

Danske Daily

Market movers today

- In the **euro area**, the **consumer confidence figure for January** is due to be released today. Consumer confidence has improved since August 2016 despite political turmoil regarding Brexit and Donald Trump and remains at a high level. Consumer confidence may thus still prove resilient even as Theresa May signals a ‘Hard Brexit’ and Trump lingers on specifying the economic plans for his administration. We expect it to show a modest increase for January as the labour market still shows strength.
- In **Denmark**, Monday brings Statistics Denmark's **monthly employment data** for November. Employment has been upward bound for the past three-and-a-half years, and it will be exciting to see whether the marked increase seen so far in 2016 continued. Monday also brings January figures for **consumer confidence**, which has been in decline since August and moved into negative territory in December for the first time since May 2013.

Selected market news

- As expected, **Trump’s inauguration speech did not contain many surprises** nor further insight into his economic policy, but reiterated the ‘America first’ themes of his campaign: more protectionism, tighter immigration policy, increased border security, rebuilding the US infrastructure while creating jobs in the US. The protectionist views and especially trade deals are set to dominate the agenda when Theresa May is scheduled to visit Donald Trump at the White House.
- The markets have not taken lightly to Trump’s inauguration as the 45th president of the US with the **USD weakening to all major currencies**. Especially USD/JPY has been pushed lower since Friday as short coverings from the very crowded short JPY trades have been in demand. Asian equity markets have been fairly quiet in the early hours with Nikkei dropping some 0.8% while Hang Seng increased slightly.
- **Benoît Hamon won the first round of the French Socialist primary** ahead of Manuel Valls. The two will square off in the final round to decide who will represent the party as their presidential candidate at the election in April.
- For our **Danish readers, please note that we sent out our second podcast called ‘Markedspladsen’** on Friday, where we talked about Theresa May’s Brexit speech, Trump’s inauguration and last week’s ECB meeting. You can listen to it on SoundCloud (<http://bit.ly/2jk1L9V>) or iTunes (<http://apple.co/2j0Duo0>). Please subscribe to Markedspladsen at either SoundCloud or iTunes to get notified automatically when we publish our new podcasts.

Selected readings from Danske Bank

- *ECB Review: Draghi remains dovish until core inflation rises*
- *Markedspladsen (only in Danish)*
- *Reading the markets Denmark*

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Fixed income markets

We have a busy week ahead of us, with important political events as well as a string of key economic data. In addition, there will be plenty of speeches from central bank officials from the Federal Reserve, ECB and Bank of England throughout the week. This morning, we should have the outcome of the French Socialist primary. This is not expected to be a market mover. On Tuesday, the Italian constitutional court will hold a hearing regarding the new electoral reform for the lower house. Here, the outcome could become a market mover as expectations of a snap election may increase despite the outcome. Increased expectations of a new election would not be positive for Italian government bonds. Also, on Tuesday, the UK Supreme Court will rule on article 50 regarding Brexit. If the Supreme Court follows the High Court ruling that the government cannot invoke article 50 without a parliamentary hearing, there will be room for more volatility in the market.

In addition, we have a string of sentiment indicators due from the eurozone, such as the German IFO, various PMIs for the eurozone countries as well as UK GDP data and US GDP data for Q4 16. Given the combination of political events, central bank speeches and key economic data, the uncertainty is simply too high, and we recommend a cautious approach, such as to stay long in the front end of the core markets.

FX markets

The USD weakened on Friday and has continued lower this morning, as investors are likely to be losing patience with the US reflation theme given that details about Trump's actual economic plans are still lacking. Especially USD/JPY has been pushed lower since Friday as short coverings from the very crowded short JPY trades have been in demand. See *IMM Positioning Update – improved appetite for commodity currencies*, 23 January, for positioning details. EUR/USD is currently flirting with the 1.0750 level and while we still see EUR/USD in the range of 1.0350-1.0750 in coming months, targeting 1.04 in 1M and 1.05 in 3M, a clean break of the 5 December high at 1.0796 could challenge this view. However, strategically, we still favour selling EUR/USD on rallies. In terms of the downside potential in EUR/USD, we stress that this is not going to be a one-way street and at the same time we also think that it will require a lot in terms of surprises in order to see EUR/USD substantially below our 1-3M forecasts.

EUR/GBP has stabilised around the 0.8650 level since the UK Prime Minister Theresa May's speech last week. Tomorrow, the Supreme Court will announce its ruling on whether it is the government or parliament that can trigger Article 50. It is widely expected that the government will lose the appeal, meaning that parliament will have to vote in favour of triggering Article 50 before Brexit becomes a reality. If the ruling turns out as expected, it should have little market impact, as a decent amount of short GBP bets have probably been cleared following May's speech. If the Supreme Court on the other hand rules that the government can trigger article 50, it would be very negative for GBP. In any case, we still expect GBP to come under pressure as the triggering of Article 50 moves closer. We target EUR/GBP at 0.88 in 3M but see risks skewed to the upside.

There was little news to trade on for NOK and SEK last week, where EUR/NOK inched lower accompanied by a small increase in EUR/SEK. On the data side, this week brings in particular labour market data from both Norway and Sweden, both due out on Thursday. Strategically, we still favour selling both EUR/SEK and EUR/NOK on rallies.

In recent years, DKK has leaned on the support from an ever-strengthening external position. We expect this to continue in 2017, where we look for EUR/DKK to remain stuck in the low end of the trading range under present governor Lars Rohde, i.e. around 7.4350-7.4400. However, as argued in *FX Strategy: Record-high net foreign assets hide potential DKK weak spot*, 20 January, strong external balances hide a potential medium-term weak spot for DKK.

Key figures and events

Monday, January 23, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	ECB's Draghi speaks in Italy					
6:00	JPY	Leading economic index, final	Index	Nov			102.7
9:00	DKK	Consumer confidence	Net. bal.	Jan		0.5	-0.3
9:00	DKK	Employment (monthly)	1.000 m/m	Oct			2664 1400
14:15	EUR	ECB's Praet speaks in Brussels					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jan	-4.8	-4.8	-5.1

Source: Bloomberg, Danske Bank Markets

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