13 October 2016

Danske Daily

Market movers today

- **Today, we have a thin calendar in terms of global data releases.**
- **Focus in the US today will be on the initial jobless claims figures and Fed member Patrick Harker (non-voter, hawkish), who is scheduled to speak.**
- **In Sweden, Riksbank governor Stefan Ingves is scheduled to speak today.** Comments on the disappointing inflation release earlier this week for September will be most interesting.

Selected market news

Industrial production for the euro area rebounded in August by 1.6% m/m after the large drop of 0.7% m/m in July (revised up from -1.1% m/m). The figures confirm the signal from the PMI and Ifo expectations from September and the German ZEW expectations from October that the euro area is, so far, resilient to the UK's decision to leave the EU. It looks as if GDP growth could surprise on the upside in H2.

The FOMC minutes from the September meeting confirm that we are dealing with a very divided FOMC. See *FOMC minutes: Confirmation of a very divided committee - a Fed hike will depend on incoming data*, 12 October 2016. We do not change our Fed call based on these minutes, as they confirm more or less what we already knew due to the many Fed speeches since the last meeting. For now, we stick to our non-consensus view that the Fed will stay on hold for the rest of the year, although it is a close call whether the Fed will hike or not in December. The reason for our call is that the Fed seems too optimistic on Q3 GDP growth and we fear that economic data may continue to disappoint in the short term. Incoming data will be important for the Fed's decision to hike or not later this year. The market reaction to the minutes was muted. Markets have priced in a two-thirds probability of a hike by the end of the year.

In general, it was a rather mixed session in global financial markets yesterday. Risk sentiment in equity markets was mainly skewed towards risk-off with European and Asian stocks markets in the red, whereas changes were subdued and mixed in the US. Moreover, Brent oil decreased quite sharply, closing at USD51.8/bbl. In fixed income markets, yields continued higher in the euro area. The 10Y government benchmark bond yield in Germany rose by approximately 4bp and is now more than 20bp above the level observed at the end of September 2016. In the US and Japan, the 10Y government benchmark bond yields are just below 20bp and 3bp higher than the level observed, respectively, at the end of September 2016.

Today, risk sentiment has been negative so far with Asian stock markets in the red and Brent oil dropping further to USD51.5/bbl at the time of writing. However, changes in the 10Y government benchmark bond yield in Japan have been subdued this morning.

Selected readings from Danske Bank

- *FOMC minutes: Confirmation of a very divided committee - a Fed hike will depend on incoming data*

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Scandi markets

There are no major data releases today in Scandinavia.

Fixed income markets

The minutes released last night revealed that we are dealing with a divided FOMC. The hawks' concerns are that the economy risks overheating as employment has increased over the past six years. The doves are of the view that labour market slack has been larger than previously expected since the unemployment rate has been flat for the past year. We do not change our Fed call based on these minutes and stick to our non-consensus view that the Fed will stay on hold for the rest of the year, although admittedly December is a close call, see *FOMC minutes: Confirmation of a very divided committee - a Fed hike will depend on incoming data*, 12 October 2016

Another 'ECB sources' story hit the market just after European close yesterday (see *here*). The main take away from this store is that 'the sources' remain open to some degree of deviation from the self-imposed restrictions including the (1) below depo buying restriction, (2) the capital key and (3) the issue limit. The Italian future moved higher on this story and also the Schatz future moved a tad higher – so we are in for an interesting opening.

In the primary market, Ireland is tapping EUR1bn in the May-26s. Ireland has already reached this year's funding target with EUR6.6bn done YTD out of an issuance target range of EUR6-10bn. Looking at the Irish curve, the 10Y segment is the cheap part while both the 22s and 45s are trading rich on the curve. Hence, we see value in using the auction to switch from the 6Y to the 10Y. In addition, there is a decent chance that the last tap of the year will be in the 22s given the squeezed repo level for this bond. We have been strong advocates of continued Irish spread convergence towards semi-core peers for the past couple of years and that is still our medium-term view. However, in the very short term we see no reason to chase Ireland versus France at the current spread level due to the risk of renewed Brexit spill over and the fact that we have another auction coming in three weeks. See *FI Research - Ireland: use tap in May-26s to switch from 6Y to 10Y*, 12 October 2016.

Finally, Italy is tapping EUR7-8.5bn in the Oct-19 (new 3Y), the Oct-23 and the Mar-32. Despite last week's EUR5bn 50Y deal and the fact that the Tesoro is once again including a 15Y, the market has recovered a bit versus Spain over the past couple of sessions. See the Macrobond Financial *chart* here.

FX markets

The USD continues to strengthen particularly versus European currencies. In our view, the driving forces are rising political uncertainty in Europe and higher short-end US rates, which makes it costly to be short USD. EUR/USD is grinding lower with the key technical support area coming in around 1.0950-1.1000. A clean downside break here could open the door for further losses. Short term, we think that EUR/USD has room to fall further as positioning appears to be light and the move lower is gradually suggesting that we are not at the end of the trend. Meanwhile, EUR/GBP is consolidating around the 90 level. We continue to believe that EUR/GBP will consolidate short term as the moves appears stretched. Over the next three to six months, we look for a new leg higher towards 0.92-0.95 as the concerns about a hard Brexit will continue to weigh on the British pound (GBP).

In the Scandies, EUR/SEK consolidated yesterday but after the break of 9.67-9.73, the 2014-2015 highs, we see the short-term risks skewed to the upside. In a Norway-empty calendar it has been another volatile session for the NOK, with the oil price swings mirrored in the Norwegian currency price action. OPEC has dominated the headlines but as we wrote following the agreement on 28 September, we will not overemphasise the impact of this step. Instead, we think the latest drop could be a delayed reaction to the recent move higher in USD and subsequent risk-off sentiment. It could also be related to US weather and an easing of concerns about the ramifications of Hurricane Matthew and Nicole. Today, the market will look for US inventory data (DOE). Most of the recent downtrend in US inventories can be attributed seasonal factors, but some is likely to have been due to an inventory draw following the hurricane season. The market will look to see if the downtrend has gained further strength. Either way, EUR/NOK is likely to be in for another oil-driven session with 8.90-9.15 as strong support/resistance levels.

Key figures and events

Thursday, October 13, 2016				Period	Danske Bank	*Consensus*	Previous
-	CNY	Trade balance	USD bn	Sep		*53.0*	52.1
-	CNY	Imports	y/y	Sep		*0.7%*	1.5%
-	CNY	Exports	y/y	Sep		*-3.3%*	-2.8%
1:01	GBP	RICS house price balance	Index	Sep		*0.1*	0.1
1:50	JPY	Bank lending	y/y	Sep			2.0%
6:30	JPY	Tertiary industry index	m/m	Aug		*-0.2%*	0.3%
8:00	DEM	HICP, final	m/m|y/y	Sep		*0.0%|0.5%*	0.0%|0.5%
14:30	USD	Initial jobless claims	1000			*254*	249
14:30	USD	Import prices	m/m|y/y	Sep		*0.1%|-1.1%*	-0.2%|-2.2%
17:00	USD	DOE U.S. crude oil inventories	K				-2976
18:15	USD	Fed's Harker (non-voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

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