

Danske Daily

Market movers today

- It will be a quiet day today in terms of major economic data releases. Among other important data releases later this week, the December jobs report in the US is due out on Friday.

Selected market news

Over the weekend, PMI manufacturing figures in China for December were released. NBS PMI manufacturing December figures came out at 51.4 (slightly below consensus at 51.5) from 51.7 in November, having increased quite a lot in November. PMI from both the official NBS and the private Caixin index have been strong recently. While we look for some slowing of the Chinese economy in 2017, we expect it to remain strong in the short term, as a strong housing market and infrastructure boost in 2016 have yet to peak. There are early signs that the regional tightening towards housing is starting to work. The timing of the peak of the cycle is uncertain but we expect it to be in Q4/Q1.

On Friday last week, Norges Bank announced daily NOK purchases in January of 1,000m, i.e. an increase from the December pace of NOK900m. The purchases are related to the fiscal rule. The rise in purchases is not a big surprise as the 2017 rise in the fiscal use of petroleum funds together with lower oil revenues require Norges Bank to transfer a larger NOK amount from the petroleum fund and the State's Direct Financial Interest (denominated in FX). While the NOK purchases are not aimed at strengthening the NOK, the larger use of 'oil money' is NOK positive and is one among several factors suggesting EUR/NOK will end 2017 lower than the current spot.

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Scandi markets

In Sweden, December PMI is published today.

Fixed income markets

The December changes to the ECB QE are effective from today. This implies that the ECB can buy bonds with a minimum remaining maturity of 1Y (versus 2Y previously) and now also buy bonds with a yield below the depo rate 'to the extent necessary'. Focus will be on how aggressive the purchases of German bonds 'below the depo' will be. The yield on 2Y Germany hit an all-time low on the year-end frenzy, which speaks in favour of a less aggressive start. However, substantial purchases below the depo level will be needed during 2017, otherwise German purchases will have to be slowed down as holdings in longer-dated bonds will be approaching the issuer limit (assuming that we do not get a massive sell-off in sub 5Y). See also the *Benoît Cœuré interview*, released 31 December, for an insightful update on the thinking in the ECB GCs inner circle.

Q1, and January in particular, is 'high season' when it comes to launching new bonds and we expect the first syndicated deals to be announced this week already. However, with the US, UK (and more) out until Tuesday, we will most likely have to wait until Tuesday or Wednesday before the first deal is announced. We expect Ireland to be the first to launch a new bond and believe Belgium will also be early with a new 10Y, thereby following the pattern of recent years. Portugal tends to be the first peripheral with a syndicated deal, while Spain is most often in the market with a new 10Y via syndication in the second or third week of the year. See *FI Research: EUR FI - guide to Q1 issuance and thoughts on supply vs QE in 2017*, 1 January 2017, for details. Yesterday, we also published our *Rating calendar and outlook for 2017*.

This week's scheduled supply is very biased toward the long end with the Spanish tap including the 30Y, while the French issuance includes both the 30Y and 50Y (both on Thursday).

FX markets

In FX markets, EUR/USD rose slightly in the final weeks of 2016, underlining how speculators covered their shorts bets (see *IMM Positioning*) from what are extreme levels historically in markets characterised by worsening liquidity and low risk appetite. Near term, we think the greenback (broad) could see another round of support aided by solid US economic releases this week. Yet, we still think EUR/USD downside will prove limited in coming months as valuation, positioning, fundamental flows and the level of the real effective USD will prevent the cross from reaching parity, in our view. As a result, we stick to our 'v' forecast profile, expecting the bottom in EUR/USD to be reached before Q2.

In the Scandis, on Friday, Norges Bank announced a step-up in daily NOK purchases from 900m to 1,000m. The NOK purchases are related to the fiscal rule and consequently the rise is not a big surprise as the 2017 rise in the fiscal use of petroleum funds together with lower oil revenues require Norges Bank to transfer a larger NOK amount from the petroleum fund and the State's Direct Financial Interest (denominated in FX). While the NOK purchases are not aimed at strengthening the NOK, the larger use of 'oil money' is NOK positive and is one among several factors suggesting EUR/NOK will end 2017 lower than the current spot.

Key figures and events

Monday, January 2, 2017

				Period	Danske Bank	Consensus	Previous
8:30	SEK	PMI manufacturing	Index	Dec			57.3
9:00	NOK	PMI manufacturing	Index	Dec		50.0	47.6
9:15	ESP	PMI manufacturing	Index	Dec	55.0	54.6	54.5
9:45	ITL	PMI manufacturing	Index	Dec	53.0	52.3	52.2
9:50	FRF	PMI manufacturing, final	Index	Dec	53.5	53.5	53.5
9:55	DEM	PMI manufacturing, final	Index	Dec	55.5	55.5	55.5
10:00	EUR	PMI manufacturing, final	Index	Dec	54.9	54.9	54.9
15:30	CAD	RBC manufacturing PMI	Index	Dec			51.5

Source: Bloomberg, Danske Bank Markets

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