

Danske Daily

Market movers today

- Data on euro area credit and M3 growth are due out today. While we estimate M3 continued to show around 5% yearly growth, we believe loan growth continued its upward trend. In particular, adjusted loans to NFCs increased from 1.9% in February to 2.4% in April. We estimate this increased further in May, as credit demand continued to increase.
- ECB president Mario Draghi is due to participate in a Policy Panel at 15:30 CET at the ECB Forum on central banking in Portugal. The Fed's Williams is due to speak at 9:30 CET but the speech will be a reprise of the speech held yesterday.
- Italy will be the first euro country to release HICP inflation for June. Consensus estimates a decline to 1.4% y/y from 1.6% y/y in May. Tomorrow, Germany and Spain are due to release inflation data, followed by the flash estimate for the euro area on Friday.
- Data on the US trade balance and pending home sales are due for release.

Selected market news

Yesterday, EUR crosses soared and the German 10-year government benchmark bond sold off. The yield climbed some 5bp initially, following some hawkish comments from ECB President Mario Draghi. In a speech in Portugal, Draghi said, *'as the economy continues to recover, a constant policy stance will become more accommodative and the central bank can accompany the recovery by adjusting parameters of its policy instrument – not in order to tighten the policy stance, but to keep it broadly unchanged'*. Additionally, he said that *'all the signs now point to a strengthening and broadening recovery in the euro area – deflationary forces have been replaced by reflationary ones'*. Despite the hawkish comments, Draghi concluded that *'a considerable degree of monetary accommodation is still needed for inflation dynamics to become durable and self-sustaining'* (for more see [Bloomberg](#), 27 June 2017). As the ECB, in our view, is currently too optimistic on wages and core inflation, we stick to our view that it will extend its QE purchases and continue its monthly purchases at EUR40bn per month in H1 18.

In the UK, the Bank of England (BoE) is set to 'reduce' some of its stimuli by raising the countercyclical capital buffer to 0.5% and plans to increase the level to 1% in November 2018. According to the BoE's Financial Stability Report, each 0.5pp increase will swell the bank's cushion of common equity Tier 1 by GBP5.7bn (for more see [Bloomberg](#)).

In the US, the Senate Republicans postponed a vote on the healthcare bill yesterday after resistance from members of their own party. According to conservative Republicans, the Senate bill does not do enough to erase Obamacare, whereas moderate Republicans are worried that millions of people will lose their insurance. The House of Representatives has passed its own version of the healthcare bill last month (for more see [Reuters](#), 27 June 2017).

Yesterday in London, Fed Chair Janet Yellen reiterated that the Fed's balance sheet is set to be shrunk 'gradually and predictably' and that the Fed intends to raise interest rates only gradually (see [Reuters](#), 27 June 2017).

Selected readings from Danske Bank

[Bank of England Review: Hawkish wing but neutral core](#)

[Nordic Outlook - June 2017a](#)

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Fixed income markets

Draghi's participation in a Policy Panel at the ECB forum today (15:30 CET) will give him the chance to elaborate on the 'hawkish' introductory speech yesterday, which spurred a large EUR FI sell-off. While Draghi sparked the sell-off, it gained momentum during the day with 10Y Germany closing 12bp higher. The sell-off has 2Y Germany trading at the highest yield in more than 12 months and 2Y ASW at the tightest level since September 2016.

In the speech, Draghi seemed to open the door for gradual tightening of monetary policy measures. However, 'not in order to tighten the policy stance, but to keep it broadly unchanged'. Draghi also emphasised, as was also the case at the latest ECB meeting, that reinvestment will occur as long as necessary. The growing attention to reinvestment suggests that the ECB has become increasingly aware of the bond scarcity (in particular in Germany) beyond the current QE horizon, an awareness that is likely to weigh on the September QE decision.

The first indication of the state of euro area inflation is due to be published today with Italy releasing its June HICP prints.

Amid the large EUR FI sell-off, Scandi assets performed quite well, with the 10Y benchmark bonds all tightening relative to Bunds (DGB: 5bp, SGB: 7bp and NGB: 7bp). We expect the additional quarter-end supply of Danish mortgage bonds to be very limited this time around (DKK0-3bn excluding the 5.2bn announced from BRF) as the mortgage institutes are close to reaching their Q2 funding requirement.

FX markets

Following a rather balanced message from the ECB at the June meeting (removing the option for lower rates but downgrading the inflation outlook), yesterday's comments from the ECB's Mario Draghi marked a clear change in rhetoric, emphasising reflationary forces (which we still find it hard to buy into) and suggesting that in order to keep the effective policy stance unchanged, policy measures cannot stay constant as the economy picks up. This is just another way of saying that a first ECB rate hike is drawing closer and sooner than markets expect. This thinking – to 'normalise' sooner rather than later despite a lack of any substantial underlying inflationary pressure – echoes to a large extent the stance from the Fed recently (where we also think the eagerness to 'normalise' is overdone). While we think the exit discussions are premature in both regions, there is clearly a chance that the ECB could re-introduce the possibility of hiking rates during H2 before ending the QE scheme. Our call for EUR/USD to move below 1.10 over the summer is clearly challenged as the FX market is very susceptible to such changes in rate communication. We have been stopped out on our short EUR/USD recommendation in the Danske FX Trading Portfolio, and are currently reassessing our short-term outlook. Key events to watch out for next are the 30 June CPI figures and of course the 20 July ECB meeting. In any case, the latest move in EUR/USD clearly illustrates the sensitivity in the cross to any changes in the ECB's policy stance.

While EUR crosses were bid yesterday following Draghi's comments, EUR/SEK came down later in the day and SEK markets are starting to look towards the Riksbank next week. While we expect an unchanged repo rate and continued bond buying, focus will be directed towards whether the current 3bp easing bias is kept in place. Are there reasons to remove it? Yes: the latest inflation readings, Prospera inflation expectations and diminished global growth risks. In addition, the ECB and Norges Bank have both moved from easing to being neutral. Hence, we would not be surprised if the Riksbank followed suit. It is not a done deal though as we know that the three-headed majority has consistently erred on the side of caution and may continue to do so. If they remove the bias and in addition to that sound sufficiently hawkish, EUR/SEK should definitely test the lower end of the recent range (9.70), and if they keep it in the upper end (9.80), it will be challenged.

Key figures and events

Wednesday, June 28, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	ECB forum in Sintra					
8:45	FRF	Consumer confidence	Index	Jun		104.0	102.0
9:30	USD	Fed's Williams (non-voter, neutral) speaks					
10:00	EUR	Money supply (M3)	y/y	May	5.0%	4.9%	4.9%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	May		4.9%	4.9%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	May		4.9%	4.9%
11:00	ITL	HICP, preliminary	m/m y/y	Jun	.. 1.4%		-0.1% 1.6%
14:30	USD	Advance goods trade balance	USD bn	May		-65.5	-67.1
16:00	USD	Pending home sales	m/m y/y	May		1.1% ..	-1.3% -5.4%
16:30	USD	DOE U.S. crude oil inventories	K				-2451

Source: Bloomberg, Danske Bank

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