

Danske Daily

Market movers today

- **Today in the US, the Markit PMI manufacturing index for October will be released.** We believe the figure will be broadly unchanged, indicating only modest growth.
- **A few Fed members are scheduled to speak today. The most important one is James Bullard (voter, dovish), as we have not heard from him in a while.**
- **In the euro area today, we will get PMI figures for October.** The economic survey data has been resilient to the UK's vote to leave the EU and, although it seems more likely that we will end up with a 'hard' Brexit, we expect a stronger manufacturing PMI. The order-inventory balance, which is usually a good leading indicator for the manufacturing index, was very strong in September, pointing to a large jump in the manufacturing figure. The services PMI on the other hand has trended down in 2016 but a recent stabilisation in the future business expectations index suggests it will remain around the current level.
- **There are no major data releases today in Scandinavia.** Later this week, focus in Scandinavia will be on central banks with both the Riksbank's and Norges Bank's monetary policy decisions on Thursday. In addition, the SNDO will release its new forecast on Wednesday for the net borrowing requirements for the remainder of 2016 and 2017. We foresee quite a dramatic cut in net issuance, which may eventually also be an issue for the Riksbank as the supply of assets to purchase in its QE programme will probably decrease further.

Selected market news

Last week ended with a fairly quiet day in global financial markets on Friday. It was a day with a thin calendar in terms of global data releases, with the consumer confidence figure for October in the euro area coming out at -8.0% (in line with consensus). Together with other economic survey indicators, consumer confidence has been resilient to the UK's vote to leave the EU. It remains supported by solid employment growth and the still-low oil price but, looking ahead, lower real wage growth is likely to become a headwind.

It has been another calm session in global financial markets this morning. Regarding risk sentiment it has been slightly skewed towards risk-on with Asian stock markets mainly in green. In fixed income markets, changes in the US 10y government benchmark bond yield have been subdued since Friday night (CET) and the 10y Japan government benchmark bond yield has climbed slightly higher (by approximately 1bp) since the end of last week. However, Brent oil has dropped to USD51.55/bbl at the time of writing.

Selected readings from Danske Bank

- *Strategy: The final leg of the USD rally*

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Scandi markets

There are no major data releases today in Scandinavia.

Fixed income markets

We have an exciting week ahead of us in the Scandi sphere with monetary policy decisions in both Sweden and Norway on Thursday, but first an update on developments relevant for the EUR FI market.

Spain should get a boost at the opening as the PSOE leadership (Socialists) announced Sunday that they will stand aside allowing PM Rajoy (conservative) to form a minority government. Rajoy will consult with Spain's king on Tuesday and after a confidence vote later this week Rajoy is expected to return to power following a 10-month impasse. Spain has outperformed peers since Q1 partly on the prospect of a market friendly political outcome which is now materialising. Hence, we think quite a bit is already in the price and do not expect much further Spanish outperformance (eg vs Italy).

There were a number of key rating verdicts on Friday. Most importantly DBRS kept both rating and outlook unchanged on Portugal implying that it remains eligible for the ECB's QE. This should pave the way for further recovery in PGBs this week which is much needed after a weak performance this year. IGCP announced on Friday a EUR1bn tap in the 21s this week. Fitch lowered its outlook on Italy to 'negative' due to a delay in fiscal consolidation. Fitch kept the rating unchanged at BBB+ which is two notches above S&P's. Fitch raised its rating outlook on France to 'stable' from 'negative' which should be supportive for OATs today as some houses were expecting a downgrade.

We have a dense issuance calendar which kicks off with Belgium conducting its second last tap this year with issuance in the 10Y, 15Y and 30Y today. We will also have issuance this week out of Finland, Germany, Portugal and Italy. Note though that we have a very strong positive net cash flow of EUR50bn in this week as a total of EUR67bn will be returned to EGB investors (see further details in *Government Bonds Weekly*).

See more on our expectations for Norges Bank and the Riksbank in our *Scandi Markets Ahead*.

FX markets

FX markets are eyeing central bank decisions in Sweden and Norway on Thursday. The weakening of the SEK has given the Riksbank a bit of room to manoeuvre in the short term. We expect EUR/SEK to remain within the 9.68-9.72 boundaries near-term but to break from this range on the Riksbank announcement on Thursday. Risks are in our view asymmetrically skewed to the upside on the announcement in the sense that a QE extension would drive a larger reaction than if the Riksbank were to stay put. If we are right in our call on Norges Bank, EUR/NOK is unlikely to move much on Thursday's announcement. As a result, we think the EUR/NOK price action is likely to be that of an initial dip following the announcement followed by a rebound to unchanged levels. While downside momentum has been strong over the last month, we still expect EUR/NOK to correct higher before year-end.

Key figures and events

Monday, October 24, 2016

				Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Sep		-0.1	-0.1
1:50	JPY	Import	y/y (%)	Sep		-0.2	-0.2
1:50	JPY	Trade balance, s.a.	JPY bn	Sep		211	408.4
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Oct			50.4
7:00	JPY	Leading economic index, final	Index	Aug			101.2
9:00	FRF	PMI manufacturing, preliminary	Index	Oct	50.7		49.7
9:00	FRF	PMI services, preliminary	Index	Oct	53.0		53.3
9:30	DEM	PMI manufacturing, preliminary	Index	Oct	55.0	54.3	54.3
9:30	DEM	PMI services, preliminary	Index	Oct	51.2	51.8	50.9
10:00	EUR	PMI manufacturing, preliminary	Index	Oct	53.5	52.6	52.6
10:00	EUR	PMI services, preliminary	Index	Oct	52.4	52.4	52.2
10:00	EUR	PMI composite, preliminary	Index	Oct		52.8	52.6
15:00	USD	Fed's Dudley (voter, dovish) speaks					
15:05	USD	Fed's Bullard (voter, dovish) speaks					
15:45	USD	Markit manufacturing PMI, preliminary	Index	Oct	51.5	51.5	51.5
18:15	CHF	Centralbank - press briefing					
19:30	USD	Fed's Evans (non-voter, dovish) speaks					
20:30	USD	Fed's Powell (voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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Expected updates

None.

Date of first publication

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

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