

Danske Daily

Market movers today

- In the **US**, the main release today is the **ISM non-manufacturing index** for November. We think the index is at a reasonable level and expect only a small increase from 54.8 to 55.0.
- The Fed's Dudley and Evans ('dovish' members with 2017 voting rights) will speak today.
- In the **euro area**, the Sentix investor confidence index for December is due to be released. The figure has continued to surprise on the upside in recent months and we expect another, though moderate, increase in the Sentix to 15 from 13.1 in November.
- Retail sales for the euro area for October are due to be released. We have seen two consecutive months of declines and we estimate the October figure will show a moderate bounce back to 0.8% m/m, led by a large monthly increase of the German figures.
- The Eurogroup is due to discuss the progress in Greece's bailout programme and possible debt relief.
- In the **UK**, the most important data release today is the PMI service index for November. The index has rebounded since the EU vote, but the fall in the service confidence indicator may signal that growth is beginning to slow due to Brexit uncertainties and the weaker GBP. We estimate the PMI services index fell to 53.2 in November from 54.5 in October.
- Note also in the UK, that the Supreme Court hearing on the government's appeal against the High Court ruling that Parliament must vote on triggering Article 50 will begin today.
- In the **Scandi countries**, industrial production data for Sweden is due out today.

Selected market news

Markets were hit this morning by negative risk sentiment after **Italian** Prime Minister Matteo Renzi suffered a crushing defeat in the **constitutional referendum** and vowed to resign on Monday afternoon. According to projections, Renzi managed to win little more than 40% of the vote. The euro fell to a 20-month low, with EUR/USD hitting 1.0505 and Asian equity markets also eased. With the 'no' vote, Italy is now entering a period of heightened political and economic uncertainty. To avoid the risk of having to call early snap elections, with the Five-Star Movement potentially gaining power, President Mattarella will now have to embark on a round of consultations with party leaders to find a new prime minister – likely to be from Renzi's PD party – to lead a care-taker government, which will be tasked with revising the new electoral law. Economy Minister Pier Carlo Padoan or Senate president Pietro Grasso are possible candidates to replace Renzi. While a 'no' vote was widely expected, the size of the victory has exceeded most predictions, making the public's acceptance of a possible technocratic government less likely. The political turmoil triggered by Renzi's resignation could now also jeopardise plans to recapitalise Monte dei Paschi di Siena. See *Research Italy: No 'Italexit' in the case of a 'No' in the referendum*, 22 November 2016.

Although Italy's vote is a setback for the EU establishment, there was some cheer from **Austria**, where centre-left candidate Alexander Van der Bellen beat back a challenge from his right-wing populist opponent Norbert Hofer to become Austria's next president, winning with 53.3%.

Selected readings from Danske Bank

- *Research Italy: No 'Italexit' in the case of a 'No' in the referendum*
- *Presentation: Five macro themes for 2017*

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Scandi markets

In **Sweden**, industrial data is due out today at 09:30 CET. Given positive survey data and the optimistic forward-looking content in the GDP release, we expect another strong reading. However, the significant 6.8% m/m rise in production in October might point to a more subdued reading this time around. Therefore, we intend to concentrate on developments in year-on-year terms.

Fixed income markets

The Italians voted 'no' at the referendum yesterday – it was a very significant majority at 60% versus 40% for 'yes'. The Italian Prime minister Renzi has resigned on the back of the defeat at the referendum.

The political uncertainty is likely to be significant in coming weeks, before we know whether there will be a new election or a 'technocrat' government until the next election in 2018. This uncertainty will lead to some short-term spread widening between BTPs and Bunds in the order of 4-10bp as well as a weaker euro. This makes a recapitalisation of Monte de Paschi more difficult as well as uncertainty regarding the fiscal budget for 2017.

In Austria, the independent candidate Alexander Van der Bellen won the presidential election ahead of the Freedom party candidate Norbert Hofer. This is seen as a blow to populist movements as Austria has chosen a pro-EU candidate. The market reaction is very limited as focus is on the Italian referendum.

The main event this week is the ECB meeting. We expect the ECB to extend QE by six months and EUR80bn per month. This is very much the consensus among economists, according to a recent Bloomberg survey. Focus will be on the possibility/discussion of tapering and changes to the QE programme etc. This will set the tone for the markets until the Fed meeting next week.

FX markets

The prospect of political instability in Italy following the defeat of Prime Minister Renzi in the Italian referendum yesterday may set the tone in FX markets this week. Following the defeat, Matteo Renzi quit as prime minister. The euro took a heavy beating in overnight Asian trading, falling initially by over 1% against the USD, but then recovering somewhat in the morning. The EUR may trade on the weak side until we get more clarity on the political outlook in Italy. In our base case, where early elections in Italy are avoided and a new government of the mainstream parties or technocratic nature is formed, we do not think the impact on the EUR is going to be significant. However, the EUR may also see some pressure from Thursday's ECB meeting if we are right that the ECB extending its QE programme by six months and maintaining monthly purchases at EUR80bn. Such a move is likely to be perceived as dovish by the markets, which could add downward pressure on the EUR/USD. However, the downside is probably limited in the short term as the EUR is very close to a stretched short position, according to our latest IMM survey. Our mid-December forecast for EUR/USD is 1.05 while the three-month forecast is 1.04.

In the Scandi currencies, the data calendar is fairly thin this week and hence global risk sentiment regarding the political development in Italy may be a critical factor in the first part of the week. Both the SEK and NOK have strengthened against the EUR overnight following weakness of the common currency. This pattern may continue until we get more clarity on the political front in Italy. On the data front in Sweden, the only major release is industrial production data on Wednesday. After a strong print in October, the November data may also be strong. This could provide further downward momentum in EUR/SEK, which may be further supported if the ECB comes out in line with our relatively dovish call on Thursday. However, as we expect the

Riksbank to be more dovish than the market thinks, we see this as a buying opportunity of the EUR/SEK. For the NOK, the key focus is the Norge's Banks' regional network survey on Tuesday. We expect the survey to show moderate growth prospects, which should not be sufficient to bring the EUR/NOK lower. On the contrary, we think the recent strength of the NOK is a selling opportunity, as the krone typically exhibits weakness toward year end. Furthermore, we also think there may be a downward correction in oil prices.

In emerging market currencies, S&P made two important rating decisions on Friday for Poland and South Africa. In Poland, the agency surprisingly upgraded the outlook for Poland to stable from negative and affirmed the 'BBB+' rating. We think the market was nervous about another rating downgrade and hence the decision should send the EUR/PLN lower to around 4.45. However, uncertainty in Italy on the back of the election yesterday may deter further downside potential near term. S&P also affirmed South Africa's 'BBB-' rating, leaving the outlook at negative. The ZAR strengthened almost 2% after the decision was known. We think the ZAR is fairly priced at these levels and should continue to trade in the 13.5-14.5 range with a bias towards the lower end in coming months, unless there is significant deterioration in market sentiment, new political instability in South Africa or the Fed comes out very hawkish at the mid-December meeting.

Key figures and events

Monday, December 5, 2016

				Period	Danske Bank	Consensus	Previous
	GBP	Supreme Court hearing on Brexit begins					
1:30	JPY	Markit PMI services	Index	Nov			50.5
2:45	CNY	Caixin PMI service	Index	Nov			52.4
6:00	JPY	Consumer confidence	Index	Nov			42.3
8:30	SEK	PMI services	Index	Nov			57.6
9:15	ESP	PMI services	Index	Nov		55.2	54.6
9:30	SEK	Industrial production s.a.	m/m y/y	Oct		0.2% 1.5%	6.8% 1.5%
9:30	SEK	Service production	m/m y/y	Oct			0.5% 3.0%
9:30	SEK	Industrial orders	m/m y/y	Oct			7.3% -16.4%
9:45	ITL	PMI services	Index	Nov		51.6	51.0
9:50	FRF	PMI services, final	Index	Nov		52.6	52.6
9:55	DEM	PMI services, final	Index	Nov		55.0	55.0
10:00	EUR	PMI composite, final	Index	Nov		54.1	54.1
10:00	EUR	PMI services, final	Index	Nov		54.1	54.1
10:00	EUR	Eurogroup meeting in Brussels					
10:30	GBP	PMI services	Index	Nov	53.2	54.0	54.5
10:30	EUR	Sentix Investor Confidence	Index	Dec	15	14.5	13.1
11:00	EUR	Retail sales	m/m y/y	Oct	0.8% ...	0.8% 1.7%	-0.2% 1.1%
14:30	USD	Fed's Dudley (voter, dovish) speaks					
15:25	USD	Fed's Evans (non-voter, dovish) speaks					
15:45	USD	Markit PMI service, final	Index	Nov		54.9	54.7
16:00	USD	ISM non-manufacturing	Index	Nov	55.0	55.2	54.8
16:00	USD	Fed's LMCI	m/m	Nov			0.7
20:05	USD	Fed's Bullard (voter, dove) speaks					

Source: Bloomberg, Danske Bank Markets

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