

Danske Daily

Market movers today

- In the **euro area**, the employment figure for Q2 is due for release on Wednesday. We estimate the improvement in the labour market continued in Q2, which has been indicated by strong PMI employment indicators throughout the quarter. Specifically, we expect employment growth of 0.4% q/q in Q2.
- Today also brings data on euro area industrial production in July. We expect a small rebound in the euro area but based on the unchanged German figure in July, it should be modest. We expect the euro area figure to report 0.2% monthly growth.
- In the **UK**, the labour market report for July is due. We expect the annual growth rate in average weekly earnings excluding bonuses (3 month average) was unchanged at 2.1% y/y but see a risk of a further decline in the unemployment rate to 4.3% from 4.4%.

Selected market news

Asian shares reached a 10-year high this morning, while the rise in USD/JPY helped boost Japanese shares. Similar record highs were reached on Wall Street yesterday, as investor concerns faded about the impact of Hurricane Irma as well as North Korean tensions, despite President Trump's demands yesterday to toughen sanctions further.

In the **US**, Treasury Secretary Steven Mnuchin expressed doubt on Trump's goal of cutting the corporate tax rate to 15%, citing budget issues, despite the recent deal reached on the postponement of the debt limit (see *Flash Comment US: Debt limit fight postponed amid increased Fed uncertainty*, 7 September). The administration is currently trying to build public support for the tax reforms, also with the Democrats. Mnuchin said he hoped that a tax plan could be enacted this year, but we still think that Republicans' will struggle to agree on tax reforms internally, as the very conservative Republicans want big tax cuts financed by big fiscal spending cuts, which more moderate Republicans cannot support. Yesterday, we also got news that Trump plans to visit China in November. We do not yet know what the topics for the visit will be, but markets will focus on trade issues and North Korea.

After Monday's inflation disappointment in **Norway**, yesterday's Q3 Regional Network Survey was also weaker than expected, with the aggregated output index falling to 1.11 from 1.29. With low inflation, strong NOK versus Norges Bank's forecast, a cooling housing market and lower global rates, Norges Bank could easily extend the on-hold stance at its meeting next week in our view (see more in *Norway Regional Network Survey: Weaker than expected, Norges Bank to signal 'low for longer'*, 12 September).

In **France**, around 223,000 protesters marched yesterday against the government's new labour reform unveiled on 31 August. The reform included a cap on payouts for unfair dismissals and greater flexibility for companies to negotiate pay and hours. Labour unions have scuppered previous efforts to weaken France's labour code, but this time there was comfort for Macron as two other unions, including the largest CFDT, declined to join the protests. Macron is determined to move on with his reforms despite a rapid decline in approval ratings (36% in August), with a reform of the unemployment benefit scheme in 2018 next on his agenda.

Selected readings from Danske Bank

- *Research Japan: Running on all engines*
- *Election update Norway: Victory but reduced majority for the centre-right parties*
- *Norway Regional Network Survey: Weaker than expected, Norges Bank to signal 'low for longer'*
- *Flash Comment Denmark: Inflation remains high but should decrease in coming months*

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Scandi markets

There are no important releases in the Scandi markets today.

Fixed income markets

There was a sharp sell-off in the EUR FI market yesterday as more duration than anticipated was added to the market with the Austrian DMO deciding to print as much as EUR3.5bn in a new 100Y RAGB. The sell-off was led by the long-end with the yield on 30Y Germany increasing 7bp. The yield on bunds climbed 6bp implying that the Bund is now trading 4bp higher than before last week's ECB meeting.

The move yesterday was primarily a supply shock and for once not ECB related, as reflected by the periphery actually outperforming the core in the sell-off. Regarding the periphery, it is worth noting that the spread between 10Y Italy and Spain this week hit YTD lows as political concerns are weighing on SPGBs with an upcoming referendum looming in Catalonia on 1 October.

Today, Italy will be coming to the market with a EUR6.5-8bn tap, which includes the launch of a new 7Y plus issuance in Jun-20s and Sep-36s. Germany is printing EUR3bn in Bunds. Portugal is also coming to the market tapping the 10Y – as primary dealers we are happy to take orders for today's auction.

There are no important releases in the global calendar before tomorrow's decisive US inflation numbers.

In Scandinavia, both Denmark and Sweden will be issuing in bills today. Regarding the Danish mortgage bond market, note that Realkredit Danmark has announced a new loan type this week – FlexLife. It will in our view have very limited effects for investors, see *Danish Mortgage Bonds - RD's new FlexLife® - what are the potential effects?*, 12 September 2017.

FX markets

In Scandi FX markets, the Regional Network Survey in Norway marked the last key release ahead of next week's Norges Bank meeting. However, as Monday's inflation disappointment had already ruled out any rhetoric change, yesterday's disappointing survey was no game changer and just underlines that Governor Olsen is likely to signal 'low for longer'. See *Norway Regional Network Survey: Weaker than expected, Norges Bank to signal 'low for longer'*, 13 September 2017. We maintain EUR/NOK is a range play but the risk of a correction higher has in our view increased. Specifically, given the recent rise in long NOK positions, EUR/NOK has become increasingly and asymmetrically sensitive to drops in the oil price. We are currently in the process of reviewing our EUR/NOK forecast profile of 9.30 in 1M, 9.30 in 3M, 9.10 in 6M and 9.00 in 12M.

Yesterday's inflation print in Sweden beat market consensus as we had expected. We think the fairly moderate drop in EUR/SEK made sense as the yearly core measures are likely to have peaked and given we do not pencil in any Riksbank hike before 2019 at the earliest. This is also the reason for our hesitation to sell the cross despite sound fundamentals as we see a case for lower short-end rates. For now, we stay side-lined in EUR/SEK for our FX Trading Portfolio but leave on our short EUR/SEK options position from FX Top Trades 2017 (the last open trade, see *FX Top Trades 2017: How to position for the coming year*, 1 December 2016).

Key figures and events

Wednesday, September 13, 2017			Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations				
8:00	DEM	HICP, final	m/m y/y	Aug	.. 1.8%	0.2% 1.8%
9:00	ESP	HICP, final	m/m y/y	Aug	.. 2.0%	0.2% 2.0%
9:30	SEK	GDP, final	q/q y/y	2nd quarter	...	1.7% 4.0%
10:30	GBP	Unemployment rate (3M)	%	Jul	4.3%	4.4%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jul	2.1%	2.2%
10:30	DKK	Danish Central Bank publishes Outlook for the Danish economy				
11:00	EUR	Industrial production	m/m y/y	Jul	0.2% ...	0.2% 3.4%
11:00	EUR	Employment	q/q y/y	2nd quarter	0.4% ...	0.4% 1.5%
14:30	USD	PPI	m/m y/y	Aug		0.3% 2.5%
14:30	USD	PPI core	m/m y/y	Aug		-0.1% 1.9%
16:30	USD	DOE U.S. crude oil inventories	K			-0.1% 1.8%
20:00	USD	Budget statement	USD bn	Aug		-124.0

Source: Bloomberg, Danske Bank

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