

Danske Daily

Market movers today

- **The first ECB meeting of the year is due to take place today.** We do not expect any significant announcements or changes to the ECB's policies, given that only six weeks have passed since major adjustments to the QE programme were made. Although inflation has increased above 1% for the first time since 2013, this is due mainly to energy price inflation, consistent with the ECB's own forecasts. Therefore, we do not expect it to react with a hawkish stance or to conclude that inflation is on a sustainable path towards 2% yet. Please see *ECB preview: still dovish despite better data*, 13 January 2017 for details.
- **The US Philly Fed Manufacturing index is due out at 14:30 CET.**
- **There are no scheduled data releases in Scandi markets today.**

Selected market news

Rising inflation sends Treasury yields higher following weak tone on most European government bond markets and Yellen comments. Yesterday, data showed a further rise in US inflation. Headline was in line with expectations, rising to 2.1% y/y, while the core came in 0.1pp higher than expected at 2.2% y/y. Across the Atlantic, long-dated Italian supply and the upcoming auctions today in France and Spain set a bearish tone for European government bond markets, which also added to pressure on US Treasuries. In addition, Fed Chair Janet Yellen's warning of a 'nasty surprise' if waiting too long before raising interest rates, added to the bearish sentiment later in the US session. Yellen also said that the Fed expects to raise the Fed funds rate 'a few times a year until, by the end of 2019, it is close to our estimate of its longer-run neutral rate of 3%'. In combination, these factors sent 10Y Treasury yields, for example, higher by some 10bp compared with the 2017 lows reached on Tuesday.

US stocks were broadly unchanged yesterday. Notably, the wider market shrugged off the continued stream of strong banking sector earnings reports, with both Goldman Sachs and Citigroup delivering solid Q4 results.

UK house price index signals slowing price growth ahead. The RICS index released overnight declined to +24 in December from +29 the month before, indicating that a smaller proportion of respondents expect price gains. This is the first decline since the immediate aftermath of the June 2016 'Brexit' vote, although this latest reading is still consistent with solid price increases. On a national level, house prices have continued to increase since June, although central London house prices have fallen for the past 10 months, presumably on concerns over the UK's break with the EU as well as higher taxes on expensive properties.

Selected readings from Danske Bank

- [ECB preview: still dovish despite better data](#)

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Scandi markets

There are no scheduled data releases in Scandi markets today.

Fixed income markets

Market focus today will be on the ECB meeting. We do not expect a less dovish stance from the ECB or any tapering talk for that matter, although the latest economic survey indicators have strengthened further and inflation has risen above 1.0% for the first time in three years. President Mario Draghi will most likely argue that the ECB does not react to a single inflation figure, that the latest inflation gains are due primarily to energy prices and consistent with the ECB's inflation forecast. The recent higher inflation is arguably good news for the ECB, but it seems clear that the underlying price pressure is most important and here there are 'no signs yet of a convincing upward trend'. See *ECB preview: still dovish despite better data*, 13 January 2017.

The supply wave continues in the European government bond market. Today, we have auctions in both France and Spain. France will launch a new 3Y Benchmark FRTR 0% Feb '20 and Spain will launch a new 5Y benchmark SPGB 0.4% Apr '22. In addition, France will tap in the 4Y and 5Y segments and in the 4Y, 10Y and 30Y linkers. Spain will also tap in the 3Y and 6Y segments. Hence, for a change, the auctions in the nominals are concentrated in the short end of the curve.

Italy saw good demand for its new 15Y bond yesterday. The Debt Office saw orders for more than EUR21.3bn for the EUR6bn syndication. However, Italy still underperformed Spain slightly as the EGB market sold off in the afternoon.

Treasuries suffered after Janet Yellen said that 'I and most of my colleagues' expect to raise rates 'a few times a year' through to the end of 2019. The hawkish comments came after the December CPI index rose slightly more than expected, adding to the fear of rising inflation. 10Y US break-evens rose briefly to the highest level since 2014 and 30Y Treasury yields went above 3% again.

FX markets

GBP saw some additional support yesterday as short covering continued following Theresa May's speech on the UK's withdrawal from EU on Tuesday. In our view, uncertainty about UK's exit from the EU remains high and we expect downward pressure on GBP to return in coming months ahead of the triggering of Article 50. See *Brexit Monitor No. 21: May wants a 'clean' Brexit - we expect GBP to remain under pressure in coming months despite today's rally*, 17 January 2017. We target EUR/GBP at 0.88 in 3M but stress that the risk is skewed to the upside. We do not expect the ECB meeting today to have a material impact on EUR. The recent strong inflation reading only presents one data point, which is unlikely to change the stance of the ECB and thus affect the EUR. Data for US crude stocks will grab the interest of the oil market and oil sensitive currencies today. OPEC said yesterday that it remains cautiously optimistic that oil stocks will decline following its recent output cuts, despite the opposite development seen this year, and it needs to wait to decide on a deal extension. The oil price appears to have stabilised and that should give room for a move lower in EUR/NOK near term, although there is not much on the calendar in terms of Norwegian data releases or Norges Bank monetary policy decisions to drive the market. We forecast EUR/NOK to drop to 9.00 in 1M and 8.90 in 3M.

Key figures and events

Thursday, January 19, 2017					Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Dec			0.3	0.3
1:30	AUD	Employment change	1000	Dec			10	39.1
10:00	EUR	Current account	EUR bn	Nov				28.4
13:45	EUR	ECB announces refi rate	%			0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%			-0.40%	-0.40%	-0.40%
13:45	EUR	ECB's monthly asset purchase target	EUR bn	Jan		80	80	80
14:30	EUR	ECB's Draghi speaks at press conference						
14:30	USD	Initial jobless claims	1000				252	247
14:30	USD	Building permits	1000 (m/m)	Dec			1220	1212.0 (-3.8%)
14:30	USD	Housing starts	1000 (m/m)	Dec			1200	1090.0 (-18.7%)
14:30	USD	Philly Fed index	Index	Jan			15.1	19.7
17:00	USD	DOE U.S. crude oil inventories	K					4097
-	USD	Fed Chair Yellen (dovish) speaks in the night, 02:00 CET Friday						

Source: Bloomberg, Danske Bank Markets

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