

Danske Daily

Market movers today

- The German Ifo expectations survey due for release today should send the same signal as did the PMIs released yesterday. In September, the figure increased to the highest level since the end of 2015, above the level prior to the Brexit vote. The economic survey indicators overall suggest that GDP growth could surprise on the upside in H2, especially as many had expected a negative impact on business sentiment and, hence, investments from the increased political uncertainty following the UK's decision to leave the EU.

Selected market news

October's round of flash manufacturing PMIs presented some reason for optimism regarding global manufacturing activity. In the euro area, the index increased to 53.3 from 52.6 in September. The PMI figures are overall likely to be slightly better than the ECB's previous expectations of 'a continued moderate but steady recovery', thereby supporting the hawkish members' view that more easing is not necessarily needed. However, in our view, this will be secondary as wage growth remains subdued. In the US, the index rose to 53.2 from 51.5. Near-term though the outlook for the US manufacturing sector is clouded by a rising USD and political uncertainty.

St. Louis Fed's James Bullard yesterday reiterated his view that only one additional rate hike will be needed in the cycle, thus arguing that the rest of the Federal Open Market Committee are too optimistic on the number of rate hikes it will take for the Fed to achieve its objectives. He did not comment on the timing of the remaining rate hike.

The oil price dropped back yesterday with Brent crude falling temporarily.

Yesterday, the Bank of Canada's mandate to target inflation at 2% was renewed. Its mandate will be up for review again in five years.

Selected readings from Danske Bank

- *Research Denmark - GDP set to be adjusted up, but not by much*
- *CBR rate decision preview: consistent hawkishness*
- *Euro area: strong PMIs, but the ECB will still extend QE*

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- *FX Forecast Update*
- *Weekly Focus*

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Scandi markets

September PPI data are released at 09:30. Producer price inflation has moved somewhat higher recently on the back of a weakening SEK. The most interesting part of the report is domestic supply prices for consumer goods (imported and domestically produced consumer goods) which have also popped higher recently for the same reason and we will likely see some more of that in today's numbers. Having said that, the feed-through to consumer prices is usually relatively modest for various reasons.

Fixed income markets

The global bond market is caught in a tight trading range as shown by the movement in the Bund yesterday, and we doubt that the Bund will be pushed out of this tight trading range between -15bp and 10bp before the ECB and Fed policy meetings in December. This is due to a number of factors. Firstly, it is very expensive to be short Bunds – this is capping the upside. Secondly, 10Y JGBs are trading in a tight range – so the spill-over effect from Japan is limited. Thirdly, the Federal Reserve is likely to raise rates in December, but the hiking cycle is going to be very gradual, which combined with low inflation expectations, the strong USD and solid yield pick-up should cap the upside on US Treasuries. Fourthly, the UK seems to be heading for a “hard” Brexit – this raises the risk for both the UK and EU economies – and should be supportive for safe assets such as Bunds. Finally, the supply of Bunds in Q4 is limited given the strong public finances in Germany and the possible issuance of a 70Y bond from Austria has limited impact on the market, as these ultra-long bonds are being snapped up by European life insurance companies for regulatory purposes.

Today, the Finnish debt office is tapping in the 15Y benchmark, and we expect decent demand as there are plenty of real money investors that need long-dated government bonds with a positive yield. Austria has mandated a 7Y syndicated deal and this is expected to be launched today as well. In the Scandi region, Sweden continues to perform ahead of the Debt Office borrowing report on Wednesday and the Riksbank meeting on Thursday. The recent proposal on the traffic light system for Swedish pension funds is seen to be supportive for the long end of the curve, which combined with the expectation of a solid downward revision of bond supply in 2017 is supportive for SGBs.

FX markets

The political risks and relative monetary policy will weigh on EUR/USD where last week's break of 1.0950 has opened the door for further losses towards 1.0700-1.0850. The EUR received some support from the stronger than expected Eurozone manufacturing PMI release yesterday. It means that the market is unlikely to react to the German Ifo release today if it comes out similarly strongly. Positioning is not yet stretched short EUR/USD, which supports a greater role for relative rates. We see political risks in Europe as more EUR negative than USD negative as Clinton looks the likely winner of the US election. We expect it to be sell-the-rumour, buy-the-fact with the EUR/USD bottoming in December and heading convincingly higher in 2017 on the large Eurozone-US current account differential and valuation. We also note the continuing rise in USD/CNY (and USD/CNH). This is in line with our view and we expect it to continue to head higher into year-end on broad USD strength and China's need for a weaker exchange rate.

Key figures and events

Tuesday, October 25, 2016

				Period	Danske Bank	Consensus	Previous
8:45	FRF	Business confidence	Index	Oct			102.0
9:30	SEK	PPI	m/m y/y	Sep			1.0% -0.3%
10:00	DEM	IFO - business climate	Index	Oct	109.7	109.6	109.5
10:00	DEM	IFO - current assessment	Index	Oct	115.3	115.0	114.7
10:00	DEM	IFO - expectations	Index	Oct	104.8	104.7	104.5
14:00	HUF	Central Bank of Hungary rate decision	%			0.9%	0.9%
15:00	USD	S&P Case Shiller House prices	Index	Aug			190.9
15:00	USD	FHFA house price index	m/m	Aug		0.5%	0.5%
16:00	USD	Conference Board consumer confidence	Index	Oct		101.5	104.1
17:30	EUR	ECB's Draghi speaks in Berlin					
19:20	USD	Fed's Lockhart (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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Expected updates

None.

Date of first publication

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