

Danske Daily

Market movers today

- In the **US**, September figures for both the ISM manufacturing index are due out. Together with ISM non-manufacturing index, these indices declined sharply in August, indicating that growth has also disappointed in Q3. Regarding the manufacturing sector, regional indices and the Markit PMI manufacturing index for September have declined, suggesting that the ISM manufacturing index could move even lower in September from the level of 49.4 in August. Though the Markit manufacturing PMI index declined to 51.4 in September, it is still above the 50 threshold, suggesting growth. We think there might be a risk that the ISM index declined 'too much' in August and there could be a (small) upward correction in September. We estimate the ISM manufacturing index increased slightly to around 50.0 in September. However, this is still a low level.
- In the **UK**, PMI manufacturing data is due out. The PMI rebounded significantly in August after falling sharply in July just after the vote. Consensus is for a drop to 52 in September versus 53.3 in August.

Selected market news

Asian markets are higher this morning as concerns about the possible failure of Deutsche Bank eased. Sentiment improved due to reports suggesting that the lender was lining up a less-costly settlement with US regulators than investors feared. The Nikkei index is up almost 1% while European and US stock futures are pointing to a higher opening.

The UK pound is set to come under further pressure after Prime Minister Theresa May said over the weekend that the UK government intends to trigger the Article 50 of the EU's Lisbon Treaty in Q1 17. She also hinted that the UK is heading for a 'hard Brexit', i.e. the UK is set to leave the single market and that the government intends to introduce a bill to convert all existing EU laws into UK legislation to provide certainty for business and investors. Our view is that the British pound will weaken further given the UK's sizable current account deficit and waning capital inflows due to investor concern about the possible impact of Brexit.

Focus will also be on Spain today following the resignation of Socialist party leader Pedro Sanchez on Saturday. This increases the chance that the Socialist party will back or accept a government led by the Conservatives and Mariano Rajoy. It is not yet clear what stance a new leadership will take but Sanchez was a key obstacle to ending the political deadlock that has lasted since December. In Hungary, the referendum about EU refugee policy was claimed invalid as the voting turnout at 39.7% fell short of the 50% threshold required. However, 98.2% of the votes turned out to be in favour of the prime ministers preferred 'no' vote. The result will heap some of the pressure on EU immigration policies and more widely the unity among EU member countries.

Selected readings from Danske Bank

- *Strategy: Oil, China and the downside risk to growth*

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Scandi markets

In Sweden, we also receive **PMI** from manufacturing (due out Monday at 08:30 CEST) but we must again underline that this index together with the service index is a weak and unstable indicator of the Swedish economy.

In Norway, **PMI** data for September is due out. The series has shown a clear rise in industrial activity since Easter but has been more volatile recently. With much weaker headwinds from oil-related industries and further strong activity in mainland manufacturing, we expect the underlying positive trend to continue.

Fixed income markets

A very interesting session (and week) ahead of us. First, the highlights on the political developments over the weekend. The UK is heading for a 'hard Brexit' with Article 50 set to be triggered in Q1. This is the short interpretation of May's Speech from over the weekend (and other statements). Her key statement was, 'we are not leaving only to return to the jurisdiction of the European Court of Justice'. In short, the UK is set to leave the single market. See the full speech [here](#).

Spanish government bonds should get a boost today following Socialist leader Sanches stepping down on Saturday after losing a key vote in the party's federal committee. This increases the likelihood of the Socialists potentially moving towards backing/accepting a government led by Rajoy (Conservatives, People's Party). It is still not clear what stance the new leadership will take but Sanches was a key obstacle to ending the political deadlock, which has lasted since December 2015. See the [FT](#). On to Italy, where the government made it clear over the weekend that it will not resign on a 'no' vote in the Constitutional referendum. 'Whoever agrees with the content of this reform, but votes 'No' only because they want to send Renzi packing should know that this government will not quit, so you might as well vote 'Yes'', said Interior Minister Alfano. This should support the Italian market, which has been trading weakly over the past few months due partly to political concerns and the risk that Italy could be heading towards a general election. See [Reuters](#).

Today, there will be focus on the European PMIs and in particular the UK figure. The US ISM print is also in the spotlight while Friday's non-farm is this week's main release. It is also worth keeping an eye on the ECB's monthly QE data, which is due to be released this afternoon. The figures are again set to show that purchases in Portugal/Ireland remain below the capital key share, as the issue/issuer restrictions are denting purchases. At around year-end, Finland could be next and then Germany, if no PSPP tweaks are implemented.

See *Government Bonds Weekly: The squeeze in Bunds continues and an update on Q4 issuance in core and semi-core countries*, 30 September 2016, for details on this week's supply. In Scandinavia, we see value in the 10Y Sweden versus Germany after the recent underperformance and in Norway focus is on the 2017 budget. See more in *Scandi Markets Ahead: Value in 10Y SGBs, Norwegian budget and 2Y and 10Y DGB auction in Denmark*, 2 October 2016.

FX markets

After a hectic September in terms of central bank meetings, FX markets are looking at a much thinner central bank calendar for October with fewer and (on paper) less interesting G10 meetings to trade on. As such, focus is likely to turn largely to economic fundamentals (especially the US this week) and not least the political uncertainty related to OPEC, Brexit and the US presidential election.

The latest IMM report showed significant changes in positioning across the board with speculators overall adding aggregate long USD positions. In our view, the current environment is neither very positive nor negative for the broad USD. We expect EUR/USD to be stuck in a tight range near term in line with our 1M and 3M forecasts at 1.12. We view recent market turmoil regarding European banks, notably Deutsche Bank, as having mixed EUR impacts. Deleveraging of non-eurozone assets by eurozone banks is a EUR positive while concerns about the potential negative impact on growth in the eurozone is a EUR negative.

Our highest conviction view among major currencies has for some time been that the British pound (GBP) will weaken further. The uncertainty with respect to the deal that the UK could get is likely to intensify further over the coming month with Theresa May saying yesterday that article 50 will be triggered 'no later than the end of March next year'. In our view, the terms on which the UK withdraws from the EU will mitigate capital inflows to the country via the very large current account deficit. This could dominate the positive effect of the recent better-than-expected economic data, which could challenge market expectations of another Bank of England rate cut. As a result, we still expect EUR/GBP to edge higher and forecast the cross at 0.92 in 6M.

Key figures and events

Monday, October 3, 2016

				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Sep		17.4	16.91
-	JPY	Official reserves assets	USD bn	Sep			1256.1
1:50	JPY	Tankan large manufacturers index (outlook)	Index	3rd quarter		7.0	6.0 6.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	3rd quarter		18.0	19.0 17.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Sep			50.3
8:30	SEK	PMI manufacturing	Index	Sep	52.5	52.0	50.7
9:00	NOK	PMI manufacturing	Index	Sep		52.1	50.8
9:15	ESP	PMI manufacturing	Index	Sep		51.5	51.0
9:45	ITL	PMI manufacturing	Index	Sep		50.2	49.8
9:50	FRF	PMI manufacturing, final	Index	Sep		49.5	49.5
9:55	DEM	PMI manufacturing, final	Index	Sep		54.3	54.3
10:00	EUR	PMI manufacturing, final	Index	Sep		52.6	52.6
10:30	GBP	PMI manufacturing	Index	Sep		52.0	53.3
15:45	USD	Markit manufacturing PMI, final	Index	Sep		51.4	51.4
16:00	USD	Construction spending	m/m	Aug		0.3%	0.0%
16:00	USD	ISM manufacturing	Index	Sep	50.0	50.4	49.4
16:00	USD	ISM prices paid	Index	Sep		53.5	53.0
18:00	EUR	ECB's Mersch speaks in Luxembourg					

Source: Bloomberg, Danske Bank Markets

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