

12 January 2017

# Danske Daily

## Market movers today

- After some quiet days in terms of data releases, we have a busier day today. The most important release, which we look very much forward to, is the release of Swedish CPI inflation data for December at 09:30 CET. We estimate CPI inflation rose to 1.9% y/y in December, very close to the 2% target. We believe December inflation was hit by some exceptional events briefly pushing inflation higher, which should reverse at the beginning of 2017. For more details, see our *Sweden Economic Comment: December inflation boosted by travel*, 10 January.
- The **Riksbank minutes** are also due. Three board members voted against the QE extension and the minutes will reveal how they reasoned.
- **German GDP** growth (non-seasonally adjusted) for 2016 will give the first indirect information about how strong GDP growth was in Q4 16, where both survey indicators and hard data have pointed to strong economic activity.
- Focus on the **account of the ECB meeting** 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.
- **Speaker of the House, Paul Ryan**, tweeted yesterday we ‘can learn more about Republican priorities for 2017’ and is due to discuss more in an interview on CNN today at 15:30 CET.
- The Fed’s Evans, Kaplan and Bullard are scheduled to speak today. There has been some confusion about when **Janet Yellen** is due to speak – it should be just after midnight at 01:00 CET.

## Selected market news

**President-elect Donald Trump provided us with little new information on the future economic policy** at his first press conference (including a Q&A session with journalists) since his victory speech. Thus, we are back to monitoring his Twitter account for any tweets on economic policy ahead of the inauguration. Otherwise, we will (hopefully) get more information at his inauguration speech (or perhaps in an updated plan for the first 100 days). See *Flash Comment US: No major economics news from President-elect Trump - back to monitoring Twitter*, 11 January. As mentioned above, the Speaker of the House, Paul Ryan, will talk more about Republican priorities for 2017 in an interview on CNN today at 15:30 CET.

The **risk-off** reaction after Trump’s press conference continued overnight, as markets were left disappointed as they had hoped for more clarification on Trump’s economic policy but instead got more of the same. USD has weakened further and EUR/USD is trading above 1.06 again. US 10Y Treasury yields have declined to 2.33% versus 2.39% before the press conference, the lowest since early December. Gold is trading 1.4% higher than before the press conference. Futures on S&P500 are down 0.3%. Markets are likely to still have the Trump theme in mind over the next one and a half weeks until inauguration day, as we do not know how he will act as President and what his actual policies will look like.

## Selected readings from Danske Bank

- *Flash Comment US: No major economics news from President-elect Trump - back to monitoring Twitter*
- *Sweden Economic Comment: December inflation boosted by travel*
- *Flash Comment China: PPI surges, CPI inflation subdued*

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## Scandi markets

In **Sweden**, we are looking very much looking forward to CPI inflation data for December, due out at 09:30 CET. We estimate CPIF inflation rose to 1.9% y/y in December, very close to the 2% target. We believe December inflation was hit by some exceptional events briefly pushing inflation higher, which should reverse at the beginning of 2017: (1) higher petrol prices on the back of the higher oil prices (which, however, were largely offset by a decline in electricity prices) and (2) international airfares and prices for charter packages, which seem to have soared, according to Travelmarket's data. Furthermore, inflation releases from Norway and Denmark on Tuesday suggest, if anything, a slight downside to our Swedish inflation forecast, due primarily to low increases and declines in charter package prices. For more details see our *Sweden Economic Comment: December inflation boosted by travel*, 10 January.

## Fixed income markets

In **Sweden**, we estimate that December inflation outpaced the Riksbank's forecast slightly, but also that CPIF will be close to 2% for the first time since December 2010. However, in our view, a significant part of the increase is due to temporary factors that are expected to reverse at the beginning of 2017. Furthermore, inflation releases from Norway and Denmark on Tuesday suggest, if anything, slight downside to our Swedish inflation forecast, due primarily to low increases and declines in charter package prices. **If our forecast is correct, it might weigh on the Swedish FI market until it becomes clear that these are temporary factors.** For more details, see our *Sweden Economic Comment: December inflation boosted by travel*, 10 January.

**Not much market relevant news from the Trump press conference yesterday**, which was a slight disappointment, and US Treasury yields edged lower, helped by a very strong Treasury auction. However, as the equity market continued to perform, the move reversed later in the day. The next major opportunity for Trump to announce his economic plans will be the inauguration speech, if he does not decide to use Twitter!

**The new Bund was very well received by the market yesterday** with overbidding and a high bid-to-cover of 1.8. The auction underlined that demand for Bunds is still very strong. One of the key questions in the EGB market will be how many German bonds the Bundesbank will have to buy below the depo rate throughout 2017. We estimate that 15% of the QE purchases in German government bonds will have to be below the deposit level in our base scenario, with unchanged yields on German bonds throughout 2017. If purchases 'below depo' are postponed as long as possible, ECB purchases could continue 'unchanged' until November before QE would be forced 'below depo' in German government bonds. For more see our research note on *ECB QE*, 11 January.

**Issuance focus today turns to Italy, which will tap in the 3Y, 7Y and 20Y segments.** The 20Y segment of the curve has suffered like other periphery countries in the recent supply wave in the long end. BTPs outperformed Bunds slightly yesterday as the Constitutional Court rejected the referendum request submitted by the largest union in Italy on the labour market reform. The rejection should be supportive for BTPs, as it removes the risk that Italy could effectively be forced away from the current labour market reform path. The risk of a snap election should also be lower. The next focal point will be the rating decision by DBRS on Friday night and the constitutional court ruling on the so-called Italicum voting system on 24 January.

## FX markets

**SEK** could get a small boost today if we are right that inflation in December was slightly above the Riksbank's forecast. Furthermore, minutes from the latest Riksbank meeting will shed light on whether the subsequent SEK appreciation has been justified.

President-elect Donald Trump's press conference yesterday was a slight disappointment for markets and **USD**. It has mostly been a one-way street lower for EUR/USD since the election, but Trump did not provide enough clarity on, for example, fiscal policy to justify a further drop. That said, momentum remains bearish EUR/USD in the short term, in our view, where we target 1.02 in 1M.

The National Bank of **Poland** kept its rates unchanged as expected yesterday. Governor Glapinski mentioned that the central bank does not expect inflation to reach the target of 2.5% this year and, hence, does not expect to raise rates this year. As the market is not priced for any rate change, the PLN stayed more or less unchanged.

## Key figures and events

### Thursday, January 12, 2017

|       |     |   |         | Period | Danske Bank | Consensus | Previous    |
|-------|-----|---|---------|--------|-------------|-----------|-------------|
| 6:00  | JPY | Eco Watchers Survey Outlook (Current)   | Index   | Dec    |             |           | 49.1 48.6   |
| 8:45  | FRF | HICP, final   | m/m y/y | Dec    |             | 0.3% 0.8% | 0.3% 0.8%   |
| 9:30  | SEK | CPI   | m/m y/y | Dec    | 0.5% 1.7%   | 0.5% 1.6% | 0.0% 1.4%   |
| 9:30  | SEK | Underlying inflation CPIX   | m/m y/y | Dec    | 0.5% 1.9%   | 0.5% 1.8% | 0.1% 1.6%   |
| 9:30  | SEK | Riksbank publishes minutes from Dec. Meeting  |         |        |             |           |             |
| 9:30  | SEK | Average house prices  | SEK m   | Dec    |             |           | 2.715       |
| 10:00 | DEM | Budget real GDP (Maastricht)  | %       |        |             | 0.6%      | 0.7%        |
| 10:00 | DEM | GDP 2016 NSA  | %       |        |             | 1.8%      | 1.7%        |
| 11:00 | EUR | Industrial production   | m/m y/y | Nov    | 0.7% ...    | 0.5% 1.4% | -0.1% 0.6%  |
| 13:30 | EUR | ECB publishes account of ECB meeting in December  |         |        |             |           |             |
| 14:30 | USD | Fed's Evans (voter, dovish) speaks  |         |        |             |           |             |
| 14:30 | USD | Fed's Harker (non-voter, hawkish) speaks  |         |        |             |           |             |
| 14:30 | USD | Initial jobless claims  | 1000    |        |             |           | 235         |
| 14:30 | USD | Import prices   | m/m y/y | Dec    |             | 0.1% 1.7% | -0.3% -0.1% |
| 15:30 | USD | Interview on CNN with House of Speaker, Paul Ryan, about Republican priorities for 2017 |         |        |             |           |             |
| 18:30 | USD | Fed's Lockhart (non-voter, neutral) speaks  |         |        |             |           |             |
| 19:15 | USD | Fed's Bullard (voter, dove) speaks  |         |        |             |           |             |
| 19:45 | USD | Fed's Kaplan (voter, dove) speaks   |         |        |             |           |             |

Source: Bloomberg, Danske Bank Markets

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