

5 January 2017

# Danske Daily

## Market movers today

- In the US, the ADP employment and initial jobless claim figures will attract some attention ahead of the important December jobs report, which is due out tomorrow. Moreover, the ISM non-manufacturing index is set to be released, and we expect this to show a continuation of the strong growth signals. However, as the index jumped to 57.2 in November, while the Markit PMI service index stayed more or less unchanged, we see a downside risk to the ISM non-manufacturing index in December due to volatility, and estimate the index declined to 55.9, which is still solid.
- In the euro area, the account of the ECB meeting in December is due to be released. Focus will be on the discussion related to the changes to the parameters of the asset-purchasing programme, especially regarding the change that allows the ECB to purchase bonds that yield below the -0.4% deposit rate. As it remains uncertain how 'aggressive' the ECB will be in terms of buying below the deposit rate, market participants will look for an answer to this.
- In the UK, the PMI service for December is due and we think risk is skewed towards a fall in PMI services due to lower services confidence. We look for a fall from 55.2 to 54.2, which still indicates solid growth in the service sector. Overall, PMIs should continue to signal solid Q4 growth and that the economy is still quite resilient to Brexit uncertainty. That said, we expect GDP growth to slow but stay positive this year. See *Research UK: 'Brexit' uncertainty set to prevail in coming years*, 4 January 2017, for more details on the outlook for the UK economy.
- Statistics Denmark is due to publish housing prices for October and bankruptcies, repossessions and unemployment data for November.

## Selected market news

Minutes from the December FOMC meeting released last night showed that the FOMC members think the economic outlook is very 'uncertain' until we get more information about President-elect Donald Trump's actual economic policy. 'Almost all' FOMC members think there are upside risks to their growth forecasts due to the likely fiscal boost, which they have not fully taken into account. Given the Fed's focus on 'Trumponomics', any comments or tweets from Donald Trump on economic policy will be followed closely. We stick to our view that the Fed will hike twice this year (June and December) but believe the risk is skewed towards three hikes. We believe the Fed is likely to increase the hiking pace in 2018 (late 2017 at the earliest), and we have changed our call for 2018 and now expect the Fed to hike three or four times in 2018 rather than twice as we forecast previously. For more details, see *FOMC Minutes: Fed is waiting for more information on 'Trumponomics'*, 4 January 2017.

Price actions were little affected by the FOMC Minutes last night in the US session. The SP500 index booked a 0.6% gain, while yields on 10Y US Treasuries moved 2bp lower. In the FX market, EUR/USD inched higher overnight and at the time of writing, the cross has broken above 1.0550. In Asia this morning, trading has been mixed, with Japanese equity indices trading lower driven by a weaker USD.

## Selected readings from Danske Bank

- *Presentation: Why China's growth is strong now - and why it will slow in 2017*
- *FOMC Minutes: Fed is waiting for more information on 'Trumponomics'*

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## Scandi markets

**Denmark.** Statistics Denmark is due to publish housing prices for October and bankruptcies, reposessions and unemployment data for November.

## Fixed income markets

There was little impact from the Fed minutes released overnight with 10Y Treasuries moving 2bp lower. The effect of Trump was clear with ‘uncertain/uncertainty’ being mentioned 15 times versus five times in the minutes from November.

In Europe, longer-dated supply such as Ireland issuing EUR4bn in the new 20Y has caused some curve steepening, and today we have more longer-dated issuance in the pipeline with the French tap including both the 30Y and 50Y and the Spanish tap including the 30Y. According to the seasonal pattern, Belgium should be next with a syndicated deal in the 10Y (EUR5bn). However, we probably have to wait until next week, see *Guide to Q1 issuance and thoughts on supply vs QE in 2017*, 4 January 2017.

Euro area inflation moving higher could also have added to the move. Euro area inflation increased to 1.1% y/y in December, which is the highest rate since September 2013. The rise in inflation was driven mainly by energy and food price inflation, which together contributed 0.5pp, up from 0.0pp in November. Over the next two months, the contribution should continue higher and lift headline inflation to 1.6% y/y in February. See *Highest Euro Area Inflation in Three Years - But the Underlying Price Pressure Remains Weak*, 4 January 2017.

Yesterday, we published *Danish Mortgage Bonds: Outlook 2017 - wait to buy callables*. Callable mortgage bonds performed solidly in December – especially in the past few days of the year. Hence, in recent weeks, our two Top Trades for 2017 – Buy 2.5'47 against 10Y EUR swaps and Buy 1.5'37 against 10Y EUR swaps – have reached our profit targets. See *Danske Bank Markets 2017 Fixed Income Top Trades*, 1 December 2016. In light of the strong December performance and the currently low option-adjusted spread (OAS) levels, we recommend that investors postpone buying callable mortgage bonds, as we see opportunities for buying at more attractive levels. For investors seeking high-duration callables, we would recommend 2'47. Long-only investors looking for low-duration bonds should consider buying floaters or short-term non-callable bullets rather than high-coupon callable mortgage bonds such as 3% bonds. Foreign investors still have an incentive to buy Danish mortgage bonds and we expect foreign interest to continue to play a key role for pricing.

## FX markets

While the broad-based USD gets the most attention, the move in USD/CNY is clearly the most significant move in currency markets over the last trading sessions. Yesterday, USD/CNH saw the third largest drop on record (see *chart*) in what seems like a short squeeze, with China pushing up offshore money market rates to scare off bulls. Also, it is worth noting that the CNY-CNH spread has now turned negative, highlighting the magnitude of the USD/CNH move. Fundamentally, we still expect USD/CNY (and USD/CNH) to move higher over the course of 2017, but we are likely to have to see a stabilisation in offshore money market rates to trigger a sustained rebound.

In the Scandis, both EUR/NOK and EUR/SEK seem ‘heavy’ with price action driven by both global and local factors. The global industrial production cycle has reached new highs, which is supporting risk appetite and inflows into markets like SEK and NOK. The Economic Surprise Index for Sweden has reached the highest level since early 2013 and with the Riksbank having turned less dovish, the door is open for more EUR/SEK losses. Fundamentally, we also see EUR/NOK lower and yesterday added a short EUR/NOK 12M forward outright position to our *FX Trading Portfolio*.

## Key figures and events

Thursday, January 5, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	First possible publication date of ECB account of the monetary policy meeting					
9:00	DKK	Danske Bank publishes Nordic Outlook					
9:00	DKK	Gross unemployment s.a.	K (%)	Nov	4.2%	4.2%	112 (4.2%)
9:00	DKK	House prices	m/m/y/y	Oct			
9:00	DKK	Forced sales (s.a.)	Number	Dec			
9:00	DKK	Bankruptcies (s.a.)	Number	Dec			
9:15	CHF	CPI	m/m/y/y	Dec		-0.1% 0.0%	-0.2% -0.3%
10:30	GBP	PMI services	Index	Dec	54.2	54.7	55.2
11:00	EUR	PPI	m/m/y/y	Nov		-0.1% 0.1%	-0.4% 0.8%
14:15	USD	ADP employment	1000	Dec		170	216
14:30	USD	Initial jobless claims	1000				265
15:45	USD	Markit PMI service, final	Index	Dec		53.4	53.4
16:00	USD	ISM non-manufacturing	Index	Dec	55.9	56.5	57.2
17:00	USD	DOE U.S. crude oil inventories	K				614

Source: Bloomberg, Danske Bank Markets

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