23 November 2017

# Danske Daily

## Market movers today

- Yesterday we published a **presentation on the Swedish housing market**: *What if Swedish house prices dropped 15-20%?* While SEK has adjusted we believe Swedish rates have yet to adjust to the weaker housing market in Sweden.
- In the **euro area the PMI figures for November** are due for release. Manufacturing PMI rose steadily throughout 2017 and reached 58.5 in October from 58.1 in September. It is now strikingly close to the 59.0 post-crisis peak reached in February 2011. While survey expectations indicators point towards further increases with rising consumer confidence and high Ifo and ZEW expectations, we expect only a moderate increase as the euro appreciation in 2017 could have started to act as a drag on export orders. Thus, we expect manufacturing PMI to increase to 58.7 and service PMI to increase to 55.2.
- The **ECB minutes** from the October meeting are also due for release today. At the October meeting, the ECB extended its QE programme for another nine months in 2018 but scaled down the monthly purchases to EUR30bn (see also *ECB Review: ECB opts for 'lower-for-longer' QE extension*, 26 October). In the minutes, focus will be on the Governing Council's discussions regarding whether to put a definite end date to the QE programme, which might give insights regarding the likelihood of a possible tapering starting in Q4 18.
- In addition, **German revised Q3 GDP** are due for release today.
- In **Norway the Q4 oil investment survey** could turn out to be the week's most important release (see next page).

## Selected market news

**US bond markets rallied strongly** last night following dovish minutes from the latest FOMC meeting. The USD also weakened pushing EUR/USD above 1.18 again. The minutes revealed that the Fed is on track to deliver the third hike this year at its meeting next month. However, **the minutes were a bit dovish in the sense that "several" FOMC participants are becoming increasingly concerned about inflation running below 2% target**, which, in our view, is a dovish signal that the Fed might not hike as much as they indicate themselves (3 hikes). We stick to our view that the Fed is going to deliver two hikes next year although uncertainty is high given that we get a completely new FOMC next year with new Chair and new members. The FOMC members contribute the lower-than-expected inflation to a flatter Phillips curve, more slack left in the labour market and possibly also lower inflation expectations (we have argued for the latter for a while).

**In China the crackdown on shadow banking and renewed deleveraging push continues to hit the bond market**. Corporate bond yields (AAA) yesterday rose to the highest level in three years and is now up more than 200bp since late 2016, see *Bloomberg*. The fight on financial risks is positive in the long run but poses short term downside risk to Chinese growth, see *Flash Comment: China takes more steps to fight financial risks*, 20 November 2017.

**Euro consumer confidence (released yesterday afternoon) rose to the highest level since 2000** pointing to continued strong private consumption growth.

**Selected readings from Danske Bank**

- *Research: What if Swedish Housing Prices Drop 15-20%?*

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## Scandi markets

In Norway, the Q4 oil investment survey will be published this morning. The Q4 survey is particularly important because it includes a more credible estimate of exploration activity in the coming year. We know that development plans have been submitted for a number of major projects starting up next year, which will now be included in the survey. We therefore anticipate a substantial upward revision of the estimate for 2018. Either way, we expect the survey to attract slightly less attention than it has over the past three years. This is due to a combination of higher oil prices and lower production costs, which means that the downside risk to investment is now greatly reduced. On the other hand, it is probably too early to speculate about surprises to the upside – that would probably require prices to be higher than they are now for some time.

## Fixed income markets

The FOMC minutes released last night revealed that the Fed is on track to deliver the third hike this year at its meeting next month, in line with both consensus and market pricing (95%). However, the minutes were a bit dovish in the sense that "several" FOMC participants are becoming increasingly concerned about inflation running below the 2% target and we saw a rally in US treasuries in the aftermath where especially the monetary policy-sensitive 5-year belly of the curve performed. The US market is closed for Thanksgiving today.

Periphery bond markets had another good day yesterday as investors continue to look for carry, as supply is absent this week and finally the political development in Germany is seen as removing the 'risk' of a harder stance towards indebted countries.

Today will be another busy auction day in the Danish covered bond market. RD, Nykredit, Nordea Kredit, BRF and DLR are in the market selling DKK 17bn in DKK denominated non-callable bullets and EUR 212m in EUR denominated non-callable bullets. In addition, Nykredit will sell 5Y (DKK 1.1bn) and 10Y (DKK 12.1bn) capped floater bonds and Nordea Kredit will sell EUR 180m in a 3Y 3M EURIBOR floater bond. Yesterday was a busy day with a total auction amount in non-callable bullets of DKK 33.7bn. The spreads widened by 1-3bp (3bp in the 5Y segment). We still recommend 4-5Y non-callable bullets outright or as alternatives to DGBs. For more information on the refinancing auctions, see *presentation on the November auctions*, 16 November 2017 and *auction overview*, 21November 2017.

## FX markets

EUR/USD jumped above 1.18 again last night after the dovish FOMC minutes, but we still think the 1.1880 support level will hold near term and do not expect ECB minutes today to lead to a break: Did the Governing Council discuss putting a definite end date on QE at the October meeting? If yes, then that could lift the euro but we rather think not, which – alongside of continued political uncertainty in Germany – should put EUR/USD under pressure again near term.

The dovish FOMC minutes added to recent day's downside pressure on USD/JPY and the cross fell sharply to around 111.20 last night driven by lower 10Y US yields once the key support area around 111.65 was broken. While part of the sell-off in USD/JPY yesterday might be due to risk reducing ahead of US holidays, we still see risks skewed to the downside in the short term as speculative accounts are very short JPY. Moreover, we stress that further flattening pressure on the US yield curve potentially could be a game changer for the JPY and thus represents a rising risk to our bullish USD/JPY forecast. Technically, a clean break of 111.20 would send the cross into rather unchartered territory with 110 as the next likely key support level.

A fairly quiet NOK session with some foreign interest in selling NOK/SEK contributing to a somewhat higher EUR/NOK, lower EUR/SEK. Today brings SSB's quarterly oil investment survey, which is likely to show a rebound in the 2018 planned investments as new projects are included. Meanwhile, this should be widely expected as even the SSB has been pointing this out. Generally, we emphasize that the oil investment survey is no longer one of the most important data releases out of Norway as cost cutting on the continental shelf has made it difficult to disentangle real changes from the nominal figures.

In *Research: What if Swedish Housing Prices Drop 15-20%?*, 22 November 2017 we argue that in a stressed scenario, SEK can weaken further and EUR/SEK stay above 10 even in 12M. In our main scenario, we see EUR/SEK above 10.00 in the next few months, with risk to our 1-3M target at 10.10 being on the upside as we see substantial room for repricing of the Riksbank. In the base case, we have pencilled in a slight rebound in the SEK over 12M (due to SEK undervaluation) – but upside risks to our 12M forecast of 9.70.

**Key figures and events**

| Thursday, November 23, 2017 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| 8:00 | DEM | GDP, final | q/q\|y/y | 3rd quarter | | *0.8%\|2.8%* | 0.8%\|2.8% |
| 8:00 | NOK | Oil investment survey | | 4th quarter | | | |
| 8:45 | FRF | Business confidence | Index | Nov | | *109..0* | 109.0 |
| 9:00 | FRF | PMI manufacturing, preliminary | Index | Nov | | *55.9* | 56.1 |
| 9:00 | FRF | PMI services, preliminary | Index | Nov | | *57.0* | 57.3 |
| 9:30 | DEM | PMI manufacturing, preliminary | Index | Nov | | *60.4* | 60.6 |
| 9:30 | DEM | PMI services, preliminary | Index | Nov | | *55.0* | 54.7 |
| 10:00 | EUR | PMI manufacturing, preliminary | Index | Nov | **58.7** | *58.2* | 58.5 |
| 10:00 | EUR | PMI composite, preliminary | Index | Nov | | *55.9* | 56.0 |
| 10:00 | EUR | PMI services, preliminary | Index | Nov | **55.2** | *55.2* | 55.0 |
| 10:30 | GBP | GDP, 2nd estimate | q/q\|y/y | 3rd quarter | | *0.4%\|1.5%* | 0.4%\|1.5% |
| 10:30 | GBP | Index of services | m/m\|3m/3m | Sep | | *0.2%\|0.4%* | 0.002\|0.004 |
| 13:30 | EUR | ECB account of the October monetary policy meeting | | | | | |
| 14:30 | CAD | Retail sales | m/m | Sep | | | -0.3% |
| 19:15 | EUR | ECB's Coeure speaks in Paris | | | | | |

*Source: Bloomberg, Danske Bank*

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### Expected updates

Each working day.

### Date of first publication

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