

Danske Daily

Market movers today

- Today, markets will focus on the US jobs report for September. We estimate jobs growth slowed to 90,000 in September due to hurricanes, so it does not change our view that the underlying strength of the labour market is strong. We expect markets to look mainly at average hourly earnings and not so much non-farm payrolls. This is also what the Fed signalled at the latest meeting, as the statement explicitly said that the Fed will look through short-term weakness due to hurricanes. For more details, see *US Labour Market Monitor: September report affected by extreme weather conditions*, 3 October.
- We also have a few Fed speeches in the afternoon, most notably we are due to hear from Dudley (voter, neutral) at 18:15 CET.
- In Germany, we get factory orders for August at 08:00. We estimate they rose 0.5% m/m after the 0.7% decline in July, as the European manufacturing cycle seems strong.
- In Norway, production data for August are due today also at 08:00 CET. In Sweden, we get budget balance data for September. See Scandi section on page 2.

Selected market news

Spain continues to set the tone in the European financial market. However, for the first time this week the sentiment improved yesterday. 10Y government bonds yields recovered almost half of this week's underperformance with an 8bp tightening versus Germany and the IBEX 35 rose 2.5%.

There were several triggers for the sudden turnaround in sentiment. The Spanish government bond auction in the morning attracted good demand especially for the new 5Y bond. Hence, despite the political jitters the higher Spanish yields were able to attract investors. On the political side, Spain's constitutional court suspended a plenary session call for Monday in the Catalan parliament, which might have started a 48-hour countdown to a formal declaration of secession and 'retaliation' in respect of Madrid using article 155 in the constitution to take away power from the local Catalan Parliament. Apparently, Catalan leaders were also looking at how to put off or at least delay an official declaration of independence to make for time for further negotiations with Madrid. The media also reported that Catalan leaders are divided. Finally, the decision by Banco Sabadell to move its headquarters to Alicante underlined that independence could be costly. It seems that the Spanish crisis has peaked for now. However, there is a risk still that the situation could spiral out of control next week and independence is called. The small rating agency DBRS has Spain up for review tonight and the market will scrutinise the message to see if the political jitters means that the positive rating cycle in Spain has stalled for now.

The ECB minutes from yesterday supported the view that any QE tapering will be very gradual.

The US equity market continued the positive October momentum and S&P500 closed for the seventh day with a new all-time high. Positive surprises in durable goods orders and factory orders supported sentiment. The appointment of Randal Quarles to the Fed board of governors with responsibility of financial regulation also supported sentiment especially for financial stocks. Quarles is in general seen in favour of ruling back US regulation.

Selected readings from Danske Bank

- *Nordic Outlook - October 2017*

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Scandi markets

In Norway, manufacturing production figures for August will be published this morning. Despite the latest drop in the PMI, we are still convinced that the underlying picture in manufacturing is sound, thanks to stronger global growth, a weak krone and a gradual turnaround in oil-related industries. We nevertheless anticipate a slight correction in August after the very strong July figures. We predict a drop of 0.8% m/m, which would put manufacturing production on track for growth of around 1% q/q once again in Q3.

Fixed income markets

Non-farm payrolls is the main driver today. The low unemployment (and the belief in the Philips curve) has been the main argument of the Fed to stay on track with a December hike. However, this time around the release is likely to be affected by Hurricanes Harvey and Irma and will not reflect underlying labour market strength. See *US Labour Market Monitor: September report affected by extreme weather conditions*, 3 October.

The ECB minutes released yesterday had no market impact although they contained some slightly hawkish twists such as the point was again made that 'both the costs and benefits of extending APP purchases, including possible financial stability risks, needed to be taken into account'.

It is Friday and that means potential rating action. Italy is up for review by Moody's ('Baa2'/negative). Italy has been on negative outlook since July 2016. Given that the Italian economy is also recovering, albeit slowly, one could argue that there is a fair probability that Italy will join the 'positive rating cycle' and be moved back to 'neutral' outlook. However, Moody's specifically mentions that it 'would consider stabilising [the] issuer rating if a stronger consensus were to emerge in favour of the reforms needed to strengthen the economy's growth prospects'. We doubt Moody's will conclude this requirement has been achieved at this stage and believe it will keep the negative outlook for now. France ('AA', stable) is also up for review by S&P.

FX markets

EUR/USD was little affected by yesterday's ECB minutes but contained two streams of noteworthy thoughts from the ECB regarding the euro. First, Benoît Cœuré noted that investment flows had been one key factor pushing EUR/USD higher in noting that 'there was evidence that foreign investment had been gradually returning to the euro area in particular in the equity market'. We agree that (unhedged) equity flows appear to have been key recently but we stress that an even more crucial factor to watch in coming months will be whether debt flows (arguably a key EUR negative in recent years) start to reverse as an ECB 'exit' from negative rates and QE is considered. Second, the minutes several times stressed that FX volatility is a source of uncertainty and notably revealed that the board had had a thorough discussion on how to treat the impact of a rise in the (effective) euro on inflation, and notably whether recent euro appreciation was representing a better eurozone outlook or due to external factors, hinting that in case of the former, a stronger currency should be embraced whereas the latter would be less welcome. In any case, this debate suggests that it is not the level that matters to the ECB but rather the appreciation pace. We still see EUR/USD bottoming out in coming weeks around the 1.17 level and stress that appreciation from here will happen at a reduced speed compared with the summer experience.

EUR/GBP remains bid after it broke above 0.89 yesterday as the media reported that Theresa May is facing growing demands to step down as Prime Minister. It remains uncertain whether the anti-May wing within the Conservative Party has enough support to force her out of office against her will. If May steps down, it would be negative for GBP initially. However, while upside risks in EUR/GBP have increased, we still value in selling the cross at current levels from

a risk/reward perspective, to position for a move towards 0.87 going in to the Bank of England meeting on 2 November. In FX options, we like a bearish seagull to express this view.

The addition of Randal Quarles to the Fed board of governors with responsibility for financial regulation could potentially lead to an easing of USD liquidity and narrowing of EURUSD CCS if he manages significant easing of, e.g. capital and liquidity requirements on US banks. However, our base assumption remains that we are unlikely to see financial regulatory changes in the US that would leave a significant mark on market for EUR/USD. In addition, the passing of budget resolution by the House yesterday is only a first small step towards a solution on the budget and debt ceiling and does not change our short-term outlook for USD liquidity and EURUSD CCS.

In *FX Strategy: Inflation outlook could lend support to the SEK*, 5 October 2017, we stress that we stick to our tactical view that EUR/SEK is trading in a range of 9.40-9.65 (the downside defined by strong technical support at 9.41). We recommend vol-selling strategies that utilise the fact that implicit volatility still exceeds realised.

EUR/NOK: August manufacturing production is due today where we look for a correction after a very strong July print. This week's manufacturing PMI release for September brought the manufacturing sector back as a downside risk factor for the NOK, but we doubt this will have a visible downside effect on hard data today (note one month reference lag between the two releases).

In terms of oil markets, another US official yesterday spoke out against pulling out of the Iran nuclear deal, which should further dampen concerns in the oil market that sanctions could hit Iran's oil exports again. More comments from Russia suggest that OPEC and Russia are working on a deal to extend output cuts to end-2018. Today, commodity markets will keep an eye on USD with the US jobs report on the calendar as well as the US oil rig count due tonight.

Key figures and events

Friday, October 6, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish France's debt rating					
-	EUR	Moody's may publish Italy's debt rating					
2:00	JPY	Labour cash earnings	y/y	Aug		0.5%	-0.6%
7:00	JPY	Leading economic index, preliminary	Index	Aug		107.2	105.2
8:00	NOK	Manufacturing production	m/m y/y	Aug	-0.8% ...	-0.7% ...	1.9% 1.4%
8:00	NOK	Industrial production	m/m y/y	Aug			0.7% 0.5%
8:00	DEM	Factory orders	m/m y/y	Aug	0.5% ...	0.7% 4.7%	-0.7% 5.0%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Sep			716.7
9:00	DKK	Industrial production	m/m	Aug			-0.8%
9:30	SEK	Budget balance	SEK bn	Sep			39.1
14:30	CAD	Net change in full time employment	1000	Sep			-88.1
14:30	USD	Unemployment	%	Sep	4.4%	4.4%	4.4%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Sep	0.2% 2.5%	0.3% 2.6%	0.1% 2.5%
14:30	USD	Non farm payrolls	1000	Sep	90	75	156
18:15	USD	Fed's Dudley (voter, neutral) speaks					
18:45	USD	Fed's Kaplan (voter, dovish) speaks					
19:00	USD	Fed's Bullard (non-voter, dovish) speaks					
21:00	USD	Consumer credit	USD bn	Aug		16.0	18.5

Source: Bloomberg, Danske Bank

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