23 February 2018

Danske Daily

Market movers today

- On a day with few important data releases, the financial markets will be looking to **signs from the Fed on the outlook for the economy and monetary policy, when US Fed chair William's speaks**. The minutes from the January meeting showed that the Fed has become more upbeat on the US economy following the tax reform, which has since then been supplemented by more expansionary fiscal spending outlook. Hence financial markets will closely watch for Fed speakers giving signs of a fourth rate hike being in play this year.
- In **Norway**, the oil investment survey is due, where we expect a solid upward revision of the estimate for 2018 given that a large number of field development plans have been submitted since the previous survey. However, this would still be in line with our relatively optimistic forecast for investment activity in the Norwegian oil sector (for more details, see the Scandi section next page).
- In **Sweden**, the Riksbank Minutes due for release at 09:30 will be scrutinized for indications as to how sensitive the Board is to further inflation disappointments (like the one earlier this week, for more details see Scandi section).

Selected market news

Asian equity markets are generally higher this morning, mirroring higher US markets yesterday. At the same time, US 10 year yields remained near their highest since 2014. Dallas Fed President Robert Kaplan spoke yesterday at an event in Vancouver, saying that FED policy is accommodative, but the rate path to a neutral monetary stance may be flatter and not as far away as the market may think, reiterating that he sees three rate hikes this year as appropriate, although evidence of rising inflation would affect his rate view.

In our view, the ECB minutes yesterday were slightly on the dovish side, but we keep our call on the revisit forward guidance in March: the Minutes said on the issue that 'language pertaining to the monetary policy stance could be revisited early this year as part of the regular reassessment at the forthcoming monetary policy meetings.' As we pointed to earlier, the QE flexibility is first in line with the minutes saying 'some members expressed a preference for dropping the easing bias regarding the APP'. In line with our view, the ECB board members are not concerned about the exchange rate path through to inflation for now.

On Brexit, Prime Minister Theresa May yesterday gathered her top ministers for an eight-hour session to get them to back her Brexit strategy. One of the key elements that appears to be on the table from the UK side is a "three basket approach", which would allow the UK to apply varying degrees of EU rules. The European Commission yesterday pre-empted the outcome of Theresa May's meeting by saying that such plan would be the same as a 'cherry picking' approach that the EU wants to avoid to preserve the integrity of the EU single market.. Theresa May is due to deliver a speech next week on how she sees the future trading relationship between the UK and EU post-Brexit. Trade talks with the EU are due to begin next month, which are set to be challenging.

Selected readings from Danske Bank

Follow us on *Twitter*:

@Danske_Research

Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst
Jakob Christensen
+45 45128530
Jakc@danskebank.dk

Scandi markets

In **Norway**, the oil investment survey is due today. The survey has attracted strong interest in the markets ever since the May 2014 edition heralded a sharp fall in oil investment the following year. As oil prices have risen and production costs in the Norwegian sector have fallen, uncertainty about oil investment and its impact on the Norwegian economy has greatly receded. Even far lower oil prices would not make much difference to investment levels over the next couple of years and there is not much upside risk either, given the small number of major projects with breakeven prices around today's oil price. Because the survey is measured in nominal terms, cost cutting makes it harder to assess the effect on investment volumes. Therefore, without writing the survey off completely, we believe its informational value has decreased substantially and that slightly less importance should be attached to it than before. This said, we know that a large number of field development plans have been submitted since the previous survey, so we expect a solid upward revision of the estimate for 2018. However, this would still be in line with our relatively optimistic forecast for investment activity in the Norwegian sector.

In **Sweden**, the Riksbank Minutes due for release at 09:30 will be scrutinized for indications as to how sensitive the Board is to further inflation disappointments (like the one earlier this week). Why did they decide to keep the rate path unchanged despite lowering the inflation forecast? Will it be revised in April? The market will likely be extra sensitive to dovish comments. We wouldn't be surprised if our call of no hike this year gets more traction. Read more about our views on inflation, the Riksbank and the SEK in *Reading the Markets Sweden*, 22 February 2018.

In **Denmark**, we get the January retail sales.

Fixed income markets

Italy is coming to the market with a tap in 2Y zero-coupon bond as well as 4Y and 10Y linkers. Italy took the limelight yesterday as European Commission President Juncker warned that a 'non-operational Italian Government' and a no-vote to a grand coalition in Germany could spark 'a strong reaction' in financial markets in the first week of March. The comments added to the BTP underperformance.

The FI market also had to absorb the **ECB** minutes that showed that some policy makers were in favour of removing the pledge to expand the bond buying programme if needed. But note that both equity and interest rate volatility fell further yesterday and added to the downward pressure on core yields both in Europe and the US. Decent demand at the 7Y US Treasury auction also supported the FI market.

We have published *Reading the Markets Denmark*, 22 February 201. We argue that buybacks and switches should reduce the pressure on Danish government bonds. We also argue that the 5Y segment looks too cheap relative to EU peers. Callable mortgage bonds have recently recovered some of the lost ground. We still have a positive view on 5Y non-callables.

FX markets

EUR/**GBP** increased slightly on the back of the weaker-than-expected UK GDP data released yesterday. In particular, the domestic drivers (private consumption and business investments) disappointed, but the weak GDP print does not change our call that the BoE hikes in May, which is still priced in with an 80% probability in the UK money market. We expect EUR/GBP to trade within the range of 0.8780-0.8925 in the short term, with Brexit as key risk factor ahead of the EU summit on 22-23 March.

Alongside down pressure on US yields, ECB minutes helped **EUR/**USD to end yesterday on a positive note in emphasising the continued push to alter guidance in a more hawkish direction. The January accounts also contained an indirect reference to the US administration's USD comments around the time of the meeting, but this should in our view merely be seen as a sign that the ECB is annoyed by the political interference with FX rather than it being an obstacle for 'normalisation' – and gradual EUR strength with it – to move on.

In the Scandies, we remain bullish on EUR/**SEK** even though our 3M target at 10.00 has been reached. We think there is a good chance that today's Riksbank Minutes (see Scandi section above) extends the rally. The levels to watch are 10.03 and then 10.08. See *Reading the Markets Sweden*, 22 February 2018 for more on our krona views.

Yesterday's **Norges** Bank Expectations Survey showed an expected wage rise among the labour market participants in 2018 of 2.9% – spot on Norges Bank's forecast from December, see chart. Meanwhile, on Monday we will get the TBU Labour market report, which will shed light on possible wage drift in Q4 2017; in our view an upside NOK-risk not fully captured in FX markets yet. In terms of today's oil investment survey we generally want to downplay the information value of the release because of the nominal noise.

The **DKK** liquidity continues to be tighter compared to last year, as tax payments are higher than expected – the net position is now DKK24bn below the level from last year. We stress that this is an upside risk to EUR/DKK FX forwards /downside risk to EUR/DKK spot near-term..

The **PLN** has weakened over the past week. What is driving this? Not Polish macro releases, if anything they have been very strong over the past week: Gross wages (7.3% y/y), Industrial output (8.6% y/y), Construction output (34.7% y/y!), retail sales (8.2% y/y) all came out stronger than expectations. The central bank keeps promoting a dovish stance with MPC member Lon out two days ago saying Zloty value 'should be important factor for MPC decisions'. On the political front it is fairly quiet. Rather, external factors seem to be important. First the euro has weakened against the USD; typically the PLN then also weakens against the euro and global risk sentiment has been soft. We think that our 1M EUR/PLN forecast is 4.16 is fair.

Key figures and events

Friday, February 23, 2018				Period	Danske Bank	Consensus	Previous
0:30	JPY	CPI - national	y/y	Jan		*1.3%*	1.0%
0:30	JPY	CPI - national ex. fresh food	y/y	Jan		*0.8%*	0.9%
8:00	NOK	Oil Investment Survey					
8:00	DEM	GDP, final	q/q|y/y	4th quarter		*0.6%|2.9%*	0.6%|2.9%
8:00	DEM	Private consumption	q/q	4th quarter		*0.1%*	-0.1%
8:00	DEM	Government consumption	q/q	4th quarter		*0.4%*	0.0%
8:00	DEM	Gross fixed investments	q/q	4th quarter		*0.3%*	0.4%
8:00	DKK	Retail sales	m/m|y/y	Jan			-0.3%|1.1%
11:00	EUR	HICP inflation, final	m/m|y/y	Jan			0.4%|1.4%
11:00	EUR	HICP - core inflation, final	y/y	Jan		*1.0%*	1.0%
14:30	CAD	CPI	m/m|y/y	Jan			...|1.9%
21:40	USD	Fed's Williams (voter, neutral) speaks					

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 23 February 2018, 06:16 CET

Report first disseminated: 23 February 2018, 07:20 CET