

Danske Daily

Market movers today

- After a few quiet days in terms of data releases, today is more interesting, not least Sweden, where Prospera inflation expectations are due at 08:00 CET, Valueguard house prices at 09:00 and the Riksbank rate decision at 09:30 (see page 2).
- In the US, we estimate CPI core index rose 0.2% m/m in January, implying a fall in CPI core inflation to 1.7% y/y from 1.8%. Retail sales data is also due out today.
- At 11:00, the second release of euro area Q4 GDP growth figures is due out, where we will see for the first time get details of the GDP components. We expect the first estimate of 0.6% q/q growth to be confirmed.
- In Denmark, we will get the GDP indicator for Q4, which we expect to show that growth rebounded to 1.0% q/q after the surprise fall of 0.5% in Q3 (see page 2).

Selected market news

Asian stocks are retreating after two days of trading higher, while the S&P 500 barely rose yesterday (+0.26%) and volatility was slightly lower, with VIX falling settling around 25. The yen strengthened to 107.1 overnight, not seen since 15 month ago. Officials still need to express concern for the appreciation. EUR/USD was higher at 1.238 amid treasury yields being lower yesterday. European rates were mixed, with the longer end suffering relative to the shorter end. Oil was broadly unchanged over the day as a whole at around 63 dollar per barrel. The rand was relatively calm amid the ANC's decision to replace now-former South African President Jacob Zuma with ANC leader Cyril Ramaphosa, although no time for the transition has been yet.

Fed Chair Jerome Powell's swearing-in remarks yesterday reflected comments on the Fed being alert to developing risks to financial stability as well as to go ahead with a process of gradual normalisation on both interest rates and balance sheet reduction. This has to be seen in light of recent lower equities. The Fed fund futures point to a virtual 100% probability of the FOMC hiking rates in the March meeting.

On a new Fed Vice-Chair, sources indicate that Loretta Mester (Cleveland Fed) is to be considered by the White House.

We published *Yield Outlook* yesterday. We argue that the rapid rise in yields seen this year is now slowing down but that risk is still seen on the upside, especially if we look six to 12 months forward. We forecast that 10Y US Treasury yields will rise to 3.30% (previously 2.90%) on a 12-month horizon. We expect German 10Y Bund yields to rise to 1.20% (previously 1.0%) on a 12-month horizon.

Selected readings from Danske Bank

- *Yield Outlook - More upside for 5Y and 10Y yields*
- *FX Strategy: End of USD weakness? No - but new range for now*

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Scandi markets

In Sweden, there are a number of significant scheduled events today. First, Prospera (money market) inflation expectations are due at 08:00, where we expect inflation on all horizons to stay close to 2%. For the Riksbank, it is crucial that it stays there, otherwise the future policy plan will have to be reassessed. Second, Valueguard housing prices at 09:00. Our own price indicator for Stockholm flats suggests a +2% correction, arguably related to an increasing interest to transact ahead of the 1 March amortisation rules. Third, the Riksbank rate decision at 09:30. We expect monetary policy stance and communication to be relatively intact compared to December, as there is not much new information and incoming data has been in line with forecasts: CPIF and CPIF ex energy were 0.1pp lower than the December forecast.

In Denmark, Wednesday brings a first estimate of economic growth (GDP) in Q4. We estimate 1.0%. There was a surprise fall in output of 0.5% in Q3, due mainly to destocking and a temporary lull in car sales, so there is scope for a rebound at the end of the year. Consumer spending was strong in the period and foreign trade is likely to have made a positive contribution.

Fixed income markets

Inflation data remains in focus with the US CPI prints due out today. This print will be of particular interest seeing that the December print was revised lower to 0.2% m/m (from 0.3% initially), which has received little attention. We estimate CPI core rose 0.2% m/m and 1.7% y/y in January. Despite a 'sluggish' print, we expect the Fed to proceed with a hike in March.

The EUR supply on the agenda today will be provided by Deutsche Finanzagentur, which is tapping EUR1.5bn in the Bux1 (Jul-44) and the Portuguese DMO coming to the market with taps in the Oct-22s and the Oct-28. It is the first tap in the new 10Y that has performed strongly since the introduction last month (launched at ms +114bp, now at ms +90bp). However, as senior financials/IG credit started to move wider yesterday, the periphery traded heavy. Seemingly, there was a 'delayed' risk-off move from last week's equity sell-off, which could increase investor caution and dampen interest at today's PGB auctions.

FX markets

In majors, EUR/USD rebounded yesterday in line with the rebound in EURUSD CCS with no apparent trigger. We do not expect US CPI to be a market mover for EUR/USD today.

JPY continues to strengthen. Overnight, the technical support level at 107.25 was taken out in USD/JPY and both USD/JPY and EUR/JPY are trading lower this morning. Price action suggests that the break lower in USD/JPY is technically driven on the back of general USD weakness with lots of short JPY positions exposed to the sell-off. In the short term, the strong momentum and stretched short JPY positioning suggest that further downside could be in store for USD/JPY. Look out for a reaction from the Bank of Japan. We are currently reviewing our USD/JPY forecast.

The dip in EUR/GBP following the strong UK inflation prints yesterday proved short-lived as expected and the cross ended the day slightly higher. The market is already pricing in a 19bp hike in May and we see limited potential for additional pricing at this early stage. We see risks moderately skewed to the upside for EUR/GBP near term, with Brexit negotiations stuck internally. Strategically, we are bearish EUR/GBP and would consider selling EUR/GBP on rallies above 0.8950.

In the Scandies, it will be a hectic morning for the SEK with several events to assess: Prospera, Valueguard and the Riksbank (see Scandi section above). The housing data today will at least initially take a backseat though as the release is just 30 minutes before the rate decision. 9.80 and 10.00 are both in reach depending on a surprise/interpretation on the back of the Riksbank. We prefer to be tactically square ahead of the decision but repeat that we see EUR/SEK as a buy on dips – see *RtM Sweden* for further details regarding our short-term view on the SEK.

Key figures and events

Wednesday, February 14, 2018			Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations				
8:00	DEM	HICP, final	m/m y/y	Jan	-1.0% 1.4%	-1.0% 1.4%
8:00	DEM	GDP, preliminary	q/q y/y	4th quarter	0.6% 3.0%	0.8% 2.8%
8:00	DKK	GDP indicator	q/q	4th quarter	1.0%	-0.5%
9:00	EUR	ECB's Weidmann speaks in Frankfurt				
9:30	SEK	Capacity utilization, industry	%	4th quarter		90.9%
9:30	SEK	Riksbank, rate decision	%		-0.5%	-0.5%
10:00	ITL	GDP, preliminary	q/q y/y	4th quarter	0.5% 1.6%	0.4% 1.7%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	4th quarter		0.5% 2.5%
11:00	EUR	Industrial production	m/m y/y	Dec	-0.2% 4.0%	1.0% 3.2%
11:00	EUR	GDP, 2nd estimate	q/q y/y	4th quarter	0.6% 2.7%	0.6% 2.7%
11:20	EUR	ECB's Mersch speaks in Frankfurt				
14:30	USD	CPI headline	m/m y/y	Jan	0.4% 2.0%	0.4% 2.0%
14:30	USD	CPI core	m/m y/y	Jan	0.2% 1.7%	0.2% 1.7%
14:30	USD	Retail sales control group	m/m	Jan	0.4%	0.3%
16:30	USD	DOE U.S. crude oil inventories	K			1895

Source: Bloomberg, Danske Bank

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