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Danske Daily

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Market movers today

- **Germany is due to release industrial production at 8:00 CET for November, which is expected to show a decent rebound of 1.8% m/m after the 1.4% m/m drop in October.**
- **Euro unemployment for November is estimated to have declined to 8.7% from 8.8% in October. It would be the lowest level since 2009 and below the long-term average. However, it is still above the EU Commission's estimate for long-term unemployment at 8.4% for 2018.**
- **The US is due to release NFIB small business optimism index around noon. It continues to be at very strong levels –boosted partly by the expectation of a US corporate tax cut.**
- **Chinese inflation numbers will be released overnight. We expect an increase in the CPI inflation from 1.7% to 1.9% – still far below the 3% target. PPI inflation should drop back to 4.8% y/y from 5.8% y/y due to base effects from a very strong m/m November increase in 2016.**

Selected market news

Overnight, USD/JPY dropped on news that the BoJ has cut back its bond purchases in the long end of the curve. The cutback is a consequence of the central bank's yield curve control target, but triggered concerns in the market that an exit from quantitative easing is drawing closer.

Yesterday saw a couple of interesting dovish comments from members of the Fed. The Atlanta Fed's Bostic (voter in 2018) stated that his base case is two to three hikes in 2018 contrary to the median dot of three hikes, that low inflation expectations is a risk and that the Fed should be extremely cautious if the yield curve gets close to inverting. In addition, San Francisco's Williams was advocating for price level targeting and arguing that it is in fact a very modest change compared to the current inflation target.

There was also a string of interesting news from the White House. According to Reuters, US President Trump is said to be close to nominating a person for the position of Fed Vice Chair and apparently Richard Clarida is out of the race for that position. According to a Bloomberg story, US Treasury Secretary Steven Mnuchin has apparently asked congress to lift the debt ceiling before 28 February, which in turn would put a lid on any concerns in the market about a near-term US debt default. Finally, the White House is apparently considering a targeted strike in North Korea as a reaction to a missile test in order to illustrate that the high price the nation could pay for nuclear progress would be feasible according to WSJ. The market did not react to the news, but it serves as a reminder of the geopolitical risks looming in the background.

In the oil market, we have seen supply-related news out of Libya and Iraq. The former was said to ready a rise in output after a pipe blast two weeks ago, while the latter is confronting the Kurds about the crude production taking place in the northern part of Iraq. The oil market saw little reaction to the news.

Selected readings from Danske Bank

- *Strategy - 'Reflation' hype leaves ECB looking overpriced*, 5 January.
- *Nordic Outlook*, 5 January
- *Research US – The subtle push for price level targeting continues*, 3 January
- *Five macro themes for 2018*, 3 January

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Senior Analyst
Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

Fixed income markets

Plenty of supply on board today with Austria tapping the Apr-27 and Feb-47s, the Dutch DMO tapping the Jan-24s and the Finanzagentur tapping the 46s Linker. Portugal could announce a new 10Y via syndication today and the EFSF is expected to announce a new bond in the 20Y to 30Y. Italy has announced that the taps for Thursday's auction will be in the Oct-20 (EUR 2.5-3bn) and Nov-24 (EUR 2.5-3bn).

The first week of the new QE 'run rate' has passed and the first data is available. With only EUR2.9bn of total QE last week, of which PSPP accounted for EUR2.5bn (86%), the purchases are off to a slow start, which makes it difficult to interpret on the figures. However, QE should pick up this week and we expect the figures ahead to disclose that PSPP will account for the bulk of the total QE reduction with an average share of purchases of total QE around 70% (85% on average in 2018).

FX markets

EUR/USD dipped below 1.20 yesterday and as stressed in yesterday's *FX Essentials: EUR/USD ripe for near-term dip*, the cross indeed seems ripe for a correction lower, not least if current euro optimism fades and the Fed keeps March hike expectations alive; further details in *EUR/USD: set for short-term 'REWIND', but prepare for 'FAST FORWARD' again in H2*. The next focal point for the cross is Thursday's ECB minutes; good support seen at 1.1902. US Treasury secretary Mnuchin is said to have asked congress to lift the debt ceiling before 28 February, according to Bloomberg yesterday. That would mean USD liquidity could start to tighten already in March on the back a rebuild of the US Treasury cash balance. Consequently, EURUSD CCS could start to widen again short term from the present relatively tight levels – an additional factor supporting our view above that EUR/USD could dip near term.

USD/JPY dropped to 112.6 overnight on the news that the Bank of Japan has lowered bond purchases in the long end of the curve, triggering renewed concerns that an exit to quantitative easing is drawing closer. Near term, US yields and risk sentiment are likely to remain key drivers for the cross. However, we see little chance of a substantial break higher in USD/JPY due to very stretched speculative positioning, according to the IMM, and tactically, we would consider selling USD/JPY on rallies towards 114.

EUR/GBP dropped below 0.8825 for the first time since 19 December, driven mainly by a sell-off in EUR/USD. Technically, EUR/GBP still trades in neutral territory with key resistance and support seen at 0.8924 (4 Jan high) and 0.8761 (14 Dec low), respectively. EUR/GBP is likely to remain in the hands of investor appetite for EUR and Brexit news near term, and we still expect EUR/GBP to remain relatively volatile within the 0.8650 -0.90 range in coming months.

Even if yesterday's manufacturing production data out of Norway fell short of expectations, the NOK was quick to shrug off any weakness. In our view, this illustrates a market bias to buy the NOK, which is in line with our recommendations to sell EUR/NOK and buy NOK/SEK. The next key data release is tomorrow's inflation print, where we have a call in line with consensus. For more information see *Reading the Markets Norway: Potentially stronger NOK to be a key driving force for Norwegian fixed income*, 8 January.

Key figures and events

Tuesday, January 9, 2018				Period	Danske Bank	*Consensus*	Previous
1:00	JPY	Labour cash earnings	y/y	Nov		*0.6%*	0.2%
6:00	JPY	Consumer confidence	Index	Dec		*45.0*	44.9
7:45	CHF	Unemployment	%	Dec		*3.0%*	3.0%
8:00	DEM	Industrial production	m/m|y/y	Nov		*1.8%|4.0%*	-1.4%|2.7%
8:00	DEM	Trade balance	EUR bn	Nov		*21.3*	18.9
8:00	DKK	Current account (nsa|sa)	DKK bn	Nov			...|14.8
8:00	DKK	Trade balance ex ships	DKK bn	Nov			6.6
8:00	DKK	Exports	m/m	Nov			
9:00	CHF	SNB balance sheet, intervention	CHF bn	Dec			738.2
9:30	SEK	Budget balance	SEK bn	Dec			17
11:00	EUR	Unemployment	%	Nov		*8.7%*	8.8%
12:00	USD	NFIB small business optimism	Index	Dec			108.0
16:00	USD	Fed's Kashkari (non-voter, dovish) speaks					

Source: Bloomberg, Danske Bank

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