

Danske Daily

Market movers today

- Today, we have a very light data calendar with no global market movers being released.
- ECB President Mario Draghi will be speaking again, followed by Bundesbank President Jens Weidmann later in the day. They are scheduled to deliver keynote addresses at the Frankfurt European Banking Congress and markets will again watch out for any clues about ECB policy during this otherwise relatively uneventful day.
- The Netherlands is up for review by S&P. The Netherlands is 'AAA/stable' and we do not expect any change to either the rating or the outlook.

Selected market news

The US equity market rebounded yesterday as the odds of a corporate tax cut are rising after the House of Representatives passed its version of the tax bill. This is a key milestone for President Trump in changing the tax code. There are still tough challenges ahead as it needs to pass in the Senate, where the Republicans only have a two-seat majority.

The 10Y US Treasuries came under pressure on the back of the tax plan and 10Y US Treasury yields rose more than 5bp, while the USD strengthened relative to EUR and JPY.

The positive sentiment in the equity market has continued in Asia this morning with a rise in stock prices across the region.

Selected readings from Danske Bank

- [New yield forecasts](#)

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Scandi markets

Sweden and Norway. No major data releases.

Fixed income markets

The sentiment in the US fixed income markets turned negative late Thursday as the House of Representatives took the first steps to overhaul the US tax code. Given that we have a light schedule today, we expect that the Bund future will decline on the back of the negative sentiment from the US.

The ECB's Draghi and Bundesbank's Weidman are speaking today and we will be looking for new information regarding future monetary policy.

The Netherlands is up for review by S&P. The Netherlands is rated 'AAA/stable'. We do not expect a change in the rating or the outlook.

The November 2017 refinancing auctions of Danish covered bonds continue today. Nykredit is coming to the market selling EUR450m in NYK SDO(H) 3M EURIBOR Jan-23 (ISIN code DK0009512428) and DKK3bn in 1Y SDO(H) non-callable bullet bonds (ISIN code DK0009515280). We expect the auctions to be very well received as the refinancing degree is very low; thus, there is plenty of excess liquidity to buy the bonds even though spreads are also tight versus both swaps and government bonds. However, the short-dated bonds are attractive for USD-based and EUR-based investors, while the longer end is likely to be bought by local and foreign investors given the yield pickup. See more in our *Auction preview: Surprisingly few long non-callable bullets –attractive floaters and CFs*, 16 November.

Yesterday, we published our weekly report on the Swedish market, *Reading the markets Sweden*. We take a closer look at the housing market as well as a trade on the Swedish curve as we see the curve as not being consistent with the outlook and risks for the Riksbank.

FX markets

Yesterday, we published the *FX forecast update: Scandi meltdown will not endure the winter cold*, 16 November. The biggest revisions were on EUR/NOK and EUR/SEK. Here over the past month we have seen some of the NOK weakness that we have been calling for materialise. Recently, the move has been amplified by risk-off and concerns about the Swedish housing market spreading to the NOK. In the near term, we expect the NOK to track risk sentiment, which leaves the currency vulnerable to the weak side at a time of the year where liquidity tends to worsen. Meanwhile, for 2018 we still pencil in a moderately stronger NOK, not least on the back of a further reduction in spare capacity in the Norwegian economy and a currency supported inflationary outlook allowing for the first Norges Bank hike in Q4 18. Also, valuation forces will remain a drag on the cross over the next year. We raise and roll our forecasts profile to 9.60 in 1M (from 9.40), 9.40 in 3M (9.50), 9.20 in 6M (unchanged) and 9.10 in 12M (unchanged).

On EUR/SEK, the drastic deterioration of housing market sentiment has weighed heavily on the SEK over the past few weeks. We have repeatedly identified this as a key risk but it has not been the main scenario, so has not been reflected in our forecasts. Now it is materialising. The money market has so far been relatively resilient but there is a high probability that the Riksbank will have to adjust, sending the first rate hike further into the future. In our view, the SEK will continue to trade with a house risk premium and therefore we have raised our forecast profile to 10.10 (previously 9.60), 10.10 (previously 9.50), 9.80 (previously 9.40) and 9.70 (previously 9.30) in 1M, 3M, 6M and 12M, respectively. In the medium term, we pencil in a tentative normalisation due to stretched valuations.

Dips in EUR/USD could occur near term as the risk of USD support from a US tax reform and the relative cyclical position and policy cycle remain, and we still look for the 1.1479-1.1880 range to hold towards year end. That said, we continue to stress that a 2018 rebound towards

1.25 is on the cards and that upside risks dominate the longer-term outlook. We now see the cross at 1.16 in 1M and 1.16 in 3M (previously 1.18). We keep our forecasts for the 12M horizon unchanged at 1.25 but lower the 6M forecast to 1.20 (previously 1.22) to reflect that the ECB has postponed the potential for 'normalisation' trades somewhat.

Key figures and events

Friday, November 17, 2017

			Period	Danske Bank	Consensus	Previous
-	EUR	EU summit in Gothenburg				
-	EUR	S&P may publish Netherlands's debt rating				
-	EUR	Moody's may publish Cyprus's debt rating				
9:30	EUR	ECB's Draghi speaks in Frankfurt				
10:00	EUR	Current account	EUR bn			33.3
14:00	EUR	ECB's Weidmann speaks in Frankfurt				
14:30	USD	Building permits	1000 (m/m)		1242	1225.0 (-3.7%)
14:30	USD	Housing starts	1000 (m/m)		1188	1127.0 (-4.7%)
14:30	CAD	CPI	m/m y/y			... 1.6%
23:30	USD	Fed's Williams (non-voter, neutral) speaks				

Source: Bloomberg, Danske Bank

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