

Danske Daily

Market movers today

- **Swedish** inflation is in focus today. We expect a new high in y/y terms (2.5% y/y for CPIF), though we expect the y/y rate to moderate in coming months. A relatively high print is probably expected at this point, and rates in the short end of Swedish curves have traded up in anticipation. In **Norway**, the budget for 2018 is revealed (see next page).
- On the global front, the **euro** area is due to release industrial production for August. Following a strong German print for August, we should expect a decent increase. If confirmed, it will point to another robust quarter for euro area growth.
- In the **US**, PPI and initial jobless claims are due for release. The Fed's Brainard (voter, dovish) and Powell (voter, neutral) are due to speak today.
- With respect to **Brexit**, the fifth negotiation round concludes today with a joint press conference. As the EU leaders at the EU summit later next week are likely to conclude there has not been 'sufficient progress' to begin discussing the future relationship, more negotiations are needed in November and early December.

Selected market news

In our view, there was nothing new of great importance in the FOMC minutes, as we already know the different positions among the FOMC members. This also explains why markets did not react to the minutes. It remains our base case that the Fed will hike in December, as the core voting FOMC members put more weight on labour market data than current inflation data, although we agree with the dovish camp that low inflation may not be temporary due to low inflation expectations. Also, there was no news on what level the Fed targets for its balance sheet, as the Fed is likely to want to keep its flexibility, adjusting the target along the way. 'Quantitative tightening' is new to the Fed, so it is unlikely to see any benefits from pre-committing. For more see *FOMC minutes: Core members still want to hike in December*, 11 October 2017.

Trump is set to meet with John Taylor (professor at Stanford University and the man behind the so-called "Taylor rule") later this week about the Fed chair, see *Bloomberg*, 11 October 2017. Taylor has indicated previously that he thinks the Fed funds rate is too low and that he wants a more rule-based approach to monetary policy. Trump has said previously that he will make an announcement on his nomination for Fed change in a couple of weeks.

President Trump has also said he will soon make an announcement on an Iranian deal. The US is pushing for condemning Iran but allies are pushing back and defending the nuclear deal, see *Washington Post*, 11 October 2017.

Yesterday in **Spain**, Prime Minister Mariano Rajoy gave Catalan leader Carles Puigdemont five days to clarify whether he has declared independence from Spain while threatening with article 155, which would suspend the authority of the Catalonian local government. Today is a national holiday in Spain and Rajoy is due to attend a military parade in Madrid alongside King Felipe VI.

Selected readings from Danske Bank

FOMC minutes: Core members still want to hike in December.

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Allan von Mehren on the Chinese Party Congress

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Scandi markets

In **Sweden**, spotlight is on the CPI figure for September. We expect a new high in y/y terms (2.5% y/y for CPI-F), though we expect the y/y rate to moderate in coming months. A relatively high print is probably expected at this point and the short end of Swedish curves have traded up in anticipation.

Norway. Today, the government is due to unveil its budget for 2018. Key figures, including the fiscal stimulus, are due to be published at 08:00, and the budget documents at 10:00 CEST. It is a long time since the budget has been significant news for the market but the growth contribution from fiscal policy will play a greater role in Norges Bank's rate setting as activity normalises. In its latest monetary policy report, the central bank presents an interest rate path based on a fiscal stimulus of just 0.1% of GDP in 2018, or around NOK3bn in constant money. If the budget is more expansionary than this and possibly even more so after the autumn budget negotiations, this would have a direct impact on the interest rate path for the first time in more than a decade.

Fixed income markets

Today, **Italy** will be in the market with a EUR6-7.5bn tap, which includes a new 3Y (Oct-20) plus the Nov-24 and the Mar-48. Supply will be biased towards the new 3Y where the auction amount is EUR3.5-4bn. Both Spain and Italy recovered further during yesterday's session, tightening 8bps and 5bps in the 10Y, respectively, versus Germany. Today is a national holiday in **Spain**, so expect subdued activity in SPGBs with domestics out. After this week's performance, Spain only lags a few bps in the 10Y, having reached the spread level from before the referendum when comparing against both Italy and Germany.

The **Swedish** swap curve has steepened further in anticipation of the print. 1Y1Y is now trading close to two-year highs suggesting that the market is expecting a high print and that the Riksbank will move on rates ahead of the ECB. We doubt that this will be the case.

FX markets

In the majors, **EUR/USD** continued higher yesterday during the European trading session without any news or data releases driving the cross. FX markets did not react much to the FOMC minutes released last night, which is fair in our view, as there was nothing new of great importance. We still see EUR/USD around current levels on a 1-3M horizon with risks skewed to the downside due to stretched long EUR/USD positioning and as we expect the Fed to hike in December, (market is pricing in a 74% probability of a December hike).

We expect **EUR/GBP** to remain within the 0.89-0.90 range ahead of next week's key data releases: September CPI figures and the labour market report. The fifth round of Brexit negotiations ends today and focus will be on whether there will be any progress. So far, there has been no indication of progress but any breakthrough in the negotiations would be moderately GBP positive.

In Sweden, CPI inflation is likely to be above 2% for the third consecutive month but we doubt it will have much effect on the Riksbank's reaction function at this stage. In our view, the Riksbank will remain happy to be 'behind the curve', i.e. mirror the ECB and hence we expect a muted **EUR/SEK** reaction if our call proves right. In terms of the inflationary outlook in Sweden, our CPI inflation forecast is above the Riksbank's almost every month until August next year. Such a series would be supportive to the Riksbank's plan to start raising rates sometime after next summer (or earlier). However, the exit plan will also be a function of the ECB (which is unlikely to hike until 2019) and market pricing where the Riksbank does not want to see unwarranted/premature tightening of financial conditions. As a result, we therefore still see EUR/SEK as a near-term range play.

In Norway, the fiscal budget release will shed light on a possible impact on Norges Bank's rate path as well as future **NOK** purchases in relation to the fiscal rule. In previous years, however,

the market impact has tended to be fairly small and this is also likely to be the case tomorrow. We still regard EUR/NOK as a 9.25-9.40 range play in the weeks to come but emphasise that the latest set of disappointing data releases out of Norway has supported our case for entering a bullish position going into year-end (see our [Tweet](#) with Macrobond Financial chart illustrating Norway data surprises).

EUR/DKK broke above the 7.4430 level yesterday. As noted yesterday, we see an easier DKK liquidity situation as the main driver for higher EUR/DKK and higher negative carry on short EUR/DKK in shorter-dated FX forwards as seen in recent weeks. We do not see this situation changing significantly in the short term.

Key figures and events

Thursday, October 12, 2017

				Period	Danske Bank	Consensus	Previous
-	NOK	Government publishes budget for 2018					
-	USD	Budget statement	USD bn	Sep		0	-107.7
1:01	GBP	RICS house price balance	Index	Sep		0.0	0.1
8:45	FRF	HICP, final	m/m/y/y	Sep		3.2%	-0.1% 1.1%
9:00	DKK	Gross unemployment s.a.	K (%)	Aug			121 (4.5%)
9:30	SEK	CPI	m/m/y/y	Sep	0.4% 2.4%	0.4% 2.4%	-0.2% 2.1%
9:30	SEK	Average house prices	SEK m	Sep			3.073
9:30	SEK	Underlying inflation CPIF	m/m/y/y	Sep	0.4% 2.5%	0.4% 2.5%	-0.1% 2.3%
11:00	EUR	Industrial production	m/m/y/y	Aug	0.6% ...	0.5% 2.6%	0.1% 3.2%
14:30	USD	Initial jobless claims	1000				260
14:30	USD	PPI	m/m/y/y	Sep		0.4% 2.6%	0.2% 2.4%
14:30	USD	PPI core	m/m/y/y	Sep		0.2% 2.1%	0.1% 2.0%
16:15	USD	Fed's Brainard (voter, dovish) speaks					
16:30	USD	Fed's Powell (voter, neutral) speaks					
17:00	USD	DOE U.S. crude oil inventories	K				-6023

Source: Bloomberg, Danske Bank

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