

1 September 2016

Danske Daily

Market movers today

- **In the euro area, manufacturing PMIs for Spain and Italy will be released today.** The flash estimate for the euro area showed a slight decline in manufacturing PMI to 51.8 from 52.0 but overall the PMIs indicate that the euro area is on a steady growth path in Q3. As the French and German manufacturing PMI both saw a slight decline in line with the euro area PMI, we expect a very similar small decline in the Italian and Spanish manufacturing PMI.
- **Also, look out for the PMI manufacturing index for the UK although the service sector remains the most important sector for the UK economy.**
- **In the US, ISM manufacturing index data for August is due out.** We look for a decline to 51.8 in August, due to the decline in the preliminary Markit PMI manufacturing and weak regional indices. We think the manufacturing cycle has turned since the lows of early 2016 but also that an ISM manufacturing index above 52 is probably too high in the current situation.
- **In the Scandies,** Norwegian and Swedish PMIs are also due for release. Also, retail sales data for July in Norway are due.

Selected market news

It is now September, marking the first trading day of Q3. Looking at the Asian stock market, the picture is rather mixed with Japan stocks up and Chinese stocks down. Yesterday, the oil price fell further and Brent oil is currently trading just above USD47 per barrel. Today could be a quiet day despite many data releases as we are waiting for the non-farm tomorrow. Yesterday's ADP report was decent showing employment rose 177,000 in August although it is not always the best indicator. A strong report would most likely increase the expectations of a Fed hike later this year.

During the night, Chinese PMIs came out better than expected. The official manufacturing PMI in August rose to 50.4 in August from 49.9 in July, the highest level in almost two years. Non-manufacturing PMI fell slightly from 53.9 in July to 53.5 in August. The private Caixin PMI manufacturing index fell from 50.6 in July to 50.0 in August. The index rose sharply in July so it was expected that it would come down again. Overall, it was encouraging that the official PMI manufacturing index recovered in August and is back above 50 indicating higher economic activity. That said, we still look for the Chinese economy to muddle through in H2, with construction activity still pulling up while fading fiscal stimulus is expected to weigh on activity rest of the year.

The Republican candidate Donald Trump repeated his tough stance on immigration in his speech yesterday, saying that all illegal immigrants are 'subject to deportation'. He also repeated that he will build a wall between US/Mexico, which he wants Mexico to pay for.

Selected readings from Danske Bank

- *Emerging Markets – still decent prospects even with a possible Fed rate hike in 2016*

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Scandi markets

Norway. Coming up today are retail sales data for July, which will give us an idea of how private consumption is reacting to higher inflation eating away at consumers' purchasing power. We reckon the tourist boom will have helped prop up consumption and so estimate retail sales grew 0.2% m/m. The PMI and actual manufacturing production have risen more or less in tandem since September last year, leading us to conclude that the headwinds from the oil industry are easing. In June, however, they moved in opposite directions, with the PMI hitting a four-year high but industrial production dropping 2.9 % m/m, so it will be interesting to see if there is a correction in the PMI in August.

Fixed income markets

Today, the Spanish Tesoro will tap between EUR3.5bn and EUR4.5bn in the SPGB 0.25% 01/19, SPGB 1.3% 10/26, SPGB 2.90% Oct-46 and between EUR0.25bn and EUR0.75bn in the 15Y Spanish linker SPGB 1% 11/30. The deadline for bids is 10:30 CET. Danske Bank is a primary dealer in Spain. See our auction preview [here](#).

Spanish government bonds have for several months performed well against Italy and core EU given modest supply and the solid purchase from the ECB QE programme. But the valuation versus Italy is still stretched, in our view, even after the repricing seen over the past few days.

We expect decent demand for the 3Y benchmark, as there is still a solid spread to core-EU bonds. The linker bond should also go well given the focus on rising inflation in the autumn. It is more difficult to see demand for the 30Y bond, although the possible change in the ultimate forward rate (UFR) for the European life insurance companies could give a boost to 30Y bonds such as Spain.

France will also be in the market where focus will be on the new FRTR Nov '26. 10Y France has lost slightly both versus bunds and other semi core countries over the past couple of weeks and that should attract investors. The debt office will also sell in 20Y and 30Y bonds. Hence, a lot of duration from France today. France has planned to sell EUR8-9bn today.

It is 'syndication season' and yesterday Finland saw good demand for its seven-year bond. It was sold with a negative yield of 22bp just above the -40bp threshold that would have made it ineligible for QE purchases. Demand was healthy with orders of EUR11bn for the EUR3bn issue.

Finally, today is the first trading day of the new month and focus is on the index extension, which is expected to benefit Italy. See our [index extension update](#).

The US treasury market was in wait-and-see mode last night ahead of tomorrow's non-farm payrolls report. We also look for a 'quiet' day today ahead of Friday's release.

FX markets

EUR/USD continues to grind lower as market's expectations for a September hike from the Fed are increasing slowly as US data continues to look solid and thus not rule out this scenario. The market is currently pricing in a 30% probability of a hike in September. In mid-August, the market's implied probability of a September hike was only around 10%. US jobs report on Friday will be pivotal for the short-term outlook for USD. If we get a strong report, expectations of a rate hike will probably rise to 70-80% and EUR/USD could decline and test July's lows at 1.0952 in this scenario.

The strengthening of the US dollar has in particular supported USD/JPY, which rose to 103.50 yesterday – the highest level since the BoJ's monetary policy meeting on 29 July when it disappointed market's expectations. As such, we expect USD/JPY to remain supported going

into the Bank of Japan's and FOMC meetings on 21 September on rising expectations of actions from both central banks.

EUR/NOK and EUR/SEK moved higher yesterday along with a decline in equity markets. Norwegian Q1 GDP data released yesterday was stronger than expected, and we are left with high inflation, strong housing prices and domestic growth on the upside and the elevated money market spread on the downside ahead of the Norges Bank-meeting on 22 September. However, we stick to our non-consensus view that the change in the outlook since June is insufficient to turn Norges Bank from a strong easing bias to an actual tightening. Hence, we still see risks tilted to the upside for EUR/NOK ahead of the 22 September. Important data in the coming weeks which could alter our view will be inflation figures (9 September), the Regional survey (13 September) and maybe housing prices (5 September).

Key figures and events

Thursday, September 1, 2016					Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Aug			17.25	17.77
-	JPY	Official reserves assets	USD bn	Aug				1264.8
3:00	CNY	PMI manufacturing	Index	Aug			49.9	49.9
3:00	CNY	PMI non-manufacturing	Index	Aug				53.9
3:30	AUD	Retail sales	m/m	Jul			0.3%	0.1%
3:45	CNY	Caixin Manufacturing PMI	Index	Aug	49.8		50.1	50.6
4:00	JPY	Nikkei Manufacturing PMI, final	Index	Aug				49.6
8:30	SEK	PMI manufacturing	Index	Aug			54.0	55.4
9:00	NOK	PMI manufacturing	Index	Aug				54.8
9:15	ESP	PMI manufacturing	Index	Aug			50.8	51.0
9:45	ITL	PMI manufacturing	Index	Aug			51.4	51.2
9:50	FRF	PMI manufacturing, final	Index	Aug			48.5	48.5
9:55	DEM	PMI manufacturing, final	Index	Aug			53.6	53.6
10:00	NOK	Retail sales, s.a.	m/m	Jul	0.2%		0.3%	-0.6%
10:00	EUR	PMI manufacturing, final	Index	Aug			51.8	51.8
10:30	GBP	PMI manufacturing	Index	Aug			49.0	48.2
14:30	USD	Initial jobless claims	1000					261
14:30	USD	Unit labour cost, final	q/q	2nd quarter			2.0%	2.0%
15:45	USD	Markit manufacturing PMI, final	Index	Aug				52.1
16:00	USD	Construction spending	m/m	Jul			0.6%	-0.6%
16:00	USD	ISM manufacturing	Index	Aug	51.8		52.0	52.6
16:00	USD	ISM prices paid	Index	Aug			54.5	55.0
18:25	USD	Fed's Mester (voter, hawkish) speaks						

Source: Bloomberg, Danske Bank Markets

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