

# 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

Follow us on *Twitter*:

 @Danske\_Research

### Read more in Danske Bank's recent forecasts and publications

- [Nordic Outlook](#)
- [Yield Forecast Update](#)
- [FX Forecast Update](#)
- [Weekly Focus](#)

*Chief Analyst*  
Allan von Mehren  
+45 4512 8055  
[alvo@danskebank.dk](mailto:alvo@danskebank.dk)

## 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 lowend 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%	0.7%
8:00	DEM	HICP, final	m/m y/y Oct		-0.1% 1.5%	-0.1% 1.5%
8:00	DEM	GDP, preliminary	q/q y/y 3rd quarter	0.6% ...	0.6% 2.3%	0.6% 2.1%
9:00	SEK	KTH-Valueguard				
9:05	USD	Fed's Evans (voter, dovish) speaks				
9:30	SEK	Underlying inflation CPIX	m/m y/y Oct	0.1% 1.9%	0.1% 2.0%	0.2% 2.3%
9:30	SEK	CPI	m/m y/y Oct	0.0% 1.8%	0.1% 1.8%	0.1% 2.1%
10:00	ITL	GDP, preliminary	q/q y/y 3rd quarter		0.4% 1.7%	0.3% 1.5%
10:00	EUR	ECB's Lautenschlaeger speaks in Frankfurt				
10:30	EUR	Portugal, GDP, preliminary	q/q y/y 3rd quarter			0.3% 2.9%
10:30	GBP	PPI - input	m/m y/y Oct		0.7% 4.6%	0.4% 8.4%
10:30	GBP	CPI	m/m y/y Oct	0.3% 3.2%	0.2% 3.1%	0.3% 3.0%
10:30	GBP	CPI core	y/y Oct		2.8%	2.7%
11:00	USD	Fed Chair Yellen (neutral) speaks				
11:00	EUR	Industrial production	m/m y/y Sep		-0.6% 3.3%	1.4% 3.8%
11:00	EUR	GDP, 2nd estimate	q/q y/y 3rd quarter		0.6% 2.5%	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/m y/y Oct		0.1% 2.5%	0.4% 2.6%
14:30	USD	PPI core	m/m y/y Oct		0.2% 2.3%	0.4% 2.2%

Source: Bloomberg, Danske Bank

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Each working day.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

**Report completed:** 14 November 2017, 06:58 CET

**Report first disseminated:** 14 November 2017, 07:30 CET