

Danske Daily

Market Movers

- Today we get the ISM manufacturing index for June. Regional indices and the Markit PMI manufacturing index point to a stabilisation in the ISM manufacturing index, while the order-inventory balance points to an increase. We think ISM manufacturing will stay around the current level over the next months and estimate the index was unchanged at 51.3 in June.
- In Norway and Sweden manufacturing PMIs will be published today. In Norway, the unemployment rate is due for release.

Selected Market News

Bank of England Governor Mark Carney delivered a very dovish speech yesterday, stating that the 'economic outlook has deteriorated' due to Brexit uncertainties and that he personally thinks 'some monetary policy easing will likely be required over the summer'. Carney said that he viewed the two meetings in July and August as a 'package' and that BoE will publish the first full projections after Brexit in the next Inflation Report due in August. We believe the BoE will eventually cut the bank rate to 0.00% from 0.50% and expand the Asset Purchase Facility (APF) by GBP150-200bn. The GBP weakened and stock prices rose on the comments.

Nominations for conservative party leadership closed yesterday. Boris Johnson surprised by not entering the run and five candidates are thereby lined up: Stephen Crabb, Liam Fox, Michael Gove, Andrea Leadsom and Theresa May with Gove, Crabb and May likely seen as the three 'main' candidates. Next week the Conservative MPs have to reduce the number of candidates from five to two. Party members will then vote and the new leadership is chosen on 9 September.

The Chinese manufacturing PMI indices released this morning were somewhat disappointing in our view. The official manufacturing PMI dropped slightly to 50 in June from 50.1 in May and the Caixin manufacturing PMI declined to 48.6 from 49.2 – we had expected both indices to stay unchanged. The official non-manufacturing PMI rose to 53.7 from 53.1 thus mitigating the lower activity in the manufacturing sector.

In Japan, the Tankan index for large manufacturers, which surveys the outlook for this sector, rose to 6 in Q2 from 3 in Q1, while the similar index for large non-manufacturers fell to 19 in Q2 from 22 in Q1. CPI inflation excluding fresh food dropped to minus 0.4% y/y in May from minus 0.3% in April. The overall weakness in Japanese key figures released this morning will put pressure on Bank of Japan to ease monetary policy further.

Selected readings from Danske Bank

- *Brexit Monitor No. 15: Day 7 after UK's decision to leave the EU*

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Scandi Markets

Norway. We expect a moderate increase in gross unemployment of 250 people m/m, suggesting that the number of jobless is levelling off. The unemployment rate will probably climb to 3.0% for seasonal reasons. The PMI hit an 18-month high in May, passing the 50 mark – which points to growth – for the first time in over a year. It will be interesting to see whether the June figures confirm this acceleration in activity or bring a correction. Consensus is looking for a correction to 50.5.

Fixed Income Markets

The German 30Y (BUXL) future sold off 5 big figures around the European close on the back of this *BBG story*. It states that ‘some Governing Council members favour changing allocation of bonds purchases away from the size of a nation’s economy to one more in line with outstanding debt’. Will Germany really allow 25% of PSPP purchases in BTPS? For cross sovereign market implications of altered QE weights see *Twitter*.

FX Markets

The GBP weakened heavily with EUR/GBP initially spiking to the highest level since 2014 (to above 0.8380) before settling c.40 pips lower following a dovish statement by BoE governor Carney. We still maintain the view that risks are skewed towards an even weaker GBP over the coming months and we forecast EUR/GBP at 0.86 in 1M. In the Scandies both SEK and NOK are little changed on the day. We think the SEK will trade around current levels but look for strengthening next week after the turn of the quarter will lead to Funds shorting the cross. EUR/DKK has edged slightly higher over the past few days but still trades close to 7.4400.

Key figures and events

Friday, July 1, 2016

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Belgium's debt rating					
-	USD	Total vehicle sales	m	Jun		17.3	17.37
1:30	JPY	CPI - national	y/y	May		-0.5%	-0.3%
1:30	JPY	CPI - national ex. fresh food	y/y	May		-0.4%	-0.3%
1:30	JPY	CPI - national ex. fresh food and energy	y/y	May		0.6%	0.7%
1:30	JPY	CPI- Tokyo	y/y	Jun		-0.4%	-0.5%
1:30	JPY	CPI - Tokyo ex fresh food	y/y	Jun		-0.5%	-0.5%
1:30	JPY	Household spending	y/y	May		-1.0%	-0.4%
1:30	JPY	Unemployment rate	%	May		3.2%	3.2%
1:30	JPY	Job-to-applicant ratio		May		1.35	1.34
1:50	JPY	Tankan large manufacturers index (outlook)	Index	2nd quarter		4.0	6.0 3.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	2nd quarter		19.0	22.0 17.0
3:00	CNY	PMI manufacturing	Index	Jun	50.1	50.0	50.1
3:00	CNY	PMI non-manufacturing	Index	Jun			53.1
3:45	CNY	Caixin Manufacturing PMI	Index	Jun	49.2	49.2	49.2
4:00	JPY	Nikkei Manufacturing PMI, final	Index	Jun			47.8
7:00	JPY	Consumer confidence	Index	Jun		41.0	40.9
8:30	SEK	PMI manufacturing	Index	Jun		53.5	54.0
9:00	NOK	PMI manufacturing	Index	Jun		50.5	51.1
9:15	ESP	PMI manufacturing	Index	Jun	52.0		51.8
9:45	ITL	PMI manufacturing	Index	Jun	52.0		52.4
9:50	FRF	PMI manufacturing, final	Index	Jun	47.6		47.9
9:55	DEM	PMI manufacturing, final	Index	Jun	54.2	54.4	54.4
10:00	EUR	PMI manufacturing, final	Index	Jun	52.3	52.6	52.6
10:00	NOK	Unemployment	%	Jun	3.0%	3.0%	2.9%
10:30	GBP	PMI manufacturing	Index	Jun			50.1
11:00	EUR	Unemployment	%	May	10.2%	10.1%	10.2%
15:45	USD	Markit manufacturing PMI, final	Index	Jun			51.4
16:00	USD	Construction spending	m/m	May		0.6%	-1.8%
16:00	USD	ISM manufacturing	Index	Jun	51.3	51.5	51.3
16:00	USD	ISM prices paid	Index	Jun		63.8	63.5

Source: Bloomberg, Danske Bank Markets

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First date of publication

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