

27 January 2016

Danske Daily

Market movers today

- **The main event today is the meeting between UK PM Theresa May and US President Donald Trump.** In our view, it is likely the two will say that the UK and US will 'renew their special relationship' and 'lead together again'.
- **On the data front, we get the first estimate of US GDP growth for Q4 16.** We estimate GDP growth was 2.3% q/q AR driven mainly by private consumption. Business investments seem to have bottomed out when looking at core capex orders and we expect a positive contribution to growth in Q4. Capex orders for December are also released today and should have increased. Looking ahead, we expect capex orders to move higher on the back of higher oil prices, which supports oil investments and the rebound in manufacturing.
- **US PCE core inflation in Q4 will give us the December inflation rate implicitly.** Based on the CPI data released last week, we estimate PCE core prices rose 0.2% m/m in December, corresponding to a quarterly print of 1.4 q/q AR in Q4, down from 1.7% in Q3.
- **In the euro area, money supply and loan growth figures for December are due for release.** Loan growth to the private sector has improved to just below 2.0% y/y and the ECB's latest bank lending survey showed that demand for loans should continue to support growth in lending to both households and enterprises but credit standards for loans to enterprises tightened somewhat, driven by lower willingness to tolerate risk mainly in the Netherlands.
- **In Scandinavia,** Swedish business, consumer confidence and retail sales figures are due for release. For more info, see Scandi markets on page 2.

Selected market news

With less than a week as US President, Trump is now in his first major foreign policy conflict after Mexico's President Nieto cancelled a meeting with him planned for next week. The cancellation followed President Trump's tweet that if Mexico was unwilling to pay for the 'badly needed wall', then it would be better to cancel the upcoming meeting. The conflict threatens one of the largest bilateral trading relationships but Trump's spokesman Sean Spicer said 'we will continue to co-ordinate', while Mexico's President Nieto said the door was not closed for a meeting. Later yesterday, the White House said Trump wanted to pay for the wall with a 20% tax on imports from Mexico as part of a tax reform package.

The positive risk sentiment continued with rising equity prices and fixed income selling-off. Yesterday, USD followed suit and recovered following the resistance of the past few days. In fixed income markets, Italy and Portugal were under pressure and in the 10Y space spreads widened 12bp and 11bp to Germany, respectively, while Spain widened only slightly. In Italy, the headwind continued after the Constitutional Court rejected part of the 'Italicum', creating market fears that a snap-election has moved closer, while Portugal was under pressure after Bloomberg reported that an EU official had said that 'the Portugal situation is not good'.

Bundesbank President Jens Weidmann said yesterday that euro area inflation is heading towards the ECB's mandate indicating his view is that the ECB can soon start tapering. However, Weidmann also said 'expansionary monetary policy path is currently appropriate' and that the ECB will exit the loose monetary policy only when inflation is sustained which is much less hawkish and in line with the stance of other ECB members.

Selected readings from Danske Bank

- *Brexit Monitor #22: UK still set to trigger Article 50 before end March despite the government's defeat in Supreme Court, 24 January*

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Scandi markets

Sweden: On Friday, the NIER publishes the business (BCI) and consumer (CCI) confidence surveys (at 09:00 CET) and after very strong readings in the past month, a slight recoil should come as no surprise. As for retail sales (at 09:30 CET), we believe a weakish number is to be expected as the shoe and clothing industry's flash indicator was on the weak side, which chimes well with other anecdotal evidence.

Fixed income markets

Trump and May will meet later today in Philadelphia. This will be the first meeting with foreign officials for the newly inaugurated President. While we believe Trump is likely go 'straight to business' and discuss the US/UK trade relationship, May has stated that that it is too early to discuss what areas a trade deal will cover but hopes that 'opposites attract'.

Another day, another sell-off. This seems to be the story of 2017 and yesterday it was especially the case in periphery with 10Y Portugal and Italy, which continued to be weighed by the 'the Portugal situation is not good' comment and the Italian Constitutional Court ruling, widening 11bp and 12bp to Bunds, respectively. Once again, Spain fared well, widening only slightly to Germany and outperforming other core and semi-core.

Today, the Spanish Tesoro and the French debt office will announce which bonds they will tap next Thursday. While this week's Spanish syndicated deal was very well received, FRTRs have been underperforming over the past two weeks, driven by ample supply (Green OAT EUR7bn, CADES EUR4bn, City of Paris EUR300m, etc.). France is expected to tap around a total of EUR9bn in the long end, while the total in Spain is likely to be around EUR3bn.

Spain is up for review at Fitch and Moody's will have Finland on possible review. We do not expect any changes in the rating or the outlook for either Spain or Finland.

FX markets

Another day of risk rally and yield curve steepening during the European session yesterday shows that the reflation theme is still alive. The rise in equity prices and higher yields weighed on the JPY and the USD finally followed suit and recovered after the last days' resistance. This could very well be the time to go short EUR/USD for a move towards the lower end of the trading range.

USD/JPY jumped above 114.50 yesterday and while the short JPY trade is probably still quite crowded, we still expect the JPY to continue suffering in an environment with rising global bond yields and a higher oil price. We are still long EUR/JPY via options as one of our FX Top Trades for 2017.

GBP remains supported as UK PM Theresa May meets with US President Trump today. Yesterday, the UK government published the bill to trigger article 50 and the initial debate will start in the lower chamber of Parliament on 31 January, with a vote the following day. In our view, markets have turned too optimistic on UK trade deal outlooks and we still see risks skewed on the downside for GBP in coming months as the triggering of Article 50 moves closer.

After yesterday's fall, EUR/NOK is now fluctuating at the critical technical support levels that we have highlighted over the last days. While a sustained break below 8.9150 (and not least 8.90) would signal to us more near-term NOK strength, we prefer a more cautious short-term stance. Moreover, our short-term financial models, which have historically been a reliable leading indicator for short-term corrections, suggest that EUR/NOK is oversold. Strategically, we like to be long the NOK, yet, tactically, entry levels are likely to improve. We would sell rallies below 8.98.

EUR/SEK continued lower despite yesterday's bunch of data being on the weak side. We have come a long way in EUR/SEK and still think 9.50 will act as an attractor for the cross near term. Also, the economic surprise index spread (SEK-EUR) suggests less near-term catching up potential for the SEK vis-à-vis the EUR. Tactically, we would look to sell EUR/SEK on rallies.

Russia has unveiled its FX purchases plan posing 'speed limits' for the RUB. Russia's Ministry of Finance (Minfin) announced it will start FX purchases through the central bank (CBR) in February 2017 if the Urals price stays over USD40/bl. We expect the new framework to put a brake on the RUB's excessive strengthening, pushing the volatility down on a rising oil price, improving fiscal stability and the outlook on public finances. We believe the new mechanism would be RUB negative, especially in the short run, and RUB liquidity positive pushing money markets rates down, whether fully implemented. However, the RUB remains oil price driven. At the moment, we are not changing our medium- and long-term forecasts for the USD/RUB (55.10 in 6M and 51.15 in 12M) remaining in wait-and-see mode.

Key figures and events

Friday, January 27, 2017

				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m/y/y	Dec	1.9% ...	0.6% 0.4%	-1.7% 3.2%
-	EUR	Fitch may publish Spain's debt rating					
-	EUR	Moody's may publish Finland's debt rating					
-	GBP	Moody's publishes UK's debt rating					
8:45	FRF	Consumer confidence	Index	Jan		100.0	99.0
9:00	SEK	Consumer confidence	Index	Jan		103.5	103.2
9:00	SEK	Economic Tendency Survey	Index	Jan		111.4	113.8
9:00	SEK	Manufacturing confidence	Index	Jan		115.0	121.1
9:00	DKK	CB's securities statistics		Dec			
9:00	DKK	Foreign portfolio investments		Dec			
9:30	SEK	Household lending	y/y	Dec			7.2%
9:30	SEK	Retail sales s.a.	m/m/y/y	Dec	-0.5% 3.5%	-0.3% 3.5%	0.9% 3.6%
10:00	EUR	Money supply (M3)	y/y	Dec	4.9%	4.9%	4.8%
10:00	EUR	Loans to households (adj. for sales and sec.)		Dec			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)		Dec			
14:30	USD	GDP, first estimate	q/q AR	4th quarter	2.3%	2.1%	3.5%
14:30	USD	PCE core, preliminary	q/q AR	4th quarter	1.4%	1.4%	1.7%
14:30	USD	Core capital goods orders, preliminary	%	Dec		0.3%	0.9%
16:00	USD	University of Michigan Confidence, final	Index	Jan		98.1	98.1

Source: Bloomberg, Danske Bank Markets

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