

Danske Daily

Market movers today

- In **Europe**, final PMIs and euro area unemployment rate for August are due out. We estimate the unemployment rate declined from 9.1% to 9.0%. Despite the decline, there is still some slack, which together with low inflation expectations and slow productivity growth is weighing down on wage growth. See *Euro area wage growth should stay subdued, not supporting core inflation significantly*, 5 May 2017.
- In the **US**, the main release is the ISM manufacturing index for September. Given that regional PMIs have increased, there is also room for ISM manufacturing to increase to around 60 despite PMI manufacturing being stable at a much lower level in September. This big gap between PMI manufacturing and ISM manufacturing is still puzzling and we think the truth is likely somewhere in the middle, but note markets tend to focus more on ISM.
- In the **UK**, the Conservative Party conference began yesterday and ends on Wednesday. The Conservative Party remains hugely divided on Brexit and PM Theresa May's position has been clearly weakened since the general election in June. May is expected to deliver a speech on Brexit and reiterate that the UK will leave the single market and the customs union.
- In the **Scandies**, focus turns to PMI manufacturing releases in **Sweden** and **Norway**.

Selected market news

In Spain, a constitutionally declared illegal **vote on Catalan independence** took place on Sunday. Catalan authorities reported several injuries from clashes with police forces. Given the legal status of the 'leave' result and lack of external support, the markets seem to expect calmer days going forward even with the EUR weakening slightly. For more details see e.g. *Reuters*.

On Friday, **US PCE core inflation** disappointed market expectations by printing a yearly rate of 1.3% (down from 1.4%). Headline PCE also fell short of expectations, which overall leaves the PCE contradicting the strong CPI reading in August. However, given the Fed's focus on a tight labour market, we do not think it will change the Fed's view on monetary policy for now.

Having said this, future **Fed monetary policy** will depend on who President Trump's nominates as board members (it is said he will pick two nominees). On Friday, several news agencies ran stories that Trump had met with possible candidates for the job as Fed Chair. According to *Bloomberg*, Trump has so far met with current Fed Chair Janet Yellen, National Economic Council Director Gary Cohn, Fed Governor Jerome Powell and former Fed Governor Kevin Warsh. According to Trump, a decision will be made 'over the next two or three weeks'.

In Sweden, the **Riksbank** has extended current governor Stefan Ingves' mandate by five years. Also, First Deputy Governor Kerstin af Jocknick's mandate was extended by six years. Both decisions were unanimous by the General Council. Much speculation had preceded the announcement, which is why EUR/SEK rose on the announcement.

Over the weekend in **China**, the Caixin and the official manufacturing PMI painted slightly different outlooks for the manufacturing sector. While the former suggested a slightly slower acceleration pace (still above 50) by dropping to 51.0 (from 51.6) the latter rose to 52.4 (from 51.7). Going forward we project a slowdown in the Chinese economy on the back of a tightening in financial conditions, a cooling housing market and infrastructure spending slowing. Importantly, we do not expect a hard landing, as we pencil in solid external demand (exports) and fairly low housing inventories to cushion the slowdown.

Selected readings from Danske Bank

- *Emerging Market Briefer: - at a crossroads - mind the risks.*
- *Flash Comment US - Still a long way to go for tax reform*

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Scandi markets

In **Norway**, coming up is the September manufacturing PMI, where markets expect a further rise thanks to stronger global growth, a weak NOK and a gradual turnaround in oil-related industries. Meanwhile in **Sweden**, there are signs that activity in manufacturing is slowing as seen in declining PMI manufacturing and a slower order intake. A further decline today would really start suggesting this sector is weakening.

Fixed income markets

The 'referendum' in **Catalonia** yesterday did not pass by without confrontation as the Spanish civil guard was tasked to prevent people from voting and voting material was confiscated. While the 'referendum' has no legal consequences, as it has been deemed illegal by Spanish Prime Minister Mariano Rajoy, it highlights the rift between Barcelona and Madrid.

In the Euro area note that due to the **balance sheet reporting** schedule of the National Central Banks, the QE data for September will be released one day later than usual and will therefore be published tomorrow.

EGB supply will be picking up again this week with Germany to tap EUR 3bn billion in the 10y on Tuesday. The French Trésor will be in the market Wednesday with taps in the Nov-25s and May-28s. So will the Spanish Tesoro who is introducing a new 5Y benchmark (0.45% Oct-22s) while tapping the Jan-29s and the Nov-24 Linker. See more in *Government Bonds Weekly: Waiting for a better entry level to go long Spain*, 29 September 2017.

In terms of **Scandi supply**, Sweden will tap the SGB 1.0% Nov-26s and 2.25% Jun-32s, while Denmark is most likely to tap the usual 3Y and 10Y bonds on Wednesday.

FX markets

The aftermath of the Catalonian independence referendum is a downside risk for **EUR** crosses at the start of the week and could keep alive worries that eurozone political risks have not evaporated entirely after all. If the US ISM comes in strong today, we could see we see EUR/USD re-test last week's lows. Notably, the weekly *IMM positioning* data showed that new speculative longs in the cross were added in the week to last Tuesday, which suggests that risks remain on the downside. That said, we would still like to buy the cross on dips below 1.17 as we believe the ECB – notably both Peter Praet and Benoît Cœuré, due to speak this week alongside the release of minutes – will confirm that the ECB will announce a scale down in asset purchases in October and thus that policy 'normalisation' is slowly moving to top of the ECB policy agenda.

The Fed's Janet Yellen is speaking later this week (Wednesday) and will most likely confirm a December hike, but this should provide only limited **USD** support as pricing has been significantly upped in recent weeks. More important for USD may instead be whether Trump has gotten closer to a decision on the name of the next Fed Chair. Both Powell (a Yellen ally) and Warsh (a hawk in relative terms) had reportedly met with Trump regrading this issue recently and the President said on Friday that a decision would be made within two to three weeks. Election risk premium has increased as the opposition parties' new joint coalition gains momentum and 3W implied USD/JPY volatility, which now includes the Election Day on 22 October, spiked 1.5pp this morning. According to a poll from Kyodo News released over the weekend, 45.9% of respondents said Shinzo Abe was suitable to remain as Japanese Prime Minister, while 33% preferred Tokyo Governor Yuriko Koike. Election uncertainty has not yet affected the USD/JPY spot. However, we still see risks skewed to the downside for the spot and we see value in buying a 3W USD/JPY put option to position for a move lower in the spot and a further increase in implied volatility.

EUR/GBP is likely to test the high end of 0.875-0.89 range near term as the Conservative party conference may expose PM May's weak position heading into the real Brexit negotiations.

In the Scandi sphere, the re-election of Stefan Ingves as Riksbank Governor over the next term led a spike in **EUR/SEK** on Friday, and is likely to have induced a level shift in the cross, which we expect to trade in a range around the 9.60 level near term.

We have for some time argued that risks were skewed to the upside for **EUR/NOK**. Friday brought little NOK help from a slightly higher oil price and decent NAV labour market report as the sour NOK sentiment got an additional boost from the disappointing retail sales release in the early morning. Overall, the latest price action seems to underpin our view on positioning as a NOK headwind. Fundamentally, we still want to play a higher EUR/NOK going into year-end but for now we prefer to await better entry levels. Specifically, we like to enter a bullish EUR/NOK seagull on spot dips towards 9.30.

Key figures and events

Monday, October 2, 2017

				Period	Danske Bank	Consensus	Previous
1:50	JPY	Tankan large manufacturers index (outlook)	Index	3rd quarter		18.0	17.0 15.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	3rd quarter		24.0	23.0 18.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Sep			52.6
8:30	SEK	PMI manufacturing	Index	Sep		56.0	54.7
9:00	NOK	PMI manufacturing	Index	Sep		56.3	55.7
9:15	ESP	PMI manufacturing	Index	Sep			52.4
9:45	ITL	PMI manufacturing	Index	Sep		56.9	56.3
9:50	FRF	PMI manufacturing, final	Index	Sep			56.0
9:55	DEM	PMI manufacturing, final	Index	Sep		60.6	60.6
10:00	EUR	PMI manufacturing, final	Index	Sep		58.2	58.2
10:30	GBP	PMI manufacturing	Index	Sep	58.0	56.2	56.9
11:00	EUR	Unemployment	%	Aug	9.0%	9.0%	9.1%
15:30	CAD	RBC manufacturing PMI	Index	Sep			54.6
15:45	USD	Markit PMI manufacturing, final	Index	Sep			53.0
16:00	USD	Construction spending	m/m	Aug		0.4%	-0.6%
16:00	USD	ISM manufacturing	Index	Sep	60.0	57.5	58.8
20:00	USD	Fed's Kaplan (voter, dovish) speaks					

Source: Bloomberg, Danske Bank

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