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Danske Daily

Market movers today

- In **Germany,** industrial production is set to show a decent increase for October after a drop in September. A rise in factory orders yesterday continued to point to a robust recovery, as does a high level of German manufacturing confidence.
- Headlines regarding **German politics** could come back into focus, as the three-day SPD party conference kicks off today, where SPD members will decide whether to enter renewed coalition negotiations for a 'grand coalition' with Angela Merkel's CDU party.
- **US** initial jobless claims is the last piece of input on the US job market ahead of the payrolls report tomorrow. Initial claims have hovered around 240k recently, pointing to a strong labour market (see our *US Labour Market Monitor: Expect strong November report*, 5 December).
- In the late afternoon, **ECB** President Mario Draghi will participate in a press conference by the Bank for International Settlement in his role as Chair of the Group of Governors and Heads of Supervision, but this is unlikely to provide material news ahead of the ECB meeting next week.
- Some interesting **Scandi** data is due today. Norway is due to release manufacturing production and in Sweden, household consumption and not least average house prices will be followed closely to gauge the temperature of the Swedish housing market (see page two for more).

Selected market news

Asian shares hovered near two-month lows this morning as softer oil and copper prices and uncertainty over US foreign policy, following Trump's announcement to recognise Jerusalem as Israel's capital, kept many investors on the sidelines. **Oil** prices are trading near two-week lows after a big fall on Wednesday, when a sharp rise in US inventories suggested demand may be flagging, while US crude production hit another weekly record. **Eonia** remains elevated past the Greek bond swap on Tuesday and the ECB's weekly MRO allotment yesterday and hence the higher fixings can no longer be deemed temporary.

Markets are also still focused on the **US** tax reform and a potential US government shutdown, although we deem the latter unlikely. It now looks increasingly likely that the corporate tax rate will end up at 22% and not 20%, supporting our view that the final tax bill will be a watered down version of what is already on the table, as Republicans struggle to find a common ground on tax revenue raisers in order to finance tax cuts. Yesterday, the Senate also voted in favour of going to conference and Republicans still hope to send a bill to Trump's desk before year-end, although that is still ambitious in our view. Nevertheless, **EUR/USD** broke below 1.18 yesterday, also helped by growing US tax-reform optimism.

Regarding **Brexit**, PM Theresa May is still under siege from her own party and the Northern Irish DUP to forge a deal on the Irish border issue. May is said to submit another proposal to Ireland within 24 hours, while the EU has indicated willingness to be flexible on the Brexit deadline ahead of the key summit next week.

Selected readings from Danske Bank

- *FX Top Trades 2018*
- *FI Top Trades 2018*
- *The Big Picture: Global economy still on a roll*
- *US Labour Market Monitor: Expect strong November report*
- *Euro Area Research: ECB inflation gap persists in 2019*

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Scandi markets

In **Sweden**, we expect October household consumption data to show some moderation given the weak retail sales number released already. Statistics Sweden is also due to release single-dwelling house prices for November and a decline seems likely given the information we have already. See more on the Swedish housing market in *What if Swedish Housing Prices Drop 15-20%?: The housing market poses a risk to Swedish growth and the inflation outlook -The krona is feeling the pain but rates market yet to adjust*, 22 November 2017.

Fixed income markets

As **Eonia** remains elevated past the Greek bond swap (which took place on Tuesday) and the ECB's weekly MRO allotment yesterday, the higher fixings can no longer be deemed temporary. While the fixing has grinded lower since the peak at month-end, its remains 3bp above the 'normal' level. So far, the spill over to Euribor fixings has been limited with both the 3M and 6M increasing by 0.3bp since the first 'elevated' Eonia was published. However, if this is the new level for Eonia it could have a further spill over effect on Euribor.

Following a weak Bund auction yesterday there will be plenty of **EUR FI supply** coming to the market today. The French Trésor will tap the Nov-26, Apr-29, and Jun-39 while the Spanish Tesoro is tapping the Oct-22, Oct-27, Jul-47 and Nov-21 Linker.

FX markets

EUR/USD CCS widened significantly yesterday as the cost of hedging USD over the turn of the year spiked. There was no apparent trigger behind the move, e.g. USD liquidity is relatively easy compared to last year ahead of the expiry of the debt ceiling suspension on Friday. In our view, the driving force is more likely year-end balance sheet constraints, i.e. the leverage ratio, liquidity coverage ratio and payments to the resolution fund in Europe. The wider EUR/USD CCS has together with growing US tax-reform optimism also weighed on the EUR/USD spot with the cross breaking below 1.18.

In the **Scandies**, yesterday was a very volatile session as markets digested a range of Riksbank board comments. In short, we think markets over interpreted the comments and our general view remains that risk is to the upside for EUR/SEK. NOK saw general support in yesterday's session but erased some of its gains as the oil market sold off: the EIA inventory report came in line with the API report from Tuesday, showing a large decline in crude stocks of more than 5mb. That would normally be bullish for the oil market, but in our view the lower level of US stocks could spur concerns that OPEC+ will end cuts early; hence, the negative reaction. In terms of the NOK, we see several arguments for why the cross should move higher in the months to come, hence we recommend to sell EUR/NOK via options and buy the NOK/SEK spot outright. For more information see *FX Top Trades 2018 – How to position for the year ahead,* published yesterday.

GBP is likely to remain volatile and very sensitive to Brexit-related news ahead of the EU Summit next week. The market's expectations of further progress in negotiations have eased slightly, but the cross would still spike higher if EU leaders decide that there has not been sufficient progress made to proceed to the second face of negotiations. In case of positive surprises, EUR/GBP could decline and test the key support level at 0.8746. All in all, however, we still see the cross within the 0.8650-0.90 range in the coming months as it is still too early in the negotiations to reprice Brexit risks significantly. In particular, a reassurance that a cliff edge Brexit is avoided matters more for the GBP. Hence, longer term, the case for a lower EUR/GBP in 2018 remains intact as Brexit uncertainty clarifies and we are short EUR/GBP via options (1Y put spread) as one of our FX Top Trades for 2018.

Key figures and events

Thursday, December 7, 2017				Period	Danske Bank	*Consensus*	Previous
6:00	JPY	Leading economic index, preliminary	Index	Oct		*106.1*	106.4
7:45	CHF	Unemployment	%	Nov		*3.1%*	3.1%
8:00	DKK	Industrial production	m/m	Oct			-4.2%
8:00	NOK	Manufacturing production	m/m|y/y	Oct			2.6%|1.2%
8:00	NOK	Industrial production	m/m|y/y	Oct			-0.5%|12.3%
8:00	DEM	Industrial production	m/m|y/y	Oct		*1.0%|4.3%*	-1.6%|3.6%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Nov		*745.0*	741.5
9:30	SEK	Household consumption	m/m|y/y	Oct			0.6%|3.5%
9:30	SEK	Average house prices	SEK m	Nov			2.917
9:30	SEK	Budget balance	SEK bn	Nov			6.7
14:30	USD	Initial jobless claims	1000				238
17:00	EUR	ECB's Draghi speaks in Frankfurt					
21:00	USD	Consumer credit	USD bn	Oct		*16.8*	20.8

Source: Bloomberg, Danske Bank

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