

Danske Daily

Market movers today

- The calendar is thin again today and overall focus remains on market sentiment. US stocks closed higher for the second consecutive day yesterday.
- The most important release is the UK CPI inflation. We estimate CPI inflation fell from 3.0% in December to 2.9% in January, driven mainly by a smaller contribution from the energy component, as a big monthly increase in January 2017 falls out, and food. We estimate CPI core inflation rose from 2.5% to 2.6%. CPI inflation remains one of the key release after Bank of England turned more hawkish at last week's meeting, see *Bank of England review: Launching a hiking cycle*, 8 February.
- Despite being a tier-2 release, look out for the US NFIB small business optimism for January. Business optimism is very high at the moment indicating increasing growth in business investments.
- IEA will publish its monthly oil market report today. Following the recent rise in the US oil rig count, oil market fundamentals have come back into focus and the market will watch out for revisions in particular to US output forecast.

Selected market news

Asian stocks are advancing for the second day, after the S&P 500 jumped by 1.4% yesterday and volatility retreated, with VIX falling below 26. EUR/USD and 10-year US Treasuries are little changed this morning, while oil crept higher. The rand slipped after South African President Zuma defied calls by his party to resign.

In the US, the White House yesterday unveiled its federal budget proposal for the fiscal year 2019, including a proposal of USD1,500bn spending on infrastructure (USD200bn of which being Federal funds). Democrats needed to enact any legislation have already dismissed the proposal due to lack of significant federal spending, while many Republican fiscal hawks are wary of any big spending bill. The proposal would see the deficit almost double from projections last year despite cuts to domestic programmes and foresees the budget in deficit until the fiscal year 2039. Overall, the proposal would only worsen the already unsustainable debt path and we remain sceptical that any such legislation will actually pass Congress.

On the foreign policy front, Washington signalled readiness for direct talks with Pyongyang after reaching a deal with South Korea on a diplomatic approach to North Korea. However, despite possible negotiations, the Trump administration intends to maintain the pressure on the North Korean regime with more sanctions still to come, according to US Vice-President Mike Pence.

Danish inflation surprised on the downside yesterday falling from 1.6% y/y in September to 0.7% in January. A mix of longer lasting and more volatile factors caused the fall, but overall this has caused us to revise down our inflation outlook to 0.9% in 2018 and 1.4% in 2019 – an outlook that was already at the low end versus other forecasts. See more in *Flash Comment Denmark: January surprise paves way for another year of muted inflation - we revise down our forecast*, 2 February.

Selected readings from Danske Bank

- *Flash Comment Denmark: January surprise paves way for another year of muted inflation - we revise down our forecast*
- *Fixed Income Strategy: The 10Y segment most exposed if the FI sell-off continues*
- *FX Strategy: End of USD weakness? No - but new range for now*

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Las Olsen on *Nordic Outlook*

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

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Scandi markets

No releases in Scandinavia today.

Fixed income markets

With the Bank of England the latest joiner of the 'hawkish' central bank camp, today's UK inflation print for January will be of particular interest as it could confirm the signalled hike in May and further prepare the market for an additional move this year. Note that we have revised our BoE forecast and expect two hikes this year (in May and November). See *Bank of England review: Launching a hiking cycle*, 8 February.

The Italian Tesoro will be in the market today with taps in the Oct-20s, Nov-24s and Mar-48s. The periphery and especially Italy have outperformed their EUR peers and have been surprisingly resilient amidst the increasingly volatile markets, which bodes well for today's auction. See *Government Bonds Weekly*, 11 February. Portugal is coming to the market tomorrow, while Spain is due on Thursday.

FX markets

EUR/DKK rose yesterday after news broke that TDC recommends that shareholders accept a DKK40bn offer from four pension funds. Foreign investors currently own 96% of the TDC stock (US owns 51%, EZ about 20% and Norway 6%) and as three of the four buyers are DKK-based the transaction would involve DKK selling. It might be what triggered the rise in EUR/DKK. Against this, we note that tighter DKK liquidity (due to large pension tax payments) will cap EUR/DKK topside short term.

For GBP, focus today will be on the UK CPI print. Market is already pricing in around 70% probability of a rate hike in May, and we would need to see a significant upside surprise in the CPI figures to lift UK interest rates higher today. Hence, in the short term we see risks skewed moderately to the upside. Strategically, we are bearish EUR/GBP and would consider selling EUR/GBP via options on rallies above 0.89. As long as the UK and the global economy continue to do well, the timing and pace of future BoE rate hikes is in essence a function of GBP, energy prices (oil) and UK wage increases. Hence, the prospects of Bank of England rate hikes should keep a lid on EUR/GBP as GBP depreciation could move forward rate hikes.

Key figures and events

Tuesday, February 13, 2018

| | | | | Period | Danske Bank | Consensus | Previous |
|-------|-----|--------------------------------------|---------|--------|-------------|------------|-----------|
| 10:30 | GBP | PPI - input | m/m y/y | Jan | | 0.6% 4.0% | 0.1% 4.9% |
| 10:30 | GBP | CPI | m/m y/y | Jan | -0.6% 2.9% | -0.6% 2.9% | 0.4% 3.0% |
| 10:30 | GBP | CPI core | m/m y/y | Jan | -0.9% 2.6% | ... 2.6% | ... 2.5% |
| 12:00 | USD | NFIB small business optimism | Index | Jan | | 106.0 | 104.9 |
| 14:00 | USD | Fed's Mester (voter, hawkish) speaks | | | | | |

Source: Bloomberg, Danske Bank

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