

Danske Daily

Market movers today

- This morning markets will digest the results of the German election yesterday, see below and our *German Election Monitor #3: Difficult government formation ahead*, 25 September.
- The fourth round of Brexit negotiations begins today. Theresa May's speech in Florence on Friday did not reveal much news after the leaks on Thursday evening.
- In Germany, the Ifo business confidence for September is expected to show a further increase and add to the upbeat picture of the euro area witnessed in the PMI data last week.
- The Fed's Vice-Chairman Bill Dudley (voter, dove) is set to speak but the theme is workforce development, so it is not clear if he will touch on monetary policy. The Fed's Evans is due to speak tonight on the economy and monetary policy. The ECB speeches from Mario Draghi, Yves Mersch and Benoît Cœuré are also due today.
- Later this week, focus will turn to euro inflation and Chinese PMI. In Scandi, the most interesting releases will be Swedish NIER business confidence and Norwegian unemployment.

Selected market news

Global markets are fairly quiet this morning. US yields are trading close to Friday levels and the S&P 500 equity future is around the S&P500 closing level on Friday. Chinese stocks have taken a small hit as developers are under pressure from new housing restrictions in eight cities in a move to cool the housing market further.

Angela Merkel secured her fourth term in office as her Conservatives (CDU/CSU) remained the largest party with 33.0% in yesterday's election, followed by the Social Democrats (SPD) at 20.5%. However, both parties registered significant losses in their vote shares to the benefit of the euro-sceptic AfD party, which will become the first right-wing nationalist party to enter the Bundestag since the 1950s with a vote share of 12.6%. The outcome now leaves only two viable coalition possibilities that can obtain a majority: Another grand coalition of CDU/CSU and SPD or a 'Jamaica' coalition of CDU, FDP and the Greens. However, as the SPD leadership currently rules out another grand coalition under Merkel because of its disappointing election result, a Jamaica coalition seems increasingly likely, in our view. With the 'illegal' Catalanian referendum this weekend and an Italian general election looming, where the Five Star Movement stands to be a serious competitor for the premier minister position, European political woes might well become a market driver once again.

On Friday, the ECB's Vítor Constâncio played down the effect of the euro appreciation saying it might have a smaller effect on inflation than usual, based on recent ECB research. He also referred to a slight steepening of the Philips curve recently, saying this gives 'some hope that the future closing of the output gap will allow us to gradually reach our inflation target'.

Japan PMI manufacturing for September rose to 52.6 from 52.2 and continues to signal robust manufacturing growth in line with most other regions. It adds to the picture of still strong global growth in H2. **Japan's Prime Minister Shinzo Abe is expected to announce snap elections on Monday** to take advantage of improved ratings, see *Reuters*.

Selected readings from Danske Bank

- *German Election Monitor #3: Difficult government formation ahead*

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Scandi markets

Multiple economic releases of interest are due this week. In Sweden, the September NIER consumer and business confidence surveys (Wednesday) will be of some interest, especially business confidence. In Norway, unemployment data is due to be released on Friday. With employment indicators still climbing and vacancies increasing, we expect unemployment to drop to 2.5% in September, albeit driven partly by seasonal factors. The week in Norway also brings retail sales data for August. In Denmark, Business confidence data is due to be released on Thursday. See more in *Scandi Markets Ahead: Norges Bank meeting and Riksbank minutes*, 24 September 2017.

Fixed income markets

In the EU, the day will be packed with central bank communication as Constâncio will give the opening remarks at ECB's research conference, Mersch will give a keynote speech at a conference on risk management, Draghi will give the opening statement at the EU parliament and Cœuré is chairing a panel on exit from non-standard policy. In the US, Dudley, Evans and Kashkari will all be speaking as well.

Last Friday, the UK was downgraded to 'Aa2' (stable outlook) by Moody's. With the downgrade, the rating by Moody's is now in line with those of S&P and Fitch, which were far quicker to react in the wake of the Brexit vote.

FX markets

ECB-Fed divergence could come back into focus for EUR/USD today with a range of speakers out from both sides including notably the ECB's Mario Draghi: we continue to stress that the cross is vulnerable to USD-positive news and would expect to see downside materialise this week as Fed members confirm a December hike is on the cards and that the ECB is keen to avoid adding fuel to the fire under EUR near term.

GBP weakened during UK PM May's speech on Friday although the speech did not include any news compared to the details that had been leaked already. However, price actions underscore that Brexit uncertainty will continue to be a headwind for GBP as long as negotiations continue without meaning full progress. The fourth round of Brexit negotiations start today and the following joint press conference on Thursday between Brexit Secretary David Davis and EU's chief negotiator Michel Barnier is going to be important. We still see risks slightly skewed to the upside for EUR/GBP going into the Conservative Party conference on 1-4 October.

With last week's Norges Bank message, FX markets will increasingly turn focus to capacity utilisation in the Norwegian economy as this ultimately seems the most likely trigger for Governor Olsen to deliver an earlier-than-projected rate hike (see *Norges Bank: Cautiously hawkish but no imminent hike in store*, 21 September.). Norges Bank does not pencil in any rate hike before Q3 19, which to us underlines that we will have to see very significant positive surprises in this week's labour market reports for EUR/NOK to break substantially lower on higher NOK rates. Our base case for the coming weeks therefore remains that the cross is a 9.25-9.40 range play. Meanwhile, going into year-end we see several NOK headwinds, one of which is a turnaround in the Chinese cycle (see *chart* posted by Danske on Twitter, 22 September). Investors and clients exposed to NOK FX movements should have this in mind when evaluating the near-term NOK potential.

We look for EUR/DKK to continue to trade above 7.4400 in the near term as the pair remains supported by recent drop in short-term DKK rates, which has moved short-dated FX forwards to the left, bullish EUR sentiment and upcoming tightening of liquidity rules on Danish banks in significant currencies taking effect on 1 October.

Key figures and events

Monday, September 25, 2017			Period	Danske Bank	Consensus	Previous
-	GBP	Fourth round of Brexit negotiations set to begin				
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index			52.2
7:00	JPY	Leading economic index, final	Index			105.0
9:00	EUR	ECB's Constancio speaks in Frankfurt				
10:00	DEM	Ifo - business climate	Index		116.0	115.9
10:00	DEM	Ifo - current assessment	Index		124.7	124.6
10:00	DEM	Ifo - expectations	Index	108.4	107.9	107.9
11:15	EUR	ECB's Mersch speaks in Lisbon				
14:30	USD	Fed's Dudley (voter, neutral) speaks				
15:00	EUR	ECB's Draghi speaks in Brussels				
16:45	EUR	ECB's Coeure speaks in Frankfurt				
18:40	USD	Fed's Evans (voter, dovish) speaks				

Source: Bloomberg, Danske Bank

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