

21 November 2016

# Danske Daily

## Market movers today

- There are no significant key economic data releases due out today, but the ECB's Mario Draghi is due to speak today at 17:00. In addition, the Federal Reserve's Fischer (voter and neutral) is due to speak at 14:00.
- The main events during the week are the FOMC minutes due to be released on Wednesday, the UK budget release also on Wednesday as well as a string of economic data for the eurozone with the main focus on the euro PMI and German Ifo indicator.
- In Scandinavia, the main focus will be on the Norwegian oil investment survey.

## Selected market news

It has been mixed session in the Asian equity market, where Japan has been supported by the weakening of the yen. Chinese equities in Hong Kong also gained as the Hong Kong and Shenzhen bourses are becoming 'linked', which will allow more investor flows to mainland Chinese equities. Otherwise, Asian markets are still under pressure due to the election of Trump. In the currency markets, the USD continues to strengthen against both EUR and JPY.

German Chancellor Angela Merkel has announced that she is seeking re-election for next year's federal election. There had been speculation whether she would run or not. Uncertainty on whether she would run or not had been another risk factor.

In Italy, PM Renzi has said that the government will fall if he loses the referendum on 4 December and that we would then have to see who can reach an agreement for a new government, according to the Italian newspaper La Repubblica. He expects market volatility for at least two weeks after the referendum.

### Selected readings from Danske Bank

- [FX Forecast Update: Trump rally set to extend near term, then reverse](#)

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## Scandi markets

There is a speech due to be given by one of the vice governors in the Riksbank but this should not have much impact on the markets. The same can be said about Danish employment figures that are also due to be released today. The main event this week is the Norwegian oil investment survey – see more [here](#).

## Fixed income markets

The US yield curve bear flattened on Friday between 10Y and 30Y on the back of comments from various Fed officials confirming the December hike and indicating that more is to come in 2017 – and thus following up on the comments made by Yellen last Thursday. The FOMC minutes due to be released later this week are likely to provide more information. So far, the mortgage rates have not followed the move seen in US Treasury yields. Hence, the impact has been ‘small’ on US mortgage bonds and the housing market. This is different from 2013 (tapering), where the rise was almost synchronous.

In Europe, Portugal was again the big loser on Friday after the Portuguese Debt Office announced a small tap in the 5Y segment, while it was a more mixed picture for other peripheral countries as well as the semi core on both outright levels as well as spreads. The volatility is likely to persist given the political uncertainty facing Europe with the Italian vote as PM Renzi has apparently stated that the government will fall in case of a ‘no’ at the referendum on 4 December.

The refinancing auctions in Danish non-callable ‘Flex’ bonds (fixed-rate bullets) begin today and continue for the rest of the week. The total auction amount in the non-callables is DKK108bn with DKK66bn in the 1Y DKK segment, DKK9bn in the 3Y DKK segment and DKK11bn in the 5Y DKK segment. There was solid demand for floater and capped floaters bonds at the auctions on Thursday and Friday with bid-to-cover ratios between 2.6 and 4.7. The bonds traded with a modest pickup to non-callables fixed rate bonds.

## FX markets

In FX markets, focus is very much on the USD amid the latest post-US election rally. On Friday, EUR/USD broke below 1.06 for the first time since November last year and market focus is now clearly on whether the March ‘15 low of 1.0458 is next. We think the cross will eventually set a new low over the coming months aided by not least momentum, fiscal and monetary policy divergence and ‘Homeland Investment Act’ speculations. We emphasise, however, that we do not expect EUR/USD to reach parity. First, speculators are already heavily short the cross (see [IMM Positioning Update – JPY bulls on the retreat](#), 21 November 2016) meaning the cross has become increasingly vulnerable to setbacks when momentum fades. Second, the trade-weighted USD has reached new record highs, which is likely to be a countering factor for the outlook for more Fed hikes even if the CNY still has the largest weight in the index. Last but not least, the undervaluation of the EUR and the wide eurozone-US current account differentials are positives for the cross. In summary, we look for EUR/USD to edge lower towards our 3M forecast of 1.04 but still pencil in a higher cross around 1.12 in 12M.

In the Scandies, the big release this week will be Wednesday’s quarterly oil investment survey out of Norway. While the release gets a lot of attention given its leading properties for economic activity, we do not expect major changes to the outlook relative to the Q3 survey. This is because cuts on the Norwegian shelf have meant that few of the big important projects now have breakeven levels in the 40-60 USD/bbl range and as such the overall investment level should be less sensitive to the oil volatility seen since the last survey. As a result, we do not expect any major moves in the NOK on the back of the release and still look for year-end seasonality to send EUR/NOK a little higher towards 9.20 in the coming month.

Key figures and events

Monday, November 21, 2016				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Oct		-0.1	-0.1
0:50	JPY	Import	y/y (%)	Oct		-0.2	-0.2
0:50	JPY	Trade balance, s.a.	JPY bn	Oct		404.3	349
9:00	DKK	Employment (monthly)	1.000 m/m	Sep			2661 5999
14:00	SEK	Riksbank's Jochnick speaks about financial regulation					
14:00	USD	Fed's S.Fischer (voter, neutral) speaks					
17:00	EUR	ECB's Draghi speaks in Strasbourg					

Source: Bloomberg, Danske Bank Markets

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