

# Danske Daily

## Market movers today

- Key market movers today will be CPI inflation and retail sales in the US. We estimate CPI core increased 0.2% m/m (1.8% y/y against 1.7% y/y in August), which is a bit more than the trend seen over the past half year. We expect headline CPI to come out at 0.6% m/m (2.3% y/y against 1.9% y/y in August) driven by a sharp rise in gasoline prices related to the hurricanes Harvey and Irma. If our estimates turn out right, then both CPI and CPI core will be close to/above the 2% target, but note that the Fed targets PCE inflation (still significantly below target) and hence it is still struggling with low inflation.
- With respect to the US retail sales control group, we expect to see some reversal of the August decline of 0.2% m/m and look for a rise of 0.4% m/m. We also have US consumer sentiment from University of Michigan (preliminary) and a couple of Fed speeches by Evans (voter, dovish) and Kaplan (voter, dovish).
- Note that a speech on monetary policy by Fed chair candidate Jerome H. Powell scheduled for today has been cancelled.
- In Europe focus continues to be on the situation in Catalonia and Brexit negotiations.

## Selected market news

**Like the rest of the week, markets have been calm overnight.** US stocks closed lower but Asian equities are up this morning and US S&P 500 futures are trading flat. EUR/USD is slightly higher, perhaps on the ongoing discussions on US tax reform, which show that tax reform is easier said than done, in line with what we had argued for. Brent crude oil is up to USD56.55/barrel after report showing US stockpiles fell.

Yesterday, US Treasury secretary Mnuchin said that he expects Trump to nominate a new Fed chair “next month”. Kevin Warsh (previous Fed governor 2007-2011) and current Fed governor Jerome Powell are the two top candidate but John B. Taylor (professor at Stanford University) is also in play. Chief of Staff John Kelly says an announcement is “some time away”.

Yesterday, EUR/GBP broke the 0.90 level yesterday (the highest in a month) after the joint **Brexit** press conference by EU chief negotiator Michel Barnier and UK Brexit Secretary David Davis, where Barnier said there have not been “sufficient progress” in the negotiations to move from phase 1 (divorce bill, Irish border and citizens’ rights) to phase 2 (future relationship) when the EU leaders meet next month. Barnier is still optimistic about reaching an agreement before the EU summit in December but further negotiation rounds are needed. Still we were caught by surprise by the negative market reaction, as we think the comments were in line with what most had expected. The reaction was possibly fuelled by a somewhat misleading Bloomberg headline suggesting that Barnier said that Brexit talks had reached a “deadlock”, which, however, was only about the divorce bill. As we have mentioned previously, we think the biggest obstacle for the negotiations is the divorce bill, as it is difficult for the UK to agree on a divorce bill before knowing the future relationship. Yesterday afternoon EUR/GBP fell back again and is trading at 0.892 currently after a story that EU might tell Barnier to begin preparing for discussions on a transitional deal (behind closed doors).

## Selected readings from Danske Bank

*FOMC minutes: Core members still want to hike in December.*

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 **VIDEO**  
*Allan von Mehren on the Chinese Party Congress*

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- *FX Forecast Update*
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## Scandi markets

In **Sweden**, NIER publishes an update of its “Wage Formation Report” – an in depth study of current trends in Swedish wage formation. They touched upon this issue already in the recent macro update that was released about a week ago. The main message was that tight labour market conditions are likely to increase the pace of wage increases some but less than according to historical standards and in any case not to an extent that will add much to inflation. We would look forward to a further discussion of why wages increases remain modest, something Sweden shares with many other developed economies.

## Fixed income markets

There was a modest bullish flattening of the **US** government bond yield curve on the back of strong demand at the 30Y US Treasury auction yesterday and ahead of the US CPI, that is released today, which is a key release due to the discussions within the Fed on whether low inflation is temporary or not.

In **Europe** the focus is mainly on political situation in Spain, but the impact on the market have quickly diminished and spreads between Spain and core-EU are close to the levels seen before the political unrest began in Spain. We are also seen a solid rally in Portugal after the auction this week. Given the expectation for an upgrade in December and possible inclusion in the various bonds indices will keep the support.

We published our weekly on the **Swedish** market yesterday. Here we look at Swedish inflation which in our view has peaked for now. We discuss whether there is value in the front end of the curve. See more [here](#).

**France** and **Greece** is up for review by Moody's. Greece is on positive outlook, but we do not expect a change in the rating. France is on stable outlook, and we do not expect a change on the outlook.

## FX markets

In the Scandies, yesterday's session saw **EUR/NOK** drop to a weekly low. At first sight, the move seemed a little strange. Not only did the NOK appreciation coincide with a drop in the oil price but the fiscal budget in Norway also proved slightly less expansionary than what some had expected (yet still in line with Norges Bank's forecast). We think the reason for the sudden move lower in EUR/NOK, primarily lied in **NOK/SEK** buying and stops taken out post the Swedish inflation release that fell short of expectations. Going forward we regard both EUR/NOK and **EUR/SEK** as range plays in the weeks to come. Our fundamental predisposition remains to sell EUR/SEK on spikes towards 9.65 and enter a bullish EUR/NOK position as a way to position for a weaker NOK going into year-end.

**EUR/DKK** moved to 7.4440 yesterday on the back of underlying support from low short-term DKK rates, while the recent notch higher may have been due to Goldman Sachs selling its final share in Dong Energy/Ørsted. The latter effect could prove temporary and send the pair back below the 7.4430 level in the short-term.

In the majors, **EUR/GBP** bounced above 0.90 yesterday on stop-loss driven price actions triggered by comments from EU's chief negotiator Michel Barnier saying that "no great steps forward" in Brexit negotiations. According to the [IMM data](#) speculative accounts have added substantial amount of long GBP positions in recent weeks, and it seems that some investors were caught on the wrong foot yesterday. In our view, the sell-off in GBP was overdone as it was expected that more negotiations is needed in November and early December. Yesterday afternoon it fell back again and is trading at 0.892 currently after a story that EU might tell Barnier to begin preparing for discussions on a transitional deal. From a risk/reward perspective, we see value in selling EUR/GBP above 0.8950 via a bearish seagull, for move towards 0.87 going into the BoE meeting on 2 November.

In terms of today's data calendar, key focus will be on **EUR/USD**. In our view, we suspect that the cross' sensitivity to US Core CPI is asymmetric in the sense that a high/consensus print would confirm current market pricing of a December hike, whereas a lower print could shed doubt into markets and send EUR/USD higher. With our consensus call for CPI core, base case remains for only a modest drop in EUR/USD upon release.

#### Key figures and events

Friday, October 13, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish France's debt rating					
-	EUR	Moody's may publish Greece's debt rating					
-	CNY	Trade balance	USD bn	Sep		38.1	41.9
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	DEM	HICP, final	m/m y/y	Sep		0.0% 1.8%	0.0% 1.8%
9:15	SEK	NIER economic forecasts					
10:00	ITL	HICP, final	m/m y/y	Sep		... 1.3%	... 1.3%
14:30	USD	Retail sales control group	m/m	Sep	0.4%	0.4%	-0.2%
14:30	USD	CPI headline	m/m y/y	Sep	0.6% 2.3%	0.6% 2.3%	0.4% 1.9%
14:30	USD	CPI core	m/m y/y	Sep	0.2% 1.8%	0.2% 1.8%	0.2% 1.7%
14:30	USD	Fed's Rosengren (non-voter, hawkish) speaks					
16:00	USD	University of Michigan Confidence, preliminary	Index	Oct	95.1	95.0	95.1
16:25	USD	Fed's Evans (voter, dovish) speaks					
17:30	USD	Fed's Kaplan (voter, dovish) speaks					
19:00	USD	CANCELLED Fed's Powell (voter, neutral) speaks					

Source: Bloomberg, Danske Bank

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