

Danske Daily

Market movers today

- In a week relatively quiet on data releases, the main focus in financial markets will be on the ECB, Riksbank and Norges Bank's meetings on Thursday. We expect the ECB to announce a QE extension of nine months at a pace of EUR30bn, while we do not expect any changes to the bank's forward guidance (for more details, see *ECB Preview – Ready to scale back QE*, 18 October). In terms of the Riksbank meeting, we expect an unchanged inflation and rate path as well as no news on the QE programme, while we expect Norges Bank to try to say as little new as possible as is the tradition at these interim meetings and given the scarcity of significant new information – although financial market participants will have a slightly dovish expectation of the meeting given the notably weak inflation print. Focus this week will also be on the ending of the Chinese Political congress.
- In terms of economic releases today, there is very little in the calendar but watch out for Japan PMI manufacturing number for October on Tuesday morning.
- In Denmark, there is little on the agenda in the coming week but it will be interesting to see what happens to consumer confidence on Monday. The indicator has generally been upward bound this year but has softened over the past two months, after hitting a two-year high in July.

Selected market news

The election in Japan gave a solid victory for Prime Minister Shinzo Abe as he retained his two-thirds majority. Given the election victory, he is expected to continue the soft fiscal and monetary policy. The Asian equity markets rallied and the yen weakened on the back of the victory.

The situation in Catalonia continues to escalate as Spanish Prime minister Mariano Rajoy is set to trigger article 155 of the Spanish constitution this week. Rajoy will then proceed to take over the government of Catalonia. The party leaders of the Catalan parliament will meet today and the regional president Carles Puigdemont and his allies are suggesting that they could declare independence this week.

The DBRS review on Portugal on Friday has been postponed until 3 November. Recently, the DBRS published a positive comment on the Portuguese economy and the fiscal results obtained so far. There is still plenty to do for the Portuguese government but given the comment a change in the outlook from stable to positive is most likely. This will keep momentum for the spread compression to core EU and peers such as Spain and Italy.

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*

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Scandi markets

No major events or key economic data releases.

Fixed income markets

Finally, the ECB decision week has arrived plus we also have monetary policy decisions in Sweden and Norway Thursday (and in Canada on Wednesday). ECB council members have signaled that the QE extension will be 'lower for longer' with consensus now at EUR30bn for nine months according to a recent Bloomberg survey. The median analyst expects the first rate hike in Q1 19. For more on 'what to watch' in terms of forward guidance, market impact etc., *ECB Preview – Ready to scale back QE*, 18 October. If QE continues as we expect, we expect a mildly bearish reaction with a modest curve steepener. However, much will depend on the Q&A afterwards. This very gradual approach to the QE exit should not have a material impact on the periphery core spreads.

In Spain, the PM Mariano Rajoy stated over the weekend that the government will activate article 155 this week (senate vote Friday) and later dissolve Catalonia's parliament and call for regional elections. While Spain has recovered quite a bit versus Germany over the past week, it is noteworthy that the spread between Italy and Spain has continued to tighten to a new YTD low (25bp over the past months). See the 5Y spread in this *Macrobond Financial chart*.

This week's supply is kicked off today with Belgium tapping the 6Y, 9Y and 30Y. We have limited scheduled supply of just EUR10bn over the coming week. However, EUR49bn is coming to the market in coupons and redemptions, mainly from France, see more in our *Government Bonds Weekly, ECB takes the limelight and we close 10Y Ireland vs Belgium trade as profit target reached*, 20 October 2017.

In Scandinavia, focus is on the Riksbank and Norges Bank meetings. In Sweden, we expect an unchanged inflation and rate path as well as no news on the QE programme. The Norges Bank meeting is an interim meeting, which is why it would be a quite a surprise if new signals are revealed, in particular taking the limited new information into account.

Note in Sweden that Kommuninvest is expected to introduce a new 7Y benchmark bond (Oct-24) on Tuesday (SE0010469205), which will become the longest benchmark bond issued in SEK by Kommuninvest, see *Strategy: Sweden – introduction of K2410*, 20 October 2017. Regarding Denmark, on Friday we published a short *Update on Danish covered bonds*. Spreads on callables have in OAS terms widened over the past two weeks. The recent weeks' spread widening can be explained in part by the lower implied volatility but also a pickup in issuance and lower activity during the 'fall vacation week in Denmark' could have added to the move.

FX markets

In Scandi FX markets, it is all about Thursday's Norges Bank and Riksbank meeting – the data calendar is thin before then. We believe EUR/NOK will fall marginally on a 'we'll wait for December' message from Norges Bank. Currently, EUR/NOK trades in the upper end of the constituted trading range benefiting our bullish EUR/NOK seagull position put on last Tuesday (see *FX Strategy: Buy bullish EUR/NOK ratioed seagull*, 17 October 2017). We still think we will see an eventual break of the EUR/NOK range to the top but for now would probably have to see an oil drop below the October bottom to trigger this. As a result, if you missed this week's move, we think another opportunity might well arise to position for a higher EUR/NOK as we approach year-end. If we are right about the Riksbank not sending any new signals to markets, we would expect to see a repetition of the EUR/SEK price action from the 7 September meeting. In other words, EUR/SEK would rise somewhat (3-5 figures) as a 'wait and see' message, prior to the ECB meeting, would be interpreted as a bias towards 'low for longer' and thereby 'weak SEK for longer'. In this sense, a happy behind the curve Riksbank would continue to be a headwind for the SEK. In summary, we continue to see EUR/SEK as a near-term 9.50-9.65 range play and favour expressing this view by selling short-dated NOK/SEK straddles as a EUR-

ECB alternative to selling EUR/SEK straddles. In *Reading the Markets Norway: No news from Norges Bank and steeper Norwegian long end yield curve versus international peers*, 16 October 2017, we entered a 2W NOK/SEK straddle strike 1.0275 – a trade we still like.

Key figures and events

Monday, October 23, 2017

				Period	Danske Bank	Consensus	Previous
3:30	CNY	Property prices	y/y				
7:00	JPY	Leading economic index, final	Index	Aug			106.8
9:00	DKK	Consumer confidence	Net. bal.	Oct	7.5		7.3
16:00	EUR	Consumer confidence, preliminary	Net bal.	Oct		-1.1	-1.2

Source: Bloomberg, Danske Bank

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