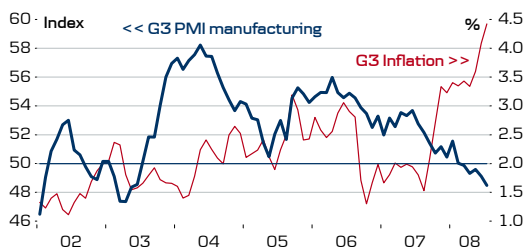


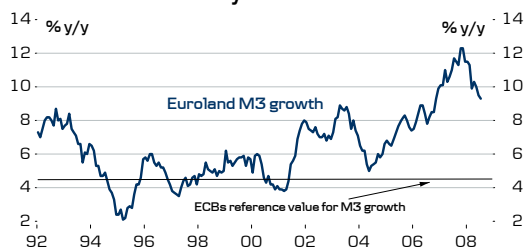
Weekly Focus

29 August - 5 September 2008

High inflation and low activity dividing central banks



ECB worried about high M3 growth for many years



Globalisation not helping central banks as much as it used to



Two central bank schools

A major driver for fixed income markets is central bank policy. A high level of transparency and clear reaction function of central banks are therefore important for predicting bond yields. It is probably in this area that the greatest uncertainty lies at the moment for fixed income markets. In Euroland it is pretty clear that growth is slowing and inflation is coming off its peak. Using history as a guide, the reaction from ECB (or Bundesbank before that) would be rate cuts - as would be implied by the so-called Taylor rule. However, the reaction function is less clear as there seems to be two schools developing within the central bank community.

The **traditional school** reacts broadly in line with the Taylor rule and is fairly activist. Lower growth is expected to lower inflation in the medium term due to more slack in the economy. This in turn implies lower central bank rates. It is pretty much how policy has been governed over the last 10 years and explains why ECB cut rates in 2001 when inflation at 3% was clearly above their target. Another school is gaining ground, though, which could be called the **non-activist school**. They broadly see the current problems as an effect of overly loose monetary policy in the past. Policy makers have been too activist and put too much weight on short term factors rather than structural factors that impact inflation in the long run. This school is not convinced that lower growth will lead to lower inflation. They put weight on money growth and structural drivers such as globalisation. They are also more worried about a de-anchoring of inflation expectations.

The rate hike from ECB in July likely represents the growing influence from what we have labelled the non-activist school. But the two schools are present in all central banks, which can be seen in the great division of views within FOMC (where Fisher still votes for a hike), and Bank of England (where Besley votes for a hike while Blanchflower votes for a cut).

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Denmark

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Unemployment continues to fall

Sometimes it can feel good to be wrong, and we have to concede that we have underestimated the strength of the Danish labour market for quite some time now. This was clear once again on Thursday this week when unemployment figures for July were released showing a continued fall in the number of jobless from 45,800 in June to 44,000 in July, a decrease of 1,800. As there was no change in the number of people on job creation schemes, this represented a genuine decrease. Compared with previous months however, the decline was slightly smaller, indicating perhaps that unemployment is bottoming out. However, in our view it is certainly not impossible for unemployment to fall further in the coming months.

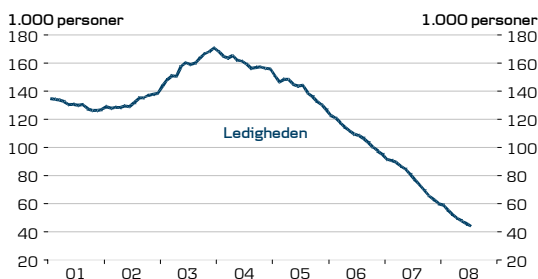
Of course, news that unemployment is continuing to fall despite the sharp decline in economic growth is very positive. For example, the low level of unemployment is tending to stabilise the housing market, limiting the risk of widespread repossessions. Also, despite low growth the Danish economy is a long way short of becoming trapped in a negative spiral.

For now then, low unemployment is tempering the bleakest portents for the Danish economy. However, it is important to remember that the economy has just emerged from a long period of strong economic growth which has exerted immense pressure on the labour market. Labour shortages are therefore still a big concern for many businesses, making them reluctant to let people they worked hard to recruit go, even if order books are beginning to dry up.

So, it is probably only a matter of time before we see a rise in unemployment. Nevertheless, there is a lot of evidence to suggest that such a move may be slow in coming and unlikely to result in especially high joblessness. Anyway, rising unemployment is not necessarily a bad thing for the Danish economy in the current climate. It may sound strange to say that the economy could benefit from having more people out of work, and of course this could not stand as an end in itself. But there is no doubt that pressure on the labour market remains intense, and unemployment is well below the structural level - i.e. one compatible with stable wage and price formation in the slightly longer term.

Reforms to increase the supply of labour should therefore be the top political priority. Consequently, it is pleasing to note major efforts by the Labour Market Commission to that end.

Unemployment continues to slide



Key events of the week ahead

- Monday: GDP data will attract particular interest. While it fell in Q4 and Q1, we expect Q2 to buck the trend. Easter's timing this year can have a major impact; in Q2 this year it will serve to boost growth.
- Thursday: Home repossession figures will attract attention.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 01	9:30	DKK Retail sales, volume	m/mly/y			-1.6% -6.3%
Mon 01	9:30	DKK GDP, preliminary	q/qly/y	2nd quarter	1.2% 2.1%	-0.6% -0.7%
Mon 01	11:00	DKK PMI survey	Index			43.1
Tue 02	16:00	DKK Currency reserves, change	DKK bn			Aug
Thu 04	9:30	DKK Industrial production sa, ex. Ships	m/m			Jul

Sweden

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Is the Riksbank playing it tough or making a policy mistake?

The National Institute for Economic Research (NIER) recently published its forecasts, downgrading GDP for both 2008 and 2009 by about 0.5 percentage points (to around 1.5% y/y) but leaving 2010 more or less unchanged at 3% y/y. This means that the unemployment rate rises above 6.5% and inflation falls back to around 2% in Q2 2009. These reasonably optimistic forecasts imply a negative output gap today and a negative labour market gap (the NIER's preferred inflation indicator) by Q1 2009. Coincidentally, that is also when the Riksbank is expected to start lowering rates according to the NIER.

We do not expect the Riksbank to pay much heed to the NIER's new forecast. However, it is interesting to note that all the major forecast institutions (the NIER, Ministry of Finance and most private sector forecasters) now find the growth outlook sufficiently low to assume falling resource utilisation and inflation and, consequently, strong arguments for interest rate cuts.

The Riksbank has been one of the most pessimistic forecasters regarding GDP growth in 2008 and 2009. Nonetheless, this has so far not sufficed to counter the lagged effects of high spot inflation on wage formation and price-setting behaviour and thus the Riksbank has continued to argue for higher rates. In other words, the Riksbank has chosen to play it tough on inflation. The question is whether this will change this week.

We admit to be very hesitant about the prospects for this particular meeting. But given outcomes and events since the July meeting, we cannot come to any other conclusion than - at least - the interest rate path will have to be dramatically revised downwards. In the event of a hike, a rather flat interest rate path is to be expected, possibly even with a hook down at the end of the forecast period. A no-hike decision, on the other hand, could very well be conditioned with a hiking bias in the short term. Either way, we should be a far cry away from the ultra-hawkish forecast of the last meeting, when the repo rate was expected to reach 5.94% before year-end.



Key events of the week ahead

- The Riksbank monetary policy meeting will be even more interesting than usual. The market is divided on the issue of a hike or unchanged, which actually seems fair. However, from our standpoint, it will be at least as interesting to see what alterations are made to the inflation rate path further out the curve.
- PMI has proven to be a surprisingly good indicator. We focus in particular on employment plans, stock building and production.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 01	8:30	SEK PMI	Aug	48.0		48.6
Thu 04	9:30	SEK Riksbank, Rate decision		4.75		4.50

Norway

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Mixed messages

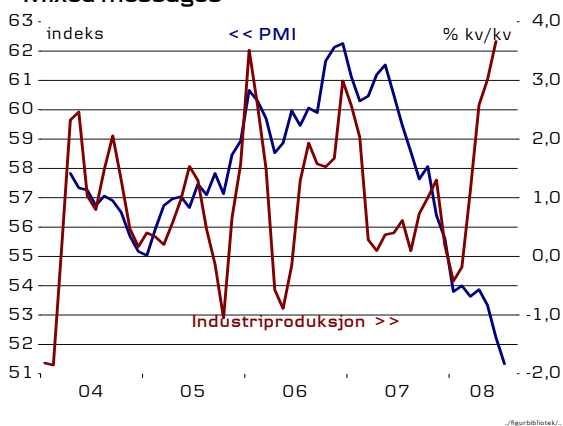
The latest indicators point to a relatively sharp downturn in the Norwegian economy. Private consumption is levelling off, housing investment is tumbling, export growth is slowing, and the PMI has fallen. Yet manufacturing output increased by 3.7% in Q2, albeit with a decrease in June.

As we have stressed many times before, we believe that the period since 2003 has seen a largely manufacturing-driven economic upswing. Signs of weaker global growth and reduced demand for commodities too are probably now also hitting Norwegian manufacturers, although there are still high levels of activity in oil-related industries, and order books still seem to be growing.

The PMI fell sharply during H1, and Statistics Norway's Business Tendency Survey pointed in the same direction, while growth in manufacturing output actually accelerated. Uncertainty about the outlook for manufacturing is therefore higher than usual. We expect the PMI to fall further to 51.0 in August, but manufacturing output to rise by 0.2% m/m in July.

July credit growth will probably confirm the picture outlined above, with growth in lending to both households and companies now slowing. However, this is a lagging indicator, so developments in housing investment and business investment are probably better read from other current indicators.

Mixed messages



Key events of the week ahead

- Monday brings figures for credit growth in July. We expect further deceleration to 13.2%.
- PMI data follow on Tuesday. The seasonally adjusted figure will probably fall to 51.0 in August.
- We expect manufacturing output to climb 0.2% m/m in July.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 01	10:00	NOK Credit indicator (C2)	y/y Jul	13.2		13.3
Wed 03	9:00	NOK PMI	Index Aug	51.0		51.7
Fri 05	10:00	NOK Industrial Production, sa.	m/mly/y Jul			-0.7% 5.9%
Fri 05	10:00	NOK Ind. prod. manufacturing, sa.	m/mly/y Jun	0.2%		-1.2% 4.7%

Euroland

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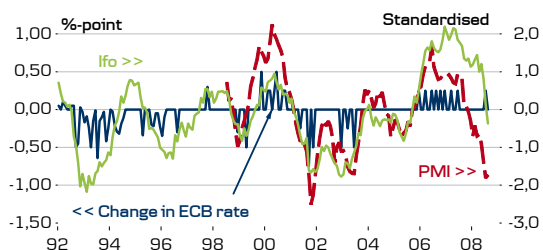
ECB meeting in the shadow of weak growth indicators

It has been an eventful week, with most of the pieces falling into place ahead of the coming week's rate-setting meeting at the ECB. Euroland inflation fell from 4.0% to 3.8% in August, the first concrete sign of the expected easing of inflation. The dramatic slide in the Ifo index in recent months continued in August; this has been the largest drop in the index over a three-month period since 1973. This confirms our impression of a German economy teetering on the brink of recession. German exporters are increasingly feeling the slowdown in the rest of Euroland as well as Central and Eastern Europe, and German private consumption is in the doldrums as the high rate of inflation erodes purchasing power. On top of this, the Q2 national accounts revealed that German businesses have yet to reduce their stocks again after the substantial stockbuilding at the beginning of the year, which does not bode well for output in H2.

The coming week will also be eventful. The final pieces will fall into place ahead of the ECB meeting on Thursday, in the form of: detailed Q2 national accounts figures for Euroland; and final PMI figures for Euroland, including those for Spain and Italy, which are expected to show badly needed improvement given the provisional figures for Euroland, Germany and France. We expect the flash GDP estimates already published to be confirmed - in other words, growth of -0.2% q/q.

The week's highpoint is the ECB rate-setting meeting. We expect the bank to leave its key rate at 4.25%, so the focus will be on its presentation of the economic situation at the press conference. We reckon that Jean-Claude Trichet will adopt much the same tone as at the previous meeting. His starting point will be the latest ECB Staff projection, which we expect to include a downward revision of growth both this year (down from 1.8% in the June forecast to 1.4%) and next year (down from 1.5% to 1-1¼%). The bank's inflation projections will also be revised slightly further up for this year and probably also for 2009. In the light of this, Trichet will stress that the downside risks to growth in Euroland have become increasingly evident, but that inflation is still very high and above the ECB's target of below 2% in the medium term through to the end of 2009. He will naturally also stress that the risks to growth are generally on the downside, while those to inflation are mainly on the upside. Finally he will repeat that the ECB will do whatever it deems necessary to ensure that inflation expectations remain firmly anchored.

Normally the ECB would cut rates now, but high inflation makes that impossible



Key events of the week ahead

- Detailed Q2 national accounts for Euroland. We expect the flash GDP estimate to be confirmed (growth of -0.2% q/q).
- Final PMIs for Euroland, Germany and France, which are expected to confirm the provisional figures, and PMIs for Italy and Spain.
- ECB rate-setting meeting on Thursday.
- German industrial production. We expect a fall of 0.5% m/m, which is a slightly larger fall than the consensus estimate (-0.3% m/m).

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 01	9:15	ESP Spain PMI manufacturing	Index			
Mon 01	9:45	ITL PMI manufacturing	Index		46.3	45.3
Mon 01	9:50	FRF French PMI Manufacturing, final	Index	45.1	45.1	45.1
Tue 02	11:00	EUR PPI	m/m y/y		1.3% 9.1%	0.9% 8.0%
Wed 03	9:30	ITL Business confidence	Index		84.0	83.5
Wed 03	9:50	FRF French PMI Services, final	Index		48.5	48.5
Wed 03	10:00	EUR PMI composite, final	Index			48.0
Wed 03	10:00	EUR PMI service, final	Index	48.2	48.2	48.2
Wed 03	10:00	ESP Consumer confidence				
Wed 03	11:00	EUR Retail sales	m/m y/y		0.1% -2.1%	-0.6% -3.1%
Wed 03	11:00	EUR GDP, s.a.	q/q y/y	-0.2% 1.5%	-0.2% 1.5%	-0.2% 1.5%
Thu 04	13:45	EUR ECB Meeting	%	4.25	4.25	4.25
Fri 05	12:00	DEM Industrial production	mm/ly/y	-0.5% 0.7%	-0.3% 0.9%	0.2% 1.7%

Switzerland

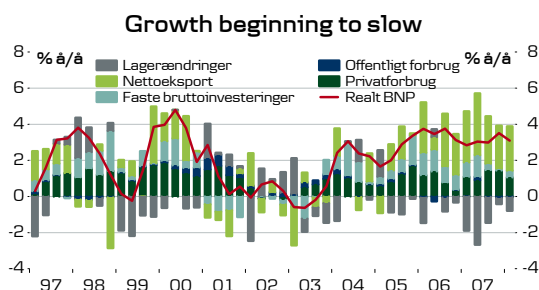
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Growth slows and inflation is close to peaking

The coming week sees the publication of national accounts data for Q2 and inflation figures for August. Both indicators will be published at 07.45 CET on Tuesday 2 September. Each could potentially affect markets even though national accounts are, by their nature, relatively retrospective.

The Swiss economy generally remained strong at the beginning of the year, although subsequently there have been clear signs of a substantial slowdown. Real GDP grew by 3.1% y/y in Q1, driven mainly by high private consumption and increased net exports. This was nevertheless still a marked deceleration compared to recent years. The financial sector in particular dampened growth, with a negative contribution of 0.45% q/q. The sector, which represents 13-15% of GDP, had comprised up to 50% of aggregate economic growth in recent years, but is now showing signs of weakness, with turmoil in global financial markets having resulted in a marked drop in both transaction revenue and bank profits. We expect the financial sector to once again contribute negatively to aggregate growth in Q2, and foresee signs of a more general slowdown in the economy. The consensus expectation is for real GDP growth of 2.4% y/y in Q2, down from 3.1% y/y in Q1, but risks are for a lower reading, given the general weak economic indicators published in Q2. Despite an expected drop in growth, domestic demand remains robust, aided not least by a strong labour market, and we continue to expect economic growth in Switzerland to outpace growth in Euroland in 2008. This will likely contribute to further CHF appreciation against the EUR, although we still consider the ongoing recapitalisation of the financial sector to be the most important argument in favour of a continued slide in EUR/CHF. We are still looking for EUR/CHF to reach 1.60 in three months.

Strong economic growth in late 2007 and early 2008 has also helped to fuel domestic inflationary pressure with inflation climbing to 3.1% y/y in July - its highest level for almost 15 years. Despite domestic capacity problems, driven not least by historically low unemployment, more recently inflation has largely been driven by changes in the oil price. Consumer prices therefore also fell month-on-month in July as global oil prices edged lower, and with their continued decline in August we expect another drop in consumer prices. Nonetheless, we still expect that inflation y/y will be at historically highs due to continued unfavourable base effects. Going forward, however, we do expect that the fall in the oil price combined with slower domestic growth will result in a beginning decline in inflation during the autumn. Consequently, we also believe the Swiss central bank (SNB) will leave its monetary policy rate unchanged at 2.75% at its forthcoming meeting on 18 September.



Key events in the week ahead

- Monday - August PMI data
- Tuesday - (the most important day of the week): both Q2 national accounts and consumer prices data (Aug). We expect Q2 growth to slow substantially, and consumer prices to fall marginally m/m; however inflation y/y will remain high.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 01	9:30	CHF PMI	Index	Aug	53.2	54.1
Tue 02	7:45	CHF CPI	m/m/y/y	Aug	-0.2% 3.1%	-0.4% 3.1%
Tue 02	7:45	CHF GDP	q/q/y/y	2nd quarter	0.2% 2.4%	0.3% 3.0%

UK

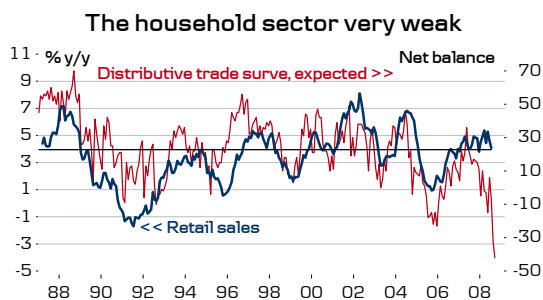
Allan von Mehren, Chief Analyst, +45 4512 80 55, alvo@danskebank.dk

More weak data on consumers and housing

The newsflow out of the UK continues to point to a very weak household sector and housing. The Distributive Trade Survey, which is a good indicator for retail sales (see chart), fell further to the lowest level ever recorded since the time series started in 1983. Consumers are under pressure from all sides: from high inflation rates, rising unemployment and falling house prices. Data for the housing market also point to ongoing problems. Nationwide house prices fell more than expected in August by 1.9% m/m and has now fallen 11.5% from the peak 10 months ago. However, based on affordability measures, house prices are still overvalued by 15-20% after the long boom – the average annual rise in house prices from 2000 to 2007 was 12.4%. In the past week we also had numbers for loans approved for house purchases, which were broadly unchanged at around the lowest level since 1995. Consumer confidence rebounded a bit in August from -39 to -36 probably due to the fall in oil prices recently. It is still very low, though.

Next week the focus turns to PMI data for service and manufacturing. We expect the indices to be broadly unchanged as they have already fallen to very low levels, indicating recession in the UK. The Bank of England meeting is not expected to lead to any changes in the Bank Rate, which currently stands at 5%. The Bank of England has its hands tied from high inflation, which will likely rise further to 5% in the coming months. If rates are left unchanged, we would not expect much in the way of an accompanying statement.

Bond yields in the UK fell back again during the past week as negative news flow is weighing on yields. The market currently prices around 70bp of rate cuts from Bank of England over the next year. The UK bond market strongly outperformed Euroland where bond yields were pushed higher by hawkish comments from ECB's Weber. We continue to look for lower yields in the UK as we expect Bank of England to deliver 100bp of rate cuts during 2009 – more than the market is pricing. The relative performance of the UK bond market to Euroland has also been reflected in a weakening of the GBP. EUR/GBP has thus moved higher from 0.798 to 0.806 during the past week. We expect to see further weakness in the GBP going forward.



This weeks events

- Monday: PMI manufacturing expected to be unchanged at 44.3
- Wednesday: PMI service expected to be unchanged at 47.4
- Thursday: Bank of England meeting. Bank Rate expected unchanged at 5.0%. No statement.

Date	Time	Event	Period	DanskeBank	Consensus	Previous
Mon 01 - 05	-	GBP HBOS House Prices	m/m/q/y	Aug	-1.6% -10.7%	-1.7% -8.8%
Mon 01	10:30	GBP Mortgage Approvals	'000	Jul	36	36
Mon 01	10:30	GBP Net Consumer Credit	GBP bln	Jul	0.8	0.9
Mon 01	10:30	GBP PMI Manufacturing	Index	Aug	44.1	44.3
Tue 02	10:30	GBP PMI Construction	Index	Aug	36.7	36.7
Wed 03	10:30	GBP PMI Services	Index	Aug	47.2	47.4
Thu 04	13:00	GBP BoE rate announcement	%	5.00	5.00	5.00

USA

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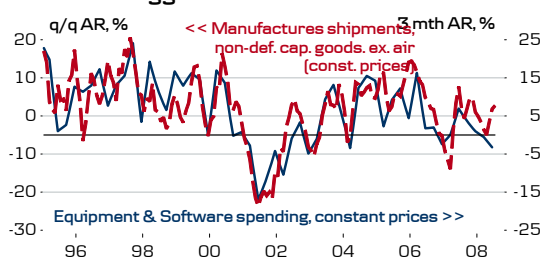
Exports propping up US economy

The revised figures for Q2 GDP growth clearly underlined that it is the export sector that is propping up the US economy. Export growth was revised up from 9.2% to 13.2% q/q AR, while import growth was revised down from -6.6% to -7.6% q/q AR. Thus net exports contributed no less than 3.1%-points of the aggregate growth of 3.3%. This strong export growth is reflected in relatively buoyant new orders in spite of sluggish business investment in the USA.

A stronger USD and a weaker global growth picture will put a damper on export growth going forward, but it typically takes quite some time for changes of this kind to feed through fully. We therefore expect the ISM report for the manufacturing sector to continue to show that the sector is keeping its head above water, and predict an unchanged PMI of 50.0. But it will be interesting to see if the index for new export orders shows further weakness in August, which would indicate an impending export slowdown.

The coming week also brings the Federal Reserve's Beige Book on Wednesday night, and closes with the employment report on Friday, which we expect to show that the labour market is still weak. We forecast a decrease in employment in August of 90,000 and an unchanged unemployment rate of 5.7%.

Capital goods sales powering ahead in spite of sluggish business investment



Key events of the week ahead

- Tuesday: We predict an unchanged manufacturing ISM of 50.0.
- Wednesday: Fed's Beige Book published.
- Thursday: Service sector ISM expected to edge up to 50.0.
- Thursday: Fed's Fisher speaks on the challenges for the US economy.
- Friday: We forecast a decrease in employment of 90,000 and an unchanged unemployment rate of 5.7%.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 01	-	USD Labor Day - Market closed				
Mon 01	15:30	USD Fed's Kroszner Speaks in Buenos Aires				
Mon 01	20:45	USD Fed's Hoenig Speaks in Argentina				
Tue 02	16:00	USD ISM Manufacturing	Index Aug	50.0	49.7	50.0
Tue 02	16:00	USD Construction spending	m/m Jul		-0.5%	-0.4%
Wed 03	-	USD Total Vehicle Sales	m Aug			12.5
Wed 03	13:00	USD MBA Mortgage Applications				0.5%
Wed 03	16:00	USD Factory Orders	m/m Jul		0.7%	1.7%
Wed 03	18:30	USD Boston Fed's Rosengren Speaks in Manchester, New Hampshire				
Wed 03	20:00	USD Beige Book Economic Report				
Thu 04	14:30	USD Unit labour cost, final	q/q 2nd quarter		0.6%	1.3%
Thu 04	14:30	USD Initial jobless claims	1000		430	425
Thu 04	16:00	USD ISM (NAPM) non-manufacturing	Index Aug	50.0	49.5	49.5
Thu 04	19:40	USD Fed's Fisher Speaks in Houston				
Fri 05	14:30	USD Nonfarm payroll	1000 Aug	-90	-71	-51
Fri 05	14:30	USD Average hourly earnings, non-farm	m/mly/y Aug		0.3% 3.4%	0.3% 3.4%
Fri 05	14:30	USD Unemployment	% Aug	5.7	5.7	5.7
Fri 05	21:55	USD Fed's Yellen Speaks in Salt Lake City				

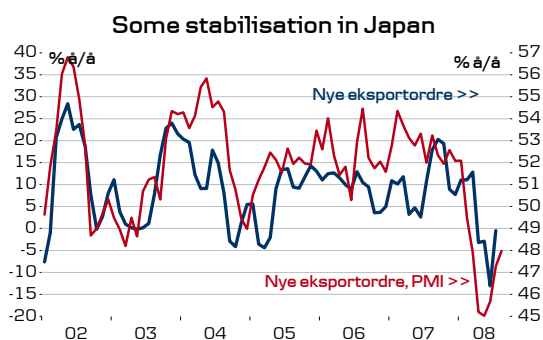
Asia

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Asia short of breath in Q2

The central banks in Thailand and the Philippines raised interest rates by 25bp to 3.75% and 6.0%, respectively, during the week. Along with Taiwan, both countries also released GDP figures for Q2, and the picture was the same. Growth slowed considerably in Q2, with private consumption in particular affected by higher inflation, and exports hit hard by weaker global growth. As a result, the Thai and Philippine central banks softened their tone slightly in connection with their monetary policy meetings and suggested that the need for further rate increases is limited. It is the combination of weaker growth and falling oil and commodity prices over the past couple of months that has caused Asia's central banks to tone down inflation risks. A similar pattern has been seen in China, where the political focus is increasingly shifting away from the risk of inflation towards the risk of weak growth. We still think that there will be some further rate increases in Asia, but by the end of this year most Asian central banks will probably be on hold as inflation peaks and begins to fall back. In 2009 we could very well see a number of Asian central banks start to cut interest rates once again.

In Japan, the past week has brought a wide range of economic data, and for once they were not that bad. OK, inflation climbed further than we expected, up from 2.0% y/y in June to 2.4% y/y in July, but that is probably as high as it will get this time around. We expect inflation to drop back below 2% in the coming months, and with core inflation at just 0.2% y/y it is still hard to see inflation as any real problem in Japan. Like the export figures for June, industrial production and retail sales were better than expected in July. To sum up, then, it would seem that at the very least the rate of deterioration in the Japanese economy has slowed somewhat in Q3.



Key events of the week ahead

- No big news expected from Asia during the week.
- Friday brings figures for Q2 investment expenditure in Japan, which will give us an important pointer for the first revision of Q2 GDP.
- Nothing of significance is on the economic calendar in China.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 01	3:00	CNY Manufacturing PMI	Index	Aug		48.4
Mon 01	4:30	CNY CLSA Manufacturing PMI	Index	Aug		53.3
Mon 01	7:00	JPY Vehicle sales	y/y	Jul		5.4%
Fri 05	1:50	JPY Capital Spending	%	2nd quarter	-0.2	-4.9

FX

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Dollar rise – too fast, too furious?

The month of August is typically characterised by thin markets, rising volatility and quite sharp FX movements. Commercial clients are traditionally conspicuous by their absence at the beginning of the month and speculative clients have free hands. This August has been no exception and has in fact been packed with rather large moves in major currencies: the USD has gained 5.4% against the EUR, JPY has advanced 4.6%, GBP has lost 2.2% and the AUD has dropped 2.8%.

The appreciation of the USD against the EUR has – with good reason – received most attention over the month. In the first half of the month, EUR/USD ended the uptrend that started some six years ago. And it was indeed a sharp reversal. Some forecasters warned investors “not to stand in the greenback’s” way, but the dollar rush abated in the second half of the month with EUR/USD trading around 1.47, albeit surrounded by noticeable fluctuations.

According to our short-term fair value models, the sharp fall in EUR/USD seems a bit overdone when looking at movements in other financial variables likely to have driven the pair in recent years. The drop in oil prices drags down our fair value estimate over the course of the month while relative rates has a lowering effect on the estimate in the first two thirds of the month. As a result, the move down to 1.50 seems fair, but the dip below cannot be justified and is at risk of being retracted in the near term. September is usually a month where EUR/USD rises quite sharply, on average 1.7%, but there is unfortunately no valid explanation behind this seasonal pattern which therefore can be purely spurious.

Traditionally, September has been an excellent month to buy NOK against EUR. In the past 15 years, NOK has appreciated against EUR on 11 occasions in September and EUR/NOK has on average fallen 0.55% over the month. The NOK buying has primarily been related to the payment of oil taxes where one half fell on 1 October. This seasonal pattern in EUR/NOK is, however, unlikely to be repeated as oil taxes are now paid six times a year instead of only twice a year. The oil price in itself has in fact not been a driving factor for the NOK recently; correlation between oil prices and EUR/NOK has dropped to a half-year low. We would advise investors to be cautious on the NOK in the coming months as we see little chance for a Norwegian rate hike on 24 September due the somewhat dimmer growth outlook, domestically and internationally.

We foresee other interesting moves ahead. At the moment, we would be short GBP/JPY down to 188, long CHF/CZK up to 16.00 and long USD/SEK up to 6.50.

Fixed Income

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ECB, US data, oil prices and financial crisis will drive yields this week

Developments in fixed income markets in the week ahead will depend on two key US indicators (the ISM survey on Monday and the employment report on Friday), the result of Thursday's ECB meeting, any news on the financial crisis, movements in oil prices and the potential havoc Hurricane Gustav might wreak in the Mexican Gulf.

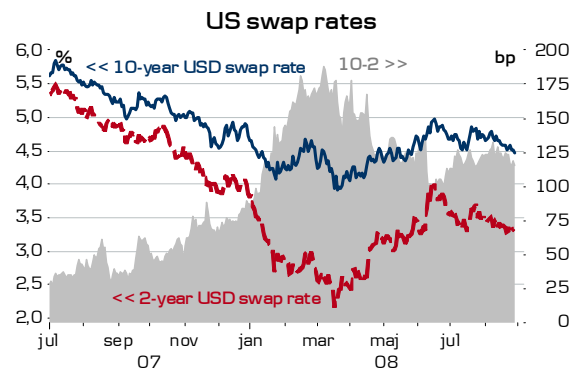
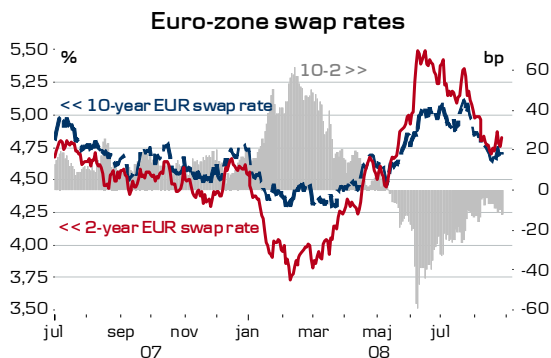
Euro-zone yields have edged up a little over the past week in response to better-than-expected economic indicators and a speech by the ECB's and the Bundesbank's Weber, who said that rate hikes might be needed as the economy recovers. Hence, Weber lived fully up to his reputation as the ECB's leading hawk.

Thursday's policy meeting at the ECB will tell us more about sentiment within the European Central Bank. The Governing Council is not expected to change its rates, and attention will focus on the accompanying statement and the press meeting, as well as the bank's new growth and inflation estimates. We do not expect the ECB to change its tone much compared with last month's meeting. All things considered, the weak economic outlook for Euroland seems to rule out rate hikes, while high inflation in the region rules out rate cuts. Hence, the ECB will be biding its time.

In the US, two key indicators - the ISM survey of business sentiment and the employment report - are due out in the coming week. A big surprise in these indicators could cause large movements in yields. However, the expectations of our US economists are much in line with consensus.

Most recently, the difficulties of the two dominant US mortgage lenders, Fannie Mae and Freddie Mac, have added to the financial markets crisis. Bad news on this front could send yields down going forward. Conversely, a rescue package from the US Treasury or other good news could drive US yields upwards and also feed through into European yields.

Last but definitely not least, the price of oil could impact on yields. We have entered the hurricane season in the Mexican Gulf. Hurricane Gustav is nearing oil rigs in the region and might also hit refineries on the coast. Obviously, any large movements in oil and petrol prices would feed through into fixed income markets.



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	1,4	0,7	1,2	2,2	0,1	2,9	2,2	3,8	7,2	-1,0	65	-0,5
	2009	1,2	0,9	1,5	0,9	0,1	3,0	2,7	2,5	7,4	-1,2	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	1,6	0,6	0,7	1,7	0,2	5,1	3,3	3,1	7,5	-0,5	64	6,5
	2009	1,1	1,1	1,1	0,5	0,0	5,0	3,9	2,2	7,5	-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	1,6	1,6	0,9	2,2	0,2	3,1	4,0	3,5	7,9	-2,7	62	-2,3
	2009	1,4	1,4	1,3	1,5	0,0	2,5	3,9	3,1	7,6	-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	0,5	0,6	0,7	0,5	0,0	1,5	2,3	3,7	6,2	-2,5	103	-2,4
	2009	0,8	0,8	0,8	0,5	-0,1	2,5	2,8	2,1	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	1,4	0,5	5,1	0,0	0,0	4,0	3,3	4,5	9,0	0,7	35	-10,0
	2009	2,4	1,1	5,1	-2,5	0,0	4,5	2,8	2,3	9,5	-0,3	35	-10,0
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	2,2	1,7	0,6	3,2	0,1	4,6	4,8	2,3	2,9	0,0	59	6,5
	2009	1,9	1,8	0,4	2,8	-0,1	3,5	5,4	1,7	2,8	0,0	60	6,5
Finland	2007	4,4	3,7	0,8	7,6	0,1	5,5	4,8	2,5	6,9	5,3	35	4,1
	2008	2,6	2,7	0,5	3,5	0,0	2,0	1,5	3,8	6,3	4,7	33	3,8
	2009	2,1	2,3	1,0	2,0	0,0	2,5	2,0	2,5	6,2	3,9	31	3,8

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	2,2	2,9	2,0	-1,8	-0,3	8,0	1,9	2,9	4,6	-1,2	60	-5,5
	2008	1,5	1,6	2,4	-4,3	-0,2	6,3	-2,1	4,4	5,4	-3,5	61	-4,5
	2009	1,5	0,8	2,0	-1,2	0,1	7,3	1,3	2,6	6,0	-2,5	61	-3,1
Japan	2007	2,0	1,4	0,7	-0,5	-0,1	8,6	1,8	0,0	3,8	-3,4	180	4,1
	2008	1,5	1,1	0,5	-0,4	0,0	5,9	-0,7	1,7	4,0	-3,4	182	4,0
	2009	1,6	1,2	1,1	0,6	0,0	4,2	1,1	0,8	4,0	-3,3	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	1,6	1,3	2,3	4,2	-0,2	3,8	3,5	2,6	2,8	-2,5	43	-4,1
	2009	1,6	1,3	2,4	3,0	0,0	3,4	3,0	2,1	3,0	-2,5	43	-4,0
Switzer-land	2007	3,1	2,1	0,1	2,7	0,1	10,0	5,2	0,7	2,8	-0,2	55	15,1
	2008	1,7	1,8	0,5	0,4	0,0	3,8	4,5	2,8	2,6	0,0	54	13,9
	2009	1,6	1,6	0,6	1,7	0,0	4,7	5,2	1,9	2,7	0,0	53	14,9

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	29-aug	2,00	3,32	4,48	147,5	-	505,7
	+3m	2,00	3,15	4,55	145	-	514
	+6m	2,00	3,35	4,60	143	-	522
	+12m	2,00	3,75	4,75	140	-	533
EUR	29-aug	4,25	4,90	4,68	-	147,5	745,8
	+3m	4,25	4,45	4,55	-	145	746,0
	+6m	4,25	4,45	4,50	-	143	746,0
	+12m	4,25	4,85	4,70	-	140	746,0
JPY	29-aug	0,50	1,01	1,65	160,7	109,0	4,64
	+3m	0,50	0,75	1,55	155	107	4,81
	+6m	0,50	0,95	1,60	150	105	4,97
	+12m	0,50	1,35	1,75	147	105	5,07
GBP	29-aug	5,00	5,40	5,04	80,7	182,8	924,5
	+3m	5,00	5,05	4,85	81,0	179	921
	+6m	5,00	4,85	4,85	80,0	179	933
	+12m	4,50	4,60	4,90	78,0	179	956
CHF	29-aug	2,75	2,97	3,37	161,4	109,4	462,0
	+3m	2,75	2,60	3,20	160	110	466
	+6m	2,75	2,60	3,20	158	110	472
	+12m	2,75	3,00	3,50	156	111	478
DKK	29-aug	4,60	5,30	4,88	745,8	505,7	-
	+3m	4,60	4,80	4,70	746,0	514	-
	+6m	4,60	4,80	4,65	746,0	522	-
	+12m	4,60	5,00	4,80	746,0	533	-
SEK	29-aug	4,50	5,12	4,93	944,1	640,2	79,0
	+3m	4,75	4,65	4,80	945	652	78,9
	+6m	4,50	4,35	4,65	945	661	78,9
	+12m	4,00	4,30	4,65	930	664	80,2
NOK	29-aug	5,75	6,42	5,59	791,9	537,0	94,2
	+3m	5,75	6,40	5,55	800	552	93,3
	+6m	5,75	6,30	5,50	790	552	94,4
	+12m	5,75	6,40	5,70	780	557	95,6
PLN	29-aug	6,00	6,23	5,81	335,8	227,6	222,1
	+3m	6,00	6,60	6,20	340	234	219
	+6m	6,00	6,50	6,10	340	238	219
	+12m	6,00	6,40	6,00	345	246	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

	20-aug	2008 - average				Average	
		Q1	Q2	Q3	Q4	2008	2009
ICE Brent	112	97	123	124	124	117	128
Aluminium	2.776	2.779	2.995	300	3.300	2.344	3.400
Copper	7.385	7.741	8.309	7.900	8.300	8.063	8.600
Gold	791	924	897	870	930	905	900
CBOT Wheat*	868	1.026	838	850	840	889	900
CBOT Corn*	562	527	630	600	600	589	710

* Note: US\$/bushel

Key data and events (1)

Monday, September 1, 2008			Period	Danske Bank	Consensus	Previous
-	USD	Labor Day - Market closed				
3:00	CNY	Manufacturing PMI	Index	Aug		48.4
4:30	CNY	CLSA Manufacturing PMI	Index	Aug		53.3
7:00	JPY	Vehicle sales	y/y	Jul		5.4%
8:30	SEK	PMI	Index	Aug	48.0	48.6
9:15	ESP	Spain PMI manufacturing	Index	Aug		
9:30	CHF	PMI	Index	Aug		53.2
9:30	DKK	Retail sales, volume	m/mly/y	Jul		-1.6% -6.3%
9:30	DKK	GDP, preliminary	q/qly/y	2nd quarter	1.2% 2.1%	-0.6% -0.7%
9:45	ITL	PMI manufacturing	Index	Aug		46.3
9:50	FRF	French PMI Manufacturing, final	Index	Aug	45.1	45.1
10:00	NOK	Credit indicator (C2)	y/y	Jul	13.2	13.3
10:30	GBP	Net Consumer Credit	GBP bln	Jul		0.8
10:30	GBP	PMI Manufacturing	Index	Aug	44.1	44.1
10:30	GBP	Mortgage Approvals	'000	Jul		36
11:00	DKK	PMI survey	Index	Aug		43.1
15:30	USD	Fed's Kroszner Speaks in Buenos Aires				
20:45	USD	Fed's Hoenig Speaks in Argentina				

Tuesday, September 2, 2008			Period	Danske Bank	Consensus	Previous
3:30	AUD	Building approvals	m/mly/y	Jul		-7.8%
6:30	AUD	RBA (cash rate target decision) [116% priced for -25bp]		Sep	7.00%	7.25%
7:45	CHF	CPI	m/mly/y	Aug		-0.2% 3.1%
7:45	CHF	GDP	q/qly/y	2nd quarter		0.2% 2.4%
10:30	GBP	PMI Construction	Index	Aug		36.7
11:00	EUR	PPI	m/mly/y	Jul		1.3% 9.1%
16:00	DKK	Currency reserves, change	DKK bn	Aug		-0.7
16:00	USD	ISM Manufacturing	Index	Aug	50.0	50.0
16:00	USD	Construction spending	m/m	Jul		-0.5%

Wednesday, September 3, 2008			Period	Danske Bank	Consensus	Previous
-	USD	Total Vehicle Sales	m	Aug		12.5
3:30	AUD	GDP	q/qly/y	2nd quarter		0.6% 3.6%
9:00	NOK	PMI	Index	Aug	51.0	51.7
9:30	ITL	Business confidence	Index	Aug		84.0
9:50	FRF	French PMI Services, final	Index	Aug	48.5	48.5
10:00	ESP	Consumer confidence		Aug		
10:00	EUR	PMI composite, final	Index	Aug		48.0
10:00	EUR	PMI service, final	Index	Aug	48.2	48.2
10:30	GBP	PMI Services	Index	Aug	47.2	47.0
11:00	EUR	Retail sales	m/mly/y	Jul		0.1% -2.1%
11:00	EUR	GDP, s.a.	q/qly/y	2nd quarter	-0.2% 1.5%	-0.2% 1.5%
13:00	USD	MBA Mortgage Applications				0.5%
15:00	CAD	Bank of Canada Rate (20 % priced for -25bp)		Sep	3.00%	3.00%
16:00	USD	Factory Orders	m/m	Jul		0.7%
18:30	USD	Boston Fed's Rosengren Speaks in Manchester, New Hampshire				
20:00	USD	Beige Book Economic Report				

Thursday, September 4, 2008			Period	Danske Bank	Consensus	Previous
3:30	AUD	Trade balance	M	Jul		411
9:30	SEK	Riksbank, Rate decision	%		4.75	4.50
9:30	DKK	Industrial production sa, ex. Ships	m/m	Jul		-3.2%
13:00	GBP	BoE rate announcement	%		5.00	5.00
13:45	EUR	ECB Meeting	%		4.25	4.25
14:30	USD	Unit labour cost, final	q/q	2nd quarter		0.6%
14:30	USD	Initial jobless claims	1000			430
16:00	USD	ISM (NAPM) non-manufacturing	Index	Aug	50.0	49.5
19:40	USD	Fed's Fisher Speaks in Houston				

Key data and events (2)

Friday, September 5, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	Capital Spending	%	2nd quarter		-0.2	-4.9
8:00	EEK	CPI	y/y	Aug	10.8%		11.1%
10:00	NOK	Industrial Production, sa.	m/m y/y	Jul			-0.7% 5.9%
10:00	NOK	Ind. prod. manufacturing, sa.	m/m y/y	Jun	0.2%		-1.2% 4.7%
12:00	DEM	Industrial production	mm/ y/y	Jul	-0.5% 0.7%	-0.3% 0.9%	0.2% 1.7%
13:00	CAD	Unemployment rate		Aug		6.2%	6.1%
14:30	USD	Nonfarm payroll	1000	Aug	-90	-71	-51
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Aug		0.3% 3-4%	0.3% 3.4%
14:30	USD	Unemployment	%	Aug	5.7	5.7	5.7
21:55	USD	Fed's Yellen Speaks in Salt Lake City					

During the week				Period	Danske Bank	Consensus	Previous
Mon 01 - 05	GBP	HBOS House Prices	m/m q/y	Aug		-1.6% -10.7%	-1.7% -8.8%

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First date of publication

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