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Danske Daily

Market movers today

- Today, the **US jobs report** for November due out at 14:30 CET will be the main focus. Despite the moderate headline employment growth of 161,000, the October US jobs report was strong with declines in both the unemployment and underemployment rates and acceleration of wage growth to 2.8% y/y, the highest wage growth since 2009. This should be sufficient 'further evidence' for the FOMC to raise rates on 14 December, which is now also fully priced in by markets. For the November report we estimate non-farm payrolls increased by 170,000 (consensus: 180,000) in line with recent trends and estimate an unchanged unemployment rate at 4.9%. We also expect average hourly earnings increased 0.2% m/m implying an unchanged wage growth rate of 2.8% y/y, see also *US Labour Market Monitor: November jobs report not a key determinant for Fed's decision to hike in December*.
- The Fed's Brainard and Tarullo (both 'dovish' voters) are scheduled to speak today.
- We also get **PMI Construction** data for November in the **UK**. The November release will give insight into whether the downturn in the construction sector after Brexit continues to ease, despite the financial pressures on the industry from higher input prices due to the weaker GBP. We think there is currently limited upside potential for the construction sector, and estimate the PMI construction index to be unchanged at 52.6 in November.
- In the **Scandi countries**, unemployment data for Norway and currency reserves data for Denmark are released today, see next page.

Selected market news

Asian shares lost some of their recent gains this morning, after subdued sessions on Wall Street and Europe. 10Y US Treasury yields and Brent crude futures hit multi-month highs overnight, driven by the recent OPEC deal and strong US manufacturing data, fuelling expectations of higher rates.

The upcoming Italian constitutional referendum on Sunday continues to weigh on investors' minds. Although a 'no' vote now seems largely priced into markets and the ECB has signalled that it is ready to step up purchases of Italian government bonds temporarily to ease market conditions, European shares fell yesterday and Italian 10Y yields rose back to 2.042%. Data on Thursday showed that Italy's manufacturing GDP expanded by 0.3% q/q in Q3 16 and manufacturing activity in November grew at its fast pace since June, providing some good news on the economic front for prime minister Renzi ahead of the vote this weekend.

Yesterday, we also had France's President Hollande declaring that he would not seek a second term in office in the presidential election in 2017, a surprise move that has heightened speculation about a possible candidacy of Prime Minister Valls for the Socialist party.

Speculation emerged yesterday that the ECB will extend its QE purchases beyond March 2017 at the policy meeting next Thursday, but also signal that the programme will eventually end as a compromise to conservative Governing Council members, according to senior sources from the central bank. Eurozone market inflation expectations now stand at a 10-month high of 1.64%.

Selected readings from Danske Bank

- *Presentation: Five macro themes for 2017*
- *US Labour Market Monitor: November jobs report not a key determinant for Fed's decision to hike in December*

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Scandi markets

The big gap between the LFS and NAV unemployment measures in **Norway** has increased uncertainty about capacity utilisation in the Norwegian economy. Other indicators seem to support the NAV figures, including vacancies and the employment section of Norges Bank's regional network survey. The LFS measure also fell slightly in September, while employment climbed relatively strongly. We therefore expect the NAV jobless rate to be unchanged at 2.8% in November, and gross unemployment to be more or less unchanged.

In **Denmark**, the Nationalbank is due to release currency reserves data for November today. The reserves have been very stable in recent months and while Trump's election victory has triggered some big currency movements in November, we do not expect it to have led to any significant fluctuations in Denmark.

Fixed income markets

The sell-off in the global bond market escalates on the back of comments from the US Treasury secretary nominee Mnuchin regarding the possibility of the Treasury issuing ultra-long bonds with a maturity above 30 years, as well as the higher oil price is boosting inflation expectations. Finally, the traditional demand for the long end due to month-end index extensions may not have been as strong as expected. Hence, the US government bond yield curve 10-30Y bear steepened modestly after having flattened since the Trump election ahead of the non-farm payroll data released this afternoon, which is expected to show the continued strength in the US labour market.

There was a solid spill over effect to the European markets yesterday, where Germany for once underperformed France and the periphery. Attention is now on the Italian referendum on Sunday and the ECB meeting next week. The opinion polls in Italy indicate that a "no" is almost a done deal, and it would be a huge surprise if the Italians voted "yes". The rise in yields will make it easier for the ECB/Bundesbank to buy more German government bonds. Furthermore, with a "no" at the Italian referendum combined with the EU commission's warning to a number of countries on the budgets for 2017, it seems difficult for the ECB to do a significant "tweaking" of the PSPP in favour of e.g. Italy and France. We expect that ECB will do an extension of the QE programme for six months and EUR80bn per month with the possibility of some minor "tweaks" to the PSPP.

FX markets

The oil-led selloff in EUR/NOK continued yesterday as the price on Brent crude reached USD53/bbl, pushing EUR/NOK down to 8.95. We still look for a higher EUR/NOK in the short term as we think the oil market is overreacting to the OPEC deal and because a strong seasonal effect will weigh on NOK in the latter part of December. The US jobs report is not likely to influence expectations of a Federal Reserve rate hike later this month and should therefore not have a big impact on EUR/USD today. European politics on the other hand may weigh on EUR today with the Austrian Presidential election re-run and the Italian constitutional referendum taking place over the weekend. We forecast EUR/USD at 1.05 in 1M and 1.04 in 3M.

Key figures and events

Friday, December 2, 2016				Period	Danske Bank	*Consensus*	Previous
-	EUR	S&P may publish Ireland's debt rating					
1:30	AUD	Retail sales	m/m	Oct		*0.5%*	0.6%
7:45	CHF	GDP	q/q|y/y	3rd quarter		*0.3%|1.8%*	0.6%|2.0%
9:30	SEK	Current account	SEK bn	3rd quarter			36
10:00	NOK	Unemployment	%	Nov	**2.8%**	*2.8%*	2.8%
10:30	GBP	PMI construction	Index	Nov	**52.6**	*52.2*	52.6
11:00	EUR	PPI	m/m|y/y	Oct		*-1.0%|0.3%*	-1.5%|0.1%
14:30	USD	Non farm payrolls	1000	Nov	**170**	*180*	161
14:30	USD	Unemployment	%	Nov	**4.9%**	*4.9%*	4.9%
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Nov	**0.2%|2.8%**	*0.2%|2.8%*	0.4%|2.8%
14:30	CAD	Net change in full time employment	1000	Nov			-23.1
14:45	USD	Fed's Brainard (voter, dovish) speaks					
16:00	DKK	Currency reserves	DKK bn	Nov			449.9
19:00	USD	Fed's Tarullo (voter, dove) speaks					

Source: Bloomberg, Danske Bank Markets

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