15 November 2017

Danske Daily

Market movers today

- Today's key release will be the US CPI inflation figures for October. We expect inflation pressure to have remained muted, as CPI inflation is likely to have been negatively affected by the fall in energy prices in October. Hence, we project the headline CPI inflation rate to have fallen to 1.9% y/y from 2.2% in September, while the core inflation rate will remain unchanged at 1.7%.
- In the UK, the labour market report for September is due to be released, where consensus is for an unchanged reading of the unemployment rate at 4.3%, while wage growth is likely to stay muted, despite the low unemployment level.
- After yesterday's panel debate between the Fed's Janet Yellen, the ECB's Mario Draghi, the BoE's Mark Carney and the BoJ's Haruhiko Kuroda brought little news regarding the future direction of monetary policy, markets will again watch out for any comments from the ECB's Peter Praet at the closing panel of the ECB's conference on central bank communication today.
- There are no significant key economic data releases in the Scandi countries.

Selected market news

The sell-off in the equity market has continued this morning with the Asian equity market selling off on the back of (1) whether stocks have become too expensive and investors are rotating into fixed income, (2) the uncertainty regarding the US tax reform and (3) speculation of an oversupply in commodities. Hence, 'commodity-related' stocks have been under pressure this morning in Asian markets.

Focus is now turning to the US CPI data and retail sales released this afternoon as the market is looking at the strength of the US economy and whether the flattening of the US yield curve is an indicator for a slowdown in the US economy as some investors have indicated. The market/investors seems very divided on this as other investors believe that the US yield curve is seriously mispriced and yields on long-dated US Treasuries should rise significantly given the economic momentum, the risk of more long-dated issuance on the back of the US tax reform and tighter US monetary policy. For now, the US curve is in bullish momentum with a bullish flattening from the long end as seen yesterday, where 10Y US Treasuries fell 3bp.

In the FX market, the dollar has remained stable around the 1.18-level versus the euro, while USD/JPY was down towards the 113 level this morning. SEK and NOK have been stable in Asian trading after a substantial weakening yesterday against the EUR.

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Selected readings from Danske Bank

- *Research China: The housing party is over*

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Scandi markets

Sweden. Q3 data for industrial capacity utilisation is due to be released today.

Fixed income markets

The US Treasury continue to flatten driven from the long end, as the 10Y US Treasury yield declined some 3bp, while the 2Y yield was unchanged. The move was driven by a weak equity market and lower oil prices. There is speculation of a possible asset allocation move from equities and into fixed income. One of the largest US pension funds Calpers has recently indicated that it is looking to increase its allocation to bonds from 19% to as much as 44% of their portfolio. Furthermore, with more some USD9000bn of bonds (govts, corporates, covered, financials) still trading with a negative yield, then the demand for yield is still very much alive. In Europe alone, more than EUR4000bn of bonds and bills are trading with a negative yield out a total stock of more than EUR16000bn. Hence, if the US CPI data released today surprises on the downside, then the bullish flattening will continue.

The European government bond continued the rally that we saw yesterday, thus reversing part of the sell-off from last week. We firmly believe that the sell-off seen last week was temporary as noted in our comment from 10 November, *FI sell-off yesterday was just a hiccup*. The supply in the European government bond market that is being issued today from Germany, Sweden and Denmark is expected to be sold very easily even as the bulk of the issuance is coming in the 10Y segment as Germany and Sweden are both tapping in the 10Y segment.

The Danish Debt Management Office is tapping in the 3Y and 10Y benchmarks. The combination of 3Y being included in the Bloomberg/EFFAS 1-3Y index, year-end effects as well as improved public finances are supportive for buying the 3Y benchmark. See more here *FI Strategy: Auction preview: DGB 0.25% '20 and DGB 0.5% '27*, 14 November.

FX markets

Today's focal point of EUR/USD is the US CPI release today. Five out of the past six months, US CPI has disappointed consensus immediately, sending EUR/USD 50-60pips higher on every occasion. If we are right in looking for a slight disappointment in the release today, we could see a spike in EUR/USD. In addition, we note that concerns about a tighter market for USD over year-end have subsided a bit leading to a slight narrowing of the EURUSD CCS, adding further near-term support to EUR/USD. Also in the majors, EUR/GBP continued higher yesterday and is nearing in on the 0.90 level. While yesterday's move higher was driven primarily by a stronger EUR, we still expect EUR/GBP to remain bid near term as UK politics and Brexit uncertainty are likely to support the cross. Yesterday´s lower-than-expected CPI inflation print supports our call that the BoE will keep rates unchanged for the next 12M. Markets have priced in the next full 25bp rate hike for November 2018. Hence, relative rates are also likely to remain EUR/GBP supportive in coming months.

In Scandies, EUR/SEK remains bid after the break of the 9.80 level and given the already relatively steep Swedish yield curve, lower-than-expected CPIF inflation and concerns about the housing market (including the likely negative spill-over to GDP growth), it is quite difficult to find SEK-positive arguments right now. Hence, while EUR/SEK looks increasingly overbought both technically and according to our short-term financial valuation model, we still see risks skewed to the upside near term. Looking at price actions in November last year, when EUR/SEK touched the 10.00 level, the break of 9.90 may open up for a test of the 10.00 figure in coming days. NOK was also hit hard yesterday, breaking above the 9.63 resistance level. Indeed, Norwegian Q3 GDP growth came out slightly weaker than expected and while weak risk appetite and a lower oil price can justify some NOK weakness, the bounce in EUR/NOK seems overdone and probably driven by negative spill over from the sell-off in the SEK. In our view, EUR/NOK price action underlines the risk scenarios we have outlined for the NOK going into year-end.

Key figures and events

Wednesday, November 15, 2017				Period	Danske Bank	*Consensus*	Previous
0:50	JPY	GDP deflator, preliminary	y/y	3rd quarter		*0.1%*	-0.4%
0:50	JPY	GDP, preliminary	q/q|ann.	3rd quarter	**...|2.2%**	*0.4%|1.5%*	0.6%|2.5%
5:30	JPY	Industrial production, final	m/m|y/y	Sep			-1.1%|2.5%
8:00	NOK	Trade balance	NOK bn	Oct			9.2
8:00	DKK	GDP indicator	q/q	3rd quarter	**0.5%**		0.5%
8:45	FRF	HICP, final	m/m|y/y	Oct			0.1%|1.2%
9:00	USD	Fed's Evans (voter, dovish) speaks					
9:30	SEK	Capacity utilization, industry	%	3rd quarter			90.7%
10:30	GBP	Unemployment rate (3M)	%	Sep		*4.3%*	4.3%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Sep		*2.2%*	2.1%
11:00	EUR	Trade balance	EUR bn	Sep			21.6
11:00	EUR	ECB's Praet speaks in Frankfurt					
14:30	USD	Empire Manufacturing PMI	Index	Nov		*24.9*	30.2
14:30	USD	Retail sales control group	m/m	Oct		*0.3%*	0.4%
14:30	USD	CPI headline	m/m|y/y	Oct	**0.0%|1.9%**	*0.1%|2.0%*	0.5%|2.2%
14:30	USD	CPI core	m/m|y/y	Oct	**0.2%|1.7%**	*0.2%|1.7%*	0.1%|1.7%
16:30	USD	DOE U.S. crude oil inventories	K				2237
22:00	USD	TICS international capital flow, Net inflow	USD bn	Sep			125.0

Source: Bloomberg, Danske Bank

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