

Danske Daily

Market movers today

- Markets will continue to digest the FOMC meeting yesterday, see our take here in *FOMC review: Unchanged hiking signals as QT is set to begin next month*, 20 September 2017.
- In the Scandi markets, today's key event is the Norges Bank meeting, where we share the consensus view that Norges Bank will not touch interest rates. The minutes from the Riksbank's September meeting are also due out (see page 2).
- In the euro area, consumer confidence data for September is due out. Wage growth has started to pick up in Q2, but as inflation has also increased since 2016, real wage growth remains low and could act as a drag on consumer confidence. We expect a small decrease in confidence to -1.6 in September.
- In the US, the Fed Philly index for September is due to be released, which we expect to fall somewhat given the extremely large gap between ISM manufacturing and Markit PMI manufacturing. The numbers may be somewhat affected by the recent hurricanes although it remains our base case that any impact should be short-lived.
- ECB president Mario Draghi is also due to speak in Frankfurt this afternoon.

Selected market news

The FOMC statement yesterday came out on the hawkish side compared to market pricing with the Fed still projecting another hike this year and three more hikes next year. It compared with a market that was pricing in less than two hikes by the end of 2018 ahead of the meeting. The message from the Fed pushed bond yields up and sent EUR/USD below 1.19. Equity markets initially sold off but recouped the losses and finished broadly flat. Asian markets are mostly higher but the S&P future is trading water in overnight trading. The Fed's projection is broadly in line with our own expectations as we see a continually tightening labour market as keeping the Fed on the path of very gradual rate hikes.

Focus may now turn to the ECB with a long list of speeches in coming days from ECB members, see *Bloomberg*. The markets will be looking for clues on what to expect at the important 26 October meeting, when the ECB has stated it will give more clear signals on its exit strategy.

Otherwise, the **next thing up is the German election on Sunday**, although German Chancellor Angela Merkel is widely expected to win. While she has lost some ground recently, the polls still point very much to another term for her.

The Bank of Japan kept monetary policy unchanged this morning but a dovish new member dissented the decision. However, this was widely expected. The JPY did not move on the announcement.

Selected readings from Danske Bank

- *FOMC review: Unchanged hiking signals as QT is set to begin next month*

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Chief Analyst
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Scandi markets

In Scandi, the Norges Bank meeting concludes today. We expect it to stick to the 'low for a long time' communication with an unchanged policy rate and rate path (neutral bias). See more in *Reading the Markets Norway*, 18 September 2017. In Sweden, the minutes from the September Riksbank meeting will be released at 9:30 CET. The staff projections showed an upward revision of the inflation projection while the board decided to keep its rate forecast intact (i.e. rates on hold until Q3 18). It was mentioned that part of the recent rise in inflation is likely to be temporary and that the Riksbank cannot deviate much from other central banks and thereby risk a deflationary rapid SEK appreciation.

Fixed income markets

The Fed will be the first major central bank to rewind the QE programme (i.e. Quantitative Tightening) as it was announced last night that QT will be initiated in October and that it will be conducted as stated in June. However, the statement did not include any mentioning of the desired level of balance sheet that would warrant an 'end of QT'. The Fed has stated previously that it seeks to decrease the size of the balance sheet 'to a level appreciably below that seen in recent years but larger than before the financial crisis'. For more details on how QT will be conducted see *Fed's quantitative tightening details: Impact on the balance sheet and reinvestments*, 19 June 2017.

The FOMC kept policy rates unchanged and the updated 'dots' continue to signal another hike in 2017 and an additional three hikes in 2018. The market interpreted the combination of QT and continued signalling of an additional hike in 2017 as hawkish, with the 5Y Treasury yield jumping 7bp, bear flattening of the USD swap curve and a December hike now 60% priced in.

The Fed announcement also had spill over to EUR rates as the Bund future hit September lows, a move that could continue this morning as liquidity resumes. The main event in the EUR market today will be Draghi speaking. Note also that he will also be speaking again tomorrow and Monday and that the list of ECB speakers is heavy for the coming days.

The Spanish Tesoro is coming to the market today with taps in the Jan-21s, Oct-26s, Oct-28s and Oct-44s. We expect to see good demand in the 21s as they are trading special in the repo and due to the small issue size. Furthermore, the Spanish 10/30 curve remains fairly steep, which should attract decent bids in the 44s. In France, the Trésor will also be in the market today with taps in the Feb-20s, Mar-23s and Nov-24s OAT as well as the Mar-21s, Mar-28s and Jul-30s linkers.

FX markets

EUR/USD fell below 1.19 on the FOMC meeting yesterday. It serves to show that while EUR/USD has been buoyed by strong EUR momentum, the cross is not immune to continued tightening of US monetary policy. As the market is now pricing in a 60% probability of a December rate hike there should be limited further support to USD from tightening of US monetary policy. Hence, the dip in EUR/USD should prove shallow and short-lived and we look for it to recover to 1.20 in the short term. The ECB's Mario Draghi is set to speak today and he may provide the market with arguments for buying EUR again if he touches upon the ECB's eventual exit strategy. Furthermore, we stick to our 12M forecast of 1.25. In addition, USD liquidity could start to tighten substantially around mid-2018 when the Federal Reserve's balance sheet run-off accelerates. That could lead to a widening of EURUSD CCS and increase cost hedging USD assets and income.

The USD rally sent USD/JPY higher and GBP/USD lower correspondingly, while the hawkish interpretation of the FOMC meeting by the market did not spill over to Scandi currencies and NOK, SEK and DKK were mostly unchanged vis-à-vis EUR. The former found some support by the move higher in oil prices following the weekly EIA oil inventory report, which showed that the negative impact on crude demand from the Storm Harvey was fading.

Expectations among analysts for today's Norges Bank meeting are running low. As Governor Olsen is widely expected to not only leave rates unchanged but also present a roughly unchanged rate path relative to the one from June, we expect the effect on the NOK to be very modest. In our base case, we expect EUR/NOK to rise 3-4 figures on the announcement as we suspect some market expectations of a moderately higher rate path in 2018. For more information, see our preview in *Reading the Markets Norway*, 18 September 2017. Overall, we still see EUR/NOK as a range play but still highlight that the risk of correction higher has increased amid relative rates' reduced potential for sending the NOK higher in the remainder of 2017 (e.g. Norges Bank, Nibor fixings). In addition, we have for the past few weeks argued that the balance of risk for the oil price is somewhat on the downside from current levels.

Key figures and events

Thursday, September 21, 2017

			Period	Danske Bank	Consensus	Previous
-	SEK	Riksbank publishes minutes from September meeting				
-	JPY	BoJ policy rate	%	-0.1%		-0.1%
-	JPY	BoJ monetary policy announcement				
0:45	NZD	GDP	q/q y/y 2nd quarter		0.8% 2.5%	0.5% 2.5%
9:00	DKK	Employment (monthly)	1.000 m/m Jul			2.697 0.1
9:00	DKK	Retail sales	m/m y/y Aug			-0.1% -0.4%
9:00	DKK	Consumer confidence	Net. bal. Sep	8.0		7.6
10:00	EUR	ECB Publishes Economic Bulletin				
10:00	NOK	Norges Banks monetary policy meeting	%	0.5%	0.5%	0.5%
11:30	EUR	ECB's Praet speaks in Frankfurt				
14:30	USD	Philly Fed index	Index Sep		17.0	18.9
14:30	USD	Initial jobless claims	1000			
15:00	USD	FHFA house price index	m/m Jul			0.1%
15:30	EUR	ECB's Draghi speaks in Frankfurt				
16:00	EUR	Consumer confidence, preliminary	Net bal. Sep	-1.6	-1.6	-1.5

Source: Bloomberg, Danske Bank

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