, and we have now incorporated this into our forecast. That said, it is important to emphasise that this is not yet a done deal. Further, uncertainty on both the timing and the size of any future rate cut is at present substantial.

Both Fed funds and discount rate cut 50bp



Key events of the week ahead

- Fed speeches throughout the week
- Housing market sales figures Tuesday and Thursday – we expect a fall, but not by as much as consensus
- Thursday – We expect robust private consumption for August. PCE core inflation at 0.2% m/m
- Friday – largely unchanged Chicago PMI for September.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 24	15:00	USD	Fed's Fisher (non-voter, neutral) speaks					
Mon 24	18:30	USD	Fed's Evans (voter) speaks					
Mon 24	19:00	USD	Fed Chairman Bernanke (neutral) speaks on education					
Tue 25	16:00	USD	Existing home sales	m	Aug	**5.60 (-2.6%)**	*5.50 (-4.3%)*	5.75 (-0.2%)
Tue 25	16:00	USD	Consumer confidence	Index	Sep	**104**	*104.8*	105.0
Tue 25	23:30	USD	Fed's Plosser (non-voter, hawk) speaks					
Wed 26	13:00	USD	MBA Mortgage Applications					
Wed 26	14:30	USD	Durable goods orders	m/m	Aug		*-3.0%*	5.9%
Wed 26	14:30	USD	Fed's Poole (voter, hawk) speaks					
Thu 27	14:30	USD	Initial jobless claims	1000			*315*	311
Thu 27	14:30	USD	GDP final	q/q ann.	2nd quarter	**3.9%**	*3.9%*	4.0%
Thu 27	14:30	USD	Fed's Rosengren (voter) speaks					
Thu 27	16:00	USD	New home sales	1000	Aug	**850 (-2.3%)**	*830 (-4.6%)*	870 (2.8%)
Thu 27	16:40	USD	Fed's Evans (voter) speaks					
Thu 27	19:00	USD	Fed Chairman Bernanke (neutral) speaks					
Thu 27	23:30	USD	Fed's Mishkin (voter, dove) speaks					
Fri 28	14:30	USD	Personal income	m/m	Aug	**0.4%**	*0.4%*	0.5%
Fri 28	14:30	USD	Personal spending	m/m	Aug	**0.6%**	*0.4%*	0.4%
Fri 28	14:30	USD	PCE core - deflator		Aug	**0.2%|1.8%**	*0.1%|..*	0.1%|1.9%
Fri 28	15:45	USD	Chicago PMI		Sep	**53.5**	*53.0*	53.8
Fri 28	16:00	USD	University of Michigan Confidence (final)	Index	Sep	**84.1**	*84.0*	83.8
Fri 28	16:00	USD	Fed's Lockhart (non-voter, neutral) speaks					
Fri 28	16:00	USD	Construction spending	m/m	Aug		*-0.2%*	-0.4%
Fri 28	16:15	USD	Fed's Yellen (non-voter, dove) speaks					
Fri 28	19:00	USD	Fed's Poole (voter, hawk) speaks					
Fri 28	19:15	USD	Fed's Mishkin (voter, dove) speaks					

Asia

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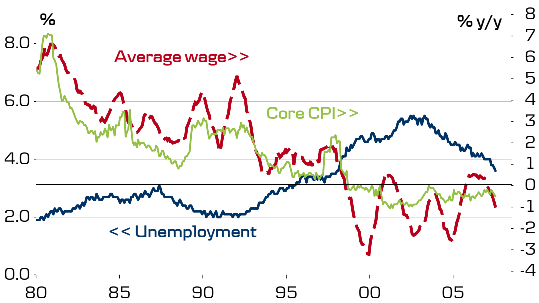
Fukuda looks set to be Japan's new PM

Japan will continue to focus in the coming week on the appointment of Shinzo Abe's successor to the post of prime minister. LDP, the senior party in the coalition government, will vote on September 23 to elect a new party president, who will then automatically become the LDP's new candidate for the premiership. The new PM will then have to be formally approved by the lower house on September 25, but as the LDP has a comfortable majority in the lower house, this final stage of the process is expected to be plain sailing.

Last week we highlighted Taro Aso as the clear favourite, but this is no longer the case. Everything now points to 71-year-old Yasuo Fukuda being the next prime minister after most factions within the LDP backed his candidacy. His age suggests that Mr Fukuda will probably only be a transition figure whose most important mission will be to ensure that the LDP makes a decent showing at the next lower house elections, which must be held by September 2009. Mr Aso mainly fell out of favour because he was not seen as being a sufficient enough break from the unpopular Shinzo Abe. Both Mr Aso and Mr Abe have rather nationalistic agendas, with a lot of focus on foreign policy and security. Mr Fukuda, in contrast, is considered a dove in such matters and is likely to tone down these areas of the political agenda and instead pay more attention to domestic issues. Japan's neighbours in Asia, not the least China, will undoubtedly be very pleased that Fukuda and not Aso appears set to take over as the new prime minister.

The LDP has chosen to view the upper house election defeat in July as resulting from a number of core supporters deserting the party after being hit by the reforms of recent years that have, among other things, cut subsidies to rural areas. Political developments in Japan will have two key consequences. First, the fiscal tightening of recent years will be put on hold, and indeed an actual easing of fiscal policy in connection with the FY 2008 budget cannot be ruled out. A rise in consumption tax has been removed from the agenda for now, and an increase in expenses in connection with supporting rural areas looks probable. Second, a temporary halt on the reform process ahead of the next lower house elections now appears to be on the cards. Hence the latest political developments are unlikely to affect growth in Japan negatively next year – in fact the reverse looks more probable. Therefore, compared to previous years, next year's fiscal policy will probably give the Bank of Japan an extra argument for hiking interest rates.

Japanese labour market tightening



Key events of the week ahead

- September 23: LDP will vote on new party president and prime minister
- September 25: Lower house vote on prime minister
- September 28: August unemployment and consumer prices in Japan. Unemployment expected to fall further, as are consumer prices.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Tue 25	-	JPY	Lower House to approve new Prime Minister					
Tue 25	1:50	JPY	BoJ Board Minutes		Aug			
Wed 26	1:50	JPY	Merchnds Trade Balance Total	JPY bn	Aug		*230.0*	666.5
Wed 26	1:50	JPY	Adjusted Merchnds Trade Balance	JPY bn	Aug		*739.5*	822.6
Fri 28	1:30	JPY	Jobless Rate		Aug	**3.6%**	*3.6%*	3.6%
Fri 28	1:30	JPY	Job-to-applicant ratio		Aug		*1.07*	1.07
Fri 28	1:30	JPY	CPI - Tokyo	m/m|y/y	Sep		*-0.2%*	-0.1%
Fri 28	1:30	JPY	CPI - Tokyo Ex Fresh Food	m/m|y/y	Sep		*0.0%*	0.0%
Fri 28	1:30	JPY	CPI - National	m/m|y/y	Aug	**0.1%**	*0.2%*	0.0%
Fri 28	1:30	JPY	CPI - National Ex. Fresh Food	m/m|y/y	Aug	**-0.1%**	*-0.1%*	-0.1%
Fri 28	1:50	JPY	Industrial production, preliminary	m/m|y/y	Aug	**2.9%|3.8%**	*3.1%|4.0%*	-0.4%|3.2%
Fri 28	1:50	JPY	Retail trade	m/m|y/y	Aug		*2.6%|-0.5%*	-2.5%|-2.3%

Fixed income

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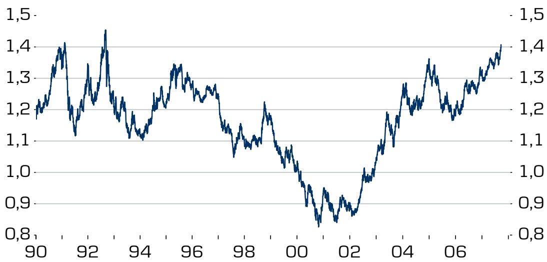
FOMC in the limelight

The big event last week was the Fed's decision to cut rates by 50bp (see US section). The size of the move came as a surprise to the market after the Fed speakers had sent mixed signals on the need for rate cuts and markets increasingly expected that the Fed would only cut 25bp. The decision gave a massive confidence boost; equities rallied strongly, credit spreads tightened and "carry" currencies went higher again. Initially bond yields fell but the return of risk appetite led to allocation away from bonds into equities so bond yields started to rise sharply the rest of the week. Especially long end yields rose giving rise to huge steepening of the yield curve. The fact that the Fed still pointed to some upside risks to inflation and yet still cut aggressively explains the big steepening as inflation fears go up and the market prices in a premium for this inflation risk. Another factor contributing to higher US yields was a news story during the week that Saudi Arabia for the first time was refusing to follow the rate cut from the Fed, spurring speculation that it might be preparing to leave the dollar currency peg and start a move out of US assets from the Middle East.

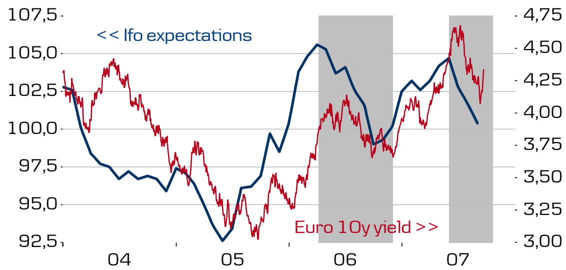
On the data front we again saw weaker housing data in US. Single-family housing starts fell to the lowest level since 1993. On the other hand the US Philly Fed business survey posted a positive surprise, questioning how big the impact of the crisis would be on the US industrial sector. In Euroland, sentiment indicators took a dive as the German ZEW index declined further, but more importantly, the flash PMI for Euroland dropped the most since 11 September 2001. This was especially driven by the service component which might be related to the financial sector weakness during the crisis.

Looking into next week the drop in PMI makes the release of the German ifo survey (Tuesday) even more important (see euro section). Euro bond yields tend to correlate quite strongly with the expectations index and another drop in the index could lead to a renewed decline in bond yields. After the financial crisis in May/June last year we did see declines in ifo expectations that went hand in hand with lower bond yields and the same picture could emerge again – especially as the magnitude of the financial crisis has been much bigger this time (see chart below where the two periods of falling ifo expectations are highlighted). EUR/USD hit new highs the past week. This did not have any impact on bond yields last week as return of risk appetite ruled. But we think the euro strength could start to get increasing attention in fixed income markets. Overall we therefore think it is likely that euro bond yields will start to go lower again soon.

EUR/USD breaking the psychological level of 140



Euro: 10y yields and ifo expections



Commodities

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Corn losing battle for land, so prices could soar

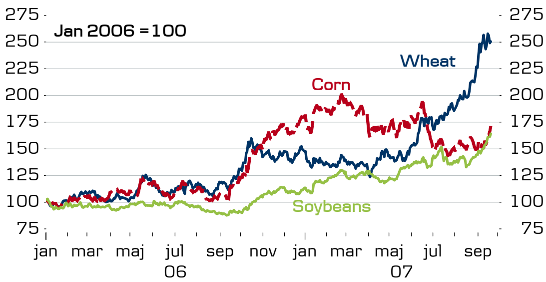
The surge in wheat prices this year has attracted considerable attention in recent months. But soybean prices have also risen, while corn prices have lagged well behind. As we have written here before, wheat prices have soared as a result of the lowest stocks for 30 years and strong demand, including from China and India. Growing prosperity means, quite simply, that more meat is being eaten, and meat needs far more grain to produce than bread. There has also been a particularly poor harvest in Europe, Australia and the US. Finally, high energy prices and global focus on carbon emissions have led to even more interest in the production of ethanol and biodiesel, which need agricultural produce as input. So we can say that crop prices have been inflated by the three Fs: food, feed and fuel.

However, returns for the investor in agricultural commodities have not kept up with the growth in spot prices. As can be seen from the chart below-right, the GSCI spot index for agricultural products has doubled since January 1, 2006, while the excess return for an investor rolling along the curve has been just half that. This is because forward prices for commodities are normally higher than spot prices (the forward curve is in contango). These higher forward prices are due to the high cost of storing commodities. As an investor, you therefore get a constant negative roll yield, which has eroded around half of the "gain" on agricultural commodities over the last two years.

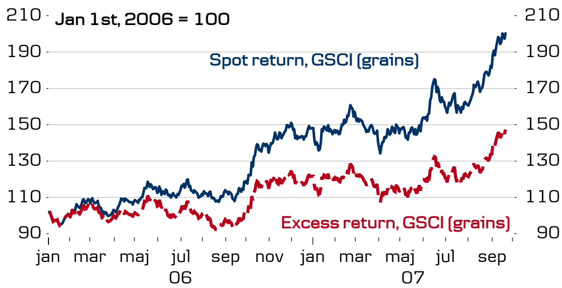
In principle, there is a battle for land between the different crops. Corn prices rose sharply in 2006, while wheat prices did not climb nearly as far. Unsurprisingly this meant that US farmers in particular stepped up production of corn at the expense of wheat. In the US alone, the authorities reckon that corn production has increased by as much as 26% relative to 2006. The result is as you would expect: corn prices have dropped back while wheat and, to some extent, soybean prices have risen sharply this year. Despite the strong growth in corn production, global stocks of corn are actually at their lowest levels for 34 years at just over seven weeks' consumption. We therefore believe that corn prices will pick up in the coming 12 months. Today's high wheat prices mean that farmers are now planting wheat rather than corn, and demand for corn from ethanol producers just keeps on growing. The ethanol industry is expected to account for 31% of demand in 2007. Rising demand for poultry in China is also expected to fuel demand for corn.

So anyone wanting to take advantage of the traditional cycles in agriculture, whereby farmers tend to sow for next year whatever is fetching the highest price this year, should be long in corn and short in wheat.

Corn the next commodity to spike?



Strong returns on agricultural products partly eaten up by slope of curve



Equities

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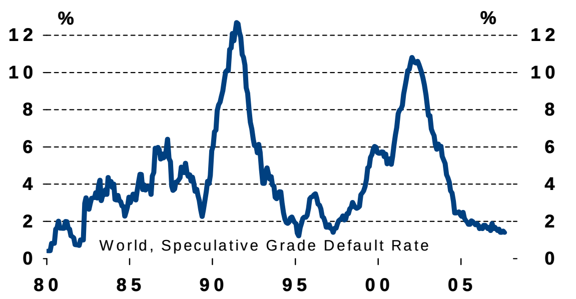
Fed cut – filling up the punchbowl

Wednesday's aggressive Fed easing has taken global equity markets somewhat higher over the past days as renewed risk taking was ignited instantly by the Fed move. We believe that the current upturn in equity markets will be of a temporary nature and that the upturn will be followed by a longer period of limited upside in equities. Currently we believe that there is room for around 5% upside until year-end on global equities. This performance will especially come from (1) A renewed increase in risk appetite and a belief that the move by the Fed will act as a helping hand to the deteriorating US housing market and bring calm times to the financial markets; (2) Fears of high speculative-grade corporate default rates will doze off and move closer to the historically low realised default rates. Corporate balance sheets in general still remain healthy; and (3) Still-favourable comparative yield spreads to 10-year government bond yields and supportive valuation in general.

Over the longer term we see other factors that will erase some of the support mentioned in the above. In particular we believe that corporate earnings expectations will start to see downward revisions elsewhere other than just in the US. The continued downward revisions will by and large be supported by (1) Risks of a continued weakening of the US housing market and worries that this will shed even more off US economic growth than has been the case until now; (2) A rebound in job creation from the August knockdown and a continued upward pressure on wages will help to squeeze profit margins and drive down earnings expectations significantly and consequently hurt valuation; and (3) Companies have an increasing need to invest in capacity, including (costlier) labour and/or capital equipment. Input prices for input in general such as raw materials, energy and wages are growing relative to revenues.

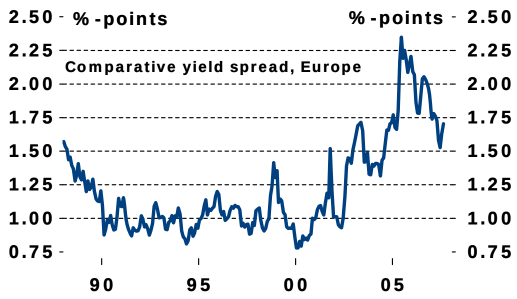
Not only the earnings outlook and US economic outlook are showing more and more signs of a slowdown. In addition, Chinese macro numbers are, in real terms, starting to show signs of slowing and in that context China seems to be following the US, Nordics and Japan into a slowdown phase all coming from a late-cyclical phase. The slowdown phase has historically been delivering significantly lower returns than the late-cyclical phase for global equities. So, looking beyond the coming few months, we will expect limited upside in equity markets and we consequently continue to expect also 5% to 10% on global equities over the coming 12 months.

Historically low default rates



Source: Reuters Ecowin, Danske Equities

Equities offer good relative valuation



Source: Reuters Ecowin, Danske Markets Equities

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	2006	3,5	3,1	1,5	13,0	0,6	10,1	14,4	1,9	3,5	4,7	30	2,4
	2007	2,1	2,0	1,6	4,0	0,1	5,3	5,8	1,7	2,6	4,7	25	1,6
	2008	1,8	1,7	1,7	3,3	-0,2	5,2	5,3	2,0	2,5	4,0	19	1,9
Sweden	2006	4,4	2,8	1,8	8,2	0,0	9,1	7,8	2,0	5,4	2,2	47	7,0
	2007	2,8	4,1	1,1	6,1	0,5	5,0	8,5	1,5	4,8	2,0	45	6,3
	2008	2,6	3,0	0,6	0,5	-0,5	4,8	2,4	1,9	5,3	1,8	45	7,4
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	2,9	4,8	3,5	5,6	-0,1	2,5	6,2	0,6	2,6	12,0	26	15,9
	2008	3,4	3,6	3,2	5,3	0,5	1,7	4,3	2,1	2,5	13,9	26	16,1

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	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-ploym.[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	21-sep	4,75	4,70	5,30	140,9	-	528,9
	+3m	4,50	4,60	5,25	140	-	532
	+6m	4,50	4,85	5,35	140	-	532
	+12m	4,50	5,00	5,55	140	-	532
EUR	21-sep	4,00	4,55	4,71	-	140,9	745,3
	+3m	4,00	4,40	4,75	-	140	745,0
	+6m	4,25	4,60	4,90	-	140	745,0
	+12m	4,50	4,75	5,15	-	140	745,0
JPY	21-sep	0,50	1,13	1,86	161,8	114,8	4,61
	+3m	0,50	1,10	1,85	159	115	4,69
	+6m	0,75	1,30	1,95	165	118	4,52
	+12m	1,00	1,80	2,20	165	118	4,52
GBP	21-sep	5,75	5,85	5,47	70,1	200,9	1062,6
	+3m	5,75	6,10	5,60	70,5	202	1057
	+6m	5,75	6,00	5,75	71,0	204	1049
	+12m	5,75	5,90	5,75	71,0	204	1049
CHF	21-sep	2,75	2,95	3,45	164,9	117,0	452,1
	+3m	2,75	2,90	3,45	164	117	454
	+6m	3,00	3,10	3,60	163	116	457
	+12m	3,00	3,40	3,80	162	116	460
DKK	21-sep	4,25	4,72	4,87	745,3	528,9	-
	+3m	4,25	4,60	4,90	745,0	532	-
	+6m	4,50	4,75	5,00	745,0	532	-
	+12m	4,75	4,90	5,25	745,0	532	-
SEK	21-sep	3,75	4,64	4,89	920,7	653,3	80,9
	+3m	4,00	4,60	4,90	925	661	80,5
	+6m	4,25	4,70	5,05	910	650	81,9
	+12m	4,25	4,80	5,25	910	650	81,9
NOK	21-sep	4,75	5,70	5,71	777,9	552,0	95,8
	+3m	5,25	5,90	5,95	780	557	95,5
	+6m	5,50	6,00	6,00	780	557	95,5
	+12m	6,00	6,00	6,15	780	557	95,5
PLN	21-sep	4,75	5,47	5,60	377,0	267,5	197,7
	+3m	5,00	5,60	5,80	390	279	191
	+6m	5,25	5,90	6,20	395	282	189
	+12m	5,50	6,15	6,40	400	286	186

Equity markets

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

Key data and events (1)

Mandag den 17. september 2007				Periode	Danske Bank	Konsensus	Seneste
-	RUB	Industriel produktionsudvikling	å/å	aug	**6.7%**	*6.7%*	7.8%
1:01	GBP	Rightmove huspriser	m/m|å/å	sep			
10:00	NOK	Handelsbalance	NOK mia.	aug		*25.9*	26.1
10:00	NOK	Eksport	mia NOK	aug			61.1
10:00	NOK	Import	mia NOK	aug			35.0
11:00	NOK	Tale af Gjedrem					
14:00	PLN	Lønninger	å/å	aug	**10.5%**	*9.6%*	9.3%
14:00	PLN	Beskæftigelse	å/å	aug	**4.7%**	*4.7%*	4.7%
14:30	USD	Fremstilling i staten New York		sep		*20.0*	25.1

Tirsdag den 18. september 2007				Periode	Danske Bank	Konsensus	Seneste
-	RUB	PPI	m/m|å/å	aug	**..|12.5%**	*1.2%|12.1%*	0.7%|11.7%
-	RUB	Arbejdsløshed		aug	**5.8%**	*5.7%*	5.8%
-	RUB	Detailsalg	å/å	aug	**14.6%**	*14.5%*	14.7%
-	RUB	CPI	å/å	aug	**8.8%**	*8.8%*	8.7%
-	RUB	Real løn	å/å	aug	**15.6%**	*15.4%*	15.4%
-	CNY	Real estate climate		aug			104.00
0:50	JPY	Tertiært industri indeks	m/m	jul		*-0.5%*	0.1%
9:30	SEK	BNP endelig	k/k|å/å	2. kvartal			..|3.0%
10:30	GBP	CPI	m/m|å/å	aug		*0.5%|1.9%*	-0.6%|1.9%
10:30	GBP	RPI Inflation	m/m|å/å	aug		*0.5%|4.0%*	-0.6%|3.8%
10:30	GBP	CPIcore	å/å	aug		*1.9%*	1.7%
10:30	GBP	RPI Inflation ekskl. Lånebetalinger	å/å	aug		*2.7%*	2.7%
11:00	EUR	ZEW erhvervstillid		sep			-6.1
11:00	DEM	ZEW erhvervstillid	Indeks	sep	**-15**		-6.9
11:00	DEM	ZEW Survey - current situation	Indeks	sep	**75**		80.2
14:30	USD	PPI	m/m|å/å	aug	**-0.3%|3.2%**	*-0.2%|3.2%*	0.6%|4.0%
14:30	USD	PPI ekskl. fødevarer og energi	m/m|å/å	aug	**0.2%|2.2%**	*0.1%|2.2%*	0.1%|2.3%
15:00	USD	TICS internationalt kapitalflow, Net inflow	USD mia	jul		*60.0*	58.8
19:00	USD	NAHB boligmarkedsindeks	Indeks	sep	**21**	*20*	22
20:15	USD	FOMC møde	%		**5.00**	*5.00*	5.25

Onsdag den 19. september 2007				Periode	Danske Bank	Konsensus	Seneste
-	JPY	Bank of Japan offentliggør rentebeslutning	%	sep	**0.50**	*0.50*	0.50
6:00	JPY	Coincident index		jul			66.7%
7:00	JPY	Ledende økonomisk indeks (endelig)		jul			70.0%
8:00	JPY	Bank of Japan månedsrapport					
8:00	DEM	PPI	m/m|å/å	aug			-0.1%|1.1%
10:30	GBP	Referat af MPC møde		sep			
13:00	USD	MBA realkredit ansøgninger					5.5%
14:00	PLN	Industriproduktion	å/å	aug	**12.0%**	*10.9%*	10.4%
14:00	PLN	Producent priser	å/å	aug	**2.0%**	*1.9%*	1.5%
14:30	USD	FPI ekskl. fødevarer & energi	m/m|å/å	aug	**0.2%|2.2%**	*0.2%|2.2%*	0.2%|2.2%
14:30	USD	Påbegyndt privat boligbyggeri	mio.	aug		*1.350*	1.381
14:30	USD	Udstedelse af byggetilladelser	000	aug		*1345*	1373
14:30	USD	FPI	m/m|å/å	aug	**-0.1%|2.0%**	*0.0%|2.2%*	0.1%|2.4%

Torsdag den 20. september 2007				Periode	Danske Bank	Konsensus	Seneste
0:50	JPY	BSI Erhvervstillid (Fremstilling)		3. kvartal			-2.2
0:50	JPY	BSI Large All industry		3. kvartal			-0.9
6:00	USD	Fed's Bernanke testifyes before housing financial services commitee					
8:00	EEK	Producentpriser	å/å	aug			8.7%
8:15	CHF	Handelsbalance		aug			
10:30	GBP	Offentlige finanser (PSNCR)	mia. GBP	aug			-13.1
10:30	GBP	Pengemængde M4 (foreløbig)	m/m	aug		*0.8%*	1.0%
10:30	GBP	Den offentlige sektors nettolåntagning	mia. GBP	aug		*6.5*	-6.5
10:30	GBP	M4 sterling udlån (foreløbig)	mia GBP	aug		*16.0*	24.6
10:30	GBP	BSA realkredit godkendelser	mia GBP	aug			3594
10:30	GBP	Detailsalg	m/m|å/å	aug		*0.1%|4.1%*	0.7%|4.4%
13:45	EUR	ECB Møde - ingen rentebeslutning					
14:30	USD	Ansøgere til arb.løs.understøttelse	1000				
16:00	USD	Ledende indikator		aug		*-0.1%*	0.4%
18:00	USD	Philadelphia Fed.	Indeks	sep	**3.0**	*2.5*	0.0

Key data and events (2)

Fredag den 21. september 2007				Periode	Danske Bank	*Konsensus*	Seneste
-	LVL	Producentpriser	å/å	aug			17.6%
-	PLN	Arbejdsløshed		aug	**12.0%**	*12.0%*	12.2%
-	LVL	Betalingsbalance		2. kvartal			
1:50	JPY	Industriens aktivitetsindeks		jul		*-0.4%*	0.2%
10:00	EUR	Euroland PMI	Indeks	sep	**54.2**	*54.0*	54.3
10:00	EUR	Euroland service PMI		sep	**57.6**	*57.6*	58.0
10:00	EUR	Euroland PMI composite	Indeks	sep			
10:00	PLN	Detailsalg	å/å	aug	**17.0%**	*16.6%*	17.1%
14:45	USD	Fed's Plosser (ej stemmebr, høg) taler					

I løbet af ugen				Periode	Danske Bank	*Konsensus*	Seneste
Lør 15 - 21	CHF	Producent- og importpriser	m/m|å/å	aug			0.1%|2.8%
Lør 15 - 26	CHF	Detailsalg, nominelt (justeret)	å/å	jul			1.0%
Lør 15 - 21	CHF	Industri produktion	k/k|å/å	2. kvartal			-4.7%|7.3%
Man 17 - 20	JPY	National detail handel	å/å	aug			-4.3%
Tor 20 - 25	DEM	Importpriser	m/m|å/å	aug			0.3%|0.4%
Søn 23	JPY	Japns Liberale Parti vælger ny leder					
Søn 23 - 28	GBP	Nationale huspriser	m/m|å/å	sep			0.6%|9.6%

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Yderligere information på telefon 33 44 05 30.

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