

Danske Daily

Market movers today

- Today we have a very quiet day in terms of data releases.
- Markets will continue to focus on any news on the Brexit front from the EU summit in Brussels and follow the developments in Catalonia.
- In Scandinavia, Danish retail sales for September and employment figures for August are due.

Selected market news

We have seen some volatility in the US treasury market in late NY trading and in Tokyo trading hours, where the 10Y yield edged higher as the US Senate adopted a fiscal budget resolution for 2018, paving the way for tax cuts as promised by President Trump. The budget still has to pass the House but it is fuelling momentum for the expected tax cuts. Furthermore, Trump advisors seem to be leaning towards either Stanford economist John Taylor or Fed Governor Jerome Powell as the next Fed Chair and this also added to the negative sentiment in the US Treasury market. However, so far nothing has been decided.

It has been a mixed session for the Asian equity markets this morning, where Japanese stocks declined on the back of a weaker yen. The yen weakened against the dollar on the back of the approval of the budget resolution in the US Senate as mentioned above. Focus is now on the Japanese general election on Sunday, where polls indicate a victory for Prime Minister Abe.

The situation is escalating in Catalonia as separatists are urging supporters to pull cash from the banks that would be moving out of the region in case there is independence. The Spanish government is getting ready to trigger Article 155, while the Catalan president is getting ready to declare independence. The uncertainty will continue to weigh on Spanish government bonds and the Spanish equity markets.

Selected readings from Danske Bank

- *Research Japan: Abe set for another term despite declining public support*
- *ECB Preview: Ready to scale back QE*
- *FOMC minutes: Core members still want to hike in December*

Follow us on *Twitter*:

 @Danske_Research

 **VIDEO**
Allan von Mehren on the Chinese Party Congress

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst
Jens Peter Sørensen
+45 45 12 85 17
jenssr@danskebank.dk

Scandi markets

No major events or key economic data releases.

Fixed income markets

Yesterday, we saw a decent performance in Portuguese government bonds ahead of the DBRS rating review, which will be published later today. We expect that DBRS will keep the rating and outlook unchanged at 'BBB' (low) with a stable outlook. There still needs to be more fiscal consolidation as solid and stable growth.

The main focus in the European fixed income markets ahead of next week's ECB meeting is still the political uncertainty in Spain regarding Catalonia. This was also shown by the underperformance of Spanish government bonds relative to EU core markets and Italy. The Spanish government bond auction yesterday was also affected by the political crisis as the bid-to-cover was lower than previous auctions. The Spanish government seems ready to trigger Article 155.

Yesterday, we published our weekly on the Swedish market, *Reading the Markets Sweden*. We took a look at the upcoming funding forecast from the Swedish Debt Office, which is due to be published next week. In addition, we have the Riksbank meeting next week, where there will be new forecasts for inflation. We also looked at the performance of the Swedish covered bonds should there be a slowdown in the housing market.

Finally, we also published short note on the short-dated euro volatility, which has declined very recently. See *Fixed Income Strategy - Buy 2W10Y ATM EUR payer ahead of next week's ECB meeting*, 19 October 2017. The idea is that gamma volatility has declined too much ahead of the ECB meeting next week. If the ECB is more hawkish, then we show how we can take advantage of this through the recent decline in gamma volatility.

FX markets

Euro gained versus all other G10 currencies yesterday in a session dominated by risk-off sentiment and where the potential trigger for an escalation of the crisis in Spain was postponed until Saturday. We expect EUR/USD to remain range bound in the coming months but stress that the cross could become more volatile going into the ECB meeting on 26 October.

GBP underperformed in the G4 space and EUR/GBP broke above 0.90 yesterday as risk appetite and weak UK retail sales weighed on the currency. Today, EU leaders will discuss Brexit negotiations at the EU Summit and are likely to conclude that more negotiation rounds are needed before the talks can proceed to the second phase (trade agreements). GBP has been quite sensitive to negative Brexit news recently, which may be explained by speculative accounts' net long GBP positioning. From a risk/reward perspective, we would consider selling EUR/GBP if the cross breaks above last week's high at 0.90331 today.

In *Reading the Markets Sweden*, we argue that we continue to see EUR/SEK as a near-term range play and favour expressing this view by selling short-dated NOK/SEK straddles as a EUR-ECB alternative to selling EUR/SEK straddles. Moreover, we closed the final open FX Top Trade for 2017, the sold EUR/SEK put spread we detail in *FX Top Trades 2017: How to position for the coming year*, 1 December 2016, and booked a 0.2% profit.

Key figures and events

Friday, October 20, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Germany's debt rating					
-	EUR	Fitch may publish Italy's debt rating					
-	EUR	Moody's may publish Spain's debt rating					
-	EUR	Moody's may publish Austria's debt rating					
-	EUR	Fitch may publish Cyprus's debt rating					
-	EUR	EU summit in Brussels					
8:00	NOK	Industrial confidence (SSB)	Net. bal.	3rd quarter			3.8
9:00	DKK	Employment (monthly)	1.000 m/m	Aug			2.697 0.1
9:00	DKK	Retail sales	m m y/y	Sep			-0.3% 0.3%
10:00	EUR	Current account	EUR bn	Aug			25.1
14:30	CAD	CPI	m m y/y	Sep			.. 1.4%
14:30	CAD	Retail sales	m/m	Aug			0.4%
16:00	USD	Existing home sales	m (m/m)	Sep		5.3	5.35 -1.7%
20:00	USD	Fed's Mester (non-voter, hawkish) speaks					

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 20 October 2017, 07:08 CEST

Report first disseminated: 20 October 2017, 07:40 CEST