

05 January 2016

# Danske Daily

## Market Movers

- Based on the lower German HICP inflation figure, we have revised our euro HICP inflation forecast for December down to 0.3% y/y (from 0.5% y/y) and still up from 0.2% y/y in November. The downward revision reflects that we had expected food prices to increase, while we also expected a smaller impact from the oil price decline, as gasoline prices have remained somewhat resilient to the latest oil price decline. Our lower euro HICP inflation forecast also follows as the Spanish figure, which was released last week, was weaker than expected despite an increase of 0.3pp
- Financial markets will keep an eye on the rising tensions between Saudi Arabia and Iran, which could raise concerns about a potential oil supply disruption.
- In Denmark, Danmarks Nationalbank is scheduled to publish December's FX reserve today at 16:00 CET. *See Scandi markets, page 2.*

## Selected readings from Danske Bank

- *Chinese PMI mixed - markets off to a rocky start*
- *German inflation: lower food-price inflation dominates base effects from energy prices*

## Selected Market News

Financial markets got off to a rough start to the year following a disappointing Chinese manufacturing PMI release and rising tensions between Saudi Arabia and Iran, raising concerns of the combination of a further slowdown in Chinese economic growth and a potential oil supply disruption. Consequently, equity markets in Europe and US declined 2-3%, crude oil prices temporarily rose as much as 4% yesterday and the gold price increased more than 1%.

Fed officials Mester and Williams spoke yesterday and both dismissed market turmoil as a concern for US economic growth, which both expect to be sound this year. Furthermore, Williams said that he expected the Fed to hike three to five times this year.

The People's Bank of China conducted its largest reverse repurchase operation since September 2015 earlier today in order to add liquidity to the market cap and upward pressure on money market rates.

On a local note, the Riksbank yesterday announced that it has taken the decision formally to be able to instantly intervene in FX markets if necessary. This should be seen as a complementary monetary policy tool to the preferred tools, i.e. interest rate and bond purchases. The Riksbank thereby further underscores its commitment to reaching its inflation target and signals to markets that it will not allow a SEK appreciation to jeopardise this task.

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## Scandi Markets

In **Denmark**, Danmarks Nationalbank (DN) is scheduled to publish December's FX reserve and central bank balance sheet figures today at 16:00 CET. EUR/DKK traded above the central rate of 7.46038 in December and at a higher level than in November, so the market will keep an eye on whether DN has increased FX intervention to cap EUR/DKK upside.

## Fixed Income Markets

It has been a volatile start to the year and liquidity is not improving much despite moving into January. Core 10Y yields have dropped 5-6bp driven by a sharp decline in global equities with the peripheral spread Ita/Spa only widening 1-2bp. Portugal was the big underperformer, widening 10bp to Germany. Portugal has for the past two years been the first peripheral to launch a new bond in January and the market has been sensitive to supply over the past year (see [details on EGB January supply](#)).

## FX Markets

EUR/SEK edged lower yesterday and we think the market will try to test the Riksbank's commitment to prevent SEK strength after Governor Ingves's warning ahead of the New Year. The trading range for the cross has clearly moved lower and although it is the pace rather than the level of krona strength that matters to the central bank, in our view, we are likely to be closing in on levels that would warrant more easing from an inflation point of view (clearly this is different from a growth perspective). Today, there is little in the calendar to move FX markets. But watch out for December data on Danish FX reserves; EUR/DKK is seeing upward pressure still.

### Key figures and events

Tuesday, January 5, 2016				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Dec		18.0	18.05
9:55	DEM	Unemployment	%	Dec	6.3%	6.3%	6.3%
10:30	GBP	PMI construction	Index	Dec		56.0	55.3
11:00	ITL	HICP, preliminary	m/mly/y	Dec	... 0.3%	0.2% 0.4%	-0.4% 0.2%
11:00	EUR	HICP core inflation, preliminary	%	Dec	1.0%	1.0%	0.9%
11:00	EUR	HICP inflation, preliminary	y/y	Dec	0.3%	0.4%	0.2%
16:00	DKK	Currency reserves	DKK bn	Dec			483.9

Source: Bloomberg, Danske Bank Markets

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### First date of publication

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