

Danske Daily

Market movers today

- Following the 'Central Bank Super Thursday' yesterday, we have a relatively light data calendar today.
- Focus remains also on the EU summit in Brussels, where the Brexit discussions are scheduled to take place today. Following Wednesday's defeat about a parliamentary vote on the final Brexit deal, PM Theresa May's position has weakened in the negotiations.
- In the US, industrial production for November and Empire manufacturing index for December are due to be released today.
- In Russia, we expect the central bank to cut its policy rate to 8.0% from 8.25%.
- In Denmark, Finance Denmark's housing market statistics for Q3 are due out.

Selected market news

The ECB left policy measures and forward guidance unchanged, while lifting its growth forecasts. As expected, the ECB reiterated that policy rates would remain at current or lower levels for an extended period and well beyond the horizon of asset purchases. Meanwhile, however, the forecast were lifted, particularly for 2018 (lifted to 2.3% from 1.8% in September). The inflation forecast was also lifted from 1.2% to 1.4% in 2018. Reflecting the stronger outlook, Mario Draghi stressed that the ECB is growing more confident in its ability to meet the inflation target eventually. We expect the ECB to taper APP purchases to zero in Q4 18 and deliver the first deposit rate hike in Q2 19. See *ECB review - Christmas mood leaves QE exit decisions for 2018*, 14 December, for more details.

EU backing for May after loss of Brexit vote. Yesterday, several EU leaders expressed support for the UK Prime Minister after she had lost a vote on Wednesday meaning that the UK parliament will have a vote on the final Brexit deal. However, at the EU summit, there were warnings to UK MPs that the EU would not have the time nor will to renegotiate a Brexit deal.

In terms of economic data, the strong US retail sales took focus yesterday. Sales were up by 0.8% in November, well above expectations for a 0.3% rise. Also, October retail sales were revised higher to 0.5% from 0.2%, while the core retail sales rose 0.8% in November. The dollar index rose 0.1% as a result, while 10Y US Treasury yields were 2bp higher, closing at 2.35%.

Yesterday, Turkey's central bank left its benchmark repo rate unchanged at 8.00% as expected. Yet, the late liquidity rate was raised by 50bp to 12.75%, as inflation has accelerated to a multi-year highest and the TRY's volatility has surged recently.

Selected readings from Danske Bank

- *ECB review - Christmas mood leaves QE exit decisions for 2018*
- *Norges Bank Review: Rate hike at end-2018, steeper FRA curve, stronger NOK*
- *Yield Outlook - Central bank exit but only modestly higher long yields*

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Scandi markets

There is no Scandi data today.

Fixed income markets

Yesterday's ECB meeting did not 'rock the boat' even though it made an upward revision to its forecast to growth and inflation in coming years. Bond yields fell and the peripheral markets performed well relative to the core EU.

Portugal is up for review by Fitch and so is Ireland. We expect an upgrade for Portugal and possibly a positive outlook for Ireland. Much has been priced into the Portuguese government bonds but we still like them, as the rating cycle has definitely turned for Portugal, and an upgrade would bring Portugal back into most of the main bond indices that are used by investors. Hence, we expect that Portugal will trade below Italy.

Yesterday, the Danish Central Bank released its funding review for 2018. The big surprise was that it kept the target for the sale of DGBs in 2018 at DKK65bn, which is unchanged compared to 2017. This was a surprise as it has increased the amount of social housing loans that it needs to fund in 2018 by some DKK33bn. Hence, the market was looking for a higher target than DKK65bn. We expect that the sale will be higher than DKK65bn because of the increased funding for social housing but also because it is opening a new linker bond. Hence, in order to build up liquidity in the new linker combined with tapping in the 2Y and 10Y, it needs to sell more than DKK65bn in 2018. This cannot just be done by switch auctions and buy-backs alone.

FX markets

EUR/GBP was little changed on the back of the Bank of England meeting yesterday as expected. However, the cross fell back below 0.88 in the afternoon, probably driven by expectations that we could see some good news about Brexit as EU leaders are scheduled to discuss Brexit negotiations today. We think it is still too early to price out Brexit risks significantly at this stage and tactically we would consider buying if the cross drops below 0.8750 today for a potential bounce back above 0.88. Technically, the next key support level is seen around 0.8733.

In Scandies, there was remarkable price action in EUR/NOK yesterday. Higher ahead of the Norges Bank (NB) meeting, lower on NB announcement, gradually higher amid EUR-performance before ECB and then lower post Draghi. We note both EUR/SEK and EUR/NOK crept higher in afternoon trading (European time) but the NOK/SEK spot remained fairly stable.

This price action might underline that it is difficult for the NOK to perform strongly this side of the New Year with the lack of usual buyers – yet we still think the Norges Bank message was important as it underpins one of our arguments for why the NOK should strengthen in 2018. We are long the NOK/SEK spot and short the EUR/NOK via options. See *FX Top Trades 2018, 6 December*, and our *Norges Bank Review*, 14 December.

We have recommended vol-buying strategies in EURSEK over the past couple of weeks. Now we note that 1m implied volatility has risen to 8.6% from 7.8% last week and a 4.6% low in November amid huge intra-day swings in the spot. Interestingly, 1w implied volatility, which covers the Riksbank decision on 20 December, trades at a year high, 10.6%. Volatility always rises ahead of a RB decision and declines after. One should probably see the extra spike ahead of the December meeting in the light of a potential termination of QE but also the possibility of an extension given the ECB and uncertainty regarding implications of the housing market: arguably it is not a plain vanilla meeting. EUR/DKK continued to trade in the top end of the 2017-range yesterday. We reiterate that we expect the top to hold and see value in using an uptick to sell EUR/DKK as a hedge against the adverse scenario of a lower DKK net position and European political uncertainty in Q1 next year.

In majors, for EUR/USD there is only second-tier data in the calendar today so focus on digesting the FOMC and ECB messages earlier in the week. In addition, USD liquidity will

tighten as US corporations pay corporate taxes today (normally around USD50-70bn). It may contribute further to the widening pressure seen on EURUSD CCS in recent weeks. Yesterday, we saw muted reaction in EUR/USD to ECB. There were no clear hints from Draghi that the 'holistic' approach to the economic outlook and to the overall policy stance is gaining further traction just yet, but this is still something for the FX market to watch out for in the minutes when published in a few weeks' time. We are long EUR/USD on a 12M horizon via options in our FX Top Trades 2018. Moreover yesterday SNB kept its policy rates unchanged at -0.75% as widely expected, and, maybe more importantly said it continued to see the CHF as 'highly valued'. Overall message in our views of an SNB which remains somewhat far from an 'exit' on unconventional measures still. Indeed, we maintain that the SNB will want to see a weaker CHF still - preferably above the 'old floor level' of 1.20. We see the cross at 1.18 in 6M and beyond 1.20 in 12M.

Key figures and events

Friday, December 15, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Ireland's debt rating					
-	EUR	Fitch may publish Portugal's debt rating					
0:50	JPY	Tankan large manufacturers index (outlook)	Index	4th quarter		24.0	22.0 19.0
0:50	JPY	Tankan large non-manufacturers index (outlook)	Index	4th quarter		24.0	23.0 19.0
7:00	DKK	House prices (Finance Denmark)	q/q y/y	3rd quarter			
8:00	NOK	Trade balance	NOK bn	Nov			15.1
11:00	EUR	Trade balance	EUR bn	Oct			25
11:30	RUB	Central Bank of Russia rate decision	%		8.0%	8.0%	8.25%
14:30	USD	Empire Manufacturing PMI	Index	Dec		17.8	19.4
15:15	USD	Capacity utilization	%	Nov		77.2%	77.0%
15:15	USD	Industrial production	m/m	Nov		0.3%	0.9%
15:15	USD	Manufacturing production	m/m	Nov			1.3%
22:00	USD	TICS international capital flow, Net inflow	USD bn	Oct			-51.3

Source: Bloomberg, Danske Bank

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