

Danske Daily

Market movers today

- In Norway, Norges Bank's governor Olsen is making his annual address at 18.00 CET, which will be interesting, not least as Norges Bank has made a U-turn from signalling further rate cuts to indicating a rate increase within a year (page 2).
- In the US, we get PPI inflation data for January, which might attract more attention than usual after the higher-than-expected CPI inflation print released yesterday.
- Also in the US today, we get production data for January and Empire and Philly regional manufacturing PMIs for February.
- The Chinese financial markets are closed from today and until 22 February for the Lunar New Year.
- ECB's Praet speaks at 11:45 CET.

Selected market news

The US CPI was the highlight of data points yesterday. Overall the strong CPI core 1.8% yoy (close to 3% annualised in the last three months), supports the case for the Fed to move forward with further rate hikes. Albeit, retail sales were weaker than expected. Over the day as a whole, risk sentiment was supported despite an initial knee-jerk on the US CPI. Global equities rose across the board. Asian equities followed the pattern by rising 1-2% in the overnight session. S&P 500 rose 1.4% as eurostoxx rose 0.9%, while the volatility index VIX fell rapidly after the knee-jerk reaction to the US data and ended around 19.3. The yen strengthened again yesterday. The treasury yields ended the day 7bp higher at 2.90%.

South African now former president resigned yesterday with immediate effect. ANC leader Cyril Ramaphosa will replace Zuma.

Euro area Q4 growth was confirmed at 0.6% q/q as expected. The flash release of Germany and Italy were also released. German Q4 17 growth came in as expected at 0.6% q/q, mainly due to strong foreign demand and a pick-up in exports. This leaves annual growth in 2017 at 2.5% and we expect the German economy to continue running on all engines. The Italian Q4 growth disappointing slightly at 0.3% q/q after 0.4% q/q in the previous quarter, despite the high manufacturing PMIs. This leaves annual growth in 2017 at 1.5%.

Yesterday, the Riksbank chose to reduce inflation (in particular CPI ex energy due to lower-than-expected wage increases) and GDP forecasts (now recognising that housing construction activity will decrease more than expected previously) while keeping the repo rate unchanged. We have elaborated with a base Riksbank scenario (no rate hikes this year) and a not improbable alternative scenario (one or possibly two hikes then a pause for a year or so). Admittedly, it looks like a close call. That the Riksbank is sticking to the rate path despite lowering the inflation forecast could be taken as hawkish but, in our view this is not really vindicated by the policy report. This suggests that the Riksbank was close to delaying the first hike. For now, we stick to our base case as the most probable but the minutes published on Friday next week will be of the essence just like the coming inflation data.

Selected readings from Danske Bank

- [Riksbank Comment: Riksbank launches 'soft guidance'](#)
- [Yield Outlook - More upside for 5Y and 10Y yields](#)

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Scandi markets

In **Norway** the central bank governor's annual address starts at 18.00 CET. Norges Bank made something of a U-turn in its monetary policy over the course of 2017, from signalling further rate cuts at the beginning of the year to indicating a rate increase within a year at the December meeting. Since then, upside risks, represented by growing manufacturing confidence, have emerged. At the same time, developments in the housing market have improved, signalling decreasing downside risks. Add that interest rate expectations among Norway's trading partners have increased considerably, and the case for more hawkish comments from Norges Bank is gradually strengthened despite continued low inflation.

Fixed income markets

Lots of EUR supply on the agenda today with the Spanish Tesoro tapping Oct-22's, Apr-28's and Jul-33's and the French Trésor opening the Feb-21, Mar-23 and Oct-25 as well as the Mar-25, Jul-27 and Jul-47 linkers. The Spanish auction should see decent demand as investor buying suffice as BTP hedges ahead of the March 4th Italian election and given the steepening between the new 10Y and the 33's is looking attractive.

Riksbank is still indicating a hike in the second half of this year despite lowering its inflation (CPIF) forecast for both 2018 and 2019 to 1.8% and 1.9%, respectively. While arguing that the new language is more 'appropriate' but also noted that the "...uncertainty factors could also be seen as arguments for postponing rate rises slightly". All in all, a slightly softer Riksbank than before. See *Riksbank review*, 14 February 2018.

FX markets

Scandies: A test balloon? It was probably not the Riksbank's intention, but reducing inflation forecasts and keeping repo rate path intact effectively served as a test balloon as to how the SEK would respond if the market would interpret the combo as a hawkish signal. It was a bold move. It was balanced by soft rhetoric though. Either way, the SEK does not seem to be in the starting blocks for any imminent rally as EUR/SEK moved higher after the Riksbank meeting. Monetary policy will stay in focus to for Scandies with Norges Bank's Governor Olsen set to hold his annual speech. The base case is that he will not use the annual address to give any policy hint. Tonight's speech will mark the first of several releases over the coming month where we see the balance of risk skewed towards a NOK-positive surprise. We remain short EUR/NOK and long NOK/SEK.

Majors: The stronger-than-expected US CPI print only briefly managed to push EUR/USD lower. The price action yesterday is testament to negative bias on USD in the market with the outlook for significant widening of the US public deficit. The downwards pressure on USD is also showing in USD/JPY which continues to trade on a heavy note. In the short term, we still see risks skewed to the downside for USD/JPY and EUR/JPY amid choppy market conditions and stretched short JPY positioning. Technically, next key support level in USD/JPY is seen at 106.51. Watch out for a reaction from the Bank of Japan, which seems to be the only place where USD/JPY could find some support at the moment.

Key figures and events

Thursday, February 15, 2018			Period	Danske Bank	Consensus	Previous
-	CNY	Lunar New Year				
7:30	FRF	ILO unemployment	%	4th quarter		9.7%
8:00	NOK	Trade balance	NOK bn	Jan		24.7
9:00	ESP	HICP, final	m/mly/y	Jan		-1.5% 0.7%
9:15	EUR	ECB's Mersch speaks in Paris				
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Jan	7.0% 6.5%	7.0% ...
11:00	EUR	Trade balance	EUR bn	Dec		22.5
11:45	EUR	ECB's Praet speaks in Paris				
14:30	USD	Initial jobless claims	1000			
14:30	USD	Empire Manufacturing PMI	Index	Feb	17.9%	17.7%
14:30	USD	Philly Fed index	Index	Feb	21.0	22.2
14:30	USD	PPI	m/mly/y	Jan	0.4% 2.5%	-0.1% 2.6%
14:30	USD	PPI core	m/mly/y	Jan	0.2% 2.1%	-0.1% 2.3%
15:15	USD	Capacity utilization	%	Jan	78.0%	77.9%
15:15	USD	Industrial production	m/m	Jan	0.2%	0.9%
15:15	USD	Manufacturing production	m/m	Jan	0.3%	0.1%
16:00	USD	NAHB Housing Market Index	Index	Feb	72.0	72.0
18:00	NOK	Norges Bank's Governor Olsen Annual Address				
22:00	USD	TICS international capital flow, Net inflow	USD bn	Dec		33.8

Source: Bloomberg, Danske Bank

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