

# Danske Daily

## Market movers today

- In **China**, the 19th Congress of the Communist Party begins today, where the top leadership will see a big reshuffle (see *Research: Why the Party Congress is key for China's road ahead*, 3 October 2017). The Congress will reveal how much President Xi Jinping will strengthen his power and is also likely to give a signal of a deepened reform focus.
- In the **UK**, we are due to get the labour market report for August, which is likely to show no further reduction in the unemployment rate and unchanged wage growth and should hence not be a game changer for the Bank of England (BoE) members' view of the economy ahead of the 2 November meeting.
- In **Germany**, coalition talks to form a 'Jamaica' coalition of CDU/CSU, FDP and the Greens kicks off officially today but given large policy and ideological differences between the parties, negotiations are expected to drag on and conclude only some time towards the end of this year.

## Selected market news

**Yesterday, final September euro area HICP figures confirmed the preliminary releases at 1.5% for headline and 1.1% for core inflation.** In line with recent ECB communication, which points to a preference for a 'lower for longer' scenario, we have changed our call and now expect the ECB to announce a QE extension by nine months at a pace of EUR30bn at the meeting on 26 October (see *ECB preview: Ready to scale back QE*, 18 October 2017).

**Yesterday, German ZEW expectations came out higher at 17.6 in October (from 17.0 in September),** in line with recent strong readings in industrial production and continued investor optimism in the face of a robust eurozone growth outlook, while the euro appreciation pace has abated somewhat. Current conditions decreased slightly to 87.0 in October from 87.9 in September, possibly due to some lingering uncertainty around German coalition building.

**UK CPI inflation came out in line with expectations yesterday at 3.0% in September from 2.9% in August.** Core inflation was unchanged at 2.7%. In line with market expectations, we expect the Bank of England to hike the Bank Rate by 25bp in November, which is currently priced in with around an 85% probability in the UK money market.

**According to Reuters Tankan monthly survey, there was strong confidence among Japanese manufacturers in October with sentiment at 31 versus 25 in September.** The poll follows the bigger quarterly Bank of Japan survey from 2 October, which showed the most optimistic business outlook for the manufacturing sector in a decade, and strong export figures for Q3 so far.

**US senators in both political parties say that they have reached an agreement on fixes to stabilise Obamacare, according to Bloomberg.** A deal has still to make it through both houses and be signed by President Donald Trump.

## Selected readings from Danske Bank

*ECB Preview: Ready to scale back QE*  
*FOMC minutes: Core members still want to hike in December.*

Follow us on *Twitter*:

 @Danske\_Research

 **VIDEO**  
*Allan von Mehren on the Chinese Party Congress*

## Read more in Danske Bank's recent forecasts and publications

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

**Analyst**  
 Mathias Ron Mogensen  
 +45 45 13 71 79  
 mmog@danskebank.dk

## Scandi markets

No Scandi market movers today.

## Fixed income markets

Another session with little of interest in the global calendar, however, we have a bunch of ECB members due to speak including Mario Draghi, Peter Praet and Benoît Cœuré. Market expectations have been adjusted to a QE extension scenario of EUR30bn for nine months.

In Scandinavia, all three debt offices are in the market with tap auctions. The Danish Debt Office is again tapping in the 3Y and 10Y benchmarks. The tap auction is small as the debt office has fulfilled 85% of the funding need. We expect that it will sell DKK2.5-3bn as usual. There should be demand for both bonds given the carry and roll down on the Danish curve relative to a matching German government bond. Furthermore, the decline in the duration/risk in the mortgage market should also be supportive for the 10Y bond. The 3Y benchmark is cheap versus Germany when looking at the ASW spread.

Norway is tapping in the 4Y benchmark bond. This is only the second time this year where Norges Bank is tapping in this segment. We expect that the auction go well given the pickup to the German curve in this segment.

Sweden is tapping in the 5Y and 10Y benchmark. Given the lower-than-expected inflation data from Sweden, we expect to see a decent bid-to-cover at the auction.

## FX markets

Yesterday, we published *FX Forecast Update: Central bank meetings to take the spotlight, 17 October*. As such, we have made very few adjustments in the G4 and Scandi FX outlook this time, as the upcoming series of central bank meetings in Euroland, Sweden, Norway and the UK and the general election in Japan not is expected to bring any big surprises. Hence, we still expect EUR/USD to trade around current levels on a 1-3M horizon targeting 1.17 in 1M and 1.18 in 3M (both 1.19 previously), while a rebound towards 1.25 in 12M remains on the cards as upside risks dominate the longer-term outlook.

We see little prospect of EUR/GBP breaking below 0.87 on a Bank of England (BoE) rate hike in November, as this is highly anticipated in the market already and we now target 0.88 in 1-3M (0.87 previously). The labour market report for August, which is due to be published today, is not expected to alter the market's expectations about a rate hike in November, which is priced in with around 85% probability in the UK money market.

Market pricing suggests that the general election in Japan on 22 October should not have a significant impact on USD/JPY if Shinzo Abe maintains his majority in the Lower House after the election. However, we still pencil in a higher USD/JPY going forward driven by Fed-Bank of Japan divergence, higher global yields (eventually) and portfolio outflows out of Japan. We target USD/JPY at 116 in 12M.

In the Scandies, we now forecast EUR/NOK at 9.40 in 1M (unchanged), 9.50 in 3M (unchanged), 9.20 in 6M (from 9.10) and finally 9.10 in 12M (9.00) and EUR/SEK at 9.50 in 1M, 9.50 (upped from 9.40) in 3M, 9.40 (9.30) in 6M and 9.30 (9.20) in 12M.

We still like volatility selling strategies in the Scandi FX space. Specifically, we have recommended a 2W NOK/SEK straddle as a way to play a thin data calendar, no new messages from Norges Bank/Riksbanken on 26 October and a EUR-ECB hedge (see *Reading the Markets Norway, No news from Norges Bank and steeper Norwegian long-end yield curve versus international peers*, 16 October). Also, our fundamental predisposition has for some time been to position for a move higher in EUR/NOK as we approach year-end.

Yesterday, we sent out *FX Strategy – Buy bullish EUR/NOK ratioed seagull*, 17 October, in which we argued that the latest move higher in NOK has opened up for an attractive entry level for a bullish EUR/NOK position. Importantly, the timing of this recommendation does not reflect a belief that the cross will break the upside of the 9.25-9.40 range in the coming weeks. Rather, we like the risk reward of entering the position now as the position also benefits from a near-term range in spot (our call) and volatility continuing to grind lower.

#### Key figures and events

#### Wednesday, October 18, 2017

				Period	Danske Bank	Consensus	Previous
-	CNY	China's Communist party congress begins					
10:10	EUR	ECB's Draghi speaks in Frankfurt					
10:30	GBP	Unemployment rate (3M)	%	Aug		4.3%	4.3%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Aug		2.0%	2.1%
13:45	EUR	ECB's Praet speaks in Frankfurt					
14:00	USD	Fed's Dudley (voter, neutral) speaks					
14:00	USD	Fed's Kaplan (voter, dovish) speaks					
14:30	USD	Building permits	1000 (m/m)	Sep		1230	1272.0 (3.4%)
14:30	USD	Housing starts	1000 (m/m)	Sep		1180	1180.0 (-0.8%)
16:15	EUR	ECB's Coeure speaks in Frankfurt					
16:30	USD	DOE U.S. crude oil inventories	K				

Source: Bloomberg, Danske Bank

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Each working day.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

**Report completed:** 18 October 2017, 07:08 CEST

**Report first disseminated:** 18 October 2017, 07:40 CEST