

25 November 2016

Danske Daily

Market movers today

- **Swedish household lending data** is due to be released today. Lending for housing purposes will be of particular interest, as the latest print (September) of 8.2% y/y was a bit lower than the peak in May at 8.7%. Depending on which stance you take, you could either point to the fact that lending growth is slowing down a bit, or go with the Riksbank's view that lending continues to outpace income growth.
- In the **UK**, we look forward to the release of the second **estimate of GDP growth in Q3**. While we do not expect any revision to the first growth estimate of 0.5%, we will focus on the GDP subcomponents. Most interesting is how investment performed in the first quarter after the EU vote. We think private consumption growth continued, broadly speaking, at the same pace as before the EU vote.
- The week concludes with the **preliminary US Markit PMI service index for November** on Friday. The index has been right about lower growth in H1 and has been less volatile than the ISM non-manufacturing index, which has jumped up and down recently. The index increased to 54.8 in October, which together with solid levels for the ISM non-manufacturing index is a good sign that growth will be solid in H2. We believe the Markit PMI service index will stay around its current level in November, suggesting that the service sector is growing at a solid pace.

Selected market news

As the **December ECB meeting** is fast approaching, the market has become increasingly sensitive to the ECB 'sources' story. After the European close, another story hit the market, with Bloomberg reporting 'unnamed officials' suggesting that *'there is no longer a sense of urgency to adjust the parameters of quantitative easing'* and *'some policy makers would also consider postponing a decision on whether to extend QE, though most still see a need to send a dovish message'*. The sell-off seen in the European bond market since the end of September has made a substantial amount of German bonds eligible for QE purchases and thereby provides the ECB with more leeway going into the meeting on 8 December.

In relation to the **ECB securities lending** story, ECB Vice President Vítor Constâncio commented yesterday that *'all national central banks...should also offer securities lending to help the liquidity in the repo markets and so we hope and we provide our guidance'*. However, the implications of such a move still remain very much up in the air, and rely on implementation technicalities and the alignment of national central banks.

The **Japanese economy seems stuck in a deflationary cycle** with October CPI prints once again adding to the deflationary picture of the 'Land of the Rising Sun'. The -0.4% published overnight adds to the string of mostly negative inflationary prints we have seen since 2009. As expected at slightly above the -0.5% September print, the market reaction was limited, with JPY depreciating slightly relative to USD and EUR and Nikkei, moving slightly into the green.

Selected readings from Danske Bank

- [Flash comment: FOMC minutes](#)
- [Research Italy: No 'Italexit' in case of a 'No' in the referendum](#)

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Scandi markets

The only **Swedish** data due to be released today is household lending. In particular, we will look at lending for housing purposes – the latest print (September) was 8.2% y/y. Depending on which stance you take, you could either point to the fact that lending growth is slowing down a bit – the peak was in May at 8.7% – or you could go with the Riksbank, which says that lending continues to outpace income growth. Recent data suggests that the mandatory amortization that took effect last summer has had some effect but it will probably take quite some time before lending is in line with income growth.

Fixed income markets

Market focus has this week shifted back to the ECB's next action and with all options up in the air, the market will remain very sensitive to any ECB 'sources' story. After the European close, another story hit the market again, with Bloomberg reporting *'unnamed officials' suggesting that 'there is no longer a sense of urgency to adjust the parameters of quantitative easing' and 'some policy makers would also consider postponing a decision on whether to extend QE, though most still see a need to send a dovish message'*. The next focal point will be Mario Draghi speaking again on Monday.

The impact of the Reuters repo change story was short-lived, with Schatz roughly back to the lows in yield terms at -75bp. The market response in the short end of the cash market seemed exaggerated as ECB/BUBA holdings in this segment are set to be very limited. Year-end turn concerns are back in the spotlight. In relation to the ECB securities lending story, ECB Vice President Vítor Constâncio commented yesterday that *'all national central banks...should also offer securities lending to help the liquidity in the repo markets and so we hope and we provide our guidance'* (full story [here](#)).

Today, Italy will be tapping up to EUR3.5bn in the 2Y and selling 5Y and 25Y linkers. The main driver for Italy is obviously the 4 December referendum – for an overview of the potential impact, see [Research Italy: No 'Italexit' in the case of a 'No' in the referendum](#), 22 November 2016.

The refinancing auctions in Danish non-callable 'Flex' bonds (fixed-rate bullets) continue today and it will be the last day of auctions in November. The auction amounts will be DKK11.4bn in DKK-denominated bonds and EUR0.2bn in EUR-denominated bonds. It is only RD, DLR Kredit and BRF Kredit that have auctions today. The interest at the auctions has been generally good. The 1Y segment has traded generally stable over the auction days, while yesterday we saw a general widening of the spreads of 2.5-3bp in the 3Y segment.

FX markets

Comparing global economic surprise indices, it is noteworthy how Sweden has followed the eurozone index higher over the past month (see [Tweet](#)). In our view, the stabilisation in Swedish data vis-à-vis market expectations has been an important factor for sending EUR/SEK lower; indeed we have long argued that we would reach a point where too much negativity would be priced into the SEK catalysing a reversal. While the global reflation theme in isolation also has aided the SEK, we still think markets underestimate the risk of Riksbank easing in December. We think the Riksbank will not only extend the QE programme in December but also cut rates. The former is widely expected and relatively SEK neutral or even positive if the focus is on tapering. However, the latter is not priced in and thus poses a headwind for the SEK that would send EUR/SEK higher short term. In summary, momentum favours a long SEK position near term but we think the Riksbank meeting could prove a challenge in December and possibly open up for a favourable re-entry in terms of 2017.

In terms of the USD, it is noteworthy how USD/CNY continues to move higher. Importantly, however, it is still a pure reflection of USD strength as the CNY remains close to flat against the basket (see [Tweet](#)). Irrespective, we still think the CNY is set to weaken going forward as growth is under pressure, debt risks are rising, the Fed is resuming rate hikes and net FDI flows are no longer positive for China. We forecast USD/CNY at 7.30 in 12M.

Key figures and events

Friday, November 25, 2016

				Period	Danske Bank	Consensus	Previous
0:30	JPY	CPI - national	y/y	Oct		0.0%	-0.5%
0:30	JPY	CPI - national ex. fresh food	y/y	Oct		-0.4%	-0.5%
0:30	JPY	CPI - national ex. fresh food and energy	y/y	Oct		0.1%	0.0%
8:45	FRF	Consumer confidence	Index	Nov		98.0	98.0
9:30	SEK	Household lending	y/y	Oct	7.4%	7.4%	7.5%
10:30	GBP	GDP, second estimate	q/q y/y	3rd quarter		0.5% 2.3%	0.5% 2.3%
10:30	GBP	Index of services	m/m 3m/3m	Sep		0.2% 0.8%	0.2% 0.8%
14:30	USD	Advance goods trade balance	USD bn	Oct		-59.0	-56.5
15:45	USD	Markit PMI service, preliminary	Index	Nov	54.8	54.8	54.8

Source: Bloomberg, Danske Bank Markets

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