

# Danske Daily

## Market movers today

- It is time for **US** payrolls, where we look for a solid report (see *US Labour Market Monitor – Expect strong November report*, 5 December). We look for a rise in employment of 195,000 in line with consensus. In our view, hourly earnings will be equally important for markets. We look for a lift to 2.6% y/y in November, from 2.4% y/y. It is still quite moderate wage growth, though, which should keep the Fed on track for a very gradual hiking pace (we expect two hikes in 2018).
- This morning **Germany** releases labour costs for Q3. As Germany has the tightest labour market in the euro area, with the lowest level of unemployment in decades, this is likely to be where we should look for the first signs of wage pressure. However, so far, wage growth has been muted. It was 2.3% y/y in Q2. Despite a tight labour market, we believe wage increases will continue to be quite moderate keeping a benign outlook for inflation.
- The **UK** is due to release manufacturing production and the NIESR GDP estimate for November.

## Selected market news

Asian stock markets rallied this morning after the value of a Bitcoin broke above USD16,600, intensifying the debate whether it is a bubble about to burst. US equity index futures are little changed, while the GBP rallied overnight on rising expectations that a deal between the UK and EU might be reached today.

In the **US**, Congress has averted a government shutdown on Saturday, by passing legislation that will maintain funding for two weeks, deferring decisions on spending for defence and domestic programmes. Lawmakers now have until 22 December to overcome lingering differences, while Republicans still hope to finish tax legislation before year-end.

**China's** November trade figures released overnight surprised on the upside, as exports and imports grew by 12.3% y/y and 17.7% y/y, respectively. China's trade performance has rebounded this year thanks to strong domestic and external demand but we still expect the export engine to slow somewhat. Meanwhile, revised GDP figures showed that **Japan's** economy grew twice as quickly as originally estimated in Q3 (2.5% annualised) due to big gains in capital expenditure (see also *The Big Picture: Global economy still on a roll*, 4 December).

**Germany's** SPD party has decided to hold talks with Angela Merkel's CDU party but without committing to a specific outcome. This opens the door to Germany's third grand coalition in 12 years but, in our view, talks are likely to drag on well into 2018. Martin Schulz was also re-elected as SPD party leader but the party dismissed his proposal for a United States of Europe by 2025.

Time is running out for PM Theresa May to find a solution for the Irish border issue to be cleared ahead of the EU summit next week, as EU chief negotiator Michel Barnier stressed that the UK/EU have only 48 hours left to reach an agreement. If no deal is reached, the next EU summit is in March. May is set to meet EC president Jean-Claude Juncker and European Council President Donald Tusk today in Brussels in the hope of finalising an agreement on phase 1 of **Brexit** negotiations.

## Selected readings from Danske Bank

- *FX Top Trades 2018*, 6 December
- *FI Top Trades 2018*, 6 December
- *The Big Picture: Global economy still on a roll*, 4 December
- *US Labour Market Monitor: Expect strong November report*, 5 December
- *Euro Area Research: ECB inflation gap persists in 2019*, 4 December

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VIDEO, Jakob Christensen on Global Economy

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- *Weekly Focus*

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## Scandi markets

There are no releases in the Scandi countries today.

## Fixed income markets

The main event today is the US labour market report but, unless we see some significant deviations from the consensus estimate for the nonfarm payrolls at 195,000, we expect a very muted reaction to the data. In the US fixed income market, there is also focus on the suspension of the debt ceiling that ends on Friday but we expect the US Treasury to keep borrowing under the cap until March/April next year according to market consensus.

We saw a very solid performance in the peripheral government bond market – Portugal and Italy declined some 5-7bp. The move is driven by the lack of supply and expectations for more performance in 2018. Spain did not perform as well as its EU peers. Here Spain announced that it plans to do a tap in the next four weeks.

There are no major rating events.

## FX markets

EUR/USD was steady just off the 1.18 mark yesterday and could revisit the 1.18s again today if we are right in looking for a slightly weaker than consensus US job report. The latter has not been a big mover for EUR/USD in past months though: over the past six months, EUR/USD has traded within +7 and -11 pips 30 minutes after the release. EURUSD CCS widened further yesterday, as the cost of hedging USD over the turn of the year spiked again. This further weighed on EUR/USD spot. The finalisation of the Basel III capital rules yesterday included refinements of the exposure measure in the leverage ratio, which at first glance does not look to have significant impact on the EURUSD CCS.

GBP rallied overnight on rising expectations that a deal between the UK and EU might be reached on Friday morning. EUR/GBP broke below the 0.8746 support level and trades around 0.8720 this morning. We maintain the view that, while a divorce deal is important, necessary and positive, it is the future relationship and in particular reassurance that a cliff-edge Brexit has been avoided that matters more for GBP. Hence, while GBP could remain supported by increased Brexit optimism in the short term, we see little prospect of a long-lasting rally in GBP from here. Overall, we still see the cross within the 0.8650-0.90 range in coming months, as it is still too early for negotiations to reprise Brexit risks significantly. Longer term, the case for a lower EUR/GBP in 2018 remains intact as Brexit uncertainty is clarified and we are short EUR/GBP via options (1Y put spread) as one of our FX Top Trades for 2018.

In the Scandies EUR/SEK is edging higher. As we have highlighted a couple of times already, we expect the PPM money to go through the market next week (11 December). The total amount this year is SEK39.5bn, of which the calculated SEK flow is around SEK12bn. Since 2011, EURSEK has moved higher on the PPM date every year. On average since 2010, the cross has risen 0.7% starting two trading days before the money is disbursed. One week later, it is back to square one. The coming week not only offers PPM but also SEB's housing indicator (11th), inflation (12th) and Valueguard (14th). We expect a break above 10 in coming days. For more details, see *FX Strategy: Busy week ahead – EUR/SEK volatility on the rise, 7 December*.

In terms of the NOK, yesterday's manufacturing production data confirmed that the downside risks to the manufacturing sector have diminished (see *chart*). Otherwise, there is not much news to report, as we follow the USD basis, forwards and the implications for Nibor. We still like our FX Top Trades in the likes of a bearish EUR/NOK position via options and a long NOK/SEK spot outright position. For more information, see *FX Top Trades 2018 – How to position for the year ahead, 6 December*.

## Key figures and events

Friday, December 8, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Estonia's debt rating					
8:00	DEM	Trade balance	EUR bn	Oct		21.0	24.1
8:00	DEM	Labour costs	q/q y/y	3rd quarter			0.3% 2.3%
8:45	FRF	Industrial production	m/m y/y	Oct		-0.2% 2.8%	0.6% 3.2%
10:30	GBP	Construction output	m/m y/y	Oct		-0.1% 1.5%	-1.6% 1.1%
10:30	GBP	Industrial production	m/m y/y	Oct		-0.1% 3.5%	0.7% 2.5%
10:30	GBP	Manufacturing production	m/m y/y	Oct		-0.2% 3.5%	0.7% 2.7%
10:30	GBP	Trade balance	GBP mio.	Oct		-3000	-2754
14:00	GBP	NIESR GDP estimate	q/q	Nov			0.5%
14:30	USD	Unemployment	%	Nov	4.1%	4.1%	4.1%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Nov	0.2% 2.6%	0.3% 2.7%	0.0% 2.4%
14:30	USD	Non farm payrolls	1000	Nov	195	210	261
16:00	USD	University of Michigan Confidence, preliminary	Index	Dec		98.9	98.5

Source: Bloomberg, Danske Bank

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