

Danske Daily

Market movers today

- The long-awaited Jackson Hole Economic Policy Symposium will start today and last until Saturday, with Fed Chair Janet Yellen due to speak tomorrow. The headline this year is ‘Designing resilient monetary policy frameworks for the future’. Focus has turned to the level of the natural real interest rate and the possibility of a higher inflation target to increase the distance to the lower bound of the nominal interest rate. Hence, the discussions at Jackson Hole could reveal some of the views of FOMC members on these topics.
- But, of course, the speeches will be scrutinised for any clues on monetary policy here and now and whether the Fed has plans to hike rates this year or not.
- Regarding data releases, preliminary durable goods orders for July are due out today. Investments have been a major drag on US GDP growth in 2016. Core capital goods (mainly investment goods) have decreased since mid-2014 but have showed signs of bottoming in recent months. Hence, it will be interesting to see whether we have actually reached the bottom or whether we need to see a further downward correction in investments.
- European PMIs have turned out to be resilient to Brexit. Today, it is time for the German ifo. We estimate that the expectations part released today will be unchanged or even rise slightly.
- Lots of data from Sweden today; NIER consumer and business confidence surveys, unemployment, PPI and household lending. For more, see the Scandi section on page 2.

Selected market news

Note that we have changed our ECB view and that we now expect the ECB to remain on hold at the meeting in September. Hence, we do not expect an extension of the QE programme for now. We believe that in the ECB's view, the incoming information since July does not warrant additional easing. We still firmly believe the ECB will eventually extend QE purchases beyond March 2017 due to the lack of a sustainable path in inflation. However, for now, we expect it to keep its powder dry. A QE extension could be accompanied by changes to the purchase restrictions but we do not expect this to be announced in September. See the link to ECB update in the box to the right.

This week has mainly been about whether the Fed will tighten monetary policy this year or not. Emerging Markets are in many ways the ‘canary bird in the mine’ for risk appetite and how the market will react if the Fed indeed decides to hike rates as early as September. The fear of ‘more expensive dollars’ is probably the reason why we see emerging markets reacting negatively to the Turkey stepped-up attacks in Syria, political jitters in South Africa and the missile launch in North Korea.

In respect of Fed market pricing, the US fixed income market remains rock steady with 10Y Treasury yields trading close to 1.55% and the money market still pricing in marginally above 25% and 50% for a rate hike next month or a rate hike before year-end, respectively. The fixed income market took little notice of the weaker-than-expected existing home sales that came after very strong new home sales the day before.

Selected readings from Danske Bank

- [ECB preview: still awaiting more information](#)

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Scandi markets

Lots of data from Sweden is due out today: NIER consumer and business confidence surveys, unemployment, PPI and household lending. We suggest paying a little extra attention to the NIER surveys and household lending. Consumer and business confidence showed quite solid improvement up to late last year. The overall economic activity indicator peaked in December but has since moderated. Recent GDP data (Q1 and Q2) confirm that the Swedish economy has shifted down to a more normal pace compared with ultra-high growth numbers last year. So far, forecasters remain rather upbeat going forward but some downward revisions of 2017 growth forecasts appear reasonable in the months ahead. Household lending data for July is the first full month after which mandatory amortization of new mortgage loans was introduced. In June, lending grew at a pace of 7.7% y/y and we expect a slow moderation.

Fixed income markets

Markets remain sidelined ahead of the speech by Janet Yellen due on Friday at the Kansas City Feds conference at Jackson Hole. While we wait, the IFO indicator will be the main event today. However, given the upcoming speech by Yellen, markets are most likely to ignore the IFO indicator. There are no auctions in the European government bond market but the covered bond market is slowly coming back to life with new deals.

The Danish covered bond auctions continue today with Nykredit selling floaters and Nordea Kredit selling non-callable bonds. It is the last day of the October refinancing auction and we expect demand to remain solid even though we have seen solid demand over the past six days with ever tighter spreads. However, the large floater auction in the 3Y Nykredit floater came yesterday with a premium of 11-12bp to non-callable, which seemed a bit too cheap. We expect a floater premium of close to 8-12bp at today's auction as Nykredit is just selling DKK5.7bn in the DKK-denominated floater and EUR300mn in a EUR-denominated floater.

FX markets

The August oil investment survey provided little new information on activity on the Norwegian Continental Shelf over the next 18 months. If anything, the report was a little bit on the weak side. However, the NOK performed well yesterday supported by an increase in the Nibor fixings, suggesting that Norwegian money market rates might stabilise after the past week's declines. We still expect Norges Bank (NB) to take action at the 22 September meeting – either by addressing the tight NOK liquidity and/or cutting interest rates. We think risks going into the September meeting are skewed towards lower NOK rates and a weaker NOK. See '*Norges Bank Dilemma: Too early to rule out monetary policy easing*', 12 August. In Sweden, the string of economic releases (see above) is bound to influence the SEK. While forecasters have remained rather upbeat so far, going forward we think there is a risk of some downward revisions to 2017 growth forecasts. Fundamentally, the krona is a strong buy, in our view, but at the same time we expect monetary policy to remain extremely loose, which is why the krona is weak and is expected to remain weak, around the current level, for the next couple of months.

GBP rallied yesterday and EUR/GBP dropped below 0.85, probably driven by substantial short GBP covering. We still expect EUR/GBP to trade higher on weak UK fundamentals, targeting the cross at 0.95 in 6M. We see the past days' decline EUR/GBP as a buying opportunity for clients looking to sell GBP.

Among emerging market currencies, the ZAR came under significant pressure after speculation that Finance Minister Gordhan will be called in for questioning by the police over his role in setting up a unit in the South African revenue authority when in charge. Ultimately, the case is a sign of the wider power struggle between President Zuma and the finance ministry. Zuma is

under pressure from his weak standing in the polls, as seen in the last local elections while Gordhan, with his focus on fiscal prudence, stands in the way of more populist policies. However, Zuma will probably be very careful in seeking a dismissal of Gordhan given the significant ramifications it would have for the rand, government borrowing and the country's credit rating. We expect the rand to trade weak over the next days until there is more clarity over what will happen. Furthermore, the rand could also be further pressured by hawkish signals from the Fed.

Despite speculation of Turkish forces moving into Syria and further cuts to the interest rate by the Turkish central bank, the TRY remained relatively stable yesterday, as it is simply seeing inflows on a stabilisation of the political situation (going back to normal pre-coup attempt) and global yield hunt. We nevertheless see the TRY weakening due to the large current account deficit and uncertainty about central bank independence.

Key figures and events

Thursday, August 25, 2016			Period	Danske Bank	Consensus	Previous
-	USD	Jackson Hole Economic Policy Symposium				
8:45	FRF	Business confidence	Index		103.0	102.0
9:00	DKK	Retail sales	m/m y/y			0.2% 1.8%
9:00	ESP	GDP, revised	q/q y/y	quarter	0.7% 3.2%	0.7% 3.2%
9:00	SEK	Consumer confidence	Index	Aug		95.2
9:00	SEK	Economic Tendency Survey	Index	Aug		102.2
9:00	SEK	Manufacturing confidence	Index	Aug		103.1
9:30	SEK	Household lending	y/y	Jul		7.7%
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Jul	6.0% 6.8%	7.6% 6.6%
9:30	SEK	PPI	m/m y/y	Jul		1.5% -1.9%
10:00	DEM	IFO - business climate	Index	Aug	108.5	108.3
10:00	DEM	IFO - current assessment	Index	Aug	115.2	115.0
10:00	DEM	IFO - expectations	Index	Aug	102.2	102.5
14:30	USD	Capital goods orders, non-defense ex air, preliminary	%	Jul	0.1%	0.4%
14:30	USD	Initial jobless claims	1000			262
14:30	USD	Durable goods orders, preliminary	m/m	Jul	3.5%	-3.9%
15:45	USD	Markit service PMI, preliminary	Index	Aug	52.1	51.4
15:45	USD	Markit composite PMI, preliminary	Index	Aug		51.8

Source: Bloomberg, Danske Bank Markets

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Expected updates

None.

Date of first publication

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

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