

Danske Daily

Market movers today

- With little interesting data out markets will focus on the situation in North Korea, the hurricane Irma hitting Florida and further digest the ECB meeting yesterday.
- **North Korea is expected to launch another Interballistic Missile (ICBM)** tomorrow when it celebrates its founding day. China voiced support yesterday for further sanctions against North Korea but also wants to see renewed efforts to begin a dialogue, see [article](#).
- **Hurricane Irma is expected to hit Florida on Sunday** after causing severe damage in the Caribbean, see [Reuters](#).
- The **ECB left its policy measures unchanged** and President Mario Draghi confirmed that the bulk of decisions regarding the QE purchases beyond 2017 will most likely be taken in October. We still believe the ECB will announce a reduction in its QE purchases to EUR40bn per month in H1 18 at the next meeting in October. See also our [ECB review: Warming up to QE extension in October](#), 7 September 2017.
- **In terms of economic data releases, it is a quiet day today.** In the UK, keep an eye on the NIESR GDP estimate for August, as it is usually a good predictor of actual GDP growth. In Germany, labour costs data for Q2 are due to be released at 08:00.
- In Sweden, household consumption in July is due while in Denmark, current account and trade balance data for July are being released this morning. **The Riksbank left a dovish message yesterday** despite keeping its policy measures including the repo rate path unchanged. The Riksbank also announced that CPIF inflation is now the formal target variable and reintroduced a +/-1 percentage point variation band. Neither has any implication for actual policymaking. See also [Comment on Riksbank: Policy intact](#), 7 September 2017.

Selected market news

With uncertainty in the market prevailing, US stock markets and Asian markets are treading water with little clear direction. While FX markets interpreted Draghi on the hawkish side sending EUR/USD above 1.20, bond yields took another nose-dive yesterday.

In a speech yesterday Fed Vice President Bill Dudley (voter, dove) reiterated his view that *'even though inflation is currently somewhat below our longer-run objective, I judge that it is still appropriate to continue to remove monetary policy accommodation gradually'*. However, he refrained from saying whether that meant another hike this year. Fed member Esther George (non-voter, hawk) overnight said that it is *'time to continue to move that interest rate higher'*. Dudley and George have given some counterweight to speeches made recently by some of the Fed doves (Brainard, Kashari and Kaplan) that have argued for patience due to low inflation. The Fed is currently split into two camps – one that wants to pause and another that wants to continue with gradual rate increases.

Chinese trade data overnight disappointed slightly with export growth being 6.9% y/y (consensus 8.7% y/y) down from 11.2% y/y in July.

Selected readings from Danske Bank

- [ECB review: Warming up to QE extension in October](#)

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Scandi markets

In Sweden, household consumption in July is due out while in Denmark, current account and trade balance data for July are being released this morning. None of these should have any market impact.

Fixed income markets

Markets will continue to digest yesterday's the ECB meeting where Draghi failed to stem the EUR appreciation and confirmed the bulk of QE decisions are likely to be announced at the October meeting. While Draghi mentioned that the Governing Council had been discussing the pros and cons of different scenarios for the future purchases, he stated that the 33% limits had not been discussed, i.e. unlikely to be lifted. The fact that the QE decision will be potentially split between two meetings highlights that an extension of QE is not as straight forward as previously. This is most likely due to the increasing difficulty of sourcing (in particular German) bonds to buy. See more in *ECB review: Warming up to QE extension in October*, 7 September 2017.

Periphery emerged as the clear winner from Draghi's lack of clear announcements. 10Y Italy closed 10bp lower and 6bp tighter relative to Bunds, with the rally gaining momentum in the wake of the press conference. Spain and Italy (and France) are set to benefit the most from a 'standard' extension of QE (i.e. an extension with increased deviation from 'capital key'). Surprisingly, Portugal was also among the top performers despite the fact that PGBs stand to gain limited support from an extension, as QE purchases are already restricted (due to the issuer limit).

The Irish government is planning to make an early repayment of bilateral loans (IMF, Sweden and Denmark) amounting to roughly EUR5.5bn. The next Irish auction is scheduled for Thursday next week and the Q4 funding plan will be announced on 2 October.

In Reading the Markets Denmark we still recommend buying 10Y DGB (0.5% Nov-27) vs. Bunds (DBR 0.5% Feb-27). In Danish mortgage bonds we continue to prefer the 2% 47's to the 2.5% 47's due to the greater convexity in the latter. *See more.*

FX markets

EUR/USD broke above 1.20 during the ECB's press conference yesterday, as the market bought the pair on ECB's more positive assessment of economic growth this year and the signals that an announcement on monetary policy awaits in October. However, at the press conference Draghi made an effort to cap a further rise in EUR/USD by stressing the negative impact on the medium-term outlook for inflation from the stronger EUR. Hence, while the price action today underscores our view that underlying EUR momentum remains strong, the market will keep in mind that ECB will likely not tolerate a further strong EUR appreciation in the short-term, which should put a soft cap on the pair ahead of the October meeting. We maintain our view, that any dip should be shallow and short-lived.

USD/JPY dropped below 108.20 driven by USD weakness on the back of EUR/USD buying related to the ECB meeting and as North Korean woes continues to weigh on risk sentiment and USD/JPY. At the time of writing, the cross has stayed above our long USD/JPY position's stop loss level at 108. However, further USD/JPY selling pressure ahead of North Korea's foundation day tomorrow could push the cross below 108 today. Previously, we have seen strong local demand below 108, but given the high uncertainty due to the US-North Korean tensions, the cross could fall substantially from here if the crisis escalates. Meanwhile, the three-month suspension of the US debt ceiling has improved the prospect of a higher USD/JPY near term. However, North Korea will continue to dominate USD/JPY price actions.

The Riksbank delivered a dovish policy response despite upping its GDP and inflation forecasts. Hence, the decision and market response, which pushed EUR/SEK 4-5 figures higher, played

out more or less as we had expected when we argued that the central bank would take a cautious stance and try to mitigate any further tightening of monetary conditions. Stefan Ingves claims that he is happily behind the curve in terms of monetary policy. On balance, we still look for EUR/SEK to remain range-bound within the range of 9.41-9.60 in the near term. Next week focus will shift to GDP Q2 revisions and August inflation data.

The Riksbank meeting drove the expected bounce in NOK/SEK yesterday, benefiting our skewed sold straddle position. Meanwhile, the three-month suspension of the US debt ceiling is in isolation a NOK negative, as Nibor fixings are less likely to rise on tighter USD liquidity (more expensive USD) in Q4. Focus will now turn to the action-packed start to next week with inflation, the Regional Network Survey and parliamentary elections. Our base case remains that EUR/NOK will remain a range play in the weeks to come.

Key figures and events

Friday, September 8, 2017

				Period	Danske Bank	Consensus	Previous
7:45	CHF	Unemployment	%	Aug		3.2%	3.2%
8:00	DEM	Trade balance	EUR bn	Jul		20.9	22.3
8:00	DEM	Labour costs	q/q y/y	2nd quarter			0.5% 2.5%
8:45	FRF	Industrial production	m/m y/y	Jul		0.8% 3.8%	-1.1% 2.6%
9:00	DKK	Current account (nsa sa)	DKK bn	Jun			... 18.9
9:00	DKK	Trade balance ex ships	DKK bn	Jul			8
9:00	DKK	Exports	m/m	Jul			
9:30	SEK	Household consumption	m/m y/y	Jul			0.0% 2.4%
10:30	GBP	Construction output	m/m y/y	Jul		-0.3% 0.2%	-0.1% 0.9%
10:30	GBP	Industrial production	m/m y/y	Jul		0.3% 0.3%	0.5% 0.3%
10:30	GBP	Manufacturing production	m/m y/y	Jul		0.3% 1.6%	0.0% 0.6%
10:30	GBP	Trade balance	GBP mio.	Jul		-3000	-4564
14:00	GBP	NIESR GDP estimate	q/q	Aug			0.2%
14:30	CAD	Net change in full time employment	1000	Aug			35.1
14:45	USD	Fed's Harker (voter, hawkish) speaks					
21:00	USD	Consumer credit	USD bn	Jul		15.0	12.4

Source: Bloomberg, Danske Bank

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