

# Danske Daily

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## Market movers today

- With no major **euro area** data releases on the calendar, today's highlight will be speeches by Bundesbank President Jens Weidmann and ECB's Benoit Coeuré at a conference on [economic policy debates](#) in Germany. With recent ECB attempts to talk down the EUR over the last days markets will look out for any hints regarding future ECB monetary policy.
- In the **US**, the [Philly Fed index for January](#) is released. Consensus is for a decline to 24.0, in line with the observed drop in the earlier released Empire manufacturing index, but despite a possible moderation the index remains at a high level.
- This morning we will also get a bunch of data out of **China** including [GDP data](#), [retail sales](#), [industrial production](#) and [fixed asset investments](#). Markets will digest these data for any indications of to what extent strong global export demand has cushioned the lower support from construction and infrastructure spending amid the housing market losing steam.
- In **Norway**, Norges Bank's lending survey is released. If banks signal further tightening of their credit practices this could fuel uncertainty as to the outlook for private consumption and investments. Meanwhile, we have not had a sniff of any plans in this direction and it seems unlikely with the housing market now beginning to show signs of stabilisation.

## Selected market news

Overnight most **Asian equity indices** have followed US counterparts higher amid earnings and growth optimism. The **USD** has erased yesterday's losses amid **US treasuries** continuing to sell-off. We attribute the latest move higher in US yields to US treasury data showing declining foreign holdings and on further US companies committing to plans of repatriating foreign earnings suggesting a lower future treasuries demand (see below).

Also, developments in the US suggest the **US as expected will avoid an imminent government shutdown** as the Republican leaders seemingly have found sufficient votes for a plan to temporarily fund the government for an additional four weeks up until 16 February. Given the slim 51-49 republican majority in the Senate, the deal needs democrat votes to reach the 60-vote threshold needed to advance the spending legislation pushed forward by the House Republicans. Current government funding will expire by the end of tomorrow.

Yesterday **Apple Inc.** – the US company with the largest offshore cash reserve – announced that it plans to pay USD 38bn in **repatriation taxes** from foreign earnings. The announcement follows similar statements from a range of US peers that over the last days have stated they plan to raise US investments, increase US labour force pay and increase dividends/share buy backs via foreign earnings thereby utilising the tax discount brought forward in the US tax reform. Given the tax rate (15.5% on cash, 8% on less liquid asset) and the latest fiscal reporting the announcement suggest Apple is repatriating the majority of its foreign earnings. Market analysts estimate USD3.1 tn is held offshore by US companies. For more info see *Financial Times*.

In line with market pricing and analyst expectations **Bank of Canada** yesterday delivered the third 25bp interest rate hike since July. Meanwhile, the monetary policy report was to the soft side, not least emphasising the future of NAFTA as a key uncertainty for the rate outlook.

## Selected readings from Danske Bank

- *Flash Comment US – Fed is set to hike in March and three times this year*
- *Yield Outlook – Risk to yields skewed on the upside but mainly on a 12M horizon.*
- *Italian Election Factbook: The countdown has begun but ITEXit risk remains low*
- *Bank of Japan Preview – On hold as BoJ head awaits Abe's decision*
- *Nordic Outlook*
- *IMM positioning update*

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

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## Fixed income markets

**US treasury yields** rose yesterday and the curve 5Y-30Y and 10Y-30Y continued to flatten. Two stories seems to become a driver for the Treasury yields. Firstly, China and Japan are reducing their holdings of US Treasuries according to data released from US Treasury department. Furthermore, the data from the Japanese ministry of finance indicates that the Japanese investors are moving towards Euroland, where the focus is on France and Germany. Secondly, US companies will begin to repatriate large parts of their off-shore cash home. Much of the cash is held in US Treasury bonds, and if they are brought home, then the speculation is whether the companies will continue to invest in US treasuries or move the money towards buy-backs of their shares or increased M&A activity etc. This is seen as a negative as the companies would most likely sell the US treasuries.

The **European markets** were mainly range bound with no significant key economic data releases. Today, there is several ECB speeches including Bundesbank's Weidman, but like yesterday, there are no significant key economic data releases. However, plenty of action in the European government bond market as Austria is launching a new 10Y benchmark. We have seen good demand at the syndicated deals so far as well as performance in the secondary market. Hence, we expect that the Austrian auction will go well with a solid bid-to-over. Furthermore, the Austrian debt office only plans 1 to 2 syndicated yields for 2018. Furthermore, Spain and France are selling government bonds as well. Spain will sell between EUR 3.5-4.5bn in the 5Y, 15Y and 30Y benchmarks, while France is tap in nominals and linkers.

## FX markets

Riksbank's Henry Ohlsson, the most hawkish of the Board members, said yesterday he could see a hike this year; this caused **EUR/SEK** to drop from 9.86 to 9.81. But his stance is in fact nothing new as he has argued for more frontloaded hikes than the majority for a while. However, price action clearly illustrates i) that market memory is short, but also ii) how important a shift in the Riksbank's policy stance is for the krona. In our view, it was an overreaction though, and we continue to see EUR/SEK trapped close to 9.90 on a 1M horizon.

**EUR/USD** has moved lower overnight on the back of higher US yields (see front page). Meanwhile, already yesterday the cross paid a brief visit below the 1.22 mark, following a stream of euro-appreciation-related worries from ECB members: Wednesday morning Vitor Constancio said the recent move may not be supported by fundamentals and that he was concerned with sudden moves, and later in the day Ewald Nowotny noted that FX moves must be 'observed'. We still doubt that these somewhat half-hearted attempts by ECB sources to do verbal intervention in the FX market will have a lasting effect; the genie is out of the bottle with the ECB having revealed the preference for getting 'normalisation' going sooner rather than later. For a significant EUR correction to be seen near term, we need Draghi to come out more clearly on the dovish side next week.

**GBP** continues to perform as the Brexit risk premium priced has declined substantially over the past weeks. This is evident in our short-term financial model, which signals that EUR/GBP is oversold trading 1.4 standard deviation below the model's fair value estimate of 0.9037 (spot ref.: 0.8860). Moreover, in contrast to most other EUR-crosses, implied EUR/GBP volatility has dropped further over the past week, and 3-12M implied EUR/GBP volatility now trades at the lowest levels seen since December 2014. While we remain bullish GBP over the medium term, we see risks skewed to upside for EUR/GBP in the short term following the recent repricing of Brexit risk premium, as it is still early days in the second phase of Brexit talks (transition period and future trade relationship). However, we are still short EUR/GBP via a bought put spread, which we still think is an attractive way to play a stronger GBP in 2018.

## Key figures and events

## Thursday, January 18, 2018

				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Dec		0.0	0.0
1:30	AUD	Employment change	1000	Dec		15	61.6
2:30	CNY	Property prices	y/y				
3:00	CNY	Fixed assets investments	y/y	Dec		7.1%	7.2%
3:00	CNY	Real GDP	q/q y/y	4th quarter	.. 6.7%	1.7% 6.7%	1.7% 6.8%
3:00	CNY	Industrial production	y/y	Dec		6.1%	6.1%
3:00	CNY	Retail sales	y/y	Dec		10.2%	10.2%
5:30	JPY	Industrial production, final	m/m y/y	Nov			0.6% 3.7%
9:15	EUR	ECB's Weidmann speaks in Frankfurt					
9:15	EUR	ECB's Coeure speaks in Frankfurt					
10:00	NOK	Norges Bank's Survey of bank lending		4th quarter			
12:00	TRY	Central Bank of Turkey rate decision	%		8.0%		8.0%
14:30	USD	Building permits	1000 (m/m)	Dec		1295	1303.0 (-1.0%)
14:30	USD	Housing starts	1000 (m/m)	Dec		1270	1297.0 (3.3%)
14:30	USD	Philly Fed index	Index	Jan		23.0	26.2
14:30	USD	Initial jobless claims	1000				261
15:30	EUR	ECB's Coeure speaks in Frankfurt					
17:00	USD	DOE U.S. crude oil inventories	K				-4948

Source: Bloomberg, Danske Bank

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### Expected updates

Each working day.

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