

Danske Daily

Market movers today

- It is a fairly thin release calendar today, so the market will probably be focused on signals from OPEC countries ahead of the meeting tomorrow and possible implications of the Italian referendum on Sunday.
- In the US, the second release of Q3 GDP growth is due out. In addition, the Conference Board consumer confidence index for November is due out. We estimate a continuation of the strong signals on consumer confidence.

Selected market news

Equity markets were mixed overnight. US markets finished lower last night after markets are increasingly starting to contemplate how much further the Trump-induced rally can run without more specific news on the size and timing of fiscal stimulus in the US. In the same vein, metal prices also retreated, with copper futures falling 2% while zinc declined 1.6% and Nickel lost 2.1%. Most Asian equity markets are higher overnight with the Chinese Shenzhen CSI 300 index leading with a 1% increase, while Japanese stocks are slightly down.

Oil prices retreat ahead of OPEC meeting tomorrow with WTI falling back below \$47. Discussions at the technical levels are struggling to find a common proposal on production cuts ahead of the ministers meeting tomorrow. Notably, Iraq and Iran raised objections with OPEC officials over how to distribute output reductions, referring the issue to ministers for further consideration. This goes well with our view that cuts will most likely be symbolic and nevertheless be difficult to uphold following the meeting due to lack of compliance among OPEC members.

The possible outcome and implication of the Italian referendum is a key market focus. Notably, the fragile state of the Italian banking system is a cause for concern and whether the banks will be able to raise the needed capital should the referendum turn out to be a 'no' and Italy face a period of political uncertainty. An index for stocks of Italian lenders on Monday closed at its lowest level in more than three months and has now fallen by 52% in 2016, while the spread between Italian and German 10-year government bond yields has widened two basis points to 186 basis points.

Selected readings from Danske Bank

- [Scandi Markets Ahead: GDP data in Sweden and Denmark and Swedish government bond auction](#)

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Scandi markets

In **Denmark**, manufacturing confidence for November is due to be released. The consumer confidence data for November suggested that consumers were unhappy with the implications of the Trump victory for the Danish economy, so it will be exciting to see how Danish manufacturers have taken it.

In **Sweden**, we are due to receive Swedish GDP data. Our forecasts, 0.2% q/q and 2.7% y/y, are a tad lower than consensus but in line with the Riksbank. The explanation for the difference between us and other forecasters of course varies. However, our low forecast assumes an inventory decrease and a pronounced downshift in services exports and R&D investments that have shown an unusual (strong) pattern in conjunction with major defence and telecom industry contracts over the past year. Indeed, we believe it is best to focus on the annual growth forecasts, as quarterly forecast errors are often the result of major revisions to previous quarters. Nonetheless, should our forecast prove correct, a temporary weakening of the SEK and lower short rates should be expected. That said, bar a major deviation from expectations, the GDP outcome should do little to sway a Riksbank fully focused on inflation in either direction.

Fixed income markets

Momentum in the 'Trumpflation trade' appears to be fading, with focus returning to next week's ECB meeting. Both 10Y Germany and swaps are now more than 10bp off highs but, interestingly, 10/30 has managed to steepen slightly in the current (and for once) front-lead rally.

'The perfect storm' for the short end continued as we entered the week, with 2Y Germany going below -77bp. The Schatz ASW has widened to the highest level since the 2012 debt crisis and yesterday it briefly traded above 60bp. The drivers appear to be concerns about (1) a year-end squeeze in repo and cash deposits that is exacerbated by the resolution fund deadline; (2) concerns regarding collateral hoarding in preparation for the move towards centralised clearing of swaps (initial margin and variation margin) and (3) pricing 'buying below depo', although we are not buying much into this explanation as the move appears to be aggressively led by 2Y Germany (or shorter-dated bonds/bills). In addition to the above drivers, positioning has probably added to the exaggerated move. Quantifying the impact of the different drivers is, however, more difficult – if not impossible – which makes it tricky to make a call on the timing of a reversal in the Schatz move. An easing of the ECB's or rather Buba's bilateral repo facility terms could alleviate some of the pressure potentially by lowering the collateral value of German bonds.

We are approaching month end and that means index extension flows are in focus. The overall duration increase is minor in November (0.03) and Italy is the only country where the domestic index will experience a significant increase in duration, amounting to 0.10. See *Strategy: FI Research – low index extensions in November*, 24 November. Continuing with Italy, the Tesoro will today conduct its usual month-end 5Y and 10Y tap. The main driver for Italy is obviously the referendum on Sunday. For an overview of the potential impact see *Research Italy: No 'Italexit' in the case of a 'No' in the referendum*, 22 November.

On the data front, German HICP data is in focus and the GDP figures out of France are also worth keeping an eye on.

FX markets

EUR/USD dipped below 1.06 again yesterday. The calendar this week is highlighted by (1) the release of November's US jobs report on Friday, which is likely to cement a Federal Reserve December rate hike and (2) the Italian constitutional referendum on Friday, which could be a 'No' and lead to higher political uncertainty in Italy. This cocktail does not bode well for EUR/USD, which we still see falling to 1.04 on 3M.

Commodity currencies AUD, CAD and CLP, which are positively correlated with base metal prices, have kept track with USD in recent days, where the rally in base metal prices has picked up steam again, e.g. the price on LME copper is trading at the highest level since mid-2015. Overall, the rally in the broad dollar has taken a breather over the past couple of days but we look for it to extend further near term.

Some optimism on the prospect on an OPEC deal to be reached on Wednesday returned to the oil market yesterday, which capped **EUR/NOK** topside. In our view, the oil market could very well be setting itself up for another disappointment, which in contrast would be positive for EUR/NOK.

Key figures and events

Tuesday, November 29, 2016				Period	Danske Bank	Consensus	Previous
0:30	JPY	Unemployment rate	%	Oct		3.0%	3.0%
0:30	JPY	Job-to-applicant ratio		Oct		1.39	1.38
0:50	JPY	Retail trade	m/m y/y	Oct		1.1% -1.6%	0.3% -1.7%
8:00	NOK	Wage index manufacturing	q/q	3rd quarter			0.2%
8:45	FRF	Household consumption	m/m y/y	Oct		0.2% 1.0%	-0.2% 0.7%
8:45	FRF	GDP, preliminary	q/q y/y	3rd quarter		0.2% 1.1%	0.2% 1.1%
9:00	ESP	HICP, preliminary	m/m y/y	Nov		0.1% 0.4%	0.8% 0.5%
9:00	DKK	Confidence indicator, industry, s.a.	Net balance	Nov			-9
9:30	SEK	GDP	q/q y/y	3rd quarter	0.2% 2.2%	0.5% 3.1%	0.5% 3.4%
10:30	GBP	Broad money M4	m/m y/y	Oct			-0.4% 6.2%
10:30	GBP	Mortgage approvals	1000	Oct		65.0	62.9
11:00	EUR	Business climate indicator	Net bal.	Nov		0.6	0.6
11:00	EUR	Industrial confidence	Net bal.	Nov		-0.5	-0.6
11:00	EUR	Economic confidence	Index	Nov		106.7	106.3
11:00	EUR	Consumer confidence, final	Net bal.	Nov		-6.1	-6.1
11:00	EUR	Service confidence	Net bal.	Nov		12.5	12.0
14:00	DEM	HICP, preliminary	m/m y/y	Nov		0.1% 0.8%	0.2% 0.7%
14:30	USD	GDP, second estimate	q/q ann.	3rd quarter		3.0%	2.9%
15:15	USD	Fed's Dudley (voter, dovish) speaks					
16:00	USD	Conference Board consumer confidence	Index	Nov	100.0	101.2	98.6
18:40	USD	Fed's Powell (voter, neutral) speaks					

Source: Bloomberg, Danske Bank Markets

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