18 August 2017

Danske Daily

Market movers today

- Today is set to be a relatively quiet day in terms of data releases.
- Focus is on the **US**, where University of Michigan Consumer Confidence for August is due for release. In the wake of increasing tension and harder rhetoric between the US and North Korea recently, we expect the consumer confidence figure to be lower than the previous month's. Furthermore, Fed's Kaplan (voter, dovish) also speaks today.
- The **Canadian CPI figures** for July will also be of interest, in light of the recent hawkish turn of the Bank of Canada and markets will focus on whether the BoC's projected rebound in inflation will actually materialise, despite falling inflation expectations.

Selected market news

ECB minutes yesterday revealed that the Governing Council expressed concern over risk of euro overshooting. The effective euro has strengthened further since the ECB meeting in July. On the back of the ECB minutes EUR/USD slid and the EUR fixed income market rallied slightly.

Yesterday, euro area headline and core inflation in July were confirmed at 1.3% y/y and 1.2% y/y, respectively. Service price inflation (~60% of core inflation) was revised slightly higher to 1.6% y/y and therefore it was unchanged from June. Non-energy industrial goods price inflation (~40% of core inflation) was lifted by durables goods price inflation. Looking ahead, we expect the stronger euro to drag down this part of service price inflation.

US President Trump abandoned plans to create an infrastructure advisory council yesterday. Last month Trump signed an executive order to establish the advisory council with members drawn from real estate, construction, transportation and other sectors of the economy (see *Reuters*, 17, August).

US initial jobless claims released yesterday fell to 232k in July (from 244k), which is the lowest level since February. This adds to signs showing some re-acceleration into H2 18. **The Philly Fed business condition index fell slightly to 19.5 from 18.9**, which was still higher than consensus at 18.0.

Selected readings from Danske Bank

- *Strategy: Risk is building of higher US yields*

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Scandi markets

There are no key events in Scandinavia today.

Fixed income markets

{EU} The EUR FI market rallied slightly yesterday on the back of the minutes that revealed some concern regarding the strengthening of the EUR. Interesting also was the reference to QE which confirmed that the ECB could be warming up for a change in rhetoric. Specifically, the ECB stated that 'the stock versus flow effects of asset purchases [would] be considered'. Both embracing the flow effect from reinvestments and a further focus of the impact on the FI market of +EUR1,700bn in excess liquidity that needs to be parked at -40bp every night are potential arguments Draghi could embrace when the QE run rate is reduced.

{GR} It is Friday and that means potential rating action – this time with Greece in focus. Greece (CCC/stable) is up for review by Fitch with the risk now tilted clearly towards a change to a positive outlook.

In Scandinavia {SW} Sweden has been in focus this week following the inflation print. Pricing now indicates a relatively rapid shift in monetary policy. In '*Reading the markets Sweden*' we take a close look at what this implies for risk/reward in the SEK FI market.

{DE} The August 2017 refinancing auctions of Danish covered bonds kick off on Monday 21 August and end on 28 August with Nykredit's floater auctions. Total supply of non-callables is DKK63bn and DKK 7.5bn of floaters. For more information on the refinancing auctions, see *presentation* and auction *overview*. We expect decent demand for non-callables and floaters at the auction. In our view, 4Y and 5Y maturities (non-callables and floaters) offer the best value on account of higher forward rates and steeper ASW curves.

FX markets

EUR/USD slid yesterday after the ECB minutes showed the Governing Council explicitly expressed concern over EUR overshooting. This clearly illustrates that the ECB is not entirely ready to let the euro go even if it seemed to be the message from the Sintra conference late June that USD weakness ahead would be more widely accepted now that more central banks are looking at higher inflation forecasts. Coupled with minutes yesterday showing a Fed becoming less confident in the inflation outlook, this highlights that the exit talk of early summer has backtracked a bit following recent FX moves. However, in the minutes the ECB did stress that the rise in the single currency is partly due to changing fundamentals and thus indirectly accepts part of it. We maintain that the cross should stay in the 1.15-1.20 range on a 1-3M horizon, after which a next leg higher and firmly above 1.20 in 2018 should materialise.

Elsewhere among the majors, we note the very muted downside reactions in EUR/JPY and EUR/CHF following the ECB minutes which suggest that the FX market is looking for a bit 'less acceptance of USD weakness' among central banks rather than outright EUR weakness. Indeed this 'differential' price action in EUR crosses makes sense as both BoJ and SNB have been keen to stay out of exit talk, thus leaving less potential for a repricing of these/their currencies after the dovish ECB message. We note that EUR/CHF saw a somewhat muted reaction when EUR/USD jumped during July, and we could certainly see EUR/CHF a tad weaker near term as a hesitant ECB is not good news for SNB.

Yesterday was an interesting session for EUR/NOK with the cross testing key support levels before rebounding slightly in the early US session; the same pattern was largely seen in EUR/SEK. For EUR/NOK, we maintain the view that the fundamental short-term downside potential is more limited from current levels even if the Swedish inflation spike has increased the probability of a technical downside break of the ranges; for now, we still prefer to stay side-lined awaiting better entry levels for EUR/NOK longs.

Key figures and events

Friday, August 18, 2017				Period	Danske Bank	*Consensus*	Previous
-	EUR	Fitch may publish Greece's debt rating					
3:30	CNY	Property prices	y/y				
9:30	SEK	Capacity utilization, industry	%	2nd quarter			90.0%
10:00	EUR	Current account	EUR bn	Jun			30.1
14:30	CAD	CPI	m/m|y/y	Jul		*...|1.3%*	...|1.0%
16:00	USD	University of Michigan Confidence, preliminary	Index	Aug		*94.0*	93.4
16:15	USD	Fed's Kaplan (voter, dovish) speaks					

Source: Bloomberg, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is Mathias Røn Mogensen, Analyst.

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