

Danske Daily

Market movers today

- **NEW RESEARCH WEBSITE:** We have launched our new research website with all our research across asset classes and countries. Check it out now at <https://research.danskebank.com>.
- In the **US**, we get the FOMC minutes from the December meeting and we will look for clues as to whether other members other than Charles Evans and Neel Kashkari came close to dissenting. ISM manufacturing is also in the spotlight.
- In **Denmark**, we get FX reserves data for December. In **Norway**, we get the labour force survey for October but remember the more stable labour market statistics from NAV is more important.
- Finally, **Mifid2** is officially new regulation in Europe from today. It could potentially mean less market liquidity in the next couple of days as traders and asset managers adapt to the new regulations and rules in real-time.

Selected market news

European bond markets came under pressure on the first trading day of the year and the yield on 10Y Bund rose 4bp to 0.46% - the highest level since October 2017. The combination of generally strong PMI data indicating that inflation eventually will pick-up and comments over the weekend from ECB's Coeure weighed on the market. Coeure said that unless inflation disappointed there's a "reasonable chance" the central bank's extension of QE in October last for nine months could be the final extension. Especially, the latter weighed on periphery bond markets together with markets still wary ahead of the Italian March general election.

The FI sell-off also comes ahead of a busy bond supply calendar in Q1 and especially here in January, where a number of syndications are due and the ordinary auction calendar is full. Yesterday, the Irish Debt Management Office said that it has mandated six banks including Danske Bank as joint lead managers for a forthcoming new 10-year bond that – subject to market conditions – is due to today. For the supply outlook and the ECB QE outlook see *EUR FI: guide to Q1 issuance and thoughts on supply vs QE in 2018*. The Coeure comments and the recent pick-up in long-term inflation expectations, where the 5y5y EUR inflation swap is at 1.74% which is close to the highest level in a year, underline that the risk of further pressure on European FI markets here in January should not be neglected. It seems that the global 'reflation trade' is once again back in focus.

The factors that pushed yields higher in the Euro zone yesterday also added to the strength of the Euro and EUR/USD traded above 1.2050 – the highest level in three years. The cross is not only supported by EUR strength but also by a general dollar weakness seen here in 2018. European stocks had a hard time following the positive Asian sentiment yesterday as the strong Euro weighed on sentiment. US stocks on the other hand had a strong opening day with tech stocks taking the lead as Nasdaq rose 1.5%. In respect of financial markets preparing for today's Mifid2 launch *Bloomberg* reported that turn-over was lower than usual yesterday. We expect that any potential market impact on liquidity will be temporary.

Selected readings from Danske Bank

- *Fixed Income Research: Funding plans for Scandi DMOs in 2018*
- *FI Research - EUR FI: guide to Q1 issuance and thoughts on supply vs QE in 2018*
- *Rating calendar – the positive rating cycle continues*
- *IMM positioning update*

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- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

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Scandi markets

In **Denmark** today we get currency reserves data for December. The EUR/DKK cross has been above 7.4400 throughout the month and thus some way off the levels where the Nationalbank intervened in February and March this year. The bank has presumably therefore not felt any need to intervene for a ninth successive month, the longest period without intervention since early 2014.

We will also keep an eye on the size of the government account at the central bank end-2017. It will give us an idea of how much of the 2018 funding requirement that can be covered by drawing on the account.

Norway. Coming up today is LFS unemployment data for October (September-November). We have already seen the NAV's jobless measure fall during this period, but the LFS measure is still a fair bit higher. In line with consensus, we expect an unchanged LFS unemployment rate of 4.0%, but as usual, we would stress that we place more importance on the more stable statistics from the NAV.

Fixed income markets

In line with the pattern of recent years, Ireland is the first sovereign to announce a syndicated deal. As expected the NTMA will introduce a new 10Y (maturing 15 May 2028) expected today's business, subject to market conditions. The size of recent January syndicated deal has been, respectively: 4bn in 2017 (20Y), 3bn in 2016 (10Y), 4bn in 2015 (7Y) and 3.75bn in 2014 (10Y). See [auction preview](#).

The negative EUR FI sentiment continued yesterday even as the 'QE-bid' returns to the market with 10Y Germany closing 3.5bp higher and German ASWs tightening roughly 1-1.5bp. Regarding QE, the purchases details for December will be released today. We expect that Irish purchases have been elevated in December as well. This trend could extend in 2018 if QE in Ireland is allowed to pick up the QE 'slack' with heavy issuance and cancellation of promissory notes clearing the way.

FX markets

In FX markets, the NOK has started 2018 on a strong footing. Yesterdays' stronger-than-expected manufacturing PMI out of Norway attracted some of the NOK buyers that we know left the market at the end of last year. Indeed, 2017 proved yet another year where the NOK suffered going into year-end. Specifically, EUR/NOK rose almost 4% in November and December 2017, which compares to a historical average since 2001 of 2%. With year-end headwinds behind us, it's worth noting that over the last three years, NOK under-performance going into year-end has been followed by January over-performance in the magnitude of c. 2%. We think this could well be the case this year and we remain long NOK via a short EUR/NOK options position and a long NOK/SEK spot position from [FX Top Trades 2018 – How to position for the year ahead](#).

We have seen interesting price action in EUR/DKK FX forwards to start the year. Shorter-dated FX forwards are still trading at a fairly high level leaving EUR/DKK forward outright levels out to 6M around or above 7.4400. In contrast, longer-dated EUR/DKK FX forwards have moved significantly to the left with the outright 5Y point trading around the lowest level since March last year, when Danmarks Nationalbank (DN) was buying EUR/DKK in FX intervention ahead of the French presidential election. regarding DN, we do not expect today's FX reserve data to move the market.

EUR/USD continued its rising streak hitting a new cycle high yesterday when breaking 1.2050. A significant tightening in basis (which has moved closely with the spot in recent weeks) as the turn effect has been taken out, comments from ECB's Couere regarding an end to QE later this year, and a rising oil price have been key in our view. Even with positioning now more neutral,

we still look for some USD strength on a 1-3M horizon on repatriation flows and a relative strong cyclical US position.

Key figures and events

Wednesday, January 3, 2018				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Dec		17.45	17.4
8:00	NOK	Unemployment (LFS)	%	Oct	4.0%		4.0%
9:55	DEM	Unemployment	%	Dec		5.5%	5.6%
10:30	GBP	PMI construction	Index	Dec		53.1	53.1
16:00	DKK	Currency reserves	DKK bn	Dec		464.2	464.2
16:00	USD	Construction spending	m/m	Nov		0.7%	1.4%
16:00	USD	ISM manufacturing	Index	Dec	57.7	58.0	58.2
20:00	USD	FOMC minutes					

Source: Bloomberg, Danske Bank

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