

Danske Daily

Market movers today

- **Germany** is due to release factory orders for October this morning. In line with strong surveys, German order growth has been strong in recent months and showed the highest growth rate in six years in September of 9.5% y/y.
- **The ECB's** Yves Mersch is due to speak in Frankfurt (11:30 CET) on the theme 'Challenges for Monetary Policy in 2018', and will be the last ECB speaker before the silent period ahead of the December meeting.
- This afternoon, the **US ADP** employment report for November is due. It is not a good predictor of the monthly non-farm payrolls but nevertheless tends to get some attention as a warm-up for Friday's payrolls (see also *US Labour Market Monitor: Expect strong November report*). The October ADP employment increase was quite robust at +235k.
- The Bank of **Canada** is due to announce its rate decision at 16:00 CET. We and consensus expect rates to be unchanged at 1.0%. The Bank of Canada raised rates in July and September by 25bp at each meeting.
- This afternoon, the DOE is due to release US crude oil inventories.

Selected market news

Asian stock **markets** slipped this morning, dragged by earlier losses on Wall Street as the technology sector stuttered yet again after a brief rebound, while the US dollar slumped on lower long-term US yields. The spread between five-year and 30-year US yields fell below 60bp, which is the lowest since November 2007. Industrial metals also plunged overnight on the prospect of slower Chinese demand, dollar gains and a rise in stockpiles. S&P 500 futures are slightly higher this morning, shrugging off reports that Republican efforts to avoid a government shutdown have stalled.

US President Donald Trump is expected to make an announcement today about moving the US embassy from Tel Aviv to Jerusalem, thereby implicitly recognising it as the capital of Israel and upending decades of US foreign policy. Such a move has been strongly criticised by Arab leaders and risks fuelling renewed violence and conflict in the Middle East.

In **Norway**, the November Regional Network Survey, which is Norges Bank's preferred gauge of economic activity, indicated improved growth prospects in all sectors besides construction, with capacity utilisation at the highest level since 2013. See *Norway Regional Network Survey*.

This morning we published **Danske Bank 2018 Fixed Income and FX Top Trades**. In the fixed income sphere, we recommend positioning for further performance for carry strategies, small moves in outright yields, performance for Danish and Swedish fixed income, periphery performance, tighter USD liquidity in the CCS market and a further flattening of the US yield curve (see *FI Top Trades*). In it, we focus on five themes: (1) cyclical support for carry – but volatility is low, (2) policy normalisation, (3) a 'new' Fed, (4) Scandi housing fragility and (5) currency vulnerability as the foundation of our trades (see *FX Top Trades*).

Selected readings from Danske Bank

- *FX Top Trades 2018*
- *FI Top Trades 2018*
- *US Labour Market Monitor: Expect strong November report*
- *Euro Area Research: ECB inflation gap persists in 2019*
- *The Big Picture: Global economy still on a roll*

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 *VIDEO, Jakob Christensen on Global Economy*

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- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

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Scandi markets

In Denmark, we get housing prices for September and bankruptcies and repossessions for November.

Fixed income markets

This morning, we published *Danske Bank 2018 Fixed Income Top Trades*. We look for ‘more of the same’ in 2018. Hence, we recommend to position for further performance for carry strategies, small moves in outright yields, performance for Danish and Swedish fixed income, periphery performance, tighter USD liquidity in the CCS market and a further flattening of the US yield curve. Among our specific recommendations is to position for a 2Y10Y 1Y forward flattening of the USD swap curve, to sell a 1Y10Y ATMS straddle on the 10Y EUR swap rate, to position for pricing of more Fed hikes in 2019, to receive the SEK 1Y1Y swap, to pay the 5Y5Y NOK swap, buy 10Y DGB/receive 10Y swap against EUR peers and buy 30Y Danish callable mortgage bonds. For more FI Top trades and details see our *presentation*.

The flattening pressure in the EUR swap curve gained momentum yesterday pushed by the ESM announcements (*here* and *here*) suggesting that the paying flow is over. The 10/30 curve has flattened 8bp over the past month, reversing the entire H2 steepening move. Note also that the yield on 2Y Germany edged down to -74bp again yesterday reflecting some fear of turn squeeze coming back.

Primary activity will slow down over the next two weeks (Italy and Austria has cancelled), while the remainder of this week is actually decently busy. Germany is printing EUR2bn in the 10Y today while Portugal will do a switch action selling the Oct-22 and Apr-27 versus buybacks in the Jun-19 and the Jun-20.

It is also a busy day in the Scandi primary market with both Denmark and Norway tapping plus Sweden printing in bills. Norges Bank is tapping NOK3bn in the May 2023. Demand at the auction may be somewhat limited as foreign accounts may choose to stay away due to the current excessive FX volatility. However, for foreign unhedged accounts, which can handle the FX volatility, the auction may be an opportunity to add bonds ahead of a potential strengthening of the NOK after the New Year, see *Fixed Income Research: Norges Bank to sell NOK3bn in NGB NST 475, 2.00%, '23, 5 December*.

Denmark is tapping the DGB Nov-20 and the Nov-27s. This will be the last DGB auction in 2017. Note that the Danish Debt Office has already fulfilled its funding target for 2017. The supply of DGBs could drop further in 2018 given the new revision to the law regarding the funding of social housing and high income from pension taxes. We see DGB Nov-27 as an attractive alternative to the ‘expensive’ DGB 4.5% 11/39, see *Fixed Income Strategy - DGB auction preview: last auction in 2017 and lower supply in 2018, 5 December*.

FX markets

EUR/USD was under pressure yesterday with a soft US PMI reading unable to stop the slide. In the Scandies, yesterday brought both Norwegian house prices and the important Norges Bank Regional Network Survey. In short, the releases confirmed our fundamental predisposition to buy the NOK as the growth outlook remains solid (see *Norway Regional Network Survey – Recovery set to continue as growth remains on track*) and as the house price release indicated the majority of the decline is behind us (unlike in Sweden). Hence, we now see value in entering strategic long NOK positions, see below.

This morning we published *FX Top Trades 2018* in which we discuss how to position in the FX market for the year ahead. We focus on providing directional views on key currency pairs and consider a range of FX-specific themes as the foundation for the trades. These themes are (1) cyclical support for carry – but volatility is low, (2) policy normalisation, (3) a ‘new’ Fed, (4) Scandi housing fragility and finally (5) currency vulnerability. In terms of trades, note we like

to be long the NOK/SEK spot, short the EUR/NOK and long the EUR/USD via options going into 2018.

Key figures and events

Wednesday, December 6, 2017

| | | | | Period | Danske Bank | Consensus | Previous |
|-------|-----|----------------------------------|---------|-------------|-------------|------------|-----------|
| 8:00 | DEM | Factory orders | m/m y/y | Oct | | -0.1% 7.0% | 1.0% 9.5% |
| 8:00 | DKK | House and apartment prices | m/m y/y | Sep | | | |
| 8:00 | DKK | Forced sales (s.a.) | Number | Nov | | | |
| 8:00 | DKK | Bankruptcies (s.a.) | Number | Nov | | | |
| 9:15 | CHF | CPI | m/m y/y | Nov | | 0.0% 0.8% | 0.1% 0.7% |
| 11:30 | EUR | ECB's Mersch speaks in Frankfurt | | | | | |
| 14:15 | USD | ADP employment | 1000 | Nov | | 190 | 235 |
| 14:30 | USD | Unit labour cost, final | q/q | 3rd quarter | | 0.3% | 0.5% |
| 16:00 | CAD | Bank of Canada rate decision | % | | 1.0% | 1.0% | 1.0% |
| 16:30 | USD | DOE U.S. crude oil inventories | K | | | | -3429 |

Source: Bloomberg, Danske Bank

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Expected updates

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Date of first publication

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