Investment Research — General Market Conditions

27 September 2016

Danske Daily

Market movers today

- In the **US** today, the preliminary Markit PMI service index for September is due. The index has been right about the weak GDP growth rates over the past three quarters, so another weak print will be a strong sign that GDP growth in Q3 may have disappointed as well, as the service sector is supposed to be the main growth driver.

- In the **euro area** today, M3 money supply growth data, loans to households and NFCs figures for August are due out. Money supply growth has averaged 4.9% in the three months up to August and we expect the figure to persist. On the other hand, the more important loan growth figures have showed promising numbers. Particularly, the loans to NFCs have increased steadily since March and improved to 1.9% in July from 1.7% in June. We expect the positive tendencies to have continued into August.

- **German** retail sales for August are due out today.

- In **Sweden**, the two most interesting releases are retail sales and the trade balance for August, see page 2.

Selected market news

The first of three presidential TV debates between the Democrat nominee Hillary Clinton and the Republican nominee Donald Trump was held overnight. While there was not much news in terms of politics, it is interesting that a CNN poll shows that 62% think Clinton won the debate (against Trump's 27% but the sample is biased towards the Democrats). However, the markets also think Clinton came out on top as the implicit probability of a Clinton win rose approximately 5pp to 68% from 63% while the USD/MXN ('the Trump proxy') declined from 19.877 to 19.555 (a 1.6% appreciation) at the time of writing. US S&P500 futures are up 0.4pp. But with Brexit fresh in mind, it is too early for Clinton supporters to celebrate. We will continue to monitor incoming polls as the gap between Clinton and Trump has narrowed significantly in recent weeks indicating a close race. The next two debates are due to take place on 9 October and 19 October.

Yesterday, the German Ifo survey for September showed that Ifo expectations rose to 104.5 from 100.1 in August – the biggest monthly increase since August 2009 and the third biggest increase ever recorded (the survey began in 1991). The index is now at the highest level since November 15 and above the 103 level prior to the UK's vote to leave the EU. The rise in Ifo expectations is in line with German manufacturing PMI released on Friday last week and confirms the signal that GDP growth in Germany could surprise on the upside in H2 despite the Brexit vote.

As expected, ECB president Mario Draghi did not give any new information about what to expect from the ECB at his speech in the EU parliament yesterday, as we are still awaiting the committees' analyses of the QE programme. While the Fed's Kashkari repeated his dovish stance that the risks of too low inflation are greater than too high inflation, thus supporting the Fed maintaining the target range unchanged at last week's FOMC week, it was a surprise that Kaplan said he would have voted for a hike, as he has previously sounded more dovish. Both are non-voters this year but will be voting FOMC members next year.

Yesterday, the Italian government announced that the referendum on the Senate reform is due to be held on 4 December.

Selected readings from Danske Bank

- *Nordic Outlook – September 2016*
- *Research: China outlook – recovery set to lose steam in 2017*

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Scandi markets

In **Sweden**, a few new data observations are due to be released this morning. The two most interesting are, as we see it, retail sales and the trade balance for August. It should be time for a rebound in retail sales numbers. The two previous months were weak with dropping sales volumes m/m and the consecutive declines is, after all, quite unusual and would be a surprise. Also, there are indications that sales of clothing and shoes picked up in August. The trade balance, on the other hand, has performed poorly for quite some time. There are several indications that exporters once again face headwinds with some exceptions such as cars and trucks.

Fixed income markets

In Europe, this week's slim supply of EGBs is due to be kicked off today as the Netherlands will be tapping the Jan 37s, ESM will tap the 10Y and Italy will do a small tap in the zero coupon Mar-18 and Sep-32 linker.

The QE details released yesterday showed a weekly purchase of EUR18.5bn with PSPP again marginally lower at EUR15.4bn and CSPP slightly below last weeks' all-time high. We continue to expect a QE purchase run rate of around EUR85bn per month (due to front-loading) leading up to the December slowdown, see details on this *chart*.

In the US, going in to last night's debate, several polls (CNN/ORC and PA) had Trump and Hillary neck and neck in the two key swing states Pennsylvania and Colorado. While Hillary Clinton is still ahead in the national polls, Donald Trump has managed to reduce the gap significantly since mid-August (see election forecast from *FiveThirtyEight here*). What seems to be a 'sure thing' just a few weeks ago will surely have us on our toes all the way up to 8 November.

FX markets

As expected, the debate between US presidential candidates, Mr. Trump and Ms. Clinton, has set the tone in the currency markets overnight and the market reaction may provide a clue to future FX developments as the campaign enters its final stretch. As Ms. Clinton was seen winning the first debate, Asian currencies generally traded stronger, while the Japanese yen weakened against the USD as demand for safe havens declined. The most pronounced reaction was in the number one US election proxy, the Mexican peso (MXN), which strengthened by 1.7% after the debate. It should be noted that the peso had weakened substantially in the run-up to the debate on fears that Mr. Trump would clinch a victory. The recent underperformance of the MXN means that it is now among the most undervalued EM currencies, which together with very stretched short positions in the market, could point to a significant strengthening if Ms. Clinton starts to find renewed momentum in the polls after last night's debate.

EUR/SEK continues to trade with a bid tone where we see 9.65 as the near-term resistance. We expect Swedish retail sales to come out modestly on the strong side, which could cap the topside in EUR/SEK for now.

In terms of EUR/NOK, the cross has stabilised at levels just above the 9.10 threshold. Price action post last week's Norges Bank policy announcement has fit nicely with the central bank's revised NOK forecasts, which implicitly showed that the central bank was well aware that it would surprise markets in a hawkish direction. We note that Norges Bank has only pencilled in a 0.6% appreciation of the NOK over the coming year, highlighting how a stronger NOK and/or a marked disappointment in data could trigger a rate cut. In our base case, we expect neither of the two, and pencil in a range trading EUR/NOK for the rest of 2016, with the balance of risk

skewed to a temporary spike higher. In a 'Norway empty' calendar, we expect the cross to follow oil prices and global risk sentiment today.

EUR/DKK dropped back to around 7.4500 late yesterday. As we noted last week, the recent move higher in the pair was inconsistent with the development in fundamental drivers and the decline yesterday may simply be a correction. With the Italian constitutional referendum set to be held on 4 December, focus may return to political risk in Europe, which has spurred DKK buying in the past.

Key figures and events

Tuesday, September 27, 2016				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m|y/y	Aug	-0.4%|...	-0.2%|1.7%	0.6%|-1.5%
3:30	CNY	Industrial profits	y/y	Aug	11.0%		11.0%
9:30	SEK	Retail sales s.a.	m/m|y/y	Aug	0.8%|4.0%	0.5%|3.9%	-0.9%|1.1%
9:30	SEK	PPI	m/m|y/y	Aug			-0.3%|-1.1%
9:30	SEK	Household lending	y/y	Aug			7.6%
9:30	SEK	Trade balance	SEK bn	Aug	-3.5		0.5
10:00	EUR	Money supply (M3)	y/y	Aug	4.9%	4.9%	4.8%
10:00	EUR	Loans to households (adj. for sales and sec.)		Aug			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)		Aug			
15:00	USD	S&P Case Shiller House prices	Index	Jul			189.9
15:45	USD	Markit service PMI, preliminary	Index	Sep	51.5	51.0	51.0
15:45	USD	Markit composite PMI, preliminary	Index	Sep			51.5
16:00	USD	Conference Board consumer confidence	Index	Sep		98.5	101.1
17:15	USD	Fed's S.Fischer (voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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