

Danske Daily

Market Movers

- We expect the German ZEW expectations index to extend the decline in October but at a slower pace than in September, as indicated by the Sentix investor confidence released last week. The weakness in emerging markets and the Volkswagen scandal are both weighing on the index.
- We estimate UK CPI inflation of 0.0% m/m in September. While declining gasoline and diesel prices were a drag on inflation in September, we estimate that this was offset by higher inflation in the price of services. This is also the reason why we expect core inflation to have moved slightly higher in September.
- US small business optimism for September is released this afternoon. The index has come off its high but remains above its 2011-2014 average.
- Swedish inflation data are key for the Riksbank – past SEK weakness might push core inflation higher in September, see [Scandi Markets](#).

Selected Market News

Chinese trade data released this morning showed imports plunging 17.7% y/y in September, a larger drop than the expected 16.5%. Exports on the other hand fared much better than expected with a decline of only 1.1% y/y versus expectations of a 7.4% drop, suggesting some stabilisation in global demand. However, the mix of weak imports and better exports does not suggest much progress in the Chinese authorities' objective to shift growth from exports to private consumption. Chinese equities are taking a breather after the rally over the past week and are slightly lower this morning.

Fed board member Lael Brainard in a speech overnight sounded more cautious than her colleagues at the FOMC, William Dudley and Stanley Fischer. Brainard, who rarely speaks on the economic outlook, said that 'risk management considerations counsel a stance of waiting to see if the risks to the outlook diminish' and that 'the risks from abroad appear tilted to the downside'. The market has clearly already bought that message, as the first Fed Funds rate hike is not fully priced until mid next year and US yields remain range bound as long as macro data give no clear answer to what the future path for Fed rate hikes will be. In other Fed speeches yesterday, Dennis Lockhart repeated that he sees lift-off later this year as appropriate, while Charles Evans, a known dove, believes the Fed should not hike rates until mid next year.

With US bond markets closed yesterday trading was rather thin. EUR/USD was broadly stable at the high end of its recent range and US stocks ended the day slightly higher. The WTI oil price slipped again yesterday after a short increase above USD50 per barrel and metals prices have come down this morning on the weaker-than-expected import data out of China.

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Scandi Markets

Today's big event in Sweden data-wise is of course September inflation. Our forecasts for CPI and CPIF are 0.2 m/m / -0.1 y/y and 0.3 m/m / 0.9 y/y, respectively. This is about a 10th below the median estimate in the market and also on the low side of the Riksbank's latest projection (1.0 y/y for CPIF). September is usually guided by seasonal increases in clothing prices. This is also the main uncertainty this time around due to currency effects. Admittedly, USD/SEK has traded sideways most of this year but with typical lags between the currency and pricing, there might be some additional need for compensating for the sharp rise in the dollar that took place last year.

Fixed Income Markets

Core fixed income markets are currently trading without a major macro direction but are kept in range-trading mode with soft data and dovish central bank expectations on one side and improved risk sentiment and the Fed and ECB continuing to signal no change yet on the other side. This is keeping Bunds in a rather tight range of 45-80bp since this summer. While we still expect the ECB to extend QE eventually, recent ECB members have downplayed the urgency and it suggests that outright movements will continue to be held within the established range as wait-and-see seems to be the predominant driver for now.

This week's supply is kicked off with Italy tapping EUR5.5-7.0bn in the Sep-22, the Mar-32 and the inaugural auction in the Oct-18. Italy will have done around 80% of this year's target after the tap and is somewhat behind most other euro area DMOs and in particular peripherals. The peripheral curve between 10-15Y remains steep relative to core pushed by peripherals' DMOs' bias towards longer tenors. This is even more pronounced in Spain though, where 15Y supply is coming up on Thursday. In the semi-core space the Netherlands is tapping EUR1-2bn in the Jul-25. The bond is looking attractive on the curve in ASW-terms, both relative to the slighter shorter and longer tenors. The Netherlands will have achieved around 83% of this year's target after the tap.

FX Markets

EUR/SEK is still hovering around the 9.30 level and we expect Riksbank board members to add to recent verbal intervention to curb SEK strength with Floden on the agenda again today. Crucially, the September CPI report will be out this morning and given our below-consensus forecast for inflation we expect the SEK to come under pressure as expectations for more Riksbank easing are building. We stress that if nothing is delivered at the October meeting we could see a significant dip in EUR/SEK as the market would then test the Riksbank commitment to curb SEK strength.

EUR/USD was rejected at 1.14 yesterday but remains in the high end of the 1.11-14 range in which we see it bound for now given the absence of a near-term extension of monetary-policy divergence. As it stands, the market does not seem to believe in those FOMC members who maintain that a December hike is an option and we probably need to see a sustained turn for the better in US data releases to change the market view and provide USD support.

GBP crosses will take their cue from today's CPI report, which we think will confirm that the British economy remains in 'noflation' territory.

Key figures and events

Tuesday, October 13, 2015

				Period	Danske Bank	Consensus	Previous
-	USD	Budget statement	USD bn	Sep		91.0b	
-	CNY	Trade balance	USD bn	Sep		47.90b	60.24b
-	WTO	IEA publishes monthly oil market report					
-	CNY	Imports	y/y	Sep		-15.9%	-13.8%
-	CNY	Exports	y/y	Sep		-6.0%	-5.5%
8:00	DEM	HICP, final	m/m/y/y	Sep		-0.3% -0.2%	-0.3% -0.2%
8:30	EUR	ECB's Mersch speaks in Singapore					
8:30	SEK	Riksbank's Flodén speech on inflation target					
9:30	SEK	CPI	m/m/y/y	Sep	0.2% -0.1%	... 0.0%	-0.2% -0.2%
9:30	SEK	Underlying inflation CPIF	m/m/y/y	Sep	0.3% 0.9%	...1.0%	-0.1% 0.8%
10:30	GBP	PPI - input	m/m/y/y	Sep		0.2% -13.0%	-2.4% -13.8%
10:30	GBP	PPI - output	m/m/y/y	Sep		-0.1% -1.8%	-0.4% -1.8%
10:30	GBP	CPI	m/m/y/y	Sep	0.0% 0.0%	0.0% 0.0%	0.2% 0.0%
10:30	GBP	CPI core	y/y	Sep	1.1%	1.1%	1.0%
11:00	DEM	ZEW current situation	Index	Oct	63.5	64.0	67.5
11:00	DEM	ZEW expectations	Index	Oct	7.0	6.6	12.1
12:00	USD	NFIB small business optimism	Index	Sep		95.5	95.9
14:00	USD	Fed's Bullard (non-voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

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