

# Danske Daily

## Market movers today

- **Today, focus will be on US industrial production figures for September.** Manufacturing production declined in August, in line with a sharp decline in the ISM manufacturing index. As the ISM manufacturing index rebounded sharply in September, it will be interesting to see whether ‘hard data’ confirms that the manufacturing sector performed better in September. The first indicator on the manufacturing sector in October is also due today, with the release of Empire manufacturing index.
- **After markets close in Europe, FOMC board member Stanley Fischer, who is considered neutral, is scheduled to speak.** Following Fed Chair Janet Yellen’s dovish comments on Friday (see below), it will be interesting to see if other FOMC members share the same view.
- **Later this week, attention will turn to the ECB meeting.** We expect a balanced tone from President Draghi and no new easing measures. Focus will be on a potential QE extension in December together with questions about tapering, see more in *ECB preview: too early to discuss tapering*, 14 October. Investors will also follow the US CPI figures to see whether core inflation has started to pick up. The UK data will be in focus as attention is on a possible impact from the Brexit vote.

## Selected market news

**On Friday night, Fed Chair Janet Yellen expressed a dovish stance.** According to Yellen, ‘A tight labour market might draw in potential workers who would otherwise sit on the sidelines’ suggesting that the Fed should be in no hurry to hike rates even in a situation of strong GDP growth. This supports our non-consensus call that the Fed will not hike in December as we believe the Fed is too optimistic on the current economic situation. The case for a December hike was, on the other hand, supported by hawkish comments from the Fed member Eric Rosengreen saying that the market’s pricing of a December hike (currently around 66%) sounds about right and that the FOMC might hike rates faster than the market is pricing in.

**US retail sales report for September was weak.** The control group figure, which feeds into GDP growth, increased only 0.1% m/m in September versus consensus of 0.4% m/m. This implies that the retail sales control group is up only 0.3% q/q AR in Q3 versus a growth rate of almost 7.0% q/q AR in Q2. The University of Michigan consumer survey came out weaker than expected at the lowest level since September 2015. Private consumption is the main US growth engine; hence, the figures do not support the Fed’s view that economic growth has rebounded.

**The UK’s PM Theresa May’s cabinet discussed a less ‘hard’ Brexit.** According to the *FT*, May has not ruled out making future payments to the EU budget to secure single-market access, benefiting mainly the financial sector as it has been feared the passporting rights would be lost. **New poll shows Donald Trump drifting further behind Hillary Clinton**, see *FT*. In our US election monitor published on Friday, we argued that a Trump comeback should not be ruled out yet although Clinton is significantly ahead in the polls. See *US election monitor*, 14 October.

## Selected readings from Danske Bank

- *ECB preview: too early to discuss tapering*
- *US election monitor: Clinton extends her lead but don’t rule out a Trump comeback yet*
- *Research: China letter 2 – is China facing a housing bubble?*
- *Flash Comment China: deflationary pressure keep easing*

(all from 14 October 2016)

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## Read more in Danske Bank’s recent forecasts and publications

- *Research: Global growth revised down following Brexit*
- *The Big Picture*
- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

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## Fixed income markets

There are plenty of important events this week with the main focus on the ECB meeting, US inflation data for September as well as several speeches by Fed members and the Beige Book. We have a string of data from the UK, where the markets will again be looking for a possible impact of Brexit and thus the possibility for more GBP weakness. We expect the ECB to be on hold on Thursday – so no new signals regarding either more QE or on tapering. There will be plenty of questions regarding the tapering on the press conference afterwards but we do not expect that Draghi give any hints on this. Read more in *ECB preview: too early to discuss tapering*, 14 October 2016. In addition to the ECB meeting, the ECB is also publishing its bank lending survey. This will be important given the focus on banks' earnings, negative rates and flat yield curves – whether we see an increase in lending – which would be a positive signal for the euro area.

In Scandinavia, there are no major economic data releases or central bank events. The Swedish and Norwegian government bond markets have performed well against EU peers after the past week's release of inflation data. Sweden and Norway are both in the market with taps in government bonds. Sweden is tapping in the 9Y and 10Y segments, while we expect that Norway will tap in the 10Y segment. This will be published today. We expect solid demand at both auctions even after the decent performance.

In the European government bond market, we have a light schedule with Germany, France and Spain coming to the market – Germany will do a tap in the 30Y benchmark, while France will tap in the 5Y segment and linkers. Spain will tap in the 3Y, 10Y and 50Y segments. Finally, we have a string of rating reviews on Friday where the main focus is on the review from DBRS on Portugal. We expect an unchanged rating and unchanged outlook. The rating review is expected to be released around 6pm on Friday.

## FX markets

The USD rally continued on Friday despite relatively weak US consumer data where both the retail sales control group and the University of Michigan consumer survey came out weaker than expected. However, the market continues to focus on the Fed raising interest rates in December and the case for a December hike was supported by hawkish comments from the Fed member Eric Rosengreen on Friday saying that the market's pricing of a December hike (currently around 66%) sounds about right and that the FOMC might hike rates faster than the market is pricing in.

EUR/GBP has stabilised around the 0.90 figure after the past week's rally. We maintain our 6M forecast at 0.92 but stress that we see risks to upside relative to our forecast in the coming 3 to 6 months.

In the Scandies, we have raised our EUR/SEK forecast on the back of the strong EUR/SEK rally. Given the break of key resistance levels, we would not rule out that it has further to run. However, we also note that the pair is looking increasingly overbought technically and relative to our short-term financial models. We now target EUR/SEK at 9.70 (9.40) in 1M, 9.50 (9.30) in 3M, 9.40 (9.30) in 6M and 9.20 (9.10) in 12M.

Despite our long-term strategic bullish view on the NOK, we think the latest move lower in EUR/NOK has been a little too fast too soon. Given the vulnerable risk environment, the latest developments in Norwegian data, speculative NOK positioning and NOK seasonality we expect the cross to end the year higher than the current spot. We now forecast EUR/NOK at 9.10 in 1M (previously 9.30), 9.20 in 3M (9.30), 9.00 in 6M (9.10) and 8.80 in 12M (8.80).

Key figures and events

Monday, October 17, 2016

				Period	Danske Bank	Consensus	Previous
8:00	NOK	Trade balance	NOK bn	Sep			6.8
11:00	EUR	HICP inflation, final	m/m y/y	Sep	<b>0.1% 0.2%</b>	0.4% 0.4%	0.1% 0.2%
11:00	EUR	HICP - core inflation, final	y/y	Sep	<b>0.8%</b>	0.8%	0.8%
14:30	USD	Empire Manufacturing PMI	Index	Oct		1.0	-2.0
15:15	USD	Capacity utilization	%	Sep		75.6%	75.5%
15:15	USD	Industrial production	m/m	Sep		0.2%	-0.4%
15:15	USD	Manufacturing production	m/m	Sep		0.2%	-0.4%
18:15	USD	Fed's S.Fischer (voter, neutral) speaks					
23:45	NZD	CPI	q/q y/y	3rd quarter		0.0% 0.1%	0.4% 0.4%

Source: Bloomberg, Danske Bank Markets

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