20 January 2017

Danske Daily

Market movers today

- **President-elect Donald Trump will be sworn in today as the 45th President of the United States.** The world will be watching the ceremony, which starts at 17:30 CET, and the inauguration speech in particular. It will be interesting to see whether Mr Trump provides more information on his actual economic policy, as the press conference last week was sparse on concrete information (see *Flash Comment US: No major economic news from President-elect Trump – back to monitoring Twitter*, 11 January). While this is by no means a given, we may soon get an updated 100-day plan.
- **In Scandinavian markets, Danish retail sales (09:00 CET) is the only release of interest.**

Selected market news

ECB holds steady, playing down inflation risks. In line with expectations, all policy measures were kept unchanged. During the press conference, the main message from President Mario Draghi was that price pressures remain subdued, despite the increase in inflation in December, which was driven by energy price increases. In this regard, the ECB concluded that it 'will continue to look through changes in HICP inflation if judged to be transient and to have no implication for the medium-term outlook for price stability'. Draghi also made it clear that higher inflation will not automatically result in QE tapering. Only if four conditions are met will the ECB conclude that inflation is on a 'sustained adjustment', namely that the higher inflation (1) is affecting the medium term, (2) is durable, (3) is self-sustained and (4) is region wide. For further details, see *ECB Review: Draghi remains dovish until core inflation rises*, 19 January.

Chinese GDP growth on target. According to data released overnight, Q4 GDP growth was 6.8% y/y, following three consecutive quarters of 6.7% growth and neatly in line with China's growth target of 6.7-7.0%. However, we do not put a lot of weight on the official GDP statistic as a measure of economic activity. We believe the true number is somewhere between 6.0% and 6.5% currently, up from 3-4% in early 2016.

Yesterday's US macro data releases pointed to labour market and manufacturing strength, sending Treasury yields higher. Initial jobless claims fell 15,000 to 234,000. The four-week moving average declined to 246,750, the lowest figure since 1973. The Philly Fed index rose to 23.6, the highest level in the current cycle, pointing to US manufacturing strength, in line with other soft indicators. Housing starts rose 11.3% in December, although this was driven by a 57% increase in the volatile multifamily component, while single-family housing starts were weak, falling 4%. However, the overall strong data lifted Treasury yields again on Thursday.

US stocks closed slightly weaker yesterday, as markets remain in wait-and-see mode. While yesterday marked the fifth consecutive day of minor losses, US equities have generally been trading in a fairly tight range since early December, as investors await further details on Trump's political agenda.

Selected readings from Danske Bank

- *ECB Review: Draghi remains dovish until core inflation rises*, 19 January

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Scandi markets

Denmark: Statistics Denmark is due to release retail sales data for December on Friday. There is much to suggest that private consumption in general has been boosted by rising employment, real wages and housing prices and we expect retail sales too to benefit from higher consumer spending. Retail sales tend to be highly volatile, however, with considerable fluctuations from month to month, into which we should not read too much.

Fixed income markets

This evening will be day one of the President Trump era. We do not expect his inauguration speech to include any surprises but from now on Trump will take his business from Twitter to the Oval office (while arguably keeping his strong presence on Twitter). The first 100 days of the Presidency are usually the most productive, so it will be interesting to see how quick Trump will be off the bat. See *the productivity in the first 100 days of past presidents*.

The Irish rating is up for review by Moody's, which has Ireland on a positive outlook. Moody's is clearly lagging the other rating agencies and given the solid debt dynamics and ongoing improvement in the economy, we could see an upgrade of Ireland. Greece will be on the block at S&P.

The ECB meeting yesterday confirmed that 'buying below depo' will apply only to PSPP and, for each jurisdiction, priority will be given to assets yielding the deposit rate. In our view, it is likely to 'be needed' in Germany, Finland and the Netherlands.

In Germany, we estimate that at current yields 15% of government bonds purchased in 2017 will have to be conducted below the deposit (see more *here*).

This week we presented our new *Reading the Markets Denmark* publication. This time we take a look at the new 10Y Danish government bond that will be sold next year. We think it will offer value asset swapped out against semi core countries (see the *English* version at and *Danish* version.

FX markets

The Norges Bank lending survey showed banks reporting much tighter credit standards for households over the coming three months. While on balance this will be a negative factor for house prices, private consumption and speculation about 2017 Norges Bank rate hikes, we do not see it as a near-term important driver for the NOK and still pencil in NOK outperformance versus most G10 peers over coming months. We remain short EUR/NOK forward outright in our FX Trading Portfolio. The FX market interpreted the comments from ECB President Mario Draghi at yesterday's press conference as dovish, which sent EUR/USD below 1.06. In general, this is in line with our short-term view on EUR/USD, where we look for EUR/USD to go 1.04 in 1M and 1.05 in 3M. We note that it is not a one way street lower for EUR/USD in the near-term though. The change in US cash balance policy will result in a USD cash deluge from the treasury account in Q1. The increase in USD supply will ease upward pressure on the USD and, hence, downside potential for EUR/USD (see *FX Edge: US Treasury Q1 cash deluge to ease USD support near term*, 19 January). EUR/CZK forward points continued to recover over the past few days, after the downward move following the strong December inflation figures out last week. In light of inflation returning to the CNB's target and sizable speculative inflows fuelling the need for increased CNB FX interventions over the past few months, speculation has emerged in the market about an early CNB surprise exit already in February 2017.

We do not expect such an early exit and instead look for a floor removal in mid-2017, when inflation sustainably reaches the CNB's target. However, with the recent inflation developments, there is considerable risk of an exit as early as Q2 17. Hence, it is important that corporates start hedging their CZK exposure now, as we expect EUR/CZK forward points to move down further over coming months as the exit draws nearer (see *EUR/CZK Floor Likely to be Removed in 2017: It's time to hedge CZK payables*, 19 January).

Key figures and events

Friday, January 20, 2017				Period	Danske Bank	*Consensus*	Previous
-	USD	Inauguration of President-elect Donald Trump					
-	EUR	Moody's may publish Ireland's debt rating					
-	EUR	S&P may publish Greece's debt rating					
2:00	USD	Fed Chair Yellen (dovish) speaks					
3:00	CNY	Industrial production	y/y	Dec		*6.1%*	6.2%
3:00	CNY	Retail sales	y/y	Dec		*10.7%*	10.8%
3:00	CNY	Real GDP	q/q|y/y	4th quarter	**1.7%|6.7%**	*1.7%|6.7%*	1.8%|6.7%
3:00	CNY	Fixed assets investments	y/y	Dec		*8.3%*	8.3%
9:00	DKK	Retail sales	m/m|y/y	Dec			0.2%|2.6%
10:00	EUR	ECB's survey of professional forecasters					
10:30	GBP	Retail sales ex fuels	m/m|y/y	Dec		*-0.4%|7.5%*	0.5%|6.6%
14:30	CAD	CPI	m/m|y/y	Dec			...|1.2%
14:30	CAD	Retail sales	m/m	Nov			1.1%
15:00	USD	Fed's Harker (voter, hawkish) speaks					
19:00	USD	Fed's Williams (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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