

Danske Daily

Market movers today

- While it is a quiet day in terms of global market movers, there are some important data releases in the Scandis.
- **We expect the Danish CPI index rose 0.1% m/m in December (0.6% y/y)** against -0.1% m/m (0.4% y/y) in November. We think this was due mostly to higher energy prices.
- **In Norway, we expect CPI core inflation rose to 2.8% y/y in December**, pushed up by food prices, which fell slightly less in December 2016 than in December 2015. This is only marginally lower than the Norges Bank's projection from December and should therefore have a limited market impact.
- In Sweden, November production and orders data and the December budget balance are due today.
- **The US Senate will begin the confirmation hearings of Trump's cabinet today** beginning with Jeff Sessions (attorney general) and John Kelly (Homeland Security). Sessions's hearing will attract particular attention, as he could not pass a Senate confirmation hearing in 1986, after allegations that he had made racist comments (which he denied).

Selected market news

China PPI inflation rose to 5.5% y/y in December from 3.3% y/y in November and is now at its highest level since 2011 driven by higher commodity prices. It is only four months since PPI inflation was negative and China exported deflation to the rest of the world, but the higher (and positive) PPI inflation adds to the reflation theme that has been driving markets in the last couple of months. That said, metal prices suggest that PPI inflation may have peaked and may start to fall. CPI inflation was 2.1% y/y.

After Theresa May's TV appearance on Sunday, Brexit has moved back into the spotlight after some months with only little attention due to, among other things, the US election and the Italian referendum. In the interview, Theresa May hinted that the UK may leave the single market, as she repeated that controlling immigration and national sovereignty are higher on the government's priority list – a view supported by Britons as 46% agree that greater control over immigration is more important than access to free trade (39% against) - see also [Reuters](#). May's comments led to the biggest daily increase in EUR/GBP since October yesterday and EUR/GBP has moved even higher in the Asian session to 0.873, the lowest since early November. Yesterday, German Chancellor Merkel reiterated that the UK must accept all four freedoms, including free movement of people, if it wants (full) access to the single market, otherwise it would have 'fatal consequences' for the remaining 27 member states (see also [Bloomberg story](#)).

The oil market sold off yesterday with the price of Brent crude falling below USD55/bbl. The market has likely become concerned about potential lack of compliance with the OPEC/non-OPEC deal to cut output following comments from Kuwait that 60-70% of the cuts due to take place in January have been implemented.

Selected readings from Danske Bank

- [IMM Positioning Update: little change to FX positioning this week](#)

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Scandi markets

Danish CPI for December is due today. We expect growth of 0.1% m/m and 0.6% y/y against -0.1% m/m and 0.4% y/y in November. We expect energy prices to push up y/y CPI inflation. The increase in energy prices in December coupled with the fact that the December 2015 price decrease will slide out of the figures should alone add 0.2 percentage points. A positive contribution from rising book prices in November will on the other hand most likely disappear in the December figures. For HICP, we expect 0.1% m/m and 0.3% y/y against -0.1% m/m and 0.1% y/y in November

Norwegian CPI core inflation has fallen much further than expected over the past four months. After peaking at 3.7% y/y in July, it slowed to 2.6% in November. It is mainly imported inflation that has fallen unexpectedly so much: domestic inflation has been more or less as predicted, holding at just over 2.5% y/y. We therefore believe that the underlying picture has changed little, and that there has simply been a faster pass-through from the exchange rate to import prices than we anticipated. We estimate food prices fell slightly less in December 2016 than they did in December 2015, which should help push core inflation back up to 2.8% y/y. This is only marginally lower than Norges Bank's projection in the December monetary policy report, and should therefore have only a limited market impact.

Swedish markets will take a thorough look at Norwegian and Danish December inflation today, primarily to get an idea about how foreign air fares and charter package prices have turned out. November production and orders data is probably mostly a market mover for the SEK; fixed income markets tend to ignore it. However, the December budget balance may be more interesting for rates. Over the past two months the outcome has only shown a small accumulated deviation from Debt Offices forecasts. Hence, the SEK80bn surplus forecast for 2016 may well be reached.

Fixed income markets

In Europe, the issuance pipeline for corporates, covereds and financials continued to build on Monday and should peak in the coming days as the earnings season and black-out periods commence next week.

In the sovereign space, Belgium is a likely candidate to be the next to announce a syndicated deal and as usual it is likely to be EUR5bn in a new 10Y. Portugal tends to be the first peripheral with a syndicated deal, while Spain is most often in the market with a new 10Y via syndication. Both are good candidates for issuance this week. See '*Guide to Q1 issuance and thoughts on supply vs QE in 2017*' for details.

FX markets

EUR/GBP continued to rise yesterday as markets focused again on the Brexit theme. The cross has now reached our 3M target of 0.87 and we are currently reviewing our forecast. We see potential for further GBP weakness in the coming months as the triggering of article 50, which is expected by the end of March, moves closer. As such, EUR/GBP once again touching 0.90 should not be ruled out if markets price in a hard Brexit scenario, where the UK no longer has access to the single market, as PM Theresa May on Sunday hinted might be a possibility. We are still short **GBP/SEK** as one of our FX top trades for 2017, but given our constructive short-term view on USD, we would also consider selling GBP/USD if the cross bounces back to the 1.2350 area. In the near term, the Supreme Court's ruling regarding whether it is the government or parliament that can trigger article 50, which is due any time soon, will be a very important driver for GBP. Needless to say, if the government wins the appeal, the market is likely to price in a higher probability of a hard Brexit and thus drive further GBP weakness.

EUR/NOK rose back above the 9.00 level as the oil market sold off. The price of Brent fell to USD55/bbl probably on comments from Kuwait that 60-70% of the announced output cuts in the recent OPEC/non-OPEC deal have been implemented. The oil market is likely concerned about the lack of compliance with the deal, which is weighing on oil-sensitive currencies. That said, we remain bearish on EUR/NOK on the back of valuation, economic growth and real rates. If we are right in our forecast, the Norwegian inflation figure released today should have limited market impact. **EUR/USD** moved slightly higher yesterday as risk sentiment was mixed. In our view, EUR/USD is range bound near-term in the 1.0350-1.0650 range and we look for momentum to turn EUR/USD bearish. The market today may position for a stronger USD ahead of President-elect Donald Trump's speech tomorrow as comment on a potential homeland investment act or protectionist policies should be USD positive.

Key figures and events

Tuesday, January 10, 2017

				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Dec		11.4%	11.4%
-	CNY	Aggregate financing	CNY bn	Dec		1300	1736.6
2:30	CNY	PPI	y/y	Dec		4.6%	3.3%
2:30	CNY	CPI	y/y	Dec		2.2%	2.3%
6:00	JPY	Consumer confidence	Index	Dec			40.9
7:45	CHF	Unemployment	%	Dec		3.3%	3.3%
8:00	NOK	CPI	m/m y/y	Dec	-0.2% 3.8%	... 3.8%	0.2% 3.5%
8:00	NOK	PPI	m/m y/y	Dec			2.5% -2.6%
8:00	NOK	Core inflation(CPI-ATE)	m/m y/y	Dec	-0.1% 2.8%	... 2.8%	-0.1% 2.6%
8:45	FRF	Industrial production	m/m y/y	Nov		0.5% -0.4%	-0.2% -1.8%
9:00	DKK	CPI	m/m y/y	Dec	0.1% 0.6%	0.2% 0.7%	-0.1% 0.4%
9:30	SEK	Industrial production s.a.	m/m y/y	Nov		1.5% 0.0%	-1.3% -0.5%
9:30	SEK	Service production	m/m y/y	Nov		0.5% 4.2%	0.2% 3.8%
9:30	SEK	Industrial orders	m/m y/y	Nov			1.9% 6.0%
9:30	SEK	Budget balance	SEK bn	Dec			34.1
12:00	USD	NFIB small business optimism	Index	Dec		99.5	98.4

Source: Bloomberg, Danske Bank Markets

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