16 January 2018

Danske Daily

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Market movers today

- **In the UK, CPI inflation for December is released**, which we estimate fell back to 2.9%, from 3.1% in November, due mainly to a lower contribution from food prices. We estimate core inflation fell from 2.7% to 2.6% due to a decrease in service price inflation. Despite the higher oil prices, we expect overall inflation pressure in the UK to fade this year, as food prices seem to have peaked and GBP has stabilised in recent months. Underlying inflation pressure is still muted, as wage growth remains subdued.
- **Later in the day we also get the US Empire Manufacturing PMI for January**. Consensus is for a small increase, although severe winter weather in the region might have impaired economic activity to some degree at the start of 2018.
- **No scheduled Scandi events for today.**

Selected market news

Despite (more) hawkish ECB comments Monday afternoon, it has been a relatively quiet session overnight with focus across markets remaining on the continued dollar rout/euro rebound. In equities, it has been an overall positive session in Asia with most indices seeing small gains and notably the Hang Seng hitting new record highs (US was out yesterday for Martin Luther King Day). Yen appreciation abated somewhat with USD/JPY rising close to 111 again this morning as focus on the risk of Bank of Japan policy possibly becoming less accommodative faded somewhat. Also, oil prices edged higher yet again with Brent crude hovering around the USD70/bbl mark after Iraq called for continued OPEC production curbs over the weekend.

Hawkish comments from the ECB's Hansson yesterday in a German newspaper interview added fuel to the fire under already-aggressive ECB pricing (a first hike priced in for early 2019) and sent EUR/USD close to 1.23. While a perceived hawk, Hansson notably said that QE purchases could be taken to zero in one go, suggesting new purchases could end as early as Q4 this year, provided the economy is on track. He added that policy guidance should be adjusted ahead of the summer and, further, that recent euro appreciation provides little threat to the eurozone inflation outlook. This line of reasoning adds to the tone of December ECB minutes and paints the picture of a central bank, where – at least some – members look increasingly keen to get going on policy 'normalisation'. A few ECB speakers coming up later this week but otherwise market focus will turn to Mario Draghi's stance at next week's ECB meeting. **While we look for a softening tone at the January meeting, it is noteworthy that only hawks have been speaking publicly since the aggressive market reaction following the minutes last week.**

Selected readings from Danske Bank

- *Italian Election Factbook: The countdown has begun but ITExit risk remains low*
- *FX Forecast Update - Jan 2018*

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Scandi markets

No major releases scheduled in the Scandi region today.

Fixed income markets

Despite ECB communication and pricing turning increasingly hawkish, we still think that ECB hikes are priced prematurely and recommend fading the aggressive pricing, as we do not expect the ECB to hike before Q2 19 at the earliest, see *Fixed Income Strategy - Too aggressive ECB pricing on minutes*, 15 January 2018.

Belgium is the next sovereign to introduce a new 10Y (Jun-28) via syndication as it was announced yesterday. Belgium is trading rich (relative to Finland and the Netherlands), but should nonetheless see decent demand at the auction (likely today's business).

FX markets

EUR/USD took another jump higher yesterday, rising close to 1.23 on the hawkish comments from Hansson. As we wrote in yesterday's *FX Essentials: EUR/USD rally backed by fundamentals – but set to fade on softening ECB near term*, while sensitivity to any hawkish ECB comments is elevated, we do look for the current strong momentum to fade somewhat near term on Mario Draghi being likely to soften the ECB stance a bit next week. However, we stress that only shallow dips are likely and in yesterday's *FX Forecast Update: EUR/USD now headed for high 1.20s -dips set to be shallow,* we upped our EUR/USD forecast profile somewhat, partly reflecting the roll of an upward-sloping trend profile in the cross, and partly reflecting recent evidence of the sensitivity of the EUR to ECB rhetoric. We see EUR/USD at 1.20 in 1M and in 3M (previously 1.16), 1.23 in 6M (1.20) and 1.28 in 12M (1.25).

GBP once again kept its stand against the EUR appreciation yesterday while GBP/USD continued higher to a new post-Brexit high. The Brexit risk premium has generally declined over the past weeks driven by renewed negotiation optimism and a general appetite for GBP among investors. While we remain bullish GBP over the medium term (we target EUR/GBP at 0.85 in 12M), we see risks mainly skewed to the upside for EUR/GBP in the short term. Today's UK CPI data could support EUR/GBP temporarily but we still look for 0.8650-0.90 to hold near term.

There is little to report of in terms of recent price action in the **Scandies** yesterday. The **NOK** finds itself in the 'G10 peloton' behind the EUR. The Valueguard/HOX release confirmed the housing market differences between Norway and Sweden – yet the NOK/SEK spot impact was limited. **EUR/SEK** edged higher on the weak housing data yesterday, but also here the price action was relatively muted. We now forecast EUR/SEK at 9.90 in 1M and 10.00 in 3M.

Key figures and events

Tuesday, January 16, 2018				Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP, final	m/m|y/y	Dec		0.8%|1.6%	0.8%|1.6%
10:00	ITL	HICP, final	m/m|y/y	Dec		...|1.0%	...|1.0%
10:30	GBP	PPI - input	m/m|y/y	Dec		0.6%|5.5%	1.8%|7.3%
10:30	GBP	CPI	m/m|y/y	Dec	0.3%|2.9%	0.4%|3.0%	0.3%|3.1%
10:30	GBP	CPI core	y/y	Dec	2.6%	2.6%	2.7%
14:30	USD	Empire Manufacturing PMI	Index	Jan		18.5	18.0

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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