12 August 2016

Danske Daily

Market movers today

- **After a couple of days dominated by Scandi-market releases, focus today will turn to the state of the US consumer as private consumption continues to be the main growth engine in the US**. Although we think the **US economy** also risks disappointing in H2 16 due to contagion effects from Brexit uncertainties, we think US consumers will be relatively unaffected. It is mainly through continued weak non-residential investments that the US economy could take a hit from Brexit. However, any contagion effects are yet to be seen. The most important data release today is the retail sales report for July where we estimate the control group (the component that feeds into GDP) grew 0.3% m/m. If we are right, private consumption growth got off to a great start in Q3 after a very strong Q2. The preliminary consumer sentiment index from the University of Michigan for August is also due. We expect it to stay around its current level at 90, which is relatively high, suggesting that US consumers are still optimistic.

- In the **euro area** the second release of Q2 GDP growth is due for release together with the first release of the German figure. The first estimate for the euro area showed economic growth at 0.3% q/q and 1.6% y/y, which is still higher than the potential growth rate of the euro area. Domestic demand has been the main driver of GDP growth in recent years, but the higher oil price in Q2 is likely to have been a headwind to private consumption, see *Flash Comment – Euro area: higher inflation, activity data are pre-Brexit,* 29 July 2016.

- Also **Euro area and German** industrial production figures for June will be released. In line with the GDP figures mentioned above, the data covers the period before the Brexit vote, implying it will attract less attention.

- **UK** construction data for June will give us information about whether to expect revisions to the first estimate of Q2 GDP growth, which came out pretty strong at 0.6% q/q.

- In **Hungary** and **Poland**, Q2 GDP numbers will be released. After temporary weakness in Q1, we expect growth to rebound to 0.8% and 1% qoq in Q2, respectively, mainly thanks to relatively strong private consumption growth amid record low unemployment and high wage growth.

Selected market news

In US **equity markets** the S&P500, Dow Jones and Nasdaq all reached record highs on the same day – a coincidence of events that last happened in 1999. In commodities, **the oil price** has soared on comments from the Saudi energy minister that OPEC could take steps next month to stabilise oil prices. Brent crude breached USD46/bbl for the first time since 22 July.

The higher oil price has supported traditional **G10 oil currencies** such as **CAD** and **NOK**. The latter has in recent days also been aided by rates markets significantly pricing out the likelihood of additional rate cuts from **Norges Bank** (NB) amid accelerating housing market and CPI inflation. We want to emphasize that if NB does not react over the next six weeks (including the next monetary policy meeting on 22 September) by either cutting rates or addressing tight NOK liquidity, the higher Nibor fixings following the *US money market reform* will have driven a de-facto monetary tightening in Norway at a time of a continued weak growth outlook.

Selected readings from Danske Bank

- *The MM reform – the Scandi angle*
- *Flash Comment: China holiday wrap-up: sentiment improving*
- *Flash Comment US: Another strong job report makes it more likely Fed will hike in H2 16*
- *Strategy: Central bank fatigue gives way to fiscal stimulus*
- *IMM Positioning Update*
- *Strategy – What US investors think and how we differ*

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NB will also be aware that unchanged policy would implicitly ratify this tightening, triggering additional NOK strength (even tighter monetary conditions). **We therefore think it is still too early to expect additional NB easing.**

In **China,** retail sales, fixed asset investment and industrial production all disappointed market expectations as rising metal prices, PMI and credit growth had pointed to higher numbers (see *Flash Comment – China holiday wrap-up*, 9 August). The releases underline the fragility of the Chinese recovery and increase the probability of additional fiscal easing.

Fixed income markets

We expect more of the same in the European fixed income markets today – modestly tighter spreads between core and peripheral European government bonds as well as a modest decline in yields. There are few key economic data releases as we only expect US retail sales for July this afternoon, while a string of Q2 GDP data is due from Germany, Italy, Portugal and the eurozone. An upward surprise on the growth data for Italy and Portugal would be supportive for peripheral spreads – in Italy and Portugal the consensus forecasts for growth are 0.8% y/y and 1.0% y/y, respectively.

FX markets

The NOK and SEK continue to perform. Yesterday, the main driver was the higher-than-expected Swedish CPI figure, which rose 1.4% y/y (0.1% point above the Riksbank's forecast). We still expect the SEK to perform in the near term driven by pent-up demand from 'natural SEK buyers' which should help it to claw back most of its summer losses in the weeks to come.

In the majors, today's US retail sales will take centre stage and be directional for USD today. Our forecast of a 0.3% m/m increase in the control group is in line with consensus and thus should not trigger any significant market reaction, although it should be positive to get a confirmation that private consumption growth got off to a great start in Q3 after a very strong Q2. Overall, we still expect EUR/USD to stay within the range of 1.10-1-14 in the near term, while we maintain our medium-term bullish view that EUR/USD should eventually trade higher on valuation and current account differentials.

Key figures and events

Friday, August 12, 2016				Period	Danske Bank	*Consensus*	Previous
0:45	NZD	Retail sales	q/q	2nd quarter		*1.0%*	0.8%
4:00	CNY	Fixed assets investments	y/y	Jul		*8.9%*	9.0%
4:00	CNY	Industrial production	y/y	Jul		*6.2%*	6.2%
4:00	CNY	Retail sales	y/y	Jul		*10.5%*	10.6%
8:00	DEM	HICP, final	m/m|y/y	Jul	**...|0.4%**	*0.4%|0.4%*	0.4%|0.4%
8:00	DEM	GDP, preliminary	q/q|y/y	2nd quarter	**0.2%|...**	*0.3%|1.4%*	0.7%|1.6%
9:00	ESP	HICP, final	m/m|y/y	Jul	**...|-0.6%**	*...|-0.6%*	-1.3%|-0.6%
10:00	ITL	GDP, preliminary	q/q|y/y	2nd quarter	**0.2%|...**	*0.2%|...*	0.3%|1.0%
10:30	GBP	Construction output	m/m|y/y	Jun		*-1.0%|-2.0%*	-2.1%|-1.9%
10:30	EUR	Portugal, GDP, preliminary	q/q|y/y	2nd quarter			0.2%|0.9%
11:00	EUR	Industrial production	m/m|y/y	Jun	**0.5%|...**	*0.6%|0.9%*	-1.2%|0.5%
11:00	EUR	GDP, preliminary	q/q|y/y	2nd quarter	**0.3%|...**	*0.3%|1.6%*	0.3%|1.6%
14:30	USD	Retail sales less autos	m/m	Jul		*0.2%*	0.7%
14:30	USD	Retail sales less autos and gas	m/m	Jul		*0.4%*	0.7%
14:30	USD	Retail sales	m/m	Jul		*0.4%*	0.6%
14:30	USD	Retail sales control group	m/m	Jul	**0.3%**	*0.4%*	0.5%
14:30	USD	PPI	m/m|y/y	Jul		*0.1%|0.3%*	0.5%|0.3%
14:30	USD	PPI core	m/m|y/y	Jul		*0.2%|1.2%*	0.4%|1.3%
16:00	USD	University of Michigan Confidence, preliminary	Index	Aug	**91**	*91.3*	90.0

Source: Bloomberg, Danske Bank Markets

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