

Danske Daily

Market movers today

- Starting a busy week, today we are due to get euro flash CPI and US core PCE inflation. **We look for euro inflation to rise to 0.5% y/y in October from 0.4% in September**, which is in line with consensus. As base effects from commodity prices kick in, we expect euro inflation to reach 1.5% in H1 17 before levelling off again in H2 17. **US core PCE inflation is expected to rise 0.2% m/m implying an unchanged annual rate of 1.7% y/y.**
- For the rest of the week, **focus will be on the FOMC meeting (Wednesday), US ISM manufacturing (Tuesday) and US non-farm payrolls (Friday)**. We do not expect any big changes at the FOMC meeting as it was already quite hawkish in October and the Fed still wants some flexibility to refrain from hiking if circumstances change, see *FOMC Preview: Fed to stay on hold this week - likelihood of a December hike has increased due to better economic data*, 31 October 2016. On US ISM, we are slightly above consensus, looking for a rise from 51.5 to 52.5 (consensus: 51.7) while we are close to consensus on non-farm payrolls (170,000 versus consensus 175,000). Chinese PMI manufacturing is also up this week (Tuesday) and we estimate a slight decline in October.
- In the Scandi region, Norge Bank is due to release the credit indicator today, while wage data for September is due out in Sweden. For the rest of the week, focus will be on PMI data for September.

Selected market news

Equities sold off and US yields dropped on Friday as the news hit that Hillary Clinton is again being investigated by the FBI over a new batch of files being sent from her private email account while she was serving as Secretary of State. The pricing of a rate hike in December dropped back to 70% from 74% following the news on Friday.

Over the weekend, polls have shown a setback for Clinton, making it a closer race again only one week ahead of the election on 8 November, see *Bloomberg*. An ABC poll found that Clinton now receives support from 46% of likely voters versus 45% for Trump. A week ago, Clinton had a 12-point lead in the same poll.

Oil prices have fallen further to just below USD50 per barrel as non-OPEC producers made no commitment to follow an OPEC cut at a meeting on Saturday, see *Reuters*.

Bank of England (BoE) Governor Mark Carney is said to be ready to serve a full eight-year term at the BoE and has told friends he is likely to make a statement this week, see *FT*.

Japan industrial production for September released overnight disappointed as it was flat m/m versus an expected 0.9% m/m gain by consensus. The JPY weakened slightly after the numbers.

Selected readings from Danske Bank

- FOMC Preview: Fed to stay on hold this week - likelihood of a December hike has increased due to better economic data*
- Russia's central bank - dispersing the doves*
- Strategy: Higher inflation to push up inflation expectations further*

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Scandi markets

In Norway, the credit indicator is up for release. It has been unchanged at 5.0% for the past three months, which is the lowest level since 2010. Sweden is due to release wage growth for September.

Fixed income markets

We are in for an eventful week with monetary policy meetings in the US and UK as well as non-farm payrolls. We do not expect either the Federal Reserve or the Bank of England to change monetary policy despite recent events in the market. Given the risk of a change in signals from the Federal Reserve as well as the BoE is likely to weigh on the bond market as the long end of Bund and Gilt curves drives market sentiment. Hence, it is difficult to see a significant reversal in the global bond market ahead of the meetings. However, it is also difficult to see the sell-off continue with 10Y JGBs caught in a tight range, a cautious BoE on the back of the discussion of a hard Brexit and finally, a Federal Reserve that has signalled previously that it will move very gradually.

The short-term risk is still for a steepening of the yield curves, as the rise in yields gives more flexibility for the ECB and reduces the 'repo squeeze' in the Bunds. In addition, we have auctions in 10Y Germany as well as 10Y and 20Y France and 5Y, 10Y and 15Y Spain; therefore, plenty of risk in the 10Y+ segment, but the net cash flow is positive as there are plenty of redemptions for Spain and Italy. Finally, Sweden, Norway and Denmark will also be in the market. The supply of Scandi government bonds at the auctions is limited as Sweden has reduced the auction size and Denmark is in no hurry to issue bonds given plenty of cash on the government's account. The Norwegian Debt Office is likely to keep issuance at only NOK2bn if it taps in the 10Y segment.

FX markets

We look forward to a week with important events that could have a significant impact on the EUR/USD cross with the FOMC meeting on Wednesday and important data releases on both sides of the Atlantic, including non-farm payroll data on Friday. While we expect unchanged interest rates on Wednesday, the most interesting part will be the FOMC statement. Last year, the Fed more or less preannounced the December 2015 hike at the October meeting but, unlike last year, this time the markets have more or less priced in a Fed hike by year-end as much as possible at the current time given that there is still one and half months until the December meeting. EUR/USD bounced sharply on Friday, which is likely to reflect short covering on the back of increasingly heavy short positioning. IMM data for the week ending last Tuesday suggests that speculators are getting increasingly short EUR/USD albeit still slightly shy of overstretched territory. We forecast EUR/USD at 1.09 in 1M and 1.08 in 3M and continue to see the cross as a sell-on-rallies near term.

For the EUR/GBP, we think the risk is on the upside in relation to the BoE meeting on Thursday. While we expect no change in monetary policy change (also consensus), we expect Governor Carney to be relatively dovish, even though the BoE is likely to revise growth projections upward.

In the Scandi markets, we are in for a relatively calm week following central bank meetings in Sweden and Norway last week. EUR/SEK traded in a volatile and choppy pattern on Friday after the sharp move higher on Thursday following the Riksbank's decision. As highlighted earlier, we see the Riksbank's changes to its repo forecasts as significant, particularly that it expects that the rates could be cut marginally again next year. We expect EUR/SEK to consolidate in a relative wide range of 9.75-10.00 near term. With little data news after a heavy release week last

week, focus for the Norwegian kroner will be on the OPEC/non-OPEC deal and whether the parties can flesh out a strategy to achieve the targeted production cuts. So far, there has not been much agreement, which will weigh on oil prices and is likely to continue to send the EUR/NOK higher.

In Poland, the PLN may trade on a weaker note this week, as the deadline for the Polish government to submit the counter proposal to the EU in relation to the rule-of-law procedure is 1 November. The Polish government has so far shown little willingness to compromise, most recently with a statement by the Polish foreign ministry on Thursday that the 'the European Commission has incomplete knowledge about Poland's legal system' and that 'we had no choice but to assess the Commission's recommendation as groundless.' The commission is clearly in a difficult position amid growing EU scepticism in many member countries. Tough rhetoric will weigh on PLN but it is doubtful whether the effect will be permanent, as ultimately the EU can do very little at the end of the day as Hungary supports Poland.

Key figures and events

Monday, October 31, 2016

				Period	Danske Bank	Consensus	Previous
8:00	DEM	Retail sales	m/m y/y	Sep	0.6% ...	0.2% 1.6%	-0.3% 3.7%
8:00	NOK	Credit indicator [C2]	y/y	Sep		5.1%	5.0%
9:00	DKK	Gross unemployment s.a.	K[%]	Sep		{4.3%}	114 {4.3%}
9:30	SEK	Wages (blue collars/white collars)	y/y	Aug			1.4%
10:00	NOK	Norges Bank's daily FX purchases	m	Nov		-900	-900
10:30	GBP	Broad money M4	m/m y/y	Sep			0.9% 5.4%
10:30	GBP	Mortgage approvals	1000	Sep		61.5	60.1
11:00	ITL	HICP, preliminary	m/m y/y	Oct		0.4% 0.1%	1.9% 0.1%
11:00	EUR	HICP - core inflation, preliminary	y/y	Oct	0.8%	0.8%	0.8%
11:00	EUR	HICP inflation, preliminary	y/y	Oct	0.5%	0.5%	0.4%
11:00	EUR	GDP, preliminary	q/q y/y	3rd quarter	0.3% ...	0.3% 1.6%	0.3% 1.6%
13:30	USD	Personal spending	m/m	Sep		0.4%	0.0%
13:30	USD	PCE core	m/m y/y	Sep	0.2% 1.7%	0.1% 1.7%	0.2% 1.7%
13:30	USD	PCE headline	m/m y/y	Sep	0.3% 1.3%	0.2% 1.2%	0.1% 1.0%
14:45	USD	Chicago PMI	Index	Oct		54.0	54.2

Source: Bloomberg, Danske Bank Markets

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