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Danske Daily

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Market movers today

- Swedish inflation will be in focus this morning. We predict Swedish inflation at 1.9% on CPIF (see more in the Scandi section).
- In the afternoon, attention will switch to inflation as well as retail sales in the US. On inflation, we look for a rise in core CPI of 0.2% m/m in December in line with consensus. It leaves the annual core inflation unchanged at 1.7% y/y. Note the Fed's preferred measure for inflation is the PCE deflator, which is due 29 January. Core PCE inflation was 1.5% y/y in November and thus at a slightly lower level than core CPI inflation (due to different weights).
- US retail sales have been on a robust path recently and the control group that feeds into private consumption in GDP rose a brisk 0.8% m/m in December. It is expected to grow 0.4% m/m in December.

Selected market news

Overnight, Chinese December trade data was released. Exports grew 10.9% y/y down from the revised 11.5% y/y and slightly below consensus. Import growth dropped to 4.5% y/y from 17.6% y/y missing consensus by a wide margin.

The New York Fed's Dudley yesterday argued that the recently agreed tax cuts add to the case of further interest rate increases. He further argued that this scenario is supported by above-trend growth and easy financial conditions, which outweigh the run of below target inflation.

The Canadian government expressed a bit more optimism about upcoming NAFTA negotiations as the foreign minister yesterday pledged to bring new ideas, according to unnamed officials.

The price on Brent crude briefly surpassed USD70/bbl yesterday. One of the dominating headlines in the oil market was a comment from the UAE oil minister who stated that OPEC will maintain production cuts through 2018 – an attempt to quiet speculation that it will end cuts early following the recent rally in oil prices.

Selected readings from Danske Bank

- *Flash Comment - US-China relations on a concerning path - part 2.*
- *Nordic Outlook*, 5 January
- *Research US – The subtle push for price level targeting continues*, 3 January
- *Five macro themes for 2018*, 3 January

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

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Scandi markets

We predict Swedish inflation at 1.9% on CPIF, which is in line with consensus, albeit one-tenth below the Riksbank's forecast. The risk to our forecast is, however, skewed to the downside following the Danish and Norwegian numbers released on Wednesday.

Fixed income markets

The European FI market came under pressure after the ECB Minutes were released yesterday afternoon. Especially, the comment that '… forward guidance could be revisited early in the coming year' was seen as hawkish. However, importantly, 'communication would need to evolve gradually, without a change in sequencing, if the economy continued to expand and inflation converged further towards the Governing Council's aim'. The result was a 6bp move higher in 10Y bund yields and a flattening of the 5Y10Y curve, as the market started to price in a slightly more aggressive ECB rate path. We think the key word was 'sequencing' and not least that the ECB is still very much focused on the continually low inflation. Given that the 'sequencing' is still intact, it still seems wrong to expect a rate hike as early as Q1 next year. Hence, we keep our strategy from yesterday where we argue that the first ECB hike is priced in too early. For more *Fixed Income Strategy: Rec Dec18 to Mar19 EONIA swap on too aggressive ECB market pricing*, 11 January 2018. Today, the supply calendar is empty after a busy week in the EGB market where EUR32.5bn of new bonds have been sold in the market. Next week is also busy with EUR20bn-plus coming to the market. Belgium is up for review today by S&P ('AA'/stable).We do not expect S&P to change either the rating or the outlook.

FX markets

Inflation outcomes in the coming months will be crucial for whether the Riksbank (RB) will stick to its hiking plan for this year and will be the most important macro factor for the direction of EUR/SEK. First, we will see if December lands at 1.9% (CPIF) as we expect - one tenth below RB. The outcomes in Denmark and Norway suggest downside risk to our forecast, which would support our base case for a softer RB and higher EUR/SEK. A high outcome could of course interfere with that view.

EUR/USD saw a significant jump yesterday on the hawkish headlines from the ECB minutes suggesting a shift in communication earlier than previously anticipated. However, we do not buy into the 'reflation' story and hence still deem it too early for EUR/USD to make the next level shift higher. For this to happen in Q1 would require a cyclical outperformance of the eurozone versus the US and/or upside wage/inflation surprises with neither being our base case. Today, watch out for US CPI: the monthly uptick that we look for should keep Fed March hike expectations alive and halt the EUR/USD uptick.

EUR/GBP bounced above 0.89 yesterday driven by the EUR rally, which was triggered by hawkish ECB headlines. In the near term, EUR/GBP is likely to remain in the hands of investor appetite for EUR and Brexit news, and we still look for the cross to remain within the 0.8650-0.90 range. Longer term, we still see potential for a break lower in EUR/GBP driven by possible clarification on Brexit negotiations and valuations. However, yesterday's ECB minutes and the rally in EUR is a reminder that while GBP is set to strengthen on a lower Brexit risk premium, a general EUR recovery driven by the ECB moving towards an exit could potentially limit the downside potential. We target 0.87 in 6M and 0.86 in 12M, but stress the risks are that a break lower in the cross could come sooner than our forecast indicates.

USD/JPY remains heavy as an increased focus on withdrawal of monetary stimulus globally and uncertainty about the future BoJ leadership weigh on USD/JPY. In the very short term, watch out for the sell-off in the fixed income market. In case of continued upward pressure on JGB yields, we would expect the BoJ to announce a fixed price JGB purchase operation, saying it will buy an unlimited amount of 5-10Y JGBs at 0.11%. In 2017, the BoJ announced such operations twice: on 3 February and 7 July. If the BoJ announces another fixed price operation at an unchanged yield of 0.11%, it would help restore confidence that the BoJ is not about to exit QE, reduce JGB volatility and weaken the yen.

Key figures and events

Friday, January 12, 2018				Period	Danske Bank	*Consensus*	Previous
-	EUR	S&P may publish Belgium's debt rating					
-	CNY	Trade balance	USD bn	Dec		*37.4*	40.2
8:45	FRF	HICP, final	m/m|y/y	Dec			0.4%|1.3%
9:00	ESP	HICP, final	m/m|y/y	Dec		*0.1%|1.3%*	0.1%|1.3%
9:30	SEK	Underlying inflation CPIF	m/m|y/y	Dec	**0.4%|1.9%**	*0.4%|1.9%*	0.2%|2.0%
9:30	SEK	CPI	m/m|y/y	Dec	**0.4%|1.7%**	*0.4%|1.8%*	0.2%|1.9%
9:30	SEK	Underlying inflation CPIF ex energy	m/m|y/y	Dec	**0.5%|1.7%**		
14:30	USD	CPI headline	m/m|y/y	Dec	**0.2%|2.1%**	*0.2%|2.1%*	0.4%|2.2%
14:30	USD	CPI core	m/m|y/y	Dec	**0.2%|1.7%**	*0.2%|1.7%*	0.1%|1.7%
14:30	USD	Retail sales control group	m/m	Dec		*0.5%*	0.8%
17:30	EUR	ECB's Weidmann speaks in Germany					
22:15	USD	Fed's Rosengren (non-voter, hawk) speaks					

Source: Bloomberg, Danske Bank

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