

# Danske Daily

## Market movers today

- **Norway is due to release inflation** for August today where we look for a jump higher in core inflation to 1.5% y/y. Monday also sees **parliamentary elections in Norway** and it looks to be a very close race. Not only is it unclear which bloc will have a majority, but there is considerable uncertainty about what the governing coalition will look like. For the rest of the week in Scandi focus will be on Swedish CPI, Prospera inflation survey and the regional network survey in Norway, see *Scandi Markets Ahead: Inflation week and general election and regional survey in Norway*, 10 September 2017, published yesterday.
- **There are no global market movers today** but focus continues to be on Hurricane Irma and a new vote on UN sanctions against North Korea taking place today.
- **Our weekly Strategy on Friday looked closer at the global cycle and the outlook for the Fed next year**, see *Strategy: Strong cycle while US debt limit is postponed*, 8 September 2017.

## Selected market news

**Stock markets and bond yields moved higher in Asia overnight as the damage from Hurricane Irma is set to be smaller than estimated**, see *Bloomberg*. The hurricane hit Florida on Sunday and has weakened in strength as it moves up the West coast of Florida.

**Markets were also relieved that we did not see another North Korean missile test** over the weekend. It was widely anticipated that North Korea would launch another missile on the Founding Day on Saturday. However, North Korea has warned the US on new tough UN sanctions that are set to be voted on today. The state-run news agency cited a statement from the Ministry of Foreign Affairs saying that North Korea is 'closely following the moves of the US with vigilance' and that the US would make sure the US 'pays a due price' if it pushes through harsher sanctions, see *Bloomberg*. North Korea often comes pit with warnings though, but the regime might respond with a new missile test on the back of new sanctions.

**In the UK, Brexit Secretary David Davis warned UK lawmakers of a chaotic departure** from the EU if they fail to pass a key bill on domestic legislation, see *article*.

**In Japan, machine orders rose stronger than expected** in July by 8.0% m/m (consensus 4.1% m/m) after -1.9% m/m in June. The numbers are very volatile but give a hint of robust investments going into Q3.

## Selected readings from Danske Bank

*Strategy: Strong cycle while US debt limit is postponed*, 8 September 2017

*Scandi Markets Ahead: Inflation week and general election and regional survey in Norway*, 10 September 2017

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## Scandi markets

See front page and *Scandi Markets Ahead: Inflation week and general election and regional survey in Norway*, 10 September 2017, for more on Scandi market movers this week.

## Fixed income markets

On the news front, the impact of, Hurricane Irma hitting the US west coast of Florida is in focus. Beyond the potential human tragedy it could also have economic implications for both growth and inflation. US yields are higher overnight on the outlook that the damage is set to be smaller than feared. So far the market verdict (increased uncertainty) has been a reduced likelihood of a December and 2018 hikes. However, market focus could shift to the potential upwards pressure on US inflation – in particular with US unemployment already well below the NAIRU. The main release for the global markets this week will be US CPI on Thursday.

Friday's session showed that ECB governing council communication will remain key for market direction in EUR FI over the coming month, before the future for the ECB QE programme will be decided on 26 October. Another ECB sources story hit the market on Friday suggesting that the QE options on the table were EUR40bn or EUR20bn for an additional six or nine months. The story caused some reversal of Friday's broad-based FI rally with the periphery underperforming while EURUSD strengthened further, ending the week above 120.

It is a big redemption week in the EUR FI market with coupons/redemptions of close to EUR50bn hitting the market from Germany, Italy, Finland and Austria. We expect supply of close to EUR20bn this week from the Netherlands, Germany, Italy, Portugal and Ireland where the latter (NTMA) later today will announce auction details, see more details in *Government Bonds Weekly: Positive rating cycle to continue and cash flow supportive*, 8 September 2017.

In Scandinavia, it is a big inflation week with prints out of Norway and Denmark today. In Norway, we expect base effects (weak inflation last year) to push the annual rate of core inflation up from 1.2% in July to 1.5% in August. That would be 0.4pp higher than Norges Bank projected in June and, in isolation, push up the interest rate path in the new monetary policy report on 21 September. We also have the general election in Norway today, and it is set to be a very close race. Not only is it unclear which bloc will have a majority, but there is considerable uncertainty about what the governing coalition will look like. As there are still only relatively minor differences in economic policy between the parties, and the fiscal rule for the spending of oil money imposes clear limits on fiscal leeway, we do not expect any market reaction to the election results. In Denmark, we estimate a downward correction in inflation for August after the jump in prices for food, package holidays and holiday homes in July. We estimate a reading of 1.1% y/y down from 1.5% in July, see more details on the above in *Scandi Markets Ahead: Inflation week and general election and regional survey in Norway*.

## FX markets

The beginning of the week is dominated by the Norwegian data calendar. First off is this morning's inflation print which is likely to confirm that inflation will be a positive factor for the rate path at the forthcoming Norges Bank meeting in September. Meanwhile the strength of the NOK – relative to Norges Bank's June projections - is likely to more-than-counter the positive inflation effect which means Norges Bank is unlikely to signal imminent rate hikes on 21 September. Overall, that suggests EUR/NOK will remain range bound in the weeks to come. We do not expect the parliamentary elections to have any noteworthy effect on the NOK.

In the majors, EUR/USD remains bid. Last week's ECB meeting highlighted markets predisposition to buy the EUR as the single currency rose despite Draghi's emphasis on the exchange rate's negative effects on the inflation outlook. The weekly CFTC IMM data showed that investors continued to add long EUR/USD exposure ahead of the ECB meeting as positioning in the cross reached the highest level since 2013 (see *chart*). See *IMM Positioning Update - speculative EUR/USD positioning reaching a multi-year high*, 11 September 2017.

Given the last sessions' price action we suspect positioning has turned even longer. While that does suggest a rise in the cross sensitivity to the downside, we maintain that any near-term dip will remain short-lived. On the other hand, markets will also keep in mind that further EUR appreciation will test ECB tolerance, which should keep a soft cap on EUR/USD ahead of the October meeting.

On Friday, USD/JPY broke below 108, and we were stopped out of our long USD/JPY in the *Danske FX Trading Portfolio: Buy USD/JPY spot*, 15 August 2017. The main driver behind the decline on Friday appeared to be concerns about North Korea ahead of the country's foundation day this weekend. The cross has bounced overnight in the Asian session as tensions did not escalate further and in the near term, we still expect USD/JPY to trade within the 108-111 range. We stress, however, that risks remain skewed to the downside if the crisis escalates further. Fundamentally, we still see a case for a higher USD/JPY over the medium-term horizon, driven by Fed-Bank of Japan divergence, higher global yields (eventually) supported by global growth recovery and portfolio outflow out of Japan. However, as we are now entering a phase with increasing focus on domestic politics in Japan, and not least the decision on who will be the next BoJ governor as Haruhiko Kuroda term as BoJ governor expires in April 2018, we see a risk of higher volatility and JPY appreciation and we prefer to stay sidelined in USD/JPY for now. The decision about the next BoJ governor is expected by end-2017 and we still think it is most likely that Kuroda will be reappointed.

#### Key figures and events

Monday, September 11, 2017			Period	Danske Bank	Consensus	Previous
-	NOK	Parliamentary elections				
1:50	JPY	Machine orders	% Jul			
8:00	NOK	Core inflation (CPI-ATE)	m/m/y/y Aug	-0.3% 1.5%		0.3% 1.2%
8:00	NOK	CPI	m/m/y/y Aug			0.3% 1.5%
8:00	NOK	PPI	m/m/y/y Aug			-1.0% 1.8%
9:00	DKK	CPI	m/m/y/y Aug	-0.7% 1.1%	... 1.3%	0.8% 1.5%

Source: Bloomberg, Danske Bank

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