

# Danske Daily

## Market movers today

- There are no big market movers today and **markets this week will watch for comments from Fed members following the US employment report on Friday** that showed the highest wage growth since 2009 (see *Flash Comment US: Jobs report on the hawkish side for the Fed*, 6 January 2017). The Fed's Lockhart (non-voter, neutral) speaks tonight at 18.30CET and on Friday Fed chair Janet Yellen is due to speak. The market is pricing two rate hikes from the Fed next year in line with our own forecast, but the risk is increasingly skewed towards three hikes given the tightening labour market.
- The rest of the week is very quiet on the data front with China inflation (Tuesday) and US retail sales (Friday) being the main releases. In Scandinavia there are no releases today and the focus is on inflation data due in Sweden, Norway and Denmark during the week.
- In today's global releases we look for solid German industrial production on the back of strong factory orders recently. We expect the euro Sentix index to rise slightly and project the euro unemployment rate to be unchanged at 9.8% for November.

## Selected market news

The US employment report added to the data underpinning the US reflation case with the labour market tightening further and wage growth continuing to strengthen. This comes on top of other releases last week pointing to reflation (see *Strategy: 2017 starts off where 2016 ended*, 6 January 2017). **The reflation case continues to support higher bond yields and equity markets.**

Over the weekend **Chinese FX reserves for December showed a further decline** of USD41bn to USD3.01trn. Outflows thus continued in China in December and this partly explains why the PBoC has taken further steps to limit outflows by forcing a stronger CNY in the early days of January using a sharp rise in offshore money market rates. There are **signs of stabilisation in the CNY and CNH markets** though. The overnight CNH money market rate came down to 14.05% from 61% on Friday.

**US-China tensions strengthened further over the weekend** when Taiwan president Tsai Ing-Wen stopped in Houston to meet senior Republicans on her way to a visit with allies in Latin America (see *Reuters*). While she refrained from meeting representatives from the incoming administration, it is still seen as a provocation from the Chinese point of view.

Further challenges on the geopolitical scene could come from North Korea this year. **North Korea declared on Sunday that it could test-launch an interballistic missile at any time.** The US Defense Secretary said on Sunday that North Korea's nuclear capabilities and missile programme constituted a 'serious threat' and that it was prepared to shoot down a North Korean missile launch or test if it was seen to be threatening the US or its allies. With US-China relations deteriorating, China will likely be less willing to cooperate with the US in this area to contain the threat from North Korea.

UK Prime Minister Theresa May repeated in a televised interview over the weekend that immigration and border control are key areas in the Brexit negotiations with EU (see *Bloomberg*).

## Selected readings from Danske Bank

- *Strategy: 2017 starts off where 2016 ended*
- *US: Jobs report on the hawkish side for Fed*

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## Scandi markets

There are no key movers in Scandinavia today.

## Fixed income markets

It is peak season for new issuance and this week could potentially be even more packed than the first week of the year. According to the seasonal pattern {BE} Belgium is likely to be the next semi-core with a syndicated deal and as usual it is likely to be EUR5bn in a new 10Y. {PO} Portugal tends to be the first peripheral with a syndicated deal, while {SP} Spain is most often in the market with a new 10Y via syndication in the second or third week of the year. See ‘Guide to Q1 issuance and thoughts on supply vs QE in 2017’ {<http://bit.ly/2hCKWoJ>} for details. The scheduled issuance this week is again biased towards the long-end with {NE} Netherlands in the 30Y on Tuesday, {AS} Austria in 10Y and 30Y on Tuesday, {GE} Germany launching a new Bund on Wednesday and {IT} Italy in the market on Thursday.

Issuance activity in covered, corporates and financial in week 1 has been substantially higher than in recent years. In fact the volume is already around where it normally is after the first two weeks. A large fraction of this issuance is typically swapped triggering receiving interest in swaps. This has also supported the move tighter in Bobl and Bund ASWs. The calendar is packed with political risks later this year, inducing issuers to frontload issuance. Higher QE purchases in Q1 vs Q2 also point in the same direction. The political risks on this side of the Atlantic will intensify as we approach March with the expected triggering of article 50 by the UK and the Dutch general election being the first major hurdles. Hence, issuers are likely to aim for a more frontloaded issuance strategy this year.

## FX markets

The oil price is being supported by implementation of the deal between OPEC and non-OPEC members, colder winter weather and the halt in the upwards trend of the USD. This is supporting the NOK. In our view, the US jobs report released on Friday should be interpreted as slightly hawkish by the market as only the employment figure was softer than expected. All other indicators in the report were strong with last month’s employment growth revised up and wage growth higher. A slightly stronger USD is the right market reaction in our view. We therefore expect the broad weakness we have seen in the USD after the FOMC minutes to end here. EUR/CZK FX forward points are falling again. Minutes from the Czech National Bank (CNB) December meeting showed that negative rates were discussed to smooth the exit from the EUR/CZK floor, triggering a sharp move lower in long-dated forwards. This seems, however, to be a minority opinion on the board and the risks to financial stability from such a move were stressed. We think we would have to see significant turmoil/inflows after the exit before the CNB would use negative rates. We expect EUR/CZK to continue trading closer to the floor of 27 and expect an exit in line with the CNB only in mid-2017.

### Key figures and events

Monday, January 9, 2017					Period	Danske Bank	Consensus	Previous
8:00	DEM	Industrial production	m/m y/y	Nov	1.0% ...	0.6% 1.9%	0.3% 1.2%	
8:00	DEM	Trade balance	EUR bn	Nov		20.4	19.4	
9:00	DKK	Trade balance ex ships	DKK bn	Nov			5.6	
9:00	DKK	Exports	m/m	Nov				
9:00	DKK	Current account (nsa sa)	DKK bn	Nov			... 14.1	
10:30	EUR	Sentix Investor Confidence	Index	Jan	13.0	13.0	10.0	
11:00	EUR	Unemployment	%	Nov	9.7%	9.8%	9.8%	
18:45	USD	Fed's Lockhart (non-voter, neutral) speaks						
21:00	USD	Consumer credit	USD bn	Nov		18.2	16.0	

Source: Bloomberg, Danske Bank Markets

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