

# Danske Daily

## Market movers today

- It is a fairly quiet week on the economic release front, with minutes from the latest Fed (Wednesday) and ECB meeting (Thursday) in focus together with the preliminary PMIs for the eurozone and US on Thursday and Friday, respectively.
- This also means that today, October exports in Japan are the only real important data release. Exports came out strong in Q3 and are still the main growth driver in Japan. As long as domestic demand refuses to pick up, exports are key to maintaining the economic upturn.
- In addition, ECB board members, Sabine Lautenschlaeger and Mario Draghi, are due to speak in the afternoon but we do not expect any significant new signals.

## Selected market news

Late Sunday night, Chancellor Merkel's attempt to form a new government in Germany collapsed as the FDP walked out of the so-called Jamaica negotiations. It is unclear what will happen now and whether Merkel will try to form a minority government, a new 'grand coalition' with the SPD or if the result will be a re-election. For now, 'political uncertainty' has returned to Europe. Overnight, the euro has been under pressure and EUR/USD has dropped to 1.1733.

It has also reinforced the negative risk sentiment and the Asian equity markets have followed the US markets lower, where major indices ended the day down between 0.2% and 0.4%. The US market was under pressure despite good news from the housing market as both housing starts and new housing permits jumped in October. The market is still in profit-taking mood and it is reluctant to buy into the tax reform, as the market is still not convinced that it will not be watered down.

The market also took its cue from the fixed income market, where the US treasury curve continued to flatten. The spread between 2Y and 10Y bonds is now at 62bp – the tightest level since 2007. Remember that contrary to today, the Fed was in the middle of an easing cycle in 2017.

The persistent flattening of the yield curve in the US has raised concerns that the market is preparing for a new economic downturn and that the Fed might be ahead of the curve. We do not share the view that the Fed is ahead of the curve and still see more rate hikes in 2018. Importantly, the flattening of the curve also reflects global demand for 'high yielding duration' which can only be found in the US, given the QE in Europe and the zero target for the 10Y yield in Japan. The 'low' 10Y yield in the US furthermore reflects the ongoing debate regarding the neutral rate being lower than assumed just a few years ago. We would not be surprised to see a further flattening of the curve over the next couple of months.

## Selected readings from Danske Bank

- *Strategy - Consolidation from stretched levels*
- *New yield forecasts*

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*Arne Lohmann Rasmussen on the prospects for the global bond markets*

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## Scandi markets

**Sweden and Norway.** No major data releases.

### Fixed income markets

The US curve continued to flatten on Friday and the 2Y10Y spread is at the tightest level since 2007, when the Fed was in the middle of an easing cycle. The flattening of the curve has raised concerns that the market is preparing for a new economic downturn and that the Fed might be ahead of the curve. The flattening of the curve might also reflect global demand for 'high yielding duration' and the ongoing debate regarding a lower 'neutral rate'. We would not be surprised to see a further flattening of the US curve over the next couple of months.

We have both Lautenschlaeger and Draghi on the wire this afternoon but the market will also scrutinize news from Germany after Chancellor Merkel's attempt to form a 'Jamaica coalition' collapsed. The latter could add to the flattening tendency in core markets. In the EGB market only Finland (Tuesday) and Germany (Wednesday) are in the market this week with today's Belgian auction having been cancelled. Gross issuance is a modest EUR2bn relative to EUR30bn last week. Finland will do the first tap in the 10Y bond tomorrow since it was launched in a EUR3bn syndication in late August. Finland still trades with a small pickup to Germany and the 10Y segment is an attractive point on the Finnish ASW curve. For more, see *Government Bonds Weekly*, 17 November 2017.

There is no key data this week in Sweden. However, the Riksbank is due to release its second Financial Stability Report on Wednesday, which is likely to draw some attention, especially its views on the property market and the risks associated with growth, inflation and the banking system. The government may also reply to the FSA's proposed 1% extra amortisation requirement on new loans that surpasses 450% of the household's gross income. For more on the Swedish market see *Reading the Markets Sweden*, 16 November.

The November 2017 refinancing auctions of Danish covered bonds continue this week where we will see a large supply of non-callable bullet bonds and floating rate bonds. Nykredit and BRFKredit are the only sellers of bonds today. Nykredit will sell 1Y DKK (DKK3bn) and EUR (EUR235m) bonds and DKK1.85bn in 3Y DKK bonds, and BRFKredit will sell DKK1.95bn in 1Y DKK bonds and 7m in 8Y DKK bonds. For more details on the refinancing auction, please see *November auctions: Surprisingly few long non-callable bullets – attractive floaters and CFs*, 16 November 2017, and the *Auction Overview*, 16 November 2017.

### FX markets

EUR declined overnight and EUR/USD has dropped below 1.1740 this morning as the collapse in the German government negotiations weighs on EUR. We expect to see EUR/USD edge slightly lower this week, possibly driven by further US tax reform progress whereas FOMC minutes due should not be a major market mover this time round. We continue to see the 1.1880 area as a key point of resistance as this is the level which prevailed ahead of the ECB's dovish tapering decision in October, which in our view proved a short-term game changer for the pair. Indeed, it seems too early for the FX market to price in the next 'wave' of ECB 'normalisation' given where eurozone inflation is headed and hence too early to revisit the 1.19-1.20 area. A move beyond 1.1880 would in our view require that, e.g. this week's ECB minutes reveal that the Governing Council has discussed putting a definite end date to the QE scheme, which we do not put a very high probability on.

EUR/GBP dropped below 0.89 overnight driven by the EUR sell-off as Merkel's attempt for next German government failed. We still see EUR/GBP within the 0.8650-0.90 range near term with risks skewed to the upside. Tactically, we maintain a buy-on-dips bias and from a risk/reward perspective, we would consider adding EUR/GBP longs on dips towards the 0.8850-0.8860 level with tight stops.

There are no big releases on the Swedish data calendar this week for SEK to trade on. The Riksbank financial stability report tomorrow will attract some attention in light of the housing market concerns that hit SEK last week though. Besides that, SEK will be in the hands of global risk sentiment and trade in a wide 9.89-9.99 range in the coming days. In our view, the broad-based risk sell-off seen last week should not be overlooked when examining the factors leading to the sell-off in SEK. The break of resistance just above 9.80 for EUR/SEK last week means a technical change of scene. Instead of being a resistance, 9.81 has become a key near-term support level for EUR/SEK.

EUR/NOK gained on Friday driven by lower Norwegian front-end rates as Norges Bank for the first time offered fixed-rate F-loans over turn. This is yet another factor reducing the NOK potential from relative rates apart from a Norges Bank on hold and the USD liquidity situation being much different from autumn 2016. NOK will remain vulnerable this side of Christmas and we expect these intra-day spikes to be a theme in the remainder of 2017. Meanwhile, strategically a move higher in the final weeks of the year in our view opens up for attractive EUR/NOK short entry levels. We prefer to express this via options in order to reduce the delta profile in current markets.

#### Key figures and events

##### Monday, November 20, 2017

				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Oct		0.2	0.1
0:50	JPY	Import	y/y (%)	Oct		0.2	0.1
0:50	JPY	Trade balance, s.a.	JPY bn	Oct		206.7	240.3
13:15	EUR	ECB's Lautenschlaeger speaks in Frankfurt					
15:00	EUR	ECB's Draghi speaks in Brussels					
15:15	EUR	ECB's Constancio speaks in Frankfurt					
17:00	EUR	ECB's Draghi speaks in Brussels					

Source: Bloomberg, Danske Bank

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