

23 February 2017

Danske Daily

Market movers today

- Today, we have a very thin calendar with no major economic data releases.

Selected market news

Yesterday, data for Chinese property prices was released. Chinese house prices showed further signs of cooling in January. This follows several measures over the past six months to tighten the housing market (increase in downpayment required, tighter lending standards for developers, restrictions on number of houses Chinese citizens can buy). For more see *Flash Comment: Chinese house prices cool further*, 22 February 2017.

German Ifo expectations came out higher than expected yesterday at 104.0 in February from 103.2 in January. The current assessment indicator continued higher to 118.4 from 116.9, thereby setting a new cycle high. The figures are in line with Tuesday's strong PMI figures and point to continued strong GDP growth in Germany and the rest of the euro area despite the political uncertainty.

In the UK, the second estimate of Q4 GDP growth was released yesterday. The second estimate was revised up to 0.7% q/q from the first estimate of 0.6% q/q. In addition, we got the GDP expenditure components for Q4. As expected, the main growth driver in Q4 in the UK was still private consumption, while net exports also contributed positively.

Yesterday afternoon, French government bonds rallied after the centrist politician Francois Bayrou offered to form an alliance with the presidential candidate Emmanuel Macron, see *Bloomberg*. In particular, the 10-year French government benchmark yield fell by more than 7bps during yesterday's trading session, thereby tightening more than 5bps to the 10Y German government benchmark yield. After Bayrou's announcement to support Macron the Oddschecker implied probability indicator of Macron winning the French Presidential Election rose from 34% to 38%.

As expected, the FOMC minutes released late last night gave little news, as many FOMC members have already expressed their views since the meeting. The FOMC members think the economy continues to improve but that Trumponomics make the outlook more uncertain. Although 'many participants' expect a hike 'fairly soon', only 'a few participants' expect a hike 'at an upcoming meeting'. For more, see *FOMC Minutes: Only 'a few' seem ready to hike in March*, 22 February 2017.

Selected readings from Danske Bank

- *FOMC Minutes: Only 'a few' seem ready to hike in March*
- *Research Denmark: New wage settlement points to higher pay rises*
- *Flash Comment: Chinese house prices cool further*

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Analyst

Mathias Røn Mogensen
+45 45 13 71 79
mmog@danskebank.dk

Scandi markets

There are no major data releases today in Scandinavia.

Fixed income markets

The FOMC minutes released overnight showed that ‘uncertain’ is still the main message from the Fed. The word was this time mentioned 14 times. The minutes confirmed that only ‘a few’ were in favour of a March hike while ‘several others continued to see downside risks to the inflation outlook’. US Treasury yields edged lower on the announcement with the 5Y decreasing 5bp.

Focus in the EUR FI market remains centred on the extreme level in the short end of the German curve and the spread movements between France and Germany. For the short end of Germany, it appears to be the perfect storm, with many factors pulling in the same direction. (1) ECB QE below depo, (2) the need for high quality collateral as new regulation requires that collateral/cash is posted as a variation margin for non-cleared derivatives and finally (3) investor fears that a ‘Le Pen win’ could reignite the dynamics we experienced during the debt crisis with ‘Frexit’ and redenomination risk now being discussed as potential tail risks. Interestingly, during this German rally, the German repo market has not moved. Note though that market fears abated a little into the close as Bayrou announced he would support Macron and not run as a potential rival.

In Scandinavia, focus is on the potential spillover from the ‘French risk’ and the moves in short-end Germany. In Denmark, DKK has been strengthening recently and reached the strongest level versus the EUR since Q1 15 – where Switzerland abandoning the 1.20 floor was the driver. Interestingly, global equities and even EUR HY FI products have continued to trade strong. If ‘Frexit’ fear should lead to contagion to other asset classes, it is worth keeping an eye on the EURDKK FX forwards.

FX markets

In the majors, EUR crosses continued to trade with a heavy tone yesterday, mirroring the collapse in German two-year yields. In our view, the flows in to the short end of the German curve need to stabilise for the slide in EUR/JPY and EUR/USD to halt. Technically, EUR/USD has further room to the downside ahead of the multi-year low at 1.0341 from 3 January. In the Scandies, EUR/SEK remains in consolidation mode, ranging between 9.44-9.49, while USD/SEK has breached the 9 level amid general USD strength. Today, a speech by the Riksbank’s Jansson is on the calendar but we expect no surprise statements from him. Instead, we await the NIER data due out tomorrow. EUR/DKK continues to test the 7.4330 level in likely anticipation of central bank intervention around this level. February’s FX reserve data is due for release next week. In general, we look for the pair to trade close to this level as long as Le Pen remains in the French presidential race, although it may see some temporary support when large listed Danish corporations pay out dividends at the end of March and early April.

Key figures and events

Thursday, February 23, 2017					Period	Danske Bank	Consensus	Previous
6:00	JPY	Leading economic index, final	Index	Dec				105.2
8:00	DEM	GfK consumer confidence	Net. Bal.	Mar			10.2	10.2
8:00	DEM	GDP, final	q/qly/y	4th quarter	0.4% ...			0.4% 1.7%
8:00	DEM	Private consumption	q/q	4th quarter		0.2%		0.4%
8:00	DEM	Government consumption	q/q	4th quarter		0.8%		1.0%
8:00	DEM	Gross fixed investments	q/q	4th quarter		1.2%		0.0%
8:45	FRF	Business confidence	Index	Feb				104.0
10:00	NOK	Oil investment survey		1st quarter				
14:30	USD	Initial jobless claims	1000					239
14:35	USD	Fed's Lockhart (non-voter, neutral) speaks						
15:00	USD	FHFA house price index	m/m	Dec				0.5%
17:00	USD	DOE U.S. crude oil inventories	K					9527

Source: Bloomberg, Danske Bank Markets

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We update this report on a daily basis.

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