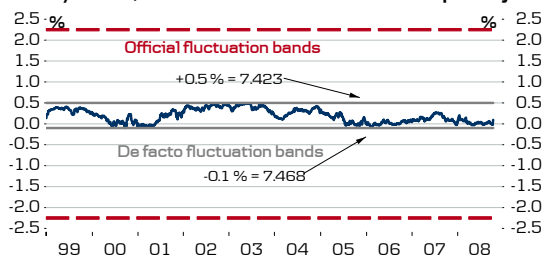


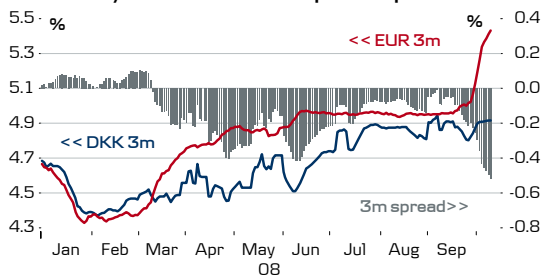
Weekly Focus

10-17 October 2008

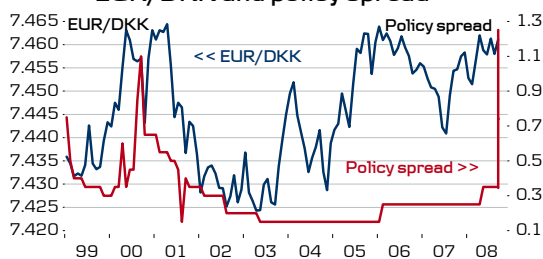
EUR/DKK, % deviation from central parity



EUR/DKK and 3M deposit spread



EUR/DKK and policy spread



Danish Krone Stabilised

The Danish krone (DKK) has been highly volatile lately. It started the month under pressure and we have reason to believe that it was the Danish central bank's interventions in the foreign exchange market that prevented EUR/DKK from drifting too far from central parity. The reason behind the pressure was that Euroland deposit rates had drifted substantially higher than Danish deposit rates, ie, EUR/DKK enjoyed a positive carry. The Danish central bank surprised markets late Tuesday by raising the lending rate from 4.60% to 5.00%. Even though this did not spark a rush into DKK, it helped curb EUR/DKK's upward drift. The ECB decided to lower its benchmark rate from 4.25% to 3.75% in a coordinated action with other central banks on Wednesday, but the Danish central bank announced a little later that rates would remain unchanged "for the time being". EUR/DKK dropped immediately by close to 100bp and has since drifted even lower, at present trading around 7.45.

In our view, the policy spread between Denmark and Euroland will eventually be narrowed. Having spent some of the currency reserve in interventions to support DKK, the Danish central bank might prefer to maintain a substantial spread to Euroland in the short run. This could also help to rebuild the currency reserve if the central bank starts to buy foreign currency against DKK. However, we doubt that Danish rates need to exceed Euroland rates by the current 125bp for a prolonged period. Changes in the ECB's tender procedure and in the standing facilities corridor announced Thursday will also act to support a narrowing of the official spread between Denmark and the ECB, as it will lower Euroland money market rates.

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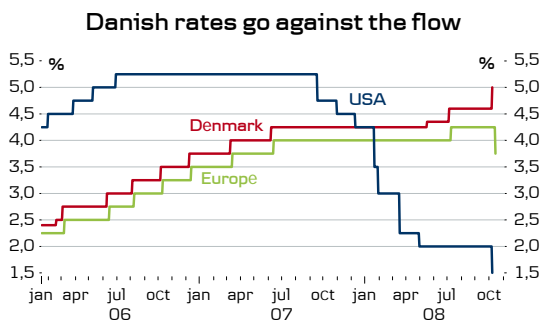
Nationalbank on hold “for the time being”

In a surprise move, the Danish central bank Danmarks Nationalbank hiked its lending and CD rates by 40bp from 4.6% to 5.0% and its discount and sight deposit rates by 25bp to 4.5% at the beginning of the week. The move came as a reaction to rates in the EUR money market being pushed up by the continuing financial crisis, so wiping out the real interest rate differential between Denmark and Euroland - in fact Euroland had overtaken Denmark. This prompted such heavy sales of DKK that the Nationalbank felt obliged to raise its rates.

Thus it is important to bear in mind that the hike was not the result of traditional speculation against the DKK. We are still generating a healthy surplus on the current account - a surplus that ran to DKK 6.7bn in August, which supports our view that the pressure on the DKK is not rooted in fundamental imbalances in the Danish economy but overwhelmingly in the financial crisis, which has increased the spread between Danish and European interest rates.

Of course, the day after the Nationalbank decided to raise its rates, there was another surprise, with the Federal Reserve, ECB, Bank of England, Swiss National Bank, Riksbank and Bank of Canada teaming up for a coordinated 50bp policy rate cut. This move came as a surprise to us - and the rest of the market - but also sent a strong signal that the big central banks are united in fighting the good fight against the ongoing financial crisis and are willing to use any means at their disposal to help resolve it.

For the time being, the Nationalbank has decided not to follow suit and lower its rates again. However, we expect the pressure on the DKK to ease further, and so there is hope that Danish interest rates will come down again once the situation in the European money market begins to normalise. Naturally there is also a risk of the crisis in the EUR loan market persisting, in which case there could be further rate hikes in Denmark too.



Key events of the week ahead

- Employment in the construction industry.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Wed 15	9:30	DKK Wholesale prices	m/m y/y	Sep		-1.8% 9.0%

Sweden

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Revised forecasts

The financial crisis landing with a thud on mainland Europe has made us understand that our recently published forecasts are still too optimistic. As we wrote in the latest *Nordic Outlook*: “The current instability in global and domestic financial markets poses a significant downward risk, and this is not fully discounted in our forecasts.”

The risk is now materialising. In an effort to make our forecast less biased – and also to take into account the coordinated actions of monetary policy makers and the ensuing changes to our interest rate forecasts – we have revised growth prospects, the labour market outlook and our inflation forecast downwards in the short term. However, on a longer horizon, reflecting the usual lags of monetary policy and an optimistic belief in sharply declining credit risk premiums over the coming 6 to 12 months, we revise our subsequent growth rates upwards (though not sufficiently to keep the forecast for 2010 completely intact).

Numerically speaking we expect close-to-zero growth y/y in GDP next year. In 2010, GDP growth should accelerate at a brisk pace and reach around 3% y/y. The unemployment rate is expected to rise above 9% during the forecast period, and inflation is expected to fall – at least – to the lower bound of the Riksbank’s tolerance interval (ie, 1% y/y).

This paints a very bleak picture. We believe that the Riksbank *will* choose to lower rates to 3.75% by year-end 2008 and to 2.75% by year-end 2009 (what we think they *should* do is often – as our hard-tested readers know – a completely different story) to counter a rapidly weakening economy.



Key events of the week ahead

- House prices should attract some attention, but the data normally lags by a few months, which is why we do not expect any major change in median prices.
- The labour force survey will be very interesting indeed. Will it confirm the weakening of the labour market displayed in other data?

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Thu 16	9:30	SEK Statistics Sweden, Unemployment	%	Sep	5.6	5.2

Norway

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Norges Banks set to cut – more to come

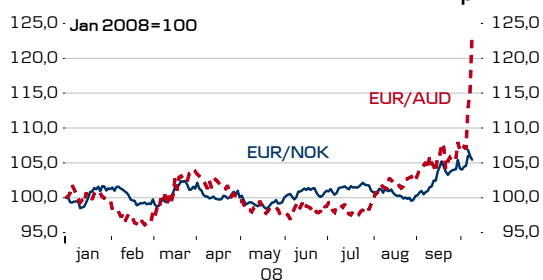
As major central banks delivered a coordinated 50bp cut in interest rates in the past week Norges Bank brought forward its next rate meeting by two weeks to 15 October. Norges Bank’s failure to hike was simply due to it not being “invited” on board by the majors.

However, given that the Norwegian economy is certainly feeling the effects of the global crisis, for example in the money market and access to credit, it would be a huge surprise if Norges Bank did not follow the big boys with a matching rate cut on Wednesday. Further, a cut on Wednesday would doubtless not be the last in this cycle. Like the rest of Europe, Norway is suffering a slowdown, the only question is how pronounced it will be. The construction sector has already come under considerable pressure, and the latest rate hikes from the commercial banks and the marked tightening of credit will dampen investment. Even the otherwise robust investment in the oil industry could feel the pinch if access to credit does not improve.

That said, there are clear limits to how much Norges Bank can ease monetary policy in the coming quarters. First, the labour market remains rather tight, even though unemployment is expected to rise a little. The stage is still set for wage increases of around 5% in 2009, as this has already been agreed in earlier negotiations. Second, fiscal policy will stimulate the economy by the equivalent of 0.7pp of mainland GDP.

The key limiting factor for Norges Bank is, however, inflation, which is far too high relative to the target. If Norges Bank reacts too aggressively, especially with respect to the ECB, this could severely weaken the Norwegian krone and increase imported inflation. The graph below illustrates what happened to the Aussie dollar when the Australian central bank surprised with a cut of 100bp. The combination of the – despite everything – still strong Norwegian economy and our forecast for the ECB means that we now expect the key Norwegian rate to be cut to 4.5% in the course of the summer 2009. The first rate cut of 50bp is expected, as mentioned, on Wednesday. This will bring the key rate down to 5.25%. We expect additional cuts of 25bp each in December 2008, March 2009 and June 2009. Despite the last three cuts, Norwegian rates will still be 1.5pp higher than ECB rates over the period, leaving the door is open to a strengthening of the Norwegian krone in 2009. However, as long as the financial markets focus solely on minimising risk the krone will hardly strengthen much. More rate cuts from the ECB than we currently envisage can certainly not be ruled out, and neither, in that case, could one rule out Norges Bank following suit.

NB will not follow Australia's example



Key events of the week ahead

- Norges Bank expected to cut rates by 50bp at the coming week’s extraordinary rate meeting. We will closely monitor comments from Norges Bank
- SSB to publish new macro forecast on Monday to take financial crisis into account

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 13	10:00	NOK SSB quarterly business cycle survey	4th quarter			
Wed 15	10:00	NOK Trade balance	NOK bn			41.1
Wed 15	14:00	NOK Norges Banks monetary policy meeting (Extraordinary)	%	5.25	5.25	5.75

Euroland

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ECB in coordinated rate cut

Another eventful week for the Euroland economy. While there was not much news on the economic data front, the financial markets and the coordinated rate cut by a string of major central banks hit the world's headlines. The ECB was one of the banks to cut by 50bp, and in our view the ECB will deliver further cuts in the coming months. We still forecast the ECB to cut by 25bp in December 2008 and by the same amount in February and April 2009, bringing the key rate down to 3.0% by summer 2009.

The coming week looks relatively quiet as regards data. Among the most important will be the German ZEW indicator. Given the severe financial turmoil of recent weeks, we are looking for a hefty fall that will more than wipe out the gains of the past two months. More specifically we expect that the expectations index will come in at -65, a new record low.



Key events of the week ahead

- Tuesday: German ZEW. We foresee the expectations indicator falling to -65, which would be a new record low. September inflation numbers for France and Italy and industrial production in Euroland also due.
- Wednesday: Inflation in Germany in September.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Tue 14	8:30	FRF Bank of France Business Sentiment	Index			94
Tue 14	8:45	FRF CPI	m/m y/y		0.0% 3.1%	0.0% 3.2%
Tue 14	8:45	FRF HICP	m/m y/y		0.0% 3.4%	-0.1% 3.5%
Tue 14	9:00	ESP CPI - EU harmonised	m/m y/y		0.0% 4.6%	-0.2% 4.9%
Tue 14	9:00	ESP CPI	m/m y/y		0.0% 4.6%	-0.2% 4.9%
Tue 14	10:00	ITL HICP, final	m/m y/y		0.3% 3.7%	0.3% 3.7%
Tue 14	10:00	ITL CPI, final	m/m y/y		-0.3% 3.8%	-0.3% 3.8%
Tue 14	11:00	DEM ZEW economic sentiment	Index	-52	-50.0	-41.1
Tue 14	11:00	EUR ZEW economic sentiment	Index			-40.9
Tue 14	11:00	EUR Industrial production	m/m y/y		1.1% 1.8%	-0.3% 1.7%
Wed 15	8:00	DEM Consumer prices, final	m/m y/y		-0.1% 2.9%	-0.1% 2.9%
Wed 15	8:00	DEM HICP, final	m/m y/y		-0.1% 3.0%	-0.1% 3.0%
Wed 15	11:00	EUR CPI	m/m y/y	3.6%	0.1% 3.6%	-0.1% 3.8%
Wed 15	11:00	EUR CPI Core	m/m y/y			1.9%
Thu 16	11:00	ITL Current Account	EUR m.			-114.0
Fri 17	11:00	EUR Trade Balance, s.a.	EUR bn			-6.4

Switzerland

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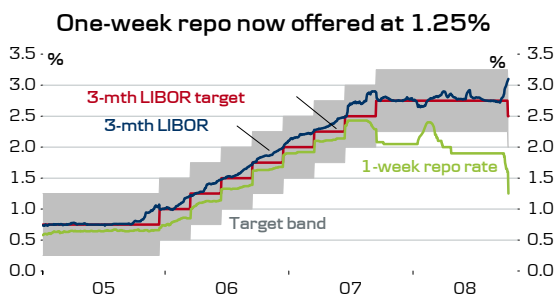
Were rates cut by 25bp or 50bp?

On Wednesday the Swiss National Bank decided to cut interest rates as part of a coordinated move with other large central banks to reduce monetary policy rates by 50bp. Or did it? Although the SNB said in its press release that it was easing conditions in the money market by 50bp, it actually lowered its target for the three-month LIBOR by just 25bp to 2.5%. So how should we interpret this?

Monetary policy in Switzerland is very different to that at most other central banks. Whereas other central banks mainly target a short-term money market rate, the SNB implements its monetary policy through a three-month rate - and one that is not even set in Switzerland, but in London, namely the three-month LIBOR. Given that the SNB cannot dictate an interest rate that is set in London, it instead sets a target range within which it wants the three-month LIBOR to trade. To achieve this, the SNB uses a number of short-term money market instruments, where the most important is the one-week repo rate. In the weeks leading up to the coordinated rate cut, the three-month LIBOR had climbed to more than 3% and was therefore well above the target of 2.75%. On Wednesday the SNB announced that it would try to lower the three-month LIBOR by 50bp to a new monetary policy target of 2.5%. Thus the bank has really only reduced its policy rate by 25bp, and the three-month LIBOR is actually still fixed above 3%.

However we interpret the SNB's rate cut marks a turning point in the Swiss monetary policy cycle. This is an important signal from the bank, not least because the cut was made outside its scheduled quarterly meetings and came less than a month after its last such meeting. Despite deterioration in the growth outlook since that meeting, we interpret the week's rate cut primarily as a shift towards a sharper focus on the problems in financial markets. The market reaction has been limited, though, as the market was already discounting a certain chance of a rate cut. However, the Swiss yield curve has steepened significantly since the September SNB meeting, with the two-year government yield falling almost 60bp to 1.10% and the ten-year government yield falling by 5bp to 2.65%. CHF has generally been on the up recently, with the result that the CHF/DKK cross is trading around 4.90 and thus above its peak in mid-March. As long as the problems on the money markets remain unresolved, we see no reason why CHF/DKK should not rise further (see Foreign Exchange section).

So what should we make of Wednesday's intervention? We consider the rate cut to mark an important shift of focus and expect the SNB to ease monetary policy further, albeit by less than the ECB. In the first instance, though, the SNB needs to concentrate on getting the three-month LIBOR back on target. Only then can we expect further rate cuts. If the SNB manages to keep the three-month LIBOR around its target, we reckon it likely that it will cut again, possibly as early as its December meeting.



Key events of the week ahead

- Monday 09.15 CET: Producer and import prices for September.
- Wednesday: Weekly government meeting in Berne.
- Thursday 09.15 CET: Real retail sales for August (nb. tends to fluctuate widely).
- Thursday 11.00 CET: ZEW confidence index for October.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 13	9:15	CHF Producer & Import prices	m/mly/y	Sep	-0.3% 3.9%	-0.5% 4.0%
Thu 16	9:15	CHF Retail sales (real)	y/y	Aug		6.2%
Thu 16	9:15	CHF Retail sales (real)	y/y	Aug		6.2%
Thu 16	11:00	CHF ZEW (expectations)	Index	Oct		-44.4

USA

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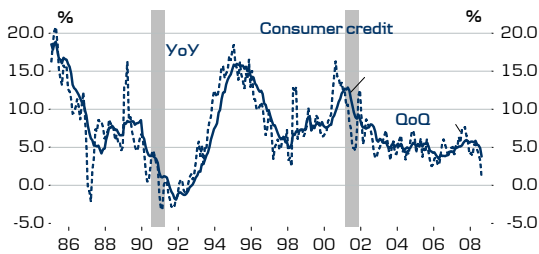
Financial crisis will tip US into recession

The US has been hit by two serious shocks in recent quarters: soaring oil prices and the crisis in the financial markets. While the former has eased considerably since July, when oil prices peaked, the financial crisis has greatly intensified. Despite the very considerable efforts of the Federal Reserve and the US authorities to re-establish stability in the financial system, the situation in the money and credit markets has seriously deteriorated in recent weeks. Our risk scenario for the US economy therefore looks like becoming a reality, and so we have revised down our forecasts for growth and monetary policy rates.

We now expect the US to slide into recession on the back of the deep slowdown in both consumption and investments. Further credit tightening, market rates that are far above monetary policy rates and negative wealth effects due to plunging share prices are dragging private consumption down. Meanwhile, a marked slowdown in demand and rising financing costs will cause a sharp fall in business investments. Further, weaker global growth will mean weaker export growth in the coming quarters. Given the downward adjustment to our growth scenario, we now expect that the Fed will cut interest rates by a further 25bp at its policy meeting in October and again by 25bp at the meeting in December.

The US authorities have already taken quite drastic steps to ensure stability in the financial system, and the Fed showed by its coordinated rate cut on Wednesday that it is ready to use all means at its disposal. We expect to see further actions by the authorities in the coming days and weeks until the financial system shows some sign of improvement. The financial crisis will dominate the G7 meeting this weekend, which could provide an opportunity for politicians and central bankers to coordinate a global political initiative that would send a clear signal to the markets that the financial crisis is being taken seriously. Focus in the coming week will be on Bernanke's speech and the Fed's Beige book (both Wednesday). There is also a string of economic data due for release, the most important being retail sales (also Wednesday), where we expect to see further weakness, consumer confidence for October (Friday), and a number of housing market-related figures that will provide some measure of the health of that part of the economy.

Credit growth slowing



Key events of the week ahead

- Wednesday: Bernanke speech
- Wednesday: Fed's Beige Book released
- Thursday: We expect unchanged consumer prices in September and core inflation to rise 0.2%
- Thursday: We expect an unchanged NAHB housing index at 18 in October
- Friday: We expect a fall to 68 in the University of Michigan's consumer confidence index for October

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 13	-	USD Columbus Day - Market closed				
Tue 14	20:00	USD Budget statement	USD bn		54.0	112.9
Wed 15	2:30	USD St. Louis Fed's Bullard (neutral, non-voter) speaks				
Wed 15	4:00	USD Fed's Yellen (dove, non-voter) speaks on Economic Outlook				
Wed 15	13:00	USD MBA Mortgage Applications, OCT 12				2.2%
Wed 15	14:05	USD Boston Fed's Rosengren (dove, non-voter) speaks on Economic Outlook				
Wed 15	14:30	USD PPI	m/m/y/y	-0.2% 8.9%	-0.4% 8.7%	-0.9% 9.6%
Wed 15	14:30	USD PPI ex. food and energy	m/m/y/y	0.2% 3.8%	0.2% 3.8%	0.2% 3.6%
Wed 15	14:30	USD Retail sales less autos	m/m	-0.3%	-0.2%	-0.7%
Wed 15	14:30	USD Retail sales	m/m	-0.8%	-0.6%	-0.3%
Wed 15	14:30	USD Empire Manufacturing Index	Index	-11.9	-10.0	-7.4
Wed 15	18:15	USD Fed's Bernanke (neutral, voter) speaks				
Wed 15	20:00	USD Fed's Kohn (neutral, voter) speaks on economy in NY				
Wed 15	20:00	USD Beige Book				
Thu 16	6:00	USD Fed's Stern (hawk, voter) speaks				
Thu 16	14:30	USD CPI	m/m/y/y	0.0% 5.0%	0.1% 5.1%	-0.1% 5.4%
Thu 16	14:30	USD CPI ex. food & energy	m/m/y/y	0.2% 2.5%	0.2% 2.5%	0.2% 2.5%
Thu 16	14:30	USD Initial jobless claims	1000			478
Thu 16	15:15	USD Industrial production	m/m	-0.7%	-0.9%	-1.1%
Thu 16	15:15	USD Capacity utilization	%		77.9	78.7
Thu 16	16:00	USD Philadelphia Fed. Index	Index	-6.0	-9.4	3.8
Thu 16	19:00	USD NAHB Housing Market Index	Index	18	17	18
Fri 17	14:30	USD Housing starts	K	890	878	895
Fri 17	14:30	USD Building Permits	K	856	840	854
Fri 17	16:00	USD University of Michigan Confidence, preliminary	Index	68.0	67.0	70.3
Fri 17	20:00	USD Fed's Evans (neutral, non-voter) speaks on Economic Outlook				

Asia

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Asia follows American and European lead and lowers rates

China, South Korea, Taiwan and Hong Kong cut interest rates during the week, and India and Singapore indicated that they too will now be easing monetary policy, albeit without an actual rate cut. It therefore seems that Asia will be easing monetary policy rather earlier than we anticipated. We had expected the Asian central banks to hold fire until the end of the year due to persistently high inflation, but the turmoil in financial markets and the latest tumble in oil and commodity prices have convinced them that inflation will probably not be the big problem next year.

The Bank of Japan opted to leave its key rate unchanged at 0.5%, arguing that Japanese monetary policy is already very easy. The BoJ probably felt that the situation in Japan is not yet sufficiently desperate for it to fire its final round. The bank also pointed out that the Japanese money market has been functioning better than those in the USA and Europe. This is further evidence that it will probably take more for the BoJ to cut its key rate – either growth will need to be extraordinarily weak, or the global financial crisis will have to call into question the financial stability of Japan. Neither of these two possibilities can be ruled out, so there is currently some downside risk to our forecast that the BoJ will be on hold for the next year.

Deputy finance ministers from China, Japan and South Korea are due to meet in connection with the coming week's IMF and World Bank meeting. The creation of an Asian monetary fund has again moved up the agenda. The idea behind the fund is to help stabilise Asia's currencies. Originally the idea was to take a final decision in May 2009, but it seems that these plans may be brought forward, due in part to the recent slide in the KRW, which has been seen as a problem in both South Korea and Japan (see [Research – Korea: Vulnerable but not a repeat of '97](#)). The current plan is for the fund to have capital of USD 80bn.

“Attack” on KRW could bring forward plans for Asian monetary fund



Key events of the week ahead

- No big news is expected in Japan during the week. Tuesday brings current account data for August.
- Trade balance and currency reserves figures for September are due out in China during the week. There will be a particular focus on how exports are faring.

Date	Time	Event	Period	Danske Bank	Consensus	Previous
Mon 13	-	CNY Foreign Exchange Reserves	USD bn.	Sep		1808.00
Mon 13	-	CNY Money supply M2	y/y	Sep	16.0%	16.0%
Mon 13	-	CNY Wholesale prices	y/y	Sep		8.2%
Tue 14	-	CNY Total Export	y/y	Sep	20.0%	21.1%
Tue 14	-	CNY Total Import	y/y	Sep	22.9%	23.1%
Tue 14	-	CNY Trade balance	USD bn	Sep	23.40	28.69
Tue 14	1:50	JPY Domestic CGPI	m/mly/y	Sep	-0.6% 6.6%	-0.1% 7.2%
Tue 14	7:00	JPY Consumer confidence		Sep	29.9	30.5
Wed 15	1:50	JPY Current Account Total	JPY bn	Aug	1198.3	1531.8
Wed 15	6:30	JPY Industrial production, final	m/mly/y	Aug		-3.5% -6.9%
Thu 16	8:00	JPY Machine tool orders	y/y	Sep		-20.7%
Fri 17	1:50	JPY Tertiary Industry Index	m/m	Aug	-0.8%	1.2%

Foreign exchange

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Defensive currencies are your best friend

The news flow in the past week has been so intense that it can be hard to keep up with all the drastic actions prompted by the escalation of the financial crisis. To our mind, it is worth highlighting the following four developments: 1) Late on Friday the US House of Representatives approved a revised version of the USD 700bn rescue package to restore confidence in the financial sector and limit the damaging effects of the financial crisis on the real economy. 2) On Wednesday the big Western central banks and the People's Bank of China tried to present a united front by cutting their monetary policy rates simultaneously. Other Asian central banks have subsequently followed this up with a similar action. 3) On Tuesday the UK government and the Bank of England launched a recapitalisation and liquidity package as "a necessary condition for regenerating confidence in the financial system". 4) On Monday an almost unanimous Danish Parliament presented, together with the Danish banks, a rescue package for the Danish financial sector.

For some time now, one key element in our FX analyses has been that the global economy is moving towards recession. Since the USA has been willing to use virtually all possible means to avert economic disaster, while until now Euroland has largely just been hoping for the best, we have been comfortable with a lower EUR/USD forecast. And we still are. We have also been positive about the JPY and the CHF, which were also the best-performing currencies overall in the last three global recessions (1990-1993, 1998 and 2001-02). These two currencies are no longer seriously undervalued against our benchmarks - the USD and EUR respectively - but may nevertheless continue to strengthen if risk aversion remains high. The SEK and NOK have weakened to levels against the EUR that mean that they are gradually coming to represent quite good value, while the GBP is still in the danger zone due to the bleak domestic outlook.

The currency movements we have seen in recent months may continue if the risk of global recession is replaced with fears of a global depression. However, there are a number of ways of avoiding this. First, there is a need for major injections of liquidity. Second, there is a need for further rate cuts. Both of these are already anticipated in the market. Third, public sector demand can be boosted through expansionary fiscal policy, which does take time but is also one of the most effective instruments. Finally, the international community can make sure that no protectionist beggar-thy-neighbour policies are introduced, as a downturn in global trade would have harmful long-term effects.

We have no plans to try to predict when the market will bottom out. So for the time being our expectation is for more of the same. That said, the downturn in high-yielding currencies against low-yielders has been extreme, so it might pay to be aware of the opportunities here. We think it is still too early to reopen carry trades, as the downside risk is still considerable, but investors willing to take a punt might begin to consider such strategies.

Fixed Income

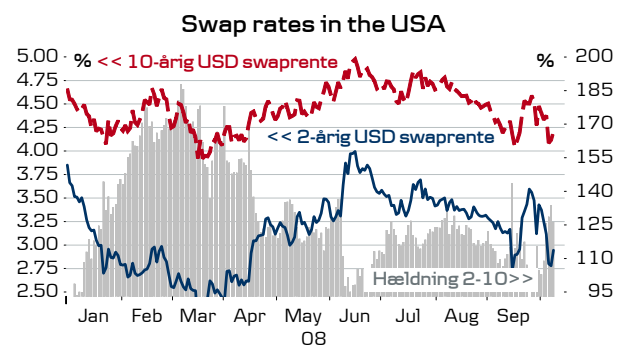
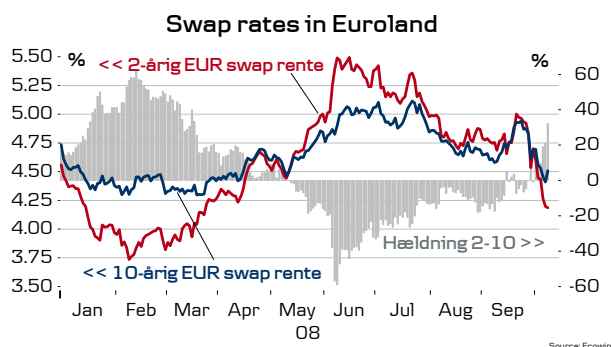
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Massive intervention fails to ease uncertainty

The global financial crisis reached new heights in the past week, with credit and money markets facing apparently overwhelming problems and equity markets dropping like a stone. The rapid acceleration of the crisis prompted drastic intervention by authorities around the world: central banks have significantly expanded their liquidity programmes; the US Fed now allows companies and banks to borrow directly from the central bank without providing collateral; in Europe, the ECB has removed the ceiling on how much money can be borrowed at its weekly auctions; the British government has announced a huge capital injection for the bank sector; and finally, a coordinated action by the US Federal Reserve, the ECB, and the central banks of Britain, Canada, Switzerland and Sweden saw interest rates cut by 50bp on Wednesday. Moreover, we expect to see further rate cuts from all of these central banks (see [Flash Comment – Global: Coordinated central bank action](#)).

Whether these measures will be sufficient to stabilise the financial markets is as yet unknown. Such drastic steps do, however, highlight that the seriousness of the situation is now glaringly clear to the authorities. Hence, one can expect that new initiatives will continue to be launched until the markets show some sign of improvement. This means that uncertainty in the fixed income markets will continue to be high. Direction will, as in the past couple of weeks, be largely determined by the course of the crisis and the authorities' reactions, rather than the macroeconomic data. This weekend's G7 meeting could therefore be interesting with respect to whether agreement can be reached on a coordinated global response.

That said, there are still some interesting numbers due in the coming week. As the world's central banks have now dismissed inflation fears and shifted their focus to growth, it will be growth data that will grab attention. Retail sales and construction data for September are due in the US, while Euroland has the ZEW indicator for October. In general we expect these numbers will confirm that the slowdown is continuing. Apart from the data, focus will be on speeches by Trichet (Tuesday) and Bernanke (Wednesday).



Macroeconomic forecast

Macro forecast, Scandinavia

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2007	1,7	2,3	1,6	5,9	-0,3	1,9	3,8	1,7	2,8	4,4	26	1,2
	2008	0,5	1,1	1,7	-0,5	0,0	3,1	3,8	3,5	1,7	4,1	21	1,0
	2009	0,2	0,7	1,8	-1,9	0,0	2,5	1,6	2,5	2,2	3,1	17	1,3
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	0,9	1,1	1,0	2,6	-0,6	2,6	2,7	3,7	6,2	2,6	37	7,7
	2009	0,2	0,3	2,2	-3,2	-0,5	-0,4	-1,9	2,1	8,0	-0,8	36	8,2
Norway	2007	12,3	8,6	5,1	14,5	-0,3	2,8	10,3	0,7	3,5	7,0	26	18,7
	2008	2,4	2,1	3,5	4,6	0,7	1,9	5,4	3,6	2,6	8,0	26	16,9
	2009	2,2	2,0	3,2	2,9	-0,1	1,8	2,0	2,6	3,2	12,0	26	25,7

Macro forecast, Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euroland	2007	3,0	1,6	2,3	4,2	-0,1	6,0	5,4	2,8	7,4	-0,6	67	-0,3
	2008	1,1	0,3	1,6	1,5	-0,1	2,9	2,1	3,4	7,3	-1,4	65	-0,5
	2009	0,0	0,3	1,8	-2,5	-0,2	1,3	0,8	2,0	7,8	-1,8	65	-0,3
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	1,1	0,2	0,6	2,6	0,1	3,2	2,5	3,2	7,8	-0,5	64	6,0
	2009	0,0	0,3	0,7	-0,8	-0,1	1,8	1,1	1,8	8,1	-0,4	64	7,0
France	2007	1,9	1,9	2,0	4,1	-0,2	3,5	6,6	2,0	8,0	-2,3	63	-2,3
	2008	0,8	1,0	1,4	0,5	0,0	1,5	1,8	3,5	7,8	-2,7	62	-2,3
	2009	0,1	0,9	1,5	-0,7	0,1	1,8	1,7	3,1	8,0	-3,0	62	-1,5
Italy	2007	1,8	1,7	0,8	2,8	0,0	2,5	1,8	2,6	5,9	-2,6	105	-1,7
	2008	0,0	-0,6	1,2	-0,3	0,0	0,3	-0,8	3,7	6,2	-2,5	103	-2,4
	2009	-0,3	0,0	1,2	1,5	-0,1	0,4	-0,5	2,2	6,5	-3,0	102	-2,0
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	1,1	1,1	4,0	-1,0	0,0	2,5	1,7	4,5	9,0	0,7	35	-10,0
	2009	-0,2	0,9	4,0	-5,0	0,0	2,2	1,3	2,3	9,5	-0,8	35	-7,0
Holland	2007	3,0	1,8	3,2	4,8	-0,1	6,0	5,5	2,4	3,3	0,0	60	7,0
	2008	1,5	0,5	1,2	1,0	0,1	2,5	2,0	2,3	3,0	0,0	59	6,5
	2009	0,5	0,6	1,2	0,5	-0,1	2,1	1,8	1,7	3,2	-0,2	59	6,5
Finland	2007	4,5	3,2	1,3	8,3	0,1	8,2	6,6	2,5	6,9	5,3	35	5,3
	2008	2,4	2,8	1,0	1,5	0,0	3,0	2,0	4,1	6,3	5,0	33	3,7
	2009	1,5	2,0	1,5	0,5	0,0	1,0	1,5	2,6	6,3	3,7	31	3,6

Macro forecast, Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Stock build. ²	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Unem-ploym. ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2007	2,0	2,8	2,1	-1,8	-0,4	8,4	2,2	2,9	4,6	-1,2	60	-5,3
	2008	1,6	0,6	2,4	-3,5	-0,2	8,6	-2,6	4,3	5,7	-2,9	61	-4,4
	2009	0,5	-0,1	2,1	-2,7	0,1	2,9	-2,2	2,7	7,2	-2,9	62	-2,3
Japan	2007	2,0	1,4	0,7	-0,5	-0,1	8,6	1,7	0,0	3,8	-3,4	180	4,1
	2008	0,7	0,7	0,4	-2,4	0,0	6,0	0,4	1,6	4,1	-3,6	182	4,0
	2009	1,3	1,0	1,1	0,0	0,0	4,4	1,5	0,8	4,2	-4,0	183	4,2
UK	2007	3,1	3,1	1,9	4,1	0,0	4,2	-2,0	2,3	3,0	-2,5	43	-3,3
	2008	1,4	1,3	2,3	4,2	-0,2	3,8	3,5	3,8	2,8	-2,5	43	-4,1
	2009	0,6	1,3	2,4	3,0	0,0	3,4	3,0	2,8	3,0	-2,5	43	-4,0
Switzer-land	2007	3,3	2,1	-1,1	5,7	-1,4	9,4	5,9	0,7	2,8	1,3	55	16,8
	2008	1,9	1,9	-0,5	-0,5	0,4	3,8	3,6	2,5	2,5	0,3	54	9,4
	2009	1,5	1,5	0,6	0,7	0,4	4,2	4,9	1,5	2,6	0,1	53	10,3

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets							
		Key int. rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	10-okt	1,50	3,03	4,33	135,6	-	549,0
	+3m	1,00	2,90	4,15	140	-	533
	+6m	1,00	3,15	4,25	135	-	553
	+12m	1,00	3,60	4,55	135	-	553
EUR	10-okt	3,75	4,17	4,51	-	135,6	744,5
	+3m	3,50	4,45	4,55	-	140	746,0
	+6m	3,00	4,00	4,30	-	135	746,0
	+12m	3,00	4,30	4,40	-	135	746,0
JPY	10-okt	0,50	1,07	1,39	134,3	99,0	5,54
	+3m	0,50	0,90	1,65	147	105	5,07
	+6m	0,50	1,00	1,70	142	105	5,25
	+12m	0,50	1,30	1,85	147	105	5,07
GBP	10-okt	4,50	4,70	4,80	80,3	169,0	927,5
	+3m	3,75	4,90	4,80	82,0	171	910
	+6m	3,00	4,40	4,85	80,0	169	933
	+12m	3,00	4,60	4,90	78,0	179	956
CHF	10-okt	2,50	2,66	3,41	152,0	112,1	489,8
	+3m	2,75	2,65	3,20	158	113	472
	+6m	2,75	2,50	3,10	158	117	472
	+12m	2,50	2,75	3,25	156	116	478
DKK	10-okt	5,00	4,83	4,84	744,5	549,0	-
	+3m	4,50	4,85	4,70	746,0	533	-
	+6m	3,75	4,40	4,45	746,0	553	-
	+12m	3,50	4,50	4,50	746,0	553	-
SEK	10-okt	4,75	4,08	4,17	968,1	714,0	76,9
	+3m	3,75	4,45	4,50	950	679	78,5
	+6m	3,50	3,95	4,30	945	700	78,9
	+12m	2,75	3,95	4,30	940	696	79,4
NOK	10-okt	5,75	5,72	5,21	841,5	620,5	88,5
	+3m	5,00	5,60	5,30	800	571	93,3
	+6m	4,75	5,20	5,10	790	585	94,4
	+12m	4,50	4,75	5,20	780	578	95,6
PLN	10-okt	6,00	5,78	5,38	358,1	264,0	207,9
	+3m	5,75	6,60	6,20	340	243	219
	+6m	5,25	6,50	6,10	340	252	219
	+12m	5,00	6,40	6,00	345	256	216

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

Commodities							
	10-okt	2008 - average				Average	
		Q1	Q2	Q3	Q4	2008	2009
ICE Brent	78	97	123	118	103	110	110
Aluminium	2.305	2.779	2.995	2.850	2.700	2.831	2.850
Copper	5.315	7.741	8.309	7.590	7.100	7.685	7.550
Gold	920	924	897	870	850	885	858
CBOT Wheat*	585	1.026	838	789	790	861	839
CBOT Corn*	417	527	630	582	575	578	633

* Note: US\$/bushel

Key data and events (1)

Monday, October 13, 2008			Period	Danske Bank	Consensus	Previous
-	USD	Columbus Day - Market closed				
-	CNY	Foreign Exchange Reserves	USD bn.	Sep		1808.00
-	CNY	Money supply M2	y/y	Sep	16.0%	16.0%
-	CNY	Wholesale prices	y/y	Sep		8.2%
9:15	CHF	Producer & Import prices	m/mly/y	Sep	-0.3% 3.9%	-0.5% 4.0%
10:00	NOK	SSB quarterly business cycle survey		4th quarter		
10:30	GBP	PPI - Input	m/mly/y	Sep	-1.2% 20.1%	-2.0% 26.0%
10:30	GBP	PPI - Output	m/mly/y	Sep	-0.4% 8.9%	-0.6% 9.7%

Tuesday, October 14, 2008			Period	Danske Bank	Consensus	Previous
-	RUB	Industrial production trend	y/y	Sep	5.0%	4.7%
-	CNY	Trade balance	USD bn	Sep	23.40	28.69
-	CNY	Total Export	y/y	Sep	20.0%	21.1%
-	CNY	Total Import	y/y	Sep	22.9%	23.1%
1:01	GBP	RICS House Price Balance	Index	Sep	-85.0%	-81.0%
1:50	JPY	Domestic CGPI	m/mly/y	Sep	-0.6% 6.6%	-0.1% 7.2%
2:30	AUD	Business confidence	Index	Sep		-7
7:00	JPY	Consumer confidence		Sep	29.9	30.5
8:30	FRF	Bank of France Business Sentiment	Index	Sep		94
8:45	FRF	CPI	m/mly/y	Sep	0.0% 3.1%	0.0% 3.2%
8:45	FRF	HICP	m/mly/y	Sep	0.0% 3.4%	-0.1% 3.5%
9:00	ESP	CPI - EU harmonised	m/mly/y	Sep	0.0% 4.6%	-0.2% 4.9%
9:00	ESP	CPI	m/mly/y	Sep	0.0% 4.6%	-0.2% 4.9%
10:00	ITL	HICP, final	m/mly/y	Sep	0.3% 3.7%	0.3% 3.7%
10:00	ITL	CPI, final	m/mly/y	Sep	-0.3% 3.8%	-0.3% 3.8%
10:30	GBP	CPI	m/mly/y	Sep	0.3% 5.0%	0.6% 4.7%
10:30	GBP	DCLG UK House Prices	y/y	Aug		-0.3%
11:00	DEM	ZEW economic sentiment	Index	Oct	-52	-41.1
11:00	EUR	Industrial production	m/mly/y	Aug	1.1% 1.8%	-0.3% 1.7%
11:00	EUR	ZEW economic sentiment	Index	Oct		-40.9
20:00	USD	Budget statement	USD bn	Sep	54.0	112.9

Wednesday, October 15, 2008			Period	Danske Bank	Consensus	Previous
1:50	JPY	Current Account Total	JPY bn	Aug	1198.3	1531.8
2:30	USD	St. Louis Fed's Bullard (neutral, non-voter) speaks				
4:00	USD	Fed's Yellen (dove, non-voter) speaks on Economic Outlook				
6:30	JPY	Industrial production, final	m/mly/y	Aug		-3.5% -6.9%
8:00	DEM	HICP, final	m/m y/y	Sep	-0.1% 3.0%	-0.1% 3.0%
8:00	DEM	Consumer prices, final	m/mly/y	Sep	-0.1% 2.9%	-0.1% 2.9%
9:30	DKK	Wholesale prices	m/mly/y	Sep		-1.8% 9.0%
10:00	NOK	Trade balance	NOK bn	Sep		41.1
10:30	GBP	Average Earnings, incl. Bonus	3Ms/YoY	Aug	3.5%	3.5%
10:30	GBP	ILO Unemployment rate	%	Aug	5.6	5.5
10:30	GBP	Claimant Count Rate	%	Sep	2.9	2.8
10:30	GBP	Jobless Claims Change	K	Sep	38.0	32.5
11:00	EUR	CPI	m/mly/y	Sep	.36%	0.1% 3.6%
11:00	EUR	CPI Core	m/mly/y	Sep		1.9%
13:00	USD	MBA Mortgage Applications, OCT 12				2.2%
14:00	NOK	Norges Banks monetary policy meeting (Extraordinary)	%		5.25	5.25
14:05	USD	Boston Fed's Rosengren (dove, non-voter) speaks on Economic Outlook				
14:30	USD	PPI	m/mly/y	Sep	-0.2% 8.9%	-0.4% 8.7%
14:30	USD	PPI ex. food and energy	m/mly/y	Sep	0.2% 3.8%	0.2% 3.8%
14:30	USD	Retail sales less autos	m/m	Sep	-0.3%	-0.2%
14:30	USD	Retail sales	m/m	Sep	-0.8%	-0.6%
14:30	USD	Empire Manufacturing	Index	Oct	-11.9	-10.0
18:15	USD	Fed's Bernanke (neutral, voter) speaks				
20:00	USD	Fed's Kohn (neutral, voter) speaks on economy in NY				
20:00	USD	Beige Book				

Key data and events (2)

Thursday, October 16, 2008				Period	Danske Bank	Consensus	Previous
1:00	NZD	Business PMI	Index	Sep			45.7
6:00	USD	Fed's Stern (hawk, voter) speaks					
8:00	JPY	Machine tool orders	y/y	Sep			-20.7%
9:15	CHF	Retail sales (real)	y/y	Aug			6.2%
9:15	CHF	Retail sales (real)	y/y	Aug			6.2%
9:30	SEK	Statistics Sweden, Unemployment	%	Sep	5.6		5.2
11:00	ITL	Current Account	EUR m.	Aug			-114.0
11:00	CHF	ZEW (expectations)	Index	Oct			-44.4
14:30	USD	CPI	m/m y/y	Sep	0.0% 5.0%	<i>0.1% 5.1%</i>	-0.1% 5.4%
14:30	USD	CPI ex. food & energy	m/m y/y	Sep	0.2% 2.5%	<i>0.2% 2.5%</i>	0.2% 2.5%
14:30	USD	Initial jobless claims	1000				478
15:15	USD	Industrial production	m/m	Sep	-0.7%	<i>-0.9%</i>	-1.1%
15:15	USD	Capacity utilization	%	Sep		<i>77.9</i>	78.7
16:00	USD	Philadelphia Fed.	Index	Oct	-6.0	<i>-9.4</i>	3.8
19:00	USD	NAHB Housing Market Index	Index	Oct	18	<i>17</i>	18

Friday, October 17, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	Tertiary Industry Index	m/m	Aug		<i>-0.8%</i>	1.2%
11:00	EUR	Trade Balance, s.a.	EUR bn	Aug			-6.4
14:30	USD	Housing starts	K	Sep	890	<i>878</i>	895
14:30	USD	Building Permits	K	Sep	856	<i>840</i>	854
16:00	USD	University of Michigan Confidence, preliminary	Index	Oct	68.0	<i>67.0</i>	70.3
20:00	USD	Fed's Evans (neutral, non-voter) speaks on Economic Outlook					

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