

Danske Daily

Plenty of uncertainty dominates the markets

Market movers today

- There is pressure on European financial markets given the weak economic growth data from Germany, Brexit and the budget clash between Italy and the EU.
- Yesterday, PM Theresa May got support for her Brexit deal from the cabinet as expected. She said it was a ‘collective’ not a ‘unanimous’ decision, suggesting that some ministers were against the deal.
- Today, there is a string of US data due – US retail sales that have been robust for a long time on the back of a strong labour market and tax cuts earlier this year. We expect it to stay decent as household fundamentals are still strong. The two regional surveys, Empire Index and Philadelphia Fed, will give the first indication of manufacturing confidence in October. Recently, ISM manufacturing has softened and in line with consensus, we expect surveys to moderate further from the quite high levels reached earlier this year. Initial jobless claims and import prices are also due for release today.
- In Scandi, Swedish unemployment and the Norwegian trade balance are being released.

Selected market news

PM Theresa May got support for her Brexit deal from the Cabinet, but it was not a ‘unanimous’ decision, suggesting that some ministers were against it. The real test is still whether it can pass the House of Commons, where a vote is expected in mid-December.

Markets are still uncertain, which was reflected in the modest move in GBP yesterday. Hence, we need more confirmation on the deal before we can see GBP strengthening.

Asian equity markets were also mixed this morning after a slide in US equity markets late yesterday. The negative reaction in the US equity markets was due to Fed Chair Powell indicating that the recent volatility in the markets would NOT change US monetary policy in a Q&A session very late yesterday evening.

He indicated that equity market volatility was only one of many factors that the Fed was considering when setting rates. His comments also confirmed the expectations of a December hike from the Fed.

Selected reading from Danske Bank

- *Italian politics monitor. Budget truce postponed*
- *Brexit monitor. Cabinet not unanimously behind May*

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Scandi markets

In Sweden, we expect the October seasonally-adjusted unemployment rate to print 6.6%. Such an outcome should confirm the upward trend seen in the unemployment rate since the beginning of the year. This largely coincides with a slowdown in employment growth and an increase in the labour force as job seekers in the non-labour force of the working population try to get a job. As yet, it is hard to see whether this is a result of a general business cycle slowdown or a deterioration in matching job seekers to job vacancies. On a separate note, Valueguard is due to release October prices. Our housing price indicator based on actual flat transactions within the Stockholm municipality points to a continued stabilisation. Compared with September, we estimate a 0.5% m/m increase. In a broader perspective, Stockholm prices have moved in a relatively sideways manner since the turn of the year.

Fixed income markets

Volatility is expected to dominate markets today even though PM May received support from the cabinet yesterday on the Brexit deal with the EU. However, the uncertainty regarding both Brexit and Italy as well as weaker economic data such as the German GDP data yesterday is putting downward pressure on core EU government bond yields. Yesterday, the spread between Italy and Germany ended up with a modest widening after a significant underperformance in the morning. The support from the UK cabinet for the Brexit deal should put upward pressure on Gilts this morning; however, there is significant uncertainty regarding whether this will pass parliament and the support for PM May in the Conservative party.

Yesterday, the Finnish State Treasury announced it will sell up to EUR1bn in the 5Y and 30Y benchmarks on 20 November. This will be the last auction for 2018. It is a small tap auction and thus there should be ample demand.

FX markets

In Sweden, the centre-right government proposed by Ulf Kristersson was, as expected, voted down in yesterday's Riksdag session. According to the Speaker, the next step is to once again meet and discuss with all party leaders, which is due to happen today, after which he sees two options: either he directly proposes Stefan Löfven as the new PM, which would be followed by a new vote in the Riksdag, or he gives Annie Lööf a mandate to probe the possibilities of a government formation. Whatever option the Speaker ends up going along with, we still believe the process will drag out for quite some time and with it the political risk premium in the krona. Yesterday, the SEK took a hit after lower-than-expected inflation data. However, seeing as the outcome was only one-tenth below the Riksbank's CPIF forecast and still above target, we are confident in our call for a first hike in December. None of today's data (see Scandi section) should have any material impact on the SEK.

Our short EUR/NOK position has taken a hit from the recent capitalisation in the oil market and EUR/NOK now trades above 9.60 for the first time since September. Today's trade balance data should not affect the NOK and hence it remains up to the black gold if EUR/NOK will break higher. 9.6404 is an important level to look out for. We have a revised stop-loss on our short EUR/NOK position of 9.6425 (current PnL incl. carry of +1.2%).

It was very volatile session in GBP yesterday after it was announced that UK PM Theresa May got support for a Brexit deal from her cabinet. EUR/GBP has been jumping up and down within the 0.8680-0.8760 range yesterday and overnight. Price actions and most notably the lack of a sustained break lower in EUR/GBP reflects that uncertainty remains high and that high expectations were priced into GBP already. We still expect EUR/GBP to break lower once a Brexit deal is finalised, targeting 0.84 in 3M. However, the biggest

test for the Brexit deal remains the vote in the House of Commons (expected on 10 December but not yet confirmed). Thus, we expect GBP to remain very volatile in the coming month. Given the current spot level, we see risks mainly skewed to the upside for EUR/GBP in the near term and as we argued in *Corporate Hedger – strong November could turn to cold December for GBP*, 13 November 2018, we think current levels are attractive to start building up GBP hedges for 2019.

Key figures and events

Thursday, November 15, 2018			Period	Danske Bank	Consensus	Previous
0:05	USD	Fed's Powell (voter, neutral) speaks				
1:30	AUD	Employment change	1000		20	5.6
8:00	NOK	Trade balance	NOK bn			21.1
9:30	SEK	Unemployment (n.s.a./s.a.)	%	6.1%		6.0%/6.5%
10:30	GBP	Retail sales ex fuels	m/m/y/y		0.2%/3.3%	-0.8%/3.2%
11:00	EUR	Trade balance	EUR bn			16.6
14:30	USD	Initial jobless claims	1000			
14:30	USD	Import prices	m/m/y/y		0.0%/-	0.5%/3.5%
14:30	USD	Empire Manufacturing PMI	Index		19.5	21.1
14:30	USD	Philly Fed index	Index		20.0	22.2
14:30	USD	Retail sales control group	m/m			0.5%
17:00	USD	DOE U.S. crude oil inventories	K			5783
21:00	USD	Fed's Kashkari (non-voter, dovish) speaks				

Source: Bloomberg, Danske Bank

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