

Danske Daily

Market movers today

- The markets will continue to monitor the problems with Deutsche Bank today. Regarding key figures, there is focus on Euroland inflation, which is expected to increase, as both German and Spanish inflation rose yesterday.
- In the US, we have a string of data due out – PCE deflator, personal income and spending, and the Chicago PMI.

Selected market news

The sentiment in the US stock markets changed yesterday given the problems with Deutsche Bank and some hedge funds have been said to reduce their exposure to Deutsche Bank. The speculation of a new crisis is rising and we are seeing some of the usual safe haven ‘signs’ with buying of Swiss francs, rising VIX volatility as well as a decline in bond yields. On top of healthcare, shares fell in the US as speculation regarding tighter regulation will hurt profits in the sector

Most of the Asian equity markets have followed the negative trend from the US despite a modest rise in the oil price, but the fear that the problems in Deutsche Bank will spread to the global financial sector is outweighing the positive sentiment after the OPEC deal on Wednesday.

In the currency markets, we have seen modest movements in the major FX crosses this morning. Swiss francs are gaining versus the euro as mentioned above. The Norwegian krone is also benefiting from the OPEC deal and briefly tested the 9.00 level before bouncing back to the 9.03 level, where it is trading this morning.

The string of data out of Japan this morning showed only a modest recovery and inflation continued to decline – so, growth momentum is likely to be weak in the Japanese economy. Inflation dropped to -0.5% y/y in August.

Overnight in China, the Caixin PMI manufacturing for September was released. The index rose marginally from 50.0 in August to 50.1 in September in line with expectations. New orders rose to 50.8 from 50.6. New export orders rose to 50.1 from 49.3, the first print above 50 since November. Overall, the Caixin PMI manufacturing supports our view that the moderate recovery continues. The recovery is driven by (a) fiscal stimuli via infrastructure investments, (b) a recovery in the construction sector due to strong home sales and a reduction in home inventories and (c) a moderate export recovery supported by a 10% weakening of the CNY. We still expect to see some moderation in the recovery going into 2017 as the stimulus effect fade slightly and the biggest boost to construction should fade. See also *Research China outlook*, 26 September 2016.

Selected readings from Danske Bank

- *Polish government reshuffle, limited market impact*
- *Nordic Outlook - September 2016*
- *Research: China outlook - recovery set to lose steam in 2017*

Follow us on *Twitter* :



@Danske_Research

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Senior Analyst

Jens Peter Sørensen
+45 45 12 85 17
jenssr@danskebank.dk

Scandi markets

No major events in the Scandi markets today. In Norway, unemployment and the credit indicator are due to be released today, while in Sweden, data for the wage developments is due to be released.

Fixed income markets

The Bund future edged higher again overnight (trading briefly above 166) after Bloomberg reported that ‘a number of funds that clear derivatives trades with Deutsche Bank AG have withdrawn some excess cash and positions held at the lender’. Hence, expect downbeat risk sentiment on opening with German yields edging lower again and some re-widening of the Bund spread.

It is both the last session of the month and the quarter, implying that both index extension flows and turn effects will affect today’s session. A substantial quarter-end impact is visible in, for instance, repos for the Bund future basket, which is trading around -200bps over turn. USD scarcity for EUR-based banks/investors is further evidence of the turn effect.

The main release today will be the September HICP data. The figures from Germany and Spain released yesterday supported our call for an increase in September to 0.5% y/y up from 0.2% y/y in August. We expect further increases in inflation in coming months due to base effects with the headline peaking in February next year at around 1.5%.

TGIF – and that also means potential rating action with Spain up for review by S&P. Although sustained solid growth figures speak in favour of a lift in the outlook to positive, we doubt that S&P will do anything today due to the political situation. Spain has not been able to form a government since December last year. Note also that Spain is due to announce details on next week’s auction today. With the low outright yield level and flat curve the Tesoro is, in our view, likely to include longer tenors. An off-the-run 15-30Y (32, 37?) is a good candidate plus either the 5Y or 10Y and maybe a linker.

FX markets

EUR/NOK continued to trade at a relatively low level around 9.01-9.04 yesterday. In our view, EUR/NOK at this level seems excessive even though we have a strategic long-term bullish view on NOK. Our sceptical view on the impact on the oil price from OPEC’s intention to cut output along with positioning, technical levels and our short-term fair value estimate suggest that we could see a tactical rebound in EUR/NOK. Yesterday, we therefore sent out a recommendation to buy EUR/NOK spot targeting 9.2200 – see *Danske Bank FX Trading Portfolio: Buy EUR/NOK tactically*

EUR/PLN weakened somewhat yesterday following the government reshuffle late on Wednesday, which saw deputy prime and development minister Morawiecki add the post as finance minister to his portfolio. While we do not expect a major impact on PLN, the budget outlook for 2017 will be a key focus for investors over the coming months and any uncertainty with regard to meeting the 3% target could weigh on the zloty. However, we expect the government to meet the approved budget target of 2.9% of GDP next year, due partly to improved tax collection and a more modest scale of new policy measures.

Key figures and events

Friday, September 30, 2016

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish EFSF's debt rating					
-	EUR	S&P may publish Spain's debt rating					
1:01	GBP	GfK consumer confidence	Index	Sep		-5.0	-7.0
1:01	GBP	Lloyds business barometer		Sep			
1:30	JPY	CPI - national	y/y	Aug		-0.5%	-0.4%
1:30	JPY	CPI - national ex. fresh food	y/y	Aug		-0.4%	-0.5%
1:30	JPY	CPI - national ex. fresh food and energy	y/y	Aug		0.2%	0.3%
1:30	JPY	CPI- Tokyo	y/y	Sep		-0.5%	-0.5%
1:30	JPY	CPI - Tokyo ex fresh food	y/y	Sep		-0.4%	-0.4%
1:30	JPY	Household spending	y/y	Aug		-2.2%	-0.5%
1:30	JPY	Unemployment rate	%	Aug		3.0%	3.0%
1:30	JPY	Job-to-applicant ratio		Aug		1.37	1.37
1:50	JPY	Industrial production, preliminary	m/m y/y	Aug		0.5% 3.4%	-0.4% -4.2%
3:45	CNY	Caixin Manufacturing PMI	Index	Sep	50.0	50.1	50.0
7:00	JPY	Housing starts	y/y	Aug		7.2%	8.9%
8:00	NOK	Credit indicator (C2)	y/y	Aug		4.9%	5.0%
8:45	FRF	Household consumption	m/m y/y	Aug		0.3% 0.9%	-0.2% 0.5%
8:45	FRF	HICP, preliminary	m/m y/y	Sep		-0.3% 0.5%	0.3% 0.4%
9:00	DKK	GDP, second release	q/q y/y	2nd quarter		0.5% ...	0.5% ...
9:30	SEK	Wages (blue collars/white collars)	y/y	Jul			1.4%
10:00	NOK	Norges Bank's daily FX purchases	m	Oct		-900	-900
10:00	NOK	Unemployment	%	Sep	2.9%	2.9%	3.1%
10:30	GBP	GDP, third estimate	q/q y/y	2nd quarter	0.6% 2.2%	0.6% 2.2%	0.6% 2.2%
10:30	GBP	Index of services	m/m 3m/3m	Jul		0.1% 0.3%	0.2% 0.5%
11:00	ITL	HICP, preliminary	m/m y/y	Sep	.. -0.1%	1.8% 0.1%	0.0% -0.1%
11:00	EUR	Unemployment	%	Aug	10.1%	10.0%	10.1%
11:00	EUR	HICP - core inflation, preliminary	y/y	Sep	0.9%	0.9%	0.8%
11:00	EUR	HICP inflation, preliminary	y/y	Sep	0.5%	0.4%	
14:30	USD	Personal income	m/m	Aug	0.1%	0.2%	0.4%
14:30	USD	Personal spending	m/m	Aug	0.1%	0.2%	0.3%
14:30	USD	PCE core	m/m y/y	Aug	0.2% 1.7%	0.2% 1.7%	0.1% 1.6%
14:30	USD	PCE deflator	m/m y/y	Aug	0.1% 0.9%	0.2% 0.9%	0.0% 0.8%
15:45	USD	Chicago PMI	Index	Sep		53.0	51.5
14:30	CAD	GDP	m/m y/y	Jul			0.6% 1.1%
16:00	USD	University of Michigan Confidence, final	Index	Sep		90.1	89.8

Source: Bloomberg, Danske Bank Markets

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The name of the author of the report is listed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Finance Society's rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

This report is updated on a daily basis.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.