

19 February 2016

Danske Daily

Market Movers

- US CPI data is due out for January. In line with consensus, we estimate that CPI core rose 0.2% m/m in January leaving the annual growth rate unchanged at 2.1% y/y.
- EU-UK negotiations continue today.
- Focus will be on the Swedish labour market report. Only tier-2 data is due to be released in Denmark and Sweden. *See Scandi markets, page 2.*

Selected Market News

The Asian equity markets have followed the negative sentiment from yesterday, as the yen strengthened modestly in Asian trading hours combined with a build-up in oil supplies, which has pushed oil prices and thus energy producers lower.

US Treasury yields fell yesterday even after better-than-expected jobless claims, but sentiment is still pessimistic regarding the inflation outlook as shown by the lowest bid-to-cover ratio since 2010 at yesterday's 30Y inflation-linked auction, sending break-even inflation rates lower.

Selected readings from Danske Bank

- *Scandi Markets Ahead* (15 February 2016)
- *IMM positioning* (15 February 2016)

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Scandi Markets

No major news or data is due out of Scandinavia today. Denmark is due to publish consumer confidence for February and Sweden is publishing unemployment for January. Neither is expected to have much impact on the markets.

The Swedish labour force survey will be interesting for sure and a strong number is sure to send the SEK rallying. The seasonal increase in the unemployment rate between December and January is normally about 1 percentage point, which is why the consensus forecast of an outcome just above 7.5% could be regarded as somewhat of a default forecast (equivalent to approximately 7% in seasonally-adjusted terms). Under any circumstances, we have a hard time believing that this particular number will affect the Riksbank much, as for some time it has put all its emphasis on inflation. In addition, the labour force survey has proved unhealthily volatile, and we would refrain from jumping to any conclusions on this one outcome. What we look for is primarily a continued strong trend in employment, which we feel has been a better indicator of labour market developments over the past few years.

Fixed Income Markets

The rating agency DBRS was out with a comment on the Irish election yesterday – stating that Ireland risked a weak government given the recent polls, which could make the formation of a stable government more difficult. However, DBRS does not expect a change to the fiscal consolidation. Even in the case of a more left-wing government, it would most likely need support from the centrist party; thus, this reduces the risk of a policy change, according to the DBRS.

Spain is up for review by Moody's. Spain's rating is currently Baa2 and on positive outlook. However, given the political uncertainty with no new government, Moody's looks set to keep the rating and outlook unchanged despite the improvement we have seen in the fundamentals.

FX Markets

Scandi FX has had a strong week so far with NOK and SEK benefiting from improved risk sentiment. While the NOK has also seen support from a higher oil price amid reduced global growth worries, the SEK found support in yesterday's higher-than-expected inflation print, which seems to have caused quite a bit of concern for long SEK positions ahead of the release. While Swedish inflation did surprise positively, it is difficult to talk about the 'upside' in a CPIF print of **-0.4% m/m**. We still think the Riksbank remains too optimistic on inflation beyond the next couple of months and we expect to see at least an extension of the QE programme in nominal bonds at the next meeting in April. In terms of EUR/SEK we continue to see 9.10-9.50 as the play range for the coming year, with focus on the upper end of the range in the first months.

In terms of the NOK, Norges Bank's governor Olsen's annual address yesterday evening included few hints as to the future of short-term monetary policy. We still expect a 25bp cut in March which is not fully priced in and with the likelihood of a correction in risk appetite post the latest relief rally, we see risks for EUR/NOK skewed to the upside in the near term.

Key figures and events

Friday, February 19, 2016			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Spain's debt rating				
5:30	JPY	All industry activity index	m/m		-0.3%	-1.0%
9:00	DKK	Consumer confidence	Net. bal.	4.0		4.6
9:30	SEK	Unemployment (n.s.a./s.a.)	%		7.6%	6.7% 7.2%
10:00	EUR	EU summit in Brussels (UK negotiations)				
10:30	GBP	Retail sales	m/m y/y		0.8% 3.6%	-1.0% 2.6%
10:30	GBP	Retail sales ex fuels	m/m y/y		0.7% 3.4%	-0.9% 2.1%
14:00	USD	Fed's Mester (voter, hawkish) speaks				
14:30	USD	CPI	m/m y/y	-0.1% 1.3%	-0.1% 1.3%	-0.1% 0.7%
14:30	USD	CPI - core	m/m y/y	0.2% 2.1%	0.2% 2.1%	0.1% 2.1%
14:30	CAD	CPI	m/m y/y		-0.1% 1.7%	0.1% 1.6%
14:30	CAD	Retail sales	m/m		-0.8%	1.7%
16:00	EUR	Consumer confidence, preliminary	Net bal.	-7.5	-6.6	-6.3

Source: Bloomberg, Danske Bank Markets

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First date of publication

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