

# Weekly Focus

25 April – 9 May 2008

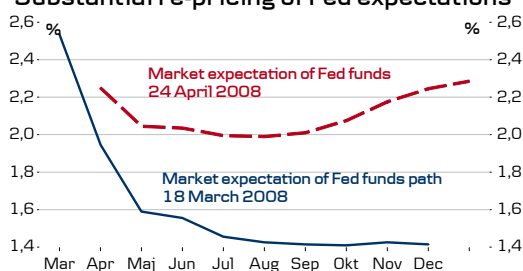
### Government bond yields in US and Euro



### Weaker economy normally implies lower yields



### Substantial re-pricing of Fed expectations



## Substantial re-pricing in bond markets

We have seen a large rise in bond yields over the last month in both Euroland and the US. The market has taken out all expectations of rate cuts from the ECB after having priced in more than 100bp of cuts in the beginning of the year. The market also expects the Fed to be done after a 25bp cut next week. So what's happening? Has the economic outlook suddenly improved a lot and are we heading for a bear market in bonds? Or is this merely a correction in a bull market? We think the latter is the case, and believe we will see lower yields again before long. The factors behind this view are the following:

**Positioning:** Consensus has been strongly in favour of the doom and gloom scenario for the US. This has probably been reflected in positioning, with investors being short equities and long bonds. With the improvement in the credit crisis, investors have run for the door and closed down long bond positions. This large flow has led to an exaggerated move in bonds.

**Growth risks:** Downside risks to the economic outlook have increased lately with the further rise in oil prices, and economic data are still weak. An economic explanation for the turn in the market can mainly be found in a *perception* of a turnaround in the economy in H2 rather than evidence of a turnaround. We expect the data to weaken further in the coming quarter in both the US and Euroland. We therefore see scope for further easing from the Fed – even if it pauses after the next meeting. Regarding the ECB, we acknowledge that the risk is it will not cut as we expect. However, the market should price in a higher probability of cuts due to the downside risks to growth.

**Inflation:** Inflation fears have risen and this has added to the sell-off in bonds. Further inflation disappointments could prevent the Fed and ECB from easing. We expect inflation to peak soon, though, which could support bonds. Commodity prices are the joker in the pack, and could have a significant effect here!

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# Denmark

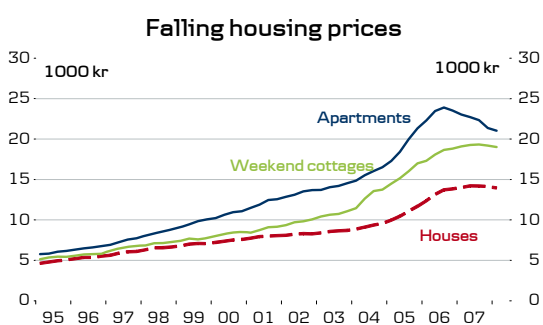
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## Consumer confidence and house prices falling

Consumer confidence is at its lowest level since the start of the millennium, and we have no expectations of a return to the gushing optimism that characterised consumers just a year ago. On the contrary, we have to acknowledge that pessimism now has a firm grip on the Danish consumer. The gloom is due, in particular, to the global crisis of confidence and worldwide economic slowdown, which has caused consumers to assess Denmark's economic situation as rather negative at present, and very negative one year from now. The assessment for 12 months down the road is in fact the most downbeat result for nine years. That said, consumers are still reasonably positive about their own economic situation a year from now, and they are not particularly concerned about losing their jobs. This assessment makes reasonable sense, as unemployment remains low, and wages look set for a decent rise. Nevertheless, in our view, further falls in housing prices and the ongoing turn in the economy will mean pessimism creeping in here too.

The latest figures show house, apartment and leisure property prices all falling. The fall in Q1 means that house prices have fallen by 1.8% nationwide since they peaked at the start of 2007. Meanwhile, apartment prices have fallen by 12% nationwide since topping out in summer 2006, and leisure property prices have declined 1.7% since their peak. Developments in house prices show great regional variation. Prices are still rising on Funen and in much of Jutland, while price falls are most pronounced in and around Copenhagen. House prices in the municipality of Copenhagen have fallen by 6.2% from Q4 07 to Q1 08, meaning a total decline of a little over 12% since their peak. Measured in kroner, it is clear that homeowners in some areas have been hit hard - there are ten municipalities where the price of an average house has slumped by more than half a million kr (Euro 67.000). Fortunately, most homeowners in these areas are economically healthy with considerable equity in their houses - this has simply become smaller.

Turnover in the housing market remains low - a clear indication that the housing market has still not settled. We expect there to be further price falls in the coming quarters, and as yet see no signs of a turnaround on the horizon.



### Key events of the coming two weeks

- Wednesday: Business confidence indicators. We expect an unchanged -2 for industry, a fall to -5 for construction, and a minor fall to 10 for services.
- Friday: Unemployment in March. We expect a decline to 54,500 (2.0%).
- 7 May: Bankruptcies and home repossessions for April. We expect both to increase slightly.
- 8 May: Industrial production for March. We expect no real change.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Wed 30	-	DKK Confidence indicator, industry	Index	Apr	-2	
Wed 30	-	DKK Confidence indicator, construction	Index	Apr	-5	
Wed 30	-	DKK Confidence indicator, service	Index	Apr	10	
Fri 02	9:30	DKK Unemployment, s.a.	K (%)	Mar	54.5 (2.0%)	.(2.0%)
Fri 02	9:30	DKK Retail sales, volume	m/m	Mar	0.5%	2.0%
Fri 02	16:00	DKK Currency reserves	DKK bn	Apr		

# Sweden

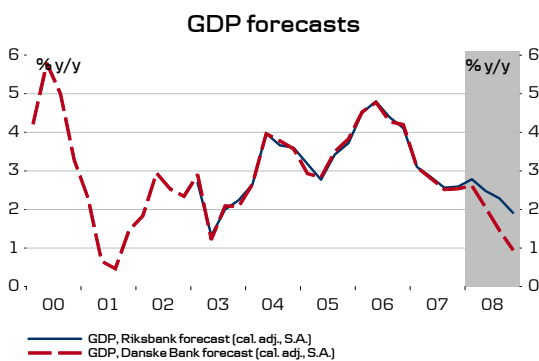
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## Riksbank sets the priorities straight

The old financial proverb “*Don’t fight the Fed*” is a maxim that could easily be applied to the Riksbank and the Swedish financial markets, especially over the last year or so. Communication between the Riksbank and the financial markets (including ourselves) reached its nadir in February, when the Riksbank hiked despite market pricing indicating a less than 5% probability of such an event.

This does not necessarily mean that the Riksbank is wrong. We have come to the conclusion that the bank’s actions are largely attributable to a partly new executive board with a somewhat different set of priorities than the previous one. The Riksbank now, *inter alia*, accords a considerably greater weight to current inflation and inflation expectations: despite losing many of the earlier arguments for hiking, such as high GDP growth, strong labour markets, etc, the Riksbank has grown ever more hawkish by focusing on rising inflation and inflation expectations.

Going forward, this should mean that the deviation between actual outcomes and the Riksbank’s forecast will have to be considerable before the Riksbank changes its ways. And looking at our own forecast compared to the Riksbank’s, we have come to the conclusion that the deviations are not sufficiently large to prompt a September cut. Further ahead, the probability of a cut will increase, as the labour market and GDP growth (and inflation) in H2 will come in much lower than currently forecast. This has another implication as well: when the Riksbank does start to cut (probably sometime in the winter), it will have to cut by more and for longer than would have been the case if it had been less inclined to look at current inflation and lagging inflation expectations.



### Key events of the coming two weeks

- Retail sales and business surveys will be extremely interesting, since our Q1 GDP forecast is up for revision and Q2 is expected to show a significant slowing compared to Q1. Will this be confirmed in this week’s data?

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 29	9:15	SEK Manufacturing confidence	Apr	0.0		2.0
Tue 29	9:30	SEK Retail sales	y/y Mar	3.0%		4.6%
Tue 29	9:30	SEK Consumer confidence	Apr	1.0	1.5	2.5
Fri 02	8:30	SEK PMI	Apr		53.8	54.7

# Norway

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## Focus on credit conditions

So far, it would seem that the global credit crisis has impacted on Norway mainly through higher money market rates and credit spreads. This will in turn hit the real economy through higher lending rates and, not least, tighter credit standards at Norwegian banks.

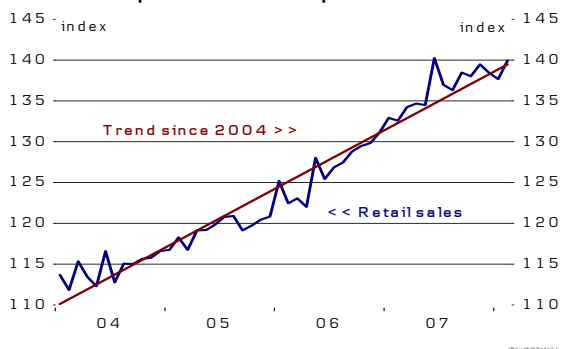
The second quarterly bank lending survey of the year from Norges Bank therefore looks like being the week's big event. In the last survey, covering Q4 07, there were clear signs that banks had become more critical in their lending to businesses, especially for commercial property.

Further tightening of credit standards in the form of higher interest margins and more stringent collateral and equity requirements would be a shot across the bows for the investment boom planned by Norwegian companies in 2008. It would presage lower credit growth, lower employment growth and a weaker labour market towards the end of the year.

Other incoming data from the Norwegian economy during the week will probably confirm the trend we have seen in recent months: growth is slowing and the labour market stabilising, but activity levels remain high. At the press conference following the rate-setting meeting during the week, new deputy governor Jan F Qvigstad's comments echoed one of our own hobby-horses: to curb the rise in inflation, it will not be enough merely for growth to slow - it needs to fall below the trend rate so that capacity utilisation drops back.

Particularly important this week, then, will be the Labour Force Survey (AKU) employment figures for January-March, which will give us a good indication of whether growth is indeed in the process of dropping below trend. If this does not happen during H1, there is the prospect of further interest rate hikes during the autumn.

### Where is private consumption headed?



### Key events of the coming two weeks

- Tuesday brings Norges Bank's bank lending survey for Q1.
- March retail sales figures are due on Wednesday. We forecast growth of 0.4% m/m (4.7% y/y).
- Credit growth is expected to slow slightly to 14.1% in March.
- AKU unemployment in February (January-March) is expected to be unchanged at 2.3%.
- No new signals expected from the governor or deputy governor of Norges Bank in upcoming speeches.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 29	-	NOK Norges Bank's Survey of Bank Lending	1st quarter			
Wed 30	-	NOK Speech by Governor Svein Gjedrem				
Wed 30	10:00	NOK Retail sales, s.a.	m/m y/y	0.4% 4.7%	0.4% 4.7%	1.7% 5.6%
Wed 30	10:00	NOK Credit indicator (C2)	y/y	14.1%	14.0%	14.2%
Wed 30	10:00	NOK Unemployment s.a. (LFS)	%	2.3	2.3	2.3
Wed 30	14:15	NOK Speech by Deputy Governor Jan F. Qvigstad				

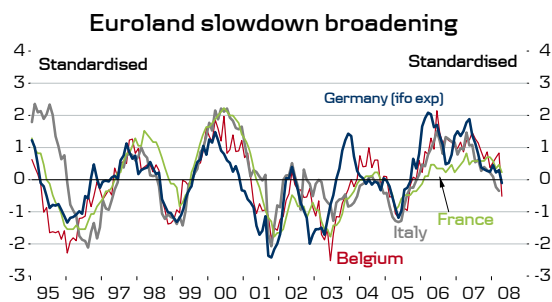
# Euroland

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## Business confidence faltering

It has been a very eventful week in Euroland, with a number of ECB speeches and news that the current strong headwinds are increasingly being felt in the economy. The ECB started the week on a hawkish note, with several ECB speakers pointing to rising risks to price stability and hinting that rates might have to be raised. The French central bank governor, Noyer, said, "if needed we'll move rates" to ensure that inflation falls back below 2% next year. This prompted speculation that the ECB might be preparing the markets for a rate hike (see [Flash Comment - ECB sharpening rhetoric - could it hike?](#)). Shortly afterwards, however, Noyer claimed that the markets had over-interpreted his comments, and ECB chairman Trichet cemented this view later in the week, saying: "Let me say on the monetary policy stance that we believe that our current monetary-policy stance will contribute to achieving our objective". There is no doubt that the ECB is growing more anxious about the outlook for inflation, but it is also seeing a significant tightening of financial conditions through the strengthening of the euro and higher LIBOR rates on the back of the problems in the money market. The ECB will meet again on 8 May.

In his speech, Trichet also said he was concerned about the sharp fluctuations in the euro - highlighting that the ECB is also concerned about the outlook for growth. Adding to these concerns was a significant decline in business confidence surveys across Euroland this past week - and most importantly a bigger-than-expected decline in the German ifo index, which is very important for the perception of growth in Euroland (see [Flash Comment - Ifo spurs doubt over German strength](#)). The strength of the ifo so far has been important for the ECB's more upbeat view on Euroland, but this is now being challenged. We see scope for further declines in the ifo index over the coming quarters as the strong headwinds (strong euro, slower global growth, high oil and food prices and credit tightening) take their toll on the economy.



### Key events of the coming two weeks

- Inflation is in the spotlight again with the release of Flash CPI for April.
- Unemployment numbers in Germany and Euroland will provide more insight into the state of the labour market.
- Confidence surveys will reveal how consumers are coping, and provide new information on price expectations.
- ECB meeting on 8 May will likely reveal an unchanged stance.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 28	-	DEM CPI, preliminary	m/mly/y	Apr	0.2% 2.8%	0.5% 3.1%
Mon 28	10:00	DEM CPI (Länder)	m/mly/y	Apr		
Mon 28	11:45	EUR European Commission releases economic growth forecasts				
Tue 29	8:45	FRF Consumer Confidence Indicator	Index	Apr	-37	-36
Tue 29	8:45	FRF Housing starts	3m y/y	Mar	-7.5%	-0.6%
Tue 29	10:00	EUR Retail PMI	Index	Apr		48.2
Wed 30	9:55	DEM Unemployment rate	%	Apr	7.8	7.8
Wed 30	9:55	DEM Unemployment, change	'000	Apr	-30	-55
Wed 30	11:00	EUR CPI estimate	%	Apr	3.4	3.6
Wed 30	11:00	EUR Unemployment	%	Mar	7.1	7.1
Wed 30	11:00	EUR Consumer confidence	Index	Apr	-13	-12
Wed 30	11:00	EUR Industrial confidence	Index	Apr	-2	0
Fri 02	8:00	DEM Retail sales	m/mly/y	Mar	0.8% 2.3%	-1.6% -0.3%
Fri 02	9:15	ESP PMI Manufacturing (April)	Index	Apr	48.8	49.4
Fri 02	9:15	ITL PMI Manufacturing	Index	Apr	51.5	51.5
Fri 02	9:50	FRF PMI Manufacturing, final	Index	Apr	50.8	50.8
Fri 02	10:00	EUR PMI Manufacturing, final	Index	Apr		

# Switzerland

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## Major moves in fixed income and money markets

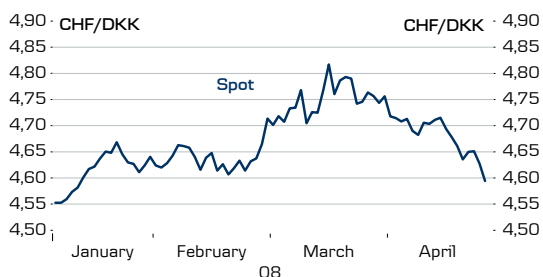
PPI, the labour market report for March and February's retail sales have been the only notable economic data in recent weeks. The labour market remains firm, although we expect to see some weakness gradually creeping in over the coming quarters. Retail sales surprised on the upside, suggesting that the Swiss consumer is in better shape than had been assumed. Producer and import prices rose more than anticipated, thereby increasing the risk that inflation will ease more slowly than expected. Meanwhile, banking giant, Credit Suisse, reported a first quarter loss of CHF 2.15bn, which supports our expectation that the contribution to growth from the financial sector will fall in the coming quarters.

Despite the limited newsflow, the Swiss fixed income and money market has seen major movements in recent weeks. As with the other markets, Swiss yields have risen hand in hand with a generally higher risk appetite in the financial markets. The two-year swap rate has increased from 2.6% in mid-March to more than 3%, and rates further out on the curve have also been heading higher. The futures market is no longer pricing a rate cut from the SNB this year, and is now almost pricing a 25bp hike before the year-end. In our view, the recent movements in Swiss interest rates are mainly the result of rising interest rates in Euroland, and indeed the spread to Euroland has widened. That said, the latest movements could well be overdone, and we still expect that the SNB will ease monetary policy later this year.

The Swiss franc has weakened as a result of sentiment brightening on the financial markets, with CHF/DKK now trading at 4.62. Hence CHF has depreciated by almost 4% against DKK since the latest top of 4.82 in mid-March. The weakness is not surprising, as the CHF traditionally slides when risk appetite increases on the financial markets. A decent rise in the equity markets has been keeping up the pressure on the Swiss currency, as has the increased interest rate spread to Euroland and a general fall in volatility. We, however, see the recent weakening of CHF as a correction to an underlying trend, and we still expect that CHF/DKK will go higher in the coming months.

The coming two weeks will see a busier economic schedule than has been the case of late. Wednesday's release of the KOF indicator will probably attract the most attention. The KOF has fallen over the past eight months, and indeed the pace of decline accelerated in March. We expect that a similar movement took place in April, given the recent weak business confidence indicators out of Euroland.

Is recent weakness overdone?



### Key events of the coming two weeks

- Monday: SNB's Thomas Jordan to speak on impact of the financial crisis on the Swiss economy.
- Tuesday: UBS consumer indicator. Will it confirm the strong signal from retail sales in February?
- Wednesday: KOF indicator for April.
- Tuesday 6 May: CPI for April. Will the upward trend be maintained or has inflation peaked as projected in SNB's latest quarterly report.
- Thursday 8 May: April unemployment numbers.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 28	8:00	CHF SNB's Jordan delivers a speech entitled "Effects of the subprime crisis for S"	Apr			
Tue 29	10:00	CHF UBS consumption indicator	Mar			2.321
Wed 30	11:30	CHF KOF Swiss leading indicator	Apr			

# UK

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## Housing market under further pressure

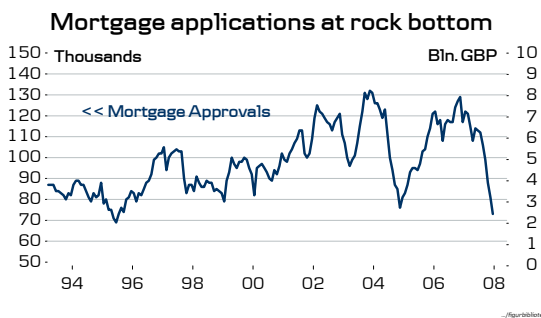
Further confirmation that the UK housing market is under considerable pressure arrived in the past couple of weeks. The HBOS house price data for March demonstrated the greatest monthly price fall since 1992, with the average house price in the UK falling by 2.5% to GBP 191,556.

The housing market is under pressure on a number of fronts, not least the stiff tightening of bank credit standards, which is now beginning to hurt - it has simply become much more difficult for prospective British homeowners to obtain a mortgage. Meanwhile, mortgage rates have actually risen - due to the credit crisis - despite interest rate cuts by the Bank of England, and the expectation of more to come.

Tighter credit standards and the sluggish demand for housing are reflected in a steep fall in mortgage approvals. Statistics from the British Bankers Association showed that the number of mortgage approvals fell from 43,147 in February to 35,417 in March. By way of comparison, the level has hovered around 70,000 in the past couple of years. In other words, the number of mortgage approvals has more or less been halved in one year. Official numbers from the Bank of England, which present a much broader picture, are due in the coming week. Here too, the market expects a fall, from 73,000 to 67,000, though the risk is an even greater downturn.

April house price data from Nationwide are also due in the coming week. Annual house price growth is expected to be zero, for the first time since 1996. We see a risk of negative growth.

Otherwise, our attention in the week ahead will be focused on the PMI numbers for April. Following the somewhat surprising minutes from the BoE's meeting in April, which revealed that two members did not wish to cut rates, a rate cut in May, which we expect, is now an open question. PMI numbers and the latest news from the housing market will be important input for the discussion on rates.



### Key events of the coming two weeks

- Number of mortgage approvals may fall to the lowest level since 1995.
- PMI manufacturing expected to fall further to 50.8 in April, from 51.3 in March.
- Nationwide housing prices expected to show zero annual growth.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 28 - 30	-	GBP Nationwide house prices	m/mly/y	Apr	-0.5% 0.0%	-0.6% 1.1%
Tue 29	10:30	GBP Net Lending Secured on Dwellings	GBP bn	Mar	7.1	7.4
Tue 29	10:30	GBP Mortgage approvals	'000	Mar	67	73
Tue 29	12:00	GBP CBI Distributive Trades Report		Apr		
Wed 30	11:30	GBP Gfk Consumer confidence	Index	Apr	-20	-19
Thu 01	10:30	GBP PMI Manufacturing	Index	Apr	50.8	51.3
Fri 02	10:30	GBP PMI Construction	Index	Apr		47.2

# US

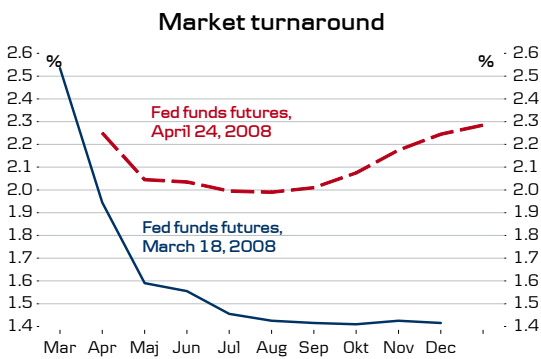
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## Federal Reserve: Cuts slowing, but is the Fed finished?

Financial markets have shown some signs of recovery in the past 3-4 weeks (see [Financial Crisis update](#)), and this has formed the backdrop for the recent strong increase in yields. Higher yields mean that the market now expects the Federal Reserve to make do with cutting its key rate by 25bp to 2% at next week's meeting and then keeping it unchanged for the rest of the year. In other words, the pressure on the central bank to cut further has eased considerably compared to expectations ahead of the previous meeting, when the market was discounting rates going down to around 1.25-1.50% in the course of the year.

Given that increasing yields and reduced expectations on the Fed reflect improved market conditions, this will of course influence the Fed's rate decision. The extraordinarily large rate cuts from the Fed in H1 were very much driven by the turmoil on the markets. In order to avert a systemic breakdown, the central bank felt forced to cut rates faster and deeper than it normally would given the economic data. As inflationary pressures have at the same time (also quite unusual) been growing despite the ailing economy, the Fed will presumably grab the chance to reduce the rate of cutting in a situation where this will not disappoint the financial markets. Given this, we now expect (like the market) an interest rate cut of 25bp to 2% (compared to 50bp to 1.75% earlier) in the coming week.

However, the big question is whether the Fed will not only slow the pace of cutting, but actually go on hold after the upcoming meeting. While this is not an unthinkable scenario, it basically depends on two things. First, that the financial crisis does not flare up again; and second, that the economic data do not weaken too much. While it is incredibly difficult to predict developments in the financial crisis, we can note that the markets remain fragile. Further, we expect that the economic data will deteriorate further in the next couple of months, before stabilising in H2 on the back of the fiscal stimulus package and the rate cuts beginning to have an impact. For now, we continue to favour the case of further rate cuts in H1 before the central bank goes on hold. However, given recent developments in the market, our current forecast of the fed funds rate hitting 1.50% by the end of H1 is probably a notch too aggressive. We will reassess our forecast after the FOMC meeting on Wednesday evening.



### Key events of the coming two weeks

- FOMC meeting on Wednesday.
- Also Wednesday: GDP figures will show that the economy grew by 0.5% q/q ann. in Q1.
- Thursday: We expect ISM to fall to 47.5
- Friday: Employment set to fall by 40,000, and unemployment to rise to 5.2%.

Date	Time	Event	Period	Danske Bank	Consensus	Previous	
Tue 29	15:00	USD S&P/Case Shiller Home Price Index	Feb				
Tue 29	16:00	USD Consumer confidence	Index	Apr	60.0	62.0	64.5
Wed 30	13:00	USD MBA Mortgage Applications	%			-14.2	
Wed 30	14:15	USD ADP Employment Change	1000	Apr	-65	-63	8
Wed 30	14:30	USD PCE core - deflator	q/q AR	1st quarter	2.2%	2.2%	2.5%
Wed 30	14:30	USD GDP annualized	q/q ann.	1st quarter	0.5%	0.3%	0.6%
Wed 30	14:30	USD Personal Consumption, annualized	q/q ann.	1st quarter	0.5%	0.6%	2.3%
Wed 30	15:45	USD Chicago PMI	Index	Apr	48.0	48.0	48.2
Wed 30	20:15	USD FOMC rate decision	%		2.00	2.00	2.25
Thu 01	-	USD Total Vehicle Sales	m	Apr		15.1	15.1
Thu 01	14:30	USD Personal income	m/m	Mar	0.5%	0.4%	0.5%
Thu 01	14:30	USD Initial jobless claims	1000				342
Thu 01	14:30	USD Personal spending	m/m	Mar	0.2%	0.2%	0.1%
Thu 01	14:30	USD PCE core - deflator	m/mly/y	Mar	0.16% 2.1%	0.1% 2.0%	0.1% 2.0%
Thu 01	16:00	USD ISM manufacturing	Index	Apr	47.5	48.0	48.6
Thu 01	16:00	USD ISM prices paid	Index	Apr		83.5	83.5
Thu 01	16:00	USD Construction spending	m/m	Mar		-0.6%	-0.3%
Fri 02	14:30	USD Change in nonfarm payroll	1000	Apr	-40	-75	-80
Fri 02	14:30	USD Unemployment	%	Apr	5.2	5.2	5.1
Fri 02	14:30	USD Average hourly earnings, non-farm	m/mly/y	Apr	0.3% . .	0.3% . .	0.3% 3.6%
Fri 02	16:00	USD Factory Orders	m/m	Mar		0.2%	-1.3%

# Asia

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## Chinese government tries to stabilise stock market

There have been a number of new initiatives from the Chinese government recently – aimed at stabilising the domestic stock market, which has fallen more than 50% from its peak in October 2007. The latest move is a reduction in the stamp duty on equity trades (see [Flash Comment – China: Stamp duty on stock trading slashed](#)). This naturally raises the question of whether the Chinese government's actions should be taken as a sign of growing concern about the outlook for Chinese growth. We do not think so. It is important to remember that stamp duty was raised in May 2007 specifically to deflate the bubble that the government feared was forming in the Chinese stock market. So the government no doubt considers it good news that there has been a correction in the stock market, and that it has, in spite of everything, enjoyed a degree of success in stopping the economy from overheating. The signals from both the government and the People's Bank of China are still that the current unsustainable rate of inflation poses a greater threat than a sharp slowdown in the economy. The recent attempts to stabilise the stock market are therefore by no means a sign of either an end to monetary policy tightening or a lower rate of CNY appreciation.

We expect the Bank of Japan to leave its key rate unchanged at the monetary policy meeting on Wednesday, which is also the prevailing view in the market. The focus will therefore mainly be on the policy board members' latest forecasts for growth and inflation, published in connection with the meeting. The revised forecasts will give us a good idea of where the BoJ stands at the moment. In October 2007, the board's median forecast for GDP growth was 1.8% for fiscal year 2007 and 2.1% for fiscal year 2008. Based on our own projections, we expect the BoJ to revise the forecast for fiscal year 2007 marginally down to 1.7% and for fiscal year 2008, down by almost half a point to 1.6%. On the inflation side, the BoJ is likely to revise its inflation forecast slightly up. However, the bank has been signalling that it does not see the rise in inflation as a serious constraint on monetary policy. Instead, therefore, it will primarily be growth that decides what happens on the monetary policy front. In our view, the growth outlook is still not weak enough to warrant a rate cut, but is so uncertain that we will not see another interest rate hike before 2009 either.

### Chinese equities have dropped 50% from their peak



### Key events of the week ahead

- Wednesday brings the results of the BoJ's monetary policy meeting. We expect an unchanged key rate of 0.5%.
- Wednesday will also see Japan's jobless and industrial production figures for March. We expect unchanged unemployment of 3.9% and a slight rise in industrial production.
- Thursday brings the Chinese PMI indicator for industry in April.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 28 - 29	1:15	JPY Nomura/JMMA Manufacturing PMI	Index	Apr	49.5	49.5
Mon 28	1:50	JPY Retail trade	y/y	Mar		3.1%
Wed 30	-	JPY BoJ Monetary Policy Announcement	%		0.5	0.5
Wed 30	1:30	JPY Jobless rate	%	Mar	3.9	3.9
Wed 30	1:30	JPY Household spending	y/y	Mar		0.0%
Wed 30	1:30	JPY Job-to-applicant ratio		Mar	0.97	0.97
Wed 30	1:50	JPY Industrial production, preliminary	m/m y/y	Mar	0.2% 3.0%	1.6% 5.1%
Thu 01	3:00	CNY Manufacturing PMI	Index	Apr		58.4
Thu 01	3:30	JPY Labour cash earnings	y/y	Mar		1.3%
Fri 02	4:30	CNY CLSA Manufacturing PMI	Index	Apr		54.4

# Foreign exchange

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## On a top

EUR/USD hit a new record of 1.6018 (USD/DKK 4.6584) in the past week, meaning our target from 19 March has been reached, albeit faster than we expected. At the time of writing, the cross has retreated to 1.5570, after Thursday's disappointing Ifo figure fanned discussion of a cyclical turnaround in Euroland.

In the James Bond film *GoldenEye* from 1995 our hero faces a female baddie called Xenia Zirkovna Onatopp. Her most remarkable quality was an ability to squeeze the living daylight out of her victims between her rather shapely legs. Similarly, we have long expected that the combination of rising money market rates, an appreciating currency, increasing energy prices and a declining global economic cycle would put a squeeze on Euroland's economy. A downturn has been obvious in countries like Spain and Italy in recent months, but thanks to positive surprises from Germany and the ECB's very hawkish rhetoric, the overall picture has remained more optimistic. However, the economic numbers of the past week increasingly suggest that Germany too has passed its peak.

As mentioned, our latest forecast on EUR/USD had a peak of 1.60, falling to 1.50 in early 2009 (see [Dollar decline not over yet](#), 19 March). We argued that the dollar should continue to decline as long as relative economic developments were negative for the US, and as long as the financial crisis put a specific risk premium on US assets. Meanwhile, on this side of the pond, we have expected that the sustained rise in the euro would unravel around the middle of the year as the turnaround in the European economy advanced to the extent that the ECB would initiate a rate-cutting cycle. It is still too early to say if the recent Ifo figures really indicate a cyclical turning point for EUR/USD, but the euro's vulnerability to a revaluation of prospects for growth in the euro-area has at least been highlighted.

The technical picture is also balanced on a knife-edge. There is not much to stop a decisive swing down to 1.53, and perhaps all the way down to 1.48, while, at the same time, just a minor shift could send EUR/USD to a new high. It could be worth keeping an eye on the commodity markets, which, technically speaking, also appear to be facing a correction.

The week ahead will see a number of events in the US that could all have a decisive influence on the dollar. Most important is probably the FOMC meeting on 29-30 April, where consensus now expects a rate cut of 25bp. ISM will be released on 1 May, and the unemployment figures will be published the next day. Our general expectation is that both the Fed and the data will underline that the worst of the economic downturn still lies ahead.

We will publish new FX forecasts on 5 May.















