

# Danske Daily

## Market movers today

- Both ECB president Mario Draghi and Fed chair Janet Yellen are scheduled to speak today but we do not expect any major news from them. The Fed speeches by Bullard, Evans and Mester are more interesting due to the divided FOMC at last week's meeting.
- The most important data release today will be the US preliminary durable goods order for August. We have not seen shipments of core capital goods bottoming out yet, suggesting that actual investments are still weak. Still, it was encouraging that new orders rose in July. Our view is that business investments were also weak in Q3 16.
- In Norway, today brings retail sales for August. We expect a correction after two weak months, see page 2. In Sweden, consumer and manufacturing confidence surveys are due.

## Selected market news

Yesterday, we got some mixed data from the US. The Markit PMI service index in September rose to 51.9 from 51.0 in August. Despite the increase, the composite index suggests that US GDP only grew around 1% q/q AR in Q3. If true, economic growth has been around 1% q/q AR for four consecutive quarters, which is weak by US standards. Based on the PMIs, economic growth has not picked up as stated in the statement from last week's FOMC meeting, and thus we stick to our non-consensus view that the Fed will not hike this year. Despite weak growth, we do not believe the economy is heading for a recession as consumers are still upbeat. Conference board consumer confidence rose to 104.1 in September from 101.8, the highest level post crisis. The Richmond index rose slightly to -8 in September from -11, so overall the regional survey does not signal a rebound in ISM manufacturing and it cannot be ruled out that ISM has stayed below 50 in September.

US equities ended higher yesterday, driven partly by the high consumer confidence, but the Asian equity indices are flashing red this morning. S&P500 futures are down 0.2%. Brent oil trades slightly above USD46 per barrel as the OPEC discussions continue.

Focus is still on the European banking sector after Deutsche Bank's stock price plunged following the US decision to issue the bank an USD14bn fine. The European bank sector has attracted a lot of attention this year as profitability has come under pressure due to a combination of tougher regulation, negative interest rates and slow economic growth. Angela Merkel continues to rule out state aid to Deutsche Bank.

Yesterday, we also published the 2016 edition of the *Danish Covered Bond Handbook*. The Danish Covered Bond Handbook is intended to act as a quick reference guide to the Danish covered bonds market and provide an overview of the different bond types and issuers of Danish covered bonds in Denmark. Further, we describe the Danish mortgage credit market and its pass-through bonds, including a description of the security underlying the bonds.

## Selected readings from Danske Bank

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

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- *Yield Forecast Update*
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## Scandi markets

In **Norway**, today brings retail sales for August, where we expect an increase of 0.8% m/m (consensus: +0.7%). This is, however, mainly a correction after two weak months and does not mean that private consumption is set to surprise on the upside in Q3 – for that we would be need to be looking at 1.5% m/m. As usual, it is important to remember that consumption of services is growing much more strongly than consumption of goods, so overall growth in private consumption will be solid even with zero growth in consumption of goods.

In **Sweden**, consumer and manufacturing confidence surveys are due.

## Fixed income markets

Bunds rallied strongly yesterday as the concerns about Deutsche Bank's health sparked demand at the expense of especially Italy, which stands out given its own problematic banking sector and the upcoming constitutional referendum on 4 December. We look for a calmer FI market today given the stabilisation in US equities last night. Focus remains on the European banking sector.

Today, the German Finanzagentur will tap EUR4bn in the Sep '18 Schatz. Given the current bullish core sentiment, we expect healthy demand even at the current record low yield below -0.70%.

Today, Norges Bank will tap NOK3bn in NGB NST 473, 4.50%, May 21, 2019. This is the third tap of this bond in 2016. The current asset swap spread is around 50bp, which is high relative to recent history. The spread versus German peers is at a high 135bp. The spread versus international peers and a more stable krone may attract some foreign demand. See our auction preview *Fixed Income Strategy: Norges Bank set to sell NOK3bn in NGB NST 473, 4.50%, May 22 2019*, 27 September 2016. In general, we like the mid-segment of the of NGB curve, see our recommendation for the 5Y NGB in *Government Bonds Weekly*, 25 September 2016.

The Swedish debt office will tap SEK5bn in both the 3M and 6M T-bill. The outright yield is a record low below -0.75% but for USD-based investors, the SEK T-bills still offer a healthy pick-up to US T-bills due to 'yield enhancement' from the FX forward (approx. 1.75%).

In the Danish Mortgage market, there is focus on the extraordinarily large issuance yesterday and especially today in callable mortgage bonds and also non-callable (interest-reset) bullets and floaters, as this will be the final opportunity to take up loans following the prepayment of fixed-rate loans and the termination of ARM loans in connection with the refinancing of October non-callable bullets. For more see *Danish Mortgage Bonds - expect issuance of DKK7-11bn in the coming days*. Note also that the Danish mortgage market looks set to receive a major liquidity injection in connection with the October mortgage payment date. Payouts should total DKK220bn, with DKK146bn stemming from maturing bonds. For more see *Danish Mortgage Bonds: Reinvestment requirement at October payment date could have positive impact*, 27 September.

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## FX markets

On Tuesday, EUR/SEK rose sharply and we were stopped out of our recommendation to sell EUR/SEK (entry 9.5688, target 9.40, stop loss 9.65). Tuesday's August retail sales came out broadly in line with expectations with the m/m data higher than consensus expectations but the

y/y number below expectations. However, negative risk appetite is weighing on the SEK. Today, we have the September manufacturing and confidence indicators where we see risks skewed to the downside and hence further gains in EUR/SEK. The oil price is bouncing up and down as the market tries to keep track of headlines from the negotiations between leading OPEC members at the International Energy Forum in Algiers over a strategy to stabilise the oil market. For now, it looks like the cartel members will leave emptyhanded, which weighed on oil prices yesterday. Meanwhile, EUR/NOK has not really reacted to the nervous oil market and continues to trade at low levels following the move lower on the back of the Norges Bank meeting last week. OPEC talks are set to continue tomorrow and are likely to attract a lot of attention in the oil market.

Key figures and events

Wednesday, September 28, 2016				Period	Danske Bank	Consensus	Previous
-	GBP	Nationwide house prices	m/mly/y	Sep		0.3% 5.0%	0.6% 5.6%
7:00	JPY	Small business confidence	Index	Sep		47.0	46.3
8:00	NOK	Retail sales, s.a.	m/m	Aug	0.8%	0.7%	-0.6%
8:00	DEM	GfK consumer confidence	Net. Bal.	Oct		10.1	10.2
8:45	FRF	Consumer confidence	Index	Sep		97.0	97.0
9:00	DKK	House prices	m/mly/y	2nd quarter			
9:00	DKK	CB's securities statistics		Aug			
9:00	DKK	Foreign portfolio investments		Aug			
9:00	SEK	Consumer confidence	Index	Sep	93.0	94.8	93.9
9:00	SEK	Economic Tendency Survey	Index	Sep			100.0
9:00	SEK	Manufacturing confidence	Index	Sep	98.0	98.0	97.7
10:00	ITL	Business confidence	Index	Sep		100.9	101.1
13:00	USD	MBA Mortgage Applications	%				-7.3%
14:30	USD	Durable goods orders, preliminary	m/m	Aug		-1.1%	4.4%
15:30	EUR	ECB's Draghi speaks in Germany					
16:00	USD	Fed Chair Yellen speaks					
16:10	USD	Fed's Bullard (voter, dove) speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-6200
19:30	USD	Fed's Evans (non-voter, dovish) speaks					
22:35	USD	Fed's Mester (voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

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