

Danske Daily

Market Movers

- **The calendar of economic data releases is relatively thin today.**
- **In the UK** industrial and manufacturing production and construction output in November are due. The figures should give us more insight into how the UK performed growth-wise in Q4. We think GDP growth picked up in Q4 following the slowdown in Q3.
- **In the US** a large number of Fed members are speaking this week. The time after the FOMC meeting in December has been quiet due to Christmas and the New Year, so not much information from the Fed members has come out yet. Remember, as the calendar now says 2016, voting rights have changed. Among the speakers today are Fischer (voter, hawkish) and Lacker (non-voter, hawkish).
- **Also in the euro area** focus will be on monetary policy communication as ECB's Praet is set to take part in a panel discussion in Paris and as Lautenschläger has a scheduled speech in Frankfurt. Noteworthy, the two Executive Board members have previously expressed opinions in each end of the ECB board-spectrum.

Selected readings from Danske Bank

- The repercussions of the oil price collapse: themes and market views
- Weekly Focus – Scandinavian inflation week in store
- IMM Positioning Update

Selected Market News

Market focus is still very much on the oil price and on developments in China.

At a Chinese consulate briefing to the US, the deputy director of China's office of the central lending group Han Jun stated that **calls for a large CNY depreciation in 2016 are 'ridiculous'**, that shorting the yuan *'will not succeed'* and that *'it is pure imagination that the Chinese yuan will act like a wild horse without any rein'*. Jun's comment come amid **yuan lending rates in Hong Kong reaching record highs** on the back of tight liquidity, which is likely a result of intervention in the offshore market by the People's Bank of China to stem CNH depreciation. As a result the **CNY-CNH spread** has now been closed again after reaching a record 2.9% last week. Also **USD/CNY this morning fixed** at 6.5628 marking the third consecutive day of stable CNY fixing.

Meanwhile the **oil price continues** to slide. Yesterday the price of the black gold dropped for a seventh consecutive day, thereby reaching the lowest level in 12 years. While we fundamentally stick to the story that the oil price will eventually rebound this year, short-term risks clearly remain skewed to the downside.

Fed's Lockhart (non-voter, neutral) yesterday expressed the view that it is important for the Fed to keep a focus on the real domestic economy – rather than the financial economy – and that he currently does not view the US economy as vulnerable to the foreign shocks that have given US stock markets a historically bad start to the new year.

In Japan, balance of payment figures released overnight revealed the 17th consecutive month of a current account surplus.

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Scandi Markets

The **Swedish debt office** is set to release December borrowing requirement this morning. The forecast is for SEK99bn of which 55bn is primary lending, 29bn is on-lending and 15bn is interest payments. There is some uncertainty whether the government's extra SEK10bn spending to municipalities will raise this figure but it probably will. On the positive side, we would like tax revenues to continue to surprise as has been the case for some time now. That may have implications for the bond supply outlook in 2016. More important, however, is immigration flows that have plunged recently to just a 10th of the peak in October/November (i.e. around 1,000 per week now).

Fixed Income Markets

Issuance season is picking up and we are in for what is likely to be one the busiest days of the year in the EUR govt primary market. Both Spain and Belgium have announced the launch of new 10Ys via syndication following the regular January pattern (SPGB Apr-26 and BGB Jun-26).

Belgium has the past two years printed 5bn in the January deal and was the second best performer in the semi-core yesterday only surpassed by Ireland (again). Spain printed 9bn in the January deal last year and 10bn in January 2014. **Spain** lost 6bp versus Germany fuelled by the announcement and with auctions also Thursday and next week we have a lot of Spanish risk coming to the market in the next two weeks. The 10Y yield spread between Spain and Italy is trading around 2015 highs, which should support demand, although we doubt that the deal will be as large as the past two years with more Spanish supply coming. Adding to the longer dated supply also **the Netherlands** is printing in the 33s (1.5bn), Austria in 25s and 34s (1.2bn) and Germany is printing in the 26 linker (1bn).

FX Markets

With no significant data releases today, the market will continue to focus on the development in China. JPY and EUR to remain supported in the short term as risk sentiment currently is the main driver for all the major currencies. USD/CNH has declined sharply over the past couple of days driven by People's Bank of China's (PBoC) intervention in the offshore market. The CNH-CNY spread has narrowed significantly to 0.012 (was 0.16 Tuesday last week). In our view, the onshore-offshore gap should be biased to widen as long as fundamentals keep depreciation expectations intact. However, recent PBoC interventions have drained a lot of liquidity out the offshore market, which has led to a sharp rise in money market rates and thus made it very expensive to fund long USD/CNH positions. This might dampen the appetite for further speculative CNH selling in the short term and support a stabilisation of the CNY and CNH in the short term. Longer term, we still look for a continued weakening of the CNY versus USD and EUR of 7% and 15% respectively, over the next year. However, it will be a relatively gradual weakening of the CNY controlled by the PBoC.

Key figures and events

Tuesday, January 12, 2016					Period	Danske Bank	Consensus	Previous
9:30	SEK	Budget balance	SEK bn	Dec				21.8
10:30	GBP	Industrial production	m/m/y/y	Nov			0.0% 1.7%	0.1% 1.7%
10:30	GBP	Manufacturing production	m/m/y/y	Nov			0.1% -0.8%	-0.4% -0.1%
11:30	EUR	ECB's Praet Speaks in Paris						
12:00	USD	NFIB small business optimism	Index	Dec		95.2		94.8
20:00	EUR	ECB's Lautenschlaeger speaks in Frankfurt						
21:15	USD	Fed's Lacker (non-voter, hawkish) speaks						

Source: Bloomberg, Danske Bank Markets

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First date of publication

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