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Danske Daily

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Market movers today

- US industrial production, final euro area HICP December inflation figures and Chinese Q4 GDP data are the highlights of the data calendar later in the week.
- Today, the Bank of England's newest external member, Silvana Tenreyro, is due to speak about productivity growth in a first speech that could hold clues to her outlook for interest rates, ahead of the UK's inflation release tomorrow.
- In Sweden, Valueguard house price indicators for December are due out, where we look for another decline (see next page).

Selected market news

In Japan, the Bank of Japan kept purchases unchanged. In addition, Governor Haruhiko Kuroda stated overnight that easing measures will stay in place until the inflation target has been met.

Late on Friday, the ECB's Jens Weidmann stated that 'as far as central bank interest rates in the euro area are concerned, however, the immediate risk of change is currently low. After all, the Governing Council has made it clear that interest rates will remain at their current levels for a longer period of time and well beyond the time horizon of net asset purchases…..a faster end to net asset purchases with a clearly communicated end-date would have been justifiable' and the full normalisation of monetary policy will therefore be a long path', thus signalling that rate hikes are still a while away.

On Friday, US Treasury Secretary Steven Mnuchin said he was confident that an agreement would be struck to avoid government shutdown before the current short-term spending bill expires on 19 January – either with a long-term or short-term deal.

On Saturday, Iraq was supporting the call for OPEC oil production cuts to remain in place throughout 2018. There has been some speculation about whether OPEC would end cuts early following the recent price rally. In addition, the US oil rig count has started to rise again.

Selected readings from Danske Bank

- *Strategy - Strong start to 2018 amid increasing US-China tensions*
- *Flash Comment - US-China relations on a concerning path - part 2.*
- *Nordic Outlook*, 5 January
- *Research US – The subtle push for price level targeting continues*, 3 January
- *Five macro themes for 2018*, 3 January

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

Senior Analyst
Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

Scandi markets

At 9:00 CET today, we will receive the Valueguard house price indicators for December. Our call for Hox Flats Stockholm is a -2.6% m/m decline. It will be interesting to follow what happens over the next few months, as some buyers may want to carry out transactions prior to the tougher amortisation requirements effective from 1 March. However, supply should also pick up in the coming weeks after the year-end holidays.

Fixed income markets

We have seen some remarkable movements in the European and US fixed income markets since the start of the year, given a combination of stronger key economic data as well as central bank communication. 10Y German government bond yields have risen almost 12bp, while 30Y Germany has risen 8bp since the start of the year. However, the price action was 'reversed' on Friday, where the core markets began to rally despite some strong data for the US economy. Furthermore, we have seen a strong performance in some of the new syndicated deals such as Portugal and Ireland, which also shows the appetite for long-dated bonds despite expectations of tighter global monetary policy. Hence, we expect yields to stabilise and continue to range-trade in the coming week. There is a very large positive net cash flow in the European government bond market this week with redemptions from the Netherlands, Austria and Italy and fairly modest supply from France, Spain and Germany. Hence, we expect more syndicated deals to come to the market. Finland and Belgium are potential candidates. Spain is up for review by Fitch and we could see an upgrade into the single-A range. See more in our *Government bond weekly*, 14 January 2018.

FX markets

EUR/SEK has become increasingly susceptible to house price data. Today, we will get Valueguard's data for December, where our model indicates a 2.6% decline in Stockholm flats, which adds to the cumulated 10% drop since the August peak. There are no consensus expectations for these data, thus it is hard to have a prior view on how EUR/SEK will respond. We still think the cooling of the house market will have a material impact on the real economy over time and that this is part of the story why we remain bearish on the SEK and expect EUR/SEK to edge higher again. For NOK, the outcome could influence foreign investor demand for NOK assets. EUR/USD jumped above 1.21 on news of the progress in German government coalition talks and later broke through 1.22, helped by Weidmann endorsing the talk of an end to QE. EUR momentum is strong at present and looks increasingly reminiscent of last summer's rally. That said, in our view, the market interpretation of the minutes last week is not entirely 'fair' in the sense that we do not believe that notably ECB president Mario Draghi has made a shift in a more hawkish direction. With the FX market already stretched on EUR longs ahead of the minutes, this suggests that the next big figures higher in EUR/USD will at least be more difficult to achieve. GBP kept its stand against the EUR appreciation on Friday while GBP/USD broke above 1.37 for the first time since the UK Brexit vote on 23 June 2016, supported by renewed hopes of a soft Brexit following a report that Spanish and Dutch finance ministers have agreed to push for a soft Brexit. In the short term, EUR/GBP is likely to remain in the hands of investor appetite for EUR and Brexit and we expect the cross to continue to trade within the 0.8650-0.90 range. In particular, GBP may be sensitive to comments from other EU leaders on the prospects of such a soft Brexit deal. If the idea is rejected, EUR/GBP could bounce and test the high from 28 November at 0.8982. Moreover, we have a below consensus forecast for the UK CPI print due on Tuesday, which could also weigh on GBP temporarily. USD/JPY seems to have found some ground around 111 and the correlation with the US fixed income market resumed on Friday, which could be an early indication that Bank of Japan QE exit concerns have eased. However, risk remains skewed to the downside short term amid stretched short JPY positioning. Watch out for BoJ actions: In case of continued upward pressure on JGB yields, we would expect the BoJ to announce a fixed price JGB purchase operation, saying it will buy an unlimited amount of 5-10Y JGBs at 0.11%. This would help restore confidence that the BoJ is not about to exit QE and weaken the yen.

Key figures and events

Monday, January 15, 2018				Period	Danske Bank	*Consensus*	Previous
8:00	NOK	Trade balance	NOK bn	Dec			-4.2
9:00	SEK	HOX Stockholm flats price index	m/m	Dec	**-2.6%**		-4.2%
9:30	SEK	Household consumption	m/m|y/y	Nov	...|**2.5%**		0.1%|1.5%
11:00	EUR	Trade balance	EUR bn	Nov		*23*	19

Source: Bloomberg, Danske Bank

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