

1 August 2016

Danske Daily

Market movers today

- US ISM manufacturing data is due out today and is expected to be unchanged at 53 or slightly higher. The main event this week will be the US non-farm payrolls.
- No major events or key economic data from Euroland is due out apart from ‘final’ manufacturing PMI data from Germany, France and Euroland for July. Sweden is also due to release manufacturing PMI data.
- It has been a mixed session in the Asian equity markets this morning. 10Y Japanese bond yields continue to rise.

Selected market news

Last week ended with strong support to the FI market following the weak US Q2 GDP data and a decent month-end index extension in the European government bond market. It was a more mixed picture in the US equity market after the weaker-than-expected US GDP data. The soft GDP data supports the view that the Federal Reserve is likely to stay on hold in September and possibly for the rest of 2016. However, two Federal Reserve governors, Williams from San Francisco and Kaplan from Dallas, have both said that the weak GDP data does not rule out a 2016 rate hike. Similar comments are expected in the speech by New York Fed Governor Dudley today. Hence, there will be plenty of focus as always on the non-farm payrolls report due out on Friday.

It has been a mixed session in the Asian equity markets this morning as most indices are back to positive after an initial negative opening. Chinese economic data released this morning showed a ‘mixed’ picture as the official manufacturing PMI slipped below 50, while ‘private’ manufacturing PMI rose above 50.

The Bank of England is due to meet on Thursday and there is plenty of focus on more easing since Brexit. See more below in our FX section.

Selected readings from Danske Bank

- [Euro-area banking stress test better than feared](#)

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Scandi markets

No major events in the Scandi markets today. Sweden is due to release manufacturing PMI data for July.

Fixed income markets

The EU banking stress test released late Friday was better than feared and should at least reduce tail risk from the banking sector short term. The EBA reports that on an aggregate level the 51 banks included had a CET1 ratio of 13.2% at the end of 2015. This is a significant improvement of the capital base and 200bp higher than in the sample in 2014 and 400bp higher than in the 2011 stress test. No banks passed or failed as the stress test does not judge banks against a single capital threshold.

Ahead of the stress test results a lot of focus had been on the fragility of the Italian banking sector and Monte dei Paschi di Siena was also the worst performer in the test with a CET1 capital (fully loaded) ratio dropping to a negative 2.4% in the adverse scenario. We do not expect the result of the stress test to be a major game changer to overall market sentiment. Hence, we expect only a small positive market impact today as some market concern regarding the 'true state' of the European banking sector will prevail also after this report.

In the primary market there will be some activity this week with France coming to the market in the long end with EUR5.5-6.75bn in 10Y, 16Y, 19Y bonds and long-dated inflation-linked bonds. Spain is also due to come to the market on Thursday with a tap in the 3Y and 5Y SPGBs and 3Y inflation-linked bond but it has cancelled the second auction in August, triggering a renewed outperformance versus Italy. Finally, Germany due to tap in the 2Y benchmark on Wednesday. Note also that Denmark has an auction scheduled for Wednesday this week.

Last week ended with strong support to the FI market following the weak US Q2 GDP data and decent month-end index extension. This week, the FI market should be supported by large redemptions out of Italy and Spain that amounts to EUR43bn, which should help cushion the market also.

FX markets

Last week ended very eventfully in FX markets with not least the Bank of Japan (BoJ) disappointing market expectations by modifying only the qualitative leg of its easing programme while leaving the quantitative size and rates unchanged (see '*BoJ Review: BoJ disappoints but keeps door open for more easing*', 29 July 2016). On the back of the disappointment we now expect USD/JPY to remain heavy in coming weeks, targeting 100 in 1M. As such, a fiscal package announcement in Japan might be positive for risk but expectations are already high and we do not think that a soft promise of further easing in September will be enough to stop the yen from appreciating further in the short term. On the other hand, investors are already speculatively stretched short USD/JPY (see '*IMM Positioning Update*', 1 August 2016) and the risk of BoJ FX interventions in the event of significant JPY appreciation is likely to discourage investors from buying large-scale JPY.

This week, focus in FX markets will very much be on the GBP given the key Bank of England's monetary policy decision on Thursday. In July, Governor Mark Carney disappointed heavily by not cutting rates while stating that more time was needed for evaluating the effects of Brexit. Since then survey data for business, consumers and the housing market have all painted a negative outlook for the economy, signalling that the EU's second largest economy is heading into recession. While market expectations are already running high – with a full cut priced in for Thursday's meeting – we emphasise that our call for more GBP weakness is based on both aggressive monetary easing and a reversal of the financial account flows that have financed the UK's large current account deficit. We therefore still expect EUR/GBP to reach 0.90 over the next six months.

Key figures and events

Monday, August 1, 2016				Period	Danske Bank	Consensus	Previous
-	JPY	Official reserves assets	USD bn	Jul			1265.4
3:00	CNY	PMI manufacturing	Index	Jul		50.0	50.0
3:00	CNY	PMI non-manufacturing	Index	Jul			53.7
3:15	USD	Fed's Dudley (voter, dovish) speaks					
3:45	CNY	Caixin Manufacturing PMI	Index	Jul	49.0	48.8	48.6
4:00	JPY	Nikkei Manufacturing PMI, final	Index	Jul			49.0
8:30	SEK	PMI manufacturing	Index	Jul			53.0
9:00	NOK	PMI manufacturing	Index	Jul			53.5
9:15	ESP	PMI manufacturing	Index	Jul	51.2		52.2
9:45	ITL	PMI manufacturing	Index	Jul	52.1		53.5
9:50	FRF	PMI manufacturing, final	Index	Jul	48.6		48.6
9:55	DEM	PMI manufacturing, final	Index	Jul	53.7	53.7	53.7
10:00	EUR	PMI manufacturing, final	Index	Jul	51.9	51.9	51.9
10:30	GBP	PMI manufacturing	Index	Jul	49.1	49.1	49.1
15:45	USD	Markit manufacturing PMI, final	Index	Jul	52.9	52.9	52.9
16:00	USD	ISM manufacturing	Index	Jul	52.5	53.0	53.2
16:00	USD	ISM prices paid	Index	Jul		61.0	60.5
16:00	USD	Construction spending	m/m	Jun		0.5%	-0.8%

Source: Bloomberg, Danske Bank Markets

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