

Danske Daily

Market movers today

- Today, we have a busy data calendar in the euro area with **German November ZEW expectations**, **euro area industrial production** for September and the **German GDP estimate** for Q3, where we estimate another solid GDP figure with 0.6% q/q growth, as PMIs remained at a high level. Note that the revised euro area GDP estimate for Q3 is also due for release but we will not get any component breakdown yet.
- In the **UK**, **CPI** figures for October are expected to show a small uptick to 3.2%, driven mainly by lingering effects of the weak GBP.
- The **ECB's two-day conference on central bank communication** kicks off today with a panel debate at 11:00 CET between the Fed's Janet Yellen, the ECB's Mario Draghi, the BoE's Mark Carney and the BoJ's Kuroda. Judging from the line-up, this could make for a repeat of the Sintra conference in late June (where many a central banker turned hawkish). While it may not provide the same seemingly synchronised policy message it did back then, we do see a good chance that Draghi, in particular, could use this opportunity to underline the seriousness of the talk from recent ECB speakers that markets should not become too complacent as the ECB has entered 'normalisation' mode.
- In the Scandi countries, focus is on the **Swedish October housing price and inflation data**, while **Norwegian Q3 GDP** figures are also due – see next page.

Selected market news

Bond markets continued the sell-off yesterday, this time led by the short end where US two-year yields rose further to a new cycle high. Optimism over a US tax reform got another boost yesterday on the back of a *tweet* by US President Donald Trump suggesting the Republicans are getting closer to agree on a tax reform that can be approved in both the House and the Senate. Bond markets will today turn their eyes to the two-day ECB conference mentioned above.

Chinese data on industrial production and retail sales disappointed slightly. Industrial production rose 6.2% y/y (consensus 6.3% y/y, previous 6.6% y/y) and retail sales climbed 10.0% y/y (consensus 10.5% y/y, previous 10.3% y/y). Money and credit data released yesterday also slowed further adding evidence to a picture of slower Chinese activity over the coming year. Chinese 10-year yields rose overnight to the highest level in three years in another sign that the financial tightening continues in China after a short pause in the months ahead of the Party Congress. Weaker Chinese growth will reduce the global inflationary pressure from commodity prices over the next year as demand softens. See *China Outlook: Moderate slowdown and CNY Stabilisation*, 13 October 2017.

Swedish house prices from the so-called Mäklar-statistik showed a decline of 1.0% m/m in October on apartments and 0% m/m on houses. The Valueguard numbers due to be released at 9:00 CET today are regarded as more reliable though (see below).

Selected readings from Danske Bank

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Scandi markets

Sweden. Over the past month or so there has been a gradually increased focus on the Swedish housing market and in particular tenant-owned flats where booming construction activity has created a massive supply of new flats. Anecdotal evidence (so far) suggest buyers now stand on the side-line and prices have started to drop. There will be great interest in tracking actual data in coming months. Today (09:00), Valueguard is due to release October price data and this data is regarded as probably the most reliable due to its method for quality adjustment. Later (at 09:30), SCB is due to publish October consumer prices. Note, the new official Riksbank inflation target is now CPIF (instead of CPI). We expect CPIF at 0.1% m/m and 1.9% y/y with some downside risk related to package holidays.

Norway. The level of uncertainty surrounding the GDP figures for Q3 is slightly greater than usual. Retail sales have been weaker than expected, manufacturing activity has undoubtedly slowed a little and net exports will probably make a negative contribution to growth. However, Norway is characterised by having a relatively large service sector, including the public sector, which is poorly covered by the ongoing data. Therefore, we crosscheck our GDP estimate against the unemployment data to gain an impression of the overall level of activity. Gross unemployment fell more in Q3 than in Q2, which indicates somewhat higher GDP growth in Q3 than in Q2. Hence, we keep our estimate of 0.7% q/q growth in mainland GDP in Q3, which is marginally higher than Norges Bank's estimate (0.6%) and the consensus forecast (+0.5 %)..

FX markets

As we wrote in yesterday's *FX Essentials: EUR crosses to stay bid on ECB 'exit' reminders*, the ECB conference on policy communication this week and notably the panel debate at 11:00 CET today featuring Janet Yellen, Mark Carney, Haruhiko Kuroda and Mario Draghi with a line-up resembling that of Sintra in late June could be interesting for the FX market. Notably, Draghi could underline the 'depth' of recent reminders that the ECB has entered 'normalisation' mode and help consolidate the move above 1.16 in EUR/USD. The EURUSD 3M CCS has widened recently making it more expensive to hedge USD income and assets over year-end. The move seems less related to fundamentals or the liquidity situation, but rather balance sheets constraints over year-end starting to be felt. Looking at the past two years, momentum could continue to build ahead of the November month-end. In addition, EURUSD CCS on longer tenors has also begun to widen somewhat. Historically, the front-end of the EURUSD CCS curve has followed the break (i.e. the EURUSD 3m CCS) quite closely. Besides, the recent move in longer tenors could also be due to the market starting to position for tighter USD liquidity next year, when Federal Reserve balance sheet reduction and a rebuild of the US Treasury cash balance should start to be felt in the market.

EUR/GBP remains bid as growing pressure on UK Prime Minister Theresa May adds to Brexit woes. We still see risks skewed to the upside near term and tactically, we look to buy on dips for a test of 0.90. Today, the release UK CPI data is likely to show a small uptick in CPI inflation in October. We forecast CPI at 3.2% y/y (consensus 3.1%). Moreover, UK BoE governor Mark Carney is due to speak at the ECB conference.

USD/JPY grinded lower yesterday amid negative risk sentiment. Overall, we still see USD/JPY within the range of 111.65-114.50 in coming months targeting 114 in 3M. We see risk of a slight disappointment in the US CPI figure (due tomorrow), which could add further pressure on the cross near term. Speculative accounts are stretched short JPY, according to IMM, suggesting risks are skewed to the downside for USD/JPY from a positioning point of view. Technically, next support levels seen at 113.09 (9 November low), 113 (figure) and 112.48 (17 October high).

Alongside EUR/SEK, EUR/NOK has been trading on a bid note in the first session of the week. Meanwhile, if our macro forecast for today's mainland GDP release in Norway materialises, EUR/NOK should return to the low end of the 9.43-9.63 range. However, we do emphasise that even our above-consensus call for the headline print should not be enough to trigger a break of

the range unless the details prove much stronger than even we pencil in (see *Reading the Markets Norway: Time to position for wider mid-segment ASW spreads*, 13 November).

The ZAR took another beating yesterday as a senior Treasury employee resigned amid plans by President Zuma to introduce free education. The plans would put further pressure on the already stretched fiscal situation in South Africa. It is worth mentioning that the plans have not been released in detail and the Treasury has also signalled that it will respect its fiscal targets. Nevertheless, the uncertainty about the fiscal outlook and possible loss of South Africa's investment grade rating (Moody's and S&P are due to give updates later this month), will continue to weigh on ZAR and hence creates upside to our USD/ZAR forecast of 14 by December.

Key figures and events

Tuesday, November 14, 2017			Period	Danske Bank	Consensus	Previous
6:00	SEK	Maklarstatistik Swedish housing price data				
8:00	NOK	GDP [total]	q/q	3rd quarter		1.1%
8:00	NOK	GDP [mainland]	q/q	3rd quarter	0.7%	0.5%
8:00	DEM	HICP, final	m/mly/y	Oct		-0.1% 1.5%
8:00	DEM	GDP, preliminary	q/qly/y	3rd quarter	0.6% ...	0.6% 2.3%
9:00	SEK	KTH-Valueguard				
9:05	USD	Fed's Evans [voter, dovish] speaks				
9:30	SEK	Underlying inflation CPIF	m/mly/y	Oct	0.1% 1.9%	0.1% 2.0%
9:30	SEK	CPI	m/mly/y	Oct	0.0% 1.8%	0.1% 1.8%
10:00	ITL	GDP, preliminary	q/qly/y	3rd quarter		0.4% 1.7%
10:00	EUR	ECB's Lautenschlaeger speaks in Frankfurt				
10:30	EUR	Portugal, GDP, preliminary	q/qly/y	3rd quarter		0.3% 2.9%
10:30	GBP	PPI -input	m/mly/y	Oct		0.7% 4.6%
10:30	GBP	CPI	m/mly/y	Oct	0.3% 3.2%	0.2% 3.1%
10:30	GBP	CPI core	y/y	Oct		2.8%
11:00	USD	Fed Chair Yellen [neutral] speaks				
11:00	EUR	Industrial production	m/mly/y	Sep		-0.6% 3.3%
11:00	EUR	GDP, 2nd estimate	q/qly/y	3rd quarter		0.6% 2.5%
11:00	EUR	ECB's Draghi speaks in Frankfurt				
11:00	DEM	ZEW current situation	Index	Nov	88.0	87.0
11:00	DEM	ZEW expectations	Index	Nov	18.1	17.6
12:00	USD	NFIB small business optimism	Index	Oct	104.5	103.0
14:15	USD	Fed's Bullard [non-voter, dovish] speaks				
14:30	EUR	ECB's Coeure speaks in Brussels				
14:30	USD	PPI	m/mly/y	Oct	0.1% 2.5%	0.4% 2.6%
14:30	USD	PPI core	m/mly/y	Oct	0.2% 2.3%	0.4% 2.2%

Source: Bloomberg, Danske Bank

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