11 January 2017

# Danske Daily

## Market movers today

- We have another quiet day today in terms of data releases. **The single most important event is President-elect Donald Trump's press conference in New York City**, which is expected to be held at 17:00 CET (we have not been able to confirm this). Hopefully, we will get more details on what to expect from the new Trump administration, although we do not know exactly what he is going to talk about. We will listen carefully for any comments on fiscal policy, trade policy, the Homeland Investment Act 2 and border adjustment taxes.
- The main event in the European markets today, given very little economic data, will be the **Italian constitutional court's ruling on the labour market reforms** implemented by the old PM Matteo Renzi – see also the Fixed Income section on the next page.
- In terms of data releases, focus is on the UK, as industrial production and construction output data for November as well as the NIESR GDP estimate for Q4 are due out. UK PMIs have risen in recent months in line with global PMIs, suggesting that the UK economy continues to be resilient to Brexit uncertainties. It is still our view that growth will slow this year due to Brexit uncertainties and higher inflation, for more see *here*.

## Selected market news

**In the US yesterday, the NFIB small business optimism index rose 7.4 index points (the most since 1980) to 105.8, which is the highest level in 12 years.** Since October before the election, the optimism index has risen close to 11 index points, so the increase is quite significant. Looking at the subcomponents, small businesses expect higher sales, more investments and higher employment. The reason behind the large increase is the Trump victory, as many small businesses expect Trump to loosen regulation and lower taxes significantly – it did not take long before *Trump noted the surge on Twitter*. The higher optimism among small businesses comes on the back of a jump in consumer confidence, which is at the highest level since August 2001, so **both consumers and companies are excited by the upcoming Trump presidency**. We still do not know much about how President-elect Donald Trump will act as President, but we see a risk that corporates and consumers may be disappointed, as his actual policy is likely to be more modest than suggested during the election campaign.

**Intel chiefs have presented President-elect Trump with claims of Russian efforts to compromise him.** According to sources, the Russians should be in possession of compromising personal and financial information about Trump, see also the *CNN story*. Donald Trump has called it 'fake news' on *Twitter*.

Oil prices continue to fall yesterday and went below USD54/bl. Along with the lower-than-expected Norwegian inflation figures, the decline in the oil price pushed **EUR/NOK** up to 9.08 – the highest level since the beginning of the year. In our view, Norges Bank will not be too concerned with the decline in inflation and thus it does not change our view that EUR/NOK should head back below the 9.00 level in the short term as NOK remains supported by valuation, economic growth and real rates.

### Selected readings from Danske Bank

- *Sweden Economic Comment: December inflation boosted by travel*

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

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## Scandi markets

**Danish** industrial production figures for November are due for release at 9:00 CET.

No market movers in Norway and Sweden today.

## Fixed income markets

The main event in the European markets today, given very little economic data, will be the Italian constitutional court ruling on the labour market reforms implemented by the old PM Matteo Renzi. If the constitutional court decides that a referendum on the Jobs Act is admissible then it will again show how difficult it is to implement significant reforms in Italy. Furthermore, it may also increase the possibility of an election in 2017. In addition, the constitutional court will also have a hearing later in January regarding the electoral reform, which underlines the political risks in Italy, and thus there should still be a decent premium on BTPS relative to e.g. Spanish government bonds.

Today, we also have the introduction of a new Bund from **Germany** as well as a new 10Y benchmark from **Portugal**. The announcement sent 10Y Portuguese government bond yields above 4% again and given the combination of both a new issue premium and the slope of the curve, we are looking at a yield of some 4.25% to 4.3% on the new 10Y PGB.

Yesterday, we got lower-than-expected inflation data out of **Norway,** as the core measure came out at 2.6% – well below the 2.9% December forecast by Norges Bank. Furthermore, it is important that the lower prices were not due to lower import prices but, among other things, lower food prices. Hence, the impact of the stronger NOK over the last quarter has not yet fed into import prices. We are long the 6Y segment of the NGB curve in our Fixed Income Top trades and after (1) the latest set of inflation data, (2) the signs that the NOK is resilient to negative news and (3) lower Nibor fixings, we see renewed value in this trade or alternatively in receiving NOK IRS like 2Y2Y outright or versus EUR.

The **Danish** Debt Management Office (DMO) will tap the usual 2Y and 10Y benchmarks today. This will most likely be the last tap in the current 10Y benchmark bond DGB 2025 for quite a while. The DMO will introduce a new 10Y benchmark bond (2027) on 25 January, and most long-end issuance will be focused on this new bond going forward. This might attract some extra interest as some might be hoping for a 'closing or buy-back premium' though such premiums were barely seen in the DGB '23 when DGB '25 was opened in 2014. See *Strategy: First Danish government bond auction in 2017*, 11 January 2017.

## FX markets

The downward pressure on **oil prices** continued yesterday with the price on Brent crude falling below USD54/bbl, as the oil market is becoming increasingly concerned about the lack of compliance to OPEC, non-OPEC, with only about two-thirds of the planned output cut implemented so far. The oil market will take notice of the US crude inventory data released today and the decline in OPEC, non-OPEC output has led to a draw on stocks.

Along with the lower-than-expected Norwegian inflation figures, the decline in the oil price pushed **EUR/NOK** up to 9.08 – the highest level since the beginning of the year. In our view, Norges Bank will not be too concerned with the decline in inflation and thus it does not change our view that EUR/NOK should head back below the 9.00 level in the short term as NOK remains supported by valuation, economic growth and real rates. Hence, yesterday, we took advantage of the increase in the spot and decline in implied volatility and closed the short-dated bought put, which was part of our EUR/NOK FX Top Trade for 2017 where we recommended positioning for a lower EUR/NOK by buying a 6M 8.8000-9.2500 put spread financed by selling a 2M 9.1000 straddle. We decided to close this part of the trade because we think implied volatility looks cheap, and because we still expect EUR/NOK to break lower. We remain positioned for a lower EUR/NOK by leaving open both our bought put spread (expiry 31 May 2017) and sold call (expiry 31 January 2017), and we are also short EUR/NOK via 12M FX forward in Danske Bank's Trading Portfolio.

EUR/GBP appears to be around the 0.8670 level after temporarily breaking above 0.8750 yesterday. As such, we see potential for further GBP weakness in coming months as the triggering of the article 50, which is expected by the end of March, moves closer. However, the cross looks increasingly oversold both technically and according to our short-term financial models, which implies a near-term fair value of 0.8413 versus the spot at 0.87, suggesting that momentum is likely to slow down in the short 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, and 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.

President-elect Donald Trump is due to speak today. While we do not think it will necessarily have a significant impact on the **USD,** there is still lingering uncertainty about his plans on, for example, a homeland investment act, trade policies and infrastructure spending. Hence, FX and commodity markets will be on the lookout for hints on these elements to assess whether the rally in USD and commodity prices since the election is justified.

In **Poland**, the National Bank will make its rate announcement. We do not expect any rate change, but focus will be on the subsequent press conference and how much emphasis the monetary policy committee members put on the recent rise in both headline and core inflation. We expect that it is too early for the members to sound the alarm and point to the need for a rate rise; hence, the impact on the PLN should be modest. However, there is downside risk for the EUR/PLN if the governor opens a small door for a rate rise later this year.

The New Year has not brought any relief for the **TRY**, which continues to weaken to record low levels against the USD, touching 3.79 already. While President Erdogan continues to tighten his grip domestically, arresting the local media's top executives and accelerating inflation is putting pressure on the economy, and markets are fearing that Turkey could lose its last investment grade status from Fitch on 27 January. If Fitch joins the other two rating agencies, it will add pressure on the banking sector and the TRY further. The central bank is avoiding sudden movements in order to keep the government and business community happy, while a 50-100bp hike on 24 January would not come as a big surprise, in a bid to stop TRY's depreciation. The central bank remains inert and it seems to be a decision in order to not irritate the government. The decision to cut FX reserve requirements for local banks by 50bp did not help the TRY at the end of the trading day. Our current USD/TRY forecast 12M at 3.95 is starting to look TRY optimistic already. We will publish our new USD/TRY forecast soon in our FX Forecast Update.

**Key figures and events**

| Wednesday, January 11, 2017 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | USD | President-elect Donald Trump to speak in New York City (possible 17:00 CET) | | | | | |
| - | PLN | Polish central bank rate decision | % | | **1.5%** | *1.5%* | 1.5% |
| 6:00 | JPY | Leading economic index, preliminary | Index | Nov | | *102.6* | 100.8 |
| 9:00 | DKK | Industrial production | m/m | Nov | | | 3.6% |
| 10:30 | GBP | Construction output | m/m\|y/y | Nov | | *0.3%\|2.0%* | -0.6%\|0.7% |
| 10:30 | GBP | Industrial production | m/m\|y/y | Nov | | *0.8%\|0.5%* | -1.3%\|-1.1% |
| 10:30 | GBP | Manufacturing production | m/m\|y/y | Nov | | *0.5%\|0.4%* | -0.9%\|-0.4% |
| 10:30 | GBP | Trade balance | GBP mio. | Nov | | *-3550* | -1971 |
| 16:00 | GBP | NIESR GDP estimate | q/q | Dec | | *0.5%* | 0.4% |
| 16:30 | USD | DOE U.S. crude oil inventories | K | | | | |

*Source: Bloomberg, Danske Bank Markets*

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