

Danske Daily

Market movers today

- The final day of the week brings a packed calendar, with several tier-1 releases both globally and in the Scandies. Also, we might get news on the next Riksbank governor. In addition, quarter-end volatility will be a theme today in many markets.
- In the **Scandies**, focus turns to the labour market and retail sales in **Norway**. Also, in **Sweden** reports suggest that the next Riksbank governor will be announced today. See *Scandi markets* on page 2 for more details.
- In the **euro area**, euro area HICP figures for September are set for release. Following yesterday's inflation release in Spain and Germany, we still look for euro area inflation at 1.6% but with the weak service price inflation release in Germany, there is some downside risk to our euro area core inflation forecast of 1.3%. Instead, the increase to 1.6% in September might be driven more by the volatile components energy and food, if similar inflation trends are observed as in Germany. We also get data on **German retail sales** in August and the German unemployment rate.
- In the **US**, we get the most important release of the week namely PCE inflation for August. We estimate a slight uptick in the monthly increases of both PCE headline and PCE core following the release of the surprisingly high increase in CPI (CPI and PCE numbers tend to follow each other). The monthly increase in the CPI numbers leads us to believe the PCE headline will increase 0.3% m/m (1.5% y/y versus 1.4% in July) and PCE core 0.2% m/m (1.4% y/y versus 1.4% in July). Note that although this relatively strong monthly print in the PCE core does not lead to increases in the yearly rate, this has to do with a very large monthly increase in August 2016. We also get the final University of Michigan consumer confidence. The preliminary number showed a fall compared with August but the index is still at a high level, pointing to solid growth in private consumption. The Chicago manufacturing PMI for September is also due for release.
- In the **UK**, focus turns to Bank of England Governor Mark Carney speaking alongside the final release of second-quarter GDP.

Selected market news

No clear direction on **Asian equity markets** this morning, despite the move higher in most European and US indices yesterday. Japanese equities are trading in the 'red', amid **Japanese inflation** moving higher (CPI excluding fresh food at 0.5% y/y). However, there are still no indications of inflation reaching the Bank of Japan's inflation target any time soon, suggesting a continuation of current policy should the forthcoming elections not challenge 'Abenomics'.

There is still a lot of market focus on a **potential tax reform in the US**. Meanwhile, we still think the most likely outcome will be a smaller tax reform or no deal at all. We also emphasise that any easier fiscal policy could well be offset by tighter monetary policy. This is so even if uncertainty remains high on what the Fed Board of Governors will look like next year, with President Donald Trump potentially having to nominate five members (for more info see *Flash Comment US – Still a long way to go for tax reform*, 28 September).

Selected readings from Danske Bank

- *Flash Comment US – Still a long way to go for tax reform*, 28 September

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Scandi markets

Sweden

Reports in local media claim that the Riksbank's General Council will announce who will succeed Stefan Ingves as Riksbank governor by year-end and that the top candidates are Jens Henriksson, who is currently CFO at Folksam but has also worked with, for instance, the IMF, and Deputy Governor Per Jansson. However, several other names have been mentioned as possible candidates and we cannot rule out that Ingves will be reassigned as Governor. Importantly, the media reports refer to 'sources' and we have no opinion as to the accuracy of these media reports.

So, will a new governor result in a policy shift? In our view, probably to a much lesser extent than many believe. Certainly, individuals can make a difference but in the case of the Riksbank, the power of the institutional framework should not be underestimated. First, the Riksbank has a mandate – price stability – that is legally binding and independent of who is at the helm. Second, the staff at the monetary policy department have considerable influence, too. Their work is based on a theoretical framework that is well established and they produce the forecasts, including a proposal of the appropriate policy (rate path and other policy actions). Third, ever since the disagreement between former deputy governor Professor Lars E. O. Svensson and Stefan Ingves, the board has largely agreed on policymaking. In other words, we doubt that the Riksbank will come out wearing completely different feathers after 1 January 2018. For more information, see [Reading the Markets Sweden](#), 28 September.

Norway

As the downside risks to the economy have receded gradually, we have become increasingly interested in capacity utilisation. Movements in unemployment are therefore extremely important as an early indicator of pressure on resources. We still set most store by the jobless figures from the NAV (due at 10:00 CEST), which continued to fall faster than expected over the summer. With employment indicators still climbing and vacancies increasing, we expect unemployment to fall to 2.5% in September, in line with consensus. However, we also expect seasonally adjusted gross unemployment – our preferred jobless measure – to fall by 500 people m/m. This would mean the decline in unemployment is slowing in line with Norges Bank's expectations. If the decrease is any greater, it would suggest that capacity utilisation is rising more quickly than expected, putting pressure on Norges Bank.

Early this morning, SSB will publish retail sales data for August. Our conviction that growth will remain well above trend for the next couple of years is based on an expectation that private demand will take over from government demand and housing investment as the most important growth engine. Stronger real wage growth and employment are the key drivers behind this rotation. As expected, we have seen a clear improvement in retail sales in recent months. We expect this trend to continue, albeit with zero growth in August on the back of some very strong months, in line with consensus. If we are right, the numbers will still point to strong growth in private consumption once again in Q3.

Fixed income markets

It is Friday and that means possible rating upgrades, as S&P (BBB+/Positive) will be reviewing Spain. Spain has been on positive outlook since March this year. Given the improved economic outlook there is a fair probability that Spain will also get an upgrade. However, given the recent developments in Catalonia, we expect S&P to keep its rating and outlook unchanged.

FX markets

EUR/USD has edged higher again despite the slightly weaker than expected German inflation figures yesterday. Indeed, after having seen a slide since late last week on the German vote, Fed talk and the US tax proposal, the cross seems close to a point of satisfaction. The Catalanian independence vote this weekend has the potential to add to a political risk premium in the single currency but in the case of a 'No', we look for EUR/USD to start bottoming out. However, key to the outlook for USD crosses in coming weeks will be whether the 'Big 6' will get support for their tax reparation proposal, as this has the potential to spur US capital inflows. Note that the ECB's Mario Draghi has cancelled his appearance alongside the Bank of England's Carney today for personal reasons, thus calling off a key event for EUR and GBP crosses.

In **FX forward markets**, we have seen a sharp move higher in EUR/USD forwards recently, as US rates have increased and the turn of year is moving closer. In our view, there is potential for a further rise over the coming year, when the Federal Reserve's balance sheet reduction will also start to play a role (read more in *FX Strategy – EUR/USD FX forwards on the rise*, 28 September).

In the **Scandies**, speculation about an announcement of the next Riksbank Governor has lifted O/N option volatility in **SEK** crosses. While we still emphasise that we have no insight into the validity of the media reports, it is important to highlight possible scenarios for the SEK. In our view, an appointment of Ingves, Jocknick or Jansson would send EUR/SEK higher, as this would signal 'more of the same'. This is especially so for Jansson given his focus on 'fighting' SEK appreciation. Meanwhile, most other candidates seem more neutral (more unknown), which could weigh on EUR/SEK in terms of lifting speculation about a change in the board balance. Meanwhile, as stated above, the power of the institutional framework should not be underestimated, which in turn means we should not overdo the importance of a possible change of Governor.

In terms of the **NOK**, there is not much news to add relative to the latest sessions. The NOK still trades on a weak note despite the higher oil price, which underlines our point of an asymmetric NOK sensitivity to oil price changes. Today, Norges Bank is likely to announce an unchanged NOK purchase amount for October of NOK650m per day, which should have no market impact. We still expect the 9.25-9.40 EUR/NOK range to hold in the very near term but we look for opportunities to position for a break above 9.40 going into year-end.

For a survey on our clients' views on the FX market, see *Danske's FX Thermometer – Norges Bank will hike after the Riksbank*, 27 September.

Key figures and events

Friday, September 29, 2017			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Spain's debt rating				
1:01	GBP	GfK consumer confidence	Index	Sep	-11.0	-10.0
1:30	JPY	CPI - national ex. fresh food	y/y	Aug	0.7%	0.5%
1:30	JPY	Unemployment rate	%	Aug	2.8%	2.8%
1:30	JPY	Job-to-applicant ratio		Aug	1.53	1.52
1:30	JPY	CPI - national	y/y	Aug	0.7%	0.4%
1:50	JPY	Retail trade	m/m y/y	Aug	-0.8% 2.4%	1.1% 1.8%
1:50	JPY	Industrial production, preliminary	m/m y/y	Aug	1.8% 5.2%	-0.8% 4.7%
3:45	CNY	Caixin PMI manufacturing	Index	Sep	51.0	51.5
8:00	DEM	Retail sales	m/m y/y	Aug	0.7% ...	0.5% 3.3%
8:00	NOK	Retail sales, s.a.	m/m	Aug	0.0%	0.0%
8:45	FRF	Household consumption	m/m y/y	Aug	0.2% 1.7%	0.7% 2.1%
8:45	FRF	HICP, preliminary	m/m y/y	Sep	... 1.0%	-0.2% 1.0%
9:00	DKK	GDP, final	q/q y/y	2nd quarter		0.6% ...
9:00	CHF	KOF leading indicator	Index	Sep	106.0	104.1
9:30	SEK	Wages (blue collars/white collars)	y/y	Jul		1.8%
9:55	DEM	Unemployment	%	Sep	5.7%	5.7%
10:00	NOK	Norges Bank's daily FX purchases	m	Oct	-650	-650
10:00	NOK	Unemployment	%	Sep	2.5%	2.7%
10:30	GBP	Mortgage approvals	1000	Aug	67.0	68.7
10:30	GBP	Broad money M4	m/m y/y	Aug		0.5% 4.4%
10:30	GBP	GDP, final	q/q y/y	2nd quarter	0.3% 1.7%	0.3% 1.7%
10:30	GBP	Index of services	m/m 3m/3m	Jul	0.1% 0.7%	0.4% 0.5%
11:00	ITL	HICP, preliminary	m/m y/y	Sep	... 1.1%	1.8% 1.3%
11:00	EUR	HICP - core inflation, preliminary	y/y	Sep	1.3%	1.2%
11:00	EUR	HICP inflation, preliminary	y/y	Sep	1.6%	1.5%
14:30	USD	Personal spending	m/m	Aug	0.1%	0.3%
14:30	USD	PCE headline	m/m y/y	Aug	0.3% 1.5%	0.1% 1.4%
14:30	CAD	GDP	m/m y/y	Jul		0.3% 4.3%
14:30	USD	PCE core	m/m y/y	Aug	0.2% 1.4%	0.1% 1.4%
15:45	USD	Chicago PMI	Index	Sep	57.5	58.9
16:00	USD	University of Michigan Confidence, final	Index	Sep	95.2	95.3
16:15	EUR	ECB's Draghi and BoE's Carney speaks in London				
17:00	USD	Fed's Harker (voter, hawkish) speaks				

Source: Bloomberg, Danske Bank

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