

Danske Daily

Market movers today

- On a day with only tier-2 data out on the global front, focus is likely to continue to be on the situation with North Korea, where markets will digest the UN vote yesterday. Further reports on the cost of Hurricane Irma may also affect whether the boost to risk sentiment over the past days has more legs (see below).
- It is fairly quiet on the global data front today. The **UK is due to release CPI** for August where we look for a rise in CPI of 0.5% m/m (rounded up), which should be enough to push CPI inflation up from 2.6% to 2.8% y/y – in line with consensus.
- The US is due to release the **NFIB small business optimism** index for August. The index rose sharply after the election of Donald Trump but levelled off in early 2017. However, last month it jumped higher again, adding to signs that US activity is re-gaining momentum. Consensus is for a small decline to 104.8 from the very high level 105.2 in July.
- In Scandi it is time for **Swedish inflation** and the regional **network survey from Norway**. We look for Swedish inflation to be higher than consensus and the Riksbank's estimate, see Scandi Markets on the next page for more.

Selected market news

Risk appetite continued to strengthen yesterday. US stocks rallied more than 1% to a new cycle high as easing event risks are letting the strengthening business cycle shine through. See also *Strategy – Strong cycle while US debt limit risk is postponed*, 8 September 2017. The three event risks weighing on markets (North Korea, hurricanes and the US debt limit) have all eased and paved the way for a risk rally. US bond yields moved higher in response and EUR/USD corrected a bit further falling below 1.20 yesterday.

The UN Security Council last night agreed unanimously to step up sanctions against North Korea following its sixth and most powerful nuclear test on 3 September, see *Reuters*. After a week of negotiations a watered down resolution was voted through the Council as the US had to drop several measures to gain support from Russia and China. Instead of a full oil embargo, the resolution implies a reduction in oil and fuel exports to North Korea. New language was also added urging 'further work to reduce tensions so as to advance the prospects for a comprehensive settlement'. The latter is likely to be a demand from Russia and China that do not believe sanctions are likely to stop the regime in Pyongyang from its nuclear ambitions.

In the UK, Prime Minister Theresa May won a small victory as the EU withdrawal bill passed in parliament with a vote of 326 to 290, see *Bloomberg*. It has been controversial as it gives ministers strong powers to change legislation without it being fully accepted by parliament (so-called 'Henry VIII powers' named after the Tudor King).

In **Norway**, the parliamentary elections led to the re-election of the conservative government. Hence, any short- or long-term uncertainty regarding economic policy should be reduced.

Selected readings from Danske Bank

- *Strategy – Strong cycle while US debt limit risk is postponed*, 8 September 2017

Follow us on *Twitter*:



@Danske_Research

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Scandi markets

In **Sweden**, August CPIX inflation and CPIX excluding Energy are due out. We expect the figures to come in at 0.2 and 0.1 percentage points higher than the Riksbank's new forecasts at 2.4% y/y and 2.1% y/y, respectively. Indeed, our current forecasts are on the upside of the Riksbank's until summer next year, when our forecasts diverge. That said, inflation is likely to peak in the short term and then embark on a downward trend. That trend is driven by weak fundamentals, i.e. modest wage cost pressures and a gradually dampening impact of the krona.

In **Norway**, the Regional survey from Norges Bank (NB) is due at 10.00. This is NB's preferred measure of economic activity, and the aggregated output index (for the next six months) has shown a clear upswing in recent quarters. Going by recent data, it seems that the growth outlook is even brighter than at the time of the last survey, so we estimate the index to have climbed from 1.29 to around 1.4-1.5. If so, this would be somewhat higher than the neutral level for NB around 1.3, based on its June forecast for GDP growth of 0.6 -0.7 % q/q for the rest of the year. On the other hand, we are also very interested in firms' take on capacity constraints. To our mind, recent reports from the regional network have indicated that capacity utilisation in the Norwegian economy is a fair bit higher than NB's estimates of the output gap would suggest.

Fixed income markets

The global bond sell-off gained momentum yesterday night as the fear of North Korea receded and as the bill from Hurricane Irma seems smaller than expected. It boosted risk sentiment and especially US fixed income came under pressure with 10-year US Treasury yields up some 8bp over the trading session. The market is still pricing in just a 35% probability of a December hike and with the balance sheet reduction widely expected to be announced next week, the risk to US yields seems skewed to the upside.

However, several ECB members were on the wire yesterday and the ECB continues to signal 'policy normalisation', but also that any normalisation will be very gradual. But given that the first hike from the ECB is not priced in before mid-2019, the risk is that the market will get nervous in light of the US fixed income sell-off.

Yesterday's inflation outcomes in Norway (lower than expected) and Denmark (higher than expected) did not rock our estimate for Swedish August inflation today. Sweden is more correlated with Norway when it concerns airline tickets; hence, the steep decline there looks reasonable. On the other hand, charter packages are more correlated with Denmark and the 2% drop in recreation is spot on our forecast for Sweden for that component. Finally, food prices are co-moving with Danish prices so a moderate drop is what we count on. The most obvious risk is that charter packages decline more than what we have assumed as they rose much more in previous months. Just to clarify, these are our forecasts: CPI at -0.1% m/m and 2.2% y/y, CPIX -0.1% m/m and 2.4% y/y and CPIX excl. Energy -0.2% m/m and 2.1% y/y. The Riksbank's forecast for the last two is 2.2% y/y and 2.0% y/y, respectively.

FX markets

It will be a key session in Scandi FX markets with both Swedish inflation and the Norwegian Regional Network Survey due out. On the back of both EUR/SEK and EUR/NOK having moved higher, we see prospects of both pairs erasing some of yesterday's gains in today's session.

Starting with EUR/SEK, our call for core inflation is above not only that of the Riksbank but also market consensus. If proven right, that should send EUR/SEK somewhat lower but we still emphasise that the print might well be the peak in the yearly core inflation rate underpinning that the Riksbank is nowhere near hiking rates. To us, that also limits the downside potential in the cross even if our fundamental predisposition remains to sell EUR/SEK on rallies.

In terms of EUR/NOK, today's Regional Network Survey is likely to show that mainland growth prospects remain solid, and somewhat better than projected by NB. Meanwhile, with (1) low

inflation, (2) a strong NOK versus NB's forecast, (3) a cooling housing market and (4) lower global rates, NB can easily extend the on-hold stance at its meeting next week. We maintain that EUR/NOK is a range play but the risk of a correction higher has increased, in our view. Specifically, given the recent rise in long NOK positions, EUR/NOK has become increasingly sensitive to drops in the oil price. As expected, the parliamentary election in Norway had very limited market impact.

Key figures and events

Tuesday, September 12, 2017					Period	Danske Bank	Consensus	Previous
9:00	DKK	Gross unemployment s.a.	K (%)	Jul	4.3%	4.3%	116 (4.3%)	
9:30	SEK	Underlying inflation CPIF	m/m y/y	Aug	-0.1% 2.4%	... 2.2%	0.6% 2.4%	
9:30	SEK	CPI	m/m y/y	Aug	-0.1% 2.2%	... 2.1%	0.5% 2.2%	
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	Aug	1.45		1.3	
10:30	GBP	PPI -input	m/m y/y	Aug		1.3% 7.3%	0.0% 6.5%	
10:30	GBP	CPI	m/m y/y	Aug	0.5% 2.8%	0.5% 2.8%	-0.1% 2.6%	
10:30	GBP	CPI core	y/y	Aug	2.6%	2.5%	2.4%	
12:00	USD	NFIB small business optimism	Index	Aug	104.5	105.0	105.2	

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 12 September 2017, 05:51 GMT

Report first disseminated: 12 September 2017, 06:40 GMT