18 December 2009

# Weekly Focus

## Market themes in 2010

### Market movers ahead

- The data flow in the US should be relatively light. Key movers will likely be data on new and existing home sales in November. Forecasts are pointing toward improvement in the November data, but we still expect some weakness in sales data to materialise over the coming months.
- In the first week of next year, the US dataflow intensifies, with the ISM surveys, non-farm payrolls and FOMC minutes.
- Nothing much of interest is expected out of the eurozone, although on December 23 we get industrial new orders. The data are awaited with some excitement following the downbeat October numbers.
- In Denmark, GDP data for Q3 09 are due out. We expect GDP to contract by 0.2% from Q2 09 to Q3 09, or 6.2% y/y.

### Global update

- In the past week, European news headlines have been dominated by developments in Greece and the nationalisation of the Austrian bank Hypo Group Alpe Adria. S&P downgraded both Greece and Hypo Group in the past week.
- Recently, the financial markets have focused increasingly on a potential further strengthening of the US dollar. Since December 1, the dollar index is up 4.5%.
- US growth has shifted into a higher gear and should continue to strengthen heading into 2010.
- The Tankan business survey for Q4 painted a mixed picture of the Japanese economy. On the one hand, it suggested very solid GDP growth in Q4 09, while on the other it indicated that GDP growth could slow substantially in Q1 10.

### Focus

- We highlight some of the main themes that will shape market developments in 2010, including the strength and sustainability of the recovery and central bank exit strategies.
- We also throw the spotlight on public debt levels in the euro area and the future challenges posed by large and growing debt.

**Contents**



*The next issue of Weekly Focus will be on 8 January 2010*

*Editors*

Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

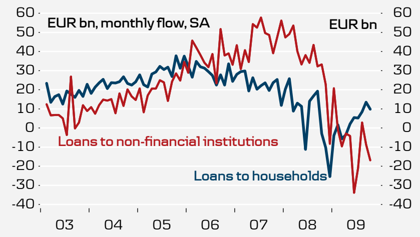
Steen Bocian
+45 45 12 85 31
steen.bocian@danskebank.dk

# Market movers ahead

## Global movers

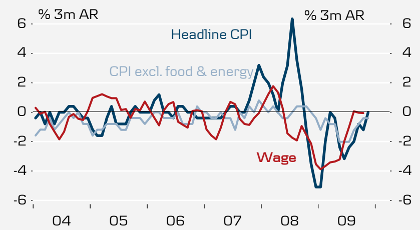
- The data flow in the **US** during the weeks surrounding Christmas is expected to be relatively light. Most interesting in the coming week is expected to be data for new and existing home sales in November. The forecast looks for improvement in the November data, but we still expect that some weakness in sales data will materialise over the coming months as the dynamics from first-time home-buyer credit reverses. Elsewhere initial claims data and durable goods data will provide some updated information about the state of the business sector. Durable goods orders have been on the weak side lately and we expect to see some payback in November, which would be welcome news for the investment outlook. In the week between Christmas and New Year, the final Michigan Consumer confidence and Chicago PMI are the most noteworthy events. Consumer confidence is expected to improve on a favourable cocktail of continued gains in equity markets, lower gasoline prices and slightly better job prospects.
- In the first week of next year the dataflow intensifies with the ISM surveys, non-farm payrolls and FOMC minutes. It remains too early in the data cycle to gauge the exact outcome of these data, but we note that the recent soft reading on the Empire survey is causing some concern about our view for a continued improvement in the ISM in the near term. It seems that **Euroland** is on Christmas holiday for a two full weeks. At least if judged by the amount of interesting data to be published – i.e. not much. On December 23 we get industrial new orders. October was a disappointment with much downbeat data – not least because the month was short of one working day. Industrial orders in Germany dipped in October and we expect to see a small dip in Euroland orders, although they are still trending upward. On December 29 we receive preliminary German inflation figures. HICP is projected to increase from 0.4% to around 0.8%. Last, but not least, the ECB provide us with data on monetary developments for November. M3 growth would likely stay pretty flat at just above zero. M1 growth will rise from 12% to 13%, but this is just base effects. M1 growth is now firmly on a downward trend. We will also keep an eye on the monthly loan flows. We anticipate improvements following last month's disappointing retrenchment.
- In **Japan** most economic data for November will be released between Christmas and New Year's Day. Recently several business surveys have suggested Japan GDP growth might slow substantially in Q1 10 driven primarily by a slowdown in private consumption, as the impact from fiscal easing has started to wane. Hence, we will pay particular attention to the labour market data. If the improvement seen in recent months in the labour market continues, Japan should be able to avoid a contraction in private consumption, as the improvement in labour incomes should start to compensate for some of the negative impact from fiscal policy. Because the decline in the unemployment rate has been unusually large in recent months, we expect the unemployment rate to be unchanged in November, but both employment and the job-to-applicant ratio should improve further in November. The other big theme in Japan currently is whether the BoJ should step up is non-conventional easing to fight deflation. However, deflationary pressure has actually not been increasing in recent months. Deflationary pressure has been easing in recent months and it will now start to show up in the year-on-year inflation rate, which we expect to increase to minus 1.6% y/y in November from minus 2.3% y/y in the previous month. The increase in

**When monthly loan flows have improved the ECB can hike**




*Source: Danske Markets*

**Deflationary pressure has so far eased in Japan**



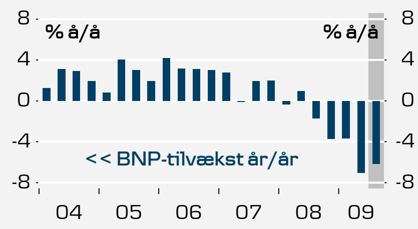

*Source: Danske Markets*

inflation is not only due to base impact from lower energy prices last year. As seen the chart underlying inflation has been increasing in recent months. Hence, the price development should really not be the main concern in Japan. However, the possibility of a substantial slowdown in growth in early-2009 is a concern

## Scandi movers

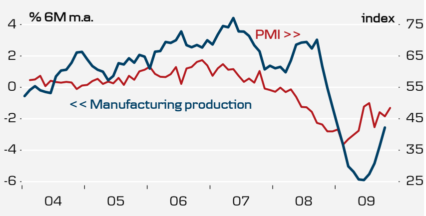
- In **Denmark,** the long-awaited GDP data for Q3 09 are due out. The pace of growth in the Danish economy slowed sharply in Q2 09 and although there is much to indicate that the crisis has eased since then, growth will likely remain negative in Q3 09. We expect GDP to contract by 0.2% from Q2 09 to Q3 09, or 6.2% y/y.
- The first week of the new year will be a busy one in **Norway**. The dichotomy in the economy looks set to continue, with interest rates driving private demand and manufacturing industry suffering under a low volume of new orders. Nonetheless, we expect industrial production to recoup some of the lost ground from October, and the PMI should edge up moderately to 49. While monthly retail sales data are very volatile, underlying growth seems to be running at about 4% y/y, pointing toward a modest improvement in November following a strong set of numbers in October. Goods trade was probably rather dull in the first part of November, but appears to have rebounded significantly toward the end of the month. This leaves us with an upside risk to our growth estimate for goods trade of 0.4 % m/m.
- **Sweden:** Much data is expected to be released during the holidays. PPI-statistics and business and consumer surveys from the National Institute for Economic Research are due. We attach most interest to the business survey and in particular the data on production, orders and employment, which need to keep up momentum for our forecasts for Q4 and Q1 to hold. Next in line are retail sales, trade balance and at the start of next year, PMI. Retail and trade balance data will be extremely interesting since data for Q4 so far has proven a disappointment. We look for continued strong outcomes of retail sales data in particular, on the back of the strong economic policy response aimed at households. None of the data normally has a longer lasting impact on financial markets, but we believe it is paramount for the beginning of 2010, especially since the divergence in outlook between market participants will now be tested and confirmed, or, rejected.

**Growth in Danish economy remains modest**




*Source: Danske Markets*

**Industrial production in Norway set for rebound**




*Source: Danske Markets*

### Market movers ahead

| Global movers | | | | Event | | Period | Danske | Consensus | Previous |
|---|---|---|---|---|---|---|---|---|---|
| Thu | 22-Dec | 16:00 | USD | House price index | m/m | Oct | | | 0.0% |
| | | 16:00 | USD | Existing home sales | m (m/m) | Nov | **6.16 (1.1%)** | *6.25 (2.5%)* | 6.10 (10.1%) |
| Wed | 23-Dec | 10:30 | GBP | Bank of England Minutes | | Dec | | | |
| | | 14:30 | USD | Personal spending | m/m | Nov | **0.6%** | *0.7%* | 0.7% |
| | | 14:30 | USD | PCE core - deflator | m/m\|y/y | Nov | **0.1%\|1.5%** | *0.1%\|1.6%* | 0.2%\|1.4% |
| | | 16:00 | USD | New home sales | 1000 (m/m) | Nov | **435 (1.2%)** | *439 (2.1%)* | 430 (6.2%) |
| Thur | 24-Dec | 14:30 | USD | Durable goods orders | m/m | Nov | | *0.4%* | -0.6% |
| Fri | 25-Dec | 0:30 | JPY | Unemployment rate | % | Nov | | *5.2* | 5.1 |
| **Scandi movers** | | | | **Event** | | **Period** | **Danske** | **Consensus** | **Previous** |
| Tue | 22-Dec | 9:30 | SEK | Consumer confidence | Index | Dec | | | |
| | | 9:30 | SEK | Manufacturing confidence | Index | Dec | | | -10 |
| **Global movers** | | | | **Event** | | **Period** | **Danske** | **Consensus** | **Previous** |
| Thu | 29-Dec | 16:00 | USD | Consumer confidence | Index | Dec | **55.5** | *52.8* | 49.5 |
| Wed | 30-Dec | 10:00 | EUR | M3 Money supply | y/y | Nov | **0.4%** | | 0.3% |
| | | 11:30 | CHF | KOF Swiss leading indicator | Index | Dec | | *1.70* | 1.62 |
| **Scandi movers** | | | | **Event** | | **Period** | **Danske** | **Consensus** | **Previous** |

*Source: Bloomberg and Danske Markets*

# Global update

## A bumpy ride towards year-end

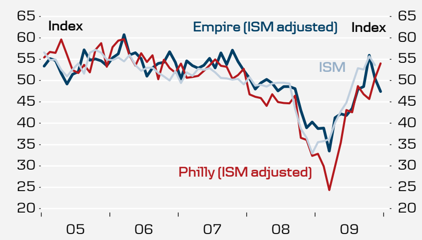
This week, European news headlines have been dominated by S&P's downgrade of Greece and the nationalisation of the Austrian bank Hypo Group Alpe Adria. Once again this should serve as a reminder that the crisis is contained, but not over. In the meantime, the potentially biggest game changer in the financial markets over the past few weeks could be the strengthening in the USD. Since 1 December, the dollar index is up 4.5% – now trading at its highest level since September. Whether this shift is related to year-end unwinding of short-funded carry positions or whether it reflects a more permanent shift in investor sentiment towards the USD is probably too soon to tell. While we expect the USD strength to be temporary for now, the recent development bears watching as a continued and more permanent strengthening of the USD would have implications for the real economy, for investors and for policy choices down the road.

**A stronger USD in December**


*Source: Danske Markets and Ecowin*

Elsewhere, the data picture continues to support our forecast for strong momentum in global growth heading into 2010. That said, there are now more evident signs that the pace of expansion is peaking in several places in Asia, as this week's decline in the Japanese Tankan highlights. In this respect, Asia still seems to be leading the global cycle and should face slower growth already in Q1. We expect a similar pattern to materialise in Europe and the US, but not before later in H1.

**ISM vs. local indices**




*Source: Danske Markets and Ecowin*

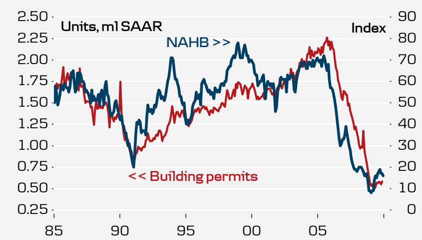
## Still solid but more mixed US data

Over the past month, data has confirmed that US growth has shifted to a higher gear with growth rates around 4% heading into 2010. That said, last week's data has been more mixed regarding the H1 outlook. Indeed, it seems as if hard data is picking up, while soft and more forward-looking data has been more mixed.

Evidence from the US business sector confirms this picture. While the November data for industrial production revealed that the manufacturing sector outside autos is gathering speed, the local business surveys indicators have been mixed, so far. Also, in housing, hard and soft data have diverged. The NAHB survey weakened in December, while housing permits picked up in November. Despite the more flattish tendency in permits and starts over the past few months, the outlook is for an increase in residential construction by 15-20% in Q4 and similarly in Q1.

The huge slack in the economy is becoming increasingly evident in *inflation data*. Leaving out the spurious behaviour of auto prices, core PPI and core CPI are clearly trending lower at the moment. Indeed, the November data underpins our expectations that core CPI inflation will dip below 1% during 2010.

**US housing data**



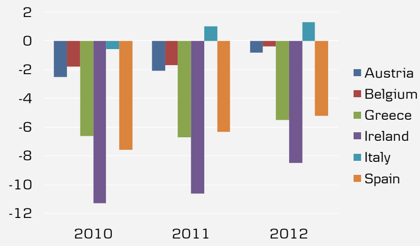

*Source: Danske Markets and Ecowin*

The *Fed meeting* this week did not add much new information regarding the policy outlook. The FOMC upgraded its assessment of the economy but did not change the outlook for growth and inflation. Once again, it was communicated that the exceptionally low level of interest rates will remain in place for an extended period. We continue to expect that the Federal Reserve will not hike before Q4 10, but that the central bank will probably begin absorbing excess reserves by the middle of next year.

## Greece, Austria and the rest of Euroland...

This week all eyes have been on Greece…again. On Sunday, the Greek prime minister announced the measures the Greek government plans to implement in order to cut the deficit. These include a 10% cut in social security spending next year, introduction of a capital gains tax and a 90% tax on private bankers' bonuses. He also vowed to fight corruption and tax evasion, which he sees as Greece's biggest problems. The aim is to cut the deficit by 4% next year and then bring the deficit down to below 3% in 2013. The market did not take much comfort from the announcement and on Wednesday evening S&P followed in the footsteps of Fitch and downgraded Greek sovereign debt from A- to BBB+. The spread to Germany on Greek 10-year government bonds increased to more than 250bp.

**European primary fiscal balances**

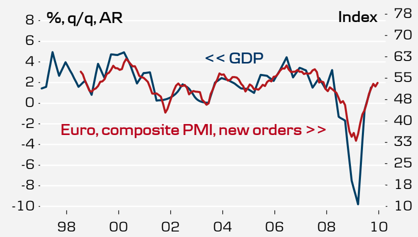



*Source: Danske Markets and European Commission*

Another focus of attention this week was Austria. On Monday, the Austrian government took over the bank, Hypo Group Alpe Adria – a major lender in the former Yugoslavia and in deep financial trouble. This reignited concerns about Austrian banks' substantial exposure to Eastern and Central Europe, which had been a theme at the beginning of the year. This is probably not the last bank to default or be nationalised. We would expect to see market jitters if and when larger financial players go belly-up.

With so much going on, key figures did not take centre stage. ZEW declined, but this was not much of a surprise. On a positive note Euroland and in particular German PMIs surprised on the upside. The PMIs are signalling strong growth for Q1, that we are very close to a peak in unemployment and that the ECB should still be on hold, but now with a bias towards hiking rather than cutting. We expect to see a first hike from the ECB in August next year.

**PMIs continue to signal robust growth**

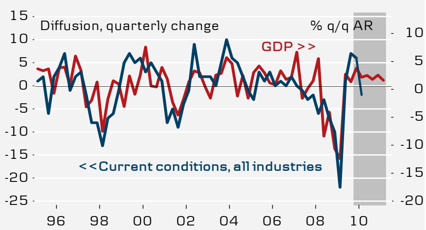



*Source: Danske Markets and Ecowin*

## Tankan suggests Japanese growth to slow in early 2010

The Tankan business survey compiled by the Bank of Japan (BoJ) was mixed. On the one hand it suggested very solid GDP growth in Q4 09, while on the other it suggested that GDP growth might slow substantially in Q1 10. While Tankan is consistent with our forecast of 4.0% q/q AR growth in Q4 09, it suggested that there might be considerable downside risk to our 2.0% q/q AR forecast for Q1 10. Business sentiment is mainly deteriorating for smaller enterprises within services, supporting the view that the slowdown in early 2010 will mainly be driven by a slowdown in private consumption as the impact from fiscal easing has started to wane. We expect growth in private consumption to slow to 1% q/q AR from close to 4% q/q AR in both Q2 and Q3 this year. However, based on recent business surveys, we cannot rule out the possibility that private consumption will contract in Q1 10.

**Tankan signals slowdown**




*Source: Danske Markets and Ecowin*

The DPJ government has approved a new stimulus package; however, it is unlikely to have any major impact until Q2 10. Hence, we are likely to enter a period where the economic numbers will be very mixed and the markets will start to question the sustainability of the Japanese recovery. Hence, we cannot rule out the possibility that BoJ will step up its non-conventional easing further, most likely by increasing its purchase of government bonds. We think this will happen if growth slows below 1% q/q AR and the labour market starts to deteriorate again. This is not our main scenario, as the recovery in exports and industrial activity appears to be on track and the slowdown in private consumption should prove temporary.

# Scandi update

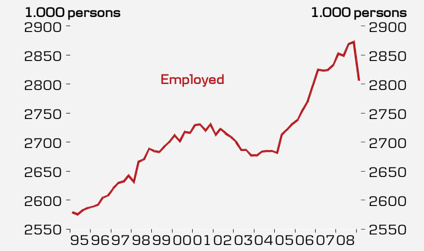
## Still waiting for clear signs of recovery in Danish economy

Signs of a recovery in the Danish economy are still few and far apart, and the Q3 employment and November car sales data released in the past week did not change the overall picture.

The jobs data disappointed, as seasonally-adjusted employment numbers declined by almost 50,000 from Q2 09 to Q3 09 – a somewhat larger fall than unemployment trends had indicated. It is hard to explain the sharp drop in Q3 employment, as the number of unemployed people rose by "only" 10,100, so the jobs data could be revised later on. Taken at face value, the data indicate a surprisingly sharp decline in employment, which would be a cause of strong concern if proven correct.

The November car sales – published Thursday – also showed a decline; car sales dropped by 0.3% from October to November. The fall should be viewed in the light of a healthy increase in car sales in recent months. Indeed, if we compare with the same month of last year, car sales grew at a rather good rate in November this year. However, if we focus on the number of cars sold rather than growth rates, what catches the eye is the low level of car sales. Danish consumers are still highly sceptical about the economic outlook, and the savings ratio has shot up. Nonetheless, we expect consumer spending to recover in Q1 10 as the effects of declining interest rates and tax cuts really feed through into the economy.

**Sharp decline in Danish employment**




Source: Statistics Denmark

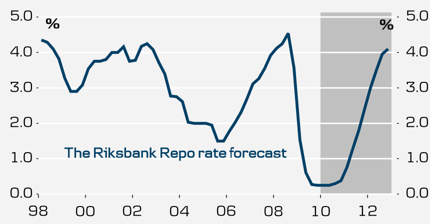
## Sweden: More to the Riksbank than meets the eye

The key event in the past week was without a doubt the Riksbank repo rate decision and accompanying "Monetary Policy Update". However, financial markets basically treated it as a non-event, since it entailed the consensus view of an unchanged rate, no new fixed rate facility and only marginal changes to rate projections, etc.

However, the statement and the detailed forecasts reveal some very interesting aspects of the Riksbank's thinking:

- The board members that entered reservations clarified their thinking. *Inter alia*, they stated that hiking sooner (they say in Q3 10) would also entail a lower/slower hiking cycle. Some members also discussed the effects of increased interest rate sensitivity to the repo rate projections. This should be interpreted as the Riksbank contemplating whether the monetary policy has become more potent and if the hiking cycle might not end up with a 4.25% repo rate, but something lower.
- When looking into forecast details, we can see that the Riksbank revised its GDP forecast for 2010 up to 2.7% y/y and its forecast for the peak of unemployment rates down to 10.3%. In addition, its forecast for inflation was down, revised due to a stronger Swedish krona, lower foreign inflation and lower rents. In addition its forecast for wage growth is 2.5% y/y.
- What all this means is that he Riksbank is pondering whether the projected interest rate hikes toward the end of the forecast horizon could be scaled back. Despite having some of the most optimistic forecasts on growth and labour market developments, the Riksbank still seems to believe that a hike in October is more appropriate than sooner. Outcomes during the coming few months will have a tough benchmark if the Riksbank is to hike sooner than October (we believe September). Market calls for sooner hikes are thus being ignored. Should growth develop more in "our" direction – we expect 1.5% y/y in 2010 – we must ask ourselves if the Riksbank will not postpone its hike still further out in the curve.

**Unchanged policy rate projections**




Source: Riksbank

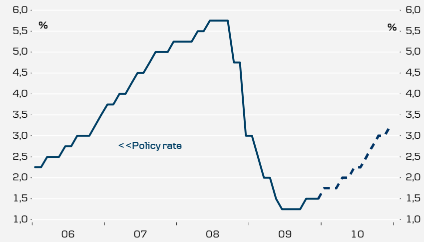
## Norges Bank springs a surprise

Although most market participants agreed that the rate decision by Norges Bank was a close call, the rate hike was slightly surprising. However, Norges Bank emphasised that the strategy laid down at the October meeting is still in place, that the policy rate forecast remains unchanged and that the central bank had considered keeping rates unchanged as an alternative to hiking. As such, Norges Bank seems unlikely to hike rates again in February.

We have not changed our rate forecast in response to the rate hike. We are still more optimistic about the global and Norwegian economic outlook than Norges Bank, so we expect more rate hikes over the forecast period than the Norwegian central bank, although unchanged rates in neighbouring countries will limit the room for manoeuvre in H1 10. We continue to expect the benchmark policy rate to reach 3.25% by the end of 2010 and around 5% by the end of 2011. This should prepare the ground for an underlying strengthening of NOK in 2010.

Most interesting was perhaps the fact that Norges Bank chose to hike rates at the earliest possible time, although industrial lobbyists had sought to convince everyone that Norway’s export industry was teetering on the brink of collapse. This probably leaves us with an upside risk to our rate forecast.

**Policy rate set to be normalised**




*Source: Reuters EcoWin, Danske Bank*

# Focus - Global: Market themes in 2010

**In this article we highlight some of the main themes that will shape market developments in 2010. In many ways 2010 will be trickier as many issues will be less straightforward than in 2009. Growth will look murkier and some of the life support to the financial system will be turned off creating uncertainty.**

## Theme #1: Peak of the cyclical momentum

Risky assets generally thrive when growth is in the early - and normally fastest - stages of recovery. As this year's brisk recovery has happened alongside massive cost cutting earnings have been in a sweet spot. However, much of the fuel driving the recovery is of a temporary nature. The most important factor is the inventory cycle, but fiscal stimulus and the boost to demand from the Asian recovery will also fade in 2010.

We believe growth will peak in Q1 2010 and that it will level off somewhat in the remainder of the year. As the *direction* of growth is often as important for confidence as the *level* of growth this means there will be less support for equity markets – especially since equities have reached fairer levels after the strong turnaround this year..

## Theme #2: Sustainability of recovery

Sustainability will be at the core of developments in 2010. We are currently in a positive feedback loop in which the global recovery has lifted confidence in financial markets. And with more companies joining the recovery this is luring out more investment plans and denting the massive job cuts. The next phase of the positive feedback loop is very critical. We need to take the step from job *cuts* to job *growth* to bring consumers back on a sustainable path of recovery. If private consumption gets back on track it will unleash more investments in the corporate sector and increase the need for rebuilding inventories. The positive feedback loop continues.

As we have argued previously we believe there *is* enough fuel in economic growth for job creation to get started (see for example *Research US – Job recovery ahead*). So far employment data are on track to reach our estimate of positive US payrolls in early 2010 and for it to reach 200-250k in mid-2010 – especially after the latest job report which showed a rapid decline in job losses in November to only 11,000. There are no indications yet that this recovery will be a jobless recovery as was the case in 1992 and 2002. These jobless recoveries were mainly due to new headwinds hitting the economy (escalation of Savings and Loan crisis in 1992 and equity market meltdown in 2002.)

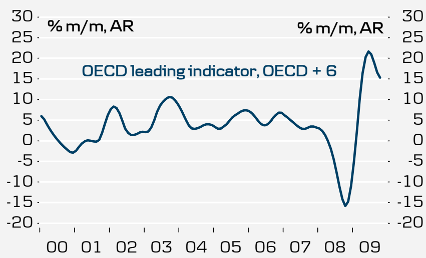
## Theme #3: Monetary policy exit

The pace of monetary policy exit will be important in 2010. Many securities benefit strongly from the current life support – not least in the low-rated sovereign bond space in Europe and CEE– and will receive less support as the year passes. Liquidity measures will be gradually phased out as already outlined by ECB (see *ECB – Heading for the exit*) and Fed, but liquidity will remain ample during the first half of 2010. When it comes to interest rate policy we believe ECB will hike rates in August followed by Fed at the end of 2010. ECB will move first because the slack in the Euroland economy is smaller and ECB is more concerned about spurring new bubbles. Our view is in contrast with market pricing, which expects both central banks to hike around September.

**Five themes that will shape 2010**

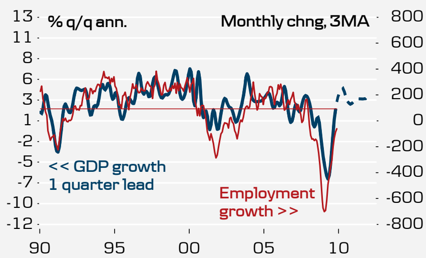
- #1: The peak of cyclical momentum
- #2: Sustainability of the recovery
- #3: Monetary policy exit
- #4: Wall of money and search for yield
- #5: Financial losses to be absorbed by banks

**Leading indicators start to indicate peak of growth cycle in early 2010**




*Source: OECD and Danske Markets.*
*Note: OECD+6 is OECD countries plus the six largest Emerging Markets*

**US job growth to return soon**




*Source: Reuters Ecowin and Danske Markets*

*Chief Analyst*
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

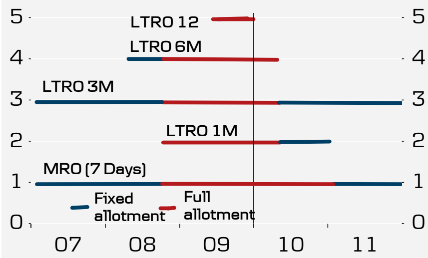
## Theme #4: Wall of money and search for yield

2009 has been characterised by a wall of money to be invested and in the beginning of the year there were plenty of cheap assets where the money could find a home. This has most likely been a major factor behind the strong rally in credit and equity markets, but it also explains why the massive government supply has been absorbed so easily and – in contrast to our expectations – led to a decline in bond yields during the autumn.

So where does all this money comes from. The answer is many different places. While governments have increased debt levels, the private sector has offered a large surplus of funds to be invested. Deleveraging pressures have led to a *strong rise in private savings and very little private demand* for corporate investment, financing of house purchases, consumer durables etc. On top of this central banks have provided extra funds through their *asset purchase programmes*. With Fed's purchase of USD1.25bn mortgage bonds it has more or less absorbed all the need for funding in the US housing market. *Banks* have also been a source of funding for governments as rising liquidity buffers have provided demand for government bonds. Finally, *Asian central banks* have been a source of liquidity in the bond markets as appreciation pressures have led to more intervention and hence bond buying from the region.

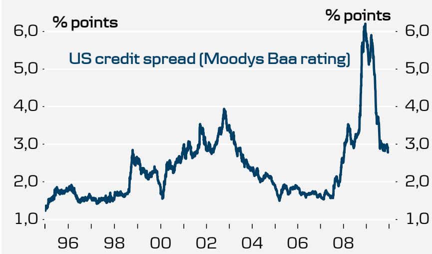
Over the coming year, though, asset purchases from the central banks will stop, and we also expect deleveraging to slow somewhat as demand for investment and housing is rising slowly. Finally, we do not expect household savings ratios to rise further. Hence, although there will still be plenty of money in the system it will be less than in 2009. This will put some upward pressure on bond yields and also give less support to risky assets. That said, the still large amount of money that has to find a home will probably mean that the "search for yield" will come back into fashion and carry trades will dominate for some time giving support to risky assets in general – not least high-quality credit.

**ECB heading for the exit**




Source: ECB and Danske Markets

**Search for yield to support carry**

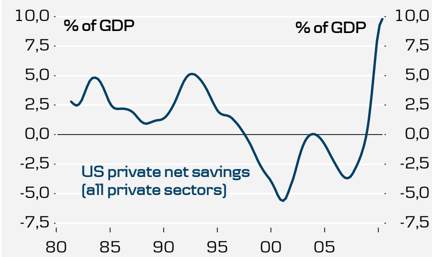



Source: Reuters Ecowin

## Theme #5: Financial losses to be absorbed by banks

As we saw in late 2009 event risk is far from over. Dubai and Greece serve as prime examples. There is still large uncertainty over the amount of losses that yet has to be absorbed by banks. Key areas of uncertainty are a) Central and Eastern Europe loan losses and b) losses on commercial property loans in both the US and Europe. These developments will be important for two reasons. Firstly, it will affect market stability. Too many negative events could shake confidence and lead to a negative spiral in equity markets – with negative spill-over effects on the real economy. Secondly, it will affect lending standards in the banks. The longer large losses loom the longer it will take to get an easing of credit standards again. It is very difficult to make a firm prediction of how this theme will play out. In our base case we do not get new incidents the system cannot handle, but it is an area of high uncertainty.

**US private savings sky-rocketing**




Source: Reuters Ecowin

## Other important themes

Other important factors include fiscal sustainability, when and how the fiscal exit takes place, when and how tightening of financial regulation sets in – and what it implies. There are plenty of uncertainties out there and 2010 shapes up to be another challenging – and interesting - year. Good luck!

For an overview of our current financial views on different asset classes see page 16.

# Focus – Euroland: Dangerous debt

## Euro area debt levels embark on a dangerous path

Euro area debt levels are rising with unprecedented speed in any non-wartime period in the aftermath of the ongoing financial and economic crisis. The first reason is that the severity of the ongoing economic crisis has resulted in a sharp drop in government income and an increase in expenditure as a result of automatic stabilisers and discretionary fiscal easing. Second, GDP growth has been negative both in real and nominal terms for most euro area countries. Lastly, direct fiscal costs are resulting from government support to the financial sector. The direct fiscal costs can be partly recovered after the crisis. In Sweden the initial direct fiscal costs were nearly fully recovered following the crisis of the early 1990s.

Going forward, the crisis will affect government budgets for many years. First, the increase in government debt levels means that interest expenditure will rise (both in absolute terms and as a percentage of government budgets) in the coming years.

Second, as a consequence of the crisis and escalating concerns about fiscal sustainability, government bond yield spreads between the different euro area member states have risen sharply. Most notably the five-year spread between Greece and Germany has risen above 250bp following the downgrading by Fitch and S&P of Greece from A- to BBB+. The rising funding costs for some euro area member states will mean that a recovery back to more sustainable debt levels will prove harder.

Last but not least, the severity of the deep economic crisis has probably lowered the potential for future growth for many euro area member states. Hence, it will be difficult for the countries just to 'grow' out of the high debt burden.

## Mechanical projections

In order to take a closer look at debt sustainability for the various euro area member states, we look at mechanical projections of government debt ratios until 2020. In order to do this, we need to make a number of simplifying assumptions.

For 2010 and 2011, we anticipate that the countries will tighten fiscal policy in line with the expectations put forward in the European Commission's Autumn forecast. We assume that the primary deficit will be back to its cyclically adjusted level in 2012 and that it will increase until 2020 reflecting the increase in age-related expenditures as foreseen by the European Commission.

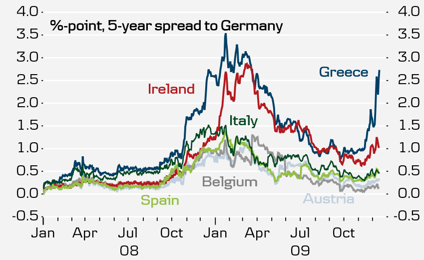
We use IMF WEO autumn forecast for nominal GDP growth rates until 2014 and for 2015-2020 we use the 2014 growth rates. Interest rates for Germany are based on forward rates for five-year bonds. From 2013 onwards, we assume that Germany pays 4.25% as average funding costs. We apply spreads from 16 December 2009 to calculate the funding costs of the other countries.

The debt is then calculated as:

$$\frac{D_t}{Y_t} - \frac{D_{t-1}}{Y_{t-1}} = \frac{PD_t}{Y_t} + \left(\frac{D_{t-1}}{Y_{t-1}} * \frac{i_t - y_t}{1 + y_t}\right) + \frac{SF_t}{Y_t}$$

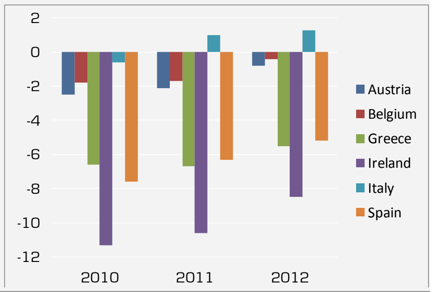
where $D$ is the total debt level, $Y$ is nominal GDP, $PD$ is the primary deficit, $i$ is the average (nominal) interest paid on government debt, $y$ is the nominal GDP growth rate and $SF$ is the stock-flow adjustment. The stock-flow adjustment includes losses caused by

**The market is concerned**



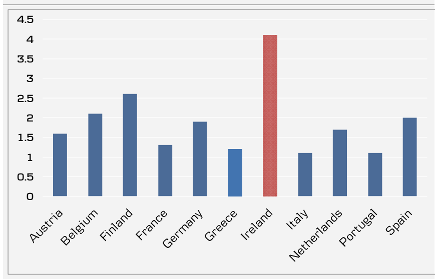

*Source: Reuters Ecowin*

**For a reason...**
**Government deficit as % of GDP**




*Source: European Commission and own calculations*

**Increase in age-related expenditures (% of GDP)**




*Source: European Commission*

*Senior Analyst*
Gustav Smidth
+45 45 13 07 89
gusm@danskebank.dk

guaranties for banks and income from the recovery of direct fiscal costs after the crisis. We assume that SF= 0 from 2012 onwards.

These mechanical projections are obviously not what will actually happen. As the debt increases, it will probably influence the political will to combat further debt increases and this will affect the size of the primary deficit and the government bond spread. Direct fiscal costs recovered after the crisis may also help to reduce the debt. In a forthcoming research paper, we plan to loosen some of the assumptions and look at more scenarios.

## The outcome is scary

The outcome of our main scenario is frightening. Greek debt is ballooning and is set to hit 238% of GDP in 2020. In Ireland, the situation is not much better – debt is likely to reach 219% in 2020 and it is rising at a faster pace than Greece. This is partly the result of a more substantive increase in age-related expenditures albeit from a lower level. But keep in mind that this is an unlikely “no policy change” scenario. In Ireland, the political will to counter these developments is substantial and as such we tend to be much more worried about developments in Greece.

On a more positive note, Italy’s debt as a share of GDP will not have increased much a decade from now. This is because Italy stands out with a cyclically adjusted primary surplus and is the country with the smallest increase in age-related expenditures. Italy has a substantial debt, but has not used fiscal stimulus to combat the current crisis.

## Fulfilling the 60% of GDP criteria is impossible

We have looked at what is needed to bring debt down to 60% of GDP in 2020. It would take a lot. The earlier fiscal tightening takes place, the less tightening will be needed to achieve this ambitious goal. We assume that the additional fiscal tightening will take place uniformly from 2011 to 2015.

Greece will then have to tighten the fiscal policy by 4% of GDP each year. This is almost impossible. Our mechanical projections do not take into account that such a tightening would get help from a decline in sovereign spreads nor that it would have a negative impact on growth. The message is nevertheless pretty clear. We are now in a situation where we can say that Greece is very unlikely to fulfil the Stability and Growth pact’s criteria of debt below 60% of GDP within a decade.

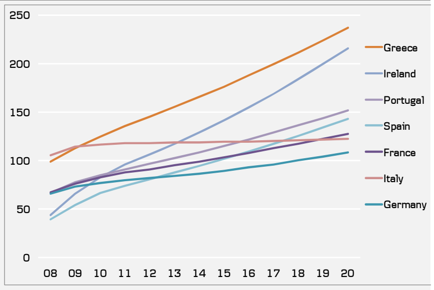
The likelihood that Ireland will achieve this goal is somewhat higher. Even though the political will is strong, we do not foresee an extra tightening of the primary deficit for 3.6% of GDP for five years in a row as is needed. While there will be help from a spread tightening, this is probably not enough. For other countries it is a more realistic task (see chart) but will still be a tough goal to achieve.

## Stabilising the debt to GDP ratio is a more realistic task

A more realistic goal would be to aim for a stabilisation of the debt to GDP ratio in 2020. We have looked into this scenario and will explore it in greater detail in our forthcoming paper. It shows that this is more achievable. Greece would have to implement an additional fiscal tightening of more than 2% of GDP annually from 2011 to 2015. The debt would then stabilise at around 141% of GDP. But it would still be a drag on growth. In this equilibrium the nominal interest payments would amount to around 9% of GDP.

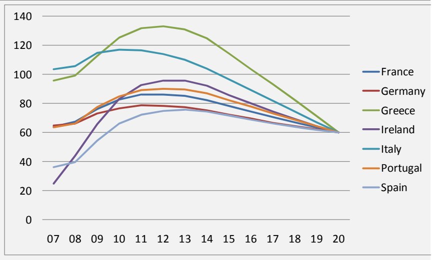
There is no doubt that Greece is facing huge challenges. It will have to show further action in order to bring the country back on a sustainable path. Cutting the deficit by 4% of GDP next year as it has now announced is a good start. If it can deliver further tightening on top of that in the coming years it begins to look promising.

**Debt developments in no change scenario (% of GDP)**



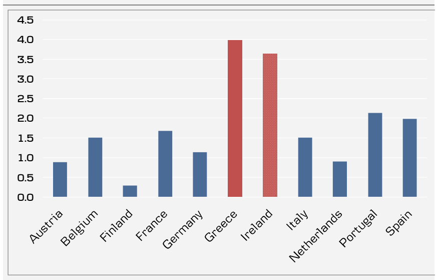

Source: Reuters Ecowin

**Is this possible?**
**Debt as % of GDP**




Source: Reuters Ecowin

**Annual tightening of primary deficit needed from 2011 to 2015 (% of GDP)**




Source: Reuters Ecowin

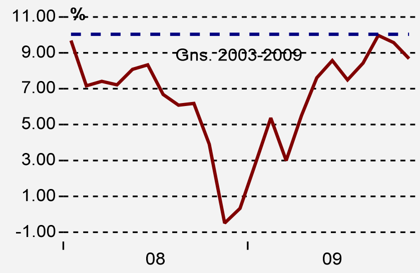
# Equities: Limited market potential

**We believe that the equity market will only be in a position to climb moderately from current levels. There are many reasons for this, the most important of which are presented below.**

## Earnings and growth expectations decelerating

The first test of market resilience will come from the rate at which economic recovery begins to slow. Here we are talking primarily about manufacturing orders and corporate earnings expectations. Consensus expectations for GDP and earnings growth from 2009 to 2010 are already up around 3% (US real GDP growth) and 25% (S&P 500 earnings growth). This is close to the "normal" levels seen historically in the year after a recession year, which means that the market will need to be convinced that things will turn out markedly better than expected if equity prices are to climb significantly further.

5Y implied EPS growth p.a. S&P500 – We are there!

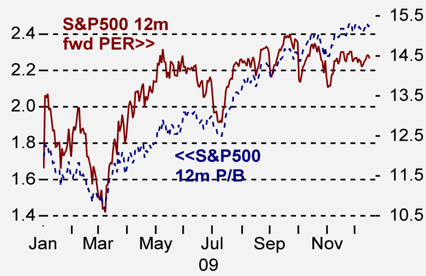



Source: Reuters Ecowin, Danske Markets Equities

## Potential for multiple expansion exhausted

In isolation, it would not be a problem for the equity market for there to be healthy expectations for 2010, unless there are other factors at play. The equity market has recovered much more quickly than earnings expectations, which has meant that the rise in prices has been fuelled by multiple expansion. In other words, equity investors have bought shares due to a greater appetite for risk and/or expectations of long-term (not 2010) earnings growth. Thus the equity market has become more expensive in terms of both P/B and P/E. In the US, the S&P 500 is up at a P/B of 2.0 and a P/E of 14.7, as against 1.4 and 11.1 at the end of last year. This increase reflects normalisation of long-term (not 2009/10) expectations and the risk premium for holding equities. This normalisation cannot take place twice, so upside potential in 2010 is heavily dependent on companies' ability to make money in 2010.

S&P500 fwd. PER & P/B 2009




Source: Reuters Ecowin, Danske Markets Equities

## Indications of reduced risk appetite and lower expected long-term earnings

We see good reason for investors to rein in their optimism in both long-term earnings expectations and risk premiums. Debt is a key area for long-term earnings expectations. The OECD countries' private household debt, financial debt and public debt have increased strongly relative to the historical norm, which will put extra pressure on the non-debt ridden parts of the global economy if banks' credit standards remain tight. This means that we are focusing particularly on two areas as growth engines: a) OECD non-financials' investment activity; and b) The BRIC countries' domestic demand – both areas with low debt levels. The risk is that neither of these engines will make a sufficient contribution to counter the effect of debt reduction. When it comes to risk premiums, we believe that there is good reason for long-term investors to hold higher and not lower risk premiums on risky assets such as shares. With two bubbles bursting in the past eight to nine years, it is clear that highly expansionary monetary policy creates unstable financial markets. Monetary policy is currently as easy as it gets, which is helping to keep risk appetite at bay and fuel fears of another bubble.

## In summary

2010 will be a difficult year for equities. There is a reasonable likelihood of the equity market gaining 8-10%, but there is also a risk of the market falling back sharply. We advise investors to exercise caution at the beginning of 2010.

*Chief analyst*
Morten Kongshaug
+45 45 12 80 57
Morten.Kongshaug@danskebank.com

# Fixed income: Holiday mood but be careful

## Focus back on Greece

Risk appetite is in the spotlight again in fixed income markets as Greek debt problems keep popping up. On Wednesday S&P followed in the footsteps of Fitch and downgraded Greek sovereign debt from A- to BBB+. This comes just days after the Greek government's announcement of measures to bring the deficit under control. The pressure on Greece has thus intensified and the 10-year government bond spread to Germany has widened to more than 250bp. One concern in the market is that Greek government bonds eventually can't be used as collateral at the ECB. We don't think this will happen though.

## Central banks didn't rock markets much

The ECB allotted EUR97bn in its 12-month liquidity auction, which was in the high end of expectations. With the outlook of even more excess liquidity floating around the system, money market rates came down slightly following the auction but 2-year yields were virtually unchanged.

There were not many surprises from the Fed either – the FOMC meeting was as close to a non-event as a Fed meeting can be. The outlook was unchanged compared to November although the current assessment of activity and financial markets was upgraded. The most important thing to note is that the Fed announced that liquidity measures dealing with systemic risks will end early next year. In contrast to this, the door was left open for adjustments in the measures providing credit to the real economy.

Yields have declined following the FOMC meeting Wednesday, but this has more to do with Greece than the Fed (see above).

## Markets in Christmas mode

Christmas is approaching fast and markets are likely to be in a holiday mood for the rest of the year. This means that liquidity is low, risk taking is scaled back and even minor events can result in wild swings in markets. One should therefore be careful until year-end.

On top of further news on Greece, next week's US auctions will be scrutinized following the weak 10-year and 30-year auctions. This time around auctions are in the shorter end of the curve in 2-year, 5-year and 7-year notes, where demand has generally been stronger. That said, another round of weak auctions is likely to bring the mounting global supply of government bonds in 2010 into investors' mind and put some upward pressure on yields.

## An interesting 2010 kick-off

In terms of data, the most interesting are not due until after New Year when 2010 will kick off with the US ISM and employment report for December. Furthermore, the schedule of Fed speakers is heavy after New Year starting with Bernanke and Kohn on 3 January followed by the FOMC minutes on 6 January.

In general, we see a risk of rising yields as we turn past year-end, barring any further bad news from Greece, as special factors leading up to year-end, such as position squaring and the scaling back of risk, are likely to turn around.

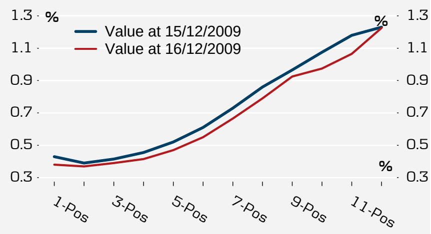
**Key events of the week**

- Risk appetite and announcements about the situation in Greece.
- US treasury auctions
- Euroland M3 and CPI
- A possible turn in risk appetite in the new year
- US ISM, employment, Fed speeches and FOMC minutes

**European spreads towards Germany**


*Source: Reuters EcoWin and Danske Markets*

**EONIA strip before and after the final 12-month liquidity auction**




*Source: Reuters EcoWin and Danske Markets*

*Senior Analyst*
Signe Roed-Frederiksen
+45 4512 8229
sroe@danskebank.dk

*Senior Analyst*
Frank Øland Hansen
+45 4512 8526
franh@danskebank.dk

# FX: Volatile December trading

## Position squaring shakes up the currency market

December often brings reduced activity in financial markets as positions are squared ahead of year-end and can result in increased volatility, as the past week's trading has shown quite clearly. Not least have we seen large fluctuations in NOK, following the surprising interest rate hike from Norges Bank on Wednesday, while also USD and CHF have seen erratic moves in generally thin trading.

## Dollar breaks recent months' downtrend

After weakening gradually in a stable depreciation trend since April, the dollar has broken higher following a rapid return of demand. After trading around 1.50 only a two weeks ago, EUR/USD has fallen fast to trade below 1.44 – the strongest dollar level since September. Part of the reason for this can be found in the fixed income market, where USD yields have climbed on the back of better-than-expected US employment and retail sales data, while especially the Greek debt problem has put pressure on the euro. That said, the main driver of the dollar rebound is, in our view, year-end position squaring.

Low interest rates, generous liquidity provision and a liquid market have made the dollar a popular funding currency in the past nine months bull market, and has resulted in the accumulation of substantial short dollar positions. These positions are now being unwound as a result of general position squaring in the market and, more directly, loss-taking. This dynamic could easily persist through to the end of the year and spells considerable volatility. Nonetheless, we still expect EUR/USD to trade higher in the coming months, on the back of renewed risk appetite and relatively more dovish signals from the Fed. For the time being, however, these are not the main drivers in the market and one should factor in the possibility of further dollar gains until January's trading will show whether the fundamental forces in favour of a weaker dollar are still present.

## CHF breaks out of its narrow range

Another currency that has benefited from position squaring, as well as from the general dollar rebound, is the Swiss franc, which broke through 1.50 against the euro Friday morning for the first time since March. Previously the Swiss National Bank has intervened in the market whenever EUR/CHF had headed down towards 1.50. Does this mean that the SNB will no longer attempt to counter CHF appreciation as part of its monetary policy? We do not think so. The SNB made it clear at the December monetary policy meeting that economic uncertainty is still too high for monetary policy to be tightened, and that currency intervention is still an option. Still, one position squaring could imply significant volatility during the coming weeks.

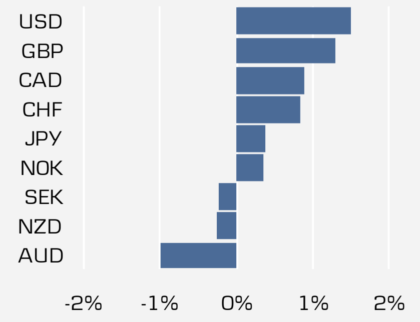
## A glance at 2010

Now that the year is drawing to a close, it is a good time to look ahead to what 2010 might bring. The past year has been dominated by the financial crisis and then global recovery. The upswing has now matured, and we expect local factors to be more important than global factors going forward. In this context, we believe that there are three factors that will characterise strong currencies in 2010: (i) a strong cyclical position of the economy, (ii) potential for rolling back significant expansionary monetary policy measures, and (iii) potential for correction of long-term imbalances. For further information, see our *FX Top Trades for 2010 published on 16 December*.

**Key events of the week**

- Year-end position squaring could spell volatility
- GBP: Final Q3 GDP (Tuesday)
- GBP: BoE minutes (Wednesday)
- NZD: Q2 GDP (Tuesday)
- CHF: KOFs leading indicator (Wednesday)

**1-week change against EUR**




*Source: Danske Markets*

**Upwards trend broken in EUR/USD**


*Source: Reuters EcoWin*

*Analyst*
Kasper Kirkegaard
+45 4513 7018
*kaki@danskebank.dk*

*Analyst*
Sverre Holbek
+45 4514 8882
*holb@danskebank.dk*

# Commodities: OPEC to keep quotas unchanged

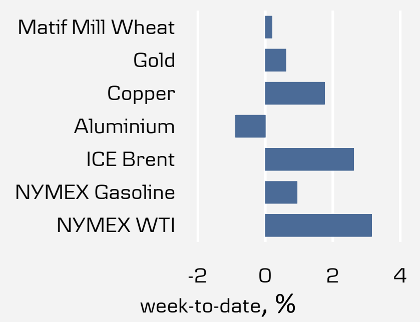
## Week ahead

The past week has seen movements in commodities driven partly by a stronger dollar; EUR/USD is currently trading at three-month lows. Still, we have also seen some first signs of decoupling of the commodities segment from the dollar, with oil prices in particular moving 'on their own' to some degree.

The data flow out of the US and Euroland has provided some support to prices in the past week and a bullish report on US oil inventories led WTI to trade briefly above USD73. The weekly stock figures saw distillate stocks decline, but the US stock picture remains critical: distillate stocks usually come down significantly this time of year but have been broadly flat since peaking in early autumn.

Next week, focus will be on the OPEC meeting in Angola on Tuesday (see below). In addition, detailed Chinese commodity trade data for the month of November are due to be released on Monday; the preliminary figures showed a minor rebound in metals imports (see *Commodities: Chinese metals imports rebound*).

**Weekly changes**



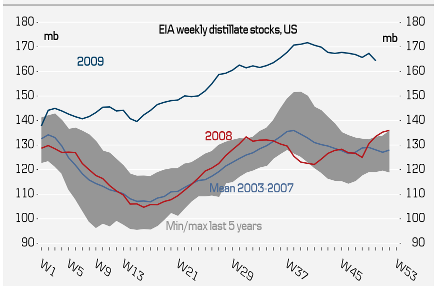

*Source: Bloomberg, Danske Markets.*

## OPEC to stay put

We continue to expect Tuesday's OPEC meeting to result in unchanged production targets for 2010. Compliance has slipped further of late to now lie at an estimated 58%, and hence members are not implementing as much of the pledged output cuts seen at the start of the year. This underlines that there may be little point in raising quotas despite the expected demand recovery. Indeed, earlier this week, OPEC published its monthly oil market report which saw the cartel raise its demand projections for next year slightly. After the release of the report, OPEC secretary-general El-Badri said however that a continuation of current quotas was not yet a 'done deal'.

While speculation has previously centred on whether OPEC might increase quotas, there also seems to be some indication that actual cuts cannot be ruled out completely. Last week, El-Badri was quoted as saying that prices are perfect at a time when WTI was trading in the middle of the USD70-80 range. Prices have seen considerable dips since then to trade below USD70 earlier this week, partly driven by dollar strength. Although prices have since recovered somewhat on the back of the bullish US stock figures, this does highlight market concerns over the strength of a demand recovery. This would add to arguments in favour of production cuts.

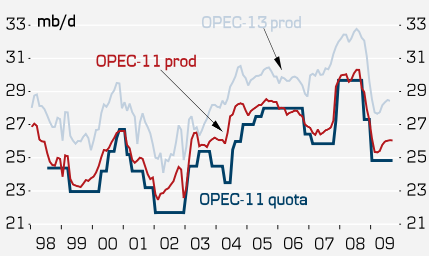
**US distillate stocks**




*Source: EcoWin, Danske Markets.*

The demand side has been the main driver of the oil market in 2009 but recently the supply situation has received some attention. Iraq has lately auctioned new oil fields: last week, a partnership between Royal Dutch Shell and Malaysia's Petronas won the right to develop one of the world's biggest unexploited fields. Notably, Iraq is the only OPEC member with no formal quota. More broadly, the fact that a range of Iraq's untapped fields looks set to be brought on stream in the near future and that Iraq could pass Iran in proven oil reserves suggests that a peak in world oil supply may not be as close as previously thought.

**OPEC compliance**




*Source: DOE, IEA, Danske Markets.*

Should OPEC keep production targets at current levels next week in line with our expectations, we would not rule out that the different members could slip further on compliance as 2010 progresses if stocks are run down and global demand picks up in accordance with our forecast.

*Senior Analyst*
Christin Tuxen
+45 45137807
*tux@danskebank.dk*

# Financial views

## Equities

- We have moved close to our fair value target and anticipate headwind to take over from tailwind when it comes to further uptrend. We recommend investors to exploit a usual year-end rally to prepare for a rollercoaster in 2010. This involves the following reallocation shifts: a) Move into high quality, b) Move into high yield c) Move out of high beta, d) Reduce in Financials & Industrials. If investors should buy stocks vs. risk free assets in Q4 2009, it should be a) because investors are underweighted stocks and/or b) hold a long term horizon. Otherwise, further exposure to global and local stock markets could be added at more attractive conditions than currently.

## Fixed Income

- Global: We recommend reducing exposure towards year-end. Position squaring keeps pushing short yields lower. Early next year there is a risk of higher bond yields – in particular in the short end of US – as the year-end effects unwind. However, we need more clear signals of tightening from central banks to get substantially higher yields and flatter curves. Our medium-term view is for higher yields on a sustainable recovery in the global economy, high supply and the beginning of the phasing-out of central bank measures.

- Intra-Euro: We still expect Spain, Greece and Portugal to underperform and on longer maturities, we expect Germany, Italy and the Netherlands to outperform in 2010. Scandinavian government bonds are expected to outperform Euroland in 2010 given the significantly better fundamentals.

- Scandi: In 2010 we are overweight Danish callable mortgages as well as capped floaters. We are underweight Danish government bonds and non-callables. We look for a flatter curve in Norway and Sweden in 2010. We look for wider NOK swap spreads in 2010 and recommend longs in short-dated SEK mortgage bonds

## Credit

- Going into 2010 we remain constructive on credit. The key to outperformance - we believe - is to be well positioned for the structural trends in the credit market that have emerged as a consequence of the financial crisis. Overall, we are currently overweight investment grade and underweight high yield. Despite challenging fundamentals for banks we think that senior financials will outperform non-financials as the balance between supply and demand is likely to favour the former. General Industrials and Pulp & Paper spreads have tightened significantly in 2009 and we expect no or a negative performance in these sectors going forward. We still think that the underlying credit positive fundamentals for the Nordic utilities are in place but these themes are reflected in current valuations.

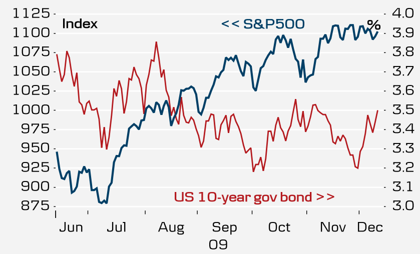
## FX Outlook

- The recent dollar rebound looks excessive in our view and we expect it to reverse in the new year. We expect ample liquidity, a still dovish Fed, and risk appetite to take EUR/USD back above 1.50 in 3 months time. Further JPY gains should remain capped due to BoJ intervention risks, and we expect EUR/JPY to resume its upward trend. Sterling has received some support from the stronger USD and EUR/GBP has dropped below 0.89.

## Commodities

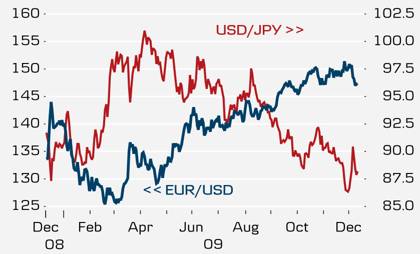
- Focus now shifts from common recovery factors to specific fundamentals, such as capacity, demand and inventories for the individual commodities. Oil has found strong support at USD70 a barrel – we see risk skewed to the upside for oil from here.

**Equities and US 10Y yield**



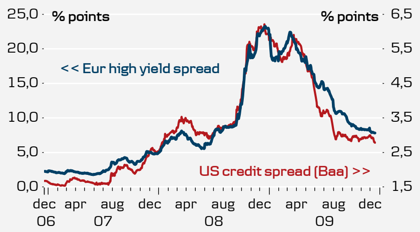

*Source: Reuters Ecowin*

**EUR/USD and USD/JPY**



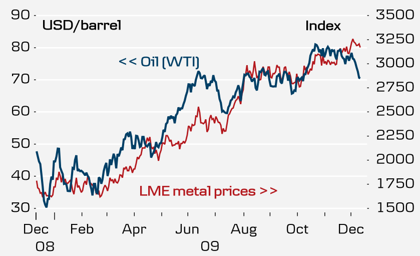

*Source: Reuters Ecowin*

**Credit spreads**




*Source: Reuters Ecowin*

**Commodity prices**




*Source: Reuters Ecowin*

# 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 | 2008 | -1.2 | -0.1 | 1.5 | -5.0 | 0.2 | 2.3 | 3.5 | 3.4 | 1.8 | 3.6 | 33.3 | 2.2 |
| | 2009 | -4.5 | -5.0 | 2.2 | -12.9 | -1.5 | -10.0 | -13.6 | 1.3 | 3.5 | -2.6 | 38.3 | 1.4 |
| | 2010 | 1.6 | 2.3 | 1.4 | -2.1 | 0.7 | 2.8 | 5.0 | 1.7 | 5.2 | -5.2 | 45.1 | 1.0 |
| Sweden | 2008 | -0.4 | -0.2 | 1.5 | 2.7 | -0.6 | 1.9 | 3.0 | 2.2 | 6.1 | 2.5 | 37.5 | 8.3 |
| | 2009 | -5.1 | -1.2 | 1.0 | -17.2 | -1.2 | -14.7 | -16.3 | -0.2 | 8.7 | -1.3 | 39.6 | 7.0 |
| | 2010 | 0.8 | 1.3 | 1.0 | -6.3 | 0.0 | 2.4 | -0.5 | 1.4 | 11.4 | -2.7 | 43.5 | 7.6 |
| Norway | 2008 | 2.1 | 1.2 | 3.8 | 3.8 | 0.7 | 1.3 | 4.4 | 3.8 | 2.5 | 8.0 | 26.0 | 19.0 |
| | 2009 | -1.0 | 0.1 | 6.1 | -4.1 | -1.3 | -7.6 | -11.5 | 2.0 | 3.3 | 12.0 | 26.0 | 24.9 |
| | 2010 | 3.3 | 3.8 | 4.8 | 2.7 | 0.8 | 0.2 | 2.8 | 1.4 | 3.7 | 13.9 | 26.0 | 24.8 |

## 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 | 2008 | 0.6 | 0.3 | 2.2 | -0.7 | 0.1 | 1.1 | 1.1 | 3.3 | 7.6 | -1.9 | 69.3 | -0.8 |
| | 2009 | -3.9 | -0.5 | 2.5 | -9.8 | -0.5 | -14.2 | -12.1 | 0.3 | 9.4 | -6.1 | 78.0 | -0.8 |
| | 2010 | 2.2 | 0.8 | 2.1 | 2.8 | 0.3 | 6.1 | 5.1 | 1.1 | 9.9 | -6.5 | 83.5 | -0.4 |
| Germany | 2008 | 1.0 | 0.2 | 2.0 | 5.0 | 0.0 | 2.4 | 3.9 | 2.9 | 7.4 | -0.5 | 63.0 | 7.1 |
| | 2009 | -4.8 | 0.5 | 2.5 | -11.8 | 0.4 | -14.4 | -8.5 | 0.3 | 8.2 | -3.5 | 67.0 | 5.2 |
| | 2010 | 2.6 | 0.7 | 1.8 | 5.6 | 0.0 | 8.7 | 7.5 | 1.1 | 8.5 | -5.5 | 72.0 | 5.4 |
| France | 2008 | 0.8 | 0.8 | 1.4 | 0.5 | 0.0 | 2.0 | 1.8 | 3.3 | 7.8 | -2.9 | 66.0 | -1.6 |
| | 2009 | -1.8 | -0.4 | 1.6 | -3.8 | -0.3 | -0.3 | -0.4 | 0.4 | 8.6 | -5.0 | 71.0 | -1.4 |
| | 2010 | 2.1 | 1.6 | 1.4 | 2.1 | 0.2 | 2.9 | 2.9 | 1.3 | 9.1 | -6.0 | 78.0 | -1.6 |
| Italy | 2008 | -0.3 | -0.6 | 1.2 | -1.5 | 0.0 | 0.3 | -1.5 | 3.6 | 7.0 | -2.6 | 103.0 | -2.6 |
| | 2009 | -4.5 | 0.2 | 1.2 | -4.8 | -0.3 | -0.6 | -0.9 | 0.8 | 8.5 | -4.0 | 107.0 | -2.1 |
| | 2010 | 1.7 | 0.3 | 1.0 | 2.0 | 0.2 | 2.0 | 2.4 | 1.9 | 9.1 | -4.5 | 111.0 | -2.5 |
| Spain | 2008 | 1.2 | 0.1 | 5.3 | -3.0 | 0.0 | 0.7 | -2.5 | 4.1 | 11.3 | -3.8 | 38.0 | -10.0 |
| | 2009 | -3.5 | -4.7 | 3.4 | -12.0 | -0.2 | -19.0 | -21.0 | 0.0 | 18.9 | -9.5 | 47.0 | -6.0 |
| | 2010 | 0.3 | -1.0 | 2.0 | -2.4 | 0.1 | 10.8 | 4.1 | 1.4 | 21.0 | -9.0 | 56.0 | -6.0 |
| Finland | 2008 | 1.0 | 1.9 | 2.0 | 0.3 | -0.6 | 7.3 | 7.0 | 4.1 | 6.4 | 4.2 | 33.4 | 2.4 |
| | 2009 | -6.2 | -2.8 | 1.0 | -12.0 | 0.0 | -23.0 | -20.0 | 0.0 | 8.9 | -2.8 | 41.5 | 0.6 |
| | 2010 | 1.0 | 0.2 | 0.0 | -3.0 | 0.0 | 5.0 | 2.5 | 1.2 | 10.0 | -4.2 | 49.0 | 1.1 |

## 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 | 2008 | 0.4 | -0.2 | 3.1 | -5.1 | -0.3 | 5.4 | -3.2 | 3.8 | 5.8 | -3.2 | 69.0 | -4.9 |
| | 2009 | -2.5 | -0.6 | 2.2 | -18.3 | -0.7 | -10.0 | -13.8 | -0.3 | 9.3 | -14.0 | 82.8 | -4.9 |
| | 2010 | 3.2 | 2.0 | 2.4 | 5.4 | 0.9 | 10.8 | 10.4 | 2.4 | 10.3 | -9.0 | 88.4 | -2.7 |
| Japan | 2008 | -0.7 | 0.6 | 0.8 | -5.1 | -0.2 | 2.0 | 0.9 | 1.5 | 4.0 | -5.6 | 196.0 | 3.3 |
| | 2009 | -5.1 | -0.8 | 1.0 | -13.0 | -0.2 | -24.6 | -14.6 | -1.3 | 5.2 | -9.8 | 212.0 | 1.9 |
| | 2010 | 2.9 | 1.6 | 1.1 | -0.7 | 0.4 | 17.8 | 1.1 | -0.7 | 4.8 | -8.0 | 220.0 | 2.0 |
| UK | 2008 | 0.7 | 1.7 | 3.3 | -4.0 | 0.0 | 0.5 | 1.2 | 3.7 | 2.8 | -2.5 | 50.1 | -3.6 |
| | 2009 | -2.7 | -0.3 | 1.5 | -0.3 | 0.0 | -3.6 | 0.0 | 2.3 | 5.0 | -8.8 | 60.0 | -3.4 |
| | 2010 | 1.0 | 1.6 | 2.0 | 2.2 | 0.0 | 4.6 | 4.9 | 1.5 | 6.4 | -9.6 | 68.0 | -2.9 |
| Switzer-land | 2008 | 1.6 | 1.7 | 0.0 | -1.7 | -0.4 | 2.3 | -0.2 | 2.4 | 2.6 | 0.9 | 42.0 | 9.2 |
| | 2009 | -2.7 | 0.2 | 2.3 | -6.4 | 1.2 | -11.7 | -7.4 | -0.5 | 3.9 | -1.5 | 40.7 | 7.6 |
| | 2010 | 1.0 | 0.5 | 1.5 | -0.5 | -0.2 | 1.3 | -1.1 | 0.7 | 5.1 | -2.5 | 43.5 | 8.1 |

*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 | 3m interest rate | 2-yr swap yield | 10-yr swap yield | Currency vs EUR | Currency vs USD | Currency vs DKK |
|---|---|---|---|---|---|---|---|---|
| USD | 18-Dec | 0.13 | 0.25 | 1.14 | 3.64 | 143.9 | - | 517.3 |
| | +3m | 0.13 | 0.30 | 1.35 | 3.85 | 155 | - | 481 |
| | +6m | 0.13 | 0.30 | 1.70 | 4.20 | 150 | - | 497 |
| | +12m | 0.75 | 1.00 | 2.40 | 4.40 | 145 | - | 514 |
| EUR | 18-Dec | 1.00 | 0.71 | 1.69 | 3.41 | - | 143.9 | 744.2 |
| | +3m | 1.00 | 0.90 | 1.95 | 3.70 | - | 155 | 745.0 |
| | +6m | 1.00 | 1.20 | 2.10 | 3.85 | - | 150 | 745.0 |
| | +12m | 1.50 | 1.80 | 2.80 | 4.15 | - | 145 | 746.0 |
| JPY | 18-Dec | 0.10 | 0.28 | 0.47 | 1.36 | 129.8 | 90.3 | 5.73 |
| | +3m | 0.10 | 0.30 | 0.50 | 1.45 | 142 | 92 | 5.25 |
| | +6m | 0.10 | 0.30 | 0.65 | 1.65 | 145 | 97 | 5.14 |
| | +12m | 0.10 | 0.30 | 1.00 | 1.90 | 145 | 100 | 5.14 |
| GBP | 18-Dec | 0.50 | 0.60 | 1.77 | 3.90 | 88.8 | 162.1 | 838.4 |
| | +3m | 0.50 | 0.65 | 1.80 | 3.90 | 88.0 | 176 | 847 |
| | +6m | 0.50 | 0.75 | 2.00 | 4.00 | 86.0 | 174 | 866 |
| | +12m | 1.25 | 1.50 | 2.75 | 4.40 | 80.0 | 181 | 933 |
| CHF | 18-Dec | 0.25 | 0.25 | 0.80 | 2.43 | 149.8 | 104.2 | 496.7 |
| | +3m | 0.25 | 0.35 | 0.90 | 2.45 | 151 | 97 | 493 |
| | +6m | 0.25 | 0.35 | 1.15 | 2.65 | 152 | 101 | 490 |
| | +12m | 0.75 | 0.75 | 1.60 | 2.85 | 154 | 106 | 484 |
| DKK | 18-Dec | 1.20 | 1.55 | 2.25 | 3.68 | 744.2 | 517.3 | - |
| | +3m | 1.15 | 1.55 | 2.40 | 3.90 | 745 | 481 | - |
| | +6m | 1.15 | 1.70 | 2.55 | 4.05 | 745 | 497 | - |
| | +12m | 1.65 | 2.10 | 3.15 | 4.35 | 746 | 514 | - |
| SEK | 18-Dec | 0.25 | 0.48 | 1.51 | 3.44 | 1043.9 | 725.7 | 71.3 |
| | +3m | 0.25 | 0.50 | 1.60 | 3.75 | 1010 | 652 | 73.8 |
| | +6m | 0.25 | 0.50 | 2.00 | 3.90 | 980 | 653 | 76.0 |
| | +12m | 0.75 | 1.00 | 3.00 | 4.30 | 960 | 662 | 77.7 |
| NOK | 18-Dec | 1.75 | 2.09 | 3.36 | 4.55 | 840.3 | 584.2 | 88.6 |
| | +3m | 2.00 | 2.60 | 4.05 | 4.85 | 820 | 529 | 90.9 |
| | +6m | 2.25 | 2.90 | 4.50 | 5.00 | 810 | 540 | 92.0 |
| | +12m | 3.25 | 3.90 | 5.30 | 5.30 | 800 | 552 | 93.3 |
| PLN | 18-Dec | 3.50 | 4.15 | 5.04 | 5.74 | 418.2 | 290.7 | 177.9 |
| | +3m | 3.50 | 4.10 | 5.00 | 5.85 | 415 | 268 | 180 |
| | +6m | 3.50 | 4.10 | 5.20 | 6.10 | 400 | 267 | 186 |
| | +12m | 3.75 | 4.10 | 5.80 | 6.35 | 390 | 269 | 191 |

## Equity markets

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

## Commodities

| | | 2009 | | | | 2010 | | | | Average | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 18-Dec | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2009 | 2010 |
| NYMEX WTI | 73 | 43 | 60 | 68 | 78 | 82 | 83 | 83 | 85 | 62 | 83 |
| ICE Brent | 74 | 78 | 76 | 75 | 77 | 81 | 82 | 82 | 84 | 77 | 82 |
| Aluminium | 2,217 | 2,203 | 1,526 | 1,836 | 1,950 | 1,900 | 2,000 | 2,000 | 2,100 | 1,879 | 2,000 |
| Copper | 6,870 | 6,810 | 4,685 | 5,856 | 6,600 | 6,700 | 6,800 | 6,900 | 7,200 | 5,988 | 6,900 |
| Zinc | 2,391 | 2,270 | 1,503 | 1,780 | 2,150 | 2,100 | 2,200 | 2,200 | 2,400 | 1,926 | 2,225 |
| Nickel/1000 | 17 | 16 | 13 | 18 | 18 | 19 | 20 | 21 | 21 | 16 | 20 |
| Gold | 1,106 | 1,216 | 1,208 | 1,161 | 1,100 | 1,300 | 1,200 | 1,150 | 1,100 | 1,171 | 1,188 |
| Matif Mill Wheat | 128 | 130 | 129 | 128 | 130 | 130 | 145 | 143 | 148 | 129 | 142 |
| CBOT Wheat | 523 | 629 | 636 | 530 | 550 | 575 | 600 | 600 | 625 | 586 | 600 |
| CBOT Corn | 401 | 429 | 443 | 346 | 400 | 425 | 450 | 450 | 475 | 404 | 450 |

*Source: Danske Markets*

# Calendar

| Monday, December 21, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| - | EUR | ECB's Stark speaks | | | | | |
| 0:50 | JPY | Trade balance | JPY bn(s.a.) | Nov | | *300.0 (268.0)* | 807.1(419.1) |
| 5:30 | JPY | All industri activity index | m/m | Oct | | *1.0%* | -0.6% |
| 6:00 | JPY | Bank of Japan Monthly Report | | | | | |
| 9:00 | CHF | Money supply M3 | y/y | Nov | | | 7.7% |
| 9:30 | DKK | Consumer confidence | Index | Dec | **-1.0** | | -2.4 |
| 14:30 | CAD | Retail sales | m/m | Oct | | | 1.0% |

| Tuesday, December 22, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 8:00 | DEM | GfK Consumer Confidence Survey | Index | Jan | | *3.5* | 3.7 |
| 8:15 | CHF | Trade balance | CHF bn | Nov | | | 2.46 |
| 9:30 | DKK | GDP | q/q\|y/y | 3rd quarter | **-0.4%\|-6.0%** | | -2.6%\|-7.2% |
| 9:30 | SEK | Consumer confidence | Index | Dec | | | |
| 9:30 | SEK | PPI (incl. export- and importprices) | m/m\|y/y | Nov | 0.9%\|-1.7% | | -0.4%\|-1.8% |
| 9:30 | SEK | Manufacturing confidence | Index | Dec | | | -10 |
| 10:30 | GBP | GDP, 2nd estimate | q/q\|y/y | 3rd quarter | **-0.1%\|-4.9%** | *-0.1%\|-4.9%* | -0.3%\|-5.1% |
| 14:30 | USD | GDP | q/q ann. | 3rd quarter | **2.8%** | *2.8%* | 2.8% |
| 14:30 | USD | Personal Consumption | q/q ann. | 3rd quarter | **2.9%** | *2.9%* | 2.9% |
| 14:30 | USD | GDP Price Deflator | q/q | 3rd quarter | **0.5%** | *0.5%* | 0.5% |
| 14:30 | USD | GDP Core Deflator | q/q | 3rd quarter | **1.3%** | *1.3%* | 1.3% |
| 15:00 | BEF | Business Confidence | Index | Dec | | | -8.8 |
| 16:00 | USD | House price index | m/m | Oct | | | 0.0% |
| 16:00 | USD | Existing home sales | m (m/m) | Nov | **6.16 (1.1%)** | *6.25 (2.5%)* | 6.10 (10.1%) |
| 22:45 | NZD | GDP | q/q\|y/y | 3rd quarter | | *0.4%\|-1.3%* | 0.1%\|-2.1% |

| Wednesday, December 23, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 8:45 | FRF | Consumer spending | m/m\|y/y | Nov | | | 1.1%\|3.5% |
| 9:30 | ITL | Consumer confidence | Index | Dec | | | 112.8 |
| 9:30 | NOK | Unemployment s.a. (LFS) | % | Nov | **3.1** | | 3.1 |
| 10:30 | GBP | Bank of England Minutes | | Dec | | | |
| 10:30 | GBP | BBA Loans for House Purchase | | Nov | | | 42238 |
| 11:00 | EUR | Industrial new orders | m/m\|y/y | Oct | **-1.1%\|..** | | 1.5%\|-16.5% |
| 13:00 | USD | MBA mortgage applications | % | | | | 0.3 |
| 14:30 | USD | Personal income | m/m | Nov | **0.6%** | *0.5%* | 0.2% |
| 14:30 | USD | Personal spending | m/m | Nov | **0.6%** | *0.7%* | 0.7% |
| 14:30 | USD | Private consumption expenditure | m/m\|y/y | Nov | **0.3%\|1.6%** | *..\|0.8%* | 0.2%\|0.2% |
| 14:30 | USD | PCE core - deflator | m/m\|y/y | Nov | **0.1%\|1.5%** | *0.1%\|1.6%* | 0.2%\|1.4% |
| 14:30 | CAD | GDP | m/m | Nov | | | 0.4% |
| 16:00 | USD | University of Michigan Confidence, final | Index | Dec | **76.4** | *74.0* | 73.4 |
| 16:00 | USD | New home sales | 1000 (m/m) | Nov | **435 (1.2%)** | *439 (2.1%)* | 430 (6.2%) |

*Source: Danske Markets*

**Calendar - continued**

| Thursday, December 24, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 0:50 | JPY | BoJ Board Minutes | | | | | |
| 0:50 | JPY | BSI Large Manufacturing | | 4th quarter | | | 15.5 |
| 14:30 | USD | Durable goods orders | m/m | Nov | | *0.4%* | -0.6% |
| 14:30 | USD | Initial jobless claims | 1000 | | | *470* | 480 |

| Friday, December 25, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 0:30 | JPY | Unemployment rate | % | Nov | | *5.2* | 5.1 |
| 0:30 | JPY | Job-to-applicant ratio | | Nov | | *0.45* | 0.44 |
| 0:30 | JPY | Household Spending | y/y | Nov | | *0.4%* | 1.6% |
| 0:30 | JPY | CPI - Tokyo(Ex. Fresh Food) | y/y | Dec | | *-2.0% (-1.8%)* | -2.2%(-1.9%) |
| 0:30 | JPY | CPI - National(Ex Fresh Food) | y/y | Nov | | *-2.0% (-1.7%)* | -2.5%(-2.2%) |

| During the week | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| Mon 21 - 23 | CNY | Wholesale prices | | Nov | | | |
| Mon 21 - 28 | JPY | Manufacturing PMI | Index | Dec | | | 52.3 |
| Thu 24 - 28 | JPY | Business conditions indices small | Index | Dec | | | 43.0 |

*Source: Danske Markets*

## Calendar - continued

| Monday, December 28, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 0:50 | JPY | Industrial production, preliminary | m/m\|y/y | Nov | | | 0.5%\|-15.1 |
| 0:50 | JPY | Retail trade | m/m\|y/y | Nov | | | -0.9%\|-0.9% |
| 2:30 | JPY | Wages | y/y | Nov | | | -1.7% |
| 19:00 | USD | Treasury auction, 2yr notes | Bln USD | | | | |

| Tuesday, December 29, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| - | DEM | HICP, preliminary | m/m\|y/y | Dec | ..\|0.8% | | ..\|0.4% |
| 8:00 | CHF | UBS consumption indicator | Index | Nov | | | 0.867 |
| 8:45 | FRF | GDP, final | q/q\|y/y | 3rd quarter | | | 0.3%\|-2.4% |
| 9:30 | ITL | Business confidence | Index | Dec | | | 78.8 |
| 9:30 | SEK | Retail sales | m/m\|y/y | Nov | | | 1.5%\|5.5% |
| 16:00 | USD | Consumer confidence | Index | Dec | 55.5 | 52.8 | 49.5 |
| 19:00 | USD | Treasury auction, 5yr notes | Bln USD | | | | |

| Wednesday, December 30, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 0:15 | JPY | PMI manufacturing | Index | Dec | | | 52.3 |
| 9:00 | CHF | Current Account | | 3rd quarter | | | |
| 9:30 | SEK | Trade balance | SEK bn | Nov | | | 5.1 |
| 10:00 | EUR | M3 Money supply | y/y | Nov | 0.4% | | 0.3% |
| 11:30 | CHF | KOF Swiss leading indicator | Index | Dec | | 1.75 | 1.62 |
| 13:00 | USD | MBA mortgage applications | % | | | | |
| 16:00 | USD | Chicago PMI | Index | Dec | 56.7 | 56.3 | 56.1 |
| 19:00 | USD | Treasury auction, 7yr notes | Bln USD | | | | |

| Thursday, December 31, 2009 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 14:30 | USD | Initial jobless claims | 1000 | | | | |

| Friday, January 1, 2010 | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| 2:00 | CNY | NBS Manufacturing PMI | Index | Dec | | | 55.2 |

| During the week | | | | Period | Danske Bank | Consensus | Previous |
|---|---|---|---|---|---|---|---|
| Mon 21 - 28 | JPY | Manufacturing PMI | Index | Dec | | | 52.3 |
| Thu 24 - 28 | JPY | Business conditions indices small | Index | Dec | | | 43.0 |
| Tue 29 - 31 | GBP | Nationwide House Prices | m/m\|y/y | Dec | | 0.2%\|5.5% | 0.5%\|2.7% |
| Wed 30 - 05 | DEM | Retail sales, real s.a. | m/m\|y/y | Nov | | | 0.5% (rev. 0.0%)\|-1.7% |
| Sat 02 - 07 | GBP | Halifax house prices | m/m\|3m/y | Dec | | | 1.4%\|-1.6% |

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*Source: Danske Markets*

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