

Danske Daily

Riksbank to hike rates in both December and July

Note modified Sweden call: after the surprisingly high Swedish September inflation numbers last week, we have revised our inflation forecast. It now runs very close to the Riksbank for the coming quarters. As a result, we have changed our call on the Riksbank from 'one hike in December and done' to 'one hike in December AND another 25bp hike in July next year'. For more information see [here](#).

Market movers today

- **Brexit** remains in focus also today: extended discussions around the Brexit strategy are likely to dominate today's UK cabinet meeting after negotiations with the EU broke down again over the weekend. Markets will keep an eye on any indication that signal a softening stance of the DUP party on the Irish border issue ahead of the EU's Brexit working dinner tomorrow.
- Furthermore, **risk sentiment in global markets** remains shaky, not least due to rising geopolitical tensions around Saudi Arabia and Italian risks simmering in the background. The **Italian government** will start holding first discussions on the budget law today after having submitted its budget proposal to the EU yesterday evening.
- **German ZEW expectations** for October will give a first indication of the economic momentum in Q4 and we will watch out for whether the recent recovery in the forward looking expectations component continues in October, despite lingering headwinds from the external and political side.
- The **UK labour market** report for August is due out. We expect annual earnings growth to stay around the 3% mark, with the unemployment rate remaining stable at 4.0%.

Selected market news

Global risk sentiment got off to a nervous start this week as investors evaluate whether the recent sell-off marks the beginning of a bear market or just a temporary correction. Yesterday, the big US equity indices ended the day in the red amid a late session selling with most notably the S&P500 staying below the psychologically important 200-day moving average. As of now, Asian indices are posting small yet fairly consistent gains across the board this morning. As has been the case over the past week, the USD continues to follow global risk appetite and is slightly stronger in the early session. Long US yields – the key catalysts behind the souring risk sentiment, in our view – are little changed.

While it is still too early to call this a turning point – indeed we still pencil in choppy trading near term – our view remains that this is not the beginning of a persistent bear market, as among other things, underlying growth remains too strong. For more colour on the outlook for global equities we recommend listening to the latest podcast edition of *Macro Strategy Views*, where our global head of Research Thomas Harr discusses the equity outlook with our equity strategist Mattias Sundling (duration 17 minutes).

The Brent crude oil price has crept back up to USD81/bbl on improved risk sentiment. Yesterday, Donald Trump signalled a preparedness to accept Saudi Arabian denials of responsibility in the disappearance of Khashoggi in Istanbul. The recent rise in US-Saudi tensions have prompted Mike Pompeo to visit Riyadh today and any headlines on the matter are likely to stir volatility in front-dated oil contracts.

Selected reading from Danske Bank

- *FX Forecast Update - USD strength set to remain until year-end*, 15 October
- *FI Strategy: Next stop is 3.5% for 10Y US Treasury yields*, 15 October
- *Harr's View: Stock market rout to fade despite looming Italy-EU clash*, 14 October
- *Flash Comment - Will the US label China a currency manipulator? Not likely*, 10 October
- *US election monitor #2 - Kavanaugh confirmation not likely to affect the Senate battle*, 12 October
- *Strategy: Equity sell-off is temporary despite slower growth*, 12 October
- *IMM Positioning Update*, 15 October


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Scandi markets

There are no market movers in the Scandies today. Markets, however, will continue to look for news on Swedish government formation talks.

Fixed income markets

Finland is doing a tap auction in RFGB 0.5% 15/09/2028. It plans to sell EUR1bn. Finland has underperformed semi-cores like Austria and the Netherlands in 2018. However, we look for a better performance here in Q4 as (1) the economic outlook is improving, (2) rating upgrades to triple A are likely in 2019 on the strong budget and falling debt-to-GDP, (3) funding for 2018 is almost done, (4) PSPP purchases will pick up in this quarter after the September dip in net purchases and finally the new 10Y trades cheap on the Finnish ASW curve. We favour Finland against Austria or the Netherlands or alternatively vs swaps. See our [Auction Preview](#).

The German Finanzagentur will also sell EUR4bn in the Sep-20 Schatz.

Yesterday, as expected, Portugal outperformed after the return to IG by Moody's over the weekend. On the other hand, investors are increasingly turning their focus to Spain after the budget deal between the Socialist Party and Podemos last week. We now know that the budget implies a deficit of 1.8% in 2019 and it is based on a 2.6% growth assumption. It should also imply a structural improvement of 0.4pp. The two parties do not have a majority and need the backing of Catalan parties, which could prove difficult. We are not overly concerned about Spain and are long SPGB versus swaps. However, further concessions ahead of the SPGB supply on Thursday should not be ruled out.

Despite weak US equity markets yesterday, US 10Y treasury yields edged higher overnight. Yesterday, we published a note arguing for a new move higher in 10Y Treasury yields to 3.50% on a three to six months horizon. See [FI research: Next stop is 3.50% for 10Y US treasury yield](#).

FX markets

Yesterday, we published our monthly FX Forecast Update. Overall, we have made few changes this month, see [FX Forecast Update – USD strength set to remain until year-end](#).

EUR/NOK has re-settled in the lower end of the 9.40-9.60 range following a turbulent period where fading NOK headwinds were countered by a dovish Norges Bank and tumbling risk sentiment. Going forward, we still expect EUR/NOK to move lower on valuation and that Norges Bank has indicated in its base case that it will out hike peers. In our view, market pricing of Norges Bank remains too soft but we will have to wait some additional months for a significant repricing. With year-end creating an asymmetric balance of risk to foreign developments, this creates a tougher environment for EUR/NOK to break below the 9.40 threshold this side of New Year. In light of December no longer being a live meeting for the next interest rate hike, we have raised our 3M forecast profile. We now forecast EURNOK at 9.40 in 1M (unchanged), 9.40 in 3M (previously 9.30), 9.20 in 6M (unchanged) and 9.10 in 12M (unchanged).

Our revised Riksbank call should lend further support to the SEK, where we see **EUR/SEK** at 10.20 by year end and 10.10 in 6M. In the near term, various political risks (e.g. Italy and Swedish politics) may push EUR/SEK temporarily higher though.

Some stabilisation in equity markets and US yields alongside no particular market moving news concerning Italy may have contributed to a slight tightening of the **EUR/USD 3M CCS basis** following the steady widening seen last week.

EUR/DKK has moved back above the central rate of 7.46038. We are thus in the area where the market will be alert to DKK buying in FX intervention by Danmarks Nationalbank (DN). In 2015 and 2016, DN mostly sold EUR/DKK in FX intervention around the level of 7.4610-30. We expect it to stick to this reaction function.

Key figures and events

Tuesday, October 16, 2018			Period	Danske Bank	Consensus	Previous
-	GBP	UK Cabinet meeting on possible withdrawal agreement with the EU				
2:30	AUD	RBA October Meeting Minutes				
3:30	CNY	PPI	y/y	Sep	3.6%	4.1%
3:30	CNY	CPI	y/y	Sep	2.5%	2.3%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Aug	2.9%	2.9%
10:30	GBP	Unemployment rate (3M)	%	Aug	4.0%	4.0%
11:00	DEM	ZEW current situation	Index	Oct	74.2	76.0
11:00	DEM	ZEW expectations	Index	Oct	-12.0	-10.6
11:00	ITL	HICP, final	m/m y/y	Sep	... 1.6%	... 1.6%
11:00	EUR	Trade balance	EUR bn	Aug	14.4	12.8
14:00	HUF	Central Bank of Hungary rate decision	%		0.90%	0.90%
15:15	USD	Capacity utilization	%	Sep	78.2%	78.1%
15:15	USD	Industrial production	m/m	Sep	0.3%	0.4%
15:15	USD	Manufacturing production	m/m	Sep	0.3%	0.2%
16:00	USD	NAHB Housing Market Index	Index	Oct	67.0	67.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Aug		52.2

Source: Bloomberg, Danske Bank

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