

Danske Daily

Market movers today

- In the **US**, focus will be on the **ISM manufacturing index** figure for November today. We estimate the index increased to 53.3 in November from 51.9 in October in line with the Markit PMI manufacturing index, which continued to show strong readings last week.
- US initial jobless claims will also attract some attention ahead of the US jobs report tomorrow.
- We have FOMC Member Kaplan ('dovish' with 2017 voting right) due to speak today.
- In the **euro area**, the main release is the **unemployment rate** for October. The unemployment rate has plateaued at 10% since July, but we expect the October figure to fall to 9.9%, as latest survey indicators including the PMI employment index have remained strong. Data for the manufacturing PMIs for Spain and Italy for November is also due out. The latter will be of special interest, as the population's impression of economic conditions could influence their vote on the upcoming constitutional referendum on Sunday.
- In the **UK**, the **PMI manufacturing index** for November is due to be released today. The index rebounded significantly after the Brexit vote, supported by the weaker GBP and higher global PMIs, and we expect PMI manufacturing to increase further to 55.0 for November (consensus: 54.4).
- **Scandi countries** will also publish PMI data. See next page.

Selected market news

The main event driving markets has been the OPEC deal agreed in Vienna yesterday. After weeks of negotiations, OPEC members have agreed to lower the output to 32.5mb/d by 1 January 2017. However, the deal is contingent on non-OPEC producers agreeing to contribute with 600kb/d of output cuts at a meeting on 9 December – see *Flash Comment International - Oil deal more important for OPEC's reputation than the oil market*, 30 November 2016. The announcement led oil prices to rally and Brent crude is up by 1% this morning, trading above USD52/bl. We expect higher global economic growth and inflation to support growth in oil demand in the future and project Brent crude to rise to USD58/bl in Q4 17.

Following the announcement, energy shares also gained, while the US dollar and US bond yields rose sharply on the prospect that resulting inflationary pressures will lead to higher interest rates. USD/JPY touched a 9.5-month high of 114.830, causing the Nikkei to rally by 2%, along with other Asian equity markets.

This morning, **manufacturing PMI data for China** was released. Activity in China's manufacturing sector grew more than expected in November, expanding at its strongest pace in more than two years. The 'official' NBS manufacturing PMI showed a marked increase to 51.7, whereas the Caixin manufacturing index fell back slightly to 50.9. PMI manufacturing readings have been very strong in recent months and stronger than we expected, driven by an even stronger boost from construction and infrastructure than we projected this year. Despite the indication that China's manufacturing sector has picked up over the past months, we believe the boost from infrastructure is likely to fade soon and look for a peak in PMI data before too long.

Selected readings from Danske Bank

- *Flash Comment International - Oil deal more important for OPEC's reputation than the oil market*
- *The Big Picture: Recovery, reflation and political uncertainties*

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*

Analyst

Aila Mihr
+45 45 13 78 67
amih@danskebank.dk

Scandi markets

In **Sweden** and **Norway**, manufacturing PMI data is due out today. The series has traditionally been very volatile.

Fixed income markets

Today, we release our releasing our *FI Research Top Trades 2017*.

There has been interesting price action in the EUR swap curve, with the 5/30 steepness increasing to the highest level since June. The move appears to be related to fears of additional long-end supply in the US next year to finance the expected fiscal boost. The main release today is the euro area unemployment rate which at 10.0% should still put the ECB on an easing bias. The ECB's inflation projection towards 2% over the coming years relies heavily on wage growth picking up substantially. Note that the European Commission recently lowered its estimate for the NAIRU to 9.0%. Hence, there is still plenty of slack and limited, if any, signs of wage increases yet.

Spain is coming to the market today with a smaller-than-normal tap of EUR2-3bn in the Jul-21, Oct-26 and Jul-41 plus 0.25-0.75bn in the linker Nov-19. This week's Spanish underperformance to Italy has been driven mainly by Italy recovering, helped by the ECB 'sources story', which suggested the possibility of temporarily increasing purchases of BTPs in the case of market turmoil triggered by a 'No' vote. However, the fact that Spain has another auction on 15 December while the next Italian tap in on 29 December is pushing in the same direction. France is also in the market today with a small long-end tap of EUR2.5-3.0bn in the May-31 and the Apr-41. Also, France has recovered a bit after the 'Trump'-triggered underperformance.

FX markets

Yesterday, OPEC agreed to a deal, which will see its total output fall to 32.5mb/d from 1 January 2017. However, the deal is contingent on non-OPEC producers agreeing to contribute with 600kb/d of output cuts at a meeting on 9 December – *Flash Comment International - Oil deal more important for OPEC's reputation than the oil market*. The announcement led oil prices to rally with the price on Brent crude rising above USD50/bbl – an increase on the day of about 8%. This led to a rally in oil currencies with EUR/NOK falling to around 9-9.02 and USD/RUB falling close to 64. We could see oil prices erasing part of the gain today if the market starts to doubt the credibility and longevity of the deal. Such a move would weigh on NOK and RUB correspondingly. We forecast EUR/NOK at 9.20 on 1M and 3M. A further rise in ISM manufacturing, which we are looking for today, may add further fuel to the ongoing repricing of Federal Reserve rate hikes and fuel to the rally in USD, which has been taking a breather over the past week. We forecast EUR/USD at 1.05 in 1M and 1.04 in 3M.

This morning, we also published our *FX Top Trades 2017: How to position for the coming year*.

Key figures and events

Thursday, December 1, 2016

				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Nov		17.7	17.91
1:30	JPY	Nikkei Manufacturing PMI, final	Index	Nov			51.1
2:00	CNY	PMI manufacturing	Index	Nov	51.0	51.0	51.2
2:00	CNY	PMI non-manufacturing	Index	Nov			54.0
2:45	CNY	Caixin PMI manufacturing	Index	Nov	51.0	50.8	51.2
8:30	SEK	PMI manufacturing	Index	Nov		58.5	58.4
9:00	NOK	PMI manufacturing	Index	Nov		52.5	52.7
9:15	ESP	PMI manufacturing	Index	Nov		53.6	53.3
9:45	ITL	PMI manufacturing	Index	Nov		51.3	50.9
9:50	FRF	PMI manufacturing, final	Index	Nov		51.5	51.5
9:55	DEM	PMI manufacturing, final	Index	Nov		54.4	54.4
10:00	EUR	PMI manufacturing, final	Index	Nov		53.7	53.7
10:30	GBP	PMI manufacturing	Index	Nov	55.0	54.4	54.3
11:00	EUR	Unemployment	%	Oct	9.9%	10.0%	10.0%
11:00	ITL	GDP, second estimate	q/q/y/y	3rd quarter		0.3% 0.9%	0.3% 0.9%
14:00	USD	Fed's Kaplan (non-voter, dovish) speaks					
14:30	USD	Initial jobless claims	1000				251
14:30	USD	Fed's Mester (voter, hawkish) speaks					
15:30	CAD	RBC manufacturing PMI	Index	Nov			51.1
15:45	USD	Markit PMI manufacturing, final	Index	Nov			53.9
16:00	USD	ISM manufacturing	Index	Nov	53.3	52.1	51.9
16:00	USD	Construction spending	m/m	Oct		0.6%	-0.4%

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 author of the research report appears from 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 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.