

10 February 2017

Danske Daily

Market movers today

- **In the US**, the preliminary consumer confidence data from the University of Michigan. Consumer confidence has risen significantly since Donald Trump's election victory but we think it will decline slightly from 98.5 to 97.5. However, this is still a high level, supporting our view that private consumption continues to be the main growth engine in the US.
- **US President Trump is scheduled to meet with Japan's Prime Minister Shinzo Abe** in Japan where much focus will be on trade relations. The meeting follows this morning's **phone call between Chinese President Xi Jinping and Trump** (the first under Trump's term, in which Trump reaffirmed the long standing "One-China" policy stance.
- **In the UK**, industrial production and construction data for December will reveal whether we should expect revisions to the first estimate of Q4 GDP growth of 0.6% q/q. The NIESR GDP estimate for January is also interesting, as it has been a quite good indicator for actual GDP growth.
- In a thin **euro area** calendar most market focus will be a speech by ECB's Weidmann.
- After several strong labour market reports in **Canada**, markets will look for some setback amid the highest quarterly change in the number of employed since 2012.
- In the **Scandies**, focus is on the inflation prints due in **Norway** and **Denmark**. For more info see 'Scandi Markets' on page 2.

Selected market news

Markets reacted strongly yesterday to **US President Trump's** comment that a "*phenomenal*" **tax plan** is in the pipeline which could be released within the next "*two or three weeks*". While not concrete, markets found comfort in the comments as it highlights tax reforms are still an important part of Trump's plans after the primary focus during his term in office so far has been on trade and immigration policies. Equities and the USD rose while US 10Y Treasury yields rebounded after the last days' rally.

Sentiment has spread to **Asian equities** that were also supported by the Trump-Jinping phone call (see above) and better-than-expected **Chinese trade data**. We do, however, warn against putting too much emphasis on the trade figures, as they tend to be very volatile and distorted.

In the US, a **federal appeal court** ruled unanimously against the Trump administrations' bid to reinstate the disputed travel ban on citizens from seven Muslim-majority countries. Trump reacted promptly on Twitter (see *tweet*) suggesting a US Supreme Court review is likely.

In the fight against soaring inflation on the back of the weaker MXN and rising fuel prices, **Bank of Mexico** yesterday hiked rates by 50bp to 6.25%. The central bank has thereby hiked rates at four consecutive monetary policy meetings.

While yesterday's GDP release out of **Norway**, as expected, revealed the lowest annual mainland growth rate (0.8%) since the financial crisis, we do think the details had some positive aspects worth mentioning. For instance the release showed the first aggregated yearly rise in business investments since 2012 and the fact that oil investments rose in Q4 16 (for the first time since 2013) is encouraging given the large supply side's dependence on petroleum industries. As headwinds gradually fade for the oil sector, consumer's purchasing power improves and as global growth has rebounded, we look for just below potential growth this year around 1.5%-2.0%. We still expect Norges Bank to keep rates unchanged for at least the coming year.

Selected readings from Danske Bank

- *Flash Comment – Chinese FX reserves fall to six-year low*
- *China Leading Indicators – Signs of a peak in the cycle*
- *Research Netherlands – 'Nexit' risk after election is low*
- *IMM Positioning Update*
- *QE Details – Slowdown in purchases in Finland, Ireland and Portugal*

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Scandi markets

In **Denmark**, inflation figures for December will be released. We expect a rise of 0.1% m/m and 1.0% y/y, pushed up mainly by energy prices and the base effects of food prices. Recent months have seen sharp increases in German food prices pulling up Danish food prices too and we expect this effect to continue in January. Note that the January figures contain a number of new prices that are updated only occasionally, considerably increasing uncertainty about the overall level of inflation

In **Norway**, core inflation fell surprisingly sharply in December on the back of lower food prices. The annual rate of 2.5% was the lowest since May 2015 and 0.4pp less than Norges Bank assumed in the December monetary policy report. We have long argued that inflation will come down as the effects of the krone's depreciation ease and eventually reverse. However, we think the fall in December was due to seasonal variations in food prices around Christmas and so we estimate a slight rebound in January. We predict a moderate rise in core inflation to 2.6% y/y, with a slight risk to the upside if anything. In contrast, we are not seeing any signs of lasting changes in inflationary pressures, so we believe Norges Bank will be able to live with a bit of volatility from month to month.

Fixed income markets

Market attention continues to be centred on the **developments in the spread between France and Italy vs Germany** with periphery and semi-core rebounding further yesterday. Following substantial widening in January and beginning of February, 10Y Italy and 10Y France has recovered 14bp and 9bp to 10Y Bunds in 2 days, respectively. However, the two political risk prone countries are still trading some 27bp and 19bp wider to Bunds than at year-end and are set to keep drawing attention as the French election approaches.

It is Friday and that means **rating reviews**. **Italy** is up for review by Moody's and with a negative outlook the risk is not negligible. However, Moody's outlook has been negative since the latest downgrade in July 2012. All in all, we think it is most likely that Moody's will keep both rating and outlook unchanged. Also **France** is up for review by Moody tonight. Recall, that Moody normally doesn't release any new rating report if rating and/or outlook is kept unchanged, see more in *Government Bonds Weekly*, 3 February 2017.

In **Denmark** the mortgage institutions BRFkredit, DLR kredit and Nordea Kredit concluded their auctions, and today RD and Nykredit will wrap up the refinancing week. The total auction amount is around DKK 16bn in 1Y, 3Y and 5Y DKK bonds. The spreads on the 3Y bonds tightened a bit (1-2bp in ASW term) at the auctions yesterday, while the spreads on the 1Y and 5Y bonds were more or less unchanged relative to the spread levels on Wednesday. 5Y non-callables still look best in both outright terms and for funded and hedged investors. For more information on the February 2017 refinancing auctions, see *Reading the Markets Denmark*, 3 February 2017.

FX markets

Yesterday's GDP release out of **Norwa** marked the smallest 'negative' surprise possible as the mainland Q4 print of 0.3% q/q (unrounded 0.33%, consensus expectation 0.4%) was not only very close to Norges Bank's expectations (0.34%) but also left few surprises in the details and revisions. On balance, we had seen yesterday's release as a possible trigger for a **EUR/NOK** upside break of the 8.84-8.91 range. As this was not the case we suspect the cross will continue range trading: at this level few want to add shorts while the upside potential seems limited by selling interest. We need a new catalyst. Norwegian inflation prints are often followed by large NOK moves, but we think today's print is unlikely to fundamentally trigger renewed NOK interest. The last prints have been characterised by unusual volatility due to seasonality and currency effects but the domestic price pressures (the important part for Norges Bank) seemed

little changed. This could well be the same story today, so we recommend a close watch of the underlying details.

In the majors, **EUR/GBP** has grinded lower aided by rally in GBP/USD after stops was triggered above 1.2550. After the UK government's bill on starting Brexit negotiations was approved by a large majority in the Parliament's lower house, the next stage is the upper house, which is scheduled to begin debating the bill on 20 February. We still expect the GBP to come increasingly under pressure, as the triggering of the article 50 raises policy uncertainty. In our *Danske Bank FX Quant Strategy* earlier this week (8 February), we recommended going long EUR/GBP via 1M bullish 2:1:1 ratioed seagull.

In the same piece, we also recommended positioning for a temporary rebound in **EUR/SEK** via a 1M 1:2 ratioed call spread. Importantly, that recommendation is tactically model based as we strategically like to add to SEK-exposure on EUR/SEK rallies.

In **Poland**, the zloty has been weakening somewhat in the wake of the Wednesday's fairly dovish signals from the central bank. We think that **EUR/PLN** may trade on a soft note in the next few months as political uncertainty rise in Europe in the run-up to key elections in Netherlands and France. In general, PLN is quite sensitive to political risks in the wider EU given the dependence of Poland on EU assistance. A critical focus point will be next week's inflation print, which, if strong, may provide some support to the PLN as it would raise speculation about a rate rise by the central bank, which is currently not priced in by the market.

Key figures and events

Friday, February 10, 2017

				Period	Danske Bank	Consensus	Previous
-	ITL	Moody's may publish Italy's debt rating					
-	EUR	Moody's may publish France's debt rating					
-	EUR	Moody's may publish Italy's debt rating					
-	CNY	Trade balance	USD bn	Jan		58.9	40.7
-	FRF	Moody's may publish France's debt rating					
-	CNY	Money supply M2	y/y	Jan		11.3%	11.3%
-	CNY	Aggregate financing	CNY bn	Jan		3085	1626
1:30	AUD	RBA Statement of Monetary Policy					
8:00	NOK	Core inflation(CPI-ATE)	m/m y/y	Jan	... 2.6%		-0.4% 2.5%
8:00	NOK	CPI	m/m y/y	Jan			-0.5% 3.5%
8:00	NOK	PPI	m/m y/y	Jan			5.1% 7.2%
8:45	FRF	Industrial production	m/m y/y	Dec			2.2% 1.8%
9:00	DKK	CPI	m/m y/y	Jan	0.1% 1.0%		0.0% 0.5%
10:30	GBP	Construction output	m/m y/y	Dec		1.0% -0.4%	-0.2% 1.5%
10:30	GBP	Industrial production	m/m y/y	Dec		-0.2% 2.9%	2.1% 2.0%
10:30	GBP	Manufacturing production	m/m y/y	Dec		0.2% 1.6%	1.3% 1.2%
10:30	GBP	Trade balance	GBP mio.	Dec		-3500	-4167
11:00	EUR	ECB's Weidmann speaks in Hamburg					
14:30	USD	Import prices	m/m y/y	Jan		0.4% 3.5%	0.4% 1.8%
14:30	CAD	Net change in full time employment	1000	Jan			81.3
16:00	USD	University of Michigan Confidence, preliminary	Index	Feb	97.5	97.8	98.5
16:00	GBP	NIESR GDP estimate	q/q	Jan			0.5%
20:00	USD	Budget statement	USD bn	Jan		33.0	-27.5

Source: Bloomberg, Danske Bank Markets

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Expected updates

None.

Date of first publication

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