

# Danske Daily

## Market movers today

- **No major market movers today** – the ECB is due to release the minutes from the meeting in September as well as a speech by Benoit Coeure at the IMF meeting.
- **Norway.** The budget for 2017 is due to be released and we expect fiscal stimulus for 2017.

## Selected market news

The bearish sentiment in the fixed income markets continued yesterday on the back of better economic data from the US, which supported the view for a rate hike by the Federal Reserve this year as well as the story about ECB tapering.

Asian stocks rose on the back of the positive sentiment from the US markets, higher oil prices as well as an improving US economy. The oil price is gradually approaching USD50 as stockpiles in the US declined and fell below 500m barrels for the first time since January. However, if the oil price climbs towards USD55, American shale drillers are expected to come back and to some extent cap the oil price.

Movements in the major currencies have been modest this morning. The yen has gained modestly against the USD after sliding more than 3% the last week. EUR/USD has been range-bound around the 1.12-level.

## Selected readings from Danske Bank

- *Research: China letter 1 - will China face a financial crisis?*
- *Flash Comment: ECB QE tapering on the agenda - but more is needed first*
- *US Labour Market Monitor - Labour market key, but not the only thing weighing on Fed*

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- *Research: Global growth revised down following Brexit*
- *The Big Picture*
- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

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## Scandi markets

**Norway.** The government is due to unveil its 2017 fiscal budget today. The expansionary fiscal policy of the past two years has been a key factor in the apparent turnaround in the Norwegian economy. This year, for example, will see an estimated fiscal stimulus of 1.1% of GDP, more than our growth forecast of 1%. In other words, growth this year would have been negative had fiscal policy been neutral. Now that growth is picking up, there is reason to expect a somewhat reduced fiscal stimulus next year. Based on the leakages, we forecast a fiscal stimulus of around 0.4% of GDP, or NOK16bn, which would be around NOK2bn (or 0.1pp of GDP) less than the assumptions made by Norges Bank in the September monetary policy report and would not have any major impact on interest rate expectations.

## Fixed income markets

The duration-heavy pipeline continues today with France tapping EUR6.5-7.5bn in the Nov-26, the May-31 and the May-66. The French 50Y is trading a bit rich versus for instance Belgium, which could potentially affect demand today. Today's Spanish tap is also set to be biased towards the long end with issuance in the Jul-21, the Oct-26, the Jan-37 plus the Nov-21 linker. Despite this week's large EUR5bn deal in the 50Y Italy, Spain has underperformed Italy by 2bp since the launch.

The sell-off in the fixed income markets yesterday was once again lead by the 30Y yesterday with the German 30Y yield increasing 7bp. Massive long-end supply, the 'Bloomberg tapering story' and strong US non-manufacturing ISM all added to the FI weakness. The 10-30 swap curve increased 2bp while the 30-50Y curve impressively flattened despite the ultra-long end supply. The ECB pricing on the Eonia curve is looking fairer after yesterday's move. The Bobl ASW has tightened 2bp with the directional move.

Keep an eye on the ECB minutes today, although it would be a first if new info was released through this channel. More relevant is probably the ECB speeches this week. Despite the Bloomberg story, we expect Draghi will just reiterate that the ECB has not discussed QE exit strategies. We expect the ECB to announce an extension of the QE purchases by six months at the meeting in December as core inflation remains too low. See *Flash Comment: ECB QE tapering on the agenda - but more is needed first*, 4 October 2016.

## FX markets

The past seven days have marked a very eventful week and FX markets are still digesting the OPEC 'negotiations agreement', the higher oil price, the stronger-than-expected economic data releases in both the UK and US and last but not least, Tuesday's ECB tapering story. At such a stage, our FX short-term financial model setup can be a useful tool for identifying pricing misalignments where FX crosses have moved unusually far given the coinciding move in near-term fundamentals.

Currently, we observe some very stretched signals in the Scandi crosses after the recent strengthening of NOK and weakening of the SEK, which has sent EUR/NOK into oversold territory and EUR/SEK into overbought territory. The divergent directions for NOK and SEK have pushed NOK/SEK significantly higher and the cross is currently 'very overbought', trading 2.4 standard deviations above the model's fair value estimate of 1.0421. We are fundamentally bullish on both NOK and SEK on a medium-term horizon, and in this respect, not least the move higher in EUR/SEK looks like a selling opportunity. However, it is also our view that EUR/NOK has probably come down too much too fast and we thus recommend positioning for a correction lower in NOK/SEK via option markets (for more information see *Danske Bank FX Quant Strategy - Sell 1M EUR/GBP call, enter bearish 3M NOK/SEK risk reversal*, 5 October 2016).

Importantly, however, we do not expect today's fiscal budget release in Norway to rock the cross to any significant extent.

In the majors, GBP now looks oversold versus both EUR and USD following the past days' price action as Brexit has returned as a key theme in FX markets after UK Prime Minister Theresa May said on Sunday that she will trigger Article 50 before March 2017, adding comments suggesting we might be heading for a 'hard Brexit'. While we remain bearish on GBP fundamentally and still expect EUR/GBP to trade higher in six months, yesterday we took profit on our long EUR/GBP position which we entered on 5 September. See [Danske Bank FX Trading Portfolio - Take profit on long EUR/GBP position](#), 5 October 2016. Given the relatively stretched technical levels, we see a risk of a near-term correction lower, which would open up for attractive new entry levels.

## Key figures and events

Thursday, October 6, 2016

				Period	Danske Bank	Consensus	Previous
-	NOK	The government will unveil the budget for 2017					
-	EUR	ECB's Coeure speaks in Washington					
2:30	AUD	Trade balance	AUD m	Aug		-2300	-2410
8:00	DEM	Factory orders	m/m y/y	Aug	0.8% ...	0.3% 1.7%	0.2% -0.7%
9:00	DKK	Forced sales (s.a.)	Number	Sep			
9:00	DKK	Bankruptcies (s.a.)	Number	Sep			
9:15	CHF	CPI	m/m y/y	Sep		0.2% 0.0%	-0.1% -0.1%
9:30	SEK	Average house prices	SEK m	Sep			2.964
13:30	EUR	ECB account of the monetary policy meeting					
14:30	USD	Initial jobless claims	1000			255	254

Source: Bloomberg, Danske Bank Markets

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