

# Danske Daily

## Market movers today

- **The key event today will be the FOMC meeting, with the announcement at 20:00 CET, and Janet Yellen's press conference at 20:30 CET.** We expect no change to the fed funds target range, but instead expect the Fed to announce it will begin reducing its balance sheet ('quantitative tightening') in October. We have got most details about how the Fed wants to do this and hence we do not expect the announcement itself to have a major impact on markets, although we are still missing details about what level of the balance sheet the Fed targets in the long term. With respect to the 'dots', we expect the signal to remain unchanged at one more hike this year and three next year. We do not expect any major changes to the statement despite low inflation, as the statement already says the Fed is monitoring inflation 'closely'. For more information, see *FOMC preview: Fed to announce QT and still signal one more hike this year*, 15 September 2017.
- **In the UK, retail sales for August are due out.** Retail sales are very volatile on a monthly basis, but we will look for signs of whether private consumption growth remains weak due to the negative real wage growth and lower consumer confidence.
- **The Bank of Japan (BoJ) starts its two-day monetary policy meeting** and is expected to announce its decision tomorrow around 05:00 CET. We expect it to keep its 'QQE with yield curve control' policy unchanged. It is widely expected that the BoJ stands pat this time and the announcement should not have any significant impact on price action. For more details, see *Bank of Japan Preview: On hold as political uncertainty increases*, 15 September 2017

## Selected market news

Although US President Donald Trump's speech to the United Nations General Assembly yesterday was hard on the rhetoric – in particular against North Korea – financial markets remained relatively calm. US equities ended the day slightly higher and in Asia this morning Chinese and Japanese equity indices are also trading higher while most other regional indices trade lower. With little in the data calendar today, we are probably in for another quiet session as investors await the FOMC meeting and Janet Yellen's speech tonight.

In an interview with the Guardian, UK Foreign Secretary, Boris Johnson, last night rejected yesterday's reports saying that he could resign from the cabinet if in her speech in Florence on Friday Prime Minister Theresa May lays out a version of Brexit in which the UK pays to have access to the single market on a permanent basis – something similar to Switzerland's agreement with the EU. It remains uncertain what Theresa May will signal in her 'update on Brexit negotiations so far' on Friday, and the event will attract a lot of attention in the financial markets, as this speech was the main reason why this week's Brexit negotiations were cancelled.

Japan recorded a higher-than-expected trade surplus in August, data released overnight showed. Both imports and exports are expanding by double-digit growth rates (15.2% y/y and 18.2% y/y, respectively) indicating that the momentum in the Japanese economy is strong and still driven by net exports.

### Selected readings from Danske Bank

- *Strategy Sweden - When pieces don't fit*

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## Scandi markets

No Scandi releases today.

## Fixed income markets

The FOMC meeting will be the focal point of the day. We expect the Fed to announce that the balance sheet reduction (i.e. quantitative tightening) will be initiated in October. The Fed has previously announced that the QT will be conducted by reducing reinvestments of maturing securities. Initially, with a cap on the reinvestment reduction of USD10bn per month (USD6bn Treasuries and USD4bn MBS) and increasing by USD10bn in three-month intervals until the cap reaches a total monthly reduction of USD50bn. See *Fed's quantitative tightening details: Impact on the balance sheet and reinvestments*, 19 June 2017.

The committee will also provide updated dots (i.e. forward guidance) at today's meeting. We expect the median dots to continue to signal one more hike in 2017 and another three hikes in 2018. The convergence between the Fed 'dots' and market pricing has gained steam in recent weeks and especially following last week's higher-than-expected CPI figure. However, the market is still only pricing in roughly a 50% chance of a hike at the December meeting. See *FOMC preview: Fed to announce QT and still signal one more hike this year*, 15 September 2017.

The German Finanzagentur will be coming to the market with EUR2bn of the new 30-year (1.25% Aug-48) benchmark today. Bund ASW has continued to tighten this week as the high issuance activity is generating increased receiving interest in swaps.

The Danish DMO is tapping the 20s and 27s today. Given the combination of redemptions and coupon payments from both the DGBs (15 November) and mortgage bond markets (1 October), DKK liquidity should be abundant in Q4 and support short DGBs against EUR peers. See *Fixed Income Strategy: DGB auction preview: DGB 0.25% '20 and DGB 0.5% '27*, 19 September 2017. The Swedish National Debt Office will also be in the market today with taps in the Nov-23s (SEK2bn) and Jun-32s (SEK0.5bn).

## FX markets

In the majors, US President Trump's comment before the United Nations failed to trigger a marked response in USD, JPY, CHF or the gold price. EUR/USD has been trading in the 1.19-1.20 range ahead of the FOMC meeting tonight. This could turn focus back towards US monetary policy normalisation, which could lend some support to USD. However, the market has already started to price in a December rate hike with a higher probability. It means that any dig in EUR/USD should be shallow and short-lived. We look for EUR/USD to trade around 1.20 in the short term. EUR/GBP recovered a bit further yesterday, moving closer to the 0.89 level as the market is hesitant to add to short positions ahead of Theresa May's speech later this week.

In the Scandies, oil prices traded with a heavy tone yesterday on the back of headlines that US shale production is reaching record levels. That had a limited spill over to NOK. For NOK, the main event this week will be tomorrow's Norges Bank meeting. EUR/DKK continues to trade above 7.44 as the pair is partly receiving temporary support ahead of tightening of liquidity rules on Danish banks on 1 October.

## Key figures and events

## Wednesday, September 20, 2017

				Period	Danske Bank	Consensus	Previous
10:30	GBP	Retail sales ex fuels	m/m y/y	Aug		0.2% 1.5%	0.5% 1.5%
16:00	USD	Existing home sales	m (m/m)	Aug		5.47	5.44 -0.013
16:30	USD	DOE U.S. crude oil inventories	K				5888
20:00	USD	FOMC meeting	%		1.25%	1.25%	1.25%
20:30	USD	Fed Chair Yellen (dovish) speaks					

Source: Bloomberg, Danske Bank

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