

# Danske Daily

## Market movers today

- Today, focus will be on the **Bank of England (BoE) meeting and the so-called ‘Super Thursday’**, where we get the policy announcements, minutes, an updated Inflation Report and Mark Carney hosts a press conference. We expect the BoE to keep the Bank Rate at 0.25%, the government bond purchases target at GBP435bn, and the corporate bond target at GBP10bn. We expect the Bank of England to maintain its easing bias despite the much weaker GBP, as on several occasions the BoE has communicated that it will see through a higher inflation rate in the short term, as it is only temporary. Instead, the BoE wants to support the economy through a time with elevated uncertainty. In our view, it is too early to rule out that the economy could slow due to the higher amount of uncertainty, and we still see more than 50% chance of a rate cut from 0.25% to 0.10% at the next big meeting in February, but it depends on whether the economy slows in Q4.
- In terms of data releases, **US initial jobless claims** will attract some attention ahead of the US jobs report tomorrow.
- In **Sweden**, Service PMI, industrial data (production and orders) are due, and Riksbank deputy governor Kerstin af Jochnick speaks about current monetary policy and the economic situation. See next page for details.

## Selected market news

As expected, the FOMC kept the Fed funds target rate at 0.25-0.50% and there were no major changes to the FOMC statement. The most important change was that it now says the case for a rate hike 'has continued to strengthen' (previously 'has strengthened') but that it 'decided, for the time being, to wait for some further evidence of continued progress toward its objectives'. In other words, we still have some important data releases left, starting with the jobs report for October tomorrow, which the Fed wants to take into account before making up its mind. We still think it is too early to say a December hike is a done deal, and we maintain our view that the Fed will not raise the Fed funds target range this year. However, the probability of a December hike has definitely increased, as economic data have been better than we had expected. See *FOMC Review: Fed unchanged as expected ahead of election - says case for a rate hike 'has continued to strengthen'* (2 November) for details.

Price actions were muted after the FOMC announcement and pricing in the US money market still implies a close to 70% probability of a December hike. US equity markets ended the day lower amid weak risk appetite as the US elections still look like a close race. According to the poll aggregator FiveThirtyEight, the odds of a win for Clinton have fallen further to 67.7% from 71.8% yesterday.

The oil price declined further yesterday with the price on Brent crude dropping below USD47/bbl and the price on WTI crude dropping below USD46/bbl as the weekly US oil inventories reported by EIA showed an increase of 14mb last week. We have, for some time, argued that we did not see a case for a more persistent decline in US oil inventories. Yesterday's data supports our view that US will keep high oil stocks going forward as oil remains cheap and risk of supply disruptions is high.

## Selected readings from Danske Bank

- *FOMC Review: Fed unchanged as expected ahead of election - says case for a rate hike 'has continued to strengthen'*
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## Scandi markets

**Sweden.** October services PMI is released at 08:00 CET. Contrary to the manufacturing PMI, the services number bounced higher already in September so the sharp rise in manufacturing does not necessarily suggest a further pick-up. Riksbank deputy governor Kerstin af Jochnick speaks about current monetary policy and the economic situation. The speech will not be published, but there will likely be flashes in news media. Having said that, until the release of the minutes from last week's policy meeting (and often also afterwards) board members strictly stick to the story in the monetary policy report, so keep expectations low. Finally, industrial data (production and orders) are due at 9.30 CET. Given the weak input data to Q3 GDP published so far, we need this particular outcome to be very strong indeed. The Riksbank expects an outcome of 2.8% y/y, our ex ante forecast said 2.5% y/y, while our activity indicator is a measly 1.2% y/y.

## Fixed income markets

The Federal Reserve kept the policy rate unchanged as expected, but the possibility of a rate hike in December seems almost a done deal according to market expectations. However, they continue to move at a gradual pace and the statement was more or less unchanged from September. The market reaction was muted as focus has turned towards the possibility of Trump winning the US election and the non-farm payrolls data on Friday. Today, the ISM non-manufacturing data for October is released, but this is not expected to have much impact on the markets.

Bank of England is meeting today and the expectation is also for no change in policy on the back of the resilient economic data from the UK economy. We saw a strong rebound in the Gilt market yesterday with 10Y Gilts closing 11bp lower. However, there is room for plenty more performance given the recent repricing of the Gilt market that almost brought us back to levels before the Brexit vote.

We have a busy day in the European government bond market with France selling EUR 7-8bn in the 10Y and 20Y benchmarks, Spain selling EUR 2.5bn-3bn in the 5Y, 10Y and 15Y benchmark as well as EUR 0.5bn-1bn in the 10Y linker. Finally, Ireland will tap EUR 0.75bn in the 14Y benchmark. Despite yesterday's rally in the European government bond market with the spread between periphery and core tightening, then we expect decent demand at the auction as supply will be running low for the rest of the year.

## FX markets

The USD weakened against most G10 currencies on Wednesday but strengthened against emerging market and commodity currencies. This clearly reflects increasing concerns that Donald Trump may win the US election on Tuesday. However, the USD stabilised against G3 currencies following the FOMC announcement where the Fed was more upbeat on reaching their inflation mandate. In coming days, we expect focus to return to the polls from the US election, which dominate price action in global FX markets.

The combination of weak global risk environment and falling oil prices has in recent days weighed on NOK. We think the NOK will continue to trade weak, seeing the EUR/NOK cross increasing to 9.20 by December.

In October, the Danish FX reserve was unchanged at DKK 450bn. EUR/DKK dropped below 7.4400 in October, but not low enough for Danmarks Nationalbank (DN) to step into the market and support EUR/DKK through FX intervention. That would likely require EUR/DKK to fall to

around 7.4350. Note though, that DN did ease DKK money conditions in October through DKK 6.8bn of DGB buy backs, implicitly supporting EUR/DKK.

Key figures and events

Thursday, November 3, 2016				Period	Danske Bank	Consensus	Previous
7:30	SEK	First Deputy Governor Kerstin af Jochnick speaks					
8:30	SEK	PMI services	Index	Oct			56.9
9:30	SEK	Industrial production s.a.	m/m y/y	Sep		2.7% -1.8%	-4.1% -4.8%
9:30	SEK	Service production	m/m y/y	Sep		... 3.6%	-1.4% 2.8%
9:30	SEK	Industrial orders	m/m y/y	Sep			-9.8% -5.6%
10:00	EUR	ECB Publishes Economic Bulletin					
10:30	GBP	PMI services	Index	Oct	52.4	52.4	52.6
11:00	EUR	Unemployment	%	Sep	10.0%	10.0%	10.1%
13:00	GBP	BoE minutes					
13:00	GBP	BoE government bond purchases (APF)	GBP bn	Nov	435	435	435
13:00	GBP	BoE corporate bond purchases (CBPP)	GBP bn	Nov	10	10	10
13:00	GBP	BoE Bank rate	%		0.25%	0.25%	0.25%
13:00	GBP	BoE Inflation Report					
13:30	GBP	BoE press conference					
13:30	USD	Unit labour cost, preliminary	q/q	3rd quarter		1.5%	4.3%
13:30	USD	Initial jobless claims	1000				258
14:45	USD	Markit PMI service, final	Index	Oct			54.8
15:00	USD	Core capital goods orders, final	% m/m	Sep			-1.2
15:00	USD	ISM non-manufacturing	Index	Oct	56.0	56.0	57.1
22:00	EUR	ECB's Coeure speaks in USA					

Source: Bloomberg, Danske Bank Markets

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