

# Danske Daily

## Market movers today

- **In Germany, we get the ZEW expectations for February, which should show a small fall back compared with January.**
- **In the Eurozone, the preliminary consumer expectations for February are also set to be released. After climbing to near record high in January, market expects the indicator to drop back a little in February.**
- **In Denmark, we get consumer confidence data for February. The indicator bounced back in January after having trended down since summer 2017, when it hit a two-year high. We expect consumers to be more optimistic in February and so expect a further increase to 8.5.**
- **In Sweden we get the January inflation data. We expect CPIF m/m change at -0.7% (same as market). The CPIF y/y is expected to be 1.9%, which is the same as both consensus and the Riksbank's updated projection. Focus will be on the service inflation. In fact, Riksbank was, in our view, close to shifting the rate path, i.e. postponing the first rate hike. A lower-than-expected inflation reading today, driven by lower service inflation, could move the market a bit, sending interest rates in shorter maturities lower.**

## Selected market news

It has been a mixed session in the Asian equity markets this morning with most markets down. Furthermore, we have seen a modest rise in US treasury yields in Asian trading together with a slightly stronger dollar versus the EUR and JPY.

There is plenty of focus on the 10Y US Treasury yield to reach 3% after last week's US CPI data. This could happen already this week as the US Treasury Department will be selling some USD 100bn in 2Y, 5Y and 7Y US Treasury bonds. However, we expect to see decent demand at the auctions given the rise in yields, which has the bonds more attractive for investors.

In Germany, the SPD will begin the membership ballot on whether to join the CDU in a new coalition government. Spain is taking advantage of strong demand for its government bonds and plans to sell 30Y government bonds through a syndicated deal expected today.

## Selected readings from Danske Bank

- *IMM Positioning Update 6 investors reduce long EUR/USD positions for the second consecutive week*

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*Chief Analyst*  
Jens Peter Sørensen, Ph.D  
+45 45128517  
jenssr@danskebank.dk

## Scandi markets

In Sweden we get the January inflation data. There is always some uncertainty related to clothing this month due to sales, but there is also seasonal sales in furniture and electronic equipment. Together this results in our expected CPIF m/m change at -0.7% (same as market). More, updates to the CPI basket could as always in January result in surprises. However, over the past few years such surprises have been rare or very small. The CPIF y/y is expected to be 1.9%, which is the same as both consensus and Riksbank's updated projection. Last week Riksbank expressed concerns over the inflation and especially the recent move lower in service inflation. In fact, Riksbank was, in our view, close to shifting the rate path, i.e. postponing the first rate hike. A lower-than-expected inflation reading today, driven by lower service inflation, could move the market a bit, sending interest rates in shorter maturities lower, since market's implied repo rate path is close to, or a tad above, the Riksbank's path.

## Fixed income markets

While the formal decision regarding ECB's VP is not due until March 22, it looks certain that the only remaining candidate, Spain's De Guindos, will replace Constancio at the ECB as of June this year. De Guindos is likely to be slightly more hawkish than Constancio, but we do not expect that this will change ECB's reaction function. Next key ECB board member to be replaced is Chief Economist Praet in May 2019.

The German Finanzagentur is introducing the new Schatz (Mar-20, CTD in the June future contracts) today via a EUR 5bn tap. Pricing of the back (June) Schatz ASW Eonia contract at around 28.5bp suggests that the new Schatz will offer a forward yield pick-up of around 4bp vs. the Nether Jan-20 and 6bp pick-up vs. DBR Jan-20. Spain has announced the introduction of a new 30Y benchmark to be launched in the near future subject to market conditions, likely today's business. We expect to see strong demand at the auction as the peripheral curves and especially Spain are still steep despite the recent flattening. The 10s30s Spanish government curve is still some 7bp steeper than the Italian government curve.

## FX markets

Today it's all about the SEK in Scandi FX markets. As noted above, our CPIF forecast is in line with the Riksbank. Hence, if our expectations are confirmed it should not have a significant impact on EUR/SEK. However, as always the devil is in the details, and we will be particularly interested in the service inflation as noted above given that the decline in service inflation is a key argument as to why we expect the Riksbank to abstain from raising rates this year and why we have a negative outlook on the krona. See *FX Essentials - play relative scandi inflation dynamics: buy NOK/SEK*, 19 February 2018.

Also, note that the Riksbank's Flodén gives a speech on the economy at 12:30 CET today.

USD/JPY has stabilised after past weeks' sell-off. 25 delta USD/JPY risk reversals have bounced higher, which could indicate near-term stabilisation in the cross. However, we still expect the cross to trade lower going into end of the fiscal year in Japan (31 March) driven by portfolio flows, fragile risk environment and stretched short JPY positioning. We target 104 in 1-3M.

## Key figures and events

Tuesday, February 20, 2018			Period	Danske Bank	Consensus	Previous
1:30	AUD	RBA February Meeting Minutes				
8:00	DKK	Consumer confidence	Net. bal.	Feb	<b>8.5</b>	8.2
9:30	SEK	Underlying inflation CPIF	m/m y/y	Jan	<b>-0.7% 1.8%</b>	-0.7% 1.9%
9:30	SEK	CPI	m/m y/y	Jan	<b>-0.7% 1.7%</b>	0.4% 1.7%
11:00	DEM	ZEW current situation	Index	Feb	93.9	95.2
11:00	DEM	ZEW expectations	Index	Feb	16.2	20.4
16:00	EUR	Consumer confidence, preliminary	Net bal.	Feb	1.1	1.3

Source: Bloomberg, Danske Bank

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