

Danske Daily

Market movers today

- There are no big market movers today and **markets this week will watch for comments from Fed members following the US employment report on Friday** that showed the highest wage growth since 2009 (see *Flash Comment US: Jobs report on the hawkish side for the Fed*, 6 January 2017). The Fed's Lockhart (non-voter, neutral) speaks tonight at 18.30CET and on Friday Fed chair Janet Yellen is due to speak. The market is pricing two rate hikes from the Fed this year in line with our own forecast, but the risk is increasingly skewed towards three hikes given the tightening labour market.
- The rest of the week is very quiet on the data front with China inflation (Tuesday) and US retail sales (Friday) being the main releases. In Scandinavia there are no releases today and the focus is on inflation data due in Sweden, Norway and Denmark during the week.
- In today's global releases we look for solid German industrial production on the back of strong factory orders recently. We expect the euro Sentix index to rise slightly and project the euro unemployment rate to be unchanged at 9.7% for November.

Selected market news

The US employment report added to the data underpinning the US reflation case with the labour market tightening further and wage growth continuing to strengthen. This comes on top of other releases last week pointing to reflation (see *Strategy: 2017 starts off where 2016 ended*, 6 January 2017). **The reflation case continues to support higher bond yields and equity markets.**

Over the weekend **Chinese FX reserves for December showed a further decline** of USD41bn to USD3.01trn. Outflows thus continued in China in December and this partly explains why the PBoC has taken further steps to limit outflows by forcing a stronger CNY in the early days of January using a sharp rise in offshore money market rates. There are **signs of stabilisation in the CNY and CNH markets** though. The overnight CNH money market rate came down to 14.05% from 61% on Friday.

US-China tensions strengthened further over the weekend when Taiwan president Tsai Ing-Wen stopped in Houston to meet senior Republicans on her way to a visit with allies in Latin America (see *Reuters*). While she refrained from meeting representatives from the incoming administration, it is still seen as a provocation from the Chinese point of view.

Further challenges on the geopolitical scene could come from North Korea this year. **North Korea declared on Sunday that it could test-launch an intercontinental ballistic missile at any time.** The US Defense Secretary said on Sunday that North Korea's nuclear capabilities and missile programme constituted a 'serious threat' and that it was prepared to shoot down a North Korean missile launch or test if it was seen to be threatening the US or its allies. With US-China relations deteriorating, China will likely be less willing to cooperate with the US in this area to contain the threat from North Korea.

UK Prime Minister Theresa May repeated in a televised interview over the weekend that immigration and border control are key areas in the Brexit negotiations with EU (see *Bloomberg*).

Selected readings from Danske Bank

- *Strategy: 2017 starts off where 2016 ended*
- *US: Jobs report on the hawkish side for Fed*

Follow us on *Twitter* :



@Danske_Research

Read more in Danske Bank's recent forecasts and publications

- *The Big Picture*
- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst

Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Scandi markets

There are no key movers in Scandinavia today.

Fixed income markets

It is peak season for new issuance and this week could potentially be even more packed than the first week of the year. According to the seasonal pattern {BE} Belgium is likely to be the next semi-core with a syndicated deal and as usual it is likely to be EUR5bn in a new 10Y. {PO} Portugal tends to be the first peripheral with a syndicated deal, while {SP} Spain is most often in the market with a new 10Y via syndication in the second or third week of the year. See '*Guide to Q1 issuance and thoughts on supply vs QE in 2017*' for details. The scheduled issuance this week is again biased towards the long-end with {NE} Netherlands in the 30Y on Tuesday, {AS} Austria in 10Y and 30Y on Tuesday, {GE} Germany launching a new Bund on Wednesday and {IT} Italy in the market on Thursday.

Issuance activity in covered, corporates and financial in week 1 has been substantially higher than in recent years. In fact the volume is already around where it normally is after the first two weeks. A large fraction of this issuance is typically swapped triggering receiving interest in swaps. This has also supported the move tighter in Bobl and Bund ASWs. The calendar is packed with political risks later this year, inducing issuers to frontload issuance. Higher QE purchases in Q1 vs Q2 also point in the same direction. The political risks on this side of the Atlantic will intensify as we approach March with the expected triggering of article 50 by the UK and the Dutch general election being the first major hurdles. Hence, issuers are likely to aim for a more frontloaded issuance strategy this year.

FX markets

The oil price is being supported by implementation of the deal between OPEC and non-OPEC members, colder winter weather and the halt in the upwards trend of the USD. This is supporting the NOK. In our view, the US jobs report released on Friday should be interpreted as slightly hawkish by the market as only the employment figure was softer than expected. All other indicators in the report were strong with last month's employment growth revised up and wage growth higher. A slightly stronger USD is the right market reaction in our view. We therefore expect the broad weakness we have seen in the USD after the FOMC minutes to end here. EUR/CZK FX forward points are falling again. Minutes from the Czech National Bank (CNB) December meeting showed that negative rates were discussed to smooth the exit from the EUR/CZK floor, triggering a sharp move lower in long-dated forwards. This seems, however, to be a minority opinion on the board and the risks to financial stability from such a move were stressed. We think we would have to see significant turmoil/inflows after the exit before the CNB would use negative rates. We expect EUR/CZK to continue trading closer to the floor of 27 and expect an exit in line with the CNB only in mid-2017.

EUR/GBP has increased substantially since the new year and this morning the cross broke above 0.86. While some of the move in the first couple of trading days this year seem to have been driven by the rebound in EUR/USD, price action during the last couple of trading days suggests increasing depreciation pressure on GBP. Yesterday, UK PM Theresa May, in her first television interview this year, indicated that the UK might opt to leave the single market to gain control of immigration. She also said that she will outline the government's Brexit plans within the coming weeks. In the near term, we will watch out for two important drivers for GBP: 1) the Supreme Court's ruling on whether the government or parliament can trigger article 50 – this is due any time soon and 2) presentation of the government's Brexit plans (most likely due after the Supreme Court ruling). We have argued for some time that the political uncertainty in GBP was

priced too low and we still expect EUR/GBP to rise as the market's attention turns back to the Brexit theme – this seems to be unfolding right now. We target EUR/GBP at 0.87 in 3M, but stress that risk is probably skewed to the upside relative to our forecast in the coming months.

Key figures and events

Monday, January 9, 2017

				Period	Danske Bank	Consensus	Previous
8:00	DEM	Industrial production	m/m y/y	Nov	1.0% ...	0.6% 1.9%	0.3% 1.2%
8:00	DEM	Trade balance	EUR bn	Nov		20.4	19.4
9:00	DKK	Trade balance ex ships	DKK bn	Nov			5.6
9:00	DKK	Exports	m/m	Nov			
9:00	DKK	Current account (nsa sa)	DKK bn	Nov			... 14.1
10:30	EUR	Sentix Investor Confidence	Index	Jan	13.0	13.0	10.0
11:00	EUR	Unemployment	%	Nov	9.7%	9.8%	9.8%
18:45	USD	Fed's Lockhart (non-voter, neutral) speaks					
21:00	USD	Consumer credit	USD bn	Nov		18.2	16.0

Source: Bloomberg, Danske Bank Markets

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank').

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.

The research reports of Danske Bank 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 a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

This report is updated on a daily basis.

Date of first publication

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

General disclaimer

This research has been prepared by Danske Bank Markets (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 in this research report.

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/S, 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.