

# Danske Daily

## Market movers today

- Overall, we believe that PMI figures for the euro area for September due for release today will show a moderate improvement, reflecting an ongoing recovery. The order-inventory balance for the manufacturing PMI showed a promising increase in August, signalling an increase in manufacturing PMI in September despite a moderate decline in figures for August. However, we believe services PMIs have a more sluggish outlook for September.
- In the US, Markit and ISM PMIs declined in August but are sending mixed signals on the manufacturing sector. Most notably, the ISM index declined 3.2 index points and is now back below the 50 threshold again, suggesting a contraction in the manufacturing sector. We estimate the Markit PMI manufacturing index declined to 50.5 in September.
- Iran and Saudi Arabia are set to continue talks in Vienna. The two are trying to work out their differences in order for OPEC and Russia along with possibly also other major oil producing countries to agree on a strategy to stabilise the oil market next week in Algiers.
- We are due to publish updated quarterly forecasts for the Nordic economies in our Nordic Outlook at 9:00 CET. The Outlook will not contain any new financial forecasts.

## Selected market news

As expected, Norges Bank (NB) yesterday left the sight deposit rate unchanged at 0.50%. The revised rate path suggests a 40% probability of a later rate cut, which was very close to our expectations. Meanwhile, NB signalled that the bottom in the revised rate path is first reached in Q2 17, which was less aggressive than we had pencilled in. Also, the rhetoric in the Monetary Policy Report (MPR) was more hawkish than expected, highlighting the Board's move towards a 'neutral' bias. Specifically, NB stated that *'the outlook suggests that the key policy rate will most likely remain at today's level in the period ahead'* and that *'...the forecast implies a slightly higher probability of a decrease than an increase in the key policy rate in the year ahead'*. Prior to the decision, markets had priced in around a 5-10% probability of a rate cut today. Post the decision, short-term rates have risen with markets pricing out the likelihood of a 2017 cut. As expected, EUR/NOK initially dropped on the announcement but the more hawkish-than-expected rhetoric also meant that we did not get the expected rebound in the cross. Given our economic forecasts and NB's gradual move towards a 'neutral' bias today, we expect NB to leave the sight deposit rate unchanged throughout 2017.

Yesterday, Saudi Arabia and Iran met in Vienna to discuss possible ways to stabilise the oil market ahead of the producers meeting in Algiers next week. In April, talks over a deal to freeze production failed because Iran refused to cooperate. However, since then, Iran has been able to push its crude production back up the level it was at before sanctions were imposed on Iran in 2012 – sanctions that were removed in January this year. Hence, Iran may be more inclined to agree to freeze production. Nevertheless, an agreement to freeze production would not achieve more than to preserve status quo in the oil market.

## Selected readings from Danske Bank

*Norges Bank Review: 'Unchanged' with move towards a 'neutral' bias*

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- *FX Forecast Update*
- *Weekly Focus*

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## Scandi markets

We will publish updated quarterly forecasts for the Nordic economies in our Nordic Outlook at 9.00 CET. The Outlook will not contain any new financial forecasts.

## Fixed income markets

The strong rally in EGB following the Bank of Japan (BoJ) announcement continued during yesterday's session. However, as Janet Yellen indicated that the Fed (contrary to the BoJ) is not worried about flatter curves, the buying was focused at the long end with the German 2Y30Y spread tightening by 8bps. Once again, we are back to big moves being driven by the 30Y. The rally in bunds has also widened the Bund ASW spread once again, which is now fast approaching the 'before the ECB disappointed' level (see [chart](#)).

With regard to Italy, speculation on a potential 50Y syndication keeps moving the long end. From mid-August until the end of last week, the 10Y outperformed the 30Y by around 20bps. So far this week, we have seen a reversion of 7bps driven partly by no announcement this week (see [chart](#)).

Friday marks the day for rating reviews and today is no different with Fitch reviewing Germany. We go out on a limb, calling for an unchanged 'AAA' rating with a stable outlook.

Norges Bank left the sight deposit rate unchanged at 0.50% and shifted from an 'easing bias' to a 'neutral bias'. Our call is that it will take unexpected negative surprises or a significantly stronger NOK to trigger a rate cut and we expect unchanged rates throughout 2017. See *Norges Bank Review: 'Unchanged' with move towards a 'neutral' bias*, 23 September 2016.

On Danish mortgage bonds, Realkredit Danmark announced yesterday details regarding the upcoming floater refinancing auctions. RD will sell a 6M CIBOR floater bond with maturity in July 2021. The preliminary auction amount is DKK37.5bn. RD will sell the bond over three days in the period from 16 November to 18 November. Realkredit Danmark also announced preliminary auction details on the non-callable 'Flex' bonds on Wednesday. The refinancing auction of these bonds will be held from Monday 21 November to Friday 25 November 2016. The preliminary auction amounts in the DKK 1Y, 3Y and 5Y segments are DKK30bn, DKK10.4bn and DKK5.1bn, respectively.

## FX markets

Overall, the outcome of yesterday's Norges Bank meeting raises the downside risk to our forecasts for EUR/NOK but we still do not expect it to be the trigger for sustainable NOK appreciation as: (1) strong NOK appreciation could be the trigger for a rate cut, (2) the global business cycle is vulnerable, (3) we are not near-term optimistic on the oil price given point two and (4) relative unit labour cost developments suggest limited NOK upside potential in the short term. Having said this, the breach of important technical barriers to the downside is likely to send the cross lower over the coming days, which given the latest change in positioning could open up for attractive tactical buying opportunities. In our base case, we first expect EUR/NOK to move sustainably lower in 2017 when valuation, positioning, a gradually higher oil price, relative rates and fundamentals will weigh on the cross.

Key figures and events

Friday, September 23, 2016

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish ESM's debt rating					
-	EUR	Fitch may publish Germany's debt rating					
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Sep			49.5
6:30	JPY	All industry activity index	m/m	Jul		0.2%	1.0%
8:10	SEK	Riksbank Ingves speech					
8:45	FRF	GDP, final	q/qly/y	2nd quarter		0.0% 1.4%	0.0% 1.4%
8:45	EUR	ECB's Constancio speaks in Frankfurt					
9:00	FRF	PMI manufacturing, preliminary	Index	Sep	<b>48.2</b>	48.5	48.3
9:00	FRF	PMI services, preliminary	Index	Sep	<b>52.1</b>	52.5	52.3
9:30	DEM	PMI manufacturing, preliminary	Index	Sep	<b>54.0</b>	53.2	53.6
9:30	DEM	PMI services, preliminary	Index	Sep	<b>51.5</b>	52.1	51.7
10:00	EUR	PMI manufacturing, preliminary	Index	Sep	<b>52.2</b>	51.5	51.7
10:00	EUR	PMI composite, preliminary	Index	Sep	<b>53.1</b>	52.8	52.9
10:00	EUR	PMI services, preliminary	Index	Sep	<b>52.5</b>	52.8	52.8
10:15	SEK	Riksbank's Ohlsson speech					
14:30	CAD	CPI	m/mly/y	Aug		... 1.4%	0.0% 1.3%
14:30	CAD	Retail sales	m/m	Jul		0.2%	-0.1%
15:45	USD	Markit manufacturing PMI, preliminary	Index	Sep	<b>50.5</b>	52.3	52.0
18:00	USD	Fed's Harker, Mester, Lockhart speaking					
18:00	USD	Fed's Mester (voter, hawkish) speaks					
18:00	USD	Fed's Lockhart (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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