21 October 2016

Danske Daily

Market movers today

- **Today, we have a thin calendar in terms of global data releases.**
- **In the euro area today, the ECB is set to publish the Survey of Professional Forecasts, containing longer-term inflation expectations.** Recently, the ECB has emphasised these fairly stable survey expectations at a time when market-based inflation expectations have been very weak. However, there is also some weakness in the survey expectations, with an increasing share of forecasters expecting inflation to remain below 2.0% in the longer term.
- **The consumer confidence figure for October in the euro area is also released today**. Together, with other economic survey indicators, consumer confidence has been resilient to the UK's vote to leave the EU. It remains supported by solid employment growth and the still-low oil price but, looking ahead, lower real wage growth is likely to become a headwind.
- **There are no major data releases due today in Scandinavia.**

Selected market news

Yesterday's main event was the ECB meeting (see *ECB Review: No ECB QE tapering discussion - we expect QE extension,* 20 October 2016). The ECB kept all policy rates unchanged, maintained its monthly QE purchases of EUR80bn and still intends to end its purchases in March 2017. Overall, we have not changed our view that the ECB will announce a six-month QE extension at the upcoming meeting in December, as the ECB provided little information at yesterday's meeting. According to ECB President Mario Draghi, the decision in December will indicate what the ECB is going to do in coming months. This is because the ECB's assessment in December will benefit from new ECB projections extending until 2019 and *'from the work of the Euro system committees on the options to ensure the smooth implementation of our purchase programme'*.

US initial jobless claims rose to 260,000 last week. This is the highest level since the beginning of September. However, the increase came after very low levels recently and historically it is still a low level.

The Philly Fed overall index fell from 12.8 to 9.7 in October. The details where quite good though (remember that the Philly Fed headline index is not a weighted sum of the underlying indices). Most noticeable new orders came out at 16.3 in October from 1.4 in September. The details correspond to an ISM manufacturing at 53, which is much better than the Empire manufacturing index from NY Fed that we got earlier this week.

Overnight, it has been a fairly calm session in global financial markets. Regarding risk sentiment, it has been quite mixed. In fixed income markets, the US 10Y government benchmark bond yield has dropped by 1bp since last night's high (CET) and Japanese government bond yields have climbed slightly higher since yesterday (less than 1bp though). Changes in Asian stock markets have been quite subdued so far and Brent oil has dropped to USD51.25/bbl at the time of writing.

Selected readings from Danske Bank

ECB Review, 20 October

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Scandi markets

There are no major data releases today in Scandinavia.

Fixed income markets

At the ECB press release, it was 'reverse and rewind' for the market after 'taper fear' recently popped up. Draghi didn't close any doors ahead of the focal December meeting. The market was prepared for a slightly hawkish tone causing a rally in longer-dated core FI post the ECB's verdict. 30Y Germany rallied 5bp with the periphery underperforming for no obvious reason apart from a duration-heavy issue out of Spain, where the Tesoro tapped more than EUR1bn in the 50Y. See *ECB Review: No ECB QE tapering discussion - we expect QE extension,* 20 October 2016.

Today, we have a number of rating reviews with two in the spotlight. Most important is the DBRS review of Portugal, where we expect both an unchanged rating and outlook. The DBRS rating has never been below investment grade and we are quite certain that it will not happen today. DBRS had the Portuguese rating outlook on negative outlook in 2013 but the Portuguese economy is now in much better shape than back then. According to the government, the budget deficit is forecast to be 2.4% of GDP this year, which is a bit better than the DBRS's outlook of 2.6%. The government expects further improvement to 1.7% of GDP next year, see the outlook chart *here* (Source: Macrobond Financial). The 10Y Portugal has recovered 30bp versus the core as downgrade fears have abated recently but the spread is still 40bp wider than in mid-August. The strong performance has further to go if DBRS stays put although the issuer could announce a tap for next week later today.

On France however, it is close call whether S&P will lower the rating to –AA. France has been on negative outlook for two years and time is now up for the verdict. The budget figures have been broadly in line with S&P expectations, see chart {http://bit.ly/2exMLUc}. However, S&P has also flagged 'BREXIT' as a potential trigger for a downgrade. It would be controversial if a 'BREXIT' vote also can trigger a French downgrade. In any case, we think a downgrade only would have very limited market impact. Other reviews tonight include Germany and Austria by Moody's and Italy by Fitch (risk on negative outlook) while Netherlands is also up for review by S&P, see weekly for more on ratings {http://bit.ly/2eaanQD}.

FX markets

EUR/USD initially bounced when Draghi said that the Government Council had not discussed an extension of QE. However, it fell back again when he said that they had not discussed tapering of QE either. EUR/USD broke the important level of 1.0950 and we see relative interest rates and growth expectations as bearish EUR/USD near term, forecasting the cross at 1.08 in 3M. Medium term, we continue to be EUR/USD bullish, forecasting 1.11 in 6M and 1.15 in 12M on valuation and the eurozone-US current account differential.

EUR/NOK temporarily spiked above 9.00 on Draghi's comments that the ECB had not discussed QE extension but quickly fell back to the mid-8.90s again. While downside momentum indeed seems strong at the moment, we still expect EUR/NOK to correct higher in the coming months. We see risks skewed to the downside for the oil price in the coming months while seasonal effects in combination with poor liquidity are likely to weigh on NOK over the last months of the year.

In the Scandi markets, focus now turns to next week's central bank meetings with both Norges Bank and the Riksbank monetary policy meetings due on 27 October. In terms of the Riksbank, we still think that it cannot ignore the 0.45 percentage point difference between its forecast for inflation and the actual inflation rate in Septmber, and our main scenario is that the Riksbank will extend its QE programme by SEK30bn (20 in nominal bonds and 10 in linkers) for half a year, i.e. for the first half of 2017. However, today's announcement from the ECB did not strengthen our view on the Riksbank's action next week. If anything, it reduces the pressure on the Riksbank and it cannot be excluded entirely that the Riksbank will choose to wait until December. The weakening of the SEK has also given the Riksbank a bit of free space in the short term. We expect EUR/SEK to stabilise in the very short term but to break from the 9.68-9.70 range on the Riksbank announcement. Risks are probably skewed to the upside for EUR/SEK on the Riksbank announcement in the sense that the cross could temporarily increase more on a QE extension than it is likely to fall if the Riksbank stays put.

Key figures and events

Friday, October 21, 2016				Period	Danske Bank	*Consensus*	Previous
-	EUR	S&P may publish France's debt rating					
-	EUR	Moody's may publish Germany's debt rating					
-	EUR	Fitch may publish Italy's debt rating					
-	EUR	Moody's may publish Austria's debt rating					
-	EUR	Fitch may publish Cyprus's debt rating					
3:30	CNY	Property prices	y/y				
9:00	DKK	Consumer confidence	Net. bal.	Oct			1.8
14:30	CAD	CPI	m/m|y/y	Sep			-0.1%|1.1%
14:30	CAD	Retail sales	m/m	Aug			-0.1%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Oct		*-8.0*	-8.2
16:15	USD	Fed's Tarullo (voter, dove) speaks					
20:30	USD	Fed's Williams (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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